



Interim report

KLP BANKEN AS GROUP
Q4 2017

Table of contents

KLP BANKEN AS GROUP

INTERIM FINANCIAL STATEMENTS	3
INCOME STATEMENT	5
BALANCE SHEET	6
STATEMENT OF CHANGES IN EQUITY	7
STATEMENT OF CASH FLOW	8
NOTES TO THE ACCOUNTS	9
— Note 1 General information	9
— Note 2 Accounting principles	9
— Note 3 Net interest income	10
— Note 4 Loans to customers	10
— Note 5 Categories of financial instruments	11
— Note 6 Fair value hierarchy	13
— Note 7 Securities liabilities - stock exchange listed covered bonds and certificates	15
— Note 8 Financial assets and liabilities subject to net settlement	16
— Note 9 Transactions with related parties	17
— Note 10 Other assets	18
— Note 11 Other liabilities and provision for accrued costs	18
— Note 12 Capital adequacy	19
— Note 13 Fixed-income securities	20
— Note 14 Losses on lending	20
— Note 15 Contingent liabilities	21
— Note 16 Net gain/(loss) on financial instruments	21
— Note 17 Pension obligations - own employees	21
— Quarterly earnings trend	22
— Key figures - accumulated	23

Interim financial statements

KLP BANKEN AS GROUP
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MAIN FEATURES BY FOURTH QUARTER END:

- Continued growth in mortgage loans and deposit volumes
- Net interest income improved from last year
- Improved earnings

The KLP Banken Group's purpose is financing of housing mortgages to members of KLP's pension schemes, and lending to municipalities, county administrations and companies carrying out public sector assignments. The KLP Banken also manages a lending portfolio on behalf of KLP. The Group manages lending totalling NOK 87,5 billion. The overall business of KLP Banken AS and its subsidiaries is divided into the retail market and public sector loans business areas. The business is nationwide and the companies' head office is in Trondheim. 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.

INCOME STATEMENT

Net interest income for the KLP Banken Group by fourth quarter end 2017 amounted to NOK 241.6 million compared to NOK 194.3 million at the same time last year. This development is mainly due to stable margins and growth in mortgage loans and other credit volumes.

Operating expenses and depreciation amounted to NOK 200.2 million this year compared to NOK 179.5 million at the same time last year. The increase in operating expenses compared to last year, apart from general inflation, is partly due to investments and start-up cost for establishing a credit card portfolio on the bank's balance.

Net charges and commission income has increased from NOK 9.4 million by the fourth quarter in 2016 to NOK 11.2 million in 2017. This is mainly due to the loan volume increase.

The financial statements have been prepared in NOK and are presented in accordance with IAS 34.

This means that financial instruments are recognised in part at market value. At the end of the fourth quarter, the income statement includes a net loss associated with securities of NOK -3.4 million. During the same period the previous year, a net gain of NOK 11.1 million was brought to book.

In addition to its own lending, the banking group administers housing mortgages and public sector lending financed by its parent company (KLP). The management fee for this task amounted to NOK 57.0 million at the end of the fourth quarter, the amount as last year.

Loan loss provisions and realized losses in total has increased from NOK 1.1 million in 2016 to 3.4 million in 2017, of which losses and provisions on the credit card portfolio amounted to NOK 2.1 million and on the mortgage loan portfolios NOK 1.1 million. There are no recognized losses on public sector loans.

By the end of the fourth quarter, the KLP Banken Group had a pre-tax profit of NOK 103.1 million, of which the fourth quarter profit isolated was NOK 21.4 million. The retail market segment generated a profit of NOK 42.4 million while the public sector segment achieved a profit of NOK 60.7 million. In 2016, the Group profit was NOK 91.2 million where the retail market segment reported a profit of NOK 31.9 million and the public sector market a profit of NOK 59.3 million. Group income after tax amounted to NOK 78.0 million at the reporting date and NOK 68.9 million at the same time last year.

LENDING

On 31 December 2017, the KLP Banken Group had a lending balance of NOK 30.8 billion compared to NOK 30.0 billion at the same time last year. The distribution between the retail market and public sector lending was NOK 14.5 billion and NOK 16.3 billion, respectively.

