

KLP



Interim report

KLP BANKEN AS GROUP
Q1 2019

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KLP BANKEN GROUP

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Interim financial statements

KLP BANKEN AS GROUP
Q1 2019

MAIN FEATURES BY FIRST QUARTER END:

- Stable growth in mortgage loans
- Increased net interest income
- Positive profit development

The KLP Banken Group supports direct banking for customers seeking a long-term and predictable partner. We aim to be the preferred retail bank for KLP's owners, members, pensioners and other customers who find our services and basic values attractive. The bank also provides lending to municipalities, county administrations and companies carrying out public sector assignments. Additionally the KLP Banken manages a lending portfolio on behalf of KLP (Kommunal Landspensjonskasse gjensidig forsikringsselskap). The Group manages lending totaling NOK 97.1 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.

KLP Banken AS is owned 100 per cent 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 first quarter end 2019 amounted to NOK 66.0 (64.6)¹ million. This development is mainly due to stable margins and growth in mortgage loans and other credit volumes.

Operating expenses including depreciations amounted to NOK 57.5 million, compared to NOK 58.1 million at the same time last year.

Net charges and commission income has increased from NOK 3.8 million by the first quarter in 2018 to NOK 4.1 million this year. This is mainly due to the loan volume increase in the retail market.

At the end of the first quarter, the income statement includes a net loss associated with securities of NOK -3.4 million. During the same period the previous year, a net loss of NOK 1.1 million was brought to book. The change is mainly due to one-off expenses occurring from buy-back of lending issued by KLP Kommunekreditt AS.

In addition to its own lending, the banking group administers housing mortgages and public sector lending financed by its parent company (KLP). The management fee for this task amounted to NOK 14.8 million at the end of the first quarter, NOK 0.3 million more than last year.

Loan loss provisions and realized losses in total amounted to NOK 1.9 (2.1) million in the first quarter.

By the end of the first quarter, the KLP Banken Group had a pre-tax profit of NOK 24.0 million. The retail market segment generated a profit of NOK 18.4 million while the public sector segment achieved a profit of NOK 5.6 million. In 2018, the Group profit was NOK 23.7 million, where the retail market segment reported a profit of NOK 14.1 million and the public sector market a profit of NOK 9.6 million. Group income after tax amounted to NOK 16.5 (18.1) million at the reporting date.

LENDING

On 31 March 2018, the KLP Banken Group had a lending balance of NOK 33.7 (31.2) billion. The distribution between the retail market and public sector lending was NOK 17.0 billion and NOK 16.7 billion, respectively.

So far this year the Group's mortgage lending balance increased by NOK 325 million. The credit card lending balance is reduced by NOK 2 million and amounted to NOK 64 million by the end of the quarter. Managed mortgages on KLP's own balance sheet is reduced by NOK 66 million in the quarter.

The public sector lending balance in KLP Banken AS Group has decreased by NOK 0.1 billion during the first quarter of 2019. Managed public sector loans on KLP's own balance sheet has increased by NOK 0.7 billion in the same period. Managed loans to foreign debtors in foreign currencies has increased by NOK 1.0 billion.

LIQUID INVESTMENT

On the reporting date, the portfolio of liquid investments amounted to NOK 3.1 (2.5) billion. Net financial gains on value changes in the first quarter have positively impacted earnings by NOK 3.5 (2.8) million.

¹ ¹ Figures in parenthesis are from the corresponding period in 2018.

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 11.0 billion and issued securities amounted to NOK 24.7 billion. Of the outstanding volume of issued securities, covered bonds (OMF) issued by KLP Kommunekreditt AS and KLP Boligkreditt AS amounted to NOK 17.3 billion and NOK 6.5 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 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.

At the end of the first quarter, eligible Tier 1 and Tier 2 capital i.a.w. the capital adequacy rules was NOK 2 102.9 (2 040.5) million. Eligible Tier 1 and Tier 2 capital comprises core capital only. Lending is risk-weighted in accordance with the authorities' capital adequacy regulations. The KLP Banken Group had a capital adequacy ratio of 19.0 (20.6) per cent at the end of the first quarter. The minimum statutory requirement is 14.1 per cent core capital adequacy and 17.6 per cent capital adequacy. Leverage ratio was 5.4 (5.6) per cent. Here the requirement is 3.0 per cent.

