

KLP



# Interim report

KLP KOMMUNEKREDITT AS  
Q3 2017



# Table of contents

KLP KOMMUNEKREDITT

INTERIM FINANCIAL STATEMENTS	3
INCOME STATEMENT	4
BALANCE SHEET	5
STATEMENT OF CHANGES IN EQUITY	6
STATEMENT OF CASH FLOW	7
NOTES TO THE ACCOUNTS	8
— <b>Note 1</b> General information	8
— <b>Note 2</b> Accounting principles	8
— <b>Note 3</b> Net interest income	9
— <b>Note 4</b> Loans to customers	9
— <b>Note 5</b> Categories of financial instruments	10
— <b>Note 6</b> Fair value hierarchy	12
— <b>Note 7</b> Securities liabilities - stock exchange listed covered bonds and certificates	15
— <b>Note 8</b> Liabilities to credit institutions	15
— <b>Note 9</b> Financial assets and liabilities subject to net settlement	16
— <b>Note 10</b> Transactions with related parties	17
— <b>Note 11</b> Other assets	17
— <b>Note 12</b> Other liabilities and provision for accrued costs	17
— <b>Note 13</b> Capital adequacy	18
— <b>Note 14</b> Fixed-income securities	19
— <b>Note 15</b> Contingent liabilities	19
— <b>Note 16</b> Net gain/(loss) on financial instruments	19
— Quarterly earnings trend	19
— Key figures - accumulated	20

# Interim Financial Statements

KLP KOMMUNEKREDITT AS  
Q3 2017

## MAIN FEATURES BY THIRD QUARTER END:

- Stable operating income
- Reduced earnings on financial instruments
- No losses on lending

## OBJECTIVE AND OWNERSHIP

The Company's objective is long-term financing of municipalities, county administrations and companies carrying out public sector assignments. Loans to companies are to be guaranteed by municipalities, county administrations or the central government under Section 50 of the Norwegian Local Government Act. Guarantees are to be of the ordinary surety type covering both repayments and interest. The lending business is principally funded with covered bonds issued.

KLP Kommunekreditt AS is a wholly owned subsidiary of KLP Banken AS. The KLP Banken Group is owned by Kommunal Landspensjonskasse (KLP). KLP Kommunekreditt AS has its head office in Trondheim. The brand name KLP Kommunekreditt is used in marketing to customer groups in the public sector.

## INCOME STATEMENT

Net interest and credit commission revenues in the first three quarters of 2017 were NOK 61.3 million. The corresponding figure last year was NOK 53.9 million. Income effects of financial instruments as at third quarter amounts to a loss of NOK 2.0 million, compared to a profit of NOK 10.9 million last year. Operating expenses in the same period amounted to 12.8 million, the same amount as last year. There have not been any losses or loss provisions made on loans. The Company has a pre-tax profit by third quarter end of NOK 46.5 million. The corresponding profit in 2016 was NOK 52.0 million. The decrease in income is mainly due to increased net interests only partly compensate decrease in gains on financial instruments.

## LENDING

The Company's loans to customers as at 30 September 2017 amounted to NOK 17.0 billion compared to NOK 17.3 billion as at 30 September 2016. The Company's lending is to municipalities, county administrations and local government enterprises.

## BORROWING

The Company's borrowing comprises of covered bonds as well as borrowing from its parent company. New covered bond issues in 2017 amounted to NOK 3.0 billion while re-purchase of own debt amounted to NOK 1.4 billion.

All covered bonds have an AAA rating. The Company occasionally restructures the debt portfolio with the purpose of increasing average maturity. Bond restructuring have caused total accounting losses of NOK 6.9 million by quarter end.

## LIQUIDITY INVESTMENTS

KLP Kommunekreditt AS has strict rules on what assets may be included in the securities holdings. In addition to loans to the public sector the securities holdings comprise secure bonds as well as deposits in other banks. The securities comprise of certificates and bonds of high credit quality, principally investments in covered bonds with AAA rating. As at 30 September 2017, the bond portfolio's market value was NOK 1.4 billion. The net gain associated with market value changes in liquidity investments amounted to NOK 5.0 million by 30 September 2017. Last year, a corresponding gain of NOK 17.3 million was brought to book.

