



Interim report

KLP BANKEN GROUP
Q4 2019

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KLP BANKEN GROUP

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Interim financial statements

KLP BANKEN GROUP
Q4 2019

MAIN FEATURES BY FOURTH QUARTER END:

- Strong growth in mortgages and deposits
- Increased net interest income and profits
- Stable public sector lending balance

The KLP Banken Group finance mortgages and other credits to the retail market and lending to municipalities, county administrations and companies carrying out public sector assignments. Additionally the Group manages a lending portfolio on behalf of KLP (Kommunal Landspensjonskasse gjensidig forsikringsselskap). The overall business of KLP Banken AS and its subsidiaries is divided in the retail market and the public sector loan business areas. The business is nationwide.

The KLP Banken Group supports direct banking for members of KLP seeking a long-term and predictable partner. The aim is to be the preferred retail bank for KLP's members who find our services and basic values attractive. In the public sector market, KLP Kommunekreditt AS and KLP together shall contribute to competition in order to ensure the public sector get access to long-term funding at favorable terms.

In August, KLP Banken signed the United Nations Principles for Responsible Banking and is committed to implementing these principles in its operations. The principles for responsible banking entails that banks are transparent about how their products and services create value for their customers and investors, as well as for the whole society. The principles will guide the banks in their sustainability efforts and support society's overall goals, in line with the UN's Sustainable Development Goals and the Paris Agreement.

KLP Banken AS is owned 100 per cent by KLP through KLP Bankholding AS. KLP Banken AS has two wholly owned subsidiaries, KLP Kommunekreditt AS and KLP Boligkreditt AS. The enterprise main office is located in Trondheim.

INCOME STATEMENT

Net interest income for the KLP Banken Group by fourth quarter end 2019, amounted to NOK 292.9 (248.5) million. The change is mainly due to increase in outstanding mortgage loans. Net interest income from loans to

the public sector is down 2.7 million compared to the same period last year.

Net charges and commission amounted to NOK 19.2 (17.3) million by the fourth quarter. This development is also mainly due to the increased volume of outstanding credit in the retail market.

In addition to its own lending activity the KLP Banken group manages loan portfolios on behalf of the mother company KLP. Management fees related to these portfolios amounted to NOK 58.8 (58.0) million as at quarter end.

At the end of the quarter, the income statement includes a net loss on financial instruments of -30.2 (-13.5) million. The loss increase is mainly due to the development in the bond markets, leading to one-off expenses from buy-back of issued bonds in KLP Kommunekreditt AS and KLP Boligkreditt AS.

Operating expenses and depreciation before losses amounted to NOK 231.9 (220.1) million NOK. The increase in operating expenses compared to last year, apart from general inflation, is mainly due to investments in the development of IT system solutions and operating costs of external IT services. In addition, a new cost type related to deposits in The Norwegian Banks' Guarantee Fund, amounting to NOK 4.4 million, were added.

By the fourth quarter of 2019, loan loss provisions and realized losses amounted to NOK 6.6 (6.8) million in the retail market. This is mainly due to loss on credit cards. As in 2018, there are no acknowledged losses recorded in 2019 related to public lending.

By the end of the fourth quarter, the KLP Banken Group had a pre-tax profit of NOK 102.3 (83.4) million, of which NOK 24.9 (12.3) million was the result for the fourth quarter. The retail market segment generated a profit of NOK 75.6 (48.3) million while the public sector segment achieved a profit of NOK 26.7 (35.1) million. Group income after tax amounted to NOK 82.9 (62.2) million at quarter end.

¹ Figures in parenthesis refer to the corresponding period in 2018.

LENDING

On 31 December 2019, the KLP Banken Group had a lending balance of NOK 34.9 (33.5) billion. The distribution between the retail market and public sector lending was NOK 18.4 (16.7) billion and NOK 16.5 (16.8) billion, respectively. In addition, the KLP Banken group manages loan portfolios for 69.1 (61.5) billions on behalf of the mother company KLP.

The Group's retail lending balance has also in 2019 shown a substantial growth of NOK 1.7 (2.3) billion, which corresponds to a growth of 10.0 (15.8) per cent. Managed loans for KLP in the retail market has also increased by NOK 0.4 billion. This provides a total mortgage growth in 2019 which is somewhat higher than last year's strong figures. The bank's mortgage products are especially directed towards members of the KLP pension schemes. Mortgages amounting to NOK 2.9 (4.9) billion has been sold from KLP Bank to KLP Boligkreditt AS during the period.

