Annual Report 2017

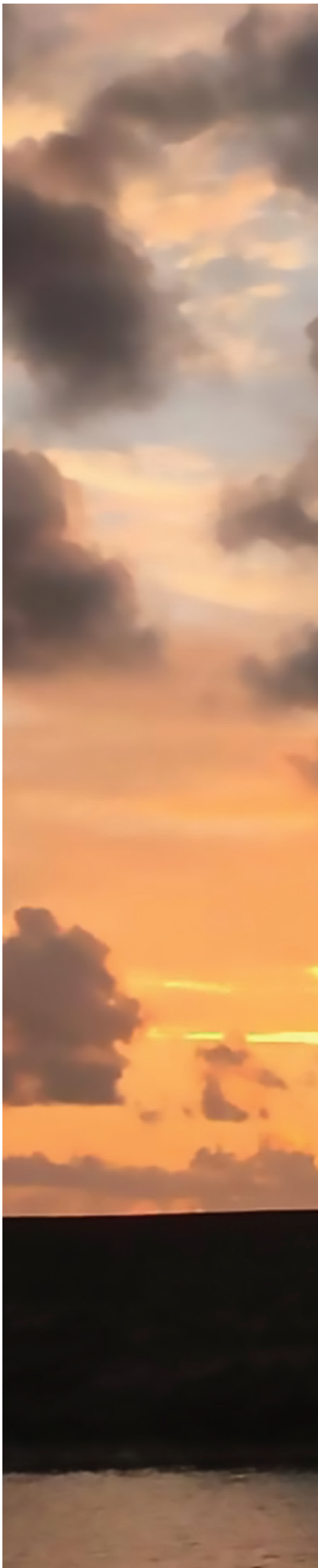
KLP BANKEN AS

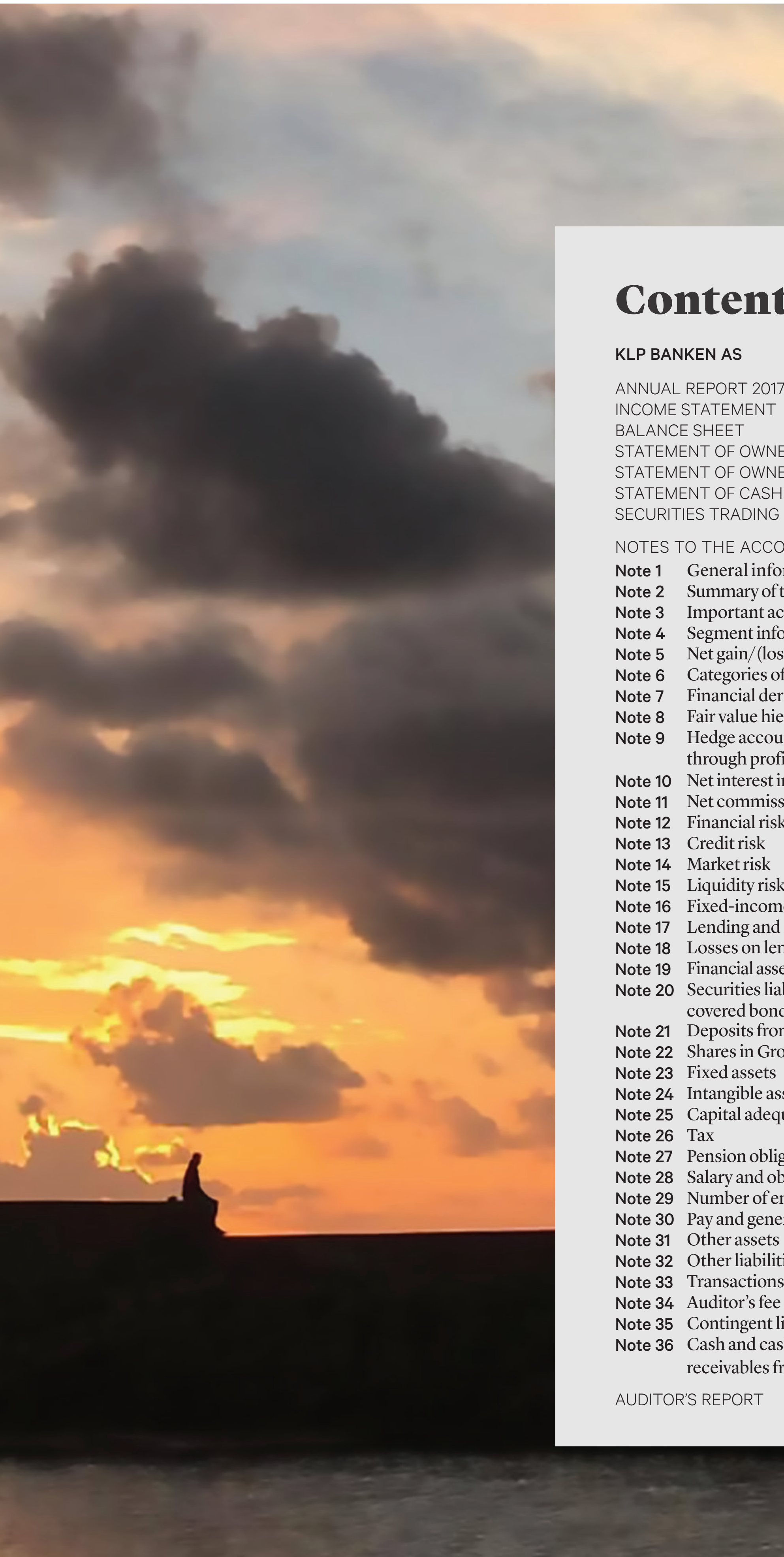
The business of KLP Banken AS is divided into the Private Market and Public Lending business areas.

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

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

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





Contents

KLP BANKEN AS

Photo: Veronica Norevik, employed in Life

PHOTOGRAPHIC COMPETITION

KLP in pictures

KLP's annual reports are illustrated with pictures from our annual internal photographic competition. Our staff submitted 118 great entries to the competition. Here you can see some of them.

Vidar Stenseth
Employed in IT

Gisle Hunvik
Employed in Asset management

Dag Eidstuen
Employed in IT

Karoline Baltzersen
Employed in Non-life insurance

KLP BANKEN AS/KLP BANKEN GROUP

Annual Report 2017

KLP Banken saw good growth in housing loans and deposits in 2017, and net interest income increased compared with the previous year. The establishment of a separate balance-sheet for the credit card business was completed. The profit before tax in the KLP Banken Group was NOK 103.1 million in 2017. Both the retail and public-sector markets made a positive contribution to the result for the year. NOK 150 million in new equity was injected into the KLP Banken Group in December.

KLP Banken's target group in the retail market are members of the KLP's pension schemes. The Bank aims to provide products and services on competitive terms in order to help companies that have chosen KLP as a pension provider to be viewed as attractive employers. Its presence in the market for public sector lending through KLP Kommunekreditt contributes to competition and so provides the target group of municipal and county authorities and companies with public guarantees access to favourable long-term financing.

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 collective operations of KLP Banken AS and its subsidiaries are divided into the Private Market and Public Lending business areas. Both areas are nationwide in scope. The companies' head office is in Trondheim.

INCOME STATEMENT

Figures in brackets below refer to last year's figures. The KLP Banken Group made a profit before tax of NOK 103.1 million in 2017. The financial contributions from the business areas were NOK 42.4 (31.9) million from the private market and NOK 60.7 (59.3) million from the public sector. After tax the net profit for 2017 totalled NOK 77.2 million, against NOK 68.3 million the previous year.

The KLP Banken Group achieved a return on equity of 5.6 (6.1) per cent before tax and 4.3 (4.6) per cent after tax.

Net lending in the KLP Banken Group increased by NOK 0.8 (3.6) billion, or 3 per cent in 2017. This figure includes growth in home mortgage loans of NOK 1.7 billion (13 per cent) and a reduction in public lending of NOK 0.9 billion (-5 per cent). Managed public-sector loans for KLP, on the other hand, experienced good growth in 2017.

Stable margins on loans and the growth in outstanding loans and other credit helped to increase net interest income by 24 per cent in 2017 compared with 2016. 66 per cent of the KLP Banken Group's net interest income in 2017 come from the retail market, compared with 65 per cent in 2016. The board considers the underlying trend to be good.

Changes in value of the KLP Banken Group's liquidity investments were also positive in 2017 because of reduced credit spreads in the securities market. This

FINANCIAL PERFORMANCE IN 2017 FOR THE KLP BANKEN AS GROUP

EARNINGS

NOK MILLIONS	2017	2016	Change
Profit before tax	103.1	91.2	11.8
Net profit after tax	7.2	68.3	8.9
Net interest income	241.6	194.3	47.3

BALANCE-SHEET

NOK BILLIONS	2017	2016	Change
Lending, including managed loans	16.8	16.3	0.4
On-balance sheet lending	30.8	30.0	0.8
Lending managed on behalf of KLP	57.0	52.7	4.3

resulted in a contribution to profits in 2017 of NOK 7.3 million, NOK 4.2 million of it in the subsidiary KLP Kommunekreditt AS. At the end of 2016, the income statement included a net gain on securities of NOK 18.4 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, and this has profit effects. In 2017, there were several loan buybacks, which resulted in expenses of NOK 9.3 (10.2) million.

The accounting item for net gains/losses on financial instruments contains not only the effects of changes in value for securities and buyback of loans taken but also the effects of pension estimates and changes in the value of loans made. In total, financial instruments show a cost of NOK 3.4 million for the financial year 2017. The corresponding figure for 2016 was an income of NOK 11.1 million.

KLP Banken charge fees to a limited extent for its banking services in the private market. Net fees and commission income amounted to NOK 11.1 (9.4) million for 2017. The increase from last year was mainly associated with lending growth.

Operating costs and depreciation totalled NOK 200.2 million in 2017, compared with NOK 179.5 million the year before. This corresponds to a rise in costs of 12 per cent. The increase in excess of normal inflation in 2017 is again largely related to investments in IT technology and digitalisation and to efficiency improvements in processes for customers and internally within the Bank. Part of the increase is also related to the establishment of the credit card operation on the banks' own balance sheet.

Losses on lending and other credits totalled NOK 3.2 million in 2017, all of which were associated with investments in the private market. The corresponding figure for 2016 was NOK 1.1 million. With the establishment of the credit card portfolio on a separate balance sheet, some non-performing loans were also taken over, and some of these were recognised as losses. Of the book losses and loss provisions, NOK 2.1 million related to credit cards and NOK 1.1 million to housing loans and other credits. The Board considers that losses are at a low level and believes that the provisions raised are sufficient.

KLP Banken uses a risk classification system for analysing migration between risk classes of residential mortgage customers. Based on this analysis, group-level write-downs totalling NOK 48,000 were made on mortgage loans for 2017. This is included in the losses on loans referred to above. The corresponding figure for 2016 was a write-down of NOK 706,000. The public market has not incurred any losses on lending.

In 2018 loss provisions will be calculated according to the new requirements in the Norwegian accounting regulations (IFRS 9). This means that provisions have to be calculated according to a different model than the one KLP Banken used up to 2017. It is expected that the total loss provisions will increase due to changed calculation methods.

OVERALL LENDING MANAGEMENT

On behalf of KLP and on its own account, the KLP Banken Group manages a lending portfolio totalling NOK 87.5 (82.4) billion.

Outstanding loans (principal) per company in the KLP Banken AS Group as at 31 December 2017 is shown below.

Of the managed loans to the public sector enterprises, NOK 7.8 (9.1) billion derives from a pure management agreement for KLP, under which loan agreements, documentation and follow-up of loans are undertaken by KLP. With regard to the remaining management activities on behalf of KLP, KLP Banken is also responsible for making offers, entering into agreements and producing loan documentation in accordance with a mandate.

THE RETAIL MARKET

KLP Banken's main products in the retail market are home mortgage loans and deposits. From May 2017 the credit card business has been established on the Bank's own balance sheet through the purchase of an externally managed portfolio. The acquisition was completed in order to be able to offer a wider product range and to better serve those of the Bank's customers who want credit cards by developing the product further. This

OUTSTANDING LOANS (PRINCIPAL) PER COMPANY IN THE KLP BANKEN AS GROUP AS AT 31 DECEMBER 2017

COMPANY / NOK BILLIONS	Mortgage loans	Public/ business	Total lending
KLP Banken AS (parent)	9.3	-	9.3
KLP Boligkreditt AS	5.0		5.0
KLP Kommunekreditt AS	-	16.1	16.1
KLP (Management agreement)	3.3	53.8	57.0
Total	**17.6**	**69.9**	**87.5**

11%

Mortgage growth

means that all income and losses on credit card operations will now be reflected in the Bank's accounts.

During 2017, part of KLP Banken's mortgage portfolio was transferred to its subsidiary KLP Boligkreditt AS. KLP Boligkreditt AS is financed primarily through issues of covered bonds, an important part of the KLP Banken Group's financing. Home mortgage loans have also been transferred from KLP Banken to KLP to replace redemptions. The growth in the KLP Banken Group's balance sheet broadly matches its total net growth.

Lending

KLP Banken AS is an online bank without a network of physical branches. The online bank offers simple and competitive savings and loan products and solutions to manage them. At the end of 2017, on-balance sheet lending to the private market totalled NOK 14.4 (12.7) billion.

