

# Interim report

## Q1 2016



[INCOME STATEMENT](#)

[BALANCE SHEET](#)

[NOTES](#)



# Contents

Interim financial statements Q1 2016	3
Income Statement	4
Balance Sheet	5
Statement of owners' equity	6
Statement of cash flows	7
Notes to the accounts	8
Note 1 General information	8
Note 2 Accounting principles	8
Note 3 Net interest income	9
Note 4 Loans to customers	9
Note 5 Categories of financial instruments	9
Note 6 Fair value hierarchy	11
Note 7 Securities liabilities – stock exchange listed covered bonds and certificates	14
Note 8 Financial of assets and liabilities subject to net settlement	15
Note 9 Transactions with related parties	16
Note 10 Other assets	16
Note 11 Other liabilities and provision for accrued costs	17
Note 12 Capital adequacy	17
Note 13 Fixed income securities	18
Note 14 Losses on lending	19
Note 15 Contingent liabilities	19
Note 16 Net gain/(loss) on financial instruments	19
Note 17 Pension obligations own employees	20
Quarterly earnings trend	20
Key figures	21



# KLP Banken AS and KLP Banken Group

## Interim Financial Statements 1/2016

### Main features by first quarter end:

- Solid growth in mortgage lending
- Increased public sector lending balance
- Earnings are positively impacted by financial gains in the liquidity portfolio.
- The fee to The Norwegian Banks' Guarantee Fund expensed in the first quarter

The KLP Banken Group's purpose is financing of housing mortgages and lending to municipalities, county administrations and companies carrying out public sector assignments. The KLP Banken also manages a lending portfolio on behalf of KLP. The Group manages lending totalling NOK 77 billion. The overall business of KLP Banken AS and its subsidiaries is divided into the retail market and public sector loans business areas. The business is nationwide and the companies' head office is in Trondheim. KLP Banken AS is wholly owned by Kommunal Landspensjonskasse Gjensidig forsikringsselskap (KLP) through KLP Bankholding AS. KLP Banken AS has two wholly owned subsidiaries, KLP Kommunekreditt AS and KLP Boligkreditt AS.

### Income statement

Net interest income for the KLP Banken Group in the first quarter amounted to NOK 50.9 million compared to NOK 38.4 million in 2015. The improvement from last year is a result of mortgage lending increase as well as relatively cheaper funding. Operating expenses and depreciation amounted to NOK 53.0 million this year compared to NOK 46.3 million last year. The increase in costs corresponds to the increase in lending and is also a result of massive marketing campaigns

The financial statements have been prepared in NOK and are presented in accordance with International Financial Reporting Standards (IFRS). This means that financial instruments mainly are recognised at market value. At the end of the quarter, the income statement includes a net gain associated with securities of NOK 5.2 million. During the same period the previous year, a net loss of NOK 8.6 million was brought to book.

In addition to its own lending, the banking group administers housing mortgages and public sector lending financed by its parent company, Kommunal Landspensjonskasse (KLP). The management fee for this task amounted to NOK 14.3 million in the first quarter this year. In the same period last year, this amount was NOK 14.4 million.

By the end of the first quarter, the KLP Banken Group had a pre-tax profit of NOK 19.9 million. The retail market segment generated a profit of NOK 1.6 million while the public sector segment achieved a profit of NOK 18.3 million. In 2015, this Group profit was negative NOK 1.8 million where the retail market segment

reported a loss of NOK 3.3 million and the public sector market a profit of NOK 1.4 million. Group income after tax amounted to NOK 13.1 million this year and negative NOK 1.3 million in the corresponding period last year.

### Lending

On 31 March 2016, the KLP Banken Group had a lending balance of NOK 27.1 billion compared to NOK 25.4 billion at the same time previous year. The distribution between the retail market and public sector lending was NOK 11.3 billion and NOK 15.8 billion, respectively.

In the first quarter of 2016, the Group's mortgage lending balance increased by NOK 0.6 billion or 5.6 per cent. KLP's own mortgage lending balance was decreased by NOK 0.2 billion during the same period.

The public sector lending balance in KLP Banken AS Group has increased by NOK 0.1 billion so far this year. Managed loans on KLP's own balance sheets has increased by NOK 39 million in the same period.

### Liquid investments

On the reporting date, the portfolio of liquid investments amounted to NOK 3.8 billion against NOK 3.0 billion at the same time last year.

### Borrowing

The KLP Banken Group's external financing comprises of deposits, certificates and bonds. On the date of reporting, deposits from individuals and companies were NOK 7.9 billion and issued securities amounted to NOK 22.3 billion. Of the issued securities, covered bonds (OMF) issued by KLP Kommunekreditt AS represented NOK 15.2 billion, while KLP Boligkreditt AS had NOK 3.8 billion outstanding. All covered bonds issues have achieved AAA rating.

### Capital adequacy

At the end of the first quarter, eligible Tier 1 and Tier 2 capital i.a.w. the capital adequacy rules was NOK 1 505.7 million. Eligible Tier 1 and Tier 2 capital comprises core capital only. The corresponding figure for last year was NOK 1 245.1 million. Lending is risk-weighted in accordance with the authorities' capital adequacy regulations. The KLP Banken Group had a capital adequacy ratio of 17.5 per cent at the end of the first quarter, against 15.6 per cent on the same date last year. The minimum statutory requirement is 11.0 per cent core capital adequacy and 14.5 per cent capital adequacy.

