

Interim report

Q2 2016

klp
Banken



INCOME STATEMENT

BALANCE SHEET

NOTES



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KLP Banken AS and KLP Banken Group

Interim Financial Statements 2/2016

Main features in the first half year:

- Stable growth in mortgage loan volumes
- Positive development in net interest income
- Earnings are positively impacted by financial gains in the liquidity portfolio.

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 78 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 H1 2016 amounted to NOK 100.3 million compared to NOK 81.4 million in H1 2015. Operating expenses and depreciation amounted to NOK 89.1 million this year compared to NOK 86.8 million at the same time last year.

Net charges and commission income is reduced from NOK 5.3 million in H1 2015 to NOK 3.6 million in H1 2016. The main reason for the reduction is customization of the fee structure related to market campaigns.

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 half year, the income statement includes a net gain associated with securities of NOK 14.9 million. During the same period the previous year, a net loss of NOK 14.1 million was brought to book.

Following the sales of shares in Visa Europe to Visa Inc., Visa Norge received a dividend. KLP Banken's share of this amounted to NOK 1.9 million and has been recognized as a financial gain in Q2 2016.

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 28.5 million in the first half year. Last year, this amount was NOK 28.8 million.

The income statement for H1 include NOK 0.3 in provisions for losses on mortgage loans. There are no recognized losses on public sector loans.

By the end of H1, the KLP Banken Group had a pre-tax profit of NOK 58.0 million. The retail market segment generated a profit of NOK 18.0 million while the public sector segment achieved a profit of NOK 40.0 million. In 2015, this Group profit was NOK 14.8 million where the retail market segment reported a profit of NOK 2.0 million and the public sector market a profit of NOK 12.8 million. Group income after tax amounted to NOK 43.9 million by the first half this year and NOK 10.8 million at the same time last year.

Lending

On 30 June 2016, the KLP Banken Group had a lending balance of NOK 28.3 billion compared to NOK 25.2 billion at the same time previous year. The distribution between the retail market and public sector lending was NOK 12.3 billion and NOK 16.0 billion, respectively.

During the first half of 2016, the Group's mortgage lending balance increased by NOK 1.6 billion. The increase is partly explained by the purchase of loans totaling NOK 0.3 billion from the parent company KLP. KLP's own mortgage lending balance was decreased by NOK 0.7 billion during the same period.

The public sector lending balance in KLP Banken AS Group has increased by NOK 0.4 billion in 2016. Managed loans on KLP's own balance sheets has increased by NOK 0.8 billion in the same period. Managed loans to foreign debtors in foreign currencies has decreased by NOK 1.0 billion.

Liquid investment

On the reporting date, the portfolio of liquid investments amounted to NOK 4.2 billion against NOK 3.0 billion at the same time last year. Net financial gains have positively impacted earnings by NOK 11.1 million this year compared to a negative impact of NOK 10.4 million last year.

Borrowing

The KLP Banken Group's external financing comprises of deposits, certificates and bonds. On the date of reporting, deposits from individuals and companies were NOK 8.3 billion and issued securities amounted to NOK 23.8 billion. Of the issued securities, covered bonds (OMF) issued by KLP Kommunekreditt AS represented NOK 16.8 billion, while KLP Boligkreditt AS had NOK 4.1 billion outstanding. All covered bonds issues 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 responsible long-term financing and limits have been established to ensure that that this objective is achieved. The credit risk in the bank is low and the bank's lending is 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 second quarter, eligible Tier 1 and Tier 2 capital i.a.w. the capital adequacy rules was NOK 1 504.6 million. Eligible Tier 1 and Tier 2 capital comprises core capital only. The corresponding figure for last year was NOK 1 260.4 million. Lending is risk-weighted in accordance with the authorities' capital adequacy regulations. The KLP Banken Group had a capital adequacy ratio of 16.5 per cent at the end of the second quarter, against 15.1 per cent on the same date last year. The minimum statutory requirement is 11.5 per cent core capital adequacy and 15.0 per cent capital adequacy.

Future prospects

KLP Banken's investment in members is to underpin KLP's strategic focus on the retail customer market and its owners. The bank is to contribute by offering competitive and standardized products aimed at the employees of the owner entities. The best terms and conditions for banking services must then be a priority to KLP's members and pensioners. The need for banking services amongst KLP's members is a good base for the Board's desire for further growth in the retail market.

