MOODY'S RATINGS

CREDIT OPINION
12 February 2025

Update

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RATINGS

KLP Banken AS

Domicile	Norway
Long Term CRR	A1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	A3
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Americas 1-212-553-1653

Asia Pacific 852-3551-3077

KLP Banken AS

Update to credit analysis following ratings affirmation

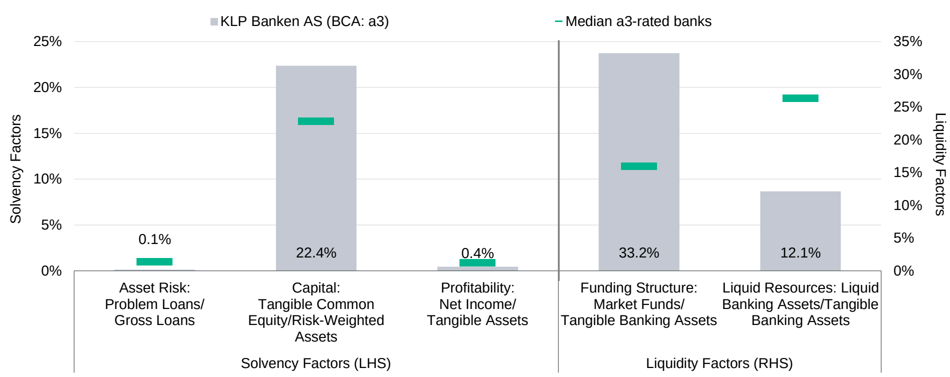
Summary

KLP Banken AS' (KLP Banken) A3 long-term deposit and issuer ratings are based on the bank's Adjusted Baseline Credit Assessment (BCA) of a3. The ratings do not incorporate any uplift from our Advanced Loss Given Failure (LGF) analysis, reflecting the limited amount of outstanding obligations protecting the bank's junior depositors in case of failure.

In our view, KLP Banken will continue to benefit from a very high probability of affiliate support from its parent company Kommunal Landspensjonskasse (KLP, A2 Insurance Financial Strength Rating, stable), given the importance of the bank to its business strategy. However, the bank's BCA of of a3 does not benefit from any rating uplift to the parent's rating because we assume that any potential support from KLP will be subordinated to the claims of its own policyholders.

KLP Banken's a3 BCA incorporates its excellent asset quality reflective of the low risk profile of its loan portfolio and its strong capitalisation, but also its relatively low but stable profitability, high reliance on market funding and limited business and earnings diversification. The bank's loan portfolio mainly comprises loans to the Norwegian public sector and retail mortgages that are predominantly extended to public sector employees, translating into strong asset quality but also relatively low returns.

Exhibit 1
Rating Scorecard - Key financial ratios



These are our Banks Methodology scorecard ratios. Asset risk and profitability reflect the weaker of either the three-year average and latest figure. Capital is the latest reported figure. Funding structure and liquid resources reflect the latest fiscal year-end figures.
Source: Moody's Ratings

Credit strengths

» Low asset risk, driven by focus on public-sector lending and residential mortgages in Norway

» Strong capitalisation, supported by the parent

» Very high probability of affiliate support from KLP, in case of need

Credit challenges

» Low profitability because of lending focus and intense competition in the retail market, which further pressures margins and constrains internal capital generation

» High reliance on market funding, although mainly in the form of low-risk public sector covered bonds

Outlook

The stable outlook on the long-term deposit ratings reflects our expectation that KLP Banken will be able to maintain its financial performance and that affiliate support will remain very high.

Factors that could lead to an upgrade

» Upward pressure could develop if KLP Banken substantially improves its profitability and operating efficiency, without increasing the risk of its loan portfolio; if it demonstrates stronger than expected asset quality through an economic cycle; and if it improves its funding profile with higher amounts of stable deposits.

» The deposit and issuer ratings could be upgraded if the parent's ratings are upgraded or if the bank's liability structure changes to include substantially higher amounts of senior unsecured or more junior debt.

Factors that could lead to a downgrade

» A downgrade of the parent, KLP, could trigger a downgrade of KLP Banken's ratings.

» There could also be downward pressure on KLP Banken's Counterparty Risk Ratings and CR Assessments from a lower volume of liabilities that are subordinated to these instruments, for example, if maturing senior unsecured debt is not refinanced with other senior or junior instruments.