# Income statement

KLP Banken AS Group

Note	NOK thousands	Q1 2016	Q1 2015	2015
	Interest income	189 954	213 648	817 991
	Interest expense	-139 062	-175 256	-630 928
3	<b>Net interest income</b>	<b>50 892</b>	<b>38 392</b>	<b>187 063</b>
	Commission income and income from banking services	1 738	3 140	11 280
	Commission cost and cost from banking services	-495	-354	-1 074
	<b>Net charges and commission income</b>	<b>1 243</b>	<b>2 786</b>	<b>10 205</b>
	Other fee income	14 250	14 405	57 648
16	Net gain/ (loss) financial instruments	6 459	-11 578	-34 111
	<b>Total other operating income</b>	<b>20 709</b>	<b>2 827</b>	<b>23 537</b>
	Salaries and administrative costs	-14 974	-14 426	-60 824
	Depreciation	-985	-668	-3 396
	Impairment	0	0	-1 338
	Other operating expenses	-37 023	-31 167	-104 595
	<b>Total operating expenses</b>	<b>-52 982</b>	<b>-46 261</b>	<b>-170 153</b>
14	Net loan losses	0	416	-1 034
	<b>Operating profit/loss before tax</b>	<b>19 861</b>	<b>-1 840</b>	<b>49 618</b>
	Tax ordinary income	-4 965	497	-14 240
	<b>Profit/loss for the period</b>	<b>14 896</b>	<b>-1 343</b>	<b>35 378</b>
	Estimate difference, pension obligation and assets	-2 358	0	7 012
	Tax on actuarial gains and losses	590	0	-1 893
	<b>Items that will not be reclassified to profit and loss</b>	<b>-1 769</b>	<b>0</b>	<b>5 119</b>
	Changes in the fair value at available for sale financial assets	3	0	0
	Tax on changes in fair value of available for sale financial assets	-1	0	0
	<b>Items that may be reclassified to profit and loss</b>	<b>2</b>	<b>0</b>	<b>0</b>
	<b>Other comprehensive income for the period</b>	<b>-1 766</b>	<b>0</b>	<b>5 119</b>
	<b>COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>13 130</b>	<b>-1 343</b>	<b>40 497</b>

# Balance sheet

KLP Banken AS Group

Note	NOK thousands	31.03.2016	31.03.2015	31.12.2015
<b>ASSETS</b>				
	Loans to credit institutions	1 056 017	1 899 227	973 591
4	Loans to customers	27 093 904	25 389 640	26 359 449
13	Interest-bearing securities	3 842 507	2 965 876	3 783 373
	Shareholdings	269	265	265
	Financial derivatives	177 929	192 126	148 375
	Deffered tax assets	10 875	3 082	9 542
	Fixed assets	463	481	468
	Intangible assets	16 803	17 854	17 784
10	Other assets	1 031	943	1 593
	<b>TOTAL ASSETS</b>	<b>32 199 798</b>	<b>30 469 495</b>	<b>31 294 440</b>
<b>LIABILITIES AND OWNERS EQUITY</b>				
<b>LIABILITIES</b>				
7	Debt securities issued	22 282 695	21 552 956	21 901 660
	Deposits and borrowings from the public	7 883 697	7 128 170	7 426 181
	Financial derivatives	402 857	427 013	366 706
	Deffered tax liabilities	0	0	24 514
11	Other Liabilities	39 133	52 558	29 643
11	Provision for accrued costs and liabilities	46 206	42 765	37 920
	<b>TOTAL LIABILITIES</b>	<b>30 654 588</b>	<b>29 203 463</b>	<b>29 786 624</b>
<b>EQUITY</b>				
	Share capital	855 000	750 000	855 000
	Share premium	535 000	440 000	535 000
	Retained earnings	155 210	76 032	117 816
	<b>TOTAL EQUITY</b>	<b>1 545 210</b>	<b>1 266 032</b>	<b>1 507 816</b>
	<b>TOTAL LIABILITIES AND EQUITY</b>	<b>32 199 798</b>	<b>30 469 495</b>	<b>31 294 440</b>

# Statement of changes in equity

KLP Banken AS Group

NOK thousands	Share capital	Share premium	Retained earnings	Total equity
Equity 1 January 2016	855 000	535 000	117 816	1 507 816
Profit for the period	0	0	14 896	14 896
Other comprehensive income	0	0	-1 766	-1 766
<b>Total comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>13 130</b>	<b>13 130</b>
Group contribution received	0	0	90 543	90 543
Group contribution made	0	0	-66 278	-66 278
<b>Total transactions with the owners</b>	<b>0</b>	<b>0</b>	<b>24 264</b>	<b>24 264</b>
<b>Equity 31 March 2016</b>	<b>855 000</b>	<b>535 000</b>	<b>155 210</b>	<b>1 545 210</b>

NOK thousands	Share capital	Share premium	Retained earnings	Total equity
Equity 1 January 2015	750 000	440 000	95 218	1 285 218
Profit for the period	0	0	-1 343	-1 343
Other comprehensive income	0	0	0	0
<b>Total comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>-1 343</b>	<b>-1 343</b>
Group contribution received	0	0	4 837	4 837
Group contribution made	0	0	-22 680	-22 680
<b>Total transactions with the owners</b>	<b>0</b>	<b>0</b>	<b>-17 843</b>	<b>-17 843</b>
<b>Equity 31 March 2015</b>	<b>750 000</b>	<b>440 000</b>	<b>76 032</b>	<b>1 266 032</b>

NOK thousands	Share capital	Share premium	Retained earnings	Total equity
Equity 1 January 2015	750 000	440 000	95 218	1 285 218
Profit for the period	0	0	35 378	35 378
Other comprehensive income	0	0	5 119	5 119
<b>Total comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>40 497</b>	<b>40 497</b>
Group contribution received	0	0	4 980	4 980
Group contribution made	0	0	-22 879	-22 879
Owners' equity received during the period	105 000	95 000	0	200 000
<b>Total transactions with the owners</b>	<b>105 000</b>	<b>95 000</b>	<b>-17 899</b>	<b>182 101</b>
<b>Equity 31 December 2015</b>	<b>855 000</b>	<b>535 000</b>	<b>117 816</b>	<b>1 507 816</b>

