



Interim report

KLP BANKEN AS GROUP
Q2 2017

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KLP BANKEN GROUP

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Interim Financial Statements

KLP BANKEN AS GROUP
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MAIN FEATURES IN THE FIRST HALF YEAR:

- Strong growth in mortgage loan volumes
- Positive development in profit before tax
- Credit card financed on bank balance

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 the owner Kommunal Landspensjonskasse gjensidig forsikringsselskap (KLP). The Group manages lending totalling NOK 84 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 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 2017 amounted to NOK 108.5 million compared to NOK 100.3 million in H1 2016. The change is mainly due to the growth in mortgage loans volume.

Operating expenses and depreciations amounted to NOK 97.8 million this year compared to NOK 86.1 million at the same time 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. The increase in operating expenses compared to last year, apart from general inflation, is due to investments and start-up cost for establishing a credit card portfolio on the bank's balance.

KLP Banken has since 2010 provided credit card products through a third party. In May 2017 this portfolio was migrated to the bank and will be developed ahead as an in-house activity.

Net charges and commission income is increased from NOK 3.6 million in H1 2016 to NOK 5.1 million in H1 2017.

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 3.5 million. During the same period the previous year, a net profit of NOK 14.9 million was brought to book. The change from last year is mainly due to lower unrealized profit on liquidity investments, but also influenced by an increase in the costs of restructuring bond debt for liquidity coverage purposes.

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

During H1 2017 a reversal of past loan losses on mortgages was brought to book. Net loan losses thus shows an income of NOK 0.2 million. At the same time last year the loan loss amounted to a net of NOK 0.3 million. 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 47.9 million. The retail market segment generated a profit of NOK 14.3 million while the public sector segment achieved a profit of NOK 33.6 million. In 2016 the Group profit was NOK 61.3 million, where the retail market segment reported a profit of NOK 21.3 million and the public sector market a profit of NOK 40.0 million. Group income after tax amounted to NOK 36.3 million by the first half this year and NOK 46.4 million at the same time last year.

LENDING

On 30 June 2017, the KLP Banken Group had a lending balance of NOK 30.9 billion compared to NOK 28.3 billion at the same time previous year. The distribution between the retail market and public sector lending was NOK 13.7 billion and NOK 17.2 billion, respectively.

So far this year the Group's mortgage lending balance increased by NOK 1.0 billion. The increase is mainly on to the KLP Banken AS' balance. KLP's mortgage lending balance

increased by NOK 40 million during the same period. The public sector lending balance in KLP Banken AS Group has been nearly unchanged so far this year. Managed loans on KLP's balance has increased by NOK 1.1 billion in the same period. Managed loans to foreign debtors in foreign currencies is about at the same level at the end of H 1 as by the beginning of the year.

LIQUID INVESTMENT

On the reporting date, the portfolio of liquid investments amounted to NOK 2.7 billion against NOK 4.2 billion at the same time last year. Net financial gains have positively impacted earnings by NOK 7.5 million this year compared to an impact of NOK 11.1 million last year.

BORROWING

The KLP Banken Group's external financing comprises of deposits, certificates and bonds. On the date of reporting, deposits from individuals and companies were NOK 9.1 billion and issued securities amounted to NOK 23.8 billion. Of the issued securities, covered bonds (OMF) issued by KLP Kommunekreditt AS represented NOK 17.9 billion, while KLP Boligkreditt AS had NOK 4.3 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 1 850.0 million. Eligible Tier 1 and Tier 2 capital comprises core capital only. The corresponding figure for last year was NOK 1 504.5 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 second quarter, against 16.5 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. Leverage ratio was 5.1 per cent.

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 6 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. The Board believes that the bank's most important customer group will maintain good payment ability and servicing of granted credit, and that this is the basis for expecting low credit losses also in the future.

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.

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 potential 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. 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 2017

Sverre Thornes

Chair

(Sign.)

Ingrid Aune

(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.)

