



Interim report

KLP BANKEN AS GROUP
Q4 2016




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KLP BANKEN GROUP

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MAIN FEATURES BY FOURTH QUARTER END:

- Stable growth in mortgage loan volumes
- Public sector lending balance has increased by NOK 1.7 billion
- Stable development in net interest income
- Earnings are positively impacted by financial losses 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 82 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 by fourth quarter end 2016 amounted to NOK 194.3 million compared to NOK 187.1 million in 2015. Operating expenses and depreciation amounted to NOK 179.5 million this year compared to NOK 170.2 million at the same time last year.

Net charges and commission income is reduced from NOK 10.2 million by the fourth quarter in 2015 to NOK 9.4 million in 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 fourth quarter, the income statement includes a net gain associated with securities of NOK 18.4 million. During the same period the previous year, a net loss of NOK 30.1 million was brought to book.

In addition to its own lending, the banking group administers housing mortgages and public sector lending financed by its parent company, Kommunal Landspensjonskasse (KLP). The management fee for this task amounted to NOK 57.0 million in 2016. Last year, this amount was NOK 57.6 million.

The income statement include a loss provision of NOK 1.1 million on mortgage loans in 2016. There are no recognized losses on public sector loans.

By the end of the fourth quarter, the KLP Banken Group had a pre-tax profit of NOK 91.2 million. The retail market segment generated a profit of NOK 31.9 million while the public sector segment achieved a profit of NOK 59.3 million. In 2015, this Group profit was NOK 49.6 million where the retail market segment reported a profit of NOK 30.3 million and the public sector market a profit of NOK 19.3 million.

LENDING

On 31 December 2016, the KLP Banken Group had a lending balance of NOK 30.0 billion compared to NOK 26.4 billion at the same time previous year. The distribution between the retail market and public sector lending was NOK 12.8 billion and NOK 17.2 billion, respectively.

During 2016, the Group's mortgage lending balance increased by NOK 2.0 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 0.2 billion during the same period.

The public sector lending balance in KLP Banken AS Group has increased by NOK 1.7 billion in 2016. Managed loans on KLP's own balance sheets has increased by NOK 3.0 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 3.8 billion at the same time last year. Net financial gains have positively impacted earnings by NOK 18.4 million this year compared to a negative impact of NOK 30.1 million last year.

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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 8.7 billion and issued securities amounted to NOK 23.5 billion. Of the issued securities, covered bonds (OMF) issued by KLP Kommunekreditt AS represented NOK 17.3 billion, while KLP Boligkreditt AS had NOK 3.7 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.

KLP banken expanded the equity by NOK 250 million in desember 2016. At the end of the fourth quarter, eligible Tier 1 and Tier 2 capital i.a.w. the capital adequacy rules was NOK 1 752.6 million. Eligible Tier 1 and Tier 2 capital comprises core capital only. The corresponding figure for last year was NOK 1 480.5 million. Lending is risk-weighted in accordance with the authorities' capital adequacy regulations. The KLP Banken Group had a capital adequacy ratio of 18.3 per cent at the end of the fourth quarter, against 17.6 per cent on the same date last year. The minimum statutory requirement is 11.0 per cent core capital adequacy and 15.0 per cent capital adequacy.

Income statement

KLP BANKEN AS GROUP

NOTE	NOK THOUSANDS	Q4 2016	Q4 2015	01.01.2016 -31.12.2016	01.01.2015 -31.12.2015
	Interest income	192 866	196 177	765 615	817 991
	Interest expense	-147 912	-142 177	-571 301	-630 928
3	Net interest income	44 954	54 000	194 314	187 063
	Commission income and income from banking services	3 150	2 688	10 966	11 280
	Commission cost and cost from banking services	-319	-297	-1 564	-1 074
	Net charges and commission income	2 831	2 391	9 402	10 205
	Other fee income	14 278	14 433	57 028	57 648
16	Net gain/ (loss) financial instruments	-7 416	-6 387	11 119	-34 111
	Total other operating income	6 861	8 046	68 146	23 537
	Salaries and administrative costs	-17 716	-21 155	-57 801	-60 824
	Depreciation	-1 132	-1 422	-4 146	-3 396
	Impairment	0	-1 338	0	-1 338
	Other operating expenses	-34 566	-24 121	-117 551	-104 595
	Total operating expenses	-53 414	-46 698	-179 498	-170 153
14	Net loan losses	-654	-1 140	-1 119	-1 034
	Operating profit/loss before tax	577	16 599	91 244	49 618
	Tax ordinary income	-144	-4 956	-22 382	-14 240
	Profit/loss for the period	433	11 643	68 862	35 378
	Estimate difference, pension obligation and assets	1 890	4 175	-863	7 012
	Tax on actuarial gains and losses	-472	-1 127	216	-1 893
	Items that will not be reclassified to profit and loss	1 418	3 048	-647	5 119
	Changes in the fair value at available for sale financial assets	118	0	121	0
	Tax on changes in fair value of available for sale financial assets	-29	0	-30	0
	Items that may be reclassified to profit and loss	89	0	91	0
	Other comprehensive income for the period	1 507	3 048	-556	5 119
	Comprehensive income for the period	1 940	14 691	68 306	40 497