# Statement of cash flow

KLP Banken AS Group

NOK thousands	31.03.2016	31.03.2015	2015
<b>OPERATING ACTIVITIES</b>			
Payments received from customers - interest, commission & charges	160 607	183 000	776 367
Payments to customers - interest, commission & charges	-29 563	-46 757	-150 819
Net receipts/disbursements on loans customers & credit institutions	-709 202	-476 488	-1 614 588
Net receipts on customer deposits banking	457 520	877 298	1 175 318
Net receipts/disbursements on operations	-30 003	-29 888	-106 447
Payments to employees, pension schemes, employer's social security contribution etc.	-12 681	-12 245	-59 268
Net interest investment accounts	3 147	4 854	18 517
Net receipts/disbursements from operating activities	19 628	-5 453	70 349
Income tax paid	0	0	0
<b>Net cash flow from operating activities</b>	<b>-140 547</b>	<b>494 321</b>	<b>109 429</b>
<b>INVESTMENT ACTIVITIES</b>			
Payments on the purchase of securities	441 979	1 094 581	2 474 691
Receipts on sale of securities	-490 983	-583 507	-2 804 539
Receipts of interest from securities	10 925	17 600	53 267
Payments on the purchase of tangible fixed assets	0	0	-3 320
<b>Net cash flow from investment activities</b>	<b>-38 079</b>	<b>528 674</b>	<b>-279 901</b>
<b>FINANCING ACTIVITIES</b>			
Net receipts/disbursements on loans from credit institutions	337 975	-140 125	310 301
Net payment of interest on loans	-70 384	-104 682	-437 823
Receipts on issue of owners' equity	0	0	200 000
Group contributions made	-250	0	-27 080
<b>Net cash flows from financing activities</b>	<b>267 342</b>	<b>-244 807</b>	<b>45 398</b>
<b>Net cash flow during the period</b>	<b>88 717</b>	<b>778 188</b>	<b>-125 074</b>
Cash and cash equivalents at the start of the period	945 275	1 070 349	1 070 349
Cash and cash equivalents at the end of the period	1 033 992	1 848 537	945 275
<b>Net receipts/disbursements (-) of cash</b>	<b>88 717</b>	<b>778 188</b>	<b>-125 074</b>

# Notes to the accounts

KLP Banken AS Group

## Note 1 GENERAL INFORMATION

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

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

## Note 2 ACCOUNTING PRINCIPLES

The interim report includes the consolidated financial statements of KLP Banken AS for the period 1 January 2016 – 31 March 2016. The interim consolidated financial statements have not been audited.

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

There are no changes in accounting principles in 2016 that have been of significance for the interim consolidated financial statements following the first quarter. Attention is drawn to KLP Banken's annual report for 2015 for detailed description of accounting principles.

The annual report is available on [klp.no](http://klp.no).



**Note 3 NET INTEREST INCOME**

NOK thousands	Q1 2016	Q1 2015	2015
Interest on loans to and receivables from credit institutions	3 664	5 331	18 578
Interest on loans to customers	170 932	191 939	744 398
Interest on securities	15 358	16 378	55 015
<b>Total interest income</b>	<b>189 954</b>	<b>213 648</b>	<b>817 991</b>
Interest on liabilities to credit institutions	109 710	107 550	480 948
Interest on liabilities to customers	29 127	67 296	149 738
Premium/discount on covered bonds	306	393	-414
Other interest costs	-81	17	656
<b>Total interest costs</b>	<b>139 062</b>	<b>175 256</b>	<b>630 928</b>
<b>Net interest income</b>	<b>50 892</b>	<b>38 392</b>	<b>187 063</b>

**Note 4 LOANS TO CUSTOMERS**

NOK thousands	31.03.2016	31.03.2015	31.12.2015
Loans to cutomers before write-downs	26 642 140	24 905 703	25 943 953
Individual write-downs	-1 329	-11	-1 328
Write-downs by group	0	0	0
<b>Loans to cutomers after write-downs</b>	<b>26 640 811</b>	<b>24 905 692</b>	<b>25 942 625</b>
Accured interest	95 995	116 225	83 956
Change in fair value due to interest rate changes (fair value hedging)	357 098	367 723	332 868
<b>Loans to customers</b>	<b>27 093 904</b>	<b>25 389 640</b>	<b>26 359 449</b>

**Note 5 CATEGORIES OF FINANCIAL INSTRUMENTS**

NOK thousands	31.03.2016		31.03.2015		31.12.2015	
	Capitalized value	Fair value	Capitalized value	Fair value	Capitalized value	Fair value
<b>FINANCIAL ASSETS AT FAIR VALUE</b>						
Fixed-income securities	3 842 507	3 842 507	2 965 876	2 965 876	3 783 373	3 783 373
<b>Total financial assets at fair value</b>	<b>3 842 507</b>	<b>3 842 507</b>	<b>2 965 876</b>	<b>2 965 876</b>	<b>3 783 372</b>	<b>3 783 372</b>
<b>FINANCIAL ASSETS AT FAIR VALUE HEDGING</b>						
Loans to Norwegian local administrations	4 812 870	5 085 569	5 973 162	6 013 596	5 558 168	5 526 008
Loans to retail customers	366 853	356 978	405 333	393 866	388 664	379 511
Financial derivatives	177 929	177 929	192 126	192 126	148 375	148 375
<b>Total financial assets at fair value hedging</b>	<b>5 357 652</b>	<b>5 620 476</b>	<b>6 570 621</b>	<b>6 599 588</b>	<b>6 095 207</b>	<b>6 053 894</b>
<b>FINANCIAL ASSETS AVAILABLE FOR SALE</b>						
Shares and holdings	269	269	265	265	265	265
<b>Total financial assets available for sale</b>	<b>269</b>	<b>269</b>	<b>265</b>	<b>265</b>	<b>265</b>	<b>265</b>

