



# Interim report

KLP BANKEN AS GROUP  
Q3 2018



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# Interim financial statements

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## MAIN FEATURES BY THIRD QUARTER END:

- Growth in mortgage loans and deposits
- Increased profit contribution from the retail market
- Stable public sector lending volume

The KLP Banken Group's purpose is to offer housing mortgages and other banking services to the retail market and lending to municipalities, county administrations and companies carrying out public sector assignments. Additionally KLP Banken manages a lending portfolio on behalf of Kommunal Landspensjonskasse Gjensidig forsikringsselskap (KLP). The Group manages lending totalling NOK 92 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 by third quarter end 2018 amounted to NOK 183.2 million compared to NOK 173.9 million in the same period last year. The gross revenue growth is mainly an effect of increased outstanding mortgage volume. Net interest income from loans to the public sector is down 10.4 million compared to the same period last year.

Net charges and commission have increased from NOK 7.9 million by the third quarter in 2017 to NOK 12.5 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 43.5 million as at quarter end and NOK 42.8 million at the same time in 2017.

Operating expenses and depreciation before losses amounted to NOK 155.7 million this year compared to NOK 140.6 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 new system solutions and external IT operations.

Loan loss provisions show an increase from NOK 2.5 million by third quarter end 2017 to NOK 5.0 million this year. NOK 0.9 million of this increase is due to a new depreciation model and to the implementation of the Accounting Standard IFRS9 Financial Instruments from January 2018. The rest is due to loss provisions on mortgages and other credit loss in the retail market. There are no recognized losses on public sector loans.

The financial statements have been prepared in NOK and are presented in accordance with IAS 34. This means that some financial instruments are recognised at market value. At the end of the third quarter, the income statement includes a net loss associated with securities of NOK 7.4 million. During the same period the previous year, a net gain of NOK 0.3 million was brought to book.

By the end of the third quarter, the KLP Banken Group had a pre-tax profit of NOK 71.1 million. The retail market segment generated a profit of NOK 36.8 million while the public sector segment achieved a profit of NOK 34.4 million. At the same time in 2017, this Group profit was NOK 81.7 million, where the retail market segment reported a profit of NOK 31.9 million and the public sector market a profit of NOK 49.8 million. Group income after tax amounted to NOK 54.1 million at the reporting date and NOK 59.4 million at the same time last year.

## LENDING

On 30 September 2018, the KLP Banken Group had a lending balance of NOK 32.4 billion compared to NOK 31.0 billion at the same time last year. The distribution between the retail market and public sector lending was NOK 16.0 billion and NOK 16.5 billion, respectively.

So far this year, the Group's retail lending balance has increased by NOK 1.8 billion, which amounts to a growth of 12.5 per cent. The credit card portfolio amounted to NOK 6 million of the increase and the remaining part are mortgage loans. Managed mortgages on behalf of KLP decreased by NOK 220 million during the same period.

The public sector lending balance in KLP Banken AS Group so far this year has almost remained unchanged, but in average lower than in 2017. Managed public sector loans on KLP's balance sheets has increased by NOK 3,5 billion in the same period. Managed loans to foreign debtors in foreign currencies has decreased by NOK 0.2 billion.

