

KLP



Interim report

KLP BANKEN AS GROUP
Q3 2019

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KLP BANKEN GROUP

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Interim financial statements

KLP BANKEN AS GROUP
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MAIN FEATURES BY THIRD QUARTER END:

- Stable growth in mortgage loans and deposits
- Increased operating revenues and financial expenses
- Stronger profit contribution from the retail market

The KLP Banken Group finance mortgages and other credits to the retail market and 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 forsikrings-selskap). The Group manages lending totaling NOK 101 (92)¹ billion NOK. The overall business of KLP Banken AS and its subsidiaries is divided in the retail market and the public sector loans business areas. The business is nationwide.

The KLP Banken Group supports direct banking for members in KLP that are seeking a long-term and predictable partner. The aim is to be the preferred retail bank for KLP's members, pensioners and other customers who find our services and basic values attractive. In the public sector market, KLP Kommunekreditt AS and KLP together shall contribute to competition in order to ensure the sector get access to long-term funding at favorable terms.

In August, KLP Banken signed the United Nations Principles for Responsible Banking and has committed to implementing these principles in its operations. The principles for responsible banking entails that banks are transparent about how their products and services create value for their customers and investors, as well as for society as a whole. The principles will guide the banks in their sustainability efforts and support society's overall goals, in line with the UN's Sustainable Development Goals and the Paris Agreement.

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. The enterprise main office is located in Trondheim.

INCOME STATEMENT

Net interest income for the KLP Banken Group by third quarter end 2019 amounted to NOK 209.4 (183.2)

million. The change is mainly due to increase in outstanding mortgage loans. Net interest income from loans to the public sector is down 7.3 million compared to the same period last year.

Net charges and commission income increased from NOK 12.5 million by the third quarter in 2018 to NOK 14.0 million, at the same time this year. This development is mainly due to the increased volume of outstanding credit in the retail market.

In addition to its own lending activity the KLP Banken group manages loan portfolios on behalf of the mother company KLP. Management fees related to these portfolios amounted to NOK 44.4 (43.5) million as at quarter end.

Loan loss provisions show an increase from NOK 7.4 million by third quarter end 2018 to NOK 22.7 million this year. The change is mainly due to the development in the bond markets, leading to one-off expenses from buy-back of issued bonds in KLP Kommunekreditt AS and KLP Boligkreditt AS.

Operating expenses and depreciation before losses amounted to NOK 161.6 (155.7) million NOK. The increase in operating expenses compared to last year, apart from general inflation, is mainly due to depreciations on investments in new system solutions and external IT operations.

In the first three quarters of 2019, loan loss provisions and realized losses amounted to NOK 6.2 (5.0) million in the retail market. This is mainly due to loss on credit cards. There are no acknowledged losses recorded in 2019 related to public lending.

By the end of the third quarter, the KLP Banken Group had a pre-tax profit of NOK 77.3 (77.1) million. The retail market segment generated a profit of NOK 55.6 (36.8) million while the public sector segment achieved a profit of NOK 21.7 (34.4) million. Group income after tax amounted to NOK 56.8 million at the reporting date and NOK 54.1 million at the same time last year.

LENDING

On 30 September 2019, the KLP Banken Group had a lending balance of NOK 34.3 (32.4) billion. The

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

distribution between the retail market and public sector lending was NOK 17.8 (16.2) billion and NOK 16.5 (16.2) billion, respectively.

So far this year, the Group's retail lending balance has increased by NOK 1.1 (1.8) billion, which amounts to a growth of 6.2 (12.5) per cent. The grow rate is lower than last year's strong figures, but nevertheless shows that the bank's mortgage loan products are hitting well with the target group members of KLP's pension schemes. A loan balance of NOK 1.8 (3.8) billion have been sold to the mortgage company KLP Boligkreditt AS through the period. Managed mortgages on behalf of KLP increased by NOK 99 million during the same period.

KLP Banken's credit card activities have increased some in the first three quarters of 2019, measured by outstanding credits drawn, but volumes vary greatly from month to month. The card products are continuously developed in order to meet the needs of our customer groups.