**Note 5 CATEGORIES OF FINANCIAL INSTRUMENTS – CONT.**

NOK thousands	31.03.2016		31.03.2015		31.12.2015	
	Capitalized value	Fair value	Capitalized value	Fair value	Capitalized value	Fair value
<b>FINANCIAL ASSETS AT AMORTIZED COST</b>						
Loans to and receivables from credit institutions	1 056 017	1 056 017	1 899 227	1 899 227	973 591	973 591
Loans to Norwegian local administrations	10 970 028	10 939 282	9 977 934	9 968 431	10 088 101	10 080 287
Loans to retail customers	10 944 153	10 944 153	9 033 211	9 033 211	10 324 515	10 324 515
<b>Total financial assets at amortized cost</b>	<b>22 970 198</b>	<b>22 939 452</b>	<b>20 910 372</b>	<b>20 900 869</b>	<b>21 386 205</b>	<b>21 378 393</b>
<b>Total financial assets</b>	<b>32 170 625</b>	<b>32 402 703</b>	<b>30 447 134</b>	<b>30 466 598</b>	<b>31 265 052</b>	<b>31 215 925</b>
<b>LIABILITIES TO CREDIT INSTITUTIONS AT FAIR VALUE HEDGING</b>						
Liabilities created on issuance of securities	2 565 320	2 670 769	2 657 873	2 686 817	2 018 823	2 031 421
Financial derivatives	402 857	402 857	427 013	427 013	366 706	366 706
<b>Total financial liabilities at fair value hedging</b>	<b>2 968 177</b>	<b>3 073 626</b>	<b>3 084 886</b>	<b>3 113 830</b>	<b>2 385 529</b>	<b>2 398 127</b>
<b>LIABILITIES TO CREDIT INSTITUTIONS AND DEPOSITS AT AMORTIZED COST</b>						
Liabilities created on issuance of securities	19 717 375	19 537 465	18 895 083	19 030 820	19 882 837	19 731 677
Deposits from customers	7 883 697	7 883 697	7 128 170	7 128 170	7 426 181	7 426 181
<b>Total financial liabilities at amortized cost</b>	<b>27 601 072</b>	<b>27 421 162</b>	<b>26 023 253</b>	<b>26 158 990</b>	<b>27 309 017</b>	<b>27 157 858</b>
<b>Total financial liabilities</b>	<b>30 569 249</b>	<b>30 494 788</b>	<b>29 108 139</b>	<b>29 272 820</b>	<b>29 694 546</b>	<b>29 555 985</b>

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

**The different financial instruments are thus priced in the following way:**

**Fixed-income securities - government**

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

**Fixed-income securities - other than government**

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

**Financial derivatives**

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

**Fair value of loans to Norwegian local administrations, loans to retail customers and deposits.**

Fair value of lending and deposits without fixed interest rates is considered virtually the same as book value since the contract terms are continuously changed in step with market interest rates. Lending with fixed interest is valued using a valuation model, including relevant credit spread adjustments obtained from the market.

**Fair value of loans to and receivables from credit institutions**

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

**Fair value of liabilities to credit institutions**

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

**Liabilities created on issuance of securities**

Fair value in this category is determined on the basis of internal valuation models based on external observable data.

**Note 6 FAIR VALUE HIERARCHY**

NOK thousands	Level 1	Level 2	Level 3	Total 31.03.2016
<b>ASSETS</b>				
Financial assets recognized at fair value:				
Fixed-income securities	100 805	3 741 702	0	3 842 507
Shareholdings	0	0	269	269
Financial derivatives	0	177 929	0	177 929
<b>Total financial assets recognized at fair value</b>	<b>100 805</b>	<b>3 919 631</b>	<b>269</b>	<b>4 020 705</b>
Financial assets recognized at fair value in Note 5:				
Loans to retail customers	0	356 978	0	356 978
Loans to Norwegian local administrations	0	5 085 569	0	5 085 569
<b>Total financial assets at fair value used for hedging</b>	<b>0</b>	<b>5 442 547</b>	<b>0</b>	<b>5 442 547</b>
Financial assets at amortized cost:				
Loans to and receivables from credit institutions	0	1 056 017	0	1 056 017
Loans to retail customers	0	10 944 153	0	10 944 153
Loans to Norwegian local administrations	0	10 939 282	0	10 939 282
<b>Total financial assets at amortized cost</b>	<b>0</b>	<b>22 939 452</b>	<b>0</b>	<b>22 939 452</b>
<b>LIABILITIES</b>				
Financial liabilities recognized at fair value:				
Financial derivatives (liabilities)	0	402 857	0	402 857
<b>Total financial derivatives recognized at fair value</b>	<b>0</b>	<b>402 857</b>	<b>0</b>	<b>402 857</b>
Financial liabilities recognized at fair value in Note 5:				
Liabilities created on issuance of securities	0	2 670 769	0	2 670 769
<b>Total financial liabilities at fair value used for hedging</b>	<b>0</b>	<b>2 670 769</b>	<b>0</b>	<b>2 670 769</b>
Liabilities to credit institutions	0	19 537 465	0	19 537 465
Covered bonds issued	0	7 883 697	0	7 883 697
<b>Total financial liabilities at amortized cost</b>	<b>0</b>	<b>27 421 162</b>	<b>0</b>	<b>27 421 162</b>