#### **LIQUID INVESTMENT**

On the reporting date, the portfolio of liquid investments amounted to NOK 2.3 billion against NOK 2.7 billion at the same time last year. Net financial gains have had a positive impact on earnings by NOK 0.9 million this year compared to a positive impact of NOK 8.1 million last 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 10.5 billion and issued securities amounted to NOK 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 16.5 billion and NOK 6.1 billion respectively. All covered bonds issues have achieved AAA rating. In addition, KLP Banken AS has unsecured debt of NOK 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 2 044 million. Eligible Tier 1 and Tier 2 capital comprises core capital only. The corresponding figure for last year was NOK 1 874 million. Lending is risk-weighted in accordance with the authorities' capital adequacy regulations. The KLP Banken Group had a capital adequacy ratio of 19.9 per cent at the end of the third quarter, against 19.5 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	Q3 2018	Q3 2017	01.01.2018 -30.09.2018	01.01.2017 -30.09.2017	01.01.2017 -31.12.2017
	Interest income	200 072	198 634	586 156	586 345	781 691
	Interest expense	-139 467	-133 259	-402 919	-412 455	-540 072
<b>3</b>	<b>Net interest income</b>	<b>60 605</b>	<b>65 375</b>	<b>183 237</b>	<b>173 890</b>	<b>241 619</b>
	Commission income and income from banking services	4 322	3 706	13 198	9 736	13 452
	Commission cost and cost from banking services	-278	-862	-739	-1 787	-2 273
	<b>Net charges and commission income</b>	<b>4 044</b>	<b>2 844</b>	<b>12 460</b>	<b>7 949</b>	<b>11 179</b>
	Other fee income	14 500	14 250	43 500	42 750	57 028
16	Net gain/ (loss) financial instruments	-4 708	-3 273	-7 429	262	-3 382
	<b>Total other operating income</b>	<b>9 792</b>	<b>10 977</b>	<b>36 071</b>	<b>43 012</b>	<b>53 645</b>
	Salaries and administrative costs	-14 430	-13 790	-49 280	-46 493	-66 358
	Depreciation	-1 865	-2 196	-6 252	-4 231	-6 423
	Other operating expenses	-28 331	-26 721	-100 169	-89 921	-127 436
	Net loan losses	-1 691	-2 708	-4 983	-2 526	-3 152
	<b>Total operating expenses</b>	<b>-46 318</b>	<b>-45 415</b>	<b>-160 684</b>	<b>-143 170</b>	<b>-203 370</b>
	<b>Operating profit/loss before tax</b>	<b>28 124</b>	<b>33 782</b>	<b>71 084</b>	<b>81 682</b>	<b>103 074</b>
	Tax ordinary income	-6 731	-8 247	-16 971	-19 849	-25 081
	<b>Profit/loss for the period</b>	<b>21 393</b>	<b>25 535</b>	<b>54 113</b>	<b>61 832</b>	<b>77 993</b>
	Estimate difference, pension obligation and assets	0	-3 213	0	-3 213	-1 145
	Tax on actuarial gains and losses	0	803	0	803	286
	<b>Items that will not be reclassified to profit and loss</b>	<b>0</b>	<b>-2 410</b>	<b>0</b>	<b>-2 410</b>	<b>-859</b>
	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
	<b>Items that may be reclassified to profit and loss</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>51</b>
	<b>Other comprehensive income for the period</b>	<b>0</b>	<b>-2 410</b>	<b>0</b>	<b>-2 410</b>	<b>-808</b>
	<b>Comprehensive income for the period</b>	<b>21 393</b>	<b>23 125</b>	<b>54 113</b>	<b>59 423</b>	<b>77 185</b>