Members of the pension arrangements count more than 600 thousand individuals. Less than 5 per cent of these are KLP Banken customers today. Continued member growth potential is therefore significant. A priority is that members shall perceive the KLP Banken products as attractive.

Relatively low inflation, interest rates and unemployment are expected to continue in the Norwegian economy the coming year, but

the expectations are at least as uncertain as last year. The Board, however, believes that the Company's customers will maintain high creditworthiness and that losses on loans therefore will remain low.

New technological solutions and digitalisation are in general expected to make the business more effective and available to customers. This will increase customer satisfaction and contribute to organizational effectiveness.

The Bank's mortgage covered bond-issuing entity KLP Boligkreditt AS is financing a significant share of the lending growth with the best possible funding terms. However, deposits from individuals and enterprises will continue to be important sources of funding. The deposit products covers the demand from a large number of existing and new customers. The Board expects the last two years' deposit growth rate to continue.

The KLP Banken staff has long experience in lending, both to retail customers and to the public sector, and possess substantial credit and market expertise. New products, services and regulatory requirements lead to need for re-organisation and new competence. Further development of competencies in sales and other customer-oriented activities is included in the Bank's targets going forward.

The Board considers that the demand for loans in the local government sector and to projects with local government guarantees and local government ownership will continue to grow in the years to come. KLP Kommunekreditt has a well-established position in this market. The presence of KLP Kommunekreditt should contribute to competition and thus to the public sector having access to long-term financing at low cost.

KLP Kommunekreditt AS will in the foreseeable future grant loan on own balance given profitable terms. Growth in the Company's lending will be decided principally by the opportunities of achieving sufficiently good borrowing terms to compete for local government loans.

The Bank's solvency and low credit risk in its lending business should continue to be employed to achieve access to the best possible financing in the capital markets. The Board believes the bank is in a good position for further development and growth.

Trondheim, 11. August 2016

Sverre Thornes
Chair
(Sign.)

Eva M. Salvesen
(Sign.)

Kjell Fosse
(Sign.)

Espen Trandum
Elected among the employees
(Sign.)

Leif Magne Andersen
Managing director
(Sign.)

Aage E. Schaanning
Deputy chair
(Sign.)

Aina Slettedal Eide
(Sign.)

Christin Kleppe
Elected among the employees
(Sign.)

Income statement

KLP Banken AS Group

Note	NOK thousands	Q2 2016	Q2 2015	01.01.2016 -30.06.2016	01.01.2015 -30.06.2015	2015
	Interest income	189 670	205 221	379 624	418 869	817 991
	Interest expense	-140 287	-162 170	-279 349	-337 426	-630 928
3	Net interest income	49 383	43 051	100 275	81 442	187 063
	Commission income and income from banking services	2 870	2 651	4 608	5 791	11 280
	Commission cost and cost from banking services	-478	-185	-973	-539	-1 074
	Net charges and commission income	2 392	2 466	3 635	5 252	10 205
	Other fee income	14 250	14 405	28 500	28 810	57 648
16	Net gain/ (loss) financial instruments	8 467	-2 547	14 926	-14 125	-34 111
	Total other operating income	22 717	11 858	43 426	14 685	23 537
	Salaries and administrative costs	-12 112	-12 705	-27 086	-27 131	-60 824
	Depreciation	-1 047	-653	-2 032	-1 321	-3 396
	Impairment	0	0	0	0	-1 338
	Other operating expenses	-22 945	-27 142	-59 968	-58 309	-104 595
	Total operating expenses	-36 104	-40 500	-89 086	-86 761	-170 153
14	Net loan losses	-297	-270	-297	146	-1 034
	Operating profit/loss before tax	38 093	16 605	57 954	14 765	49 618
	Tax ordinary income	-9 097	-4 491	-14 062	-3 994	-14 240
	Profit/loss for the period	28 995	12 115	43 892	10 772	35 378
	Estimate difference, pension obligation and assets	0	0	-2 358	0	7 012
	Tax on actuarial gains and losses	0	0	590	0	-1 893
	Items that will not be reclassified to profit and loss	0	0	-1 769	0	5 119
	Changes in the fair value of available for sale financial assets	0	0	3	0	0
	Tax on changes in fair value of available for sale financial assets	0	0	-1	0	0
	Items that may be reclassified to profit and loss	0	0	2	0	0
	Other comprehensive income for the period	0	0	-1 766	0	5 119
	COMPREHENSIVE INCOME FOR THE PERIOD	28 995	12 115	42 125	10 772	40 497