The public sector lending balance in KLP Banken AS Group so far this year is about the same as last year. Managed public sector loans on KLP's balance sheets has increased by NOK 6.0 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 3.4 billion against NOK 2.3 billion at the same time last year. Net financial gains have had a positive impact on earnings by NOK 1.3 (0.9) million this year.

BORROWING

The KLP Banken Group's external financing comprises of deposits, certificates and bonds. On the reporting date, deposits from individuals and companies were NOK 11.7 (10.5) billion and issued securities amounted to NOK 25.5 (23.5) billion. Of the securities issued, covered bonds (OMF) issued by KLP Kommunekreditt

AS and KLP Boligkreditt AS represented an outstanding amount of NOK 17.6 (16.5) billion and NOK 6.7 (6.1) billion respectively. All covered bonds issues have achieved AAA rating. In addition, KLP Banken AS has unsecured debt of NOK 1.2 (0.9) billion.

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 associated with the bank's assets 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 2 137 (2 044) 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 19.1 (19.9) per cent at the end of the third quarter. The minimum statutory requirement is 14.1 per cent core capital adequacy and 17.6 per cent capital adequacy. Leverage ratio was 5.3 (5.6) per cent. The minimum statutory requirement is 3.0 per cent.

Income statement

KLP BANKEN AS GROUP

NOTE	NOK THOUSANDS	Q3 2019	Q3 2018	01.01.2019 -30.09.2019	01.01.2018 -30.09.2018	01.01.2018 -31.12.2018
	Interest income, amortised cost	233 935	190 591	659 362	557 892	757 820
	Interest income at fair value	42 767	36 343	119 841	148 594	182 646
3	Total interest income	276 702	226 934	779 203	706 486	940 466
	Interest expense, amortized cost	-174 419	-129 870	-476 775	-372 338	-507 997
	Interest expense at fair value	-30 986	-36 458	-93 077	-150 910	-183 938
3	Total interest costs	-205 405	-166 328	-569 852	-523 249	-691 935
3	Net interest income	71 297	60 605	209 351	183 237	248 532
	Commission income and income from banking services	5 768	4 322	15 655	13 198	18 488
	Commission cost and cost from banking services	-641	-278	-1 607	-739	-1 174
	Net charges and commission income	5 127	4 044	14 048	12 460	17 314
	Other fee income	14 800	14 500	44 400	43 500	58 041
16	Net gain/ (loss) financial instruments	-11 155	-4 708	-22 723	-7 429	-13 524
	Total other operating income	3 645	9 792	21 677	36 071	44 518
	Salaries and administrative costs	-16 344	-14 430	-53 652	-49 280	-72 026
	Depreciation	-1 576	-1 865	-6 702	-6 252	-8 117
	Other operating expenses	-32 404	-28 331	-101 229	-100 169	-139 953
14	Net loan losses	-3 015	-1 691	-6 181	-4 983	-6 838
	Total operating expenses	-53 339	-46 318	-167 764	-160 684	-226 935
	Operating profit/loss before tax	26 730	28 124	77 312	71 084	83 429
	Tax ordinary income	-6 587	-6 731	-18 681	-16 971	-19 458
	Profit/loss for the period	20 143	21 393	58 631	54 113	63 970
	Estimate difference, pension obligation and assets	0	0	-2 393	0	-2 326
	Tax on actuarial gains and losses	0	0	598	0	581
	Items that will not be reclassified to profit and loss	0	0	-1 795	0	-1 744
	Changes in the fair value through profit and loss	0	0	0	0	0
	Tax on changes in fair value of available for sale financial assets	0	0	0	0	0
	Items that may be reclassified to profit and loss	0	0	0	0	0
	Other comprehensive income for the period	0	0	-1 795	0	-1 744
	Comprehensive income for the period	20 143	21 393	56 836	54 113	62 226