# Balance sheet

## KLP BANKEN AS GROUP

NOTE	NOK THOUSANDS	30.09.2018	30.09.2017	31.12.2017
<b>ASSETS</b>				
5	Claims on central banks	50 168	0	45 140
5	Loans to credit institutions	1 535 557	965 876	1 286 095
4.5	Loans to customers	32 448 925	31 018 066	30 762 782
5.6.13	Interest-bearing securities	2 302 545	2 707 344	2 759 018
5.6	Shareholdings	461	394	461
5.6	Financial derivatives	105 304	130 340	91 394
	Deferred tax assets	0	826	7 392
	Fixed assets	706	777	742
	Intangible assets	21 948	29 312	27 153
10	Other assets	2 493	2 267	818
<b>Total assets</b>		<b>36 468 107</b>	<b>34 855 199</b>	<b>34 980 995</b>
<b>LIABILITIES AND OWNERS EQUITY</b>				
<b>LIABILITIES</b>				
5.7	Debt securities issued	23 495 479	23 222 648	22 924 274
5	Deposits and borrowings from the public	10 530 640	9 400 545	9 669 046
5.6	Financial derivatives	145 578	231 466	188 103
	Deferred tax liabilities	712	0	0
11	Other Liabilities	119 530	42 334	74 720
11	Provision for accrued costs and liabilities	46 631	48 379	47 262
<b>Total liabilities</b>		<b>34 338 568</b>	<b>32 945 370</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' equity	285 426	210 406	287 591
	Profit for the period	54 113	59 423	0
<b>Total equity</b>		<b>2 129 539</b>	<b>1 909 829</b>	<b>2 077 591</b>
<b>Total liabilities and equity</b>		<b>36 468 107</b>	<b>34 855 199</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	54 113	54 113
Other comprehensive income	0	0	0	0
<b>Total comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>54 113</b>	<b>54 113</b>
Group contribution received	0	0	78 891	78 891
Group contribution made	0	0	-78 891	-78 891
<b>Total transactions with the owners</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Equity 30 September 2018</b>	<b>1 057 500</b>	<b>732 500</b>	<b>339 539</b>	<b>2 129 539</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	61 832	61 832
Other comprehensive income	0	0	-2 410	-2 410
<b>Total comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>59 423</b>	<b>59 423</b>
Group contribution received	0	0	58 624	58 624
Group contribution made	0	0	-58 624	-58 624
<b>Total transactions with the owners</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Equity 30 September 2017</b>	<b>982 500</b>	<b>657 500</b>	<b>269 829</b>	<b>1 909 829</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 -30.09.2018	01.01.2017 -30.09.2017	01.01.2017 -31.12.2017
<b>OPERATING ACTIVITIES</b>			
Payments received from customers - interest, commission & charges	540 635	531 034	748 414
Disbursements on loans customers & credit institutions	-99 458	-96 611	-130 191
Receipts on loans customers & credit institutions	-5 541 966	-5 467 641	-8 769 573
Net receipts/disbursements on loans customers & credit institutions	2 962 771	4 359 100	7 819 988
Net receipts on customer deposits banking	861 941	711 970	979 913
Payments on purchase of credit card portfolio	0	-9 547	-9 547
Net receipts/disbursements on operations	-101 628	-101 041	-147 252
Payments to employees, pension schemes, employer's social security contribution etc.	-51 041	-45 309	-60 901
Net interest investment accounts	5 958	5 811	11 607
Net receipts/disbursements from operating activities	100 405	4 072	45 677
Income tax paid	0	0	0
<b>Net cash flow from operating activities</b>	<b>-1 322 383</b>	<b>-108 162</b>	<b>488 135</b>
<b>INVESTMENT ACTIVITIES</b>			
Receipts on sale of securities	2 589 230	1 504 731	1 906 778
Payments on the purchase of securities	-2 130 645	-1 484 040	-1 946 683
Receipts of interest from securities	22 996	26 048	38 520
Payments on the purchase of tangible fixed assets	-1 010	-4 279	-4 279
<b>Net cash flow from investment activities</b>	<b>480 571</b>	<b>42 458</b>	<b>-5 664</b>
<b>FINANCING ACTIVITIES</b>			
Receipts on loans from credit institutions	5 500 000	3 600 000	4 074 000
Disbursements on loans from credit institutions	-327 905	-1 428 817	-731 972
Expense of interest of loans	-3 814 000	-2 422 000	-3 805 000
Net payment of interest on loans	-238 615	-262 628	-383 886
Receipts on issue of owners' equity	0	0	150 000
Group contributions made	-25 302	-19 541	-19 541
<b>Net cash flows from financing activities</b>	<b>1 094 178</b>	<b>-532 986</b>	<b>-716 399</b>
<b>Net cash flow during the period</b>	<b>252 366</b>	<b>-598 690</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	1 541 683	924 555	1 289 317
<b>Net receipts/ disbursements (-) of cash</b>	<b>252 366</b>	<b>-598 690</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 – 30 September 2018, specifying the earnings trend in Q3. 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](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.

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	Q3 2018	01.01.2018-30.09.2018
	Profit and Loss	Profit and Loss
Interest on financial assets to amortised cost and fair value through profit and loss (hedging)	189 621	557 891
Interest on financial assets for fair value through profit and loss	10 451	28 265
<b>Total interest income</b>	<b>200 072</b>	<b>586 156</b>
Interest on liabilities to amortised cost and fair value through profit and loss (hedging)	-127 107	-367 003
Interest on liabilities for fair value through profit and loss	-12 360	-35 916
<b>Total interest costs</b>	<b>-139 467</b>	<b>-402 919</b>
<b>Net interest income</b>	<b>60 605</b>	<b>183 237</b>