Income statement

KLP BANKEN AS GROUP

NOTE	NOK THOUSANDS	Q1 2019	Q1 2018	01.01.2018 -31.12.2018
	Interest income, amortised cost	206 996	182 981	757 820
	Interest income at fair value	35 493	75 398	182 646
3	Total interest income	242 489	258 379	940 466
	Interest expense, amortized cost	-145 220	-116 503	-507 997
	Interest expense at fair value	-31 232	-77 290	-183 938
3	Total interest costs	-176 453	-193 793	-691 935
3	Net interest income	66 037	64 586	248 532
	Commission income and income from banking services	4 562	4 152	18 488
	Commission cost and cost from banking services	-464	-310	-1 174
	Net charges and commission income	4 098	3 842	17 314
	Other fee income	14 800	14 500	58 041
16	Net gain/ (loss) financial instruments	-3 431	-1 136	-13 524
	Total other operating income	11 369	13 364	44 518
	Salaries and administrative costs	-19 060	-18 133	-72 026
	Depreciation	-2 764	-2 191	-8 117
	Other operating expenses	-33 769	-35 696	-139 953
14	Net loan losses	-1 878	-2 057	-6 838
	Total operating expenses	-57 472	-58 077	-226 935
	Operating profit/loss before tax	24 032	23 715	83 429
	Tax ordinary income	-5 729	-5 645	-19 458
	Profit/loss for the period	18 303	18 070	63 970
	Estimate difference, pension obligation and assets	-2 393	0	-2 326
	Tax on actuarial gains and losses	598	0	581
	Items that will not be reclassified to profit and loss	-1 795	0	-1 744
	Changes in the fair value through profit and loss	0	0	0
	Tax on changes in fair value of available for sale financial assets	0	0	0
	Items that may be reclassified to profit and loss	0	0	0
	Other comprehensive income for the period	-1 795	0	-1 744
	Comprehensive income for the period	16 508	18 070	62 226

Balance sheet

KLP BANKEN AS GROUP

NOTE	NOK THOUSANDS	31.03.2019	31.03.2018	31.12.2018
ASSETS				
5	Claims on central banks	60 320	25 144	60 238
5	Loans to credit institutions	1 649 667	1 466 268	1 439 420
4.5	Loans to customers	33 697 919	31 238 011	33 474 004
5.6.13	Interest-bearing securities	3 072 568	2 541 281	2 015 351
5.6	Shareholdings	2 053	461	2 053
5.6	Financial derivatives	69 534	95 531	62 483
	Deffered tax assets	4 446	4 784	8 667
	Fixed assets	628	710	667
17	Right-of-use assets	4 675	0	0
	Intangible assets	22 963	24 995	25 299
10	Other assets	847	6 420	413
Total assets		38 585 620	35 403 605	37 088 595
LIABILITIES AND OWNERS EQUITY				
LIABILITIES				
5.7	Debt securities issued	24 655 401	23 340 814	24 039 968
5	Deposits and borrowings from the public	11 031 424	9 733 091	10 661 749
5.6	Financial derivatives	104 929	160 646	111 955
17	Lease liabilities	4 697	0	0
11	Other Liabilities	576 619	29 978	85 154
11	Provision for accrued costs and liabilities	58 390	45 579	52 117
Total liabilities		36 431 460	33 310 109	34 950 943
EQUITY				
	Share capital	1 057 500	1 057 500	1 057 500
	Share premium	732 500	732 500	732 500
	Other owners' eqyity	347 652	285 426	347 652
	Profit for the period	16 508	18 070	0
Total equity		2 154 160	2 093 496	2 137 652
Total liabilities and equity		38 585 620	35 403 605	37 088 595

Statement of changes in equity

KLP BANKEN AS GROUP

2019 NOK THOUSANDS	Share capital	Share premium	Other equity	Total owners' equity
Equity 1 January 2019	1 057 500	732 500	347 652	2 137 652
Profit for the period	0	0	18 303	18 303
Other comprehensive income	0	0	-1 795	-1 795
Total comprehensive income for the period	0	0	16 508	16 508
Group contribution received	0	0	0	0
Group contribution made	0	0	0	0
Total transactions with the owners	0	0	0	0
Equity 31 March 2019	1 057 500	732 500	364 160	2 154 160

2018 NOK THOUSANDS	Share capital	Share premium	Other equity	Total owners' equity
Owners' equity 31 December 2017	1 057 500	732 500	287 591	2 077 591
Changes in accounting principles (IFRS 9)	0	0	-2 882	-2 882
Tax effect of change of accounting principle	0	0	717	717
Owners' equity 1 January 2018	1 057 500	732 500	285 426	2 075 426
Profit for the period	0	0	18 070	18 070
Other comprehensive income	0	0	0	0
Total comprehensive income for the period	0	0	18 070	18 070
Group contribution received	0	0	78 880	78 880
Group contribution made	0	0	-78 880	-78 880
Total transactions with the owners	0	0	0	0
Equity 31 March 2018	1 057 500	732 500	303 496	2 093 496

2018 NOK THOUSANDS	Share capital	Share premium	Other equity	Total owners' equity
Owners' equity 31 December 2017	1 057 500	732 500	287 591	2 077 591
Changes in accounting principles (IFRS 9)	0	0	-2 882	-2 882
Tax effect of change of accounting principle	0	0	717	717
Owners' equity 1 January 2018	1 057 500	732 500	285 426	2 075 426
Income for the year	0	0	63 970	63 970
Other comprehensive income	0	0	-1 744	-1 744
Total comprehensive income for the period	0	0	62 226	62 226
Group contribution received	0	0	78 891	78 891
Group contribution made	0	0	-78 891	-78 891
Total transactions with the owners	0	0	0	0
Equity 31 December 2018	1 057 500	732 500	347 652	2 137 652