KLP Banken's credit card activities, measured in active users, also showed an increase in 2019, but volumes measured by credits drawn is relatively constant. The card products are continuously developing in order to meet the needs of the customer groups.

The public sector lending balance in KLP Banken AS by the end of 2019, was 0.2 billion down compared to last year. Managed public sector loans on KLP's balance sheets on the other hand, has increased by NOK 5.1 billion in the same period. In sum this gives an annual growth of 7.2 (9.1) per cent in public lending. Managed loans to foreign debtors in foreign currencies has increased by NOK 1.7 (0.1) billion.

LIQUID INVESTMENT

The portfolio of liquid investments amounted to NOK 3.1 (2.0) billion at the reporting date. The result effect of net financial gains was NOK -1.2 (-1.5) million this year.

BORROWING

The KLP Banken Group's external financing comprises of deposits and bonds. On the reporting date, deposits from individuals and companies were NOK 11.5 (10.7) billion and issued securities amounted to NOK 25.8 (24.0) billion.

Of the securities issued, covered bonds (OMF) issued by KLP Kommunekreditt AS and KLP Boligkreditt AS represented an outstanding amount of NOK 17.4 (16.9) billion and NOK 7.0 (6.1) billion respectively. All covered bonds issues have achieved AAA rating. In addition, KLP Banken AS has unsecured debt of NOK 1.4 (1.0) billion.

RISK AND CAPITAL ADEQUACY

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

The bank is to have a prudent risk profile and earnings are to be principally a result of borrowing and lending activity as well as liquidity management. This means that the bank is to have low market risk, and interest and foreign-exchange risk arising within the borrowing and lending activity is reduced using derivatives. The KLP Banken Group and its subsidiaries are to have responsible long-term financing and limits have been established to ensure that that this objective is achieved. The credit risk associated with the bank's assets is low and the bank's lending is mainly limited to loans with local government risk and loans with lien on housing and leisure property. Management of the bank's liquidity is conducted through investments in other banks satisfying given credit quality requirements and in securities in accordance with Board-approved credit lines. The Group's securities portfolio has high credit quality.

At the end of the fourth quarter 2019, eligible Tier 1 and Tier 2 capital i.a.w. the capital adequacy rules amounted to NOK 2 187 (2 102) million. Eligible Tier 1 and Tier 2 capital comprises core capital only. Lending is risk-weighted in accordance with the authorities' capital adequacy regulations. The KLP Banken Group had a capital adequacy ratio of 19.1 (20.1) per cent at the end of the fourth quarter. The minimum statutory requirement is 14.0 per cent core capital adequacy and 17.5 per cent capital adequacy. Leverage ratio was 5.4 (5.6) per cent. Here the minimum requirement is 3.0 per cent.

Income statement

KLP BANKEN GROUP

NOTE	NOK THOUSANDS	Q4 2019	Q4 2018	01.01.2019 -31.12.2019	01.01.2018 -31.12.2018
	Interest income, amortised cost	250 728	198 022	910 090	757 820
	Interest income at fair value	44 984	48 790	164 825	182 646
3	Total interest income	295 712	246 812	1 074 914	940 466
	Interest expense, amortized cost	-181 449	-135 620	-658 224	-507 997
	Interest expense at fair value	-30 742	-45 898	-123 819	-183 938
3	Total interest costs	-212 191	-181 518	-782 044	-691 935
3	Net interest income	83 520	65 294	292 871	248 531
	Commission income and income from banking services	5 584	5 289	21 240	18 488
	Commission cost and cost from banking services	-433	-435	-2 040	-1 174
	Net charges and commission income	5 152	4 854	19 200	17 314
	Other fee income	14 473	14 541	58 873	58 041
16	Net gain/ (loss) financial instruments	-7 436	-6 095	-30 159	-13 524
	Total other operating income	7 036	8 447	28 713	44 518
	Salaries and administrative costs	-22 029	-22 746	-75 681	-72 026
	Depreciation	-1 479	-1 865	-8 180	-8 117
	Other operating expenses	-46 792	-39 784	-148 021	-139 953
14	Net loan losses	-461	-1 856	-6 642	-6 838
	Total operating expenses	-70 761	-66 251	-238 524	-226 935
	Operating profit/loss before tax	24 947	12 344	102 260	83 429
	Tax ordinary income	-6 056	-2 488	-24 737	-19 458
	Profit/loss for the period	18 892	9 858	77 523	63 970
	Estimate difference, pension obligation and assets	9 575	-2 326	7 182	-2 326
	Tax on actuarial gains and losses	-2 394	581	-1 796	581
	Items that will not be reclassified to profit and loss	7 182	-1 744	5 387	-1 744
	Changes in the fair value through profit and loss	0	0	0	0
	Tax on changes in fair value of available for sale financial assets	0	0	0	0
	Items that may be reclassified to profit and loss	0	0	0	0
	Other comprehensive income for the period	7 182	-1 744	5 387	-1 744
	Comprehensive income for the period	26 073	8 112	82 909	62 226

