



Interim report

KLP BANKEN AS GROUP
Q2 2019



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KLP BANKEN GROUP

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Interim financial statements

KLP BANKEN AS GROUP
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MAIN FEATURES BY SECOND QUARTER END:

- Growth in mortgage loans
- Increased operating revenues and financial expenses
- Increasing profit contribution from the retail market

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 KLP Banken manages a lending portfolio on behalf of KLP (Kommunal Landspensjonskasse gjensidig forsikringsselskap). The Group manages lending totaling NOK 99 (89)¹ billion. The overall business of KLP Banken AS and its subsidiaries is divided in the retail market and the public sector loans business areas. The business is nationwide.

The KLP Banken Group supports direct banking for customers seeking a long-term and predictable partner. The aim is to be the preferred retail bank for KLP's members, pensioners and other customers 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 sector get access to long-term funding at favorable terms.

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 are located in Trondheim.

INCOME STATEMENT

Net interest income for the KLP Banken Group by second quarter end 2019 amounted to NOK 138.1 (122.6) million. This development is mainly due to growth in mortgage loans.

Net charges and commission income amounted to NOK 8.9 (8.4) million in the first half. The change is also here mainly the volume driven.

The KLP Banken Group manages mortgages and public loans financed by the parent company (KLP). Management fees for this assignment amounted to NOK 29.6 (29) million for the first half. Operating

expenses and depreciations amounted to NOK -114.4 (-114.4) million.

At the end of the second quarter, the income statement includes a net loss associated with securities of NOK -11.6 (-2.7) million. The change 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.

In the first half of 2019, loan loss provisions and realized losses amounted to NOK -3.2 (-3.3) million in the retail market. This is mainly due to loss on credit cards. There are no acknowledged losses recorded in 2019 related to public lending.

By the end of the first half of 2019, the KLP Banken Group had a pre-tax profit of NOK 50.6 (43.0) million. The retail market business segment generated a profit of NOK 37.0 (24.0) million while the public sector segment achieved a profit of NOK 13.6 (18.9) million. Group income after tax amounted to NOK 36.7 (32.7) million at the reporting date.

LENDING AND CREDITS

As at 30 June 2019, the KLP Banken Group's lending balance was NOK 33.6 (32.0) billion. The distribution between the retail market and public sector lending was NOK 17.3 (15.7) billion and NOK 16.3 (16.3) billion, respectively.

KLP Banken's retail market has developed well, with a mortgage loan growth of NOK 0.6 (1.3) billion in the first half, or 3.8 (9.8) per cent. This is a growth rate lower than last years strong figures, but nevertheless shows that the bank's loan products are well suited for the target group members of KLP's pension schemes. A loan balance of NOK 1.2 (3.8) billion have been sold to the mortgage company KLP Boligkreditt AS through the period. Managed mortgages for KLP have been reduced by NOK 63 (165) million as a consequence of ordinary repayments and redemptions.

KLP Banken's credit card activities have decreased by 4.8 per cent (+8.0) in the first half, measured by outstanding credits drawn, but volumes varies greatly from month to month. The card products are continuously developed in

¹ Figures in parenthesis are from the corresponding period in 2018.

order to meet the needs of our customer groups.

The public sector lending balance in KLP Banken AS Group has decreased by NOK 0.5 (0.0) billion during the first half of 2019. Managed public sector loans on KLP's own balance sheet has increased by NOK 2.7 (1.3) billion in the same period. Managed loans to foreign debtors in foreign currencies has increased by NOK 1.0 (-0.5) billion.

LIQUID INVESTMENTS

On the reporting date, the portfolio of liquid investments amounted to NOK 3.6 (2.1) billion. Net financial gains on value changes in the first half of 2019 have improved earnings by NOK 3.6 (3.0) million.

BORROWING

The KLP Banken Group's external financing comprise deposits and bonds. On the reporting date deposits from individuals and companies amounted to NOK 11.5 (10.2) billion and issued bonds to NOK 24.8 (23.1) billion. Of the outstanding volume of issued securities, covered bonds (CB) issued by KLP Kommunekreditt AS and KLP Boligkreditt AS amounted to NOK 17.7 (16.4) billion and NOK 6.2 (5.7) billion respectively. All covered bond issues have achieved AAA rating. In addition bonds issued by KLP Banken AS amounts to NOK 0.9 (1.0) billion.

