



Gjensidige

# Annual report 2017

Gjensidige Bank Group

Gjensidige Bank ASA



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### About the reporting

Gjensidige publishes a web-based annual report on [www.gjensidige.no/reporting](http://www.gjensidige.no/reporting).  
The annual report will not be printed.

# Another good year

Gjensidige Bank's good and competitive bank offering attracts an increasing amount of customers. Having primarily been a digital bank since our inception in 2007 we are able to service our customers in a swift, simple and effective way. This has resulted in continued customer satisfaction, healthy growth and strong earnings development over time.

Gjensidige Bank provides an attractive mortgage, car financing and other banking offer to the members of YS, NITO and Tekna. In 2017 we have maintained a close dialogue with our affinity partners to ensure that their membership base has the best offering, terms and service we can provide. We have also continued to focus on young customers who are establishing themselves in a challenging housing market by offering market leading rates and good solutions that simplify the house purchase process.

The level of car financing activity has grown healthily in 2017. Gjensidige Bank's approach to the market which is based on a strong local presence, good products and a holistic collaboration across the bank, insurance and repair services continues to be well received by car dealers. In the direct market channel we have strengthened our position through continued focus to improve our digital solutions and customer journey.

The Consumer Finance market has been highly competitive and was affected by the implementation of new regulations in 2017. Gjensidige Bank aims to be a responsible lender in this market through a thorough evaluation of our customers' economic situation and an advisory process which occasionally recommends not taking the loan. Satisfied customers, appropriate risk selection and the sale of a portfolio have generated good results despite the current market conditions.

Gjensidige's savings and investments unit was integrated in Gjensidige Bank in February 2017. The bank is now able to provide our customers a good funds and investment offering, and will continue to develop this part of the business going forward.

Standard and Poor's maintained our long term rating at A. They acknowledge the solidity of the Gjensidige Bank and view the bank as a strategic part of the Gjensidige group. Gjensidige Bank has good access to funding to attractive terms both within and outside the Norwegian funding market.

We have every reason to be proud our results for 2017, and have an excellent basis from which we can continue to further develop our digital solutions and the bank for the future.

Krister Georg Aanesen  
CEO

# The Board's report for the Gjensidige Bank ASA Group

## Business

Gjensidige Bank ASA is one of Norway's leading online banks. Our vision is to be 'The customer-friendly bank' where customers feel welcome and have their banking needs well attended to. That means excellent service through digital channels and direct dialogue with our staff. It also means products and services that cater to the customers banking needs at competitive terms.

The bank offers a suite of digital banking services, mortgages, car financing, unsecured loans, savings and investments, and cards aimed at private individuals.

Customers can access the bank at gjensidige.no and on mobile applications. Personal customer service is provided via chat or phone +47 915 03100. Financial advisors are available at Gjensidige's financial offices throughout the country. By combining digital banking with a local presence, the bank has a unique position compared to other internet-based banks. Car financing is distributed through a large network of car dealers and through marketing. Unsecured loans are distributed via oppfinans.no and through selected partners. Our customers can get investment recommendations from our authorised advisors, always making sure that the customer's needs and requirements are thoroughly assessed and met.

The bank has agreements with the Norwegian Society of Graduate Technical and Scientific Professionals (Tekna), the Confederation of Vocational Unions (YS), the Norwegian Society of Engineers and Technologists (NITO) and the Norwegian Automobile Federation (NAF) offering tailored products and services at favourable prices to the members of these organisations. First Rent A Car AS Norway (Hertz), Bertel O. Steen and Sulland Gruppen are also among our strategic business partners.

In June 2017, Gjensidige Bank Holding AS, the owner of Gjensidige Bank ASA, was liquidated and the bank became a directly owned subsidiary of Gjensidige Forsikring ASA.

The bank was established in 2007 and has administrative offices in Oslo and Førde.

The bank has access to funding through covered bonds via Gjensidige Bank Boligkreditt AS, a wholly owned subsidiary of Gjensidige Bank ASA.

The bank is innovative and forward looking but does not carry out its own research and development (R&D).

The annual report is consolidated and consists of Gjensidige Bank ASA and Gjensidige Bank Boligkreditt AS.

## Comments on the annual accounts

### Profit and loss account

The financial statements have been prepared in compliance with IFRS (International Financial Reporting Standards).

Pursuant to the requirements of Norwegian accounting legislation, the Board confirms that the company will continue its operations and that the annual accounts have been prepared on that basis.

The figures disclosed are related to Gjensidige Bank ASA Group. The figures in brackets refer to Gjensidige Bank ASA, also referred to as the 'parent company' throughout the report. If no figure is given in brackets, the figure stated only applies to Gjensidige Bank ASA Group.

The result after tax expense was a profit of NOK 459.1 million (338.1 million) in 2017, compared to a profit of NOK 320.1 million (248.2 million) in 2016. The improvement was the result of higher income driven by portfolio growth and increased margins as well as lower write-downs and losses. The result includes a non-recurring gain of NOK 116.6 million before tax from the sale of an impaired unsecured lending portfolio during November 2017. The contribution from the merged savings and investment-operation, Gjensidige Investeringsrådgivning AS, was NOK 11.2 million before tax.

The return on equity after tax in 2017 was 14.2 per cent, compared to 11.7 per cent in 2016.

Net interest income amounted to NOK 992.3 million (810.6 million) in 2017, compared to NOK 797.3 million (684.5 million) in 2016. The improvement was driven by business growth and increased margins. Net interest margin<sup>1</sup> was 2.03 per cent compared to 1.85 per cent in 2016. The increase was driven by improved funding costs.

Net commission income and other operating income was NOK 42.9 million (63.5 million) in 2017, compared to NOK 74.3 million (80.7 million) in 2016. The decrease was a result of lower gains on financial instruments and higher acquisition costs driven by business growth. In addition, the 2016 financials included a gain on the sale of Visa Europe to Visa International, of which Gjensidige Bank's share was NOK 12.3 million. The contribution from savings and investment was NOK 47.0 million.

Operating expenses were NOK 412.5 million (407.3 million) in 2017, compared to NOK 373.6 million (367.4 million) in 2016. The expenses were positively impacted by a change in the bank's distribution strategy, which allowed for a higher share of the acquisition costs to be amortised over the life of the loans. The positive impact was offset by an increase in expenses driven by the growth of the business and by the merger with Gjensidige Investeringsrådgivning AS.

The cost/income ratio was 39.8 per cent, compared to 42.9 per cent in 2016.

The development in earnings is according to expectations.

### Write-downs and losses

Write-downs and losses are recognised in accordance with IAS 39. A write-down is booked if there is objective evidence that an individual loan or group of loans has been impaired (i.e. a fall in value). A write-down amount is calculated for the fall in value. This is equal to the difference between the outstanding balance of the loan and the net present value of estimated future cash flows, discounted by the financial asset's original effective interest (i.e. the effective interest calculated at initial rates or subsequently agreed with the customer). In the case of

<sup>1</sup> The net interest margin is calculated as net interest income in per cent of average total assets.  
Gjensidige Bank Group – Annual Report 2017

higher loan balances (mainly secured loans and car finance loans), loans are assessed for write-down at an individual level. For those cases that are not individually written down, the write-down is assessed at group level.

The bank also has models for calculating write-downs on groups of loans that are not impaired. Using scores, the group write-down models estimate the likelihood of loss in these groups of loans and compute the corresponding write-down required to cover such losses.

A final write-off is recognised when it is highly likely that the loan will not be repaid. In such cases any corresponding previous write-down will be reversed.

In 2017 the bank recognised NOK 10.3 million (15.9 million) in write-downs and losses, compared to NOK 69.5 million (69.5 million) in 2016. Write-offs were NOK 228.4 million, compared to NOK 49.0 million in 2016. The sale of an impaired unsecured lending portfolio resulted in a gain of NOK 116.6 million, of which NOK 107.7 was related to write-downs. Adjusted for the portfolio sales in 2017 and 2016, total write-downs and losses were NOK 118.0 million (82.1) primarily related to the unsecured lending portfolio. This was the result of portfolio growth and changes in credit policy.

The portfolio continues to be of high quality.

Write-downs and losses were 0.02 per cent of average gross lending, compared to 0.18 per cent in 2016. Normalised for the above mentioned portfolio sales, the ratio was 0.27 per cent, higher than the 0.21 per cent in the prior year.

Gross lending in default over 90 days decreased to NOK 254.4 million (251.7 million) at year-end, compared to NOK 399.5 million (397.0 million) in 2016. The total written-down balance on loans in 2017 was NOK 180.3 million (179.4 million), compared to NOK 387.6 million (381.1 million) in 2016 driven by the sale of the impaired unsecured lending portfolio. Gross lending in default over 90 days was 0.55 per cent of gross lending at year-end compared to 0.97 per cent in 2016, a result of the portfolio sale.

In the Board's view, the credit risk and the provision levels are satisfactory.

#### **Events after the balance sheet date**

No significant events have occurred after the balance sheet date.

#### **Balance sheet**

At the end of 2017, the bank had total assets amounting to NOK 51,534.8 million (35,339.3 million), compared to NOK 44,727.2 million (30,629.3 million) in 2016.

#### **Lending**

At the end of 2017, the gross loans balance amounted to NOK 46,056.1 million (24,950.6 million), compared to NOK 41,249.5 million (22,987.0 million) in 2016. This translates into an increase of 11.7 per cent over the year. The portfolio mainly consists of loans with floating interest rates.

The weighted average loan to value ratio<sup>2</sup> was estimated at 60.6 per cent for the mortgage portfolio compared to 61.7 per cent in 2016.

### Deposits

At the end of 2017 the deposits balance amounted to NOK 23,765.7 million, compared to NOK 21,270.4 million in 2016. This translates into an increase of 11.7 per cent over the year.

The merger with Gjensidige Investeringsrådgivning AS was finalised in February 2017. The financial reporting was integrated with effect from January 2017. As a consequence of the merger, Gjensidige Bank ASA's capital has increased with NOK 23.2 million during the second quarter.

### Rating

After the annual evaluation process, Standard and Poor's kept the rating unchanged for Gjensidige Bank ASA and its subsidiary Gjensidige Bank Boligkreditt AS at a long-term and short-term counterparty credit rating of A/A-1, outlook 'stable'. The covered bonds portfolio issued by Gjensidige Bank Boligkreditt AS kept its long-term rating of AAA and the outlook remained 'stable'.

Gjensidige Bank Boligkreditt AS will hold the amount of over-collateralisation required to maintain the current rating for the Company's covered bond programme. This commitment is published on the bank's website.

### Debt securities issued

Net issues of debt securities, including subordinated debt, amounted to NOK 23,533.1 million (7,150.5 million) at the end of 2017, compared to NOK 20,046.2 million (5,842.4 million) at the end of 2016. The total face value of the securities issued by the bank was NOK 23,442.4 million.

Net new issues in 2017 were NOK 8,159.5 million. Gjensidige Bank Boligkreditt AS issued covered bonds totalling NOK 5,233.0 million. Gjensidige Bank ASA issued senior bonds

totalling NOK 2,000.0 million and NOK 70.0 million in perpetual Tier 1 Capital. Repayments through ordinary maturity and buy back of bond from investors were NOK 4,669.5 million in 2017.

### Liquidity

At the end of 2017, the Gjensidige Bank Group had net liquid assets of NOK 6,081.0 million, divided between NOK 430.1 million in bank deposits and NOK 5,650.8 million in debt securities. Of the latter assets, NOK 693.4 million were investments in covered bonds from Gjensidige Bank Boligkreditt AS (eliminated in the consolidated accounts). The net liquid assets were at an adequate level that covers the bond debt that will fall due in the next 26 months.

The deposit to loan ratio was 51.6 per cent (95.3), compared to 51.6 per cent (92.5) in 2016.

### Capital adequacy and equity

At the end of 2017, the bank had a capital adequacy ratio of 18.1 per cent (22.3), compared to 17.1 per cent (21.7) in 2016. The total capital held by the bank was NOK 4,319.1 million (3,794.8 million) compared to NOK 3,590.3 million (3,187.0 million) in 2016. The common equity Tier 1 capital ratio was 14.7 per cent (17.5) compared to 13.5 per cent (16.6) at the end of 2016.

On 20 April 2017, the Pillar 2 requirement for Gjensidige Bank ASA was set at 1.5 per cent by the Financial Supervisory Authority of Norway, with effect from 30 June 2017. As a result, the bank increased its equity through private placements of NOK 195.0 million with the parent company, and it issued a perpetual Tier 1 capital instrument with a total nominal value of NOK 70.0 million in the second quarter. As of 31 December 2017, the requirement for core

equity Tier 1 capital was 13.5 per cent. The bank's target level for the capital adequacy ratio was 17.5 per cent at 31 December 2017.

At the end of 2017, equity was NOK 3,899.6 million (3,375.7 million), compared to NOK 3,164.4 million (2,761.5 million) in 2016; this is equivalent to 7.6 per cent of total assets.

During 2018, the bank will continue to optimise its capital base to meet regulatory requirements.

The Board evaluates the equity and capital adequacy ratio of the group and parent company to be satisfactory and sufficient in relation to the Group's operations.

## Corporate social responsibility

Gjensidige's social responsibility work is described in a separate statement in the Group's annual report. The Board of Gjensidige has established guidelines for corporate social responsibility. These guidelines also apply to Gjensidige's subsidiaries and, together with the group policy for ethical investments, they are available at [www.gjensidige.no/group](http://www.gjensidige.no/group).

The bank's corporate social responsibility affects the management and governance of its business, people and skills, administration, operations and commercial development. The bank relies on society's trust. The bank's organisation shall at all times prioritise high ethical standards. This shall be achieved by increasing our employees and elected officers' awareness of our ethical rules.

## Ownership and governance

### Good corporate governance

Corporate governance is a priority for the Board. The Gjensidige Group complies with the Norwegian Code of Corporate Governance as last amended on 30 October 2014. A detailed statement on how Gjensidige fulfils the

recommendation and statutory accounting requirements for corporate governance reporting is provided in the Group's annual report. It is also available at [www.gjensidige.no/group](http://www.gjensidige.no/group).

The bank puts particular emphasis on the composition and structure of its governing bodies, the responsibilities of the Board, communication and information, and risk management and auditing. The Board of Gjensidige Bank ASA has approved ethical rules, and all employees have access to its policy, guidelines, ethical rules, instructions and other information on the Group's intranet.

The Articles of Association, instructions and management and reporting systems establish clear roles and responsibilities within the bank.

## Governing bodies

### Risk Committee

1 January 2017 Gjensidige Forsikring ASA established a risk committee at the group level for Gjensidige Forsikring ASA and its subsidiaries. The committee shall be a preparatory committee for the Board consisting of Chairman and three Board members from Gjensidige Forsikring ASA. The risk committee has quarterly meetings. The committee regularly assesses the Company to ensure that business administration and controls are in accordance with the risk level in the business. To ensure an adequate degree of independence, the Risk Committee consists of board members who do not take part in the management of the business.

### The Board

The Board is composed of six members and one deputy member elected by the Supervisory Board. The deputy member is a permanent member. Members are elected for a period of one year. Two of the board members are not employed by the Gjensidige Group.



The Board supervises the management of the bank. It shall ensure that the bank's operations are organised in a satisfactory manner, which includes ensuring that its bookkeeping and asset management are properly audited.

Janneke Tranås Hjorth replaced Hans G. Hanevold from 27 March 2017.

#### **External auditor**

The external auditor performs the statutory audit and approves the annual financial statements and other financial information provided by the bank.

The Supervisory Board has chosen Deloitte AS as the bank's external auditor.

#### **Internal auditor**

The independent internal audit function monitors that the risk management and internal control systems function as intended. The audit function reports directly to the Board. The director of Corporate Audit is formally employed by the bank.

### **Key risk and uncertainty factors**

#### **Financial risk**

##### **Risk management**

The board set the bank's risk appetite and approves the policies for risk management. The bank's risk management framework establishes a structure that systematically identifies, assesses, communicates and manages the risks facing the bank. The bank's 2nd line risk management function is responsible for monitoring the risk management and reviewing the risks that the bank is or may be exposed to and ensure that the management and the board is sufficient informed of the bank's risk exposure.

The risk reporting for 2017 shows that the risk level is satisfactory and within the risk appetite approved by the board.

#### **Financial risk**

The main risks the bank is exposed to are credit, liquidity and market risks. Risks are monitored and reported regularly in accordance with the principles, strategies, limits and risk appetite statement adopted by the Board.

#### **Credit risk**

Credit risk represents the risk of losses arising as a result of customers or other counterparties failing to repay their debts or contractual obligations when they fall due. The bank's high level credit strategy and credit policies are defined by the Board and approved on an annual basis. The credit strategy documentation includes guidelines on credit risk profiles and is the Board's most important tool in relation to managing the bank's credit risk. The credit strategy is reviewed each year. The Board follows up the credit strategy through monthly reports that monitor compliance with the Board's credit guidelines. The bank uses risk classification models to calculate the risk associated with its credit exposure.

#### **Market risk**

Market risk is the risk of losses associated with movements in market prices which, in this context, relate to positions and activities in the interest-, currency-, credit- and stock markets. The bank's financial strategy documents sets the limits and guidelines for managing market risk. Risk exposure and development is continuously monitored and reported to the Board. The group has no exposure in equities. The bank's exposure to currency risk and interest rate risk shall be kept low, and the spread risk is moderate in relation to its core capital.

Interest rate risk refers to the risk of a loss as a result of changes in the interest rate level. Risk limits are set to manage the interest rate risk by adjusting fixed interest rate periods for

investments and borrowing. In addition, derivatives are used for hedging purposes.

At the end of the year, the bank had interest rate swaps with a nominal value of NOK 8,525 million and it was exposed to a loss of about NOK 3.9 million given an unexpected change in interest rates of one percentage point.

Spread risk refers to the risk of a loss as a result of changes in credit spreads. The bank limits the spread risk related to assets by investing in high-quality securities with limited maturity, where the value is less exposed to changes in the credit spread. The bank does not hedge the spread risk on its own bond issues.

Currency risk is the risk of loss due to changes in exchange rates. The risk arises from the bank's bonds in foreign currency. The bank manages this risk by using derivatives. The bank changes from foreign currencies into NOK with an approved counterparty on both principal and interest through "cross currency rate swaps".

### **Concentration risk**

Concentration risk is the risk of losses due to the bank having large parts of its lending tied to a single borrower or to limited geographic or business areas. The concentration risk is managed using the bank's risk frameworks and is measured and assessed through annual stress tests / scenario analyses in the credit area.

As of 31 December 2017, the portfolio is geographically diverse, with the greatest lending being in the most populous areas of the country. The largest exposure is approximately NOK 308.0 million. The exposure related to the ten largest loans (limit) is approximately NOK 1,058.5 million. The bank's liquidity reserves are mainly placed in securities issued by the Norwegian government and Norwegian covered bonds (OMF).

### **Liquidity risk**

Liquidity risk is the risk of the bank not being able to meet its debt obligations when they fall due and/or not being able to finance growth of its assets without incurring a substantial increase in costs. The bank's financial strategy documents sets the limits and guidelines for managing the liquidity risk. The Board seeks to ensure that the bank's liquidity risk level is moderate.

As part of its liquidity management, the bank holds high quality liquid assets in accordance with regulatory requirements for liquidity risk management. The securities can be used as collateral for both short and long-term loans from the central bank of Norway.

To ensure that the group's liquidity risk is kept at a moderate level, the bank shall diversify its funding through both retail and commercial deposits, and both senior and covered bonds.

Gjensidige Bank Boligkreditt AS was established in the spring of 2009 and has a licence from the Financial Supervisory Authority of Norway to issue covered bonds. The covered bond company enables the group to diversify its funding sources. By the end of 2017, about 46 per cent of total loans were transferred to the covered bond company. The bank has set limits for the maximum transferral of mortgages to the covered bond company in order to have a reserve for issuing covered bonds in a potential future crisis scenario.

### **Operational risk**

Operational risk is the risk of losses resulting from inadequate or failing internal processes or systems, human error or external events.

Internal control is an integrated part of the daily operations. Quarterly internal control self-assessments (RCSA) are performed to ensure that procedures and processes are adhered to. The outcome of the RCSA is

reported to the CEO and to the board at an aggregated level. Monthly operational risk meetings ('Operational Risk Reviews') are held where incidents, anti-money laundering (AML) activities, internal controls testing, fraud development, IT / Security and customer complaints are reviewed.

An annual assessment of operational risk and internal controls where the risk management function, in consultation with the bank's management team, assess operational risks and internal control for all business areas. The most significant risks and risk mitigating measures are raised to the Board.

For financial reporting, authorisations are in place to limit the number of people who can approve expenses. Daily controls are in place in the finance department to ensure that, at any given time, there are controls of all accounting entries and all payments made. Internal deadlines have been set for completion of reporting and reconciliations as well as corporate deadlines for reporting to the Group. For the quarterly/annual publication of accounts, the bank follows the Group's guidelines for board meetings to approve the financial reports.

Independent risk control is performed by risk management and compliance functions. Compliance is a group function, which also covers the bank, which has been established in order to avoid official sanctions, financial losses or a loss of reputation as a result of failure to comply with internal and external regulations. The Compliance function identifies, assesses, advises on, monitors and reports on the bank's risk of non-compliance with external and internal regulations.

The risk management function administrate and develops the banks methodology for operational risk management, including internal controls and incident management and monitor that control measures are implemented.

The bank's internal auditor evaluates whether the bank's internal control and risk management system functions satisfactorily and reports the results of the audits to the Board and management.

## **Working environment**

Systematic health, safety and environmental work is given high priority in Gjensidige. Working environment issues are integrated in the annual employee satisfaction survey.

The bank participates in the government's inclusive workplace programme. It also encourages and promotes physical and cultural activities. The goal is to be a health-promoting workplace. Sickness absence (self-certified and doctor-certified) was 4.5 per cent in 2017 compared to 3.9 per cent in 2016.

Gjensidige Bank ASA has carefully monitored sickness absence in accordance with the rules for an inclusive workplace enterprise, and no negative circumstances have been identified that may be causing sickness absence. The HSE work is monitored through external audits and followed up internally by employees with special responsibility for HSE. All incidents that can represent a risk must be reported in the Groups nonconformity system.

There were no material personal injuries, property damage or accidents at the bank in 2017.

## **Gender equality and diversity**

Ensuring equal opportunities is important for Gjensidige Bank ASA. Women and men shall have the same career development opportunities, personal development and compensation levels. The bank focuses on a fair remuneration policy, where women and men with the same competencies in the same position are rewarded equally. At the end of 2017, the bank had 99 male and 69 female permanent employees. At the end of the year, the bank's senior manage-

ment team consisted of ten men and two women. 32 per cent of all line managers are women.

Gjensidige Bank ASA seeks to facilitate the balance between home and work and grants part-time positions at employees' request where this is possible. By the end of 2017, 5 employees had part-time positions at their own wish, all women. Working hours and the opportunity for flexible hours are distributed equally between the genders. For some operational positions where fixed working hours are necessary, flexible working hours are not granted.

Three of the Board's six permanent members are women.

### **Discrimination and accessibility**

The bank is committed to promoting equality for all. As such, it aims to ensure that everyone is entitled and able to participate in society on an equal footing, regardless of any disability, and to prevent discrimination on the grounds of disability. The bank has hiring policies, ethical guidelines and HSE procedures designed to ensure compliance with the Anti-discrimination and Accessibility Act.

### **The natural environment**

The bank's operations result in minimal pollution of the environment. Internal environmental measures focus on energy efficiency, reduced travel through increased use of video conferences, and responsible waste management with extensive use of separation at source.

### **Objectives and strategies**

The bank's objectives are to:

- Add value to our customers' lives by offering a long-term, competitive range of banking

services through easy-to-use and intuitive online solutions and friendly service

- Contribute to strengthening relationships with Gjensidige customers in the strategically important segments and attract new customer segments to the group
- Deliver sustainable growth with increasing cost efficiency through improved value chains and automation

### **Summary and outlook**

The bank has delivered a consistently strong performance since its launch in 2007. A growing customer base, loan volume, deposits, savings and increasingly broader customer relationships have contributed to improved earnings and returns. Growth was sustained by a healthy cost base and a controlled credit risk environment.

In 2017, customer commitments increased by 11.7 per cent and after-tax earnings were 19.3 per cent higher than the previous year (adjusted for the portfolio sales in the two years). The after-tax return on equity increased to 14.2 per cent, compared to 11.7 per cent in 2016.

Going forward Gjensidige Bank ASA will continue to offer a wide range of financial services through customer-friendly digital solutions, the group's financial branches and partner networks. We will continue to focus on highly competitive terms and flexible and high quality services for customers in all business areas.

The bank aims to maintain its excellent cooperation with its partner organisations and with Gjensidige Insurance, which are central to its development in both the retail banking and car finance markets. Strong partner agreements provide increased knowledge and access to new and existing customers. The unsecured lending

brand OPP Finans will continue to be an important focus area, especially under the regulatory environment introduced in 2017. We will also carry on with supporting our customers with long term, flexible saving and investment opportunities.

2018 means the implementation of IFRS 9, PSDII, GDPR and MIFIDII. These are new opportunities on which the bank is aiming to capitalise, in the best interest of their customers and to ensure further business growth.

Gjensidige Bank shall meet the regulatory capital requirements at all times.

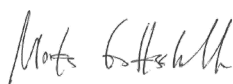
The Board regards the bank's earnings performance and growth as satisfactory.

### **Allocation of profit before other comprehensive income**

It is proposed to transfer the parent company's profit before other comprehensive income of NOK 338.1 million to other equity.