Balance sheet

KLP Banken AS Group

Note	NOK thousands	30.06.2016	30.06.2015	31.12.2015
ASSETS				
	Loans to credit institutions	1 427 925	1 493 292	973 591
4	Loans to customers	28 341 862	25 195 187	26 359 449
13	Interest-bearing securities	4 186 050	2 964 179	3 783 373
	Shareholdings	269	265	265
	Financial derivatives	161 927	140 648	148 375
	Deffered tax assets	7 538	2 757	9 542
	Fixed assets	459	476	468
	Intangible assets	17 977	17 205	17 784
10	Other assets	558	519	1 593
	TOTAL ASSETS	34 144 565	29 814 529	31 294 440
LIABILITIES AND OWNERS EQUITY				
LIABILITIES				
7	Debt securities issued	23 798 701	20 776 754	21 901 660
	Deposits and borrowings from the public	8 251 960	7 305 202	7 426 181
	Financial derivatives	381 046	348 815	366 706
	Deffered tax liabilities	0	0	24 514
11	Other Liabilities	96 198	59 830	29 643
11	Provision for accrued costs and liabilities	42 460	45 837	37 920
	TOTAL LIABILITIES	32 570 365	28 536 439	29 786 624
EQUITY				
	Share capital	855 000	750 000	855 000
	Share premium	535 000	440 000	535 000
	Retained earnings	184 200	88 091	117 816
	TOTAL EQUITY	1 574 200	1 278 091	1 507 816
	TOTAL LIABILITIES AND EQUITY	34 144 565	29 814 529	31 294 440

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	43 892	43 892
Other comprehensive income	0	0	-1 766	-1 766
Total comprehensive income for the period	0	0	42 125	42 125
Group contribution received	0	0	90 520	90 520
Group contribution made	0	0	-66 261	-66 261
Total transactions with the owners	0	0	24 259	24 259
Equity 30 June 2016	855 000	535 000	184 200	1 574 200

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	10 772	10 772
Other comprehensive income	0	0	0	0
Total comprehensive income for the period	0	0	10 772	10 772
Group contribution received	0	0	4 980	4 980
Group contribution made	0	0	-22 879	-22 879
Total transactions with the owners	0	0	-17 899	-17 899
Equity 30 June 2015	750 000	440 000	88 091	1 278 091

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
Total comprehensive income for the period	0	0	40 497	40 497
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
Total transactions with the owners	105 000	95 000	-17 899	182 101
Equity 31 December 2015	855 000	535 000	117 816	1 507 816

Statement of cash flow

KLP Banken AS Group

NOK thousands	01.01.2016 -30.06.2016	01.01.2015 -30.06.2015	2015
OPERATING ACTIVITIES			
Payments received from customers - interest, commission & charges	342 284	381 728	776 367
Payments to customers - interest, commission & charges	-59 511	-87 160	-150 819
Net receipts/disbursements on loans customers & credit institutions	-2 021 256	-406 313	-1 614 588
Net receipts on customer deposits banking	825 966	1 054 329	1 175 318
Net receipts/disbursements on operations	-59 750	-56 220	-106 447
Payments to employees, pension schemes, employer's social security contribution etc.	-25 702	-25 427	-59 268
Net interest investment accounts	5 832	10 022	18 517
Net receipts/disbursements from operating activities	86 704	60 439	70 349
Income tax paid	0	0	0
Net cash flow from operating activities	-905 434	931 398	109 429
INVESTMENT ACTIVITIES			
Payments on the purchase of securities	1 553 537	1 094 581	2 474 691
Receipts on sale of securities	-1 938 025	-583 058	-2 804 539
Receipts of interest from securities	24 934	30 689	53 267
Payments on the purchase of tangible fixed assets	-2 216	0	-3 320
Net cash flow from investment activities	-361 770	542 212	-279 901
FINANCING ACTIVITIES			
Net receipts/disbursements on loans from credit institutions	1 883 133	-835 486	310 301
Net payment of interest on loans	-171 467	-232 078	-437 823
Receipts on issue of owners' equity	0	0	200 000
Group contributions made	-250	-27 080	-27 080
Net cash flows from financing activities	1 711 417	-1 094 645	45 398
Net cash flow during the period	444 213	378 965	-125 074
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	1 389 488	1 449 314	945 275
Net receipts/ disbursements (-) of cash	444 213	378 965	-125 074

Statement pursuant to section § 5-6 of the securities trading act

We hereby confirm that the half yearly financial statement for the banking group and the company for the period 1 January through 30 June 2016 to the best of our knowledge have been prepared in accordance with current applicable accounting standards, and give a true and fair view of the assets, liabilities, financial position and profit or loss of the banking group and the company taken as a whole.