KLP's total home mortgage portfolios increased in 2017 from NOK 15.9 billion to NOK 17.6 billion. Net growth in 2017 was thus 1.7 (1.8) billion, or 11 per cent. New payouts totalled NOK 7.4 (6.2) billion gross. A large and important customer group is made up of municipal and health service employees who are members of KLP's pension schemes. 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.

The number of home mortgage customers at the end of the year is 12,681 (12,089) for KLP Banken and KLP as a whole, of which members represent around 85 (84) per cent. Fixed interest loans accounted for 7 (8) per cent of outstanding loans. The remaining loans were at floating interest rates.

NOK 1.1 (1.1) million in mortgage write-downs were recognised in 2017. Defaults in excess of 90 days totalled NOK 21.7 (22.2) million gross at the end of 2017, corresponding to 0.15 (0.18) per cent of the total amount outstanding to KLP Banken. Defaults and losses on mortgage loans thus remain low.

The loan products that KLP Banken AS offers in the retail 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.

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

Credit cards

KLP Banken has offered a credit card product through an external manager since 2010. In May 2017 this portfolio had an outstanding volume of drawn credit of NOK 55.6 millions, spread across 5,200 cards issued, and KLP Banken exercised an option to purchase the portfolio from the manager. By the end of the 2017 the volume had increased to NOK 60.5 million and the number of cards issued to 6,500. The proportion of active cards has increased from 75 per cent to 78 per cent. Travel insurance is now included in the product and the interest rate on the interest-bearing credit is adjusted to a competitive level.

Because of loss provisions, costs for the purchase of the portfolio and system investments, total expenses in the first year of operation came to NOK 1.9 million net.

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. KLP Banken's marketing is also largely directed at members of the pension schemes. Through 2017 the number of active deposit customers in the private market area increased from 44,300 to 52,500. Members make up 70 (71) per cent of the deposit customers. Deposits from retail customers totalled NOK 7.7 (7.0) billion at the end of 2017.

KLP Banken AS also offers savings account for business customers. At the end of 2017 deposits from businesses came to NOK 2.0 (1.7) billion, which is 20 (20) per cent of total deposits. The Bank's total deposits increased from NOK 8.7 billion in 2017 to NOK 9.7 billion at the end of the year.

Apart from deposits and equity, KLP Banken AS is financed through certificate and bond debt. At the end of 2017, the Bank's outstanding certificate and bond debt totalled NOK 1.5 (2.4) billion.

This is also used to part-finance subsidiaries.

KLP Banken AS uses the subsidiary KLP Boligkreditt AS to finance part of its lending activities in the retail market by issuing bonds with pre-emptive rights in home mortgage loans. In 2017 covered bonds in the amount of NOK 0.6 (1.4) billion were issued. Outstanding bond debt in KLP Boligkreditt AS totalled NOK 4.3 (3.7) billion at the end of 2017. The Company has achieved the best rating for its borrowing programme.

During 2017, KLP Boligkreditt AS purchased home loans worth NOK 2.2 (2.9) billion from KLP Banken AS. At year-end, mortgages totalling NOK 5.1 (4.7) billion were financed through KLP Boligkreditt's balance sheet, while mortgages totalling NOK 9.4 (8.0) billion were financed through the parent company's balance sheet.

PUBLIC SECTOR

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.

KLP Banken also has a management agreement on behalf of KLP, which means that a significant proportion of KLP Banken'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 as a lender to the public sector in Norway. At the end of the 2017 this includes loans of NOK 7.8 (9.1) billion in foreign currencies. This area of lending is not discussed in any more detail below.

New loans amounting to NOK 9.3 (10.1) billion were paid out in 2017 to, or with guarantees from, the public sector by companies within the KLP Group. Instalment payments and loan redemptions totalled NOK 4.6 (5.4) billion during the year.

Total lending to public-sector borrowers stood at NOK 62.1 (57.4) billion at the end of 2017, an increase of NOK 4.6 billion (8 per cent) from 2016.

Fixed-interest loans accounted for 38 (39) per cent of total lending at the end of 2017.

Requests for loans amounting to around NOK 74 (63) billion were received during 2017. The increase is due to a rise in demand for loans for new road projects and infrastructure, in addition to the borrowing needs of Norwegian local authorities. The acceptance rate was around 10 per cent of the volume in 2017, compared with 16 per cent in 2016.

The credit risk associated with lending to municipal and county authorities in Norway is limited to deferral of payment and does not provide for cessation of payment obligations. This is a result of Norwegian legislation, which indemnifies the lender against losses if a local authority is unable to meet its payment obligations. In the event that payment is deferred, the lender is also, 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 municipal guarantees. Cost-effective financing is intended to ensure that the KLP Banken AS Group can offer long-term loans on favourable terms. KLP Kommunekreditt AS has received the best rating for its borrowing programme.

At the end of 2017 NOK 17.1 (17.3) billion in bonds covered by public-sector loans had been issued in the Norwegian market. New issues in 2017 totalled NOK 4.5 (7.1) billion. No bonds have been issued outside Norway.

BALANCE SHEET AND CAPITAL ADEQUACY

The KLP Banken AS Group had total assets of NOK 35.0 (34.4) billion at the end of 2017. The table below shows a breakdown of this amount.

In December 2017, the general meeting of KLP Banken AS approved a share issue worth NOK 150 million which was also paid up in December.

BALANCE SHEET AND CAPITAL ADEQUACY

TOTAL ASSETS/NOK BILLIONS	KLP Banken Group
Public sector loans/municipal guarantees	16.3
Lending to private individuals	14.4
Securities and liquidity	4.1
Other assets	0.1
Total	**35.0**

21.3%

Capital adequacy

The Group's equity, based on the Board of Directors' proposal for the allocation of the Group companies' profit, was NOK 2.0 (1.8) billion at the end of 2017. Core capital is identical with equity. This gives a capital adequacy and core capital adequacy of 21.3 (19.0) per cent. The current capital requirement, including capital buffers, is 14.1 per cent core capital adequacy and 17.6 per cent capital adequacy. KLP Banken AS have been given a Pillar II supplement of 2.1 per cent, which is included in KLP Banken's capital requirements at the end of 2017.

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

The risk-weighted balance came to NOK 9.2 (9.2) billion. Unweighted capital adequacy in the KLP Banken Group was 5.7 (5.2) per cent. Capital adequacy is considered good.

LIQUIDITY

The year-end statement of cash flow shows that KLP Banken'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 1.3 (1.6) billion, and the book value of the interest-bearing securities portfolio was NOK 2.8 (2.7) billion at the end of the year. The investments in interest-bearing securities are largely recognised 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 AS reports the liquidity coverage ratio (LCR) for the KLP Banken Group as a whole each month, and for the individual companies in the Group each quarter. At the end of 2017, LCR for the Group stood at 470 (276) per cent; for KLP Banken AS, it was 398 (165) per cent.

APPLICATION OF THE YEAR'S PROFIT

KLP Banken AS's financial statements for 2017 show a total net profit of NOK 116.4 million. The Board of Directors proposes that a group contribution of NOK 29.5 million be paid to KLP. NOK 22.1 million will be received from KLP in return as a group contribution without any tax effect. Net profit and group contribution will be transferred to other owners' equity.

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 international financial reporting standards (IFRS), as approved by the EU with associated interpretations. See Note 2 for further details.

RATING

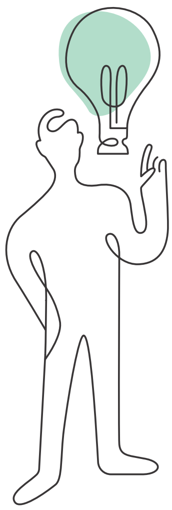
The rating agencies' assessment of the companies in the KLP Banken Group has a major bearing on the borrowing terms available. The companies use Moody's for credit rating of their bonds. All issues of covered bonds (OMF) have received an Aaa rating, which is the best achievable rating.

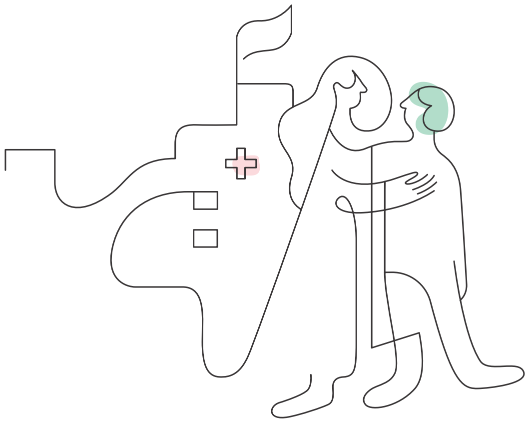
RISK MANAGEMENT

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.

Separate guidelines have been established for the most important individual risks (liquidity, credit, market, operational and compliance risk) and overall guidelines for risk management, which includes principles, organisation, limits, etc. for the Bank's overall risk. The risk policies are adopted by

All issues of covered bonds (OMF) have received an Aaa rating.





the Board of Directors and are reviewed at least once a year. The policies are of an overarching nature and are complemented by procedures, rules, and instructions determined at the administrative level.

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

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

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

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

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

KLP Banken has established an annual process to assess and quantify material risks and to calculate its capital requirement (ICAAP) and its liquidity and financing risk (ILAAP). 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. KLP Banken'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 2017. 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.

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

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

WORKING ENVIRONMENT AND ORGANISATION

KLP Banken AS and its subsidiaries had 70 (67) permanent employees at the end of 2017. 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.

KLP Banken's most important resource is its employees, most of whom are highly experienced in both the private market and the public sector and have acquired considerable credit and market expertise. New products, services and regulatory requirements with respect to KLP Banken 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.

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

The KLP Group aims to achieve a sickness absence rate of under 4 per cent. In 2017 KLP Banken had a sickness absence rate of 4.3 (3.7) per cent. Long-term absence totalled 2.6 (1.9) per cent, while short-term absence totalled 1.7 (1.8) per cent. Absence is followed up by managers and the HR department. Once again, there were no serious injuries or accidents in 2017.

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 55 (61) per cent of the workforce in the KLP Banken Group. Efforts are made to achieve a balance between women and men at all levels. Women hold 50 (50) per cent of management positions. At the end of 2017 the Board of Directors of KLP Banken AS comprised three women and three men, with one woman and one man having been elected from among the employees.

EXTERNAL ENVIRONMENT

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.

CORPORATE SOCIAL RESPONSIBILITY

The KLP Group, including KLP Banken AS, aims to contribute to sustainable investments and responsible business operations. This is manifested through actions linked to the Group's business. KLP has signed the UN Global Compact, and is thereby committed to working for human rights, workers' rights and the environment, and against corruption. The KLP Group is working on issues related to climate, corruption, human rights, employment rights and tax.

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

OUTLOOK

KLP Banken's primary target group in the retail market are members of the KLP's pension schemes. A large propor-

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KLP Banken's target group in the retail market are members of the KLP's pension schemes.

70%

of all customers are members of the KLP's pension schemes tion of the population are included in this group and the potential for enhancing KLP Banken's position in this segment is considered to be good. The proportion of members for all banking products together was 70 (71) per cent at the end of last year.

House prices have fallen in some areas in the last year, and this reflects the uncertainty about developments. 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. The trend in unemployment and economic growth, however, has been positive. The servicing level for home loans in KLP Banken's most important customer groups, which are mainly made up of public-sector employees, is expected remain satisfactory into the future and will help to limit defaults. KLP Banken will continue to pursue its conservative credit policy in order to maintain low risk in the Bank's home mortgage portfolios and other credit.

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

KLP Boligkreditt AS is an important part of the financing structure in the KLP Banken Group through its ability to issue mortgage covered bonds on favourable terms. It provides flexibility in the choice of market financing and deposits as sources of funding for continued growth in lending.

Deposits from individuals and companies account for a major part of KLP Banken'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 eligible for or want loans, and the Bank has to provide good savings products. KLP Banken has ambitions for further growth in deposits.

In 2017 the credit card business was established on a separate balance sheet. It will be important in the future also to develop banking products that can contribute to increased earnings while continuing to focus on giving the members good and predictable terms.

For many years, the municipalities have been developing a good and extensive range of services to the population. Combined with increasing longevity, income and population growth, there is every reason to expect a continued need for high public sector investment. Demand for loans from municipalities and projects with municipal guarantees and ownership is therefore expected to remain high in the years ahead.