Oslo, 15 February 2018

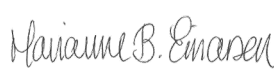
The Board of Gjensidige Bank ASA



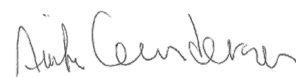
Mats C. Gottschalk  
Chair



Per Kumle



Marianne B. Einarsen



Anita Gundersen



Janneke Tranås Hjorth



Hans-Jacob Starheim



Krister Georg Aanesen  
CEO

# Financial statements and notes

## Income statement

Parent Company			Consolidated		
1.1.-31.12.2016	1.1.-31.12.2017	NOK thousands	Note	1.1.-31.12.2017	1.1.-31.12.2016
1,091,792	1,228,202	Interest income etc.	4	1,631,696	1,408,006
(407,321)	(417,568)	Interest costs etc.	4	(639,434)	(610,686)
<b>684,471</b>	<b>810,635</b>	<b>Net interest income</b>		<b>992,261</b>	<b>797,320</b>
12,330		Dividends from investments in shares and funds			12,330
49,696	99,126	Commission income and income from bank services	5	101,490	52,046
(49,015)	(85,841)	Commission costs and costs of bank services	5	(85,841)	(49,015)
42,183	23,812	Net gains on financial instruments at fair value	6	11,056	42,243
25,500	26,384	Other operating income		16,187	16,660
<b>80,693</b>	<b>63,480</b>	<b>Net commission income and other operating income</b>		<b>42,891</b>	<b>74,264</b>
<b>765,164</b>	<b>874,115</b>	<b>Total income</b>		<b>1,035,152</b>	<b>871,585</b>
(132,489)	(168,240)	Personnel expenses	7	(170,155)	(134,191)
(11,236)	(15,064)	Depreciations	7,10,11	(15,064)	(11,236)
(223,315)	(223,975)	Other operating expenses	7	(227,258)	(228,221)
<b>(367,040)</b>	<b>(407,279)</b>	<b>Total operating expenses</b>		<b>(412,477)</b>	<b>(373,648)</b>
<b>398,124</b>	<b>466,836</b>	<b>Profit / (loss) before loan losses</b>		<b>622,675</b>	<b>497,937</b>
(69,455)	(15,868)	Write-downs and losses	18	(10,327)	(69,455)
<b>328,668</b>	<b>450,968</b>	<b>Profit/ (loss) before tax expense</b>		<b>612,347</b>	<b>428,482</b>
(80,474)	(112,896)	Tax expense	8	(153,240)	(108,351)
<b>248,195</b>	<b>338,073</b>	<b>Profit / (loss) for the period</b>		<b>459,107</b>	<b>320,130</b>
248,195	338,073	Gjensidige Bank ASA 's shareholders		459,107	320,130
283.3	385.9	Earnings per share, NOK (basic and diluted)		524.1	365.4

## Statement of comprehensive income

Parent Company			Consolidated		
1.1.-31.12.2016	1.1.-31.12.2017	NOK thousands	Note	1.1.-31.12.2017	1.1.-31.12.2016
<b>248,195</b>	<b>338,073</b>	<b>Profit/ (loss) for the period</b>		<b>459,107</b>	<b>320,130</b>
<b>Components of other comprehensive income</b>					
<b>Items that are not subsequently reclassified to profit or loss</b>					
(168)	(2,439)	Actuarial gains/ (loss) on pensions	25	(2,439)	(168)
42	610	Tax on items that are not reclassified to profit or loss	8	610	42
<b>(126)</b>	<b>(1,829)</b>	<b>Total items that are not subsequently reclassified to profit or loss</b>		<b>(1,829)</b>	<b>(126)</b>
(12,460)		Items that may be reclassified subsequently to profit or loss			(12,460)
93		Tax on items that may be reclassified to profit or loss	8		93
<b>(12,367)</b>		<b>Total items that may subsequently be reclassified to profit or loss</b>			<b>(12,367)</b>
<b>(12,492)</b>	<b>(1,829)</b>	<b>Total components of other comprehensive income</b>		<b>(1,829)</b>	<b>(12,492)</b>
<b>235,702</b>	<b>336,244</b>	<b>Total comprehensive income for the period</b>		<b>457,278</b>	<b>307,638</b>

# Balance sheet

Parent Company		NOK thousands	Note	Consolidated	
31.12.2016	31.12.2017			31.12.2017	31.12.2016
<b>Assets</b>					
57,011	229,633	Cash and claims on central banks		229,633	57,011
2,813,131	3,462,258	Loans to and claims on credit institutions	14	200,496	62,987
22,605,937	24,771,250	Loans to and claims on customers	15,16,17,18,28	45,875,857	40,861,959
4,055,047	5,510,839	Certificates, bonds and other interest-bearing securities	12	4,957,463	3,534,160
10,589	24,382	Financial derivatives	13,32	124,721	127,684
4,645	4,645	Shares (and other securities with variable yield)	33	4,645	4,645
1,020,030	1,220,030	Shares in subsidiaries	33		
20,016	25,200	Intangible assets	10	25,200	20,016
2,671	3,823	Fixed assets	11	3,823	2,671
11,623		Deferred tax assets	8		5,133
28,572	87,210	Other assets	9	112,955	50,973
<b>30,629,271</b>	<b>35,339,268</b>	<b>Total assets</b>		<b>51,534,794</b>	<b>44,727,238</b>
<b>Liabilities and equity</b>					
277,585	496,271	Liabilities to credit institutions	14		
21,573,981	24,073,853	Deposits and liabilities to customers	19	23,765,670	21,270,352
5,392,687	6,700,750	Liabilities opened for the issue of securities	20,22,37	23,083,373	19,596,485
11,526	10,086	Financial derivatives	13,32	16,272	18,703
77,279	121,434	Other liabilities	24,39	165,111	120,334
67,839	80,285	Current tax	8	123,946	90,082
	6,902	Deferred tax liabilities	8	6,798	
17,151	24,242	Provision for pension liability	25	24,242	17,151
449,684	449,761	Subordinated debt	23	449,761	449,684
<b>27,867,732</b>	<b>31,963,586</b>	<b>Total liabilities</b>		<b>47,635,173</b>	<b>41,562,792</b>
<b>Equity</b>					
976,740	978,492	Share capital		978,492	976,740
892,452	1,107,154	Share premium		1,107,154	892,452
299,071	369,599	Perpetual Tier 1 capital	26	369,599	299,071
3,789	3,789	Other paid-in equity		3,779	3,779
589,487	916,649	Other equity		1,440,598	992,404
<b>2,761,539</b>	<b>3,375,682</b>	<b>Total equity</b>	1	<b>3,899,622</b>	<b>3,164,446</b>
<b>30,629,271</b>	<b>35,339,268</b>	<b>Total liabilities and equity</b>		<b>51,534,794</b>	<b>44,727,238</b>
876,000	876,000	Number of shares at the end of the period		876,000	876,000

Oslo, 15 February 2018  
The Board of Gjensidige Bank ASA

  
Mats C. Gottschalk  
Chair

  
Per Kumle

  
Marianne B. Einarsen

  
Anita Gundersen

  
Janneke Tranås Hjorth

  
Hans-Jacob Starheim

  
Krister Georg Aanesen  
CEO

# Statement of changes in equity

Consolidated NOK thousands	Share capital	Share premium	Perpetual Tier 1 capital	Other paid-in equity	Total paid-in equity	Other equity	Total equity
Equity 1.1.2016	974,112	695,080	298,939	3,779	1,971,909	697,365	2,669,275
New equity 2016	2,628	197,372			200,000		200,000
Group contributions paid						(2,655)	(2,655)
Share-based payment transactions settled in equity						(36)	(36)
Perpetual Tier 1 capital							
Paid interest on Perpetual Tier 1 capital			(9,887)		(9,887)	112	(9,775)
<b>Profit/ (loss) for the period 1.1.-31.12.2016</b>			<b>10,019</b>		<b>10,019</b>	<b>310,111</b>	<b>320,130</b>
<b>Components of other comprehensive income</b>							
<b>Items that are not subsequently reclassified to profit or loss</b>							
Actuarial gains/ (loss) on pensions						(168)	(168)
Tax on items that are not reclassified to profit or loss						42	42
<b>Total items that are not subsequently reclassified to profit or loss</b>						<b>(126)</b>	<b>(126)</b>
Items that may be reclassified subsequently to profit or loss						(12,460)	(12,460)
Tax on items that may be reclassified to profit or loss						93	93
<b>Total items that may subsequently be reclassified to profit or loss</b>						<b>(12,367)</b>	<b>(12,367)</b>
<b>Total components of other comprehensive income</b>						<b>(12,492)</b>	<b>(12,492)</b>
<b>Total comprehensive income for the period 1.1.-31.12.2016</b>			<b>10,019</b>		<b>10,019</b>	<b>297,618</b>	<b>307,638</b>
<b>Equity 31.12.2016</b>	<b>976,740</b>	<b>892,452</b>	<b>299,071</b>	<b>3,779</b>	<b>2,172,042</b>	<b>992,404</b>	<b>3,164,446</b>
Equity 1.1.2017	976,740	892,452	299,071	3,779	2,172,042	992,404	3,164,446
New equity 2017	1,752	214,702			216,454	1,741	218,195
Group contributions paid							
Share-based payment transactions settled in equity						589	589
Perpetual Tier 1 capital			69,825		69,825		69,825
Paid interest on Perpetual Tier 1 capital			(10,711)		(10,711)		(10,711)
<b>Profit/ (loss) for the period 1.1.-31.12.2017</b>			<b>11,414</b>		<b>11,414</b>	<b>447,693</b>	<b>459,107</b>
<b>Components of other comprehensive income</b>							
<b>Items that are not subsequently reclassified to profit or loss</b>							
Actuarial gains/ (loss) on pensions						(2,439)	(2,439)
Tax on items that are not reclassified to profit or loss						610	610
<b>Total items that are not subsequently reclassified to profit or loss</b>						<b>(1,829)</b>	<b>(1,829)</b>
Items that may be reclassified subsequently to profit or loss							
Tax on items that may be reclassified to profit or loss							
<b>Total items that may subsequently be reclassified to profit or loss</b>							
<b>Total components of other comprehensive income</b>						<b>(1,829)</b>	<b>(1,829)</b>
<b>Total comprehensive income for the period 1.1.-31.12.2017</b>			<b>11,414</b>		<b>11,414</b>	<b>445,864</b>	<b>457,278</b>
<b>Equity 31.12.2017</b>	<b>978,492</b>	<b>1,107,154</b>	<b>369,599</b>	<b>3,779</b>	<b>2,459,024</b>	<b>1,440,598</b>	<b>3,899,622</b>



# Statement of changes in equity (cont.)

Parent Company NOK thousands	Share capital	Share premium	Perpetual Tier 1 capital	Other paid-in equity	Total paid-in equity	Other equity	Total equity
Equity 1.1.2016	974,112	695,080	298,939	3,789	1,971,920	365,701	2,337,621
New equity 2016	2,628	197,372			200,000		200,000
Group contributions paid (after tax)						(1,991)	(1,991)
Share-based payment transactions settled in equity						(17)	(17)
Perpetual Tier 1 capital							
Paid interest on Perpetual Tier 1 capital			(9,887)		(9,887)	112	(9,775)
<b>Profit/ (loss) for the period 1.1.-31.12.2016</b>			<b>10,019</b>		<b>10,019</b>	<b>238,175</b>	<b>248,195</b>
<b>Components of other comprehensive income</b>							
<b>Items that are not subsequently reclassified to profit or loss</b>							
Actuarial gains/ (loss) on pensions						(168)	(168)
Tax on items that are not reclassified to profit or loss						42	42
<b>Total items that are not subsequently reclassified to profit or loss</b>						<b>(126)</b>	<b>(126)</b>
Items that may be reclassified subsequently to profit or loss						(12,460)	(12,460)
Tax on items that may be reclassified to profit or loss						93	93
<b>Total items that may subsequently be reclassified to profit or loss</b>						<b>(12,367)</b>	<b>(12,367)</b>
<b>Total components of other comprehensive income</b>						<b>(12,492)</b>	<b>(12,492)</b>
<b>Total comprehensive income for the period 1.1.-31.12.2016</b>			<b>10,019</b>		<b>10,019</b>	<b>225,683</b>	<b>235,702</b>
<b>Equity 31.12.2016</b>	<b>976,740</b>	<b>892,452</b>	<b>299,071</b>	<b>3,789</b>	<b>2,172,052</b>	<b>589,487</b>	<b>2,761,539</b>
Equity 1.1.2017	976,740	892,452	299,071	3,789	2,172,052	589,487	2,761,539
New equity 2017	1,752	214,702			216,454	1,741	218,195
Group contributions paid (after tax)							
Share-based payment transactions settled in equity						590	590
Perpetual Tier 1 capital			69,825		69,825		69,825
Paid interest on Perpetual Tier 1 capital			(10,711)		(10,711)		(10,711)
<b>Profit/ (loss) for the period 1.1.-31.12.2017</b>			<b>11,414</b>		<b>11,414</b>	<b>326,659</b>	<b>338,073</b>
<b>Components of other comprehensive income</b>							
<b>Items that are not subsequently reclassified to profit or loss</b>							
Actuarial gains/ (loss) on pensions						(2,439)	(2,439)
Tax on items that are not reclassified to profit or loss						610	610
<b>Total items that are not subsequently reclassified to profit or loss</b>						<b>(1,829)</b>	<b>(1,829)</b>
Items that may be reclassified subsequently to profit or loss							
Tax on items that may be reclassified to profit or loss							
<b>Total items that may subsequently be reclassified to profit or loss</b>							
<b>Total components of other comprehensive income</b>						<b>(1,829)</b>	<b>(1,829)</b>
<b>Total comprehensive income for the period 1.1.-31.12.2017</b>			<b>11,414</b>		<b>11,414</b>	<b>324,830</b>	<b>336,244</b>
<b>Equity 31.12.2017</b>	<b>978,492</b>	<b>1,107,154</b>	<b>369,599</b>	<b>3,789</b>	<b>2,459,034</b>	<b>916,649</b>	<b>3,375,683</b>

# Statement of cash flows

Parent Company			Consolidated	
1.1.-31.12.2016	1.1.-31.12.2017	NOK thousands	1.1.-31.12.2017	1.1.-31.12.2016
<b>Operating activities</b>				
(1,512,334)	(2,069,366)	Net payment of loans to customers	(4,912,206)	(4,545,765)
2,151,749	2,499,872	Net payment of deposits by customers	2,495,318	1,848,120
969,865	1,054,338	Payment of interest from customers	1,508,986	1,326,285
(262,760)	(258,420)	Payment of interest to customers	(257,236)	(264,695)
(14,192)	(28,763)	Net payment of interest from credit institutions etc.	(19,351)	(6,798)
(51,296)	(70,511)	Taxes paid	(92,754)	(87,383)
170,940	216,132	Net other commission income	164,390	110,005
(343,124)	(498,042)	Payment to operations	(502,715)	(348,581)
(116,171)	(1,451,881)	Net receiv./paid (-) upon purchase and sale of financial instruments and interest-bearing securities	(1,418,987)	(391,733)
<b>992,676</b>	<b>(606,640)</b>	<b>Net cash flow from operating activities</b>	<b>(3,034,555)</b>	<b>(2,360,544)</b>
<b>Investment activities</b>				
(17,326)	(21,401)	Net purchase of intangible assets and fixed assets	(21,401)	(17,326)
	(200,000)	Investments in subsidiary		
<b>(17,326)</b>	<b>(221,401)</b>	<b>Net cash flow from investing activities</b>	<b>(21,401)</b>	<b>(17,326)</b>
<b>Financing activities</b>				
(714,685)	1,484,286	Net paid(-)/received when taking out loans with credit institutions and covered bonds	3,462,424	2,003,612
(70,592)	(57,916)	Net payment of interest on financing activities	(308,754)	(301,531)
(27,272)	(30,869)	Net paid(-)/received for other short-term positions	(41,872)	(19,865)
	70,000	Tier 1 issuance	70,000	
(13,182)	(10,711)	Tier 1 interest payments	(10,711)	(13,182)
202,655	195,000	Capital increases	195,000	202,655
<b>(623,075)</b>	<b>1,649,789</b>	<b>Net cash flow from financing activities</b>	<b>3,366,087</b>	<b>1,871,688</b>
<b>352,275</b>	<b>821,748</b>	<b>Total cash flow</b>	<b>310,131</b>	<b>(506,182)</b>
<b>Cash flow for the year</b>				
2,517,867	2,870,142	Cash and cash equivalents 1.1.	119,998	626,180
2,870,142	3,691,890	Cash and cash equivalents 31.12.	430,129	119,998
<b>352,275</b>	<b>821,748</b>	<b>Net payment made(-)/received of cash</b>	<b>310,131</b>	<b>(506,182)</b>
<b>Specification of liquid assets</b>				
57,011	229,633	Claims on central banks	229,633	57,011
2,813,131	3,462,258	Deposits with credit institutions	200,496	62,987
<b>2,870,142</b>	<b>3,691,890</b>	<b>Liquid assets in statement of cash flow</b>	<b>430,129</b>	<b>119,998</b>

The statement of cash flows shows payments made and received of cash and cash equivalents throughout the year. The statement has been adjusted for items that do not initiate cash flows, such as provisions, depreciation and write-downs of loans and guarantees. Cash flows are classified as operating activities, investment activities or financing activities. The liquid assets are defined as cash and claims on central banks and loans to and claims on credit institutions.

# Accounting policies

## General

Gjensidige Bank ASA is a company owned by Gjensidige Forsikring ASA. It is domiciled in Norway. The company's head office is located at Schweigaardsgate 14, Oslo, Norway. The main activity of the company is ordinary banking services for retail customers. The accounting policies applied in the company accounts are described below.

The financial statements per 31 December 2017 were approved by the Board on 15 February 2018.

The consolidated and parent company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (EU), as well as other Norwegian disclosure requirements laid down in legislation and regulations.

## Changes in accounting policies

As a main rule, all income and expenses shall be shown in the income statement. The exception to this rule is the effect of changes to accounting principles. In the event of fundamental accounting reforms/changes in accounting policies, figures for previous years must be recalculated to enable comparison. If items in the financial statement are reclassified, comparative figures must be calculated for the previous periods and reported in the financial statements.

### New standards and interpretations not yet adopted

A number of new standards, changes to standards and interpretations have been issued for financial years beginning after 1 January 2017. They have not been applied when preparing these consolidated financial statements. Those that may be relevant to Gjensidige Bank ASA are mentioned below. Gjensidige Bank ASA does not plan early implementation of these standards.

#### ● IFRS 9 Financial instruments (2014)

IFRS 9 introduces new requirements for the classification and measurement of financial assets, including a new expected loss model for the recognition of impairment losses, and changed requirements for hedge accounting.

IFRS 9 contains three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income, and fair value through profit or loss. Financial assets will be classified either at amortised cost, at fair value through other comprehensive income, or at fair value through profit or loss, depending on how they are managed and which contractual cash flow properties they have. IFRS 9 introduces a new requirement in connection with financial liabilities earmarked at fair value, where changes in fair value that can be attributed to the liabilities' credit risk are presented in other comprehensive income rather than over profit or loss.

According to prevailing rules, impairment for credit losses shall only be recognised when objective evidence of impairment losses exists. Impairment provisions according to IFRS 9 shall be measured using an expected loss model, instead of an incurred loss model as in IAS 39. The impairment rules in IFRS 9 will be applicable to all financial assets measured at amortised cost or at fair value with the changes in fair value recognised in other comprehensive income. In addition, loan commitments, financial guarantee contracts and lease receivables are within the scope of the standard. The measurement of the provision for expected credit losses on financial assets depends on whether the credit risk has increased significantly since initial recognition. At initial recognition and if the credit risk has not increased significantly, the provision should equal 12-month expected credit losses. If the

credit risk has increased significantly, the provision should equal lifetime expected credit losses. This dual approach replaces today's collective impairment model.

During 2017, the bank has worked extensively to put together an internal model to comply with the new IFRS9 guidelines. The new impairment requirements are expected to increase the bank's provisioning for expected credit losses with NOK 13.8 million or 7.7 per cent. Total provisioning for credit losses amounted to NOK 180.3 million at the end of 2017. The changes generated by the new requirements will be charged against other equity. The Capital Adequacy ratios will take into consideration the amortisation schedule proposed by the Norwegian regulations (transition rule). The impact on the Common Equity Tier 1 capital ratio before the transition rules was assessed as immaterial at 0.044 per cent. Year 1 impact in the Common Equity Tier 1 capital ratio after transition rules was estimated at 0.002 per cent. IFRS 9 is effective from 1 January 2018.

## 1.1 Inputs, assumptions and techniques used for estimating impairment

### 1.1.1 Credit Scores and Risk Classes

The bank uses credit scores extensively in its credit assessment and monitoring process. Different credit scores are used for the different product groups in the banks depending on the nature of the exposure and the type of borrower. Credit scoring models are validated to be predictive of the risk of default on an annual basis.

The scores used for retail exposures are computed using application data declared by the customer, external bureau data, other external customer data and internal performance data (for example payment behavior). For commercial customers that the bank has in relation to its car finance business, the bank uses a combination of key measures including financial ratios (profit margins, equity ratio, financial leverage ratios, etc.) and non-financial (years in business, reputation of owners and management, type and amount of security where applicable) in addition to external credit ratings from the credit reference agencies.

The Bank determines a credit risk class to each exposure based on credit scoring models and by applying experienced credit judgement. Credit risk classes are defined using historical data which are indicative of risk of default. Credit risk classes are defined and calibrated such that the risk of default occurring increases by increasing risk class.

Credit risk class is defined at initial recognition based on the score at initial recognition which in turn is based on the available information about the borrower. Thereafter the scores are generated and monitored for the customer on a regular basis. When the scores are generated periodically during the life of the exposure, based on the credit history, the score may change and this may result in an exposure being moved to a different credit risk class compared to the initial recognition.

The risk-classed are further grouped in Risk Groups: Low Risk, Medium Risk, High Risk, Unclassified and already Defaulted accounts based on defined ranges of Probability of Default.

### 1.1.2 Definition of Probability of Default (PD)

The probability of default is an statistically estimate of the likelihood that a default event will occur. The bank define an engagement as defaulted 90 days after contractual due (immaterial outstanding amounts are not considered) or if any significant loss event has happen, for example legal debt settlement (gjeldsordning) or bankruptcy. Credit risk classes are a primary input into the determination of the PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by type of product and borrower at an in-

dividual exposure level. For some portfolios, where there is not enough data or history to develop custom score, the credit score information purchased from external credit reference agencies is also used.

The Bank employs statistical models to analyze the data collected and generates estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

For some of the smaller portfolio has limited data and historical performance data, the bank utilizes information of similar portfolio if possible or judgment based on credit experience in determining the probability of defaults.

### 1.2 Low credit risk accounts

A financial exposure is considered to be a low credit risk account, if the financial exposure has a low risk of default and the borrower has a strong capacity to meet its contractual cash flow obligations in the near term. In addition, adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

Financial exposure are not considered to have low credit risk simply because of the value of collateral and the financial instrument without that collateral would not be considered low credit risk.

The bank considers accounts to be in low risk, if they have not met the definition of Significant Increase in Credit Risk as defined in section 1.3 below, or Impairment as defined in section 1.4 below. In addition, accounts that are in the Low Risk Group on the reporting date, these are considered to be Low Credit Risk accounts.

For accounts that are determined to be low credit risk at the time of reporting an Expected Credit Loss (ECL) over the next 12 months is estimated by the bank. The computation of 12-month ECLs is described in the section below.

### 1.3 Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience, credit assessment and includes forward-looking information.

For the bank's exposures, the historical analysis shows that default patterns are not concentrated at a specific point during the expected life of the financial instrument. Given this, changes in the risk of a default occurring over the next 12 months have been considered as approximation of the changes in the lifetime risk of a default occurring.

The bank uses a "point in time" process where the internal evaluation reflects an assessment of the borrower's current condition and/or most likely future condition over the next 12 months horizon from the assessment period. As such, the internal evaluation changes as the borrower's condition changes over the course of the credit/business cycle.

Significant increase in credit risk is determined for an exposure by comparing the estimated 12 months probability of default (PD) at the reporting date with the estimated 12 months PD at the time of initial recognition of the exposure. Accounts that are

classified as low risk at the reporting date are excluded from this determination. If the risk class at reporting date is observed to have increased by more than a predetermined level compared to initial recognition, the exposure is classified as having a significant increase in credit risk.

The criteria for determining whether credit risk has increased significantly includes a "rebuttable presumption" i.e. a backstop based on delinquency. If the exposure is 30days to 89days past due at the reporting date, irrespective of the risk class or migration of risk, the exposure is classified as having significant increase in credit risk.

In addition, the Bank may determine that an exposure has undergone a significant increase in credit risk based on qualitative indicators which may be indicative of increase in risk. For example based on an individual assessment of a delinquent customer in the collections process the exposure may be classified as impaired. In such cases, an individual measurement of impairment is done based on the banks best estimate of the present value of the cash flows that is expected to be received, including from the repossession and sale of any assets if available. In estimating these cash flows, bank makes judgements about a debtor's financial situation and the net realizable value of any underlying collateral.

#### 1.3.1 Modified contractual assets and restructured assets

In limited cases, the Bank may also change the terms of the loan to customers in financial difficulties (referred to as "restructuring" or "forbearance activities") to assist willing customer to repay and minimize the risk of default. Under the Bank's policy, loan restructuring is granted on a selective basis if the debtor is currently unable to pay or if there is a high risk of default. In such cases, the bank assesses if there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, reducing the interest rate or changing the timing of interest or principal payments or other amendments to the terms of loan (but not including increase of the outstanding exposure) to make it possible for the customer to pay.

For financial assets modified as part of the Bank's restructuring policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal and the Bank's previous experience of similar forbearance action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioral indicators.

#### 1.3.2 Incorporation of forward looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of Expected Credit Loss. The bank uses the analysis published by Norges Bank which establishes which macroeconomic factors drives the increase of problem loans in banks. Based on this analysis, the bank has taken PD to be impacted by increase in unemployment and increase in the interest rate levels.

The Bank applies probabilities to the forecast scenarios identified. The base case scenario is the single most-likely outcome and consists of information used by the Bank for strategic planning and budgeting.

## 1.4 Impairment

### Definition of impairment – objective evidence

The Bank considers a financial asset to be in default when:

- The bank becomes aware of significant financial difficulty of the borrower (bankruptcy/ Legal debt settlement).
- The bank for economic or contractual reasons relating to the borrower's financial difficulty, grants to the borrower a change in term that would not otherwise have been considered (for example a restructuring of the loan).
- It becomes probable that the borrower will enter bankruptcy or other financial reorganization (initiation of Legal Debt Settlement / Bankruptcy).

In addition, the bank has established a "rebuttable presumption" (backstop) that default does not occur later than when a financial asset is 90 days past due.

Credit lines are also considered as being past due once the customer has breached an advised limit.

All exposures meeting the above requirement of default are classified as impaired.

### 1.5 Measurement of Expected Credit Loss (ECL).

The key inputs into the measurement of ECL are the Probability of default (PD), Exposure at default (EAD) and Loss given default (LGD). These parameters are derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a given point in time, calculated based on statistical scoring models, and assessed using rating tools tailored to the various categories of counterparties and exposures.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. For lending commitments, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

LGD is the size of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral and historical recovery costs of any related collateral. LGDs are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

For portfolios in respect of which the Bank has limited historical data, either judgment using credit experience or external benchmark information is used to supplement the internally available data.

For accounts that are determined to be low credit risk at the time of reporting an Expected Credit Loss (ECL) over the next 12 months is estimated. 12-month ECLs is defined as a portion of the lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date.

For undrawn credit lines, bank estimates the 12-month ECLs based on its expectations of the portion of the loan commitment that will be drawn down within 12 months of the reporting date.

To estimate the 12 months ECL, the bank uses the historical data to see the performance of customers in low credit risk and deri-

ves the probability of default that results from all possible events over the 12 months from observation. Using historical data, the bank also estimates the Exposure at Default within 12 months of the observation dates for these accounts. To this the bank applies its historically observed net present value of cash flows using an effective interest rate for that group of accounts. The ECL is computed as the multiple of the PD, EAD and LGD thus derived.

