



Interim report

KLP BANKEN AS GROUP
Q3 2017

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KLP BANKEN GROUP

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Interim financial statements

KLP BANKEN AS GROUP
Q3 2017

MAIN FEATURES BY THIRD QUARTER END:

- Positive development in operations
- Growth in mortgage loans and deposits
- Credit card established on own balance

The KLP Banken Group's purpose is to offer housing mortgages and other banking services to the retail market and lending to municipalities, county administrations and companies carrying out public sector assignments. The KLP Banken also manages a lending portfolio on behalf of Kommunal Landspensjonskasse Gjensidig forsikringsselskap (KLP). The Group manages lending totalling NOK 85 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 by third quarter end 2017 amounted to NOK 173.9 million compared to NOK 149.4 million in the same period last year. The gross revenue growth is mainly an effect of increased outstanding mortgage volume. Net charges and commission have, for same reason, increased from NOK 6.6 million by the third quarter in 2016 to NOK 7.9 million, at the same time this year.

Operating expenses and depreciation amounted to NOK 140.6 million this year compared to NOK 124.4 million at the same time last year. The increase in operating expenses compared to last year, apart from general inflation, is partly due to investments and start-up cost for establishing a credit card portfolio on the bank's balance.

Loan loss provisions show an increase from NOK 0.5 million 2016 to NOK 2.5 million this year, of which loss provisions on credit cards are NOK 1.4 million and provisions on mortgages NOK 1.1 million. There are no recognized losses or loss provisions on public sector loans.

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 third quarter, the income statement includes a net gain associated with securities of NOK 0.3 million. During the same period the previous year, a net gain of NOK 18.5 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 42.8 million in the first three quarters of 2017, the same amount as the year before.

By the end of the third quarter, the KLP Banken Group had a pre-tax profit of NOK 81.7 million. The retail market segment generated a profit of NOK 31.9 million while the public sector segment achieved a profit of NOK 49.8 million. At the same time in 2016, this Group profit was NOK 92.3 million where the retail market segment reported a profit of NOK 33.6 million and the public sector market a profit of NOK 58.7 million. Group income after tax amounted to NOK 61.8 million at the reporting date and NOK 69.7 million at the same time last year.

LENDING

On 30 September 2017, the KLP Banken Group had a lending balance of NOK 31.0 billion compared to NOK 30.1 billion at the same time previous year. The distribution between the retail market and public sector lending was NOK 14.0 billion and NOK 17.0 billion, respectively.

So far this year, the Group's retail lending balance has increased by NOK 1.3 billion. The credit card portfolio amounted to NOK 55 million of the increase and the remaining part mortgage loans. KLP's own mortgage lending balance was increased by NOK 92 million during the same period.

The public sector lending balance in KLP Banken Group so far this year has decreased by NOK 226 million. Managed public sector loans on KLP's balance sheets has increased by NOK 2.9 billion in the same period. Managed loans to foreign debtors in foreign currencies has decreased by NOK 1.1 billion.

LIQUID INVESTMENT

On the reporting date, the portfolio of liquid investments amounted to NOK 2.7 billion against NOK 3.2 billion at the same time last year. Net financial gains have positively impacted earnings by NOK 8.1 million this year compared to NOK 20.5 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 9.4 billion and issued securities amounted to NOK 23.2 billion. Of the issued securities, covered bonds (OMF) issued by KLP Kommunekreditt AS and KLP Boligkreditt AS, represented an outstanding amount of NOK 17.4 billion and NOK 4.3 billion respectively. All covered bonds issues have achieved AAA rating.

RISK AND CAPITAL ADEQUACY

The KLP Banken Group is exposed to various types of risks and 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 KLP Banken Group

and its subsidiaries are 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 mainly 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 other banks satisfying given 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 third quarter, eligible Tier 1 and Tier 2 capital i.a.w. the capital adequacy rules was NOK 1 873.6 million. Eligible Tier 1 and Tier 2 capital comprises core capital only. The corresponding figure for last year was NOK 1 571.9 million. Lending is risk-weighted in accordance with the authorities' capital adequacy regulations. The KLP Banken Group had a capital adequacy ratio of 19.5 per cent at the end of the third quarter, against 16.8 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 5.2 per cent.