To the best of our knowledge, the half-yearly report gives a true and fair overview of important events that occurred during the accounting period and their impact on the half-yearly financial statement, and a description of the principal risks and uncertainties facing the banking group over the next accounting period.

Trondheim, 11. August 2016

Sverre Thornes
Chair
(Sign.)

Eva M. Salvesen
(Sign.)

Kjell Fosse
(Sign.)

Espen Trandum
Elected among the employees
(Sign.)

Aage E. Schaanning
Deputy chair
(Sign.)

Aina Slettedal Eide
(Sign.)

Christin Kleppe
Elected among the employees
(Sign.)

Leif Magne Andersen
Managing director
(Sign.)

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 – 30 June 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».

KLP Banken AS has changed its practice in regard to accrual of holiday payment. The effect on profit/loss for the period is an increase in salaries and administrative cost of NOK 2.6 million. There are no other changes in accounting principles in 2016 that have been of significance for the interim consolidated financial statements following the second 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.

Note 3 NET INTEREST INCOME

NOK thousands	01.01.2016 -30.06.2016	01.01.2015 -30.06.2015	2015
Interest on loans to and receivables from credit institutions	6 736	10 837	18 578
Interest on loans to customers	342 818	377 491	744 398
Interest on securities	30 070	30 541	55 015
Total interest income	379 624	418 869	817 991
Interest on liabilities to credit institutions	219 942	250 688	480 948
Interest on liabilities to customers	58 603	86 611	149 738
Premium/discount on covered bonds	974	-285	-414
Other interest costs	-170	412	656
Total interest costs	279 349	337 426	630 928
Net interest income	100 275	81 442	187 063

Note 4 LOANS TO CUSTOMERS

NOK thousands	30.06.2016	30.06.2015	31.12.2015
Loans to customers before write-downs	27 918 818	24 801 944	25 943 953
Individual write-downs	-1 625	-248	-1 328
Write-downs by group	0	0	0
Loans to customers after write-downs	27 917 193	24 801 696	25 942 625
Accrued interest	89 124	106 160	83 956
Change in fair value due to interest rate changes (fair value hedging)	335 545	287 331	332 868
Loans to customers	28 341 862	25 195 187	26 359 449

Note 5 CATEGORIES OF FINANCIAL INSTRUMENTS

NOK thousands	30.06.2016		30.06.2015		31.12.2015	
	Capitalized value	Fair value	Capitalized value	Fair value	Capitalized value	Fair value
FINANCIAL ASSETS AT FAIR VALUE						
Fixed-income securities	4 186 050	4 186 050	2 964 179	2 964 179	3 783 373	3 783 373
Total financial assets at fair value	4 186 050	4 186 050	2 964 179	2 964 179	3 783 372	3 783 372
FINANCIAL ASSETS AT FAIR VALUE HEDGING						
Loans to Norwegian local administrations	5 035 041	5 010 668	5 688 305	5 711 915	5 558 168	5 526 008
Loans to retail customers	351 338	341 851	383 363	374 452	388 664	379 511
Financial derivatives	161 927	161 927	140 648	140 648	148 375	148 375
Total financial assets at fair value hedging	5 548 306	5 514 446	6 212 316	6 227 015	6 095 207	6 053 894
FINANCIAL ASSETS AVAILABLE FOR SALE						
Shares and holdings	269	269	265	265	265	265
Total financial assets available for sale	269	269	265	265	265	265

Note 5 CATEGORIES OF FINANCIAL INSTRUMENTS – CONT.

