



Interim report

KLP BANKEN AS GROUP
Q1 2017



Table of contents

KLP BANKEN GROUP

INTERIM FINANCIAL STATEMENTS 1/2017	3
INCOME STATEMENT	5
BALANCE SHEET	6
STATEMENT OF CHANGES IN EQUITY	7
STATEMENT OF CASH FLOW	8
NOTES TO THE ACCOUNTS	9
— Note 1 General information	9
— Note 2 Accounting principles	9
— Note 3 Net interest income	10
— Note 4 Loans to customers	10
— Note 5 Categories of financial instruments	11
— Note 6 Fair value hierarchy	13
— Note 7 Securities liabilities - stock exchange listed covered bonds and certificates	17
— Note 8 Financial assets and liabilities subject net settlement	18
— Note 9 Transactions with related parties	19
— Note 10 Other assets	20
— Note 11 Other liabilities and provision for accrued costs	20
— Note 12 Capital adequacy	21
— Note 13 Fixed-income securities	22
— Note 14 Losses on lending	22
— Note 15 Contingent liabilities	23
— Note 16 Net gain/(loss) on financial instruments	23
— Quarterly earnings trend	23
— Key figures - accumulated	24

Interim Financial Statements

KLP BANKEN AS GROUP
Q1 2017

MAIN FEATURES BY FIRST QUARTER END:

- Continued growth in mortgage loans
- Moderate growth in public sector lending
- Stable development in net interest income

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 83 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 subsidiaries, KLP Kommunekreditt AS and KLP Boligkreditt AS.

INCOME STATEMENT

Net interest income for the KLP Banken Group by first quarter end 2017 amounted to NOK 51.4 million compared to NOK 50.9 million in 2016. Operating expenses and depreciations amounted to NOK 48.6 million this year compared to NOK 48.0 million for the same period last year. In 2016 all the banks' expenses related to the Norwegian Banks' Guarantee Fund was recognized in the first quarter, while in 2017 they are to be booked evenly through the year. Relevant comparative figures from 2016 are thus adjusted accordingly.

Net charges and commission income is increased from NOK 1.2 million by the first quarter in 2016 to NOK 2.6 million this quarter.

The financial statements have been prepared in NOK and are presented in accordance with IAS 34. This means that financial instruments are recognised in part at market value. At the end of the first quarter, the income statement includes a net gain associated with financial instruments of NOK 3.7 million. During the same period last year, a net gain of NOK 6.5 million was brought to book.

In addition to its own lending, the banking group administers housing mortgages and public sector lending

financed by its parent company, KLP. The management fee for this task amounted to NOK 14.3 million in the first quarter of 2017. This is the same figure as for the first quarter in 2016.

The income statement include a reversed loss provision of NOK 0.2 million on mortgage loans as at quarter end. There are no recognized losses on public sector loans.

By the end of the first quarter, the KLP Banken Group had a pre-tax profit of NOK 23.2 million. Of this the retail market segment generated a profit of NOK 5.7 million while the public sector segment achieved a profit of NOK 17.4 million. In 2016, the Group profit was NOK 24.8 million, where the retail market segment reported a profit of NOK 6.5 million and the public sector market a profit of NOK 18.3 million. Group income after tax amounted to NOK 17.6 million at the reporting date and NOK 16.8 million at the same time last year.

LENDING

On 31 March 2017, the KLP Banken Group had a lending balance of NOK 30.7 billion compared to NOK 27.1 billion at the same time the previous year. The distribution between the retail market and public sector lending was NOK 13.4 billion and NOK 17.3 billion, respectively.

During the first quarter of 2017, the Group's mortgage lending balance increased by NOK 0.7 billion. Mortgage lending financed by KLP decreased by NOK 0.1 billion during the same period.

The public sector lending balance in KLP Banken AS Group was nearly unchanged through the first quarter. Managed loans to the public sector on KLP's own balance sheets has increased by NOK 0.1 billion in the same period. Managed loans to foreign debtors in foreign currencies has increased by NOK 0.6 billion.

LIQUID INVESTMENT

On the reporting date, the portfolio of liquid investments amounted to NOK 2.4 billion against NOK 3.8 billion at the same time last year. Net financial gains have positively impacted earnings by NOK 4.4 million this quarter, compared to a gain of NOK 5.2 million last year.