## RISK AND CAPITAL ADEQUACY

KLP Kommunekreditt AS has established a framework for risk management aimed at ensuring that risks are identified, analyzed and subjected to management using policies, limits, procedures and instructions. The Company 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 Company is to have low market risk. Interest and foreign-exchange risk arising within the borrowing and lending activity is reduced using derivatives. The Company is to have responsible long-term financing and limits have been established to ensure that that this objective is achieved. The credit risk in the Company is low and the Company's lending is limited to loans with local government risk. Management of the Company's liquidity is conducted through investments in banks satisfying high credit quality requirements and in securities in accordance with Board-approved credit lines.

At the end of the third quarter 2017, core capital i.a.w. the capital adequacy rules was NOK 711 million. Loans to municipalities and county administrations are risk-weighted by 20 per cent in accordance with the authorities' capital adequacy regulations. KLP Kommunekreditt AS had a core capital adequacy and capital adequacy ratio of 19.0 per cent at the end of the third quarter 2017. The minimum statutory requirement is 15.0 per cent capital adequacy ratio. Leverage ratio was 3.7 per cent.



# Income statement

## KLP KOMMUNEKREDITT AS

NOTE	NOK THOUSANDS	Q3 2017	Q3 2016	01.01.2017 -30.09.2017	01.01.2016 -30.09.2016	01.01.2016 -31.12.2016
	Interest income	100 969	109 915	308 911	329 666	437 565
	Interest expense	-79 156	-92 657	-247 637	-275 751	-369 530
<b>3</b>	<b>Net interest income</b>	<b>21 814</b>	<b>17 258</b>	<b>61 275</b>	<b>53 915</b>	<b>68 034</b>
16	Net gain/(loss) financial instruments	-3 395	2 467	-1 968	10 878	4 070
	<b>Total other operating income</b>	<b>-3 395</b>	<b>2 467</b>	<b>-1 968</b>	<b>10 878</b>	<b>4 070</b>
	Other operating expenses	-3 742	-3 748	-12 847	-12 805	-18 906
	<b>Total operating expenses</b>	<b>-3 742</b>	<b>-3 748</b>	<b>-12 847</b>	<b>-12 805</b>	<b>-18 906</b>
	<b>Operating profit/loss before tax</b>	<b>14 678</b>	<b>15 977</b>	<b>46 461</b>	<b>51 987</b>	<b>53 198</b>
	Tax ordinary income	-3 523	-3 994	-11 151	-12 997	-13 245
	<b>Profit for the period</b>	<b>11 155</b>	<b>11 983</b>	<b>35 310</b>	<b>38 990</b>	<b>39 953</b>
	Other comprehensive income	0	0	0	0	0
	<b>Other comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
	<b>Comprehensive income for the period</b>	<b>11 155</b>	<b>11 983</b>	<b>35 310</b>	<b>38 990</b>	<b>39 953</b>

# Balance sheet

KLP KOMMUNEKREDITT AS

NOTE	NOK THOUSANDS	30.09.2017	30.09.2016	31.12.2016
<b>ASSETS</b>				
	Loans to credit institutions	227 339	464 227	414 803
4	Loans to customers	17 015 335	17 336 300	17 245 853
14	Interest-bearing securities	1 436 385	2 484 784	1 723 589
	Deferred tax assets	0	1 746	0
	Financial derivatives	120 640	131 471	107 927
11	Other assets	5 802	7 858	24 060
<b>Total assets</b>		<b>18 805 502</b>	<b>20 426 387</b>	<b>19 516 233</b>
<b>LIABILITIES AND EQUITY</b>				
<b>LIABILITIES</b>				
8	Debt to credit institutions	425 180	1 621 390	1 170 823
7	Debt securities issued	17 435 752	17 737 730	17 342 542
	Financial derivatives	216 496	309 144	240 602
	Deffered tax liabilities	1 310	0	11 499
12	Other Liabilities	15 125	15 893	4 508
12	Provision for accrued costs and liabilities	963	1 330	4 395
<b>Total liabilities</b>		<b>18 094 827</b>	<b>19 685 485</b>	<b>18 774 369</b>
<b>EQUITY</b>				
	Share capital	362 500	362 500	362 500
	Share premium	312 500	312 500	312 500
	Other owners' eqyity	35 674	65 902	66 864
<b>Total equity</b>		<b>710 674</b>	<b>740 902</b>	<b>741 864</b>
<b>Total liabilities and equity</b>		<b>18 805 502</b>	<b>20 426 387</b>	<b>19 516 233</b>

