



# Interim report

KLP BANKEN AS GROUP  
Q4 2018



# Table of contents

## **KLP BANKEN GROUP**

INTERIM FINANCIAL STATEMENTS	3
INCOME STATEMENT	5
BALANCE SHEET	6
STATEMENT OF CHANGES IN EQUITY	7
STATEMENT OF CASH FLOW	8
NOTES TO THE ACCOUNTS	9
— <b>Note 1</b> General information	9
— <b>Note 2</b> Accounting principles	9
— <b>Note 3</b> Net interest income	10
— <b>Note 4</b> Loans to customers	10
— <b>Note 5</b> Categories of financial instruments	11
— <b>Note 6</b> Fair value hierarchy	13
— <b>Note 7</b> Securities liabilities - stock exchange listed covered bonds and certificates	14
— <b>Note 8</b> Financial assets and liabilities subject to net settlement	15
— <b>Note 9</b> Transactions with related parties	16
— <b>Note 10</b> Other assets	17
— <b>Note 11</b> Other liabilities and provision for accrued costs	17
— <b>Note 12</b> Capital adequacy	18
— <b>Note 13</b> Fixed-income securities	19
— <b>Note 14</b> Losses on lending	19
— <b>Note 15</b> Contingent liabilities	20
— <b>Note 16</b> Net gain/(loss) on financial instruments	20
— <b>Note 17</b> Pension obligations - own employees	20
— Quarterly earnings trend	21
— Key figures - accumulated	22

# Interim financial statements

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## MAIN FEATURES BY FOURTH QUARTER END:

- Strong growth in mortgage loans and deposits
- Increased net interest income, but lower net profit
- Stable public sector lending volume

The KLP Banken Group is a retail bank for customers seeking a long-term and predictable partner. Thus we seek to be the preferred bank for KLP's members, pensioners and other retail customers who find our bank's services and values attractive. The bank also offers 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 95 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 fourth quarter end 2018 amounted to NOK 248.5 million compared to NOK 241.6 million in the same period last year. The gross revenue growth is mainly an effect of increased outstanding mortgage volume as the net lending margins in average has been lower than last year. Net interest income from loans to the public sector is down 16.6 million compared to the same period last year.

Net charges and commission have increased from NOK 11.2 million by the fourth quarter in 2017 to NOK 17.3 million at the same time this year. This development is also 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 58.0 million as at quarter end and NOK 57.0 million at the same time in 2017.

Operating expenses and depreciation before losses amounted to NOK 220.1 million this year compared to NOK 200.2 million at the same time last year. The

increase in operating expenses compared to last year, apart from general inflation, is mainly due to growth in IT operation costs and technology investments in addition to an increase in the use of external services.

Loan loss provisions show an increase from NOK 3.2 million by fourth quarter end 2017 to NOK 6.8 million this year. NOK 0.8 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 on interim reporting. This means that some financial instruments are recognized at market value. At the end of the fourth quarter, the income statement includes a net loss associated with market value changes on financial instruments of NOK 15.1 million. During the same period the previous year, a net loss of NOK 3.4 million was brought to book. The loss figures are mainly related to the repurchase of issued covered bonds (OMF).

By the end of the fourth quarter, the KLP Banken Group had a pre-tax profit of NOK 81.8 million, of which the fourth quarter profit was NOK 10.8 million. The retail market segment generated a profit of NOK 46.7 million while the public sector segment achieved a profit of NOK 35.1 million. At the same time in 2017, this Group profit was NOK 103.1 million, where the retail market segment reported a profit of NOK 42.4 million and the public sector market a profit of NOK 60.7 million. Group income after tax amounted to NOK 62.2 million at the reporting date and NOK 77.2 million at the same time last year.

## LENDING

On 31 December 2018, the KLP Banken Group had a lending balance of NOK 33.5 billion compared to NOK 30.8 billion at the same time last year. The distribution between the retail market and public sector lending was NOK 16.7 billion and NOK 16.8 billion respectively.