Balance sheet

KLP BANKEN AS GROUP

NOTE	NOK THOUSANDS	30.09.2019	30.09.2018	31.12.2018
ASSETS				
5	Claims on central banks	60 601	50 168	60 238
5	Loans to credit institutions	1 746 183	1 535 557	1 439 420
4,5	Loans to customers	34 270 051	32 448 925	33 474 004
5,6,13	Interest-bearing securities	3 436 535	2 302 545	2 015 351
5,6	Shareholdings	2 053	461	2 053
5,6	Financial derivatives	66 320	105 304	62 483
	Deffered tax assets	0	0	8 667
	Fixed assets	550	706	667
17	Right-of-use assets	3 896	0	0
	Intangible assets	21 287	21 948	25 299
10	Other assets	3 935	2 493	413
Total assets		39 611 410	36 468 107	37 088 595
LIABILITIES AND OWNERS EQUITY				
LIABILITIES				
5,7	Debt securities issued	25 527 533	23 495 479	24 039 968
5	Deposits and borrowings from the public	11 648 747	10 530 640	10 661 749
5,6	Financial derivatives	87 421	145 578	111 955
	Deffered tax liabilities	3 555	712	0
17	Lease liabilities	3 951	0	0
11	Other Liabilities	78 420	119 530	85 154
11	Provision for accrued costs and liabilities	67 295	46 631	52 117
Total liabilities		37 416 922	34 338 568	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' equity	347 652	285 426	347 652
	Profit for the period	56 836	54 113	0
Total equity		2 194 488	2 129 539	2 137 652
Total liabilities and equity		39 611 410	36 468 107	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	58 631	58 631
Other comprehensive income	0	0	-1 795	-1 795
Total comprehensive income for the period	0	0	56 836	56 836
Group contribution received	0	0	61 052	61 052
Group contribution made	0	0	-61 052	-61 052
Total transactions with the owners	0	0	0	0
Equity 30 September 2019	1 057 500	732 500	404 488	2 194 488

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	54 113	54 113
Other comprehensive income	0	0	0	0
Total comprehensive income for the period	0	0	54 113	54 113
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 30 September 2018	1 057 500	732 500	339 539	2 129 539

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	01.01.2019 -30.09.2019	01.01.2018 -30.09.2018	01.01.2018 -31.12.2018
OPERATING ACTIVITIES			
Payments received from customers – interest, commission and charges	626 275	540 635	767 723
Payments to customers – interest, commission and charges	-125 859	-99 458	-136 600
Disbursements on loans to customers and credit institutions	-9 102 532	-4 765 352	-9 521 930
Receipts on loans to customers	8 296 380	2 962 771	6 657 968
Net receipts on customer deposits banking	987 229	861 941	992 291
Disbursements on operations	-99 575	-101 628	-140 190
Payments to staff, pension schemes, employer's social security contribution etc.	-53 285	-51 041	-64 412
Interest investment accounts	8 565	5 958	13 263
Net receipts/disbursements from operating activities	67 612	123 789	61 621
Income tax paid	0	0	0
Net cash flow from operating activities	604 810	-522 385	-1 370 266
INVESTMENT ACTIVITIES			
Receipts on sale of securities	1 812 440	2 589 230	3 403 183
Payments on the purchase of securities	-3 261 047	-2 130 645	-2 667 949
Receipts of interest from securities	39 175	22 996	35 101
Payments on the purchase of tangible fixed assets	-1 404	-1 010	-6 187
Net cash flow from investment activities	-1 410 837	480 571	764 148
FINANCING ACTIVITIES			
Receipts on loans	6 300 000	3 600 000	6 500 000
Repayment and redemption of loans	-5 674 000	-1 679 000	-4 470 000
Change in payment for loan buybacks	809 000	-1 361 000	-904 000
Net payment of interest on loans	-297 230	-240 520	-329 850
Payment of lease liabilities	-1 156	0	0
Group contributions made	-19 431	-25 302	-25 334
Net cash flows from financing activities	1 117 182	294 180	770 816
Net cash flow during the period	311 155	252 366	164 698
Cash and cash equivalents at the start of the period	1 454 013	1 289 315	1 289 315
Cash and cash equivalents at the end of the period	1 765 168	1 541 683	1 454 013
Net receipts/ disbursements (-) of cash	311 155	252 366	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 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 2019 - 30 September 2019. The interim Financial Statements has not been audited.