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

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

Oslo, 14 March 2018
The Board of Directors of KLP Banken AS

SVERRE THORNES
Chair

AAGE E. SCHAANNING
Deputy Chair

AINA SLETTEDAL EIDE

INGRID AUNE

KJELL FOSSE

CHRISTIN KLEPPE
Elected among the employees

ESPEN TRANDUM
Elected among the employees

LEIF MAGNE ANDERSEN
Managing Director

Photo: Roar Grønstad

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

Income Statement

KLP BANKEN AS

KLP Banken AS			NOK THOUSANDS	KLP Banken AS Group		
01.01.2016 -31.12.2016	01.01.2017 -31.12.2017	NOTE		NOTE	01.01.2017 -31.12.2017	01.01.2016 -31.12.2016
270 064	277 334		Interest income and similar income		781 691	765 615
-180 593	-164 301		Cost of interest and similar costs		-540 072	-571 301
89 471	**113 033**	**10**	**Net interest income**	10	**241 619**	**194 314**
10 966	13 452		Commission income and income from banking services		13 452	10 966
-1 564	-2 273		Commission costs and costs of banking services		-2 273	-1 564
9 402	**11 179**	**11**	**Net charges and commission income**	11	**11 179**	**9 402**
0	95 000		Income from ownership interests in Group companies		0	0
57 028	57 027		Other fee income		57 028	57 028
3 721	1 476	5	Net gain/(loss) on financial instruments	5	-3 382	11 119
60 748	**153 503**		**Total other operating income**		**53 646**	**68 146**
-57 801	-66 358	30	Salary and administrative costs	30	-66 358	-57 801
-4 146	-6 423	23,24	Depreciation	23,24	-6 423	-4 146
-69 887	-77 093	34	Other operating expenses	34	-127 436	-117 551
-1 119	-3 152	18	Loss on loans issued, guarantees etc.	18	-3 152	-1 119
-132 954	**-153 028**		**Total operating expenses**		**-203 370**	**-180 617**
26 668	**124 687**		**Operating profit/loss before tax**		**103 074**	**91 244**
-6 247	-7 490	26	Tax on ordinary income	26	-25 081	-22 356
20 421	**117 197**		**Income for the year**		**77 993**	**68 888**
-863	-1 145		Estimate difference, pension obligations and assets		-1 145	-863
216	286	26	Tax on actuarial gains and losses	26	286	216
-647	**-859**		**Items that will not be reclassified to profit and loss**		**-859**	**-647**
121	68		Changes in the fair value at available for sale financial assets		68	121
-30	-17	26	Tax on changes in fair value of available for sale finansial assets	26	-17	-30
91	**51**		**Items that may be reclassified to profit and loss**		**51**	**91**
-556	**-808**		**Other comprehensive income for the period**		**-808**	**-556**
19 865	**116 389**		**COMPREHENSIVE INCOME FOR THE YEAR**		**77 185**	**68 332**
			ALLOCATION OF INCOME			
-19 865	-116 389		Allocated to/from retained earnings			
-19 865	**-116 389**		**Total allocation of income**			
0.16 %	0.88 %		Income for the year in per cent of total assets		0.22 %	0.20 %
0.15 %	0.88 %		Comprehensive income for the year in per cent of total assets		0.22 %	0.20 %

Balance Sheet

KLP BANKEN AS

KLP Banken AS			NOK THOUSANDS	KLP Banken AS Group		
31.12.2016	31.12.2017	NOTE		NOTE	31.12.2017	31.12.2016
			ASSETS			
0	45 140	17,36	Claims on central banks	17,36	45 140	0
3 037 848	1 448 637	17,36	Loans to and receivables from credit institutions	17,36	1 286 095	1 548 082
2 891	3 254		of which are restricted witholdings		3 254	2 891
7 994 420	9 384 128	17	Loans to and receivables from customers	17	30 762 782	29 962 467
949 814	1 317 592	16	Fixed-income securities	16	2 759 018	2 717 513
394	461		Shares, holdings and primary capital certificates		461	394
15 252	3 547	7	Financial derivatives	7	91 394	123 179
925 470	1 045 470	22	Holdings in Group companies		0	0
7 742	7 891	26	Deferred tax assets	26	7 392	6 916
538	742	23	Tangible fixed assets	23	742	538
19 955	27 153	24	Intangible assets	24	27 153	19 955
15 002	4 678	31	Other assets	31	818	3 370
12 966 434	**13 285 439**		**Total assets**		**34 980 995**	**34 382 412**
			LIABILITIES AND OWNERS' EQUITY			
			LIABILITIES			
2 363 375	1 477 098	20	Liabilities created on issuance of securities	20	22 924 274	23 451 374
8 687 859	9 669 046	21	Deposits	21	9 669 046	8 687 859
13 013	11 860	7	Financial derivatives	7	188 103	253 615
106 524	60 477	32	Other liabilities	32	74 720	92 983
41 490	46 397	32	Provision for accrued costs and liabilities	32	47 261	46 174
11 212 262	**11 264 878**		**Total liabilities**		**32 903 404**	**32 532 006**

Balance Sheet

KLP BANKEN AS

KLP Banken AS			NOK THOUSANDS	KLP Banken AS Group		
31.12.2016	31.12.2017	NOTE		NOTE	31.12.2017	31.12.2016
			OWNERS' EQUITY			
982 500	1 057 500		Share capital		1 057 500	982 500
657 500	732 500		Share premium		732 500	657 500
114 172	230 561		Other owners' equity		287 591	210 406
1 754 172	**2 020 561**		**Total owners' equity**		**2 077 591**	**1 850 406**
12 966 434	**13 285 439**		**TOTAL LIABILITIES AND OWNERS' EQUITY**		**34 980 995**	**34 382 412**

Oslo, 14 March 2018
The Board of Directors of KLP Banken AS

SVERRE THORNES
Chair

AAGE E. SCHAANNING
Deputy Chair

AINA SLETTEDAL EIDE

INGRID AUNE

KJELL FOSSE

CHRISTIN KLEPPE
Elected among the employees

ESPEN TRANDUM
Elected among the employees

LEIF MAGNE ANDERSEN
Managing Director

Statement of Owners' Equity

KLP BANKEN AS

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

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

NOK THOUSANDS	Number of shares	Par value	Share capital	Share premium	Other equity	Total
Equity at 1 January 2017	7 500 000	0,131	982 500	657 500	114 172	1 754 172
Changes in the period 1 January - 31 December		0,010	75 000	75 000	116 389	266 389
Equity at 31 December 2017	**7 500 000**	**0,141**	**1 057 500**	**732 500**	**230 561**	**2 020 561**

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

Statement of Owners' Equity

KLP BANKEN AS GROUP

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

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

Statement of Cash Flows

KLP BANKEN AS

KLP Banken AS			NOK THOUSANDS		KLP Banken AS Group	
01.01.2016 -31.12.2016	01.01.2017 -31.12.2017	NOTE		NOTE	01.01.2017 -31.12.2017	01.01.2016 -31.12.2016
			OPERATING ACTIVITIES			
265 594	267 668		Payments received from customers – interest, commission & charges		748 414	706 238
-119 632	-130 191		Payments to customers – interest, commission and charges		-130 191	-119 632
-3 855 909	-4 507 001		Disbursements on loans to customers and credit institutions		-8 769 573	-9 711 829
3 809 964	4 346 185		Receipts on loans to customers		7 819 988	5 883 170
0	-9 547		Payment for the credit card portfolio		-9 547	0
1 263 356	979 913		Net receipts on customer deposits banking		979 913	1 263 356
-60 683	-85 092		Disbursements on operations		-147 252	-103 142
-54 296	-60 901		Payments to staff, pension schemes, employer's social security contribution etc.		-60 901	-54 296
7 579	5 885		Interest investment accounts		11 607	13 420
113 386	25 851		Net receipts/disbursements from operating activities		45 677	90 935
0	0		Income tax paid		0	0
1 369 359	**832 770**		**Net cash flow from operational activities**		**488 135**	**-2 031 779**
			INVESTMENT ACTIVITIES			
-1 021 355	-998 046		Payments on the purchase of securities		-1 946 683	-2 917 899
634 425	633 950		Receipts on the sale of securities		1 906 778	3 994 493
9 876	14 389		Receipts of interest from securities		38 520	59 173
-6 386	-4 279		Payments on the purchase of tangible fixed assets		-4 279	-6 386
0	95 000		Receipts on shares in subsidiaries		0	0
0	-120 000		Disbursement of capital to subsidiaries		0	0
-383 440	**-378 986**		**Net cash flow from investment activities**		**-5 664**	**1 129 381**
			FINANCING ACTIVITIES			
250 000	0		Receipts on loans		4 074 000	8 588 430
-743 197	-584 694		Repayment and redemption of loans		-731 972	-1 487 014
-67 000	-280 000		Payment for loan buybacks		-3 805 000	-5 483 000
-63 916	-46 168		Net payment of interest on loans		-383 886	-387 798
-250	-6 324		Group contributions made		-19 541	-250
250 000	150 000		Receipts from owners' equity		150 000	250 000
-374 363	**-767 186**		**Cash flows from financing activities**		**-716 399**	**1 480 368**
611 556	**-313 402**		**Net cash flow during the period**		**-233 928**	**577 970**
396 505	1 008 061		Cash and cash equivalents at start of period		1 523 245	945 275
1 008 061	694 659	36	Cash and cash equivalents at end of period	36	1 289 315	1 523 245
611 556	**-313 402**		**Net receipts/disbursements (-) of cash**		**-233 930**	**577 970**

Declaration Pursuant To The Norwegian Securities Trading Act, Section 5-5

KLP BANKEN AS

We hereby declare that, to the best of our knowledge, the annual financial statements for the period from 1 January to 31 December 2017 have been prepared in accordance with applicable accounting standards, and that the information in the financial statements gives a true and fair view of the Company's and the Group's assets, liabilities, financial position and overall profit or loss.

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

Oslo, 14 March 2018
The Board of Directors of KLP Banken AS

SVERRE THORNES
Chair

AAGE E. SCHAANNING
Deputy Chair

AINA SLETTEDAL EIDE

INGRID AUNE

KJELL FOSSE

CHRISTIN KLEPPE
Elected among the employees

ESPEN TRANDUM
Elected among the employees

LEIF MAGNE ANDERSEN
Managing Director

Notes to the Accounts

KLP BANKEN AS

NOTE 1 General information

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

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

The annual financial statements are available at klp.no.

NOTE 2 Summary of the most important accounting principles

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

2.1 FUNDAMENTAL PRINCIPLES

The financial statements for KLP Banken AS and the Group have been prepared in accordance with international accounting standards (IFRS) and interpretations from the IFRS interpretations committee, as adopted by the EU. The Norwegian Accounting Act and the Regulations concerning annual accounts for banks, mortgage firms and finance companies (the Accounting Regulations) contain individual requirements for additional information which is not required under IFRS. These supplementary information requirements have been incorporated into the notes to the financial statements.

The annual accounts have been prepared 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 recognised 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 2017

No standards, changes or interpretations that came into effect during 2017 have been adopted that have had significant effect on the Company's/Group's accounts.

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

IFRS 9 *Financial instruments* , which covers the classification, measurement and recognition of financial assets and financial liabilities, introduces new rules for hedge accounting, with a new impairment model for financial assets. The Company will start using the standard from 2018 onwards. IFRS 9 has to be applied retrospectively, with the exception of hedge accounting. Retrospective application means that KLP Banken has to produce an opening balance as of 01/01/2018 as if it had always applied the new principles. As permitted in the transitional provisions for IFRS 9, KLP Banken will not restate comparative figures for previous periods when it implements the standard on 01.01.2018. The effects of new policies in the opening balance for 2018 are recognised directly in equity.

IFRS 9 replaces the classification and measurement models in IAS 39 with one model which basically has only three categories: amortised cost, fair value with value changes in other comprehensive income, and fair value with value changes through profit or loss.

Classification of loans depends on the entity's business model for managing its financial assets and the characteristics of the individual assets' cash flows. A debt-equity instrument is measured at amortised cost if: a) the business model is to own the financial asset in order to receive the contractual cash flows, and b) the instrument's contractual cash flows exclusively represent payments of principal and interest. If these criteria are in place, but the business model also provides for sales from the portfolio, the debt instruments are measured at fair value with value changes through other comprehensive income, with interest income, currency translation effects and any write-downs presented in ordinary profit/loss. Value changes recognised through other comprehensive income have to be reclassified as profit when the assets are sold or otherwise disposed of.

All other debt and equity instruments, including investments in complex instruments, must be recognised at fair value through profit or loss. There is an exception for investments in equity instruments that are not held for sale and are not a conditional payment following the transfer of an enterprise. For such investments, value changes can be passed through other comprehensive income, without any subsequent recycling to the profit.

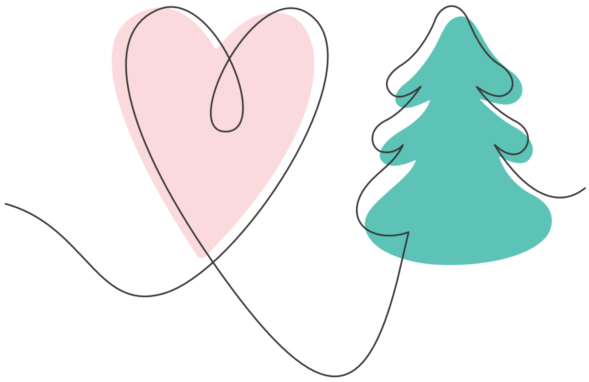
For financial obligations that the unit chooses to measure at fair value, the portion of the change in value due to changes in credit risk is recognised in other comprehensive income unless this creates or reinforces an accounting mismatch, and not in profit/loss as with IAS 39.

The new rules for hedge accounting mean that the accounting for the hedge better reflects the general practice for risk management in the undertakings. As a general rule, it will be easier to use hedge accounting in the future. The new standard also introduces extended information requirements and changes in the rules for presenting the hedge.

KLP Banken has assessed the classification and measurement of assets and liabilities covered by the new standard. Loans provided with a view to resale to the wholly-owned mortgage companies KLP Boligkreditt AS and KLP Kommunekreditt AS will have a different business model in the consolidated financial statements and the company accounts. In the company accounts, these loans will be made with a view both to receiving the contractual cash flows and to resale, so they are measured at fair value with value changes through other comprehensive income. In the consolidated accounts, these loans will be included in a business model where the intention is to own the loan throughout its life in order to receive the contractual cash flows, and they are measured at amortised cost. Outstanding loans that have not been acquired with a view to resale either in the company or the consolidated accounts, but only with a view to receiving contractual cash flows, are measured at amortised cost. Other financial instruments have been recognised at fair value with value changes through profit or loss. This will be continued under IFRS 9.

