



Interim report

KLP BANKEN GROUP
Q2 2020

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KLP BANKEN GROUP

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Interim financial statements

KLP BANKEN GROUP Q2 2020

MAIN FEATURES BY QUARTER END:

- Strong lending growth
- Increased operating income
- P&L affected by virus pandemic

The KLP Banken Group provides lending to municipalities, county administrations and companies carrying out public sector assignments. Additionally, the KLP Banken manages a lending portfolio on behalf of its parent company KLP (Kommunal Landspensjonskasse). The Group manages a lending total of NOK 118 (99)¹ billion. The overall business of KLP Banken AS and its subsidiaries is divided into the retail market and public sector loans business areas. The business is nationwide.

KLP Banken is a direct bank for customers seeking a long-term and predictable partner. The aim is to become the preferred bank in the retail market for persons who are members of the KLP pension schemes and find the bank products and its core values attractive. In the public sector market KLP Kommunekreditt AS together with KLP shall contribute to market competition and thereby access to favorable long-term financing for the sector.

The second quarter of 2020 was characterized by the special situation caused by the pandemic. KLP Banken has, as part of a customer owned enterprise, taken its share of responsibility for handling the situation through quick interest rate reductions and postponement of installments for members needing it. In the public sector market the bank has contributed by continued ability to offer loans based on extraordinary liquidity made available from KLP.

KLP Banken AS is owned 100 per cent by Kommunal Landspensjonskasse gjensidig forsikringsselskap (KLP). KLP Banken AS has two wholly owned subsidiaries, KLP Kommunekreditt AS and KLP Boligkreditt AS. The main office is in Trondheim.

INCOME STATEMENT

Net interest income for the KLP Banken Group by second quarter end 2020 amounted to NOK 141.6 (138.1) million. Increased net interest income is mainly due to strong growth in mortgage lending.

In the second quarter there was a marginal increase in net interest income compared to last year, despite

mortgage lending rates was set down just after the central bank (Norges Bank) reduced the key rate as a response to the market turmoil arising from the pandemic. As the bank deposit interest rates and other financing costs could not be reduced immediately, lending margins dropped through the quarter. Strong increase in lending volume has partly compensated the lower margins.

Net charges and commission income was NOK 9.4 (8.9) million. Also here the change is mainly loan volume driven.

In addition to its own lending, the bank administers housing mortgages and public sector lending financed by its parent company (KLP). The management fee for this task amounted to NOK 29.6 (29.6) million for the first half year.

Operating expenses including depreciations amounted to NOK -124.6 (-114.4) million.

At the end of the second quarter, the income statement includes a net loss associated with securities of NOK -16.1 (-11.6) million. The profit and loss effects are mainly due to one-off expenses from buy-back of own bond issues in the daughter enterprises and to market value changes in the liquidity investment portfolios.

Loan loss provisions and realized losses in total amounted to NOK -2.9 (-3.2) million in the first half of 2020. This is mainly due to loss on credit card credits. The pandemic has so far not increased loan losses on mortgages. Neither in 2020 the public sector market has incurred realized loan losses.

By the end of the second quarter, the KLP Banken Group had a pre-tax profit of NOK 39.9 (50.6) million. The retail market segment generated a profit of NOK 30.0 (37.0) million while the public sector segment achieved a profit of NOK 9.9 (13.6) million. Group total income after tax and actuarial adjustments amounted to NOK 46.2 (36.7) million as at second quarter of 2020.

LENDING AND CREDITS

On 30 June 2020, the KLP Banken Group had a lending balance of NOK 37.5 (33.6) billion. The distribution between the retail market and public sector lending

¹ Figures in parenthesis are from the corresponding period last year.

was NOK 20.1 (17.3) billion and NOK 17.4 (16.3) billion, respectively.

The KLP Banken retail market showed a strong lending growth by NOK 1.8 (0.6) billion in the first half. This implies a growth above last year's strong figures, and the second quarter growth alone is also above last year. This shows that the banks mortgage loan products are well suited for the target group members of the KLP pension schemes, even in turbulent times. Especially the target sub-group young members have contributed to the first half year growth.

Mortgage loans amounting NOK 4.7 (1.2) billion was sold to the daughter company KLP Boligkreditt AS in the period. Managed mortgages for KLP was reduced by NOK -104 (-63) million because of ordinary repayments and redemptions.

KLP Banken credit card activities have decreased by -14.9 (-4.8) per cent in the first half measured by outstanding credits drawn, but volumes vary from month to month. This is also due to a general decrease in the market for unsecured credits. The card products are continuously developed in order to meet the needs of our customer groups.

The public sector lending balance has increased during the first half by NOK 0.7 (-0.5) billion. Managed public sector loans on behalf of KLP has in the same period increased by NOK 5.5 (2.7) billion. KLP extended its lending credit facilities by NOK 5 billion as the pandemic hit the market. KLP Banken was then able to contribute with continued lending at favorable terms to public sector borrowers, some of them worrying about the reduced possibilities of new loans and refinancing in the lending markets at the time.

LIQUID INVESTMENT

On the reporting date, the portfolio of liquid investments amounted to NOK 4.4 (3.6) billion. Net profit and loss due to market value changes in the first half was an income of NOK 5.8 (3.6) million.

BORROWING

The KLP Banken Group's external financing comprise deposits, certificates and bonds. On the date of reporting, deposits from individuals and companies were NOK 12.2 (11.5) billion and issued securities amounted to NOK 26.0 (24.9) billion. Of the outstanding volume of issued securities, covered bonds (OMF) issued by KLP Kommunekreditt AS and KLP Boligkreditt AS amounted to NOK 18.2 (17.7) billion and NOK 10.4 (6.2) billion respectively. All covered bond issues have achieved AAA rating. Outstanding securities debt in KLP Banken AS amounted to NOK 1.0 (0.9) billion.

In the first half KLP Banken AS used the extended access to F-loans in Norges Bank. At quarter end the volume was NOK 3.0 billion. This borrowing involves

deposition of securities with equivalent value.

OPERATIONS

Most of the KLP Banken employees have been working from their homes since medio March, with a careful reopening of the office in June. Nevertheless, the banking operations have continued approximately as normal.