BORROWING

The KLP Banken Group's external financing comprises of deposits, certificates and bonds. On the date of reporting, deposits from individuals and companies were NOK 8.9 billion and issued securities amounted to NOK 23.2 billion. Of the issued securities, covered bonds (OMF) issued by KLP Kommunekreditt AS represented NOK 17.6 billion, while KLP Boligkreditt AS had NOK 3.7 billion outstanding. All covered bonds issued have achieved AAA-rating.

RISK AND CAPITAL ADEQUACY

The KLP Banken Group is exposed to various types of risk. The bank has established a framework for risk management aimed at ensuring that risks are identified, analysed and subjected to management using policies, limits, procedures and instructions. The bank is to have a prudent risk profile and earnings are to be principally a result of borrowing and lending activity as well as liquidity management. This means that the bank is to have low market risk, and interest and foreign-exchange risk arising within the borrowing and lending activity

is reduced using derivatives. The bank is to have sufficient long-term financing and limits have been established to ensure that that this objective is achieved. The credit risk in the bank is low and the bank's lending is limited to loans with local government risk and loans with lien on housing and leisure property. Management of the bank's liquidity is conducted through investments in banks satisfying credit quality requirements and in securities in accordance with Board-approved credit lines. The Group's securities portfolio has high credit quality.

At the end of the first quarter, eligible Tier 1 and Tier 2 capital i.a.w. the capital adequacy rules was NOK 1 823.2 million. Eligible Tier 1 and Tier 2 capital comprises core capital only. The corresponding figure for last year was NOK 1 505.7 million. Lending is risk-weighted in accordance with the authorities' capital adequacy regulations. The KLP Banken Group had a capital adequacy ratio of 19.3 per cent at the end of the first quarter, compared to 17.5 per cent on the same date last year. The minimum statutory requirement is 13.6 per cent core capital adequacy and 17.1 per cent capital adequacy.

Income statement

KLP BANKEN AS GROUP

NOTE	NOK THOUSANDS	Q1 2017	Q1 2016	01.01.2016-31.12.2016
	Interest income	191 607	189 954	765 615
	Interest expense	-140 253	-139 062	-571 301
3	Net interest income	51 354	50 892	194 314
	Commission income and income from banking services	2 919	1 738	10 966
	Commission cost and cost from banking services	-338	-495	-1 564
	Net charges and commission income	2 582	1 243	9 402
	Other fee income	14 250	14 250	57 028
16	Net gain/ (loss) financial instruments	3 673	6 459	11 119
	Total other operating income	17 923	20 709	68 146
	Salaries and administrative costs	-16 676	-14 974	-57 801
	Depreciation	-789	-985	-4 146
	Other operating expenses	-31 342	-32 071	-117 551
14	Net loan losses	176	0	-1 119
	Total operating expenses	-48 631	-48 030	-180 617
	Operating profit/loss before tax	23 228	24 814	91 244
	Tax ordinary income	-5 626	-6 203	-22 356
	Profit/loss for the period	17 602	18 611	68 888
	Estimate difference, pension obligation and assets	0	-2 358	-863
	Tax on actuarial gains and losses	0	590	216
	Items that will not be reclassified to profit and loss	0	-1 768	-647
	Changes in the fair value at available for sale financial assets	0	3	121
	Tax on changes in fair value of available for sale financial assets	0	-1	-30
	Items that may be reclassified to profit and loss	0	2	91
	Other comprehensive income for the period	0	-1 766	-556
	Comprehensive income for the period	17 602	16 845	68 332

Balance sheet

KLP BANKEN AS GROUP

NOTE	NOK THOUSANDS	31.03.2017	31.03.2016	31.12.2016
ASSETS				
	Loans to credit institutions	1 171 982	1 056 017	1 548 082
4	Loans to customers	30 657 129	27 093 904	29 962 467
13	Interest-bearing securities	2 392 706	3 842 507	2 717 513
	Shareholdings	394	269	394
	Financial derivatives	128 928	177 929	123 179
	Deffered tax assets	5 233	9 637	6 916
	Fixed assets	526	463	538
	Intangible assets	20 321	16 803	19 955
10	Other assets	5 953	5 983	3 370
	Total assets	34 383 172	32 203 512	34 382 412
LIABILITIES AND OWNERS EQUITY				
LIABILITIES				
7	Debt securities issued	23 241 341	22 282 695	23 451 374
	Deposits and borrowings from the public	8 939 363	7 883 697	8 687 859
	Financial derivatives	249 113	402 857	253 615
	Deffered tax liabilities	0	0	19 552
11	Other Liabilities	39 687	39 133	73 431
11	Provision for accrued costs and liabilities	45 660	46 206	46 174
	Total liabilities	32 515 165	30 654 588	32 532 006
EQUITY				
	Share capital	982 500	855 000	982 500
	Share premium	657 500	535 000	657 500
	Other owners' equity	228 008	158 924	210 406
	Total equity	1 868 008	1 548 924	1 850 406
	Total liabilities and equity	34 383 172	32 203 512	34 382 412