Balance sheet

KLP BANKEN AS GROUP

NOTE	NOK THOUSANDS	31.12.2016	31.12.2015
	ASSETS		
	Loans to credit institutions	1 548 082	973 591
4	Loans to customers	29 962 467	26 359 449
13	Interest-bearing securities	2 717 513	3 783 373
	Shareholdings	394	265
	Financial derivatives	123 179	148 375
	Deffered tax assets	3 483	9 542
	Fixed assets	538	468
	Intangible assets	19 955	17 784
10	Other assets	3 370	1 593
	Total assets	34 378 980	31 294 440
	LIABILITIES AND OWNERS EQUITY		
	LIABILITIES		
7	Debt securities issued	23 451 374	21 901 660
	Deposits and borrowings from the public	8 687 859	7 426 181
	Financial derivatives	253 615	366 706
	Deffered tax liabilities	0	24 514
11	Other Liabilities	89 576	29 643
11	Provision for accrued costs and liabilities	46 174	37 920
	Total liabilities	32 528 599	29 786 624
	EQUITY		
	Share capital	982 500	855 000
	Share premium	657 500	535 000
	Retained earnings	210 381	117 816
	Total equity	1 850 381	1 507 816
	Total liabilities and equity	34 378 980	31 294 440

Statement of changes in equity

KLP BANKEN AS GROUP

2016 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	68 862	68 862
Other comprehensive income	0	0	-556	-556
Total comprehensive income for the period	0	0	68 306	68 306
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	210 381	1 850 381

2015 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 -31.12.2016	01.01.2015 -31.12.2015
OPERATING ACTIVITIES		
Payments received from customers - interest, commission & charges	706 238	776 367
Payments to customers - interest, commission & charges	-119 632	-150 819
Net receipts/disbursements on loans customers & credit institutions	-3 828 660	-1 614 588
Net receipts on customer deposits banking	1 263 356	1 175 318
Net receipts/disbursements on operations	-103 142	-106 447
Payments to employees, pension schemes, employer's social security contribution etc.	-54 296	-59 268
Net interest investment accounts	13 420	18 517
Net receipts/disbursements from operating activities	90 935	70 349
Income tax paid	0	0
Net cash flow from operating activities	-2 031 780	109 429
INVESTMENT ACTIVITIES		
Payments on the purchase of securities	3 994 493	2 474 691
Receipts on sale of securities	-2 917 899	-2 804 539
Receipts of interest from securities	59 173	53 267
Payments on the purchase of tangible fixed assets	-6 386	-3 320
Net cash flow from investment activities	1 129 381	-279 901
FINANCING ACTIVITIES		
Net receipts/disbursements on loans from credit institutions	1 618 417	310 301
Net payment of interest on loans	-387 798	-437 823
Receipts on issue of owners' equity	250 000	200 000
Group contributions made	-250	-27 080
Net cash flows from financing activities	1 480 369	45 398
Net cash flow during the period	577 970	-125 074
Cash and cash equivalents at the start of the period	945 275	1 070 349
Cash and cash equivalents at the end of the period	1 523 245	945 275
Net receipts/ disbursements (-) of cash	577 970	-125 074

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 and its subsidiaries provide or acquire loans to Norwegian municipalities and county authorities, as well as to companies with public sector guarantee. The lending activities are principally financed by issuance of covered bonds. The Group also offers standard banking products to private customers. KLP Banken AS is registered and domiciled in Norway. It's head office is at Beddingen 8 in Trondheim. The company has a branch office in Oslo.

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

NOTE 2 Accounting principles

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

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

There are no changes in accounting principles in 2016 that have been of significance for the interim consolidated Financial Statements following the 4th quarter. Attention is drawn to KLP Banken's Annual Report for 2015 for detailed description of accounting principles.

