



Interim report

KLP BANKEN AS GROUP
Q2 2018

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KLP BANKEN GROUP

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Interim financial statements

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MAIN FEATURES BY FIRST HALF YEAR:

- Strong growth in mortgage loan volumes
- Increased net interest income and IT costs
- Growth in contribution to profit from the retail market

The KLP Banken Group's purpose is financing of housing mortgages and other credit to the retail market and lending to municipalities, county administrations and companies carrying out public sector assignments. The KLP Banken also manages a lending portfolio on behalf of the owner Kommunal Landspensjonskasse gjensidig forsikringsselskap (KLP). The Group manages lending totalling NOK 89 billion. The overall business of KLP Banken AS and its subsidiaries is divided into the retail market and public sector loans business areas. The business is nationwide and the companies' head office is in Trondheim. KLP Banken AS is wholly owned by KLP through KLP Bankholding AS. KLP Banken AS has two wholly owned subsidiaries, KLP Kommunekreditt AS and KLP Boligkreditt AS.

INCOME STATEMENT

Net interest income for the KLP Banken Group in H1 2018 amounted to NOK 122.6 million compared to NOK 108.5 million in H1 2017. The change is mainly due to the growth in mortgage loans volume.

Net charges and commission income is increased from NOK 5.1 million in H1 2017 to NOK 8.4 million in H1 2018. This increase is also mainly driven by volume.

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 29 million in the first half year. At the same time last year, this amount was NOK 28.5 million.

Operating expenses and depreciations amounted to NOK 111.1 million this year compared to NOK 97.9 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.

Loan loss provisions and realized losses in total is 3.3 million in H1 2018. 0.2 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 remaining is individual loss and loss provisions on mortgage loans and other credit in the retail market. There are no actual losses associated with the public sector.

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 half year the income statement includes a net loss associated with securities of NOK 2.7 million. During the same period the previous year, a net profit of NOK 3.5 million was brought to book. The change from last year is mainly due to the development in the bond market.

By the end of H1, the KLP Banken Group had a pre-tax profit of NOK 43.0 million. The retail market segment generated a profit of NOK 24.0 million while the public sector segment achieved a profit of NOK 18.9 million. In 2017 the Group profit was NOK 47.9 million, where the retail market segment reported a profit of NOK 14.3 million and the public sector market a profit of NOK 33.6 million. Group income after tax amounted to NOK 32.7 million by the first half this year and NOK 36.3 million at the same time last year.

LENDING

On 30 June 2018, the KLP Banken Group had a lending balance of NOK 32.0 billion compared to NOK 30.9 billion at the same time previous year. The distribution between the retail market and public sector lending was NOK 15.7 billion and NOK 16.3 billion, respectively.

So far this year the Group's mortgage lending balance has increased by NOK 1.3 billion (9 per cent). The rate of growth is stronger than the very good numbers from last year, and indicate that the banks different mortgage loans fits well with the needs of the target group – members of the pension scheme in KLP. Mortgage loans for the sum of NOK 3.8 billions have been sold to the subsidiary KLP Boligkreditt AS during the first half year. KLP's mortgage lending balance decreased by NOK 165 million during the same period, due to ordinary instalments and repayments.

The KLP Bankens credit card portfolio has increased by 8 per cent in H1 measured as drawn credits. The credit card product will be further developed to meet the needs of the customer groups.

The public sector lending balance in KLP Banken AS Group has been nearly unchanged so far this year. Managed loans on KLP's balance has increased by NOK 1.3 billion in the same period. Managed loans to foreign debtors in foreign currencies has by NOK 0.5 billions since the beginning of the year.

LIQUID INVESTMENT

On the reporting date, the portfolio of liquid investments amounted to NOK 2.1 billion against NOK 2.7 billion at the same time last year. Net financial gains have positively impacted earnings by NOK 3.0 million this year compared to an impact of NOK 7.5 million last year.

BORROWING

The KLP Banken Group's external financing comprises of deposits, certificates and bonds. On the date of reporting, deposits from individuals and companies were NOK 10.2 billion and issued securities amounted to NOK 23.1 billion. Of the issued securities, covered bonds (OMF) issued by KLP Kommunekreditt AS represented NOK 16.4 billion, while KLP Boligkreditt AS had NOK 5.7 billion outstanding. All covered bonds issues have achieved AAA rating.

