



# Interim report

KLP BANKEN AS GROUP  
Q1 2018



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# Interim financial statements

KLP BANKEN AS GROUP  
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## MAIN FEATURES BY FIRST QUARTER END:

- Continued growth in mortgage loans
- Net interest income improved from last year
- Profits at same level as last year

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 totaling NOK 87.1 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 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 first quarter end 2018 amounted to NOK 64.6 million compared to NOK 51.4 million at the same time last year. This development is mainly due to stable margins and growth in mortgage loans and other credit volumes.

Operating expenses and depreciation amounted to NOK 56 million this quarter compared to NOK 48.6 million at the same time last year. The increase in operating expenses compared to last year, apart from general inflation, is mainly due to depreciations on investments in system solutions and external IT operations.

Net charges and commission income has increased from NOK 2.6 million by the first quarter in 2017 to NOK 3.8 million in 2018. This is mainly due to the loan volume increase.

The financial statements have been prepared in NOK and are presented in accordance with IAS 34. This means that financial instruments are recognised in part at market value. At the end of the first quarter, the income statement includes a net loss associated with securities of NOK -1.1 million. During the same period the previous year, a net gain of NOK 3.7 million was brought to book.

In addition to its own lending, the banking group administers housing mortgages and public sector lending financed by its parent company (KLP). The management fee for this task amounted to NOK 14.5 million at the end of the first quarter, NOK 0.25 million more than last year.

Loan loss provisions and realized losses in total is 2.1 million in the first quarter of 2018. 0.3 million of the loan loss provisions in the period are related to the transition to a new impairment model due to the implementation of the accounting standard IFRS 9 Financial Instruments on January 1st. The transition to the new accounting standard, and the impact on the opening balance, is described in note 14.

By the end of the first quarter, the KLP Banken Group had a pre-tax profit of NOK 23.7 million. The retail market segment generated a profit of NOK 14.1 million while the public sector segment achieved a profit of NOK 9.6. In 2017, the Group profit was NOK 23.2 million where the retail market segment reported a profit of NOK 5.7 million and the public sector market a profit of NOK 17.4 million. Group income after tax amounted to NOK 18.1 million at the reporting date and NOK 17.6 million at the same time last year.

## LENDING

On 31 March 2018, the KLP Banken Group had a lending balance of NOK 31.2 billion compared to NOK 30.7 billion at the same time last year. The distribution between the retail market and public sector lending was NOK 15.1 billion and NOK 16.1 billion, respectively.

During the first quarter of 2018, the Group's mortgage lending balance increased by NOK 0.7 billion. The credit-card lending balance has grown to NOK 63.6 million by the end of the quarter. Managed mortgages on KLP's own balance sheet is reduced by NOK 63 millions this quarter.

The public sector lending balance in KLP Banken AS Group has decreased by NOK 0.2 billion during the first quarter of 2018. Managed public sector loans on KLP's own balance sheet has decreased by NOK 0.5 billion in the same period. Managed loans to foreign debtors in foreign currencies has decreased by NOK 0.3 billion.

**LIQUID INVESTMENT**

On the reporting date, the portfolio of liquid investments amounted to NOK 2.5 billion against NOK 2.4 billion at the same time last year. Net financial gains have positively impacted earnings by NOK 2.8 million this quarter compared to NOK 4.4 million last year.

**BORROWING**

The KLP Banken Group's external financing comprises of deposits, certificates and bonds. On the date of reporting, deposits from individuals and companies were NOK 9.7 billion and issued securities amounted to NOK 23.3 billion. Of the issued securities, covered bonds (OMF) issued by KLP Kommunekreditt AS and KLP Boligkreditt AS amounted to NOK 16.8 billion and NOK 5.1 billion outstanding 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 this objective is achieved. The credit risk in the bank is low and the bank's lending is mainly limited to loans with local government risk and loans with lien on housing and leisure property. Management of the bank's liquidity is conducted through investments in other banks satisfying given credit quality requirements and in securities in accordance with Board-approved credit lines. The Group's securities portfolio has high credit quality.

At the end of the first quarter, eligible Tier 1 and Tier 2 capital i.a.w. the capital adequacy rules was NOK 2040.5 million. Eligible Tier 1 and Tier 2 capital comprises core capital only. The corresponding figure for last year was NOK 1 823.2 million. Lending is risk-weighted in accordance with the authorities' capital adequacy regulations. The KLP Banken Group had a capital adequacy ratio of 20.6 per cent at the end of the first quarter, against 19.3 per cent on the same date last year. The minimum statutory requirement is 14.1 per cent core capital adequacy and 17.6 per cent capital adequacy. Leverage ratio was 5.6 per cent.