Statement of cash flow

KLP BANKEN AS GROUP

NOK THOUSANDS	Q1 2019	Q1 2018	01.01.2018 -31.12.2018
OPERATING ACTIVITIES			
Payments received from customers – interest, commission & charges	188 476	173 418	767 723
Payments to customers – interest, commission and charges	-38 650	-32 862	-136 600
Disbursements on loans to customers and credit institutions	-2 311 505	-2 304 972	-9 521 930
Receipts on loans to customers	2 092 092	2 055 380	6 657 968
Net receipts on customer deposits banking	370 364	66 007	992 291
Disbursements on operations	-38 644	-41 668	-140 190
Payments to staff, pension schemes, employer's social security contribution etc.	-17 556	-18 529	-64 412
Interest investment accounts	2 134	2 070	13 263
Net receipts/disbursements from operating activities	27 269	-9 349	61 621
Income tax paid	0	0	0
Net cash flow from operating activities	273 979	-110 505	-1 370 266
INVESTMENT ACTIVITIES			
Receipts on sale of securities	186 732	1 146 474	3 403 183
Payments on the purchase of securities	-766 111	-926 376	-2 667 949
Receipts of interest from securities	8 253	7 761	35 101
Payments on the purchase of tangible fixed assets	0	0	-6 187
Net cash flow from investment activities	-571 125	227 859	764 148
FINANCING ACTIVITIES			
Receipts on loans	1 550 000	1 337 000	6 500 000
Repayment and redemption of loans	-585 000	-280 518	1 548 000
Payment for loan buybacks	-369 000	-909 000	-6 922 000
Net payment of interest on loans	-88 157	-71 506	-329 850
Payment of lease liabilities	-385	0	0
Group contributions made	0	-25 298	-25 334
Net cash flows from financing activities	507 457	50 676	770 816
Net cash flow during the period	210 312	168 030	164 698
Cash and cash equivalents at the start of the period	1 454 013	1 289 317	1 289 315
Cash and cash equivalents at the end of the period	1 664 325	1 457 347	1 454 013
Net receipts/ disbursements (-) of cash	210 312	168 030	164 698

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 Dronning Eufemiasgate 10, Oslo.

The company, KLP Banken AS, is a subsidiary of KLP Bankholding AS, which 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 2019 – 31 March 2019. The interim Financial Statements has not been audited.

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

As of 1 January 2019 the Group has implemented the accounting standard IFRS 16 Leases. The Group has also chosen a modified retrospective approach and is taking the whole effect of the transition against the opening balance at 1 January 2019. It is permitted not to show comparative figures. For further informasjon, see note 17 Leases, in this interim report.

Other accounting principles and calculations are the same in the interim financial statement as in the annual report for 2018.

NOTE 3 Net interest income

NOK THOUSANDS	Q1 2019	Q1 2018	01.01.2018 -31.12.2018
Interest income on loans to customers, amortised cost	203 790	179 854	744 554
Interest income on loans to credit institutions, amortised cost	3 207	3 127	13 266
Interest income on bonds and certificates, fair value	9 567	9 105	34 883
Other interest income, fair value	25 926	66 293	147 762
Total interest income	242 489	258 379	940 466
Interest expenses on debt to KLP Banken, amortised cost	-38 312	-32 541	-135 139
Interest expenses on issued securities, amortised cost	-106 886	-83 962	-372 858
Interest expense lease liabilities	-23	0	0
Other interest expenses, fair value	-31 232	-77 290	-183 938
Total interest costs	-176 453	-193 793	-691 935
Net interest income	66 037	64 586	248 531

NOTE 4 Loans to customers

NOK THOUSANDS	31.03.2019	31.03.2018	31.12.2018
Principal on loans to customers	33 488 972	31 009 417	33 272 780
Credit portfolio	65 586	62 860	67 757
Overdraft current account	479	698	436
Write-downs step 1 and 2	-1 198	-1 394	-990
Write-downs step 3	-1 285	-2 538	-1 774
Loans to customers after write-downs	33 552 554	31 069 043	33 338 209
Accrued interest	94 190	90 595	74 167
Premium/discount	-10 624	-14 118	-9 970
Fair value hedging	61 799	92 491	71 598
Loans to customers	33 697 919	31 238 011	33 474 004