Statement of changes in equity

KLP BANKEN AS GROUP

2017 NOK THOUSANDS	Share capital	Share premium	Other equity	Total owners' equity
Equity 1 January 2017	982 500	657 500	210 406	1 850 406
Profit for the period	0	0	17 602	17 602
Other comprehensive income	0	0	0	0
Total comprehensive income for the period	0	0	17 602	17 602
Group contribution received	0	0	58 657	58 657
Group contribution made	0	0	-58 657	-58 657
Total transactions with the owners	0	0	0	0
Equity 31 March 2017	982 500	657 500	228 008	1 868 008

2016 NOK THOUSANDS	Share capital	Share premium	Other equity	Total owners' equity
Equity 1 January 2016	855 000	535 000	117 816	1 507 816
Profit for the period	0	0	18 610	18 610
Other comprehensive income	0	0	-1 766	-1 766
Total comprehensive income for the period	0	0	16 844	16 844
Group contribution received	0	0	90 543	90 543
Group contribution made	0	0	-66 278	-66 278
Total transactions with the owners	0	0	24 264	24 264
Equity 31 March 2016	855 000	535 000	158 924	1 548 924

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

Statement of cash flow

KLP BANKEN AS GROUP

NOK THOUSANDS	01.01.2017- 31.03.2017	01.01.2016- 31.03.2016	01.01.2016- 31.12.2016
OPERATING ACTIVITIES			
Payments received from customers - interest, commission & charges	169 310	160 607	706 238
Payments to customers - interest, commission & charges	-31 371	-29 563	-119 632
Net receipts/disbursements on loans customers & credit institutions	-693 129	-709 202	-3 828 660
Net receipts on customer deposits banking	251 345	457 520	1 263 356
Net receipts/disbursements on operations	-42 648	-30 003	-103 142
Payments to employees, pension schemes, employer's social security contribution etc.	-17 936	-12 681	-54 296
Net interest investment accounts	2 145	3 147	13 420
Net receipts/disbursements from operating activities	-21 275	19 628	90 935
Income tax paid	0	0	0
Net cash flow from operating activities	-383 558	-140 547	-2 031 780
INVESTMENT ACTIVITIES			
Payments on the purchase of securities	768 112	441 979	3 994 493
Receipts on sale of securities	-439 285	-490 983	-2 917 899
Receipts of interest from securities	9 854	10 925	59 173
Payments on the purchase of tangible fixed assets	-1 144	0	-6 386
Net cash flow from investment activities	337 537	-38 079	1 129 381
FINANCING ACTIVITIES			
Disbursements on loans from credit institutions	-727 325	-1 462 025	-6 781 583
Receipts on loans from credit institutions	500 000	1 800 000	8 400 000
Net payment of interest on loans	-86 552	-70 384	-387 798
Receipts on issue of owners' equity	0	0	250 000
Group contributions made	-19 552	-250	-250
Net cash flows from financing activities	-333 429	267 342	1 480 369
Net cash flow during the period	-379 450	88 717	577 970
Cash and cash equivalents at the start of the period	1 523 245	945 275	945 275
Cash and cash equivalents at the end of the period	1 143 795	1 033 992	1 523 245
Net receipts/ disbursements (-) of cash	-379 450	88 717	577 970

Notes to the accounts

KLP BANKEN AS GROUP

NOTE 1 General information

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

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

NOTE 2 Accounting principles

The interim report includes the interim Financial Statements of KLP Banken group for the period 1 January 2017 – 31 March 2017. The interim Financial Statements have not been audited.

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

The bank has changed the accounting principles for accrual of annual levy to The Norwegian Banks' Guarantee Fund (the Guarantee Fund levy). After the Ministry of Finance changed the regulation of 06.05.97 No. 429 on the payment of the levy to the Bank's Guarantee Fund in September 2016, the levy for 2017 will be accrued periodically throughout the year. There are no other changes in accounting policies that have been of significance for the interim financial statements following the first quarter. Attention is drawn to KLP Banken's Annual Report for 2016 for detailed description of accounting principles. The annual report is available on klp.no.