Balance sheet

KLP BANKEN GROUP

NOTE	NOK THOUSANDS	31.12.2019	31.12.2018
ASSETS			
5	Claims on central banks	68 798	60 238
5	Loans to credit institutions	1 497 793	1 439 420
4.5	Loans to customers	34 933 743	33 474 004
5.6.13	Fixed-income securities	3 118 503	2 015 351
5.6	Shareholdings	2 053	2 053
5.6	Financial derivatives	40 849	62 483
	Deferred tax assets	10 196	8 667
	Fixed assets	511	667
17	Right-of-use assets	3 506	0
	Intangible assets	20 447	25 299
10	Other assets	2 309	413
Total assets		39 698 707	37 088 595
LIABILITIES AND OWNERS EQUITY			
LIABILITIES			
5.7	Debt securities issued	25 822 190	24 039 968
5	Deposits and borrowings from the public	11 486 525	10 661 749
5.6	Financial derivatives	64 455	111 955
17	Lease liabilities	3 573	0
11	Other Liabilities	51 854	85 154
11	Provision for accrued costs and liabilities	49 550	52 117
Total liabilities		37 478 148	34 950 943
EQUITY			
	Share capital	1 057 500	1 057 500
	Share premium	732 500	732 500
	Other owners' equity	430 559	347 652
Total equity		2 220 559	2 137 652
Total liabilities and equity		39 698 707	37 088 595

Statement of changes in equity

KLP BANKEN GROUP

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	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	430 559	2 220 559

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
Total comprehensive income for the period	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
Equity 31 December 2018	1 057 500	732 500	347 652	2 137 652

Statement of cash flow

KLP BANKEN GROUP

NOK THOUSANDS	01.01.2019 -31.12.2019	01.01.2018 -31.12.2018
OPERATING ACTIVITIES		
Payments received from customers – interest, commission and charges	900 764	768 089
Payments to customers – interest, commission and charges	-173 230	-136 600
Disbursements on loans to customers and credit institutions	-11 072 876	-9 521 930
Receipts on loans to customers	9 535 488	6 657 968
Net receipts on customer deposits banking	824 798	992 291
Disbursements on operations	-161 038	-140 190
Payments to staff, pension schemes, employer's social security contribution etc.	-69 069	-64 412
Interest investment accounts	23 837	13 263
Net receipts/disbursements from operating activities	31 807	61 621
Income tax paid	0	0
Net cash flow from operating activities	-159 519	-1 369 900
INVESTMENT ACTIVITIES		
Receipts on sale of securities	2 703 944	3 403 183
Payments on the purchase of securities	-3 805 844	-2 667 949
Receipts of interest from securities	56 527	35 101
Payments on the purchase of tangible fixed assets	-1 614	-6 187
Net cash flow from investment activities	-1 046 987	764 148
FINANCING ACTIVITIES		
Receipts on loans	9 000 000	6 500 000
Repayment and redemption of loans	-7 708 000	-4 470 000
Change in payment for loan buybacks	484 000	-904 000
Net payment of interest on loans	-465 689	-330 216
Payment of lease liabilities	-1 542	0
Group contributions made	-19 431	-25 334
Net cash flows from financing activities	1 289 339	770 450
Net cash flow during the period	82 833	164 698
Cash and cash equivalents at the start of the period	1 454 013	1 289 315
Cash and cash equivalents at the end of the period	1 536 846	1 454 013
Net receipts/ disbursements (-) of cash	82 833	164 698

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

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

NOTE 2 Accounting principles

The interim report includes the interim Financial Statements of KLP Banken Group for the period 1 January 2019 – 31 December 2019. The interim Financial Statements has not been audited.