Income statement

KLP BANKEN AS GROUP

NOTE	NOK THOUSANDS	Q3 2017	Q3 2016	01.01.2017 -30.09.2017	01.01.2016 -30.09.2016	01.01.2016 -31.12.2016
	Interest income	198 634	193 125	586 345	572 749	765 615
	Interest expense	-133 259	-144 040	-412 455	-423 389	-571 301
3	Net interest income	65 375	49 085	173 890	149 360	194 314
	Commission income and income from banking services	3 706	3 208	9 736	7 816	10 966
	Commission cost and cost from banking services	-862	-272	-1 787	-1 245	-1 564
	Net charges and commission income	2 844	2 936	7 949	6 571	9 402
	Other fee income	14 250	14 250	42 750	42 750	57 028
16	Net gain/ (loss) financial instruments	-3 273	3 609	262	18 535	11 119
	Total other operating income	10 977	17 859	43 012	61 285	68 146
	Salaries and administrative costs	-13 790	-12 999	-46 493	-40 085	-57 801
	Depreciation	-2 196	-982	-4 231	-3 014	-4 146
	Other operating expenses	-26 722	-24 667	-89 921	-81 334	-117 551
14	Net loan losses	-2 708	-168	-2 526	-465	-1 119
	Total operating expenses	-45 415	-38 816	-143 170	-124 898	-180 617
	Operating profit/loss before tax	33 782	31 064	81 682	92 317	91 244
	Tax ordinary income	-8 247	-7 764	-19 849	-22 651	-22 356
	Profit/loss for the period	25 534	23 300	61 832	69 666	68 888
	Estimate difference, pension obligation and assets	-3 213	-395	-3 213	-2 753	-863
	Tax on actuarial gains and losses	803	98	803	688	216
	Items that will not be reclassified to profit and loss	-2 410	-297	-2 410	-2 065	-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	-2 410	-297	-2 410	-2 063	-556
	Comprehensive income for the period	23 125	23 003	59 423	67 603	68 332

Balance sheet

KLP BANKEN AS GROUP

NOTE	NOK THOUSANDS	30.09.2017	30.09.2016	31.12.2016
ASSETS				
	Loans to credit institutions	965 876	1 414 419	1 548 082
4	Loans to customers	31 018 066	30 148 563	29 962 467
13	Interest-bearing securities	2 707 344	3 213 086	2 717 513
	Shareholdings	394	269	394
	Financial derivatives	130 340	151 002	123 179
	Deffered tax assets	826	3 667	6 916
	Fixed assets	777	455	538
	Intangible assets	29 312	17 000	19 955
10	Other assets	2 267	2 091	3 370
	Total assets	34 855 200	34 950 550	34 382 412
LIABILITIES AND OWNERS EQUITY				
LIABILITIES				
7	Debt securities issued	23 222 648	24 455 121	23 451 374
	Deposits and borrowings from the public	9 400 545	8 453 990	8 687 859
	Financial derivatives	231 466	333 025	253 615
	Deffered tax liabilities	0	0	19 552
11	Other Liabilities	42 334	69 084	73 431
11	Provision for accrued costs and liabilities	48 379	39 653	46 174
	Total liabilities	32 945 372	33 350 873	32 532 006
EQUITY				
	Share capital	982 500	855 000	982 500
	Share premium	657 500	535 000	657 500
	Other owners' eqyity	269 829	209 677	210 406
	Total equity	1 909 829	1 599 677	1 850 406
	Total liabilities and equity	34 855 200	34 950 550	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	61 832	61 832
Other comprehensive income	0	0	-2 410	-2 410
Total comprehensive income for the period	0	0	59 423	59 423
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 September 2017	982 500	657 500	269 829	1 909 829

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	69 666	69 666
Other comprehensive income	0	0	-2 063	-2 063
Total comprehensive income for the period	0	0	67 603	67 603
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 September 2016	855 000	535 000	209 677	1 599 677