For all exposures that meet the criteria of significant increase in credit risk or are classified as impaired on the reporting date, the bank computes a loss allowance ECL over the lifetime of the loan. This is equal to the ECLs that result from all possible default events over the expected life of a financial instrument. In order to estimate the lifetime ECL, the bank estimates the risk of a default occurring on the financial instrument during its expected life.

The ECL is estimated based on the present value of all cash shortfalls over the remaining expected life of the financial asset, i.e., the difference between:

- The contractual cash flows that are due to an entity under the contractual terms and
- The cash flows that the bank expects to receive from the impaired asset

When estimating lifetime ECLs for undrawn credit line, the bank:

- Estimate the expected portion of the loan commitment that will be drawn down over the expected life of the loan commitment
- Calculate the present value of cash shortfalls between the contractual cash flows that are due to the entity if the holder of the loan commitment draws down that expected portion of the loan and the cash flows that the entity expects to receive if that expected portion of the loan is drawn down.

### 1.6 Derecognition and write-off

The bank considers an asset to be derecognised if:

- The contractual rights to the cash flows from the financial assets expire (example the loan reaches its end of term and is fully paid off, or the loan is prepaid by the customer).
- The financial asset is transferred and the transfer qualifies for derecognition (example, sale of an asset or group of assets).
- When the bank has no reasonable expectation of recovering the financial asset in entirety or in part.

The last criteria includes a write-off event when the bank determines that it has no reasonable expectation of cash flows from the customer.

### 1.7 Approach for the Banks Investment and Hedge Accounting

Financial instruments held to receive contractual cash flows and for sale shall be measured at fair value with changes in value taken over other comprehensive income. Interest income and write-downs should be recorded in the ordinary result. Loans to customers in the parent company (Gjensidige Bank ASA) will satisfy the criteria for measurement at fair value over other comprehensive income, as loans can be held to maturity and sold to Gjensidige Bank Boligkreditt AS.

### 1.8 Impact of the change to IFRS9 on the current allowance levels

With the implementation of the accounting rules to IFRS9 from 1 January 2018, the loan loss allowance is expected to increase from a level of NOK 180.3 million to NOK 194.1 million.

- **IFRS 15 Revenue from Contracts with Customers (2014)**

IFRS15 applies to the annual reporting period beginning on or after 1 January 2018 and covers all contracts with customers. IFRS 15 establishes a framework for the recognition and measurement of revenue. It is assumed that the change will not have a material effect.

- **IFRS 16 Leases (2016)**

IFRS 16 requires all leases to be reported on a company's balance sheet as assets and liabilities. Earlier classification of leases as either operating leases or finance leases are removed. All leasing will be treated as finance leases. Short-term leases (less than 12 months) and leases of low-value assets are exempt from the requirements. IFRS 16 is effective 1 January 2019. It is assumed that the change will not have a material effect.

- **Amendments to IFRS 2 Classification and measurement of share-based payment transactions (2016)**

IFRS 2 has been amended regarding the classification and measurement of share-based payment transactions with a net settlement feature for withholding tax obligations. If the entity is obliged to withhold an amount for an employee's tax obligation associated with a share-based payment, and transfer that amount in cash to the tax authority on the employee's behalf, then the entity shall account for that obligation as an equity-settled share-based payment transaction. The amendments are effective from 1 January 2018. The tax obligation in the Group's remuneration scheme will be reclassified from liability to equity as at 1 January 2018. From this date the tax obligation will be accounted for as an equity-settled share-based payment transaction instead of cash-settled share-based payment transaction. Our preliminary assessment is that the amendment is not expected to have a significant effect on the financial statements.

Based on our preliminary assessments and on the basis of current operations, other amendments to standards and interpretation statements will not have a material effect.

## Consolidation policies

### Subsidiaries

Subsidiaries are entities controlled by Gjensidige Bank ASA. Gjensidige Bank ASA controls a company when it is exposed or entitled, to variable returns from its involvement in the company and has the opportunity to influence these returns through its power over the company. Subsidiaries are included in the consolidated financial statements from the date that control commences until the date it ceases. The subsidiaries' accounting policies are altered as required in order to correspond with the policies chosen by the Group.

The following companies meet the criteria for subsidiaries and are included in the consolidated financial statement:

- Gjensidige Bank Boligkreditt AS, 100 per cent shareholder and share of votes.

Investments in subsidiaries are included in the company's financial statements using the historical cost method.

### Transactions eliminated through consolidation

Intra-group balances and transactions, together with unrealised income and expenses from intra-group transactions, are eliminated in the consolidated accounts.

### Business combinations

Business combinations are accounted for using the acquisition method. The historical cost of the business combination is measured at the fair value (on the date of acquisition) of acquired as-

sets, incurred liabilities and equity instruments issued by the Group in exchange for control of acquired companies, and it includes any costs directly attributable to the business combination.

If, after a reassessment of the Group's share in the net fair value of identifiable assets, liabilities and contingent liabilities, the value exceeds the acquisition cost of the business combination, the excess is immediately recognised in the income statement.

## Cash flow statement

Cash flows from operating activities are presented according to the direct method, which gives information about material classes and payments.

## Principles for recognising income and expenses

### Net interest income

Interest income and expenses are calculated and recognised based on the effective interest rate method. The calculation takes into account establishment fees and direct marginal transaction costs that are an integral part of the effective interest rate.

Interest is recognised over profit or loss using the internal rate of return method for both balance sheet items that are measured at amortised cost and items that are measured at fair value through the income statement.

Interest income on written-down commitments is calculated as the internal interest rate of the written-down value.

See also: 'Value calculation of fair value' and 'Value calculation of amortised cost'.

### Commission income and expenses

The way in which commission income from various customer services is recognised depends on the nature of the commission. Fees are recognised as income when the services are delivered or a significant part of the service has been completed. Charges received for completed services are recognised as income in the period the services were performed. Commissions received as payment for various tasks are recognised as income once the service has been completed. Commission costs are transaction-based and are recognised in the period the services were received. Management fees and subscription are recognised as income when they are earned.

### Net gain/loss on items measured at fair value

Realised and unrealised gains and losses on financial instruments measured at fair value are recognised under the financial statement item 'Net gain/(loss) on financial instruments'. Realised and unrealised gains and losses are the result of:

- Shares/ownership interests and other stock market-related instruments
- Interest-bearing securities and other interest rate instruments
- Currency gains/losses

### Other operating income

Other operating income that is not related to any of the other lines of income is generally recognised when the transaction has been completed.

### Operating expenses

Operating expenses consists of wages, administration and sales costs. These costs are accrued and expensed in the relevant accounting period.

## Currency

The company and Group's presentation currency and functional currency is Norwegian kroner. Transactions involving the purchase and sale of foreign currency-denominated securities and financial instruments are translated into NOK using the exchange rate on the date of the purchase/ sale. Holdings of foreign securities and financial documents are valued in Norwegian kroner at the exchange rate on the balance sheet date. Cash and cash equivalents are also valued at the exchange rate on the balance sheet date.

## Segments

The bank's primary target group consists of retail customers. This segmentation best reflects the way the business is run by the management. Financial information relating to segments is presented in a separate note.

## Inclusion of non-financial assets in the balance sheet

Assets and liabilities are included in the bank's balance sheet when the bank obtains real control over rights to the assets or assumes real obligations. Assets are derecognised at the time the actual risk related to the assets has been transferred and the control of rights to the assets has ended or expired.

## Fixed assets

Fixed assets consist of fixtures, machinery and IT systems that are used within the company. Fixed assets are valued at acquisition cost with accumulated depreciation and write-downs. They are depreciated on a straight line basis over their anticipated useful life. Where operating assets or significant parts of an operating asset have different lifespans, they are capitalised and depreciated separately. Unless it is insignificant, the expected useful lifespan and the residual value are reviewed annually. The carrying value of an asset is written down if its recoverable value is less than its carrying value.

## Intangible assets

### Other intangible assets

Intangible assets, whether acquired separately or as a group, are carried in the balance sheet at acquisition cost. Intangible assets include customised software developed by the bank. This is carried in the balance sheet at its historical cost plus the cost of readying the software for use, minus accumulated depreciation and write-downs. When capitalising the carrying amount of new intangible assets, the probability of the financial benefits accruing to the company from the asset must be demonstrated. In addition, it must be possible to reliably estimate the cost of the asset.

Capitalised software expenses are depreciated across their expected useful lifespan, which is normally three to five years. The depreciation period and method are assessed annually. An evaluation is carried out of the need for write-downs when there are indications of impairment. The write-down of intangible assets and the reversal of write-downs are otherwise done in the same manner as described for fixed assets.

Direct costs include expenses for employees who are directly involved in software development, materials and a number of relevant administrative expenses (overhead expenses). Expenses connected to the maintenance of software and IT systems are recognised directly over profit or loss.

## Goodwill

Capitalised goodwill is not amortised. For the Group, goodwill arises through the acquisition of other companies, and represents the excess value paid over and above individually valued assets. This excess value is tested for impairment in connection with each interim report.

## Impairment of non-financial assets

The company reviews the carrying value of assets and identifiable intangible assets annually, or more frequently if there are events or changes in the assumptions that indicate that the carrying value is irrecoverable. Indicators that are assessed as significant by the company and that can trigger testing for impairment include:

- A significant drop in profitability in relation to past or expected future profitability
- Significant changes in the company's use of assets or overall strategy for its activities
- A significant downturn for the industry or the economy

Previous impairment losses, except for goodwill, will be reversed if the assumptions underlying the impairments no longer apply. Impairment losses are only reversed to the extent that the new carrying value does not exceed what would have been the carrying value after depreciation at the time of the reversal if there had been no impairment.

## Financial instruments

### Recognition and derecognition

Financial assets and liabilities are recognised in the balance sheet when the company becomes a party to the instrument's contractual terms. Ordinary purchases and sales of financial instruments are recognised on the transaction date. When a financial asset or a financial liability is initially recognised (asset/liability not recognised at fair value through profit or loss), it is measured at fair value plus transaction costs that are directly related to the purchase or issue of the financial asset or liability.

Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire or when the business transfers the financial asset in a transaction where all, or practically all, the risk and rewards related to ownership of the asset are transferred. Financial liabilities are derecognised once ceased either the contract is fulfilled, canceled or expired.

### Classification of financial instruments

When initially recognised, financial assets are classified in one of the following categories, depending on the purpose of the investment:

- Loans and receivables, carried in the balance sheet at amortised cost
- Financial assets that are to be recognised at fair value with fair value changes through profit or loss (Fair value option)
- Available-for-sale financial assets, measured at fair value with changes in value recognised in equity
- Held-for-trading financial assets measured at fair value through profit or loss
- Investments held to maturity, carried at amortised cost
- Derivatives classified as hedging instruments

When initially recognised, financial liabilities are classified in one of the following categories:

- Financial liabilities defined as liabilities measured at fair value, with fair value changes through profit or loss
- Other financial liabilities carried at amortised cost

### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed payments or determinable payments. Loans and receivables are initially recognised at fair value, and thereafter at amortised cost using the effective interest rate method. When calculating the effective interest rate, cash flows are estimated and all the contractual terms of the financial instruments are taken into account.

On each balance sheet date, loans, receivables and other financial assets measured at amortised cost are reviewed to determine whether there is objective evidence that a receivable/loan or a group of receivables/loans has been impaired. Individual write-downs are made first, before determining any group write-downs.

If there is objective evidence that a financial asset is impaired, a write-down is made for the estimated loss. The write-down equals the difference between the outstanding balance of the loan and the net present value of estimated future cash flows, discounted by the financial asset's original effective interest rate (i.e. the effective interest rate calculated at the initial rate or rate subsequently agreed with the customer). Objective evidence means occurrences indicating that the loan is impaired. Such evidence can include information about impaired credit histories, bankruptcy or other defaults. For further information, see note 34 Risk and risk management on write-downs and losses.

### Leasing

A lease is classified as a finance lease when substantially all the risk and rewards associated with ownership are transferred to a lessee. All other leases are classified as operating leases.

Finance leases are presented in the financial statements under 'Loans to and receivables from customers' as a receivable equal to the net investment in the lease. The net investment represents the minimum lease payments, any unguaranteed residual values and any direct expenses incurred by the lessor in negotiating and arranging a lease discounted at the interest rate implicit in the lease. Monthly lease payments consist of interest income and repayments of principal. Interest income is allocated to different accounting periods to reflect a constant periodic rate of return on the Group's net investment in the terms of the lease contracts.

### At fair value through profit or loss

On implementing IFRS, and in subsequent periods for initial recognition in the accounts, all financial assets and liabilities can be measured at fair value through profit or loss if they have been purchased with the intention of being sold or:

- The classification reduces a mismatch in the measurement or recognition that would have arisen otherwise as a result of different rules for the measurement of assets and liabilities
- Financial assets and liabilities are included in a portfolio that is managed and evaluated regularly at fair value

The banking operation has established a liquidity portfolio that is continuously measured and reported at fair value. The bank's goal is to have low interest rate risk, and it plans and manages the interest rate risk so that fixed-rate positions are aggregated

on deposits, loans and placements in a model. Interest rate swaps are then used to balance out potential remaining risk. Interest rate swaps are measured at fair value. The bank has used hedge accounting for new bonds and certificates with fixed interest rates subject to interest rate hedging.

Financial assets and liabilities measured at fair value through profit or loss are measured at fair value on the balance sheet date. Changes in fair value are recognised through profit or loss. Changes in fair value are included under 'Net income/(loss) on financial instruments'.

### Available for sale

Securities available for sale are non-derivative financial assets that are designated as such or that are not classified in any other category. Securities in this category are measured at fair value, while changes in fair value are recognised through the statement of comprehensive income. These assets are tested for impairment every quarter. If the impairment is significant, the total loss – measured as the difference between the cost of acquisition and fair value minus any impairment of the financial asset that has previously been recognised in the income statement – is deducted from equity and recognised in the income statement. Impairments of shares and similar instruments recognised in the income statement are reversed through the statement of comprehensive income.

### Investments held to maturity

Investments held to maturity are non-derivative financial assets with fixed or determinable payments and with a fixed maturity date, and that the company has the intention and capability of holding until maturity, with the exception of:

- Assets that the company initially designates at fair value through profit or loss
- Assets that meet the definition of loans and receivables

Assets held to maturity are measured at amortised cost using the effective interest rate method.

### Financial derivatives

Trading in financial derivatives is subject to strict limitations. All derivatives are measured at fair value on the contract date. Subsequent measurement is done at fair value with changes in value being recognised as they occur. The fair value of derivatives is measured based on listed prices whenever possible. When listed prices are not available, the company estimates fair value based on valuation models that use observable market data.

Derivatives that do not meet the criteria for hedge accounting are treated as financial instruments held for trading. The fair value of such derivatives is classified as either an asset or a liability with changes in fair value through profit or loss.

### Fair value

Financial assets and liabilities measured at fair value are carried at the amount each asset/liability can be settled for in an orderly transaction between market participants on the measurement date.

Different valuation techniques and methods are used to estimate fair value, depending on the type of financial instruments and the extent to which they are traded in active markets. Instruments are classified in their entirety in one of three valuation levels in a hierarchy on the basis of the lowest level input that is significant to the fair value measurement in its entirety.



Prices quoted in active markets are considered to be the best estimate of an asset/liability's fair value. When quoted prices in active markets are not available, the fair value of financial assets/liabilities will preferably be estimated on the basis of valuation techniques based on observable market data. When neither quoted prices in active markets nor observable market data are available, the fair value of financial assets/liabilities is estimated based on valuation techniques that are based on non-observable market data.

### Hedge accounting

The bank uses fair value hedges to manage its interest rate risk. Fair value hedges are used when derivatives hedge against changes in the fair value of recognised assets or liabilities with a specific risk. Derivatives are recognised in the income statement. Changes in the value of the hedged item, attributable to the hedged risk, adjust the carrying amount of the asset and are recognised in the income statement.

The use of hedge accounting requires that the hedge is effective. A hedge is regarded as highly effective if, at inception and throughout the hedge period, it can be expected that changes in the fair value of the hedged item essentially offset changes in the fair value of the hedged instrument. The effectiveness of the hedge is measured at the individual level. At inception, the hedging effectiveness is measured on the basis of an interest rate shock at the individual instrument level. When assessing the hedge effectiveness retrospectively, the fair value of the hedged instrument is measured and compared with the change in fair value of the hedged item. The result must be within the range of 80-125 per cent.

### Amortised cost method

Financial instruments that are not measured at fair value are valued at amortised cost and the income is calculated using the internal rate of return method. In the internal rate of return method, the investment's internal rate of return is used. The internal rate of return is determined by discounting the contractual cash flows within the anticipated term to maturity. Cash flows include establishment fees and the costs of transaction that are not covered by the customer. Amortised cost is the current value of such cash flows discounted by the internal rate of return.

### Debt to credit institutions and deposits from customers

Liabilities to credit institutions and customers are recognised, depending on the counterparty, either as a debt to credit institutions or as deposits from customers, regardless of the calculation method used. The interest expense on these instruments is included in 'Net interest income' using the internal rate of return method. Other fair value changes are included in 'Net income/(loss) on financial instruments'.

### Debt securities in issue

Debt securities include certificates of deposit or bonds issued by the bank, as well as repurchased bonds issued by the bank. Debt securities are initially recognised at fair value. In subsequent periods, issued debt securities that are not hedged in, for example, an interest rate swap are recognised at amortised cost using the effective interest rate method. When calculating the effective interest rate, cash flows are estimated and all the contractual terms of the financial instruments are taken into account.

Interest rate costs and the amortisation of premium/discount on instruments are recognised in 'Net interest rate income' using the IRR method.

### Liabilities and equity

In accordance with the underlying financial reality, financial instruments are classified as liability or equity.

Interest, dividends, gains and losses relating to a financial instrument classified as liability will be presented as expense or income. Disbursements to owners of financial instruments classified as equity will be recognised directly against equity.

The bank classifies perpetual pier 1 capital as equity. The instruments are perpetual but the bank can repay the capital on specific dates, for the first time five years after it was issued. The agreed terms for the instruments meet the requirements in the EU's CRR regulations and it is included in the bank's Tier 1 capital for capital adequacy purposes. This means that the bank has a unilateral right not to repay interest or the principal to the investors. As a consequence of these terms, the instruments does not meet the requirement for a liability in IAS 32 and are therefore presented on the line perpetual Tier 1 capital under equity. Further, it implies that the interest is not presented under Total interest expenses but as a reduction in other equity. Correspondingly, seen in isolation, the benefit of the tax deduction for the interest will lead to an increase in other equity and not be presented as a deduction under the line Tax expense, since it is the shareholder who benefits from the tax deduction.

### Dividends

Dividends from investments are recognised when the Company has an unconditional right to receive the dividends. Dividends payable are recognised as liabilities at the point in time when the General Meeting approves the payment of dividends.

### Accounting provisions

A provision is made when the company has a legal or implicit liability as a result of a past event, and it is probable that this will lead to a payment or transfer of other assets to cover the liability.

### Pensions

Pension liabilities are assessed at the present value of future pension benefits that are recognised as accrued at the reporting date. Future pension benefits are calculated on the basis of expected salary at the retirement date. Pension assets are valued at fair value. Net pension liability is the difference between the present value of future pension benefits and the fair value of the pension assets. Employer's social security cost is recognised during the period under which an underfunding occurs. Net pension liability is shown in the balance sheet on the line Pension liabilities. Any overfunding is recognised to the extent that it is likely that the overfunding can be utilised. An overfunding in a funded plan cannot be offset against an underfunding in an unfunded plan. If there is a net overfunding in the funded plan, it is recognised as Pension assets.

The period's pension cost (service cost) and net interest expense (income) are recognised in the income statement and are presented as an operating cost in the income statement. Net interest expense is calculated using the discount rate for the liability at the beginning of the period of the net liability. Net interest expense therefore consists of interest on the obligation and return on the assets.

Deviations between estimated pension liability and estimated value of pension assets in the previous financial year and actuarial pension liability and fair value of pension assets at the beginning of the year are recognised in other comprehensive income. These will never be reclassified through profit or loss.

Gains and losses on curtailment or settlement of a defined benefit plan are recognised in the income statement at the time of the curtailment or settlement.

Deductible grants to defined contribution plans are recognised as employee expenses in the income statement when accrued.

## Share-based payments

The Group has a share saving program for employees and a share-based remuneration scheme for senior executives. The share savings program is an arrangement with settlement in shares, while the remuneration scheme is an arrangement with settlement in both shares and cash.

The share-based payment arrangements is measured at fair value at the time of allocation. Fair value is accrued over the period during which employees acquire the right to receive the shares. Share-based payment arrangements which are recovered immediately are recognised as expenses at the time of allocation. Vesting conditions are taken into account by adjusting the number of equity instruments included in the measurement of the transaction amount so that, ultimately, the amount recognised shall be based on the number of equity instruments that eventually vest. Non-vesting conditions are reflected in the measurement of fair value, and no adjustment of the amount charged as expenses is done upon failing to meet such conditions.

The cost of share-based transactions with employees is recognised as an expense over the average recovery period. For transactions that are settled in shares, the value of the allocated shares in the period is recognised as a salary expense in the income statement with a corresponding increase in other paid-in equity. For arrangements settled in cash, the value of the options granted is recognised as a salary expense in the income statement for the period with an associated liability in the balance sheet. The liability in the arrangement settled in cash is measured at fair value on each balance sheet date up to and including the date of settlement, and changes in fair value are recognised in the income statement. Employers' social security costs are recognised in the income statement over the expected vesting period.

Share-based payment arrangements settled by one of the shareholders in the ultimate mother company is also recognised as a share-based payment transaction with settlement in equity.

See note 39 for a further description of Gjensidige's share-based payment arrangements.

## Taxation

The tax expense comprises tax payable and deferred tax. The income tax is recognised as an expense or income and is included in the income statement as a tax expense, with the exception of income tax on transactions that are recognised directly in equity.

Payable tax is based on the Company's taxable income and is calculated in accordance with Norwegian tax regulations and tax rates.

Deferred tax assets and liabilities are recognised using the balance method on all temporary differences that arise between the tax and accounting values of assets and liabilities. Deferred tax assets are calculated on unused loss carry forwards and unused tax credits. A tax asset is only recognised to the extent that it is probable that future taxable profits can be used to offset temporary differences, unused tax loss carry forwards and unused tax credits. The carrying values of deferred tax assets and deferred tax are subject to regular review. Deferred tax is calculated on temporary differences and untaxed provisions. Deferred tax assets and deferred tax liabilities are not discounted.

Assets and liabilities are measured at the current tax rate in the period when the asset is realised or the liability is settled, based on the tax rate on the balance sheet date. Payable tax assets and tax liabilities, as well as deferred tax assets and tax liabilities, are offset if legally possible.

## 1. Equity

### Share capital

Gjensidige Bank ASA is a wholly owned subsidiary of Gjensidige Forsikring ASA domiciled in Norway. Share capital for Gjensidige Bank ASA as per 31 December 2017 was NOK 978.5 million divided on 876,000 shares at 1,117 per share. As per 31 December 2016 share capital was NOK 976.7 million divided on 876,000 at 1,115 per share.

### Perpetual Tier 1 capital

The bank has issued perpetual Tier 1 capital instruments with a total nominal value of NOK 370 million. The instruments are perpetual but the bank can repay the capital on specific dates, for the first time five years after it was issued. The interest rate to be paid is floating 3-month NIBOR plus a fixed credit spread.

### Share premium

Payments in excess of the nominal value per share are allocated to share premium.

### Other equity

Other earned equity consists of this year's and previous year's retained earnings.

## 2. Critical accounting estimates and judgements

### General

The preparation of the financial statements under IFRS and the application of the adopted accounting policies require that the management makes assessments, prepares estimates and applies assumptions that affect the reported amounts of assets, liabilities, income and expenses. The estimates and the associated assumptions are based on historic experience and other factors that are assessed as being justifiable based on the underlying conditions. The actual figures may deviate from these estimates. The estimates and the associated assumptions are reviewed regularly. Changes in accounting estimates are recognised in the

period the estimates are revised if the change only affects this period, or both in the period the estimates change and in future periods if the changes affect both existing and future periods.

Gjensidige Bank ASA's accounting principles, whereby assessments, estimates and assumptions may diverge significantly from the actual results, are discussed below.

### Write-downs and losses

Loans and claims are evaluated on each balance-sheet date to assess whether there is objective evidence that an individual claim/loan or a group of claims/loans are impaired. Individual write-downs are assessed before the write-down on groups is determined. If there is objective evidence that a financial asset is impaired, a write-down is made for the estimated loss. Write-downs are done at an individual level based on individual assessment of the loan or on a group level based on Group Provisioning models. Individual write-downs are assessed before the write-down on groups is determined.

The write-down equals the difference between the outstanding balance of the loan and the net present value of estimated future cash flows, discounted by the financial asset's original effective interest rate (i.e. the effective interest rate calculated initially or subsequently agreed with the customer). Objective evidence means evidence of occurrences indicating that the loan is impaired. This can be information about bankruptcy or defaults.

A final write-off (loss) is recognised when it is evident that the loan will not be repaid and there is no collateral left to cover the loan. In such instances, any corresponding provision (write-down) will be reversed.

For further information, see note 34 Risk and risk management on write-downs and losses.

### Equipment and intangible assets

Equipment and intangible assets are reviewed annually to ensure that the depreciation method and period used match economic realities. The same applies to the residual value. Assets are written down if there is evidence of impairment.

### Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market (such as unlisted shares) is determined using valuation methods. These valuation methods are primarily based on the market conditions on the balance sheet date.

- Bonds are valued based on prices collected from Nordic Bond Pricing.
- Unlisted derivatives, including interest rate and foreign exchange instruments, are valued theoretically based on observable market data. Money market rates, swap rates, exchange

rates and volatilities that form the basis for valuations are supplied by Bloomberg and Oslo Stock Exchange.

For further information, see note 27 Fair value of financial.

### Amortised cost method

Market prices are used to price loans and receivables from credit institutions and loans to customers. The value of loans that have been written down is determined by discounting future cash flows using the internal rate of return based on market conditions for equivalent loans that have not been written down. For further information, see note 27 Fair value of financial instruments.

### Impairment of financial assets

Financial assets that are not carried at fair value are evaluated for impairment if there is objective evidence on the balance sheet date that a financial asset or a group of financial assets has fallen in value. For further information, see Note 34 Risk and risk management on write-downs and losses.

### Pension liabilities

The present value of pension liabilities is calculated on the basis of actuarial and financial assumptions. Any change in the assumptions affects the estimated liability. A change in the discount rate is the assumption of most significance to the value of the pension liability. The discount rate and other assumptions are normally reviewed once a year when the actuarial calculations are performed, unless there have been significant changes during the year.

## 3. Segment information

The bank's primary target group consists of retail customers. This segment is composed of members of partner organisations, loyalty customers, employees of Gjensidige Group and other customers.

The bank also offers deposit and loan products to the business market. The volume related to these products is currently of a size that it is not reported as a separate segment.