Other significant changes in classification and measurement are the introduction of a new impairment model for losses on loans and receivables which is based on expected credit losses.

The model has three stages, depending on the change in credit quality. How the impairment loss is to be measured is determined for each individual stage and the model uses the effective interest rate method. A simplified approach is allowed for financial assets that do not have a significant financial component (e.g. trade receivables). Upon initial recognition, and in cases where the credit risk has not increased significantly after initial recognition, provision has to be made for credit losses that are expected to occur over the next



12 months (step 1). If the credit risk has increased significantly, the provisions should correspond to the expected credit losses over the expected useful life (step 2). If there is a loss event, impairments are raised equal to the expected loss on the commitment throughout its life (step 3).

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

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

The effect of implementing the new rules and regulations is calculated as the difference between the carrying value of loss provisions according to the old rules at 31 December 2017 and the value of loss provisions calculated according to the new rules as of 1 January 2018. This effect will be recognised as a change in the posted loss provisions with a balancing entry directly against equity, so the income statement is not affected. As of 31 December 2017, KLP Banken (Company and Group) had a balance of loss write-downs on loans in the balance sheet of NOK 3.2 million. Estimates of expected losses under the new rules indicates a doubling of the provisions at the changeover date of 1 January 2018. Transitional notes relating to classification and measurement, the new impairment model, and changes in accounting policies for financial instruments (from 1 January 2018) are set out in note 2.13.1 Changes in accounting principles. A summary of significant accounting principles related to financial instruments which are effective from 1 January 2018, is given in note 2.13.2 Summary of significant accounting policies related to financial instruments.

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 recognised 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 Bank Group will use the standard from 2018 onwards. The transition to IFRS 15 is not expected to have any material effect on the Group's financial statements.

IFRS 16 *Leases* will result in almost all leases being capitalised, as the distinction between operational and financial leasing has been removed. Under the new standard, the right to use a leased object is an asset, and an obligation to pay a lease is a debt to be shown on the balance sheet. The exceptions are short-term and low-value leases. The accounting treatment for lessors will not be significantly altered. The Group will apply the standard from 2019 onwards. The transition to IFRS 16 is not expected to have any material effect on the consolidated financial statements, as the Group does not have any leases of significance because only small assets are leased.

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

2.2 CONSOLIDATION 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.

2.3 TRANSLATION OF TRANSACTIONS IN FOREIGN CURRENCY

2.3.1 Functional currency and presentation currency

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

2.3.2 Transactions and statement of financial position items

Transactions in foreign currency are converted to the functional currency at the transaction rate of exchange. Foreign exchange gains or losses realised on settlement and conversion of 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 recognised through profit or 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 recognised 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 capitalised as part of the fixed asset if it is likely that the expenditure will contribute to future financial benefit for the Company/Group and the cost can be measured reliably. Repair and maintenance are recognised through profit or loss during the period in which the expenses are incurred.

Depreciation is calculated by the straight-line method so the acquisition cost of tangible fixed assets, including subsequent costs, is depreciated to 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's/ Group's intangible assets consist primarily of capitalised IT systems and added value from the acquisition of the credit card portfolio.

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

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

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

If there are indications that the book value of a capitalised IT system is higher than the recoverable amount an impairment test is carried out. If the book value is higher than the recoverable sum (present value on continued use/ownership), the asset is 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 amortised cost. Hedge accounting is also 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 subcategories: held for sale, and voluntarily categorised at fair value through profit or loss on acquisition in accordance with the fair value option.

a) Financial assets held for sale 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 categorised 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 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 on 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 amortised 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 recognised in the financial position statement at fair value. Subsequent measurement is at amortised 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 capitalised at fair value at the time the derivative contract is struck. On subsequent measurement the derivatives are recognised at fair value and are presented as an asset if the value is positive and a liability if the value is negative.
Recognition of associated gains and losses depends on whether the derivative has been identified as an 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 recognised 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 profit or loss.

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 hed ging, so that the book value of the hedged item (asset or liability) is corrected with the value development in the hedged risk. The value change is recognised in the income statement. On entry into a hedging contract, the connection between the hedging instrument and the hedging object is documented, in addition to the purpose of the risk management and the strategy behind the different hedging transactions. The hedging effectiveness is measured regularly to ensure the hedge is effective.

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

2.6.4 Accounting treatment of financial assets

Purchases and sales of financial assets are recognised on the trading date, i.e. when the Company/Group has committed itself to buying or selling that financial asset. Financial assets are recognised 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 recognised 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 amortised cost

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

Loss 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, a write-down is carried out. The write-down is reversed if events occur after the date of write-down 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 realise 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 capitalised at market value on take -up. As a rule, on subsequent measurement the liability is recognised at amortised cost in accordance with the effective interest rate method. The interest costs are included in the amortisation 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 recognised 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 amortised 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 recognised 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 recognised 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 recognised at amortised 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 Equity contributed

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

2.9.2 Accrued equity

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 IN THE ACCOUNTS

Income on sale of goods and services is valued at fair value of the consideration, net of deductions for VAT and any discounts. Intercompany sales are eliminated in the consolidated financial statements.

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 amortised cost are taken to income using the effective interest rate method. Setting-up fees for lending are included in the amortisation 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 capitalised to the extent it can be shown probable that the companies in the Group will have sufficient taxable profit to exploit the tax asset.

The Group is covered by financial tax. This means that the Company will have to pay 5 per cent financial tax on benefits liable for employer tax, and that the Company's tax rate is 25 per cent. This rate will be retained in 2018 even though the general tax rate is decreasing in 2018 by one percentage point from 24 per cent to 23 per cent.

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 operations. Pension costs are treated in accordance with IAS 19. The Company has a defined-benefit pension scheme for its employees. The accounting liability for defined-benefit schemes is the present value of the obligation on the reporting date, with deduction for fair value of the pension assets. The gross obligation is calculated using the straight-line method.
The gross obligation is discounted to present value using the interest rates on Norwegian high-quality bonds. Gains and losses arising on recalculation of the obligation as a result of known deviation and changes in actuarial assumptions are charged to owners' equity via other comprehensive income during the period in which they arise. The effect of changes in the scheme's benefits is taken to profit/loss immediately.

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

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

2.13 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR FINANCIAL INSTRUMENTS (FROM 1 JANUARY 2018)

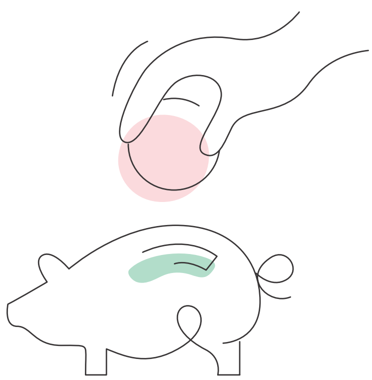
2.13.1 Changes in accounting principles

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

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

2.13.1.1 Changes in classification and measurement

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



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

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

Accounting for financial liabilities is largely unchanged, except that for liabilities specifically recognised at fair value, changes in fair value due to own credit risk are recognised through other income and expenses without recycling.

2.13.1.2 Changes in the impairment model

Today's rules (IAS 39) involve provisions for losses based on an 'incurred loss' model, i.e. loan loss provisions are conditional on objective evidence that an impairment loss has occurred on the balance sheet date, while IFRS 9 stipulated provisions for expected loss. The new principles apply to financial assets that are debt instruments, and which are measured at amortised cost or fair value with value changes recognised through other comprehensive income. Loan commitments, financial guarantee contracts and leases due are covered. The measurement of impairment for expected loss depends on whether the credit risk has increased significantly since initial recognition. Upon initial recognition, and when the credit risk has not increased significantly after initial recognition, provisions are based on 12 months' expected loss (step 1). If the credit risk has increased significantly since initial recognition, but there is no objective evidence of impairment, write-downs are based on expected loss over the lifetime (step 2). The individual loss provisions in IAS 39 will not be affected by the transition to IFRS 9 (step 3).

Information on the effects of the transition to IFRS 9 is given in note 2.13.1.3 to 2.13.1.7 below. Note 2.13.2, Summary of significant accounting policies related to financial instruments, sets out the accounting policies for financial instruments to be applied from 1 January 2018 (as well as previous IAS 39 accounting policies for financial instruments applied in the comparative period).

2.13.1.3 Classification and measurement of financial instruments

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

GROUP FINANCIAL INSTRUMENTS	Classification according to IAS 39	Carrying amount according to IAS 39 (MNOK)	Classification according to IFRS 9	Carrying amount according to IFRS 9 (MNOK)
Receivables from central banks	Loans and receivables	45	Amortised cost	45
Loans to and receivables from credit institutions	Loans and receivables	1 286	Amortised cost	1 286
Loans to and receivables from customers	Loans and receivables	26 237	Amortised cost	26 234
	Fair value through profit or loss (hedging)	4 525	Fair value through profit or loss (hedging)	4 525
Fixed-income securities	Fair value through profit or loss (FVO)	2 759	Fair value through profit or loss	2 759
Financial derivatives (assets)	Fair value through profit or loss	91	Fair value through profit or loss	91
Shares and holdings	Available for sale	0	Fair value through profit or loss	0
Deposits from customers	(Amortised cost)	-9 669	Amortised cost	-9 669
Liabilities created on issuance of securities	(Amortised cost)	-20 799	Amortised cost	-20 799
	Fair value through profit or loss (hedging)	-2 125	Fair value through profit or loss (hedging)	-2 125
Financial derivatives (liabilities)	Fair value through profit or loss	-188	Fair value through profit or loss	-188

As is evident from the table, there are no significant changes in the classification and measurement of financial assets or financial liabilities.

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

The KLP Banken Group has carried out a review of the business model for the management of financial assets and an analysis of their cash flow characteristics.

Please see note 2.13.2 for more detailed information on the new classification requirements under IFRS 9.

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

NOTE	GROUP FINANCIAL ASSETS	Figures in MNOK	Carrying amount according to IAS 39 31 December 2017	Change as a result of reclassification	Change as a result of revaluation	Carrying amount according to IFRS 9 1 January 2018
	AMORTISED COST					
	Receivables from central banks		45	0	0	45
	Loans to and receivables from credit institutions		1 286	0	0	1 286
	Loans to and receivables from customers		26 237	0	-3	26 234
	Total effect at amortised cost		**27 524**	**0**	**-3**	**27 521**
	FAIR VALUE WITH VALUE CHANGES THROUGH PROFIT OR LOSS					
	Loans to and receivables from customers		4 525	0	0	4 525
A	Fixed-income securities		2 759	0	0	2 759
	Financial derivatives		91	0	0	91
B	Shares and holdings		0	0	0	0
	Total effect on fair value through profit or loss		**7 376**	**0**	**0**	**7 376**
	Total financial assets		**34 900**	**0**	**-3**	**34 897**
	FINANCIAL LIABILITIES					
	AMORTISED COST					
	Deposits from customers		9 669	0	0	9 669
	Liabilities created on issuance of securities		20 799	0	0	20 799
	Total effect at amortised cost		**30 468**	**0**	**0**	**30 468**
	FAIR VALUE WITH VALUE CHANGES THROUGH PROFIT OR LOSS					
	Liabilities created on issuance of securities		2 125	0	0	2 125
	Financial derivatives		188	0	0	188
	Total effect on fair value through profit or loss		**2 314**	**0**	**0**	**2 314**
	Total financial liabilities		**32 781**	**0**	**0**	**32 781**

NOTE A

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

NOTE B

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

2.13.1.5 Reconciliation of loss provisions between IAS 39 and IFRS 9

The following table shows a reconciliation between the loan loss provisions measured according to the IAS 39 'incurred loss' model against the IFRS 9 expected loss model at 1 January 2018.

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

2.13.1.6 Distribution of loss provisions per step (1 January 2018)

The table below shows the loss provisions, broken down into the different steps at the transition to IFRS 9:

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

2.13.1.7 Effect of the transition to IFRS 9 on equity

The impact of the transition to IFRS 9 on equity is MNOK -2.

2.13.2 Summary of important accounting policies related to financial instruments

The most important accounting policies relating to financial instruments to be used from 1 January 2018 are described below.

2.13.2.1 Recognition and derecognition

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

2.13.2.2 Classification and subsequent measurement

Financial assets – principle applied from 1 January 2018

Financial assets are classified on first recognition in one of the following categories:

- Amortised cost
- Fair value through profit or loss

A financial asset is measured at amortised cost if both of the following criteria are met and the financial asset has not been reported at fair value through profit or loss (the 'fair value option'):

- The financial asset is held in a business model whose purpose is to keep financial assets in order to receive the contractual cash flows (the 'business model criterion'), and
- At certain times, the contractual terms of the financial asset lead to cash flows that only include repayments and interest on the outstanding principal amount (the 'cash flow criterion').

The business model criterion

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

- explicit guidelines and goals for the portfolio and operation of these guidelines in practice. In particular, if the management's strategy and goal is to keep the asset in order to collect the contractual cash flows, maintain a specific interest profile, and match duration between financial assets

and the corresponding financial liabilities used to finance these assets or realise cash flows through the sale of the assets:
- how the return on the portfolio is assessed and reported to management;
- the risks that affect the performance of the business model (and the financial assets held within this business model) and how these risks are managed;
- how the managers are compensated, e.g. whether the compensation is based on the fair value of the managed assets or the total contractual cash flows, and
- frequency, volume and date of sale in previous periods, the reasons for such sales and expectations of future sales activity. Information about the sales activities is not however assessed in isolation, but as part of an overall assessment of how the Company's stated goals for managing the financial assets are achieved and how the cash flows are realised.