NOTE 3 Net interest income

NOK THOUSANDS	01.01.2016 -31.12.2016	01.01.2015 -31.12.2015
Interest on loans to and receivables from credit institutions	13 661	18 578
Interest on loans to customers	695 605	744 398
Interest on securities	56 349	55 015
Total interest income	765 615	817 991
Interest on liabilities to credit institutions	451 241	480 948
Interest on liabilities to customers	118 044	149 738
Premium/discount on covered bonds	2 544	-414
Other interest costs	-528	656
Total interest costs	571 301	630 928
Net interest income	194 314	187 063

NOTE 4 Loans to customers

NOK THOUSANDS	31.12.2016	31.12.2015
Loans to customers before write-downs	29 681 769	25 943 953
Individual write-downs	-1 545	-1 328
Write-downs by group	-706	0
Loans to customers after write-downs	29 679 518	25 942 625
Accrued interest	84 310	83 956
Change in fair value due to interest rate changes (fair value hedging)	198 639	332 868
Loans to customers	29 962 467	26 359 449

NOTE 5 Categories of financial instruments

NOK THOUSANDS	31.12.2016		31.12.2015	
	Capitalized value	Fair value	Capitalized value	Fair value
FINANCIAL ASSETS AT FAIR VALUE				
Fixed-income securities	2 717 513	2 717 513	3 783 373	3 783 373
Total financial assets at fair value	2 717 513	2 717 513	3 783 372	3 783 372
FINANCIAL ASSETS AT FAIR VALUE HEDGING				
Loans to Norwegian local administrations	5 164 845	5 186 458	5 558 168	5 526 008
Loans to retail customers	225 799	219 474	388 664	379 511
Financial derivatives	123 179	123 179	148 375	148 375
Total financial assets at fair value hedging	5 513 823	5 529 111	6 095 207	6 053 894

NOTE 5 Categories of financial instruments — cont.

NOK THOUSANDS	31.12.2016		31.12.2015	
	Capitalized value	Fair value	Capitalized value	Fair value
FINANCIAL ASSETS AVAILABLE FOR SALE				
Shares and holdings	394	394	265	265
Total financial assets available for sale	394	394	265	265
FINANCIAL ASSETS AT AMORTIZED COST				
Loans to and receivables from credit institutions	1 548 082	1 548 082	973 591	973 591
Loans to Norwegian local administrations	12 081 008	12 071 700	10 088 101	10 080 287
Loans to retail customers	12 490 815	12 490 815	10 324 515	10 324 515
Total financial assets at amortized cost	26 119 905	26 110 597	21 386 205	21 378 393
Total financial assets	34 351 634	34 357 614	31 265 052	31 215 925
LIABILITIES TO CREDIT INSTITUTIONS AT FAIR VALUE HEDGING				
Liabilities created on issuance of securities	2 254 557	2 268 492	2 018 823	2 031 421
Financial derivatives	253 615	253 615	366 706	366 706
Total financial liabilities at fair value hedging	2 508 172	2 522 107	2 385 529	2 398 127
LIABILITIES TO CREDIT INSTITUTIONS AND DEPOSITS AT AMORTIZED COST				
Liabilities created on issuance of securities	21 196 817	21 577 190	19 882 837	19 731 677
Deposits from customers	8 687 859	8 687 859	7 426 181	7 426 181
Total financial liabilities at amortized cost	29 884 677	30 265 049	27 309 017	27 157 858
Total financial liabilities	32 392 849	32 787 156	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

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	2 841 085
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.

31.12.2015 NOK THOUSANDS	Level 1	Level 2	Level 3	Total
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

NOK THOUSANDS	Book value 31.12.2015	Book value 31.12.2016
CHANGES IN LEVEL 3 UNLISTED SHARES		
Opening balance 1 Jan	265	265
Sold	0	0
Bought	0	7
Unrealized changes	0	121
Closing balance	265	394
Realized gains/losses	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.

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

NOK THOUSANDS	31.12.2016	31.12.2015
Bond debt, nominal amount	26 685 000	22 355 000
Adjustments	66 385	122 014
Accured interest	68 989	54 646
Own holdings, nominal amount	-3 369 000	-630 000
Total debt securities issued	23 451 374	21 901 660

Changes in debt securities issued

NOK THOUSANDS	Balance sheet 31.12.2016	Issued	Matured/ redeemed	Other adjustments	Balance sheet 31.12.2015
Bond debt, nominal amount	26 685 000	8 795 000	-4 465 000	0	22 355 000
Adjustments	66 385	0	0	-55 629	122 014
Accured interest	68 989	0	0	14 344	54 646
Own holdings, nominal amount	-3 369 000	0	-2 739 000	0	-630 000
Total debt securities issued	23 451 374	8 795 000	-7 204 000	-41 285	21 901 660

NOTE 8 Financial assets and liabilities subject net settlement

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 value
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