# Income statement

## KLP BANKEN AS GROUP

NOTE	NOK THOUSANDS	Q1 2018	Q1 2017	01.01.2017 -31.12.2017
	Interest income	191 971	191 607	781 691
	Interest expense	-127 385	-140 253	-540 072
<b>3</b>	<b>Net interest income</b>	<b>64 586</b>	<b>51 354</b>	<b>241 619</b>
	Commission income and income from banking services	4 152	2 919	13 452
	Commission cost and cost from banking services	-310	-338	-2 273
	<b>Net charges and commission income</b>	<b>3 842</b>	<b>2 582</b>	<b>11 179</b>
	Other fee income	14 500	14 250	57 028
16	Net gain/ (loss) financial instruments	-1 136	3 673	-3 382
	<b>Total other operating income</b>	<b>13 364</b>	<b>17 923</b>	<b>53 645</b>
	Salaries and administrative costs	-18 133	-16 676	-66 358
	Depreciation	-2 191	-789	-6 423
	Other operating expenses	-35 696	-31 342	-127 436
	Net loan losses	-2 057	176	-3 152
	<b>Total operating expenses</b>	<b>-58 077</b>	<b>-48 631</b>	<b>-203 370</b>
	<b>Operating profit/loss before tax</b>	<b>23 715</b>	<b>23 228</b>	<b>103 074</b>
	Tax ordinary income	-5 645	-5 626	-25 081
	<b>Profit/loss for the period</b>	<b>18 070</b>	<b>17 602</b>	<b>77 993</b>
	Estimate difference, pension obligation and assets	0	0	-1 145
	Tax on actuarial gains and losses	0	0	286
	<b>Items that will not be reclassified to profit and loss</b>	<b>0</b>	<b>0</b>	<b>-859</b>
	Changes in the fair value through profit and loss	0	0	68
	Tax on changes in fair value of available for sale financial assets	0	0	-17
	<b>Items that may be reclassified to profit and loss</b>	<b>0</b>	<b>0</b>	<b>51</b>
	<b>Other comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>-808</b>
	<b>Comprehensive income for the period</b>	<b>18 070</b>	<b>17 602</b>	<b>77 185</b>

# Balance sheet

## KLP BANKEN AS GROUP

NOTE	NOK THOUSANDS	31.03.2018	31.03.2017	31.12.2017
<b>ASSETS</b>				
	Claims on central banks	25 144	0	45 140
	Loans to credit institutions	1 466 268	1 171 982	1 286 095
4	Loans to customers	31 238 011	30 657 129	30 762 782
13	Interest-bearing securities	2 541 281	2 392 706	2 759 018
	Shareholdings	461	394	461
	Financial derivatives	95 531	128 928	91 394
	Deffered tax assets	4 784	5 233	7 392
	Fixed assets	710	526	742
	Intangible assets	24 995	20 321	27 153
10	Other assets	6 420	5 953	818
	<b>Total assets</b>	<b>35 403 605</b>	<b>34 383 172</b>	<b>34 980 995</b>
<b>LIABILITIES AND OWNERS EQUITY</b>				
<b>LIABILITIES</b>				
7	Debt securities issued	23 340 815	23 241 341	22 924 274
	Deposits and borrowings from the public	9 733 091	8 939 363	9 669 046
	Financial derivatives	160 646	249 113	188 103
11	Other Liabilities	29 978	39 687	74 720
11	Provision for accrued costs and liabilities	45 579	45 660	47 262
	<b>Total liabilities</b>	<b>33 310 109</b>	<b>32 515 165</b>	<b>32 903 404</b>
<b>EQUITY</b>				
	Share capital	1 057 500	982 500	1 057 500
	Share premium	732 500	657 500	732 500
	Other owners' eqyity	285 426	210 406	287 591
	Profit for the period	18 070	17 602	0
	<b>Total equity</b>	<b>2 093 496</b>	<b>1 868 008</b>	<b>2 077 591</b>
	<b>Total liabilities and equity</b>	<b>35 403 605</b>	<b>34 383 172</b>	<b>34 980 995</b>

# Statement of changes in equity

## KLP BANKEN AS GROUP

2018 NOK THOUSANDS	Share capital	Share premium	Other equity	Total owners' equity
Equity 31 December 2017	1 057 500	732 500	287 591	2 077 591
Changes in accounting principles (IFRS 9)	0	0	-2 165	-2 165
<b>Equity 1 January 2018</b>	<b>1 057 500</b>	<b>732 500</b>	<b>285 426</b>	<b>2 075 426</b>
Profit for the period	0	0	18 070	18 070
Other comprehensive income	0	0	0	0
<b>Total comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>18 070</b>	<b>18 070</b>
Group contribution received	0	0	78 880	78 880
Group contribution made	0	0	-78 880	-78 880
<b>Total transactions with the owners</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Equity 31 March 2018</b>	<b>1 057 500</b>	<b>732 500</b>	<b>303 496</b>	<b>2 093 496</b>