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

Cash flow criterion

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

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

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

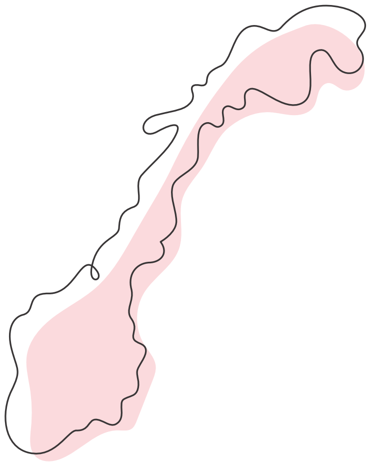
All other financial assets are measured at fair value with changes in value through profit/loss, i.e.
- assets with contractual cash flows that do not meet the cash flow criterion; and/or
- assets held in a different business model than 'held to collect contractual cash flows'; or
- assets designated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

The KLP Banken Group may designate a debt instrument that meets the criteria to be measured at amortised cost to be reported at fair value through profit or loss if this eliminates or significantly reduces inconsistencies in measurement (an 'accounting mismatch'). This option is also applicable under IAS 39.

Financial assets – principle applied before 1 January 2018

Financial assets are classified on initial recognition in one of the following categories:

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



Financial assets at fair value through profit or loss

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

Lending and receivables recognised at amortised cost

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

Financial liabilities

Under both IAS 39 and IFRS 9, financial liabilities classified as [later] are measured at amortised cost, except for:

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

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

Presentation, classification and measurement in the balance sheet and the income statement

The table below shows and compares the presentation, classification and subsequent measurement of each balance sheet item under IAS 39 (before 1 January 2018) and under IFRS 9 (after 1 January 2018).

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

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

NOTE 3 Important accounting estimates and valuations

The Company/Group prepares estimates and assumptions on future circumstances. These are continuously evaluated and are based on historic data and expectations concerning probable future events considered on the basis of data available at the time of presentation of the financial statements.

It must be expected that the estimates will deviate from the final outcome and the areas where there is significant risk of substantial change in capitalized values in future periods are discussed below.

3.1 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

3.2 LOSSES ON FINANCIAL ASSETS

Financial assets not measured at market value are assessed for impairment at the end of the reporting period. The Company/Group's lending portfolio is valued individually for loans on which default has been observed. If there is an objective event at the end of the reporting period that has influence on future cash flows, the loan is written down. In addition, lending with uniform risk profile is valued quarterly by group.

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

3.3 CAPITALIZED SOFTWARE

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

NOTE 4 Segment information

NOK THOUSAND	Public sector Market		Retail Market		Other/eliminations		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Net interest income	82 135	68 035	159 484	126 279	0	0	241 619	194 314
Other operating income	31 994	41 070	32 830	36 478	0	0	64 825	77 548
Operating expenses	-53 435	-49 806	-146 781	-129 692	-1	0	-200 217	-179 498
Loss on loans issued, guarantees etc.	0	0	-3 152	-1 119	0	0	-3 152	-1 119
Operating profit/loss before tax	**60 695**	**59 299**	**42 381**	**31 946**	**-1**	**0**	**103 074**	**91 244**
Assets as at 31.12.	18 338 692	19 516 233	18 473 145	17 852 179	-1 830 842	-2 986 000	34 980 995	34 382 412
Liabilities as at 31.12.	17 617 753	18 744 369	16 071 023	15 818 167	-785 372	-2 030 530	32 903 404	32 532 006

NOTE 5 Net gain/(loss) on financial instruments

KLP Banken AS		NOK THOUSANDS	KLP Banken AS Group	
01.01.2016 -31.12.2016	01.01.2017 -31.12.2017		01.01.2017 -31.12.2017	01.01.2016 -31.12.2016
2 684	2 843	Net gain/(loss) on fixed-income securities	7 250	18 425
0	0	Net gain/(loss) financial derivatives and realized amortization linked to lending	0	1 867
0	0	Net gain/(loss) financial derivatives and realized repurchase of own debt	-9 265	-10 211
-54	-392	Net value change lending and borrowing, hedge accounting	-392	-54
1 091	-975	Other financial income and expenses	-975	1 091
3 721	**1 476**	**Total**	**-3 382**	**11 119**

NOTE 6 Categories of financial instruments

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

NOTE 6 Categories of financial instruments - cont.

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

NOTE 6 Categories of financial instruments - cont.

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

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

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

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

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

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

Fair value of loans to and receivables from credit institutions
All receivables from credit institutions (bank deposits) are at variable interest rates. Fair value of these is considered virtually the same as book value since the contract terms are inuously 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				NOK THOUSANDS	KLP Banken AS Group			
31.12.2016		31.12.2017			31.12.2017		31.12.2016	
Nominal amount	Fair value	Nominal amount	Fair value		Nominal amount	Fair value	Nominal amount	Fair value
500 000	15 252	200 000	3 547	Derivatives related to borrowing	1 450 000	75 195	1 565 000	99 922
0	0	0	0	Derivatives related to lending	827 109	16 199	1 292 583	23 257
500 000	**15 252**	**200 000**	**3 547**	**Total assets**	**2 277 109**	**91 394**	**2 857 583**	**123 179**
0	0	0	0	Derivatives related to borrowing	600 000	-3 899	600 000	-7 930
178 500	-13 013	161 100	-10 791	Derivatives related to lending	3 721 530	-180 183	4 080 102	-240 277
0	0	125 000	-1 069	Derivatives related to investments	225 000	-4 021	100 000	-5 408
178 500	**-13 013**	**286 100**	**-11 860**	**Total liabilities**	**4 546 530**	**-188 103**	**4 780 102**	**-253 615**

Interest rate agreements are used to correct for imbalances between the Company's lending and borrowing in regard to interest rate exposure. All the agreements struck are hedging deals. The interest rate differences in the agreements are accrued in the same way as the items the hedging contracts are intended to cover.

Interest rate swaps are agreements on exchange of interest rate terms in a future period. They do not cover exchange of principal.

NOTE 8 Fair value hierarchy

KLP Banken AS		NOK THOUSANDS	KLP Banken AS Group	
31.12.2016	31.12.2017		31.12.2017	31.12.2016
		FINANCIAL ASSETS RECOGNIZED AT FAIR VALUE:		
		FIXED-INCOME SECURITIES AND SHARES		
149 818	214 800	Level 1: Value based on prices in an active market	236 784	200 701
799 996	1 102 793	Level 2: Value based on observable market data	2 522 235	2 516 812
394	461	Level 3: Value based on other than observable market data	461	394
950 208	**1 318 054**	**Total fixed-income securities**	**2 759 480**	**2 717 907**
		FINANCIAL DERIVATIVES - FAIR VALUE HEDGING		
0	0	Level 1: Value based on prices in an active market	0	0
15 252	3 547	Level 2: Value based on observable market data	91 394	123 179
0	0	Level 3: Value based on other than observable market data	0	0
15 252	**3 547**	**Total financial derivatives**	**91 394**	**123 179**
965 460	**1 321 601**	**Total financial assets recognized at fair value**	**2 850 874**	**2 841 086**

NOTE 8 Fair value hierarchy -cont.

KLP Banken AS		NOK THOUSANDS	KLP Banken AS Group	
31.12.2016	31.12.2017		31.12.2017	31.12.2016
		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
13 013	11 860	Level 2: Value based on observable market data	188 103	253 615
0	0	Level 3: Value based on other than observable market data	0	0
13 013	**11 860**	**Total financial derivatives (liabilities)**	**188 103**	**253 615**
13 013	**11 860**	**Total financial assets recognized at fair value**	**188 103**	**253 615**

KLP Banken AS		NOK THOUSANDS	KLP Banken AS Group	
31.12.2016 Book value	31.12.2017 Book value		31.12.2017 Book value	31.12.2016 Book value
		CHANGES IN LEVEL 3 UNLISTED SECURITIES		
265	394	Opening balance 1 Jan.	394	265
0	0	Sold	0	0
7	0	Bought	0	7
121	67	Unrealized changes	67	121
394	**461**	**Closing balance**	**461**	**394**
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 6 discloses the fair value of financial assets and financial liabilities that are recognized at amortized cost. Financial assets measured at amortized cost comprise lending to and due to credit institutions, Norwegian municipalities and retail customers. The stated fair value of these assets is determined on terms qualifying for level 2. Financial liabilities recognized at amortized cost consist of debt securities issued and deposits. The stated fair value of these liabilities is determined by methods qualifying for level 2.

NOTE 9 Hedge accounting - ineffectiveness recognized through profit or loss

KLP Banken AS			NOK THOUSANDS	KLP Banken AS Group		
31.12.2017				31.12.2017		
Nominal value	Changed value in hedged risk	Effectiveness		Nominal value	Changed value in hedged risk	Effectiveness
			HEDGED OBJECT			
159 495	9 741	95.42 %	Loans to retail customers fixed interest in NOK	159 495	9 741	95.42 %
			HEDGING INSTRUMENT			
161 100	-10 208	104.80 %	Interest rate swap lending fixed interest in NOK	161 100	-10 208	104.80 %

The ineffective proportion of the Group reports hedging recognized through profit or loss amounts to NOK 392,000 in 2017. This amount has been taken to income in KLP Banken AS under "Net gain/(loss) on financial instruments".

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

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

NOTE 10 Net interest income

KLP Banken AS		NOK THOUSANDS	KLP Banken AS Group	
01.01.2016 -31.12.2016	01.01.2017 -31.12.2017		01.01.2017 -31.12.2017	01.01.2016 -31.12.2016
7 820	5 798	Interest on loans to and receivables from credit institutions	11 519	13 661
252 543	256 729	Interest on lending to customers	732 331	695 605
9 701	14 807	Interest on securities	37 841	56 349
270 064	**277 334**	**Total interest income**	**781 691**	**765 615**
-63 425	-36 199	Interest on debt to credit institutions	-411 113	-451 241
-118 045	-128 106	Interest on liabilities to customers	-128 106	-118 044
349	-995	Amotization of premium/discount on covered bonds	-1 852	-2 544
528	999	Other interest costs	999	528
-180 593	**-164 301**	**Total interest costs**	**-540 072**	**-571 301**
89 471	**113 033**	**Net interest income**	**241 619**	**194 314**

NOTE 11 Net commission income

KLP Banken AS		NOK THOUSANDS	KLP Banken AS Group	
01.01.2016 -31.12.2016	01.01.2017 -31.12.2017		01.01.2017 -31.12.2017	01.01.2016 -31.12.2016
64	62	Interbank commission	62	64
742	1 166	Short commission	1 166	742
668	697	Payment handling	697	668
9 492	11 527	Other commission income	11 527	9 492
10 966	**13 452**	**Total commission income**	**13 452**	**10 966**
-289	-285	Interbank commission	-285	-289
-948	-874	Payment handling	-874	-948
-328	-1 114	Other commission expenses	-1 114	-328
-1 564	**-2 273**	**Total commission costs**	**-2 273**	**-1 564**
9 402	**11 179**	**Net commission**	**11 179**	**9 402**

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 AS 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 CONTROL AND LIMITATION 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 bank has an opportunity to take slightly higher risks in some products, but other loan products to retail customers may not constitute more than 10 percent of the bank's total lending in the retail market. 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

NOTE 13 Credit risk - cont.

limits on individual counterparties. These limits are based on the counterparty's solvency and other assessments of the counterparties' creditworthiness.

In processing all new loan applications in the public sector, checks are made on whether the customer's credit limits are larger than the total of the loan amounts applied for and current lending. In the credit 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 AS 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. In addition, the KLP Bank provides unsecured credit to individuals through credit card after credit rating of the client-servicing and debt ratio.

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

NOK THOUSANDS	KLP Banken AS		KLP Banken AS Group	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Lending to the retail market with mortgage on housing	9 307 506	7 977 248	14 357 505	12 694 541
Lending to the retail market, unsecured credit (credit cards)	57 921	0	57 921	0
Lending to municipalities and county administrations	0	0	13 939 097	14 637 875
Lending with municipal/county administration guarantee	0	0	2 192 402	2 368 255
Total	**9 365 427**	**7 977 248**	**30 546 925**	**29 700 672**
Sums falling due more than 12 months after the end of the reporting period	9 141 353	7 762 139	29 345 212	28 386 669

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

CREDIT QUALITY OF SECURITIES, BANK DEPOSITS AND DERIVATIVES

Securities with external credit rating (Moody's)

NOK THOUSANDS	KLP Banken AS		KLP Banken AS Group	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
AAA	**1 309 000**	**945 000**	**2 737 000**	**2 698 000**

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

NOK THOUSANDS	KLP Banken AS		KLP Banken AS Group	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Aa1-Aa3	454 272	787 726	701 150	1 029 037
A1-A3	218 849	248 831	584 945	537 505
Baa1	-	-	-	-
Total	**673 121**	**1 036 557**	**1 286 095**	**1 566 542**

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).

NOTE 13 Credit risk - cont.