During 2017, the Group's mortgage lending balance increased by NOK 1.7 billion. KLP's own mortgage lending balance was increased by NOK 0.1 billion during the same period.

The public sector lending balance in KLP Banken AS Group has decreased by NOK 0.9 billion in 2017. Managed public sector loans on KLP's own balance sheet has increased by NOK 5.5 billion in the same period. Managed loans to foreign debtors in foreign currencies has decreased by NOK 1.3 billion.

LIQUID INVESTMENT

On the reporting date, the portfolio of liquid investments amounted to NOK 2.8 billion against NOK 2.7 billion at the same time last year. Net financial gains have positively impacted earnings by NOK 7.3 million in 2017 compared to NOK 18.4 million last year.

BORROWING

The KLP Banken Group's external financing comprises of deposits, certificates and bonds. On the date of reporting, deposits from individuals and companies were NOK 9.7 billion and issued securities amounted to NOK 22.9 billion. Of the issued securities, covered bonds (OMF) issued by KLP Kommunekreditt AS and KLP Boligkreditt AS amounted to NOK 17.1 billion and NOK 4.3 billion outstanding respectively. All covered bonds issues have achieved AAA rating.

RISK AND CAPITAL ADEQUACY

The KLP Banken Group is exposed to various types of risks and the bank has established a framework for risk management aimed at ensuring that risks are identified, analysed and subjected to management using policies, limits, procedures and instructions. The bank is to have

a prudent risk profile and earnings are to be principally a result of borrowing and lending activity as well as liquidity management. This means that the bank is to have low market risk, and interest and foreign-exchange risk arising within the borrowing and lending activity is reduced using derivatives. The KLP Banken Group and its subsidiaries are to have responsible long-term financing and limits have been established to ensure that that this objective is achieved. The credit risk in the bank is low and the bank's lending is mainly limited to loans with local government risk and loans with lien on housing and leisure property. Management of the bank's liquidity is conducted through investments in other banks satisfying given credit quality requirements and in securities in accordance with Board-approved credit lines. The Group's securities portfolio has high credit quality.

The KLP Banken Group expanded its equity by NOK 150 million in December 2017. At the end of the fourth quarter, eligible Tier 1 and Tier 2 capital i.a.w. the capital adequacy rules was NOK 2 022.3 million. Eligible Tier 1 and Tier 2 capital comprises core capital only. The corresponding figure for last year was NOK 1 823.5 million. Lending is risk-weighted in accordance with the authorities' capital adequacy regulations. The KLP Banken Group had a capital adequacy ratio of 21.1 per cent at the end of the fourth quarter, against 19.0 per cent on the same date last year. The minimum statutory requirement is 14.1 per cent core capital adequacy and 17.6 per cent capital adequacy. Leverage ratio was 5.6 per cent.

Income statement

KLP BANKEN AS GROUP

NOTE	NOK THOUSANDS	Q4 2017	Q4 2016	01.01.2017 -31.12.2017	01.01.2016 -31.12.2016
	Interest income	185 061	192 866	781 691	765 615
	Interest expense	-117 332	-147 912	-540 072	-571 301
3	Net interest income	67 729	44 954	241 619	194 314
	Commission income and income from banking services	3 716	3 150	13 452	10 966
	Commission cost and cost from banking services	-486	-319	-2 273	-1 564
	Net charges and commission income	3 230	2 831	11 179	9 402
	Other fee income	14 278	14 278	57 028	57 028
16	Net gain/ (loss) financial instruments	-3 644	-7 416	-3 382	11 119
	Total other operating income	10 634	6 862	53 646	68 146
	Salaries and administrative costs	-19 865	-17 716	-66 358	-57 801
	Depreciation	-2 192	-1 132	-6 423	-4 146
	Other operating expenses	-37 514	-36 217	-127 435	-117 551
14	Net loan losses	-626	-654	-3 152	-1 119
	Total operating expenses	-60 198	-55 719	-203 369	-180 617
	Operating profit/loss before tax	21 394	-1 072	103 074	91 244
	Tax ordinary income	-5 231	295	-25 080	-22 356
	Profit/loss for the period	16 163	-777	77 994	68 888
	Estimate difference, pension obligation and assets	2 068	1 890	-1 145	-863
	Tax on actuarial gains and losses	-517	-472	286	216
	Items that will not be reclassified to profit and loss	1 552	1 418	-858	-647
	Changes in the fair value at available for sale financial assets	68	118	68	121
	Tax on changes in fair value of available for sale financial assets	-17	-29	-17	-30
	Items that may be reclassified to profit and loss	51	89	51	91
	Other comprehensive income for the period	1 602	1 507	-808	-556
	Comprehensive income for the period	17 766	730	77 187	68 332