2017 NOK THOUSANDS	Share capital	Share premium	Other equity	Total owners' equity
Equity 1 January 2017	982 500	657 500	210 406	1 850 406
Profit for the period	0	0	17 602	17 602
Other comprehensive income	0	0	0	0
<b>Total comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>17 602</b>	<b>17 602</b>
Group contribution received	0	0	58 657	58 657
Group contribution made	0	0	-58 657	-58 657
<b>Total transactions with the owners</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Equity 31 March 2017</b>	<b>982 500</b>	<b>657 500</b>	<b>228 008</b>	<b>1 868 008</b>

2017 NOK THOUSANDS	Share capital	Share premium	Other equity	Total owners' equity
Equity 1 January 2017	982 500	657 500	210 406	1 850 406
Profit for the period	0	0	77 993	77 993
Other comprehensive income	0	0	-808	-808
<b>Total comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>77 185</b>	<b>77 185</b>
Group contribution received	0	0	58 624	58 624
Group contribution made	0	0	-58 624	-58 624
Owners' equity received during the period	75 000	75 000	0	150 000
<b>Total transactions with the owners</b>	<b>75 000</b>	<b>75 000</b>	<b>0</b>	<b>150 000</b>
<b>Equity 31 December 2017</b>	<b>1 057 500</b>	<b>732 500</b>	<b>287 591</b>	<b>2 077 591</b>

# Statement of cash flow

## KLP BANKEN AS GROUP

NOK THOUSANDS	01.01.2018 -31.03.2018	01.01.2017 -31.03.2017	01.01.2017 -31.12.2017
<b>OPERATING ACTIVITIES</b>			
Payments received from customers - interest, commission & charges	173 418	169 310	748 414
Disbursements on loans customers & credit institutions	-32 862	-31 371	-130 191
Receipts on loans customers & credit institutions	-2 304 972	-2 585 107	-8 769 573
Net receipts/disbursements on loans customers & credit institutions	2 055 380	1 891 978	7 819 988
Net receipts on customer deposits banking	66 007	251 345	979 913
Payments on purchase of credit card portfolio	0	0	-9 547
Net receipts/disbursements on operations	-41 668	-42 648	-147 252
Payments to employees, pension schemes, employer's social security contribution etc.	-18 529	-17 936	-60 901
Net interest investment accounts	2 070	2 145	11 607
Net receipts/disbursements from operating activities	-9 349	-21 275	45 677
Income tax paid	0	0	0
<b>Net cash flow from operating activities</b>	<b>-110 505</b>	<b>-383 558</b>	<b>488 135</b>
<b>INVESTMENT ACTIVITIES</b>			
Receipts on sale of securities	1 146 474	768 112	1 906 778
Payments on the purchase of securities	-926 376	-439 285	-1 946 683
Receipts of interest from securities	7 761	9 854	38 520
Payments on the purchase of tangible fixed assets	0	-1 144	-4 279
<b>Net cash flow from investment activities</b>	<b>227 859</b>	<b>337 538</b>	<b>-5 664</b>
<b>FINANCING ACTIVITIES</b>			
Receipts on loans from credit institutions	1 337 000	482 000	4 074 000
Disbursements on loans from credit institutions	-280 518	-300 326	-731 972
Expense of interest of loans	-909 000	-409 000	-3 805 000
Net payment of interest on loans	-71 506	-86 552	-383 886
Receipts on issue of owners' equity	0	0	150 000
Group contributions made	-25 298	-19 552	-19 541
<b>Net cash flows from financing activities</b>	<b>50 676</b>	<b>-333 430</b>	<b>-716 399</b>
<b>Net cash flow during the period</b>	<b>168 030</b>	<b>-379 450</b>	<b>-233 928</b>
Cash and cash equivalents at the start of the period	1 289 317	1 523 245	1 523 245
Cash and cash equivalents at the end of the period	1 457 347	1 143 795	1 289 317
<b>Net receipts/ disbursements (-) of cash</b>	<b>168 030</b>	<b>-379 450</b>	<b>-233 928</b>



# 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 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 2018 – 31 March 2018. The interim Financial Statements has not been audited.

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

Apart from the introduction of IFRS 9, as described below, the accounting policies of KLP Bank Group used in the interim financial statements are consistent with the annual accounts for 2017.

The Group applied the IFRS 9 Financial Instruments Act on January 1, 2018. In KLP Banken's annual report for 2017, the consequences of the implementation have been described, and it is referred to this for further information. The annual report is available at [klp.no](http://klp.no). IFRS 9 does not require recasting of comparative figures from previous periods, and the Group has thus chosen not to revise these.