RISK AND CAPITAL ADEQUACY

The KLP Banken Group is exposed to various types of risks and the bank has established a framework for risk management aimed at ensuring risks are identified, analysed and subjected to management using policies, limits, procedures and instructions.

The bank is to have a prudent risk profile and earnings are to be principally a result of borrowing and lending activity as well as liquidity management. This means that the bank is to have low market risk, and interest risk arising within the borrowing and lending activity is reduced using derivatives.

The KLP Banken Group and its subsidiaries are to have responsible long-term financing and limits have been established to ensure that that this objective is achieved.

The credit risk associated with the banking group assets is low and lending is mainly limited to loans with local government risk and loans with lien on housing property. Management of the bank's liquidity is conducted through investments in other banks satisfying set credit quality requirements and in securities in accordance with Board-approved credit lines.

At the end of the second quarter, eligible Tier 1 and Tier 2 capital i.a.w. the capital adequacy rules were NOK 2 283 (2 140) million. Eligible Tier 1 and Tier 2 capital comprises core capital only. Lending is risk-weighted in accordance with the authorities' capital adequacy regulations. The KLP Banken Group had a capital adequacy ratio of 18.4 (19.7) per cent at the end of the second quarter. The minimum statutory requirement is 12.5 per cent core capital adequacy and 16.0 per cent capital adequacy. Leverage ratio was 5.1 (5.4) per cent. Here the requirement is 3.0 per cent.

SUMMARY OF PANDEMIC EFFECTS ON THE FINANCIAL STATEMENT

The market turmoil caused by the pandemic has affected the bank's lending margins (see comments under Income Statement above).

Further on, the reduced regulatory capital adequacy for the countercyclical capital buffer, has enhanced the Bank Group's capital adequacy position relative to the statutory requirements.

KLP Banken AS has, for the first time, utilized the extended access to F-loans in Norges Bank (Norwegian Central Bank).

The Bank's loan loss provisions have increased somewhat since last year-end. This is mainly due to the view of higher possibility for a negative market scenario following the turmoil from the pandemic (see note 15). Realized losses are currently little affected.

FUTURE PROSPECTS

In the next quarter it is expected that the Bank's funding costs will adapt to the present interest rate levels and that lending margins will stabilize on more normal levels.

The enterprises in the KLP Banken Group satisfies all statutory requirements for capital adequacy and liquidity and have capacity for further growth. Even if the pandemic persists, it is expected that the Group may utilize funding from KLP in order to maintain its financial capacity to the benefit of public borrowers and the retail members.

KLP Banken has good opportunities to develop further its position in the target group, retail members. One important aim is to provide favorable and predictable terms on our retail products and at the same time develop forms of financing that contribute to environment protection and sustainability.

The banking industry is challenged by new technology and new players outside it. KLP Banken's aim is to utilize proven technology to be able to offer relevant, customer friendly and efficient services to its customers. This implies the need for extensive investments in IT solutions ahead, but this is considered a central prerequisite to achieve the Bank's ambitions for

continued growth and profitability.

The ability to service mortgage loans among the Bank's most important customer groups, who are mainly public employees, is expected to be satisfactory also looking ahead. This will limit defaults and losses in the future too. KLP Banken will continue to operate its lending activities under conservative credit procedures in order to maintain low credit risk in the lending portfolios.

Norwegian municipalities have through many years developed good and comprehensive public services. The combination of increased life-time prospects and population growth gives reason to expect a continued high level of investments in the public sector. The demand for long-term credits from municipalities as well as infrastructure development and environmental projects is therefore expected to stay high also in the years to come.

KLP Kommunekreditt AS is the only issuer of covered bonds secured by public sector loans in the country. The presence of the Bank's daughter enterprise, together with KLP, contribute to competition in the public sector lending market and thus offering the sector access to long-term financing at favorable terms.

KLP Banken AS is in a good solvency and capital adequacy state. Combined with low credit risk in the lending business, this gives a good foundation for access to the best possible financing in the capital markets. KLP Banken AS is therefore in a good position for further development and growth.

Trondheim, 12. August 2020

Sverre Thornes
Chair
(Sign.)

Aage E. Schaanning
Deputy Chair
(Sign.)

Aina Slettedal Eide
(Sign.)

Karianne Oldernes Tung
(Sign.)

Kjell Fosse
(Sign.)

Malin Moldrem
Elected by and from employees
(Sign.)

Kristian Lie-Pedersen
Elected by and from employees
(Sign.)

Leif Magne Andersen
Managing Director
(Sign.)

Income statement

KLP BANKEN GROUP

NOTE	NOK THOUSANDS	Q2 2020	Q2 2019	01.01.2020 -30.06.2020	01.01.2019 -30.06.2019	01.01.2019 -31.12.2019
	Interest income, amortised cost	192 547	214 356	451 174	425 427	910 090
	Interest income at fair value	51 246	41 581	95 213	77 073	164 825
3	Total interest income	243 793	255 937	546 387	502 501	1 074 914
	Interest expense, amortized cost	-153 024	-153 062	-347 135	-302 356	-658 224
	Interest expense at fair value	-27 661	-30 858	-57 679	-62 091	-123 819
3	Total interest costs	-180 685	-183 920	-404 814	-364 447	-782 044
3	Net interest income	63 108	72 017	141 573	138 053	292 871
	Commission income and income from banking services	5 146	5 326	10 253	9 887	21 240
	Commission cost and cost from banking services	-389	-502	-854	-966	-2 040
	Net charges and commission income	4 757	4 824	9 399	8 921	19 200
	Other fee income	14 800	14 800	29 600	29 600	58 873
17	Net gain/ (loss) financial instruments	3 337	-8 137	-16 063	-11 568	-30 159
	Total other operating income	18 137	6 663	13 537	18 032	28 713
	Salaries and administrative costs	-19 171	-18 248	-38 150	-37 308	-75 681
	Depreciation	-1 493	-2 361	-2 952	-5 126	-8 180
	Other operating expenses	-39 832	-35 057	-80 653	-68 826	-148 021
15	Net loan losses	-563	-1 287	-2 859	-3 166	-6 642
	Total operating expenses	-61 059	-56 953	-124 614	-114 424	-238 524
	Operating profit/loss before tax	24 944	26 551	39 895	50 583	102 260
	Tax ordinary income	-6 200	-6 366	18 441	-12 095	-24 737
	Profit/loss for the period	18 744	20 185	58 337	38 488	77 523
	Estimate difference, pension obligation and assets	-2 462	0	-16 147	-2 393	7 182
	Tax on actuarial gains and losses	615	0	4 037	598	-1 796
	Items that will not be reclassified to profit and loss	-1 846	0	-12 110	-1 795	5 387
	Changes in the fair value through profit and loss	0	0	0	0	0
	Tax on changes in fair value of available for sale financial assets	0	0	0	0	0
	Items that may be reclassified to profit and loss	0	0	0	0	0
	Other comprehensive income for the period	-1 846	0	-12 110	-1 795	5 387
	Comprehensive income for the period	16 898	20 185	46 227	36 693	82 909