RISK AND CAPITAL ADEQUACY

The KLP Banken Group is exposed to various types of risk. The bank has established a framework for risk management aimed at ensuring that risks are identified, analysed and subjected to management using policies, limits, procedures and instructions. The bank is to have a prudent risk profile and earnings are to be principally a result of borrowing and lending activity as well as liquidity management. This means that the bank is to have low market risk, and interest and foreign-exchange risk arising within the borrowing and lending activity is reduced using derivatives. The bank is to have responsible long-term financing and limits have been established to ensure that this objective is achieved. The credit risk in the bank is low and the bank's lending is limited to loans with local government risk and loans with lien on housing and leisure property. Management of the bank's liquidity is conducted through investments in banks satisfying credit quality requirements and in securities in accordance with Board-approved credit lines. The Group's securities portfolio has high credit quality.

At the end of the second quarter, eligible Tier 1 and Tier 2 capital i.a.w. the capital adequacy rules was NOK 2042.2 million. Eligible Tier 1 and Tier 2 capital comprises core capital only. The corresponding figure for last year was NOK 1 850 million. Lending is risk-weighted in

accordance with the authorities' capital adequacy regulations. The KLP Banken Group had a capital adequacy ratio of 20.2 per cent at the end of the second 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.

FUTURE PROSPECTS

KLP Banken's investment in members is to underpin KLP's strategic focus on the retail customer market and its owners. The bank is to contribute by offering competitive and standardized products aimed at the employees of the owner entities. The best terms and conditions for banking services must then be a priority to KLP's members and pensioners. The need for banking services amongst KLP's members is a good base for the Board's desire for further growth in the retail market.

Members of the pension scheme count more than 800 thousand individuals. About 6 per cent of these are KLP Banken customers today. Continued member growth potential is therefore significant. A priority is that members shall perceive the KLP Banken products as attractive. The Board believes that the bank's most important customer group will maintain good payment ability and servicing of granted credit, and that this is the basis for expecting low credit losses also in the future.

The Board believes that members increasingly will be engaged in sustainability, environment and responsible business management, and that KLP Banken has to contribute to this where it is possible. "Green" financing and banking products that indicate social responsibility will therefore be given great attention going forward.

The bank industry is challenged by new technology and new players outside the industry. KLP Banken's goal is to utilise proven technology to be able to offer relevant, customer friendly and efficient services to its customers. New technological solutions and digitalisation are in general expected to make the business more effective and available to customers. This will increase customer satisfaction and contribute to organizational effectiveness.

Deposits from individuals and enterprises will continue to be important sources of funding. The deposit products covers the demand from a large number of existing and potential customers. The Board expects the last two years' deposit growth rate to continue.

The KLP Banken staff has long experience in lending, both to retail customers and to the public sector, and possess substantial credit and market expertise. New products, services and regulatory requirements lead to need for re-organisation and new competence. Further

development of competencies in digitalisation, efficiency improvement and customer-oriented activities is included in the Bank's targets going forward.

The Board considers that the demand for loans in the local government sector and to projects with local government guarantees and local government ownership will continue to grow in the years to come. KLP and KLP Kommunekreditt has a well-established position in this market. The presence of KLP Kommunekreditt should contribute to competition and thus to the public sector

having access to long-term financing at low cost. Growth in the Company's lending will be decided principally by the possibilities of achieving sufficiently good borrowing terms to compete for local government loans.

The Bank's solvency and low credit risk in its lending business should continue to be employed to achieve access to the best possible financing in the capital markets. The Board believes the bank is in a good position for further development and growth.

Trondheim, 10. August 2018

Sverre Thornes
Chair
(Sign.)

Aage E. Schaanning
Deputy Chair
(Sign.)

Aina Slettedal Eide
(Sign.)

Ingrid Aune
(Sign.)

Kjell Fosse
(Sign.)

Christin Kleppe
Elected by and from the
employees
(Sign.)

Espen Trandum
Elected by and from the
employees
(Sign.)

Leif Magne Andersen
Managing Director
(Sign.)