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 -30.09.2017	01.01.2016 -30.09.2016	01.01.2016 -31.12.2016
OPERATING ACTIVITIES			
Payments received from customers - interest, commission & charges	531 034	496 538	706 238
Payments to customers - interest, commission & charges	-96 611	-89 068	-119 632
Net receipts/disbursements on loans customers & credit institutions	-1 108 541	-3 876 003	-3 828 660
Net receipts on customer deposits banking	711 970	1 027 847	1 263 356
Payments on purchase of credit card portfolio	-9 547	0	0
Net receipts/disbursements on operations	-101 041	-83 253	-103 142
Payments to employees, pension schemes, employer's social security contribution etc.	-45 309	-39 539	-54 296
Net interest investment accounts	5 811	3 579	13 420
Net receipts/disbursements from operating activities	4 072	64 219	90 935
Income tax paid	0	0	0
Net cash flow from operating activities	-108 162	-2 495 680	-2 031 780
INVESTMENT ACTIVITIES			
Payments on the purchase of securities	1 504 731	3 165 092	3 994 493
Receipts on sale of securities	-1 484 040	-2 571 365	-2 917 899
Receipts of interest from securities	26 048	41 602	59 173
Payments on the purchase of tangible fixed assets	-4 279	-2 216	-6 386
Net cash flow from investment activities	42 458	633 113	1 129 381
FINANCING ACTIVITIES			
Disbursements on loans from credit institutions	-3 850 817	-3 859 838	-6 781 583
Receipts on loans from credit institutions	3 600 000	6 400 000	8 400 000
Net payment of interest on loans	-262 627	-256 889	-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	-532 986	2 283 023	1 480 369
Net cash flow during the period	-598 690	420 456	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	924 555	1 365 731	1 523 245
Net receipts/ disbursements (-) of cash	-598 690	420 456	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 - 30 September 2017. The interim Financial Statements have not been audited.

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

There are no changes in accounting policies that have been of significance for the interim financial statements following the third quarter. Attention is drawn to KLP Banken's Annual Report for 2016 and interim reports after the first and second quarter 2017 for detailed description of accounting principles. These reports are available at www.klp.no.

NOTE 3 Net interest income

NOK THOUSANDS	01.01.2017 -30.09.2017	01.01.2016 -30.09.2016	01.01.2016 -31.12.2016
Interest on loans to and receivables from credit institutions	8 548	10 165	13 661
Interest on loans to customers	549 009	518 108	695 605
Interest on securities	28 788	44 476	56 349
Total interest income	586 345	572 749	765 615
Interest on liabilities to credit institutions	317 083	333 798	451 241
Interest on liabilities to customers	94 977	87 830	118 044
Premium/discount on covered bonds	1 364	1 780	2 544
Other interest costs	-969	-19	-528
Total interest costs	412 455	423 389	571 301
Net interest income	173 890	149 360	194 314

NOTE 4 Loans to customers

NOK THOUSANDS	30.09.2017	30.09.2016	31.12.2016
Loans to customers before write-downs	30 745 921	29 765 776	29 681 769
Individual write-downs	-2 741	-1 794	-1 545
Write-downs by group	-615	0	-706
Loans to customers after write-downs	30 742 565	29 763 982	29 679 518
Accrued interest	264 820	113 350	84 310
Change in fair value due to interest rate changes (fair value hedging)	10 681	271 231	198 639
Loans to customers	31 018 066	30 148 563	29 962 467