RISK AND CAPITAL ADEQUACY

The KLP Banken Group are 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 enterprises are to have a prudent risk profile and earnings are to be principally a result of borrowing and lending activities 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 a responsible long-term financing in order to meet regulatory requirements and limits are established to ensure that this objective is achieved.

The credit risk in the bank is low and the bank's 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 given 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 was NOK 2 140.4 (2 042.2) million. Eligible Tier 1 and Tier 2 capital

comprise 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 19.7 (20.2) per cent at the end of the second quarter. The minimum statutory requirement is 14.1 per cent core capital adequacy and 17.6 per cent capital adequacy. The leverage ratio was 5.4 (5.6) per cent. Here the requirement is 3.0 per cent.

FUTURE PROSPECTS

KLP Banken's potential for further development of its position in the target customer group, employees of the owner entities ("member"), is considered good. The bank will therefore maintain its focus on delivering products with good and predictable terms in the retail market.

The banking industry is challenged by new technology and new players outside the industry. KLP Banken's aim is to utilise 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 also in the coming years, but this is 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 considered to be satisfactory also looking ahead. This is expected to limit defaults and losses over time. KLP Banken will continue to operate its lending activities under conservative credit routines in order to maintain a low credit risk lending portfolio.

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

KLP Kommunekreditt AS is the only issuer of covered bonds secured by public sector loans in the country. Customer surveys indicate that the public sector borrowers want competition on public sector lending. The presence of the bank's daughter enterprise KLP Kommunekreditt AS, together with KLP contribute to competition in the public sector lending market and thus to the sector having access to long-term financing at low cost.

KLP Banken AS has a good solvency and capital adequacy that satisfies increasingly stronger regulatory requirements. Combined with low credit risk in the lending business, this gives a good position to achieve access to the best possible financing in the capital markets. The KLP Banken AS is therefore in a good position for further development and growth.

Trondheim, 14. august 2019

Sverre Thornes
Chair
(Sign.)

Aage E. Schaanning
Deputy Chair
(Sign.)

Aina Slettedal Eide
(Sign.)

Kjell Fosse
(Sign.)

Christin Kleppe
Elected by and from employees
(Sign.)

Espen Trandum
Elected by and from employees
(Sign.)

Leif Magne Andersen
Managing Director
(Sign.)

Income statement

KLP BANKEN AS GROUP

NOTE	NOK THOUSANDS	Q2 2019	Q2 2018	01.01.2019 -30.06.2019	01.01.2018 -30.06.2018	01.01.2018 -31.12.2018
	Interest income, amortised cost	214 356	184 320	425 427	367 301	757 820
	Interest income at fair value	41 581	36 853	77 073	112 251	182 646
3	Total interest income	255 937	221 173	502 501	479 552	940 466
	Interest expense, amortized cost	-153 062	-125 965	-302 356	-242 468	-507 997
	Interest expense at fair value	-30 858	-37 162	-62 091	-114 452	-183 938
3	Total interest costs	-183 920	-163 128	-364 447	-356 920	-691 935
3	Net interest income	72 017	58 045	138 053	122 632	248 532
	Commission income and income from banking services	5 326	4 725	9 887	8 877	18 488
	Commission cost and cost from banking services	-502	-151	-966	-461	-1 174
	Net charges and commission income	4 824	4 574	8 921	8 416	17 314
	Other fee income	14 800	14 500	29 600	29 000	58 041
16	Net gain/ (loss) financial instruments	-8 137	-1 586	-11 568	-2 721	-13 524
	Total other operating income	6 663	12 914	18 032	26 279	44 518
	Salaries and administrative costs	-18 248	-16 717	-37 308	-34 850	-72 026
	Depreciation	-2 361	-2 195	-5 126	-4 386	-8 117
	Other operating expenses	-35 057	-36 142	-68 826	-71 838	-139 953
14	Net loan losses	-1 287	-1 235	-3 166	-3 292	-6 838
	Total operating expenses	-56 953	-56 288	-114 424	-114 366	-226 935
	Operating profit/loss before tax	26 551	19 245	50 583	42 960	83 429
	Tax ordinary income	-6 366	-4 596	-12 095	-10 240	-19 458
	Profit/loss for the period	20 186	14 650	38 488	32 720	63 970
	Estimate difference, pension obligation and assets	0	0	-2 393	0	-2 326
	Tax on actuarial gains and losses	0	0	598	0	581
	Items that will not be reclassified to profit and loss	0	0	-1 795	0	-1 744
	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	0	0	-1 795	0	-1 744
	Comprehensive income for the period	20 186	14 650	36 693	32 720	62 226