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

Other accounting principles and calculations are the same in the interim financial statement as in the annual report for 2018.

NOTE 3 Net interest income

NOK THOUSANDS	Q4 2019	Q4 2018	01.01.2019 -31.12.2019	01.01.2018 -31.12.2018
Interest income on loans to customers, amortised cost	244 677	194 039	892 192	744 554
Interest income on loans to credit institutions, amortised cost	6 050	3 983	17 898	13 266
Total interest income, amortised cost	250 728	198 022	910 090	757 820
Interest income on bonds and certificates, fair value	17 560	8 391	58 866	34 883
Other interest income, fair value	27 424	40 400	105 958	147 762
Total interest income, fair value	44 984	48 790	164 825	182 646
Total interest income	295 712	246 812	1 074 914	940 466
Interest expenses on debt to KLP Banken, amortised cost	-46 997	-36 658	-171 759	-135 139
Interest expenses on issued securities, amortised cost	-134 435	-98 962	-486 384	-372 858
Interest expense lease liabilities	-18	0	-82	0
Total interest expenses, amortised cost	-181 449	-135 620	-658 224	-507 997
Other interest expenses, fair value	-30 742	-45 898	-123 819	-183 938
Total interest expenses, fair value	-30 742	-45 898	-123 819	-183 938
Total interest costs	-212 191	-181 518	-782 044	-691 935
Net interest income	83 520	65 294	292 871	248 531

NOTE 4 Loans to customers

NOK THOUSANDS	31.12.2019	31.12.2018
Principal on loans to customers	34 769 527	33 272 780
Credit portfolio	63 945	67 757
Overdraft current account	506	436
Write-downs step 1 and 2	-1 328	-990
Write-downs step 3	-2 547	-1 774
Loans to customers after write-downs	34 830 101	33 338 209
Accrued interest	86 259	74 167
Premium/discount	-7 202	-9 970
Fair value hedging	24 585	71 598
Loans to customers	34 933 743	33 474 004

NOTE 5 Categories of financial instruments

NOK THOUSANDS	31.12.2019		31.12.2018	
	Capitalized value	Fair value	Capitalized value	Fair value
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS				
Fixed-income securities	3 118 503	3 118 503	2 015 351	2 015 351
Financial derivatives	40 849	40 849	62 483	62 483
Shares and holdings	2 053	2 053	2 053	2 053
Total financial assets at fair value through profit and loss	3 161 405	3 161 405	2 079 887	2 079 887
FINANCIAL ASSETS FAIR VALUE HEDGING				
Loans to and receivables from customers	2 897 943	2 935 099	3 568 702	3 600 945
Total financial assets fair value hedging	2 897 943	2 935 099	3 568 702	3 600 945
FINANCIAL ASSETS AT AMORTIZED COST				
Loans to and receivables from credit institutions	68 798	68 798	60 238	60 238
Loans to and receivables from central banks	1 497 793	1 497 793	1 439 420	1 439 420
Loans to and receivables from customers	32 035 800	31 676 869	29 905 302	29 893 107
Total financial assets at amortized cost	33 602 391	33 243 460	31 404 960	31 392 765
Total financial assets	39 661 739	39 339 964	37 053 549	37 073 597
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS				
Financial derivatives	64 455	64 455	111 955	111 955
Total financial liabilities at fair value through profit and loss	64 455	64 455	111 955	111 955
FINANCIAL LIABILITIES FAIR VALUE HEDGING				
Liabilities created on issuance of securities	1 793 121	1 809 391	1 886 974	1 904 665
Total financial liabilities fair value hedging	1 793 121	1 809 391	1 886 974	1 904 665
FINANCIAL LIABILITIES AT AMORTIZED COST				
Liabilities created on issuance of securities	24 029 069	24 120 851	22 152 994	22 243 219
Deposits from customers	11 486 525	11 486 525	10 661 749	10 661 749
Total financial liabilities at amortized cost	35 515 594	35 607 376	32 814 743	32 904 968
Total financial liabilities	37 373 171	37 481 222	34 813 672	34 921 588

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 discount-

ing 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 14 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