Balance sheet

KLP BANKEN AS GROUP

NOTE	NOK THOUSANDS	31.12.2017	31.12.2016
ASSETS			
	Claims on central banks	45 140	0
	Loans to credit institutions	1 286 096	1 548 082
4	Loans to customers	30 762 782	29 962 467
13	Interest-bearing securities	2 759 018	2 717 513
	Shareholdings	461	394
	Financial derivatives	91 394	123 179
	Deffered tax assets	7 623	6 916
	Fixed assets	742	538
	Intangible assets	27 153	19 955
10	Other assets	818	3 370
Total assets		34 981 228	34 382 412
LIABILITIES AND OWNERS EQUITY			
LIABILITIES			
7	Debt securities issued	22 924 275	23 451 374
	Deposits and borrowings from the public	9 669 046	8 687 859
	Financial derivatives	188 103	253 615
	Deffered tax liabilities	25 528	19 552
11	Other Liabilities	49 422	73 431
11	Provision for accrued costs and liabilities	47 262	46 174
Total liabilities		32 903 635	32 532 006
EQUITY			
	Share capital	1 057 500	982 500
	Share premium	732 500	657 500
	Other owners' eqyity	287 593	210 406
Total equity		2 077 593	1 850 406
Total liabilities and equity		34 981 228	34 382 412

Statement of changes in equity

KLP BANKEN AS GROUP

2017 NOK THOUSANDS	Share capital	Share premium	Other equity	Total owners' equity
Equity 1 January 2017	982 500	657 500	210 406	1 850 406
Profit for the period	0	0	77 994	77 994
Other comprehensive income	0	0	-808	-808
Total comprehensive income for the period	0	0	77 187	77 187
Group contribution received	0	0	58 624	58 624
Group contribution made	0	0	-58 624	-58 624
Owners' equity received during the period	75 000	75 000	0	150 000
Total transactions with the owners	75 000	75 000	0	150 000
Equity 31 December 2017	1 057 500	732 500	287 593	2 077 593

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

Statement of cash flow

KLP BANKEN AS GROUP

NOK THOUSANDS	01.01.2017 -31.12.2017	01.01.2016 -31.12.2016
OPERATING ACTIVITIES		
Payments received from customers - interest, commission & charges	748 414	706 238
Disbursements on loans customers & credit institutions	-130 191	-119 632
Receipts on loans customers & credit institutions	-8 769 573	-9 711 829
Net receipts/disbursements on loans customers & credit institutions	7 819 988	5 883 170
Net receipts on customer deposits banking	979 913	1 263 356
Payments on purchase of credit card portfolio	-9 547	0
Net receipts/disbursements on operations	-147 252	-103 142
Payments to employees, pension schemes, employer's social security contribution etc.	-60 901	-54 296
Net interest investment accounts	11 607	13 420
Net receipts/disbursements from operating activities	45 677	90 935
Income tax paid	0	0
Net cash flow from operating activities	488 135	-2 031 779
INVESTMENT ACTIVITIES		
Receipts on sale of securities	1 906 778	3 994 493
Payments on the purchase of securities	-1 946 683	-2 917 899
Receipts of interest from securities	38 520	59 173
Payments on the purchase of tangible fixed assets	-4 279	-6 386
Net cash flow from investment activities	-5 664	1 129 381
FINANCING ACTIVITIES		
Receipts on loans from credit institutions	4 074 000	8 588 430
Disbursements on loans from credit institutions	-731 972	-1 487 014
Expense of interest of loans	-3 805 000	-5 483 000
Net payment of interest on loans	-383 886	-387 798
Receipts on issue of owners' equity	150 000	250 000
Group contributions made	-19 541	-250
Net cash flows from financing activities	-716 399	1 480 368
Net cash flow during the period	-233 928	577 970
Cash and cash equivalents at the start of the period	1 523 245	945 275
Cash and cash equivalents at the end of the period	1 289 317	1 523 245
Net receipts/ disbursements (-) of cash	-233 928	577 970