Balance sheet

KLP BANKEN AS GROUP

NOTE	NOK THOUSANDS	30.06.2019	30.06.2018	31.12.2018
ASSETS				
5	Claims on central banks	60 441	50 131	60 238
5	Loans to credit institutions	1 511 287	1 485 154	1 439 420
4.5	Loans to customers	33 643 989	32 045 888	33 474 004
5.6.13	Interest-bearing securities	3 554 965	2 107 764	2 015 351
5.6	Shareholdings	2 053	461	2 053
5.6	Financial derivatives	60 170	95 718	62 483
	Deffered tax assets	0	2 565	8 667
	Fixed assets	589	745	667
17	Right-of-use assets	4 285	0	0
	Intangible assets	21 727	23 774	25 299
10	Other assets	1 136	4 528	413
Total assets		38 860 640	35 816 728	37 088 595
LIABILITIES AND OWNERS EQUITY				
LIABILITIES				
5.7	Debt securities issued	24 858 316	23 083 776	24 039 968
5	Deposits and borrowings from the public	11 464 838	10 218 281	10 661 749
5.6	Financial derivatives	91 696	149 925	111 955
	Deffered tax liabilities	454	0	0
17	Lease liabilities	4 326	0	0
11	Other Liabilities	202 454	207 668	85 154
11	Provision for accrued costs and liabilities	64 211	48 933	52 117
Total liabilities		36 686 295	33 708 582	34 950 943
EQUITY				
	Share capital	1 057 500	1 057 500	1 057 500
	Share premium	732 500	732 500	732 500
	Other owners' equity	347 652	285 426	347 652
	Profit for the period	36 693	32 720	0
Total equity		2 174 345	2 108 146	2 137 652
Total liabilities and equity		38 860 640	35 816 728	37 088 595

Statement of changes in equity

KLP BANKEN AS 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	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

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
Profit for the period	0	0	32 720	32 720
Other comprehensive income	0	0	0	0
Total comprehensive income for the period	0	0	32 720	32 720
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 30 June 2018	1 057 500	732 500	318 146	2 108 146

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 AS GROUP

NOK THOUSANDS	01.01.2019 -30.06.2019	01.01.2018 -30.06.2018	01.01.2018 -31.12.2018
OPERATING ACTIVITIES			
Payments received from customers – interest, commission & charges	414 794	366 874	767 723
Payments to customers – interest, commission and charges	-80 103	-64 217	-136 600
Disbursements on loans to customers and credit institutions	-4 346 532	-4 342 846	-9 521 930
Receipts on loans to customers	4 155 616	2 977 136	6 657 968
Net receipts on customer deposits banking	803 273	550 512	992 291
Disbursements on operations	-71 569	-71 393	-140 190
Payments to staff, pension schemes, employer's social security contribution etc.	-33 512	-33 699	-64 412
Interest investment accounts	5 113	3 897	13 263
Net receipts/disbursements from operating activities	180 337	172 205	61 621
Income tax paid	0	0	0
Net cash flow from operating activities	1 027 417	-441 531	-1 370 266
INVESTMENT ACTIVITIES			
Receipts on sale of securities	518 818	2 181 674	3 403 183
Payments on the purchase of securities	-2 051 858	-1 527 347	-2 667 949
Receipts of interest from securities	22 296	15 649	35 101
Payments on the purchase of tangible fixed assets	-696	-1 010	-6 187
Net cash flow from investment activities	-1 511 440	668 966	764 148
FINANCING ACTIVITIES			
Receipts on loans	3 800 000	2 600 000	6 500 000
Repayment and redemption of loans	-3 230 000	271 000	1 548 000
Change in payment for loan buybacks	213 000	-2 718 000	-6 922 000
Net payment of interest on loans	-200 674	-151 588	-329 850
Payment of lease liabilities	-771	0	0
Group contributions made	-19 432	-25 302	-25 334
Net cash flows from financing activities	562 123	-23 890	770 816
Net cash flow during the period	78 100	203 545	164 698
Cash and cash equivalents at the start of the period	1 454 013	1 289 315	1 289 315
Cash and cash equivalents at the end of the period	1 532 113	1 492 862	1 454 013
Net receipts/ disbursements (-) of cash	78 100	203 545	164 698

Notes to the accounts

KLP BANKEN AS GROUP

NOTE 1 General information

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

The company, KLP Banken AS, is a subsidiary of KLP Bankholding AS, which is in turn 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 - 30 June 2019. The auditors have performed a limited review of the interim Financial Statement.