Balance sheet

KLP BANKEN GROUP

NOTE	NOK THOUSANDS	30.06.2020	30.06.2019	31.12.2019
ASSETS				
5	Claims on central banks	68 869	60 441	68 798
5	Loans to credit institutions	1 795 112	1 511 287	1 497 793
4.5	Loans to customers	37 477 534	33 643 989	34 933 743
5.6.14	Fixed-income securities	4 384 790	3 554 965	3 118 503
5.6	Shareholdings	2 801	2 053	2 053
5.6	Financial derivatives	81 383	60 170	40 849
	Deferred tax assets	6 413	0	10 196
	Fixed assets	456	589	511
18	Right-of-use assets	2 727	4 285	3 506
	Intangible assets	19 671	21 727	20 447
11	Other assets	10 450	1 136	2 309
Total assets		43 850 206	38 860 640	39 698 709
LIABILITIES AND OWNERS EQUITY				
LIABILITIES				
8	Debt to credit institutions	3 001 746	0	0
5.7	Debt securities issued	25 993 350	24 858 316	25 822 190
5	Deposits and borrowings from the public	12 244 887	11 464 838	11 486 525
5.6	Financial derivatives	136 101	91 696	64 455
	Deferred tax liabilities	0	454	0
18	Lease liabilities	2 805	4 326	3 573
12	Other liabilities	58 576	202 454	51 854
12	Provision for accrued costs and liabilities	74 093	64 211	49 550
Total liabilities		41 511 560	36 686 295	37 478 148
EQUITY				
	Share capital	1 065 000	1 057 500	1 057 500
	Share premium	825 000	732 500	732 500
	Other owners' equity	402 419	347 652	430 561
	Profit for the period	46 227	36 693	0
Total equity		2 338 646	2 174 345	2 220 561
Total liabilities and equity		43 850 206	38 860 640	39 698 709

Statement of changes in equity

KLP BANKEN GROUP

2020 NOK THOUSANDS	Share capital	Share premium	Other equity	Total owners' equity
Equity 1 January 2020	1 057 500	732 500	430 561	2 220 561
Profit for the period	0	0	58 337	58 337
Other comprehensive income	0	0	-12 110	-12 110
Total comprehensive income for the period	0	0	46 227	46 227
Group contribution received	0	0	141 681	141 681
Group contribution made	0	0	-141 681	-141 681
Tax on group contribution made 2019	0	0	-28 142	-28 142
Owners' equity received during the period	7 500	92 500	0	100 000
Total transactions with the owners	7 500	92 500	-28 142	71 858
Equity 30 June 2020	1 065 000	825 000	448 646	2 338 646

2019 NOK THOUSANDS	Share capital	Share premium	Other equity	Total owners' equity
Equity 1 January 2019	1 057 500	732 500	347 652	2 137 652
Profit for the period	0	0	38 488	38 488
Other comprehensive income	0	0	-1 795	-1 795
Total comprehensive income for the period	0	0	36 693	36 693
Group contribution received	0	0	61 052	61 052
Group contribution made	0	0	-61 052	-61 052
Total transactions with the owners	0	0	0	0
Equity 30 June 2019	1 057 500	732 500	384 345	2 174 345

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
Total comprehensive income for the period	0	0	82 909	82 909
Group contribution received	0	0	61 052	61 052
Group contribution made	0	0	-61 052	-61 052
Total transactions with the owners	0	0	0	0
Equity 31 December 2019	1 057 500	732 500	430 561	2 220 561

Statement of cash flow

KLP BANKEN GROUP

NOK THOUSANDS	01.01.2020 -30.06.2020	01.01.2019 -30.06.2019	01.01.2019 -31.12.2019
OPERATING ACTIVITIES			
Payments received from customers – interest, commission and charges	463 721	414 537	900 764
Payments to customers – interest, commission and charges	-90 812	-80 103	-173 230
Disbursements on loans to customers and credit institutions	-11 009 351	-4 346 532	-11 072 876
Receipts on loans to customers	8 487 341	4 155 616	9 535 488
Net receipts on customer deposits banking	759 701	803 273	824 798
Disbursements on operations	-73 716	-71 569	-151 461
Payments to staff, pension schemes, employer's social security contribution etc.	-36 201	-33 512	-78 646
Interest investment accounts	5 382	5 111	23 837
Net receipts/disbursements from operating activities	98 681	180 336	31 807
Income tax paid	0	0	0
Net cash flow from operating activities	-1 395 254	1 027 156	-159 519
INVESTMENT ACTIVITIES			
Receipts on sale of securities	4 736 488	518 818	2 708 725
Payments on the purchase of securities	-5 996 361	-2 051 858	-3 810 624
Receipts of interest from securities	43 858	22 296	56 527
Payments on the purchase of tangible fixed assets	-1 341	-696	-1 614
Net cash flow from investment activities	-1 217 357	-1 511 440	-1 046 987
FINANCING ACTIVITIES			
Receipts on loans from credit institutions	3 000 000	0	0
Receipts on loans	5 204 262	3 800 000	9 000 000
Repayment and redemption of loans	-4 325 000	-3 630 000	-7 708 000
Change in payment for loan buybacks	-730 000	613 000	484 000
Net payment of interest on loans	-320 068	-200 413	-465 689
Payment of lease liabilities	-798	-771	-1 542
Group contributions made	-28 142	-19 431	-19 431
Receipts on issue of owners' equity	100 000	0	0
Net cash flows from financing activities	2 900 254	562 385	1 289 339
Net cash flow during the period	287 642	78 100	82 833
Cash and cash equivalents at the start of the period	1 536 846	1 454 013	1 454 013
Cash and cash equivalents at the end of the period	1 824 489	1 532 113	1 536 846
Net receipts/disbursements (-) of cash	287 642	78 100	82 833