**Note 6 FAIR VALUE HIERARCHY – CONT.**

NOK thousands	Level 1	Level 2	Level 3	Total 31.03.2015
<b>ASSETS</b>				
Financial assets recognized at fair value:				
Fixed-income securities	149 462	2 816 414	0	2 965 876
Shareholdings	0	0	265	265
Financial derivatives	0	192 127	0	192 127
<b>Total financial assets recognized at fair value</b>	<b>149 462</b>	<b>3 008 541</b>	<b>265</b>	<b>3 158 268</b>
Financial assets recognized at fair value in Note 5:				
Loans to retail customers	0	393 866	0	393 866
Loans to Norwegian local administrations	0	6 013 596	0	6 013 596
<b>Total financial assets at fair value used for hedging</b>	<b>0</b>	<b>6 407 462</b>	<b>0</b>	<b>6 407 462</b>
Financial assets at amortized cost:				
Loans to and receivables from credit institutions	0	1 899 227	0	1 899 227
Loans to retail customers	0	9 033 211	0	9 033 211
Loans to Norwegian local administrations	0	9 968 431	0	9 968 431
<b>Total financial assets at amortized cost</b>	<b>0</b>	<b>20 900 869</b>	<b>0</b>	<b>20 900 869</b>
<b>LIABILITIES</b>				
Financial liabilities recognized at fair value:				
Financial derivatives (liabilities)	0	427 014	0	427 014
<b>Total financial derivatives recognized at fair value</b>	<b>0</b>	<b>427 014</b>	<b>0</b>	<b>427 014</b>
Financial liabilities recognized at fair value in Note 5:				
Liabilities created on issuance of securities	0	2 686 817	0	2 686 817
<b>Total financial liabilities at fair value used for hedging</b>	<b>0</b>	<b>2 686 817</b>	<b>0</b>	<b>2 686 817</b>
Liabilities to credit institutions	0	19 030 820	0	19 030 820
Covered bonds issued	0	7 128 170	0	7 128 170
<b>Total financial liabilities at amortized cost</b>	<b>0</b>	<b>26 158 990</b>	<b>0</b>	<b>26 158 990</b>

**Note 6 FAIR VALUE HIERARCHY – CONT.**

NOK thousands	Level 1	Level 2	Level 3	Total 31.12.2015
<b>ASSETS</b>				
Financial assets recognized at fair value:				
Fixed-income securities	99 620	3 683 753	0	3 783 373
Shareholdings	0	0	265	265
Financial derivatives	0	148 375	0	148 375
<b>Total financial assets recognized at fair value</b>	<b>99 620</b>	<b>3 832 128</b>	<b>265</b>	<b>3 932 013</b>
Financial assets recognized at fair value in Note 5:				
Loans to retail customers	0	379 511	0	379 511
Loans to Norwegian local administrations	0	5 526 008	0	5 526 008
<b>Total financial assets at fair value used for hedging</b>	<b>0</b>	<b>5 905 519</b>	<b>0</b>	<b>5 905 519</b>
Financial assets at amortized cost:				
Loans to and receivables from credit institutions	0	973 591	0	973 591
Loans to retail customers	0	10 324 515	0	10 324 515
Loans to Norwegian local administrations	0	10 080 287	0	10 080 287
<b>Total financial assets at amortized cost</b>	<b>0</b>	<b>21 378 393</b>	<b>0</b>	<b>21 378 393</b>
<b>LIABILITIES</b>				
Financial liabilities recognized at fair value:				
Financial derivatives (liabilities)	0	366 706	0	366 706
<b>Total financial derivatives recognized at fair value</b>	<b>0</b>	<b>366 706</b>	<b>0</b>	<b>366 706</b>
Financial liabilities recognized at fair value in Note 5:				
Liabilities created on issuance of securities	0	2 031 421	0	2 031 421
<b>Total financial liabilities at fair value used for hedging</b>	<b>0</b>	<b>2 031 421</b>	<b>0</b>	<b>2 031 421</b>
Liabilities to credit institutions				
Covered bonds issued	0	19 731 677	0	19 731 677
<b>Total financial liabilities at amortized cost</b>	<b>0</b>	<b>27 157 858</b>	<b>0</b>	<b>27 157 858</b>

**Fair value** shall be a representative price based on what a corresponding asset or liability would have been traded for at normal market terms and conditions. Highest quality in regard to fair value is based on listed prices in an active market. A financial instrument is considered as listed in an active market if listed prices are simply and regularly available from a stock market, dealer, broker, industry group, price-setting service or regulatory authority, and these prices represent actual and regularly occurring transactions at arm's length.

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

**Nivå 2:** Instruments at this level obtain fair value from observable market data. This includes prices based on identical instruments, but where the instrument does not maintain a high enough trading frequency and is therefore not considered to be traded in an active market, as well as prices based on corresponding assets and price-leading indicators that can be confirmed from market information. Example instruments at Level 2 are fixed-income securities priced on the basis of interest rate paths.

**Nivå 3:** Instruments at Level 3 contain non-observable market data or are traded in markets considered to be inactive. The price is based generally on discrete calculations where the actual fair value may deviate if the instrument were to be traded.

There has been no movement between the levels.