NOTE 5 Categories of financial instruments

NOK THOUSANDS	31.03.2019		31.03.2018		31.12.2018	
	Capitalized value	Fair value	Capitalized value	Fair value	Capitalized value	Fair value
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS						
Fixed-income securities	3 072 568	3 072 568	2 541 281	2 541 281	2 015 351	2 015 351
Financial derivatives	69 534	69 534	95 531	95 531	62 483	62 483
Shares and holdings	2 053	2 053	461	461	2 053	2 053
Total financial assets at fair value through profit and loss	3 144 155	3 144 155	2 637 273	2 637 273	2 079 887	2 079 887
FINANCIAL ASSETS FAIR VALUE HEDGING						
Loans to and receivables from customers	3 489 033	3 531 287	4 347 758	4 395 758	3 568 702	3 600 945
Total financial assets fair value hedging	3 489 033	3 531 287	4 347 758	4 395 758	3 568 702	3 600 945
FINANCIAL ASSETS AT AMORTIZED COST						
Loans to and receivables from credit institutions	60 320	60 320	25 144	25 144	60 238	60 238
Loans to and receivables from central banks	1 649 667	1 649 667	1 466 268	1 466 268	1 439 420	1 439 420
Loans to and receivables from customers	30 208 885	30 198 769	26 890 252	26 885 907	29 905 302	29 893 107
Total financial assets at amortized cost	31 918 873	31 908 757	28 381 665	28 377 319	31 404 960	31 392 765
Total financial assets	38 552 061	38 584 198	35 366 696	35 410 351	37 053 549	37 073 597
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS						
Financial derivatives	104 929	104 929	160 646	160 646	111 955	111 955
Total financial liabilities at fair value through profit and loss	104 929	104 929	160 646	160 646	111 955	111 955
FINANCIAL LIABILITIES FAIR VALUE HEDGING						
Liabilities created on issuance of securities	1 898 706	1 918 731	2 106 018	2 134 520	1 886 974	1 904 665
Total financial liabilities fair value hedging	1 898 706	1 918 731	2 106 018	2 134 520	1 886 974	1 904 665
FINANCIAL LIABILITIES AT AMORTIZED COST						
Liabilities created on issuance of securities	22 756 695	22 882 572	21 234 796	21 369 734	22 152 994	22 243 219
Deposits from customers	11 031 424	11 031 424	9 733 091	9 733 091	10 661 749	10 661 749
Total financial liabilities at amortized cost	33 788 120	33 913 997	30 967 887	31 102 825	32 814 743	32 904 968
Total financial liabilities	35 791 755	35 937 657	33 234 551	33 397 991	34 813 672	34 921 588

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.

Shares (unlisted)

For liquid shares and units, the closing price on the balance sheet date is used as the basis for measurement at fair value. If the prices are not quoted, the last price traded is used. Illiquid shares are priced on the basis of the Oslo Stock Exchange's index algorithm based on the last traded prices. If the price picture is out of date, a derived valuation is produced from relevant equity indices or other similar securities. If this is also considered unsatisfactory, a discretionary valuation is made in which the Company's financial key figures, broker assessment etc. are used.

Fair value of loans to retail customers

The fair value through profit/loss is calculated by discounting contractual cash flows to present values. The discount

rate is determined as the market rate, including a suitable risk margin. For loans measured at fair value through other comprehensive income, the fair value is calculated as the recognised principal minus estimated loss provisions on loans classified in Stage 2 and 3 (see note 14 Losses on loans).

Fair value of loans to Norwegian local administrations

The fair value of these loans is considered to be virtually the same as the book value, as the contract terms are constantly adjusted in line with market interest rates. The fair value of fixed rate loans is calculated by discounting contractual cash flows by market interest rates including a suitable risk margin at the end of the reporting period. This is valued at Level 2 in the valuation hierarchy, cf. Note 6.

Fair value of deposits

The fair value of floating rate deposits is taken to be approximately equal to the deposit amount including accrued interest. The fair value of fixed rate deposits is calculated by discounting contractual cash flows by market interest rates including a suitable risk margin. discounting contractual cash flows by market interest rates including a suitable risk margin. This is valued at Level 2 in the valuation hierarchy, cf. Note 6.

Fair value of loans to and receivables from credit institutions

All receivables from credit institutions (bank deposits) are at variable interest rates. The fair value of these is considered to be virtually the same as the book value, as the contract terms are continuously changed in step with change in market interest rates. This is valued at Level 2 in the valuation hierarchy, cf. Note 8. as the contract terms are continuously changed in step with change in market interest rates. This is valued at Level 2 in the valuation hierarchy, cf. Note 6.

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. This is valued in Level 2 in the valuation hierarchy, cf. Note 6.