Notes to the accounts

KLP BANKEN GROUP

NOTE 1 General information

KLP Banken AS was formed on 25 February 2009. KLP Banken AS owns all the shares in KLP Kommunekreditt AS and KLP Boligkreditt AS. These companies together form the KLP Banken AS Group. KLP Banken AS Group provide or acquire loans to Norwegian municipalities and county authorities, as well as to companies with public sector guarantee. The lending activities are principally financed by issuance of covered bonds. The Group also offers standard banking products to private customers. KLP Banken AS is registered and domiciled in Norway. It's head office is at Beddingen 8 in Trondheim. The company has a branch office in Dronning Eufemiasgate 10, Oslo.

The company, KLP Banken AS, is a subsidiary of KLP Bankholding AS, which is in turn wholly owned by Kommunal Landspensjonskasse (KLP). KLP is a mutual insurance company.

NOTE 2 Accounting principles

The interim report includes the interim Financial Statements of KLP Banken Group for the period 1 January 2020 – 30 June 2020, with a specification of the results in the second quarter. The interim Financial Statements has not been audited.

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

The amendments to IAS 12 Income Tax, effective from 2019 have an effect on the interim financial statements. The tax effect of all distributions in 2019 was in the first quarter recognized to profit or loss, other income and expenses or in equity in accordance with where the company originally recognized the transactions that generated the distribution. This entailed an income recognition of the tax effect on the group contribution provided in the income statement, which was recognized in other owners' equity. At the same time, this was offset against higher earnings, so that the net effect on equity was zero. Comparative figures are not changed.

During the first half of the year, there have been significant changes in the fixed income markets. This has particularly affected the discount rate used in calculating the present value of the Groups' pension obligations. The discount rates used for this calculation have changed from 2.3 per cent as of 31.12.2019 to 1.5 per cent as of 30.06.2020. The effect of the change in the pension assumptions increases the pension obligation for own employees by NOK 16.1 million.

Other accounting principles and calculations are the same in the interim financial statement as in the annual report for 2019.

NOTE 3 Net interest income

NOK THOUSANDS	Q2 2020	Q2 2019	01.01.2020 -30.06.2020	01.01.2019 -30.06.2019	01.01.2019 -31.12.2019
Interest income on loans to customers, amortised cost	191 716	210 317	444 366	418 182	892 192
Interest income on loans to credit institutions, amortised cost	831	4 038	6 808	7 245	17 898
Total interest income, amortised cost	192 547	214 356	451 174	425 427	910 090
Interest income on bonds and certificates, fair value	27 405	15 578	43 942	25 145	58 866
Other interest income, fair value	23 841	26 003	51 271	51 929	105 958
Total interest income, fair value	51 246	41 581	95 213	77 073	164 825
Total interest income	243 793	255 937	546 387	502 501	1 074 914
Interest expenses on debt to KLP Banken, amortised cost	-40 584	-37 019	-88 261	-79 406	-171 759
Interest expenses on issued securities, amortised cost	-112 426	-116 021	-258 843	-222 906	-486 384
Interest expense lease liabilities	-14	-21	-31	-44	-82
Total interest expenses, amortised cost	-153 024	-153 061	-347 135	-302 356	-658 224
Other interest expenses, fair value	-27 661	-30 858	-57 679	-62 091	-123 819
Total interest expenses, fair value	-27 661	-30 858	-57 679	-62 091	-123 819
Total interest costs	-180 685	-183 920	-404 814	-364 447	-782 044
Net interest income	63 108	72 017	141 573	138 053	292 871

NOTE 4 Loans to customers

NOK THOUSANDS	30.06.2020	30.06.2019	31.12.2019
Principal on loans to customers	37 238 911	33 447 766	34 769 527
Credit portfolio	54 422	64 517	63 945
Overdraft current account	527	441	506
Write-downs step 1 and 2	-2 072	-1 306	-1 328
Write-downs step 3	-674	-1 126	-2 547
Loans to customers after write-downs	37 291 114	33 510 293	34 830 101
Accrued interest	76 848	87 373	86 259
Premium/discount	-6 282	-9 769	-7 202
Fair value hedging	115 854	56 091	24 585
Loans to customers	37 477 534	33 643 989	34 933 743

NOTE 5 Categories of financial instruments

NOK THOUSANDS	30.06.2020		30.06.2019		31.12.2019	
	Capitalized value	Fair value	Capitalized value	Fair value	Capitalized value	Fair value
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS						
Fixed-income securities	4 384 790	4 384 790	3 554 965	3 554 965	3 118 503	3 118 503
Financial derivatives	81 383	81 383	60 170	60 170	40 849	40 849
Shares and holdings	2 801	2 801	2 053	2 053	2 053	2 053
Total financial assets at fair value through profit and loss	4 468 973	4 468 973	3 617 187	3 617 187	3 161 405	3 161 405
FINANCIAL ASSETS FAIR VALUE HEDGING						
Loans to and receivables from customers	3 775 380	3 823 448	3 294 298	3 333 255	2 897 943	2 935 099
Total financial assets fair value hedging	3 775 380	3 823 448	3 294 298	3 333 255	2 897 943	2 935 099
FINANCIAL ASSETS AT AMORTIZED COST						
Loans to and receivables from credit institutions	68 869	68 869	60 441	60 441	68 798	68 798
Loans to and receivables from central banks	1 795 112	1 795 112	1 511 287	1 511 287	1 497 793	1 497 793
Loans to and receivables from customers	33 702 154	33 696 488	30 349 691	30 310 734	32 035 800	31 676 869
Total financial assets at amortized cost	35 566 134	35 560 469	31 921 418	31 882 461	33 602 391	33 243 460
Total financial assets	43 810 488	43 852 890	38 832 903	38 832 903	39 661 739	39 339 964
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS						
Financial derivatives	136 101	136 101	91 696	91 696	64 455	64 455
Total financial liabilities at fair value through profit and loss	136 101	136 101	91 696	91 696	64 455	64 455
FINANCIAL LIABILITIES FAIR VALUE HEDGING						
Liabilities created on issuance of securities	1 862 106	1 869 421	1 825 671	1 805 912	1 793 121	1 809 391
Total financial liabilities fair value hedging	1 862 106	1 869 421	1 825 671	1 805 912	1 793 121	1 809 391
FINANCIAL LIABILITIES AT AMORTIZED COST						
Liabilities to credit institutions	3 001 746	3 001 746	0	0	0	0
Liabilities created on issuance of securities	24 131 244	24 211 361	23 032 645	23 043 972	24 029 069	24 120 851
Deposits from customers	12 244 887	12 244 887	11 464 838	11 464 838	11 486 525	11 486 525
Total financial liabilities at amortized cost	39 377 877	39 457 994	34 497 483	34 508 810	35 515 594	35 607 376
Total financial liabilities	41 376 085	41 463 517	36 414 850	36 406 418	37 373 171	37 481 222