NOTE 5 Categories of financial instruments

NOK THOUSANDS	30.09.2017		30.09.2016		31.12.2016	
	Capitalized value	Fair value	Capitalized value	Fair value	Capitalized value	Fair value
FINANCIAL ASSETS AT FAIR VALUE						
Fixed-income securities	2 707 344	2 707 344	3 213 086	3 213 086	2 717 513	2 717 513
Total financial assets at fair value	2 707 344	2 707 344	3 213 086	3 213 086	2 717 513	2 717 513
FINANCIAL ASSETS AT FAIR VALUE HEDGING						
Loans to Norwegian local administrations	4 704 100	4 740 051	5 406 395	5 418 438	5 164 845	5 186 458
Loans to retail customers	192 658	186 611	348 529	341 481	225 799	219 474
Financial derivatives	130 340	130 340	151 002	151 002	123 179	123 179
Total financial assets at fair value hedging	5 027 098	5 057 002	5 905 926	5 910 921	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	965 876	965 876	1 414 419	1 414 419	1 548 082	1 548 082
Loans to Norwegian local administrations	12 311 235	12 306 405	11 929 905	11 920 512	12 081 008	12 071 700
Loans to retail customers	13 810 073	13 810 073	12 463 733	12 463 733	12 490 815	12 490 815
Total financial assets at amortized cost	27 087 184	27 082 354	25 808 057	25 798 664	26 119 905	26 110 597
Total financial assets	34 822 019	34 847 093	34 927 338	34 922 940	34 351 634	34 357 614
LIABILITIES TO CREDIT INSTITUTIONS AT FAIR VALUE HEDGING						
Liabilities created on issuance of securities	2 166 822	2 186 661	2 316 442	2 327 344	2 254 557	2 268 492
Financial derivatives	231 466	231 466	333 025	333 025	253 615	253 615
Total financial liabilities at fair value hedging	2 398 288	2 418 127	2 649 467	2 660 369	2 508 172	2 522 107
LIABILITIES TO CREDIT INSTITUTIONS AND DEPOSITS AT AMORTIZED COST						
Liabilities created on issuance of securities	21 055 826	21 170 001	22 138 679	22 284 804	21 196 817	21 577 190
Deposits from customers	9 400 545	9 400 545	8 453 990	8 453 990	8 687 859	8 687 859
Total financial liabilities at amortized cost	30 456 371	30 570 546	30 592 669	30 738 794	29 884 676	30 265 049
Total financial liabilities	32 854 659	32 988 673	33 242 136	33 399 163	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 – continues**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

30.09.2017 NOK THOUSANDS	Level 1	Level 2	Level 3	Total
ASSETS				
Financial assets recognized at fair value:				
Fixed-income securities	185 744	2 521 601	0	2 707 345
Shareholdings	0	0	394	394
Financial derivatives	0	130 340	0	130 340
Total financial assets recognized at fair value	185 744	2 651 941	394	2 838 078
Financial assets recognized at fair value in Note 5:				
Loans to retail customers	0	186 611	0	186 611
Loans to Norwegian local administrations	0	4 740 051	0	4 740 051
Total financial assets at fair value used for hedging	0	4 926 662	0	4 926 662
Financial assets at amortized cost:				
Loans to and receivables from credit institutions	0	965 876	0	965 876
Loans to retail customers	0	13 810 073	0	13 810 073
Loans to Norwegian local administrations	0	12 306 405	0	12 306 405
Total financial assets at amortized cost	0	27 082 354	0	27 082 354
LIABILITIES				
Financial liabilities recognized at fair value:				
Financial derivatives (liabilities)	0	231 466	0	231 466
Total financial derivatives recognized at fair value	0	231 466	0	231 466
Financial liabilities recognized at fair value in Note 5:				
Liabilities created on issuance of securities	0	2 186 661	0	2 186 661
Total financial liabilities at fair value used for hedging	0	2 186 661	0	2 186 661
Liabilities to credit institutions	0	21 170 001	0	21 170 001
Covered bonds issued	0	9 400 545	0	9 400 545
Total financial liabilities at amortized cost	0	30 570 546	0	30 570 546

NOTE 6 Fair value hierarchy — continues

30.09.2016 NOK THOUSANDS	Level 1	Level 2	Level 3	Total
ASSETS				
Financial assets recognized at fair value:				
Fixed-income securities	175 712	3 037 374	0	3 213 086
Shareholdings	0	0	269	269
Financial derivatives	0	151 002	0	151 002
Total financial assets recognized at fair value	175 712	3 188 376	269	3 364 357
Financial assets recognized at fair value in Note 5:				
Loans to retail customers	0	341 481	0	341 481
Loans to Norwegian local administrations	0	5 418 438	0	5 418 438
Total financial assets at fair value used for hedging	0	5 759 919	0	5 759 919
Financial assets at amortized cost:				
Loans to and receivables from credit institutions	0	1 414 419	0	1 414 419
Loans to retail customers	0	12 463 733	0	12 463 733
Loans to Norwegian local administrations	0	11 920 512	0	11 920 512
Total financial assets at amortized cost	0	25 798 664	0	25 798 664
LIABILITIES				
Financial liabilities recognized at fair value:				
Financial derivatives (liabilities)	0	333 025	0	333 025
Total financial derivatives recognized at fair value	0	333 025	0	333 025
Financial liabilities recognized at fair value in Note 5:				
Liabilities created on issuance of securities	0	2 327 344	0	2 327 344
Total financial liabilities at fair value used for hedging	0	2 327 344	0	2 327 344
Liabilities to credit institutions	0	22 284 804	0	22 284 804
Covered bonds issued	0	8 453 990	0	8 453 990
Total financial liabilities at amortized cost	0	30 738 794	0	30 738 794