NOK thousands	30.06.2016		30.06.2015		31.12.2015	
	Capitalized value	Fair value	Capitalized value	Fair value	Capitalized value	Fair value
FINANCIAL ASSETS AT AMORTIZED COST						
Loans to and receivables from credit institutions	1 427 925	1 427 925	1 493 292	1 493 292	973 591	973 591
Loans to Norwegian local administrations	11 012 429	11 004 331	9 902 724	9 894 601	10 088 101	10 080 287
Loans to retail customers	11 943 054	11 943 054	9 220 795	9 220 795	10 324 515	10 324 515
Total financial assets at amortized cost	24 383 408	24 375 310	20 616 811	20 608 688	21 386 205	21 378 393
Total financial assets	34 118 033	34 076 075	29 793 571	29 800 147	31 265 052	31 215 925
LIABILITIES TO CREDIT INSTITUTIONS AT FAIR VALUE HEDGING						
Liabilities created on issuance of securities	2 650 962	2 652 567	2 393 720	2 419 164	2 018 823	2 031 421
Financial derivatives	381 046	381 046	348 815	348 815	366 706	366 706
Total financial liabilities at fair value hedging	3 032 008	3 033 613	2 742 535	2 767 979	2 385 529	2 398 127
LIABILITIES TO CREDIT INSTITUTIONS AND DEPOSITS AT AMORTIZED COST						
Liabilities created on issuance of securities	21 147 739	21 115 389	18 383 034	18 502 070	19 882 837	19 731 677
Deposits from customers	8 251 960	8 251 960	7 305 202	7 305 202	7 426 181	7 426 181
Total financial liabilities at amortized cost	29 399 699	29 367 349	25 688 236	25 807 272	27 309 017	27 157 858
Total financial liabilities	32 431 707	32 400 962	28 430 771	28 575 251	29 694 546	29 555 985

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. 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.

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

Fair value of loans to and receivables from credit institutions
All receivables from credit institutions (bank deposits) are at variable interest rates. Fair value of these is considered virtually the same as book value since the contract terms are 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 30.06.2016
ASSETS				
Financial assets recognized at fair value:				
Fixed-income securities	125 823	4 060 227	0	4 186 050
Shareholdings	0	0	269	269
Financial derivatives	0	161 927	0	161 927
Total financial assets recognized at fair value	125 823	4 222 154	269	4 348 246
Financial assets recognized at fair value in Note 5:				
Loans to retail customers	0	341 851	0	341 851
Loans to Norwegian local administrations	0	5 010 668	0	5 010 668
Total financial assets at fair value used for hedging	0	5 352 519	0	5 352 519
Financial assets at amortized cost:				
Loans to and receivables from credit institutions	0	1 427 925	0	1 427 925
Loans to retail customers	0	11 943 054	0	11 943 054
Loans to Norwegian local administrations	0	11 004 331	0	11 004 331
Total financial assets at amortized cost	0	24 375 310	0	24 375 310
LIABILITIES				
Financial liabilities recognized at fair value:				
Financial derivatives (liabilities)	0	381 046	0	381 046
Total financial derivatives recognized at fair value	0	381 046	0	381 046
Financial liabilities recognized at fair value in Note 5:				
Liabilities created on issuance of securities	0	2 652 567	0	2 652 567
Total financial liabilities at fair value used for hedging	0	2 652 567	0	2 652 567
Liabilities to credit institutions	0	21 115 389	0	21 115 389
Covered bonds issued	0	8 251 960	0	8 251 960
Total financial liabilities at amortized cost	0	29 367 349	0	29 367 349

Note 6 FAIR VALUE HIERARCHY – CONT.

NOK thousands	Level 1	Level 2	Level 3	Total 30.06.2015
ASSETS				
Financial assets recognized at fair value:				
Fixed-income securities	149 719	2 814 460	0	2 964 179
Shareholdings	0	0	265	265
Financial derivatives	0	140 648	0	140 648
Total financial assets recognized at fair value	149 719	2 955 108	265	3 105 092
Financial assets recognized at fair value in Note 5:				
Loans to retail customers	0	374 452	0	374 452
Loans to Norwegian local administrations	0	5 711 915	0	5 711 915
Total financial assets at fair value used for hedging	0	6 086 367	0	6 086 367
Financial assets at amortized cost:				
Loans to and receivables from credit institutions	0	1 493 292	0	1 493 292
Loans to retail customers	0	9 220 795	0	9 220 795
Loans to Norwegian local administrations	0	9 894 601	0	9 894 601
Total financial assets at amortized cost	0	20 608 688	0	20 608 688
LIABILITIES				
Financial liabilities recognized at fair value:				
Financial derivatives (liabilities)	0	348 815	0	348 815
Total financial derivatives recognized at fair value	0	348 815	0	348 815
Financial liabilities recognized at fair value in Note 5:				
Liabilities created on issuance of securities	0	2 419 164	0	2 419 164
Total financial liabilities at fair value used for hedging	0	2 419 164	0	2 419 164
Liabilities to credit institutions	0	18 502 070	0	18 502 070
Covered bonds issued	0	7 305 202	0	7 305 202
Total financial liabilities at amortized cost	0	25 807 272	0	25 807 272

Note 6 FAIR VALUE HIERARCHY – CONT.