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	Q2 2019	Q2 2018	01.01.2019 -30.06.2019	01.01.2018 -30.06.2018	01.01.2018 -31.12.2018
Interest income on loans to customers, amortised cost	210 318	181 493	418 182	361 347	744 554
Interest income on loans to credit institutions, amortised cost	4 038	2 826	7 245	5 954	13 266
Interest income on bonds and certificates, fair value	15 578	8 750	25 145	17 814	34 883
Other interest income, fair value	26 003	28 103	51 929	94 437	147 762
Total interest income	255 937	221 173	502 501	479 552	940 466
Interest expenses on debt to KLP Banken, amortised cost	-37 020	-30 971	-79 406	-63 512	-135 139
Interest expenses on issued securities, amortised cost	-116 021	-94 994	-222 906	-178 956	-372 858
Interest expense lease liabilities	-21	0	-44	0	0
Other interest expenses, fair value	-30 858	-37 162	-62 091	-114 452	-183 938
Total interest costs	-183 920	-163 128	-364 447	-356 920	-691 935
Net interest income	72 017	58 045	138 053	122 632	248 532

NOTE 4 Loans to customers

NOK THOUSANDS	30.06.2019	30.06.2018	31.12.2018
Principal on loans to customers	33 447 766	31 825 193	33 272 780
Credit portfolio	64 517	65 666	67 757
Overdraft current account	441	697	436
Write-downs step 1 and 2	-1 306	-1 660	-990
Write-downs step 3	-1 126	-3 121	-1 774
Loans to customers after write-downs	33 510 293	31 886 775	33 338 209
Accrued interest	87 373	81 830	74 167
Premium/discount	-9 769	-5 995	-9 970
Fair value hedging	56 091	83 278	71 598
Loans to customers	33 643 989	32 045 888	33 474 004

NOTE 5 Categories of financial instruments

NOK THOUSANDS	30.06.2019		30.06.2018		31.12.2018	
	Capitalized value	Fair value	Capitalized value	Fair value	Capitalized value	Fair value
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS						
Fixed-income securities	3 554 965	3 554 965	2 107 764	2 107 764	2 015 351	2 015 351
Financial derivatives	60 170	60 170	95 718	95 718	62 483	62 483
Shares and holdings	2 053	2 053	461	461	2 053	2 053
Total financial assets at fair value through profit and loss	3 617 187	3 617 187	2 203 944	2 203 944	2 079 887	2 079 887
FINANCIAL ASSETS FAIR VALUE HEDGING						
Loans to and receivables from customers	3 294 298	3 333 255	4 212 668	4 260 949	3 568 702	3 600 945
Total financial assets fair value hedging	3 294 298	3 333 255	4 212 668	4 260 949	3 568 702	3 600 945
FINANCIAL ASSETS AT AMORTIZED COST						
Loans to and receivables from credit institutions	60 441	60 441	50 131	50 131	60 238	60 238
Loans to and receivables from central banks	1 511 287	1 511 287	1 485 154	1 485 154	1 439 420	1 439 420
Loans to and receivables from customers	30 349 691	30 310 734	27 833 220	26 018 916	29 905 302	29 893 107
Total financial assets at amortized cost	31 921 418	31 882 461	29 368 505	27 554 201	31 404 960	31 392 765
Total financial assets	38 832 903	38 832 903	35 785 116	34 019 093	37 053 549	37 073 597
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS						
Financial derivatives	91 696	91 696	149 925	149 925	111 955	111 955
Total financial liabilities at fair value through profit and loss	91 696	91 696	149 925	149 925	111 955	111 955
FINANCIAL LIABILITIES FAIR VALUE HEDGING						
Liabilities created on issuance of securities	1 825 671	1 805 912	2 113 081	2 136 647	1 886 974	1 904 665
Total financial liabilities fair value hedging	1 825 671	1 805 912	2 113 081	2 136 647	1 886 974	1 904 665
FINANCIAL LIABILITIES AT AMORTIZED COST						
Liabilities created on issuance of securities	23 032 645	23 043 972	20 970 695	21 557 323	22 152 994	22 243 219
Deposits from customers	11 464 838	11 464 838	10 218 281	10 218 281	10 661 749	10 661 749
Total financial liabilities at amortized cost	34 497 483	34 508 810	31 188 976	31 775 604	32 814 743	32 904 968
Total financial liabilities	36 414 850	36 406 418	33 451 982	34 062 176	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.