Over the year, the Group's retail lending balance has strongly increased by NOK 2.3 billion, which represents a growth of 15.8 per cent. Additionally the credit card portfolio has increased with a net amount of NOK 7.4 million, or 12.2 per cent. Managed mortgage loans on behalf of

KLP decreased by NOK 273 million during the same period due to ordinary installments and redemptions.

The public sector lending balance in KLP Banken AS Group has increased 3 per cent in 2018. Managed public sector loans on KLP's balance sheets has increased by NOK 5.1 billion in the same period. Managed loans to debtors in foreign currencies has increased by NOK 0.1 billion in 2018 to a balance of NOK 8.0 billion.

#### LIQUID INVESTMENTS

On the reporting date, the portfolio of liquid investments amounted to NOK 2.0 billion against NOK 2.8 billion at the same time last year. The profit effect of market value changes as at fourth quarter end was a loss of NOK 1.5 million, compared to a gain of NOK 7.3 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 10.7 billion and issued securities amounted to NOK 24.0 billion. Of the securities issued, covered bonds (OMF) issued by KLP Kommunekreditt AS and KLP Boligkreditt AS represented an outstanding amount of NOK 16.9 billion and NOK 6.1 billion respectively. All covered bonds issued have achieved AAA rating. In addition, KLP Banken AS has unsecured debt of NOK 1.0 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 subject 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 activities as well as management of the investment portfolio. This means that the bank is to have low exposure to 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 are established to ensure 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 fourth quarter, eligible Tier 1 and Tier 2 capital i.a.w. the capital adequacy rules was NOK 2 102 million. Eligible Tier 1 and Tier 2 capital comprises core capital only. Lending is risk-weighted in accordance with the authorities' capital adequacy regulations. The KLP Banken Group had a capital adequacy ratio of 20.1 per cent at the end of the fourth quarter, against 21.3 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	Q4 2018	Q4 2017	01.01.2018 -31.12.2018	01.01.2017 -31.12.2017
	Interest income, amortized cost	195 946	185 956	744 554	731 075
	Interest income at fair value	86 342	29 163	195 912	220 819
3	<b>Total interest income</b>	<b>282 288</b>	<b>215 119</b>	<b>940 466</b>	<b>951 893</b>
	Interest expense, amortized cost	-121 192	-101 175	-445 378	-418 714
	Interest expense at fair value	-95 801	-46 215	-246 557	-291 560
3	<b>Total interest costs</b>	<b>-216 993</b>	<b>-147 390</b>	<b>-691 935</b>	<b>-710 274</b>
3	<b>Net interest income</b>	<b>65 295</b>	<b>67 729</b>	<b>248 532</b>	<b>241 619</b>
	Commission income and income from banking services	5 289	3 716	18 488	13 452
	Commission cost and cost from banking services	-435	-486	-1 174	-2 273
	<b>Net charges and commission income</b>	<b>4 854</b>	<b>3 230</b>	<b>17 314</b>	<b>11 179</b>
	Other fee income	14 541	14 278	58 041	57 028
16	Net gain/ (loss) financial instruments	-7 686	-3 644	-15 115	-3 382
	<b>Total other operating income</b>	<b>6 855</b>	<b>10 634</b>	<b>42 926</b>	<b>53 646</b>
	Salaries and administrative costs	-22 746	-19 865	-72 026	-66 358
	Depreciation	-1 865	-2 192	-8 117	-6 423
	Other operating expenses	-39 784	-37 515	-139 953	-127 436
	Net loan losses	-1 856	-626	-6 838	-3 152
	<b>Total operating expenses</b>	<b>-66 251</b>	<b>-60 199</b>	<b>-226 935</b>	<b>-203 370</b>
	<b>Operating profit/loss before tax</b>	<b>10 753</b>	<b>21 394</b>	<b>81 837</b>	<b>103 074</b>
	Tax ordinary income	-2 488	-5 232	-19 458	-25 081
	<b>Profit/loss for the period</b>	<b>8 266</b>	<b>16 162</b>	<b>62 379</b>	<b>77 993</b>
	Estimate difference, pension obligation and assets	-2 326	2 068	-2 326	-1 145
	Tax on actuarial gains and losses	581	-517	581	286
	<b>Items that will not be reclassified to profit and loss</b>	<b>-1 744</b>	<b>1 551</b>	<b>-1 744</b>	<b>-859</b>
	Changes in the fair value through profit and loss	1 591	68	1 591	68
	Tax on changes in fair value of available for sale financial assets	0	-17	0	-17
	<b>Items that may be reclassified to profit and loss</b>	<b>1 591</b>	<b>51</b>	<b>1 591</b>	<b>51</b>
	<b>Other comprehensive income for the period</b>	<b>-153</b>	<b>1 602</b>	<b>-153</b>	<b>-808</b>
	<b>Comprehensive income for the period</b>	<b>8 113</b>	<b>17 764</b>	<b>62 226</b>	<b>77 185</b>