NOTE 3 Net interest income

NOK THOUSANDS	01.01.2017- 31.03.2017	01.01.2016- 31.03.2016	01.01.2016- 31.12.2016
Interest on loans to and receivables from credit institutions	2 960	3 664	13 661
Interest on loans to customers	178 777	170 932	695 605
Interest on securities	9 870	15 358	56 349
Total interest income	191 607	189 954	765 615
Interest on liabilities to credit institutions	110 249	109 710	451 241
Interest on liabilities to customers	31 035	29 127	118 044
Premium/discount on covered bonds	273	306	2 544
Other interest costs	-1 304	-81	-528
Total interest costs	140 253	139 062	571 301
Net interest income	51 354	50 892	194 314

NOTE 4 Loans to customers

NOK THOUSANDS	31.03.2017	31.03.2016	31.12.2016
Loans to cutomers before write-downs	30 372 769	26 642 140	29 681 769
Individual write-downs	-1 522	-1 329	-1 545
Write-downs by group	-553	0	-706
Loans to cutomers after write-downs	30 370 694	26 640 811	29 679 518
Accured interest	96 703	95 995	84 310
Change in fair value due to interest rate changes (fair value hedging)	189 732	357 098	198 639
Loans to customers	30 657 129	27 093 904	29 962 467

NOTE 5 Categories of financial instruments

NOK THOUSANDS	31.03.2017		31.03.2016		31.12.2016	
	Capitalized value	Fair value	Capitalized value	Fair value	Capitalized value	Fair value
FINANCIAL ASSETS AT FAIR VALUE						
Fixed-income securities	2 392 706	2 392 706	3 842 507	3 842 507	2 717 513	2 717 513
Total financial assets at fair value	2 392 706	2 392 706	3 842 507	3 842 507	2 717 513	2 717 513
FINANCIAL ASSETS AT FAIR VALUE HEDGING						
Loans to Norwegian local administrations	5 036 906	5 072 230	4 812 870	5 085 569	5 164 845	5 186 458
Loans to retail customers	215 649	209 050	366 853	356 978	225 799	219 474
Financial derivatives	128 928	128 928	177 929	177 929	123 179	123 179
Total financial assets at fair value hedging	5 381 483	5 410 208	5 357 652	5 620 476	5 513 823	5 529 111
FINANCIAL ASSETS AVAILABLE FOR SALE						
Shares and holdings	394	394	269	269	394	394
Total financial assets available for sale	394	394	269	269	394	394
FINANCIAL ASSETS AT AMORTIZED COST						
Loans to and receivables from credit institutions	1 171 982	1 171 982	1 056 017	1 056 017	1 548 082	1 548 082
Loans to Norwegian local administrations	12 244 622	12 236 906	10 970 028	10 939 282	12 081 008	12 071 700
Loans to retail customers	13 159 953	13 159 953	10 944 153	10 944 153	12 490 815	12 490 815
Total financial assets at amortized cost	26 576 557	26 568 841	22 970 198	22 939 452	26 119 905	26 110 597
Total financial assets	34 351 139	34 372 148	32 170 625	32 402 703	34 351 634	34 357 614
LIABILITIES TO CREDIT INSTITUTIONS AT FAIR VALUE HEDGING						
Liabilities created on issuance of securities	2 557 365	2 577 066	2 565 320	2 670 769	2 254 557	2 268 492
Financial derivatives	249 113	249 113	402 857	402 857	253 615	253 615
Total financial liabilities at fair value hedging	2 806 478	2 826 179	2 968 177	3 073 626	2 508 172	2 522 107
LIABILITIES TO CREDIT INSTITUTIONS AND DEPOSITS AT AMORTIZED COST						
Liabilities created on issuance of securities	20 683 976	20 770 410	19 717 375	19 537 465	21 196 817	21 577 190
Deposits from customers	8 939 363	8 939 363	7 883 697	7 883 697	8 687 859	8 687 859
Total financial liabilities at amortized cost	29 623 339	29 709 773	27 601 072	27 421 162	29 884 676	30 265 049
Total financial liabilities	32 429 817	32 535 952	30 569 249	30 494 788	32 392 849	32 787 156

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

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

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

Fixed-income securities - government

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

NOTE 5 Categories of financial instruments - cont.**Fixed-income securities - other than government**