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

similar instruments and pricing using externally collected yield curves and yield spread curves. As far as possible the estimates are based on externally observable market data and rarely on company-specific information.

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

FIXED-INCOME SECURITIES - GOVERNMENT

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

NOTE 5 Categories of financial instruments – continues**FIXED-INCOME SECURITIES - OTHER THAN GOVERNMENT**

Norwegian fixed-income securities, except government are priced directly on prices from Nordic Bond Pricing. Those securities that are not included in Nordic Bond Pricing are priced theoretically. The theoretical price is based on the assumed present value on the sale of the position. A zero-coupon curve is used for discounting. The zero-coupon curve is adjusted upwards by means of a credit spread, which is to take account of the risk the bond entails. The credit spread is calculated on the basis of a spread curve taking account of the duration of the bond. Nordic Bond Pricing is the main source of spread curves. They provide company-specific curves for Norwegian savings banks, municipalities and energy. Savings banks have various spread curves based on total assets. For companies where Nordic Bond Pricing do not deliver spread curves, the Group use spread curves from three Norwegian banks. When spread curves are available from more than one of these banks, an equal-weighted average is used. 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 (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 15 Loan losses provision).

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 6.

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 6.

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. 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 6.

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 6.

NOTE 6 Fair value hierarchy

30.06.2020 NOK THOUSANDS	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
ASSETS BOOKED AT FAIR VALUE				
Fixed-income securities	309 941	4 074 849	0	4 384 790
Shareholdings	0	0	2 801	2 801
Financial derivatives	0	81 383	0	81 383
Total assets at fair value	309 941	4 156 232	2 801	4 468 973
LIABILITIES BOOKED AT FAIR VALUE				
Financial derivatives (liabilities)	0	136 101	0	136 101
Total financial liabilities at fair value	0	136 101	0	136 101

30.06.2019 NOK THOUSANDS	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
ASSETS BOOKED AT FAIR VALUE				
Fixed-income securities	158 603	3 396 362	0	3 554 965
Shareholdings	0	0	2 053	2 053
Financial derivatives	0	60 170	0	60 170
Total assets at fair value	158 603	3 456 531	2 053	3 617 187
LIABILITIES BOOKED AT FAIR VALUE				
Financial derivatives (liabilities)	0	91 696	0	91 696
Total financial liabilities at fair value	0	91 696	0	91 696

31.12.2019 NOK THOUSANDS	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
ASSETS BOOKED AT FAIR VALUE				
Fixed-income securities	259 574	2 858 929	0	3 118 503
Shareholdings	0	0	2 053	2 053
Financial derivatives	0	40 849	0	40 849
Total assets at fair value	259 574	2 899 778	2 053	3 161 405
LIABILITIES BOOKED AT FAIR VALUE				
Financial derivatives (liabilities)	0	64 455	0	64 455
Total financial liabilities at fair value	0	64 455	0	64 455

NOK THOUSANDS	30.06.2020	30.06.2019	31.12.2019
CHANGES IN LEVEL 3 UNLISTED SHARES			
Opening balance	2 053	2 053	2 053
Additions/purchases of shares	0	0	0
Unrealized changes	748	0	0
Closing balance	2 801	2 053	2 053
Realized gains/losses	0	0	0

NOTE 6 Fair value hierarchy – cont.

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

LEVEL 1:

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

LEVEL 2:

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

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

LEVEL 3:

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

Note 5 discloses the fair value of financial assets and financial liabilities that are recognized at amortized cost and according to the rules on hedge accounting. Financial assets measured at amortized cost and hedge accounting comprise lending to and due to credit institutions, Norwegian municipalities and retail customers. The stated fair value of these assets is determined on terms qualifying for level 2. Financial liabilities recognized at amortized cost and hedge accounting consist of debt securities issued and deposits. The stated fair value of these liabilities is determined by methods qualifying for level 2.

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

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

NOK THOUSANDS	30.06.2020	30.06.2019	31.12.2019
Bond debt, nominal amount	28 047 262	26 046 000	27 168 000
Adjustments	78 442	41 954	21 526
Accrued interest	47 647	91 362	82 665
Own holdings, nominal amount	-2 180 000	-1 321 000	-1 450 000
Total debt securities issued	25 993 350	24 858 316	25 822 190
Interest rate on borrowings through the issuance of securities at the reporting date	0.76%	1.85%	2.22%
The interest rate is calculated as a weighted average of the act/360 basis. It includes interest rate effects and amortization costs.			