Notes to the accounts

KLP BANKEN AS GROUP

NOTE 1 General information

KLP Banken AS was formed on 25 February 2009. KLP Banken AS owns all the shares in KLP Kommunekreditt AS and KLP Boligkreditt AS. These companies together form the KLP Banken AS Group. KLP Banken AS Group provide or acquire loans to Norwegian municipalities and county authorities, as well as to companies with public sector guarantee. The lending activities are principally financed by issuance of covered bonds. The Group also offers standard banking products to private customers. KLP Banken AS is registered and domiciled in Norway. It's head office is at Beddingen 8 in Trondheim. The company has a branch office in Oslo.

The company, KLP Banken AS, is a subsidiary of KLP Bankholding AS, which is in turn is wholly owned by Kommunal Landspensjonskasse (KLP). KLP is a mutual insurance company.

NOTE 2 Accounting principles

The interim report includes the interim Financial Statements of KLP Banken Group for the period 1 January 2017 – 31 December 2017, specifying the earnings in the 4th quarter. The interim Financial Statements has not been audited.

The interim financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting".

There are no changes in accounting policies that have been of significance for the interim financial statements following the 4th quarter. Attention is drawn to KLP Banken's Annual Report for 2016 and interim reports after the first and second quarter 2017 for detailed description of accounting principles. These reports are available at www.klp.no.

01.01.2018, that is the day after the balance sheet date in this report (31.12.2017), the accounting standard IFRS 9 Financial Instruments came into force. A detailed description of the standard in Note 2 Accounting principles was provided in the annual report for 2016.

Consequences for KLP Banken Group:

CLASSIFICATION AND MEASUREMENT

KLP Banking Group has assessed the classification and measurement of assets and liabilities covered by the new standard. It has been concluded that the loan portfolios are partly covered by the business model called "hold to collect" and partly under the "hold to collect and sell" business

model. Lending in the "hold two collect" category involves accounting at amortized cost, which is a continuation of the same measurement methodology that has been used under IAS 39. Loans that are relevant for resale (hold two collect and sell) are measured at fair value where the change in value is recognized in the other comprehensive income. Other financial instruments have been accounted for at fair value with a change of value over the income statement. This will be continued under IFRS 9.

IMPAIRMENT MODEL

IFRS 9 changes measurement of provisions for losses on financial assets. Under IAS 39, there must be a loss event before write-downs, while under IFRS 9, it is allocated for expected loss according to certain rules. At initial recognition, and in cases where credit risk has not increased significantly after initial recognition, the provision will correspond to credit losses expected to occur in the next 12 months (step 1). If credit risk has increased significantly, the provision will correspond to expected credit loss over the expected life of the asset (step 2). If a loss event occurs, an impairment loss is made which corresponds to the expected loss of commitment over the entire life cycle (step 3).

KLP Banken AS assesses what is considered to be a significant change in credit risk for mortgages based on a combination of quantitative and qualitative indicators and backstops. The most important driver of significant change in mortgage credit for KLP Bank is the change in the probability of default (PD) from initial recognition and until reporting. A change in PD of more than 2.5 is considered a significant change in credit risk. In addition, the change in PD must be at least 0.6 percentage points for the change to be considered as significant.

For products where the bank has not developed its own PD and LGD models, simplified loss ratio method is used. For these products, a change in a risk class of at least one grade from initial recognition to reporting date will be considered as a significant increase in credit risk.

The effect of implementing the new rules is calculated as a difference between the balance sheet loss provisions according to the old regulations per 31 December 2017 and the value of loan provisions calculated according to the new rules on 1 January 2018. This effect will be recognized as a change in capitalized loan provisions with a counter item directly on equity so that the income statement is not affected. As at 31.12.2017, KLP Banken AS has a balance of NOK 3.2 million write-downs on lending. Estimates of expected losses according to the new regulations indicate a doubling of provisions at the transition date 01.01.2018.