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

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	Q3 2019	Q3 2018	01.01.2019 -30.09.2019	01.01.2018 -30.09.2018	01.01.2018 -31.12.2018
Interest income on loans to customers, amortised cost	229 332	187 261	647 515	548 608	744 554
Interest income on loans to credit institutions, amortised cost	4 603	3 330	11 848	9 284	13 266
Interest income on bonds and certificates, fair value	16 162	8 679	41 306	26 493	34 883
Other interest income, fair value	26 606	27 664	78 535	122 101	147 762
Total interest income	276 702	226 934	779 203	706 486	940 466
Interest expenses on debt to KLP Banken, amortised cost	-45 356	-34 929	-124 762	-98 442	-135 139
Interest expenses on issued securities, amortised cost	-129 043	-94 941	-351 949	-273 897	-372 858
Interest expense lease liabilities	-20	0	-64	0	0
Other interest expenses, fair value	-30 986	-36 458	-93 077	-150 910	-183 938
Total interest costs	-205 405	-166 328	-569 852	-523 249	-691 935
Net interest income	71 297	60 605	209 351	183 237	248 532

NOTE 4 Loans to customers

NOK THOUSANDS	30.09.2019	30.09.2018	31.12.2018
Principal on loans to customers	34 059 487	32 231 270	33 272 780
Credit portfolio	66 633	67 003	67 757
Overdraft current account	448	639	436
Write-downs step 1 and 2	-1 415	-1 560	-990
Write-downs step 3	-3 187	-2 731	-1 774
Loans to customers after write-downs	34 121 965	32 294 622	33 338 209
Accrued interest	110 626	100 606	74 167
Premium/discount	-9 460	-11 876	-9 970
Fair value hedging	46 919	65 574	71 598
Loans to customers	34 270 051	32 448 925	33 474 004

NOTE 5 Categories of financial instruments

NOK THOUSANDS	30.09.2019		30.09.2018		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	3 436 535	3 436 535	2 302 545	2 302 545	2 015 351	2 015 351
Financial derivatives	66 320	66 320	105 304	105 304	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	3 504 907	3 504 907	2 408 310	2 408 310	2 079 887	2 079 887
FINANCIAL ASSETS FAIR VALUE HEDGING						
Loans to and receivables from customers	3 093 463	3 132 967	4 089 166	4 131 331	3 568 702	3 600 945
Total financial assets fair value hedging	3 093 463	3 132 967	4 089 166	4 131 331	3 568 702	3 600 945
FINANCIAL ASSETS AT AMORTIZED COST						
Loans to and receivables from credit institutions	60 601	60 601	50 168	50 168	60 238	60 238
Loans to and receivables from central banks	1 746 183	1 746 183	1 535 557	1 535 557	1 439 420	1 439 420
Loans to and receivables from customers	31 176 588	31 169 206	28 359 759	27 688 518	29 905 302	29 893 107
Total financial assets at amortized cost	32 983 372	32 975 990	29 945 484	29 274 243	31 404 960	31 392 765
Total financial assets	39 581 743	39 613 864	36 442 961	35 813 884	37 053 549	37 073 597
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS						
Financial derivatives	87 421	87 421	145 578	145 578	111 955	111 955
Total financial liabilities at fair value through profit and loss	87 421	87 421	145 578	145 578	111 955	111 955
FINANCIAL LIABILITIES FAIR VALUE HEDGING						
Liabilities created on issuance of securities	1 837 185	1 856 469	2 116 672	2 136 981	1 886 974	1 904 665
Total financial liabilities fair value hedging	1 837 185	1 856 469	2 116 672	2 136 981	1 886 974	1 904 665
FINANCIAL LIABILITIES AT AMORTIZED COST						
Liabilities created on issuance of securities	23 690 348	23 801 764	21 378 806	21 807 969	22 152 994	22 243 219
Deposits from customers	11 648 747	11 648 747	10 530 640	10 530 640	10 661 749	10 661 749
Total financial liabilities at amortized cost	35 339 095	35 450 511	31 909 446	32 338 608	32 814 743	32 904 968
Total financial liabilities	37 263 701	37 394 401	34 171 696	34 621 166	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.