**NOTE 4** Loans to customers

NOK THOUSANDS	30.09.2018	30.09.2017	31.12.2017
Loans to cutomers before write-downs	32 298 393	30 745 921	30 537 129
Provisions and write-downs	-3 772	-3 356	-3 214
<b>Loans to cutomers after write-downs</b>	<b>32 294 621</b>	<b>30 742 565</b>	<b>30 533 915</b>
Accrued interest	100 606	264 820	80 370
Change in fair value due to interest rate changes (fair value hedging)	53 698	10 681	148 497
<b>Loans to customers</b>	<b>32 448 925</b>	<b>31 018 066</b>	<b>30 762 782</b>

**NOTE 5** Categories of financial instruments

NOK THOUSANDS	30.09.2018		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	2 302 545	2 302 545	2 759 018	2 759 018
Financial derivatives	105 304	105 304	91 394	91 394
Shares and holdings	461	461	461	461
<b>Total financial assets at fair value through profit and loss</b>	<b>2 408 310</b>	<b>2 408 310</b>	<b>2 850 873</b>	<b>2 850 873</b>
<b>FINANCIAL ASSETS FAIR VALUE HEDGING</b>				
Loans to and receivables from customers	4 089 166	4 131 331	4 525 316	4 560 510
<b>Total financial assets fair value hedging</b>	<b>4 089 166</b>	<b>4 131 331</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	50 168	50 168	45 140	45 140
Loans to and receivables from central banks	1 535 557	1 535 557	1 286 095	1 286 095
Loans to and receivables from customers	28 359 759	27 688 518	26 235 693	26 231 844
<b>Total financial assets at amortized cost</b>	<b>29 945 484</b>	<b>29 274 243</b>	<b>27 566 928</b>	<b>27 563 079</b>
<b>Total financial assets</b>	<b>36 442 961</b>	<b>35 813 884</b>	<b>34 943 117</b>	<b>34 974 462</b>
<b>FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS</b>				
Financial derivatives	145 578	145 578	188 103	188 103
<b>Total financial liabilities at fair value through profit and loss</b>	<b>145 578</b>	<b>145 578</b>	<b>188 103</b>	<b>188 103</b>
<b>FINANCIAL LIABILITIES FAIR VALUE HEDGING</b>				
Liabilities created on issuance of securities	2 116 672	2 136 981	2 125 483	2 150 405
<b>Total financial liabilities fair value hedging</b>	<b>2 116 672</b>	<b>2 136 981</b>	<b>2 125 483</b>	<b>2 150 405</b>
<b>FINANCIAL LIABILITIES AT AMORTIZED COST</b>				
Liabilities created on issuance of securities	21 378 806	21 807 969	20 798 790	20 920 089
Deposits from customers	10 530 640	10 530 640	9 669 046	9 669 046
<b>Total financial liabilities at amortized cost</b>	<b>31 909 446</b>	<b>32 338 608</b>	<b>30 467 836</b>	<b>30 589 135</b>
<b>Total financial liabilities</b>	<b>34 171 696</b>	<b>34 621 166</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 (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

30.09.2018 NOK THOUSANDS	Level 1	Level 2	Level 3	Total
<b>ASSETS BOOKED AT FAIR VALUE</b>				
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
<b>Total assets at fair value</b>	<b>188 236</b>	<b>2 219 613</b>	<b>461</b>	<b>2 408 310</b>
<b>LIABILITIES BOOKED AT FAIR VALUE</b>				
Financial derivatives (liabilities)	0	145 578	0	145 578
<b>Total financial liabilities at fair value</b>	<b>0</b>	<b>145 578</b>	<b>0</b>	<b>145 578</b>