NOTE 6 Fair value hierarchy

31.03.2019 NOK THOUSANDS	Level 1	Level 2	Level 3	Total
ASSETS BOOKED AT FAIR VALUE				
Fixed-income securities	146 661	2 925 907	0	3 072 568
Shareholdings	0	0	2 053	2 053
Financial derivatives	0	69 534	0	69 534
Total assets at fair value	146 661	2 995 441	2 053	3 144 155
LIABILITIES BOOKED AT FAIR VALUE				
Financial derivatives (liabilities)	0	104 929	0	104 929
Total financial liabilities at fair value	0	104 929	0	104 929

31.03.2018 NOK THOUSANDS	Level 1	Level 2	Level 3	Total
ASSETS BOOKED AT FAIR VALUE				
Fixed-income securities	236 751	2 304 530	0	2 541 281
Shareholdings	0	0	461	461
Financial derivatives	0	95 531	0	95 531
Total assets at fair value	236 751	2 400 061	461	2 637 273
LIABILITIES BOOKED AT FAIR VALUE				
Financial derivatives (liabilities)	0	160 646	0	160 646
Total financial liabilities at fair value	0	160 646	0	160 646

31.12.2018 NOK THOUSANDS	Level 1	Level 2	Level 3	Total
ASSETS BOOKED AT FAIR VALUE				
Fixed-income securities	208 129	1 807 222	0	2 015 351
Shareholdings	0	0	2 053	2 053
Financial derivatives	0	62 483	0	62 483
Total assets at fair value	208 129	1 869 705	2 053	2 079 887
LIABILITIES BOOKED AT FAIR VALUE				
Financial derivatives (liabilities)	0	111 955	0	111 955
Total financial liabilities at fair value	0	111 955	0	111 955

NOK THOUSANDS	31.03.2019	31.03.2018	31.12.2018
CHANGES IN LEVEL 3 UNLISTED SHARES			
Opening balance	2 053	461	461
Additions/purchases of shares	0	0	0
Unrealized changes	0	0	1 592
Closing balance	2 053	461	2 053
Realized gains/losses	0	0	0

NOTE 6 Fair value hierarchy – continues

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 5 discloses the fair value of financial assets and financial liabilities that are recognized at amortized cost and according to the rules on hedge accounting. Financial assets measured at amortized cost and hedge accounting comprise lending to and due to credit institutions, Norwegian municipalities and retail customers. The stated fair value of these assets is determined on terms qualifying for level 2. Financial liabilities recognized at amortized cost and hedge accounting consist of debt securities issued and deposits. The stated fair value of these liabilities is determined by methods qualifying for level 2.

There have been no transfers between level 1 and level 2.

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

NOK THOUSANDS	31.03.2019	31.03.2018	31.12.2018
Bond debt, nominal amount	26 441 000	24 350 000	25 876 000
Adjustments	33 579	24 706	29 847
Accrued interest	83 822	72 108	68 121
Own holdings, nominal amount	-1 903 000	-1 106 000	-1 934 000
Total debt securities issued	24 655 401	23 340 814	24 039 968

Interest rate on borrowings through the issuance of securities at the reporting date:

1.71 %

1.38 %

1.61 %

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 31.12.2018	Issued	Matured/ Redeemed	Other adjustments	Balance sheet 31.03.2019
Bond debt, nominal amount	25 876 000	1 550 000	-985 000	0	26 441 000
Adjustments	29 847	0	0	3 732	33 579
Accrued interest	68 121	0	0	15 701	83 822
Own holdings, nominal amount	-1 934 000	0	31 000	0	-1 903 000
Total debt securities issued	24 039 968	1 550 000	-954 000	19 433	24 655 401

NOTE 8 Financial assets and liabilities subject to net settlement

31.03.2019 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	69 534	0	69 534	-69 534	0	0
Total	69 534	0	69 534	-69 534	0	0
LIABILITIES						
Financial derivatives	104 929	0	104 929	-69 534	-8 902	26 493
Total	104 929	0	104 929	-69 534	-8 902	26 493

31.03.2018 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	95 531	0	95 531	-95 531	-2 497	0
Total	95 531	0	95 531	-95 531	-2 497	0
LIABILITIES						
Financial derivatives	160 646	0	160 646	-95 531	-7 200	57 915
Total	160 646	0	160 646	-95 531	-7 200	57 915

31.12.2018 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	62 483	0	62 483	-62 483	0	0
Total	62 483	0	62 483	-62 483	0	0
LIABILITIES						
Financial derivatives	111 955	0	111 955	-62 482	-8 893	40 580
Total	111 955	0	111 955	-62 482	-8 893	40 580

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.

NOTE 9 Transactions with related parties

NOK THOUSANDS	Q1 2019	Q1 2018	01.01.2018 -31.12.2018
KLP, fees lending management	14 800	14 500	58 000
KLP Kapitalforvaltning AS, fees for services provided	-42	-88	-226
KLP, rent	-685	-1 027	-4 150
KLP Skipsbygget AS, rent	-808	-388	-1 554
KLP Bassengtømt AS, rent parking	0	-25	-101
KLP Eiendomsdrift AS, cost office buildings	-216	-66	-473
KLP, pension premium	-2 959	-2 680	-11 368
KLP, staff services (at cost)	-16 447	-15 682	-67 616
KLP Group companies, subsidised interest employee loans	917	659	2 173

NOK THOUSANDS	31.03.2019	31.03.2018	31.12.2018
BALANCES			
KLP, net internal accounts	-1 847	-3 704	-2 773
KLP, loan settlement	-62 068	-11 687	-49 151
KLP Group companies, net other internal accounts	248	398	23

Transactions with related parties are carried out at general market terms and conditions, with the exception of the Company's share of common functions (staff services), which are allocated at cost. The receivable is based on actual use. All internal receivables are settled as they arise.