NOTE 3 Net interest income

NOK THOUSANDS	01.01.2017 -31.12.2017	01.01.2016 -31.12.2016
Interest on loans to and receivables from credit institutions	11 519	13 661
Interest on loans to customers	732 331	695 605
Interest on securities	37 841	56 349
Total interest income	781 691	765 615
Interest on liabilities to credit institutions	412 108	451 241
Interest on liabilities to customers	128 106	118 044
Premium/discount on covered bonds	857	2 544
Other interest costs	-999	-528
Total interest costs	540 072	571 301
Net interest income	241 619	194 314

NOTE 4 Loans to customers

NOK THOUSANDS	31.12.2017	31.12.2016
Loans to customers before write-downs	30 537 129	29 681 769
Individual write-downs	-2 556	-1 545
Write-downs by group	-658	-706
Loans to customers after write-downs	30 533 915	29 679 518
Accrued interest	80 370	84 310
Change in fair value due to interest rate changes (fair value hedging)	148 497	198 639
Loans to customers	30 762 782	29 962 467

NOTE 5 Categories of financial instruments

NOK THOUSANDS	31.12.2017		31.12.2016	
	Capitalized value	Fair value	Capitalized value	Fair value
FINANCIAL ASSETS AT FAIR VALUE				
Fixed-income securities	2 759 018	2 759 018	2 717 513	2 717 513
Total financial assets at fair value	2 759 018	2 759 018	2 717 513	2 717 513
FINANCIAL ASSETS AT FAIR VALUE HEDGING				
Loans to Norwegian local administrations	4 355 849	4 396 440	5 164 845	5 186 458
Loans to retail customers	169 467	164 070	225 799	219 474
Financial derivatives	91 394	91 394	123 179	123 179
Total financial assets at fair value hedging	4 616 710	4 651 904	5 513 823	5 529 111
FINANCIAL ASSETS AVAILABLE FOR SALE				
Shares and holdings	461	461	394	394
Total financial assets available for sale	461	461	394	394
FINANCIAL ASSETS AT AMORTIZED COST				
Loans to and receivables from credit institutions	1 331 236	1 331 236	1 548 082	1 548 082
Loans to Norwegian local administrations	11 965 602	11 961 754	12 081 008	12 071 700
Loans to retail customers	14 271 864	14 271 864	12 490 815	12 490 815
Total financial assets at amortized cost	27 568 702	27 564 854	26 119 905	26 110 597
Total financial assets	34 944 892	34 976 238	34 351 634	34 357 614
LIABILITIES TO CREDIT INSTITUTIONS AT FAIR VALUE HEDGING				
Liabilities created on issuance of securities	2 125 483	2 150 405	2 254 557	2 268 492
Financial derivatives	188 103	188 103	253 615	253 615
Total financial liabilities at fair value hedging	2 313 586	2 338 508	2 508 172	2 522 107
LIABILITIES TO CREDIT INSTITUTIONS AND DEPOSITS AT AMORTIZED COST				
Liabilities created on issuance of securities	20 798 792	20 927 348	21 196 817	21 577 190
Deposits from customers	9 669 046	9 669 046	8 687 859	8 687 859
Total financial liabilities at amortized cost	30 467 838	30 596 394	29 884 676	30 265 049
Total financial liabilities	32 781 424	32 934 902	32 392 849	32 787 156

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

similar instruments and pricing using externally collected yield curves and yield spread curves. As far as possible the estimates are based on externally observable market data and rarely on company-specific information.

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

Fixed-income securities - government

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

NOTE 5 Categories of financial instruments – continues**Fixed-income securities - other than government**

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

Financial derivatives

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

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 fixed rate loans is calculated by discounting contractual cash flows by the marked rate including a relevant risk margin on the reporting date.

Fair value of loans to and receivables from credit institutions

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

Fair value of liabilities to credit institutions

These transactions are valued using a valuation model, including relevant credit spread adjustments obtained from the market.

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.