30.09.2017 NOK THOUSANDS	Level 1	Level 2	Level 3	Total
<b>ASSETS BOOKED AT FAIR VALUE</b>				
Fixed-income securities	185 744	2 521 601	0	2 707 345
Shareholdings	0	0	394	394
Financial derivatives	0	130 340	0	130 340
<b>Total assets at fair value</b>	<b>185 744</b>	<b>2 651 941</b>	<b>394</b>	<b>2 838 078</b>
<b>LIABILITIES BOOKED AT FAIR VALUE</b>				
Financial derivatives (liabilities)	0	231 466	0	231 466
<b>Total financial liabilities at fair value</b>	<b>0</b>	<b>231 466</b>	<b>0</b>	<b>231 466</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 30.09.2018	BOOK VALUE 30.09.2017	BOOK VALUE 31.12.2017
<b>CHANGES IN LEVEL 3 UNLISTED SHARES</b>			
Opening balance	461	394	394
Sold	0	0	0
Bought	0	0	0
Unrealized changes	0	0	67
<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	30.09.2018	30.09.2017	31.12.2017
Bond debt, nominal amount	25 767 000	24 432 000	23 846 000
Adjustments	21 530	54 195	52 943
Accrued interest	97 949	92 453	55 332
Own holdings, nominal amount	-2 391 000	-1 356 000	-1 030 000
<b>Total debt securities issued</b>	<b>23 495 479</b>	<b>23 222 648</b>	<b>22 924 274</b>

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

1.49 %

1.29 %

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 30.09.2018
<b>ENDRING AV GJELD STIFTET VED UTSTEDELSE AV VERDIPAPIRER</b>					
Bond debt, nominal amount	23 846 000	3 600 000	-1 679 000	0	25 767 000
Adjustments	52 943	0	0	-31 413	21 530
Accrued interest	55 332	0	0	42 617	97 949
Own holdings, nominal amount	-1 030 000	0	-1 361 000	0	-2 391 000
<b>Total debt securities issued</b>	<b>22 924 274</b>	<b>3 600 000</b>	<b>-3 040 000</b>	<b>11 204</b>	<b>23 495 479</b>

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

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 vaalue

**ASSETS**

Financial derivatives	105 304	0	105 304	-105 304	-2 504	0
<b>Total</b>	<b>105 304</b>	<b>0</b>	<b>105 304</b>	<b>-105 304</b>	<b>-2 504</b>	<b>0</b>

**LIABILITIES**

Financial derivatives	145 578	0	145 578	-105 304	-7 200	33 074
<b>Total</b>	<b>145 578</b>	<b>0</b>	<b>145 578</b>	<b>-105 304</b>	<b>-7 200</b>	<b>33 074</b>

30.09.2017 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	130 340	0	130 340	-130 340	-4 602	0
<b>Total</b>	<b>130 340</b>	<b>0</b>	<b>130 340</b>	<b>-130 340</b>	<b>-4 602</b>	<b>0</b>

**LIABILITIES**

Financial derivatives	231 466	0	231 466	-130 340	-9 850	91 276
<b>Total</b>	<b>231 466</b>	<b>0</b>	<b>231 466</b>	<b>-130 340</b>	<b>-9 850</b>	<b>91 276</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 vaalue

**ASSETS**

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>

**LIABILITIES**

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 -30.09.2018	01.01.2017 -30.09.2017	01.01.2017 -31.12.2017
KLP, fees lending management	43 500	42 750	57 000
KLP Kapitalforvaltning AS, fees for services provided	159	235	294
KLP, rent	3 123	3 014	3 976
KLP Skipsbygget AS, rent	1 180	1 107	1 519
KLP Bassengtomten AS, rent parking	101	83	108
KLP Eiendomsdrift AS, cost office buildings	473	360	386
KLP, pension premium	7 787	6 884	8 651
KLP, staff services (at cost)	47 922	42 792	57 666
KLP Group companies, subsidised interest employee loans	1 806	1 838	2 552

NOK THOUSANDS	30.09.2018	30.09.2017	31.12.2017
<b>BALANCES</b>			
KLP, net internal accounts	-2 671	-10 351	-2 321
KLP, loan settlement	-99 873	-9 136	-42 910
KLP Group companies, net other internal accounts	180	158	-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	30.09.2018	30.09.2017	31.12.2017
Intercompany receivables	411	400	450
Miscellaneous receivables	114	112	368
Prepaid expenses	1 968	1 755	0
<b>Total</b>	<b>2 493</b>	<b>2 267</b>	<b>818</b>

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

NOK THOUSANDS	30.09.2018	30.09.2017	31.12.2017
Creditors	2 467	2 372	3 147
Intercompany payables	102 774	19 729	45 857
Tax payable	0	0	25 298
Other liabilities	14 289	20 233	418
<b>Total other liabilities</b>	<b>119 530</b>	<b>42 334</b>	<b>74 720</b>
Withholding tax	1 386	1 417	3 208
Social security contributions	1 257	1 040	2 299
Capital activity tax	464	194	817
Holiday pay	3 603	3 492	5 110
Pension obligations	35 112	32 069	31 440
VAT	0	516	246
Provisioned costs	4 810	9 651	4 140
<b>Total accrued costs and liabilities</b>	<b>46 631</b>	<b>48 379</b>	<b>47 262</b>