NOTE 10 Other assets

NOK THOUSANDS	31.03.2019	31.03.2018	31.12.2018
Intercompany receivables	673	398	289
Miscellaneous receivables	118	119	122
Prepaid expenses	56	5 903	2
Total other assets	847	6 420	413

NOTE 11 Other liabilities and provision for accrued costs

NOK THOUSANDS	31.03.2019	31.03.2018	31.12.2018
Creditors	2 053	3 603	7 825
Intercompany payables	64 340	15 435	52 187
Tax payable	19 431	0	19 431
Other liabilities	490 795	10 940	5 710
Total other liabilities	576 619	29 978	85 154
Withholding tax	1 553	1 477	3 227
Social security contributions	1 561	1 449	2 486
Capital activity tax	568	520	900
Holiday pay	6 489	6 373	5 322
Pension obligations	42 382	32 991	38 265
VAT	55	0	0
Provisioned costs	5 782	2 769	1 917
Total accrued costs and liabilities	58 390	45 579	52 117

NOTE 12 Capital adequacy

NOK THOUSANDS	31.03.2019	31.03.2018	31.12.2018
Share capital and share premium fund	1 790 000	1 790 000	1 790 000
Other owners' equity	347 652	285 426	347 652
Total owners' equity	2 137 652	2 075 426	2 137 652
Adjustments due to requirements for proper valuation	-3 073	-2 541	-2 015
Deduction goodwill and other intangible assets	-22 963	-24 995	-25 299
Deferred tax asset	-8 667	-7 392	-8 667
Core capital/Tier 1 capital	2 102 949	2 040 498	2 101 671
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)	2 102 949	2 040 498	2 101 671
Capital requirement	884 149	792 462	837 802
Surplus of own funds (Tier 1 and Tier 2 capital)	1 218 800	1 248 036	1 263 869
ESTIMATE BASIS CREDIT RISK:			
Institutions	343 955	316 028	299 070
Retail	84 581	77 431	82 717
Local and regional authorities (incl. municipalities/county administrations)	3 355 399	3 238 886	3 384 588
Investments with mortgage security in real estate	6 293 618	5 360 804	5 922 925
Investments fallen due	78 638	51 039	63 181
Covered bonds	266 068	199 964	156 334
Other holdings	72 720	160 247	62 714
Calculation basis credit risk	10 494 979	9 404 399	9 971 529
Credit risk	839 598	752 352	797 722
Operating risk	44 435	39 956	39 956
Credit valuation adjustments (CVA)	116	154	124
Total capital requirement assets	884 149	792 462	837 802
Core capital adequacy ratio	19.0 %	20.6 %	20.1 %
Supplementary capital ratio	0.0 %	0.0 %	0.0 %
Capital adequacy ratio	19.0 %	20.6 %	20.1 %
Leverage ratio	5.4 %	5.6 %	5.6 %

CAPITAL REQUIREMENT PER 31.03.2019	Core capital/ Tier 1 capital	Supplementary capital/ Tier 2 capital	Own funds
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	2.0 %	0.0 %	2.0 %
Pilar 2-requirement	2.1 %	0.0 %	2.1 %
Current capital requirement incl. buffers	14.1 %	3.5 %	17.6 %
Capital requirement leverage ratio	3.0 %	0.0 %	3.0 %

NOTE 13 Fixed-income securities

NOK THOUSANDS	31.03.2019		31.03.2018		31.12.2018	
	Acquisition cost	Market value	Acquisition cost	Market value	Acquisition cost	Market value
Certificates	146 633	146 661	236 725	236 751	186 732	186 695
Bonds	2 919 013	2 925 907	2 288 226	2 304 530	1 826 298	1 828 656
Total fixed-income securities	3 065 646	3 072 568	2 524 951	2 541 281	2 013 030	2 015 351

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

NOTE 14 Loan loss provision

A revision was made to the classification rules in the first quarter of 2019, which causes loss provisions to move from stage 2 to stage 3. Total loss provisions are not substantially altered as a result of this correction. Other changes in provisions for expected losses at 31 March 2019 are related to changes in lending volume. No other changes have been made to the assumptions or input to the model for calculating loss provisions. Refer to Note 18 and Note 2 to the annual report for more details of the model.