NOK thousands	Level 1	Level 2	Level 3	Total 31.12.2015
ASSETS				
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
Total financial assets recognized at fair value	99 620	3 832 128	265	3 932 013
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
Total financial assets at fair value used for hedging	0	5 905 519	0	5 905 519
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
Total financial assets at amortized cost	0	21 378 393	0	21 378 393
LIABILITIES				
Financial liabilities recognized at fair value:				
Financial derivatives (liabilities)	0	366 706	0	366 706
Total financial derivatives recognized at fair value	0	366 706	0	366 706
Financial liabilities recognized at fair value in Note 5:				
Liabilities created on issuance of securities	0	2 031 421	0	2 031 421
Total financial liabilities at fair value used for hedging	0	2 031 421	0	2 031 421
Liabilities to credit institutions				
	0	19 731 677	0	19 731 677
Covered bonds issued	0	7 426 181	0	7 426 181
Total financial liabilities at amortized cost	0	27 157 858	0	27 157 858

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 30.06.2015	Book value 30.06.2016
CHANGES IN LEVEL 3 UNLISTED SHARES			
Opening balance 1 Jan	265	265	265
Sold	0	0	0
Bought	0	0	0
Unrealized changes	0	0	4
Closing balance	265	265	269
Realized gains/losses	0	0	0

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

NOK thousands	30.06.2016	30.06.2015	31.12.2015
Bond debt, nominal amount	24 585 000	20 776 000	22 355 000
Adjustments	118 529	114 480	122 014
Accured interest	69 172	64 274	54 646
Own holdings, nominal amount	-974 000	-178 000	-630 000
Total debt securities issued	23 798 701	20 776 754	21 901 660

CHANGES IN DEBT SECURITIES ISSUED

NOK thousands	Balance sheet 30.06.2016	Issued	Matured/ redeemed	Other adjustments	Balance sheet 31.12.2015
Bond debt, nominal amount	24 585 000	4 295 000	-2 065 000	0	22 355 000
Adjustments	118 529	0	0	-3 485	122 014
Accured interest	69 172	0	0	14 526	54 646
Own holdings, nominal amount	-974 000	0	-344 000	0	-630 000
Total debt securities issued	23 798 701	4 295 000	-2 409 000	11 041	21 901 660

Note 8 FINANCIAL ASSETS AND LIABILITIES SUBJECT TO NET SETTLEMENT

						30.06.2016
	Gross financial assets/ liabilities	Gross assets/ liabilities presented net	Book value	Financial instruments	Security in cash	Related sums that are not presented net
NOK thousands						Net recognised value
ASSETS						
Financial derivatives	161 927	0	161 927	-161 927	-6 202	0
Total	161 927	0	161 927	-161 927	-6 202	0
LIABILITIES						
Financial derivatives	381 046	0	381 046	-161 927	-13 165	205 954
Total	381 046	0	381 046	-161 927	-13 165	205 954

						30.06.2015
	Gross financial assets/ liabilities	Gross assets/ liabilities presented net	Book value	Financial instruments	Security in cash	Related sums that are not presented net
NOK thousands						Net recognised value
ASSETS						
Financial derivatives	140 648	0	140 648	-140 648	-6 200	0
Total	140 648	0	140 648	-140 648	-6 200	0
LIABILITIES						
Financial derivatives	348 815	0	348 815	-140 648	-10 700	197 467
Total	348 815	0	348 815	-140 648	-10 700	197 467

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

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	01.01.2016 -30.06.2016	01.01.2015 -30.06.2015	2015
INCOME STATEMENT ITEMS			
KLP, fees lending management	28 500	28 810	57 620
KLP Kapitalforvaltning AS, fees for services provided	-231	-273	-422
KLP, rent	-2 713	-1 851	-3 692
KLP, pension premium	-3 276	-3 348	-7 887
KLP, staff services (at cost)	-24 794	-23 299	-46 386
KLP Group companies, subsidised interest employee loans	964	579	1 065
Total	-1 550	618	298

