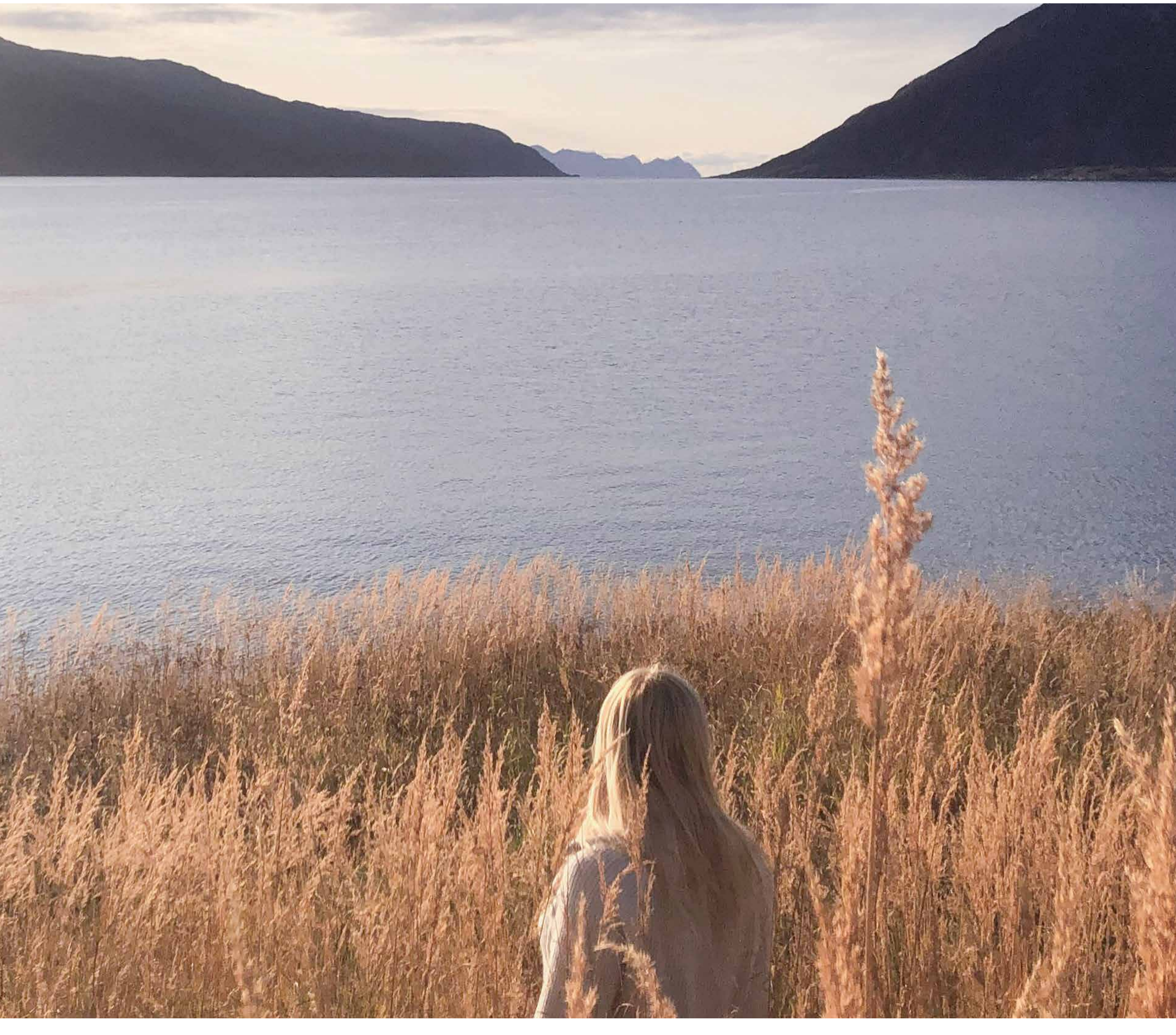
Annual Report 2019

KLP BANKEN AS



THE BUSINESS OF KLP BANKEN AS IS DIVIDED INTO THE PRIVATE MARKET AND PUBLIC LENDING BUSINESS AREAS.

The target group for the Private Market are members of the pension schemes in Kommunal Landspensjonskasse gjensidig forsikringsselskap (KLP). The Bank aims to provide products and services on competitive terms in order to help companies that have chosen KLP as a pension provider to be viewed as attractive employers.

Its presence in the market for public sector lending through KLP Kommunekreditt AS contributes to competition and so provides municipal and county authorities and companies with access to favourable long-term financing with public guarantees.

KLP Banken AS is owned by KLP through KLP Bank-holding AS and has two wholly owned subsidiaries, KLP Kommunekreditt AS and KLP Boligkreditt AS.

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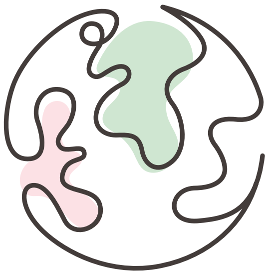
CORPORATE SOCIAL RESPONSIBILITY IN KLP

KLP’s ambition is to be a market leader within corporate social responsibility and sustainability. Corporate social responsibility has therefore been promoted as one of the focal areas of the group’s corporate strategy.



Corporate social responsibility in KLP Banken

KLP and KLP Banken have for many years contributed to sustainable social development through financing loans for projects all over Norway. KLP's goal for its lending business is to affect people, the environment and society in a positive way.

CORPORATE SOCIAL RESPONSIBILITY IN KLP

KLP shall contribute to sustainable investments and responsible business management. This is realised through actions related to the group's operations. KLP Banken contributes to this work through financing socially beneficial investments in the public and private sector, such as energy-saving initiatives through green housing loans and green loans in the municipal sector. KLP's ambition is to be a market leader within corporate social responsibility and sustainability. Corporate social responsibility has therefore been promoted as one of the focal areas of the group's corporate strategy.

The UN Sustainable Development Goals is used as a framework for KLP's corporate social responsibility, and KLP will be a driving force for achieving these goals. KLP's sustainability statement prioritises what social effects KLP wishes to achieve through its corporate social responsibility.

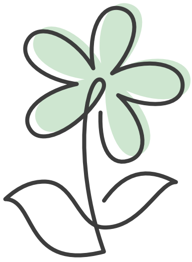
CORPORATE SOCIAL RESPONSIBILITY IS A FOCAL AREA IN THE CORPORATE STRATEGY, WITH THE FOLLOWING STRATEGIC OBJECTIVES:

- Integrating corporate social responsibility into all our operations
- Increasing investments that promote sustainable development and support our financial goals
- Engaging companies and industries for a more sustainable operation
- Developing products and services that contribute to positive development in society

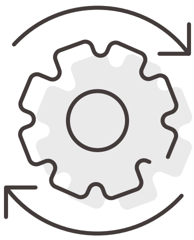
SOCIAL EFFECTS KLP WISHES TO ACHIEVE THROUGH ITS CORPORATE SOCIAL RESPONSIBILITY:

1. Achieve the climate goal
2. A sustainable business community
3. Sustainable urban development and infrastructure
4. Health-promoting jobs in the public sector

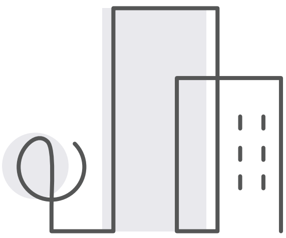
THESE SOCIAL EFFECTS ARE ASSOCIATED WITH SEVERAL OF THE SUSTAINABILITY GOALS, AS ILLUSTRATED:



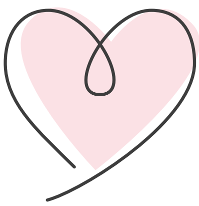
ACHIEVE THE CLIMATE GOAL



A SUSTAINABLE BUSINESS COMMUNITY



SUSTAINABLE URBAN DEVELOPMENT AND INFRASTRUCTURE



HEALTH-PROMOTING JOBS IN THE PUBLIC SECTOR

KLP Banken has signed the UN Principles for Responsible Banking

As a part of KLP, KLP Banken will also contribute to KLP achieving its goals for corporate social responsibility. In 2019, the bank signed the UN Principles for Responsible Banking as one of five Norwegian banks at the time of launch on 22 September 2019. The purpose of the principles is to help the financial sector develop in accordance with the UN Sustainable Development Goals and the Paris Climate Agreement.

THE SIX PRINCIPLES ARE AS FOLLOWS:

1. ALIGNMENT - The bank will align its business strategy to be consistent with and contribute to individuals' needs and society's goals, as expressed in the UN Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks.

2. IMPACT AND TARGET SETTING - The bank will continuously increase its positive impact while reducing its negative impact on, and managing the risks to, people and environment resulting from our activities, products and services. To this end, the bank will set and publish targets where we can have the most significant impacts.

3. CUSTOMERS - The bank will work proactively with its customers and encourage sustainable business and enable economic activities that create shared prosperity for current and future generations.

4. STAKEHOLDERS - The bank will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society's goals.

5. GOVERNANCE AND CULTURE – The bank will implement our commitment to these Principles through effective governance and a culture of responsible banking.

6. TRANSPARENCY AND ACCOUNTABILITY - The bank will review its individual and collective implementation of these Principles and be transparent about and accountable for our positive and negative impact and our contribution to society's goals.

The Principles for responsible banking entail that the bank must be transparent about how its products and services create value for customers and investors, as well as for society in general.

Reporting to the UN

In December 2019, the bank reported the status of its implementation of the Principles and plans for the coming year to the UN. The purpose of the reporting is to reveal what challenges and opportunities the bank has, as well as how the UN can assist the bank in implementing the six principles.

Excerpts from the bank's report are presented below, where the status as of December 2019 and plans for 2020 on each principle are mentioned briefly.

Principle 1: Alignment – Corporate social responsibility is one of KLP's five strategic focus areas, and one of the goals is to integrate corporate social responsibility into all our activities. To meet the UN Sustainable Development Goals is a clearly defined goal with a specific desired social effect with KLP as a pension provider for the public sector. KLP Banken is looking into how the bank can contribute to KLP achieving its ambitious goals within corporate social responsibility. The bank has used the period after signing on acquainting itself with the framework, and how this will affect the bank's future operations. The bank has established a task force to work on the Principles within the bank's business segment (retail market and public market) and internally. The bank also makes use of resources and expertise from KLP's department for corporate social responsibility.

In 2020, KLP Banken will integrate the UN Principles for Responsible Banking more closely into the bank's strategy, so that it emerges clearly that the Principles permeate all our operations. The bank will set some targets within corporate social responsibility and report on this.

Principle 2: Impact and target setting – KLP Banken has relatively few and simple products within both business segments, and is not exposed to business sectors that normally have a negative effect on the climate and the environment, such as the oil and gas sector, coal or other private business activities. The bank offers green housing loans to private customers, as well as green loans to municipalities, county municipalities and publicly associated businesses. The bank currently offers green financing to public markets for projects and investments that have a positive influence on society. This can be e.g. for making municipal buildings more energy efficient, for electric vehicles or water and wastewater. The municipalities must report and document the effects these investments have on the climate to earn a green interest rate on the loans.

In 2020, the bank will prepare an impact assessment of the bank's positive and negative impact on climate and environment, and then set targets for different areas. Within the public market, the bank will work on preparing a better overview of which categories of purposes the bank has financed. This will help the bank measure the volume of loans within each category. Within the retail market, the bank will prepare an overview of loans to various energy classes and the geographic distribution of green loans.

Principle 3: Customers – Within the public market, the bank has a close and often long-term relationship with its customers. Most customers are also owners of KLP. This facilitates dialogue with the public customers concerning sustainability, corporate social responsibility and climate issues. The bank tries to be a driving force and to encourage the municipalities to make sustainable choices within public administration.

Within the retail market we do not have the same close contact with our customers. KLP Banken meets its individual customers online and will therefore work towards providing better and more information on green and sustainable choices and products on the bank's home page.

On KLPs home page (https://www.klp.no/om-klp/samfunnsansvar) there is a lot of information about KLP's work within corporate social responsibility, climate and environment, how KLP invests pension funds in a sustainable manner, examples of climate measures from Norwegian municipalities, etc.

In the coming year, the bank will continue cultivating close contact with our public customers. The climate and the environment will be more in focus in all communication within the public market. The goal is for the bank to contribute to municipalities and their associated businesses being able to make good and sustainable choices when it comes to municipal finances and investments. The bank will work on further developing products and services to the advantage of customers, owners and the environment.

Principle 4: Stakeholders – The bank has established cooperation with Enova SF. Enova offers support for projects contributing to reducing greenhouse gasses, e.g. making buildings more energy efficient (both private and commercial buildings). KLP Banken also offers financing for these purposes.

KLP Banken cooperates with Cicero, which is Norway's leading centre for climate research. Cicero has built a considerable expertise on green investments and offers independent assessment of green bonds.

The bank participates in various forums to improve expertise on sustainability and climate measures, e.g. with companies and experts within water and wastewater, waste disposal etc. The bank wishes to involve relevant partners and collaborators to participate in KLP's own climate conference.

KLP Banken wishes to be a relevant sparring partner on the climate and the environment. The bank's area of expertise within this field is green financing. Throughout 2020, KLP Banken will therefore create arenas for enhancing expertise among our customers and owners on the climate and the environment.

Principle 5: Governance and culture – Corporate social responsibility is a focal area in KLP's corporate strategy, and the bank is closely monitored on its achievement of objectives in this field. KLP Banken has established a task force representing the bank's business segments, and the bank's management and board are closely involved in the work on the Principles. KLP Banken is a relatively small bank with about 70 employees, so keeping everybody informed and creating involvement and motivation across functions and locations is manageable. The bank's task force is supported by KLP's department for corporate social responsibility, which for a long time has worked on Principles for Responsible Investments (PRI) in KLP and can assist the bank with its experience and expertise. The bank's employees have worked with and become acquainted with sustainability through the introduction of the bank's own green products. In the future, the bank will focus on creating a culture of sustainability, and the task force will share its expertise through internal lectures and information on the principles. Employees will also be invited to present input on goals and measures for the bank. The task force has established a separate information channel for the employees where communication about the principles occurs. The goal is to establish a culture in line with the UN Principles for Responsible Banking.

Principle 6: Transparency and accountability – KLP publishes its own sustainability report in the annual and quarterly reports, including information about KLP Banken. The distribution of loans for various purposes within public financing and key figures on diversity and equal rights are examples of key figures associated with the bank's operations. The bank has not yet defined its own sustainability goals, but this is included in the bank's plan for implementing the Principles for responsible banking, and the status on this will be reported to the UN no later than February 2021. The bank's annual report for 2019 is the first to include specific reporting on corporate social responsibility and sustainability in KLP Banken. In addition to the annual report, the bank will use the home page www.klp.no to inform about the work on the Principles, as well as using internal channels for disseminating the information within the organisation.

Green loans

GREEN LOANS TO THE RETAIL MARKET

KLP Banken launched Grønt boliglån (green housing loans) in September 2018. As of December 2019, green loans made up 2.2 percent of the housing loans portfolio. KLP Banken offers Grønt boliglån to KLP members who have energy efficient houses, or who choose to implement measures improving the energy efficiency of their house. To be eligible for Grønt boliglån, with better interest rates on the housing loan, one of these two points must be met:

- The house has an energy rating of A or B
- The customer has received an Enova grant for upgrading or for energy consultation on the building during the last two years.

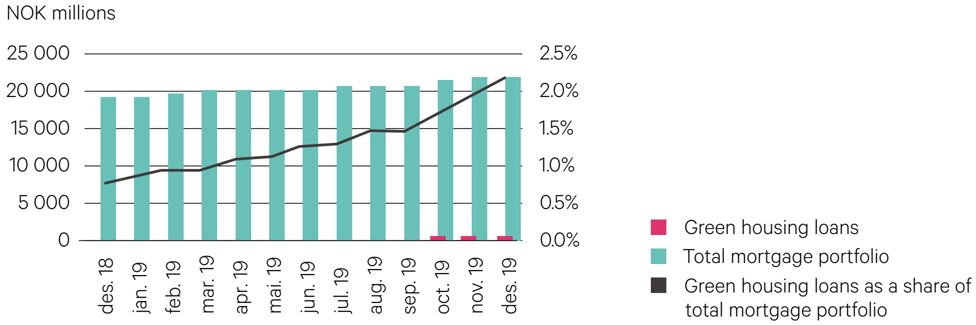
The customers can rate their houses at www.energimerking.no, which is developed by Enova.

The graph below shows the development of green housing loans as a fraction of the bank's total housing loan portfolio. As we can see, green loans have increased steadily over the last year, and make up a constantly greater part of the housing loan portfolio.

GREEN LOANS TO THE PUBLIC MARKET

In 2019, KLP introduced green loans for municipalities, county municipalities and publicly associated businesses. Green loans are given to public projects with clear climate and environmental ambitions. The loans have a lower interest rate than ordinary loans, and therefore help the public sector make more sustainable investments. The requirements for receiving a green loan are strict. All buildings financed by green loans maintain a high climate and environmental standard.

DEVELOPMENT OF GREEN HOUSING LOANS



"KLP was ranked number 3 in Fair Finance Guide in 2019."

Photo: Jenny Marie Viggen
Employed in KLP

KLP and KLP Banken have so far provided loans for sustainable projects for in total NOK 803 million. The loans are financing projects within water and wastewater, waste disposal, as well as sustainable new buildings. The municipalities make constantly stricter demands on climate and environmental requirements for their own investments.

One of our largest green loans went to Lunner municipality, which is building a new health and care centre. In this project, sustainability has played a central part. The building is constructed according to the passive house standard, which means a significantly lower energy consumption than what is required for this type of buildings. In addition, solid wood has been used for construction, which means a significantly lower CO_2 footprint compared to reference materials.

Within the water and wastewater sector, green loans were given to Hias IKS, among others. The loan was for a new water treatment plant, improving the safety of the water quality for the inhabitants of the municipalities Hamar, Stange, Ringsaker and Løten.

CLIMATE RISK MAPPING

KLP Banken has started on mapping climate risks in its operations. The bank has made an assessment on how climate change and the transition to a zero-emission society can affect the bank's risk, and also what opportunities this may offer. KLP Banken is exposed to Norwegian housing loan customers and public sector activities in Norway. There may be a risk that some of the bank's customer will be struck by extreme weather, which could affect the building's short-term or long-term market price, so that the bank's collateral is depreciated. In the long term, there may also be a risk that banks don't want to provide mortgages in certain areas with a high risk of extreme weather, such as floods or avalanches. The public sector will also be affected by climate change and will need significant investments related to e.g. water and wastewater to handle extreme precipitation. Here, the bank has an opportunity to be an advisor within climate and sustainable business for the municipalities. Offering green loans or other green products to meet customers' and the government's expectations to climate-related and sustainable investments, is an opportunity for the bank to contribute to achieving society's goals in accordance with the UN Sustainable Development Goals and the Paris Climate Agreement.

EQUALITY AND DIVERSITY

As part of the KLP Group, KLP Banken follows the Group's guidelines on equality and diversity, with goals and measures in various fields. KLP seeks qualified employees regardless of age, gender, disability, political persuasion, sexual orientation and ethnic background. This contributes to sustainability goal 5, gender equality.

The table below shows selected key figures within equal rights in KLP Banken and KLP.

EQUALITY AND DIVERSITY

	KLP Banken	KLP
Gender distribution among employees (women/men)	55/45%	47/53%
Gender distribution all management levels total (women/men)	46/54%	41/59%
Women's earnings compared to men (total for KLP)	76 %	83 %
Women's earnings compared to men in all management positions	75 %	87 %

EtiskBankGuide Norge

FAIR FINANCE GUIDE

The Fair Finance Guide (Etisk bankguide) is an extensive control of the banks' guidelines, requirements and policy documents made annually by Future in Our Hands and the Consumer Council. The surveys investigate each separate bank on 14 different issues covering 271 different checkpoints and four business segments. Each bank is then given a score within the various areas. In the Fair Finance Guide of November 2019, KLP was ranked number 3, with a total score of 73 percent when it comes to acceptance of important standards, principles and conventions within corporate social responsibility, ethics and sustainability.

KLP Banken is satisfied with the results and the recognition of the effort that is made within sustainability. KLP has divested itself completely of coal and oil sand, and that makes a positive contribution to the total score. KLP is also rewarded for its work on human rights over a long time, both in dialogue with companies and as an exclusion criterion, as well as the anti-corruption work.

The complete results are available on www.etiskbankguide.no.

Miljøfyrtårn®

ECO-LIGHTHOUSE

KLP Banken is certified as an Eco-lighthouse (Miljøfyrtårn) through the Eco-lighthouse Foundation. As an Eco-lighthouse enterprise, the bank has received help with implementing specific and profitable sustainability measures within areas such as work environment, waste disposal, energy use, purchase and transportation. The bank was first certified in 2012 and re-certified in 2018.

Annual Report 2019

KLP Banken has enjoyed good growth in mortgages and deposits this year as in the previous year. Net interest income is up 18 per cent compared to last year as a result of increased lending volume in the retail market. Lending margins have remained stable for the year as a whole, but have varied throughout the year due to rising money market rates. Net profit before tax in the KLP Banken Group for 2019 increased by 23 per cent and ended at NOK 102.3 million.

ABOUT KLP BANKEN AS

KLP Banken AS is wholly owned by Kommunal Landspensjonskasse mutual insurance company (KLP) through KLP Bankholding AS. KLP Banken AS has two subsidiaries, KLP Kommunekreditt AS and KLP Boligkreditt AS.

The activities of KLP Banken AS and its subsidiaries are divided between the retail market and the public market business areas. Both business areas are nationwide and their head office is in Trondheim.

KLP Banken AS is an internet-based bank without a physical branch network, which offers simple and competitive savings and loan products and digital solutions to manage them.

KLP Banken shall be a direct bank for customers seeking a long-term and predictable partner. This is how the bank wants to be preferred by retail customers who are members of KLP's pension schemes and who find the bank's services and ethical principles attractive.

The Bank shall provide products and services on competitive terms to help ensure that businesses that have chosen KLP as pension provider are perceived as attractive employers. At the end of 2019, this target group accounts for 73 per cent of KLP Banken's retail customers.

Presence in the market for loans to public sector activities through KLP Kommunekreditt AS and KLP contributes to competition and thus allows the target group of municipalities, county municipalities and businesses with public guarantees access to favourable long-term financing.

INCOME STATEMENT

KLP Banken Group achieved a profit before tax in 2019 of NOK 102.3 (83.4 [1]) million. The profit contribution from the two business areas is NOK 75.6 (48.3) million from the retail market and NOK 26.7 (35.1) million from the public market, respectively. The total profit after tax was NOK 82.9 (62.2) million.

KLP Banken Group's return on equity was 4.8 (4.0) per cent before tax and 3.7 (3.1) per cent after tax.

The loan balance in KLP Banken Group increased by NOK 1.5 (2.7) billion in 2019, or 4 (9) per cent. This figure

[1] Figures in parentheses below refer to last year's figures.

ECONOMIC DEVELOPMENT 2019 - KLP BANKEN GROUP

PROFIT

NOK MILLION	2019	2018	Change
Profit before tax	102.3	83.4	18.8
Profit for the year after tax	82.9	62.2	20.7
Net interest income	292.9	248.5	44.3

BALANCE SHEET

NOK BILLION	2019	2018	Change
Loan payments for the year including managed loans	20.1	21.1	-1.0
Loans on the bank group's balance sheet	34.9	33.5	1.5
Loans managed for KLP	71.0	62.0	9.1

includes growth in mortgages of NOK 1.7 (2.3) billion and a reduction in public loans of NOK -0.2 billion (0.4) billion. Public loans managed for KLP also show good growth in 2019 with NOK 5.9 (5.5) billion, or 8 (9) per cent.

Money market rates, and thus the general interest rate, continued to increase during 2019. This contributed to an increase in the financing costs of the bank's borrowing, which eventually resulted in an increase in lending rates for loan customers. The bank has maintained ongoing margins between loans and borrowing in the retail market for the year as a whole. Growth in the lending volume in the retail market has contributed to an increase in net interest income in this segment compared to last year. In the public market, a stable volume and falling margins have contributed to slightly lower net interest income compared to last year.

Seventy-nine per cent of KLP Banken Group's net interest income in 2019 comes from the retail market compared to 74 per cent in 2018. The Board of Directors considers this development to be in line with the bank's business strategy.

Net losses on financial instruments had a significant effect on the bank's profit for 2019, as was the case last year. As was the case last year, this primarily applies to accounting effects of the buy-back of own borrowing issuance.

KLP Banken Group regularly makes adjustments to the term to maturity of borrowing to reduce liquidity risk and to satisfy regulatory requirements for liquidity indicators and capital adequacy (Basel III and CRD IV). Refinancing of borrowing in the subsidiaries thus results in the need for buy-back of own issuance, and this affects profits. In 2019, buy-back of borrowings has resulted in costs of NOK 27.9 (12.2) million. These costs relate to issuance in both subsidiaries.

In 2019, changes in value of KLP Banken Group's liquidity investments have made a negative contribution to earnings due to increased credit premiums in the securities market. This has resulted in a negative contribution to earnings of NOK 1.2 (1.5) million.

The accounting item for net gain/loss on financial instruments includes the effects of changes to the value of securities and buy-back of borrowings, in addition to the effects of changes to pension estimates and changes in value of loans. In total, financial instruments had a total cost of NOK 30.2 (13.5) million for the financial year.

KLP Banken AS charges fees for its banking services to a limited extent in the retail market. Changes in the bank's earnings from fees thus mainly follow changes in the volume of outstanding credit. Net fees and commission income amount to NOK 19.2 (17.3) million for the year.

Total operating costs and depreciation amount to NOK 231.9 (220.1) million for the year. This results in an increase in costs of 5 (10) per cent. The change in addition to normal inflation is mainly related to investments in IT technology and digitisation together with streamlining processes for the bank's customers and internally within the bank. The introduction of the Norwegian Bank Crisis Management Fund in 2019 has also contributed to increased costs for KLP Banken Group compared to previous years.

Group-wise loss provisions are calculated according to the requirements of the accounting regulations (IFRS 9). In addition to individual losses and loss provisions, group-wise loss provisions in 2019 have resulted in an effect on profits of NOK 0.5 (0.8) million. Loss provisions are calculated on loans in both the retail market and on public loans (see Note 18).

In 2019, individual losses and loss provisions on loans and other credit amounted to NOK 6.1 (6.0) million and are entirely related to lending in the retail market. NOK 1.3 (1.7) million of the recorded losses and loss provisions are related to mortgages and NOK 5.3 (4.4) million to credit cards and other credits. The Board of Directors believes that the bank's losses are at a low level and that loss provisions are satisfactory. Nor has the public market experienced individual losses on loans in 2019.

TOTAL LOAN MANAGEMENT

The KLP Banken Group manages for KLP and has a total loan portfolio of NOK 105.8 (95.0) billion on its own balance sheet.

OUTSTANDING LOANS (PRINCIPAL) PER COMPANY IN THE KLP BANKEN GROUP AS AT 31.12.19

COMPANY \ NOK BILLION	Mortgages	Public/commercial	Total loans
KLP Banken AS (parent)	11.0	-	11.0
KLP Boligkreditt AS	7.3	-	7.3
KLP Kommunekreditt AS	-	16.5	16.5
KLP (Management Agreement)	3.4	67.6	71.0
Sum	**21.7**	**84.1**	**105.8**

Drawn credit on credit cards comes in addition to mortgages in the retail market.

NOK 10.7 (7.7) billion of managed loans to public/commercial relates to management assignments for KLP, whereby the conclusion of loan agreements, documentation and follow-up are carried out by KLP. KLP Banken also has a responsibility for offers, conclusion of agreements and loan documentation according to its mandate from KLP.