The bank only operates in Norway and the reporting of secondary geographical segments provides little additional information. Loan assets are broken down geographically, however, in a separate note.

## 4. Net interest income

Parent Company			Consolidated	
1.1.-31.12.2016	1.1.-31.12.2017	NOK thousands	1.1.-31.12.2017	1.1.-31.12.2016
<b>Interest income</b>				
4,052	3,721	Loans to and receivables from credit institutions	3,721	4,052
969,318	1,113,577	Loans to and receivables from customers	1,580,487	1,360,738
63,976	66,995	Interest-bearing securities	47,488	43,217
54,446	43,909	Other income		
<b>1,091,792</b>	<b>1,228,202</b>	<b>Total interest income<sup>1</sup></b>	<b>1,631,696</b>	<b>1,408,006</b>
<b>Interest expenses</b>				
9,935	9,925	Deposits from/ debt to credit institutions	107	32
266,057	272,390	Deposits from/ debt to customers	272,390	266,057
<b>Issued securities</b>				
107,073	109,020	- valued at amortised cost	340,705	320,341
11,701	12,478	Subordinated debt	12,478	11,701
12,556	13,754	Other interest expenses	13,754	12,556
<b>407,321</b>	<b>417,568</b>	<b>Total interest expenses<sup>2</sup></b>	<b>639,434</b>	<b>610,686</b>
<b>684,471</b>	<b>810,635</b>	<b>Net interest income</b>	<b>992,261</b>	<b>797,320</b>
1,027,816	1,161,208	<sup>1</sup> Of this total, interest income on financial assets not measured at fair value	1,584,208	1,364,789
		<sup>2</sup> Interest expenses on financial liabilities not measured at fair value.		
		Includes interest income and interest expenses on derivatives.		

## 5. Net commission income

Parent Company			Consolidated	
1.1.-31.12.2016	1.1.-31.12.2017	NOK thousands	1.1.-31.12.2017	1.1.-31.12.2016
<b>Commission income</b>				
	42,727	Commissions from saving products <sup>1</sup>	42,727	
277	263	Interbank fees	263	277
20,998	20,610	Card fees	20,610	20,998
11,330	7,897	Payment transactions	7,899	11,331
4,688	5,798	Loan fees	8,159	7,037
12,403	21,831	Other commission income	21,832	12,403
<b>49,696</b>	<b>99,126</b>	<b>Total commission income</b>	<b>101,490</b>	<b>52,046</b>
<b>Commission expenses</b>				
1,167	1,107	Interbank fees	1,107	1,167
3,460	2,913	Payment transactions	2,913	3,460
44,388	81,821	Other commission expenses	81,821	44,388
<b>49,015</b>	<b>85,841</b>	<b>Total commission expenses</b>	<b>85,841</b>	<b>49,015</b>
<b>680</b>	<b>13,285</b>	<b>Total net commission</b>	<b>15,648</b>	<b>3,031</b>

<sup>1</sup>The merger with Gjensidige Investeringsrådgivning AS was finalised in February 2017. The financial reporting was integrated with effect from January 2017.

## 6. Net gains on financial instruments at fair value

Parent Company			Consolidated	
1.1.-31.12.2016	1.1.-31.12.2017	NOK thousands	1.1.-31.12.2017	1.1.-31.12.2016
3,085	(2,848)	Net income on foreign currency trading and financial derivatives	(13,790)	(19,857)
<b>3,085</b>	<b>(2,848)</b>	<b>Net income on financial instruments, trading portfolio</b>	<b>(13,790)</b>	<b>(19,857)</b>
26,228	20,225	Net income on commercial paper and bonds	7,537	26,217
		Net income on shares/ ownership interests		
12,870	6,434	Net income on financial liabilities	17,308	35,882
<b>39,098</b>	<b>26,659</b>	<b>Net income on financial instruments measured at fair value</b>	<b>24,845</b>	<b>62,099</b>
<b>42,183</b>	<b>23,812</b>	<b>Net gains on financial instruments measured at fair value</b>	<b>11,056</b>	<b>42,243</b>

## 7. Operating expenses

Parent Company			Consolidated	
1.1.-31.12.2016	1.1.-31.12.2017	NOK thousands	1.1.-31.12.2017	1.1.-31.12.2016
98,478	118,775	Wages, salaries, etc.	120,217	99,815
		<b>Pension costs</b>		
9,443	10,971	- defined contribution schemes	11,135	9,586
2,514	5,141	- defined benefit schemes	5,141	2,514
15,970	18,910	Employer's National Insurance contributions	19,135	16,192
6,083	14,442	Other staff-related expenses	14,527	6,084
<b>132,489</b>	<b>168,240</b>	<b>Total personnel expenses</b>	<b>170,155</b>	<b>134,191</b>
75,883	88,468	IT expenses	88,904	76,325
95,735	70,937	Marketing etc.	70,941	95,735
14,056	15,567	Other administrative expenses	15,681	14,163
12,155	20,560	Consultancy fees	31,103	23,515
25,486	28,442	Other operating expenses	20,629	18,483
<b>223,315</b>	<b>223,975</b>	<b>Total other expenses</b>	<b>227,258</b>	<b>228,221</b>
11,236	15,064	Ordinary depreciation	15,064	11,236
<b>367,040</b>	<b>407,279</b>	<b>Total operating expenses</b>	<b>412,477</b>	<b>373,648</b>
		<b>Auditor's fee (incl. VAT)</b>		
498	519	Statutory audit <sup>1</sup>	575	565
	211	Other assurance services	211	125
380	588	Other non-assurance services	753	962
		Tax consultant services		
<b>879</b>	<b>1,317</b>	<b>Total payments to auditor</b>	<b>1,539</b>	<b>1,651</b>
143	168	Number of employees	169	144
147	156	Average numbers of employees	157	148

<sup>1</sup>2017 figures relates to new auditor

## 7. Operating expenses (cont.)

Salary and other benefits paid to management and governing bodies in 2017

NOK thousands Name and position	Earned benefits			Calc. value of total other than cash	Rights earned in the financial year according to pension plan	Annual vesting of share based pay- ment deemed	Number of shares assigned, not re- leased	Number of shares out- stand- ing	Number of shares held	Loans	Interest rate	The current Re- payment schedule
	Fixed salary/ fee	varia- ble salary										
<b>Senior executives</b>												
Krister Georg Aanesen, CEO (19.11-31.12)	1,012	109	66		105	122			579	1,368		
Hans O. Harén, CEO (1.1-18.11)	2,534	339	233		1,786	339	2,565	3,152	5,638	6,892		
Teemu Alaviitala, CFO	1,520	173	160		178	173	1,241	1,470	2,721	1,616		
Lene Steinum, Technology Director	1,172	123	162		179	123	912	1,091	2,005	3,898	4,567	1,99% 20.2.2045
Tor Egil Nedrebø, Treasury Director and Branch manager	1,154	131	152		173	136	887	1,066	1,950	1,171	3,464	2,05% 20.2.2040
Ole Bjørn Harang, Sales & Distribution Director	1,365	155	160		198	155	1,113	1,333	2,445	5,510		
Alexander von Hirsch, Marketing Director	1,065	38	160		159	38	869	920	1,795	1,958	6,296	2,15% 20.2.2047
Stig Heide, Product Director	1,354	149	160		187	149	1,104	1,344	2,440	3,108	3,548	2,15% 20.10.2043
Rajeev Prabhu, Credit Risk Director	2,004	218	160		189	218	1,636	2,007	3,625	5,297	4,605	2,15% 20.9.2037
Nina Felicity Mydske, Operations Director	1,214	135	160		198	135	998	1,102	2,103	3,798	1,631	1,99% 20.3.2029
Trond Nyhus, Car Finance Director	1,370	156	160		132	156	1,124	201	1,610	1,693	3,497	1,99% 20.12.2046
Mats Fjeldtvedt, Chief Risk Officer (1.3-31.12) <sup>1</sup>	1,013		17		177					2,696	1,426	1,97% 20.11.2045
Jan Kåre Raae, CEO Gjensidige Bank Boligkreditt AS	1,064	138	20		163	145	821	1,005	1,814	894		
<b>The Board</b>												
Mats C. Gottschalk, Chair										13,254		
Per Kumle	172											
Anita Gundersen												
Janneke Tranås Hjorth (27.3-31.12)										755		
Hans G. Hanevold (1.1-26.3)										8,734		
Marianne Broholm Einarsen	172											
Hans Jacob Starheim, employee repr. <sup>2</sup>	27									3		
<b>Total for senior executives and the Board</b>	<b>18,212</b>	<b>1,864</b>	<b>1,771</b>		<b>3,824</b>	<b>1,889</b>	<b>13,270</b>	<b>14,691</b>	<b>28,725</b>	<b>62,645</b>	<b>29,033</b>	
<b>General assembly</b>												
Helge Leiro Baastad										49,264		
<b>Total</b>										<b>49,264</b>		

The company pays no other remuneration to the CEO and has not committed itself to giving special consideration to the CEO or chair upon termination of their appointment.

<sup>1</sup>Entitled only to collective bonus in terms of role as CRO.

<sup>2</sup>For staff representatives only remuneration for the current position is stated.

## 7. Operating expenses (cont.)

Salary and other benefits paid to management and governing bodies in 2016

NOK thousands Name and position	Earned benefits			Calc. value of total benefits other than cash	Rights earned in the financial year according to pension plan	Annual vesting of share based pay- ment deemed	Number of shares assigned, not re- leased	Number of shares out- stand- ing	Number of shares held	Loans	Interest rate	The current Re- payment schedule
	Fixed salary/ fee	varia- ble salary										
<b>Senior executives</b>												
Hans Olov Harén, CEO	2,497	367	223	3,475	367	2,555	3,644	5,940	5,232			
Teemu Alaviitala, CFO	1,476	177	158	174	177	1,218	1,622	2,814	847	1,130	1,95%	20.6.2037
Lene Steinum, Technology Director	1,141	130	159	175	130	895	1,237	2,084	3,327	4,694	2,05%	20.2.2045
Tor Egil Nedrebø, Treasury Director and Branch manager	1,060	127	159	157	140	875	1,212	2,033	1,327	3,495	2,40%	20.2.2040
										83	2,20%	20.8.2017
Ole Bjørn Harang, Sales & Distribution Director	1,332	159	159	203	159	1,098	1,516	2,544	4,247			
Alexander von Hirsch, Marketing Director	1,032	124	159	153	124	853	1,030	1,758	1,282			
Stig Heide, Product Director	1,326	158	159	183	158	1,094	1,535	2,559	2,352	3,650	2,05%	20.10.2043
Rajeev Prabhu, Credit Risk Director	1,965	234	159	180	234	1,622	2,328	3,814	4,243	4,793	1,95%	20.9.2037
Nina Felicity Mydske, Operations Director	1,116	143	159	176	143	904	959	2,104	3,026	1,860	1,95%	20.3.2029
Trond Nyhus, Car Finance Director	1,271	161	154	176	161	557		607	1,306			
Jan Kåre Raae, CEO Gjensidige Bank Boligkreditt AS	980	117	19	142	119	808	1,154	1,909	935			
<b>The Board</b>												
Mats C. Gottschalk, Chair										10,569		
Per Kumlle	167											
Anita Gundersen									1,441			
Hans G. Hanevold									8,023			
Marianne Broholm Einarsen	167											
Hans Jacob Starheim, employee repr. <sup>1</sup>	40								3			
<b>Total for senior executives and the Board</b>	<b>15,571</b>	<b>1,897</b>	<b>1,665</b>	<b>5,193</b>	<b>1,911</b>	<b>12,479</b>	<b>16,237</b>	<b>28,166</b>	<b>48,160</b>	<b>19,706</b>		
<b>General assembly</b>												
Helge Leiro Baastad									43,491			
<b>Total</b>									<b>43,491</b>			

The company pays no other remuneration to the CEO and has not committed itself to giving special consideration to the CEO or chair upon termination of their appointment.

<sup>1</sup>For staff representatives only remuneration for the current position is stated.

## 7. Operating expenses (cont.)

### Declaration from the board regarding salaries and other remuneration

#### Gjensidige Bank ASA remuneration policies

The bank has established a remuneration scheme that applies to all employees. The system shall secure that Gjensidige attracts and keeps colleagues who performs, develops, learns and shares. The remuneration shall be competitive but not leading. Employees are expected to see the remuneration and benefits offered by the Group as an overall whole. The Group's remuneration systems shall be open and performance-based, so that they, as far as possible, are perceived as being fair and predictable. The remuneration that is paid shall correspond to the agreed performance.

Guidelines for remuneration and career development shall be linked to achievement of the Group's strategic and financial goals and core values, and both quantitative and qualitative targets shall be taken into consideration. The measurement criteria shall promote the desired corporate culture and long-term value creation, and, as far as possible, take actual capital costs into account. The remuneration system shall contribute to promoting and providing incentives for good risk management, prevent excessive risk-taking and contribute to avoiding conflicts of interest. A fixed basic salary shall be the main element of the overall remuneration, which also consists of variable pay, pension and payments in kind. Variable remuneration shall be used to reward performances beyond the expected, where both results and behaviour in form of compliance of with the company values, brand and management principles are to be assessed.

Variable remuneration shall be performance-based without being a risk driver, and shall reflect the results and contributions on company, division, department and individual level. Other elements of compensation offered should be considered attractive from both new and current employees.

By decision of which functions of the company that shall be defined as employees with tasks of crucial importance for the company's risk exposure, both qualitative criteria related to the role and quantitative criteria related to the level of remuneration is to be taken into account. There must also be an individual assessment of each employee's impact on company risk.

#### Decision-making process

The Board of Gjensidige Forsikring ASA has established a Remuneration Committee which also covers Gjensidige Bank ASA. The remuneration committee consists of three members; the Chairman of the Board and two board members.

The remuneration committee shall prepare matters for consideration by the Board. It is primarily responsible for:

- Drafting proposals for and following up compliance with the Group's guidelines and framework for remuneration
- Annually considering and proposing the remuneration of the CEO
- Annual considering and drafting proposals for the CEO's score-card
- Acting as adviser to the CEO in connection with the annual assessment of the remuneration of the senior group management

- Considering the management's proposed 'Statement on the stipulation of pay and other remuneration for executive personnel' cf. the Public Limited Liability Companies Act section 6-16a.
- Considering other important personnel matters relating to executive personnel

#### Guidelines for the upcoming financial year Remuneration of the CEO

The CEO's salary and other benefits are stipulated by the Board on the basis of an overall assessment that takes into account Gjensidige's remuneration scheme and market salary for corresponding positions.

The fixed salary is reviewed annually and determined on the basis of developments in society in general and in the financial sector in particular. The variable salary (bonus) is determined by the Board based on agreed objectives and delivery in relation to them. It may not exceed 30 per cent of the fixed salary including holiday pay. Variable remuneration is earned annually and is based on an overall assessment of financial and non-financial performance over the last two years. Variable pay is not included in the pension basis. The assessment takes into account the company's results in the last two years the CEO's personal contribution to the company's core values, development and results. Half of the variable remuneration will be given in the form of shares in Gjensidige Forsikring ASA, where 1/3 is at the employee's disposal in each of the next three years. The variable remuneration can be reduced if subsequent results and developments indicate that it was based on incorrect assumptions. The CEO is not paid performance-based remuneration other than the above-mentioned bonus, but can be given fringe benefits such as a company car and reimbursement of expenses for electronic communications. The granting of such fringe benefits shall be related to the executive function of the company, and otherwise be in line with market practice.

The retirement age for the CEO is 70 years, and he has pension rights in accordance with Gjensidige Bank ASA's defined-contribution pension scheme.

The CEO has a period of notice of six months, and is not entitled to severance pay or termination benefits if he leaves the Company earlier.

#### Remuneration of executive personnel and employees who can materially influence the Group's risk

Remuneration of the senior group management is stipulated by the CEO, in accordance with limits discussed with the remuneration committee and on the basis of guidelines issued by the Board. Correspondingly, Gjensidige Bank's guidelines are used as the basis for other executive personnel and employees who can materially influence risk.

The overall remuneration is decided on the basis of the need to offer competitive terms in the various business areas. It shall contribute to attracting and retaining executive personnel with the desired expertise and experience who promote the Group's core values and development.

The fixed salary is assessed and stipulated annually on the basis of wage growth in society in general and in the financial industry in particular. Variable remuneration (bonus) to executive personnel is earned annually, and is based on an overall assessment of



financial and non-financial performance over the two last years. The assessment takes into account a combination of the enterprise's overall performance targets for return on equity adjusted for extraordinary dividends and transactions and combined ratio, as well as developments in customer satisfaction. In addition, it evaluates the target achievement of the business unit in question, as well as personal contribution relating to compliance with the Group's vision, values, ethical guidelines and management principles. Half of the variable remuneration is in the form of a promise of shares in Gjensidige Forsikring ASA, one third of which are released in each of the following three years. Restricted variable remuneration that has not yet been disbursed may be reduced if subsequent results and developments indicate that it was based on incorrect assumptions.

The variable remuneration (bonus) cannot exceed three months' salary including holiday pay. Variable pay is not included in the pension basis.

After consulting with the remuneration committee, the CEO may make exceptions for special positions if this is necessary to be able to offer competitive terms. Payments in kind to executive personnel shall be related to their function in the Group, and otherwise be in line with market practice.

The Company's executives have a retirement age of 70, except for the Director Distribution whose retirement age is 65 years.

The Director Distribution has a defined benefit pension scheme that has been carried over from previous employment in Gjensidige Forsikring ASA. For other employees, there is a defined contribution plan for salaries up to 12 G (the National Insurance basic amount).

There are currently no employed in Gjensidige Bank whose work can materially influence the company's risk who are not included among senior executives.

#### **Remuneration of personnel with supervisory tasks**

The remuneration of personnel with supervisory tasks shall be independent of the performance of the business area they are in charge of.

None of the executive personnel with supervisory tasks currently has variable bonus schemes, but they get to participate in the collective bonus scheme in the same manner as other employees. The fixed salary is based on the Group's general principles of competitively, but not leading wages.

Pension benefits and payments in kind follow the Group's general arrangement.

Control functions are largely provided by the Group, and, at present, there are no such employees employed by Gjensidige Bank ASA.

#### **Remuneration of elected representatives and other employees with similar remuneration to senior executives**

Remuneration will be in accordance with the above guidelines. The employee representative of Gjensidige Bank ASA is given a wage increase of three pay grades.

#### **Binding guidelines for shares, subscription rights, etc. for the coming financial year**

Of the variable salary in 2017 paid to the CEO and other employees who are covered by the Regulations on remuneration in financial institutions, 50 per cent of gross earned variable pay will be granted in the form of a promise of shares in Gjensidige Forsikring ASA. A third of the shares will be allocated in each of the next three years.

#### **Share savings programme**

The Board has decided to continue the Group's share savings programme for employees in 2018. The CEO and executive personnel are entitled to take part in the programme on a par with other Gjensidige employees. Under the current programme, employees can save through deductions from their salary for the purchase of shares in Gjensidige Forsikring ASA for up to NOK 75,000 per year. Purchases take place quarterly following publication of the results. A discount of 20 per cent of the purchase price is offered, limited upwards to NOK 3,000. For those who keep the shares and are still employed in the Group, one bonus share is awarded for every four share they have owned for more than two years.

#### **Statement concerning the management's remuneration policy in the previous accounting year**

The Board confirms that the guidelines on executive pay for 2017 set out in last year's declaration have been complied with

The Board has decided to pay all full-time employees a bonus of up to NOK 28,200.

## 8. Tax expense

Parent Company			Consolidated	
1.1.-31.12.2016	1.1.-31.12.2017	NOK thousands	1.1.-31.12.2017	1.1.-31.12.2016
71,840	80,895	Tax payable	124,555	93,420
18,753	18,525	Change in deferred tax/tax assets	11,931	30,126
(10,120)	13,475	Other adjustments previous years	16,754	(15,194)
<b>80,474</b>	<b>112,896</b>	<b>Tax expense</b>	<b>153,240</b>	<b>108,351</b>
<b>Reconciliation of tax expense</b>				
328,668	450,968	Profit/ (loss) before tax expense	612,347	428,482
82,167	112,742	Expected tax at nominal tax rate of 25%	153,087	107,120
(3,068)	(3,501)	Tax effect of permanent differences	(3,501)	(3,068)
1,374	3,655	Other adjustments previous years	3,655	4,299
<b>80,474</b>	<b>112,896</b>	<b>Tax expense</b>	<b>153,240</b>	<b>108,351</b>
24%	25%	The average effective tax rate	25%	25%
<b>Deferred tax assets</b>				
Deferred tax assets arising from temporary differences				
4,288	6,060	- Pension liabilities	6,060	4,288
4,810	4,681	- Current assets	4,701	4,837
2,526	(17,644)	- Financial instruments	(17,559)	(3,992)
<b>11,623</b>	<b>(6,902)</b>	<b>Net deferred tax assets</b>	<b>(6,798)</b>	<b>5,133</b>
<b>Net changes in deferred tax assets/ deferred tax through profit or loss are as follows:</b>				
670	1,773	Pension liabilities	1,773	670
(352)	(128)	Current assets	(137)	(367)
(19,072)	(20,169)	Financial instruments	(13,567)	(30,429)
<b>(18,753)</b>	<b>(18,525)</b>	<b>Close of year</b>	<b>(11,931)</b>	<b>(30,126)</b>
<b>Tax payable and deferred tax recognised directly in equity</b>				
(3,431)	(4,174)	Tax payable and deferred tax recognised directly in equity	(4,174)	(3,431)
<b>(3,431)</b>	<b>(4,174)</b>	<b>Total</b>	<b>(4,174)</b>	<b>(3,431)</b>

Deferred tax assets resulting from loss carryforwards are only recognised to the extent that it is probable that they will be realised. Deferred tax assets and deferred tax are offset and the net amount is entered when this is permitted by legislation and the amounts relate to the same tax authority.

## 9. Other assets

Parent Company			Consolidated	
31.12.2016	31.12.2017	NOK thousands	31.12.2017	31.12.2016
24,947	41,438	Earned income not yet received	66,763	46,931
5,119	46,699	Advance payments	47,120	5,535
(1,493)	(928)	Other	(928)	(1,493)
<b>28,572</b>	<b>87,210</b>	<b>Total</b>	<b>112,955</b>	<b>50,973</b>

## 10. Intangible assets

Consolidated NOK thousands	Capitalised project costs	Capitalised software	Goodwill	Total
Cost or adjusted value 1.1.2016	82,062	72,657	1,500	156,219
Acquired		13,746		13,746
Disposed of				
<b>Cost or adjusted value 31.12.2016</b>	<b>82,062</b>	<b>86,403</b>	<b>1,500</b>	<b>169,965</b>
Accumulated depreciation and write-downs 1.1.2016	77,650	61,583		139,232
Depreciation for the year	1,683	7,535		9,218
Write-downs for the year			1,500	1,500
<b>Accumulated depreciation and write-downs 31.12.2016</b>	<b>79,332</b>	<b>69,118</b>	<b>1,500</b>	<b>149,950</b>
<b>Carrying value 31.12.2016</b>	<b>2,730</b>	<b>17,286</b>		<b>20,016</b>
Cost or adjusted value 1.1.2017	82,062	86,403	1,500	169,965
Acquired		19,448		19,448
Disposed of		(72)		(72)
<b>Cost or adjusted value 31.12.2017</b>	<b>82,062</b>	<b>105,779</b>	<b>1,500</b>	<b>189,341</b>
Accumulated depreciation and write-downs 1.1.2017	79,332	69,118	1,500	149,950
Depreciation for the year	1,639	12,553		14,192
Write-downs for the year				
<b>Accumulated depreciation and write-downs 31.12.2017</b>	<b>80,971</b>	<b>81,671</b>	<b>1,500</b>	<b>162,642</b>
<b>Carrying value 31.12.2017</b>	<b>1,091</b>	<b>24,109</b>		<b>25,200</b>
Amortisation method	Straight-line	Straight-line		
Useful life	6-10 years	3 years		

Goodwill is related to the acquisition of business as of 15 December 2009.

## 10. Intangible assets (cont.)

Parent Company NOK thousands	Capitalised project costs	Capitalised software	Goodwill	Total
Cost or adjusted value 1.1.2016	82,062	70,733	1,500	154,295
Acquired		13,746		13,746
Disposed of				
<b>Cost or adjusted value 31.12.2016</b>	<b>82,062</b>	<b>84,479</b>	<b>1,500</b>	<b>168,041</b>
Accumulated depreciation and write-downs 1.1.2016	77,650	59,658		137,308
Depreciation for the year	1,683	7,535		9,218
Write-downs for the year			1,500	1,500
<b>Accumulated depreciation and write-downs 31.12.2016</b>	<b>79,332</b>	<b>67,193</b>	<b>1,500</b>	<b>148,025</b>
<b>Carrying value 31.12.2016</b>	<b>2,730</b>	<b>17,286</b>		<b>20,016</b>
Cost or adjusted value 1.1.2017	82,062	84,479	1,500	168,041
Acquired		19,448		19,448
Disposed of		(72)		(72)
<b>Cost or adjusted value 31.12.2017</b>	<b>82,062</b>	<b>103,855</b>	<b>1,500</b>	<b>187,417</b>
Accumulated depreciation and write-downs 1.1.2017	79,332	67,193	1,500	148,025
Depreciation for the year	1,639	12,553		14,192
Write-downs for the year				
<b>Accumulated depreciation and write-downs 31.12.2017</b>	<b>80,971</b>	<b>79,746</b>	<b>1,500</b>	<b>162,217</b>
<b>Carrying value 31.12.2017</b>	<b>1,091</b>	<b>24,109</b>		<b>25,200</b>
Amortisation method	Straight-line	Straight-line		
Useful life	6-10 years	3 years		

Goodwill is related to the acquisition of business as of 15 December 2009.