**NOTE 3** Net interest income

NOK THOUSANDS	Q1 2018	
	Profit and Loss	Other comprehensive income
Interest on financial assets to amortised cost and fair value through profit and loss (hedging)	182 866	0
Interest on financial assets for fair value through profit and loss	9 105	0
<b>Total interest income</b>	<b>191 971</b>	<b>0</b>
Interest on liabilities to amortised cost and fair value through profit and loss (hedging)	-114 628	0
Interest on liabilities for fair value through profit and loss	-12 757	0
<b>Total interest costs</b>	<b>-127 385</b>	<b>0</b>
<b>Net interest income</b>	<b>64 586</b>	<b>0</b>

**NOTE 4** Loans to customers

NOK THOUSANDS	31.03.2018	31.03.2017	31.12.2017
Loans to customers before write-downs	31 058 946	30 372 769	30 537 129
Provisions and write-downs	-4 022	-2 075	-3 214
<b>Loans to customers after write-downs</b>	<b>31 054 924</b>	<b>30 370 694</b>	<b>30 533 915</b>
Accrued interest	90 596	96 703	80 370
Change in fair value due to interest rate changes (fair value hedging)	92 491	189 732	148 497
<b>Loans to customers</b>	<b>31 238 011</b>	<b>30 657 129</b>	<b>30 762 782</b>

**NOTE 5** Categories of financial instruments

NOK THOUSANDS	31.03.2018		01.01.2018	
	Capitalized value	Fair value	Capitalized value	Fair value
<b>FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS</b>				
Fixed-income securities	2 541 281	2 541 281	2 759 018	2 759 018
Financial derivatives	95 531	95 531	91 394	91 394
Shares and holdings	461	461	461	461
<b>Total financial assets at fair value through profit and loss</b>	<b>2 637 273</b>	<b>2 637 273</b>	<b>2 850 873</b>	<b>2 850 873</b>
<b>FINANCIAL ASSETS FAIR VALUE HEDGING</b>				
Loans to and receivables from customers	4 347 758	4 395 758	4 525 316	4 560 510
<b>Total financial assets fair value hedging</b>	<b>4 347 758</b>	<b>4 395 758</b>	<b>4 525 316</b>	<b>4 560 510</b>
<b>FINANCIAL ASSETS AT AMORTIZED COST</b>				
Loans to and receivables from credit institutions	25 144	25 144	45 140	45 140
Loans to and receivables from central banks	1 466 268	1 466 268	1 286 095	1 286 095
Loans to and receivables from customers	26 890 252	26 885 907	26 235 693	26 231 844
<b>Total financial assets at amortized cost</b>	<b>28 381 665</b>	<b>28 377 319</b>	<b>27 566 928</b>	<b>27 563 079</b>
<b>Total financial assets</b>	<b>35 366 696</b>	<b>35 410 351</b>	<b>34 943 117</b>	<b>34 974 462</b>
<b>FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS</b>				
Financial derivatives	160 646	160 646	188 103	188 103
<b>Total financial liabilities at fair value through profit and loss</b>	<b>160 646</b>	<b>160 646</b>	<b>188 103</b>	<b>188 103</b>
<b>FINANCIAL LIABILITIES FAIR VALUE HEDGING</b>				
Liabilities created on issuance of securities	2 106 018	2 134 520	2 125 483	2 150 405
<b>Total financial liabilities fair value hedging</b>	<b>2 106 018</b>	<b>2 134 520</b>	<b>2 125 483</b>	<b>2 150 405</b>
<b>FINANCIAL LIABILITIES AT AMORTIZED COST</b>				
Liabilities created on issuance of securities	21 234 796	21 369 734	20 798 790	20 920 089
Deposits from customers	9 733 091	9 733 091	9 669 046	9 669 046
<b>Total financial liabilities at amortized cost</b>	<b>30 967 887</b>	<b>31 102 825</b>	<b>30 467 836</b>	<b>30 589 135</b>
<b>Total financial liabilities</b>	<b>33 234 551</b>	<b>33 397 991</b>	<b>32 781 422</b>	<b>32 927 643</b>

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 and holdings**

Fair value of these is considered virtually the same as book value

**Fair value of loans to Norwegian local administrations, loans to retail customers and deposits**

Fair value of lending and deposits without fixed interest rates is considered virtually the same as book value since the contract terms are continuously changed in step with market interest rates. Fair value of fixed rate loans is calculated by discounting contractual cash flows by the marked rate including a relevant risk margin on the reporting date.

**Fair value of loans to and receivables from credit institutions**

All receivables from credit institutions (bank deposits) are at variable interest rates. Fair value of these is considered virtually the same as book value since the contract terms are continuously changed in step with market interest rates.

**Fair value of liabilities to credit institutions**

These transactions are valued using a valuation model, including relevant credit spread adjustments obtained from the market.

**Liabilities created on issuance of securities**

Fair value in this category is determined on the basis of internal valuation models based on external observable data.