# Statement of changes in equity

KLP KOMMUNEKREDITT AS

2017 NOK THOUSANDS	Share capital	Share premium	Other equity	Total owners equity
Equity 1 January 2017	362 500	312 500	66 864	741 864
Profit for the period	0	0	35 310	35 310
Other comprehensive income	0	0	0	0
<b>Total comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>35 310</b>	<b>35 310</b>
Dividend paid	0	0	-66 500	-66 500
Group contribution received	0	0	30 565	30 565
Group contribution made	0	0	-30 565	-30 565
<b>Total transactions with the owners</b>	<b>0</b>	<b>0</b>	<b>-66 500</b>	<b>-66 500</b>
<b>Equity 30 September 2017</b>	<b>362 500</b>	<b>312 500</b>	<b>35 674</b>	<b>710 674</b>

2016 NOK THOUSANDS	Share capital	Share premium	Other equity	Total owners equity
Equity 1 January 2016	362 500	312 500	14 216	689 216
Profit for the period	0	0	38 990	38 990
Other comprehensive income	0	0	0	0
<b>Total comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>38 990</b>	<b>38 990</b>
Group contribution received	0	0	47 018	47 018
Group contribution made	0	0	-34 323	-34 323
<b>Total transactions with the owners</b>	<b>0</b>	<b>0</b>	<b>12 695</b>	<b>12 695</b>
<b>Equity 30 September 2016</b>	<b>362 500</b>	<b>312 500</b>	<b>65 902</b>	<b>740 902</b>

2016 NOK THOUSANDS	Share capital	Share premium	Other equity	Total owners equity
Equity 1 January 2016	362 500	312 500	14 216	689 216
Profit for the period	0	0	39 953	39 953
Other comprehensive income	0	0	0	0
<b>Total comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>39 953</b>	<b>39 953</b>
Group contribution received	0	0	47 018	47 018
Group contribution made	0	0	-34 323	-34 323
<b>Total transactions with the owners</b>	<b>0</b>	<b>0</b>	<b>12 695</b>	<b>12 695</b>
<b>Equity 31 December 2016</b>	<b>362 500</b>	<b>312 500</b>	<b>66 864</b>	<b>741 864</b>

# Statement of cash flow

KLP KOMMUNEKREDITT AS

NOK THOUSANDS	01.01.2017 -30.09.2017	01.01.2016 -30.09.2016	01.01.2016 -31.12.2016
<b>OPERATING ACTIVITIES</b>			
Payments received from customers - interest, commission & charges	263 621	259 086	386 298
Net receipts/payments on loans to customers	203 237	-1 775 385	-1 841 054
Payments on operations	-16 786	-12 881	-14 295
Net receipts/payments on other operating activities	6 808	-4 409	4 214
Net interest investment accounts	269	1 513	572
Income tax paid	0	0	0
<b>Net cash flow from operating activities</b>	<b>457 149</b>	<b>-1 532 076</b>	<b>-1 464 265</b>
<b>INVESTMENT ACTIVITIES</b>			
Payments on the purchase of securities	-799 488	-1 697 770	-1 754 141
Receipts on sale of securities	1 093 227	2 366 431	3 170 907
Receipts of interest from securities	15 061	33 219	48 395
<b>Net cash flow from investment activities</b>	<b>308 800</b>	<b>701 880</b>	<b>1 465 162</b>
<b>FINANCING ACTIVITIES</b>			
Disbursements on loans from credit institutions	-3 684 690	-4 048 931	-6 818 669
Receipts on loans from credit institutions	3 000 000	5 100 000	7 100 000
Net payment of interest on loans	-188 008	-206 107	-310 334
Dividend paid	-66 500	0	0
Payment on group contribution	-10 188	0	0
<b>Net cash flows from financing activities</b>	<b>-949 386</b>	<b>844 962</b>	<b>-29 003</b>
<b>Net cash flow during the period</b>	<b>-183 437</b>	<b>14 766</b>	<b>-28 106</b>
Cash and cash equivalents at the start of the period	402 810	430 916	430 916
Cash and cash equivalents at the end of the period	219 373	445 682	402 810
<b>Net receipts/ disbursements (-) of cash</b>	<b>-183 437</b>	<b>14 766</b>	<b>-28 106</b>