Income statement

KLP BANKEN AS GROUP

NOTE	NOK THOUSANDS	Q2 2018	Q2 2017	01.01.2018 -30.06.2018	01.01.2017 -30.06.2017	01.01.2017 -31.12.2017
	Interest income	192 966	196 103	384 937	387 711	781 691
	Interest expense	-134 920	-138 943	-262 305	-279 196	-540 072
3	Net interest income	58 045	57 161	122 632	108 515	241 619
	Commission income and income from banking services	4 725	3 111	8 877	6 030	13 452
	Commission cost and cost from banking services	-151	-587	-461	-925	-2 273
	Net charges and commission income	4 574	2 524	8 416	5 105	11 179
	Other fee income	14 500	14 250	29 000	28 500	57 028
16	Net gain/ (loss) financial instruments	-1 586	-138	-2 721	3 535	-3 382
	Total other operating income	12 914	14 112	26 279	32 035	53 645
	Salaries and administrative costs	-16 717	-16 027	-34 850	-32 703	-66 358
	Depreciation	-2 195	-1 246	-4 386	-2 035	-6 423
	Other operating expenses	-36 142	-31 857	-71 838	-63 199	-127 436
	Net loan losses	-1 235	6	-3 292	182	-3 152
	Total operating expenses	-56 288	-49 124	-114 366	-97 756	-203 370
	Operating profit/loss before tax	19 245	24 672	42 960	47 900	103 074
	Tax ordinary income	-4 596	-5 976	-10 240	-11 602	-25 081
	Profit/loss for the period	14 650	18 695	32 720	36 298	77 993
	Estimate difference, pension obligation and assets	0	0	0	0	-1 145
	Tax on actuarial gains and losses	0	0	0	0	286
	Items that will not be reclassified to profit and loss	0	0	0	0	-859
	Changes in the fair value through profit and loss	0	0	0	0	68
	Tax on changes in fair value of available for sale financial assets	0	0	0	0	-17
	Items that may be reclassified to profit and loss	0	0	0	0	51
	Other comprehensive income for the period	0	0	0	0	-808
	Comprehensive income for the period	14 650	18 695	32 720	36 298	77 185

Balance sheet

KLP BANKEN AS GROUP

NOTE	NOK THOUSANDS	30.06.2018	30.06.2017	31.12.2017
ASSETS				
	Claims on central banks	50 131	0	45 140
	Loans to credit institutions	1 485 154	1 340 683	1 286 095
4	Loans to customers	32 045 888	30 895 334	30 762 782
13	Interest-bearing securities	2 107 764	2 746 840	2 759 018
	Shareholdings	461	394	461
	Financial derivatives	95 718	118 610	91 394
	Deffered tax assets	2 565	3 516	7 392
	Fixed assets	745	814	742
	Intangible assets	23 774	29 820	27 153
10	Other assets	4 528	4 011	818
	Total assets	35 816 728	35 140 022	34 980 995
LIABILITIES AND OWNERS EQUITY				
LIABILITIES				
7	Debt securities issued	23 083 776	23 762 418	22 924 274
	Deposits and borrowings from the public	10 218 281	9 138 227	9 669 046
	Financial derivatives	149 925	229 795	188 103
11	Other Liabilities	207 668	78 770	74 720
11	Provision for accrued costs and liabilities	48 933	44 107	47 262
	Total liabilities	33 708 582	33 253 318	32 903 404
EQUITY				
	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	32 720	36 298	0
	Total equity	2 108 146	1 886 704	2 077 591
	Total liabilities and equity	35 816 728	35 140 022	34 980 995

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
Equity 1 January 2018	1 057 500	732 500	285 426	2 075 426
Profit for the period	0	0	32 720	32 720
Other comprehensive income	0	0	0	0
Total comprehensive income for the period	0	0	32 720	32 720
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 June 2018	1 057 500	732 500	318 146	2 108 146

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	36 298	36 298
Other comprehensive income	0	0	0	0
Total comprehensive income for the period	0	0	36 298	36 298
Group contribution received	0	0	58 624	58 624
Group contribution made	0	0	-58 624	-58 624
Total transactions with the owners	0	0	0	0
Equity 30 June 2017	982 500	657 500	246 704	1 886 704