13.3 MAXIMUM EXPOSURE TO CREDIT RISK

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

Maximum exposure to credit risk

NOK THOUSANDS	KLP Banken AS		KLP Banken AS Group	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Deposits in central banks	45 140	0	45 140	0
Loans to and receivables from credit institutions	1 448 637	3 037 848	1 286 096	1 548 082
Loans to and receivables from customers	9 384 128	7 994 420	30 637 072	29 794 859
- of which lending with mortgage on housing	9 322 955	7 994 420	14 378 700	12 716 613
- of which lending with unsecured credit (credit cards)	61 173	0	61 173	0
- of which lending to the public sector	0	0	16 197 199	17 078 246
Fixed-income securities	1 317 592	949 814	2 759 018	2 717 513
Financial derivatives	3 547	15 252	91 394	123 179
Total	**12 199 044**	**11 997 334**	**34 818 720**	**34 183 633**

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

Loans fallen due or written down

NOK THOUSANDS	KLP Banken AS		KLP Banken AS Group	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Principal on loans with payments with 7-30 days' default	151 738	150 523	220 464	224 762
Principal on loans with payments with 31-90 days' default	45 984	30 074	45 984	79 466
Principal on loans with payments with more than 90 days' default	24 395	22 230	24 395	22 230
Total loans fallen due	**222 117**	**202 827**	**290 843**	**326 458**
Relevant security or guarantees	216 123	202 827	284 849	326 458
Principal on lending that has been written down	6 420	3 166	6 420	3 166
- of which written down	2 556	1 545	2 556	1 545

13.5 CONCENTRATION OF CREDIT RISK

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

Lending to the Group's largest borrower as at 31 December 2017 was about 1.9 percent of the Group's total lending.

NOTE 14 Market risk

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

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

NOTE 14.1 MEASUREMENT OF MARKET RISK

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

NOTE 14.2 INTEREST RATE RISK

The market risk policy is the Group's overarching guidelines, requirements and limits associated with market risk. The policy dictates that the market risk should be minimized so that the total market risk is low. It further states that the Group should not actively take positions that expose the Group to market risk. The policy also sets limits for interest rate risk both for the total interest rate risk for the infinite future and for rolling 12-month periods. The limits are set in relation to Tier 1 and 2 capital and the level of the limits should ensure that the low market risk profile policy is complied with. The operational responsibility for managing the Company's market risk lies with the Finance Department. The Risk Analysis and Control Department reports the Company's actual exposure in relation to limits in accordance with guidelines set by the Board.

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

INTEREST RISK KLP BANKEN AS
Repricing dates for interest-bearing assets and liabilities as at 31 December 2017

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

NOTE 14 Market risk - cont.

INTEREST RISK KLP BANKEN AS GROUP
Repricing dates for interest-bearing assets and liabilities as at 31 December 2017

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

INTEREST RISK KLP BANKEN AS
Repricing dates for interest-bearing assets and liabilities as at 31 December 2016

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

NOTE 14 Market risk - cont.

INTEREST RISK KLP BANKEN AS GROUP
Repricing dates for interest-bearing assets and liabilities as at 31 December 2016

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

The Company's interest rate sensitivity as at 31 December 2017 (2016), measured as value change in the event of one percentage point change in all interest rates, was NOK 6.1 million (6.5).

14.3 Exchange rate risk
As at 31 December 2017 the Group had no borrowing in foreign currency.

NOTE 15 Liquidity risk

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

NOTE 15.1 MANAGEMENT OF LIQUIDITY RISK
A liquidity policy is established for the Group containing principles, guidelines, requirements and limits that apply to the management of the liquidity risk. The policy contains various requirements and limits in order to comply with the desired liquidity risk profile, including targets for deposit cover, limits for refinancing needs for various timeframes and liquidity buffer requirements. The Board has further adopted an emergency plan for liquidity crises as part of the liquidity policy. In addition to the requirements at Group level, separate specific requirements have been established for subsidiaries, including requirements for continuously positive cash flows, limits for refinancing requirements and requirements for liquidity reserves and drawing rights. The operational responsibility for managing the Company's liquidity risk lies with the Finance Department. The Risk Analysis and Control Department reports the Company's actual exposure in relation to limits in accordance with guidelines set by the Board.

NOTE 15 Liquidity risk - cont.

NOTE 15.2 MATURITY ANALYSIS

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

LIQUIDITY RISK KLP BANKEN AS

Maturity analysis for assets and liabilities as at 31 December 2017:

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

LIQUIDITY RISK KLP BANKEN AS GROUP

Maturity analysis for assets and liabilities as at 31 December 2017

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

NOTE 15 Liquidity risk - cont.

LIQUIDITY RISK KLP BANKEN AS
Maturity analysis for assets and liabilities as at 31 December 2016

NOK THOUSANDS	Total	Undefined	Up to 1 mth	From 1 mth to 3 mths	From 3 mths to 12 mths	From 1 year to 5 years	Over 5 years
Lending	7 926 092	0	26 693	54 434	248 141	1 346 119	6 250 706
Securities	974 341	0	181	128 036	91 320	654 607	100 197
Receivables from credit institutions	3 056 308	0	3 056 308	0	0	0	0
Total	**11 956 741**	**0**	**3 083 182**	**182 470**	**339 460**	**2 000 726**	**6 350 903**
Liabilities to depositors	8 687 859	8 687 859	0	0	0	0	0
Liabilities created on issuance of securities	2 427 494	0	3 833	447 136	340 196	1 636 329	0
Financial derivatives	4	0	-1 806	-2 103	12 809	-8 429	-466
Liabilities to credit institutions	0	0	0	0	0	0	0
Total	**11 115 357**	**8 687 859**	**2 027**	**445 033**	**353 005**	**1 627 900**	**-466**
Net cash flow	**841 384**	**-8 687 859**	**3 081 155**	**-262 563**	**-13 545**	**372 826**	**6 351 369**

LIQUIDITY RISK KLP BANKEN AS GROUP
Maturity analysis for assets and liabilities as at 31 December 2016

NOK THOUSANDS	Total	Undefined	Up to 1 mth	From 1 mth to 3 mths	From 3 mths to 12 mths	From 1 year to 5 years	Over 5 years
Lending	35 538 111	0	106 619	388 027	1 356 038	7 236 822	26 450 605
Securities	2 792 734	0	1 646	134 023	497 632	2 059 235	100 197
Receivables from credit institutions	1 566 542	0	1 566 542	0	0	0	0
Total	**39 897 388**	**0**	**1 674 807**	**522 050**	**1 853 671**	**9 296 057**	**26 550 802**
Liabilities to depositors	8 687 859	8 687 859	0	0	0	0	0
Liabilities created on issuance of securities	24 561 857	0	41 672	483 091	1 567 250	22 469 844	0
Financial derivatives	171 269	0	1 557	9 527	46 362	100 611	13 212
Liabilities to credit institutions	0	0	0	0	0	0	0
Total	**33 420 986**	**8 687 859**	**43 228**	**492 618**	**1 613 613**	**22 570 455**	**13 212**
Net cash flow	**6 476 402**	**-8 687 859**	**1 631 579**	**29 432**	**240 058**	**-13 274 398**	**26 537 591**

NOTE 16 Fixed-income securities

KLP Banken AS				NOK THOUSANDS	KLP Banken AS Group			
31.12.2017					31.12.2017			
Acquisition cost	Unreal. gain/loss	Accr. int. not due	Market value	Debtor categories	Acquisition cost	Unreal. gain/loss	Accr. int. not due	Market value
214 298	502	0	214 800	Government/social security administration	236 283	500	0	236 783
1 000 203	984	1 169	1 002 356	Credit enterprises	2 308 494	6 718	3 179	2 318 391
0	0	0	0	Local government administration	98 050	4 929	429	103 408
99 845	511	80	100 436	Multilateral development banks (not banks)	99 845	511	80	100 436
1 314 346	**1 997**	**1 249**	**1 317 592**	**Total fixed-income securities**	**2 742 672**	**12 658**	**3 688**	**2 759 018**

Effective interest rate: 1.03%

Effective interest rate: 1,01.

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

Effective interest rate: 1.34%

Effective interest rate: 1.41%

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

NOTE 17 Lending and receivables

KLP Banken AS		NOK THOUSANDS	KLP Banken AS Group	
31.12.2016	31.12.2017		31.12.2017	31.12.2016
		LOANS TO AND RECEIVABLES FROM CREDIT INSTITUTIONS		
0	45 140	Claims on central banks	45 140	0
1 018 098	673 121	Bank deposits	1 286 095	1 548 082
2 018 431	775 000	Principal on loans to Group companies	0	0
1 319	516	Accrued interest on loans to Group companies	0	0
3 037 848	**1 493 777**	**Loans to and receivables from credit institutions**	**1 331 235**	**1 548 082**
		LOANS TO AND RECEIVABLES FROM CUSTOMERS		
7 977 103	9 307 454	Principal on loans to customers	30 488 951	29 698 209
0	60 538	Credit portfolio	60 538	0
654	684	Overdraft current account	684	654
-1 545	-2 556	Individual write-downs	-2 556	-1 545
-706	-658	Change in write-downs by group	-658	-706
6 915	8 924	Accrued interest	80 370	84 310
0	0	Premium/discount	-13 045	-17 094
11 999	9 741	Fair value hedging	148 497	198 639
7 994 420	**9 384 128**	**Loans to and receivables from customers**	**30 762 782**	**29 962 467**

NOTE 18 Losses on lending in the retail market

KLP Banken AS		NOK THOUSANDS	KLP Banken AS Group	
01.01.2016 -31.12.2016	01.01.2017 -31.12.2017		01.01.2017 -31.12.2017	01.01.2016 -31.12.2016
196	120	Known losses, mortgage	120	196
0	2 070	Known losses, credit card	2 070	0
-12	-105	Reversal of previous write-downs	-105	-12
229	1 116	Change in individual write-downs	1 116	229
706	-48	Change in write-downs by group	-48	706
1 119	**3 152**	**Total loss on lending**	**3 152**	**1 119**

KLP Banken AS		NOK THOUSANDS	KLP Banken AS Group	
31.12.2016	31.12.2017		31.12.2017	31.12.2016
1 329	2 252	Balance of write-down losses on lending 1 January	2 252	1 329
-12	-105	Reversal of write-down on individual loans for the period	-105	-12
229	1 116	Write-down on individual loans for the period	1 116	229
706	-48	Write-down by group loans for the period	-48	706
2 252	**3 214**	**Total write-down on individual loans 31 December**	**3 214**	**2 252**
22 230	21 741	Gross default exceeding 90 days	21 741	22 230
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

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

KLP BANKEN AS GROUP

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

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

KLP BANKEN AS

31.12.2016 NOK THOUSANDS				Related sums that are not presented net		
	Gross financial assets/liabilities	Gross assets/liabilities presented net	Book value	Financial instruments	Security in cash	Net book value
ASSETS						
Financial derivatives	15 252	0	15 252	-12 721	-900	1 631
Total	**15 252**	**0**	**15 252**	**-12 721**	**-900**	**1 631**
LIABILITIES						
Financial derivatives	13 013	0	13 013	-12 721	0	292
Total	**13 013**	**0**	**13 013**	**-12 721**	**0**	**292**

KLP BANKEN AS GROUP

31.12.2016 NOK THOUSANDS				Related sums that are not presented net		
	Gross financial assets/liabilities	Gross assets/liabilities presented net	Book value	Financial instruments	Security in cash	Net book
ASSETS						
Financial derivatives	123 179	0	123 179	-123 179	-900	0
Total	**123 179**	**0**	**123 179**	**-123 179**	**-900**	**0**
LIABILITIES						
Financial derivativesr	253 615	0	253 615	-123 179	0	130 436
Total	**253 615**	**0**	**253 615**	**-123 179**	**0**	**130 436**

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

KLP Banken AS		NOK THOUSANDS	KLP Banken AS Group	
31.12.2016	31.12.2017		31.12.2017	31.12.2016
2 400 000	1 600 000	Bonds, nominal value	23 846 000	26 685 000
6 725	2 421	Revaluations	52 942	66 384
13 650	4 677	Accrued interest	55 332	68 990
-57 000	-130 000	Own funds, nominal value	-1 030 000	-3 369 000
2 363 375	**1 477 098**	**Total liabilities created on issuance of securities**	**22 924 274**	**23 451 374**
1.95 %	**1.52 %**	**Interest rate on borrowings through the issuance of securities at the reporting date**	**1.28 %**	**1.59 %**

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

KLP BANKEN AS

NOK THOUSANDS	Balance 31.12.2016	Issued	Fallen due/ redeemed Repurchased	Others changes	Balance 31.12.2017
CHANGE IN LIABILITIES CREATED ON ISSUANCE OF SECURITIES					
Bonds, nominal value	2 400 000	0	-800 000	0	1 600 000
Revaluations	6 725	0	0	-4 304	2 421
Accrued interest	13 650	0	0	-8 973	4 677
Own funds, nominal value	-57 000	0	-73 000	0	-130 000
Total liabilities created on issuance of securities	**2 363 375**	**0**	**-873 000**	**-13 277**	**1 477 098**

KLP BANKEN AS GROUP

NOK THOUSANDS	Balance 31.12.2016	Issued	Fallen due/ redeemed Repurchased	Others changes	Balance 31.12.2017
CHANGE IN LIABILITIES CREATED ON ISSUANCE OF SECURITIES					
Bonds, nominal value	26 685 000	5 100 000	-7 939 000	0	23 846 000
Revaluations	66 384	0	0	-13 442	52 942
Accrued interest	68 990	0	0	-13 658	55 332
Own funds, nominal value	-3 369 000	0	2 339 000	0	-1 030 000
Total liabilities created on issuance of securities	**23 451 374**	**5 100 000**	**-5 600 000**	**-27 100**	**22 924 274**