Expected credit loss (ECL) - loans to customers, all segments

NOK THOUSANDS	12-month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
	stage 1	stage 2	stage 3	
Opening balance ECL 01.01.2019	3 452	879	990	5 321
Transfer to Stage 1	319	-319	0	0
Transfer to Stage 2	-76	76	0	0
Transfer to Stage 3	-5	-477	483	0
Net changes	-205	44	52	-110
New losses	171	1	0	172
Write-offs	-27	0	-238	-265
Closing balance ECL 31.03.2019	3 629	203	1 287	5 119
Changes (01.01.2019 - 31.03.2019)	176	-676	297	-203

Expected credit loss (ECL) - loans to customers, amortised cost

NOK THOUSANDS	12-month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
	stage 1	stage 2	stage 3	
Opening balance ECL 01.01.2018	1 036	738	990	2 764
Transfer to Stage 1	188	-188	0	0
Transfer to Stage 2	-55	55	0	0
Transfer to Stage 3	-5	-476	481	0
Net changes	-152	18	51	-82
New losses	46	1	0	47
Write-offs	-11	0	-238	-248
Closing balance ECL 31.03.2019	1 047	149	1 284	2 480
Changes (01.01.2019 - 31.03.2019)	12	-589	294	-283

NOTE 14 Loan loss provision - cont.

Losses on unused credit

NOK THOUSANDS	12-month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
	stage 1	stage 2	stage 3	
Opening balance ECL 01.01.2019	2 416	141	0	2 557
Transfer to Stage 1	131	-131	0	0
Transfer to Stage 2	-21	21	0	0
Transfer to Stage 3	0	-2	2	0
Net changes	-53	25	0	-28
New losses	125	0	0	125
Write-offs	-17	0	0	-17
Closing balance ECL 31.03.2019	2 598	54	2	2 637

Value of lending and receivables for customers recognised in the balance sheet - all segments

NOK THOUSANDS	12-month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
	stage 1	stage 2	stage 3	
Gross lending 01.01.2019	33 238 762	121 631	56 271	33 416 664
Transfer to Stage 1	70 298	-70 298	0	0
Transfer to Stage 2	-60 796	60 796	0	0
Transfer to Stage 3	-6 936	-41 233	48 169	0
Net changes	-132 494	41 059	-39 404	-130 840
New losses	2 122 961	4 713	274	2 127 948
Write-offs	-1 747 336	-12 677	-3 333	-1 763 346
Gross lending 31.03.2019	33 484 458	103 991	61 977	33 650 427

Losses on lending and receivables from customers rated at amortised cost

NOK THOUSANDS	12-month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
	stage 1	stage 2	stage 3	
Gross lending 01.01.2019	33 238 762	121 631	56 271	33 416 664
Transfer to Stage 1	70 298	-70 298	0	0
Transfer to Stage 2	-60 796	60 796	0	0
Transfer to Stage 3	-6 936	-41 233	48 169	0
Net change	-132 494	41 059	-39 404	-130 840
New lending	2 122 961	4 713	274	2 127 948
Write-offs	-1 747 336	-12 677	-3 333	-1 763 346
Gross lending 31.03.2019	33 484 458	103 991	61 977	33 650 427

NOTE 14 Loan loss provision - cont.

Exposure - unused credit

NOK THOUSANDS	12-month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
	stage 1	stage 2	stage 3	
Gross lending 01.01.2019	757 939	5 525	0	763 465
Transfer to Stage 1	5 161	-5 161	0	0
Transfer to Stage 2	-1 829	1 829	0	0
Transfer to Stage 3	-22	-70	93	0
Net change	21 089	8	-17	21 079
New lending	46 643	0	0	46 643
Gross lending 31.03.2019	-12 547	0	0	-12 547
Gross lending 31.03.2019	816 434	2 130	76	818 640

Accrued interest is not included in the book value.

Losses recognised in the profit and loss account consist of:

NOK THOUSANDS	Q1 2019	Q1 2018	01.01.2018 -31.12.2018
Change in loss provisions in Stage 1, 2 and 3	-1 773	-2 057	-6 382
Established losses	-113	0	-512
Recovery for previously established losses	8	0	56
Total losses in the income statement	-1 878	-2 057	-6 838

NOTE 15 Contingent liabilities

NOK THOUSANDS	31.03.2019	31.03.2018	31.12.2018
Credit facilities for lending not utilized	595 732	500 091	561 905
Credit facilities issued credit card	212 363	210 830	201 584
Loan commitment	129 620	301 329	616 318
Total contingent liabilities	937 715	1 012 250	1 379 807

NOTE 16 Net gain/(loss) on financial instruments

NOK THOUSANDS	Q1 2019	Q1 2018	01.01.2018 -31.12.2018
Net gain/(loss) on fixed-income securities	3 520	2 765	-1 532
Net gain/(loss) financial derivatives and realized amortization linked to lending	0	-671	-671
Net gain/(loss) financial derivatives and realized repurchase of own debt	-6 777	-4 326	-12 154
Net value change lending and borrowing, hedge accounting	157	1 348	320
Net gain/(loss) on shares, holdings and primary capital certificates	0	0	1 591
Other financial income and expenses	-331	-252	-1 078
Total net gain/(loss) on financial instruments	-3 431	-1 136	-13 524

NOTE 17 Leases

IFRS 16 Leases was implemented 01.01.2019 using the modified retrospective approach, without requiring comparative figures. The entire effect of the transition has been taken against the opening balance of 01.01.2019 and comparative figures for 2018 have therefore not been restated.