## 11. Fixed assets

(Figures relate to Gjensidige Bank ASA as there are no differences between the parent company and Group)

Parent Company NOK thousands	Improvements to leased premises	Machinery, fixtures, fittings and vehicles	Total
Cost or adjusted value 1.1.2016	5,834	4,521	10,354
Acquired		2,080	2,080
Disposed of			
<b>Cost or adjusted value 31.12.2016</b>	<b>5,834</b>	<b>6,600</b>	<b>12,434</b>
Accumulated depreciation and write-downs 1.1.2016	5,834	3,412	9,245
Depreciation for the year		518	518
Write-downs for the year			
<b>Accumulated depreciation and write-downs 31.12.2016</b>	<b>5,834</b>	<b>3,930</b>	<b>9,763</b>
<b>Carrying value 31.12.2016</b>		<b>2,671</b>	<b>2,671</b>
Cost or adjusted value 1.1.2017	5,834	6,600	12,434
Acquired		2,025	2,025
Disposed of			
<b>Cost or adjusted value 31.12.2017</b>	<b>5,834</b>	<b>8,626</b>	<b>14,459</b>
Accumulated depreciation and write-downs 1.1.2017	5,834	3,930	9,763
Depreciation for the year		872	872
Write-downs for the year			
<b>Accumulated depreciation and write-downs 31.12.2017</b>	<b>5,834</b>	<b>4,802</b>	<b>10,636</b>
<b>Carrying value 31.12.2017</b>		<b>3,823</b>	<b>3,823</b>
Useful life	4 years	5 years	

## 12. Interest-bearing securities

Parent Company			Consolidated	
31.12.2016	31.12.2017	NOK thousands	31.12.2017	31.12.2016
548,019	762,643	Short-term government bonds	824,440	587,849
3,042,943	3,849,848	Covered bonds	3,234,675	2,482,226
464,085	898,348	Money market funds and other securities	898,348	464,085
<b>4,055,047</b>	<b>5,510,839</b>	<b>Total</b>	<b>4,957,463</b>	<b>3,534,160</b>
4,055,047	5,510,839	Stock exchange listed securities	4,957,463	3,534,160
		Unlisted securities		
<b>4,055,047</b>	<b>5,510,839</b>	<b>Total</b>	<b>4,957,463</b>	<b>3,534,160</b>

The maximum credit exposure of financial assets for Gjensidige Bank ASA and Gjensidige Bank Group valued at fair value through profit or loss constituted NOK 5,510.8 and 4,957.5 million, respectively, as of 31 December 2017.

## 13. Financial derivatives

Financial derivatives are linked to underlying amounts which are not carried on the balance sheet. In order to quantify the volume of derivatives, reference is made to gross nominal volume and the like.

For interest derivatives, an asset position implies a positive change in value if interest rates are reduced. An asset position in a currency derivative generates a positive change in value if the exchange rate against the NOK sees an increase.

Consolidated NOK thousands 31.12.2017	Gross nominal volume	Carrying amount assets	Carrying amount liabilities
Interest rate swaps	8,525,000	116,433	15,599
Currency swaps	492,450	8,288	673
<b>Total</b>	<b>9,017,450</b>	<b>124,721</b>	<b>16,272</b>

Consolidated NOK thousands 31.12.2016	Gross nominal volume	Carrying amount assets	Carrying amount liabilities
Interest rate swaps	6,210,000	127,684	17,123
Currency swaps	795,350		1,580
<b>Total</b>	<b>7,005,350</b>	<b>127,684</b>	<b>18,703</b>

Parent company NOK thousands 31.12.2017	Gross nominal volume	Carrying amount assets	Carrying amount liabilities
Interest rate swaps	7,075,000	16,094	9,413
Currency swaps	492,450	8,288	673
<b>Total</b>	<b>7,567,450</b>	<b>24,382</b>	<b>10,086</b>

Parent company NOK thousands 31.12.2016	Gross nominal volume	Carrying amount assets	Carrying amount liabilities
Interest rate swaps	4,760,000	10,589	9,946
Currency swaps	795,350		1,580
<b>Total</b>	<b>5,555,350</b>	<b>10,589</b>	<b>11,526</b>

## 14. Loans to and receivables from credit institutions

Parent Company			Consolidated	
31.12.2016	31.12.2017	NOK thousands	31.12.2017	31.12.2016
<b>Loans to and receivables from credit institutions</b>				
58,368	194,563	Loans and receivables without an agreed term to maturity	120,270	58,368
2,754,762	3,267,694	Loans and receivables with an agreed term to maturity	80,227	4,618
<b>2,813,131</b>	<b>3,462,258</b>	<b>Gross loans to and receivables from credit institutions</b>	<b>200,496</b>	<b>62,987</b>
Write-downs on loans that have been individually tested for impairment				
Write-downs on loans that have been collectively tested for impairment				
<b>2,813,131</b>	<b>3,462,258</b>	<b>Net loans to and receivables from credit institutions</b>	<b>200,496</b>	<b>62,987</b>
<b>Liabilities to credit institutions</b>				
277,585	496,271	Loans and deposits from credit institutions without agreed terms or notice periods		
303,629	308,184	Loans and deposits from credit institutions with agreed terms or notice periods		
<b>581,214</b>	<b>804,455</b>	<b>Debt to credit institutions</b>		

## 15. Loans to and receivables from customers

Parent Company			Consolidated	
31.12.2016	31.12.2017	NOK thousands	31.12.2017	31.12.2016
<b>Loans to and receivables from customers</b>				
Loans and receivables without an agreed term to maturity				
22,987,028	24,950,607	Loans and receivables with an agreed term to maturity	46,056,133	41,249,510
<b>22,987,028</b>	<b>24,950,607</b>	<b>Gross loans to and receivables from customers</b>	<b>46,056,133</b>	<b>41,249,510</b>
(9,014)	(11,223)	Write-downs on loans that have been individually reviewed for impairment	(11,223)	(9,014)
(372,077)	(168,134)	Write-downs on loans that have been collectively reviewed for impairment	(169,053)	(378,537)
<b>22,605,937</b>	<b>24,771,250</b>	<b>Net loans to and receivables from customers</b>	<b>45,875,857</b>	<b>40,861,959</b>

## 16. Loans by geographic area

Parent Company					Consolidated				
31.12.2016		31.12.2017		NOK thousands	31.12.2017		31.12.2016		
Loans	Per cent	Loans	Per cent		Loans	Per cent	Loans	Per cent	
				Loans by region					
3,663,229	15.9%	3,881,637	15.6%	Oslo	9,052,778	19.7%	8,256,589	20.0%	
3,297,708	14.3%	3,680,217	14.8%	Akershus	8,049,314	17.5%	7,222,720	17.5%	
5,769,556	25.1%	6,268,104	25.1%	Eastern Norway	10,136,235	22.0%	8,866,509	21.5%	
732,097	3.2%	828,460	3.3%	Southern Norway	1,205,837	2.6%	1,058,677	2.6%	
5,454,409	23.7%	5,712,611	22.9%	Western Norway	9,846,205	21.4%	9,073,141	22.0%	
2,392,816	10.4%	2,637,178	10.6%	Central Norway	4,782,887	10.4%	4,217,048	10.2%	
1,628,060	7.1%	1,899,170	7.6%	Northern Norway, Svalbard	2,890,738	6.3%	2,457,957	6.0%	
49,153	0.2%	43,230	0.2%	Abroad	92,138	0.2%	96,868	0.2%	
<b>22,987,028</b>	<b>100.0%</b>	<b>24,950,607</b>	<b>100.0%</b>	<b>Total gross loans by geographic area</b>	<b>46,056,133</b>	<b>100.0%</b>	<b>41,249,510</b>	<b>100.0%</b>	

### Loans by sector and industry

Consolidated NOK thousands	Gross loan		Individual write-downs		Group write-downs		Net loans	
	2017	2016	2017	2016	2017	2016	2017	2016
Private individuals	44,591,821	40,529,975	(8,175)	(6,787)	(163,781)	(373,385)	44,419,864	40,149,803
Commercial business	1,464,313	719,535	(3,048)	(2,228)	(5,272)	(5,151)	1,455,994	712,156
<b>Total loans by sector and industry</b>	<b>46,056,133</b>	<b>41,249,510</b>	<b>(11,223)</b>	<b>(9,014)</b>	<b>(169,053)</b>	<b>(378,537)</b>	<b>45,875,857</b>	<b>40,861,959</b>

### Loans by sector and industry

Parent Company NOK thousands	Gross loan		Individual write-downs		Group write-downs		Net loans	
	2017	2016	2017	2016	2017	2016	2017	2016
Private individuals	23,486,294	22,267,493	(8,175)	(6,787)	(162,862)	(366,926)	23,315,256	21,893,781
Commercial business	1,464,313	719,535	(3,048)	(2,228)	(5,272)	(5,151)	1,455,994	712,156
<b>Total loans by sector and industry</b>	<b>24,950,607</b>	<b>22,987,028</b>	<b>(11,223)</b>	<b>(9,014)</b>	<b>(168,134)</b>	<b>(372,077)</b>	<b>24,771,250</b>	<b>22,605,937</b>



## 17. Finance leases

Gjensidige Bank ASA presents finance leases as loans to and receivables from customers. The lease agreements only concern cars.

The figures all refer to Gjensidige Bank ASA . Gjensidige Bank Boligkreditt AS does not engage in finance leasing.

NOK thousands	31.12.2017	31.12.2016
<b>Gross investment in finance leases, receivable:</b>		
Less than 1 year	230,569	78,457
1 - 5 years	518,964	268,567
More than 5 years	1,242	609
Total	750,775	347,633
Unearned finance income	(41,942)	(22,908)
<b>Net investment in finance leases</b>	<b>708,833</b>	<b>324,725</b>
<b>Net investment in finance leases, receivable:</b>		
Less than 1 year	212,583	69,267
1 - 5 years	495,008	254,849
More than 5 years	1,242	609
<b>Net investment in finance leases</b>	<b>708,833</b>	<b>324,725</b>
Non-guaranteed residual values accruing to the benefit of the lessor		
Accumulated allowance for uncollectible minimum lease payments receivable		
Contingent rents recognised as income in the period		

## 18. Write-downs and losses on loans

### Reconciliation of individual and group write-downs on loans and receivables

Parent Company			Consolidated	
31.12.2016	31.12.2017	NOK thousands	31.12.2017	31.12.2016
<b>Write-downs and losses for the period</b>				
25,614	(203,943)	+/- Change in group write-downs for the period	(209,484)	25,614
2,906	2,209	+/- Change in individual write-downs for the period	2,906	2,906
49	805	+ Losses on loans previously individually written down	805	49
48,988	227,624	+ Losses on loans not previously individually written down	227,624	48,988
(8,102)	(10,826)	- Payments on previously written-off accounts	(10,826)	(8,102)
<b>69,455</b>	<b>15,868</b>	<b>Write-downs and losses for the period</b>	<b>11,026</b>	<b>69,455</b>
<b>Individual write-downs</b>				
6,131	9,014	Individual write-downs at the start of the period	9,014	6,131
(20)	(1,029)	- Reversal of previous individual write-downs on written-off accounts	(1,029)	(20)
350	555	+Increase in write-downs	555	350
6,699	6,768	+New write-downs	6,768	6,699
(4,146)	(4,085)	-Reversal of previous write-downs	(4,085)	(4,146)
<b>9,014</b>	<b>11,223</b>	<b>Individual write-downs at the end of period</b>	<b>11,222</b>	<b>9,014</b>
<b>Group write-downs</b>				
346,464	372,077	Group write-downs at the start of the period	378,537	352,923
25,614	(203,943)	+/- Change in group write-downs for the period	(209,484)	25,614
<b>372,077</b>	<b>168,134</b>	<b>Group write-downs at the end of the period</b>	<b>169,053</b>	<b>378,537</b>
<b>381,091</b>	<b>179,356</b>	<b>Total write-downs at the end of the period</b>	<b>180,275</b>	<b>387,550</b>
<b>Defaulted loans</b>				
396,956	251,719	Gross default over 90 days	254,362	399,512

Parent Company			Consolidated	
31.12.2016	31.12.2017	NOK thousands	31.12.2017	31.12.2016
<b>Losses by sector and industry</b>				
64,632	14,928	Private individuals	10,085	64,632
4,823	940	Commercial business	940	4,823
<b>69,455</b>	<b>15,868</b>	<b>Total losses by sector and industry</b>	<b>11,026</b>	<b>69,455</b>

## 19. Customer deposits

NOK thousands	31.12.2017		31.12.2016	
	Deposits	Per cent	Deposits	Per cent
Deposits from/ debt to customers w/o agreed term to maturity	17,365,029	73.1%	16,614,657	78.1%
Deposits from/ debt to customers with agreed term to maturity	6,400,640	26.9%	4,655,695	21.9%
<b>Total</b>	<b>23,765,670</b>	<b>100.0%</b>	<b>21,270,352</b>	<b>100.0%</b>
Average interest rate 31.12		1.2%		1.3%
Deposits covered by deposit guarantee	15,872,762	66.8%	15,369,690	72.3%
<b>Deposits by sector and industry</b>				
Retail market	16,447,371	69.2%	16,114,844	75.8%
Other	7,318,298	30.8%	5,155,508	24.2%
<b>Total deposits by sector and industry</b>	<b>23,765,670</b>	<b>100.0%</b>	<b>21,270,352</b>	<b>100.0%</b>
<b>Deposits by region</b>				
Oslo	5,599,560	23.6%	4,281,487	20.1%
Akershus	3,927,320	16.5%	3,545,397	16.7%
Eastern Norway	4,776,695	20.1%	4,382,914	20.6%
Southern Norway	500,379	2.1%	435,856	2.0%
Western Norway	5,942,618	25.0%	5,766,365	27.1%
Central Norway	1,725,630	7.3%	1,647,324	7.7%
Northern Norway, Svalbard	1,193,842	5.0%	1,133,403	5.3%
Abroad	99,625	0.4%	77,605	0.4%
<b>Total deposits by region</b>	<b>23,765,670</b>	<b>100.0%</b>	<b>21,270,352</b>	<b>100.0%</b>

The parent company's total deposit is NOK 24,073.9 million. NOK 308.2 million relating to the subsidiary Gjensidige Bank Boligkreditt AS have been eliminated in the consolidated financial statements.

## 20. Liabilities opened for the issue of securities

Parent Company			Consolidated	
31.12.2016	31.12.2017	NOK thousands	31.12.2017	31.12.2016
<b>Liabilities opened for the issue of securities</b>				
4,077,558	3,368,173	Bond debt <sup>1</sup>	18,206,619	16,721,471
449,684	449,761	Subordinated debt	449,761	449,684
(299,955)	(280,584)	- Own non-amortised certificates/bonds	(280,584)	(299,955)
<b>4,227,287</b>	<b>3,537,350</b>	<b>Total liabilities opened for the issue of securities</b>	<b>18,375,796</b>	<b>16,871,200</b>
<b>Liabilities opened for the issue of securities</b>				
1,615,083	3,613,161	Bond debt <sup>1</sup>	5,157,338	3,174,970
<b>1,615,083</b>	<b>3,613,161</b>	<b>Total liabilities included in fair value hedge</b>	<b>5,157,338</b>	<b>3,174,970</b>
<b>Liabilities opened for the issue of securities</b>				
Bond debt				
<b>Total liabilities at fair value</b>				
<b>5,842,371</b>	<b>7,150,511</b>	<b>Total liabilities opened for the issue of securities</b>	<b>23,533,134</b>	<b>20,046,170</b>

<sup>1</sup>Minus covered bonds held by Gjensidige Bank ASA issued by Gjensidige Bank Boligkreditt AS with a nominal value of NOK 689.0 million as of 31 December 2017. The cover pool market value was NOK 884.0 million.

The bank considers that changes in the value of the debt securities come from general changes in credit spreads and risk-free rate in the financial market.

The method used to assess the specific credit risk is to compare the pricing / credit spreads on the bank's commercial paper and bond debt with the pricing / credit spreads of other Norwegian certificate / bond equivalent issuers.

## 21. Liabilities from financing activities

Consolidated NOK thousands	31.12.2016	Cash flow	Non cash flow			31.12.2017
			Acquisitions	Exchange rate changes	Fair value changes	
Liabilities opened for the issue of securities	19,596,485	3,513,995		(41,848)	14,741	23,083,373
Subordinated debt	449,684				77	449,761
Perpetual Tier 1 capital	299,071	69,825			702	369,599
<b>Total liabilities from financing activities</b>	<b>20,345,241</b>	<b>3,583,820</b>		<b>(41,848)</b>	<b>15,520</b>	<b>23,902,733</b>

Parent Company NOK thousands	31.12.2016	Cash flow	Non cash flow			31.12.2017
			Acquisitions	Exchange rate changes	Fair value changes	
Liabilities to credit institutions	277,585	218,686				496,271
Liabilities opened for the issue of securities	21,573,981	2,542,690		(41,848)	(969)	24,073,853
Subordinated debt	449,684				77	449,761
Perpetual Tier 1 capital	299,071	69,825			702	369,599
<b>Total liabilities from financing activities</b>	<b>22,600,322</b>	<b>2,831,201</b>		<b>(41,848)</b>	<b>(189)</b>	<b>25,389,485</b>

## 22. Hedge accounting

The bank's criteria for classifying a derivative as a hedging instrument are as follows:

1. When entering into a hedge, the correlation between the hedge instrument and the hedged object is documented. In addition the hedge's goal and strategy is documented.
2. The hedge is expected to be highly effective by offsetting changes in the fair value of an identified object.
3. The effectiveness of the hedge can be reliably measured.
4. There is adequate documentation when entering into a hedge that, among other things, shows that the hedging is effective.
5. The hedge is evaluated regularly and has proven to be effective for the accounting period, i.e. within the range 80-125 per cent.

### Fair value hedges

The bank uses fair value hedges to manage its interest rate risk. Hedging is carried out to hedge against fluctuations in the value of issued fixed rate bonds due to changes in interest rates. Interest rate swaps designated as hedging instruments are measured at fair value, and changes in fair value are recognised in the income statement. For the hedged item, the fixed rate bond, the change in fair value attributable to the hedged risk is accounted for as an addition to or deduction from the carrying value in the balance sheet and in the income statement.

If the hedge ceases, value changes in the carrying value of the hedged item are amortised over the remaining life using the effective interest method if the hedging instrument is a financial instrument recognised using the effective interest method.

#### Fair value interest rate risk

To hedge exposure to changes in the fair value of financial instruments with a fixed interest rate, the bank uses interest rate swaps. The fair value of derivatives included in the fair value hedge are as follows:

Parent Company			Consolidated	
31.12.2016	31.12.2017	NOK thousands	31.12.2017	31.12.2016
<b>Instrument:</b>				
15,068	13,017	Interest rate swap	107,170	124,985
<b>15,068</b>	<b>13,017</b>	<b>Total</b>	<b>107,170</b>	<b>124,985</b>

#### Gains (losses) on fair value hedges

Gain (loss) on hedging instruments and hedged items designated in fair value hedges are as follows:

Parent Company			Consolidated	
31.12.2016	31.12.2017	NOK thousands	31.12.2017	31.12.2016
<b>Hedging instrument:</b>				
(12,241)	(6,477)	Interest rate swap	(17,419)	(35,183)
<b>Hedge item:</b>				
12,870	6,434	Bond debt	17,308	35,882
<b>629</b>	<b>(42)</b>	<b>Total</b>	<b>(111)</b>	<b>700</b>

#### Hedge effectiveness

The hedge is evaluated regularly and has proven to be effective for the accounting period, i.e. within the range 80-125%

Parent Company			Consolidated	
31.12.2016	31.12.2017	Per cent	31.12.2017	31.12.2016
103-107%	103-113%	Hedge effectiveness - prospektiv	102-113%	101-107%
99-102%	95-104%	Hedge effectiveness - retrospektiv	95-104%	99-102%

## 23. Subordinated debt

Name	FRN Gjensidige Bank ASA 2014/2024 SUB	Gjensidige Bank ASA 2015/2025 FRN C SUB	Gjensidige Bank ASA 2016/2026 FRN C SUB
ISIN	NO0010713118	NO0010735715	NO00010765027
Issuer	Gjensidige Bank AS	Gjensidige Bank AS	Gjensidige Bank AS
Principal amount	250	100	100
Currency	NOK	NOK	NOK
Issue date	17.6.2014	21.5.2015	19.5.2016
Maturity date	17.6.2024	21.5.2025	19.5.2026
Next call date	17.6.2019	22.5.2020	19.5.2021
Interest rate	NIBOR 3M + 1,55%	NIBOR 3M + 1,65%	NIBOR 3M + 2,55%
<b>General terms:</b>			
Regulatory regulation	CRD IV	CRD IV	CRD IV
Regulatory call	Yes	Yes	Yes
Conversion right	No	No	No

## 24. Provisions and other liabilities

Parent Company			Consolidated	
31.12.2016	31.12.2017	NOK thousands	31.12.2017	31.12.2016
(73)	199	Accounts payable	199	(73)
(1,974)	(1,419)	Liabilities to public authorities	(1,345)	(1,910)
20,452	62,587	Other liabilities	62,587	20,452
59,757	47,399	Accrued interest expenses	95,369	107,785
10,238	11,950	Accrued personnel cost	12,078	10,357
(11,121)	719	Other accrued expenses and deferred income	(3,776)	(16,277)
<b>77,279</b>	<b>121,434</b>	<b>Total other liabilities</b>	<b>165,111</b>	<b>120,334</b>

## 25. Pensions

Gjensidige Bank ASA is required to have an occupational pension plan pursuant to the Norwegian Act relating to Mandatory Occupational Pensions. The Company's pension plans meet the requirements of the Act.

Gjensidige has both defined contribution and defined benefit plans for its employees. The defined benefit plan has been placed in a separate pension fund and is closed to new employees. New employees become members of the defined contribution pension plan.

### Defined contribution plan

Defined contribution pension is a private pension plan that supplements the National Insurance scheme. Benefits from the pension plan come in addition to retirement pension from the National Insurance scheme. The retirement age is 70.

The defined contribution plan is a post-employment benefit plan under which Gjensidige pays fixed contributions into a separate entity and there is no legal or constructive obligation to pay further amounts.

Disability pension, spouse/cohabitant pension and child's pension are also included in the plan subject to more detailed rules.

With effect from and including 2016, Gjensidige Bank ASA changed its contribution rates and cut-off point as an adaptation to the new Act relating to Company Pension Schemes. The new rates are 7 per cent of earnings between 0 and 7.1 times the National Insurance basic amount (G) and 20 per cent of earnings between 7.1 and 12 G.

Gjensidige Bank ASA has a defined contribution pension plan corresponding to the plan in Gjensidige Forsikring in Norway.

### Defined benefit plan

#### Description of the plan

Together with benefits from the National Insurance scheme and any paid-up policies from former employment relationships, the retirement pension amounts to approximately 70 per cent of final salary given a full earning period of 30 years. The retirement age is 70.

The defined benefit plan is a post-employment benefit plan that entitles employees to contractual future pension benefits.

Disability pension, spouse/cohabitant pension and child's pension are also included in the plan subject to more detailed rules.

In addition, Gjensidige has pension liabilities to some employees over and above the ordinary group pension agreement. This applies to employees with a lower retirement age, employees who earn more than 12 times the National Insurance basic amount (G) and supplementary pensions.

The ordinary retirement pension is a funded plan where the employer contributes payments to pension funds. Pension over and above the common collective agreement is an unfunded plan paid for from operations.

With effect from 2016, Gjensidige removed the clause concerning CPI indexing of current pensions. This was recognised as a plan change in the accounts. Income in the amount of approximately NOK 2.2 million was recognised in the pension expense and the pension liability was reduced correspondingly.

### Actuarial assumptions

Actuarial assumptions are shown in the table. The assumption that has the greatest impact on the value of the pension liability. Wage growth, pension increases and the adjustment of the National Insurance basic amount are based on historical observations and expected future inflation. Wage growth is set at 3.1 per cent, like the year before, and is adjusted for age based on a decreasing trend. The year-on-year nominal wage growth 2017/18 is calculated to be 1.5 per cent, similar to last year. The reason for the low wage growth is that the pension plan is closed to new members and that the average age of employee members is 56.6 years.

The discount rate is based on a yield curve stipulated on the basis of the covered bond yield. The discount rate is based on observed interest approximately ten years ahead. The market's long-term view of the interest rate level is estimated on the basis of the required real interest rate, inflation and future credit risk. An interpolation has been made in the period between the observed interest and long-term market expectations.

Gjensidige uses GAP07, which is a dynamic mortality model that takes account of the expected development in life expectancy. The assumptions on which the model is based are tested at regular intervals.

The sensitivity analysis is based on only one assumption being changed at a time, while all the others remain constant. This is seldom the case, since several of the assumptions co-vary. The sensitivity analysis has been prepared using the same method as the actuarial calculation on which the pension liability in the balance sheet is based.

### Risk

The risk in the net pension liability is a combination of the pension plan itself, the pension liability, pension assets, financing level and the co-variation between pension liabilities and pension assets.

Gjensidige is exposed to financial risk since the pension assets are managed in Gjensidige Pensjonskasse as an investment choice portfolio. The financial risk is related to investments in equities, interest-bearing securities and property. Most of the investments are in securities funds and bonds. The financial risk comprises stock market, interest rate, credit, currency and liquidity risk, whereas the greatest risk factor is interest rate risk. Financial risk in pension assets is estimated using defined stress parameters for each asset class and assumptions about how the development of the different asset classes will co-vary.

### Interest rate risk

The pension assets' exposure to interest rate risk is deemed to be moderate because the market value-weighted duration is approximately 2.5 years. The portfolio value will fall by approximately 2.5 per cent in the event of a parallel shift in the yield curve of plus one percentage point.



## 25. Pensions (cont.)

The pension liabilities are exposed to interest rate risk. The discount rate is composed of market interest rates for 10 years, while, from year 20, it is based on long-term equilibrium interest rates, and between year 10 and year 20, it is interpolated linearly between market interest rates and long-term equilibrium interest rates. A shift in the market interest rates will thereby directly affect the value of the cash flows until year 10 and then have a falling effect for the next 10 years. From year 20, the market interest rates will only have a marginal effect.

An interest rate fall is the biggest risk, due to the long duration of the liability. The pension liability will increase by 7.6 per cent in the event of a parallel shift in the whole yield curve of minus one percentage point. The value will fall by 6.2 per cent in the event of an interest rate increase of one percentage point.

Because of the relationship between pension liabilities and pension assets, Gjensidige has an asset ceiling, since not all pension assets can be used to pay future premiums. This means that the effect of a decrease in the interest rate will be limited to liabilities attributable to current employees and that liabilities attributable to retired employees will remain relatively unchanged. An interest rate fall is the biggest risk, due to the long duration of the liability. An increase in the interest rate leads to a fall in the pension liabilities, but much of the fall will lead to a potential pension increase. 32 per cent of the pension assets are attributable to current employees. With time, however, employees will represent an increasingly lower proportion of the pension assets as a result of employees leaving or retiring. A greater proportion of the return will thereby go to retired and former employees, and less to the employer. This has been incorporated in the asset ceiling assessment.

### Credit risk

The pension assets' exposure to credit risk is deemed to be moderate. The credit risk is managed by setting limits on the biggest commitment and rating for individual investments. Most of the pension fund's fixed-income investments shall be within "investment grade". Over five per cent of the pension fund's interest rate investments have a weaker rating than BBB. Unrated bonds amount to 37 per cent. If the credit risk on a global basis were to increase by a factor corresponding to the factor used in stress tests for pension funds (equal to a deterioration in relation to the 99.5 percentile), this would lead to a fall of approximately ten per cent in the bond portfolio. This corresponds to an average widening of spreads of 2.1 per cent.

The pension liabilities are exposed to some credit risk because the Norwegian covered bond yield, which forms the basis for determining the discount rate, entails a certain credit risk.

The credit mark-up (on ten-year swaps) at 31 December 2017 was 0.52 per cent.

Based on the same stress tests as for the pension assets, the liabilities would decrease by approximately 11.7 per cent based on a widening of spreads of 0.9 per cent.