Fixed-income securities - other than government

Norwegian fixed-income securities, except government are

NOTE 5 Categories of financial instruments – continues

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

Interest rate swaps 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 Loan loss provision).

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 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

30.09.2019 NOK THOUSANDS	Level 1	Level 2	Level 3	Total
ASSETS BOOKED AT FAIR VALUE				
Fixed-income securities	209 731	3 226 804	0	3 436 535
Shareholdings	0	0	2 053	2 053
Financial derivatives	0	66 320	0	66 320
Total assets at fair value	209 731	3 293 123	2 053	3 504 907
LIABILITIES BOOKED AT FAIR VALUE				
Financial derivatives (liabilities)	0	87 421	0	87 421
Total financial liabilities at fair value	0	87 421	0	87 421

30.09.2018 NOK THOUSANDS	Level 1	Level 2	Level 3	Total
ASSETS BOOKED AT FAIR VALUE				
Fixed-income securities	188 236	2 114 309	0	2 302 545
Shareholdings	0	0	461	461
Financial derivatives	0	105 304	0	105 304
Total assets at fair value	188 236	2 219 613	461	2 408 310
LIABILITIES BOOKED AT FAIR VALUE				
Financial derivatives (liabilities)	0	145 578	0	145 578
Total financial liabilities at fair value	0	145 578	0	145 578

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	30.09.2019	30.09.2018	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 instru-

ments 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	30.09.2019	30.09.2018	31.12.2018
Bond debt, nominal amount	26 502 000	25 767 000	25 876 000
Adjustments	41 604	21 530	29 847
Accrued interest	108 929	97 949	68 121
Own holdings, nominal amount	-1 125 000	-2 391 000	-1 934 000
Total debt securities issued	25 527 533	23 495 479	24 039 968
Interest rate on borrowings through the issuance of securities at the reporting date	2.00 %	1.49 %	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 30.09.2019
Bond debt, nominal amount	25 876 000	6 300 000	-5 674 000	0	26 502 000
Adjustments	29 847	0	0	11 758	41 604
Accrued interest	68 121	0	0	40 808	108 929
Own holdings, nominal amount	-1 934 000	0	809 000	0	-1 125 000
Total debt securities issued	24 039 968	6 300 000	-4 865 000	52 566	25 527 533

NOTE 8 Financial assets and liabilities subject to net settlement

30.09.2019 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	66 320	0	66 320	-66 320	0	0
Total	66 320	0	66 320	-66 320	0	0
LIABILITIES						
Financial derivatives	87 421	0	87 421	-66 320	-8 912	12 189
Total	87 421	0	87 421	-66 320	-8 912	12 189

30.09.2018 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	105 304	0	105 304	-105 304	-2 504	0
Total	105 304	0	105 304	-105 304	-2 504	0
LIABILITIES						
Financial derivatives	145 578	0	145 578	-105 304	-7 200	33 074
Total	145 578	0	145 578	-105 304	-7 200	33 074

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	01.01.2019 -30.09.2019	01.01.2018 -30.09.2018	01.01.2018 -31.12.2018
KLP, fees lending management	44 400	43 500	58 000
KLP Kapitalforvaltning AS, fees for services provided	-122	-159	-226
KLP, rent	-2 086	-3 123	-4 150
KLP Skipsbygget AS, rent	-1 229	-1 180	-1 554
KLP Bassengtømt AS, rent parking	-42	-101	-101
KLP Eiendomsdrift AS, cost office buildings	-449	-473	-473
KLP, pension premium	-9 016	-7 787	-11 368
KLP, staff services (at cost)	-50 266	-47 922	-67 616
KLP Group companies, subsidised interest employee loans	4 606	1 806	2 173