NOTE 6 Fair value hierarchy — continues

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 — continues

NOK THOUSANDS	BOOK VALUE 31.12.2016	BOOK VALUE 30.09.2016	BOOK VALUE 30.09.2017
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	30.09.2017	30.09.2016	31.12.2016
Bond debt, nominal amount	24 432 000	27 035 000	26 685 000
Adjustments	54 195	85 355	66 384
Accrued interest	92 453	89 766	68 990
Own holdings, nominal amount	-1 356 000	-2 755 000	-3 369 000
Total debt securities issued	23 222 648	24 455 121	23 451 374

Interest rate on borrowings through the issuance of securities at the reporting date 1.29% 1.53% 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 30.09.2017	Issued	Matured/ Redeemed	Other adjustments	Balance sheet 31.12.2016
Bond debt, nominal amount	24 432 000	3 600 000	-5 853 000	0	26 685 000
Adjustments	54 195	0	0	-12 189	66 384
Accrued interest	92 453	0	0	23 463	68 990
Own holdings, nominal amount	-1 356 000	0	2 013 000	0	-3 369 000
Total debt securities issued	23 222 648	3 600 000	-3 840 000	11 274	23 451 374

NOTE 8 Financial assets and liabilities subject to net settlement

30.09.2017 NOK THOUSANDS				Related sums that are not presented net		
	Gross financial assets/liabilites	Gross assets/liabilities presented net	Book value	Financial instruments	Security in cash	Net recognised vaulue
ASSETS						
Financial derivatives	130 340	0	130 340	-130 340	-4 602	0
Total	130 340	0	130 340	-130 340	-4 602	0
LIABILITIES						
Financial derivatives	231 466	0	231 466	-130 340	-9 850	91 276
Total	231 466	0	231 466	-130 340	-9 850	91 276

30.09.2016 NOK THOUSANDS				Related sums that are not presented net		
	Gross financial assets/liabilites	Gross assets/liabilities presented net	Book value	Financial instruments	Security in cash	Net recognised vaulue
ASSETS						
Financial derivatives	151 002	0	151 002	-151 002	-6 197	0
Total	151 002	0	151 002	-151 002	-6 197	0
LIABILITIES						
Financial derivatives	333 025	0	333 025	-151 002	-13 150	168 873
Total	333 025	0	333 025	-151 002	-13 150	168 873

31.12.2016 NOK THOUSANDS				Related sums that are not presented net		
	Gross financial assets/liabilites	Gross assets/liabilities presented net	Book value	Financial instruments	Security in cash	Net recognised vaulue
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 -30.09.2017	01.01.2016 -30.09.2016	01.01.2016 -31.12.2016
INCOME STATEMENT ITEMS			
KLP, fees lending management	42 750	42 750	57 000
KLP Kapitalforvaltning AS, fees for services provided	-235	-372	-438
KLP, rent	-4 564	-4 083	-5 454
KLP, pension premium	-6 884	-5 683	-7 442
KLP, staff services (at cost)	-42 792	-35 776	-53 717
KLP Group companies, subsidised interest employee loans	1 838	1 449	2 233
Total	-9 887	-1 715	-7 818

NOK THOUSANDS	30.09.2017	30.09.2016	31.12.2016
FINANCIAL POSTITION STATEMENT ITEMS			
KLP, net internal accounts	-10 351	-8 470	-14 895
KLP, loan settlement	-9 136	-34 407	-50 525
KLP Group companies, net other internal accounts	158	44	228
Total	-19 329	-42 834	-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	30.09.2017	30.09.2016	31.12.2016
Intercompany receivables	400	316	610
Miscellaneous receivables	112	124	2 487
Prepaid expenses	1 755	1 651	273
Total	2 267	2 091	3 370

NOTE 11 Other liabilities and provision for accrued costs

NOK THOUSANDS	30.09.2017	30.09.2016	31.12.2016
Creditors	2 372	1 743	5 013
Intercompany payables	19 729	43 149	65 801
Other liabilities	20 233	24 192	2 617
Total other liabilities	42 334	69 084	73 431
Withholding tax	1 417	1 301	2 837
Social security costs	1 040	1 069	2 090
Holiday pay	3 492	3 250	4 914
Pension obligations	32 069	27 294	26 279
VAT	516	0	264
Provisioned costs	9 845	6 739	9 790
Total accrued costs and liabilities	48 379	39 653	46 174