Fixed-income securities - other than government

Norwegian fixed-income securities, except government are

NOTE 5 Categories of financial instruments – continues

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

Financial derivatives

Interest rate swaps 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 14 Loan loss 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 and claims on central banks) 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.

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

30.06.2019 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

30.06.2018 NOK THOUSANDS	Level 1	Level 2	Level 3	Total
ASSETS BOOKED AT FAIR VALUE				
Fixed-income securities	186 758	1 921 004	0	2 107 762
Shareholdings	0	0	461	461
Financial derivatives	0	95 719	0	95 719
Total assets at fair value	186 758	2 016 723	461	2 203 942
LIABILITIES BOOKED AT FAIR VALUE				
Financial derivatives (liabilities)	0	149 926	0	149 926
Total financial liabilities at fair value	0	149 926	0	149 926

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	30.06.2019	30.06.2018	31.12.2018
CHANGES IN LEVEL 3 UNLISTED SHARES			
Opening balance	2 053	461	461
Additions/purchases of shares	0	0	0
Unrealized changes	0	0	1 592
Closing balance	2 053	461	2 053
Realized gains/losses	0	0	0

NOTE 6 Fair value hierarchy – continues

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 instru-

ments 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	30.06.2019	30.06.2018	31.12.2018
Bond debt, nominal amount	26 046 000	25 025 000	25 876 000
Adjustments	41 954	30 613	29 847
Accrued interest	91 362	84 163	68 121
Own holdings, nominal amount	-1 321 000	-2 056 000	-1 934 000
Total debt securities issued	24 858 316	23 083 776	24 039 968
Interest rate on borrowings through the issuance of securities at the reporting date	1.85 %	1.56 %	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 30.06.2019
Bond debt, nominal amount	25 876 000	3 800 000	-3 630 000	0	26 046 000
Adjustments	29 847	0	0	12 107	41 954
Accrued interest	68 121	0	0	23 241	91 362
Own holdings, nominal amount	-1 934 000	0	613 000	0	-1 321 000
Total debt securities issued	24 039 968	3 800 000	-3 017 000	35 348	24 858 316

NOTE 8 Financial assets and liabilities subject to net settlement

30.06.2019 NOK THOUSANDS				Related sums that are not presented net		
	Gross financial assets/liabilites	Gross assets/ liabilities presented net	Book value	Financial instruments	Security in cash	Net recognised 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

30.06.2018 NOK THOUSANDS				Related sums that are not presented net		
	Gross financial assets/liabilites	Gross assets/ liabilities presented net	Book value	Financial instruments	Security in cash	Net recognised value
ASSETS						
Financial derivatives	95 719	0	95 719	-95 719	-2 495	0
Total	95 719	0	95 719	-95 719	-2 495	0
LIABILITIES						
Financial derivatives	149 925	0	149 925	-95 719	-7 200	47 006
Total	149 925	0	149 925	-95 719	-7 200	47 006

31.12.2018 NOK THOUSANDS				Related sums that are not presented net		
	Gross financial assets/liabilites	Gross assets/ liabilities presented net	Book value	Financial instruments	Security in cash	Net recognised 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 AS Group. The note shows derivative positions.

NOTE 9 Transactions with related parties

NOK THOUSANDS	01.01.2019 -30.06.2019	01.01.2018 -30.06.2018	01.01.2018 -31.12.2018
KLP, fees lending management	29 600	29 000	58 000
KLP Kapitalforvaltning AS, fees for services provided	-71	-124	-226
KLP, rent	-2 187	-2 096	-4 150
KLP Skipsbygget AS, rent	-826	-777	-1 554
KLP Bassengtømt AS, rent parking	-21	-51	-101
KLP Eiendomsdrift AS, cost office buildings	-216	-270	-473
KLP, pension premium	-5 918	-5 370	-11 368
KLP, staff services (at cost)	-34 301	-32 301	-67 616
KLP Group companies, subsidised interest employee loans	2 262	1 282	2 173