**NOTE 6** Fair value hierarchy

31.03.2018 NOK THOUSANDS	Level 1	Level 2	Level 3	Total
<b>ASSETS BOOKED AT FAIR VALUE</b>				
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
<b>Total assets at fair value</b>	<b>236 751</b>	<b>2 400 061</b>	<b>461</b>	<b>2 637 273</b>
<b>LIABILITIES BOOKED AT FAIR VALUE</b>				
Financial derivatives (liabilities)	0	160 646	0	160 646
<b>Total financial liabilities at fair value</b>	<b>0</b>	<b>160 646</b>	<b>0</b>	<b>160 646</b>

31.03.2017 NOK THOUSANDS	Level 1	Level 2	Level 3	Total
<b>ASSETS BOOKED AT FAIR VALUE</b>				
Fixed-income securities	260 389	2 132 317	0	2 392 706
Shareholdings	0	0	394	394
Financial derivatives	0	128 928	0	128 928
<b>Total assets at fair value</b>	<b>260 389</b>	<b>2 261 245</b>	<b>394</b>	<b>2 522 028</b>
<b>LIABILITIES BOOKED AT FAIR VALUE</b>				
Financial derivatives (liabilities)	0	249 113	0	249 113
<b>Total financial liabilities at fair value</b>	<b>0</b>	<b>249 113</b>	<b>0</b>	<b>249 113</b>

31.12.2017 NOK THOUSANDS	Level 1	Level 2	Level 3	Total
<b>ASSETS BOOKED AT FAIR VALUE</b>				
Fixed-income securities	236 784	2 522 234	0	2 759 018
Shareholdings	0	0	461	461
Financial derivatives	0	91 394	0	91 394
<b>Total assets at fair value</b>	<b>236 784</b>	<b>2 613 628</b>	<b>461</b>	<b>2 850 873</b>
<b>LIABILITIES BOOKED AT FAIR VALUE</b>				
Financial derivatives (liabilities)	0	188 103	0	188 103
<b>Total financial liabilities at fair value</b>	<b>0</b>	<b>188 103</b>	<b>0</b>	<b>188 103</b>

**NOTE 6** Fair value hierarchy – continues

NOK THOUSANDS	BOOK VALUE 31.12.2017	BOOK VALUE 31.03.2017	BOOK VALUE 31.03.2018
<b>CHANGES IN LEVEL 3 UNLISTED SHARES</b>			
Opening balance	394	394	461
Sold	0	0	0
Bought	0	0	0
Unrealized changes	67	0	0
<b>Closing balance</b>	<b>461</b>	<b>394</b>	<b>461</b>
Realized gains/losses	0	0	0

Fair value shall be a representative price based on what a corresponding asset or liability would have been traded for at normal market terms and conditions. Highest quality in regard to fair value is based on listed prices in an active market. A financial instrument is considered as listed in an active market if listed prices are simply and regularly available from a stock market, dealer, broker, industry group, price-setting service or regulatory authority, and these prices represent actual and regularly occurring transactions at arm's length.

**LEVEL 1:**

Instruments at this level obtain fair value from listed prices in an active market for identical assets or liabilities to which the entity has access at the reporting date. Examples of instruments in Level 1 are stock market listed securities.

**LEVEL 2:**

Instruments at this level obtain fair value from observable market data. This includes prices based on identical instruments, but where the instrument does not maintain a high enough trading frequency and is therefore not considered to be traded in an active market, as well as prices based on corresponding assets and price-leading indicators that

can be confirmed from market information. Example instruments at Level 2 are fixed-income securities priced on the basis of interest rate paths.

**LEVEL 3:**

Instruments at Level 3 contain non-observable market data or are traded in markets considered to be inactive. The price is based generally on discrete calculations where the actual fair value may deviate if the instrument were to be traded.

There has been no movement between the levels.

Note 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.

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

NOK THOUSANDS	31.03.2018	31.03.2017	31.12.2017
Bond debt, nominal amount	24 350 000	24 592 000	23 846 000
Adjustments	24 706	64 448	52 943
Accrued interest	72 109	80 893	55 332
Own holdings, nominal amount	-1 106 000	-1 496 000	-1 030 000
<b>Total debt securities issued</b>	<b>23 340 815</b>	<b>23 241 341</b>	<b>22 924 274</b>

Interest rate on borrowings through the issuance of securities at the reporting date: 1.38 % 1.51 % 1.28 %  
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 31.12.2017	Issued	Matured/ Redeemed	Other adjustments	Balance sheet 31.03.2018
Bond debt, nominal amount	23 846 000	800 000	-296 000	0	24 350 000
Adjustments	52 943	0	0	-28 237	24 706
Accrued interest	55 332	0	0	16 777	72 109
Own holdings, nominal amount	-1 030 000	0	-76 000	0	-1 106 000
<b>Total debt securities issued</b>	<b>22 924 274</b>	<b>800 000</b>	<b>-372 000</b>	<b>-11 460</b>	<b>23 340 815</b>