NOK THOUSANDS	30.09.2019	30.09.2018	31.12.2018
BALANCES			
KLP, net internal accounts	1 633	-2 671	-2 773
KLP, loan settlement	-63 357	-99 873	-49 151
KLP Group companies, net other internal accounts	691	180	23

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

NOTE 10 Other assets

NOK THOUSANDS	30.09.2019	30.09.2018	31.12.2018
Intercompany receivables	2 359	411	289
Miscellaneous receivables	1 556	114	122
Prepaid expenses	20	1 968	2
Total other assets	3 935	2 493	413

NOTE 11 Other liabilities and provision for accrued costs

NOK THOUSANDS	30.09.2019	30.09.2018	31.12.2018
Creditors	3 109	2 467	7 825
Intercompany payables	63 392	101 738	52 187
Tax payable	0	0	19 431
Other liabilities	11 919	15 325	5 710
Total other liabilities	78 420	119 530	85 154
Withholding tax	1 572	1 386	3 227
Social security contributions	1 426	1 257	2 486
Capital activity tax	522	464	900
Holiday pay	4 006	3 603	5 322
Pension obligations	43 860	35 112	38 265
Provisioned costs	15 910	4 810	1 917
Total accrued costs and liabilities	67 295	46 631	52 117

NOTE 12 Capital adequacy

NOK THOUSANDS	30.09.2019	30.09.2018	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
Interim Profit qualifying for tier 1 capital	33 196	0	0
Adjustments due to requirements for proper valuation	-3 437	-2 303	-2 015
Deduction goodwill and other intangible assets	-21 287	-21 948	-25 299
Deferred tax asset	-8 667	-7 392	-8 667
Core capital/Tier 1 capital	2 137 457	2 043 783	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)	2 137 457	2 043 783	2 101 671
Capital requirement	893 768	822 850	837 802
Surplus of own funds (Tier 1 and Tier 2 capital)	1 243 689	1 220 933	1 263 869
ESTIMATE BASIS CREDIT RISK:			
Institutions	361 319	335 353	299 070
Retail	159 967	84 771	82 717
Local and regional authorities (incl. municipalities/county administrations)	3 333 570	3 283 850	3 384 588
Investments with mortgage security in real estate	6 356 933	5 781 003	5 922 925
Investments fallen due	82 690	55 556	63 181
Covered bonds	298 334	176 619	156 334
Other holdings	22 530	67 364	62 714
Calculation basis credit risk	10 615 343	9 784 516	9 971 529
Credit risk	849 227	782 761	797 722
Operating risk	44 435	39 956	39 956
Credit valuation adjustments (CVA)	106	133	124
Total capital requirement assets	893 768	822 850	837 802
Core capital adequacy ratio	19.1 %	19.9 %	20.1 %
Supplementary capital ratio	0.0 %	0.0 %	0.0 %
Capital adequacy ratio	19.1 %	19.9 %	20.1 %
Leverage ratio	5.3 %	5.6 %	5.6 %

CAPITAL REQUIREMENT PER 30.09.2019	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	30.09.2019		30.09.2018		31.12.2018	
	Acquisition cost	Market value	Acquisition cost	Market value	Acquisition cost	Market value
Certificates	188 439	188 462	166 718	166 744	186 732	186 695
Bonds	3 242 810	3 248 073	2 124 682	2 135 800	1 826 298	1 828 656
Total fixed-income securities	3 431 250	3 436 535	2 291 400	2 302 545	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

In third quarter 2019 the bank has conducted a revision of the assumptions in the macro scenarios in IFRS 9. The bank now sees it more likely that the negative scenario will occur than in previous quarters. This causes an increase in the calculated loss provisions of about 8 percent.