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
Total comprehensive income for the period	0	0	77 185	77 185
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
Total transactions with the owners	75 000	75 000	0	150 000
Equity 31 December 2017	1 057 500	732 500	287 591	2 077 591

Statement of cash flow

KLP BANKEN AS GROUP

NOK THOUSANDS	01.01.2018 -30.06.2018	01.01.2017 -30.06.2017	01.01.2017 -31.12.2017
OPERATING ACTIVITIES			
Payments received from customers - interest, commission & charges	366 874	360 589	748 414
Disbursements on loans customers & credit institutions	-64 217	-63 562	-130 191
Receipts on loans customers & credit institutions	-4 342 846	-4 267 384	-8 769 573
Net receipts/disbursements on loans customers & credit institutions	2 977 136	3 281 332	7 819 988
Net receipts on customer deposits banking	550 512	450 044	979 913
Payments on purchase of credit card portfolio	0	-9 547	-9 547
Net receipts/disbursements on operations	-71 393	-70 174	-147 252
Payments to employees, pension schemes, employer's social security contribution etc.	-33 699	-33 724	-60 901
Net interest investment accounts	3 897	4 051	11 607
Net receipts/disbursements from operating activities	172 205	-95 196	45 677
Income tax paid	0	0	0
Net cash flow from operating activities	-441 531	-443 571	488 135
INVESTMENT ACTIVITIES			
Receipts on sale of securities	2 181 674	1 464 791	1 906 778
Payments on the purchase of securities	-1 527 347	-1 484 928	-1 946 683
Receipts of interest from securities	15 649	17 521	38 520
Payments on the purchase of tangible fixed assets	-1 010	-2 629	-4 279
Net cash flow from investment activities	668 966	-5 245	-5 664
FINANCING ACTIVITIES			
Receipts on loans from credit institutions	4 593 401	2 600 000	4 074 000
Disbursements on loans from credit institutions	-2 828 643	-1 840 327	-731 972
Expense of interest of loans	-1 609 000	-451 000	-3 805 000
Net payment of interest on loans	-154 346	-183 791	-383 886
Receipts on issue of owners' equity	0	0	150 000
Group contributions made	-25 302	-19 541	-19 541
Net cash flows from financing activities	-23 890	105 341	-716 399
Net cash flow during the period	203 545	-343 475	-233 928
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	1 492 862	1 179 770	1 289 317
Net receipts/ disbursements (-) of cash	203 545	-343 475	-233 928

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 2018 – 30 June 2018, specifying the earnings trend in Q2. The interim Financial Statements has not been audited.

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

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. IFRS 9 does not require recasting of comparative figures from previous periods, and the Group has thus chosen not to revise these.

The other accounting principles used in this interim report are consistent with those used in the annual report for 2017, and we refer to the annual report for a detailed description of these.

NOTE 3 Net interest income

NOK THOUSANDS	Q2 2018		01.01.2018-30.06.2018	
	Profit and Loss	Other comprehensive income	Profit and Loss	Other comprehensive income
Interest on financial assets to amortised cost and fair value through profit and loss (hedging)	184 256	0	367 123	0
Interest on financial assets for fair value through profit and loss	8 709	0	17 814	0
Total interest income	192 965	0	384 937	0
Interest on liabilities to amortised cost and fair value through profit and loss (hedging)	-124 121	0	-238 749	0
Interest on liabilities for fair value through profit and loss	-10 799	0	-23 556	0
Total interest costs	-134 920	0	-262 305	0
Net interest income	58 045	0	122 632	0

NOTE 4 Loans to customers

NOK THOUSANDS	30.06.2018	30.06.2017	31.12.2017
Loans to customers before write-downs	31 891 562	30 632 379	30 537 129
Provisions and write-downs	-4 787	-2 063	-3 214
Loans to customers after write-downs	31 886 775	30 630 316	30 533 915
Accrued interest	81 830	90 702	80 370
Change in fair value due to interest rate changes (fair value hedging)	77 283	174 316	148 497
Loans to customers	32 045 888	30 895 334	30 762 782