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

Financial derivatives

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

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

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

Fair value of loans to and receivables from credit institutions

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

Fair value of liabilities to credit institutions

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

Liabilities created on issuance of securities

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

NOTE 6 Fair value hierarchy

31.03.2017 NOK THOUSANDS	Level 1	Level 2	Level 3	Total
ASSETS				
Financial assets recognized at fair value:				
Fixed-income securities	260 389	2 132 316	0	2 392 705
Shareholdings	0	0	394	394
Financial derivatives	0	128 928	0	128 928
Total financial assets recognized at fair value	260 389	2 261 244	394	2 522 027
Financial assets recognized at fair value in Note 5:				
Loans to retail customers	0	209 050	0	209 050
Loans to Norwegian local administrations	0	5 072 230	0	5 072 230
Total financial assets at fair value used for hedging	0	5 281 280	0	5 281 280
Financial assets at amortized cost:				
Loans to and receivables from credit institutions	0	1 171 982	0	1 171 982
Loans to retail customers	0	13 159 953	0	13 159 953
Loans to Norwegian local administrations	0	12 236 906	0	12 236 906
Total financial assets at amortized cost	0	26 568 841	0	26 568 841
LIABILITIES				
Financial liabilities recognized at fair value:				
Financial derivatives (liabilities)	0	249 113	0	249 113
Total financial derivatives recognized at fair value	0	249 113	0	249 113
Financial liabilities recognized at fair value in Note 5:				
Liabilities created on issuance of securities	0	2 577 066	0	2 577 066
Total financial liabilities at fair value used for hedging	0	2 577 066	0	2 577 066
Liabilities to credit institutions	0	20 770 410	0	20 770 410
Covered bonds issued	0	8 939 363	0	8 939 363
Total financial liabilities at amortized cost	0	29 709 773	0	29 709 773

NOTE 6 Fair value hierarchy - cont.

31.03.2016 NOK THOUSANDS	Level 1	Level 2	Level 3	Total
ASSETS				
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
Total financial assets recognized at fair value	100 805	3 919 631	269	4 020 705
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
Total financial assets at fair value used for hedging	0	5 442 547	0	5 442 547
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
Total financial assets at amortized cost	0	22 939 452	0	22 939 452
LIABILITIES				
Financial liabilities recognized at fair value:				
Financial derivatives (liabilities)	0	402 857	0	402 857
Total financial derivatives recognized at fair value	0	402 857	0	402 857
Financial liabilities recognized at fair value in Note 5:				
Liabilities created on issuance of securities	0	2 670 769	0	2 670 769
Total financial liabilities at fair value used for hedging	0	2 670 769	0	2 670 769
Liabilities to credit institutions	0	19 537 465	0	19 537 465
Covered bonds issued	0	7 883 697	0	7 883 697
Total financial liabilities at amortized cost	0	27 421 162	0	27 421 162

NOTE 6 Fair value hierarchy - cont.

31.12.2016 NOK THOUSANDS	Level 1	Level 2	Level 3	Total
ASSETS				
Financial assets recognized at fair value:				
Fixed-income securities	200 701	2 516 812	0	2 717 513
Shareholdings	0	0	394	394
Financial derivatives	0	123 179	0	123 179
Total financial assets recognized at fair value	200 701	2 639 991	394	2 841 086
Financial assets recognized at fair value in Note 5:				
Loans to retail customers	0	219 474	0	219 474
Loans to Norwegian local administrations	0	5 186 458	0	5 186 458
Total financial assets at fair value used for hedging	0	5 405 932	0	5 405 932
Financial assets at amortized cost:				
Loans to and receivables from credit institutions	0	1 548 082	0	1 548 082
Loans to retail customers	0	12 490 815	0	12 490 815
Loans to Norwegian local administrations	0	12 071 700	0	12 071 700
Total financial assets at amortized cost	0	26 110 597	0	26 110 597
LIABILITIES				
Financial liabilities recognized at fair value:				
Financial derivatives (liabilities)	0	253 615	0	253 615
Total financial derivatives recognized at fair value	0	253 615	0	253 615
Financial liabilities recognized at fair value in Note 5:				
Liabilities created on issuance of securities	0	2 268 492	0	2 268 492
Total financial liabilities at fair value used for hedging	0	2 268 492	0	2 268 492
Liabilities to credit institutions	0	21 577 190	0	21 577 190
Covered bonds issued	0	8 687 859	0	8 687 859
Total financial liabilities at amortized cost	0	30 265 049	0	30 265 049

NOTE 6 Fair value hierarchy - cont.