# Notes to the accounts

## KLP KOMMUNEKREDITT AS

### NOTE 1 General information

KLP Kommunekreditt AS was formed on 25 August 2009. The company is a credit enterprise that provides or acquires public sector loans that are guaranteed by the Norwegian municipalities. Borrowers provide surety covering both repayments and interest.

The object of the Company is primarily to finance activities by issuing covered bonds with security in public sector guarantees loans. Parts of these loans are listed on Oslo Børs (Stock Exchange).

KLP Kommunekreditt AS is registered and domiciled in Norway. It's head office is at Beddingen 8 in Trondheim. The company is a wholly-owned subsidiary of KLP Banken AS which is in turn wholly-owned by Kommunal Landspensjonskasse (KLP), through KLP Bankholding AS. KLP is a mutual insurance company.

### NOTE 2 ACCOUNTING PRINCIPLES

The interim report includes the interim Financial Statements of KLP Kommunekreditt AS for the period 1 January 2017 – 30 September 2017. The interim Financial Statements have not been audited.

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

There are no changes in the accounting principles in 2017 that have been of significance for the interim Financial Statements following the third quarter. Attention is drawn to KLP Kommunekreditt's Annual Report for 2016 for detailed description of accounting principles.



**NOTE 3** Net interest income

NOK THOUSANDS	01.01.2017 -30.09.2017	01.01.2016 -30.09.2016	01.01.2016 -31.12.2016
Interest on loans to and receivables from credit institutions	3 050	3 083	4 214
Interest on loans to customers	288 562	289 611	387 482
Interest on securities	17 300	36 972	45 869
<b>Total interest income</b>	<b>308 911</b>	<b>329 666</b>	<b>437 565</b>
Interest on covered bonds	242 452	244 293	332 186
Interest on liabilities to KLP Banken AS	6 311	31 400	37 215
Premium/discount on covered bonds	-1 126	58	129
<b>Total interest costs</b>	<b>247 637</b>	<b>275 751</b>	<b>369 530</b>
<b>Net interest income</b>	<b>61 275</b>	<b>53 915</b>	<b>68 034</b>

**NOTE 4** Loans to customers

NOK THOUSANDS	30.09.2017	30.09.2016	31.12.2016
Loans to customers before write-downs	16 764 067	16 978 838	16 987 099
Individual write-downs	0	0	0
Write-downs by group	0	0	0
<b>Loans to customers after write-downs</b>	<b>16 764 067</b>	<b>16 978 838</b>	<b>16 987 099</b>
Accrued interest	97 055	101 456	72 115
Change in fair value due to interest rate changes (fair value hedging)	154 213	256 006	186 640
<b>Loans to customers</b>	<b>17 015 335</b>	<b>17 336 300</b>	<b>17 245 853</b>

All lending comprises loans to, or loans guaranteed by, Norwegian municipalities and county administrations, including loans to local government enterprises and intermunicipal (public sector lending). Guarantees are of the ordinary surety type covering both repayments and interest.