# Balance sheet

## KLP BANKEN AS GROUP

NOTE	NOK THOUSANDS	31.12.2018	31.12.2017
<b>ASSETS</b>			
5	Claims on central banks	60 238	45 140
5	Loans to credit institutions	1 439 420	1 286 095
4.5	Loans to customers	33 474 004	30 762 782
5.6.13	Interest-bearing securities	2 015 351	2 759 018
5.6	Shareholdings	2 053	461
5.6	Financial derivatives	62 483	91 394
	Deffered tax assets	8 667	7 392
	Fixed assets	667	742
	Intangible assets	25 299	27 153
10	Other assets	413	818
<b>Total assets</b>		<b>37 088 595</b>	<b>34 980 995</b>
<b>LIABILITIES AND OWNERS EQUITY</b>			
<b>LIABILITIES</b>			
5.7	Debt securities issued	24 039 968	22 924 274
5	Deposits and borrowings from the public	10 661 749	9 669 046
5.6	Financial derivatives	111 955	188 103
11	Other Liabilities	85 154	74 720
11	Provision for accrued costs and liabilities	52 117	47 262
<b>Total liabilities</b>		<b>34 950 943</b>	<b>32 903 404</b>
<b>EQUITY</b>			
	Share capital	1 057 500	1 057 500
	Share premium	732 500	732 500
	Other owners' eqyity	347 652	287 591
<b>Total equity</b>		<b>2 137 652</b>	<b>2 077 591</b>
<b>Total liabilities and equity</b>		<b>37 088 595</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	62 379	62 379
Other comprehensive income	0	0	-153	-153
<b>Total comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>62 226</b>	<b>62 226</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 31 December 2018</b>	<b>1 057 500</b>	<b>732 500</b>	<b>347 652</b>	<b>2 137 652</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 -31.12.2018	01.01.2017 -31.12.2017
<b>OPERATING ACTIVITIES</b>		
Payments received from customers - interest, commission & charges	767 723	748 414
Disbursements on loans customers & credit institutions	-136 600	-130 191
Receipts on loans customers & credit institutions	-10 904 488	-8 769 573
Net receipts/disbursements on loans customers & credit institutions	6 657 968	7 819 988
Net receipts on customer deposits banking	992 291	979 913
Payments on purchase of credit card portfolio	0	-9 547
Net receipts/disbursements on operations	-140 190	-147 252
Payments to employees, pension schemes, employer's social security contribution etc.	-64 412	-60 901
Net interest investment accounts	13 263	11 607
Net receipts/disbursements from operating activities	61 620	45 677
Income tax paid	0	0
<b>Net cash flow from operating activities</b>	<b>-2 752 825</b>	<b>488 135</b>
<b>INVESTMENT ACTIVITIES</b>		
Receipts on sale of securities	3 403 183	1 906 778
Payments on the purchase of securities	-2 667 949	-1 946 683
Receipts of interest from securities	35 101	38 520
Payments on the purchase of tangible fixed assets	-6 187	-4 279
<b>Net cash flow from investment activities</b>	<b>764 148</b>	<b>-5 664</b>
<b>FINANCING ACTIVITIES</b>		
Receipts on loans from credit institutions	10 032 557	4 074 000
Disbursements on loans from credit institutions	-560 276	-731 972
Expense of interest of loans	-6 922 000	-3 805 000
Net payment of interest on loans	-371 574	-383 886
Receipts on issue of owners' equity	0	150 000
Group contributions made	-25 334	-19 541
<b>Net cash flows from financing activities</b>	<b>2 153 373</b>	<b>-716 399</b>
<b>Net cash flow during the period</b>	<b>164 696</b>	<b>-233 928</b>
Cash and cash equivalents at the start of the period	1 289 317	1 523 245
Cash and cash equivalents at the end of the period	1 454 013	1 289 317
<b>Net receipts/ disbursements (-) of cash</b>	<b>164 696</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 Group. KLP Banken 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. The 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 - 31 December 2018, specifying the earnings trend in Q4. 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 the annual report of KLP Banken 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	Q4 2018	Q4 2017	01.01.2018 -31.12.2018	01.01.2017 -31.12.2017
Interest income on loans to customers, amortized cost	195 946	185 956	744 554	731 074
Interest income on loans to credit institutions, fair value	3 983	2 973	13 266	11 520
Interest income on bonds and certificates, fair value	8 391	8 931	34 883	37 842
Other interest income, fair value	73 968	17 259	147 762	171 457
<b>Total interest income</b>	<b>282 288</b>	<b>215 119</b>	<b>940 466</b>	<b>951 893</b>
Interest expenses on debt to KLP Banken, amortized cost	-36 697	-35 578	-135 139	-128 106
Interest expenses on issued securities, amortized cost	-84 495	-65 597	-310 239	-290 606
Interest expenses on issued securities, fair value hedging	-14 467	-16 227	-62 619	-69 856
Other interest expenses, fair value	-81 334	-29 988	-183 938	-221 705
<b>Total interest costs</b>	<b>-216 993</b>	<b>-147 390</b>	<b>-691 935</b>	<b>-710 274</b>
<b>Net interest income</b>	<b>65 295</b>	<b>67 729</b>	<b>248 532</b>	<b>241 619</b>