» Further pressure on KLP Banken's ratings could develop from: (1) significantly weaker asset quality than what we anticipate under the current downturn, or if the bank undertakes higher risk lending; (2) sustained weaker financial performance, for example due to erosion of the bank's franchise from competitive pressures; and (3) increasingly higher earnings dependence on one of the bank's business lines.

Key indicators

Exhibit 2
KLP Banken AS (Consolidated Financials) [1]

	09-24[2]	12-23[2]	12-22[2]	12-21[2]	12-20[2]	CAGR/Avg.[3]
Total Assets (NOK Billion)	51.9	48.9	50.5	47.5	42.7	5.4[4]
Tangible Common Equity (NOK Billion)	3.3	3.2	3.0	2.5	2.4	9.2[4]
Problem Loans / Gross Loans (%)	0.1	0.1	0.1	0.1	0.1	0.1[5]
Tangible Common Equity / Risk Weighted Assets (%)	22.4	21.7	20.7	18.7	19.6	20.6[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	1.7	1.4	1.5	1.4	2.3	1.7[5]
Net Interest Margin (%)	1.0	0.9	0.8	0.7	0.7	0.8[5]
PPI / Average RWA (%)	2.3	2.0	1.3	0.9	1.2	1.6[6]
Net Income / Tangible Assets (%)	0.6	0.6	0.3	0.3	0.3	0.4[5]
Cost / Income Ratio (%)	44.3	48.1	57.1	66.0	61.2	55.3[5]
Market Funds / Tangible Banking Assets (%)	32.4	33.2	34.6	34.6	33.7	33.7[5]
Liquid Banking Assets / Tangible Banking Assets (%)	18.4	12.1	15.8	15.7	10.3	14.5[5]
Gross Loans / Due to Customers (%)	269.3	304.8	307.6	309.6	324.5	303.1[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.
Sources: Moody's Ratings and company filings

Profile

KLP Banken AS, registered and domiciled in Norway (Aaa stable), is an internet bank operating in the Norwegian market with a focus on the retail and public sectors. The head office is located in Trondheim, and the bank also has a branch office in Oslo. KLP Banken, together with its wholly owned subsidiaries KLP Kommunekreditt AS and KLP Boligkreditt AS, form the KLP Banken AS Group. The bank was formed in February 2009 and is wholly owned by the mutual insurance company KLP.

KLP Banken's presence in the market for public-sector lending is through KLP Kommunekreditt, which provides long-term financing to the Norwegian regional and local government (RLG) sector, including municipalities, counties and companies with public-sector guarantees. In the retail market, KLP Banken predominantly provides housing mortgages. It also has a small portfolio of senior loans provided to retired individuals against their properties. The bank also offers credit cards, overdrafts and other consumer loans, which in aggregate accounted for less than 1% of its loan portfolio, as well as savings products and other services. KLP's primary retail customers are members of KLP's pension schemes, who represent about 70% of its retail customer base.

As of December 2024, KLP Banken's consolidated assets totaled NOK51.8 billion.

Recent developments

In February 2025, KLP Banken announced that it had entered into an agreement to join the Eika Alliance. KLP Banken is acquiring a 0.16% stake in Eika Gruppen AS, and will get access to the shared services within the alliance. KLP Banken and Eika Gruppen are working to have the conversion finalized during the spring of 2026.

Detailed credit considerations

Low asset risk driven by focus on public-sector lending and residential mortgages in Norway

The assigned Asset Risk score of aa3 reflects out expectation that KLP Banken's asset quality will remain strong, reflecting the low credit risk of its loan book. The bank's loan portfolio mainly comprises loans to the Norwegian public sector and residential mortgages, predominantly extended to public-sector employees with high job security.