31.12.2015 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 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 -31.12.2016	01.01.2015 -31.12.2015
INCOME STATEMENT ITEMS		
KLP, fees lending management	57 000	57 620
KLP Kapitalforvaltning AS, fees for services provided	-438	-422
KLP, rent	-5 454	-3 692
KLP, pension premium	-7 442	-7 887
KLP, staff services (at cost)	-53 717	-46 386
KLP Group companies, subsidised interest employee loans	2 233	1 065
Total	-7 818	298

NOK THOUSANDS	31.12.2016	31.12.2015
FINANCIAL POSITION STATEMENT ITEMS		
KLP, net internal accounts	-14 895	-8 498
KLP, loan settlement	-50 525	-16 448
KLP Group companies, net other internal accounts	228	358
Total	-65 192	-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	31.12.2016	31.12.2015
Intercompany receivables	610	437
Miscellaneous receivables	2 487	0
Prepaid expenses	273	1 156
Total	3 370	1 593

NOTE 11 Other liabilities and provision for accrued costs

NOK THOUSANDS	31.12.2016	31.12.2015
Creditors	5 013	1 583
Intercompany payables	65 802	25 025
Other liabilities	18 761	3 035
Total other liabilities	89 576	29 643
Withholding tax	2 837	2 738
Social security costs	2 090	1 982
Holiday pay	4 914	4 499
Pension obligations	26 279	22 505
VAT	264	170
Provisioned costs	9 790	6 027
Total accrued costs and liabilities	46 174	37 920

NOTE 12 Capital adequacy

NOK THOUSANDS	31.12.2016	31.12.2015
Share capital and share premium fund	1 640 000	1 390 000
Other owners' equity	142 075	117 816
Total owners' equity	1 782 075	1 507 816
Interim profit/loss	0	0
Deduction goodwill and other intangible assets	-19 955	-17 784
Deferred tax asset	-9 542	-9 542
Core capital/Tier 1 capital	1 752 578	1 480 490
Supplementary capital/Tier 2 capital	0	0
Supplementary capital/Tier 2 capital	0	0
Total eligible own funds (Tier 1 and Tier 2 capital)	1 752 578	1 480 490
Capital requirement	768 071	672 968
Surplus of own funds (Tier 1 and Tier 2 capital)	984 507	807 522

NOTE 12 Capital adequacy — cont.

NOK THOUSANDS	31.12.2016	31.12.2015
Estimate basis credit risk:		
Institutions	341 278	229 347
Local and regional authorities (incl. municipalities/county administrations)	3 491 045	3 339 625
Investments with mortgage security in real estate	5 038 937	4 079 989
Investments fallen due	65 763	98 091
Covered bonds	231 124	262 689
Other holdings	31 180	899
Calculation basis credit risk	9 199 327	8 010 640
Credit risk	735 946	640 851
Operating risk	31 957	32 117
Credit valuation adjustments (CVA)	168	0
Total capital requirement assets	768 071	672 968
Core capital adequacy ratio	18.3 %	17.6 %
Supplementary capital ratio	0.0 %	0.0 %
Capital adequacy ratio	18.3 %	17.6 %
Leverage ratio	5.0 %	4.7 %

Capital requirement per 31.12.2016	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	31.12.2016		31.12.2015	
	Acquisition cost	Market value	Acquisition cost	Market value
Certificates	200 587	200 701	1 044 836	1 048 173
Bonds	2 502 618	2 516 812	2 737 387	2 735 200
Total fixed-income securities	2 703 205	2 717 513	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 -31.12.2016	01.01.2015 -31.12.2015
Known losses	-196	-278
Reversal of previous write-downs	12	562
Change in individual write-downs	-229	-1 318
Change in write-downs by group	-706	0
Total loss on lending	-1 119	-1 034

NOK THOUSANDS	31.12.2016	31.12.2015
Balance of write-down losses on lending 1 January	1 329	573
Reversal of write-down on individual loans for the period	-12	-562
Write-down on individual loans for the period	229	1 318
Write-down by group loans for the period	706	0
Total write-down on loans	2 252	1 329
Gross default exceeding 90 days	22 230	29 339
Gross other doubtful loans	0	0

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

NOTE 15 Contingent liabilities

NOK THOUSANDS	31.12.2016	31.12.2015
Credit facilities for lending not utilized	452 389	351 309
Loan promise	424 652	273 714
Total contingent liabilities	877 041	625 023