31.12.2019 NOK THOUSANDS	Level 1	Level 2	Level 3	Total
ASSETS BOOKED AT FAIR VALUE				
Fixed-income securities	259 574	2 858 928	0	3 118 501
Shareholdings	0	0	2 053	2 053
Financial derivatives	0	40 849	0	40 849
Total assets at fair value	259 574	2 899 777	2 053	3 161 403
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

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

NOK THOUSANDS	31.12.2019	31.12.2018
CHANGES IN LEVEL 3 UNLISTED SHARES		
Opening balance	2 053	461
Additions/purchases of shares	0	0
Unrealized changes	0	1 592
Closing balance	2 053	2 053
Realized gains/losses	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	31.12.2019	31.12.2018
Bond debt, nominal amount	27 168 000	25 876 000
Adjustments	21 527	29 847
Accrued interest	82 665	68 121
Own holdings, nominal amount	-1 450 000	-1 934 000
Total debt securities issued	25 822 190	24 039 968
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 effects and amortization costs.		

NOK THOUSANDS	Balance sheet 31.12.2018	Issued	Matured/ Redeemed	Other adjustments	Balance sheet 31.12.2019
CHANGES IN SECURITIES LIABILITIES – STOCK EXCHANGE LISTED COVERED BONDS AND CERTIFICATES					
Bond debt, nominal amount	25 876 000	9 000 000	-7 708 000	0	27 168 000
Adjustments	29 847	0	0	-8 320	21 527
Accrued interest	68 121	0	0	14 543	82 665
Own holdings, nominal amount	-1 934 000	0	484 000	0	-1 450 000
Total debt securities issued	24 039 968	9 000 000	-7 224 000	6 223	25 822 190

NOTE 8 Financial assets and liabilities subject to net settlement

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

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 recognised 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	-62 482	-8 893	40 580
Total	111 955	0	111 955	-62 482	-8 893	40 580

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

NOTE 9 Transactions with related parties

NOK THOUSANDS	01.01.2019 -31.12.2019	01.01.2018 -31.12.2018
KLP, fees lending management	58 843	58 000
KLP Kapitalforvaltning AS, fees for services provided	-166	-226
KLP, rent	-2 765	-4 150
KLP Skipsbygget AS, rent	-1 632	-1 554
KLP Bassengtomten AS, rent parking	-63	-101
KLP Eiendomsdrift AS, cost office buildings	-449	-473
KLP, pension premium	-12 329	-11 368
KLP, staff services (at cost)	-66 865	-67 616
KLP Group companies, subsidised interest employee loans	8 134	2 173

NOK THOUSANDS	31.12.2019	31.12.2018
BALANCES		
KLP, net internal accounts	912	-2 773
KLP, loan settlement	-15 145	-49 151
KLP Group companies, net other internal accounts	1 083	23

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 10 Other assets

NOK THOUSANDS	31.12.2019	31.12.2018
Intercompany receivables	2 189	289
Miscellaneous receivables	114	122
Prepaid expenses	6	2
Total other assets	2 309	413

NOTE 11 Other liabilities and provision for accrued costs

NOK THOUSANDS	31.12.2019	31.12.2018
Creditors	2 741	7 825
Intercompany payables	15 339	52 187
Tax payable	28 143	19 431
Other liabilities	5 631	5 710
Total other liabilities	51 854	85 154
Withholding tax	2 622	3 227
Social security contributions	2 312	2 486
Capital activity tax	836	900
Holiday pay	5 540	5 322
Pension obligations	35 649	38 265
VAT	208	0
Provisioned costs	2 382	1 917
Total accrued costs and liabilities	49 550	52 117