In total, the reduction in the liabilities would be slightly higher than the fall in the value of the pension assets.

### Life expectancy and disability

The life expectancy assumptions are based on the K2013BE table as reported by FNO (Finans Norge) AS. Previously, GAP07 was used.

In 2017 there was information that suggested that GAP07 should be changed. K2013BE is a life expectancy estimate used by most enterprises. However, these assumptions must be followed up annually.

The rate of disability is based on the IR73 table. This measures long-term disability. The incidence of disability is low compared to many other employers.

Gjensidige's employees could be involved in big disaster-like events such as plane crashes, bus crashes, as spectators at sporting events or through incidents in the workplace. If such an event occurs, the pension liability could significantly increase. Gjensidige has invested in disaster insurance that means that it will receive compensation if such an event occurs.

### Wage growth

Future pension benefits depend on future wage growth and the development of the National Insurance basic amount (G). If wage growth in the Company is lower than the increase in G, the benefits will be reduced. Gjensidige assumes that wage growth is age-dependent. A younger employee can expect higher annual wage growth than an older employee. This means that wage growth depends on age.

Wage growth will deviate from the path defined by employees getting higher or lower wage growth than what the job indicates.

Gjensidige manages employees' wage growth based on collective agreements and individual agreements. Salary levels can increase from one year to the next.

If wage growth is one per cent higher, it will lead to a 3.8 per cent increase in the liability. An increase in real wages will increase the liabilities. An increase in inflation will increase wages and pension plans and discount rates and the liabilities will to a small extent change.

### Minimum requirement for the level of pension assets

The pension assets must meet certain minimum requirements defined in Norwegian laws, regulations and in orders issued by the Financial Supervisory Authority of Norway.

If the level of the pension assets falls below a lower limit, Gjensidige will have to pay extra pension contributions to bring them up to the lower limit. On certain conditions, Gjensidige will also be repaid pension assets.

A number of amendments to the Norwegian regulations were proposed in 2016. The amendments have not been adopted yet. One of the proposed amendments is to make pension assets in the pension fund subject to a funding requirement in line with Solvency II. The level of the pension assets is entering a period of political risk.

## 25. Pensions (cont.)

In 2013, the pension fund was required to use a life expectancy assumption that deviates significantly from the life expectancy assumptions used in accordance with IAS 19. This order increased the minimum requirement for pension funds. Gjensidige expects the minimum requirement to remain unchanged over the next few years.

Low interest rates can lead to the Financial Supervisory Authority instructing the pension fund to lower interest rates from 2 per cent to 1.5 per cent, or 1 per cent for new earned benefits. Gjensidige expects there to be a high risk of the interest rates being reduced to 1 per cent if long-term government bond yields remain at the 1.3 per cent level.

Gjensidige assumes that a continued low interest rates in future and changes in EU based rules could entail an increase in future contributions to the funded pension plan.

### Private collective pension (AFP)

As a member of Finance Norway, Gjensidige has a collective (AFP) pension agreement for its employees. AFP is a defined benefit scheme funded jointly by many employers.

The administrator of the pension plan has not presented calculations that allocate the pension assets or liabilities in the plans to the individual member enterprises. Gjensidige therefore recognises the plan as a defined contribution plan.

If the administrator of the AFP plan presents such allocation figures, this could result in the plan being recognised as a defined benefit plan. It is difficult, however, to arrive at an allocation key that is acceptable to Gjensidige. An allocation key based on the Gjensidige's share of total annual pay will not be acceptable since such a key is too simple and will not adequately reflect the financial liabilities.

## 25. Pensions (cont.)

NOK thousands	2017	2016
<b>Present value of the defined benefit obligation</b>		
At 1.1.	20,729	17,730
Current service cost	3,918	3,795
Employer's National Insurance contribution on current service cost	748	535
Interest cost	574	496
Past service costs		(2,216)
Actuarial gains and losses	2,348	390
Employer's National Insurance contribution on benefits paid	(78)	
<b>At 31.12.</b>	<b>28,238</b>	<b>20,729</b>
<b>Amount recognised in the balance sheet</b>		
Present value of unfunded plans	23,710	16,801
Present value of funded plans	4,528	3,928
<b>Present value of the defined benefit obligation</b>	<b>28,238</b>	<b>20,729</b>
Fair value of plan assets	(3,996)	(3,578)
<b>Net defined benefit obligation</b>	<b>24,242</b>	<b>17,151</b>
<b>Net pension liability in the balance sheet</b>	<b>24,242</b>	<b>17,151</b>
<b>Fair value of plan assets</b>		
At 1.1.	3,578	3,260
Expected return on plan assets	99	95
Actuarial gains and losses	(91)	222
Contributions by plan participants	489	
Employer's National Insurance contribution on benefits paid	(78)	
<b>At 31.12.</b>	<b>3,996</b>	<b>3,578</b>
<b>Remeasurements of the net defined benefit liability/asset recognised in other comprehensive income</b>		
Current service cost	3,918	3,795
Interest cost	574	496
Expected return on plan assets	(99)	(95)
Past service costs		(2,216)
Employer's National Insurance contributions	748	535
<b>Total defined benefit pension cost</b>	<b>5,141</b>	<b>2,514</b>
<b>The expense is recognised in the following line in the income statement</b>		
Total operating expenses	5,141	2,514
<b>Actuarial gains and losses recognised in other comprehensive income</b>		
Cumulative amount at 1.1.	(3,806)	(3,974)
Recognised during the period	2,439	168
<b>Cumulative amount at 31.12.</b>	<b>(1,367)</b>	<b>(3,806)</b>
<b>Per cent</b>	<b>2017</b>	<b>2016</b>
<b>Actuarial assumptions</b>		
Discount rate	2.57%	2.77%
Expected return on plan assets	3.10%	3.10%
Change in National Insurance basic amount	3.10%	3.10%
Future pension increases	0.00%	0.00%

## 25. Pensions (cont.)

NOK thousands	2017	2016
<b>Other specifications</b>		
Amount recognised as expense for the defined contribution plan	9,555	8,051
Amount recognised as expense for Fellesordningen LO/NHO	1,658	1,535
Expected contribution to Fellesordningen LO/NHO next year	1,800	1,600
Expected contribution to the defined benefit plan for the next year	100	100
	<b>Change in pension benefits 2017</b>	<b>Change in pension benefits 2016</b>
<b>Per cent</b>		
<b>Sensitivity</b>		
10% increased mortality	(1.7%)	(3.4%)
10% decreased mortality	1.3%	2.5%
+ 1% point discount rate	(6.2%)	(9.2%)
- 1% point discount rate	7.6%	11.1%
+1% point salary adjustment	3.5%	2.4%
- 1% point salary adjustment	(1.7%)	(2.2%)
+ 1% point National Insurance basic amount	(0.3%)	(0.6%)
- 1% point National Insurance basic amount	1.7%	0.4%
+ 1% point future pension increase	5.8%	9.2%
- 1% point future pension increase	0.0%	0.0%

NOK thousands	2017	2016	2015	2014	2013
<b>Historical information</b>					
Present value of the defined benefit obligation	28,238	20,729	17,730	17,037	12,228
Deficit in the plan	3,996	3,578	3,260	3,196	2,588
<b>Cumulative amount at 31.12.</b>	<b>24,242</b>	<b>17,151</b>	<b>14,470</b>	<b>13,840</b>	<b>9,640</b>

Valuation hierarchy NOK thousands	Level 1: Quoted prices in active markets	Level 2: Valuation techniques based on observable market data	Level 3: Valuation techniques based on non-observable market data	Total as of 31.12.2017
Shares and similar interests		500		500
Bonds	2,845	332		3,177
Bank		140		140
Derivatives		180		180
<b>Total</b>	<b>2,845</b>	<b>1,151</b>		<b>3,996</b>

Valuation hierarchy NOK thousands	Level 1: Quoted prices in active markets	Level 2: Valuation techniques based on observable market data	Level 3: Valuation techniques based on non-observable market data	Total as of 31.12.2016
Shares and similar interests		86		86
Bonds	2,633	751		3,384
Bank		93		93
Derivatives		14		14
<b>Total</b>	<b>2,633</b>	<b>944</b>		<b>3,578</b>

## 26. Perpetual Tier 1 capital

Perpetual Tier 1 capital instruments are perpetual but the bank can repay the capital on specific dates, for the first time five years after it was issued. The interest rate to be paid is floating 3-month NIBOR plus a fixed credit spread.

The agreed terms for the instruments meet the requirements in the EU's CRR regulations and it is included in the bank's Tier 1 capital for capital adequacy purposes. This means that the bank has a unilateral right not to repay interest or the principal to the

investors. As a consequence of these terms, the instruments does not meet the requirement for a liability in IAS 32 and are therefore presented on the line perpetual Tier 1 capital under equity. Further, it implies that the interest is not presented under total interest expenses but as a reduction in other equity. Correspondingly, seen in isolation, the benefit of the tax deduction for the interest will lead to an increase in other equity and not be presented as a deduction under the line tax expense, since it is the shareholder who benefits from the tax deduction.

Name	Gjensidige Bank ASA 15/PERP FRN C HYBRID	Gjensidige Bank ASA 15/PERP FRN C HYBRID	Gjensidige Bank ASA 17/PERP FRN C HYBRID
ISIN	NO0010735707	NO0010744295	NO0010797509
Issuer	Gjensidige Bank ASA	Gjensidige Bank ASA	Gjensidige Bank ASA
Principal amount	150	150	70
Currency	NOK	NOK	NOK
Issue date	21.05.2015	15.09.2015	20.06.2017
Maturity date	Perpetual	Perpetual	Perpetual
Next call date	22.05.2020	15.09.2020	20.06.2022
Interest rate	NIBOR 3M + 3.15%	NIBOR 3M + 3.40%	NIBOR 3M + 3.20%
<b>General terms:</b>			
Regulatory regulation	CRD IV	CRD IV	CRD IV
Regulatory call	Yes	Yes	Yes
Conversion right	No	No	No

## 27. Fair value of financial instruments

### Method used to calculate the fair value of financial instruments

Financial instruments measured at fair value (incl. financial instruments available for sale).

#### Fair value

Financial assets and liabilities measured at fair value are carried at the amount each asset/liability can be settled for in an orderly transaction between market participants on the measurement date. Different valuation techniques and methods are used to estimate fair value, depending on the type of financial instruments and the extent to which they are traded in active markets. Instruments are classified in their entirety in one of three valuation levels in a hierarchy on the basis of the lowest level input that is significant to the fair value measurement in its entirety. Prices quoted in active markets are considered to be the best estimate of an asset/liability's fair value. When quoted prices in active markets are not available, the fair value of financial assets/ liabilities will preferably be estimated on the basis of valuation techniques based on observable market data. When neither quoted prices in active markets nor observable market data are available, the fair value of financial assets/liabilities is estimated based on valuation techniques that are based on non-observable market data. For assets and liabilities for which amortised cost and fair value are virtually identical, book values and the fair value are presented with identical amounts.

#### Quoted prices in active markets

Quoted prices in active markets are considered the best estimate of an asset/liability's fair value. A financial asset/liability is considered valued based on quoted prices in active markets if fair value is estimated based on easily and regularly available prices and these prices represent actual and regularly occurring transactions at arm's length principle. Financial assets/liabilities valued based on quoted prices in active markets are classified as level one in the valuation hierarchy.

#### Valuation based on observable market data

When quoted prices in active markets are not available, the fair value of financial assets/ liabilities is preferably estimated on the basis of valuation techniques based on observable market data. A financial asset/liability is considered valued based on observable market data if fair value is estimated with reference to prices that are not quoted, but are observable either directly (as prices) or indirectly (derived from prices). Financial assets/liabilities valued based on observable market data are classified as level two in the valuation hierarchy.

#### Valuation based on non-observable market data

When neither quoted prices in active markets nor observable market data is available, the fair value of financial assets/ liabilities is estimated based on valuation techniques which are based on non-observable market data. A financial asset/

liability is considered valued based on non-observable market data if fair value is estimated without being based on quoted prices in active markets or observable market data. Financial assets/liabilities valued based on non-observable market data are classified as level three in the valuation hierarchy.

#### Sensitivity financial assets level three

The sensitivity analysis for financial assets that are valued on the basis of non-observable market data shows the effect on profits of realistic and plausible market outcomes. General market downturns or a worsening of the outlook can affect expectations of future cash flows or the applied multiples, which in turn will lead to a reduction in value. A fall in value of ten per cent is deemed to be a realistic and plausible market outcome for shares and similar interests, as well as bonds and other securities with a fixed return that are included in level three of the valuation hierarchy.

#### Financial instruments measured at amortised cost

Market prices are used to price loans and receivables from credit institutions and loans to customers. The value of loans that have been written down is determined by discounting future cash flows using the internal rate of return based on market conditions for equivalent loans that have not been written down. Fair value is considered to be the carrying amount for loans and receivables measured at amortised cost. No allowance has been made for any changes in credit risk over and above the changes in estimated future cash flows for loans that have been written down.

The fair value of short-term liabilities to credit institutions is estimated as being their amortised cost. Long-term liabilities to credit institutions are measured at fair value based on the equivalent interest rate the bank pays on its own bonds. Debt securities measured at amortised cost are valued in the same way as debt securities measured at fair value, cf. note 1.

#### Off-balance sheet obligations and guarantees

Mortgaged assets are measured at fair value, cf. note 1. Other off-balance sheet obligations and guarantees are measured at their nominal value. The fair value is shown in the balance sheet under provisions.

For assets and liabilities where amortised cost and fair value are identical, carrying amount and the fair value are presented as identical amounts equal to amortised cost, and not included in the fair value hierarchy below.

## 27. Fair value of financial instruments (cont.)

Consolidated NOK thousands	31.12.2017		31.12.2016	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets</b>				
<b>Cash and receivables from central banks</b>	<b>229,633</b>	<b>229,633</b>	<b>57,011</b>	<b>57,011</b>
Loans to and receivables from credit institutions, amortised cost	200,496	200,496	62,987	62,987
<b>Loans to and receivables from credit institutions</b>	<b>200,496</b>	<b>200,496</b>	<b>62,987</b>	<b>62,987</b>
Loans to and receivables from customers, amortised cost	45,875,857	45,895,252	40,861,959	40,881,907
Loans to and receivables from customers, fair value				
<b>Loans to and receivables from customers</b>	<b>45,875,857</b>	<b>45,895,252</b>	<b>40,861,959</b>	<b>40,881,907</b>
Interest-bearing securities, receivables and loans, amortised cost				
Interest-bearing securities, fair value	4,957,463	4,957,463	3,534,160	3,534,160
<b>Interest-bearing securities</b>	<b>4,957,463</b>	<b>4,957,463</b>	<b>3,534,160</b>	<b>3,534,160</b>
Financial derivatives	124,721	124,721	127,684	127,684
<b>Financial derivatives</b>	<b>124,721</b>	<b>124,721</b>	<b>127,684</b>	<b>127,684</b>
Shares available for sale	4,645	4,645	4,645	4,645
<b>Shares</b>	<b>4,645</b>	<b>4,645</b>	<b>4,645</b>	<b>4,645</b>
Other financial assets, amortised cost	66,763	66,763	34,544	34,544
<b>Total other financial assets</b>	<b>66,763</b>	<b>66,763</b>	<b>34,544</b>	<b>34,544</b>
<b>Total financial assets</b>	<b>51,459,579</b>	<b>51,478,973</b>	<b>44,682,990</b>	<b>44,702,938</b>
<b>Liabilities</b>				
Liability to credit institutions, amortised cost				
<b>Liability to credit institutions</b>				
Deposits and liabilities to customers, amortised cost	23,765,670	23,767,791	21,270,352	21,271,766
Deposits and liabilities to customers, fair value				
<b>Deposits and liabilities to customers</b>	<b>23,765,670</b>	<b>23,767,791</b>	<b>21,270,352</b>	<b>21,271,766</b>
Liability incurred through the issue of securities, amortised cost	17,926,035	18,063,803	16,421,516	16,463,435
Liability incurred through the issue of securities, fair value hedge	5,157,338	5,194,677	3,174,970	3,185,506
Liability incurred through the issue of securities, fair value				
<b>Liability incurred through the issue of securities</b>	<b>23,083,373</b>	<b>23,258,481</b>	<b>19,596,485</b>	<b>19,648,940</b>
Financial derivatives	16,272	16,272	18,703	18,703
<b>Financial derivatives</b>	<b>16,272</b>	<b>16,272</b>	<b>18,703</b>	<b>18,703</b>
Subordinated debt, amortised cost	449,761	457,534	449,684	449,726
<b>Subordinated debt</b>	<b>449,761</b>	<b>457,534</b>	<b>449,684</b>	<b>449,726</b>
Other financial liabilities, amortised cost	121,929	121,929	95,394	95,394
<b>Other financial liabilities</b>	<b>121,929</b>	<b>121,929</b>	<b>95,394</b>	<b>95,394</b>
<b>Total financial liabilities</b>	<b>47,437,005</b>	<b>47,622,007</b>	<b>41,430,618</b>	<b>41,484,529</b>
<b>Off-balance sheet obligations and guarantees</b>				
Guarantees	5,300	5,300	3,000	3,000
Mortgage assets <sup>1</sup>	762,643	762,643	847,138	847,138

<sup>1</sup> Securities provided as collateral for loans from/credit facility with Norges Bank.

## 27. Fair value of financial instruments (cont.)

Parent Company	31.12.2017		31.12.2016	
NOK thousands	Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets</b>				
<b>Cash and receivables from central banks</b>	<b>229,633</b>	<b>229,633</b>	<b>57,011</b>	<b>57,011</b>
Loans to and receivables from credit institutions, amortised cost	3,462,258	3,462,258	2,813,131	2,813,131
<b>Loans to and receivables from credit institutions</b>	<b>3,462,258</b>	<b>3,462,258</b>	<b>2,813,131</b>	<b>2,813,131</b>
Loans to and receivables from customers, amortised cost	24,771,250	24,790,644	22,605,937	22,625,884
Loans to and receivables from customers, fair value				
<b>Loans to and receivables from customers</b>	<b>24,771,250</b>	<b>24,790,644</b>	<b>22,605,937</b>	<b>22,625,884</b>
Interest-bearing securities, receivables and loans, amortised cost				
Interest-bearing securities, fair value	5,510,839	5,510,839	4,055,047	4,055,047
<b>Interest-bearing securities</b>	<b>5,510,839</b>	<b>5,510,839</b>	<b>4,055,047</b>	<b>4,055,047</b>
Financial derivatives	24,382	24,382	10,589	10,589
<b>Financial derivatives</b>	<b>24,382</b>	<b>24,382</b>	<b>10,589</b>	<b>10,589</b>
Shares available for sale	4,645	4,645	4,645	4,645
<b>Shares</b>	<b>4,645</b>	<b>4,645</b>	<b>4,645</b>	<b>4,645</b>
Other financial assets, amortised cost	41,438	41,438	24,947	24,947
<b>Total other financial assets</b>	<b>41,438</b>	<b>41,438</b>	<b>24,947</b>	<b>24,947</b>
<b>Total financial assets</b>	<b>34,044,444</b>	<b>34,063,838</b>	<b>29,571,306</b>	<b>29,591,254</b>
<b>Liabilities</b>				
Liability to credit institutions, amortised cost	496,271	496,271	277,585	277,585
<b>Liability to credit institutions</b>	<b>496,271</b>	<b>496,271</b>	<b>277,585</b>	<b>277,585</b>
Deposits and liabilities to customers, amortised cost	24,073,853	24,075,974	21,573,981	21,573,981
Deposits and liabilities to customers, fair value				
<b>Deposits and liabilities to customers</b>	<b>24,073,853</b>	<b>24,075,974</b>	<b>21,573,981</b>	<b>21,573,981</b>
Liability incurred through the issue of securities, amortised cost	3,087,589	3,106,433	3,777,603	3,798,825
Liability incurred through the issue of securities, fair value hedge	3,613,161	3,635,344	1,615,084	1,622,353
Liability incurred through the issue of securities, fair value				
<b>Liability incurred through the issue of securities</b>	<b>6,700,750</b>	<b>6,741,777</b>	<b>5,392,687</b>	<b>5,421,178</b>
Financial derivatives	10,086	10,086	11,526	11,526
<b>Financial derivatives</b>	<b>10,086</b>	<b>10,086</b>	<b>11,526</b>	<b>11,526</b>
Subordinated debt, amortised cost	449,761	457,534	449,684	449,726
<b>Subordinated debt</b>	<b>449,761</b>	<b>457,534</b>	<b>449,684</b>	<b>449,726</b>
Other financial liabilities, amortised cost	85,423	85,423	59,754	59,754
<b>Other financial liabilities</b>	<b>85,423</b>	<b>85,423</b>	<b>59,754</b>	<b>59,754</b>
<b>Total financial liabilities</b>	<b>31,816,145</b>	<b>31,867,066</b>	<b>27,765,217</b>	<b>27,793,750</b>
<b>Off-balance sheet obligations and guarantees</b>				
Guarantees	5,300	5,300	3,000	3,000
Mortgage assets <sup>1</sup>	762,643	762,643	847,138	847,138

<sup>1</sup> Securities provided as collateral for loans from/credit facility with Norges Bank.



## 27. Fair value of financial instruments (cont.)

Consolidated		31.12.2017		
NOK thousands	Level 1	Level 2	Level 3	Total
Interest-bearing securities, fair value	824,440	4,133,023		4,957,463
Shares, available for sale			4,645	4,645
Financial derivatives		124,721		124,721
<b>Total financial assets measured at fair value</b>	<b>824,440</b>	<b>4,257,744</b>	<b>4,645</b>	<b>5,086,830</b>
Loans to and receivables from customers, amortised cost			45,895,252	45,895,252
<b>Total financial assets measured at amortised cost</b>			<b>45,895,252</b>	<b>45,895,252</b>
Financial derivatives		16,272		16,272
<b>Total financial liabilities measured at fair value</b>		<b>16,272</b>		<b>16,272</b>
Deposits and liabilities to customers, amortised cost			23,767,791	23,767,791
Liability incurred through the issue of securities, amortised cost		18,063,803		18,063,803
Subordinated debt, amortised cost		457,534		457,534
<b>Total financial liabilities measured at amortised cost</b>		<b>18,521,338</b>	<b>23,767,791</b>	<b>42,289,128</b>
Liability incurred through the issue of securities, fair value hedge		5,194,677		5,194,677
<b>Total financial liabilities included in fair value hedge</b>		<b>5,194,677</b>		<b>5,194,677</b>

Consolidated		31.12.2016		
NOK thousands	Level 1	Level 2	Level 3	Total
Interest-bearing securities, fair value	587,849	2,946,311		3,534,160
Shares, available for sale			4,645	4,645
Financial derivatives		127,684		127,684
<b>Total financial assets measured at fair value</b>	<b>587,849</b>	<b>3,073,995</b>	<b>4,645</b>	<b>3,666,489</b>
Loans to and receivables from customers, amortised cost			40,881,907	40,881,907
<b>Total financial assets measured at amortised cost</b>			<b>40,881,907</b>	<b>40,881,907</b>
Financial derivatives		18,703		18,703
<b>Total financial liabilities measured at fair value</b>		<b>18,703</b>		<b>18,703</b>
Deposits and liabilities to customers, amortised cost			21,271,766	21,271,766
Liability incurred through the issue of securities, amortised cost		16,463,435		16,463,435
Subordinated debt, amortised cost		449,726		449,726
<b>Total financial liabilities measured at amortised cost</b>		<b>16,913,160</b>	<b>21,271,766</b>	<b>38,184,926</b>
Liability incurred through the issue of securities, fair value hedge		3,185,506		3,185,506
<b>Total financial liabilities included in fair value hedge</b>		<b>3,185,506</b>		<b>3,185,506</b>

There were no major moves between levels 1 and 2 in 2017.

If there are any transfers between levels of the fair value hierarchy, they are recognised at the end of the reporting period during which the change has occurred.

## 27. Fair value of financial instruments (cont.)

Parent Company		31.12.2017		
NOK thousands	Level 1	Level 2	Level 3	Total
Interest-bearing securities, fair value	762,643	4,748,196		5,510,839
Shares, available for sale			4,645	4,645
Financial derivatives		24,382		24,382
<b>Total financial assets measured at fair value</b>	<b>762,643</b>	<b>4,772,577</b>	<b>4,645</b>	<b>5,539,866</b>
Loans to and receivables from customers, amortised cost			24,790,644	24,790,644
<b>Loans to and receivables from customers</b>			<b>24,790,644</b>	<b>24,790,644</b>
Financial derivatives		10,086		10,086
<b>Total financial liabilities measured at fair value</b>		<b>10,086</b>		<b>10,086</b>
Deposits and liabilities to customers, amortised cost			24,075,974	24,075,974
Liability incurred through the issue of securities, amortised cost		3,106,433		3,106,433
Subordinated debt, amortised cost		457,534		457,534
<b>Total financial liabilities measured at amortised cost</b>		<b>3,563,967</b>	<b>24,075,974</b>	<b>27,639,942</b>
Liability incurred through the issue of securities, fair value hedge		3,635,344		3,635,344
<b>Total financial liabilities included in fair value hedge</b>		<b>3,635,344</b>		<b>3,635,344</b>

Parent Company		31.12.2016		
NOK thousands	Level 1	Level 2	Level 3	Total
Interest-bearing securities, fair value	548,019	3,507,028		4,055,047
Shares, available for sale			4,645	4,645
Financial derivatives		10,589		10,589
<b>Total financial assets measured at fair value</b>	<b>548,019</b>	<b>3,517,617</b>	<b>4,645</b>	<b>4,070,281</b>
Loans to and receivables from customers, amortised cost			22,625,884	22,625,884
<b>Loans to and receivables from customers</b>			<b>22,625,884</b>	<b>22,625,884</b>
Financial derivatives		11,526		11,526
<b>Total financial liabilities measured at fair value</b>		<b>11,526</b>		<b>11,526</b>
Deposits and liabilities to customers, amortised cost			21,575,395	21,575,395
Liability incurred through the issue of securities, amortised cost		3,798,825		3,798,825
Subordinated debt, amortised cost		449,726		449,726
<b>Total financial liabilities measured at amortised cost</b>		<b>4,248,551</b>	<b>21,575,395</b>	<b>25,823,946</b>
Liability incurred through the issue of securities, fair value hedge		1,622,353		1,622,353
<b>Total financial liabilities included in fair value hedge</b>		<b>1,622,353</b>		<b>1,622,353</b>

There were no major moves between levels 1 and 2 in 2017.

If there are any transfers between levels of the fair value hierarchy, they are recognised at the end of the reporting period during which the change has occurred.