RETAIL MARKET

Customers

KLP Banken and KLP have a total of more than 42,000 active retail customers with banking products. The following table shows the distribution of the number of customers who actually use the bank's products actively. (One customer may use one or more products.)

Products

KLP Bank's main products in the retail market are mortgages and deposits. The mortgage products that KLP Banken AS offers include ordinary mortgages, Flexilån, Boliglån Ung, bridging financing for house purchase, loans for holiday homes and Seniorlån. In addition, green mortgages are offered with lower interest rates for loans for energy-friendly housing.

Other banking products in the retail market include current account, savings account, Boligsparing for Ungdom (BSU), debit and credit cards.

Loans in the retail market

In 2019, KLP's mortgage portfolios increased from NOK 19.6 billion to NOK 21.7 billion. Net growth for the year was NOK 2.1 (2.0) billion, or 10.6 (11.3) per cent. Gross new payments totalled NOK 7.9 (8.1) billion. Mortgages are secured using cautious valuations whereby all borrowers are assessed with respect to solvency and willingness to pay before a loan is approved. Fixed-interest loans accounted for 10 (8) per cent of outstanding loans. Other loans were at floating interest rates.

Outstanding mortgages in the retail market on the KLP Banken Group's balance sheet amounted to NOK18.3 (16.7) billion at the end of 2019.

At the end of the year, the mortgage portfolios in the banking companies had an average loan to asset value, measured as debt as a percentage of estimated housing value, of 60 (58) per cent.

Loans with default in excess of 90 days amounted to NOK 54.7 (40.1) million at the end of the year. That represents 0.30 (0.24) per cent of KLP Banken's total outstanding credits in the retail market. Defaults and losses have thus increased in 2019, but are still at a low level compared to most other banks.

Credit card

The outstanding volume of drawn credit at year-end was NOK 63.1 (66.4) million distributed between 7,750 (7,400) issued cards. The proportion of active card users has increased throughout the year. Travel insurance is included in the product and deductible insurance for car rental may be selected as an additional product.

PUBLIC MARKET

Public market lending and the bank's role

Loans to the public sector are provided by KLP and KLP Kommunekreditt AS and managed by KLP Banken.

KLP Kommunekreditt AS, together with KLP, has a good position in the market for long-term financing of municipalities, county municipalities and enterprises that carry out assignments for the public sector.

Total loans to public borrowers in the financial year amounted to NOK 73.4 (67.7) billion, an increase of NOK 5.7 billion, corresponding to 8.5 per cent.

Loans with a fixed interest rate comprised 41 (40) per cent of total loans at the end of the year.

In 2019, new loans were paid to the public sector from the companies in the KIP Group for a total of NOK 12.2 (13.5) billion. Instalments and loan redemptions during the year amounted to NOK 6.5 (8.1) billion.

During 2019, requests for loans have been received amounting to NOK 83.2 (NOK 74.1) billion. The need for new funding and refinancing in the public market thus seems to have increased

CUSTOMERS

PRODUCT	2019	Membership share	2018	Membership share
Deposit customers	39.635	73 %	35.943	72%
Loan customers	13.998	82%	13.240	80%
Credit card customers	7.219	90%	6.505	87%
Total customers	**42.785**	**73 %**	**39.744**	**72%**

slightly in 2019 compared to the previous year. In 2019, the bank introduced green loans for public borrowers. This was well received in the market and agreements on green loans were signed for NOK 0.7 billion.

The credit risk associated with loans to municipalities and county municipalities in Norway is limited to payment postponement and not to a lapse in payment obligations. This is pursuant to Norwegian law, which provides the lender with security against loss if a municipality cannot meet its payment obligations. In the event of a payment postponement, the lender is also secured compensation for accrued interest, interest on overdue payments and costs of debt recovery pursuant to the Norwegian Local Government Act . Neither KLP nor the KLP Banken Group has had credit losses on loans to municipalities or county municipalities.

KLP Banken's public market lending

The KLP Banken Group's lending activities at KLP Kommunekreditt AS are mainly based on the sale of new loans directly from the mortgage company.

Total loans in KLP Kommunekreditt AS amounted to NOK 16.5 (16.8) billion at the end of 2019. The average loan volume has been slightly lower than in 2018. The proportion of loans at fixed interest was 17 (17) per cent.

KLP Kommunekreditt AS paid out new loans totalling NOK 1.6 (1.8) billion in 2019. The loan portfolio consists of direct loans to Norwegian municipalities and county municipalities, or to enterprises that perform assignments for the public sector and obtain guarantees from municipalities or county municipalities. The credit risk in the loan portfolio is considered very low.

KLP Kommunekreditt AS has had no defaulted loans over 90 days at the end of 2019. Nor have there been any individual loss recognitions in the accounting year. Calculated loss provisions according to IFRS 9 for the year have provided an effect on profits of the mortgage company in the amount of NOK 2 (-5) thousand.

LIQUIDITY

The cash flow statement to the accounts shows that KLP Banken Group's liquidity situation is satisfactory as the company has more extensive financing than the liquidity needs from operations.

Free liquidity is invested in other banks and in interest-bearing securities. Investments in credit institutions, including financing of the subsidiaries, amounted to NOK 1.5 (1.4) billion. The book value of interest-bearing securities assessed at fair value was NOK 3.1 (2.0) billion in the KLP Banken Group at the end of the year. The portfolio consists entirely of Norwegian high-rated bank bonds with preferential rights and bonds issued by Norwegian municipalities or the Norwegian State.

The Bank reports the liquidity reserve (LCR) monthly for the KLP Banken Group as a whole and quarterly for each company. At the end of 2019, LCR for the Group was 313 (402) per cent and for KLP Banken AS 140 (172) per cent.

FINANCING OF OPERATIONS

Financing of the retail market

KLP Banken Group's activities in the retail market are financed with deposits, borrowing and equity.

Total deposits in KLP Banken AS increased from NOK 10.7 billion to NOK 11.5 billion. The bank's deposits amount to 31 (31) per cent of the bank group's total financing. Total deposits at year-end amounted to NOK 9.9 (8.7) billion from retail customers and the remainder from municipalities and enterprises.

At the end of 2019, KLP Banken AS had outstanding securities debt of NOK 1.4 (1.0) billion. This is also used to finance the subsidiaries.

KLP Banken AS uses its subsidiary, KLP Boligkreditt AS, to finance part of the lending activities in the retail market by issuing covered bonds in mortgages. In 2019, new covered bonds were issued in mortgages amounting to NOK 2.0 (2.8) billion. Outstanding bond debt in KLP Boligkreditt AS amounted to NOK 7.0 (6.1) billion at the end of the year. KLP Boligkreditt AS has achieved the best rating for its borrowing programme.

KLP Boligkreditt AS purchased mortgages amounting to NOK 2.9 (4.9) billion from KLP Banken AS during the year. At the end of the year, mortgages have been financed totalling NOK 7.3 (7.2) billion on KLP Boligkreditt's balance sheet and NOK 11.0 (9.5) billion on KLP Banken AS' balance sheet.

Financing of the public sector market

The credit company KLP Kommunekreditt AS issues covered bonds with security in loans to municipalities and county municipalities as well as to enterprises with a municipal loan guarantee. Cost-effective financing will enable the KLP Banken Group to offer long-term lending on good terms.

At the end of 2019, covered bonds had been issued with security in loans to the municipal sector amounting to NOK 18.6 (17.7) billion. New issues in 2019 amounted to NOK 6.0 (3.3) billion. No issuances have been made abroad. KLP Kommunekreditt AS has achieved the best rating for its borrowing programme.

KLP Banken AS also offers deposit products for municipalities and corporate customers that are used for financing loans in the public market etc. At the end of 2019, deposits from municipalities and enterprises amounted to NOK 1.6 (1.9) billion, which corresponds to 14 (18) per cent of the bank's total deposits.

BALANCE SHEET AND CAPITAL ADEQUACY

The total assets of KLP Banken Group amounted to NOK 39.7 (37.1) billion at the end of 2019. The composition is shown below.

The Group's equity and subordinated loan capital, based on the Board of Directors' proposal for allocation of profits between the Group companies for 2019, was NOK 2.2 (2.1) billion. Core capital is identical to equity and subordinated loan capital. This gives a capital ratio and tier 1 capital ratio of 19.1 (20.1) per cent. Current capital requirements including capital buffers are 14.0 per cent tier 1 capital ratio and 17.5 per cent capital ratio.

KLP Banken AS has a Pillar 2 supplement of 1.5 per cent that is included in the bank's capital requirements at the end of 2019. In addition, a buffer of at least 0.5 per cent is maintained above the actual capital requirement for Pillar 1 and Pillar 2 risks, so the capital target is 18.0 per cent.

The risk-weighted balance sheet was NOK 10.8 (10.0) billion at the end of 2019.

Unweighted capital ratio in KLP Banken Group was 5.4 (5.6) per cent. The requirement for unweighted capital ratio for KLP Banken AS is 3 per cent. Capital adequacy is considered to be good.

ABOUT THE FINANCIAL STATEMENT

In the opinion of the Board of Directors, the annual financial statements give a true and fair view of the bank's assets and liabilities, financial position and profit. The conditions for continued operations are present, and this is assumed in the annual financial statements.

ALLOCATION OF PROFIT FOR THE YEAR

The annual financial statements of KLP Banken AS show a total profit for 2019 of NOK 60.1 (27.0) million after tax. The Board of Directors proposes that a group contribution of NOK 72.1 (46.0) million is paid to KLP. NOK 105.8 (34.5) million will be received from KLP as a group contribution without a tax effect. Profit after tax and group contribution are transferred to other equity. The group contribution will first have an accounting effect at the time of the decision.

RATING

The rating agencies' assessment of the companies in KLP Banken Group is important for the borrowing conditions that are achieved. The companies use Moody's for credit rating of bonds. All issuances of covered bonds have the best rating, Aaa.

RISK MANAGEMENT

KLP Banken AS and its subsidiaries are exposed to different types of risks. The Bank has established a risk management framework aimed at ensuring that risks are identified, analysed and subject to governance using guidelines, frameworks, procedures and instructions.

Separate guidelines have been established for the most significant individual risks (liquidity-/credit-/market-/operational-and compliance risks) and overarching guidelines for risk management that govern the principles, organisation, frameworks etc. for the bank group's overall risk. The guidelines are adopted by the Board of Directors and revised at least once a year. The guidelines are of an overarching nature and are supplemented with procedures, regulations and instructions established at the administrative level.

The overall risk management policy governs roles related to the bank's risk management, including requirements and guidelines for the risk control function. The purpose of the risk control function is, among other things, to control that the guidelines are being followed.

Stress testing is used as a risk assessment method and as a tool for communication and exchange of opinion related to risk conditions. In this context, stress testing is understood to include both sensitivity- and scenario analyses.

BALANCE SHEET AND CAPITAL ADEQUACY

TOTAL ASSETS/ NOK BILLION	KLP Banken Group	Change 2019
Public sector loans/municipal guarantee	16.5	-0.2
Loans to private individuals	18.4	1.7
Securities and liquidity	4.7	1.2
Other assets	0.1	-0.0
Total	**39.7**	**2.6**

The guidelines include risk tolerance for the individual risks and for the overall risk. Risk tolerances are defined based on different stress scenarios, and different forms of stress testing are regularly carried out to measure that the actual exposure lies within adopted tolerance limits.

KLP Banken AS shall maintain a cautious risk profile and earnings should mainly be the result of borrowing and lending activities and liquidity management. This means that KLP Banken shall maintain a low market risk and that interest and currency risk arising from the borrowing and lending activity is reduced by means of derivatives. KLP Banken AS shall have prudent long-term financing and frameworks have been established to ensure that this objective is achieved. The credit risk in KLP Banken Group is low and loans are limited to loans with municipal risk and loans with security in residential and holiday property. Management of KLP Banken's liquidity takes place in the form of investments which satisfy credit quality requirements, and securities in line with credit lines approved by the Board of Directors.

The Boards of Directors of KLP Banken, KLP Bankholding, KLP Kommunekreditt and KLP Boligkreditt have appointed a joint risk committee. This is not legally required taking into account the size of the total assets. The risk committee deals in particular with cases related to the bank's various risks, and has an advisory function in respect of the Board of Directors.

CORPORATE GOVERNANCE AND CORPORATE MANAGEMENT

The Bank's articles of association and applicable legislation provide guidance for corporate governance, corporate management, and a clear division of roles between governing bodies and day-to-day management.

The Board of Directors establishes the guidelines for the company. The Board of Directors held eight board meetings in 2019.

The Managing Director is responsible for the day-to-day management of the company in accordance with instructions determined by the Board of Directors.

An account of KLP Banken's corporate governance is available on KLP's website (https://www.klp.no/om-klp).

WORKING ENVIRONMENT AND ORGANISATION

KLP Banken AS and its subsidiaries had 69 (68) permanent employees at the end of 2019. All employment relationships are with KLP Banken AS. Two employees also have functions in the subsidiaries KLP Kommunekredit AS and KLP Boligkreditt AS.

As KLP Banken's most important resource, all employees have extensive experience and significant credit and market expertise within the retail market and the public sector. New products, services and regulatory requirements for KLP Banken result in constant changes within the company and create the need for restructuring and new expertise. Further development of the organisation and competence development are therefore important elements of the bank's plans and activities.

Surveys are carried out regularly among all employees to measure engagement, working environment, well-being and compliance with KLP's values. The results of these measurements show that employees are predominantly committed to their work and thrive in the bank. The Bank has a working environment and cooperation committee (SAMU), which is made up of representatives from the management, KLP's HR Department and the employees' representatives. The Board of Director's assessment is that cooperation between the management of KLP Banken and its employees functions well.

The KLP Group aims to achieve absence due to illness of less than 4 per cent. Absence due to illness at KLP Banken was 4.5 (4.8) per cent in 2019, of which long-term absence was 2.8 (3.2) per cent and short-term absence 1.8 (1.6) per cent. Absence is followed up by managers and the HR Department and by the bank's Board of Directors when there is an increase in absence over time. There have been no work-related injuries or accidents in 2019.

As part of the KLP Group, KLP Banken AS follows the Group's guidelines for gender equality and diversity, in which the objectives, measures and activities take into account the basis for discrimination described in the legislation. Separate objectives for gender equality and diversity have been adopted in the central working committee. The standard recruitment procedure is that all qualified applicants should be contacted regardless of age, gender, functional ability, political point of view, sexual orientation or ethnicity.

KLP Banken's Board of Directors recognises the activity and reporting obligation pursuant to the Norwegian Anti-Discrimination Act. Active work in respect of diversity, gender equality, equal pay and reduced absence due to illness shall be an integral part of the company's corporate social responsibility.

KLP Banken AS also adheres to the KLP Group's Code of Conduct and the guidelines for whistleblowing.

55 (51) per cent of the KLP Banken Group's employees are women. The company endeavours to achieve a balance between women and men in all positions. The proportion of women in senior positions was 46 (50) per cent. At the end of 2019, the Board of Directors of KLP Banken AS comprised three women and four men, of which one woman and one man were elected among the employees.

CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABILITY

KLP and the KLP Banken Group have for many years contributed to the sustainable development of society through loan financing of projects throughout Norway, such as roads, schools, day-care centres, swimming pools, sports facilities, care homes, cultural centres and many other socially beneficial projects. KLP Banken Group works to ensure that its lending activities will affect people, the environment and society around us in a positive way. Loans to Norwegian municipalities are used for purposes that help reduce national greenhouse gas emissions, and which benefit society as a whole. More than three-quarters of KLP's owners have loans in KLP or in KLP Banken Group. KLP Banken AS has been granted environmental certification as an office company.

The KLP Group, including KLP Banken AS, shall contribute to sustainable investments and responsible business operations. This is realized by actions related to the Group's operations. KLP is a signatory to the United Nation's Global Compact and is committed to working for human rights, workers' rights, the environment and anti-corruption initiatives. KLP works on issues related to climate, corruption, human rights, workers' rights and taxes, among others.

KLP Banken contributes to this work by funding socially beneficial investments in the public and private sectors, such as energy saving measures through green mortgages and green loans in the municipal sector.

KLP Banken signed the United Nations' Principles for Sustainable Banking in the autumn of 2019 and has committed to implementing these principles in its operations. The Principles for Sustainable Banking mean that banks are transparent about how their products and services create value for customers and investors, as well as for society as a whole. The Principles are intended to guide banks in their work on sustainability, and support society's overall goals in line with the United Nation's Sustainable Development Goals and the Paris Agreement.

Responsible business practices are the key to sustainable development. The aim is to make a difference. See a separate article in the Annual Report about the Bank's work on corporate social responsibility and sustainability.

Corporate social responsibility is also included in the governing documents through guidelines for ethics, the environment and responsible investments, among others. A more detailed description of goals, measures and results is available on KLP's website (https://www.klp.no/om-klp/samfunnsansvar).

FUTURE PROSPECTS

A significant part of Norway's population is part of KLP Banken's target group, and the opportunities to further develop KLP Banken's position in the retail market are considered good.

Photo: Cato Werner Gustavsen/KLP

The Board of Directors in KLP Banken AS. From the left: Aage Elmenhorst Schaanning, Espen Trandum, Christin Kleppe, Karianne Oldernes Tung, Sverre Thornes, Kjell Fosse, Aina Iren Slettedal Eide.

New technology and new actors from other industries challenge the banking industry. KLP Banken aims to exploit proven technology in order to offer relevant, customer-friendly and efficient services to its customers. This necessitates the need for comprehensive IT investments in the years ahead and will be a significant prerequisite for KLP Banken to be able to achieve its goal of further growth and profitability.

KLP Banken will continue to work on developing profitable banking products while maintaining its focus on offering its members good and predictable conditions.

The debt burden in households has resulted in stricter requirements for credit approval in the retail market. The growth in unsecured consumer debt has been subdued following the introduction of the debt register in 2019. KLP Banken sees this as a positive development and a good basis for further development of our daily banking products in the retail market.

The ability to service residential mortgages by KLP Banken's main customer groups, which are mainly civil servants, is believed to be satisfactory going forward and will help to limit defaults and losses. KLP Banken will continue its conservative procedures for credit approval in order to maintain low risk in the bank's lending portfolios.

Norwegian municipalities have developed a good and comprehensive service to their inhabitants. Increased life expectancy, demographics, revenue development and climate risk give reason to expect a sustained high level of investment in the public sector over the next few years. The demand for loans for projects that contribute to climate adaptation is expected to increase in the future. KLP Kommunekreditt AS is the country's only mortgage company that issues bonds with collateral in loans to the public sector. The presence of KLP Kommunekreditt AS together with KLP in the market for loans to the public sector contributes to competition and thereby allows the public sector to access long-term financing on favourable terms.

KLP Banken AS has good capital adequacy and an equity situation that satisfies ever stricter regulatory requirements. Combined with low credit risk in lending activities, this is a good starting point for achieving access to the best possible financing in the capital markets. As a way of methodically strengthening the capital to provide for desired lending growth the core capital was increased by NOK 100 million in February 2020. KLP Banken AS is therefore well equipped for further development and growth.

EVENTS AFTER YEAR END

Spreading of COVID-19 has gone globally, and several countries including Norway has imposed strict measures to limit further spread (of the virus). KLP and the KLP Banken Group follows the advice given by the Norwegian Institute of Public Health and the authorities. The majority of KLP staff are working from home to avoid spread of the virus. Emergency measures are also enforced to secure operations over time, in case of reduced available workforce.

The financial markets are also impacted by the spread of the virus. Large movements in the interest rate markets generates uncertainty for the capital adequacy and liquidity situation in all banks. As of today the companies in the KLP Banken Group satisfies the current regulatory requirements for capital adequacy and liquidity. The authorities' introduction of for example reduced counter-cyclic capital buffer by 1.5 per cent, as well as easier access to loans in the central bank (F-loans in Norges Bank), contributes to increased possibility of continued ability to meet the statutory requirements for capital adequacy and liquidity. Even if the crisis persists the KLP Banken Group expects that available funding from KLP will contribute to maintain our financial capacity towards municipalities and members. The KLP Banken Group expects the loan loss provisions in the retail markets to increase as a result of layoffs, and thus increased possibility of a negative scenario in the stresstesting of the bank. The KLP Banken Group expects the loan loss provisions in the retail markets to increase as a result of layoffs, and thus increased possibility of a negative scenario in the stresstesting of the bank. As a result of most loan customers and members are employed by public sector enterprises a significant increase in losses and loan loss provisions is not expected.

Oslo, 18 March 2020
The Board of Directors of KLP Banken AS

SVERRE THORNES
Chair

AAGE E. SCHAANNING
Deputy Chair

AINA SLETTEDAL EIDE

KARIANNE OLDERNES TUNG

KJELL FOSSE

CHRISTIN KLEPPE
Elected among the employees

ESPEN TRANDUM
Elected among the employees

LEIF MAGNE ANDERSEN
Managing Director

Income Statement

KLP BANKEN AS

KLP Banken AS			NOK THOUSANDS	KLP Banken Group		
01.01.2018 -31.12.2018	01.01.2019 -31.12.2019	NOTE		NOTE	01.01.2019 -31.12.2019	01.01.2018 -31.12.2018
271 772	340 126		Interest income, amortised cost		910 090	757 820
26 031	22 986		Interest income at fair value		164 825	182 646
297 804	**363 111**	10	**Total interest income**	10	**1 074 914**	**940 466**
-157 291	-192 006		Interest expense, amortised cost		-658 224	-507 997
-12 147	-4 152		Interest expense at fair value		-123 819	-183 938
-169 438	**-196 158**	10	**Total interest costs**	10	**-782 044**	**-691 935**
128 365	**166 953**	10	**Net interest income**	10	**292 871**	**248 531**
18 488	21 240		Commission income and income from banking services		21 240	18 488
-1 174	-2 040		Commission costs and costs of banking services		-2 040	-1 174
17 314	**19 200**	11	**Net charges and commission income**	11	**19 200**	**17 314**
58 041	58 873		Other fee income		58 873	58 041
-102	-156	5	Net gain/(loss) on financial instruments	5	-30 159	-13 524
57 939	**58 717**		**Total other operating income**		**28 713**	**44 518**
-72 026	-75 681	32	Salary and administrative costs	32	-75 681	-72 026
-8 117	-8 180	24,25,26	Depreciation	24,25,26	-8 180	-8 117
-79 048	-81 462	36	Other operating expenses	36	-148 021	-139 953
-6 827	-6 628	18	Loss on loans issued, guarantees etc.	18	-6 642	-6 838
-166 018	**-171 952**		**Total operating expenses**		**-238 524**	**-226 935**
37 601	**72 919**		**Operating profit/loss before tax**		**102 260**	**83 429**
-9 052	-18 282	28	Tax on ordinary income	28	-24 737	-19 458
28 549	**54 637**		**Income for the year**		**77 523**	**63 970**

Income Statement

KLP BANKEN AS

KLP Banken AS			NOK THOUSANDS	KLP Banken Group		
01.01.2018 -31.12.2018	01.01.2019 -31.12.2019	NOTE		NOTE	01.01.2019 -31.12.2019	01.01.2018 -31.12.2018
-2 326	7 182	29	Estimate difference, pension obligations and assets	29	7 182	-2 326
581	-1 796	28	Tax on actuarial gains and losses	28	-1 796	581
-1 744	**5 387**		**Items that will not be reclassified to profit and loss**		**5 387**	**-1 744**
171	155		Changes to expected loss recognised through other comprehensive income		0	0
-43	-39	28	Tax on changes in fair value of available for sale financial assets	28	0	0
128	**116**		**Items that may be reclassified to profit and loss**		**0**	**0**
-1 616	**5 503**		**Other comprehensive income for the period**		**5 387**	**-1 744**
26 933	**60 140**		**COMPREHENSIVE INCOME FOR THE YEAR**		**82 909**	**62 226**
			ALLOCATION OF INCOME			
-26 933	-60 140		Allocated to/from retained earnings			
-26 933	**-60 140**		**TOTAL ALLOCATION OF INCOME**			
0.21 %	0.36 %		Income for the year in per cent of total assets		0.20 %	0.17 %
0.19 %	0.40 %		Comprehensive income for the year in per cent of total assets		0.21 %	0.17 %

Balance Sheet

KLP BANKEN AS

KLP Banken AS			NOK THOUSANDS	KLP Banken Group		
31.12.2018	31.12.2019	NOTE		NOTE	31.12.2019	31.12.2018
			ASSETS			
60 238	68 798	6,17,38	Claims on central banks	6,17,38	68 798	60 238
2 108 333	1 482 063	6,17,38	Loans to and receivables from credit institutions	6,17,38	1 497 793	1 439 420
9 487 563	11 049 070	6,17	Loans to and receivables from customers	6,17	34 933 743	33 474 004
999 748	1 292 390	6,8,16	Fixed-income securities	6,8,16	3 118 503	2 015 351
2 053	2 053	6,8	Shares, holdings and primary capital certificates	6,8	2 053	2 053
21	64	6,7,8,20	Financial derivatives	6,7,8,20	40 849	62 483
1 165 470	1 165 470	23	Holdings in Group companies		0	0
11 561	9 480	28	Deferred tax assets	28	10 196	8 667
667	511	24	Fixed assets	24	511	667
0	3 506	25	Right-of-use assets	25	3 506	0
25 299	20 447	26	Intangible assets	26	20 447	25 299
6 947	5 242	33	Other assets	33	2 309	413
13 867 901	**15 099 095**		**TOTAL ASSETS**		**39 698 709**	**37 088 595**
			LIABILITIES AND OWNERS' EQUITY			
			LIABILITIES			
1 014 583	1 407 352	6,21	Liabilities created on issuance of securities	6,21	25 822 190	24 039 968
10 661 749	11 486 525	6,22	Deposits	6,22	11 486 525	10 661 749
6 552	3 781	6,7,8,20	Financial derivatives	6,7,8,20	64 455	111 955
0	3 573	25	Lease liabilities	25	3 573	0
87 449	42 802	34	Other liabilities	34	51 854	85 154
52 117	49 472	34	Provision for accrued costs and liabilities	34	49 550	52 117
11 822 451	**12 993 505**		**TOTAL LIABILITIES**		**37 478 148**	**34 950 943**

Balance Sheet

KLP BANKEN AS

KLP Banken AS			NOK THOUSANDS	KLP Banken Group		
31.12.2018	31.12.2019	NOTE		NOTE	31.12.2019	31.12.2018
			OWNERS' EQUITY			
1 057 500	1 057 500		Share capital		1 057 500	1 057 500
732 500	732 500		Share premium		732 500	732 500
255 450	315 590		Other owners' equity		430 561	347 652
2 045 450	**2 105 590**	27	**TOTAL OWNERS' EQUITY**	27	**2 220 561**	**2 137 652**
13 867 901	**15 099 095**		**TOTAL LIABILITIES AND OWNERS' EQUITY**		**39 698 709**	**37 088 595**

Oslo, 18 March 2020
The Board of Directors of KLP Banken AS

SVERRE THORNES
Chair

AAGE E. SCHAANNING
Deputy Chair

AINA SLETTEDAL EIDE

KARIANNE OLDERNES TUNG

KJELL FOSSE

CHRISTIN KLEPPE
Elected among the employees

ESPEN TRANDUM
Elected among the employees

LEIF MAGNE ANDERSEN
Managing Director

Statement of Owners' Equity KLP Banken AS

KLP BANKEN AS

2019 NOK THOUSANDS	Share capital	Share premium	Other equity	Total owners' equity
Owners' equity 1 January 2019	1 057 500	732 500	255 450	2 045 450
Income for the year	0	0	54 637	54 637
Other comprehensive income	0	0	5 503	5 503
Comprehensive income for the year	**0**	**0**	**60 140**	**60 140**
Group contribution received	0	0	34 493	34 493
Group contribution made	0	0	-34 493	-34 493
Total transactions with the owners	**0**	**0**	**0**	**0**
Owners' equity 31 December 2019	**1 057 500**	**732 500**	**315 590**	**2 105 590**

2018 NOK THOUSANDS	Share capital	Share premium	Other equity	Total owners' equity
Owners' equity 31 December 2017	1 057 500	732 500	230 561	2 020 561
Changes in accounting principles (IFRS 9)	0	0	-2 725	-2 725
Tax effect of change of accounting principle	0	0	681	681
Owners' equity 1 January 2018	**1 057 500**	**732 500**	**228 517**	**2 018 517**
Income for the year	0	0	28 549	28 549
Other comprehensive income	0	0	-1 616	-1 616
Comprehensive income for the year	**0**	**0**	**26 933**	**26 933**
Group contribution received	0	0	22 151	22 151
Group contribution made	0	0	-22 151	-22 151
Total transactions with the owners	**0**	**0**	**0**	**0**
Owners' equity 31 December 2018	**1 057 500**	**732 500**	**255 450**	**2 045 450**

NOK THOUSANDS	Number of shares	Par value	Share capital	Share premium	Other equity	Total
Equity at 1 January 2019	7 500 000	0,141	1 057 500	732 500	255 450	2 045 450
Changes in the period 1 January - 31 December			0	0	60 140	60 140
Equity at 31 December 2019	**7 500 000**	**0,141**	**1 057 500**	**732 500**	**315 590**	**2 105 590**

There is one class of shares. All shares are owned by KLP Bankholding AS.