NOTE 5 Categories of financial instruments

NOK THOUSANDS	30.06.2018		01.01.2018	
	Capitalized value	Fair value	Capitalized value	Fair value
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS				
Fixed-income securities	2 107 764	2 107 764	2 759 018	2 759 018
Financial derivatives	95 718	95 718	91 394	91 394
Shares and holdings	461	461	461	461
Total financial assets at fair value through profit and loss	2 203 944	2 203 944	2 850 873	2 850 873
FINANCIAL ASSETS FAIR VALUE HEDGING				
Loans to and receivables from customers	4 212 668	4 260 949	4 525 316	4 560 510
Total financial assets fair value hedging	4 212 668	4 260 949	4 525 316	4 560 510
FINANCIAL ASSETS AT AMORTIZED COST				
Loans to and receivables from credit institutions	50 131	50 131	45 140	45 140
Loans to and receivables from central banks	1 485 154	1 485 154	1 286 095	1 286 095
Loans to and receivables from customers	27 833 220	26 018 916	26 235 693	26 231 844
Total financial assets at amortized cost	29 368 505	27 554 201	27 566 928	27 563 079
Total financial assets	35 785 116	34 019 093	34 943 117	34 974 462
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS				
Financial derivatives	149 925	149 925	188 103	188 103
Total financial liabilities at fair value through profit and loss	149 925	149 925	188 103	188 103
FINANCIAL LIABILITIES FAIR VALUE HEDGING				
Liabilities created on issuance of securities	2 113 081	2 136 647	2 125 483	2 150 405
Total financial liabilities fair value hedging	2 113 081	2 136 647	2 125 483	2 150 405
FINANCIAL LIABILITIES AT AMORTIZED COST				
Liabilities created on issuance of securities	20 970 695	21 557 323	20 798 790	20 920 089
Deposits from customers	10 218 281	10 218 281	9 669 046	9 669 046
Total financial liabilities at amortized cost	31 188 976	31 775 604	30 467 836	30 589 135
Total financial liabilities	33 451 982	34 062 176	32 781 422	32 927 643

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)

As far as possible, The Group uses the Norwegian Mutual Funds Association's industry recommendations. This basically means the following:

The last price traded has key priority. If the last price traded is outside of the bid/offer price in the market, the price is adjusted accordingly. This means that if the last price traded is below the offer price, the price is adjusted upward to the offer price. If it is above the bid price, it is

adjusted downward to the bid price. If the price picture is considered to be outdated, the price is adjusted in accordance with a market index. The Group has chosen the Oslo Stock Exchange as its small cap index (OSESX) as an approach for unlisted shares. In cases where there is very little information about the shares, a discretionary assessment is carried out, such as a fundamental analysis of the company, or a broker assessment.

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 market rate including a relevant risk margin on the reporting date.

Fair value of loans to and receivables from credit institutions

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

Fair value of liabilities to credit institutions

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

Liabilities created on issuance of securities

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

NOTE 6 Fair value hierarchy

30.06.2018 NOK THOUSANDS	Level 1	Level 2	Level 3	Total
ASSETS BOOKED AT FAIR VALUE				
Fixed-income securities	186 758	1 921 004	0	2 107 762
Shareholdings	0	0	461	461
Financial derivatives	0	95 719	0	95 719
Total assets at fair value	186 758	2 016 723	461	2 203 942
LIABILITIES BOOKED AT FAIR VALUE				
Financial derivatives (liabilities)	0	149 926	0	149 926
Total financial liabilities at fair value	0	149 926	0	149 926

30.06.2017 NOK THOUSANDS	Level 1	Level 2	Level 3	Total
ASSETS BOOKED AT FAIR VALUE				
Fixed-income securities	185 573	2 561 267	0	2 746 840
Shareholdings	0	0	394	394
Financial derivatives	0	118 610	0	118 610
Total assets at fair value	185 573	2 679 877	394	2 865 844
LIABILITIES BOOKED AT FAIR VALUE				
Financial derivatives (liabilities)	0	229 795	0	229 795
Total financial liabilities at fair value	0	229 795	0	229 795