NOK THOUSANDS	Balance sheet 31.12.2019	Issued	Matured/ Redeemed	Other Adjustments	Balance sheet 30.06.2020
CHANGES IN SECURITIES LIABILITIES - STOCK EXCHANGE LISTED COVERED BONDS AND CERTIFICATES					
Bond debt, nominal amount	27 168 000	5 204 262	-4 325 000	0	28 047 262
Adjustments	21 526	0	0	56 916	78 442
Accrued interest	82 665	0	0	-35 018	47 647
Own holdings, nominal amount	-1 450 000	0	-730 000	0	-2 180 000
Total debt securities issued	25 822 190	5 204 262	-5 055 000	21 898	25 993 350

NOTE 8 Liabilities to credit institutions

NOK THOUSANDS	Due date	Nominal value	Accrued interest	Book value 30.06.2020
Norges Bank	30.07.2020	300 000	16	300 016
Norges Bank	07.08.2020	100 000	0	100 000
Norges Bank	14.08.2020	100 000	0	100 000
Norges Bank	28.08.2020	250 000	0	250 000
Norges Bank	21.09.2020	250 000	182	250 182
Norges Bank	25.09.2020	200 000	0	200 000
Norges Bank	28.09.2020	300 000	195	300 195
Norges Bank	05.10.2020	100 000	57	100 057
Norges Bank	23.11.2020	100 000	15	100 015
Norges Bank	26.03.2021	700 000	764	700 764
Norges Bank	06.04.2021	300 000	296	300 296
Norges Bank	16.04.2021	100 000	78	100 078
Norges Bank	20.04.2021	200 000	143	200 143
Total liabilities to credit institutions		3 000 000	1 746	3 001 746

In the second quarter of 2020, KLP Banken AS applied F-loans from Norges Bank and was granted loans with nominal value of NOK 1.960 million.

NOTE 9 Financial assets and liabilities subject to net settlement

30.06.2020 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 recognised value
ASSETS						
Financial derivatives	81 383	0	81 383	-81 383	0	0
Total	81 383	0	81 383	-81 383	0	0
LIABILITIES						
Financial derivatives	136 101	0	136 101	-81 383	-6 390	48 329
Total	136 101	0	136 101	-81 383	-6 390	48 329

30.06.2019 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 recognised value
ASSETS						
Financial derivatives	60 170	0	60 170	-60 170	0	0
Total	60 170	0	60 170	-60 170	0	0
LIABILITIES						
Financial derivatives	91 696	0	91 696	-60 170	-8 907	22 619
Total	91 696	0	91 696	-60 170	-8 907	22 619

NOTE 9 Financial assets and liabilities subject to net settlement - cont.

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 recognised 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

The purpose of the note is to show the potential effect of netting agreements at the KLP Banken AS Group.
The note shows derivative positions

NOTE 10 Transactions with related parties

NOK THOUSANDS	01.01.2020 -30.06.2020	01.01.2019 -30.06.2019	01.01.2019 -31.12.2019
KLP, fees lending management	29 600	29 600	58 843
KLP Kapitalforvaltning AS, fees for services provided	-242	-71	-166
KLP, rent	-1 338	-2 187	-2 765
KLP Skipsbygget AS, rent	-1 443	-826	-1 632
KLP Bassengtomten AS, rent parking	-64	-21	-63
KLP Eiendomsdrift AS, cost office buildings	0	-216	-449
KLP, pension premium	-5 588	-5 918	-12 329
KLP, staff services (at cost)	-34 389	-34 301	-66 865
KLP Group companies, subsidised interest employee loans	7 223	2 262	8 134

NOK THOUSANDS	30.06.2020	30.06.2019	31.12.2019
BALANCES			
KLP, net internal accounts	-1 022	-2 808	912
KLP, loan settlement	-39 349	-188 877	-15 144
KLP Group companies, net other internal accounts	1 070	945	1 083

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

NOTE 11 Other assets

NOK THOUSANDS	30.06.2020	30.06.2019	31.12.2019
Intercompany receivables	2 349	966	2 189
Miscellaneous receivables	114	136	114
Prepaid expenses	7 987	34	6
Total other assets	10 450	1 136	2 309

NOTE 12 Other liabilities and provision for accrued costs

NOK THOUSANDS	30.06.2020	30.06.2019	31.12.2019
Creditors	9 575	621	2 741
Intercompany payables	41 650	191 706	15 339
Tax payable	0	0	28 143
Other liabilities	7 351	10 127	5 631
Total other liabilities	58 576	202 454	51 854
Withholding tax	1 909	1 854	2 622
Social security contributions	3 367	1 878	2 312
Capital activity tax	1 511	681	836
Holiday pay	2 619	2 524	5 540
Pension obligations	52 334	43 859	35 649
VAT	79	0	208
Provisioned costs	12 273	13 415	2 382
Total accrued costs and liabilities	74 093	64 211	49 550

NOTE 13 Capital adequacy

NOK THOUSANDS	30.06.2020	30.06.2019	31.12.2019
Share capital and share premium fund	1 890 000	1 790 000	1 790 000
Other owners' equity	430 561	347 652	430 561
Total owners' equity	2 320 561	2 137 652	2 220 561
Interim Profit qualifying for tier 1 capital	0	36 693	0
Adjustments due to requirements for proper valuation	-7 999	-3 555	-3 119
Deduction goodwill and other intangible assets	-19 671	-21 727	-20 447
Deferred tax asset	-10 196	-8 667	-10 196
Core capital/Tier 1 capital	2 282 696	2 140 396	2 186 800
Supplementary capital/Tier 2 capital	0	0	0
Supplementary capital/Tier 2 capital	0	0	0
Total eligible own funds (Tier 1 and Tier 2 capital)	2 282 696	2 140 396	2 186 800
Capital requirement	991 451	871 304	914 461
Surplus of own funds (Tier 1 and Tier 2 capital)	1 291 244	1 269 092	1 272 340
ESTIMATE BASIS CREDIT RISK:			
Institutions	381 085	314 453	307 730
Retail	173 761	148 648	170 558
Local and regional authorities (incl. municipalities/county administrations)	3 579 358	3 292 608	3 348 562
Investments with mortgage security in real estate	7 156 652	6 163 447	6 575 624
Investments fallen due	81 255	86 674	97 389
Covered bonds	342 345	313 136	273 712
Other holdings	96 515	15 554	57 476
Calculation basis credit risk	11 810 971	10 334 520	10 831 051
Credit risk	944 878	826 762	866 484
Operating risk	46 448	44 435	47 880
Credit valuation adjustments (CVA)	125	107	97
Total capital requirement assets	991 451	871 304	914 461
Core capital adequacy ratio	18.4 %	19.7 %	19.1 %
Supplementary capital ratio	0.0 %	0.0 %	0.0 %
Capital adequacy ratio	18.4 %	19.7 %	19.1 %
Leverage ratio	5.1 %	5.4 %	5.4 %