Statement of Owners' Equity KLP Banken Group

KLP BANKEN GROUP

2019 NOK THOUSANDS	Share capital	Share premium	Other equity	Total owners' equity
Owners' equity 1 January 2019	1 057 500	732 500	347 652	2 137 652
Income for the year	0	0	77 523	77 523
Other comprehensive income	0	0	5 387	5 387
Comprehensive income for the year	**0**	**0**	**82 909**	**82 909**
Group contribution received during the period	0	0	61 052	61 052
Group contribution paid during the period	0	0	-61 052	-61 052
Total transactions with the owners	**0**	**0**	**0**	**0**
Owners' equity 31 December 2019	**1 057 500**	**732 500**	**430 561**	**2 220 561**

2018 NOK THOUSANDS	Share capital	Share premium	Other equity	Total owners' equity
Owners' equity 31 December 2017	1 057 500	732 500	287 591	2 077 591
Changes in accounting principles (IFRS 9)	0	0	-2 882	-2 882
Tax effect of change of accounting principle	0	0	717	717
Owners' equity 1 January 2018	**1 057 500**	**732 500**	**285 426**	**2 075 426**
Income for the year	0	0	63 970	63 970
Other comprehensive income	0	0	-1 744	-1 744
Comprehensive income for the year	**0**	**0**	**62 226**	**62 226**
Group contribution received	0	0	78 891	78 891
Group contribution made	0	0	-78 891	-78 891
Total transactions with the owners	**0**	**0**	**0**	**0**
Owners' equity 31 December 2018	**1 057 500**	**732 500**	**347 652**	**2 137 652**

Statement of Cash Flows

KLP BANKEN AS

KLP Banken AS			NOK THOUSANDS		KLP Banken Group	
01.01.2018 -31.12.2018	01.01.2019 -31.12.2019	NOTE		NOTE	01.01.2019 -31.12.2019	01.01.2018 -31.12.2018
			OPERATING ACTIVITIES			
282 126	348 455		Payments received from customers – interest, commission and charges		900 764	767 723
-136 600	-173 230		Payments to customers – interest, commission and charges		-173 230	-136 600
-3 528 909	-6 553 470		Disbursements on loans to customers and credit institutions		-11 072 876	-9 521 930
2 725 293	5 745 513		Receipts on loans to customers		9 535 488	6 657 968
992 291	824 798		Net receipts on customer deposits banking		824 798	992 291
-80 841	-81 574		Disbursements on operations		-151 461	-140 189
-64 412	-78 646		Payments to staff, pension schemes, employer's social security contribution etc.		-78 646	-64 412
6 739	9 949		Interest investment accounts		23 837	13 263
75 870	14 548		Net receipts/disbursements from operating activities		31 807	61 620
0	0		Income tax paid		0	0
271 557	**56 344**		**Net cash flow from operating activities**		**-159 519**	**-1 370 266**
			INVESTMENT ACTIVITIES			
-1 297 384	-1 108 172		Payments on the purchase of securities		-3 810 624	-2 667 949
1 614 207	817 604		Receipts on the sale of securities		2 708 725	3 403 183
13 981	20 043		Receipts of interest from securities		56 527	35 101
-6 187	-1 614		Payments on the purchase of tangible fixed assets		-1 614	-6 187
-120 000	0		Disbursement of capital to subsidiaries		0	0
204 617	**-272 140**		**Net cash flow from investment activities**		**-1 046 987**	**764 148**
			FINANCING ACTIVITIES			
400 000	1 000 000	21	Receipts on loans	21	9 000 000	6 500 000
-775 000	-825 000	21	Repayment and redemption of loans	21	-7 708 000	-4 470 000
-82 000	212 000	21	Change in payment for loan buybacks	21	484 000	-904 000
-24 354	-14 397		Net payment of interest on loans		-465 689	-329 850
0	-1 542		Payment of lease liabilities		-1 542	0
-7 380	-11 498		Group contributions made		-19 431	-25 334
-488 734	**359 563**		**Net cash flow from financing activities**		**1 289 339**	**770 816**
-12 560	**143 766**		**Net cash flow during the period**		**82 833**	**164 698**
694 659	682 099		Cash and cash equivalents at start of period		1 454 013	1 289 315
682 099	825 865	38	Cash and cash equivalents at end of period	38	1 536 846	1 454 013
-12 560	**143 766**		**Net receipts/disbursements (-) of cash**		**82 833**	**164 698**

Declaration Pursuant to the Norwegian Securities Trading Act, Section § 5-5

We hereby declare that, to the best of our knowledge, the annual financial statements for the period from 1 January to 31 December 2019 have been prepared in accordance with applicable accounting standards, and that the information in the financial statements gives a true and fair view of the Company's and the Group's assets, liabilities, financial position and overall profit or loss.

We also declare that the Directors' report provides a true and fair overview of the development, profit or loss and the financial position of the Company and the Group, together with a description of the most significant risk and uncertainty factors the Company and the Group face.

Oslo, 18 March 2020
The Board of Directors of KLP Banken AS

SVERRE THORNES
Chair

AAGE E. SCHAANNING
Deputy Chair

AINA SLETTEDAL EIDE

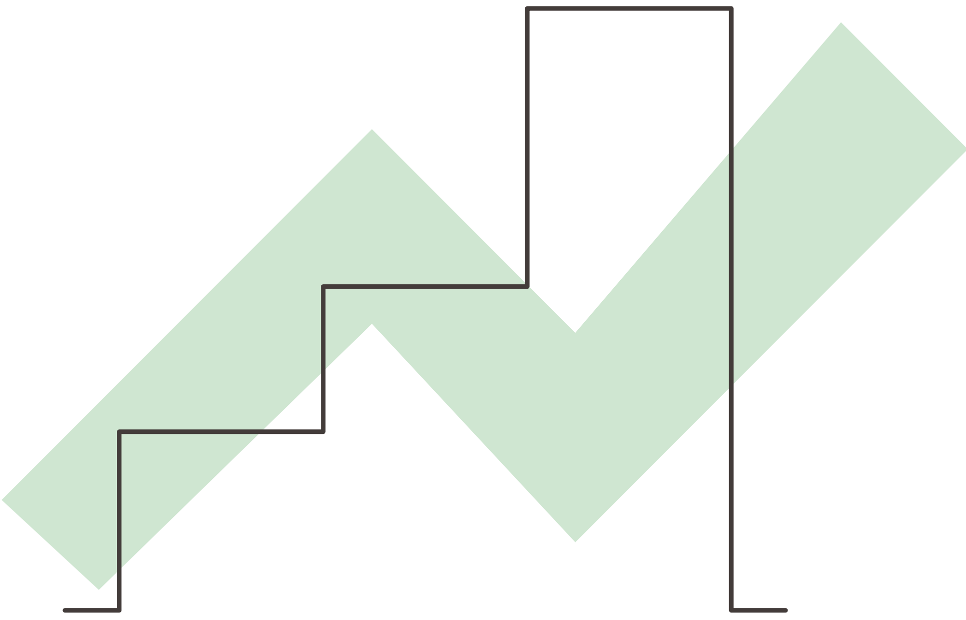
KARIANNE OLDERNES TUNG

KJELL FOSSE

CHRISTIN KLEPPE
Elected among the employees

ESPEN TRANDUM
Elected among the employees

LEIF MAGNE ANDERSEN
Managing Director



Notes to the Accounts

KLP BANKEN AS/KLP BANKEN GROUP

NOTE 1 General information

KLP Banken AS was founded on 25 February 2009. KLP Banken AS and its subsidiaries provide or acquire loans to Norwegian municipalities and county authorities, as well as to companies with a public sector guarantee. The lending activities are principally financed by the issuance of covered bonds. The Group also offers standard banking products to private customers. The Company, KLP Banken AS, is registered as domiciled in Norway. The bank is an online bank without branches. Its head office is at Beddingen 8 in Trondheim. The Company has a branch office in Oslo.

KLP Banken AS owns all the shares in KLP Kommunekreditt AS and KLP Boligkreditt AS. These companies together form the KLP Banken Group. 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.

The annual financial statements are available at www.klp.no.

NOTE 2 Summary of the most important accounting principles

Below is a description of the most important accounting principles used in preparation of the Company and Group financial statements for KLP Banken AS. These principles are used in the same way in all periods presented unless otherwise indicated.

2.1 FUNDAMENTAL PRINCIPLES

The financial statements for KLP Banken AS and the Group have been prepared in accordance with international financial reporting standards (IFRS) and interpretations from the IFRS interpretations committee, as adopted by the EU. The Norwegian Accounting Act and the Regulations concerning Annual Accounts for banks, Mortgage Firms and Finance Companies (the Accounting Regulations) contain individual requirements for additional information which is not required under IFRS. These supplementary information requirements have been incorporated into the notes to the financial statements.

To prepare the accounts in accordance with IFRS, management has to make accounting estimates and approximate valuations. This will affect the value of the company's and the group's assets and liabilities, income and expenses recognised in the financial statements. Actual figures may differ from estimates used. Areas in which discretionary valuations and estimates of material significance for the Company/Group have been shown are described in Note 3.

All amounts are presented in NOK thousands without decimals unless otherwise stated.

The financial statements have been prepared in accordance with the going concern assumption.

2.1.1 Changes in accounting principles and information

a) New and changed standards adopted by the Company/Group in 2019:

• IAS 19 Employee Benefits

The EU has approved changes to IAS 19 Employee Benefits clarifying the accounting requirements for plan amendments, curtailment or settlement during the accounting period. When re-measuring net defined-benefit pension liabilities in the event of amendment, curtailment or settlement of the scheme, the cost of the current period's pension entitlements and the net interest for the period after the re-measurement must be based on the same assumptions used for the re-measurement.

The net interest for the residual term after the plan amendment is based on a net defined-benefit pension obligation derived from the re-measurement multiplied by the discount rate used in this measurement. The changes apply to accounting periods beginning 1 January 2019 or later, and have been implemented with prospective effect.

• IFRS 16 Leases

The Company/Group implemented the IFRS 16 accounting standard with effect from 1 January 2019. The standard results in more leases than before being capitalised, as the distinction between operational and financial leasing has been removed. According to this standard, the right to use a leased object must be recognised as an asset, and an obligation to pay a lease as a liability. The exceptions are short-term and low-value leases. The accounting requirements for lessors will not be significantly altered. The Company has analysed all of its leases to ensure that they meet the criteria for leases according to IFRS 16, and there is only one lease on an office building which falls under the new standard.

The Company/Group has also chosen a modified retrospective approach, which means that the whole effect of the transition was taken to the opening balance at 1 January 2019. This caused assets and liabilities to increase by NOK 5.1 million. The amounts are shown in the accounts under "Right-of-use assets" and "Lease liabilities". For more information, please refer to Note 25 Leases.

The discount rate used to determine the present value of assets and liabilities is the best estimate of the marginal loan interest to the Company/Group.

• IBOR reform
The IBOR reform affects a number of agreements that set interest rates according to a benchmark index. A group was established in Norway in 2018 to work on a recommendation for an alternative benchmark rate in Norwegian kroner. At the end of September 2019, the working group published its recommendation of a reformed version of the "Norwegian overnight weighted average" (Nowa) as an alternative benchmark rate. The interest rules will be reformed when Norges Bank takes over as administrator from 1 January 2020, but will probably be very similar to today's Nowa. The change in benchmark rates will affect the reporting of hedge accounting, as the effectiveness of the hedging relationship will be affected by a change in interest in both cash flow hedging and fair value hedging.

At the end of September 2019, the IASB adopted interim changes to IFRS 9 (Financial Instruments) and IFRS 7 (Disclosures), where the purpose of the exceptions in the standard is to help ensure that hedge accounting can be maintained in the period leading up to the transition to a new benchmark rate. The changes are mandatory from 2020, but can be implemented early for the 2019 financial statements, which the Company/Group has done. The practical impact of early implementation is that hedging relationships still in place after 2021 can continue unaffected by the IBOR reform. For more information, please refer to Note 9 Hedge accounting.

b) Standards, changes to and interpretations of existing standards that have not come into effect and where the Company/Group has not chosen early application.

There are no IFRS standards or IFRIC interpretations not yet in force that are expected to have a significant impact on the Company/Group'sfinancial statements.

2.2 CONSOLIDATION PRINCIPLES

2.2.1 Subsidiaries

Subsidiaries are all entities (including structured entities) over which the group has control. Control over an entity arises when the group is exposed to variation in the profitability from the entity and has the ability to influence this profitability through its power over the entity. Subsidiaries are consolidated from the date control is acquired and are omitted from the consolidated financial statements when control ceases.

Intragroup transactions and accounts between group companies are eliminated. Where group companies present accounts in accordance with principles other than those used by the group, these are converted to correspond to the group's accounting principles before they are consolidated.

2.3 TRANSLATION OF TRANSACTIONS IN FOREIGN CURRENCY

2.3.1 Functional currency and presentation currency

The accounts are presented in NOK, which is the functional currency of the parent company and the presentation currency of the group.

2.3.2 Transactions and statement of financial position items

Transactions in foreign currency are converted to the functional currency at the transaction rate of exchange. Foreign exchange gains or losses realised on settlement and conversion of monetary items in foreign currency at the exchange-rate at the end of the reporting period are taken to profit/loss. Foreign exchange gains and losses are presented net on the line 'Net gain/loss on financial instruments.

Translation differences on non-monetary items (assets and liabilities) is included as a part of the assessment of fair value. Foreign currency differences associated with non-monetary items, such as shares at fair value through profit or loss, are included as an element of value change recognised through profit or loss.

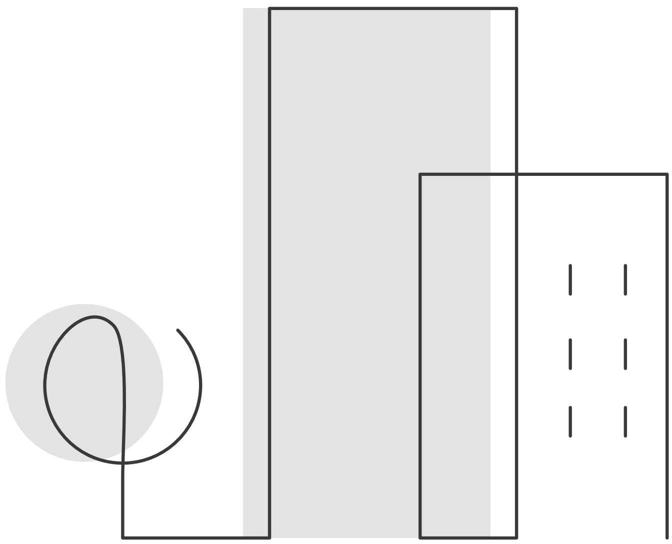
2.4 TANGIBLE FIXED ASSETS

Tangible fixed assets mainly comprise office machinery and inventory used by the Company/Group in its business.

Tangible fixed assets are recognised at acquisition including costs that can be attributed directly to acquisition of the fixed asset, with a deduction for depreciation. Subsequent costs relating to fixed assets are capitalised as part of the fixed asset if it is likely that the expenditure will contribute to future financial benefit for the Company/Group and the cost can be measured reliably. Repair and maintenance are recognised through profit or loss during the period in which the expenses are incurred.

Depreciation is calculated by the straight-line method so the acquisition cost of tangible fixed assets, including subsequent costs, is depreciated to their residual value over the expected service life, which is:

Office machinery:	4 years
Inventory:	4 years



The service life of current assets is calculated annually. If there are indications of a fall in value below the residual value, the recoverable amount is calculated. If the recoverable amount is less than the residual value, the asset is written down to the recoverable amount.

The profit or loss from disposal is made up of the sale price minus the book value at the date of sale. The profit or loss from disposal is charged to the income statement.

2.5 INTANGIBLE ASSETS

The Company/Group's intangible assets consist primarily of capitalised IT systems.

On the purchase of a new IT system, directly attributable costs for the system/software and costs of having the system installed and readied for use are capitalised.

On further development of IT systems and software both external and internal costs are capitalised in accordance with the above. System changes regarded as maintenance are taken to expenses as they occur.

When an IT system is operational, the capitalised costs are depreciated by straight line over the expected life. In the event of subsequent capitalisation because of further development, this is depreciated over the original lifetime unless the expenditure increases the total expected life of the system.

If there are indications that the book value of a capitalised IT system is higher than the recoverable amount, an impairment test is carried out. If the book value is higher than the recoverable sum (present value on continued use/ownership), the asset is written down to the recoverable amount.

2.6 FINANCIAL INSTRUMENTS

The most important accounting policies relating to financial instruments are described below.

2.6.1 Recognition and derecognition

Financial assets and liabilities on the balance sheet on the date when the Company/Group becomes party to the instrument's contractual terms and conditions. Regular purchases and sales of investments are recognised on the date of the agreement. Financial assets are removed from the balance sheet when the rights to receive cash flows from the investment expire or when these rights have been transferred and the Company/ Group has essentially transferred the risk and the potential gain from ownership. Financial liabilities are derecognised when the rights to the contractual conditions have been fulfilled or cancelled or have expired.

2.6.2 Classification and subsequent measurement

2.6.2.1 Financial assets

The classification and measurement of financial assets, other than equity instruments and derivatives, are assessed on the basis of a combination of the entity's business model criteria for asset management and the instrument's contractual cashflow characteristics.

Financial assets are classified on initial recognition in one of the following categories:
- Amortised cost
- Fair value through profit or loss
- Fair value through other comprehensive income

A financial asset is measured at amortised cost if both of the following criteria are met and the financial asset has not been reported at fair value through profit or loss (the 'fair value option'):
- The financial asset is held in a business model whose purpose is to keep financial assets in order to receive the contractual cash flows (the 'business model criterion'), and
- At certain times, the contractual terms of the financial asset lead to cash flows that only include repayments and interest on the outstanding principal amount (the 'cash flow criterion').

The business model criterion

The Company/Group assesses the target with a business model in which an asset is held at the portfolio level, because this best reflects the way the business is managed, and information is given to management. The information that is assessed includes:
- Explicit guidelines and goals for the portfolio and operation of these guidelines in practice. In particular, if the management's strategy and goal is to keep the asset in order to collect the contractual cash flows, maintain a specific interest profile, and match duration between financial assets and the corresponding financial liabilities used to finance these assets, or realise cash flows through the sale of the assets;
- How the return on the portfolio is assessed and reported to management;
- The risks that affect the performance of the business model (and the financial assets held within this business model) and how these risks are managed;
- How the managers are compensated, e.g. whether the compensation is based on the fair value of the managed assets or the total contractual cash flows; and
- Frequency, volume and date of sale in previous periods, the reasons for such sales and expectations of future sales activity. Information about the sales activities is not however assessed in isolation, but as part of an overall assessment of how the company's stated goals for managing the financial assets are achieved and how the cash flows are realised.

Loans provided with a view to resale to the wholly-owned mortgage companies KLP Boligkreditt AS and KLP Kommunekreditt AS will have a different business model in the consolidated financial statements and the company accounts. In the company accounts, these loans will be made with a view both to receiving the contractual cash flows and to resale, so they are measured at fair value with value changes through other comprehensive income. In the consolidated accounts, these loans will be included in a business model where the intention is to own the loan throughout its life in order to receive the contractual cash flows, and they are measured at amortised cost.

Assessment of the business model is based on reasonable future scenarios without regard to 'worst case' or 'stress case' scenarios. If cash flows after initial recognition are realised in a way that is different from the Company/Group's original expectations, the classification of the remaining financial assets in the relevant business model does not change, but the information is incorporated into the assessment of the newly issued or acquired financial assets in the future.

Cash flow criterion

In this evaluation the principal amount is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as payment for the time value of money and for credit risk related to outstanding principal in a specific period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative expenses), as well as a profit margin.

In assessing whether the contractual cash flows are only repayments and interest on the outstanding principal amount, KLP Banken and the group consider the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual clause that can change the date or the amount of the contractual cash flows so that it will not meet this condition. In assessing this the Company/Group considers:
- Contingent events that would change the amount and the date of the cash flows;
- Influence on functions;
- Advance payments and extended terms
- Terms that limit the company's claim to cash flows from specific assets (e.g. 'nonrecourse asset arrangements')
- Terms that change the assessment of the time value of money - e.g. periodic resetting of interest rates.

The Company/Group has assessed all of its instruments measured at amortised cost against the rules described above and believes the instruments satisfy the criteria. The bank has senior loans on the balance sheet that to some extent expose the bank to the risk of impairment on the homes offered as collateral. The bank has determined that these loans do not pass significant insurance risks from the borrower to the bank as there are no plausible scenarios that result in curtailment of the loan amount. The loans are therefore considered to be within the scope of IFRS 9 in their entirety. These loans are considered to satisfy the cash flow criterion as the bank believes that they will never suffer more than an insignificant curtailment of the loan amounts.

All other financial assets are measured at fair value with changes in value

through profit/loss, so:
- Assets with contractual cash flows that do not meet the cash flow criterion; and/or
- Assets held in a different business model than 'held to collect contractual cash flows'; or
- Assets designated at fair value through profit or loss (the 'fair value option').

The Company/Group may designate a debt instrument that meets the criteria to be measured at amortised cost to be reported at fair value through profit or loss if this eliminates or significantly reduces inconsistencies in measurement ('accounting mismatches'). This option is also available under IAS 39.

Impairment model

The impairment model for losses on loans and receivables is based on expected credit losses. The impairment model defines default as "a payment that is more than 90 days overdue, or an account that is continuously overdrawn for a minimum of 90 days (by at least NOK 1000)". How the impairment loss is to be measured is determined for each individual stage and the model uses the effective interest rate method. A simplified approach is allowed for financial assets that do not have a significant financial component (e.g. trade receivables). Upon initial recognition, and in cases where the credit risk has not increased significantly after initial recognition, provision has to be made for credit losses that are expected to occur over the next 12 months (Stage 1). If the credit risk has increased significantly, the provisions should correspond to the expected credit losses over the expected useful life (Stage 2). If there is a loss event, impairments are raised equal to the expected loss on the commitment throughout its life (Stage 3).

In the bank/group, the assessment of what is considered to be a significant change in credit risk for home mortgage loans is based on a combination of quantitative and qualitative indicators and 'backstops'.

For the products where the bank/group has not developed its own PD and LGD (loss given default) models, the loss ratio method is used. Here a change in risk rating of at least one grade from initial recognition to the reporting date is considered to be a significant increase in credit risk. This applies to the senior loan and credit card products within the retail market.

In the group, the simplified loss rate method for public lending is also used. For the balance sheet items 'Receivables from central banks' and 'Loans to and receivables from credit institutions', the bank/group has made use of the exception for low credit risk. These balance sheet items have a rating that satisfies the presumption in the standard of low credit risk on the balance sheet.

For more information on loan losses, please refer to note 18.

Financial derivatives and hedging

Financial derivatives are capitalised at fair value at the time the derivative contract is struck. On subsequent measurement the derivatives are recognised at fair value and are presented as an asset if the value is positive and a liability if the value is negative. Recognition of associated gains and losses depends on whether the derivative has been identified as an hedging instrument and in which type of accounting hedge the derivative is included.

For derivatives not included in hedging relationships, gains and losses are recognised as net value changes on derivatives and foreign exchange. In the financial statements, they are included in the line 'Net gain/loss on financial instruments'. These fall into the category of financial assets at fair value reported through profit or loss.

For derivatives included in the accounting hedges, gains and losses are recognised as net changes in value of certificates, bonds and other securities, and are presented in the financial statements under 'Net profit/(loss) on financial Instruments'.

The derivatives which are hedging instruments are used for hedging interest rate risk on fixed-interest borrowing and lending. In its hedging activity, the Group safeguards itself against movements in market interest rates. Changes in the credit spread are not taken into account in the hedging effectiveness. The Company/Group uses the rules on fair value hedging, so that the book value of the hedged item (asset or liability) is corrected with the value development in the hedged risk. The value change is recognised in the income statement. On entry into a hedging contract, the connection between the hedging instrument and the hedging object is documented, in addition to the purpose of the risk management and the strategy behind the different hedging transactions. The hedging effectiveness is measured regularly to ensure the hedge is effective.

If the hedge no longer fulfils the criteria for hedge accounting, the recognised effect of the hedge for hedging objects recognised at amortised cost is amortised over the period up to the due date of the hedging instrument.

2.6.2.2 Financial liabilities

The Company/Group has classified all financial liabilities measured at amortised cost, except for:
- Financial liabilities at fair value through profit or loss: This classification applies to derivatives and financial liabilities designated as such upon initial recognition. The Company/Group has designated certain liabilities at fair value through the income statement, because this reduces or eliminates inconsistencies in measurement ('accounting mismatches')
- Financial guarantees and loan commitments

Other financial liabilities recognised at amortised cost:
The category includes deposits from customers and credit institutions with no interest rate hedging and other financial liabilities not designated as liabilities measured at fair value through profit or loss.

2.6.2.3 Presentation, classification and measurement
Based on the descriptions above, the presentation, classification and measurement of financial instruments can be summarized in the following table:

GROUP Financial instruments	Classification
Receivables from central banks	Amortised cost
Loans to and receivables from credit institutions	Amortised cost
Loans to and receivables from customers	Amortised cost
	Amortised cost (hedging)
Fixed-income securities	Fair value through profit or loss
Financial derivatives (assets)	Fair value through profit or loss
Shares and holdings	Fair value through profit or loss
Deposits from customers	Amortised cost
Liabilities created on issuance of securities	Amortised cost
	Amortised cost (hedging)
Financial derivatives (liabilities)	Fair value through profit or loss
Unused credit, financial gurantees and loan commitments [1]	Amortised cost

KLP BANKEN AS Financial instruments	Classification
Receivables from central banks	Amortised cost
Loans to and receivables from credit institutions	Amortised cost
Loans to and receivables from customers	Fair value through other comprehensive income
	Amortised cost (hedging)
Fixed-income securities	Fair value through profit or loss
Financial derivatives (assets)	Fair value through profit or loss
Shares and holdings	Fair value through profit or loss
Deposits from customers	Amortised cost
Liabilities created on issuance of securities	Amortised cost
	Amortised cost (hedging)
Financial derivatives (liabilities)	Fair value through profit or loss
Unused credit, financial gurantees and loan commitments [1]	Amortised cost

[1] Unused credit, financial gurantees and loan commitments are contigent liabilities.