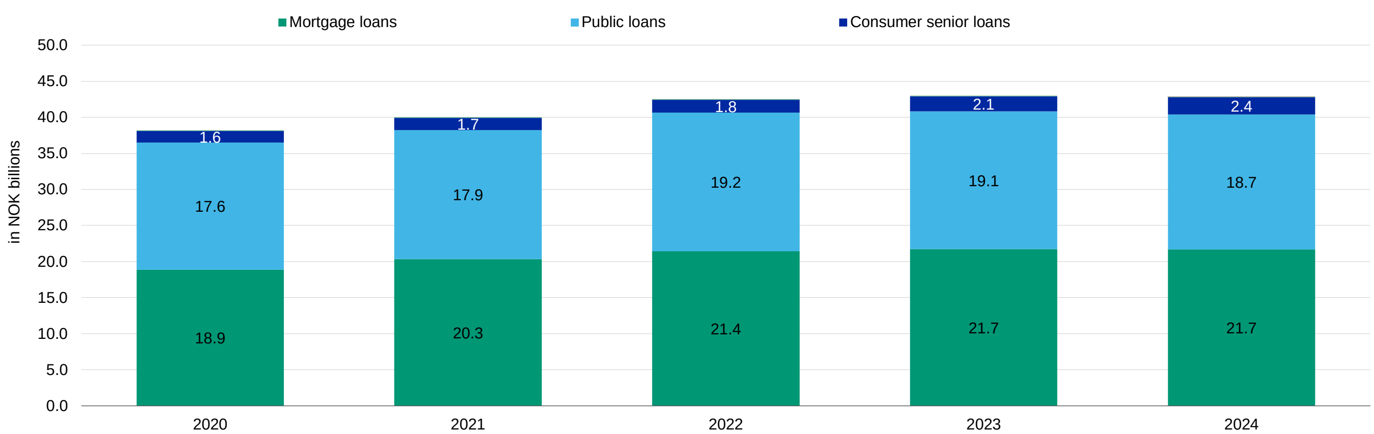
The Norwegian public sector's credit risk is very low because regional and local governments receive budget transfers, and the equalisation principle ensures that RLGs have the financial means to deliver services mandated by the central government. RLGs are placed under central government oversight if they record, or project that they will record, a budget imbalance; and RLGs cannot declare insolvency, but can only defer payment including any accrued interest. Therefore, KLP Banken has never incurred a loss because of its exposure to this segment.

Comparatively, residential mortgages in Norway represent higher risk than the RLG segment, but lower than other countries. Despite the long-term risks of increasing household debt levels in the high inflation and interest rate environment, we expect that Norwegian households will continue to service their debt. The average loan-to-value ratio of KLP Banken's mortgage portfolio was a conservative 57% as of year-end 2023 (latest data available), while most of the bank's mortgage customers were public-sector employees and members of KLP, with high job security.

As of year-end 2024, mortgage loans represented 50.7% of KLP Banken's total loans, while public-sector loans accounted for 43.6% of its total loan portfolio (Exhibit 3). The bank also has a small portfolio of consumer senior loans collateralised by residential properties (5.6% of total loans), as well as credit card, unsecured consumer loans and overdrafts, which collectively accounted for less than 1% of total loans. The bank also manages KLP's loan portfolio, which the parent funds directly from its own balance sheet, which totaled NOK83.9 billion as of year-end 2024.

In 2024, the bank's loans to public sector declined by 1.6% and its mortgage loans by 0.1%. The small reduction in RLG loans and mortgages was counterbalanced by a 15% growth in its senior loan portfolio, keeping the size of the overall loan book stable. The low growth in mortgages continues to reflect limited credit demand as a result of higher interest rates and constrained consumer affordability in the inflationary environment. At the same time, KLP Banken has found it difficult to grow its market share in public sector lending, where it competes with state-owned Kommunalbanken AS (KBN; Aaa stable, a1[1]); this is because KBN has low funding costs, not-for-profit mandate and direct access to the market for the larger municipalities. As a result, the share of mortgages in KLP Banken's portfolio has increased relative to loans to the RLG sector, heightening its reliance on the housing market.

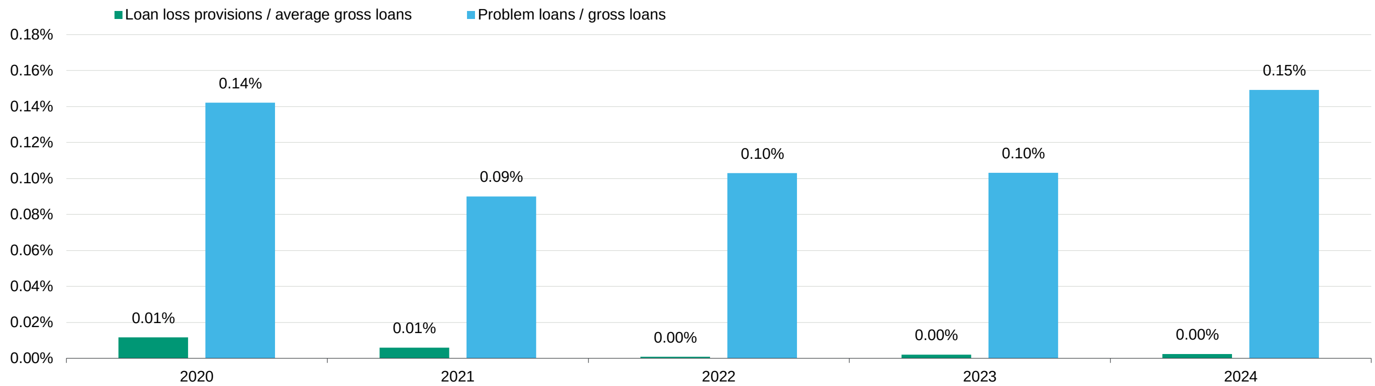
Exhibit 3
Loan portfolio predominantly consists of retail mortgages and public-sector loans