## 27. Fair value of financial instruments (cont.)

Figures relate to Gjensidige Bank ASA as there are no differences between the parent company and Group

NOK thousands	Reconciliation of financial assets valued based on non-observable market data (level 3) 2017				As at 31.12.2017
	As at 1.1.2017	Net realised/ unrealised gains recognised in profit or loss	Purchases	Transfer into/ out of level 3 Sales	
Shares, available for sale	4,645				4,645
<b>Total financial assets measured at fair value</b>	<b>4,645</b>				<b>4,645</b>

Sensitivity of financial assets valued based on non-observable market data (level 3) as at 31.12.2017

NOK thousands	Sensitivity
Shares, available for sale	Decrease in value 10%
<b>Total financial assets measured at fair value</b>	

Level 3 shares represent a total of NOK 4.654 thousand in unquoted shares in Visa Norge and Bank Asept AS. As these investments represent an immaterial value for the bank the purchase price is used as best estimate for fair value. A 10% change in valuations assumptions are assets to have limited effects on the banks' profits, and the sensitivity is presented as NOK 0.

NOK thousands	Reconciliation of financial assets valued based on non-observable market data (level 3) 2016				As at 31.12.2016
	As at 1.1.2016	Net realised/ unrealised gains recognised in profit or loss	Purchases	Transfer into/ out of level 3 Sales	
Shares, available for sale	17,105			(12,460)	4,645
<b>Total financial assets measured at fair value</b>	<b>17,105</b>			<b>(12,460)</b>	<b>4,645</b>

Sensitivity of financial assets valued based on non-observable market data (level 3) as at 31.12.2016

NOK thousands	Sensitivity
Shares, available for sale	Decrease in value 10%
<b>Total financial assets measured at fair value</b>	

## 28. Age analysis of overdue loans

### Age analysis of overdue but not impaired loans

#### Consolidated

31.12.2017

NOK thousands	< 1 month	1- 3 months	More than 3 months	Total
Loans to and receivables from credit institutions				
Loans to and receivables from customers	1,380,695	363,838	254,362	1,998,894
Overdrafts				
Loans to and receivables from customers and credit institutions				
Classified as financial assets measured at fair value through profit or loss upon initial recognition				
<b>Total</b>	<b>1,380,695</b>	<b>363,838</b>	<b>254,362</b>	<b>1,998,894</b>

#### Parent Company

31.12.2017

NOK thousands	< 1 month	1- 3 months	More than 3 months	Total
Loans to and receivables from credit institutions				
Loans to and receivables from customers	1,173,852	362,340	251,719	1,787,911
Overdrafts				
Loans to and receivables from customers and credit institutions				
Classified as financial assets measured at fair value through profit or loss upon initial recognition				
<b>Total</b>	<b>1,173,852</b>	<b>362,340</b>	<b>251,719</b>	<b>1,787,911</b>

#### Consolidated

31.12.2016

NOK thousands	< 1 month	1- 3 months	More than 3 months	Total
Loans to and receivables from credit institutions				
Loans to and receivables from customers	798,160	187,405	399,512	1,385,077
Overdrafts				
Loans to and receivables from customers and credit institutions				
Classified as financial assets measured at fair value through profit or loss upon initial recognition				
<b>Total</b>	<b>798,160</b>	<b>187,405</b>	<b>399,512</b>	<b>1,385,077</b>

#### Parent Company

31.12.2016

NOK thousands	< 1 month	1- 3 months	More than 3 months	Total
Loans to and receivables from credit institutions				
Loans to and receivables from customers	705,603	186,351	396,956	1,288,911
Overdrafts				
Loans to and receivables from customers and credit institutions				
Classified as financial assets measured at fair value through profit or loss upon initial recognition				
<b>Total</b>	<b>705,603</b>	<b>186,351</b>	<b>396,956</b>	<b>1,288,911</b>

The list shows loans that are more than NOK 1,000 overdue and accounts that are more than NOK 1,000 overdrawn. If any loan or account is overdue, all credit provided to the customer is included.

All loans are assessed individually once they reach 90 days past due. For individually written-down loans, the total customer commitment was NOK 40.1 million as of 31 December 2017.

Factors that caused impairment are objective evidence of impairment that includes significant financial problems on the part of the debtor.

Expected future cash flows are lower than the loan balance and the difference is recorded as an individual impairment.

## 29. Related parties

Gjensidige Bank ASA is a directly owned subsidiary of Gjensidige Forsikring ASA. Gjensidige Bank Boligkreditt AS is a wholly owned subsidiary of Gjensidige Bank ASA. All companies in the group are to be regarded as related parties and will be specified to the extent that the Company has transactions or balances with them. All transactions and agreements with these parties are carried out in accordance with arm's length principles.

Gjensidige Bank Boligkreditt AS purchases services such as customer support and loan management, as well as day-to-day management and administrative services, from Gjensidige Bank ASA.

Gjensidige Bank Boligkreditt AS has access to strong credit facilities with Gjensidige Bank ASA. This ensure that the Company can pay interest and principal to the covered bonds owners, and finance the transferring of loans and the cover pool.

Further information about the credit agreements:

a) A long-term credit facility of up to NOK 2,000.0 million. Expiry

date 31 December 2019.

b) A short-term credit facility of up to NOK 4,000.0 million. Expiry date 30 November 2018.

c) Credit facility agreement that enables Gjensidige Bank Boligkreditt AS to borrow money in order to repay its outstanding bond debt. The credit facility shall be sufficient to cover the total repayment of the outstanding bonds over the next 12 months. As of 31 December 2017, the credit limit of the agreement was NOK 402.0 million.

NOK 10,107.9 million in loans to and claims on customers was transferred from Gjensidige Bank ASA to Gjensidige Bank Boligkreditt AS in 2017.

All transactions between the parent company Gjensidige Bank ASA and the subsidiary Gjensidige Bank Boligkreditt AS have been eliminated in the consolidated financial statements.

For transactions with senior management and the Board, see note 7.

The list below shows the transactions with related parties that are recognised in the income statement

NOK thousands	31.12.2017	31.12.2016
Interest expense Gjensidige Bank Boligkreditt AS deposit in Gjensidige Bank ASA	9,819	9,903
Interest income receivables Gjensidige Bank Boligkreditt AS	43,909	54,446
Interest income covered bonds Gjensidige Bank Boligkreditt AS	21,434	21,601
Services to Gjensidige Bank Boligkreditt AS	10,197	8,840
Purchase of services from Gjensidige Bank Boligkreditt AS	588	588
Purchase of services from Gjensidige Forsikring ASA	36,732	30,437
Services to Gjensidige Pensjonsforsikring AS	19,349	
Services to Gjensidige Pensjonskasse	1,016	
Services to Gjensidigestiftelsen	5,813	

The list below shows assets / liabilities with / to related parties

NOK thousands	31.12.2017	31.12.2016
Gjensidige Bank Boligkreditt AS's deposit in Gjensidige Bank ASA	804,455	581,214
Receivables Gjensidige Bank Boligkreditt AS	3,273,300	2,762,595
Placement of covered bonds from Gjensidige Bank Boligkreditt AS	693,378	661,075
Liability to Gjensidige Forsikring ASA	100	889
Liability to Gjensidige Pensjonsforsikring AS	911	
Receivables Gjensidige Pensjonskasse	48	
Receivables Gjensidigestiftelsen	999	

## 30. Events after the balance sheet day

No significant events have occurred after the balance sheet date.

## 31. Capital adequacy

Parent Company			Consolidated	
31.12.2016	31.12.2017	NOK thousands	31.12.2017	31.12.2016
1,869,192	2,085,646	Share capital and share premium	2,085,646	1,869,192
594,147	920,437	Other equity	1,444,377	997,054
<b>2,463,339</b>	<b>3,006,083</b>	<b>Total equity (exclusive perpetual Tier 1 capital)</b>	<b>3,530,023</b>	<b>2,866,246</b>
<b>Deductions</b>				
(20,016)	(25,200)	Goodwill and other intangible assets	(25,200)	(20,016)
(4,077)	(5,421)	Value adjustments due to the requirement for prudent valuation	(5,098)	(3,681)
<b>2,439,246</b>	<b>2,975,462</b>	<b>Common equity Tier 1 capital</b>	<b>3,499,725</b>	<b>2,842,549</b>
Perpetual Tier 1 capital				
298,200	369,599	Perpetual Tier 1 capital	369,599	298,200
<b>2,737,446</b>	<b>3,345,061</b>	<b>Tier 1 capital</b>	<b>3,869,324</b>	<b>3,140,749</b>
Supplementary capital				
449,600	449,761	Subordinated debt	449,761	449,600
<b>3,187,046</b>	<b>3,794,822</b>	<b>Net primary capital</b>	<b>4,319,085</b>	<b>3,590,349</b>
<b>Minimum requirement for equity and subordinated debt</b>				
<b>credit risk</b>				
Of which:				
1,426		Local and regional authorities		1,426
52,457	66,902	Institutions	10,455	8,627
68,653	119,757	Enterprises	119,757	68,653
413,520	551,550	Mass market positions	553,873	417,179
467,880	428,732	Positions secured by mortgage	1,018,898	1,002,162
31,730	29,790	Overdue positions	30,005	31,941
24,361	30,698	Covered bonds	25,779	19,879
	3,238	Shares in securities fund	3,238	
16,692	19,892	Equity positions	372	372
3,081	801	Other positions	841	1,817
<b>1,079,799</b>	<b>1,251,359</b>	<b>Total minimum requirement credit risk</b>	<b>1,763,216</b>	<b>1,552,055</b>
93,607	110,991	Operational risk	131,598	113,001
1,229	1,313	CVA-risk	11,333	14,541
<b>1,174,635</b>	<b>1,363,663</b>	<b>Minimum requirement for net primary capital</b>	<b>1,906,147</b>	<b>1,679,596</b>
<b>12,390,197</b>	<b>14,750,642</b>	<b>Basis of calculation of balance sheet items not included in trading portfolio</b>	<b>21,204,109</b>	<b>17,984,173</b>
<b>1,107,295</b>	<b>891,342</b>	<b>Basis of calculation of off-balance sheet items not included in trading portfolio</b>	<b>836,094</b>	<b>1,416,511</b>
<b>14,682,938</b>	<b>17,045,786</b>	<b>Risk-weighted assets (calculation basis for capital adequacy ratio)</b>	<b>23,826,838</b>	<b>20,994,955</b>

## 31. Capital adequacy (cont.)

Parent Company			Consolidated	
31.12.2016	31.12.2017		31.12.2017	31.12.2016
<b>Buffer requirements</b>				
440,488	511,374	Systemic risk buffer	714,805	629,849
367,073	426,145	Conservation buffer	595,671	524,874
220,244	340,916	Countercyclical buffer	476,537	314,924
<b>1,027,806</b>	<b>1,278,434</b>	<b>Total buffer requirement for common equity Tier 1 capital</b>	<b>1,787,013</b>	<b>1,469,647</b>
	<b>255,687</b>	<b>Pillar 2 requirement 1.5% for common equity Tier 1 capital set by The Financial Supervisory Authority of Norway</b>	<b>357,403</b>	
<b>750,708</b>	<b>674,281</b>	<b>Available common equity Tier 1 capital net min.requirement</b>	<b>283,102</b>	<b>428,129</b>
<b>Capital adequacy</b>				
21.7%	22.3%	Capital adequacy ratio	18.1%	17.1%
18.6%	19.6%	Tier 1 capital ratio	16.2%	15.0%
16.6%	17.5%	Common equity Tier 1 capital ratio	14.7%	13.5%
8.3%	8.9%	Leverage ratio	7.2%	6.5%

For credit risk the standard method is used, while basis method is used for operational risk. In 2017 The Financial Supervisory Authority of Norway set a Pillar 2 requirement on additional 1.5 per cent of risk-weighted assets for Gjensidige Bank Group, covered by Common equity Tier 1 capital. The requirement for countercyclical buffer increased from 1.5 per cent to 2.0 per cent from 31 December 2017. Total requirement for common equity Tier 1 capital is 13.5 per cent and 17.0 per cent for primary capital as of year end 2017.

## 32. Classification of financial instruments

Consolidated NOK thousands Balance 31.12.2017	Financial instruments measured at fair value through profit or loss	Available for sale	Financial assets and liabilities at amorti- sed cost	Financial assets and liabilities at cost	Financial deriva- tives as hedging instru- ments	Non- financial assets and liabilities	Total
<b>Assets</b>							
Cash and claims on central banks			229,633				229,633
Loans to and claims on credit institutions			200,496				200,496
Loans to and claims on customers			45,875,857				45,875,857
Certificates, bonds and other interest-bearing securities	4,957,463						4,957,463
Financial derivatives	17,551				107,170		124,721
Shares and ownership interests		4,490	155				4,645
Intangible assets						25,200	25,200
Fixed assets						3,823	3,823
Other assets			66,763			46,193	112,955
<b>Total assets</b>	<b>4,975,014</b>	<b>4,490</b>	<b>46,372,904</b>		<b>107,170</b>	<b>75,216</b>	<b>51,534,794</b>
<b>Liabilities and equity</b>							
Deposits and liabilities to customers			23,765,670				23,765,670
Liabilities opened for the issue of securities			23,083,373				23,083,373
Financial derivatives					16,272		16,272
Other liabilities			121,929			167,128	289,057
Deferred tax liabilities						6,798	6,798
Provision for pension liability						24,242	24,242
Subordinated debt			449,761				449,761
<b>Total liabilities</b>			<b>47,420,733</b>		<b>16,272</b>	<b>198,168</b>	<b>47,635,173</b>
<b>Total equity</b>						<b>3,899,622</b>	<b>3,899,622</b>
<b>Total liabilities and equity</b>			<b>47,420,733</b>		<b>16,272</b>	<b>4,097,789</b>	<b>51,534,794</b>



## 32. Classification of financial instruments (cont.)

Parent Company NOK thousands Balance 31.12.2017	Financial instruments measured at fair value through profit or loss	Available for sale	Financial assets and liabilities at amorti- sed cost	Financial assets and liabilities at cost	Financial deriva- tives as hedging instru- ments	Non- financial assets and liabilities	Total
<b>Assets</b>							
Cash and claims on central banks			229,633				229,633
Loans to and claims on credit institutions			3,462,258				3,462,258
Loans to and claims on customers			24,771,250				24,771,250
Certificates, bonds and other interest-bearing securities	5,510,839						5,510,839
Financial derivatives					24,382		24,382
Shares and ownership interests		4,490	155				4,645
Shares in subsidiaries				1,220,030			1,220,030
Intangible assets						25,200	25,200
Fixed assets						3,823	3,823
Other assets			41,438			45,772	87,210
<b>Total assets</b>	<b>5,510,839</b>	<b>4,490</b>	<b>28,504,733</b>	<b>1,220,030</b>	<b>24,382</b>	<b>74,795</b>	<b>35,339,268</b>
<b>Liabilities and equity</b>							
Liabilities to credit institutions			496,271				496,271
Deposits and liabilities to customers			24,073,853				24,073,853
Liabilities opened for the issue of securities			6,700,750				6,700,750
Financial derivatives					10,086		10,086
Other liabilities			85,423			116,297	201,720
Deferred tax liabilities						6,902	6,902
Provision for pension liability						24,242	24,242
Subordinated debt			449,761				449,761
<b>Total liabilities</b>			<b>31,806,059</b>		<b>10,086</b>	<b>147,441</b>	<b>31,963,586</b>
<b>Total equity</b>						<b>3,375,682</b>	<b>3,375,682</b>
<b>Total liabilities and equity</b>			<b>31,806,059</b>		<b>10,086</b>	<b>3,523,123</b>	<b>35,339,268</b>

## 32. Classification of financial instruments (cont.)

Consolidated NOK thousands Balance 31.12.2016	Financial instruments measured at fair value through profit or loss	Available for sale	Financial assets and liabilities at amorti- sed cost	Financial assets and liabilities at cost	Financial deriva- tives as hedging instru- ments	Non- financial assets and liabilities	Total
<b>Assets</b>							
Cash and claims on central banks			57,011				57,011
Loans to and claims on credit institutions			62,987				62,987
Loans to and claims on customers			40,861,959				40,861,959
Certificates, bonds and other interest-bearing securities	3,534,160						3,534,160
Financial derivatives					127,684		127,684
Shares and ownership interests		4,490	155				4,645
Intangible assets						20,016	20,016
Fixed assets						2,671	2,671
Deferred tax assets						5,133	5,133
Other assets			34,544			16,428	50,973
<b>Total assets</b>	<b>3,534,160</b>	<b>4,490</b>	<b>41,016,656</b>		<b>127,684</b>	<b>44,248</b>	<b>44,727,238</b>
<b>Liabilities and equity</b>							
Deposits and liabilities to customers			21,270,352				21,270,352
Liabilities opened for the issue of securities			19,596,485				19,596,485
Financial derivatives					18,703		18,703
Other liabilities			95,394			115,022	210,416
Provision for pension liability						17,151	17,151
Subordinated debt			449,684				449,684
<b>Total liabilities</b>			<b>41,411,916</b>		<b>18,703</b>	<b>132,174</b>	<b>41,562,792</b>
<b>Total equity</b>						<b>3,164,446</b>	<b>3,164,446</b>
<b>Total liabilities and equity</b>			<b>41,411,916</b>		<b>18,703</b>	<b>3,296,620</b>	<b>44,727,238</b>

## 32. Classification of financial instruments (cont.)

Parent Company NOK thousands Balance 31.12.2016	Financial instruments measured at fair value through profit or loss	Available for sale	Financial assets and liabilities at amorti- sed cost	Financial assets and liabilities at cost	Financial deriva- tives as hedging instru- ments	Non- financial assets and liabilities	Total
<b>Assets</b>							
Cash and claims on central banks			57,011				57,011
Loans to and claims on credit institutions			2,813,131				2,813,131
Loans to and claims on customers			22,605,937				22,605,937
Certificates, bonds and other interest-bearing securities	4,055,047						4,055,047
Financial derivatives					10,589		10,589
Shares and ownership interests		4,490	155				4,645
Shares in subsidiaries				1,020,030			1,020,030
Intangible assets						20,016	20,016
Fixed assets						2,671	2,671
Deferred tax assets						11,623	11,623
Other assets			24,947			3,626	28,572
<b>Total assets</b>	<b>4,055,047</b>	<b>4,490</b>	<b>25,501,180</b>	<b>1,020,030</b>	<b>10,589</b>	<b>37,935</b>	<b>30,629,271</b>
<b>Liabilities and equity</b>							
Liabilities to credit institutions			277,585				277,585
Deposits and liabilities to customers			21,573,981				21,573,981
Liabilities opened for the issue of securities			5,392,687				5,392,687
Financial derivatives					11,526		11,526
Other liabilities			59,754			85,364	145,118
Provision for pension liability						17,151	17,151
Subordinated debt			449,684				449,684
<b>Total liabilities</b>			<b>27,753,691</b>		<b>11,526</b>	<b>102,515</b>	<b>27,867,732</b>
<b>Total equity</b>						<b>2,761,539</b>	<b>2,761,539</b>
<b>Total liabilities and equity</b>			<b>27,753,691</b>		<b>11,526</b>	<b>2,864,055</b>	<b>30,629,271</b>

### 33. Shares and ownership interests

Parent Company			Consolidated	
31.12.2016	31.12.2017	NOK thousands	31.12.2017	31.12.2016
4,645	4,645	Ownership interest/shares	4,645	4,645
1,020,030	1,220,030	Shares in subsidiaries		
<b>1,024,675</b>	<b>1,224,675</b>	<b>Total</b>	<b>4,645</b>	<b>4,645</b>
Stock exchange listed securities				
1,024,675	1,224,675	Unlisted securities	4,645	4,645
<b>1,024,675</b>	<b>1,224,675</b>	<b>Total</b>	<b>4,645</b>	<b>4,645</b>

31.12.2017 Specification of ownership interest/shares		Registered office	Acquisition cost	Carrying amount	Market value	Voting shares %
Bank Asept AS		Oslo, Norway	155	155	na	0.16%
Visa Norge		Oslo, Norway	4,490	4,490	4,490	0.53%

31.12.2017 Shares in subsidiaries		Registered office	Acquisition year	Carrying amount	Share capital in company	Interest held	Controlling interest	Currency
Gjensidige Bank Boligkreditt AS		Schweigaards gt. 14, Oslo, Norway	2009	1,220,030	208,000	100%	100%	NOK

31.12.2016 Specification of ownership interest/shares		Registered office	Acquisition cost	Carrying amount	Market value	Voting shares %
Bank Asept AS		Oslo, Norway	155	155	na	0.16%
Visa Norge		Oslo, Norway	4,490	4,490	4,490	0.53%

31.12.2016 Shares in subsidiaries		Registered office	Acquisition year	Carrying amount	Share capital in company	Interest held	Controlling interest	Currency
Gjensidige Bank Boligkreditt AS		Schweigaards gt. 14, Oslo, Norway	2009	1,020,030	208,000	100%	100%	NOK

## 34. Risk and risk management

Gjensidige Bank ASA is mainly exposed to credit risk, market risk, liquidity risk and operational risk. The Board approves the strategy and policies for managing the bank's risks including limits for risk appetite. The largest risk is credit risk.

The Board of Gjensidige Bank ASA has the overall responsibility for ensuring efficient processes for risk management and internal control. The bank's management is responsible for implementing the guidelines issued by the Board for efficient risk management and internal control processes and keeping the board informed of the risk situation. The bank's 2nd line risk management functions (CRO and Compliance) is responsible for independent surveillance of the bank's risk management and risk exposure and ensure that the Board at all time is adequately informed of the bank risk exposure.

### Capital adequacy regulations

The capital regulations are built on three pillars:

- Pillar 1 Minimum capital requirements
- Pillar 2 ICAAP process for evaluation of the bank's total capital requirements
- Pillar 3 Requirements for the public disclosure of financial information

**Pillar 1:** The bank uses the standard method for reporting credit risk and the basic indicator approach for reporting operational risk.

**Pillar 2:** The bank prepares the ICAAP document in accordance with its own ICAAP process. Guidelines for ICAAP are Board-approved. The document is prepared with broad involvement of management and specialists in the bank, as well as the involvement of the Board.

**Pillar 3:** The bank has defined guidelines for the public disclosure of information, and they have been adopted by the Board. The Pillar 3 document is presented together with the annual report.

### The bank's risk areas

The bank's risk areas are evaluated continuously, and the strategy for the risk areas is reviewed annually by the Board. As a part of the ICAAP-process the bank uses different models to calculate capital requirements. The capital requirements are calculated for the risk areas for the entire strategy period in the current strategy plan, shown in the bank's ICAAP document, and capital adequacy is reported to the Board quarterly. The capital plan is constantly updated based on actual growth and updated forecasts.

### Credit risk

Credit risk refers to the risk the bank faces in the event of a borrower's failure to repay a loan or credit or to meet their contractual obligation to the bank. The bank's credit risk originates mostly from loans and credits to consumers in Norway. The bank is also exposed to credit risk through limited commercial exposures, derivatives and through placements in the liquidity reserve.

The Board sets the overall limit for the bank's credit risk appetite through its Credit Strategy and the Credit Risk Appetite Statement. Gjensidige Bank ASA offers a wide range of lending products, including secured as well as unsecured loans and credits, to meet a variety of needs of consumers in the country.

Secured lending mainly comprises loans and credits secured by residential property. The bank also offers car finance which includes loans and leasing secured by vehicles.

#### Credit risk liquidity portfolio by counterparty:

Consolidated NOK thousands	AAA Fair value	AA Fair value	A Fair value	BBB Fair value	Unrated	31.12.2017	31.12.2016
Cash and claims on central banks	229,633					229,633	57,011
Loans to and claims on credit institutions		115,581	84,915			200,496	62,987
State and government guaranteed bonds	824,440					824,440	548,019
Municipalities and counties	345,567	84,360				429,927	89,106
Covered bonds	3,154,423				154,592	3,309,014	2,597,915
Other	369,132		11,281		13,669	394,082	299,120
<b>Total</b>	<b>4,923,195</b>	<b>199,941</b>	<b>96,196</b>		<b>168,260</b>	<b>5,387,592</b>	<b>3,654,158</b>

Parent company NOK thousands	AAA Fair value	AA Fair value	A Fair value	BBB Fair value	Unrated	31.12.2017	31.12.2016
Cash and claims on central banks	229,633					229,633	57,011
Loans to and claims on credit institutions		115,581	84,915			200,496	62,987
State and government guaranteed bonds	762,643					762,643	548,019
Municipalities and counties	345,567	84,360				429,927	89,106
Covered bonds	3,769,596				154,592	3,924,187	3,118,802
Other	369,132		11,281		13,669	394,082	299,120
<b>Total</b>	<b>5,476,571</b>	<b>199,941</b>	<b>96,196</b>		<b>168,260</b>	<b>5,940,968</b>	<b>4,175,045</b>

## 34. Risk and risk management (cont.)

### Credit risk derivatives by counterparty:

Consolidated NOK thousands	AAA Fair value	AA Fair value	A Fair value	BBB Fair value	Unrated	31.12.2017	31.12.2016
Credit risk by counterparty		15,870	105,618			121,488	111,306
<b>Total</b>		<b>15,870</b>	<b>105,618</b>			<b>121,488</b>	<b>111,306</b>

Parent company NOK thousands	AAA Fair value	AA Fair value	A Fair value	BBB Fair value	Unrated	31.12.2017	31.12.2016
Credit risk by counterparty		15,870	10,170			26,040	
<b>Total</b>		<b>15,870</b>	<b>10,170</b>			<b>26,040</b>	

In relation to car finance, the bank also has a commercial lending offering in an exceptional basis to support the growth of the standard loans and leasing offered within the car finance business and to create awareness in the market of the banks products. This includes products like dealer floor finance, fleet finance to key players in the car dealer market and loans and leasing to a few corporates related to car business. Lending in the commercial segment are usually secured exposures and in addition the bank may require guarantees prior to approving the exposure.

The bank also has a portfolio of unsecured consumer finance lending which is moderate in size compared to the total lending exposure in the bank. The bank has a higher return on this portfolio that is proportionate to the level of credit risk in the portfolio. A large part of the credit losses are consequently related to the unsecured consumer finance lending portfolio. The bank uses risk-based pricing models driven by scores, and the portfolio shows healthy profitability.

The credit risk related to the bank's liquidity portfolio is assessed as low.

### Models for monitoring credit risk

The bank uses application score models based on internal and external customer information for decisions relating to customers' applications for a loan. In addition, the bank uses behaviour score models that predict the probability of default on customers for decisions related to top-ups, collections, group write-downs and other portfolio management decisions. For decisions related to commercial exposures, the bank uses company rating provided by external agencies in addition to using internal models to assess the solidity, stability, liquidity and profitability.

With the help of these score models, the lending portfolios in the bank are grouped into risk classes, from the lowest to highest risk, based on their probability of default. These risk categorisations are mainly intended to assist in various credit decisions and monitoring. They are then further grouped into three main risk groups: Low risk, Medium risk and High risk which are used in the bank's monthly portfolio monitoring and reporting. The loans that are already impaired or have been individually provisioned on the reporting date are included in a separate category – Impaired and Write-down. In addition, there are a small group of loans that may not have been classified into each of the above categories due to the fact that these are not scored or rated due to insufficient data on the reporting date.