2.6.3 Netting
Financial assets and liabilities are presented net in the statement of financial position when there is an unconditional offsetting entitlement that can be legally enforced and the intention is to settle net or realise the asset and liability simultaneously.

2.6.4 Modification
When the contractual cash flows from a financial asset are renegotiated or otherwise amended, and the renegotiation or change does not lead to derecognition of the financial asset, the gross book value of the financial asset is recalculated and a gain or loss is recognised in the income statement. The gross book value of the financial asset is recalculated as the present value of the renegotiated or amended contractual cash flows, discounted at the original effective interest rate for the financial asset. Any costs or fees incurred adjust the book value of the modified financial asset and are written down over the remaining lifetime of the changed financial asset.

2.7 CASH AND CASH EQUIVALENTS
Cash and cash equivalents are defined as receivables from credit institutions without any termination date. The amount does not include receivables from credit institutions that are linked to the purchase and sale of securities in the management of the securities portfolios. The statement of cash flows has been prepared in accordance with the direct method.

2.8 OWNERSHIP INTERESTS IN GROUP COMPANIES

Investments in group companies are investments for permanent ownership or use and are valued at acquisition cost. Using the cost method, they are written down to fair value if a fall in value is due to factors that cannot be assumed to be transient, and this must be considered necessary according to good accounting practice.

2.9 RIGHT-OF-USE ASSETS/LEASE LIABILITIES

On entering into a contract, the Company/Group assesses whether the contract constitutes a lease. A contract contains a lease if it transfers control over the use of an identified asset for a period in exchange for a consideration. At the date of implementation, the Company/Group recognises a right-of-use asset and a lease liability, and these are presented on separate lines in the accounts.

The lease liability is measured on initial recognition at the present value of lease payments not yet paid at the reporting date. The discount rate used is the Company/Group's marginal loan rate. Subsequent measurements measure the lease liability at amortised cost by the effective interest method. The lease liability is re-measured when there is a change in future lease payments arising from a change in an index or if the Company/Group changes its decision whether to exercise extension or termination options. When the lease liability is re-measured in this way, a corresponding adjustment is made to the recognised value of the right of use or is taken to profit/loss if the recognised value of the right of use is reduced to zero.

On initial recognition, the right of use is measured at acquisition cost, i.e. the lease liability (present value of the lease payments) plus advance lease payments and any direct acquisition costs. In subsequent periods, the right of use is measured using an acquisition model.

2.10 FINANCIAL LIABILITIES

The Company/Group'sfinancial liabilities comprise liabilities to credit institutions, covered bonds issued and deposits from customers.

2.10.1 Liabilities to credit institutions

Liabilities to credit institutions are capitalised at market value on take -up. As a rule, on subsequent measurement the liability is recognised at amortised cost in accordance with the effective interest rate method. The interest costs are included in amortisation on the line for ‘Interest expense, amortised cost’ in the income statement.

2.10.2 Covered bonds issued

In the first instance, covered bonds issued are recognised at fair value on take-up adjusted for purchase costs, i.e. nominal value adjusted for any premium/discount on issue. On subsequent valuation the bonds are valued at amortised cost by the effective interest method. The interest costs are shown in the line ‘Interest expense, amortised cost’ in the income statement. Bonds with fixed interest are recognised in accordance with the rules on fair value hedging inasmuch as they are hedged against change in interest rate level.

2.10.3 Liabilities to and deposits from customers

Deposits from customers are recognised at fair value in the balance sheet when the deposit is recorded as transferred to the customer’s account. In subsequent periods, liabilities to and deposits from customers are recognised at amortised cost in accordance with the effective interest rate method. The interest costs are included in the line ‘Interest expense, amortised cost’ in the income statement.

2.11 OWNERS’ EQUITY

The owners’ equity in the group comprises owners’ equity contributed and retained earnings.

2.11.1 Equity contributed

Owners’ equity contributed comprises share capital, the share premium fund and other owners’ equity contributed.

2.11.2 Accrued equity

Retained earnings comprise other owners’ equity. Ordinary company law rules apply for any allocation or use of the retained earnings.

2.12 PRESENTATION OF INCOME IN THE ACCOUNTS

Income from the sale of goods and services is valued at the fair value of the consideration, net of any discounts. Intragroup sales are eliminated in the consolidated financial statements.

2.12.1 Income from services

Fees for lending management are taken to income in proportion to the management carried out for the period up to the end of the reporting period. Other services are taken to income by straight line over the contract period.

2.12.2 Interest income/expenses

Interest income and interest expenses associated with all interest-bearing financial instruments valued at amortised cost and fair value through other comprehensive income are taken to income using the effective interest rate method on the asset balance book value, and is books at Interest expenses, amortized cost. Setup fees for lending are included in the amortisation and taken to income over the duration of the loan. This is true except for:

- Purchased or credit-impaired financial assets. For these assets, the Company/Group will apply the credit-adjusted effective interest rate on the amortised cost of the financial asset from initial recognition.
- Financial assets that are not purchased or credit-impaired financial assets, but which have subsequently become such. Here, the effective interest rate is applied to the amortised cost of the financial asset in subsequent reporting periods.

For interest-bearing financial investments and derivatives measured at fair value through the income statement, interest income is classified as “’Interest income and similar income, fair value’, while other value changes are classified as ‘Net gain or loss on financial investments’.

2.13 TAX

Tax costs in the income statement comprise tax payable and changes in deferred tax. Tax is charged to the income statement, apart from tax relating to items reported under 'Other comprehensive income'. Deferred tax and tax assets are calculated as differences between the accounting and taxation value of assets and liabilities. Deferred tax assets are capitalised to the extent that it can be demonstrated that the company/group will have sufficient taxable profit in the future to exploit the tax asset.

The company is a part of a financial services group and a tax group. With exception for the limitations pursuant to the Financial Institutions Act, any tax-related surplus may be submitted in their entirety to parent company and subsidiaries as group contribution with tax effect.

The company/group is covered by the rules of capital activity tax. Capital activity tax are calculated on the company's total employer taxable benefits in addition to the salary benefits etc. that were earned in 2018, but were not paid until later years.

2.14 PENSION OBLIGATIONS - OWN EMPLOYEES

The company/group's pension obligations are partially insurance-covered through KLP's public sector occupational pensions through membership of the joint pension scheme for municipalities and enterprises ('Fellesordningen'). Pension liability beyond these schemes is covered through operations. Pension costs are treated in accordance with IAS 19. The company/group has a defined-benefit pension scheme for its employees. The accounting liability for defined-benefit schemes is the present value of the obligation on the reporting date, with deduction for fair value of the pension assets. The gross obligation is calculated using the straight-line method. The gross obligation is discounted to present value using the interest rates on Norwegian high-quality bonds. Gains and losses arising on recalculation of the obligation as a result of known deviation and changes in actuarial assumptions are charged to owners' equity via other comprehensive income during the period in which they arise. The effect of changes in the scheme's benefits is taken to profit/loss immediately.

Presentation of the pension costs in the income statement is in accordance with IAS 1. This standard allows the option of classifying the net interest element either as an operating cost or as a financial cost. The option the Company adopts must be followed consistently for later periods. The company has presented the pension costs under the accounting line 'Salary and administrative costs', whilst the net interest element is presented in the accounting line 'Net gain/(loss) on financial instruments'. The estimate deviation has been classified under 'Items that will not be reclassified to income' in the accounting line '"Estimate deviation pension obligations and pension assets'.

The 'Fellesordningen' is a multi-undertaking scheme, which means that the actuarial risk is distributed across all the municipalities and companies included in the scheme. The financial and actuarial assumptions behind the calculation of net pension obligations are therefore based on factors that are representative of the whole group.

NOTE 3 Important accounting estimates and valuations

The company/group prepares estimates and assumptions about future situations. These are continuously evaluated and are based on historical data and expectations concerning probable future events considered on the basis of data available at the time of presentation of the financial statements.

The estimates may be expected to differ from the final outcome and the areas where there is significant risk of substantial change in capitalised values in future periods are discussed below.

3.1 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The company/group has invested s urplus liquidity in income-bearing securities. These were initially recognised at fair value in the statement of financial position. The securities in the portfolio are classified in the category "Financial assets at fair value through profit or loss" as they are managed, and their earnings are measured on the basis of fair value. The principles for calculating the fair value of the various instruments are described in Note 6.

3.2 LOSSES ON FINANCIAL ASSETS

Financial assets not measured at market value are assessed for impairment at the end of the reporting period.

Financial instruments are assessed for impairment for expected losses. The method for measuring impairment for expected loss depends on whether the credit risk has increased significantly since initial recognition. Upon initial recognition, and when the credit risk has not increased significantly after initial recognition, provisions are based on 12 months' expected loss (stage 1). If the credit risk has increased significantly since initial recognition, but there is no objective evidence of impairment, write-downs are based on expected loss over the lifetime (stage 2). If the credit risk has increased significantly and there is objective evidence of impairment, a provision should be raised for the expected loss over its lifetime (stage 3).

In the company/group, the assessment of what is considered to be a significant change in credit risk for home mortgage loans is based on a combination of quantitative and qualitative indicators and 'backstops'. The most important driver for a significant change in credit risk for home mortgage loans in the group is a change in the probability of default (PD) from the initial recognition up to the reporting date. A relative change in PD of more than 2.5 is considered to be a significant change in credit risk. The change in PD must also be at least 0.6 percentage points for the change to be considered significant.

For the products where the company/group has not developed its own PD and LGD (loss given default) models, the simplified loss ratio method is used. Here a change in risk rating of at least one grade from initial recognition to the reporting date is considered to be a significant increase in credit risk.

The lending portfolio has historically shown low losses and has generally very good collateral in public sector guarantees or mortgages. As a result of this, the loan loss provisions for the company/group is low. For more information about the company's calculation of losses, refer to Note 18.

3.3 CAPITALISED SOFTWARE

If loss of value is suspected, an impairment test is carried out to check whether the book value of capitalised software is still present. In this context the recoverable amount is estimated. There are uncertainties associated with estimating cash flows and discounting factors in connection with calculating a recoverable amount.

NOTE 4 Segment information

NOK THOUSAND	Public sector Market		Retail Market		Other/eliminations		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Net interest income	62 884	65 541	229 987	182 991	0	0	292 871	248 532
Other operating income	25 676	25 516	22 238	36 316	0	0	47 913	61 832
Operating expenses	-61 886	-55 908	-169 996	-164 189	0	-1	-231 882	-220 098
Loss on loans issued, guarantees etc.	0	-5	-6 642	-6 833	0	0	-6 642	-6 838
Operating profit/loss before tax	**26 673**	**35 144**	**75 587**	**48 286**	**0**	**-1**	**102 260**	**83 429**
Assets as at 31.12.	18 549 418	18 206 245	23 030 322	21 536 927	-1 881 032	-2 654 577	39 698 709	37 088 595
Liabilities as at 31.12.	17 774 524	17 456 476	20 401 944	18 983 448	-698 319	-1 488 982	37 478 148	34 950 943

At KLP Banken, only business within the Public sector Market segment.

NOTE 5 Net gain/(loss) on financial instruments

KLP Banken AS		NOK THOUSANDS	KLP Banken Group	
01.01.2018 -31.12.2018	01.01.2019 -31.12.2019		01.01.2019 -31.12.2019	01.01.2018 -31.12.2018
-279	935	Net gain/(loss) on fixed-income securities	-1 214	-1 532
-658	0	Net gain/(loss) financial derivatives and realized amortization linked to lending	0	-671
0	0	Net gain/(loss) financial derivatives and realized repurchase of own debt	-27 854	-12 155
320	50	Net value change lending and borrowing, hedge accounting	50	320
1 591	0	Net gain/(loss) on shares, holdings and primary capital certificates	0	1 591
-1 076	-1 141	Other financial income and expenses	-1 141	-1 077
-102	**-156**	**Total net gain/(loss) on financial instruments**	**-30 159**	**-13 524**

NOTE 6 Categories of financial instruments

KLP Banken AS		NOK THOUSANDS	KLP Banken Group	
31.12.2019			31.12.2019	
Book value	Fair value		Book value	Fair value
		FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS		
1 292 390	1 292 390	Fixed-income securities	3 118 503	3 118 503
64	64	Financial derivatives	40 849	40 849
2 053	2 053	Shares and holdings	2 053	2 053
1 294 507	**1 294 507**	**Total financial assets at fair value through profit and loss**	**3 161 405**	**3 161 405**
		FINANCIAL ASSETS FAIR VALUE HEDGING		
101 556	99 862	Loans to and receivables from customers	2 897 943	2 935 099
101 556	**99 862**	**Total financial assets fair value hedging**	**2 897 943**	**2 935 099**
		FINANCIAL ASSETS AT AMORTIZED COST		
68 798	68 798	Loans to and receivables from credit institutions	68 798	68 798
774 736	774 736	Loans to and receivables from central banks	1 497 793	1 497 793
707 327	707 327	Loans to Group companies	0	0
63 945	63 945	Loans to and receivables from customers	32 035 800	31 676 869
1 614 806	**1 614 806**	**Total financial assets at amortized cost**	**33 602 391**	**33 243 460**
		FINANCIAL ASSETS AT FAIR VALUE WITH VALUE CHANGE OVER OTHER COMPREHENSIVE INCOME		
10 883 569	10 883 569	Loans to and receivables from customers	0	0
10 883 569	**10 883 569**	**Total financial assets at fair value with value change over other comprehensive income**	**0**	**0**
13 894 438	**13 892 744**	**Total financial assets**	**39 661 739**	**39 339 964**
		FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS		
3 781	3 781	Financial derivatives	64 455	64 455
3 781	**3 781**	**Total financial liabilities at fair value through profit and loss**	**64 455**	**64 455**
		FINANCIAL LIABILITIES FAIR VALUE HEDGING		
0	0	Liabilities created on issuance of securities	1 793 121	1 809 391
0	**0**	**Total financial liabilities fair value hedging**	**1 793 121**	**1 809 391**
		FINANCIAL LIABILITIES AT AMORTIZED COST		
1 407 352	1 409 514	Liabilities created on issuance of securities	24 029 069	24 120 851
11 486 525	11 486 525	Deposits from customers	11 486 525	11 486 525
12 893 877	**12 896 039**	**Total financial liabilities at amortized cost**	**35 515 594**	**35 607 376**
12 897 658	**12 899 820**	**Total financial liabilities**	**37 373 171**	**37 481 222**

NOTE 6 Categories of financial instruments - cont.

KLP Banken AS		NOK THOUSANDS	KLP Banken Group	
31.12.2018			31.12.2018	
Book value	Fair value		Book value	Fair value
		FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS		
999 748	999 748	Fixed-income securities	2 015 351	2 015 351
21	21	Financial derivatives	62 483	62 483
2 053	2 053	Shares and holdings	2 053	2 053
1 001 822	**1 001 822**	**Total financial assets at fair value through profit and loss**	**2 079 887**	**2 079 887**
		FINANCIAL ASSETS FAIR VALUE HEDGING		
139 100	135 990	Loans to and receivables from customers	3 568 702	3 600 945
139 100	**135 990**	**Total financial assets fair value hedging**	**3 568 702**	**3 600 945**
		FINANCIAL ASSETS AT AMORTIZED COST		
60 238	60 238	Loans to and receivables from credit institutions	60 238	60 238
641 212	641 212	Loans to and receivables from central banks	1 439 420	1 439 420
1 467 121	1 467 121	Loans to Group companies	0	0
67 655	67 655	Loans to and receivables from customers	29 905 302	29 893 107
2 236 226	**2 236 226**	**Total financial assets at amortized cost**	**31 404 960**	**31 392 765**
		FINANCIAL ASSETS AT FAIR VALUE WITH VALUE CHANGE OVER OTHER COMPREHENSIVE INCOME		
9 280 808	9 280 808	Loans to and receivables from customers	0	0
9 280 808	**9 280 808**	**Total financial assets at fair value with value change over other comprehensive income**	**0**	**0**
12 657 956	**12 654 846**	**Total financial assets**	**37 053 549**	**37 073 597**
		FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS		
6 552	6 552	Financial derivatives	111 955	111 955
6 552	**6 552**	**Total financial liabilities at fair value through profit and loss**	**111 955**	**111 955**
		FINANCIAL LIABILITIES FAIR VALUE HEDGING		
0	0	Liabilities created on issuance of securities	1 886 974	1 904 665
0	**0**	**Total financial liabilities fair value hedging**	**1 886 974**	**1 904 665**
		FINANCIAL LIABILITIES AT AMORTIZED COST		
1 014 583	1 014 693	Liabilities created on issuance of securities	22 152 994	22 243 219
10 661 749	10 661 749	Deposits from customers	10 661 749	10 661 749
11 676 332	**11 676 442**	**Total financial liabilities at amortized cost**	**32 814 743**	**32 904 968**
11 682 884	**11 682 994**	**Total financial liabilities**	**34 813 672**	**34 921 588**

NOTE 6 Categories of financial instruments - cont.

Fair value shall be a representative price based on what a corresponding asset or liability would have been traded for on normal market terms and conditions. A financial instrument is considered to be listed in an active market if the listed price is simply and regularly available from a stock market, dealer, broker, industry grouping, price setting service or regulatory authority, and these prices represent actual and regularly occurring transactions at arm's length. If the market for the security is not active, or the security is not listed on a stock market or similar, valuation techniques are used to set fair value. These are based for example on information on recently completed transactions carried out on business terms and conditions, reference to trading in similar instruments and pricing using externally collected yield curves and yield spread curves. As far as possible the estimates are based on externally observable market data and rarely on company-specific information.

THE DIFFERENT FINANCIAL INSTRUMENTS ARE THUS PRICED IN THE FOLLOWING WAY:

Fixed-income securities - government

Bloomberg is used as a source for pricing Norwegian government bonds. It is Oslo Stock Exchange that provides the price (via Bloomberg). The prices are compared with the prices from Reuters to reveal any errors.

Fixed-income securities - other than government

Norwegian fixed-income securities, except government are 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. If a bond lacks an appropriate spread curve, spread from a comparable bond from the same issuer is used.

Financial derivatives

These transactions are valued based on the applicable swap curve at the time of valuation. Derivative contracts are to be used only to hedge balance amounts and to enable payments obligations to be met. Derivative contracts may be struck only with counterparties with high credit quality.

Shares and (unlisted)

For liquid shares and units, the closing price on the balance sheet date is used as the basis for measurement at fair value. If the prices are not quoted, the last price traded is used. Illiquid shares are priced on the basis of the Oslo Stock Exchange's index algorithm based on the last traded prices. If the price picture is out of date, a derived valuation is produced from relevant equity indices or other similar securities. If this is also considered unsatisfactory, a discretionary valuation is made in which the Company's financial key figures, broker assessment etc. are used.

Fair value of loans to retail customers

The fair value through profit/loss is calculated by discounting contractual cash flows to present values. The discount rate is determined as the market rate, including a suitable risk margin. For loans measured at fair value through other comprehensive income, the fair value is calculated as the recognised principal minus estimated loss provisions on loans classified in Stage 2 and 3 (see note 18 Losses on loans).

Fair value of loans to Norwegian local administrations

The fair value of these loans is considered to be virtually the same as the book value, as the contract terms are constantly adjusted in line with market interest rates. The fair value of fixed rate loans is calculated by discounting contractual cash flows by market interest rates including a suitable risk margin at the end of the reporting period. This is valued at Level 2 in the valuation hierarchy, cf. Note 8.

Fair value of deposits

The fair value of floating rate deposits is taken to be approximately equal to the deposit amount including accrued interest. The fair value of fixed rate deposits is calculated by discounting contractual cash flows by market interest rates including a suitable risk margin. Discounting contractual cash flows by market interest rates including a suitable risk margin. This is valued at Level 2 in the valuation hierarchy, cf. Note 8.

Fair value of loans to and receivables from credit institutions

All receivables from credit institutions (bank deposits) are at variable interest rates. The fair value of these is considered to be virtually the same as the book value, as the contract terms are continuously changed in step with change in market interest rates. This is valued at Level 2 in the valuation hierarchy, cf. Note 8.

Liabilities created on issuance of securities

Fair value in this category is determined on the basis of internal valuation models based on external observable data. This is valued in Level 2 in the valuation hierarchy, cf. Note 8.

NOTE 7 Financial derivatives

KLP Banken AS				NOK THOUSANDS	KLP Banken Group			
31.12.2018		31.12.2019			31.12.2019		31.12.2018	
Nominal amount	Fair value	Nominal amount	Fair value		Nominal amount	Fair value	Nominal amount	Fair value
0	0	0	0	Derivatives related to borrowing	1 180 000	16 996	1 250 000	40 222
18 400	21	17 100	64	Derivatives related to lending	1 184 832	23 853	1 448 242	22 261
18 400	**21**	**17 100**	**64**	**Total assets**	**2 364 832**	**40 849**	**2 698 242**	**62 483**
0	0	0	0	Derivatives related to borrowing	600 000	-9 210	600 000	-7 367
117 400	-6 552	100 000	-3 781	Derivatives related to lending	1 888 982	-55 245	2 235 199	-104 588
117 400	**-6 552**	**100 000**	**-3 781**	**Total liabilities**	**2 488 982**	**-64 455**	**2 835 199**	**-111 955**

Interest rate agreements are used to correct for imbalances between the Company's lending and borrowing in regard to interest rate exposure. All the agreements struck are hedging deals. The interest rate differences in the agreements are accrued in the same way as the items the hedging contracts are intended to cover.

Interest rate swaps are agreements on exchange of interest rate terms in a future period. They do not cover exchange of principal.

NOTE 8 Fair value hierarchy

KLP Banken AS		NOK THOUSANDS	KLP Banken Group	
31.12.2018	31.12.2019		31.12.2019	31.12.2018
		FINANCIAL ASSETS RECOGNIZED AT FAIR VALUE:		
		FIXED-INCOME SECURITIES AND SHARES		
146 230	195 703	Level 1: Value based on prices in an active market	259 574	208 129
853 518	1 096 687	Level 2: Value based on observable market data	2 858 928	1 807 222
2 053	2 053	Level 3: Value based on other than observable market data	2 053	2 053
1 001 801	**1 294 443**	**Total fixed-income securities**	**3 120 554**	**2 017 404**
		FINANCIAL DERIVATIVES - FAIR VALUE HEDGING		
0	0	Level 1: Value based on prices in an active market	0	0
21	64	Level 2: Value based on observable market data	40 849	62 483
0	0	Level 3: Value based on other than observable market data	0	0
21	**64**	**Total financial derivatives**	**40 849**	**62 483**
		ASSETS RECOGNISED AT FAIR VALUE WITH VALUE CHANGE OVER OTHER COMPREHENSIVE INCOME		
0	0	Level 1: Value based on prices in an active market	0	0
0	0	Level 2: Value based on observable market data	0	0
9 280 808	10 883 569	Level 3: Value based on other than observable market data	0	0
9 280 808	**10 883 569**	**Total mortgage assessed at fair value over other comprehensive income**	**0**	**0**
10 282 631	**12 178 077**	**Total financial assets recognized at fair value.**	**3 161 403**	**2 079 887**
		FINANCIAL LIABILITIES RECOGNIZED AT FAIR VALUE:		
		FINANCIAL DERIVATIVES (LIABILITIES) - FAIR VALUE HEDGING		
0	0	Level 1: Value based on prices in an active market	0	0
6 552	3 781	Level 2: Value based on observable market data	64 455	111 955
0	0	Level 3: Value based on other than observable market data	0	0
6 552	**3 781**	**Total financial derivatives (liabilities)**	**64 455**	**111 955**
6 552	**3 781**	**Total financial assets recognized at fair value.**	**64 455**	**111 955**

NOTE 8 Fair value hierarchy - cont.

KLP Banken AS		NOK THOUSANDS	KLP Banken Group	
31.12.2018 Book value	31.12.2019 Book value		31.12.2019 Book value	31.12.2018 Book value
		CHANGES IN LEVEL 3 UNLISTED SECURITIES		
461	2 053	Opening balance 1 January	2 053	461
0	0	Additions/purchases of shares	0	0
1 592	0	Unrealized changes	0	1 592
2 053	**2 053**	**Closing balance**	**2 053**	**2 053**
0	0	Realized gains/losses	0	0
		CHANGES IN LEVEL 3 LOANS TO AND RECEIVABLES FROM CUSTOMERS		
9 152 779	9 280 808	Opening balance 1 January		
2 784 293	4 920 315	Loans to and receivables from customers		
-2 655 329	-3 329 172	Overdue/redeemed loans to and receivables from customers		
-935	11 619	Net other changes		
9 280 808	**10 883 569**	**Closing balance**		

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

LEVEL 2
Instruments in 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 not therefore 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.

Note 6 discloses the fair value of financial assets and financial liabilities that are recognized at amortized cost and according to the rules on hedge accounting . Financial assets measured at amortized cost and hedge accounting comprise lending to and due to credit institutions, Norwegian municipalities and retail customers. The stated fair value of these assets is determined on terms qualifying for level 2. Financial liabilities recognized at amortized cost and hedge accounting consist of debt securities issued and deposits. The stated fair value of these liabilities is determined by methods qualifying for level 2.

There have been no transfers between level 1 and level 2.

NOTE 9 Hedge accounting

NOK THOUSANDS 31.12.2019		Changes in fair value		Book value		Accumulated	
KLP Banken AS KLP Banken Group	Nominal value	Assets	Liabilities	Assets	Liabilities	Changed value in hedged risk	Effective-ness
HEDGED OBJECT							
Mortgage loans with fixed interest rates	98 226	2 679	0	101 414	0	3 187	119.9 %
HEDGING INSTRUMENT							
Interest rate swap loans with fixed interest	117 100	-6	2 735	36	-2 693	-2 657	83.4 %

Other hedging relationships in KLP Banken Group and which are stated in note 7 are 100% effective.
See note 7 for nominal amounts and the fair value of these derivatives.
The ineffective proportion of the Group reports hedging recognized through profit or loss amounts to NOK 50,000 in 2019.

NOK THOUSANDS 31.12.2018		Changes in fair value		Book value		Accumulated	
KLP Banken AS KLP Banken Group	Nominal value	Assets	Liabilities	Assets	Liabilities	Changed value in hedged risk	Effective-ness
HEDGED OBJECT							
Mortgage loans with fixed interest rates	133 040	-3 875	0	138 906	0	5 866	89.8 %
HEDGING INSTRUMENT							
Interest rate swap loans with fixed interest	135 800	155	4 040	21	-6 552	-6 531	111.3 %

Other hedging relationships in KLP Banken AS Group and which are stated in note 7 are 100% effective.
See note 7 for nominal amounts and the fair value of these derivatives.
The ineffective proportion of the Group reports hedging recognized through profit or loss amounts to NOK 320,000 in 2018.