NOTE 21 Deposits from customers

KLP Banken AS		NOK THOUSANDS	KLP Banken AS Group	
31.12.2016	31.12.2017		31.12.2017	31.12.2016
8 687 859	9 669 046	Deposits from customers without agreed duration	9 669 046	8 687 859
8 687 859	**9 669 046**	**Total deposits from customers without agreed duration**	**9 669 046**	**8 687 859**
		CUSTOMER DEPOSITS DIVIDED BY CUSTOMER GROUPS		
6 952 946	7 713 393	Deposits from customers, retail market	7 713 393	6 952 946
1 734 913	1 955 653	Deposits from customers, public sector market	1 955 653	1 734 913
8 687 859	**9 669 046**	**Total deposits from customers**	**9 669 046**	**8 687 859**
1.40 %	**1.38 %**	**Interest rate on customer deposits, at the reporting date**	**1.38 %**	**1.40 %**

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

NOTE 22 Shares in Group companies

KLP Banken AS NOK THOUSANDS	Ownership %	Acquisition cost	Book value 31.12.2017	Book value 31.12.2016
KLP Boligkreditt AS	100	370 470	370 470	250 470
KLP Kommunekreditt AS	100	675 000	675 000	675 000
Total		**1 045 470**	**1 045 470**	**925 470**

NOTE 23 Fixed assets

KLP Banken AS		NOK THOUSANDS	KLP Banken AS Group	
31.12.2016	31.12.2017		31.12.2017	31.12.2016
777	864	Acquisition cost 01.01	864	777
87	307	Acquired during the period	307	87
0	0	Disposals during the period	0	0
864	1 171	Acquisition cost 31.12	1 171	864
-309	-326	Acc. depreciation previous years	-326	-309
-17	-103	Annual depreciatio	-103	-17
-326	-429	Acc. depreciation	-429	-326
538	**742**	**Book value**	**742**	**538**

NOTE 24 Intangible assets

KLP Banken AS		NOK THOUSANDS	KLP Banken AS Group	
31.12.2016	31.12.2017		31.12.2017	31.12.2016
33 126	39 425	Acquisition cost 01.01	39 425	33 126
6 299	13 518	Additions	13 518	6 299
0	0	Disposals	0	0
39 425	**52 943**	**Acquisition cost 31.12**	**52 943**	**39 425**
-15 342	-19 470	Accumulated depreciation previous years	-19 470	-15 342
-4 128	-6 320	Ordinary depreciation for the year	-6 320	-4 128
19 955	**27 153**	**Book value**	**27 153**	**19 955**
3-7 år		Depreciation period	3-7 år	

NOTE 25 Capital adequacy

KLP Banken AS		NOK THOUSANDS	KLP Banken AS Group	
31.12.2016	31.12.2017		31.12.2017	31.12.2016
1 640 000	1 790 000	Share capital and share premium fund	1 790 000	1 640 000
114 172	230 562	Other owners' equity	287 591	210 406
1 754 172	**2 020 562**	**Total owners' equity**	**2 077 591**	**1 850 406**
0	-1 318	Adjustments due to requirements for proper valuation	-2 759	0
-19 955	-27 153	Deduction goodwill and other intangible assets	-27 153	-19 955
-7 742	-7 891	Deferred tax assets	-7 392	-6 916
1 726 475	**1 984 200**	**Core capital/Tier 1 capital**	**2 040 287**	**1 823 535**
0	0	Supplementary capital/Tier 2 capital	0	0
0	**0**	**Supplementary capital/Tier 2 capital**	**0**	**0**
1 726 475	1 984 200	Total own funds (eligible Tier 1 and Tier 2 capital)	2 040 287	1 823 535
763 392	775 942	Capital requirement	767 527	767 775
963 083	**1 208 258**	**Surplus of own funds (eligible Tier 1 and Tier 2 capital)**	**1 272 760**	**1 055 760**
		CALCULATION BASIS CREDIT RISK:		
4 802 573	4 668 122	Institutions	283 326	337 586
0	0	Local and regional authorities	3 296 369	3 491 045
3 386 460	3 337 608	Investments with mortgage security in real estate	5 107 629	5 038 937
0	73 419	Retail	73 419	0
65 763	67 215	Investments fallen due	67 215	65 763
70 033	100 236	Covered bonds	231 839	231 124
956 650	1 153 266	Other holdings	107 796	31 180
9 281 479	**9 399 866**	**Calculation basis credit risk**	**9 167 593**	**9 195 634**

NOTE 25 Capital adequacy - cont.

KLP Banken AS		NOK THOUSANDS	KLP Banken AS Group	
31.12.2016	31.12.2017		31.12.2017	31.12.2016
742 518	751 989	Credit risk	733 407	735 651
20 848	23 951	Operational risk	33 967	31 957
26	2	Credit valuation adjustments (CVA)	153	168
763 392	**775 942**	**Total capital requirement assets**	**767 527**	**767 775**
18.1 %	20.5 %	Core capital adequacy ratio	21.3 %	19.0 %
0.0 %	0.0 %	Supplementary capital ratio	0.0 %	0.0 %
18.1 %	**20.5 %**	**Capital adequacy ratio**	**21.3 %**	**19.0 %**
5.0 %	**5.5 %**	**Unweighted capital adequacy**	**5.7 %**	**5.2 %**

CAPITAL REQUIREMENT AS AT 31.12.2017	Core capital/ Tier 1 capital	Supplementary capital/Tier 2 capital	Own funds
Minimum requirement without buffers	4.5 %	3.5 %	8.0 %
Protective buffers	2.5 %	0.0 %	2.5 %
System risk buffers	3.0 %	0.0 %	3.0 %
Counter-cyclical buffers	2.0 %	0.0 %	2.0 %
Pilar 2-requirement	2.1 %	0.0 %	2.1 %
Current capital requirement incl. buffers	**14.1 %**	**3.5 %**	**17.6 %**
Minimum requirement in leverange ratio	3.0 %	0.0 %	3.0 %
Requirement with buffer in core capital	2.0 %	0.0 %	2.0 %
Capital requirement leverage ratio	**5.0 %**	**0.0 %**	**5.0 %**

NOTE 26 Tax

KLP Banken AS		NOK THOUSANDS	KLP Banken AS Group	
2016	2017		2017	2016
26 667	124 687	Accounting income before taxes	103 074	91 244
		Other income components:		
-863	-1 145	Estimate difference, pension obligations and assets	-1 145	-863
121	68	Change in value of financial assets aviailable for sale	68	121
		Differences between accounting and tax income:		
-1 886	-95 000	Other deductions (dividends received during the year)	0	-1 886
-1 891	-592	Reversal of value increase financial assets	-33 656	-16 491
331	383	Other permanent differences	383	90
2 861	1 117	Change in differences between book and taxable income	35 453	5 994
25 340	**29 519**	**Taxable income**	**104 178**	**78 209**
0	0	Group contribution received with tax effect	0	0
25 340	**29 519**	**Base for tax payable in tax expenses**	**104 178**	**78 209**
0	0	Deficit carry-forward allowable from previous years	0	0
0	0	Change for the year in carry-forward deficit	0	0
0	**0**	**Total allowable carry-forward deficit as at 31 December**	**0**	**0**
25 340	**29 519**	**Tax surplus**	**104 178**	**78 209**
		RECONCILIATION OF BASIS FOR DEFERRED TAX/TAX ASSETS		
		Deferred tax assets linked to:		
-15	-8	Fixed assets	-8	-15
-1 686	-1 573	Financial instruments	-16 219	-25 008
-1 828	-670	Hedging of borrowing	-15 554	-20 751
-6 570	-7 860	Pension obligation	-7 860	-6 570
-643	-214	Other differences	-1 285	-643
-10 742	**-10 326**	**Total deferred tax assets**	**-40 927**	**-52 987**
		Deferred tax linked to:		
3 000	2 435	Lending to customers and credit enterprises	33 535	46 069
3 000	**2 435**	**Total deferred tax**	**33 535**	**46 069**
-7 742	**-7 891**	**Net deferred tax/tax assets**	**-7 392**	**-6 918**
0	0	Carry-forward deficit	0	0
0	**0**	**Deferred tax on carry-forward deficit**	**0**	**0**
-7 742	-7 891	Deferred tax/tax asset	-7 392	-6 918
-7 742	**-7 891**	**Capitalized deferred tax asset**	**-7 392**	**-6 918**

NOTE 26 Tax -cont.

KLP Banken AS		NOK THOUSANDS	KLP Banken AS Group	
2016	2017		2017	2016
		SUMMARY OF TAX EXPENSE FOR THE YEAR		
-5	-10	Tax charged to the income statement for previous years	-12	-5
-267	-149	Change in deferred tax taken to income	-474	2 624
6 335	7 380	Tax on Group contribution payment made	25 298	19 552
6 061	**7 221**	**Capitalized tax**	**24 812**	**22 170**
23.5 %	5.9 %	Effective tax percentage	24.3 %	24.5 %
		RECONCILIATION OF TAX PERCENTAGE		
26 667	124 687	Accounting income before taxes	103 074	91 244
-742	-1 077	Items in other comprehensive income	-1 077	-742
25 925	123 610	Total profit before tax	101 997	90 502
6 481	30 903	Income taxs expense, nominal tax rate	25 499	22 626
6 358	7 231	Income tax expense, effective tax rate	24 812	22 171
392	**23 671**	**Difference between effective and nominal tax rate**	**687**	**456**
3	0	Recognised tax relating to previous years	0	-5
-83	-79	Tax effects of permanent differences	-79	-23
472	23 750	Tax on dividends and group contributions received	0	472
0	0	Effect of change in tax rate on deferred tax	766	13
392	**23 671**	**Total**	**687**	**456**

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 tjenestepension", or OTP). The Company has a contract pension (AFP) scheme.

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

NOK THOUSANDS	Joint scheme	Via operation	2017	Joint scheme	Via operation	2016
PENSION COSTS						
Present value of accumulation for the year	7 448	398	7 845	6 538	377	6 915
Administration cost	204	0	204	183	0	183
Social security contributions - Pension costs	1 079	56	1 135	948	53	1 001
Capital activity tax - Pension costs	383	20	402	0	0	0
Pension costs incl. social security and administration costs taken to income	**9 113**	**474**	**9 587**	**7 669**	**430**	**8 099**
NET FINANCIAL COSTS						
Interest costs	1 371	268	1 639	1 171	258	1 429
Expected return	-929	0	-929	-777	0	-777
Management costs	109	0	109	96	0	96
Net interest costs	551	268	819	490	258	748
Social security contributions - Net interest cost	78	38	115	69	36	105
Capital activity tax - Net interest cost	28	13	41	0	0	0
Net interest cost including social security contributions	**656**	**320**	**975**	**559**	**295**	**853**
ESTIMATE DIFFERENCE, PENSIONS						
Actuarial gains (losses)	490	472	961	-425	214	-210
Social security contributions	69	66	136	-60	30	-30
Capital activity tax	24	24	48	604	499	1 103
Actuarial gains (losses) incl. social security contributions	**583**	**562**	**1 145**	**120**	**744**	**863**
Total pension costs including interest costs and estimate difference	**10 352**	**1 355**	**11 707**	**8 347**	**1 468**	**9 815**
PENSION OBLIGATIONS						
Gross accrued pension obligation	56 909	11 001	67 910	45 869	9 978	55 848
Pension assets	41 512	0	41 512	33 783	0	33 783
Net liability before SSC	15 398	11 001	26 398	12 087	9 978	22 065
Social security contributions	2 171	1 551	3 722	1 704	1 407	3 111
Capital activity tax	770	550	48	604	499	1 103
Gross accrued obligations incl. social security costs	59 850	13 102	72 952	48 178	11 884	60 062
Net liability incl. social security costs	**18 339**	**13 102**	**31 440**	**14 395**	**11 884**	**26 279**
RECONCILIATION OF PENSION OBLIGATIONS						
Capitalized net liability/(asset) 01.01	14 395	11 884	26 279	11 958	10 548	22 505
Pension costs taken to profit/loss	9 113	474	9 587	7 669	430	8 099
Finance costs taken to profit/loss	656	320	975	559	295	853
Actuarial gains and losses incl. social security contributions	583	562	1 145	120	744	863
Social security contributions paid in premiums/supplement	-759	-16	-775	-730	-16	-747
Capital activity tax paid-in premium/supplement	-269	-6	-275	0	0	0
Premium/supplement paid-in including admin	-5 381	-115	-5 496	-5 180	-115	-5 295
Capitalized net liability/(asset) 31.12	**18 339**	**13 102**	**31 440**	**14 395**	**11 884**	**26 279**

NOTE 27 Pension obligations, own employees - cont.