NOK thousands	Book value 31.12.2015	Book value 31.03.2015	Book value 31.03.2016
<b>CHANGES IN LEVEL 3 UNLISTED SHARES</b>			
Opening balance 1 Jan	265	265	265
Sold	0	0	0
Bought	0	0	0
Unrealized changes	0	0	4
<b>Closing balance</b>	<b>265</b>	<b>265</b>	<b>269</b>
Realized gains/losses	0	0	0



**Note 7** SECURITIES LIABILITIES – STOCK EXCHANGE LISTED COVERED BONDS AND CERTIFICATES

NOK thousands	31.03.2016	31.03.2015	31.12.2015
Bond debt, nominal amount	23 020 000	21 425 000	22 355 000
Adjustments	126 691	139 899	122 014
Accured interest	76 004	88 057	54 646
Own holdings, nominal amount	-940 000	-100 000	-630 000
<b>Total debt securities issued</b>	<b>22 282 695</b>	<b>21 552 956</b>	<b>21 901 660</b>

## CHANGES IN DEBT SECURITIES ISSUED

NOK thousands	Balance sheet 31.03.2016	Issued	Matured/ redeemed	Other adjustments	Balance sheet 31.12.2015
Bond debt, nominal amount	23 020 000	1 900 000	-1 235 000	0	22 355 000
Adjustments	126 691	0	0	4 677	122 014
Accured interest	76 004	0	0	21 358	54 646
Own holdings, nominal amount	-940 000	0	-310 000	0	-630 000
<b>Total debt securities issued</b>	<b>22 282 695</b>	<b>1 900 000</b>	<b>-1 545 000</b>	<b>26 035</b>	<b>21 901 660</b>

**Note 8 FINANCIAL ASSETS AND LIABILITIES SUBJECT TO NET SETTLEMENT**

NOK thousands	Gross financial assets/ liabilities	Gross assets/ liabilities presented net	Book value	Financial instruments	Security in cash	31.03.2016
						Related sums that are not presented net Net recognised value
<b>ASSETS</b>						
Financial derivatives	177 929	0	177 929	-177 929	-6 203	0
<b>Total</b>	<b>177 929</b>	<b>0</b>	<b>177 929</b>	<b>-177 929</b>	<b>-6 203</b>	<b>0</b>
<b>LIABILITIES</b>						
Financial derivatives	402 857	0	402 857	-177 929	-1 021	223 907
<b>Total</b>	<b>402 857</b>	<b>0</b>	<b>402 857</b>	<b>-177 929</b>	<b>-1 021</b>	<b>223 907</b>

NOK thousands	Gross financial assets/ liabilities	Gross assets/ liabilities presented net	Book value	Financial instruments	Security in cash	31.03.2015
						Related sums that are not presented net Net recognised value
<b>ASSETS</b>						
Financial derivatives	192 126	0	192 126	-192 126	-6 206	0
<b>Total</b>	<b>192 126</b>	<b>0</b>	<b>192 126</b>	<b>-192 126</b>	<b>-6 206</b>	<b>0</b>
<b>LIABILITIES</b>						
Financial derivatives	427 013	0	427 013	-192 128	0	234 885
<b>Total</b>	<b>427 013</b>	<b>0</b>	<b>427 013</b>	<b>-192 128</b>	<b>0</b>	<b>234 885</b>

NOK thousands	Gross financial assets/ liabilities	Gross assets/ liabilities presented net	Book value	Financial instruments	Security in cash	31.12.2015
						Related sums that are not presented net Net recognised value
<b>ASSETS</b>						
Financial derivatives	148 375	0	148 375	-148 375	-2 900	0
<b>Total</b>	<b>148 375</b>	<b>0</b>	<b>148 375</b>	<b>-148 375</b>	<b>-2 900</b>	<b>0</b>
<b>LIABILITIES</b>						
Financial derivatives	366 706	0	366 706	-148 375	-1 020	217 311
<b>Total</b>	<b>366 706</b>	<b>0</b>	<b>366 706</b>	<b>-148 375</b>	<b>-1 020</b>	<b>217 311</b>

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

**Note 9** TRANSACTIONS WITH RELATED PARTIES

NOK thousands	Q1 2016	Q1 2015	2015
INCOME STATEMENT ITEMS			
KLP, fees lending management	14 250	14 405	57 620
KLP Kapitalforvaltning AS, fees for services provided	-126	-168	-422
KLP, rent	-1 376	-930	-3 692
KLP, pension premium	-1 881	-1 707	-7 887
KLP, staff services (at cost)	-13 626	-11 884	-46 386
KLP Group companies, subsidised interest employee loans	404	343	1 065
<b>Total</b>	<b>-2 355</b>	<b>59</b>	<b>298</b>

NOK thousands	31.03.2016	31.03.2015	31.12.2015
FINANCIAL POSITION STATEMENT ITEMS			
KLP Bankholding, internal accounts	0	-1 424	0
KLP, net internal accounts	-11 179	-35 072	-8 498
KLP, loan settlement	-11 609	-5 331	-16 448
KLP Group companies, net other internal accounts	20	-48	358
<b>Total</b>	<b>-22 768</b>	<b>-41 875</b>	<b>-24 588</b>

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

**Note 10** OTHER ASSETS

NOK thousands	31.03.2016	31.03.2015	31.12.2015
Intercompany receivables	267	95	437
Prepaid expenses	764	848	1 156
<b>Total</b>	<b>1 031</b>	<b>943</b>	<b>1 593</b>

**Note 11** OTHER LIABILITIES AND PROVISION FOR ACCRUED COSTS

NOK thousands	31.03.2016	31.03.2015	31.12.2015
Creditors	1 605	1 785	1 583
Intercompany payables	23 034	41 969	25 025
Other liabilities	14 494	8 804	3 035
<b>Total other liabilities</b>	<b>39 133</b>	<b>52 558</b>	<b>29 643</b>
Withholding tax	1 223	1 193	2 738
Social security costs	1 274	1 207	1 982
Holiday pay	5 714	5 328	4 499
Pension obligations	25 733	26 218	22 505
VAT	19	59	170
Provisioned costs	12 243	8 760	6 027
<b>Total accrued costs and liabilities</b>	<b>46 206</b>	<b>42 765</b>	<b>37 920</b>