Other changes in provisions for expected losses in September 2019 are related to changes in lending volume. Refer to Note 18 and Note 2 in 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	stage 3	
Opening balance ECL 01.01.2019	3 452	879		990	5 321
Transfer to stage 1	495	-495		0	0
Transfer to stage 2	-86	86		0	0
Transfer to stage 3	-26	-155		181	0
Net changes	-284	-48		2 253	1 922
New losses	495	13		3	510
Write-offs	-113	-38		-238	-389
Closing balance ECL 30.09.2019	3 934	242		3 189	7 365
Changes (01.01.2019 - 30.09.2019)	482	-637		2 199	2 044

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	stage 3	
Opening balance ECL 01.01.2018	1 036	738		990	2 764
Transfer to stage 1	368	-368		0	0
Transfer to stage 2	-59	59		0	0
Transfer to stage 3	-25	-154		178	0
Net changes	-180	-61		2 254	2 014
New losses	150	10		3	163
Write-offs	-65	-36		-238	-338
Closing balance ECL 30.09.2019	1 226	189		3 187	4 602
Changes (01.01.2019 - 30.09.2019)	190	-550		2 197	1 838

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	127	-127	0	0
Transfer to stage 2	-27	27	0	0
Transfer to stage 3	-1	-1	2	0
Net changes	-104	13	-1	-92
New losses	345	3	0	348
Write-offs	-48	-2	0	-50
Closing balance ECL 30.09.2019	2 708	53	2	2 763
Changes (01.01.2019 - 30.09.2019)	292	-88	2	206

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	68 142	-68 142	0	0
Transfer to stage 2	-30 578	32 662	-2 084	0
Transfer to stage 3	-7 653	-5 898	13 551	0
Net changes	-615 378	-1 149	-134	-616 661
New losses	6 904 438	21 808	6 910	6 933 156
Write-offs	-5 443 875	-47 723	-5 979	-5 497 577
Gross lending 30.09.2019	34 113 857	53 189	68 535	34 235 581

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	68 142	-68 142	0	0
Transfer to stage 2	-30 578	32 662	-2 084	0
Transfer to stage 3	-7 653	-5 898	13 551	0
Net change	-615 378	-1 149	-134	-616 661
New lending	6 904 438	21 808	6 910	6 933 156
Write-offs	-5 443 875	-47 723	-5 979	-5 497 577
Gross lending 30.09.2019	34 113 857	53 189	68 535	34 235 581

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	4 995	-4 995	0	0
Transfer to stage 2	-2 276	2 276	0	0
Transfer to stage 3	-123	-42	166	0
Net change	38 458	-732	-87	37 638
New lending	111 141	123	0	111 264
Gross lending 30.09.2019	-54 266	-80	0	-54 346
Gross lending 30.09.2019	855 868	2 075	78	858 021

Losses recognised in the profit and loss account consist of:

NOK THOUSANDS	01.01.2019 -30.09.2019	01.01.2018 -30.09.2018	01.01.2018 -31.12.2018
Change in loss provisions in stage 1, 2 and 3	-5 995	-5 220	-6 382
Established losses	-200	263	-512
Recovery for previously established losses	15	-25	56
Total losses in the income statement	-6 181	-4 983	-6 838

NOTE 15 Contingent liabilities

NOK THOUSANDS	30.09.2019	30.09.2018	31.12.2018
Credit facilities for lending not utilized	619 938	932 340	561 905
Credit facilities issued credit card	226 127	220 787	201 584
Loan promise	983 486	151 092	616 318
Total contingent liabilities	1 829 551	1 304 219	1 379 807

NOTE 16 Net gain/(loss) on financial instruments

NOK THOUSANDS	01.01.2019 -30.09.2019	01.01.2018 -30.09.2018	01.01.2018 -31.12.2018
Net gain/(loss) on fixed-income securities	1 330	913	-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	-23 635	-7 520	-12 154
Net value change lending and borrowing, hedge accounting	403	605	320
Net gain/(loss) on shares, holdings and primary capital certificates	0	0	1 591
Other financial income and expenses	-821	-756	-1 078
Total net gain/(loss) on financial instruments	-22 723	-7 429	-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	30.09.2019	
RIGHT-OF-USE ASSETS	Property	
Opening balance 01.01.	5 064	
Depreciation	-1 169	
Closing balance 30.09.	3 896	
LEASE LIABILITIES	Property	
Opening balance 01.01.	5 064	
Repayments	-1 113	
Closing balance 30.09.	3 951	
NOK THOUSANDS	Q3 2019	01.01.2019 -30.09.2019
Interest expense lease liabilities	20	64