In addition to mortgages, loans to RLGs and senior loans to consumers, KLP Banken also has a small credit card portfolio, as well as unsecured consumer loans and overdrafts, which in aggregate amounted to less than 1% of its loan portfolio.
Source: Bank's disclosures

Notwithstanding a small uptick in stage 3 loans during the year, the bank's problem loan ratio remained very low, at only 0.15% as of 31 December 2024. KLP Banken's loan loss provisions also remained very low, representing a negligible proportion of average gross loans in 2024, in-line with the prior years (Exhibit 4).

Exhibit 4
Problem loan ratio and credit cost remain very low
Evolution of asset-quality metrics for KLP Banken



Sources: Bank's disclosure and Moody's Ratings

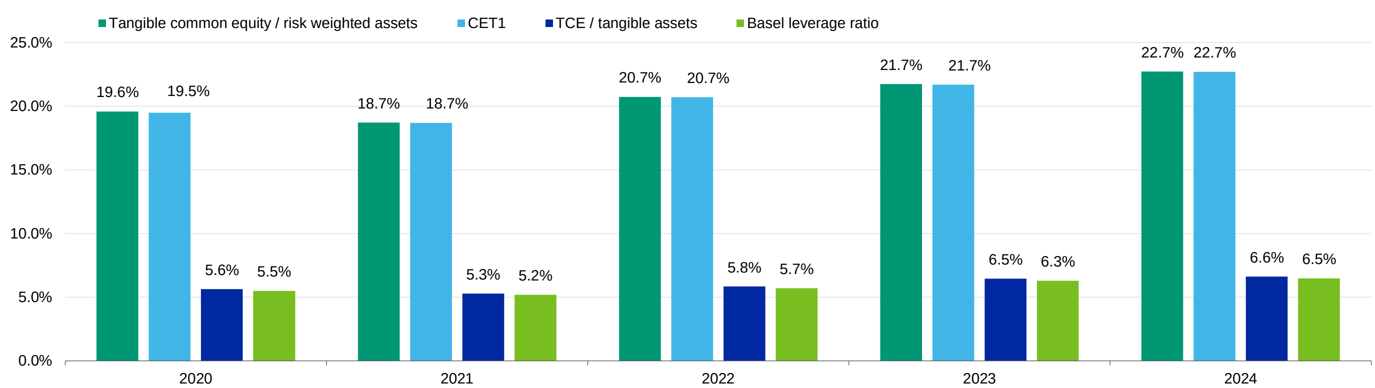
Strong capitalisation, further supported by the parent

The assigned score of aa2 reflects KLP Banken's strong capitalisation, substantially above its regulatory requirements, as well as the bank's access to capital from its large and cash-rich parent KLP. The bank has received regular capital injections from KLP, which has helped maintain its capital levels despite lending growth and mitigating its limited capacity to grow capital organically.

KLP Banken reported a CET1 ratio and total capital ratio of 22.7% as of year-end 2024, (Exhibit 5), above its current CET1 regulatory requirement of 14.8% and total capital regulatory requirement of 18.6%. The requirements include a 4.5% systemic risk buffer and a 2.5% CCyB applicable to all Norwegian banks, as well as a 1.1% Pillar 2 requirement that is specific to KLP Banken. The bank's own target is to maintain a buffer of at least 0.5% above the regulatory requirements.

KLP Banken's Basel 3 leverage ratio was 6.5% as of December 2024, far exceeding its 3% regulatory requirement. Given that KLP Banken uses the standardised approach when calculating credit risk weights, it is exempt from the additional 2% buffer.