NOTE 6 Fair value hierarchy

31.12.2017 NOK THOUSANDS	Level 1	Level 2	Level 3	Total
ASSETS BOOKED AT FAIR VALUE				
Fixed-income securities	236 784	2 522 235	0	2 759 019
Shareholdings	0	0	461	461
Financial derivatives	0	91 394	0	91 394
Total assets at fair value	236 784	2 613 629	461	2 850 874
LIABILITIES BOOKED AT FAIR VALUE				
Financial derivatives (liabilities)	0	188 103	0	188 103
Total financial liabilities at fair value	0	188 103	0	188 103

31.12.2016 NOK THOUSANDS	Level 1	Level 2	Level 3	Total
ASSETS BOOKED AT FAIR VALUE				
Fixed-income securities	200 701	2 516 812	0	2 717 513
Shareholdings	0	0	394	394
Financial derivatives	0	123 179	0	123 179
Total assets at fair value	200 701	2 639 991	394	2 841 086
LIABILITIES BOOKED AT FAIR VALUE				
Financial derivatives (liabilities)	0	253 615	0	253 615
Total financial liabilities at fair value	0	253 615	0	253 615

NOTE 6 Fair value hierarchy – continues

NOK THOUSANDS	BOOK VALUE 31.12.2016	BOOK VALUE 31.12.2017
CHANGES IN LEVEL 3 UNLISTED SHARES		
Opening balance	265	394
Sold	0	0
Bought	7	0
Unrealized changes	121	67
Closing balance	394	461
Realized gains/losses	0	0

Fair value shall 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 at this level obtain fair value from listed prices in an active market for identical assets or liabilities to which the entity has access at the reporting date. Examples of instruments in Level 1 are stock market listed securities.

LEVEL 2:

Instruments at 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 therefore not 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.

There has been no movement between the levels.

Note 5 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 7 Securities liabilities - stock exchange listed covered bonds and certificates

NOK THOUSANDS	31.12.2017	31.12.2016
Bond debt, nominal amount	23 846 000	26 685 000
Adjustments	52 943	66 384
Accrued interest	55 332	68 990
Own holdings, nominal amount	-1 030 000	-3 369 000
Total debt securities issued	22 924 275	23 451 374

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 effects and amortization costs.

NOK THOUSANDS	Balance sheet 31.12.2016	Issued	Matured/ Redeemed	Other adjustments	Balance sheet 31.12.2017
Bond debt, nominal amount	26 685 000	5 100 000	-7 939 000	0	23 846 000
Adjustments	66 384	0	0	-13 441	52 943
Accrued interest	68 990	0	0	-13 658	55 332
Own holdings, nominal amount	-3 369 000	0	2 339 000	0	-1 030 000
Total debt securities issued	23 451 374	5 100 000	-5 600 000	-27 099	22 924 275

NOTE 8 Financial assets and liabilities subject to net settlement

31.12.2017 NOK THOUSANDS	Gross financial assets/liabilites	Gross assets/ liabilities presented net	Book value	Related sums that are not presented net		
				Financial instruments	Security in cash	Net recognised vaalue
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

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

The purpose of the note is to show the potential effect of netting agreements at the KLP Banken AS Group. The note shows derivative positions in the financial position statement.

NOTE 9 Transactions with related parties

NOK THOUSANDS	01.01.2017 -31.12.2017	01.01.2016 -31.12.2016
INCOME STATEMENT ITEMS		
KLP, fees lending management	57 000	57 000
KLP Kapitalforvaltning AS, fees for services provided	-294	-438
KLP, rent	-5 989	-5 454
KLP, pension premium	-8 651	-7 442
KLP, staff services (at cost)	-57 666	-53 717
KLP Group companies, subsidised interest employee loans	2 552	2 233

NOK THOUSANDS	31.12.2017	31.12.2016
FINANCIAL POSTITION STATEMENT ITEMS		
KLP, net internal accounts	-2 321	-14 895
KLP, loan settlement	-42 910	-50 525
KLP Group companies, net other internal accounts	-175	228

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

NOTE 10 Other assets

NOK THOUSANDS	31.12.2017	31.12.2016
Intercompany receivables	450	610
Miscellaneous receivables	368	2 487
Prepaid expenses	0	273
Total	818	3 370