NOK thousands	30.06.2016	30.06.2015	31.12.2015
FINANCIAL POSITION STATEMENT ITEMS			
KLP, net internal accounts	-8 260	-4 565	-8 498
KLP, loan settlement	-58 178	-38 496	-16 448
KLP Group companies, net other internal accounts	36	-15	358
Total	-66 402	-43 076	-24 588

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	30.06.2016	30.06.2015	31.12.2015
Intercompany receivables	260	176	437
Miscellaneous receivables	0	3	0
Prepaid expenses	298	339	1 156
Total	558	519	1 593

Note 11 OTHER LIABILITIES AND PROVISION FOR ACCRUED COSTS

NOK thousands	30.06.2016	30.06.2015	31.12.2015
Creditors	53	3 544	1 583
Intercompany payables	66 662	43 252	25 025
Other liabilities	29 483	13 034	3 035
Total other liabilities	96 198	59 830	29 643
Withholding tax	1 538	1 450	2 738
Social security costs	1 586	1 501	1 982
Holiday pay	2 018	1 990	4 499
Pension obligations	25 733	25 381	22 505
VAT	60	0	170
Provisioned costs	11 525	15 515	6 027
Total accrued costs and liabilities	42 460	45 837	37 920

Note 12 CAPITAL ADEQUACY

NOK thousands	30.06.2016	30.06.2015	31.12.2015
Share capital and share premium fund	1 390 000	1 190 000	1 390 000
Other owners' equity	142 075	77 319	117 816
Total owners' equity	1 532 075	1 267 319	1 507 816
Interim profit/loss	0	12 440	0
Deduction goodwill and other intangible assets	-17 977	-17 205	-17 784
Deferred tax asset	-9 542	-2 140	-9 542
Core capital/Tier 1 capital	1 504 556	1 260 414	1 480 490
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)	1 504 556	1 260 414	1 480 490
Capital requirement	727 446	668 034	672 968
Surplus of own funds (Tier 1 and Tier 2 capital)	777 110	592 380	807 522

Note 12 CAPITAL ADEQUACY – CONT.

NOK thousands	30.06.2016	30.06.2015	31.12.2015
ESTIMATE BASIS CREDIT RISK:			
Institutions	331 982	350 872	229 347
Central government	22 001	0	0
Local and regional authorities (incl. municipalities/county administrations)	3 491 978	3 174 994	3 339 625
Investments with mortgage security in real estate	4 499 203	4 045 742	4 079 989
Investments fallen due	85 605	118 653	98 091
Covered bonds	259 138	260 120	262 689
Other holdings	769	816	899
Calculation basis credit risk	8 690 676	7 951 197	8 010 640
Credit risk	695 254	636 096	640 851
Operating risk	31 957	31 938	32 117
Credit valuation adjustments (CVA)	235	0	0
Total capital requirement assets	727 446	668 034	672 968
Core capital adequacy ratio	16.5 %	15.1 %	17.6 %
Supplementary capital ratio	0.0 %	0.0 %	0.0 %
Capital adequacy ratio	16.5 %	15.1 %	17.6 %
Leverage ratio	4.3 %	4.1 %	4.7 %
Capital requirement per 30.06.2016	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 %
Current capital requirement incl. buffers	11.5 %	3.5 %	15.0 %

Note 13 FIXED-INCOME SECURITIES

NOK thousands	30.06.2016		30.06.2015		31.12.2015	
	Acquisition cost	Market value	Acquisition cost	Market value	Acquisition cost	Market value
Certificates	1 380 539	1 387 740	148 197	149 719	1 044 836	1 048 173
Bonds	2 787 155	2 798 310	2 794 226	2 814 460	2 737 387	2 735 200
Total fixed-income securities	4 167 694	4 186 050	2 942 423	2 964 179	3 782 223	3 783 373

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

Note 14 LOSSES ON LENDING

NOK thousands	01.01.2016 -30.06.2016	01.01.2015 -30.06.2015	2015
Known losses	0	0	-278
Reversal of previous write-downs	0	562	562
Change in individual write-downs	-297	-416	-1 318
Change in write-downs by group	0	0	0
Total loss on lending	-297	146	-1 034

NOK thousands	30.06.2016	30.06.2015	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	297	237	1 318
Total write-down on individual loans	1 626	248	1 329
Gross default exceeding 90 days	28 393	34 114	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	30.06.2016	30.06.2015	31.12.2015
Credit facilities for lending not utilized	416 430	482 934	351 309
Loan promise	578 851	850 861	273 714
Total contingent liabilities	995 281	1 333 795	625 023