**NOTE 12** Capital adequacy

NOK THOUSANDS	30.09.2018	30.09.2017	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	59 423	0
Adjustments due to requirements for proper valuation	-2 303	0	-2 759
Deduction goodwill and other intangible assets	-21 948	-29 312	-27 153
Deferred tax asset	-7 392	-6 916	-7 392
<b>Core capital/Tier 1 capital</b>	<b>2 043 783</b>	<b>1 873 601</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)	2 043 783	1 873 601	2 040 287
Capital requirement	822 850	766 843	767 527
<b>Surplus of own funds (Tier 1 and Tier 2 capital)</b>	<b>1 220 933</b>	<b>1 106 758</b>	<b>1 272 760</b>
<b>ESTIMATE BASIS CREDIT RISK:</b>			
Institutions	335 353	215 653	283 326
Retail	84 771	67 244	73 419
Local and regional authorities (incl. municipalities/county administrations)	3 283 850	3 438 699	3 296 369
Investments with mortgage security in real estate	5 781 003	4 953 121	5 107 629
Investments fallen due	55 556	47 552	67 215
Covered bonds	176 619	231 380	231 839
Other holdings	67 364	204 879	107 796
<b>Calculation basis credit risk</b>	<b>9 784 516</b>	<b>9 158 528</b>	<b>9 167 593</b>
Credit risk	782 761	732 682	733 407
Operating risk	39 956	33 967	33 967
Credit valuation adjustments (CVA)	133	194	153
<b>Total capital requirement assets</b>	<b>822 850</b>	<b>766 843</b>	<b>767 527</b>
Core capital adequacy ratio	19.9 %	19.5 %	21.3 %
Supplementary capital ratio	0.0 %	0.0 %	0.0 %
<b>Capital adequacy ratio</b>	<b>19.9 %</b>	<b>19.5 %</b>	<b>21.3 %</b>
<b>Leverage ratio</b>	<b>5.6 %</b>	<b>5.2 %</b>	<b>5.7 %</b>

CAPITAL REQUIREMENT PER 30.09.2018:	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	30.09.2018		30.09.2017		31.12.2017	
	Acquisition cost	Market value	Acquisition cost	Market value	Acquisition cost	Market value
Certificates	166 718	166 744	185 308	185 744	236 284	236 784
Bonds	2 124 682	2 135 800	2 501 047	2 521 600	2 506 390	2 522 234
<b>Total fixed-income securities</b>	<b>2 291 400</b>	<b>2 302 545</b>	<b>2 686 355</b>	<b>2 707 344</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 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	93	-93	0	0
Transfers to step 2	-270	270	0	0
Transfers to step 3	0	-21	21	0
Net changes	93	239	268	600
New losses	623	97	0	719
Derecognised loss	-102	-16	-53	-170
<b>Closing balance 30.09.2018</b>	<b>3 402</b>	<b>999</b>	<b>2 876</b>	<b>7 277</b>

Changes in provisions for expected losses at 30. September are related to changes in volume and lending.

No changes have been made to calculation metrics or macroscenar inputs during the 3rd quarter.

**NOTE 15** Contingent liabilities

NOK THOUSANDS	30.09.2018	30.09.2017	31.12.2017
Credit facilities for lending not utilized	932 340	559 078	673 459
Credit facilities issued credit card	220 787	180 616	189 223
Loan promise	151 092	261 690	212 769
<b>Total contingent liabilities</b>	<b>1 304 219</b>	<b>1 001 384</b>	<b>1 075 451</b>

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

NOK THOUSANDS	Q3 2018		01.01.2018-30.09.2018	
	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	8 647	0	38 857	0
Net gain/(loss) on financial assets and liabilities, hedge accounting	-11 227	0	-38 010	0
Net gain/(loss) assets at amortised cost	-1 876	0	-7 520	0
Other financial income and expenses	-252	0	-756	0
<b>Total</b>	<b>-4 708</b>	<b>0</b>	<b>-7 429</b>	<b>0</b>