**NOTE 4** Loans to customers

NOK THOUSANDS	31.12.2018	31.12.2017
Loans to customers before write-downs	33 341 952	30 537 129
Provisions and write-downs	-2 764	-3 214
<b>Loans to customers after write-downs</b>	<b>33 339 188</b>	<b>30 533 915</b>
Accrued interest	74 167	80 370
Change in fair value due to interest rate changes (fair value hedging)	60 649	148 497
<b>Loans to customers</b>	<b>33 474 004</b>	<b>30 762 782</b>

**NOTE 5** Categories of financial instruments

NOK THOUSANDS	31.12.2018		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	2 015 351	2 015 351	2 759 018	2 759 018
Financial derivatives	62 483	62 483	91 394	91 394
Shares and holdings	2 053	2 053	461	461
<b>Total financial assets at fair value through profit and loss</b>	<b>2 079 887</b>	<b>2 079 887</b>	<b>2 850 873</b>	<b>2 850 873</b>
<b>FINANCIAL ASSETS FAIR VALUE HEDGING</b>				
Loans to and receivables from customers	3 568 702	3 600 945	4 525 316	4 560 510
<b>Total financial assets fair value hedging</b>	<b>3 568 702</b>	<b>3 600 945</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	60 238	60 238	45 140	45 140
Loans to and receivables from central banks	1 439 420	1 439 420	1 286 095	1 286 095
Loans to and receivables from customers	29 905 302	29 893 107	26 235 693	26 231 844
<b>Total financial assets at amortized cost</b>	<b>31 404 961</b>	<b>31 392 765</b>	<b>27 566 928</b>	<b>27 563 079</b>
<b>Total financial assets</b>	<b>37 053 549</b>	<b>37 073 597</b>	<b>34 943 117</b>	<b>34 974 462</b>
<b>FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS</b>				
Financial derivatives	111 955	111 955	188 103	188 103
<b>Total financial liabilities at fair value through profit and loss</b>	<b>111 955</b>	<b>111 955</b>	<b>188 103</b>	<b>188 103</b>
<b>FINANCIAL LIABILITIES FAIR VALUE HEDGING</b>				
Liabilities created on issuance of securities	1 886 974	1 904 665	2 125 483	2 150 405
<b>Total financial liabilities fair value hedging</b>	<b>1 886 974</b>	<b>1 904 665</b>	<b>2 125 483</b>	<b>2 150 405</b>
<b>FINANCIAL LIABILITIES AT AMORTIZED COST</b>				
Liabilities created on issuance of securities	22 152 994	22 243 219	20 798 790	20 920 089
Deposits from customers	10 661 749	10 661 749	9 669 046	9 669 046
<b>Total financial liabilities at amortized cost</b>	<b>32 814 743</b>	<b>32 904 968</b>	<b>30 467 836</b>	<b>30 589 135</b>
<b>Total financial liabilities</b>	<b>34 813 672</b>	<b>34 921 588</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

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