NOTE 10 Net interest income

KLP Banken AS		NOK THOUSANDS	KLP Banken Group	
01.01.2018 -31.12.2018	01.01.2019 -31.12.2019		01.01.2019 -31.12.2019	01.01.2018 -31.12.2018
265 030	330 155	Interest income on loans to customers, amortised cost	892 192	744 554
6 742	9 971	Interest income on loans to credit institutions, amortised cost	17 898	13 266
271 772	**340 126**	**Total interest income, amortised cost**	**910 090**	**757 820**
14 366	21 010	Interest income on bonds and certificates, fair value	58 866	34 883
11 665	1 976	Other interest income, fair value	105 958	147 762
26 031	**22 986**	**Total interest income, fair value**	**164 825**	**182 646**
297 804	**363 111**	**Total interest income**	**1 074 914**	**940 466**
-135 139	-171 759	Interest expenses on debt to KLP Banken, amortised cost	-171 759	-135 139
-22 152	-20 166	Interest expenses on issued securities, amortised cost	-486 384	-372 858
0	-82	Interest expense lease liabilities	-82	0
-157 291	**-192 006**	**Total interest costs, amortised cost**	**-658 224**	**-507 997**
-12 147	-4 152	Other interest expenses, fair value	-123 819	-183 938
-12 147	**-4 152**	**Total interest costs, fair value**	**-123 819**	**-183 938**
-169 438	**-196 158**	**Total interest costs**	**-782 044**	**-691 935**
128 365	**166 953**	**Net interest income**	**292 871**	**248 531**

NOTE 11 Net commission income

KLP Banken AS		NOK THOUSANDS	KLP Banken Group	
01.01.2018 -31.12.2018	01.01.2019 -31.12.2019		01.01.2019 -31.12.2019	01.01.2018 -31.12.2018
80	134	Interbank commission	134	80
4 470	7 671	Short commission	7 671	4 470
564	397	Payment handling	397	564
13 374	13 037	Other commission income	13 037	13 374
18 488	**21 240**	**Total commission income**	**21 240**	**18 488**
-281	-278	Interbank commission	-278	-281
-780	-1 199	Payment handling	-1 199	-780
-113	-562	Other commission expenses	-562	-113
-1 174	**-2 040**	**Total commission costs**	**-2 040**	**-1 174**
17 314	**19 200**	**Net commission income**	**19 200**	**17 314**

NOTE 12 Financial risk management

ORGANISATION OF RISK MANAGEMENT

The Board of Directors of the Bank has established a risk management framework aimed at ensuring that risks are identified, analysed and subjected to management using policies, limits, procedures and instructions. The Board has adopted risk policies covering the key individual risks as well as an overarching risk policy that covers principles, organisation, limits etc. for the bank's total risk. The risk policies are of an overarching nature and are complemented by procedures, guidelines and instructions laid down at the senior management level. The policies state which departments are responsible for handling the various risks and also cover the establishment of a separate risk control function. One purpose of the risk control function is to check that the risk policies and other guidelines for risk management are being followed. This function is carried out by the Risk Analysis and Control Department, which is responsible for preparing periodic risk reports to senior management and the Board as well is reporting in the event of breaches of policies or guidelines. The Department, which has an independent role in relation to other departments, also has other tasks associated with the Bank's risk management. The responsibility for the operational direction of the Bank's liquidity risk, exchange-rate risk and interest rate risk lies with the Finance Department. KLP Banken has established a risk committee, which is a sub-committee of the Board. The risk committee deals with matters specifically related to risk and has an advisory function to the Board.

NOTE 13 Credit risk

Credit risk is defined as the risk of loss associated with loan customers, counterparties in derivatives, issuers of securities and other counterparties being unable or unwilling to settle at the agreed time and in accordance with written contracts, where the collateral established does not cover the outstanding demand. The Group provides loans to retail customers, Norwegian municipalities and county administrations, local government enterprises, intermunicipal companies and loans to companies where the loan is guaranteed by a Norwegian municipality or county administration.

13.1 CONTROL AND LIMITATION OF CREDIT RISK

The Board has determined a policy for credit risk that contain overarching guidelines, requirements and limits associated with credit risk. The policy state that the bank is to have a low credit risk profile and includes limits on types of lending and principles for organisation and operation of the bank's lending activity. The bank has the opportunity to take some higher risk within some products, but loan products to retail customers other than mortgage loans may not amount to more than 10 per cent of the bank's total lending in the retail market. The policy also includes an overarching mandate structure for lending and other counterparty exposure.

Credit risk associated with issuers of securities, derivative counterparties and other counterparties in the financial area is also limited by Board-determined limits on individual counterparties. These limits are based on the counterparty's solvency and other assessments of the counterparties' creditworthiness.

In processing all new loan applications in the public sector, checks are made on whether the customer's credit limits are larger than the total of the loan amounts applied for and current lending. In the credit risk policy described above, requirements are set for reporting to the Board on the use of the limits. Any exceeding of the limits is to be reported to the Company's Board regardless. All loans in the public sector market in KLP Banken are provided to municipalities or county administrations, or with a municipal/county administration guarantee. In the retail market, loans are provided with a mortgage on housing or leisure real estate, generally within 75 per cent of the market value of the mortgaged object. In processing loan applications the borrower's servicing ability and the value of the mortgage object is assessed and loans are provided only within set limits and authorizations. In addition, KLP Banken provides unsecured credit to private individuals through credit cards according to credit rating of the customer's ability to pay and debt ratio.

The market value of the mortage assets is updated quarterly against Eiendomsverdis of market value of housing in Norway.

NOTE 13 Credit risk - cont.

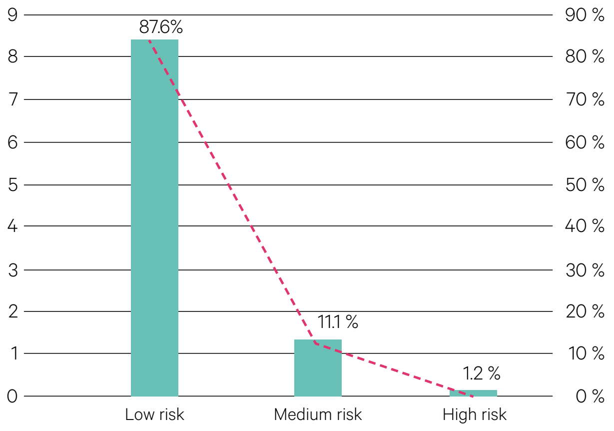
13.2 LOANS ACCORDING TO TYPE OF SECURITY/EXPOSURE (PRINCIPAL)

NOK THOUSANDS	KLP Banken AS		KLP Banken Group	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Retail mortgage loans	10 966 345	9 410 016	18 294 377	16 629 307
Unsecured retail loans (credit cards)	63 136	66 393	63 136	66 393
Lending to municipalities and county administrations	0	0	15 141 619	14 482 457
Lending with municipal/county administration guarantee	0	0	1 326 874	2 164 226
Total	**11 029 481**	**9 476 409**	**34 826 006**	**33 342 383**
Sums falling due more than 12 months after the end of the reporting period	10 787 049	9 268 568	33 489 334	31 997 745
ALLOCATION OF LOAN TO VALUE (PRINCIPAL) FOR RETAIL MORTGAGE LOANS				
Loan to value ratio up to 50 per cent	2 404 050	2 223 654	5 693 203	5 695 980
Loan to value ratio from 51 to 60 per cent	879 203	791 214	2 696 119	2 526 104
Loan to value ratio from 61 to 75 per cent	2 663 344	2 643 170	4 667 014	4 572 216
Loan to value ratio above 75 per cent	5 019 747	3 751 978	5 238 041	3 835 007
Total	**10 966 345**	**9 410 016**	**18 294 377**	**16 629 307**

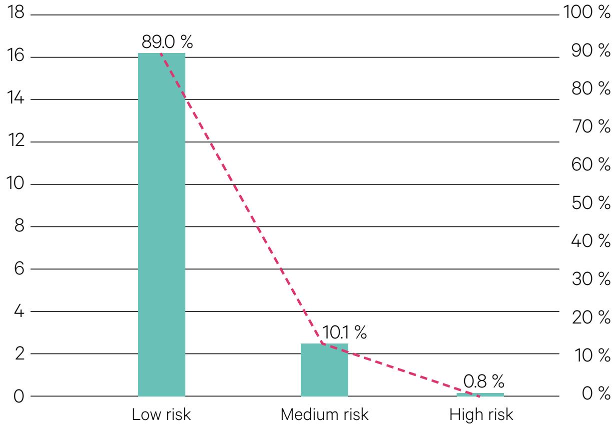
KLP Banken uses a risk classification system to classify retail customers with loans or credits. Customers are classified from A to K, where A indicates very low risk, whereas K is for customers who have incurred losses on the bank. Below is a distribution table where the volume of loans is divided into low, medium and high risk, where low risk is defined as lending to customers with A or B classification, medium risk is defined as lending to customers with C or D classification, and high risk is defined as lending to customers with E to K classification.

NOTE 13 Credit risk - cont.

HOME LOANS IN KLP BANKEN AS
NOK MRD.



HOME LOANS IN KLP BANKEN GROUP
NOK MRD.



The table below shows the total book value of the various risk classes and per stage in the impairment model. Stage 1 is all healthy loans, which must be written down with estimated losses for 12 months. Stage 2 indicates that the engagement has a substantially increased credit risk since the initial recognition on the balance sheet, and means that the loan must be written down with estimated losses throughout the entire term. Stage 3 is all loans with individual loss write-downs, and must be written down with estimated losses throughout the entire term.

2019 LENDING IN KLP BANKEN AS	Stage 1	Stage 2	Stage 3	Total CB book value
Low risk - risk class A	3 229 951	-	-	3 229 951
Low risk - risk class B	6 447 308	1 109	1 158	6 449 575
Medium risk - risk class C	820 352	8 855	1 250	830 457
Medium risk - risk class D	352 509	23 893	21 646	398 049
High risk - risk class E	36 036	26 382	38 940	101 357
High risk - risk class F	304	5 120	12 961	18 385
High risk - risk class K	-	-	10 083	10 083
Engagements without risk class (new customers)	10 685	-	-	10 685
Total CB book value	**10 897 145**	**65 358**	**86 038**	**11 048 542**

NOTE 13 Credit risk - cont.

2019 LENDING IN KLP BANKEN GROUP	Stage 1	Stage 2	Stage 3	Total CB book value
Low risk - risk class A	6 797 635	-	-	6 797 635
Low risk - risk class B	9 571 473	1 109	1 158	9 573 739
Medium risk - risk class C	1 258 687	8 855	1 250	1 268 792
Medium risk - risk class D	530 286	32 295	21 646	584 227
High risk - risk class E	53 751	29 352	38 940	122 042
High risk - risk class F	304	5 120	12 961	18 385
High risk - risk class K	-	-	10 083	10 083
Engagements without risk class (new customers)	16 544 545	-	-	16 544 545
Total CB book value	**34 756 680**	**76 730**	**86 038**	**34 919 449**

2019 UNUSED CREDIT IN KLP BANKEN AS	Stage 1	Stage 2	Stage 3	Total unused credit
Low risk - risk class A	558 308	-	-	558 308
Low risk - risk class B	302 709	34	35	302 778
Medium risk - risk class C	23 091	1 127	27	24 246
Medium risk - risk class D	2 868	1 056	-	3 923
High risk - risk class E	-	41	-	41
High risk - risk class F	-	-	-	-
High risk - risk class K	-	-	8	8
Engagements without risk class (new customers)	5 288	-	-	5 288
Total unused credit	**892 264**	**2 258**	**71**	**894 592**

2019 UNUSED CREDIT IN KLP BANKEN GROUP	Stage 1	Stage 2	Stage 3	Total unused credit
Low risk - risk class A	558 308	-	-	558 308
Low risk - risk class B	302 709	34	35	302 778
Medium risk - risk class C	23 091	1 127	27	24 246
Medium risk - risk class D	2 868	1 056	-	3 923
High risk - risk class E	-	41	-	41
High risk - risk class F	-	-	-	-
High risk - risk class K	-	-	8	8
Engagements without risk class (new customers)	5 288	-	-	5 288
Total unused credit	**892 264**	**2 258**	**71**	**894 592**

NOTE 13 Credit risk - cont.

2018 LENDING IN KLP BANKEN AS	Stage 1	Stage 2	Stage 3	Total CB book value
Low risk - risk class A	8 572 628	6 860	-	8 579 487
Low risk - risk class B	595 836	19 674	-	615 510
Medium risk - risk class C	146 424	29 514	-	175 937
Medium risk - risk class D	8 116	30 332	-	38 448
High risk - risk class E	106	56 804	-	56 910
High risk - risk class F	-	3 737	-	3 737
High risk - risk class K	-	-	14 986	14 986
Engagements without risk class (new customers)	520	-	108	628
Correction (errors last year)	-	-41 177	41 177	-
Total CB book value	**9 323 629**	**105 744**	**56 271**	**9 485 644**

2018 LENDING IN KLP BANKEN GROUP	Stage 1	Stage 2	Stage 3	Total CB book value
Low risk - risk class A	15 465 138	8 704	-	15 473 842
Low risk - risk class B	879 665	25 101	-	904 766
Medium risk - risk class C	180 864	31 720	-	212 584
Medium risk - risk class D	8 469	32 892	-	41 360
High risk - risk class E	106	60 654	-	60 760
High risk - risk class F	-	3 737	-	3 737
High risk - risk class K	-	-	14 986	14 986
Engagements without risk class (new customers)	16 704 520	-	108	16 704 628
Correction (errors last year)	-	-41 177	41 177	-
Total CB book value	**33 238 762**	**121 631**	**56 271**	**33 416 664**

2018 UNUSED CREDIT IN KLP BANKEN AS	Stage 1	Stage 2	Stage 3	Total unused credit
Low risk - risk class A	605 402	45	-	605 447
Low risk - risk class B	84 158	34	-	84 192
Medium risk - risk class C	61 670	659	-	62 329
Medium risk - risk class D	6 530	4 591	-	11 121
High risk - risk class E	179	196	-	375
Total unused credit	**757 939**	**5 525**	**-**	**763 465**

2018 UNUSED CREDIT IN KLP BANKEN GROUP	Stage 1	Stage 2	Stage 3	Total unused credit
Low risk - risk class A	605 402	45	-	605 447
Low risk - risk class B	84 158	34	-	84 192
Medium risk - risk class C	61 670	659	-	62 329
Medium risk - risk class D	6 530	4 591	-	11 121
High risk - risk class E	179	196	-	375
Total unused credit	**757 939**	**5 525**	**-**	**763 465**

NOTE 13 Credit risk - cont.

The KLP Banken Group also invests in securities issued by the government, municipalities and county administrations and deposits in banks satisfying minimum rating requirements as well as covered bonds issued by Norwegian credit enterprises.

Credit quality of securities, bank deposits and derivatives
Securities with external credit rating (Moody's)

NOK THOUSANDS	KLP Banken AS		KLP Banken Group	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
AAA	1 271 194	978 311	3 097 307	1 993 914
Aa1-Aa3	21 196	21 437	21 196	21 437
Total	**1 292 390**	**999 748**	**3 118 503**	**2 015 351**

Deposits in banks grouped by external credit assessment (Moody's)

NOK THOUSANDS	KLP Banken AS		KLP Banken Group	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Aa1-Aa3	378 262	358 644	935 955	756 269
A1-A3	396 475	282 568	561 838	683 151
Total	**774 736**	**641 212**	**1 497 793**	**1 439 420**

The bank Group may also be exposed to credit risk as a result of interest rate derivatives. The purpose of such derivatives is to reduce interest rate risk arising as a result of the Group's borrowing and lending activities. The Group's internal policy sets out the requirements for the creditworthiness of derivative counterparties. All derivative agreements are entered into with counterparties with a minimum A1 rating (Moody's).

13.3 MAXIMUM EXPOSURE TO CREDIT RISK

Maximum exposure is measured as a total of principal and accrued interest. Security in cash or securities is not exchanged, nor are other credit improvements carried out. The table below shows the maximum exposure for the parent bank and the Group.

NOTE 13 Credit risk - cont.

Maximum exposure to credit risk

NOK THOUSANDS	KLP Banken AS		KLP Banken Group	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Receivables from central banks	68 798	60 238	68 798	60 238
Loans to and receivables from credit institutions	1 482 063	2 108 333	1 497 793	1 439 420
Loans to and receivables from customers	11 048 542	9 487 563	34 919 449	33 418 583
- of which retail mortgage loans	10 983 718	9 418 948	18 320 765	16 645 968
- of which retail credit cards	64 824	68 615	64 824	68 615
- of which lending to the public sector	0	0	16 533 860	16 704 000
Fixed-income securities	1 292 390	999 748	3 118 503	2 015 351
Financial derivatives	64	21	40 849	62 482
Off-balance sheet items (new in 2018 - IFRS 9)	894 592	763 465	894 592	763 465
Loan loss provisions rated at amortized cost	825	1 059	3 878	2 764
Loan loss provisons rated at a real value over other comprehensive income	2 868	1 536	0	0
Loan loss provisions on off-balance items	2 833	2 557	2 832	2 557
TOTAL	**14 792 976**	**13 424 520**	**40 546 695**	**37 764 859**

13.4 LOAN LOSS PROVISIONS

The bank has very low losses, cf. Note 18 and considers all receivables to be satisfactorily secured. All mortgage loans to the retail market in KLP Banken are secured with mortgages generally within 85 per cent of the market value, and any losses will only arise when the value of the mortgaged object falls below the residual amount of the loan. In addition, the bank has issued credit cards to customers in the retail market. These are unsecured receivables with a higher risk of loss than for mortgage-secured loans. Loans in the public sector market are provided to municipalities or county administrations, or to undertakings with a municipal/county administration guarantee. KLP Banken has had no write-downs or losses in the public sector market.

NOTE 13 Credit risk - cont.

Loans fallen due or written down

NOK THOUSANDS	KLP Banken AS		KLP Banken Group	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Principal on loans with payments overdue by 7-30 days	253 358	165 195	351 596	233 376
Principal on loans with payments overdue by 31-90 days	77 460	56 038	77 652	56 038
Principal on non-performing loans	84 967	56 271	84 967	56 271
Total loans fallen due	**415 785**	**277 504**	**514 215**	**345 685**
Relevant collateral or guarantees	299 207	264 669	397 445	332 850
Principal on lending that has been written down	3 635	5 861	3 635	5 861
- of which written down	1 794	973	1 794	973

13.5 CONCENTRATION OF CREDIT RISK

A large proportion of the Group’s lending at the end of the year was linked to public sector financing and the portfolio thus has high concentration against one single sector. The underlying credit risk against this sector is however so low that it is hardly possible to reduce this concentration without increasing total risk in the portfolio. The concentration against the Norwegian public sector is thus considered not to be a risk challenge. The concentration against individual borrowers is limited by individual Board-set limits.

Lending to the Group’s largest borrower as at 31 December 2019 was approximately 2.1 per cent of the Group’s total lending.

NOTE 14 Market risk

Market risk is understood here as the risk of reduced fair value of the Bank's owners' equity as a result of fluctuations in market prices for the Bank's assets and liabilities. Changes in credit margins are excluded since this comes under the term credit risk.

The Group is exposed to market risk as a result of the Group's borrowing and lending activity and management of the Group's liquidity. The exposure is however limited to interest rate risk and exchange rate risk. Interest rate risk arises as a result of differences in timing of interest rate adjustment for the Company's assets and liabilities. The risk associated with such imbalances is reduced by using derivative contracts. All of the Company's borrowing is in NOK, and the whole of the lending portfolio comprises loans in NOK.

14.1 MEASUREMENT OF MARKET RISK

Interest rate risk is measured as change in value on a one percentage point change in all interest rates.

14.2 INTEREST RATE RISK

The market risk policy is the Group's overarching guidelines, requirements and limits associated with market risk. The policy dictates that the market risk should be minimized so that the total market risk is low. It further states that the Group should not actively take positions that expose the Group to market risk. The policy also sets limits for interest rate risk both for the total interest rate risk for the infinite future and for rolling 12-month periods. The risk limits are set to ensure that low market risk profile policy in complied with. The operational responsibility for managing the Company's market risk lies with the Finance Department. The Risk Analysis and Control Department reports the Company's actual exposure in relation to limits in accordance with guidelines set by the Board.

Interest rate risk arises because the fixed interest periods for the Bank's assets and liabilities are not the same. The gap in the table below shows the difference between assets and liabilities that can be interest-adjusted within the given time intervals. The repricing date shows the time to the next agreed interest adjustment date. Floating-rate loans and deposits, and cash, and receivables from credit institutions, fall into the time interval up to one month, while fixed-interest loans, securities and liabilities created on issuance of securities fall into the time interval for which interest adjustment has been agreed.

INTEREST RISK KLP BANKEN AS
Repricing dates for interest-bearing assets and liabilities as at 31 December 2019

NOK THOUSANDS	Total Principal	Up to 1 mth	From 1 mth to 3 mths	From 3 mths to 12 mths	From 1 year to 5 years	Over 5 years
Lending	10 966 345	2 849 796	8 022 520	11 341	80 507	2 181
Fixed-income securities	1 279 000	154 000	1 125 000	0	0	0
Cash and receivables from central banks and credit institutions	2 257 738	2 257 738	0	0	0	0
Total	**14 503 083**	**5 261 534**	**9 147 520**	**11 341**	**80 507**	**2 181**
Liabilities to depositors	11 486 525	11 486 525	0	0	0	0
Liabilities created on issuance of securities	1 400 000	300 000	1 100 000	0	0	0
Total	**12 886 525**	**11 786 525**	**1 100 000**	**0**	**0**	**0**
Gap	**1 616 558**	**-6 524 991**	**8 047 520**	**11 341**	**80 507**	**2 181**
Financial derivatives	0	10 000	98 800	0	-108 800	0
Net gap	**1 616 558**	**-6 514 991**	**8 146 320**	**11 341**	**-28 293**	**2 181**

NOTE 14 Market risk - cont.

INTEREST RISK KLP BANKEN GROUP

Repricing dates for interest-bearing assets and liabilities as at 31 December 2019

NOK THOUSANDS	Total Principal	Up to 1 mth	From 1 mth to 3 mths	From 3 mths to 12 mths	From 1 year to 5 years	Over 5 years
Lending	34 762 870	14 069 989	17 443 602	759 835	2 020 253	469 191
Fixed-income securities	3 084 000	339 000	2 745 000	0	0	0
Cash and receivables from central banks and credit institutions	2 273 918	2 273 918	0	0	0	0
Total	**40 120 788**	**16 682 907**	**20 188 602**	**759 835**	**2 020 253**	**469 191**
Liabilities to depositors	11 486 525	11 486 525	0	0	0	0
Liabilities created on issuance of securities	25 718 000	5 314 000	18 400 000	904 000	600 000	500 000
Total	**37 204 525**	**16 800 525**	**18 400 000**	**904 000**	**600 000**	**500 000**
Gap	**2 916 263**	**-117 618**	**1 788 602**	**-144 165**	**1 420 253**	**-30 809**
Financial derivatives	0	-159 658	1 340 585	358 391	-1 338 509	-200 809
Net gap	**2 916 263**	**-277 276**	**3 129 187**	**214 226**	**81 744**	**-231 618**

INTEREST RISK KLP BANKEN AS

Repricing dates for interest-bearing assets and liabilities as at 31 December 2018

NOK THOUSANDS	Total Principal	Up to 1 mth	From 1 mth to 3 mths	From 3 mths to 12 mths	From 1 year to 5 years	Over 5 years
Lending	9 410 016	2 644 715	6 633 501	20 071	96 769	14 960
Fixed-income securities	989 000	199 000	790 000	0	0	0
Cash and receivables from central banks and credit institutions	2 158 835	2 158 835	0	0	0	0
Total	**12 557 851**	**5 002 550**	**7 423 501**	**20 071**	**96 769**	**14 960**
Liabilities to depositors	10 661 749	10 661 749	0	0	0	0
Liabilities created on issuance of securities	1 013 000	285 000	728 000	0	0	0
Total	**11 674 749**	**10 946 749**	**728 000**	**0**	**0**	**0**
Gap	**883 102**	**-5 944 199**	**6 695 501**	**20 071**	**96 769**	**14 960**
Financial derivatives	0	27 400	108 400	-17 900	-108 700	-9 200
Net gap	**883 102**	**-5 916 799**	**6 803 901**	**2 171**	**-11 931**	**5 760**

NOTE 14 Market risk - cont.

INTEREST RISK KLP BANKEN GROUP

Repricing dates for interest-bearing assets and liabilities as at 31 December 2018

NOK THOUSANDS	Total Principal	Up to 1 mth	From 1 mth to 3 mths	From 3 mths to 12 mths	From 1 year to 5 years	Over 5 years
Lending	33 275 990	13 033 103	16 333 316	1 187 843	2 216 277	505 451
Fixed-income securities	1 998 381	501 688	1 496 693	0	0	0
Cash and receivables from central banks and credit institutions	1 490 765	1 490 765	0	0	0	0
Total	**36 765 136**	**15 025 556**	**17 830 009**	**1 187 843**	**2 216 277**	**505 451**
Liabilities to depositors	10 661 749	10 661 749	0	0	0	0
Liabilities created on issuance of securities	23 942 000	10 085 000	10 929 000	1 078 000	1 350 000	500 000
Total	**34 603 749**	**20 746 749**	**10 929 000**	**1 078 000**	**1 350 000**	**500 000**
Gap	**2 161 387**	**-5 721 193**	**6 901 009**	**109 843**	**866 277**	**5 451**
Financial derivatives	0	-5 918	1 781 751	-766 027	-820 509	-189 297
Net gap	**2 161 387**	**-5 727 111**	**8 682 760**	**-656 184**	**45 768**	**-183 846**

The Company's interest rate sensitivity as at 31 December 2019 (2018), measured as value change in the event of one percentage point change in all interest rates, was NOK 7.4 million (0.2).

NOTE 15 Liquidity risk

Liquidity risk means the risk that the Bank does not manage to meet its obligations and/or finance increases in its assets without substantial additional costs arising in the form of price falls in assets that must be realized, or in the form of more costly financing.

15.1 MANAGEMENT OF LIQUIDITY RISK

A liquidity policy is established for the Group containing principles, guidelines, requirements and limits that apply to the management of the liquidity risk. The policy contains various requirements and limits in order to comply with the desired liquidity risk profile, including targets for deposit cover, limits for refinancing needs for various timeframes and liquidity buffer requirements. The Board has further adopted an emergency plan for liquidity crises as part of the liquidity policy. In addition to the requirements at Group level, separate specific requirements have been established for subsidiaries, including requirements for continuously positive cash flows, limits for refinancing requirements and requirements for liquidity reserves and drawing rights. The operational responsibility for managing the Company's liquidity risk lies with the Finance Department. The Risk Analysis and Control Department reports the Company's actual exposure in relation to limits in accordance with guidelines set by the Board.

NOTE 15 Liquidity risk - cont.

15.2 MATURITY ANALYSIS

The tables below show the maturity analysis of the Group's assets and liabilities including stipulated interest rates.

Liquidity risk KLP Banken AS
Maturity analysis for assets and liabilities as at 31 December 2019:

NOK THOUSANDS	Total	Undefined	Up to 1 mth	From 1 mth to 3 mths	From 3 mths to 12 mths	From 1 year to 5 years	Over 5 years
Lending	11 308 127	0	38 586	77 670	354 400	2 368 447	8 469 025
Credit Card issued	64 093	64 093	0	0	0	0	0
Securities	1 358 200	0	935	180 663	33 613	1 142 989	0
Receivables from credit institutions	2 209 056	0	1 482 934	1 686	7 726	716 710	0
Deposits in central banks	68 798	0	68 798	0	0	0	0
Total	**15 008 273**	**64 093**	**1 591 253**	**260 018**	**395 739**	**4 228 145**	**8 469 025**
Liabilities to depositors	11 486 525	11 486 525	0	0	0	0	0
Liabilities created on issuance of securities	1 475 727	0	1 610	310 414	319 595	844 108	0
Financial derivatives	-3 855	0	-300	421	-1 917	-2 059	0
Liabilities to credit institutions	0	0	0	0	0	0	0
Total	**12 958 398**	**11 486 525**	**1 310**	**310 834**	**317 678**	**842 050**	**0**
Net cash flow	**2 049 876**	**-11 422 432**	**1 589 943**	**-50 816**	**78 060**	**3 386 096**	**8 469 025**

LIQUIDITY RISK KLP BANKEN GROUP
Maturity analysis for assets and liabilities as at 31 December 2019:

NOK THOUSANDS	Total	Undefined	Up to 1 mth	From 1 mth to 3 mths	From 3 mths to 12 mths	From 1 year to 5 years	Over 5 years
Lending	43 052 843	0	133 025	343 929	1 715 625	11 125 409	29 734 854
Credit Card issued	64 093	64 093	0	0	0	0	0
Securities	3 275 970	0	2 019	254 302	120 502	2 899 147	0
Receivables from credit institutions	1 497 793	0	1 497 793	0	0	0	0
Deposits in central banks	68 798	0	68 798	0	0	0	0
Total	**47 959 497**	**64 093**	**1 701 635**	**598 231**	**1 836 128**	**14 024 556**	**29 734 854**
Liabilities to depositors	11 486 525	11 486 525	0	0	0	0	0
Liabilities created on issuance of securities	28 094 897	0	33 208	409 192	2 178 108	24 950 388	524 000
Financial derivatives	-23 920	0	-2 397	-5 426	-2 238	-18 508	4 650
Liabilities to credit institutions	0	0	0	0	0	0	0
Total	**39 557 502**	**11 486 525**	**30 811**	**403 766**	**2 175 870**	**24 931 880**	**528 650**
Net cash flow	**8 401 995**	**-11 422 432**	**1 670 824**	**194 465**	**-339 742**	**-10 907 324**	**29 206 204**

NOTE 15 Liquidity risk - cont.