Income statement

KLP BANKEN AS GROUP

NOTE	NOK THOUSANDS	Q2 2017	Q2 2016	01.01.2017 -30.06.2017	01.01.2016 -30.06.2016	01.01.2016 -31.12.2016
	Interest income	196 104	189 670	387 711	379 624	765 615
	Interest expense	-138 943	-140 287	-279 196	-279 349	-571 301
3	Net interest income	57 161	49 383	108 515	100 275	194 314
	Commission income and income from banking services	3 111	2 870	6 030	4 608	10 966
	Commission cost and cost from banking services	-587	-478	-925	-973	-1 564
	Net charges and commission income	2 523	2 392	5 105	3 635	9 402
	Other fee income	14 250	14 250	28 500	28 500	57 028
16	Net gain/ (loss) financial instruments	-138	8 467	3 535	14 926	11 119
	Total other operating income	14 112	22 717	32 035	43 426	68 146
	Salaries and administrative costs	-16 027	-12 112	-32 703	-27 086	-57 801
	Depreciation	-1 246	-1 047	-2 035	-2 032	-4 146
	Other operating expenses	-31 857	-19 644	-63 199	-56 667	-117 551
14	Net loan losses	6	-297	182	-297	-1 119
	Total operating expenses	-49 125	-33 100	-97 756	-86 082	-180 617
	Operating profit/loss before tax	24 672	41 392	47 900	61 253	91 244
	Tax ordinary income	-5 976	-9 922	-11 602	-14 887	-22 356
	Profit/loss for the period	18 696	31 470	36 298	46 366	68 888
	Estimate difference, pension obligation and assets	0	0	0	-2 358	-863
	Tax on actuarial gains and losses	0	0	0	590	216
	Items that will not be reclassified to profit and loss	0	0	0	-1 768	-647
	Changes in the fair value at available for sale financial assets	0	0	0	3	121
	Tax on changes in fair value of available for sale financial assets	0	0	0	-1	-30
	Items that may be reclassified to profit and loss	0	0	0	2	91
	Other comprehensive income for the period	0	0	0	-1 766	-556
	Comprehensive income for the period	18 696	31 470	36 298	44 600	68 332

Balance sheet

KLP BANKEN AS GROUP

NOTE	NOK THOUSANDS	30.06.2017	30.06.2016	31.12.2016
ASSETS				
	Loans to credit institutions	1 340 683	1 427 925	1 548 082
4	Loans to customers	30 895 334	28 341 862	29 962 467
13	Interest-bearing securities	2 746 840	4 186 050	2 717 513
	Shareholdings	394	269	394
	Financial derivatives	118 610	161 927	123 179
	Deffered tax assets	3 516	6 713	6 916
	Fixed assets	814	459	538
	Intangible assets	29 820	17 977	19 955
10	Other assets	4 011	3 857	3 370
	Total assets	35 140 022	34 147 039	34 382 412
LIABILITIES AND OWNERS EQUITY				
LIABILITIES				
7	Debt securities issued	23 762 418	23 798 701	23 451 374
	Deposits and borrowings from the public	9 138 227	8 251 960	8 687 859
	Financial derivatives	229 795	381 046	253 615
	Deffered tax liabilities	0	0	19 552
11	Other Liabilities	78 770	96 198	73 431
11	Provision for accrued costs and liabilities	44 107	42 460	46 174
	Total liabilities	33 253 318	32 570 365	32 532 006
EQUITY				
	Share capital	982 500	855 000	982 500
	Share premium	657 500	535 000	657 500
	Other owners' eqyity	246 704	186 674	210 406
	Total equity	1 886 704	1 576 674	1 850 406
	Total liabilities and equity	35 140 022	34 147 039	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	36 298	36 298
Other comprehensive income	0	0	0	0
Total comprehensive income for the period	0	0	36 298	36 298
Group contribution received	0	0	58 624	58 624
Group contribution made	0	0	-58 624	-58 624
Total transactions with the owners	0	0	0	0
Equity 30 June 2017	982 500	657 500	246 704	1 886 704

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	46 366	46 366
Other comprehensive income	0	0	-1 766	-1 766
Total comprehensive income for the period	0	0	44 600	44 600
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	24 258	24 258
Equity 30 June 2016	855 000	535 000	186 674	1 576 674