NOK THOUSANDS	BOOK VALUE 31.12.2018	BOOK VALUE 31.12.2017
<b>CHANGES IN LEVEL 3 UNLISTED SHARES</b>		
Opening balance	461	394
Sold	0	0
Bought	0	0
Unrealized changes	1 592	67
<b>Closing balance</b>	<b>2 053</b>	<b>461</b>
Realized gains/losses	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

**NOTE 6** Fair value hierarchy – continues

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	31.12.2018	31.12.2017
Bond debt, nominal amount	25 876 000	23 846 000
Adjustments	29 847	52 943
Accrued interest	68 121	55 332
Own holdings, nominal amount	-1 934 000	-1 030 000
<b>Total debt securities issued</b>	<b>24 039 968</b>	<b>22 924 274</b>
Interest rate on borrowings through the issuance of securities at the reporting date:	1.61 %	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 31.12.2018
Bond debt, nominal amount	23 846 000	6 500 000	-4 470 000	0	25 876 000
Adjustments	52 943	0	0	-23 096	29 847
Accrued interest	55 332	0	0	12 789	68 121
Own holdings, nominal amount	-1 030 000	0	-904 000	0	-1 934 000
<b>Total debt securities issued</b>	<b>22 924 274</b>	<b>6 500 000</b>	<b>-5 374 000</b>	<b>-10 307</b>	<b>24 039 968</b>



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

31.12.2018 NOK THOUSANDS	Gross financial assets/liabilites	Gross assets/ liabilities presented net	Book value	Related sums that are not presented net			
				Financial instruments	Security in cash	Net recognised vaalue	
<b>ASSETS</b>							
Financial derivatives	62 483	0	62 483	-62 483	0	0	
<b>Total</b>	<b>62 483</b>	<b>0</b>	<b>62 483</b>	<b>-62 483</b>	<b>0</b>	<b>0</b>	
<b>LIABILITIES</b>							
Financial derivatives	111 955	0	111 955	-62 482	-8 893	40 580	
<b>Total</b>	<b>111 955</b>	<b>0</b>	<b>111 955</b>	<b>-62 482</b>	<b>-8 893</b>	<b>40 580</b>	

31.12.2017 NOK THOUSANDS	Gross financial assets/liabilites	Gross assets/ liabilities presented net	Book value	Related sums that are not presented net			
				Financial instruments	Security in cash	Net recognised vaalue	
<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 -31.12.2018	01.01.2017 -31.12.2017
KLP, fees lending management	58 000	57 000
KLP Kapitalforvaltning AS, fees for services provided	226	294
KLP, rent	4 150	3 976
KLP Skipsbygget AS, rent	1 554	1 519
KLP Bassengtømt AS, rent parking	101	108
KLP Eiendomsdrift AS, cost office buildings	473	386
KLP, pension premium	11 368	8 651
KLP, staff services (at cost)	67 616	57 666
KLP Group companies, subsidised interest employee loans	2 173	2 552