NOTE 16 Net gain/(loss) on financial instruments

NOK THOUSANDS	01.01.2016 -31.12.2016	01.01.2015 -31.12.2015
Net gain/(loss) on fixed-income securities	18 426	-30 077
Net gain/(loss) financial derivatives and realized amortization linked to lending	1 867	2 054
Net gain/(loss) financial derivatives and realized repurchase of own debt	-10 211	-5 051
Net value change lending and borrowing, hedge accounting	-54	-202
Other financial income and expenses	1 091	-834
Total	11 119	-34 111

NOTE 17 Pension obligations - own employees

NOK THOUSANDS	31.12.2016	31.12.2015
Capitalized net liability	22 505	25 381
Pension costs taken to profit/loss	8 046	8 484
Financial costs taken to profit/loss	853	834
Actuarial gains and losses	-240	-7 012
Capital activity tax	1 103	0
Premiums/supplement paid-in including admin	-5 988	-5 182
Capitalized net liability	26 279	22 505

ASSUMPTIONS	31.12.2016	31.12.2015
Discount rate	2.60 %	2.70 %
Salary growth	2.50 %	2.50 %
The National Insurance basic amount (G)	2.25 %	2.25 %
Pension increases	1.48 %	1.48 %
Social security contribution rate	14.10 %	14.10 %

Quarterly earnings trend

NOK MILLIONS	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015
Interest income	192.9	193.1	189.7	190.0	196.2
Interest expense	-147.9	-144.0	-140.3	-139.1	-142.2
Net interest income	45.0	49.1	49.4	50.9	54.0
Commission income and income from banking services	3.1	3.2	2.9	1.7	2.7
Commission cost and cost from banking services	-0.3	-0.3	-0.5	-0.5	-0.3
Net charges and commission income	2.8	2.9	2.4	1.2	2.4
Other fee income	14.3	14.3	14.3	14.3	14.4
Net gain/ (loss) financial instruments	-7.4	3.6	8.5	6.5	-6.4
Total other operating income	6.9	17.9	22.7	20.7	8.0
Salaries and administrative costs	-17.7	-13.0	-12.1	-15.0	-21.2
Depreciation	-1.1	-1.0	-1.0	-1.0	-1.4
Impairment	0.0	0.0	0.0	0.0	-1.3
Other operating expenses	-34.6	-23.0	-22.9	-37.0	-24.1
Total operating expenses	-53.4	-37.0	-36.1	-53.0	-48.0
Net loan losses	-0.7	-0.2	-0.3	0.0	-1.1
Operating profit/loss before tax	0.6	32.7	38.1	19.9	15.3
Tax ordinary income	-0.1	-8.2	-9.1	-5.0	-5.0
Profit/loss for the period	0.4	24.5	29.0	14.9	10.3
Other comprehensive income	2.0	-0.4	0.0	-2.4	4.2
Tax on other comprehensive income	-0.5	0.1	0.0	0.6	-1.1
Other comprehensive income for the period	1.5	-0.3	0.0	-1.8	3.0
Comprehensive income for the period	1.9	24.2	29.0	13.1	13.3

Key figures - accumulated

NOK MILLIONS	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015
Pre-tax income	91.2	90.7	58.0	19.9	49.6
Net interest income	194.3	149.4	100.3	50.9	187.1
Other operating income	66.4	49.3	32.1	15.5	67.9
Other operating cost and depreciation	-179.5	-126.1	-89.1	-53.0	-170.2
Net realized/unrealized change fin. instruments at fair value	11.1	18.5	14.9	6.5	-34.1
Deposits	8 687.9	8 454.0	8 252.0	7 883.7	7 426.2
Housing mortgage lending	12 716.6	12 812.2	12 294.4	11 311.0	10 713.1
Lending with public sector guarantee	17 245.9	17 336.4	16 047.5	15 782.9	15 646.3
Non-performing loans	22.2	24.3	28.4	33.1	29.3
Total liabilities created on issuance of securities	23 451.4	24 455.1	23 798.7	22 282.7	21 901.7
Other borrowing	0.0	0.0	0.0	0.0	0.0
Total assets	34 379.0	34 949.3	34 144.6	32 199.8	31 294.4
Average total assets	32 836.7	33 121.9	32 719.5	31 747.1	30 525.3
Equity	1 850.4	1 598.4	1 574.2	1 545.2	1 507.8
Interest net	0.59 %	0.45 %	0.31 %	0.16 %	0.61 %
Profit/loss from ordinary operation before taxes	0.28 %	0.27 %	0.18 %	0.06 %	0.16 %
Return on equity	6.05 %	8.02 %	7.69 %	5.28 %	3.40 %
Capital adequacy ratio	18.3 %	16.8 %	16.5 %	17.5 %	17.6 %
Liquidity coverage ratio (LCR)	276 %	212 %	199 %	217 %	212 %



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