**Note 12** CAPITAL ADEQUACY

NOK thousands	31.03.2016	31.03.2015	31.12.2015
Share capital and share premium fund	1 390 000	1 190 000	1 390 000
Other owners' equity	142 080	77 375	117 816
<b>Total owners' equity</b>	<b>1 532 080</b>	<b>1 267 375</b>	<b>1 507 816</b>
Interim profit/loss	0	-1 343	0
Deduction goodwill and other intangible assets	-16 803	-17 854	-17 784
Deferred tax asset	-9 542	-3 082	-9 542
<b>Core capital/Tier 1 capital</b>	<b>1 505 735</b>	<b>1 245 096</b>	<b>1 480 490</b>
Supplementary capital/Tier 2 capital	0	0	0
<b>Supplementary capital/Tier 2 capital</b>	<b>0</b>	<b>0</b>	<b>0</b>
Total eligible own funds (Tier 1 and Tier 2 capital)	1 505 735	1 245 096	1 480 490
Capital requirement	689 639	637 030	672 968
<b>Surplus of own funds (Tier 1 and Tier 2 capital)</b>	<b>816 096</b>	<b>608 066</b>	<b>807 522</b>

**Note 12 CAPITAL ADEQUACY - CONT.**

NOK thousands	31.03.2016	31.03.2015	31.12.2015
Estimate basis credit risk:			
Institutions	261 926	443 274	229 347
Central government	21 941	0	0
Local and regional authorities (incl. Municipalities/county administrations)	3 370 710	3 232 701	3 339 625
Investments with mortgage security in real estate	4 216 672	3 526 637	4 079 989
Investments fallen due	87 743	99 822	98 091
Covered bonds	257 951	260 285	262 689
Other holdings	835	933	899
<b>Calculation basis credit risk</b>	<b>8 217 778</b>	<b>7 563 652</b>	<b>8 010 640</b>
Credit risk	657 422	605 092	640 851
Operating risk	31 957	31 938	32 117
Credit valuation adjustments (CVA)	260	0	0
<b>Total capital requirement assets</b>	<b>689 639</b>	<b>637 030</b>	<b>672 968</b>
Core capital adequacy ratio	17.5 %	15.6 %	17.6 %
Supplementary capital ratio	0.0 %	0.0 %	0.0 %
<b>Capital adequacy ratio</b>	<b>17.5 %</b>	<b>15.6 %</b>	<b>17.6 %</b>
<b>Leverage ratio</b>	<b>4.6 %</b>		<b>4.7 %</b>
<b>Capital requirement per 31.03.2016</b>	<b>Tier 1 capital</b>	<b>Tier 2 capital</b>	<b>Tier 1 and Tier 2 capital</b>
Minimum requirement excl. buffers	4.5 %	3.5 %	8.0 %
Protective buffer	2.5 %	0.0 %	2.5 %
Systemic risk buffer	3.0 %	0.0 %	3.0 %
Counter-cyclical capital buffer	1.0 %	0.0 %	1.0 %
<b>Current capital requirement incl. buffers</b>	<b>11.0 %</b>	<b>3.5 %</b>	<b>14.5 %</b>

**Note 13 FIXED-INCOME SECURITIES**

NOK thousands	31.03.2016		31.03.2015		31.12.2015	
	Acquisition cost	Market value	Acquisition cost	Market value	Acquisition cost	Market value
Certificates	1 045 833	1 053 966	148 197	149 462	1 044 836	1 048 173
Bonds	2 781 895	2 788 541	2 794 226	2 816 414	2 737 387	2 735 200
<b>Total fixed-income securities</b>	<b>3 827 727</b>	<b>3 842 507</b>	<b>2 942 423</b>	<b>2 965 876</b>	<b>3 782 223</b>	<b>3 783 373</b>

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



**Note 14 LOSSES ON LENDING**

NOK thousands	Q1 2016	Q1 2015	2015
Known losses	0	0	-278
Reversal of previous write-downs	0	562	562
Change in individual write-downs	0	-146	-1 318
Change in write-downs by group	0	0	0
<b>Total loss on lending</b>	<b>0</b>	<b>416</b>	<b>-1 034</b>

NOK thousands	31.03.2016	31.03.2015	31.12.2015
Balance of write-down losses on lending 1 January	1 329	573	573
Reversal of write-down on individual loans for the period	0	-562	-562
Write-down on individual loans for the period	0	0	1 318
<b>Total write-down on individual loans</b>	<b>1 329</b>	<b>11</b>	<b>1 329</b>
Gross default exceeding 90 days	33 134	25 760	29 339
Gross other doubtful loans	0	0	0

This applies to housing loans. Losses or write downs are not expected on loans in default in the public sector.