NOTE 11 Other liabilities and provision for accrued costs

NOK THOUSANDS	31.12.2017	31.12.2016
Creditors	3 147	5 013
Intercompany payables	45 857	65 801
Other liabilities	418	2 617
Total other liabilities	49 422	73 431
Withholding tax	3 208	2 837
Social security costs	2 299	2 090
Holiday pay	5 110	4 914
Pension obligations	31 440	26 279
VAT	246	264
Provisioned costs	4 958	9 790
Total accrued costs and liabilities	47 262	46 174

NOTE 12 Capital adequacy

NOK THOUSANDS	31.12.2017	31.12.2016
Share capital and share premium fund	1 790 000	1 640 000
Other owners' equity	210 406	210 406
Total owners' equity	2 000 406	1 850 406
Interim Profit qualifying for tier 1 capital	59 423	0
Adjustments due to requirements for proper valuation	-2 759	0
Deduction goodwill and other intangible assets	-27 153	-19 955
Deferred tax asset	-7 623	-6 916
Core capital/Tier 1 capital	2 022 294	1 823 535
Supplementary capital/Tier 2 capital	0	0
Supplementary capital/Tier 2 capital	0	0
Total eligible own funds (Tier 1 and Tier 2 capital)	2 022 294	1 823 535
Capital requirement	767 527	767 775
Surplus of own funds (Tier 1 and Tier 2 capital)	1 254 767	1 055 760
ESTIMATE BASIS CREDIT RISK:		
Institutions	283 326	337 586
Retail	73 419	0
Local and regional authorities (incl. municipalities/county administrations)	3 296 369	3 491 045
Investments with mortgage security in real estate	5 107 629	5 038 937
Investments fallen due	67 215	65 763
Covered bonds	231 839	231 124
Other holdings	107 796	31 180
Calculation basis credit risk	9 167 593	9 195 634
Credit risk	733 407	735 651
Operating risk	33 967	31 957
Credit valuation adjustments (CVA)	153	168
Total capital requirement assets	767 527	767 775
Core capital adequacy ratio	21.1 %	19.0 %
Supplementary capital ratio	0.0 %	0.0 %
Capital adequacy ratio	21.1 %	19.0 %
Leverage ratio	5.6 %	5.2 %

CAPITAL REQUIREMENT PER 31.12.2017	TIER 1 CAPITAL	TIER 2 CAPITAL	TIER 1 AND TIER 2 CAPITAL
Minimum requirement excl. buffers	4.5 %	3.5 %	8.0 %
Protective buffer	2.5 %	0.0 %	2.5 %
Systemic risk buffer	3.0 %	0.0 %	3.0 %
Counter-cyclical capital buffer	2.0 %	0.0 %	2.0 %
Pillar 2-requirement	2.1 %	0.0 %	2.1 %
Current capital requirement incl. buffers	14.1 %	3.5 %	17.6 %
Minimum requirement in leverage 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 13 Fixed-income securities

NOK THOUSANDS	31.12.2017		31.12.2016	
	Acquisition cost	Market value	Acquisition cost	Market value
Certificates	236 284	236 784	200 587	200 701
Bonds	2 506 390	2 522 234	2 502 618	2 516 812
Total fixed-income securities	2 742 674	2 759 018	2 703 205	2 717 513

Fixed income securities are brought to account at market value, including accrued but not due interests.

NOTE 14 Losses on lending

NOK THOUSANDS	01.01.2017 -31.12.2017	01.01.2016 -31.12.2016
Known losses	-2 189	-196
Reversal of previous write-downs	105	12
Change in individual write-downs	-1 116	-229
Change in write-downs by group	48	-706
Total loss on lending	-3 152	-1 119

NOK THOUSANDS	31.12.2017	31.12.2016
Balance of write-down losses on lending 1 January	2 252	1 329
Reversal of write-down on individual loans for the period	-105	-12
Write-down on individual loans for the period	1 116	229
Write-down by group loans for the period	-48	706
Total write-down on loans	3 215	2 252
Gross default exceeding 90 days	21 741	22 230
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 15 Contingent liabilities

NOK THOUSANDS	31.12.2017	31.12.2016
Credit facilities for lending not utilized	673 459	452 389
Loan promise	212 769	424 652
Total contingent liabilities	886 228	877 041