NOK THOUSANDS	31.12.2018	31.12.2017
<b>BALANCES</b>		
KLP, net internal accounts	-2 773	-2 321
KLP, loan settlement	-49 151	-42 910
KLP Group companies, net other internal accounts	23	-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	31.12.2018	31.12.2017
Intercompany receivables	289	450
Miscellaneous receivables	122	368
Prepaid expenses	2	0
<b>Total</b>	<b>413</b>	<b>818</b>

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

NOK THOUSANDS	31.12.2018	31.12.2017
Creditors	7 825	3 147
Intercompany payables	52 187	45 857
Tax payable	19 431	25 298
Other liabilities	5 710	418
<b>Total other liabilities</b>	<b>85 154</b>	<b>74 720</b>
Withholding tax	3 227	3 208
Social security contributions	2 486	2 299
Capital activity tax	900	817
Holiday pay	5 322	5 110
Pension obligations	38 265	31 440
VAT	0	246
Provisioned costs	1 917	4 140
<b>Total accrued costs and liabilities</b>	<b>52 117</b>	<b>47 262</b>

**NOTE 12** Capital adequacy

NOK THOUSANDS	31.12.2018	31.12.2017
Share capital and share premium fund	1 790 000	1 790 000
Other owners' equity	347 652	287 591
<b>Total owners' equity</b>	<b>2 137 652</b>	<b>2 077 591</b>
Interim Profit qualifying for tier 1 capital	0	0
Adjustments due to requirements for proper valuation	-2 015	-2 759
Deduction goodwill and other intangible assets	-25 299	-27 153
Deferred tax asset	-8 667	-7 392
<b>Core capital/Tier 1 capital</b>	<b>2 101 671</b>	<b>2 040 287</b>
Supplementary capital/Tier 2 capital	0	0
<b>Supplementary capital/Tier 2 capital</b>	<b>0</b>	<b>0</b>
Total eligible own funds (Tier 1 and Tier 2 capital)	2 101 671	2 040 287
Capital requirement	837 802	767 527
<b>Surplus of own funds (Tier 1 and Tier 2 capital)</b>	<b>1 263 869</b>	<b>1 272 760</b>
<b>ESTIMATE BASIS CREDIT RISK:</b>		
Institutions	299 070	283 326
Retail	82 717	73 419
Local and regional authorities (incl. municipalities/county administrations)	3 384 588	3 296 369
Investments with mortgage security in real estate	5 922 925	5 107 629
Investments fallen due	63 181	67 215
Covered bonds	156 334	231 839
Other holdings	62 714	107 796
<b>Calculation basis credit risk</b>	<b>9 971 529</b>	<b>9 167 593</b>
Credit risk	797 722	733 407
Operating risk	39 956	33 967
Credit valuation adjustments (CVA)	124	153
<b>Total capital requirement assets</b>	<b>837 802</b>	<b>767 527</b>
Core capital adequacy ratio	20.1 %	21.3 %
Supplementary capital ratio	0.0 %	0.0 %
<b>Capital adequacy ratio</b>	<b>20.1 %</b>	<b>21.3 %</b>
<b>Leverage ratio</b>	<b>5.6 %</b>	<b>5.7 %</b>