NOK THOUSANDS	30.06.2019	30.06.2018	31.12.2018
BALANCES			
KLP, net internal accounts	-2 808	-5 020	-2 773
KLP, loan settlement	-188 877	-185 270	-49 151
KLP Group companies, net other internal accounts	945	192	23

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

NOTE 10 Other assets

NOK THOUSANDS	30.06.2019	30.06.2018	31.12.2018
Intercompany receivables	966	472	289
Miscellaneous receivables	136	120	122
Prepaid expenses	34	3 936	2
Total other assets	1 136	4 528	413

NOTE 11 Other liabilities and provision for accrued costs

NOK THOUSANDS	30.06.2019	30.06.2018	31.12.2018
Creditors	621	4 632	7 825
Intercompany payables	191 706	190 570	52 187
Tax payable	0	0	19 431
Other liabilities	10 127	12 467	5 710
Total other liabilities	202 454	207 668	85 154
Withholding tax	1 854	1 790	3 227
Social security contributions	1 878	1 794	2 486
Capital activity tax	681	635	900
Holiday pay	2 524	2 428	5 322
Pension obligations	43 859	34 479	38 265
Provisioned costs	13 415	7 806	1 917
Total accrued costs and liabilities	64 211	48 933	52 117

NOTE 12 Capital adequacy

NOK THOUSANDS	30.06.2019	30.06.2018	31.12.2018
Share capital and share premium fund	1 790 000	1 790 000	1 790 000
Other owners' equity	347 652	285 426	347 652
Total owners' equity	2 137 652	2 075 426	2 137 652
Interim Profit qualifying for tier 1 capital	36 693	0	0
Adjustments due to requirements for proper valuation	-3 555	-2 108	-2 015
Deduction goodwill and other intangible assets	-21 727	-23 774	-25 299
Deferred tax asset	-8 667	-7 392	-8 667
Core capital/Tier 1 capital	2 140 396	2 042 152	2 101 671
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)	2 140 396	2 042 152	2 101 671
Capital requirement	871 304	807 050	837 802
Surplus of own funds (Tier 1 and Tier 2 capital)	1 269 092	1 235 102	1 263 869
ESTIMATE BASIS CREDIT RISK:			
Institutions	314 453	324 467	299 070
Retail	148 648	81 532	82 717
Local and regional authorities (incl. municipalities/county administrations)	3 292 607	3 289 495	3 384 588
Investments with mortgage security in real estate	6 163 447	5 569 804	5 922 925
Investments fallen due	86 674	50 861	63 181
Covered bonds	313 136	157 288	156 334
Other holdings	15 554	113 423	62 714
Calculation basis credit risk	10 334 520	9 586 870	9 971 529
Credit risk	826 762	766 950	797 722
Operating risk	44 435	39 956	39 956
Credit valuation adjustments (CVA)	107	144	124
Total capital requirement assets	871 303	807 050	837 802
Core capital adequacy ratio	19.7 %	20.2 %	20.1 %
Supplementary capital ratio	0.0 %	0.0 %	0.0 %
Capital adequacy ratio	19.7 %	20.2 %	20.1 %
Leverage ratio	5.4 %	5.6 %	5.6 %

CAPITAL REQUIREMENT PER 30.06.2019	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	2.0 %	0.0 %	2.0 %
Pilar 2-requirement	2.1 %	0.0 %	2.1 %
Current capital requirement incl. buffers	14.1 %	3.5 %	17.6 %
Capital requirement leverage ratio	3.0 %	0.0 %	3.0 %

NOTE 13 Fixed-income securities

NOK THOUSANDS	30.06.2019		30.06.2018		31.12.2018	
	Acquisition cost	Market value	Acquisition cost	Market value	Acquisition cost	Market value
Certificates	158 595	158 603	187 721	187 786	186 732	186 695
Bonds	3 388 216	3 396 362	1 906 955	1 919 978	1 826 298	1 828 656
Total fixed-income securities	3 546 812	3 554 965	2 094 676	2 107 764	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

The annual update of the PD model, LGD and EAD models was made in Q2 2019. The models are predicted with one additional year of history. There are no significant changes in total loss provisions as a result of this model update.