Note 16 NET GAIN/(LOSS) ON FINANCIAL INSTRUMENTS

NOK thousands	01.01.2016 -30.06.2016	01.01.2015 -30.06.2015	2015
Net gain/(loss) on fixed-income securities	11 063	-10 388	-30 077
Net gain/(loss) financial derivatives and realized amortization linked to lending	795	921	2 054
Net gain/(loss) financial derivatives and realized repurchase of own debt	1 199	-4 286	-5 051
Net value change lending and borrowing, hedge accounting	75	44	-202
Other financial income and expenses	1 794	-416	-834
Total	14 926	-14 125	-34 111

QUARTERLY EARNINGS TREND

NOK millions	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015
Interest income	189.7	190.0	196.2	202.9	205.2
Interest expense	-140.3	-139.1	-142.2	-151.3	-162.2
Net interest income	49.4	50.9	54.0	51.6	43.1
Commission income and income from banking services	2.9	1.7	2.7	2.8	2.7
Commission cost and cost from banking services	-0.5	-0.5	-0.3	-0.2	-0.2
Net charges and commission income	2.4	1.2	2.4	2.6	2.5
Other fee income	14.3	14.3	14.4	14.4	14.4
Net gain/ (loss) financial instruments	8.5	6.5	-6.4	-13.6	-2.5
Total other operating income	22.7	20.7	8.0	0.8	11.9
Salaries and administrative costs	-12.1	-15.0	-21.2	-14.8	-12.7
Depreciation	-1.0	-1.0	-1.4	-0.7	-0.7
Impairment	0.0	0.0	-1.3	0.0	0.0
Other operating expenses	-22.9	-37.0	-24.1	-22.2	-27.1
Total operating expenses	-36.1	-53.0	-48.0	-37.6	-40.5
Net loan losses	-0.3	0.0	-1.1	0.0	-0.3
Operating profit/loss before tax	38.1	19.9	15.3	17.3	16.6
Tax ordinary income	-9.1	-5.0	-5.0	-4.7	-4.5
Profit/loss for the period	29.0	14.9	10.3	12.6	12.1
Other comprehensive income	0.0	-2.4	4.2	2.8	0.0
Tax on other comprehensive income	0.0	0.6	-1.1	-0.8	0.0
Other comprehensive income for the period	0.0	-1.8	3.0	2.1	0.0
Comprehensive income for the period	29.0	13.1	13.3	14.7	12.1

KEY FIGURES

Accumulated figures in NOK millions	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015
Pre-tax income	58.0	19.9	49.6	34.4	14.8
Net interest income	100.3	50.9	187.1	133.1	81.4
Other operating income	32.1	15.5	67.9	51.0	34.1
Other operating cost and depreciation	-89.1	-53.0	-170.2	-122.1	-86.8
Net realized/unrealized change fin. instruments at fair value	14.9	6.5	-34.1	-27.7	-14.1
Deposits	8 252.0	7 883.7	7 426.2	7 279.1	7 305.2
Housing mortgage lending	12 294.4	11 311.0	10 713.1	10 437.5	9 604.2
Lending with public sector guarantee	16 047.5	15 782.9	15 646.3	15 807.7	15 591.0
Non-performing loans	28.4	33.1	29.3	26.5	34.1
Total liabilities created on issuance of securities	23 798.7	22 282.7	21 901.7	19 940.7	20 776.8
Other borrowing	0.0	0.0	0.0	0.0	0.0
Total assets	34 144.6	32 199.8	31 294.4	29 266.9	29 814.5
Average total assets	32 719.5	31 747.1	30 525.3	29 510.9	29 785.3
Equity	1 574.2	1 545.2	1 507.8	1 494.5	1 278.1
Interest net	0.31 %	0.16 %	0.61 %	0.45 %	0.27 %
Profit/loss from ordinary operation before taxes	0.18 %	0.06 %	0.16 %	0.12 %	0.05 %
Return on equity	3.68 %	1.29 %	3.21 %	2.30 %	1.16 %
Capital adequacy ratio	16.5 %	17.5 %	17.6 %	17.9 %	15.1 %
Liquidity coverage ratio (LCR)	199 %	217 %	212 %	232 %	115 %



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