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 -30.06.2017	01.01.2016 -30.06.2016	01.01.2016 -31.12.2016
OPERATING ACTIVITIES			
Payments received from customers - interest, commission & charges	360 589	342 284	706 238
Payments to customers - interest, commission & charges	-63 562	-59 511	-119 632
Net receipts/disbursements on loans customers & credit institutions	-986 052	-2 021 256	-3 828 660
Net receipts on customer deposits banking	450 044	825 966	1 263 356
Net receipts/disbursements on operations	-70 174	-59 750	-103 142
Payments to employees, pension schemes, employer's social security contribution etc.	-33 724	-25 702	-54 296
Net interest investment accounts	4 051	5 832	13 420
Net receipts/disbursements from operating activities	-95 196	86 704	90 935
Income tax paid	0	0	0
Net cash flow from operating activities	-434 024	-905 434	-2 031 780
INVESTMENT ACTIVITIES			
Payments on the purchase of securities	1 464 791	1 553 537	3 994 493
Receipts on sale of securities	-1 484 928	-1 938 025	-2 917 899
Receipts of interest from securities	17 521	24 934	59 173
Payments on purchase of credit card portfolio	-9 547	0	0
Payments on the purchase of tangible fixed assets	-2 629	-2 216	-6 386
Net cash flow from investment activities	-14 792	-361 770	1 129 381
FINANCING ACTIVITIES			
Disbursements on loans from credit institutions	-2 291 327	-2 016 867	-6 781 583
Receipts on loans from credit institutions	2 600 000	3 900 000	8 400 000
Net payment of interest on loans	-183 791	-171 467	-387 798
Receipts on issue of owners' equity	0	0	250 000
Group contributions made	-19 541	-250	-250
Net cash flows from financing activities	105 341	1 711 416	1 480 369
Net cash flow during the period	-343 475	444 213	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	1 179 770	1 389 488	1 523 245
Net receipts/ disbursements (-) of cash	-343 475	444 213	577 970

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

KLP BANKEN AS GROUP

We hereby confirm that the half yearly financial statement for the banking group and the company for the period 1 January through 30 June 2017 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 2017

Sverre Thornes

Chair
(Sign.)

Aage E. Schaanning

Deputy Chair
(Sign.)

Ingrid Aune

(Sign.)

Aina Slettedal Eide

(Sign.)

Kjell Fosse

(Sign.)

Christin Kleppe

Elected among the employees
(Sign.)

Espen Trandum

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 interim Financial Statements of KLP Banken group for the period 1 January 2017 - 30 June 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 second 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 -30.06.2017	01.01.2016 -30.06.2016	01.01.2016 -31.12.2016
Interest on loans to and receivables from credit institutions	5 813	6 736	13 661
Interest on loans to customers	362 546	342 818	695 605
Interest on securities	19 352	30 070	56 349
Total interest income	387 711	379 624	765 615
Interest on liabilities to credit institutions	216 782	219 942	451 241
Interest on liabilities to customers	62 798	58 603	118 044
Premium/discount on covered bonds	488	974	2 544
Other interest costs	-872	-170	-528
Total interest costs	279 196	279 349	571 301
Net interest income	108 515	100 275	194 314

NOTE 4 Loans to customers

NOK THOUSANDS	30.06.2017	30.06.2016	31.12.2016
Loans to customers before write-downs	30 632 379	27 918 818	29 681 769
Individual write-downs	-1 587	-1 625	-1 545
Write-downs by group	-476	0	-706
Loans to customers after write-downs	30 630 316	27 917 193	29 679 518
Accrued interest	90 702	89 124	84 310
Change in fair value due to interest rate changes (fair value hedging)	174 316	335 545	198 639
Loans to customers	30 895 334	28 341 862	29 962 467

NOTE 5 Categories of financial instruments

NOK THOUSANDS	30.06.2017		30.06.2016		31.12.2016	
	Capitalized value	Fair value	Capitalized value	Fair value	Capitalized value	Fair value
FINANCIAL ASSETS AT FAIR VALUE						
Fixed-income securities	2 746 840	2 746 840	4 186 050	4 186 050	2 717 513	2 717 513
Total financial assets at fair value	2 746 840	2 746 840	4 186 050	4 186 050	2 717 513	2 717 513
FINANCIAL ASSETS AT FAIR VALUE HEDGING						
Loans to Norwegian local administrations	4 998 262	5 037 120	5 035 041	5 010 668	5 164 845	5 186 458
Loans to retail customers	209 120	202 782	351 338	341 851	225 799	219 474
Financial derivatives	118 610	118 610	161 927	161 927	123 179	123 179
Total financial assets at fair value hedging	5 325 992	5 358 512	5 548 306	5 514 446	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	1 340 683	1 340 683	1 427 925	1 427 925	1 548 082	1 548 082
Loans to Norwegian local administrations	12 167 591	12 161 880	11 012 429	11 004 331	12 081 008	12 071 700
Loans to retail customers	13 520 361	13 520 361	11 943 054	11 943 054	12 490 815	12 490 815
Total financial assets at amortized cost	27 028 635	27 022 924	24 383 408	24 375 310	26 119 905	26 110 597
Total financial assets	35 101 860	35 128 669	34 118 033	34 076 075	34 351 634	34 357 614
LIABILITIES TO CREDIT INSTITUTIONS AT FAIR VALUE HEDGING						
Liabilities created on issuance of securities	2 151 850	2 172 916	2 650 962	2 652 567	2 254 557	2 268 492
Financial derivatives	229 795	229 795	381 046	381 046	253 615	253 615
Total financial liabilities at fair value hedging	2 381 645	2 402 711	3 032 008	3 033 613	2 508 172	2 522 107
LIABILITIES TO CREDIT INSTITUTIONS AND DEPOSITS AT AMORTIZED COST						
Liabilities created on issuance of securities	21 610 568	21 722 766	21 147 739	21 115 389	21 196 817	21 577 190
Deposits from customers	9 138 227	9 138 227	8 251 960	8 251 960	8 687 859	8 687 859
Total financial liabilities at amortized cost	30 748 795	30 860 993	29 399 699	29 367 349	29 884 676	30 265 049
Total financial liabilities	33 130 441	33 263 704	32 431 707	32 400 962	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