Quarterly earnings trend

NOK MILLIONS	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018
Interest income	276.7	255.9	242.5	282.3	200.1
Interest expense	-205.4	-183.9	-176.5	-217.0	-139.5
Net interest income	71.3	72.0	66.0	65.3	60.6
Commission income and income from banking services	5.8	5.3	4.6	5.3	4.3
Commission cost and cost from banking services	-0.6	-0.5	-0.5	-0.4	-0.3
Net charges and commission income	5.1	4.8	4.1	4.9	4.0
Other fee income	14.8	14.8	14.8	14.5	14.5
Net gain/ (loss) financial instruments	-11.2	-8.1	-3.4	-6.1	-4.7
Total other operating income	3.6	6.7	11.4	8.4	9.8
Salaries and administrative costs	-16.3	-18.2	-19.1	-22.7	-14.4
Depreciation	-1.6	-2.4	-2.8	-1.9	-1.9
Other operating expenses	-32.4	-35.1	-33.8	-39.8	-28.3
Net loan losses	-3.0	-1.3	-1.9	-1.9	-1.7
Total operating expenses	-53.3	-57.0	-57.5	-66.3	-46.3
Operating profit/loss before tax	26.7	26.6	24.0	12.3	28.1
Tax ordinary income	-6.6	-6.4	-5.7	-2.5	-6.7
Profit/loss for the period	20.1	20.2	18.3	9.8	21.4
Other comprehensive income	0.0	0.0	-2.4	-2.3	0.0
Tax on other comprehensive income	0.0	0.0	0.6	0.6	0.0
Other comprehensive income for the period	0.0	0.0	-1.8	-1.7	0.0
Comprehensive income for the period	20.1	20.2	16.5	8.1	21.4

Key figures - accumulated

NOK MILLIONS	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018
Pre-tax income	77.3	50.6	24.0	83.4	71.1
Net interest income	209.4	138.1	66.0	248.5	183.2
Other operating income	58.4	38.5	18.9	75.4	56.0
Other operating cost and depreciation	-167.8	-114.4	-57.5	-226.9	-160.7
Net realized/unrealized change fin. instruments at fair value	-22.7	-11.6	-3.4	-13.5	-7.4
Deposits	11 648.7	11 464.8	11 031.4	10 661.7	10 530.6
Lending customers	17 745.6	17 351.0	17 038.2	16 715.4	16 242.7
Lending with public sector guarantee	16 524.4	16 293.0	16 659.7	16 758.6	16 206.2
Non-performing loans	68.5	59.7	62.0	56.3	31.9
Total liabilities created on issuance of securities	25 527.5	24 858.3	24 655.4	24 040.0	23 495.5
Other borrowing	0.0	0.0	0.0	0.0	0.0
Total assets	39 611.4	38 860.6	38 585.6	37 088.6	36 468.1
Average total assets	38 350.0	37 974.6	37 837.1	36 034.8	35 724.6
Equity	2 194.5	2 174.3	2 154.2	2 137.7	2 129.5
Interest net	0.55 %	0.36 %	0.17 %	0.69 %	0.51 %
Profit/loss from ordinary operation before taxes	0.20 %	0.13 %	0.06 %	0.23 %	0.20 %
Return on equity	4.82 %	4.73 %	4.50 %	3.83 %	4.56 %
Capital adequacy ratio	19.1 %	19.7 %	19.0 %	20.1 %	19.9 %
Liquidity coverage ratio (LCR)	322 %	340 %	352 %	402 %	306 %



KLP BANKEN AS

Beddingen 8, 7042 Trondheim
Organization no.: 993 821 837

VISITOR ADDRESS

Trondheim: Beddingen 8
Oslo: Dronning Eufemias gate 10
klpbanken.no
Phone: 55 54 85 00
klpbanken@klp.no