CAPITAL REQUIREMENT PER 31.12.2018	Core capital/ Tier 1 capital	Supplementary capital/ Tier 2 capital	Own funds
Minimum requirement excl. buffers	4.5 %	3.5 %	8.0 %
Protective buffer	2.5 %	0.0 %	2.5 %
Systemic risk buffer	3.0 %	0.0 %	3.0 %
Counter-cyclical capital buffer	2.0 %	0.0 %	2.0 %
Pilar 2-requirement	2.1 %	0.0 %	2.1 %
<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	31.12.2018		31.12.2017	
	Acquisition cost	Market value	Acquisition cost	Market value
Certificates	186 732	186 695	236 284	236 784
Bonds	1 826 298	1 828 656	2 506 390	2 522 234
<b>Total fixed-income securities</b>	<b>2 013 030</b>	<b>2 015 351</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
Opning balance 01.01.2018	2 964	524	2 639	6 128
Transfers to step 1	185	-185	0	0
Transfers to step 2	-150	150	0	0
Transfers to step 3	0	-21	21	0
Net changes	-196	403	-1 618	-1 410
New losses	801	144	0	944
Derecognised loss	-152	-136	-53	-341
<b>Closing balance 31.12.2018</b>	<b>3 452</b>	<b>879</b>	<b>990</b>	<b>5 321</b>
Changes (01.01.2018-31.12.2018)	488	354	-1 649	-807

NOK THOUSANDS	12-month ECL step 1	Lifetime ECL - not credit-impaired step 2	Lifetime ECL credit-impaired step 3	Total
Gross lending 01.01.2018	26 070 908	340 406	13 910	26 425 225
Transfers to step 1	273 508	-270 739	-295	2 473
Transfers to step 2	-48 660	48 660	0	0
Transfers to step 3	-927	-6 132	7 060	0
Net changes	-969 697	-789	362	-970 124
New lending	10 269 425	54 018	0	10 323 443
Derecognised loans	-2 356 315	-2 615	-6 051	-2 364 982
<b>Gross lending 31.12.2018</b>	<b>33 238 242</b>	<b>162 808</b>	<b>14 986</b>	<b>33 416 036</b>

Changes in provisions for expected losses at 31. December are related to changes in volume and lending, as well as annual updating of the model for calculation of probability of default (PD model). Other assumptions and inputs for calculating loss provisions have not changed.

**NOTE 15** Contingent liabilities

NOK THOUSANDS	31.12.2018	31.12.2017
Credit facilities for lending not utilized	561 905	673 459
Credit facilities issued credit card	201 584	189 223
Loan promise	616 318	212 769
<b>Total contingent liabilities</b>	<b>1 379 807</b>	<b>1 075 451</b>

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

NOK THOUSANDS	01.01.2018 -31.12.2018	01.01.2017 -31.12.2017
Net gain/(loss) on fixed-income securities	-1 532	7 250
Net gain/(loss) financial derivatives and realized amortization linked to lending	-671	0
Net gain/(loss) financial derivatives and realized repurchase of own debt	-12 154	-9 265
Net value change lending and borrowing, hedge accounting	320	-392
Other financial income and expenses	-1 078	-975
<b>Total</b>	<b>-15 115</b>	<b>-3 382</b>

**NOTE 17** Pension obligations - own employees

NOK THOUSANDS	31.12.2018	31.12.2017
Capitalized net liability	31 440	26 279
Pension costs taken to profit/loss	11 227	9 184
Finance costs taken to profit/loss	1 077	934
Actuarial gains and losses incl. social security contributions	2 326	1 097
Social security contributions paid in premiums/supplement	-6 554	-775
Premiums/supplement paid-in including admin	-924	-5 496
Capital activity tax	-328	217
<b>Capitalized net liability</b>	<b>38 265</b>	<b>31 440</b>

ASSUMPTIONS	31.12.2018	31.12.2017
Discount rate	2.60 %	2.40 %
Salary growth	2.75 %	2.50 %
The National Insurance basic amount (G)	2.50 %	2.25 %
Pension increases	1.73 %	1.48 %
Social security contribution rate	14.10 %	14.10 %