NOTE 12 Capital adequacy

NOK THOUSANDS	31.12.2019	31.12.2018
Share capital and share premium fund	1 790 000	1 790 000
Other owners' equity	430 559	347 652
Total owners' equity	2 220 559	2 137 652
Adjustments due to requirements for proper valuation	-3 119	-2 015
Deduction goodwill and other intangible assets	-20 447	-25 299
Deferred tax asset	-10 196	-8 667
Core capital/Tier 1 capital	2 186 797	2 101 671
Supplementary capital/Tier 2 capital	0	0
Supplementary capital/Tier 2 capital	0	0
Total eligible own funds (Tier 1 and Tier 2 capital)	2 186 797	2 101 671
Capital requirement	914 461	837 802
Surplus of own funds (Tier 1 and Tier 2 capital)	1 272 337	1 263 869
ESTIMATE BASIS CREDIT RISK:		
Institutions	307 730	299 070
Retail	170 558	82 717
Local and regional authorities (incl. municipalities/county administrations)	3 348 562	3 384 588
Investments with mortgage security in real estate	6 575 624	5 922 925
Investments fallen due	97 389	63 181
Covered bonds	273 712	156 334
Other holdings	57 476	62 714
Calculation basis credit risk	10 831 051	9 971 529
Credit risk	866 484	797 722
Operating risk	47 880	39 956
Credit valuation adjustments (CVA)	97	124
Total capital requirement assets	914 461	837 802
Core capital adequacy ratio	19.1 %	20.1 %
Supplementary capital ratio	0.0 %	0.0 %
Capital adequacy ratio	19.1 %	20.1 %
Leverage ratio	5.4 %	5.6 %

CAPITAL REQUIREMENT PER 31.12.2019	Core capital/ Tier 1 capital	Supplementary capital Tier 2 capital	Own funds
Minimum requirement excl. buffers	4.5 %	3.5 %	8.0 %
Protective buffer	2.5 %	0.0 %	2.5 %
Systemic risk buffer	3.0 %	0.0 %	3.0 %
Counter-cyclical capital buffer	2.5 %	0.0 %	2.5 %
Pillar 2-requirement	1.5 %	0.0 %	1.5 %
Current capital requirement incl. buffers	14.0 %	3.5 %	17.5 %
Capital requirement leverage ratio	3.0 %	0.0 %	3.0 %

NOTE 13 Fixed-income securities

NOK THOUSANDS	31.12.2019		31.12.2018	
	Acquisition cost	Market value	Acquisition cost	Market value
Certificates	238 330	238 517	186 732	186 695
Bonds	2 877 980	2 879 986	1 826 298	1 828 656
Total fixed-income securities	3 116 310	3 118 503	2 013 030	2 015 351

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

NOTE 14 Loan loss provision

No changes have been made to the assumptions or input to the model for calculating loan loss provisions in 4th quarter. Changes in loan loss provisions are related to changes in lending volume.

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	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
	stage 1	stage 2	stage 3	
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)	503	-674	1 559	1 388

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

NOK THOUSANDS	12-month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
	stage 1	stage 2	stage 3	
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 14 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 01.01.2019	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

NOK THOUSANDS	12-month ECL stage 1	Lifetime ECL (not credit impaired) stage 2	Lifetime ECL (credit impaired) stage 3	Total
Gross lending 01.01.2019	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
Gross lending 31.12.2019	34 780 207	53 202	86 038	34 919 447

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 01.01.2019	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

NOTE 14 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 01.01.2019	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:

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 15 Contingent liabilities

NOK THOUSANDS	31.12.2019	31.12.2018
Credit facilities for lending not utilized	649 868	561 905
Credit facilities issued credit card	234 061	201 584
Loan promise	1 232 829	616 318
Total contingent liabilities	2 116 758	1 379 807

NOTE 16 Net gain/(loss) on financial instruments

NOK THOUSANDS	01.01.2019 -31.12.2019	01.01.2018 -31.12.2018
Net gain/(loss) on fixed-income securities	-1 214	-1 532
Net gain/(loss) financial derivatives and realized amortization linked to lending	0	-671
Net gain/(loss) financial derivatives and realized repurchase of own debt	-27 854	-12 154
Net value change lending and borrowing, hedge accounting	50	320
Net gain/(loss) on shares, holdings and primary capital certificates	0	1 591
Other financial income and expenses	-1 141	-1 078
Total net gain/(loss) on financial instruments	-30 159	-13 524

NOTE 17 Leases

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.