LIQUIDITY RISK KLP BANKEN AS

Maturity analysis for assets and liabilities as at 31 December 2018:

NOK THOUSANDS	Total	Undefined	Up to 1 mth	From 1 mth to 3 mths	From 3 mths to 12 mths	From 1 year to 5 years	Over 5 years
Lending	8 811 199	0	30 894	62 386	285 339	1 532 633	6 899 946
Credit Card issued	67 246	67 246	0	0	0	0	0
Securities	1 039 705	0	852	127 847	11 251	899 755	0
Receivables from credit institutions	2 148 298	0	642 912	3 373	15 723	1 486 290	0
Deposits in central banks	60 238	0	60 238	0	0	0	0
Total	**12 126 685**	**67 246**	**734 895**	**193 606**	**312 314**	**3 918 678**	**6 899 946**
Liabilities to depositors	10 661 749	10 661 749	0	0	0	0	0
Liabilities created on issuance of securities	1 039 195	0	86 177	3 249	536 247	413 522	0
Financial derivatives	7 813	0	339	-272	2 432	5 266	48
Liabilities to credit institutions	0	0	0	0	0	0	0
Total	**11 708 757**	**10 661 749**	**86 516**	**2 977**	**538 678**	**418 788**	**48**
Net cash flow	**417 928**	**-10 594 504**	**648 379**	**190 629**	**-226 365**	**3 499 890**	**6 899 899**

LIQUIDITY RISK KLP BANKEN GROUP

Maturity analysis for assets and liabilities as at 31 December 2018:

NOK THOUSANDS	Total	Undefined	Up to 1 mth	From 1 mth to 3 mths	From 3 mths to 12 mths	From 1 year to 5 years	Over 5 years
Lending	37 592 652	0	117 925	319 369	1 608 410	8 168 513	27 378 435
Credit Card issued	67 246	67 246	0	0	0	0	0
Securities	2 095 671	0	2 011	192 737	98 215	1 802 708	0
Receivables from credit institutions	1 439 420	0	1 439 420	0	0	0	0
Deposits in central banks	60 238	0	60 238	0	0	0	0
Total	**41 255 227**	**67 246**	**1 619 594**	**512 106**	**1 706 625**	**9 971 221**	**27 378 435**
Liabilities to depositors	10 661 749	10 661 749	0	0	0	0	0
Liabilities created on issuance of securities	25 108 274	0	126 611	47 756	2 423 104	21 962 802	548 000
Financial derivatives	50 553	0	2 486	9 305	9 622	42 852	-13 713
Liabilities to credit institutions	0	0	0	0	0	0	0
Total	**35 820 576**	**10 661 749**	**129 097**	**57 062**	**2 432 727**	**22 005 654**	**534 287**
Net cash flow	**5 434 651**	**-10 594 504**	**1 490 497**	**455 044**	**-726 101**	**-12 034 433**	**26 844 148**

NOTE 16 Fixed-income securities

KLP Banken AS				NOK THOUSANDS	KLP Banken Group			
31.12.2019					31.12.2019			
Acquisition cost	**Unreal. gain/loss**	**Accr. int. not due**	**Market value**	**Debtor categories**	**Acquisition cost**	**Unreal. gain/loss**	**Accr. int. not due**	**Market value**
174 510	137	0	174 647	Government/social security administration	238 331	186	0	238 517
972 747	-93	2 219	974 873	Credit enterprises	2 735 222	-3 532	5 426	2 737 116
21 444	-402	150	21 192	Foreign credit institutions (not banks)	21 444	-402	150	21 192
121 314	131	233	121 678	Multilateral development banks (not banks)	121 314	131	233	121 678
1 290 015	**-227**	**2 603**	**1 292 390**	**Total fixed-income securities**	**3 116 311**	**-3 617**	**5 809**	**3 118 503**

Effective interest rate: 2.03%

Effective interest rate: 2.04%

KLP Banken AS				NOK THOUSANDS	KLP Banken Group			
31.12.2018					31.12.2018			
Acquisition cost	**Unreal. gain/loss**	**Accr. int. not due**	**Market value**	**Debtor categories**	**Acquisition cost**	**Unreal. gain/loss**	**Accr. int. not due**	**Market value**
124 829	-33	0	124 796	Government/social security administration	186 732	-37	0	186 695
730 661	-441	1 358	731 578	Credit enterprises	1 683 541	-1 451	3 193	1 685 282
21 440	-127	117	21 434	Foreign credit institutions (not banks)	21 444	-127	117	21 434
121 314	466	161	121 940	Multilateral development banks (not banks)	121 314	466	161	121 940
998 243	**-134**	**1 635**	**999 748**	**Total fixed-income securities**	**2 013 031**	**-1 149**	**3 471**	**2 015 351**

Effective interest rate: 1.41%

Effective interest rate: 1.44%

Effective interest is calculated as a yield-to-maturity, i.e. it is the constant interest rate level at which one may discount all the future cash flows from the securities to obtain the securities' total market value.

NOTE 17 Lending and receivables

KLP Banken AS		NOK THOUSANDS	KLP Banken Group	
31.12.2018	31.12.2019		31.12.2019	31.12.2018
		LOANS TO AND RECEIVABLES FROM CREDIT INSTITUTIONS		
641 212	843 534	Bank deposits (of which are restricted witholdings 2 658)	1 566 591	1 439 420
1 466 279	706 877	Principal on loans to Group companies	0	0
842	450	Accrued interest on loans to Group companies	0	0
2 108 333	**1 550 861**	**Loans to and receivables from credit institutions**	**1 566 591**	**1 439 420**
		LOANS TO AND RECEIVABLES FROM CUSTOMERS		
9 406 977	10 973 246	Principal on loans to customers	34 769 527	33 272 780
67 757	63 945	Credit portfolio	63 945	67 757
436	506	Overdraft current account	506	436
-1 604	-1 145	Write-downs step 1 and 2	-1 328	-1 774
-990	-2 547	Write-downs step 3	-2 547	-990
9 121	11 878	Accrued interest	86 259	74 167
0	0	Premium/discount	-7 202	-9 970
5 866	3 187	Fair value hedging	24 585	71 598
9 487 563	**11 049 070**	**Loans to and receivables from customers**	**34 933 743**	**33 474 004**

NOTE 18 Loan loss provision

FRAMEWORK FOR LOAN LOSS PROVISIONS

The new accounting standard IFRS 9 was introduced on 1 January 2018 and changed the methodology for provisions for losses on financial instruments in the accounts. The measurement of the provision for expected credit losses on financial assets depends on whether the credit risk has increased significantly since initial recognition. At initial recognition and if the credit risk has not increased significantly, the provision should equal 12-month expected credit losses (stage 1). If the credit risk has increased significantly from the initial recognition (stage 2) or if the asset is classified as impaired (stage 3), the provision should equal lifetime expected credit losses.

CALCULATION OF EXPECTED CREDIT LOSS

Expected credit loss (ECL) is calculated as the exposure at default (EAD) multiplied by the probability of default (PD) multiplied by the loss given default (LGD).

Probability of Default (PD) is a calculated probability based on statistical models to estimate the probability of an exposure going into default during the following 12-month period (12-month PD). In addition to calculating 12 months PD, the bank has developed PD graphs used for calculating marginal PD for the exposure's remaining lifetime (Lifetime PD).

Loss given default (LGD) is what the bank expects to lose given that an exposure goes into default. The calculation is based on how probable it is that a defaulted exposure is cured and expected credit loss if the exposure is not cured.

Exposure at default (EAD) is expected exposure at the moment of a future default.

In KLP Banken/the Group, the assessment of what is considered to be a significant change in credit risk for home mortgage loans is based on a combination of quantitative and qualitative indicators and 'backstops'. The most important driver for a significant change in credit risk for home mortgage loan is a change in the probability of default (PD) from the initial recognition up to the reporting date. A relative change in 12 month PD of more than 2.5 is considered a significant change in credit risk. In addition, the change in 12 month PD must also be at least 0.6 percentage points for the change to be considered significant. Exposures that are more than 30 days past due will automatically be placed in Stage 2, and exposures more than 90 days past due will be placed in Stage 3.The loans go back to Stage 2 and Stage 1 when the criteria for significant change in credit risk and default are no longer fulfilled.

DEFINITION OF DEFAULT

Default is defined as "a claim that is over 90 days past due, or an account that has been continuously overdrawn for a minimum of 90 days (minimum amount NOK 1,000). Furthermore, a commitment is considered defaulted if for various reasons it has been written off, e.g. through debt negotiations, established debt settlement and/or bankruptcy.

SIMPLIFIED LOSS RATIO METHOD

For products where the bank has not developed PD and LGD (loss given default) models, a simplified loss ratio method is used. Here a change in risk rating of at least one grade from initial recognition to the reporting date is considered to be a significant increase in credit risk. This applies to the senior loan and credit card products within the retail market. For credit cards, the bank has calculated a loss ratio based on the average estimated PD for the credit card portfolio obtained from an external credit information agency and the average LGD for credit cards for the period 2005-2014 calculated by a debt collection agency. For senior loans, a loss ratio of 0.001 percent is used based on the fact that senior loans cannot, in principle, go into default since the product is such that no interest or instalments are to be paid on the loan before the home is sold or the customer dies.

For public lending in KLP Kommunekreditt AS the simplified loss rate method is used, but here with the exception for low credit risk so that all loans are in stage 1. For these loans, a loss rate of 0.001 per cent is used.

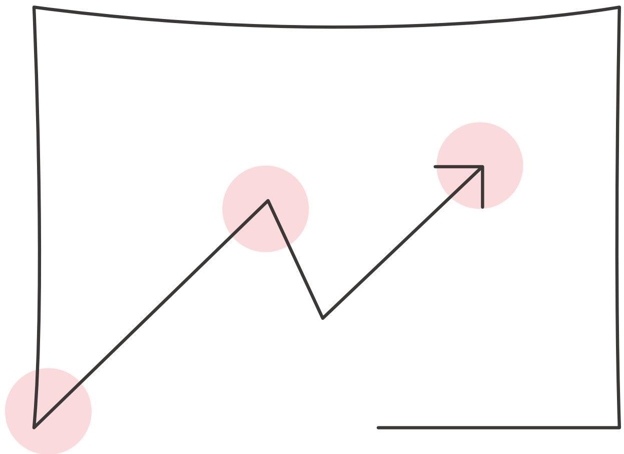
FOLLOW-UP OF DEFAULTED AND DOUBTFUL COMMITMENTS

Mortgages in arrears are handled by a special commitments department in the bank. KLP Banken/Group currently uses its own collection process up to and including legally enforced recovery and execution of sale/compulsory sale. If a repayment agreement is not reached, any residual debt after realisation of the collateral is transferred to a collection agency for further follow-up.

For credit cards, KLP Banken/ Group has an agreement with a debt collection agency where unpaid instalments are followed up with pre-collection. The debt collection agency also handles unpaid claims with termination, legally enforced recovery and, if applicable, monitoring in cases where legally enforced recovery has so far been in vain.

Individual loss write-downs

Mortgages over 90 days past due are reviewed and followed up regularly. In addition, exposures are also reviewed when the bank receives information about debt negotiations or other conditions that would indicate increased risk. A loss assessment is carried out for all such exposures. The collateral is assessed on the basis of previously determined value, in addition to new information about the bank's collateral, for example from a broker if a sales/



NOTE 18 Loan loss provision - cont.

compulsory sale has already been initiated. If the realisation value proves to be lower than the residual debt of the commitment, a loss write-down of the exposure is carried out.

Exposures with individual loss write-downs are followed up with a view to the realisation of the collateral. This can be undertaken by agreement on an ordinary sale or legally by means of a compulsory sale. In some cases, a payment agreement to repay the full amount of residual debt is reached. In these cases, the loss write-down will be maintained for a minimum of 1 year after the loan has been satisfactorily served, before the exposure is considered cured.

Determination of loss
For mortgages, the determination of loss will only occur after the security has been realised and further legal proceedings have not succeeded, that is after an application for distraint has not yielded a result. The case is then monitored by a debt collection agency and followed up on a regular basis.

Credit cards are recognised as established losses when a case is closed due to insolvency or passed for monitoring by the debt collection company. A case is primarily monitored after legal action has not succeeded. Closure/waiver of a case occurs when there is nothing to be obtained in the estate after death, for bankruptcy or by debt negotiation.

DESCRIPTION OF INPUTS, ASSUMPTIONS AND ESTIMATION TECHNIQUES IN THE MODEL FOR EXPECTED LOSSES (ECL MODEL)
In connection with the transition to IFRS 9 and new methods for loss calculation, KLP Banken/Group has developed PD and LGD models for the bank's/group's mortgage loan portfolio. A PD model has been developed for new mortgage customers and a PD model for existing mortgage customers. The first model uses data that is available at the time of application and is valid for 3 months after the mortgage is granted. The second model begins after 3 months, and also uses data that depends on the customer's behaviour (for example the number of days in arrears). Explanatory variables are age, income, number of payment reminders sent in the last 12 months, total number of days in arrears in the last 12 months, loan-to-value ratio, co-borrower, default in the last 12 months and product type.

Logistical regression was used to create the PD model. This method is considered an industry standard for PD models, it is easy to interpret and analyse the output from the model and it can provide high coefficient of determination given that certain assumptions are met. The method also makes it possible to combine pure quantitative analyses with expert assessments, which was useful when the data was somewhat limited. A thorough manual analysis of a relatively small sample of potential variables (due to limited data) was carried out to arrive at an optimal combination of variables.

The most important measure for a PD model is the model's ability to discriminate, i.e. the ability to distinguish bad customers from good customers. The

NOTE 18 Loan loss provision - cont.

ability to discriminate is measured using ROC (Receiver Operating Characteristic), which provides some information about the proportion of predictions that are correct. The model is recalibrated at least yearly and the coefficient values can then be updated and the updated prediction level adjusted.

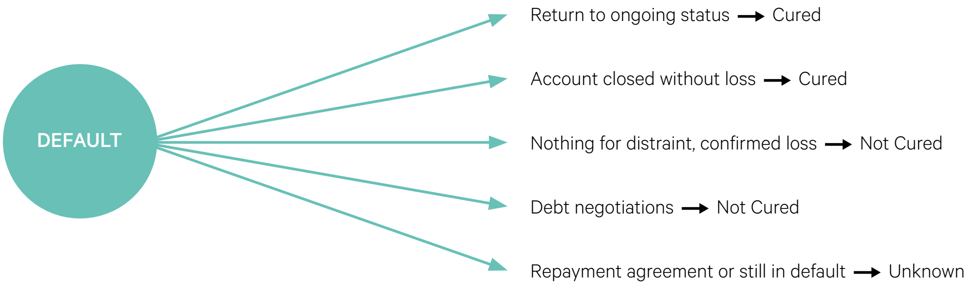
The lifetime probability of default (Lifetime PD) is used for all mortgage loans in KLP Banken excluding senior loans. The lifetime probability of default (LTPD) of an exposuer is calculated based on aggregated figures for historically observed default rates for each year of all exposures and each exposure's probability of default 12 months after start. The results from model development show that the default rate increases slightly in year 2 before then decreasing, so that the PD in year 2 is higher than in year 1. This is in line with the expected result, since it is expected that it will take some time before a newly granted mortgage loan experiences problems. A customer will typically seek to avoid default on a mortgage loan, and will typically default on other debts before he goes into default on the mortgage loan. The reduction in PD after year 2 can be explained by a "survivalship effect", i.e. the contracts that have not defaulted in the first 2 years are typically of better credit quality, and as the loans are repaid the risk becomes lower. Experience from the industry is that contracts that have existed for a certain period of time converge towards a stable observed default rate. For KLP Banken/Group's mortgage loan portfolio, 3 years has been set as the parameter for when the default level converges towards a long-term PD level. The long-term PD level is set at 0.3 per cent, which corresponds to the average PD for the best contracts in the portfolio.

Exposure at default (EAD) is used for all mortgages in KLP Banken/Group excluding senior loans. The EAD model has the same data sample as the LTPD model. If an exposureis in default, the exposure's balance at the time will be the bank's/group's exposure at default. EAD can be expressed for an exposure as a function of the likelihood that the contract will not be repaid within the time t. For repayment loans, EAD at time t is estimated as the exposure's balance at the time pursuant to the repayment schedule multiplied by the likelihood of the contract not being repaid within time t. The probability of a contract being terminated early within the year t is calculated as a percentage for each year in the future from 1 to 7 years.

Loss given default (LGD)
When estimating future credit loss it is important to look at the proportion of customers in default whose accounts become cured. The bank/group has examined at all historical defaults over 90 days and analysed the outcomes of these defaults. The results of the analysis show a very high level of defaults becoming cured. KLP Banken/Group has, since its inception, handled defaults and debt collection internally within the bank/group, and has one dedicated employee who handles exposures in default. The cases are followed closely, and there has been a limited number of defaults since the bank's inception. The analysis shows that the bank has had minimal losses, and most defaults have been reported as cured.

Cured default is defined as the account returning to ongoing status (no longer 90 days past due/90 days overdrawn over the bank's significant amount), or that the account is terminated without loss (typically through voluntary sale of collateral or refinancing in another bank). Non-cured default is defined as where the recovery process has resulted in the account having an established loss, or that an application for distraint has been made against the customer (forced sale of the property or recovery of guarantee). Customers with status "nothing for distraint" also belong in this category). If the customer has entered into debt negotiations, this is also defined as non-cured default. One last possibility is that we do not know the final outcome of the default due to a short time horizon between the default date and modelling date. The figure below illustrates the various outcomes for a default.

NOTE 18 Loan loss provision - cont.



The observed cure rate is calculated and validated at least yearly in the same way as during model development. If the observed cure rate deviates by more than 10 percentage points from the estimate used in the IFRS 9 model, an assessment shall be made of whether measures are needed, e.g. a re-estimation of the model.

FORWARD-LOOKING INFORMATION

A part of the assessment of future losses is the assessment of how the future will look with regard to the macroeconomic conditions that affect the bank's credit losses, e.g. interest rates, housing prices, unemployment rates etc. To calculate the expected credit loss (ECL), the bank has assumed three different scenarios, which are weighted for probability based on an assessment of the probability of each of the three outlined scenarios occurring. The scenarios used by the bank are one expected outcome, one pessimistic outcome and one optimistic outcome for expected credit loss, where the three scenarios have a factor for outcome and a probability that the scenario occurs. The sum of the weighted scenarios constitutes the expected credit loss, and the probability that each scenario will occur will thus affect the expected credit loss. In the negative scenario, a house price fall of 10 per cent and an increase in average PD of 32 per cent, while the cure rate falls by 5 percentage points. This scenario is assigned 20 per cent probability. In the positive scenario, the bank has assumed that house prices will increase by 5 per cent and that the average PD will be halved. This scenario is assigned 20 per cent probability. The expected scenario is thus weighted with a 60 per cent probability.

If one only assumes a pessimistic scenario, the expected credit losses will roughly triple, and if one only assumes an optimistic scenario, the expected losses will be about 20 per cent of current losses.

KLP Banken's risk forum assesses these scenarios and their weighting on a quarterly basis, based on changes in macroeconomic factors or other factors that may affect expected credit loss in the bank.

NOTE 18 Loan loss provision - cont.

Expected credit loss (ECL) - loans to customers, all segments

KLP BANKEN AS NOK THOUSANDS	12 months ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
2019	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance ECL 01.01.2019	3 283	879	990	5 151
Transfer to Stage 1	500	-500	0	0
Transfer to Stage 2	-86	86	0	0
Transfer to Stage 3	-29	-217	246	0
Net changes	-359	-6	1 500	1 136
New losses	613	17	50	680
Write-offs	-150	-54	-238	-442
Closing balance ECL 31.12.2019	**3 771**	**205**	**2 549**	**6 525**
Changes (01.01.2019 - 31.12.2019)	488	-674	1 559	1 374

Expected credit loss (ECL) - loans to customers, amortised cost

KLP BANKEN AS NOK THOUSANDS	12 months ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
2019	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance ECL 01.01.2019	696	264	99	1 059
Transfer to Stage 1	192	-192	0	0
Transfer to Stage 2	-29	29	0	0
Transfer to Stage 3	-15	-33	47	0
Net changes	-217	22	158	-37
New losses	74	14	3	91
Write-offs	-28	-22	-238	-287
Closing balance ECL 31.12.2019	**673**	**84**	**68**	**825**
Changes (01.01.2019 - 31.12.2019)	-23	-180	-30	-234

NOTE 18 Loan loss provision - cont.

Expected credit loss (ECL) loans to customers, rated at fair value over other comprehensive income

KLP BANKEN AS NOK THOUSANDS	12 months ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
2019	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance ECL 01.01.2019	170	474	891	1 536
Transfer to Stage 1	183	-183	0	0
Transfer to Stage 2	-30	30	0	0
Transfer to Stage 3	-13	-184	196	0
Net changes	-26	-50	1 343	1 267
New losses	85	0	48	133
Write-offs	-43	-24	0	-67
Closing balance ECL 31.12.2019	**326**	**64**	**2 479**	**2 868**
Change (01.01.2019- 31.12.2019)	156	-410	1 588	1 333

Losses on unused credit

KLP BANKEN AS NOK THOUSANDS	12 months ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
2019	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance ECL 01.01.2019	2 416	141	0	2 557
Transfer to Stage 1	125	-125	0	0
Transfer to Stage 2	-26	26	0	0
Transfer to Stage 3	-2	-1	3	0
Net changes	-114	22	-1	-93
New losses	453	3	0	457
Write-offs	-79	-8	0	-88
Closing balance ECL 31.12.2019	**2 773**	**58**	**2**	**2 833**
Change (01.01.2019- 31.12.2019)	357	-83	2	275

Individual loss write-downs on mortgages are evaluated independently based on its default status and collateral of the mortgage. For example, if a defaulted loan has progressed to compulsory sale and it is founds that the loan's collateral will not cover the loan's remaining debt, the 'difference' is recognised as an individual loss write-down. When the mortgage is realised and attempts at further recovery have been unsuccessful, the residual claim is added to long-time monitoring (we currently use Lindorff for long-term monitoring). The residual loan is then posted as an established loss and is removed from the balance sheet.

If funds can be recovered on established losses in the future, these will be recorded as recovery on past losses.

NOTE 18 Loan loss provision - cont.

Value of lending and receivables for customers recognised in the balance sheet - all segments

KLP BANKEN AS NOK THOUSANDS	12 months ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
2019	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross lending 01.01.2019	9 323 629	105 744	56 271	9 485 644
Transfer to Stage 1	46 349	-46 349	0	0
Transfer to Stage 2	-32 948	35 032	-2 084	0
Transfer to Stage 3	-10 046	-7 536	17 582	0
Net change	-114 221	-5 153	-2 034	-121 408
New lending	4 991 232	13 931	26 448	5 031 612
Write-offs	-3 283 322	-53 839	-10 144	-3 347 306
Gross lending 31.12.2019	**10 920 673**	**41 830**	**86 038**	**11 048 542**

Losses on lending and receivables from customers rated at amortised cost

KLP BANKEN AS NOK THOUSANDS	12 months ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
2019	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross lending 01.01.2019	544 936	10 575	108	555 619
Transfer to Stage 1	7 655	-7 655	0	0
Transfer to Stage 2	-2 564	2 564	0	0
Transfer to Stage 3	-1 266	-1 335	2 600	0
Net change	-176 946	-478	3 297	-174 126
New lending	16 078	567	104	16 749
Write-offs	-204 802	-876	-3 333	-209 011
Gross lending 31.12.2019	**183 092**	**3 362**	**2 777**	**189 231**

NOTE 18 Loan loss provision - cont.

Book value of loans and receivables for customers rated at fair value over other comprehensive income

KLP BANKEN AS NOK THOUSANDS	12 months ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
2019	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross lending 01.01.2019	8 778 693	95 169	56 163	8 930 025
Transfer to Stage 1	38 693	-38 693	0	0
Transfer to Stage 2	-30 384	32 468	-2 084	0
Transfer to Stage 3	-8 781	-6 201	14 981	0
Net change	62 724	-4 676	-5 331	52 717
New lending	4 975 155	13 364	26 344	5 014 862
Write-offs	-3 078 520	-52 963	-6 811	-3 138 295
Gross lending 31.12.2019	**10 737 581**	**38 468**	**83 261**	**10 859 310**

Exposure - unused credit

KLP BANKEN AS NOK THOUSANDS	12 months ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
2019	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross lending 01.01.2019	757 939	5 525	0	763 465
Transfer to Stage 1	4 894	-4 894	0	0
Transfer to Stage 2	-2 202	2 202	0	0
Transfer to Stage 3	-167	-32	199	0
Net change	51 080	-332	-129	50 620
New lending	152 876	121	0	152 996
Write-offs	-72 156	-333	0	-72 489
Gross lending 31.12.2019	**892 264**	**2 258**	**71**	**894 592**

Losses recognised in the profit and loss account consist of:

KLP BANKEN AS NOK THOUSANDS	01.01.2019 -31.12.2019	01.01.2018 -31.12.2018
Change in loss provisions in Stage 1, 2 and 3	-6 640	-6 371
Established losses	-239	-512
Recovery for previously established losses	250	56
Total losses in the income statement	**-6 628**	**-6 827**

NOTE 18 Loan loss provision - cont.

KLP Banken Group
Expected credit loss (ECL) - loans to customers, all segments

KLP BANKEN GROUP NOK THOUSANDS	12 months ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
2019	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance ECL 01.01.2019	3 452	879	990	5 321
Transfer to Stage 1	500	-500	0	0
Transfer to Stage 2	-86	86	0	0
Transfer to Stage 3	-29	-217	246	0
Net changes	-360	-6	1 494	1 129
New losses	638	17	56	712
Write-offs	-160	-54	-238	-452
Closing balance ECL 31.12.2019	**3 955**	**205**	**2 549**	**6 710**
Changes (01.01.2019 - 31.12.2019)	502	-674	1 559	1 388

Expected credit loss (ECL) - loans to customers, amortized cost

KLP BANKEN GROUP NOK THOUSANDS	12 months ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
2019	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance ECL 01.01.2019	1 036	738	990	2 764
Transfer to Stage 1	375	-375	0	0
Transfer to Stage 2	-60	60	0	0
Transfer to Stage 3	-27	-216	244	0
Net changes	-244	-28	1 501	1 230
New losses	184	14	50	249
Write-offs	-81	-46	-238	-365
Closing balance ECL 31.12.2019	**1 183**	**148**	**2 547**	**3 878**
Changes (01.01.2019 - 31.12.2019)	147	-590	1 557	1 114

NOTE 18 Loan loss provision - cont.