**NOTE 8** Financial assets and liabilities subject to net settlement

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
<b>ASSETS</b>						
Financial derivatives	95 531	0	95 531	-95 531	-2 497	0
<b>Total</b>	<b>95 531</b>	<b>0</b>	<b>95 531</b>	<b>-95 531</b>	<b>-2 497</b>	<b>0</b>
<b>LIABILITIES</b>						
Financial derivatives	160 646	0	160 646	-95 531	-7 200	57 915
<b>Total</b>	<b>160 646</b>	<b>0</b>	<b>160 646</b>	<b>-95 531</b>	<b>-7 200</b>	<b>57 915</b>

31.03.2017 NOK THOUSANDS				Related sums that are not presented net		
	Gross financial assets/liabilites	Gross assets/liabilities presented net	Book value	Financial instruments	Security in cash	Net recognised value
<b>ASSETS</b>						
Financial derivatives	128 928	0	128 928	-128 928	-3 920	0
<b>Total</b>	<b>128 928</b>	<b>0</b>	<b>128 928</b>	<b>-128 928</b>	<b>-3 920</b>	<b>0</b>
<b>LIABILITIES</b>						
Financial derivatives	249 113	0	249 113	-128 928	0	120 185
<b>Total</b>	<b>249 113</b>	<b>0</b>	<b>249 113</b>	<b>-128 928</b>	<b>0</b>	<b>120 185</b>

31.12.2017 NOK THOUSANDS				Related sums that are not presented net		
	Gross financial assets/liabilites	Gross assets/liabilities presented net	Book value	Financial instruments	Security in cash	Net recognised value
<b>ASSETS</b>						
Financial derivatives	91 394	0	91 394	-91 394	0	0
<b>Total</b>	<b>91 394</b>	<b>0</b>	<b>91 394</b>	<b>-91 394</b>	<b>0</b>	<b>0</b>
<b>LIABILITIES</b>						
Financial derivatives	188 103	0	188 103	-91 394	-11 251	85 458
<b>Total</b>	<b>188 103</b>	<b>0</b>	<b>188 103</b>	<b>-91 394</b>	<b>-11 251</b>	<b>85 458</b>

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	01.01.2018 -31.03.2018	01.01.2017 -31.03.2017	01.01.2017 -31.12.2017
KLP, fees lending management	14 500	14 250	57 000
KLP Kapitalforvaltning AS, fees for services provided	88	105	294
KLP, rent	1 027	982	3 976
KLP Skipsbygget AS, rent	388	368	1 519
KLP Bassengtømt AS, rent parking	25	33	108
KLP Eiendomsdrift AS, cost office buildings	66	184	386
KLP, pension premium	2 680	2 281	8 651
KLP, staff services (at cost)	15 682	13 859	57 666
KLP Group companies, subsidised interest employee loans	659	609	2 552

NOK THOUSANDS	31.03.2018	31.03.2017	31.12.2017
<b>BALANCES</b>			
KLP, net internal accounts	-3 704	-10 896	-2 321
KLP, loan settlement	-11 687	-13 107	-42 910
KLP Group companies, net other internal accounts	398	111	-175

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	31.03.2018	31.03.2017	31.12.2017
Intercompany receivables	398	405	450
Miscellaneous receivables	119	113	368
Prepaid expenses	5 903	5 435	0
<b>Total</b>	<b>6 420</b>	<b>5 953</b>	<b>818</b>

**NOTE 11** Other liabilities and provision for accrued costs

NOK THOUSANDS	31.03.2018	31.03.2017	31.12.2017
Creditors	3 603	2 125	3 147
Intercompany payables	15 435	24 297	45 857
Tax payable	0	0	25 298
Other liabilities	10 940	13 265	418
<b>Total other liabilities</b>	<b>29 978</b>	<b>39 687</b>	<b>74 720</b>
Withholding tax	1 477	1 345	3 208
Social security contributions	1 449	1 093	2 299
Capital activity tax	520	253	817
Holiday pay	6 373	5 798	5 110
Pension obligations	32 991	26 279	31 440
VAT	0	0	246
Provisioned costs	2 769	10 892	4 140
<b>Total accrued costs and liabilities</b>	<b>45 579</b>	<b>45 660</b>	<b>47 262</b>