Exhibit 5
KLP Banken's capital is solid with substantial buffer above capital requirements
Capital metrics evolution



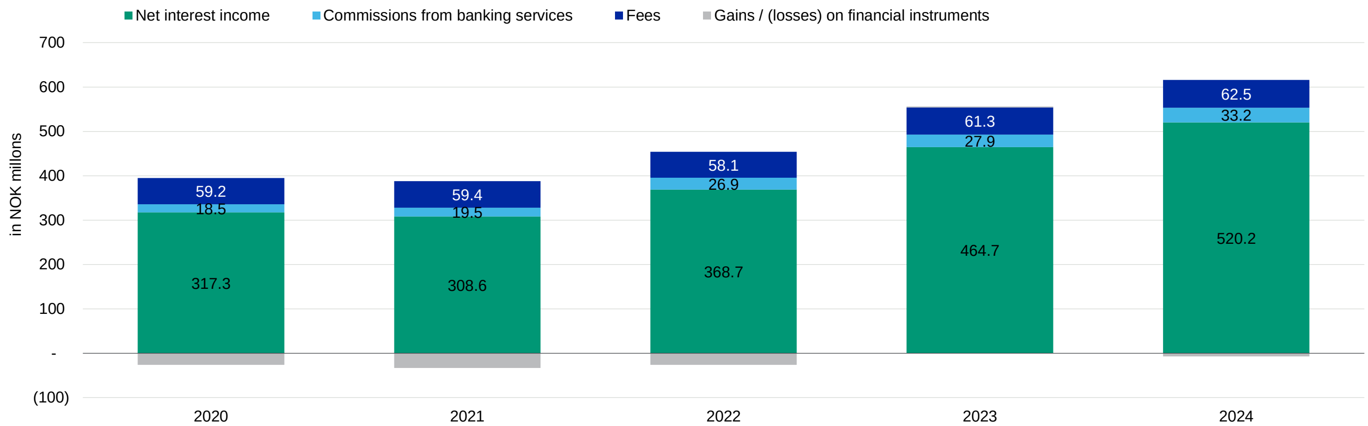
Sources: Bank's disclosures and Moody's Ratings

Relatively low profitability compared to peers, although with stable earnings

The assigned score of ba1 considers KLP Banken historically stable profitability, reflecting the low credit risk of its loan portfolio, but also the lower-than-peers profitability metrics and earnings diversification, with high dependence on net interest income. While KLP Banken's earnings improved in the high interest rate environment, the assigned score reflects our expectation that its profitability will moderate as interest rates decline.

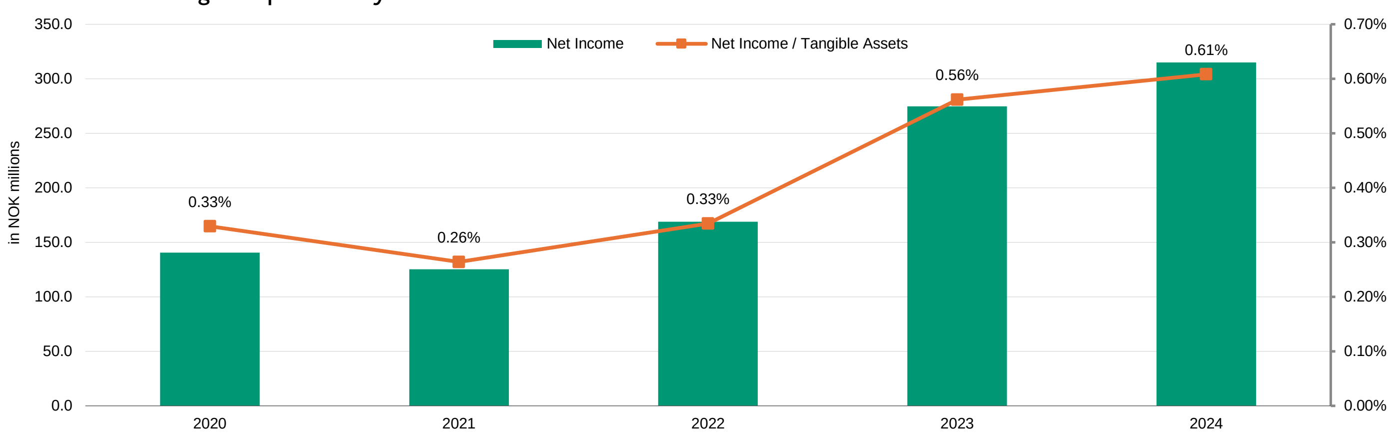
During 2024, KLP Banken's profitability improved from its historical average, with net income/tangible assets increasing to 0.61%, from 0.56% a year ago, driven by improved margins in the high interest rate environment. For the portfolio of mortgages and public-sector loans that KLP Banken administers on behalf of its parent company, KLP, the bank received NOK62.5 million of management fees (10% of net revenues) in 2024 (Exhibit 6). The bank's net interest income accounted for 85% of its net revenues in 2024.