CAPITAL REQUIREMENT PER 30.06.2020	Core capital/ Tier 1 capital	Supplementary capital Tier 2 capital	Own funds
Minimum requirement excl. buffers	4.5 %	3.5 %	8.0 %
Protective buffer	2.5 %	0.0 %	2.5 %
Systemic risk buffer	3.0 %	0.0 %	3.0 %
Counter-cyclical capital buffer	1.0 %	0.0 %	1.0 %
Pillar 2-requirement	1.5 %	0.0 %	1.5 %
Current capital requirement incl. buffers	12.5 %	3.5 %	16.0 %
Capital requirement leverage ratio	3.0 %	0.0 %	3.0 %

NOTE 14 Fixed-income securities

NOK THOUSANDS	30.06.2020		30.06.2019		31.12.2019	
	Acquisition cost	Market value	Acquisition cost	Market value	Acquisition cost	Market value
Certificates	816 168	819 380	158 595	158 603	238 331	238 517
Bonds	3 562 790	3 565 410	3 388 216	3 396 362	2 877 980	2 879 986
Total fixed-income securities	4 378 958	4 384 790	3 546 812	3 554 965	3 116 311	3 118 503

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

NOTE 15 Loan loss provision

In second quarter 2020 the bank has conducted a yearly update of the PD, LGD and EAD models. The models are predicted with one additional year of history. Additionally, the bank has made a revision of the assumptions in the macro scenarios compared to first quarter. As a result of that it now looks like the impact of the corona crisis is less than first expected, the bank has reduced the probability of the negative scenario and increased the probability of the expected scenario equivalent. In total, this reduces the loan loss provisions marginally (about 1 per cent) compared to first quarter 2020.

Loans that are granted instalment-free periods the last quarter are not moved to stage 2, as long as no other prerequisites for moving to stage 2 are fulfilled.

Refer to Note 18 and Note 2 in the annual report for more details of the model.

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

NOK THOUSANDS	12-month ECL stage 1	Lifetime ECL (not credit impaired) stage 2	Lifetime ECL (credit impaired) stage 3	Total
Opening balance ECL 01.01.2020	3 955	205	2 549	6 710
Transfer to stage 1	258	-59	-200	0
Transfer to stage 2	-62	118	-56	0
Transfer to stage 3	-40	-41	81	0
Net changes	-15	98	-989	-907
New losses	358	23	0	381
Write-offs	-90	-5	-174	-268
Change in risk model	627	110	147	884
Closing balance ECL 30.06.2020	4 991	449	1 359	6 800
Changes (01.01.2020 - 30.06.2020)	1 036	244	-1 190	90

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

NOK THOUSANDS	12-month ECL stage 1	Lifetime ECL (not credit impaired) stage 2	Lifetime ECL (credit impaired) stage 3	Total
Opening balance ECL 01.01.2020	1 183	148	2 547	3 878
Transfer to stage 1	240	-41	-199	0
Transfer to stage 2	-46	102	-56	0
Transfer to stage 3	-38	-39	77	0
Net changes	30	75	-992	-886
New losses	139	20	0	159
Write-offs	-53	-2	-174	-228
Change in risk model	231	98	146	475
Closing balance ECL 30.06.2020	1 687	360	1 350	3 398
Changes (01.01.2020 - 30.06.2020)	505	213	-1 197	-480

NOTE 15 Loan loss provision - cont.

Losses on unused credit

NOK THOUSANDS	12-month ECL stage 1	Lifetime ECL (not credit impaired) stage 2	Lifetime ECL (credit impaired) stage 3	Total
Opening balance ECL 01.01.2020	2 772	58	2	2 832
Transfer to stage 1	18	-17	-1	0
Transfer to stage 2	-16	16	0	0
Transfer to stage 3	-2	-2	4	0
Net changes	-45	22	3	-20
New losses	219	3	0	222
Write-offs	-37	-3	0	-39
Change in risk model	396	12	1	409
Closing balance ECL 30.06.2020	3 305	89	9	3 403
Changes (01.01.2020 - 30.06.2020)	533	31	7	571

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

NOK THOUSANDS	12-month ECL stage 1	Lifetime ECL (not credit impaired) stage 2	Lifetime ECL (credit impaired) stage 3	Total
Gross lending 01.01.2020	34 780 207	53 202	86 038	34 919 447
Transfer to stage 1	16 161	-6 920	-9 241	0
Transfer to stage 2	-52 305	54 938	-2 633	0
Transfer to stage 3	-19 459	-14 531	33 990	0
Net changes	3 558 563	120 153	-538	3 678 178
New losses	3 935 273	49 995	5 408	3 990 676
Write-offs	-5 025 036	-24 702	-35 678	-5 085 416
Gross lending 30.06.2020	37 193 405	232 135	77 345	37 502 886

Losses on lending and receivables from customers rated at amortised cost

NOK THOUSANDS	12-month ECL stage 1	Lifetime ECL (not credit impaired) stage 2	Lifetime ECL (credit impaired) stage 3	Total
Gross lending 01.01.2020	34 780 207	53 202	86 038	34 919 447
Transfer to stage 1	16 161	-6 920	-9 241	0
Transfer to stage 2	-52 305	54 938	-2 633	0
Transfer to stage 3	-19 459	-14 531	33 990	0
Net change	3 558 563	120 153	-538	3 678 178
New lending	3 935 273	49 995	5 408	3 990 676
Write-offs	-5 025 036	-24 702	-35 678	-5 085 416
Gross lending 30.06.2020	37 193 405	232 135	77 345	37 502 886

NOTE 15 Loan loss provision - cont.