NOK THOUSANDS	31.12.2019
RIGHT-OF-USE ASSETS	Property
Opening balance 01.01.	5 064
Depreciation	-1 558
Closing balance 31.12.	3 506
LEASE LIABILITIES	Property
Opening balance 01.01.	5 064
Repayments	-1 491
Closing balance 31.12.	3 573

NOK THOUSANDS	Q4 2019	01.01.2019 -31.12.2019
Interest expense lease liabilities	18	82

NOTE 18 Pension obligations - own employees

NOK THOUSANDS	31.12.2019	31.12.2018
Capitalized net liability	38 265	31 440
Pension costs taken to profit/loss	12 189	11 227
Finance costs taken to profit/loss	1 312	1 077
Actuarial gains and losses incl. socoal security contributions	-7 182	2 326
Premiums/supplement paid-in including admin	-7 501	-6 554
Social security contributions	-1 058	-924
Capital activity tax	-375	-328
Capitalized net liability	35 649	38 265

ASSUMPTIONS	31.12.2019	31.12.2018
Discount rate	2.30 %	2.60 %
Salary growth	2.25 %	2.75 %
The National Insurance basic amount (G)	2.00 %	2.50 %
Pension increases	1.24 %	1.73 %
Social security contribution	14.10 %	14.10 %
Capital activity tax	5.00 %	5.00 %

Quarterly earnings trend

NOK MILLIONS	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018
Interest income	295.7	276.7	255.9	242.5	246.8
Interest expense	-212.2	-205.4	-183.9	-176.5	-181.5
Net interest income	83.5	71.3	72.0	66.0	65.3
Commission income and income from banking services	5.6	5.8	5.3	4.6	5.3
Commission cost and cost from banking services	-0.4	-0.6	-0.5	-0.5	-0.4
Net charges and commission income	5.2	5.1	4.8	4.1	4.9
Other fee income	14.5	14.8	14.8	14.8	14.5
Net gain/ (loss) financial instruments	-7.4	-11.2	-8.1	-3.4	-6.1
Total other operating income	7.0	3.6	6.7	11.4	8.4
Salaries and administrative costs	-22.0	-16.3	-18.2	-19.1	-22.7
Depreciation	-1.5	-1.6	-2.4	-2.8	-1.9
Other operating expenses	-46.8	-32.4	-35.1	-33.8	-39.8
Net loan losses	-0.5	-3.0	-1.3	-1.9	-1.9
Total operating expenses	-70.8	-53.3	-57.0	-57.5	-66.3
Operating profit/loss before tax	24.9	26.7	26.6	24.0	12.3
Tax ordinary income	-6.1	-6.6	-6.4	-5.7	-2.5
Profit/loss for the period	18.9	20.1	20.2	18.3	9.8
Other comprehensive income	9.6	0.0	0.0	-2.4	-2.3
Tax on other comprehensive income	-2.4	0.0	0.0	0.6	0.6
Other comprehensive income for the period	7.2	0.0	0.0	-1.8	-1.7
Comprehensive income for the period	26.1	20.1	20.2	16.5	8.1

Key figures - accumulated

NOK MILLIONS	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018
Pre-tax income	102.3	77.3	50.6	24.0	83.4
Net interest income	292.9	209.4	138.1	66.0	248.5
Other operating income	78.1	58.4	38.5	18.9	75.4
Other operating cost and depreciation	-238.5	-167.8	-114.4	-57.5	-226.9
Net realized/unrealized change fin. instruments at fair value	-30.2	-22.7	-11.6	-3.4	-13.5
Deposits	11 486.5	11 648.7	11 464.8	11 031.4	10 661.7
Lending customers	18 386.6	17 745.6	17 351.0	17 038.2	16 715.4
Lending with public sector guarantee	16 547.1	16 524.4	16 293.0	16 659.7	16 758.6
Non-performing loans	86.0	68.5	59.7	62.0	56.3
Total liabilities created on issuance of securities	25 822.2	25 527.5	24 858.3	24 655.4	24 040.0
Other borrowing	0.0	0.0	0.0	0.0	0.0
Total assets	39 698.7	39 611.4	38 860.6	38 585.6	37 088.6
Average total assets	38 393.7	38 350.0	37 974.6	37 837.1	36 034.8
Equity	2 220.6	2 194.5	2 174.3	2 154.2	2 137.7
Interest net	0.76 %	0.55 %	0.36 %	0.17 %	0.69 %
Profit/loss from ordinary operation before taxes	0.27 %	0.20 %	0.13 %	0.06 %	0.23 %
Return on equity	4.78 %	4.82 %	4.73 %	4.50 %	3.83 %
Capital adequacy ratio	19.1 %	19.1 %	19.7 %	19.0 %	20.1 %
Liquidity coverage ratio (LCR)	313 %	322 %	340 %	352 %	402 %

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