30.06.2017 NOK THOUSANDS	Level 1	Level 2	Level 3	Total
ASSETS				
Financial assets recognized at fair value:				
Fixed-income securities	185 573	2 561 267	0	2 746 840
Shareholdings	0	0	394	394
Financial derivatives	0	118 610	0	118 610
Total financial assets recognized at fair value	185 573	2 679 877	394	2 865 843
Financial assets recognized at fair value in Note 5:				
Loans to retail customers	0	202 782	0	202 782
Loans to Norwegian local administrations	0	5 037 120	0	5 037 120
Total financial assets at fair value used for hedging	0	5 239 902	0	5 239 902
Financial assets at amortized cost:				
Loans to and receivables from credit institutions	0	1 340 683	0	1 340 683
Loans to retail customers	0	13 520 361	0	13 520 361
Loans to Norwegian local administrations	0	12 161 880	0	12 161 880
Total financial assets at amortized cost	0	27 022 924	0	27 022 924
LIABILITIES				
Financial liabilities recognized at fair value:				
Financial derivatives (liabilities)	0	229 795	0	229 795
Total financial derivatives recognized at fair value	0	229 795	0	229 795
Financial liabilities recognized at fair value in Note 5:				
Liabilities created on issuance of securities	0	2 172 916	0	2 172 916
Total financial liabilities at fair value used for hedging	0	2 172 916	0	2 172 916
Liabilities to credit institutions	0	21 722 766	0	21 722 766
Covered bonds issued	0	9 138 227	0	9 138 227
Total financial liabilities at amortized cost	0	30 860 993	0	30 860 993

NOTE 6 Fair value hierarchy – cont.

30.06.2016 NOK THOUSANDS	Level 1	Level 2	Level 3	Total
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.

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 30.06.2016	BOOK VALUE 30.06.2017
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	30.06.2017	30.06.2016	31.12.2016
Bond debt, nominal amount	25 774 000	24 585 000	26 685 000
Adjustments	51 484	118 529	66 384
Accured interest	79 934	69 172	68 990
Own holdings, nominal amount	-2 143 000	-974 000	-3 369 000
Total debt securities issued	23 762 418	23 798 701	23 451 374

Interest rate on borrowings through the issuance of securities at the reporting date 1.39% 1.44 % 1.59 %
The interest rate is calculated as a weighted average of the act/360 basis. It includes interest rate effects and amortization costs.

NOK THOUSANDS	Balance sheet 30.06.2017	Issued	Matured/ redeemed	Other adjustments	Balance sheet 31.12.2016
Bond debt, nominal amount	25 774 000	3 100 000	-4 011 000	0	26 685 000
Adjustments	51 484	0	0	-14 900	66 384
Accured interest	79 934	0	0	10 944	68 990
Own holdings, nominal amount	-2 143 000	0	1 226 000	0	-3 369 000
Total debt securities issued	23 762 418	3 100 000	-2 785 000	-3 956	23 451 374

NOTE 8 Financial assets and liabilities subject net settlement

30.06.2017 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	118 610	0	118 610	-118 610	-4 598	0
Total	118 610	0	118 610	-118 610	-4 598	0
LIABILITIES						
Financial derivatives	229 796	0	229 796	-118 610	-9 850	101 336
Total	229 796	0	229 796	-118 610	-9 850	101 336

30.06.2016 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	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