Exhibit 6
KLP Banken's net revenues mix



Source: Bank's disclosures

Exhibit 7
KLP Banken's earnings and profitability



Source: Bank's disclosures, Moody's Ratings

High market funding reliance, although predominantly in the form of covered bonds

The assigned baa3 Funding Structure score for KLP Banken reflects its high reliance on confidence-sensitive market funding, predominantly issued by its two subsidiaries, KLP Kommunekreditt and KLP Boligkreditt. Mitigating the bank's refinancing risk related to these obligations is its strong market access because of the demonstrated appetite for public-sector covered bonds by market participants, given the high quality of the collateral. We also expect the association with the KLP brand to support investor confidence in the bank in times of market stress, further mitigating the refinancing risk.

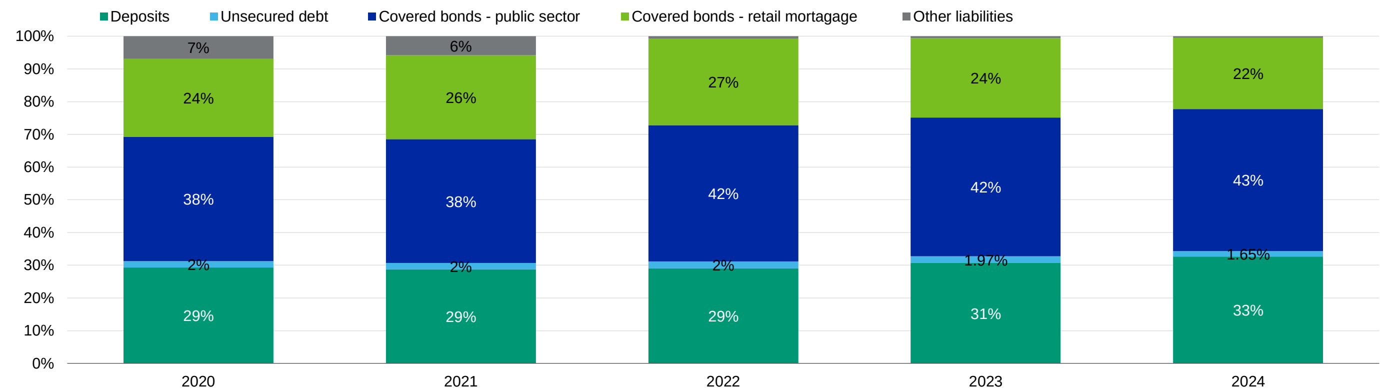
In total, covered bonds represented 65% of KLP Banken's liabilities as of year-end 2024: public sector covered bonds issued by KLP Kommunekreditt made up 43% of the bank's total liabilities and retail mortgage covered bonds issued by KLP Boligkreditt - 22% of liabilities (Exhibit 8).

In April 2024, KLP Banken launched its fixed-rate retail deposit product, which drove the 12% increase in its total deposit base, to NOK15.8 billion, by the end of the year. As of year-end 2024, total deposits represented 33% of the bank's liabilities.

Exhibit 8

Deposits and covered bonds dominate KLP Banken's funding structure

Funding sources as a percentage of total liabilities, excluding equity



Sources: Moody's Ratings and company reports

We assign a baa3 Liquidity score, reflecting the bank's sizeable liquidity coverage and its large holdings of covered bonds and bonds issued by Norwegian municipalities. While covered bonds are of lower quality than government bonds, there is a limited supply of sovereign debt because of the low debt of the Norwegian state.

KLP Banken's liquid banking assets increased to 17.1% of tangible banking assets by year-end 2024 from 12.1% a year ago, mainly driven by the inflow of fixed-term deposits. As of December 2024, the bank's liquidity coverage ratio was 300%, far exceeding the regulatory requirement of 100%.