## Quarterly earnings trend

NOK MILLIONS	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017
Interest income	282.3	200.1	193.0	192.0	215.1
Interest expense	-217.0	-139.5	-134.9	-127.4	-147.4
<b>Net interest income</b>	<b>65.3</b>	<b>60.6</b>	<b>58.0</b>	<b>64.6</b>	<b>67.6</b>
Commission income and income from banking services	5.3	4.3	4.7	4.2	3.7
Commission cost and cost from banking services	-0.4	-0.3	-0.2	-0.3	-0.5
<b>Net charges and commission income</b>	<b>4.9</b>	<b>4.0</b>	<b>4.6</b>	<b>3.8</b>	<b>3.2</b>
Other fee income	14.5	14.5	14.5	14.5	14.3
Net gain/ (loss) financial instruments	-7.7	-4.7	-1.6	-1.1	-3.6
<b>Total other operating income</b>	<b>6.9</b>	<b>9.8</b>	<b>12.9</b>	<b>13.4</b>	<b>10.6</b>
Salaries and administrative costs	-22.7	-14.4	-16.7	-18.1	-19.9
Depreciation	-1.9	-1.9	-2.2	-2.2	-2.2
Other operating expenses	-39.8	-28.3	-36.1	-35.7	-37.5
Net loan losses	-1.9	-1.7	-1.2	-2.1	-0.6
<b>Total operating expenses</b>	<b>-66.3</b>	<b>-46.3</b>	<b>-56.3</b>	<b>-58.1</b>	<b>-60.2</b>
<b>Operating profit/loss before tax</b>	<b>10.8</b>	<b>28.1</b>	<b>19.2</b>	<b>23.7</b>	<b>21.3</b>
Tax ordinary income	-2.5	-6.7	-4.6	-5.6	-5.2
<b>Profit/loss for the period</b>	<b>8.3</b>	<b>21.4</b>	<b>14.6</b>	<b>18.1</b>	<b>16.0</b>
Other comprehensive income	-0.7	0.0	0.0	0.0	2.1
Tax on other comprehensive income	0.6	0.0	0.0	0.0	-0.5
<b>Other comprehensive income for the period</b>	<b>-0.2</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>1.6</b>
<b>Comprehensive income for the period</b>	<b>8.1</b>	<b>21.4</b>	<b>14.6</b>	<b>18.1</b>	<b>17.8</b>

## Key figures - accumulated

NOK MILLIONS	Q4 2018	Q3 2018	Q2 2018	Q1 2017	Q4 2017
Pre-tax income	81.8	71.1	43.0	23.7	103.1
Net interest income	248.5	183.2	122.6	64.6	241.6
Other operating income	75.4	56.0	37.4	18.3	68.2
Other operating cost and depreciation	-226.9	-160.7	-114.4	-58.1	-203.4
Net realized/unrealized change fin. instruments at fair value	-15.1	-7.4	-2.7	-1.1	-3.4
Deposits	10 661.7	10 530.6	10 218.3	9 733.1	9 669.0
Lending customers	16 715.4	16 242.7	15 736.6	15 147.1	14 441.3
Lending with public sector guarantee	16 758.6	16 206.2	16 282.3	16 090.9	16 321.5
Non-performing loans	56.3	31.9	20.8	26.6	21.7
Total liabilities created on issuance of securities	24 040.0	23 495.5	23 083.8	23 340.8	22 924.3
Other borrowing	0.0	0.0	0.0	0.0	0.0
Total assets	37 088.6	36 468.1	35 816.7	35 403.6	34 981.2
Average total assets	36 034.8	35 724.6	35 398.9	35 192.3	34 681.8
Equity	2 137.7	2 129.5	2 108.1	2 093.5	2 077.6
Interest net	0.69 %	0.51 %	0.35 %	0.18 %	0.70 %
Profit/loss from ordinary operation before taxes	0.23 %	0.20 %	0.12 %	0.07 %	0.30 %
Return on equity	3.83 %	4.56 %	4.14 %	4.57 %	5.57 %
Capital adequacy ratio	20.1 %	19.9 %	20.2 %	20.6 %	21.3 %
Liquidity coverage ratio (LCR)	402 %	306 %	395 %	295 %	470 %

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