Exposure - unused credit

NOK THOUSANDS	12-month ECL stage 1	Lifetime ECL (not credit impaired) stage 2	Lifetime ECL (credit impaired) stage 3	Total
Gross lending 01.01.2020	892 264	2 258	71	894 592
Transfer to stage 1	720	-686	-34	0
Transfer to stage 2	-1 401	1 401	0	0
Transfer to stage 3	-179	-83	262	0
Net change	-11 824	174	9	-11 641
New lending	82 007	100	0	82 107
Write-offs	-41 114	-98	0	-41 212
Gross lending 30.06.2020	920 473	3 066	306	923 845

Losses recognised in the profit and loss account consist of:

NOK THOUSANDS	01.01.2020 -30.06.2020	01.01.2019 -30.06.2019	01.01.2019 -31.12.2019
Change in loss provisions in stage 1, 2 and 3	-2 963	-2 994	-6 653
Established losses	-10	-182	-239
Recovery for previously established losses	114	11	250
Total losses in the income statement	-2 859	-3 166	-6 642

NOTE 16 Contingent liabilities

NOK THOUSANDS	30.06.2020	30.06.2019	31.12.2019
Credit facilities for lending not utilized	665 079	620 562	649 868
Credit facilities issued credit card	249 651	221 368	234 061
Loan promise	1 024 810	557 434	1 232 829
Total contingent liabilities	1 939 540	1 399 364	2 116 758

NOTE 17 Net gain/(loss) on financial instruments

NOK THOUSANDS	01.01.2020 -30.06.2020	01.01.2019 -30.06.2019	01.01.2019 -31.12.2019
Net gain/(loss) on fixed-income securities	5 814	3 574	-1 214
Net gain/(loss) financial derivatives and realized repurchase of own debt	-21 105	-14 870	-27 854
Net value change lending and borrowing, hedge accounting	-247	224	50
Other financial income and expenses	-525	-496	-1 141
Total net gain/(loss) on financial instruments	-16 063	-11 568	-30 159

NOTE 18 Leases

NOK THOUSANDS	30.06.2020	30.06.2019	31.12.2019
RIGHT-OF-USE ASSETS	Property	Property	Property
Opening balance 01.01.	3 506	5 064	5 064
Depreciation	-779	-779	-1 558
Closing balance	2 727	4 285	3 506
LEASE LIABILITIES	Property	Property	Property
Opening balance 01.01.	3 573	5 064	5 064
Repayments	-768	-739	-1 491
Closing balance	2 805	4 326	3 573
NOK THOUSANDS	01.01.2020 -30.06.2020	01.01.2019 -30.06.2019	01.01.2019 -31.12.2019
Interest expense lease liabilities	31	44	82

NOTE 19 Pension obligations - own employees

NOK THOUSANDS	30.06.2020	30.06.2019	31.12.2019
Capitalized net liability	35 649	38 265	38 265
Pension costs taken to profit/loss	5 426	5 918	12 189
Finance costs taken to profit/loss	531	661	1 312
Actuarial gains and losses incl. socoal security contributions	16 147	2 393	-7 182
Premiums/supplement paid-in including admin	-5 419	-3 378	-8 934
Capitalized net liability	52 334	43 859	35 649

ASSUMPTIONS	30.06.2020	30.06.2019	31.12.2019
Discount rate	1.50%	2.40%	2.30%
Salary growth	2.25%	2.75%	2.25%
The National Insurance basic amount (G)	2.00%	2.50%	2.00%
Pension increases	1.24%	1.73%	1.24%
Social security contribution	14.10%	14.10%	14.10%
Capital activity tax	5.00%	5.00%	5.00%

Quarterly earnings trend

NOK MILLIONS	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019
Interest income	243.8	302.6	295.7	276.7	255.9
Interest expense	-180.7	-224.1	-212.2	-205.4	-183.9
Net interest income	63.1	78.5	83.5	71.3	72.0
Commission income and income from banking services	5.1	5.1	5.6	5.8	5.3
Commission cost and cost from banking services	-0.4	-0.5	-0.4	-0.6	-0.5
Net charges and commission income	4.8	4.6	5.2	5.1	4.8
Other fee income	14.8	14.8	14.5	14.8	14.8
Net gain/(loss) financial instruments	3.3	-19.4	-7.4	-11.2	-8.1
Total other operating income	18.1	-4.6	7.0	3.6	6.7
Salaries and administrative costs	-19.2	-19.0	-22.0	-16.3	-18.2
Depreciation	-1.5	-1.5	-1.5	-1.6	-2.4
Other operating expenses	-39.8	-40.8	-46.8	-32.4	-35.1
Net loan losses	-0.6	-2.3	-0.5	-3.0	-1.3
Total operating expenses	-61.1	-63.6	-70.8	-53.3	-57.0
Operating profit/loss before tax	24.9	15.0	24.9	26.7	26.6
Tax ordinary income	-6.2	24.6	-6.1	-6.6	-6.4
Profit/loss for the period	18.7	39.6	18.9	20.1	20.2
Other comprehensive income	-2.5	-13.7	9.6	0.0	0.0
Tax on other comprehensive income	0.6	3.4	-2.4	0.0	0.0
Other comprehensive income for the period	-1.8	-10.3	7.2	0.0	0.0
Comprehensive income for the period	16.9	29.3	26.1	20.1	20.2

Key figures - accumulated

NOK MILLIONS	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019
Pre-tax income	39.9	15.0	102.3	77.3	50.6
Net interest income	141.6	78.5	292.9	209.4	138.1
Other operating income	39.0	19.4	78.1	58.4	38.5
Other operating cost and depreciation	-124.6	-63.6	-238.5	-167.8	-114.4
Net gain/(loss) financial instruments	-16.1	-19.4	-30.2	-22.7	-11.6
Deposits	12 244.9	12 034.5	11 486.5	11 648.7	11 464.8
Lending customers	20 121.0	19 142.5	18 386.6	17 745.6	17 351.0
Lending with public sector guarantee	17 356.5	16 823.2	16 547.1	16 524.4	16 293.0
Non-performing loans	77.3	97.2	86.0	68.5	59.7
Total liabilities created on issuance of securities	25 993.4	25 899.3	25 822.2	25 527.5	24 858.3
Other borrowing	3 001.7	1 450.1	0.0	0.0	0.0
Total assets	43 850.2	42 001.9	39 698.7	39 611.4	38 860.6
Average total assets	41 774.5	40 850.3	38 393.7	38 350.0	37 974.6
Equity	2 338.6	2 321.7	2 220.6	2 194.5	2 174.3
Interest net	0.34%	0.19%	0.76%	0.55%	0.36%
Profit/loss from ordinary operation before taxes	0.10%	0.04%	0.27%	0.20%	0.13%
Return on equity	3.59%	2.69%	4.78%	4.82%	4.73%
Capital adequacy ratio	18.4 %	18.8 %	19.1 %	19.1 %	19.7 %
Liquidity coverage ratio (LCR)	207%	258%	313%	322%	340%

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