Source of facts and figures cited in this report

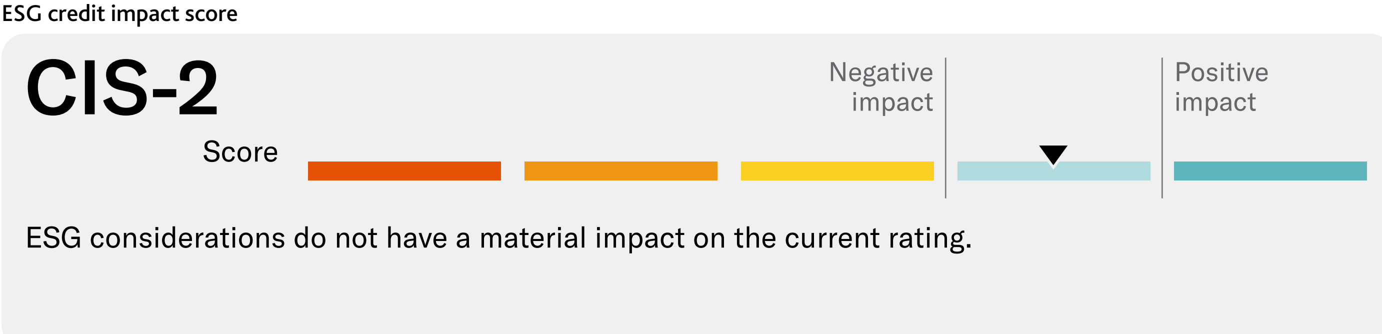
Unless noted otherwise, the bank-specific figures originate from bank's reports and Moody's Banking Financial Metrics. All figures are based on our own chart of accounts and may be adjusted for analytical purposes. Please refer to the document Financial Statement Adjustments in the Analysis of Financial Institutions, published on 8 April 2024.

ESG considerations

KLP Banken AS' ESG credit impact score is CIS-2

Exhibit 9

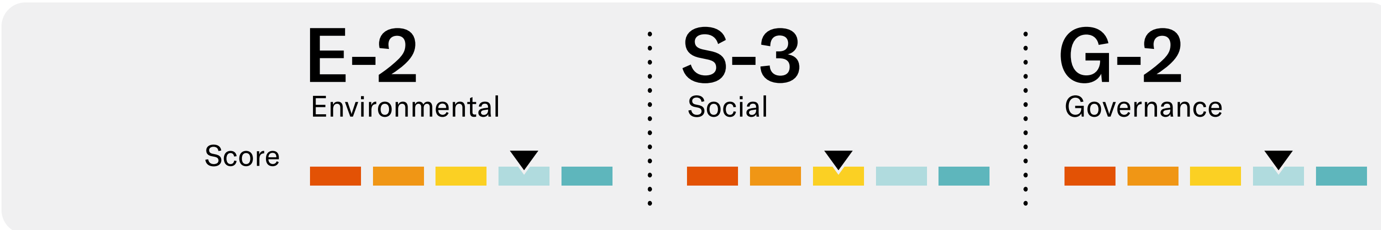
ESG credit impact score



Source: Moody's Ratings

KLP Banken's **CIS-2** indicates that ESG considerations do not have a material impact to the rating to date.

Exhibit 10
ESG issuer profile scores



Source: Moody's Ratings

Environmental

KLP Banken faces low environmental risks, specifically in relation to carbon transition risk. This is because the structure of its loan book, predominantly retail mortgages and public sector lending, with a negligible exposure to corporates which typically carry higher carbon transition risk.

Social

KLP Banken faces moderate exposure to social risks, including and compliance risks in particular in the area of customer relations. A strong conduct track record demonstrates the bank's low risk tolerance and its role to serve the clients of its owner, Kommunal Landspensjonskasse the leading life insurance and pensions provider in Norway, rather than being seen as a profit center for the owners. A well-developed risk management framework also mitigates related risks. The bank is also adapting to changing customer preferences, supported by its owner.

Governance

KLP Banken has low governance risks, reflecting strong governance framework and management policies and procedures that are inline with industry best practices, as evidenced by its good asset quality. Because KLP Banken is fully owned and effectively controlled by the mutual insurance company KLP, we have aligned the subsidiary's board structure, policies and procedures score with that of its ultimate parent, given the bank's strategic importance and public affiliation with the group, the parent's oversight of its subsidiary board and the regulated nature of both entities.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Affiliate support

We assume a very high probability of support from the parent company KLP, in case of need. However, because of the alignment of the bank's BCA of a3 with that of its parent, the affiliate support does not translate into any positive notching, resulting in an Adjusted BCA of a3. We use A3 as an anchor rating for KLP, which is one notch below its insurance financial strength rating of A2, because any potential support to its subsidiaries will be subordinated to the claims of its own policyholders.