Additionally, the limit for significant default is changed from NOK 500 to NOK 1000 in Q2 2019. This change is a part of harmonization of the default reporting in the bank. Other changes in provisions for expected losses at June 30th 2019 are related to changes in lending volume. No other changes have been made to the assumptions or input to the model for calculating loss provisions. Refer to Note 18 and Note 2 to 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	502	-502	0	0	
Transfer to stage 2	-92	92	0	0	
Transfer to stage 3	-14	-284	297	0	
Net changes	-312	69	78	-166	
New losses	314	6	1	322	
Write-offs	-65	-30	-238	-333	
Closing balance ECL 30.06.2019	3 786	230	1 128	5 144	
Changes (01.01.2019 - 30.06.2019)	334	-649	139	-177	

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	371	-371	0	0	
Transfer to stage 2	-67	67	0	0	
Transfer to stage 3	-13	-282	295	0	
Net changes	-250	48	78	-124	
New losses	83	5	1	90	
Write-offs	-30	-29	-238	-297	
Closing balance ECL 30.06.2019	1 130	176	1 126	2 432	
Changes (01.01.2019 - 30.06.2019)	94	-562	136	-332	

NOTE 14 Loan loss provision - cont.

Losses on unused credit

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	2 416	141	0	2 557
Transfer to stage 1	131	-131	0	0
Transfer to stage 2	-25	25	0	0
Transfer to stage 3	-1	-1	2	0
Net changes	-63	20	0	-42
New losses	232	1	0	233
Write-offs	-35	-1	0	-36
Closing balance ECL 30.06.2019	2 656	54	2	2 712
Changes (01.01.2019 - 30.06.2019)	240	-87	2	155

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

NOK THOUSANDS	12-month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
	stage 1	stage 2	stage 3	
Gross lending 01.01.2019	33 238 762	121 631	56 271	33 416 664
Transfer to stage 1	80 578	-80 578	0	0
Transfer to stage 2	-45 066	45 066	0	0
Transfer to stage 3	-25 199	-22 899	48 099	0
Net changes	-418 870	44 893	-40 352	-414 330
New losses	4 136 659	12 828	1 688	4 151 175
Write-offs	-3 514 551	-30 198	-5 979	-3 550 728
Gross lending 30.06.2019	33 452 312	90 743	59 727	33 602 781

Losses on lending and receivables from customers rated at amortised cost

NOK THOUSANDS	12-month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
	stage 1	stage 2	stage 3	
Gross lending 01.01.2019	33 238 762	121 631	56 271	33 416 664
Transfer to stage 1	80 578	-80 578	0	0
Transfer to stage 2	-45 066	45 066	0	0
Transfer to stage 3	-25 199	-22 899	48 099	0
Net change	-418 870	44 893	-40 352	-414 330
New lending	4 136 659	12 828	1 688	4 151 175
Write-offs	-3 514 551	-30 198	-5 979	-3 550 728
Gross lending 30.06.2019	33 452 312	90 743	59 727	33 602 781

NOTE 14 Loan loss provision - cont.

Exposure - unused credit

NOK THOUSANDS	12-month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
	stage 1	stage 2	stage 3	
Gross lending 01.01.2019	757 939	5 525	0	763 465
Transfer to stage 1	5 145	-5 145	0	0
Transfer to stage 2	-2 178	2 178	0	0
Transfer to stage 3	-82	-55	137	0
Net change	35 635	-384	-44	35 206
New lending	78 717	24	0	78 741
Write-offs	-34 559	-38	0	-34 598
Gross lending 30.06.2019	840 616	2 105	93	842 814

Losses recognised in the profit and loss account consist of:

NOK THOUSANDS	01.01.2019 -30.06.2019	01.01.2018 -30.06.2018	01.01.2018 -31.12.2018
Change in loss provisions in stage 1, 2 and 3	-2 994	-3 258	-6 382
Established losses	-182	-67	-512
Recovery for previously established losses	11	33	56
Total losses in the income statement	-3 166	-3 292	-6 838

NOTE 15 Contingent liabilities

NOK THOUSANDS	30.06.2019	30.06.2018	31.12.2018
Credit facilities for lending not utilized	620 562	735 444	561 905
Credit facilities issued credit card	221 368	213 460	201 584
Loan promise	557 434	385 894	616 318
Total contingent liabilities	1 399 364	1 334 798	1 379 807