Losses on unused credit

KLP BANKEN GROUP NOK THOUSANDS	12 months ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
2019	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance ECL 01.01.2019	2 416	141	0	2 557
Transfer to Stage 1	125	-125	0	0
Transfer to Stage 2	-26	26	0	0
Transfer to Stage 3	-2	-1	3	0
Net changes	-115	22	-1	-94
New losses	453	3	0	457
Write-offs	-79	-8	0	-88
Closing balance ECL 31.12.2019	**2 772**	**58**	**2**	**2 832**
Changes (01.01.2019 - 31.12.2019)	356	-83	2	274

Value of lending and receivables for customers recognised in the balance sheet - all segments

KLP BANKEN GROUP NOK THOUSANDS	12 months ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
2019	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance ECL 01.01.2019	33 238 762	121 631	56 271	33 416 664
Transfer to Stage 1	53 692	-53 692	0	0
Transfer to Stage 2	-43 102	45 186	-2 084	0
Transfer to Stage 3	-10 046	-7 536	17 582	0
Net changes	-918 813	-5 359	-2 034	-926 207
New losses	8 869 846	15 355	26 448	8 911 649
Write-offs	-6 410 131	-62 383	-10 144	-6 482 658
Closing balance ECL 31.12.2019	**34 780 207**	**53 202**	**86 038**	**34 919 447**

NOTE 18 Loan loss provision - cont.

Losses on lending and receivables from customers rated at amortised cost

KLP BANKEN GROUP NOK THOUSANDS	12 months ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
2019	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross lending 01.01.2019	33 238 762	121 631	56 271	33 416 664
Transfer to Stage 1	53 692	-53 692	0	0
Transfer to Stage 2	-43 102	45 186	-2 084	0
Transfer to Stage 3	-10 046	-7 536	17 582	0
Net change	-918 813	-5 359	-2 034	-926 207
New lending	8 869 846	15 355	26 448	8 911 649
Write-offs	-6 410 131	-62 383	-10 144	-6 482 658
Gross lending 31.12.2019	**34 780 207**	**53 202**	**86 038**	**34 919 447**

Exposure - unused credit

KLP BANKEN GROUP NOK THOUSANDS	12 months ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
2019	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross lending 01.01.2019	757 939	5 525	0	763 465
Transfer to Stage 1	4 894	-4 894	0	0
Transfer to Stage 2	-2 202	2 202	0	0
Transfer to Stage 3	-167	-32	199	0
Net change	51 080	-332	-129	50 620
New lending	152 876	121	0	152 996
Write-offs	-72 156	-333	0	-72 489
Gross lending 31.12.2019	**892 264**	**2 258**	**71**	**894 592**

Losses recognised in the profit and loss account consist of:

KLP BANKEN GROUP NOK THOUSANDS	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Change in loss provisions in Stage 1, 2 and 3	-6 653	-6 382
Established losses	-239	-512
Recovery for previously established losses	250	56
Total losses in the income statement	**-6 642**	**-6 838**

NOTE 18 Loan loss provision - cont.

Expected credit loss (ECL) - loans to customers, all segments

KLP BANKEN AS NOK THOUSANDS	12 months ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
2018	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance ECL 01.01.2018	2 806	524	2 639	5 970
Transfer to Stage 1	185	-185	0	0
Transfer to Stage 2	-150	150	0	0
Transfer to Stage 3	0	-21	21	0
Net changes	-197	403	-1 618	-1 411
New losses	784	144	0	928
Write-offs	-146	-136	-53	-335
Closing balance ECL 31.12.2018	**3 283**	**879**	**990**	**5 151**
Changes (01.01.2018 - 31.12.2018)	476	354	-1 649	-818

Expected credit loss (ECL) - loans to customers, amortised cost

KLP BANKEN AS NOK THOUSANDS	12 months ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
2018	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance ECL 01.01.2018	612	209	331	1 153
Transfer to Stage 1	54	-54	0	0
Transfer to Stage 2	-66	66	0	0
Transfer to Stage 3	0	0	0	0
Net changes	-13	124	-180	-69
New losses	146	49	0	194
Write-offs	-37	-130	-53	-220
Closing balance ECL 31.12.2018	**696**	**264**	**99**	**1 059**
Changes (01.01.2018 - 31.12.2018)	84	55	-233	-94

NOTE 18 Loan loss provision - cont.

Expected credit loss (ECL) loans to customers, rated at fair value over other comprehensive income

KLP BANKEN AS NOK THOUSANDS	12 months ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
2018	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance ECL 01.01.2018	65	304	2 308	2 677
Transfer to Stage 1	128	-128	0	0
Transfer to Stage 2	-13	13	0	0
Transfer to Stage 3	0	-21	21	0
Net changes	-57	217	-1 438	-1 277
New losses	47	88	0	135
Closing balance ECL 31.12.2018	**170**	**474**	**891**	**1 536**
Change (01.01.2018 - 31.12.2018)	105	170	-1 417	-1 142

Losses on unused credit

KLP BANKEN AS NOK THOUSANDS	12 months ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
2018	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance ECL 01.01.2018	2 020	5	0	2 025
Transfer to Stage 1	4	-4	0	0
Transfer to Stage 2	-71	71	0	0
Transfer to Stage 3	0	0	0	0
Net changes	-127	62	0	-65
New losses	591	6	0	598
Closing balance ECL 31.12.2018	**2 416**	**141**	**0**	**2 557**
Change (01.01.2018 - 31.12.2018)	396	136	0	532

Individual loss write-downs on mortgages are evaluated independently based on its default status and collateral of the mortgage. For example, if a defaulted loan has progressed to compulsory sale and it is founds that the loan's collateral will not cover the loan's remaining debt, the 'difference' is recognised as an individual loss write-down. When the mortgage is realised and attempts at further recovery have been unsuccessful, the residual claim is added to long-time monitoring (we currently use Lindorff for long-term monitoring). The residual loan is then posted as an established loss and is removed from the balance sheet. This is what primarily happened in Q4. A large residual loan after the foreclosure (approx. NOK 1.9 million) has been transferred to established losses. Individual loss write-downs have thus decreased while established losses have increased accordingly.

If funds can be recovered on established losses in the future, these will be recorded as recovery on past losses.

NOTE 18 Loan loss provision - cont.

Value of lending and receivables for customers recognised in the balance sheet - all segments

KLP BANKEN AS NOK THOUSANDS	12 months ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
2018	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross lending 01.01.2018	4 889 411	577 960	57 289	5 524 660
Transfer to Stage 1	273 508	-270 739	-295	2 473
Transfer to Stage 2	-40 166	40 166	0	0
Transfer to Stage 3	-927	-6 132	7 060	0
Net change	-75 388	-1 330	221	-76 498
New lending	4 277 191	46 479	0	4 323 671
Write-offs	0	-280 660	-8 003	-288 663
Gross lending 31.12.2018	**9 323 629**	**105 744**	**56 271**	**9 485 644**

Losses on lending and receivables from customers rated at amortised cost

KLP BANKEN AS NOK THOUSANDS	12 months ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
2018	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross lending 01.01.2018	185 787	47 998	45 516	279 302
Transfer to Stage 1	8 413	-8 413	0	0
Transfer to Stage 2	-6 211	6 211	0	0
Transfer to Stage 3	0	0	0	0
Net change	-6 535	620	-142	-6 056
New lending	363 481	1 932	0	365 413
Write-offs	0	-78 950	-4 089	-83 040
Gross lending 31.12.2018	**544 936**	**-30 602**	**41 285**	**555 619**

NOTE 18 Loan loss provision - cont.

Book value of loans and receivables for customers rated at fair value over other comprehensive income

KLP BANKEN AS NOK THOUSANDS	12 months ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
2018	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross lending 01.01.2018	4 703 624	330 868	11 773	5 046 264
Transfer to Stage 1	265 095	-262 326	-295	2 473
Transfer to Stage 2	-33 955	33 955	0	0
Transfer to Stage 3	-927	-6 132	7 060	0
Net change	-68 853	-1 950	362	-70 441
New lending	3 913 710	44 547	0	3 958 258
Write-offs	0	-2 615	-3 914	-6 529
Gross lending 31.12.2018	**8 778 693**	**136 346**	**14 986**	**8 930 025**

Exposure - unused credit

KLP BANKEN AS NOK THOUSANDS	12 months ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
2018	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross lending 01.01.2018	608 092	1 830	0	609 922
Transfer to Stage 1	34 517	-1 787	0	32 730
Transfer to Stage 2	-6 735	6 735	0	0
Transfer to Stage 3	0	0	0	0
Net change	-21 896	-1 503	0	-23 399
New lending	143 961	250	0	144 212
Gross lending 31.12.2018	**757 939**	**5 525**	**0**	**763 465**

NOTE 18 Loan loss provision - cont.

Expected credit loss (ECL) - loans to customers, all segments

KLP BANKEN GROUP NOK THOUSANDS	12 months ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
2018	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance ECL 01.01.2018	2 964	524	2 639	6 128
Transfer to Stage 1	185	-185	0	0
Transfer to Stage 2	-150	150	0	0
Transfer to Stage 3	0	-21	21	0
Net changes	-203	403	-1 618	-1 418
New losses	812	144	0	955
Write-offs	-156	-136	-53	-344
Closing balance ECL 31.12.2018	**3 452**	**879**	**990**	**5 321**
Changes (01.01.2018 - 31.12.2018)	488	354	-1 649	-807

Expected credit loss (ECL) - loans to customers, amortized cost

KLP BANKEN GROUP NOK THOUSANDS	12 months ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
2018	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance ECL 01.01.2018	835	514	2 639	3 988
Transfer to Stage 1	182	-182	0	0
Transfer to Stage 2	-79	79	0	0
Transfer to Stage 3	0	-21	21	0
Net changes	-76	341	-1 618	-1 352
New losses	220	137	0	358
Write-offs	-47	-130	-53	-229
Closing balance ECL 31.12.2018	**1 036**	**738**	**990**	**2 764**
Changes (01.01.2018 - 31.12.2018)	200	225	-1 649	-1 224

NOTE 18 Loan loss provision - cont.

Losses on unused credit

KLP BANKEN GROUP NOK THOUSANDS	12 months ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
2018	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance ECL 01.01.2018	2 020	5	0	2 025
Transfer to Stage 1	4	-4	0	0
Transfer to Stage 2	-71	71	0	0
Transfer to Stage 3	0	0	0	0
Net changes	-127	62	0	-65
New losses	591	6	0	598
Closing balance ECL 31.12.2018	**2 416**	**141**	**0**	**2 557**

Value of lending and receivables for customers recognised in the balance sheet - all segments

KLP BANKEN GROUP NOK THOUSANDS	12 months ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
2018	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance ECL 01.01.2018	26 070 908	577 960	57 289	26 706 157
Transfer to Stage 1	273 508	-270 739	-295	2 473
Transfer to Stage 2	-48 660	48 660	0	0
Transfer to Stage 3	-927	-6 132	7 060	0
Net changes	-969 177	-1 476	221	-970 432
New losses	10 269 425	54 018	0	10 323 443
Write-offs	-2 356 315	-280 660	-8 003	-2 644 978
Closing balance ECL 31.12.2018	**33 238 762**	**121 631**	**56 271**	**33 416 664**

NOTE 18 Loan loss provision - cont.

Losses on lending and receivables from customers rated at amortised cost

KLP BANKEN GROUP NOK THOUSANDS	12 months ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
2018	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross lending 01.01.2018	26 070 908	378 866	57 289	26 507 064
Transfer to Stage 1	273 508	-270 739	-295	2 473
Transfer to Stage 2	-48 660	48 660	0	0
Transfer to Stage 3	-927	-6 132	7 060	0
Net change	-969 177	-1 476	221	-970 432
New lending	10 269 425	54 018	0	10 323 443
Write-offs	-2 356 315	-81 566	-8 003	-2 445 884
Gross lending 31.12.2018	**33 238 762**	**121 631**	**56 271**	**33 416 664**

Exposure - unused credit

KLP BANKEN GROUP NOK THOUSANDS	12 months ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
2018	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross lending 01.01.2018	608 092	1 830	0	609 922
Transfer to Stage 1	34 517	-1 787	0	32 730
Transfer to Stage 2	-6 735	6 735	0	0
Transfer to Stage 3	0	0	0	0
Net change	-21 896	-1 503	0	-23 399
New lending	143 961	250	0	144 212
Gross lending 31.12.2018	**757 939**	**5 525**	**0**	**763 465**

NOTE 19 Written-down assets

KLP Banken AS KLP Banken Group 31.12.2019 NOK THOUSANDS		1. Contract amount of loans that have been written down, but which can still be recovered	2. Written down in the accounts	3. Amount outstanding that can be recovered	4. Estimated value of collateral for amount that can be recovered	5. Point 3-4 exposure without collateral	6. Point 4 in % of point 3
	Sector	Gross exposure	Written down	Continued	Value of security	Net exposure	Guarantee ratio
WRITE-DOWNS OF FINANCIAL ASSETS							
Mortgages with collateral	Collateral	3 635	-1 794	3 635	1 841	1 794	50.6 %
Mortgage loans with realised collateral (established losses)	None	3 426	-3 426	3 426	0	3 426	0.0 %
Credit cards (established losses)	None	10 910	-10 910	10 910	0	10 910	0.0 %
Total		**17 971**	**-16 130**	**17 971**	**1 841**	**16 130**	**10.2 %**

	31.12.2019
Defaulted loans with individual write-downs	3 635
Defaulted loans in the balance sheet (without individual write-downs)	82 403
Total defaults	**86 038**
Mortgage loans secured by collateral	79 066
Defaults over 90 days without collateral security	6 972
Other doubtful loans with individual write-downs	0

NOTE 19 Written-down assets - cont.

KLP Banken AS KLP Banken Group 31.12.2018 NOK THOUSANDS	Sector	1. Contract amount of loans that have been written down, but which can still be recovered Gross exposure	2. Written down in the accounts Written down	3. Amount outstanding that can be recovered Continued	4. Estimated value of collateral for amount that can be recovered Value of security	5. Point 3-4 exposure without collateral Net exposure	6. Point 4 in % of point 3 Guarantee ratio
WRITE-DOWNS OF FINANCIAL ASSETS							
Mortgages with collateral	Collateral	5 723	-827	5 723	4 896	827	85.5 %
Mortgage loans with realised collateral (established losses)	None	3 039	-3 039	3 039	0	3 039	0.0 %
Credit cards (established losses)	None	4 179	-4 179	4 110	0	4 110	0.0 %
Total		**12 941**	**-8 045**	**12 872**	**4 896**	**7 976**	**38.0 %**

	31.12.2018
Defaulted loans with individual write-downs	2 528
Defaulted loans in the balance sheet (without individual write-downs)	53 743
Total defaults	**56 271**
Mortgage loans secured by collateral	47 606
Defaults over 90 days without collateral security	8 665
Other doubtful loans with individual write-downs	3 333

KLP Banken follows up commitments that defaulted when instalments and interest are not paid on time and the reason is that the customer cannot or will not pay. Arrears over 90 days are always reported as defaults. Furthermore, a commitment is considered defaulted if for various reasons it has been written off, e.g. through debt negotiations, established debt settlement and/or bankruptcy. The need to reduce individual defaults is assessed against the value of available security for the commitment. Loans/credit where losses have been established are passed for monitoring by the debt collection agency for further recovery and are followed up on a regular basis.

Loans/credit with individual loss write-downs, primarily mortgage loans, are followed up with agreement on ordinary voluntary sale or through the use of legally-enforced recovery such as compulsory sale or an application for distraint. After the collateral has been realised and if any agreement on repayment/redemption of the residual loan is not met, the case is transferred to the debt collection agency for further follow-up.

NOTE 20 Financial assets and liabilities subject to net settlement

KLP BANKEN AS

31.12.2019 NOK THOUSANDS				Related sums that are not presented net		
	Gross financial assets/liabilities	Gross assets/liabilities presented net	Book value	Financial instruments	Security in cash	Net book value
ASSETS						
Financial derivatives	64	0	64	-64	0	0
Total	**64**	**0**	**64**	**-64**	**0**	**0**
LIABILITIES						
Financial derivatives	3 781	0	3 781	-64	-6 409	0
Total	**3 781**	**0**	**3 781**	**-64**	**-6 409**	**0**

KLP BANKEN GROUP

31.12.2019 NOK THOUSANDS				Related sums that are not presented net		
	Gross financial assets/liabilities	Gross assets/liabilities presented net	Book value	Financial instruments	Security in cash	Net book value
ASSETS						
Financial derivatives	40 849	0	40 849	-40 849	0	0
Total	**40 849**	**0**	**40 849**	**-40 849**	**0**	**0**
LIABILITIES						
Financial derivatives	64 455	0	64 455	-40 849	-6 409	17 197
Total	**64 455**	**0**	**64 455**	**-40 849**	**-6 409**	**17 197**

NOTE 20 Financial assets and liabilities subject to net settlement - cont.

KLP BANKEN AS

31.12.2018 NOK THOUSANDS				Related sums that are not presented net		
	Gross financial assets/liabilities	Gross assets/liabilities presented net	Book value	Financial instruments	Security in cash	Net book value
ASSETS						
Financial derivatives	21	0	21	-21	0	0
Total	**21**	**0**	**21**	**-21**	**0**	**0**
LIABILITIES						
Financial derivatives	6 552	0	6 552	-21	-8 893	0
Total	**6 552**	**0**	**6 552**	**-21**	**-8 893**	**0**

KLP BANKEN GROUP

31.12.2018 NOK THOUSANDS				Related sums that are not presented net		
	Gross financial assets/liabilities	Gross assets/liabilities presented net	Book value	Financial instruments	Security in cash	Net book value
ASSETS						
Financial derivatives	62 483	0	62 483	-62 483	0	0
Total	**62 483**	**0**	**62 483**	**-62 483**	**0**	**0**
LIABILITIES						
Financial derivatives	111 955	0	111 955	-62 483	-8 892	40 580
Total	**111 955**	**0**	**111 955**	**-62 483**	**-8 892**	**40 580**

NOTE 21 Securities liabilities - stock exchange listed covered bonds and certificates

KLP Banken AS		NOK THOUSANDS	KLP Banken Group	
31.12.2018	31.12.2019		31.12.2019	31.12.2018
1 225 000	1 400 000	Bonds, nominal value	27 168 000	25 876 000
-246	2 416	Revaluations	21 526	29 847
1 829	4 936	Accrued interest	82 665	68 121
-212 000	0	Own funds, nominal value	-1 450 000	-1 934 000
1 014 583	**1 407 352**	**Total liabilities created on issuance of securities**	**25 822 190**	**24 039 968**
1.75 %	**2.17 %**	**Interest rate on borrowings through the issuance of securities at the reporting date**	**2.22 %**	**1.61 %**

The interest rate is calculated as a weighted average of the act/360 basis.
It includes interest rate hedges and amortization costs.

KLP BANKEN AS

NOK THOUSANDS	Balance sheet 31.12.2018	Issued	Fallen due/ redeemed Repurchased	Others changes	Balance 31.12.2019
CHANGE IN LIABILITIES CREATED ON ISSUANCE OF SECURITIES					
Bonds, nominal value	1 225 000	1 000 000	-825 000	0	1 400 000
Revaluations	-246	0	0	2 662	2 416
Accrued interest	1 829	0	0	3 107	4 936
Own funds, nominal value	-212 000	0	212 000	0	0
Total liabilities created on issuance of securities	**1 014 583**	**1 000 000**	**-613 000**	**5 769**	**1 407 352**

KLP BANKEN GROUP

NOK THOUSANDS	Balance sheet 31.12.2018	Issued	Fallen due/ redeemed Repurchased	Others changes	Balance 31.12.2019
CHANGE IN LIABILITIES CREATED ON ISSUANCE OF SECURITIE					
Bonds, nominal value	25 876 000	9 000 000	-7 708 000	0	27 168 000
Revaluations	29 847	0	0	-8 320	21 526
Accrued interest	68 121	0	0	14 543	82 665
Own funds, nominal value	-1 934 000	0	484 000	0	-1 450 000
Total liabilities created on issuance of securities	**24 039 968**	**9 000 000**	**-7 224 000**	**6 223**	**25 822 190**

NOTE 22 Deposits from customers

KLP Banken AS		NOK THOUSANDS	KLP Banken Group	
31.12.2018	31.12.2019		31.12.2019	31.12.2018
10 661 749	11 486 525	Deposits from customers without agreed duration	11 486 525	10 661 749
10 661 749	**11 486 525**	**Total deposits from customers without agreed duration**	**11 486 525**	**10 661 749**
		CUSTOMER DEPOSITS DIVIDED BY CUSTOMER GROUPS		
8 747 851	9 897 685	Deposits from customers, retail market	9 897 685	8 747 851
1 913 898	1 588 840	Deposits from customers, public sector market	1 588 840	1 913 898
10 661 749	**11 486 525**	**Total deposits from customers**	**11 486 525**	**10 661 749**
1.41 %	**1.63 %**	**Interest rate on customer deposits, at the reporting date**	**1.63 %**	**1.41 %**

The interest rate is calculated as a weighted average of the act/360 basis.

NOTE 23 Ownership in Group companies

KLP BANKEN AS

NOK THOUSANDS	Organization number	Ownership %	Acquisition cost	Book value 31.12.2019	Book value 31.12.2018
COMPANIES IN THE SAME GROUP					
KLP Boligkreditt AS	912 719 634	100	490 470	490 470	490 470
KLP Kommunekreditt AS	994 526 944	100	675 000	675 000	675 000
Total			**1 165 470**	**1 165 470**	**1 165 470**

NOTE 24 Fixed assets

KLP Banken AS		NOK THOUSANDS	KLP Banken Group	
31.12.2018	31.12.2019		31.12.2019	31.12.2018
1 172	1 244	Acquisition cost 01.01	1 244	1 172
72	0	Acquired during the period	0	72
0	0	Disposals during the period	0	0
1 244	1 244	Acquisition cost 31.12	1 244	1 244
-430	-577	Acc. depreciation previous years	-577	-430
-148	-156	Annual depreciation	-156	-148
-577	-733	Accumulated depreciation	-733	-577
0	0	Annual write-downs	0	0
667	**511**	**Book value**	**511**	**667**

NOTE 25 Leases

KLP Banken AS	NOK THOUSANDS	KLP Banken Group
31.12.2019		31.12.2019
	RIGHT-OF-USE ASSETS - PROPERTY	
5 064	Opening balance 01.01.	5 064
-1 558	Depreciation	-1 558
3 506	**Closing balance 31.12.**	**3 506**
	LEASE LIABILITIES - PROPERTY	
5 064	Opening balance 01.01.	5 064
-1 491	Repayments	-1 491
3 573	**Closing balance 31.12.**	**3 573**
01.01.2019 -31.12.2019		01.01.2019 -31.12.2019
	PROPERTY	
82	**Interest expense lease liabilities**	**82**

IFRS 16 Leases was implemented 01.01.2019 using the modified retrospective approach, without requiring comparative figures. The entire effect of the transition has been taken against the opening balance of 01.01.2019 and comparative figures for 2018 have therefore not been restated.

NOTE 26 Intangible assets

KLP Banken AS		NOK THOUSANDS	KLP Banken Group	
31.12.2018	31.12.2019		31.12.2019	31.12.2018
52 944	59 058	Acquisition cost 01.01	59 058	52 944
6 115	1 614	Additions	1 614	6 115
0	0	Disposals	0	0
59 058	**60 673**	**Acquisition cost 31.12**	**60 673**	**59 058**
-25 790	-33 760	Accumulated depreciation previous years	-33 760	-25 790
-7 969	-6 466	Ordinary depreciation for the year	-6 466	-7 969
0	0	Write-downs	0	0
25 299	**20 447**	**Book value**	**20 447**	**25 299**
3-7 years		Depreciation period	3-7 years	

NOTE 27 Capital adequacy

KLP Banken AS		NOK THOUSANDS	KLP Banken Group	
31.12.2018	31.12.2019		31.12.2019	31.12.2018
1 790 000	1 790 000	Share capital and share premium fund	1 790 000	1 790 000
255 450	315 590	Other owners' equity	430 561	347 652
2 045 450	**2 105 590**	**Total owners' equity**	**2 220 561**	**2 137 652**
-1 000	-1 292	Adjustments due to requirements for proper valuation	-3 119	-2 015
-25 299	-20 447	Deduction goodwill and other intangible assets	-20 447	-25 299
-11 561	-9 480	Deferred tax assets	-10 196	-8 667
2 007 590	**2 074 370**	**Core capital/Tier 1 capital**	**2 186 800**	**2 101 671**
0	0	Supplementary capital/Tier 2 capital	0	0
0	**0**	**Supplementary capital/Tier 2 capital**	**0**	**0**
2 007 590	2 074 370	Total own funds (eligible Tier 1 and Tier 2 capital)	2 186 800	2 101 671
845 266	897 185	Capital requirement	914 461	837 802
1 162 324	**1 177 185**	**Surplus of own funds (eligible Tier 1 and Tier 2 capital)**	**1 272 339**	**1 263 869**
		CALCULATION BASIS CREDIT RISK:		
5 352 003	5 160 027	Institutions	307 730	299 070
4 287	2 001	Local and regional authorities	3 348 562	3 384 588
3 393 128	4 007 576	Investments with mortgage security in real estate	6 575 624	5 922 925
82 717	170 558	Retail	170 558	82 717
63 181	97 389	Investments fallen due	97 389	63 181
60 964	97 487	Covered bonds	273 712	156 334
1 228 184	1 225 880	Other holdings	57 476	62 714
10 184 464	**10 760 919**	**Calculation basis credit risk**	**10 831 051**	**9 971 529**
814 757	860 874	Credit risk	866 484	797 722
30 507	36 310	Operational risk	47 880	39 956
2	1	Credit valuation adjustments (CVA)	97	124
845 266	**897 185**	**Total capital requirement assets**	**914 461**	**837 802**
19.0 %	18.5 %	Core capital adequacy ratio	19.1 %	20.1 %
0.0 %	0.0 %	Supplementary capital ratio	0.0 %	0.0 %
19.0 %	**18.5 %**	**Capital adequacy ratio**	**19.1 %**	**20.1 %**
5.2 %	**5.2 %**	**Unweighted capital adequacy**	**5.4 %**	**5.6 %**

NOTE 27 Capital adequacy - cont.

CAPITAL REQUIREMENT AS AT 31.12.2019	Core capital/Tier 1 capital	Supplementary capital/Tier 2 capital	Own funds
Minimum requirement without buffers	4.5%	3.5%	8.0%
Protective buffers	2.5%	0.0%	2.5%
System risk buffers	3.0%	0.0%	3.0%
Counter-cyclical buffers	2.5%	0.0%	2.5%
Pilar 2-requirement	1.5%	0.0%	1.5%
Current capital requirement incl. buffers	**14.0%**	**3.5%**	**17.5%**
Minimum requirement in leverage ratio	3.0%	0.0%	3.0%
Requirement with buffer in core capital	0.0%	0.0%	0.0%
Capital requirement leverage ratio	**3.0%**	**0.0%**	**3.0%**

KLP Banken has been granted exemption from the buffer requirement for the unweighted tier 1 capital ratio in accordance with Section 5 of the CRR/CRD IV regulations.