Our support considerations are driven by the 100% ownership by KLP; its importance to the group's strategy of providing a complete suite of financial services to its members, and the shared brand name and geographical footprint; and the demonstrated support through ongoing capital injections, the most recent of which was in September 2022, in the amount of NOK300 million.

Loss Given Failure analysis

Norway has transposed the EU Bank Resolution and Recovery Directive (BRRD) into local legislation effective from January 2019 and as such we consider the country an operational resolution regime. In accordance with our methodology, we therefore apply our Advanced LGF analysis, considering the risks faced by different debt and deposit classes across the liability structure should the bank enter resolution.

In our Advanced LGF analysis, we use our standard assumptions and assume residual TCE of 3% and post-failure losses of 8% of tangible banking assets. We also assume a 25% run-off of “junior” wholesale deposits and a 5% run-off in preferred deposits. Moreover, we assign a 25% probability to junior deposits being preferred to senior unsecured debt.

Under these assumptions, for KLP Banken's A3 deposits, our LGF analysis indicates a moderate loss given failure because of the limited volume of senior unsecured debt outstanding and no outstanding junior debt. This leads to no rating uplift for deposits from the bank's a3 Adjusted BCA.

Government support considerations

We do not incorporate any government support uplift on KLP Banken's ratings because the probability of government support, in case of need, is low.

Methodology and scorecard

About Moody's bank scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our Scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 11

KLP Banken AS

Macro Factors							
Weighted Macro Profile	**Very Strong -**	**100%**					
Factor		**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency							
Asset Risk							
Problem Loans / Gross Loans		0.1%	aa1	↔	aa3	Quality of assets	Loan growth
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)		21.7%	aa1	↔	aa2	Expected trend	
Profitability							
Net Income / Tangible Assets		0.4%	baa3	↔	ba1	Expected trend	
Combined Solvency Score			aa3		a1		
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets		33.2%	baa3	↔	baa3	Market funding quality	
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets		12.1%	baa3	↔	baa3	Stock of liquid assets	Expected trend
Combined Liquidity Score			baa3		baa3		
Financial Profile					a3		
Qualitative Adjustments					Adjustment		
Business Diversification					0		
Opacity and Complexity					0		
Corporate Behavior					0		
Total Qualitative Adjustments					0		
Sovereign or Affiliate constraint					Aaa		
BCA Scorecard-indicated Outcome - Range					a2 - baa1		
Assigned BCA					a3		
Affiliate Support notching					-		
Adjusted BCA					a3		

Balance Sheet	**in-scope (NOK Million)**	**% in-scope**	**at-failure (NOK Million)**	**% at-failure**
Other liabilities	32,486	66.4%	33,920	69.3%
Deposits	14,060	28.7%	12,626	25.8%
Preferred deposits	10,405	21.3%	9,885	20.2%
Junior deposits	3,656	7.5%	2,742	5.6%
Senior unsecured bank debt	900	1.8%	900	1.8%
Equity	1,467	3.0%	1,467	3.0%
Total Tangible Banking Assets	48,914	100.0%	48,914	100.0%

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	10.4%	10.4%	10.4%	10.4%	2	2	2	2	0	a1
Counterparty Risk Assessment	10.4%	10.4%	10.4%	10.4%	3	3	3	3	0	aa3 (cr)
Deposits	10.4%	3.0%	10.4%	4.8%	0	1	0	0	0	a3
Senior unsecured bank debt	10.4%	3.0%	4.8%	3.0%	0	-1	0	-	-	-

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	2	0	a1	0	A1	A1
Counterparty Risk Assessment	3	0	aa3 (cr)	0	Aa3(cr)	
Deposits	0	0	a3	0	A3	A3
Senior unsecured bank debt	-	-	-	0	A3	A3

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Ratings

Ratings

Exhibit 12

Category	Moody's Rating
KLP BANKEN AS	
Outlook	Stable
Counterparty Risk Rating	A1/P-1
Bank Deposits	A3/P-2
Baseline Credit Assessment	a3
Adjusted Baseline Credit Assessment	a3
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
Issuer Rating	A3
PARENT: KOMMUNAL LANDSPENSJONSKASSE	
Outlook	Stable
Insurance Financial Strength	A2
Subordinate	Baa1

Source: Moody's Ratings

Endnotes

1 The bank ratings in this report are the bank's senior unsecured debt rating and Baseline Credit Assessment.

REPORT NUMBER 1432766

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