NOTE 16 Net gain/(loss) on financial instruments

NOK THOUSANDS	01.01.2019 -30.06.2019	01.01.2018 -30.06.2018	01.01.2018 -31.12.2018
Net gain/(loss) on fixed-income securities	3 574	2 954	-1 532
Net gain/(loss) financial derivatives and realized amortization linked to lending	0	-671	-671
Net gain/(loss) financial derivatives and realized repurchase of own debt	-14 870	-5 644	-12 154
Net value change lending and borrowing, hedge accounting	224	1 144	320
Net gain/(loss) on shares, holdings and primary capital certificates	0	0	1 591
Other financial income and expenses	-496	-504	-1 078
Total net gain/(loss) on financial instruments	-11 568	-2 721	-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	30.06.2019
RIGHT-OF-USE ASSETS	Property
Opening balance 01.01.	5 064
Depreciation	-779
Closing balance 30.06.	4 285
LEASE LIABILITIES	Property
Opening balance 01.01.	5 064
Repayments	-739
Closing balance 30.06.	4 326

NOK THOUSANDS	Q2 2019	01.01.2019 -30.06.2019
Interest expense lease liabilities	21	44

Quarterly earnings trend

NOK MILLIONS	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018
Interest income	255.9	242.5	282.3	200.1	193.0
Interest expense	-183.9	-176.5	-217.0	-139.5	-134.9
Net interest income	72.0	66.0	65.3	60.6	58.0
Commission income and income from banking services	5.3	4.6	5.3	4.3	4.7
Commission cost and cost from banking services	-0.5	-0.5	-0.4	-0.3	-0.2
Net charges and commission income	4.8	4.1	4.9	4.0	4.6
Other fee income	14.8	14.8	14.5	14.5	14.5
Net gain/ (loss) financial instruments	-8.1	-3.4	-6.1	-4.7	-1.6
Total other operating income	6.7	11.4	8.4	9.8	12.9
Salaries and administrative costs	-18.2	-19.1	-22.7	-14.4	-16.7
Depreciation	-2.4	-2.8	-1.9	-1.9	-2.2
Other operating expenses	-35.1	-33.8	-39.8	-28.3	-36.1
Net loan losses	-1.3	-1.9	-1.9	-1.7	-1.2
Total operating expenses	-57.0	-57.5	-66.3	-46.3	-56.3
Operating profit/loss before tax	26.6	24.0	12.3	28.1	19.2
Tax ordinary income	-6.4	-5.7	-2.5	-6.7	-4.6
Profit/loss for the period	20.2	18.3	9.8	21.4	14.6
Other comprehensive income	0.0	-2.4	-2.3	0.0	0.0
Tax on other comprehensive income	0.0	0.6	0.6	0.0	0.0
Other comprehensive income for the period	0.0	-1.8	-1.7	0.0	0.0
Comprehensive income for the period	20.2	16.5	8.1	21.4	14.6

Key figures - accumulated

NOK MILLIONS	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018
Pre-tax income	50.6	24.0	83.4	71.1	43.0
Net interest income	138.1	66.0	248.5	183.2	122.6
Other operating income	38.5	18.9	75.4	56.0	37.4
Other operating cost and depreciation	-114.4	-57.5	-226.9	-160.7	-114.4
Net realized/unrealized change fin. instruments at fair value	-11.6	-3.4	-13.5	-7.4	-2.7
Deposits	11 464.8	11 031.4	10 661.7	10 530.6	10 218.3
Lending customers	17 351.0	17 038.2	16 715.4	16 242.7	15 736.6
Lending with public sector guarantee	16 293.0	16 659.7	16 758.6	16 206.2	16 282.3
Non-performing loans	59.7	62.0	56.3	31.9	20.8
Total liabilities created on issuance of securities	24 858.3	24 655.4	24 040.0	23 495.5	23 083.8
Other borrowing	0.0	0.0	0.0	0.0	0.0
Total assets	38 860.6	38 585.6	37 088.6	36 468.1	35 816.7
Average total assets	37 974.6	37 837.1	36 034.8	35 724.6	35 398.9
Equity	2 174.3	2 154.2	2 137.7	2 129.5	2 108.1
Interest net	0.36 %	0.17 %	0.69 %	0.51 %	0.35 %
Profit/loss from ordinary operation before taxes	0.13 %	0.06 %	0.23 %	0.20 %	0.12 %
Return on equity	4.73 %	4.50 %	3.83 %	4.56 %	4.14 %
Capital adequacy ratio	19.7 %	19.0 %	20.1 %	19.9 %	20.2 %
Liquidity coverage ratio (LCR)	340 %	352 %	402 %	306 %	395 %

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