31.12.2017 NOK THOUSANDS	Level 1	Level 2	Level 3	Total
ASSETS BOOKED AT FAIR VALUE				
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
Total assets at fair value	236 784	2 613 628	461	2 850 873
LIABILITIES BOOKED AT FAIR VALUE				
Financial derivatives (liabilities)	0	188 103	0	188 103
Total financial liabilities at fair value	0	188 103	0	188 103

NOTE 6 Fair value hierarchy – continues

NOK THOUSANDS	BOOK VALUE 30.06.2018	BOOK VALUE 30.06.2017	BOOK VALUE 31.12.2017
CHANGES IN LEVEL 3 UNLISTED SHARES			
Opening balance	461	394	394
Sold	0	0	0
Bought	0	0	0
Unrealized changes	0	0	67
Closing balance	461	394	461
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	30.06.2018	30.06.2017	31.12.2017
Bond debt, nominal amount	25 025 000	25 774 000	23 846 000
Adjustments	30 613	51 484	52 943
Accrued interest	84 163	79 934	55 332
Own holdings, nominal amount	-2 056 000	-2 143 000	-1 030 000
Total debt securities issued	23 083 776	23 762 418	22 924 274

Interest rate on borrowings through the issuance of securities at the reporting date: 1.56 % 1.39 % 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 30.06.2018
Bond debt, nominal amount	23 846 000	2 600 000	-1 421 000	0	25 025 000
Adjustments	52 943	0	0	-22 330	30 613
Accrued interest	55 332	0	0	28 831	84 163
Own holdings, nominal amount	-1 030 000	0	-1 026 000	0	-2 056 000
Total debt securities issued	22 924 274	2 600 000	-2 447 000	6 501	23 083 776

NOTE 8 Financial assets and liabilities subject to net settlement

30.06.2018 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 vaalue
ASSETS						
Financial derivatives	95 719	0	95 719	-95 719	-2 495	0
Total	95 719	0	95 719	-95 719	-2 495	0
LIABILITIES						
Financial derivatives	149 925	0	149 925	-95 719	-7 200	47 006
Total	149 925	0	149 925	-95 719	-7 200	47 006

30.06.2017 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 vaalue
ASSETS						
Financial derivatives	118 610	0	118 610	-118 610	-4 598	0
Total	118 610	0	118 610	-118 610	-4 598	0
LIABILITIES						
Financial derivatives	229 796	0	229 796	-118 610	-9 850	101 336
Total	229 796	0	229 796	-118 610	-9 850	101 336

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 vaalue
ASSETS						
Financial derivatives	91 394	0	91 394	-91 394	0	0
Total	91 394	0	91 394	-91 394	0	0
LIABILITIES						
Financial derivatives	188 103	0	188 103	-91 394	-11 251	85 458
Total	188 103	0	188 103	-91 394	-11 251	85 458

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 -30.06.2018	01.01.2017 -30.06.2017	01.01.2017 -31.12.2017
KLP, fees lending management	29 000	28 500	57 000
KLP Kapitalforvaltning AS, fees for services provided	124	188	294
KLP, rent	2 096	2 009	3 976
KLP Skipsbygget AS, rent	777	737	1 519
KLP Bassengtomten AS, rent parking	51	58	108
KLP Eiendomsdrift AS, cost office buildings	270	193	386
KLP, pension premium	5 370	4 563	8 651
KLP, staff services (at cost)	32 301	29 570	57 666
KLP Group companies, subsidised interest employee loans	1 282	1 222	2 552

NOK THOUSANDS	30.06.2018	30.06.2017	31.12.2017
BALANCES			
KLP, net internal accounts	-5 020	-13 316	-2 321
KLP, loan settlement	-185 270	-44 182	-42 910
KLP Group companies, net other internal accounts	192	142	-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	30.06.2018	30.06.2017	31.12.2017
Intercompany receivables	472	408	450
Miscellaneous receivables	120	162	368
Prepaid expenses	3 936	3 441	0
Total	4 528	4 011	818