NOK THOUSANDS	Book value 31.12.2016	Book value 31.03.2016	Book value 31.03.2017
CHANGES IN LEVEL 3 UNLISTED SHARES			
Opening balance 1 Jan	265	265	394
Sold	0	0	0
Bought	7	0	0
Unrealized changes	121	4	0
Closing balance	394	269	394
Realized gains/losses	0	0	0

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

LEVEL 1:

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

LEVEL 2:

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

LEVEL 3:

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

There has been no movement between the levels.

NOTE 7 Securities liabilities - stock exchange listed covered bonds and certificates

NOK THOUSANDS	31.03.2017	31.03.2016	31.12.2016
Bond debt, nominal amount	24 592 000	23 020 000	26 685 000
Adjustments	64 448	126 691	66 384
Accrued interest	80 893	76 004	68 990
Own holdings, nominal amount	-1 496 000	-940 000	-3 369 000
Total debt securities issued	23 241 341	22 282 695	23 451 374

Interest rate on borrowings through the issuance of securities at the reporting date 1,51% 1,52% 1,59%

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

Changes in debt securities issued

NOK THOUSANDS	Balance sheet 31.03.2017	Issued	Matured/ Redeemed	Other adjust- ments	Balance sheet 31.12.2016
Bond debt, nominal amount	24 592 000	500 000	-2 593 000	0	26 685 000
Adjustments	64 448	0	0	-1 936	66 384
Accrued interest	80 893	0	0	11 904	68 990
Own holdings, nominal amount	-1 496 000	0	1 873 000	0	-3 369 000
Total debt securities issued	23 241 341	500 000	-720 000	9 968	23 451 374

NOTE 8 Financial assets and liabilities subject net settlement

31.03.2017 NOK THOUSANDS	Gross financial assets/liabilites	Gross assets/ liabilities presented net	Book value	Related sums that are not presented net		
				Financial instruments	Security in cash	Net recognised vaalue

ASSETS

Financial derivatives	128 928	0	128 928	-128 928	-3 920	0
Total	128 928	0	128 928	-128 928	-3 920	0

LIABILITIES

Financial derivatives	249 113	0	249 113	-128 928	0	120 185
Total	249 113	0	249 113	-128 928	0	120 185

31.03.2016 NOK THOUSANDS	Gross financial assets/liabilites	Gross assets/ liabilities presented net	Book value	Related sums that are not presented net		
				Financial instruments	Security in cash	Net recognised vaalue

ASSETS

Financial derivatives	177 929	0	177 929	-177 929	-6 203	0
Total	177 929	0	177 929	-177 929	-6 203	0

LIABILITIES

Financial derivatives	402 857	0	402 857	-177 929	-1 021	223 907
Total	402 857	0	402 857	-177 929	-1 021	223 907

31.12.2016 NOK THOUSANDS	Gross financial assets/liabilites	Gross assets/ liabilities presented net	Book value	Related sums that are not presented net		
				Financial instruments	Security in cash	Net recognised vaalue

ASSETS

Financial derivatives	123 179	0	123 179	-123 179	-900	0
Total	123 179	0	123 179	-123 179	-900	0

LIABILITIES

Financial derivatives	253 615	0	253 615	-123 179	0	130 436
Total	253 615	0	253 615	-123 179	0	130 436

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

NOTE 9 Transactions with related parties

NOK THOUSANDS	01.01.2017- 31.03.2017	01.01.2016- 31.03.2016	01.01.2016- 31.12.2016
INCOME STATEMENT ITEMS			
KLP, fees lending management	14 250	14 250	57 000
KLP Kapitalforvaltning AS, fees for services provided	-105	-126	-438
KLP, rent	-1 567	-1 376	-5 454
KLP, pension premium	-2 281	-1 881	-7 442
KLP, staff services (at cost)	-13 859	-13 626	-53 717
KLP Group companies, subsidised interest employee loans	609	404	2 233
Total	-2 953	-2 355	-7 818

NOK THOUSANDS	31.03.2017	31.03.2016	31.12.2016
FINANCIAL POSTITION STATEMENT ITEMS			
KLP, net internal accounts	-10 896	-11 179	-14 895
KLP, loan settlement	-13 107	-11 609	-50 525
KLP Group companies, net other internal accounts	111	20	228
Total	-23 892	-22 768	-65 192

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	31.03.2017	31.03.2016	31.12.2016
Intercompany receivables	405	267	610
Miscellaneous receivables	113	0	2 487
Prepaid expenses	5 435	5 716	273
Total	5 953	5 983	3 370