NOTE 28 Tax

KLP Banken AS		NOK THOUSANDS	KLP Banken Group	
01.01.2018 -31.12.2018	01.01.2019 -31.12.2019		01.01.2019 -31.12.2019	01.01.2018 -31.12.2018
37 601	72 919	Accounting income before taxes	102 260	83 429
		OTHER INCOME COMPONENTS:		
-2 326	7 182	Estimate difference, pension obligations and assets	7 182	-2 326
0	0	Change in value of financial assets avialiable for sale	0	0
171	155	Value adjustment for instruments other than shares through OCI	155	171
		DIFFERENCES BETWEEN ACCOUNTING AND TAX INCOME:		
2 703	-4 676	Reversal of value increase financial assets	4 146	-44 813
-4 135	209	Other permanent differences	209	-4 293
11 977	-3 646	Change in differences between book and taxable income	4 131	48 316
45 991	**72 143**	**Taxable income**	**118 083**	**80 484**
0	0	Group contribution received with tax effect	0	0
45 991	**72 143**	**Base for tax payable in tax expenses**	**118 083**	**80 484**
45 991	**72 143**	**Tax surplus**	**118 083**	**80 484**

NOTE 28 Tax - cont.

KLP Banken AS		NOK THOUSANDS	KLP Banken Group	
01.01.2018 -31.12.2018	01.01.2019 -31.12.2019		01.01.2019 -31.12.2019	01.01.2018 -31.12.2018
		RECONCILIATION OF BASIS FOR DEFERRED TAX/TAX ASSETS		
		Deferred tax assets linked to:		
-608	-553	Fixed assets	-553	-608
-2 214	-868	Financial instruments	-7 301	-4 250
0	0	Hedging of borrowing	-808	-8 693
-9 566	-8 912	Pension obligation	-8 912	-9 566
0	-17	Leases	17	0
1	0	Other differences	0	-505
-12 388	**-10 350**	**Total deferred tax assets**	**-17 557**	**-23 621**
		Deferred tax linked to:		
828	836	Lending to customers and credit enterprises	2 733	14 954
0	34	Financial instruments	10	0
0	0	Hedging loans	4 617	0
828	**870**	**Total deferred tax**	**7 360**	**14 954**
-11 561	**-9 480**	**Net deferred tax/tax assets**	**-10 197**	**-8 667**
11 498	18 036	Tax on Group contribution payment made	28 143	19 431
11 498	**18 036**	**Tax payable**	**28 143**	**19 431**
		SUMMARY OF TAX EXPENSE FOR THE YEAR:		
4	0	Tax charged to the income statement for previous years	0	4
-3 670	2 080	Change in deferred tax taken to income	-1 610	-1 275
681	0	Changes to deferred tax recognised directly in equity	0	718
11 498	18 036	Tax on Group contribution payment made	28 143	19 431
8 513	**20 116**	**Capitalized tax**	**26 532**	**18 877**
24.0 %	25.1 %	Effective tax percentage	24.2 %	23.2 %
		RECONCILIATION OF TAX PERCENTAGE:		
37 601	72 919	Accounting income before taxes	102 260	83 429
-2 155	7 337	Items in other comprehensive income	7 337	-2 326
35 446	**80 256**	**Total profit before tax**	**109 597**	**81 103**
8 862	20 064	Income taxs expense, nominal tax rate	27 399	20 276
8 513	20 116	Income tax expense, effective tax rate	26 532	18 838
349	**-52**	**Difference between effective and nominal tax rate**	**868**	**1 439**

NOTE 28 Tax - cont.

KLP Banken AS		NOK THOUSANDS	KLP Banken Group	
01.01.2018 -31.12.2018	01.01.2019 -31.12.2019		01.01.2019 -31.12.2019	01.01.2018 -31.12.2018
-4	0	Recognised tax relating to previous years	0	-4
1 034	-52	Tax effects of permanent differences	-52	1 073
-681	0	Tax recognised directly in equity	0	-718
0	0	Effect of change in tax rate on deferred tax	920	1 088
349	**-52**	**Total**	**868**	**1 439**

NOTE 29 Pension obligations, own employees

The majority of the pension obligation is covered through KLP's joint pension scheme for local authorities and enterprises ("Fellesordningen"). The Company also offers a pension scheme in addition to Fellesordningen. This obligation is covered through operation. Fellesordningen is a defined-benefit pension scheme that satisfies the requirements for mandatory occupational pensions ("obligatorisk tjenestepension", or OTP). The Company has a contract pension (AFP) scheme.

The accounting treatment of pension obligations is described in more detail in Notes 2.

NOK THOUSANDS	Joint scheme	Via operation	2019	Joint scheme	Via operation	2018
PENSION COSTS						
Present value of accumulation for the year	9 030	452	9 483	8 732	476	9 207
Administration cost	205	0	205	220	0	220
Planchange	547	0	547	0	0	0
Social security contributions - Pension costs	1 379	64	1 443	1 262	67	1 329
Capital activity tax - Pension costs	489	23	512	448	24	471
Pension costs incl. social security and administration costs taken to income	**11 650**	**539**	**12 189**	**10 661**	**566**	**11 227**
NET FINANCIAL COSTS						
Interest costs	1 978	326	2 304	1 560	271	1 831
Expected return	-1 301	0	-1 301	-1 051	0	-1 051
Management costs	99	0	99	125	0	125
Net interest costs	775	326	1 101	634	271	905
Social security contributions - Net interest cost	109	46	155	89	38	128
Capital activity tax - Net interest cost	39	16	55	32	14	45
Net interest cost including social security contributions	**923**	**389**	**1 312**	**755**	**322**	**1 077**
ESTIMATE DIFFERENCE, PENSIONS						
Actuarial gains (losses)	-5 765	-265	-6 030	701	1 252	1 953
Social security contributions	-813	-37	-850	99	177	275
Capital activity tax	-288	-13	-302	35	63	98
Actuarial gains (losses) incl. social security contributions	**-6 867**	**-315**	**-7 182**	**835**	**1 491**	**2 326**
Total pension costs including interest costs and estimate difference	**5 707**	**612**	**6 319**	**12 251**	**2 380**	**14 631**

NOTE 29 Pension obligations, own employees - cont.

NOK THOUSANDS	Joint scheme	Via operation	2019	Joint scheme	Via operation	2018
PENSION OBLIGATIONS						
Gross accrued pension obligation	76 843	12 107	88 950	67 148	12 599	79 747
Pension assets	59 017	0	59 017	47 619	0	47 619
Net liability before SSC	17 825	12 107	29 932	19 529	12 599	32 128
Social security contributions	2 513	1 707	4 220	2 754	1 776	4 530
Capital activity tax	891	605	-302	976	630	1 606
Gross accrued obligations incl. social security costs	21 230	14 419	35 649	23 259	15 006	38 265
Net liability incl. social security costs	**21 230**	**14 419**	**35 649**	**23 259**	**15 006**	**38 265**
RECONCILIATION OF PENSION OBLIGATIONS						
Capitalized net liability/(asset) 01.01	23 259	15 006	38 265	18 339	13 102	31 440
Pension costs taken to profit/loss	11 650	539	12 189	10 661	566	11 227
Finance costs taken to profit/loss	923	389	1 312	755	322	1 077
Actuarial gains and losses incl. social security contributions	-6 867	-315	-7 182	835	1 491	2 326
Social security contributions paid in premiums/supplement	-6 495	-1 006	-7 501	-6 155	-56	-6 211
Capital activity tax paid-in premium/supplement	-325	-50	-375	-308	-20	-328
Premium/supplement paid-in including admin	-916	-142	-1 058	-868	-400	-1 267
Capitalized net liability/(asset) 31.12	**21 230**	**14 419**	**35 649**	**23 259**	**15 006**	**38 265**
CHANGE IN PENSION OBLIGATIONS						
Gross pension assets 01.01. before planchange	70 878	15 006	85 884	59 850	13 102	72 952
Planchange	652	0	652	0	0	0
Gross pension assets 01.01. after planchange	71 529	15 006	86 535	59 850	13 102	72 952
Present value of accumulation for the year	9 030	452	9 483	8 732	476	9 207
Interest costs	1 978	326	2 304	1 560	271	1 831
Actuarial losses (gains) gross pension obligation	-1 643	-315	-1 958	1 340	1 491	2 831
Social security contributions - pension costs	1 302	64	1 366	1 262	67	1 329
Social security contributions - net interest costs	109	46	155	89	38	128
Social security contributions paid in premiums/supplement	-916	-142	-1 058	-868	-56	-924
Capital activity tax - pension costs	462	23	484	448	24	471
Capital activity tax - net interest costs	39	16	55	32	14	45
Capital activity tax - paid-in premiums/supplement	-325	-50	-375	-308	-20	-328
Payments	-1 318	-1 006	-2 324	-1 259	-400	-1 659
Gross pension obligation 31.12	**80 247**	**14 419**	**94 667**	**70 878**	**15 006**	**85 884**
CHANGE IN PENSION ASSETS						
Pension assets 01.01	47 619	0	47 619	41 512	0	41 512
Expected return	1 301	0	1 301	1 051	0	1 051
Actuarial loss (gain) on pension assets	5 224	0	5 224	505	0	505
Administration cost	-205	0	-205	-220	0	-220
Financing cost	-99	0	-99	-125	0	-125
Premium/supplement paid-in including admin	6 495	1 006	7 501	6 155	400	6 554
Payments	-1 318	-1 006	-2 324	-1 259	-400	-1 659
Pension assets 31.12	**59 017**	**0**	**59 017**	**47 619**	**0**	**47 619**

NOTE 29 Pension obligations, own employees - cont.

NOK THOUSANDS	Joint scheme	Via operation	2019	Joint scheme	Via operation	2018
OVER/UNDER-FINANCING OF THE PENSION SCHEME						
Present value of the defined-benefit pension obligation	80 247	14 419	94 667	70 878	15 006	85 884
Fair value of the pension assets	59 017	0	59 017	47 619	0	47 619
Net pension obligation	**21 230**	**14 419**	**35 649**	**23 259**	**15 006**	**38 265**

	31.12.2019	31.12.2018
FINANCIAL ASSUMPTIONS (COMMON TO ALL PENSION SCHEMES)		
Discount rate	2.30 %	2.60 %
Salary growth	2.25 %	2.75 %
National Insurance basic amount (G)	2.00 %	2.50 %
Pension increases	1.24 %	1.73 %
Social security contributions	14.10 %	14.10 %
Capital activity tax	5.00 %	5.00 %

For the measurement of pension expense for 2019 used assumptions as of 31.12.2018, while for calculating pensjon liabilities 31.12.2019 used assumptions and population per 31.12.2019. The assumptions are based on market conditions per 31.12.2019 and in accordance with the recommendation from the Norwegian Accounting Standards Board.

ACTUARIAL ASSUMPTIONS

KLP's joint pension scheme for local authorities and enterprises ("Fellesordningen"). An important part of the basis of pension costs and pension obligations is how mortality and disability develop amongst the members of the pension scheme.

KLP has used the K2013BE mortality table based on Finance Norway's analyses of mortality in life insurance populations in Norway and Statistics Norway's extrapolations.

Take-up of contractual early retirement (AFP), (per cent in relation to remaining employees): The costs of AFP depend on how many in each year-group take AFP. On reaching 62 years there are 42.5 per cent who retire with an AFP pension. It is only those who are employed and working right up until they retire who are entitled to AFP. This is taken into account in the calculation of the AFP obligation.

VOLUNTARY TERMINATION FOR FELLESORDNING (IN %)						
Age (years)	<24	24-29	30-39	40-49	50-55	>55
Turnover	25 %	15 %	7.5 %	5 %	3 %	0 %

PENSIONS VIA OPERATIONS:

Take-up of AFP/premature retirement is not relevant to this scheme. In regard to mortality the same variant of K2013BE has been used as for Fellesordningen.

NUMBER	Joint scheme	Via operation	2019	Joint scheme	Via operation	2018
MEMBERSHIP STATUS						
Number active	76	2	78	74	2	71
Number deferred (previous employees with deferred entitlements)	43	6	49	36	7	27
Number of pensioners	16	1	17	14	1	14

NOTE 29 Pension obligations, own employees - cont.

NUMBER	2019	2018
COMPOSITION OF THE PENSION ASSETS:		
Property	12.4 %	12.7 %
Lending	12.5 %	12.1 %
Shares	25.9 %	21.4 %
Long-term/HTM bonds	29.1 %	29.1 %
Short-term bonds	15.0 %	18.4 %
Liquidity/money market	5.2 %	6.3 %
Total	**100.0 %**	**100.0 %**

The pension funds are based on KLP's financial funds in the common portfolio. The table shows percentage placing of the pension funds administered by KLP at the end of the year. Value-adjusted return on the assets was 8.55 per cent in 2019 and 1.45 per cent in 2018.

Expected payment into benefit plans after cessation of employment for the period 1 January 2017 – 31 December 2020 is NOK 11.8 million.

SENSITIVITY ANALYSIS AS AT 31 DECEMBER 2019	
Discount rate reduced by 0.5%	Increase
Gross pension obligation	9.9 %
Accumulation for the year	15.1 %
Salary growth increases by 0.25%	Increase
Gross pension obligation	1.5 %
Accumulation for the year	3.2 %
Mortality increases by 10%	Increase
Gross pension obligation	2.5 %
Accumulation for the year	1.9 %

The sensitivity analysis above is based on all other assumptions being unchanged. In practice that is an unlikely scenario and changes in some assumptions are correlated. The calculation of gross pension obligation and accumulation for the year in the sensitivity analysis has been done using the same method as in calculating gross pension obligation in the financial statement position.

The duration in the joint scheme is estimated at 16.6 years.

NOTE 30 Salary and obligations to senior management etc.

2019 NOK THOUSANDS	Paid from KLP Banken AS						Paid from another company in the same group					
	Salaries, fees etc.	Other benefits	Annual pension accumulation	Loans	Interest rate as at 31.12.2019	Repayment plan [1]	Salaries, fees etc.	Other benefits	Annual pension accumulation	Loans	Interest rate as at 31.12.2019	Repayment plan [1]
SENIOR EMPLOYEES												
Leif Magne Andersen, Managing Director	2 170	168	792	4 097	2.00	A44	-	-	-	-	-	-
Carl Steinar Lous, Department Manager Public Market	1 342	27	384	-	-	-	-	-	-	2 002	2.00	A20/A32
Christopher A. Steen, Department Manager Finance	1 326	39	250	-	-	-	-	-	-	1 805	2.00	A36
BOARD OF DIRECTORS												
Sverre Thornes, Chair	-	-	-	-	-	-	4 155	221	1 530	11 550	2.00	A45
Aage E. Schaanning	-	-	-	5 397	2.00	HC	3 599	168	1 282	-	-	-
Aina Iren Slettedal Eide	-	-	-	-	-	-	-	-	-	-	-	-
Kjell Fosse	123	-	-	-	-	-	31	-	-	-	-	-
Ingrid Aune[2]	71	-	-	-	-	-	35	-	-	-	-	-
Karianne Oldernes Tung	19	-	-	-	-	-	9	-	-	-	-	-
Christin Kleppe, elected by and from the employees	112	-	-	-	-	-	7	-	-	-	-	-
Espen Trandum, elected by and from the employees	112	-	-	-	-	-	7	-	-	-	-	-
EMPLOYEES												
Loans to employees of KLP Banken AS for employee terms	-	-	-	68 507	-	-	-	-	-	68 215	-	-
Loans to employees of KLP Banken AS under ordinary terms	-	-	-	250	-	-	-	-	-	3 354	-	-

2018 NOK THOUSANDS	Paid from KLP Banken AS						Paid from another company in the same group					
	Salaries, fees etc.	Other benefits	Annual pension accumulation	Loans	Interest rate as at 31.12.2018	Repayment plan [1]	Salaries, fees etc.	Other benefits	Annual pension accumulation	Loans	Interest rate as at 31.12.2018	Repayment plan [1]
SENIOR EMPLOYEES												
Leif Magne Andersen, Managing Director	2 110	162	765	2 995	2.30	A42	-	-	-	1 235	2.40	A42/A44
Carl Steinar Lous, Department Manager Public Market	1 311	27	376	-	-	-	-	-	-	2 211	2.30	A20/A32
Christopher A. Steen, Department Manager Finance	1 256	62	227	-	-	-	-	-	-	2 002	2.30	A36
BOARD OF DIRECTORS												
Sverre Thornes, Chair	-	-	-	-	-	-	4 016	201	1 496	11 939	2.30-2.40	A45
Aage E. Schaanning	-	-	-	5 779	2.30	HC	3 498	163	1 255	-	-	-
Aina Iren Slettedal Eide	-	-	-	-	-	-	-	-	-	-	-	-
Kjell Fosse	119	-	-	-	-	-	7	-	-	-	-	-
Ingrid Aune	108	-	-	-	-	-	53	-	-	-	-	-

NOTE 30 Salary and obligations to senior management etc. - cont.

2018 NOK THOUSANDS	Paid from KLP Banken AS						Paid from another company in the same group					
	Salaries, fees etc.	Other benefits	Annual pension accumulation	Loans	Interest rate as at 31.12.2018	Repay-ment plan [1]	Salaries, fees etc.	Other benefits	Annual pension accumulation	Loans	Interest rate as at 31.12.2018	Repayment plan [1]
Christin Kleppe, elected by and from the employees	108	-	-	-	-	-	7	-	-	-	-	-
Espen Trandum, elected by and from the employees	108	-	-	-	-	-	7	-	-	-	-	-
EMPLOYEES												
Loans to employees of KLP Banken AS for employee terms	-	-	-	22 235	-	-	-	-	-	38 422	-	-
Loans to employees of KLP Banken AS under ordinary terms	-	-	-	12 588	-	-	-	-	-	18 906	-	-

[1] A= Annuity loan, last payment, HC=House Credit.
[2] Deceased

NOK THOUSANDS	2019	2018
Period expenses related to interest subsidies on loans to employees	849	251

The KLP Board of Directors has laid down principles and guidelines for remuneration that apply for the entire Group and set up a remuneration committee as a subcommittee of the Board. The committee reports on and carries out checks that the remuneration schemes in the Group are in line with the Board's principles and guidelines.

The Managing Director of KLP Banken AS has no agreement on performance pay (bonus) or guaranteed salary. He is pensionable aged 65.

Department Manager Public Sector Market also holds the position as the Managing Director of the subsidiary KLP Kommunekreditt AS, but he receives no remuneration for that appointment. He has no agreement on performance pay, but has a salary guarantee in the event of dismissal/agreed termination. He is pensinable aged 70.

The Department Manager Finance holds the post of Managing Director of the subsidiary KLP Boligkreditt AS. He receives no remuneration for this appointment, and has no agreement on performance pay (bonus) or guaranteed salary. He is pensionable aged 70.

All employees of the KLP Group in Norway are registered in KLP's pension scheme for municipalities and companies. The employees earn pension rights in this scheme for salaries up to 12G.

Employees in the KLP Group with salaries above 12 G and for lower retirement age than 67 years, also earn pension benefits for salaries above 12G. Full retirement pension in this additional cover amounts to 66% of salary above 12G, and is achieved after at least 30 years of earnings in the scheme. Employees with a special agreement for a lower pension age than 67 years are ensured an old-age pension corresponding to 66% of all pensionable salary up to 67 years. This add-on was closed May 2, 2013 and does not apply to employees who started after that date. Nor does the scheme apply to employees who were employed at this time in KLP, but who only receive salary above 12G after this date.

There are no obligations to provide the Chair of the Board of Directors with special consideration or other benefits on termination or change in employment contract or appointment.

Directors' fees are set by the General Assembly. Board members employed in the KLP Group, not having been elected by and from the employees, do not receive a fee for the Board appointment. Benefits in addition to Directors' fees for Board members employed in the KLP Group are stated only if they are included in the senior management group employed in the KLP Group. The same applies to information about lending.

All benefits are shown without the addition of social security costs and capital activity taxes.

The KLP Group offers loans for various purposes. There are separate loan terms for employees, and no senior employees have loan terms that deviate from these.

Loans to external directors are only granted under ordinary loan terms. The interest rebate that accrues to employees is refunded to the lending company.

Attention is drawn otherwise to the description of the main principles on determination of remuneration in the KLP Group that may be found at klp.no.

NOTE 31 Number of employees

KLP Banken AS			KLP Banken Group	
2018	2019		2019	2018
68	69	Number of permanent employees 31.12.	69	68
9	9	Number of temporary employees 31.12.	9	9
77	**78**	**Total number of employees 31.12.**	**78**	**77**
66	66	Number of full time equivalents permanent employees	66	66
8	9	Number of full time equivalents temporary employees	9	8
74	**75**	**Total number of full time equivalents**	**75**	**74**

NOTE 32 Pay and general management costs

KLP Banken AS		NOK THOUSANDS	KLP Banken Group	
01.01.2018 -31.12.2018	01.01.2019 -31.12.2019		01.01.2019 -31.12.2019	01.01.2018 -31.12.2018
49 400	51 343	Salaries	51 343	49 400
7 212	7 481	Social security contributions	7 481	7 212
2 560	2 653	Capital activity tax	2 653	2 560
11 368	12 329	Pensions including social security contributions	12 329	11 368
1 486	1 875	Other benefits	1 875	1 486
72 026	**75 681**	**Total pay and general management costs**	**75 681**	**72 026**

NOTE 33 Other assets

KLP Banken AS		NOK THOUSANDS	KLP Banken Group	
31.12.2018	31.12.2019		31.12.2019	31.12.2018
6 824	5 122	Receivables between companies in the same Group	2 189	289
121	114	Miscellaneous receivables	114	122
2	6	Prepaid expenses	6	2
6 947	**5 242**	**Total other assets**	**2 309**	**413**

NOTE 34 Other liabilities and provision for accrued costs

KLP Banken AS		NOK THOUSANDS	KLP Banken Group	
31.12.2018	31.12.2019		31.12.2019	31.12.2018
62 447	16 581	Receivables between companies in the same Group	15 339	52 187
7 796	2 554	Creditors	2 741	7 825
5 708	5 632	Miscellaneous liabilities	5 631	5 710
11 498	18 036	Tax payable	28 143	19 431
87 449	**42 802**	**Total other liabilities**	**51 854**	**85 154**
3 227	2 622	Withholding tax	2 622	3 227
2 486	2 312	Social security contributions	2 312	2 486
900	836	Capital activity tax	836	900
5 322	5 540	Holiday pay	5 540	5 322
38 265	35 649	Pension obligations	35 649	38 265
0	130	VAT	208	0
1 917	2 382	Provisioned costs	2 382	1 917
52 117	**49 472**	**Total accrued costs and liabilities**	**49 550**	**52 117**

NOTE 35 Transactions with related parties

KLP Banken AS		NOK THOUSANDS	KLP Banken Group	
01.01.2018 -31.12.2018	01.01.2019 -31.12.2019		01.01.2019 -31.12.2019	01.01.2018 -31.12.2018
		INCOME STATEMENT ITEMS		
58 000	58 843	KLP, fees lending management	58 843	58 000
12 823	13 335	KLP Kommunekreditt AS, administrative services (at cost)	0	0
43 084	43 837	KLP Boligkreditt AS, administrative services (at cost)	0	0
4 871	3 703	KLP Kommunekreditt AS, interest lending	0	0
10 471	11 806	KLP Boligkreditt AS, interest lending	0	0
-66	-47	KLP Kapitalforvaltning AS, fees for services provided	-166	-226
-4 150	-2 765	KLP, rent	-2 765	-4 150
-1 554	-1 632	KLP Skipsbygget AS, rent	-1 632	-1 554
-101	-63	KLP Bassengtomten AS, rent	-63	-101
-473	-449	KLP Eiendomsdrift AS, rent	-449	-473
-11 368	-12 329	KLP, pension premium	-12 329	-11 368
-67 616	-66 865	KLP, staff services (at cost)	-66 865	-67 616
759	3 518	KLP Group companies, subsidised interest employee loans	8 134	2 173
44 680	**50 892**	**Total**	**-17 292**	**-25 316**

NOTE 35 Transactions with related parties - cont.

KLP Banken AS		NOK THOUSANDS	KLP Banken Group	
31.12.2018	31.12.2019		31.12.2019	31.12.2018
		FINANCIAL POSITION STATEMENT ITEMS		
430 208	320 169	KLP Kommunekreditt AS, lending Group short-term	0	0
1 036 913	387 157	KLP Boligkreditt AS, lending Group short-term	0	0
-8 122	-1 010	KLP Kommunekreditt AS, loan settlement	0	0
-2 166	-257	KLP Boligkreditt AS, loan settlement	0	0
-49 214	-15 144	KLP, loan settlement	-15 144	-49 214
-4 871 955	-2 915 755	KLP Boligkreditt AS, transferred loans	0	0
		NET INTERNAL ACCOUNTS TO:		
-2 935	-170	KLP	912	-2 773
1 672	1 196	KLP Kommunekreditt AS, net internal accounts	0	0
5 089	3 370	KLP Boligkreditt AS, net internal accounts	0	0
52	556	KLP Group companies, net other internal accounts	1 083	23
-3 460 457	**-2 219 331**	**Total**	**-13 149**	**-51 964**

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

NOTE 36 Auditor's fee

KLP Banken AS		NOK THOUSANDS	KLP Banken Group	
01.01.2018 -31.12.2018	01.01.2019 -31.12.2019		01.01.2019 -31.12.2019	01.01.2018 -31.12.2018
525	318	Ordinary audit	827	1 003
0	0	Certification services	64	278
465	237	Non-audit services	237	470
990	**555**	**Total auditor's fee**	**1 128**	**1 752**

The audit fee is expensed according to received invoice.
The amounts above include VAT.

NOTE 37 Contingent liabilities

KLP Banken AS		NOK THOUSANDS	KLP Banken Group	
31.12.2018	31.12.2019		31.12.2019	31.12.2018
561 905	649 867	Credit facilities for lending not utilized	649 868	561 905
115 924	234 061	Credit facilities issued credit card	234 061	201 584
201 584	862 009	Loan commitment	1 232 829	616 318
17 743 000	17 304 000	Credit facility KLP Kommunekreditt AS	0	0
6 908 000	7 014 000	Credit facility KLP Boligkreditt AS	0	0
25 530 413	**26 063 937**	**Total contingent liabilities**	**2 116 758**	**1 379 807**

NOTE 38 Cash and cash equivalents and other loans and receivables from credit institutions

KLP Banken AS		NOK THOUSANDS	KLP Banken Group	
31.12.2018	31.12.2019		31.12.2019	31.12.2018
60 238	68 798	Claims on central banks	68 798	60 238
621 861	757 067	Bank deposits operations	1 468 049	1 393 775
0	0	Cash	0	0
682 099	**825 865**	**Total cash and cash equivalents (liquidity)**	**1 536 846**	**1 454 013**
19 351	17 669	Bank accounts to be used for the purchase and sale of securities	29 744	45 645
1 467 121	707 327	Receivable on group coppanies	0	0
2 168 571	**1 550 861**	**Loans and receivables from credit institutions**	**1 566 591**	**1 499 658**

To the General Meeting of KLP Banken AS

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of KLP Banken AS, which comprise:

- The financial statements of the parent company KLP Banken AS (the Company), which comprise the balance sheet as at 31 December 2019, the income statement, statement of owners' equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and

- The consolidated financial statements of KLP Banken AS and its subsidiaries (the Group), which comprise the balance sheet as at 31 December 2019, the income statement, statement of owners' equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.

- The accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

- The accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company and the Group as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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State authorised public accountants, members of The Norwegian Institute of Public Accountants, and authorised accounting firm

Independent Auditor's Report - KLP Banken AS

Other information

Management is responsible for the other information. The other information comprises information in the annual report, except the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (Management) are responsible for the preparation in accordance with law and regulations, including fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one

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resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's or the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption and the proposed allocation of the result is consistent with the financial statements and complies with the law and regulations.

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Independent Auditor's Report - KLP Banken AS

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements *(ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the Company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 18 March 2020
PricewaterhouseCoopers AS

Erik Andersen
State Authorised Public Accountant

Note: This translation from Norwegian has been prepared for information purposes only.

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