NOTE 12 Capital adequacy

NOK THOUSANDS	30.09.2017	30.09.2016	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	59 423	66 366	0
Deduction goodwill and other intangible assets	-29 312	-17 000	-19 955
Deferred tax asset	-6 916	-9 542	-6 916
Core capital/Tier 1 capital	1 873 601	1 571 899	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)	1 873 601	1 571 899	1 823 535
Capital requirement	766 843	747 235	767 775
Surplus of own funds (Tier 1 and Tier 2 capital)	1 106 758	824 664	1 055 760
ESTIMATE BASIS CREDIT RISK:			
Institutions	215 653	322 670	337 586
Retail	67 244	0	0
Local and regional authorities (incl. municipalities/ county administrations)	3 438 699	3 596 362	3 491 045
Investments with mortgage security in real estate	4 953 121	4 681 440	5 038 937
Investments fallen due	47 552	66 107	65 763
Covered bonds	231 380	261 580	231 124
Other holdings	204 879	9 754	31 180
Calculation basis credit risk	9 158 528	8 937 913	9 195 634
Credit risk	732 682	715 033	735 651
Operating risk	33 967	31 957	31 957
Credit valuation adjustments (CVA)	194	245	168
Total capital requirement assets	766 843	747 235	767 775
Core capital adequacy ratio	19.5 %	16.8 %	19.0 %
Supplementary capital ratio	0.0 %	0.0 %	0.0 %
Capital adequacy ratio	19.5 %	16.8 %	19.0 %
Leverage ratio	5.2 %	4.3 %	5.2 %

CAPITAL REQUIREMENT PER 30.09.2017	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 %
Pilar 2-requirement	2.1 %	0.0 %	2.1 %
Current capital requirement incl. buffers	13.6 %	3.5 %	17.1 %
Minimum requirement in leverage ratio	3.0 %	0.0 %	3.0 %
Requirement with buffer in core capital	2.0 %	0.0 %	2.0 %
Capital requirement leverage ratio	5.0 %	0.0 %	5.0 %

NOTE 13 Fixed-income securities

NOK THOUSANDS	30.09.2017		30.09.2016		31.12.2016	
	Acquisition cost	Market value	Acquisition cost	Market value	Acquisition cost	Market value
Certificates	185 308	185 744	385 915	387 847	200 587	200 701
Bonds	2 501 047	2 521 600	2 806 578	2 825 239	2 502 618	2 516 812
Total fixed-income securities	2 686 355	2 707 344	3 192 493	3 213 086	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 -30.09.2017	01.01.2016 -30.09.2016	01.01.2016 -31.12.2016
Known losses	-1 422	0	-196
Reversal of previous write-downs	34	0	12
Change in individual write-downs	-1 230	-465	-229
Change in write-downs by group	91	0	-706
Total loss on lending	-2 526	-465	-1 119

NOK THOUSANDS	30.09.2017	30.09.2016	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	1 230	465	229
Write-down by group loans for the period	-91	0	706
Total write-down on loans	3 357	1 794	2 252
Gross default exceeding 90 days	17 418	24 284	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	30.09.2017	30.09.2016	31.12.2016
Credit facilities for lending not utilized	638 323	428 984	452 389
Loan promise	363 061	861 899	424 652
Total contingent liabilities	1 001 384	1 290 883	877 041

NOTE 16 Net gain/(loss) on financial instruments

NOK THOUSANDS	01.01.2017 -30.09.2017	01.01.2016 -30.09.2016	01.01.2016 -31.12.2016
Net gain/(loss) on fixed-income securities	8 085	20 507	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	-6 953	-4 284	-10 211
Net value change lending and borrowing, hedge accounting	-165	210	-54
Other financial income and expenses	-705	1 307	1 091
Total	262	18 535	11 119