**NOTE 12** Capital adequacy

NOK THOUSANDS	31.03.2018	31.03.2017	31.12.2017
Share capital and share premium fund	1 790 000	1 640 000	1 790 000
Other owners' equity	285 426	210 406	287 591
<b>Total owners' equity</b>	<b>2 075 426</b>	<b>1 850 406</b>	<b>2 077 591</b>
Interim Profit qualifying for tier 1 capital	0	0	0
Adjustments due to requirements for proper valuation	-2 541	0	-2 759
Deduction goodwill and other intangible assets	-24 995	-20 320	-27 153
Deferred tax asset	-7 392	-6 916	-7 392
<b>Core capital/Tier 1 capital</b>	<b>2 040 498</b>	<b>1 823 170</b>	<b>2 040 287</b>
Supplementary capital/Tier 2 capital	0	0	0
<b>Supplementary capital/Tier 2 capital</b>	<b>0</b>	<b>0</b>	<b>0</b>
Total eligible own funds (Tier 1 and Tier 2 capital)	2 040 498	1 823 170	2 040 287
Capital requirement	792 462	754 444	767 527
<b>Surplus of own funds (Tier 1 and Tier 2 capital)</b>	<b>1 248 036</b>	<b>1 068 726</b>	<b>1 272 760</b>
<b>ESTIMATE BASIS CREDIT RISK:</b>			
Institutions	316 028	253 902	283 326
Retail	77 431	0	73 419
Local and regional authorities (incl. municipalities/county administrations)	3 238 886	3 493 100	3 296 369
Investments with mortgage security in real estate	5 360 804	4 810 081	5 107 629
Investments fallen due	51 039	71 750	67 215
Covered bonds	199 964	192 584	231 839
Other holdings	160 247	182 315	107 796
<b>Calculation basis credit risk</b>	<b>9 404 399</b>	<b>9 003 733</b>	<b>9 167 593</b>
Credit risk	752 352	720 299	733 407
Operating risk	39 956	33 967	33 967
Credit valuation adjustments (CVA)	154	179	153
<b>Total capital requirement assets</b>	<b>792 462</b>	<b>754 444</b>	<b>767 527</b>
Core capital adequacy ratio	20.6 %	19.3 %	21.3 %
Supplementary capital ratio	0.0 %	0.0 %	0.0 %
<b>Capital adequacy ratio</b>	<b>20.6 %</b>	<b>19.3 %</b>	<b>21.3 %</b>
<b>Leverage ratio</b>	<b>5.6 %</b>	<b>5.2 %</b>	<b>5.7 %</b>

CAPITAL REQUIREMENT PER 31.03.2018	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	2.0 %	0.0 %	2.0 %
Pillar 2-requirement	2.1 %	0.0 %	2.1 %
<b>Current capital requirement incl. buffers</b>	<b>14.1 %</b>	<b>3.5 %</b>	<b>17.6 %</b>
Minimum requirement in leverage ratio	3.0 %	0.0 %	3.0 %
Requirement with buffer in core capital	2.0 %	0.0 %	2.0 %
<b>Capital requirement leverage ratio</b>	<b>5.0 %</b>	<b>0.0 %</b>	<b>5.0 %</b>

**NOTE 13** Fixed-income securities

NOK THOUSANDS	31.03.2018		31.03.2017		31.12.2017	
	Acquisition cost	Market value	Acquisition cost	Market value	Acquisition cost	Market value
Certificates	236 725	236 751	930 816	931 876	236 284	236 784
Bonds	2 288 226	2 304 530	1 444 803	1 460 830	2 506 390	2 522 234
<b>Total fixed-income securities</b>	<b>2 524 951</b>	<b>2 541 281</b>	<b>2 375 619</b>	<b>2 392 706</b>	<b>2 742 674</b>	<b>2 759 018</b>

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

**NOTE 14** Losses on lending

NOK THOUSANDS	12-month ECL	Lifetime ECL - not credit-impaired	Lifetime ECL credit-impaired	Total
	Expected loss step 1	Expected loss step 2	Expected loss step 3	
Opening balance 01.01.2018	2 960	524	2 420	5 905
Net remeasurement of loss allowance				
Transfers to step 1	214	-214	0	0
Transfers to step 2	-125	125	0	0
Transfers to step 3	0	0	0	0
Net changes	-104	196	2 644	2 736
New losses	241	15	0	256
Derecognised loss	-34	-5	-897	-935
<b>Closing balance 31.03.2018</b>	<b>3 151</b>	<b>643</b>	<b>4 168</b>	<b>7 962</b>

Changes in provisions for expected losses in Q1 are related to changes in volume and lending.

No changes have been made to calculation metrics or macroscenar inputs during the first quarter.

NON-PERFORMING LOANS	01.01.2018	31.03.2018
Overdue terms	1 518	1 846
Balance on non-performing loans	24 395	26 650

A loan is considered to be defaulted if a claim is due for more than 90 days and the amount is not insignificant.