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 -30.06.2017	01.01.2016 -30.06.2016	01.01.2016 -31.12.2016
INCOME STATEMENT ITEMS			
KLP, fees lending management	28 500	28 500	57 000
KLP Kapitalforvaltning AS, fees for services provided	-188	-231	-438
KLP, rent	-2 997	-2 713	-5 454
KLP, pension premium	-4 563	-3 276	-7 442
KLP, staff services (at cost)	-29 570	-24 794	-53 717
KLP Group companies, subsidised interest employee loans	1 222	964	2 233
Total	-7 596	-1 550	-7 818

NOK THOUSANDS	30.06.2017	30.06.2016	31.12.2016
FINANCIAL POSTITION STATEMENT ITEMS			
KLP, net internal accounts	-13 316	-8 260	-14 895
KLP, loan settlement	-44 182	-58 178	-50 525
KLP Group companies, net other internal accounts	142	36	228
Total	-57 356	-66 402	-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	30.06.2017	30.06.2016	31.12.2016
Intercompany receivables	408	260	610
Miscellaneous receivables	162	0	2 487
Prepaid expenses	3 441	3 597	273
Total	4 011	3 857	3 370

NOTE 11 Other liabilities and provision for accrued costs

NOK THOUSANDS	30.06.2017	30.06.2016	31.12.2016
Creditors	3 923	53	5 013
Intercompany payables	57 765	66 662	65 801
Other liabilities	17 082	29 483	2 617
Total other liabilities	78 770	96 198	73 431
Withholding tax	1 735	1 538	2 837
Social security costs	1 691	1 586	2 090
Holiday pay	5 577	2 018	4 914
Pension obligations	26 279	25 733	26 279
VAT	0	60	264
Provisioned costs	8 825	11 525	9 790
Total accrued costs and liabilities	44 107	42 460	46 174

NOTE 12 Capital adequacy

NOK THOUSANDS	30.06.2017	30.06.2016	31.12.2016
Share capital and share premium fund	1 640 000	1 390 000	1 640 000
Other owners' equity	210 406	142 075	210 406
Total owners' equity	1 850 406	1 532 075	1 850 406
Interim profit/loss	36 298	0	0
Deduction goodwill and other intangible assets	-29 820	-17 977	-19 955
Deferred tax asset	-6 916	-9 542	-6 916
Core capital/Tier 1 capital	1 849 968	1 504 556	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)	1 849 968	1 504 556	1 823 535
Capital requirement	768 668	727 446	767 775
Surplus of own funds (Tier 1 and Tier 2 capital)	1 081 300	777 110	1 055 760
ESTIMATE BASIS CREDIT RISK:			
Institutions	288 203	331 982	337 586
Central government	0	22 001	0
Local and regional authorities (incl. municipalities/ county administrations)	3 468 752	3 491 978	3 491 045
Investments with mortgage security in real estate	4 841 415	4 499 203	5 038 937
Investments fallen due	196 450	85 605	65 763
Covered bonds	235 402	259 138	231 124
Other holdings	150 978	769	31 180
Calculation basis credit risk	9 181 200	8 690 676	9 195 634
Credit risk	734 496	695 254	735 651
Operating risk	33 967	31 957	31 957
Credit valuation adjustments (CVA)	205	235	168
Total capital requirement assets	768 668	727 446	767 775
Core capital adequacy ratio	19.3 %	16.5 %	19.0 %
Supplementary capital ratio	0.0 %	0.0 %	0.0 %
Capital adequacy ratio	19.3 %	16.5 %	19.0 %
Leverage ratio	5.1 %	4.3 %	5.2 %

CAPITAL REQUIREMENT PER 30.06.2017	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	30.06.2017		30.06.2016		31.12.2016	
	Acquisition cost	Market value	Acquisition cost	Market value	Acquisition cost	Market value
Certificates	185 308	185 573	1 380 539	1 387 740	200 587	200 701
Bonds	2 540 987	2 561 267	2 787 155	2 798 310	2 502 618	2 516 812
Total fixed-income securities	2 726 295	2 746 840	4 167 694	4 186 050	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 -30.06.2017	01.01.2016 -30.06.2016	01.01.2016 -31.12.2016
Known losses	-6	0	-196
Reversal of previous write-downs	34	0	12
Change in individual write-downs	-76	-297	-229
Change in write-downs by group	230	0	-706
Total loss on lending	182	-297	-1 119