NOTE 11 Other liabilities and provision for accrued costs

NOK THOUSANDS	31.03.2017	31.03.2016	31.12.2016
Creditors	2 125	1 605	5 013
Intercompany payables	24 297	23 034	65 801
Other liabilities	13 265	14 494	2 617
Total other liabilities	39 687	39 133	73 431
Withholding tax	1 345	1 223	2 837
Social security costs	1 346	1 274	2 090
Holiday pay	5 798	5 714	4 914
Pension obligations	26 279	25 733	26 279
VAT	0	19	264
Provisioned costs	10 892	12 243	9 790
Total accrued costs and liabilities	45 660	46 206	46 174

NOTE 12 Capital adequacy

NOK THOUSANDS	31.03.2017	31.03.2016	31.12.2016
Share capital and share premium fund	1 640 000	1 390 000	1 640 000
Other owners' equity	210 406	142 080	210 406
Total owners' equity	1 850 406	1 532 080	1 850 406
Interim profit/loss	0	0	0
Deduction goodwill and other intangible assets	-20 320	-16 803	-19 955
Deferred tax asset	-6 916	-9 542	-6 916
Core capital/Tier 1 capital	1 823 170	1 505 735	1 823 535
Supplementary capital/Tier 2 capital	0	0	0
Supplementary capital/Tier 2 capital	0	0	0
Total eligible own funds (Tier 1 and Tier 2 capital)	1 823 170	1 505 735	1 823 535
Capital requirement	754 444	689 639	767 775
Surplus of own funds (Tier 1 and Tier 2 capital)	1 068 726	816 096	1 055 760
ESTIMATE BASIS CREDIT RISK:			
Institutions	253 902	261 926	337 586
Central government	0	21 941	0
Local and regional authorities (incl. municipalities/ county administrations)	3 493 100	3 370 710	3 491 045
Investments with mortgage security in real estate	4 810 081	4 216 672	5 038 937
Investments fallen due	71 750	87 743	65 763
Covered bonds	192 584	257 951	231 124
Other holdings	182 315	835	31 180
Calculation basis credit risk	9 003 733	8 217 778	9 195 634
Credit risk	720 299	657 422	735 651
Operating risk	33 967	31 957	31 957
Credit valuation adjustments (CVA)	179	260	168
Total capital requirement assets	754 444	689 639	767 775
Core capital adequacy ratio	19.3 %	17.5 %	19.0 %
Supplementary capital ratio	0.0 %	0.0 %	0.0 %
Capital adequacy ratio	19.3 %	17.5 %	19.0 %
Leverage ratio	5.2 %	4.6 %	5.2 %

CAPITAL REQUIREMENT PER 31.03.2017	Tier 1 capital	Tier 2 capital	Tier 1 and tier 2 capital
Minimum requirement excl. buffers	4.5 %	3.5 %	8.0 %
Protective buffer	2.5 %	0.0 %	2.5 %
Systemic risk buffer	3.0 %	0.0 %	3.0 %
Counter-cyclical capital buffer	1.5 %	0.0 %	1.5 %
Pillar 2-requirement	2.1 %	0.0 %	2.1 %
Current capital requirement incl. buffers	13.6 %	3.5 %	17.1 %

NOTE 13 Fixed-income securities

NOK THOUSANDS	31.03.2017		31.03.2016		31.12.2016	
	Acquisition cost	Market value	Acquisition cost	Market value	Acquisition cost	Market value
Sertifikater	930 816	931 876	1 045 833	1 053 966	200 587	200 701
Obligasjoner	1 444 803	1 460 830	2 781 895	2 788 541	2 502 618	2 516 812
Sum rentebærende verdipapirer	2 375 619	2 392 706	3 827 728	3 842 507	2 703 205	2 717 513

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

NOTE 14 Losses on lending

NOK THOUSANDS	01.01.2017- 31.03.2017	01.01.2016- 31.03.2016	01.01.2016- 31.12.2016
Known losses	0	0	-196
Reversal of previous write-downs	23	0	12
Change in individual write-downs	0	0	-229
Change in write-downs by group	153	0	-706
Total loss on lending	176	0	-1 119

NOK THOUSANDS	31.03.2017	31.03.2016	31.12.2016
Balance of write-down losses on lending 1 January	2 252	1 329	1 329
Reversal of write-down on individual loans for the period	-23	0	-12
Write-down on individual loans for the period	0	0	229
Write-down by group loans for the period	-153	0	706
Total write-down on loans	2 076	1 329	2 252
Gross default exceeding 90 days	27 909	33 134	22 230
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	31.03.2017	31.03.2016	31.12.2016
Credit facilities for lending not utilized	464 641	380 088	452 389
Loan promise	370 900	369 537	424 652
Total contingent liabilities	835 541	749 625	877 041