NOTE 11 Other liabilities and provision for accrued costs

NOK THOUSANDS	30.06.2018	30.06.2017	31.12.2017
Creditors	4 632	3 923	3 147
Intercompany payables	190 570	57 765	45 857
Tax payable	0	0	25 298
Other liabilities	12 467	17 082	418
Total other liabilities	207 668	78 770	74 720
Withholding tax	1 790	1 735	3 208
Social security contributions	1 794	1 691	2 299
Capital activity tax	635	493	817
Holiday pay	2 428	5 577	5 110
Pension obligations	34 479	26 279	31 440
VAT	0	0	246
Provisioned costs	7 806	8 332	4 140
Total accrued costs and liabilities	48 933	44 107	47 262

NOTE 12 Capital adequacy

NOK THOUSANDS	30.06.2018	30.06.2017	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
Total owners' equity	2 075 426	1 850 406	2 077 591
Interim Profit qualifying for tier 1 capital	0	36 298	0
Adjustments due to requirements for proper valuation	-2 108	0	-2 759
Deduction goodwill and other intangible assets	-23 774	-29 820	-27 153
Deferred tax asset	-7 392	-6 916	-7 392
Core capital/Tier 1 capital	2 042 152	1 849 968	2 040 287
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)	2 042 152	1 849 968	2 040 287
Capital requirement	807 050	768 668	767 527
Surplus of own funds (Tier 1 and Tier 2 capital)	1 235 102	1 081 300	1 272 760
ESTIMATE BASIS CREDIT RISK:			
Institutions	324 467	288 203	283 326
Retail	81 532	0	73 419
Local and regional authorities (incl. municipalities/county administrations)	3 289 495	3 468 752	3 296 369
Investments with mortgage security in real estate	5 569 804	4 841 415	5 107 629
Investments fallen due	50 861	196 450	67 215
Covered bonds	157 288	235 402	231 839
Other holdings	113 423	150 978	107 796
Calculation basis credit risk	9 586 870	9 181 200	9 167 593
Credit risk	766 950	734 496	733 407
Operating risk	39 956	33 967	33 967
Credit valuation adjustments (CVA)	144	205	153
Total capital requirement assets	807 050	768 668	767 527
Core capital adequacy ratio	20.2 %	19.3 %	21.3 %
Supplementary capital ratio	0.0 %	0.0 %	0.0 %
Capital adequacy ratio	20.2 %	19.3 %	21.3 %
Leverage ratio	5.6 %	5.1 %	5.7 %

CAPITAL REQUIREMENT PER 30.06.2018	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 %
Pilar 2-requirement	2.1 %	0.0 %	2.1 %
Current capital requirement incl. buffers	14.1 %	3.5 %	17.6 %
Minimum requirement in leverage ratio	3.0 %	0.0 %	3.0 %
Requirement with buffer in core capital	2.0 %	0.0 %	2.0 %
Capital requirement leverage ratio	5.0 %	0.0 %	5.0 %

NOTE 13 Fixed-income securities

NOK THOUSANDS	30.06.2018		30.06.2017		31.12.2017	
	Acquisition cost	Market value	Acquisition cost	Market value	Acquisition cost	Market value
Certificates	187 721	187 786	185 308	185 573	236 284	236 784
Bonds	1 906 955	1 919 978	2 540 987	2 561 267	2 506 390	2 522 234
Total fixed-income securities	2 094 676	2 107 764	2 726 295	2 746 840	2 742 674	2 759 018

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 step 1	Lifetime ECL - not credit-impaired step 2	Lifetime ECL credit-impaired step 3	Total
Opening balance 01.01.2018	2 964	524	2 639	6 128
Net remeasurement of loss allowance				
Transfers to step 1	191	-191	0	0
Transfers to step 2	-213	213	0	0
Transfers to step 3	0	-20	20	0
Net changes	-336	276	1 435	1 375
New losses	401	47	0	448
Derecognised loss	-66	-35	-950	-1 050
Closing balance 30.06.2018	2 941	814	3 145	6 900

Changes in provisions for expected losses in the first half of the year are related to changes in volume and lending. No changes have been made to calculation metrics or macroscenar inputs during the half year.