The bank's maximum credit exposure related to lending portfolio is NOK 54,516.1 million.

The weighted average portfolio loan to value ratio is estimated at 60.6 per cent for the mortgage portfolio. This estimate is based on the exposure on the reporting date as a ratio of the property value as estimated upon loan approval, including any higher priority pledge(s). The bank regularly controls depot values and adjusts in case of significant change. The bank's credit policy is in accordance with the regulation for new mortgage loans set by the Ministry of Finance on 15 June 2015. In addition, the bank has also implemented the Guidelines on unsecured loans issued by Financial Supervisory Authority of Norway as of fourth quarter 2017.

### Basic accounting principles

The bank's accounts are prepared in accordance with IFRS regulations and the lending regulations issued by the Ministry of Finance. This means that all items in the profit and loss statement and balance sheet, including recognition of receivables and provisions for losses on loans and credit, follow these principles.

### Amortisation of loans

Loans are valued and measured at amortised cost in accordance with the effective interest method. The bank undertakes regular assessments of the conditions that form the basis for amortisation, including the expected term of the portfolio. If the estimate changes, the adjustment is included as an income or expense in the accounts.

### Write-downs and losses

Write-downs and losses include group provisions, individual provisions (write-downs) and recognised losses.

If a borrower does not meet the contractual obligation to pay instalments or overdraws a credit beyond the limits granted, then the loan will be considered to be in a state of default. For secured loans, significant exposures are reviewed individually for objective evidence of impairment (fall in value) on a quarterly basis and, when required, an individual provision (write-down) is made. In addition, for secured loans an individual review for write-down is also made for all delinquent loans over 30 days delinquency and over a certain specified amount. For consumer finance loans, 120 days past due delinquency is taken to be objective evidence of impairment (fall in value) and the bank calculates a provision (write-down) for loans that meet these criteria. For car finance loans that are 90 days past due are taken to be objective evidence of impairment (fall in value) and are assessed individually for a provision (write-down).

The bank also has models for calculating write-downs on groups of loans that are not impaired. Using scores, the group write-down models estimate the likelihood of loss in these groups of loans, and compute the corresponding provisions required to cover for such losses.

## 34. Risk and risk management (cont.)

The table below shows the lending portfolio and provisions as of 31 December 2017 and 31 December 2016 segmented by the risk groups:

Consolidated 31.12.2017 NOK million	Gross lending	Guarantees	Total off- balance commitments	Individual Provisions	Other exposures	Maximum credit exposure
Low	40,674	5	7,596			48,274
Medium	3,864		385			4,249
High	955		111			1,066
Not classified	384		518			902
Impaired and written down	179		3	11		194
<b>Total</b>	<b>46,056</b>	<b>5</b>	<b>8,612</b>	<b>11</b>		<b>54,685</b>
Group provisions	169					169
<b>Total net</b>	<b>45,887</b>	<b>5</b>	<b>8,612</b>	<b>11</b>		<b>54,516</b>

Parent company 31.12.2017 NOK million	Gross lending	Guarantees	Total off- balance commitments	Individual Provisions	Other exposures	Maximum credit exposure
Low	19,819	5	5,771			25,595
Medium	3,758		384			4,142
High	815		109			924
Not classified	383		517			900
Impaired and written down	177		3	11		191
<b>Total</b>	<b>24,952</b>	<b>5</b>	<b>6,784</b>	<b>11</b>		<b>31,752</b>
Group provisions	169					169
<b>Total net</b>	<b>24,782</b>	<b>5</b>	<b>6,784</b>	<b>11</b>		<b>31,583</b>

Consolidated 31.12.2016 NOK million	Gross lending	Guarantees	Total off- balance commitments	Individual Provisions	Other exposures	Maximum credit exposure
Low	35,447	4	6,491			41,942
Medium	3,963		260			4,223
High	1,017		90			1,107
Not classified	355		536			891
Impaired and written down	467			9		476
<b>Total</b>	<b>41,250</b>	<b>4</b>	<b>7,378</b>	<b>9</b>		<b>48,640</b>
Group provisions	379					379
<b>Total net</b>	<b>40,871</b>	<b>4</b>	<b>7,378</b>	<b>9</b>		<b>48,261</b>

Parent company 31.12.2016 NOK million	Gross lending	Guarantees	Total off- balance commitments	Individual Provisions	Other exposures	Maximum credit exposure
Low	17,306	4	4,740			22,049
Medium	3,915		256			4,171
High	949		89			1,038
Not classified	353		536			889
Impaired and written down	464			9		473
<b>Total</b>	<b>22,987</b>	<b>4</b>	<b>5,621</b>	<b>9</b>		<b>28,621</b>
Group provisions	372					372
<b>Total net</b>	<b>22,615</b>	<b>4</b>	<b>5,621</b>	<b>9</b>		<b>28,249</b>

Based on the above development, the Board considers the credit risk levels in the bank's portfolio to be satisfactory.

## 34. Risk and risk management (cont.)

A final write-off is recognised when it is evident that the loan will not be repaid and there is no collateral left to cover the loan. In such instances, any corresponding provision (write-down) will be reversed. In the event of a payment being received on a previously written-off loan, it is recognised as a recovery on a previously written-off loan.

During the year, the total decrease in group and individual provisions that has been reported is NOK 207.3 million. The actual loss recognised by the bank during 2017 is NOK 228.4 million.

The Board considers the loss and the provision levels to be satisfactory.

### Market risk

Market risk is the risk of losses associated with movements in market prices, which in this context relate to positions and activities in the interest-, currency-, credit- and stock markets.

The bank's finance strategy set by the Board provides guidelines and limits for managing market risk.

The bank's market risk is substantially related to currency risk, interest rate risk and spread risk (credit risk).

Interest rate risk arises when the bank's assets and liabilities have different remaining fixed-rate periods. The interest rate risk is managed by adopting fixed interest rate periods for assets and liabilities. In addition, derivatives are used for hedging. Fixed interest assets and liabilities in millions multiplied by the remaining interest rate period are used to measure interest rate risk exposure. This is known as 'milli years' (MY).

The interest rate risk limit for all time periods are plus/minus 1,500 MY. The bank's limit for cumulative exposure to interest rate risk is 1,500 MY. Interest rate risk under three months is measured and reported, but the exposure is not included in the interest risk limits. When the limit is fully utilised, the loss for the bank given a one percentage point change in the yield curve will be NOK 15 million. Utilisation of this limit is reported monthly to the Board.

As of 31 December 2017, the bank has a negative interest rate exposure of 249 MY in the 3 months to one year interval. The net accumulated interest rate exposure over three months is a positive 389 MY as of 31 December 2017.

By investing in sound securities with short-term maturity and with expectations that the value will be less exposed to changes in the credit spread, the bank limits the spread risk on its assets. The market value of the bank's own bonds varies with changes in the credit spreads.

Currency risk is the risk of loss due to changes in exchange rates. The risk arises from the bank's bond in foreign currency. The bank manages this risk by using derivatives. The bank changes from currencies into NOK with an approved counterparty on both principal and interest through "cross currency rate swaps". In practice this means that a combination of a bond in currency and cross-currency rate swap rate swap, the bond is converted from currency into a bond in NOK based on NIBOR. Under IFRS the changes in the fair value of the derivative related to changes in cross currency basis swaps are recognised as value change in financial instruments.

As of 31 December 2017 the bank has outstanding bonds in Swedish krone of 500 million.

Gjensidige Bank ASA does not have stock market risk. Gjensidige Bank ASA does not have market risk under Pillar 1, because the bank does not have a trading portfolio.

### Concentration risk

Concentration risk is the risk of losses due to the bank having large parts of its lending tied to a single borrower or to limited geographic or business areas. The concentration risk is managed using the bank's risk frameworks and is measured and assessed through annual stress tests / scenario analyses in the credit area.

As of 31 December 2017, the portfolio is geographically diverse, with the greatest lending in the most populous areas of the country. The largest exposure is about NOK 308.0 million. The exposure related to the ten largest loans (limit) is about NOK 1,058.5 million. The bank's liquidity reserves are mainly placed in securities issued by the Norwegian government and Norwegian covered bonds (OMF).

### Operational risk

Operational risk is the risk of losses resulting from inadequate or failing internal processes or systems, human error or external events and compliance and reputational risk. The bank has its own loss and event database for the evaluation, follow-up and storage of operational incidents.

Departmental managers in the various operational areas are responsible for identifying, limiting and managing operational risks within their respective areas. Operational risk sources are identified and communicated via the bank's internal procedures, which are tested regularly. Responsibility for follow-up of the internal control testing rests with the internal control responsible.

The bank's management regularly reviews its internal controls. The bank has a complex IT infrastructure that must function at all times. There is therefore particular focus on risks related to ICT/security.

### Liquidity risk

Liquidity risk is the risk of the bank not being able to meet its debt obligations when due and/or not being able to finance growth of its assets without incurring a substantial increase in costs.

The bank's finance strategy adopted by the Board provides guidelines and limits on managing the bank's liquidity risk. The bank has established guidelines and limits for liquidity risk and risk tolerance, guidelines for liquid assets, guidelines for stable long-term funding and contingency plans. Stress tests are used to test the tolerance of the bank's liquidity situation.

The liquidity risk due to lack of access to liquidity is managed by having sufficiently liquid assets to cover the liabilities that reach maturity.

The bank shall have a liquidity reserve (buffer) in short-term deposits, liquid securities and/or committed credit facilities that, in an acute liquidity freeze in the market, allow sufficient time to implement the necessary measures.

As of 31 December 2017 the liquidity reserve was NOK 6,081.0 million, divided between NOK 430.1 million in bank deposits and NOK 5,650.8 million in debt securities. Of the latter assets NOK 693.4 million were investments in covered bonds from Gjensidige Bank Boligkreditt AS (eliminated in the consolidated accounts). The net liquid assets were at an adequate level that covers the bond debt that will fall due in the next 26 months. Stress tests have also been carried out to demonstrate the bank's liquidity need based on future scenarios involving a general recession and/or a bank specific crisis.



## 35. Liquidity risk

Liquidity risk is the risk that the bank will be unable to meet all of its financial obligations when they fall due, or be unable to finance the assets, including desired growth, without significant additional costs. The bank's financial strategy sets the framework and guidelines for managing the liquidity risk.

At the end of the year, Gjensidige Bank ASA had a liquidity reserve of NOK 6,081.0 million, divided between NOK 430.1 million

in bank deposits and NOK 5,650.8 million in debt securities. Of the latter assets, NOK 693.4 million were investments in covered bonds from Gjensidige Bank Boligkreditt AS (eliminated in the consolidated accounts). The net liquid assets were at an adequate level that covers the bond debt that will fall due in the next 26 months.

The figures below are nominal amounts and include interest payments based on the interest rates on the reporting date.

<b>Consolidated 31.12.2017 NOK thousands</b>	<b>1 month</b>	<b>1-3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>More than 5 years</b>	<b>Perpetual loans</b>	<b>Total</b>
Cash and claims on central banks						229,633	229,633
Loans to and claims on credit institutions						200,496	200,496
Loans to and claims on customers	440,927	848,570	3,556,016	16,481,431	36,723,456	323,094	58,373,495
Certificates, bonds and other interest-bearing securities	54,123	207,699	895,410	3,126,611	416,874	394,082	5,094,799
Other financial assets	66,763					129,366	196,129
Derivatives – gross inflows	974	5,801	459,041	616,552	169,710		1,252,078
<b>Total financial assets</b>	<b>562,788</b>	<b>1,062,070</b>	<b>4,910,467</b>	<b>20,224,594</b>	<b>37,310,040</b>	<b>1,276,671</b>	<b>65,346,631</b>
Deposits and liabilities to customers	18,006,022	1,494,991	3,637,413	5,483			23,143,908
Liabilities opened for the issue of securities	2,284	56,311	1,356,875	18,741,205	4,333,184		24,489,859
Loan offers and unused credit facilities	8,101,238						8,101,238
Derivatives – gross outflows	1,863	25,484	385,252	457,629	82,270		952,497
<b>Total liabilities</b>	<b>26,111,407</b>	<b>1,576,786</b>	<b>5,379,539</b>	<b>19,204,316</b>	<b>4,415,454</b>		<b>56,687,503</b>
<b>Consolidated 31.12.2016 NOK thousands</b>	<b>1 month</b>	<b>1-3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>More than 5 years</b>	<b>Perpetual loans</b>	<b>Total</b>
Cash and claims on central banks						57,011	57,011
Loans to and claims on credit institutions						62,987	62,987
Loans to and claims on customers	334,974	660,704	2,951,523	13,846,527	33,183,855	250,524	51,228,107
Certificates, bonds and other interest-bearing securities	103,318	6,840	709,969	2,440,540	405,829		3,666,495
Other financial assets	34,544					132,329	166,874
Derivatives – gross inflows	3,713	4,639	119,258	1,130,819	116,400		1,374,828
<b>Total financial assets</b>	<b>476,549</b>	<b>672,183</b>	<b>3,780,750</b>	<b>17,417,885</b>	<b>33,706,084</b>	<b>502,852</b>	<b>56,556,302</b>
Deposits and liabilities to customers	17,301,752	998,226	2,995,274				21,295,252
Liabilities opened for the issue of securities	3,550	66,579	1,221,287	17,283,987	2,983,604		21,559,007
Loan offers and unused credit facilities	8,239,292						8,239,292
Derivatives – gross outflows	2,635	21,995	89,321	1,022,344	57,273		1,193,567
<b>Total liabilities</b>	<b>25,547,228</b>	<b>1,086,801</b>	<b>4,305,882</b>	<b>18,306,331</b>	<b>3,040,877</b>		<b>52,287,118</b>

## 35. Liquidity risk (cont.)

Parent Company  
31.12.2017

NOK thousands	1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Perpetual loans	Total
Cash and claims on central banks						229,633	229,633
Loans to and claims on credit institutions	3,432	6,863	1,291,920	2,025,600		200,496	3,528,312
Loans to and claims on customers	326,462	623,290	2,532,181	10,542,147	18,121,240	323,094	32,468,413
Certificates, bonds and other interest-bearing securities	74,664	210,035	871,870	3,688,304	416,874		5,261,747
Other financial assets	41,438					29,027	70,465
Derivatives – gross inflows	974	5,801	406,416	468,102	104,910		986,203
<b>Total financial assets</b>	<b>446,970</b>	<b>845,989</b>	<b>5,102,388</b>	<b>16,724,153</b>	<b>18,643,024</b>	<b>782,250</b>	<b>42,544,773</b>
Liabilities to credit institutions	496,271						496,271
Deposits and liabilities to customers	18,006,022	1,494,991	3,637,413	5,483			23,143,908
Liabilities opened for the issue of securities	2,284	7,900	881,901	4,691,729	1,654,910		7,238,725
Loan offers and unused credit facilities	9,290,152						9,290,152
Derivatives – gross outflows	1,863	20,342	369,865	402,203	60,686		854,959
<b>Total liabilities</b>	<b>27,796,592</b>	<b>1,523,234</b>	<b>4,889,179</b>	<b>5,099,414</b>	<b>1,715,596</b>		<b>41,024,016</b>

Parent Company  
31.12.2016

NOK thousands	1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Perpetual loans	Total
Cash and claims on central banks						57,011	57,011
Loans to and claims on credit institutions	3,935	7,870	785,255	2,035,800		62,987	2,895,848
Loans to and claims on customers	248,901	476,683	2,064,166	8,808,202	17,639,329	250,524	29,487,805
Certificates, bonds and other interest-bearing securities	105,517	6,520	1,082,826	2,422,842	536,601		4,154,306
Other financial assets	24,947					15,235	40,181
Derivatives – gross inflows	3,713	4,639	66,633	951,344	30,000		1,056,328
<b>Total financial assets</b>	<b>387,012</b>	<b>495,712</b>	<b>3,998,880</b>	<b>14,218,188</b>	<b>18,205,930</b>	<b>385,757</b>	<b>37,691,480</b>
Liabilities to credit institutions	277,585						277,585
Deposits and liabilities to customers	17,601,752	998,226	2,995,274				21,595,252
Liabilities opened for the issue of securities	3,207	14,630	939,301	5,006,593	280,000		6,243,731
Loan offers and unused credit facilities	8,227,180						8,227,180
Derivatives – gross outflows	2,635	15,639	70,702	941,109	21,730		1,051,814
<b>Total liabilities</b>	<b>26,112,358</b>	<b>1,028,495</b>	<b>4,005,276</b>	<b>5,947,703</b>	<b>301,730</b>		<b>37,395,562</b>

## 36. Market risk

Market risk is the risk of losses associated with unfavourable movements in market prices, which, in this context, relate to positions and activities in the interest-, currency-, credit- and stock markets.

Equity risk is the risk taken on by the bank through short-term and long-term investments in equities. Gjensidige Bank ASA has no such investments.

Interest rate risk is the risk that interest rates will move at a different rate or in a different direction than assumed by the bank when planning its financing structure. Gjensidige Bank ASA is exposed to interest rate risk through borrowings in the financial markets and fixed-rate loans to customers.

Currency risk is the risk of losses as a result of exchange rates moving at a different rate or in a different direction than assumed by the bank in its planning. Gjensidige Bank ASA is not exposed to currency risk.

The capital need for market risk is calculated in the total risk model using statistical models. The model uses a simulation-based method that generates a probability distribution of market losses over a one-year period. The bank has chosen a 99.9% confidence level. The confidence level expresses the security level the bank wishes to maintain. For example, a confidence level of 99.9% means that there is only a 0.1% likelihood that the bank has not reserved sufficient capital to cover unexpected losses.

### Financial capital 99.9% NOK million

	2017	2016	2015
Interest-rate risk	11.0	6.7	1.8
Equity price risk			
Foreign-exchange risk			
<b>Total</b>	<b>11.0</b>	<b>6.7</b>	<b>1.8</b>

## 37. Contingent liabilities and security

### Off balance sheet liabilities and contingent liabilities

Parent company			Consolidated	
31.12.2016	31.12.2017	NOK thousands	31.12.2017	31.12.2016
3,000	5,300	Guarantees	5,300	3,000
4,297,312	4,026,613	Loan commitment	4,026,613	4,297,312
4,006,009	5,263,539	Undrawn credit limits	4,074,625	3,941,980
<b>8,306,321</b>	<b>9,295,452</b>	<b>Total contingent liabilities</b>	<b>8,106,538</b>	<b>8,242,292</b>

Undrawn credit limits relate to the unused portion of credit limits approved on overdraft accounts and credit cards, as well as the unused portion of lending limits on flexible mortgages. Unutilised credit facilities for Gjensidige Bank Boligkreditt AS amounted to NOK 2,783.2 million at the end of the year compared to 1,749.8 in 2016.

### Collateral

Parent company			Consolidated	
31.12.2016	31.12.2017	NOK thousands	31.12.2017	31.12.2016
847,138	762,643	Securities pledged as collateral for loans from/credit facility with Norges Bank	762,643	847,138
<b>847,138</b>	<b>762,643</b>	<b>Total securities pledged</b>	<b>762,643</b>	<b>847,138</b>

In order to receive a loan from/ credit facility with Norges Bank, collateral must be provided in the form of interest-bearing securities or deposits in Norges Bank.

## 38. Funds

Parent Company			Consolidated	
31.12.2016	31.12.2017	NOK thousands	31.12.2017	31.12.2016
	7,878,728	Financial instruments clients	7,878,728	
	14,495	Client account	14,495	
	130,110	Client obligations	130,110	
	<b>8,023,333</b>	<b>Total</b>	<b>8,023,333</b>	

The merger with Gjensidige Investeringsrådgivning AS was finalised in February 2017. The financial reporting was integrated with effect from January 2017.

## 39. Equity-based remuneration

### Description of the share-based payment scheme

As at 31 December 2017, Gjensidige has the following share-based payment arrangements.

#### Share-based remuneration for executive personnel with settlement in equity and cash (remuneration scheme)

As described in the Board's statement on salaries and other remuneration in Note 7, half of the variable remuneration should be given in form of shares in Gjensidige Forsikring ASA, one third of which can be sold in each of the following three years. Of this, rather on the big side 50 per cent is distributed as equity and only just 50 per cent is distributed as cash in order to pay tax liabilities (net of tax settlement).

The fair value at the grant date is measured based on the market price. The amount is recognised as payroll expenses at grant date. No specific company-related or market-related entitlement criteria apply to the shares, but the Company may carry out a reassessment if subsequent results and development suggest that the bonus was based on incorrect assumptions. The expected allocation is set to 100 per cent. The value of the cash-settled share is adjusted at each reporting period based on the share price at this time. The number of shares is adjusted for dividend paid.

#### Equity-settled share savings program for employees

Gjensidige has established a share savings programme for employees of the Group with the exception of employees of Gjensidige Baltic. All employees are given an opportunity to save an annual

amount of up to NOK 75,000. Savings take the form of fixed deductions from salary that is used to buy shares four times a year. The employees are offered a discount in the form of a contribution of 20 per cent, limited upwards to NOK 3,000 kroner per year, which corresponds to the maximum tax-exempt discount. Employees will receive one bonus share for every four shares they have owned for more than two years, provided that they are still employed by the Company or have become retired.

The fair value at grant date is based on the market price. The discount is recognised as payroll expenses at the time of allocation. The value of the bonus shares is recognised as payroll expenses over the vesting period, which is two years.

#### Fair value measurement

The fair value of the shares allocated through the share-based payment for executive personnel is calculated on the basis of the share price at grant date. The amount is recognised immediately. The cash-settled share is adjusted consecutively based on the share price at the reporting time.

Fair value of the bonus shares allocated through the share savings program is calculated on the basis of the share price at grant date, taking into account the likelihood of the employee still being employed after two years and that he/she has not sold his/her shares during the same two-year period. The amount is recognised during the vesting period which is two years.

#### The following assumptions were used in the calculation of fair value at the time of calculation

	Remuneration scheme		Share savings programme	
	2017	2016	2017	2016
Weighted average share price (NOK)	135.00	143.60	139.26	141.86
Expected turnover	N/A	N/A	10%	10%
Expected sale	N/A	N/A	5%	5%
Lock-in period (years)	3	3	2	2
Expected dividend (NOK per share) <sup>1</sup>	6.57	6.67	6.57	6.67

<sup>1</sup>The expected return is based on the Group's actual profit/loss after tax expense as of the third quarter, grossed up to a full year, plus the maximum distribution of dividend corresponding to 70 per cent of the profit after tax expense. This was carried out as a technical calculation because the Company's forecast for the fourth quarter result was not available at the time the calculations were carried out.

## 39. Equity-based remuneration (cont.)

### Personnel expenses

NOK thousands	31.12.2017	31.12.2016
Share-based remuneration	1,037	751
Share savings programme for employees	414	234
<b>Total</b>	<b>1,451</b>	<b>985</b>

Share savings programme	Number of bonus shares 2017	Number of bonus shares 2016
Outstanding 1.1.	3,253	2,338
Granted during the period	2,889	1,940
Movement to (from) during the period	1,036	36
Released	(1,328)	(891)
Cancelled during the period	(236)	(117)
Forfeited during the period	(175)	(53)
Exercised during the period		
Expired during the period		
<b>Outstanding 31.12</b>	<b>5,439</b>	<b>3,253</b>
<b>Exercisable 31.12.</b>	<b>0</b>	<b>0</b>
Average remaining life on outstanding bonus shares	1.00	0.96
Weighted average fair value of allocated bonus shares	120.27	122.90
Weighted average share price of bonus shares exercised during the period	139.43	142.43
The weighted average exercise price will always be 0, since the scheme comprises bonus shares and not options.		

Remuneration scheme	Number of shares 2017	Number of cash-settled shares 2017	Number of shares 2016	Number of cash-settled shares 2016
Outstanding 1.1.	14,779	13,387	15,490	14,071
Granted during the period	7,068	6,202	6,585	5,894
Forfeited during the period	306	273		
Cancelled during the period				
Exercised during the period	(7,703)	(6,988)	(8,487)	(7,750)
Expired during the period				
Modification dividend during the period	716	685	1,191	1,172
<b>Outstanding 31.12</b>	<b>15,166</b>	<b>13,559</b>	<b>14,779</b>	<b>13,387</b>
<b>Exercisable 31.12.</b>				
<b>Average remaining life</b>	<b>2.09</b>	<b>2.06</b>	<b>0.73</b>	<b>0.73</b>

	2017	2016
Weighted average fair value of allocated shares <sup>2</sup>	135.00	143.60
Weighted average share price of bonus shares exercised during the period	133.53	143.59
The value of shares granted that are to be cash-settled	154.90	149.20

<sup>2</sup>The fair value is calculated based on the market value of the share at the time of allocation.

# Declaration from the Board and CEO

The Board and the CEO have today discussed and approved the annual report and financial statements for Gjensidige Bank ASA for the calendar year 2017 and as of 31 December 2017 (Annual Report 2017).

We declare that, to the best of our knowledge, the financial statements for 2017 have been prepared in accordance with IFRS as adopted by the EU, and in accordance with additional requirements set out in the Accounting Act, and taking into account the limitations of accounting regulations for banks, credit institutions

and financing companies. The accounting data provide a true and fair picture of the company's assets, liabilities, financial position and results as a whole, and the annual report gives a true picture of important events in the accounting period and their impact on the financial statements, related material transactions and the most important risks and uncertainties faced by the bank in the next accounting period.

Oslo, 15 February 2018  
The Board of Gjensidige Bank ASA



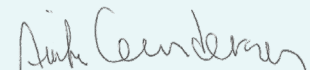
Mats C. Gottschalk  
Chair



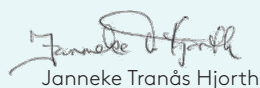
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Translation from the original Norwegian version

To the General Meeting of Gjensidige Bank ASA

## INDEPENDENT AUDITOR'S REPORT

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Gjensidige Bank ASA. The financial statements comprise:

- The financial statements of the parent company, which comprise the balance sheet as at 31 December 2017, and income statement, statement of comprehensive income, 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, and
- The financial statements of the group, which comprise the balance sheet as at 31 December 2017, and income statement, statement of comprehensive income, 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 Annual report 2017, but does not include the financial statements and our auditor's report thereon.

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

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

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Organisasjonsnummer: 980 211 282

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 International Standards on Auditing (ISAs), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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



We communicate with those charged with governance 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.

##### *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, 15 February 2018  
Deloitte AS

#### **Eivind Skaug**

State Authorised Public Accountant (Norway)

Translation has been made for information purposes only

Gjensidige Bank ASA, a wholly-owned subsidiary of Gjensidige Forsikring ASA, offers digital day-to-day-banking services, home lending, financing and savings.

Gjensidige is a leading Nordic insurance group listed on the Oslo Stock Exchange. We have about 3800 employees and offer insurance, banking and pension in Norway and insurance in Denmark, Sweden and the Baltic states. The Group's operating income was NOK 27 billion in 2017, while total assets were NOK 149 billion.