NOTE 16 Net gain/(loss) on financial instruments

NOK THOUSANDS	01.01.2017- 31.03.2017	01.01.2016- 31.03.2016	01.01.2016- 31.12.2016
Net gain/(loss) on fixed-income securities	4 420	5 241	18 425
Net gain/(loss) financial derivatives and realized amortization linked to lending	0	0	1 867
Net gain/(loss) financial derivatives and realized repurchase of own debt	-438	1 758	-10 211
Net value change lending and borrowing, hedge accounting	-74	-399	-54
Other financial income and expenses	-235	-141	1 091
Total	3 673	6 459	11 119

Quarterly earnings trend

NOK MILLIONS	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Interest income	191.6	192.9	193.1	189.7	190.0
Interest expense	-140.3	-147.9	-144.0	-140.3	-139.1
Net interest income	51.4	45.0	49.1	49.4	50.9
Commission income and income from banking services	2.9	3.1	3.2	2.9	1.7
Commission cost and cost from banking services	-0.3	-0.3	-0.3	-0.5	-0.5
Net charges and commission income	2.6	2.8	2.9	2.4	1.2
Other fee income	14.3	14.3	14.3	14.3	14.3
Net gain/ (loss) financial instruments	3.7	-7.4	3.6	8.5	6.5
Total other operating income	17.9	6.9	17.9	22.7	20.7
Salaries and administrative costs	-16.7	-17.7	-13.0	-12.1	-15.0
Depreciation	-0.8	-1.1	-1.0	-1.0	-1.0
Other operating expenses	-31.3	-34.6	-23.0	-22.9	-32.1
Net loan losses	0.2	-0.7	-0.2	-0.3	0.0
Total operating expenses	-48.6	-54.1	-37.2	-36.3	-48.0
Operating profit/loss before tax	23.2	0.6	32.7	38.1	24.8
Tax ordinary income	-5.6	-0.1	-8.2	-9.1	-6.2
Profit/loss for the period	17.6	0.4	24.5	29.0	18.6
Other comprehensive income	0.0	2.0	-0.4	0.0	-2.4
Tax on other comprehensive income	0.0	-0.5	0.1	0.0	0.6
Other comprehensive income for the period	0.0	1.5	-0.3	0.0	-1.8
Comprehensive income for the period	17.6	1.9	24.2	29.0	16.8

Key figures - accumulated

NOK MILLIONS	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Pre-tax income	23.2	91.2	90.7	58.0	24.8
Net interest income	51.4	194.3	149.4	100.3	50.9
Other operating income	16.8	66.4	49.3	32.1	15.5
Other operating cost and depreciation	-48.6	-179.5	-126.1	-89.1	-48.0
Net realized/unrealized change fin. instruments at fair value	3.7	11.1	18.5	14.9	6.5
Deposits	8 939.4	8 687.9	8 454.0	8 252.0	7 883.7
Housing mortgage lending	13 375.6	12 716.6	12 812.2	12 294.4	11 311.0
Lending with public sector guarantee	17 281.5	17 245.9	17 336.4	16 047.5	15 782.9
Non-performing loans	27.9	22.2	24.3	28.4	33.1
Total liabilities created on issuance of securities	23 241.3	23 451.4	24 455.1	23 798.7	22 282.7
Other borrowing	0.0	0.0	0.0	0.0	0.0
Total assets	34 383.2	34 382.4	34 949.3	34 144.6	32 203.5
Average total assets	34 382.8	32 838.4	33 121.9	32 719.5	30 995.1
Equity	1 868.0	1 850.4	1 598.4	1 574.2	1 548.9
Interest net	0.15 %	0.59 %	0.45 %	0.31 %	0.16 %
Profit/loss from ordinary operation before taxes	0.07 %	0.28 %	0.27 %	0.18 %	0.08 %
Return on equity	5.02 %	6.05 %	8.02 %	7.69 %	6.58 %
Capital adequacy ratio	19.3 %	19.0 %	16.8 %	16.5 %	17.5 %
Liquidity coverage ratio (LCR)	368 %	276 %	212 %	199 %	217 %



KLP BANKEN AS

Beddingen 8, 7042 Trondheim
VATIN: 993 821 837

VISITOR ADDRESS

Trondheim: Beddingen 8
Oslo: Dronning Eufemias gate 10
klpbanken.no
Tel.: 55 54 85 00
Fax: 73 53 38 39
klpbanken@klp.no