NOK THOUSANDS	Joint scheme	Via operation	2017	Joint scheme	Via operation	2016
CHANGE IN PENSION OBLIGATIONS						
Gross pension obligation after plan change	48 178	11 884	60 062	38 810	10 548	49 357
Present value of accumulation for the year	7 448	398	7 845	6 538	377	6 915
Interest costs	1 371	268	1 639	1 171	258	1 429
Actuarial losses (gains) gross pension obligation	3 518	562	4 080	2 389	744	3 133
Social security contributions - pension costs	1 079	56	1 135	948	53	1 001
Social security contributions - net interest costs	78	38	115	69	36	105
Social security contributions paid in premiums/supplement	-759	-16	-775	-730	-16	-747
Capital activity tax - pension costs	383	20	402	0	0	0
Capital activity tax - net interest costs	28	13	41	0	0	0
Capital activity tax - paid-in premiums/supplement	-269	-6	-275	0	0	0
Payments	-1 203	-115	-1 318	-1 017	-115	-1 132
Gross pension obligation 31.12	**59 850**	**13 102**	**72 952**	**48 178**	**11 884**	**60 062**
CHANGE IN PENSION ASSETS						
Pension assets 01.01	33 783	0	33 783	26 852	0	26 852
Expected return	929	0	929	777	0	777
Actuarial loss (gain) on pension assets	2 935	0	2 935	2 270	0	2 270
Administration cost	-204	0	-204	-183	0	-183
Financing cost	-109	0	-109	-96	0	-96
Premium/supplement paid-in including admin	5 381	115	5 496	5 180	115	5 295
Payments	-1 203	-115	-1 318	-1 017	-115	-1 132
Pension assets 31.12	**41 512**	**0**	**41 512**	**33 783**	**0**	**33 783**
OVER/UNDER-FINANCING OF THE PENSION SCHEME						
Present value of the defined-benefit pension obligation	59 850	13 102	72 952	48 178	11 884	60 062
Fair value of the pension assets	41 512	0	41 512	33 783	0	33 783
Net pension obligation	**18 339**	**13 102**	**31 440**	**14 395**	**11 884**	**26 279**

FINANCIAL ASSUMPTIONS (COMMON TO ALL PENSION SCHEMES)	31.12.2017	31.12.2016
Discount rate	2.40 %	2.60 %
Salary growth	2.50 %	2.50 %
National Insurance basic amount (G)	2.25 %	2.25 %
Pension increases	1.48 %	1.48 %
Social security contributions	14.10 %	14.10 %
Capital activity tax	5.00 %	5.00 %

For the measurement of pension expense for 2017 used assumptions as of 31.12.2016, while for calculating pensjon liabilities 31.12.2017 used assumptions and population per 31.12.2017. The assumptions are based on market conditions per 31.12.2017 and in accordance with the recommendation from the Norwegian Accounting Standards Board.

NOTE 27 Pension obligations, own employees - cont.

ACTUARIAL ASSUMPTIONS

KLP's joint pension scheme for local authorities and enterprises ("Fellesordningen")

An important part of the basis of pension costs and pension obligations is how mortality and disability develop amongst the members of the pension scheme.

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

Take-up of contractual early retirement (AFP), (per cent in relation to remaining employees)

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

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

PENSIONS VIA OPERATIONS

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

NUMBER	Joint scheme	Via operation	2017	Joint scheme	Via operation	2016
MEMBERSHIP STATUS						
Number active	68	3	71	62	3	65
Number deferred (previous employees with deferred entitlements)	22	5	27	17	4	21
Number of pensioners	13	1	14	11	1	12

	2017	2016
COMPOSITION OF THE PENSION ASSETS:		
Property	12.3 %	12.5 %
Lending	11.6 %	11.6 %
Shares	22.5 %	20.1 %
Long-term/HTM bonds	27.1 %	26.8 %
Short-term bonds	19.2 %	20.0 %
Liquidity/money market	7.3 %	8.9 %
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 6.7 per cent in 2017 and 5.9 per cent in 2016.

Expected payment into benefit plans after cessation of employment for the period 1 January 2017 – 31 December 2018 is NOK 9.0 million.

NOTE 27 Pension obligations, own employees - cont.

SENSITIVITY ANALYSIS AS AT 31 DECEMBER 2017	
Discount rate reduced by 0.5%	Increase
Gross pension obligation	10.9 %
Accumulation for the year	14.35 %
Salary growth increases by 0.25%	Increase
Gross pension obligation	1.32 %
Accumulation for the year	3.29 %
Mortality increases by 10%	Increase
Gross pension obligation	2.50 %
Accumulation for the year	1.90 %

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

The duration in the joint scheme is estimated at 17.4.

NOTE 28 Salary and obligations to senior management etc.

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

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

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

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

NOK THOUSANDS	2017	2016
Period expenses related to interest subsidies on loans to employees	282	223

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

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

Department Manager Public Sector Market acceded 1 October. He also holds the position as the Managing Director of the subsidiary KLP Kommunekreditt AS, but he receives no remuneration for that appointment. He has no agreement on performance pay, but has a salary guarantee in the event of dismissal/agreed termination. He is pensinable aged 70.

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

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

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

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

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

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

NOTE 29 Number of employees

KLP Banken AS			KLP Banken AS Group	
2016	2017		2017	2016
64	72	Number of FTEs	72	64
70	76	Number of employees as at 31 December	76	70

NOTE 30 Pay and general management costs

KLP Banken AS		NOK THOUSANDS	KLP Banken AS Group	
01.01.2016 -31.12.2016	01.01.2017 -31.12.2017		01.01.2017 -31.12.2017	01.01.2016 -31.12.2016
42 948	46 882	Salaries	46 882	42 948
7 054	7 734	Social security contributions	7 734	7 054
234	2 970	Capital activity tax	2 970	234
7 442	8 651	Pensions including social security contributions	8 651	7 442
123	120	Other benefits	120	123
57 801	**66 358**	**Total**	**66 358**	**57 801**

NOTE 31 Other assets

KLP Banken AS		NOK THOUSANDS	KLP Banken AS Group	
31.12.2016	31.12.2017		31.12.2017	31.12.2016
12 243	4 310	Receivables between companies in the same Group	450	610
2 487	368	Miscellaneous receivables	368	2 487
272	0	Prepaid expenses	0	273
15 002	**4 678**	**Total**	**818**	**3 370**

NOTE 32 Other liabilities and provision for accrued costs

KLP Banken AS		NOK THOUSANDS	KLP Banken AS Group	
31.12.2016	31.12.2017		31.12.2017	31.12.2016
93 065	49 636	Receivables between companies in the same Group	45 857	65 801
4 511	3 045	Creditors	3 147	5 013
2 613	416	Miscellaneous liabilities	418	2 617
6 335	7 380	Tax payable	25 298	19 552
106 524	**60 477**	**Total other liabilities**	**74 720**	**92 983**
2 837	3 208	Withholding tax	3 208	2 837
2 090	2 299	Social security contributions	2 299	2 090
234	817	Capital activity tax	817	234
4 914	5 110	Holiday pay	5 110	4 914
26 279	31 440	Pension obligations	31 440	26 279
0	0	VAT	246	264
5 136	3 522	Provisioned costs	4 140	9 556
41 490	**46 397**	**Total accrued costs and liabilities**	**47 261**	**46 174**

NOTE 33 Transactions with related parties

KLP Banken AS		NOK THOUSANDS	KLP Banken AS Group	
01.01.2016 -31.12.2016	01.01.2017 -31.12.2017		01.01.2017 -31.12.2017	01.01.2016 -31.12.2016
		INCOME STATEMENT ITEMS		
57 000	57 000	KLP, fees lending management	57 000	57 000
12 830	14 392	KLP Kommunekreditt AS, administrative services (at cost)	0	0
26 794	31 178	KLP Boligkreditt AS, administrative services (at cost)	0	0
37 215	7 303	KLP Kommunekreditt AS, interest lending	0	0
9 309	5 431	KLP Boligkreditt AS, interest lending	0	0
-63	-52	KLP Kapitalforvaltning AS, fees for services provided	-294	-438
-5 454	-5 989	KLP, rent	-5 989	-5 454
-7 442	-8 651	KLP, pension premium	-8 651	-7 442
-53 717	-57 666	KLP, staff services (at cost)	-57 666	-53 717
999	1 115	KLP Group companies, subsidised interest employee loans	2 552	2 233
77 471	**44 061**	**Total**	**-13 048**	**-7 818**

KLP Banken AS		NOK THOUSANDS	KLP Banken AS Group	
31.12.2016	31.12.2017		31.12.2017	31.12.2016
		FINANCIAL POSITION STATEMENT ITEMS		
1 170 823	275 170	KLP Kommunekreditt AS, lending Group short-term	0	0
848 927	500 345	KLP Boligkreditt AS, lending Group short-term	0	0
-24 060	-3 503	KLP Kommunekreditt AS, loan settlement	0	0
-3 295	-538	KLP Boligkreditt AS, loan settlement	0	0
-50 525	-42 910	KLP, loan settlement	-42 910	-50 525
-2 582 903	-2 207 037	KLP Boligkreditt AS, transferred loans	0	0
		NET INTERNAL ACCOUNTS TO		
-15 185	-2 574	KLP	-2 321	-14 895
4 018	1 296	KLP Kommunekreditt AS, net internal accounts	0	0
8 096	2 956	KLP Boligkreditt AS, net internal accounts	0	0
129	-53	KLP Group companies, net other internal accounts	-175	228
-643 975	**-1 476 848**	**Total**	**-45 406**	**-65 192**

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		NOK THOUSANDS	KLP Banken AS Group	
01.01.2016 -31.12.2016	01.01.2017 -31.12.2017		01.01.2017 -31.12.2017	01.01.2016 -31.12.2016
375	235	Ordinary audit	588	829
0	144	Certification services	324	330
19	531	Non-audit services	550	19
394	**910**	**Total auditor's fee**	**1 462**	**1 178**

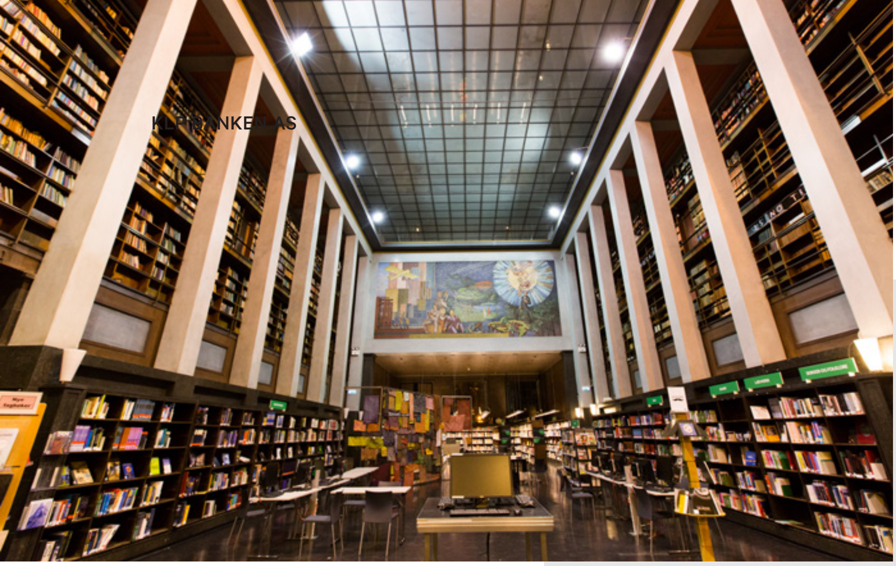
The sums above include VAT.

NOTE 35 Contingent liabilities

KLP Banken AS		NOK THOUSANDS	KLP Banken AS Group	
31.12.2016	31.12.2017		31.12.2017	31.12.2016
452 389	673 459	Credit facilities for lending not utilized	673 459	452 389
217 716	98 797	Promised loans	212 769	424 652
0	189 223	Credit facilities issued credit card	189 223	0
17 230 000	17 046 000	Credit facility KLP Kommunekreditt AS	0	0
3 743 000	4 300 000	Credit facility KLP Boligkreditt AS	0	0
21 643 105	**22 307 479**	**Total contingent liabilities**	**1 075 451**	**877 041**

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

KLP Banken AS		NOK THOUSANDS	KLP Banken AS Group	
31.12.2016	31.12.2017		31.12.2017	31.12.2016
0	45 140	Claims on central banks	45 140	0
1 008 061	649 519	Bank deposits operations	1 244 175	1 523 245
0	0	Cash	0	0
1 008 061	**694 659**	**Total cash and cash equivalents (liquidity)**	**1 289 315**	**1 523 245**
10 037	23 603	Bank accounts to be used for the purchase and sale of securities	41 919	24 837
2 019 750	775 515	Receivable on group coppanies	0	0
3 037 848	**1 493 777**	**Loans and receivables from credit institutions**	**1 331 235**	**1 548 082**



Anne Westad
Employed in HR

Karoline Baltzersen
Employed in Non-life insurance

Gisle Hunvik
Employed in Asset management

Vidar Stenseth
Employed in IT

To the General Meeting of KLP Banken AS

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of KLP Banken AS. The financial statements comprise:

- The financial statements of the parent company, which comprise the balance sheet as at 31 December 2017, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The financial statements of the group, which comprise the balance sheet as at 31 December 2017 and income statement, statement of changes in equity, cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements present fairly, in all material respects, the financial position of the parent company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.
- The accompanying financial statements present fairly, in all material respects, the financial position of the group as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

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

Other information

Management is responsible for the other information. The other information comprises the Board of Directors' report, the statements on Corporate Governance and Corporate Social Responsibility, but does not include the financial statements and our auditor's report thereon.

Independent Auditor's Report - KLP Banken AS

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and the Group's internal control.

Independent Auditor's Report - KLP Banken AS

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company or the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company or the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

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

Independent Auditor's Report - KLP Banken AS

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 and the Group's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 14 March 2018
PricewaterhouseCoopers AS

Erik Andersen
State Authorised Public Accountant

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