NOTE 15 Contingent liabilities

NOK THOUSANDS	30.06.2018	30.06.2017	31.12.2017
Credit facilities for lending not utilized	735 444	623 957	673 459
Credit facilities issued credit card	213 460	166 650	189 223
Loan promise	385 894	333 918	212 769
Total contingent liabilities	1 334 798	1 124 525	1 075 451

NOTE 16 Net gain/(loss) on financial instruments

NOK THOUSANDS	Q2 2018		01.01.2018-30.06.2018	
	Profit and Loss	Other comprehensive income	Profit and Loss	Other comprehensive income
Net gain/(loss) on financial assets at fair value through profit and loss	3 133	0	30 210	0
Net gain/(loss) on financial assets and liabilities, hedge accounting	-3 148	0	-26 783	0
Net gain/(loss) assets at amortised cost	-1 318	0	-5 644	0
Other financial income and expenses	-253	0	-504	0
Total	-1 586	0	-2 721	0

Quarterly earnings trend

NOK MILLIONS	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017
Interest income	193.0	192.0	185.1	198.6	196.1
Interest expense	-134.9	-127.4	-117.3	-133.3	-138.9
Net interest income	58.0	64.6	67.7	65.4	57.2
Commission income and income from banking services	4.7	4.2	3.7	3.7	3.1
Commission cost and cost from banking services	-0.2	-0.3	-0.5	-0.9	-0.6
Net charges and commission income	4.6	3.8	3.2	2.8	2.5
Other fee income	14.5	14.5	14.3	14.3	14.3
Net gain/ (loss) financial instruments	-1.6	-1.1	-3.6	-3.3	-0.1
Total other operating income	12.9	13.4	10.6	11.0	14.1
Salaries and administrative costs	-16.7	-18.1	-19.9	-13.8	-16.0
Depreciation	-2.2	-2.2	-2.2	-2.2	-1.2
Other operating expenses	-36.1	-35.7	-37.5	-26.7	-31.9
Net loan losses	-1.2	-2.1	-0.6	-2.7	0.0
Total operating expenses	-56.3	-58.1	-60.2	-45.4	-49.1
Tax ordinary income	19.2	23.7	21.4	33.8	24.7
Other comprehensive income	-4.6	-5.6	-5.2	-8.2	-6.0
Tax on other comprehensive income	14.6	18.1	16.1	25.5	18.7
Other comprehensive income for the period	0.0	0.0	2.1	-3.2	0.0
Comprehensive income for the period	0.0	0.0	-0.5	0.8	0.0
Other comprehensive income for the period	0.0	0.0	1.6	-2.4	0.0
Comprehensive income for the period	14.6	18.1	17.8	23.1	18.7

Key figures - accumulated

NOK MILLIONS	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017
Pre-tax income	43.0	23.7	103.1	81.7	47.9
Net interest income	122.6	64.6	241.6	173.9	108.5
Other operating income	37.4	18.3	68.2	50.7	33.6
Other operating cost and depreciation	-114.4	-58.1	-203.4	-143.2	-97.8
Net realized/unrealized change fin. instruments at fair value	-2.7	-1.1	-3.4	0.3	3.5
Deposits	10 218.3	9 733.1	9 669.0	9 400.5	9 138.2
Lending customers	15 763.6	15 147.1	14 441.3	14 002.7	13 729.5
Lending with public sector guarantee	16 282.3	16 090.9	16 321.5	17 015.3	17 165.9
Non-performing loans	20.8	26.6	21.7	17.4	25.5
Total liabilities created on issuance of securities	23 083.8	23 340.8	22 924.3	23 222.6	23 762.4
Other borrowing	0.0	0.0	0.0	0.0	0.0
Total assets	35 816.7	35 403.6	34 981.2	34 855.2	35 140.0
Average total assets	35 398.9	35 192.3	34 681.8	34 618.8	34 761.2
Equity	2 108.1	2 093.5	2 077.6	1 909.8	1 886.7
Interest net	0.35 %	0.18 %	0.70 %	0.50 %	0.31 %
Profit/loss from ordinary operation before taxes	0.12 %	0.07 %	0.30 %	0.24 %	0.14 %
Return on equity	4.14 %	4.57 %	5.57 %	5.89 %	5.18 %
Capital adequacy ratio	20.2 %	20.6 %	21.3 %	19.5 %	19.3 %
Liquidity coverage ratio (LCR)	395 %	295 %	470 %	361 %	365 %



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