NOK THOUSANDS	31.03.2019
RIGHT-OF-USE ASSETS	Property
Opening balance 01.01.	5 064
Depreciation	-390
Closing balance 31.03.	4 675
LEASE LIABILITIES	Property
Opening balance 01.01.	5 064
Repayments	-368
Closing balance 31.03.	4 697
NOK THOUSANDS	Q1 2019
Interest expense lease liabilities	Property 23

NOTE 18 Pension obligations - own employees

NOK THOUSANDS	31.03.2019	31.03.2018	31.12.2018
Capitalized net liability	38 265	31 440	31 440
Pension costs taken to profit/loss	2 959	2 942	11 227
Finance costs taken to profit/loss	331	189	1 077
Actuarial gains and losses incl. social security contributions	2 393	0	2 326
Premiums/supplement paid-in including admin	-1 566	-1 580	-7 806
Capitalized net liability	42 382	32 991	38 265

FORUTSETNINGER	31.03.2019	31.03.2018	31.12.2018
Discount rate	2.40 %	2.40 %	2.60 %
Salary growth	2.75 %	2.50 %	2.75 %
The National Insurance basic amount (G)	2.50 %	2.25 %	2.50 %
Pension increases	1.73 %	1.48 %	1.73 %
Social security contribution	14.10 %	14.10 %	14.10 %
Capital activity tax	5.00 %	5.00 %	5.00 %

Quarterly earnings trend

NOK MILLIONS	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Interest income	242.5	282.3	200.1	193.0	258.4
Interest expense	-176.5	-217.0	-139.5	-134.9	-193.8
Net interest income	66.0	65.3	60.6	58.0	64.6
Commission income and income from banking services	4.6	5.3	4.3	4.7	4.2
Commission cost and cost from banking services	-0.5	-0.4	-0.3	-0.2	-0.3
Net charges and commission income	4.1	4.9	4.0	4.6	3.8
Other fee income	14.8	14.5	14.5	14.5	14.5
Net gain/ (loss) financial instruments	-3.4	-6.1	-4.7	-1.6	-1.1
Total other operating income	11.4	8.4	9.8	12.9	13.4
Salaries and administrative costs	-19.1	-22.7	-14.4	-16.7	-18.1
Depreciation	-2.8	-1.9	-1.9	-2.2	-2.2
Other operating expenses	-33.8	-39.8	-28.3	-36.1	-35.7
Net loan losses	-1.9	-1.9	-1.7	-1.2	-2.1
Total operating expenses	-57.5	-66.3	-46.3	-56.3	-58.1
Operating profit/loss before tax	24.0	12.3	28.1	19.2	23.7
Tax ordinary income	-5.7	-2.5	-6.7	-4.6	-5.6
Profit/loss for the period	18.3	9.8	21.4	14.6	18.1
Other comprehensive income	-2.4	-2.3	0.0	0.0	0.0
Tax on other comprehensive income	0.6	0.6	0.0	0.0	0.0
Other comprehensive income for the period	-1.8	-1.7	0.0	0.0	0.0
Comprehensive income for the period	16.5	8.1	21.4	14.6	18.1

Key figures - accumulated

NOK MILLIONS	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Pre-tax income	24.0	83.4	71.1	43.0	23.7
Net interest income	66.0	248.5	183.2	122.6	64.6
Other operating income	18.9	75.4	56.0	37.4	18.3
Other operating cost and depreciation	-57.5	-226.9	-160.7	-114.4	-58.1
Net realized/unrealized change fin. instruments at fair value	-3.4	-13.5	-7.4	-2.7	-1.1
Deposits	11 031.4	10 661.7	10 530.6	10 218.3	9 733.1
Lending customers	17 038.2	16 715.4	16 242.7	15 736.6	15 147.1
Lending with public sector guarantee	16 659.7	16 758.6	16 206.2	16 282.3	16 090.9
Non-performing loans	62.0	56.3	31.9	20.8	26.6
Total liabilities created on issuance of securities	24 655.4	24 040.0	23 495.5	23 083.8	23 340.8
Other borrowing	-	-	-	-	-
Total assets	38 585.6	37 088.6	36 468.1	35 816.7	35 403.6
Average total assets	37 837.1	36 034.8	35 724.6	35 398.9	35 192.3
Equity	2 154.2	2 137.7	2 129.5	2 108.1	2 093.5
Interest net	0.17 %	0.69 %	0.51 %	0.35 %	0.18 %
Profit/loss from ordinary operation before taxes	0.06 %	0.23 %	0.20 %	0.12 %	0.07 %
Return on equity	4.50 %	3.83 %	4.56 %	4.14 %	4.57 %
Capital adequacy ratio	19.0 %	20.1 %	19.9 %	20.2 %	20.6 %
Liquidity coverage ratio (LCR)	352 %	402 %	306 %	395 %	295 %

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