NOTE 17 Pension obligations - own employees

NOK THOUSANDS	30.09.2017	30.09.2016	31.12.2016
Capitalized net liability	26 279	22 505	22 505
Pension costs taken to profit/loss	6 518	6 053	8 099
Finance costs taken to profit/loss	473	637	853
Actuarial gains and losses incl. social security contributions	3 213	2 753	863
Social security contributions paid in premiums/supplement	-576	-575	-747
Premiums/supplement paid-in including admin	-4 083	-4 079	-5 295
Capital activity tax	243	0	1 103
Capitalized net liability	32 069	27 294	26 279

ASSUMPTIONS

	30.09.2017	30.09.2016	31.12.2016
Discount rate	2.30 %	2.10 %	2.60 %
Salary growth	2.50 %	2.25 %	2.50 %
The National Insurance basic amount (G)	2.25 %	2.00 %	2.25 %
Pension increases	1.48 %	1.24 %	1.48 %
Social security contribution rate	14.10 %	14.10 %	14.10 %

Quarterly earnings trend

NOK MILLIONS	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016
Interest income	198.6	196.1	191.6	192.9	193.1
Interest expense	-133.3	-138.9	-140.3	-147.9	-144.0
Net interest income	65.4	57.2	51.4	45.0	49.1
Commission income and income from banking services	3.7	3.1	2.9	3.1	3.2
Commission cost and cost from banking services	-0.9	-0.6	-0.3	-0.3	-0.3
Net charges and commission income	2.8	2.5	2.6	2.8	2.9
Other fee income	14.3	14.3	14.3	14.3	14.3
Net gain/ (loss) financial instruments	-3.3	-0.1	3.7	-7.4	3.6
Total other operating income	11.0	14.1	17.9	6.9	17.9
Salaries and administrative costs	-13.8	-16.0	-16.7	-17.7	-13.0
Depreciation	-2.2	-1.2	-0.8	-1.1	-1.0
Other operating expenses	-26.7	-31.9	-31.3	-34.6	-24.7
Net loan losses	-2.7	0.0	0.2	-0.7	-0.1
Total operating expenses	-45.4	-49.1	-48.6	-54.1	-38.8
Operating profit/loss before tax	33.8	24.7	23.2	0.6	31.1
Tax ordinary income	-8.2	-6.0	-5.6	-0.1	-7.8
Profit/loss for the period	25.5	18.7	17.6	0.4	23.3
Other comprehensive income	-3.2	0.0	0.0	2.0	-0.4
Tax on other comprehensive income	0.8	0.0	0.0	-0.5	0.1
Other comprehensive income for the period	-2.4	0.0	0.0	1.5	-0.3
Comprehensive income for the period	23.1	18.7	17.6	1.9	23.0

Key figures - accumulated

NOK MILLIONS	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016
Pre-tax income	81.7	47.9	23.2	91.2	90.7
Net interest income	173.9	108.5	51.4	194.3	149.4
Other operating income	50.7	33.6	16.8	66.4	49.3
Other operating cost and depreciation	-143.2	-97.8	-48.6	-180.6	-126.1
Net realized/unrealized change fin. instruments at fair value	0.3	3.5	3.7	11.1	18.5
Deposits	9 400.5	9 138.2	8 939.4	8 687.9	8 454.0
Housing mortgage lending	14 002.7	13 729.5	13 375.6	12 716.6	12 812.2
Lending with public sector guarantee	17 015.3	17 165.9	17 281.5	17 245.9	17 336.4
Non-performing loans	17.4	25.5	27.9	22.2	24.3
Total liabilities created on issuance of securities	23 222.6	23 762.4	23 241.3	23 451.4	24 455.1
Other borrowing	0.0	0.0	0.0	0.0	0.0
Total assets	34 855.2	35 140.0	34 383.2	34 382.4	34 949.3
Average total assets	34 618.8	34 761.2	34 382.8	32 838.4	33 121.9
Equity	1 909.8	1 886.7	1 868.0	1 850.4	1 598.4
Interest net	0.50 %	0.31 %	0.15 %	0.59 %	0.45 %
Profit/loss from ordinary operation before taxes	0.24 %	0.14 %	0.07 %	0.28 %	0.27 %
Return on equity	5.89 %	5.18 %	5.02 %	6.05 %	8.02 %
Capital adequacy ratio	19.5 %	19.3 %	19.3 %	19.0 %	16.8 %
Liquidity coverage ratio (LCR)	361 %	365 %	368 %	276 %	212 %



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