NOK THOUSANDS	30.06.2017	30.06.2016	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	-34	0	-12
Write-down on individual loans for the period	76	297	229
Write-down by group loans for the period	-230	0	706
Total write-down on loans	2 064	1 626	2 252
Gross default exceeding 90 days	25 471	28 393	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	30.06.2017	30.06.2016	31.12.2016
Credit facilities for lending not utilized	623 957	416 430	452 389
Loan promise	333 918	578 851	424 652
Total contingent liabilities	957 875	995 281	877 041

NOTE 16 Net gain/(loss) on financial instruments

NOK THOUSANDS	01.01.2017 -30.06.2017	01.01.2016 -30.06.2016	01.01.2016 -31.12.2016
Net gain/(loss) on fixed-income securities	7 530	11 063	18 425
Net gain/(loss) financial derivatives and realized amortization linked to lending	0	795	1 867
Net gain/(loss) financial derivatives and realized repurchase of own debt	-3 320	1 199	-10 211
Net value change lending and borrowing, hedge accounting	-204	75	-54
Other financial income and expenses	-471	1 794	1 091
Total	3 535	14 926	11 119

Quarterly earnings trend

NOK MILLIONS	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016
Interest income	196.1	191.6	192.9	193.1	189.7
Interest expense	-138.9	-140.3	-147.9	-144.0	-140.3
Net interest income	57.2	51.4	45.0	49.1	49.4
Commission income and income from banking services	3.1	2.9	3.1	3.2	2.9
Commission cost and cost from banking services	-0.6	-0.3	-0.3	-0.3	-0.5
Net charges and commission income	2.5	2.6	2.8	2.9	2.4
Other fee income	14.2	14.3	14.3	14.3	14.3
Net gain/ (loss) financial instruments	-0.1	3.7	-7.4	3.6	8.5
Total other operating income	14.1	17.9	6.9	17.9	22.7
Salaries and administrative costs	-16.0	-16.7	-17.7	-13.0	-12.1
Depreciation	-1.2	-0.8	-1.1	-1.0	-1.0
Other operating expenses	-31.9	-31.3	-34.6	-23.0	-19.6
Net loan losses	0.0	0.2	-0.7	-0.2	-0.3
Total operating expenses	-49.1	-48.6	-54.1	-37.2	-33.0
Operating profit/loss before tax	24.7	23.2	0.6	32.7	41.4
Tax ordinary income	-6.0	-5.6	-0.1	-8.2	-9.9
Profit/loss for the period	18.7	17.6	0.4	24.5	31.5
Other comprehensive income	0.0	0.0	2.0	-0.4	0.0
Tax on other comprehensive income	0.0	0.0	-0.5	0.1	0.0
Other comprehensive income for the period	0.0	0.0	1.5	-0.3	0.0
Comprehensive income for the period	18.7	17.6	1.9	24.2	31.5

Key figures - accumulated

NOK MILLIONS	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016
Pre-tax income	479	232	912	907	613
Net interest income	108.5	51.4	194.3	149.4	100.3
Other operating income	33.6	16.8	66.4	49.3	32.1
Other operating cost and depreciation	-97.8	-48.6	-180.6	-126.1	-86.1
Net realized/unrealized change fin. instruments at fair value	3.5	3.7	11.1	18.5	14.9
Deposits	9 138.2	8 939.4	8 687.9	8 454.0	8 252.0
Housing mortgage lending	13 729.5	13 375.6	12 716.6	12 812.2	12 294.4
Lending with public sector guarantee	17 165.9	17 281.5	17 245.9	17 336.4	16 047.5
Non-performing loans	25.5	27.9	22.2	24.3	28.4
Total liabilities created on issuance of securities	23 762.4	23 241.3	23 451.4	24 455.1	23 798.7
Other borrowing	0.0	0.0	0.0	0.0	0.0
Total assets	35 140.0	34 383.2	34 382.4	34 949.3	34 147.0
Average total assets	34 761.2	34 382.8	32 838.4	33 121.9	32 720.7
Equity	1 886.7	1 868.0	1 850.4	1 598.4	1 576.7
Interest net	0.31 %	0.15 %	0.59 %	0.45 %	0.31 %
Profit/loss from ordinary operation before taxes	0.14 %	0.07 %	0.28 %	0.27 %	0.19 %
Return on equity	5.18 %	5.02 %	6.05 %	8.02 %	8.12 %
Capital adequacy ratio	19.3 %	19.3 %	19.0 %	16.8 %	16.5 %
Liquidity coverage ratio (LCR)	365 %	368 %	276 %	212 %	199 %



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