NOTE 16 Net gain/(loss) on financial instruments

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

NOTE 17 Pension obligations - own employees

NOK THOUSANDS	31.12.2017	31.12.2016
Capitalized net liability	26 279	22 505
Pension costs taken to profit/loss	9 184	8 099
Finance costs taken to profit/loss	934	853
Actuarial gains and losses incl. social security contributions	1 097	863
Social security contributions paid in premiums/supplement	-775	-747
Premiums/supplement paid-in including admin	-5 496	-5 295
Capital activity tax	217	1 103
Capitalized net liability	31 440	26 279

Assumptions

	31.12.2017	31.12.2016
Discount rate	2.40 %	2.60 %
Salary growth	2.50 %	2.50 %
The National Insurance basic amount (G)	2.25 %	2.25 %
Pension increases	1.48 %	1.48 %
Social security contribution rate	14.10 %	14.10 %

Quarterly earnings trend

NOK MILLIONS	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016
Interest income	185.1	198.6	196.1	191.6	192.9
Interest expense	-117.3	-133.3	-138.9	-140.3	-147.9
Net interest income	67.7	65.4	57.2	51.4	45.0
Commission income and income from banking services	3.7	3.7	3.1	2.9	3.1
Commission cost and cost from banking services	-0.5	-0.9	-0.6	-0.3	-0.3
Net charges and commission income	3.2	2.8	2.5	2.6	2.8
Other fee income	14.3	14.3	14.3	14.3	14.3
Net gain/ (loss) financial instruments	-3.6	-3.3	-0.1	3.7	-7.4
Total other operating income	10.6	11.0	14.1	17.9	6.9
Salaries and administrative costs	-19.9	-13.8	-16.0	-16.7	-17.7
Depreciation	-2.2	-2.2	-1.2	-0.8	-1.1
Other operating expenses	-37.5	-26.7	-31.9	-31.3	-34.6
Net loan losses	-0.6	-2.7	0.0	0.2	-0.7
Total operating expenses	-60.2	-45.4	-49.1	-48.6	-54.1
Operating profit/loss before tax	21.4	33.8	24.7	23.2	0.6
Tax ordinary income	-5.2	-8.2	-6.0	-5.6	-0.1
Profit/loss for the period	16.2	25.5	18.7	17.6	0.4
Other comprehensive income	2.1	-3.2	0.0	0.0	2.0
Tax on other comprehensive income	-0.5	0.8	0.0	0.0	-0.5
Other comprehensive income for the period	1.6	-2.4	0.0	0.0	1.5
Comprehensive income for the period	17.8	23.1	18.7	17.6	1.9

Key figures - accumulated

NOK MILLIONS	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016
Pre-tax income	1031	817	479	232	912
Net interest income	2416	1739	1085	514	194.3
Other operating income	68.2	50.7	33.6	16.8	66.4
Other operating cost and depreciation	-203.4	-143.2	-97.8	-48.6	-180.6
Net realized/unrealized change fin. instruments at fair value	-3.4	0.3	3.5	3.7	11.1
Deposits	9 669.0	9 400.5	9 138.2	8 939.4	8 687.9
Housing mortgage lending	14 441.3	14 002.7	13 729.5	13 375.6	12 716.6
Lending with public sector guarantee	16 321.5	17 015.3	17 165.9	17 281.5	17 245.9
Non-performing loans	21.7	17.4	25.5	27.9	22.2
Total liabilities created on issuance of securities	22 924.3	23 222.6	23 762.4	23 241.3	23 451.4
Other borrowing	0.0	0.0	0.0	0.0	0.0
Total assets	34 981.2	34 855.2	35 140.0	34 383.2	34 382.4
Average total assets	34 681.8	34 618.8	34 761.2	34 382.8	32 838.4
Equity	2 077.6	1 909.8	1 886.7	1 868.0	1 850.4
Interest net	0.70 %	0.50 %	0.31 %	0.15 %	0.59 %
Profit/loss from ordinary operation before taxes	0.30 %	0.24 %	0.14 %	0.07 %	0.28 %
Return on equity	5.57 %	5.89 %	5.18 %	5.02 %	6.05 %
Capital adequacy ratio	21.1 %	19.5 %	19.3 %	19.3 %	19.0 %
Liquidity coverage ratio (LCR)	470 %	361 %	365 %	368 %	276 %



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