**Note 15 CONTINGENT LIABILITIES**

NOK thousands	31.03.2016	31.03.2015	31.12.2015
Credit facilities for lending not utilized	380 088	497 324	351 309
Loan promise	369 537	1 024 571	273 714
<b>Total contingent liabilities</b>	<b>749 625</b>	<b>1 521 895</b>	<b>625 023</b>

**Note 16 NET GAIN/(LOSS) ON FINANCIAL INSTRUMENTS**

NOK thousands	Q1 2016	Q1 2015	2015
Net gain/(loss) on fixed-income securities	5 241	-8 570	-30 077
Net gain/(loss) financial derivatives and realized amortization linked to lending	0	1	2 054
Net gain/(loss) financial derivatives and realized repurchase of own debt	1 758	-2 640	-5 051
Net value change lending and borrowing, hedge accounting	-399	-162	-202
Other financial income and expenses	-141	-208	-834
<b>Total</b>	<b>6 459</b>	<b>-11 578</b>	<b>-34 111</b>

**Note 17 PENSION OBLIGATIONS - OWN EMPLOYEES**

NOK thousands	31.03.2016	31.03.2015	31.12.2015
Capitalized net liability	22 505	25 381	25 381
Pension costs taken to profit/loss	1 910	1 691	8 484
Financial costs taken to profit/loss	141	208	834
Actuarial gains and losses	2 358	0	-7 012
Premiums/supplement paid-in including admin	-1 181	-1 062	-5 182
<b>Capitalized net liability</b>	<b>25 733</b>	<b>26 218</b>	<b>22 505</b>
<b>ASSUMPTIONS</b>			
Discount rate	2.40 %	2.30 %	2.70 %
Salary growth	2.50 %	2.75 %	2.50 %
The National Insurance basic amount (G)	2.25 %	2.50 %	2.25 %
Pension increases	1.48 %	1.73 %	1.48 %
Expected return	14.10 %	14.10 %	14.10 %
Social security contribution rate			

**QUARTERLY EARNINGS TREND**

NOK millions	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Interest income	190.0	196.2	202.9	205.2	213.6
Interest expense	-139.1	-142.2	-151.3	-162.2	-175.3
<b>Net interest income</b>	<b>50.9</b>	<b>54.0</b>	<b>51.6</b>	<b>43.1</b>	<b>38.4</b>
Commission income and income from banking services	1.7	2.7	2.8	2.7	3.1
Commission cost and cost from banking services	-0.5	-0.3	-0.2	-0.2	-0.4
<b>Net charges and commission income</b>	<b>1.2</b>	<b>2.4</b>	<b>2.6</b>	<b>2.5</b>	<b>2.8</b>
Other fee income	14.3	14.4	14.4	14.4	14.4
Net gain/ (loss) financial instruments	6.5	-6.4	-13.6	-2.5	-11.6
<b>Total other operating income</b>	<b>20.7</b>	<b>8.0</b>	<b>0.8</b>	<b>11.9</b>	<b>2.8</b>
Salaries and administrative costs	-15.0	-21.2	-14.8	-10.4	-14.4
Depreciation	-1.0	-1.4	-0.7	-0.7	-0.7
Impairment	0.0	-1.3	0.0	0.0	0.0
Other operating expenses	-37.0	-24.1	-22.2	-27.1	-31.2
<b>Total operating expenses</b>	<b>-53.0</b>	<b>-48.0</b>	<b>-37.6</b>	<b>-38.2</b>	<b>-46.3</b>
Net loan losses	0.0	-1.1	0.0	-0.3	0.4
<b>Operating profit/loss before tax</b>	<b>19.9</b>	<b>15.3</b>	<b>17.3</b>	<b>18.9</b>	<b>-1.8</b>
Tax ordinary income	-5.0	-5.0	-4.7	-5.1	0.5
<b>Profit/loss for the period</b>	<b>14.9</b>	<b>10.3</b>	<b>12.6</b>	<b>13.8</b>	<b>-1.3</b>
Other comprehensive income	-2.4	4.2	2.8	0.0	0.0
Tax on other comprehensive income	0.6	-1.1	-0.8	0.0	0.0
<b>Other comprehensive income for the period</b>	<b>-1.8</b>	<b>3.0</b>	<b>2.1</b>	<b>0.0</b>	<b>0.0</b>
<b>Comprehensive income for the period</b>	<b>13.1</b>	<b>13.3</b>	<b>14.7</b>	<b>13.8</b>	<b>-1.3</b>

## KEY FIGURES

Accumulated figures in NOK millions	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Pre-tax income	19.9	49.6	34.4	17.1	-1.8
Net interest income	50.9	187.1	133.1	81.4	38.4
Other operating income	15.5	67.9	51.0	34.1	17.2
Other operating cost and depreciation	-53.0	-170.2	-122.1	-84.5	-46.3
Net realized/unrealized change fin. instruments at fair value	6.5	-34.1	-27.7	-14.1	-11.6
Deposits	7 883.7	7 426.2	7 279.1	7 305.2	7 128.2
Housing mortgage lending	11 311.0	10 713.1	10 437.5	9 604.2	9 438.5
Lending with public sector guarantee	15 782.9	15 646.3	15 807.7	15 591.0	15 951.1
Non-performing loans	33.1	29.3	26.5	34.1	25.8
Total liabilities created on issuance of securities	22 282.7	21 901.7	19 940.7	20 776.8	21 553.0
Other borrowing	0.0	0.0	0.0	0.0	0.0
Total assets	32 199.8	31 294.4	29 266.9	29 813.9	30 469.5
Average total assets	31 747.1	30 525.3	29 510.9	29 784.5	30 112.2
Equity	1 545.2	1 507.8	1 494.5	1 279.8	1 266.0
Interest net	0.16 %	0.61 %	0.45 %	0.27 %	0.13 %
Profit/loss from ordinary operation before taxes	0.06 %	0.16 %	0.12 %	0.06 %	-0.01 %
Return on equity	1.55 %	3.92 %	2.67 %	1.32 %	-0.14 %
Capital adequacy ratio	17.5 %	17.6 %	17.9 %	15.1 %	15.6 %
Liquidity coverage ratio (LCR)	217 %	212 %	232 %	115 %	85 %



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