**NOTE 15** Contingent liabilities

NOK THOUSANDS	31.03.2018	31.03.2017	31.12.2017
Credit facilities for lending not utilized	500 091	464 641	673 459
Credit facilities issued credit card	210 830	0	189 223
Loan promise	301 329	370 900	212 769
<b>Total contingent liabilities</b>	<b>1 012 250</b>	<b>835 541</b>	<b>1 075 451</b>

**NOTE 16** Net gain/(loss) on financial instruments

NOK THOUSANDS	Q1 2018	
	Profit and Loss	Other comprehensive income
Net gain/(loss) on financial assets at fair value through profit and loss	27 077	0
Net gain/(loss) on financial assets and liabilities, hedge accounting	-23 635	0
Net gain/(loss) assets at amortised cost	-4 326	0
Other financial income and expenses	-252	0
<b>Total</b>	<b>-1 136</b>	<b>0</b>

## Quarterly earnings trend

NOK MILLIONS	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Interest income	192.0	185.1	198.6	196.1	191.6
Interest expense	-127.4	-117.3	-133.3	-138.9	-140.3
<b>Net interest income</b>	<b>64.6</b>	<b>67.7</b>	<b>65.4</b>	<b>57.2</b>	<b>51.4</b>
Commission income and income from banking services	4.2	3.7	3.7	3.1	2.9
Commission cost and cost from banking services	-0.3	-0.5	-0.9	-0.6	-0.3
<b>Net charges and commission income</b>	<b>3.8</b>	<b>3.2</b>	<b>2.8</b>	<b>2.5</b>	<b>2.6</b>
Other fee income	14.5	14.3	14.3	14.3	14.3
Net gain/ (loss) financial instruments	-1.1	-3.6	-3.3	-0.1	3.7
<b>Total other operating income</b>	<b>13.4</b>	<b>10.6</b>	<b>11.0</b>	<b>14.1</b>	<b>17.9</b>
Salaries and administrative costs	-18.1	-19.9	-13.8	-16.0	-16.7
Depreciation	-2.2	-2.2	-2.2	-1.2	-0.8
Other operating expenses	-35.7	-37.5	-26.7	-31.9	-31.3
Net loan losses	-2.1	-0.6	-2.7	0.0	0.2
<b>Total operating expenses</b>	<b>-58.1</b>	<b>-60.2</b>	<b>-45.4</b>	<b>-49.1</b>	<b>-48.6</b>
<b>Operating profit/loss before tax</b>	<b>23.7</b>	<b>21.4</b>	<b>33.8</b>	<b>24.7</b>	<b>23.2</b>
Tax ordinary income	-5.6	-5.2	-8.2	-6.0	-5.6
<b>Profit/loss for the period</b>	<b>18.1</b>	<b>16.1</b>	<b>25.5</b>	<b>18.7</b>	<b>17.6</b>
Other comprehensive income	0.0	2.1	-3.2	0.0	0.0
Tax on other comprehensive income	0.0	-0.5	0.8	0.0	0.0
<b>Other comprehensive income for the period</b>	<b>0.0</b>	<b>1.6</b>	<b>-2.4</b>	<b>0.0</b>	<b>0.0</b>
<b>Comprehensive income for the period</b>	<b>18.1</b>	<b>17.8</b>	<b>23.1</b>	<b>18.7</b>	<b>17.6</b>

## Key figures - accumulated

NOK MILLIONS	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Pre-tax income	23.7	103.1	81.7	47.9	23.2
Net interest income	64.6	241.6	173.9	108.5	51.4
Other operating income	18.3	68.2	50.7	33.6	16.8
Other operating cost and depreciation	-58.1	-203.4	-143.2	-97.8	-48.6
Net realized/unrealized change fin. instruments at fair value	-1.1	-3.4	0.3	3.5	3.7
Deposits	9 733.1	9 669.0	9 400.5	9 138.2	8 939.4
Lending customers	15 147.1	14 441.3	14 002.7	13 729.5	13 375.6
Lending with public sector guarantee	16 090.9	16 321.5	17 015.3	17 165.9	17 281.5
Non-performing loans	26.6	21.7	17.4	25.5	27.9
Total liabilities created on issuance of securities	23 340.8	22 924.3	23 222.6	23 762.4	23 241.3
Other borrowing	0.0	0.0	0.0	0.0	0.0
Total assets	35 403.6	34 981.2	34 855.2	35 140.0	34 383.2
Average total assets	35 192.3	34 681.8	34 618.8	34 761.2	34 382.8
Equity	2 093.5	2 077.6	1 909.8	1 886.7	1 868.0
Interest net	0.18 %	0.70 %	0.50 %	0.31 %	0.15 %
Profit/loss from ordinary operation before taxes	0.07 %	0.30 %	0.24 %	0.14 %	0.07 %
Return on equity	4.57 %	5.57 %	5.89 %	5.18 %	5.02 %
Capital adequacy ratio	20.6 %	21.3 %	19.5 %	19.3 %	19.3 %
Liquidity coverage ratio (LCR)	295 %	470 %	361 %	365 %	368 %



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