## Quarterly earnings trend

NOK MILLIONS	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017
Interest income	200.1	193.0	192.0	185.1	198.6
Interest expense	-139.5	-134.9	-127.4	-117.3	-133.3
<b>Net interest income</b>	<b>60.6</b>	<b>58.0</b>	<b>64.6</b>	<b>67.7</b>	<b>65.4</b>
Commission income and income from banking services	4.3	4.7	4.2	3.7	3.7
Commission cost and cost from banking services	-0.3	-0.2	-0.3	-0.5	-0.9
<b>Net charges and commission income</b>	<b>4.0</b>	<b>4.6</b>	<b>3.8</b>	<b>3.2</b>	<b>2.8</b>
Other fee income	14.5	14.5	14.5	14.3	14.3
Net gain/ (loss) financial instruments	-4.7	-1.6	-1.1	-3.6	-3.3
<b>Total other operating income</b>	<b>9.8</b>	<b>12.9</b>	<b>13.4</b>	<b>10.6</b>	<b>11.0</b>
Salaries and administrative costs	-14.4	-16.7	-18.1	-19.9	-13.8
Depreciation	-1.9	-2.2	-2.2	-2.2	-2.2
Other operating expenses	-28.3	-36.1	-35.7	-37.5	-26.7
Net loan losses	-1.7	-1.2	-2.1	-0.6	-2.7
<b>Total operating expenses</b>	<b>-46.3</b>	<b>-56.3</b>	<b>-58.1</b>	<b>-60.2</b>	<b>-45.4</b>
<b>Operating profit/loss before tax</b>	<b>28.1</b>	<b>19.2</b>	<b>23.7</b>	<b>21.4</b>	<b>33.8</b>
Tax ordinary income	-6.7	-4.6	-5.6	-5.2	-8.2
<b>Profit/loss for the period</b>	<b>21.4</b>	<b>14.6</b>	<b>18.1</b>	<b>16.1</b>	<b>25.5</b>
Other comprehensive income	0.0	0.0	0.0	2.1	-3.2
Tax on other comprehensive income	0.0	0.0	0.0	-0.5	0.8
<b>Other comprehensive income for the period</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>1.6</b>	<b>-2.4</b>
<b>Comprehensive income for the period</b>	<b>21.4</b>	<b>14.6</b>	<b>18.1</b>	<b>17.8</b>	<b>23.1</b>

## Key figures - accumulated

NOK MILLIONS	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017
Pre-tax income	71.1	43.0	23.7	103.1	81.7
Net interest income	183.2	122.6	64.6	241.6	173.9
Other operating income	56.0	37.4	18.3	68.2	50.7
Other operating cost and depreciation	-160.7	-114.4	-58.1	-203.4	-143.2
Net realized/unrealized change fin. instruments at fair value	-7.4	-2.7	-1.1	-3.4	0.3
Deposits	10 530.6	10 218.3	9 733.1	9 669.0	9 400.5
Lending customers	16 242.7	15 736.6	15 147.1	14 441.3	14 002.7
Lending with public sector guarantee	16 206.2	16 282.3	16 090.9	16 321.5	17 015.3
Non-performing loans	31.9	20.8	26.6	21.7	17.4
Total liabilities created on issuance of securities	23 495.5	23 083.8	23 340.8	22 924.3	23 222.6
Other borrowing	0.0	0.0	0.0	0.0	0.0
Total assets	36 468.1	35 816.7	35 403.6	34 981.2	34 855.2
Average total assets	35 724.6	35 398.9	35 192.3	34 681.8	34 618.8
Equity	2 129.5	2 108.1	2 093.5	2 077.6	1 909.8
Interest net	0.51 %	0.35 %	0.18 %	0.70 %	0.50 %
Profit/loss from ordinary operation before taxes	0.20 %	0.12 %	0.07 %	0.30 %	0.24 %
Return on equity	4.56 %	4.14 %	4.57 %	5.57 %	5.89 %
Capital adequacy ratio	19.9 %	20.2 %	20.6 %	21.3 %	19.5 %
Liquidity coverage ratio (LCR)	306 %	395 %	295 %	470 %	361 %



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