**NOTE 5** Categories of financial instruments

NOK THOUSANDS	30.09.2017		30.09.2016		31.12.2016	
	Capitalized value	Fair value	Capitalized value	Fair value	Capitalized value	Fair value
<b>FINANCIAL ASSETS AT FAIR VALUE HELD FOR TRADING</b>						
Fixed-income securities	1 436 385	1 436 385	2 484 784	2 484 784	1 723 589	1 723 589
<b>Total financial assets at fair value held for trading</b>	<b>1 436 385</b>	<b>1 436 385</b>	<b>2 484 784</b>	<b>2 484 784</b>	<b>1 723 589</b>	<b>1 723 589</b>
<b>FINANCIAL ASSETS AT FAIR VALUE USED FOR TRADING</b>						
Financial derivatives	120 640	120 640	131 471	131 471	107 927	107 927
Lending to Norwegian municipalities	4 704 100	4 740 051	5 406 395	5 418 438	5 164 845	5 186 458
<b>Total financial assets at fair value used for hedging</b>	<b>4 824 740</b>	<b>4 860 691</b>	<b>5 537 866</b>	<b>5 549 909</b>	<b>5 272 772</b>	<b>5 294 385</b>
<b>FINANCIAL ASSETS AT AMORTIZED COST</b>						
Loans to and receivables from credit institutions	227 339	227 339	464 227	464 227	414 803	414 803
Lending to Norwegian municipalities	12 311 235	12 306 405	11 929 905	11 920 512	12 081 008	12 071 700
<b>Total financial assets at amortized cost</b>	<b>12 538 574</b>	<b>12 533 745</b>	<b>12 394 133</b>	<b>12 384 739</b>	<b>12 495 811</b>	<b>12 486 503</b>
<b>Total financial assets</b>	<b>18 799 699</b>	<b>18 830 821</b>	<b>20 416 783</b>	<b>20 419 432</b>	<b>19 492 172</b>	<b>19 504 477</b>
<b>FINANCIAL LIABILITIES AT FAIR VALUE HEDGING</b>						
Covered bonds issued	1 956 227	1 974 699	1 795 507	1 801 241	1 744 658	1 748 349
Financial derivatives	216 496	216 496	309 144	309 144	240 602	240 602
<b>Total financial liabilities at fair value used for hedging</b>	<b>2 172 723</b>	<b>2 191 195</b>	<b>2 104 651</b>	<b>2 110 385</b>	<b>1 985 260</b>	<b>1 988 951</b>
<b>FINANCIAL LIABILITIES AMORTIZED COST</b>						
Liabilities to credit institutions	425 180	425 180	1 621 390	1 621 390	1 170 823	1 170 823
Covered bonds issued	15 479 525	15 561 712	15 942 223	15 980 849	15 597 884	15 980 849
<b>Total financial liabilities at amortized cost</b>	<b>15 904 705</b>	<b>15 986 893</b>	<b>17 563 613</b>	<b>17 602 239</b>	<b>16 768 707</b>	<b>17 151 672</b>
<b>Total financial liabilities</b>	<b>18 077 428</b>	<b>18 178 088</b>	<b>19 668 264</b>	<b>19 712 624</b>	<b>18 753 967</b>	<b>19 140 623</b>

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 Børs (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 generally priced using prices from Nordic Bond Pricing. Those securities that are not included in Nordic Bond Pricing are priced theoretically. In 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

**NOTE 5** Categories of financial instruments continues

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 saving banks, municipalities and energy. Saving 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**

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.

**Fair value of loans to Norwegian local administrations.**

Fair value of lending without fixed interest rates is considered virtually the same as book value since the con-

tract terms are continuously changed in step with market interest rates. Fair value of fixed rate loans is calculated by discounting contractual cash flows by the marked rate including a relevant risk margin on the reporting date.

**Fair value of loans to and receivables from credit institutions**

All receivables from credit institutions (bank deposits) are at variable interest rates. Fair value of these is considered virtually the same as book value since the contract terms are continuously changed in step with market interest rates.

**Fair value of liabilities to credit institutions**

These transactions are valued using a valuation model, including relevant credit spread adjustments obtained from the market.

**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.

**NOTE 6** Fair value hierarchy

30.09.2017 NOK THOUSANDS	Level 1	Level 2	Level 3	Total
<b>ASSETS</b>				
Financial assets recognized at fair value:				
Fixed-income securities	19 985	1 416 401	0	1 436 385
Financial derivatives	0	120 640	0	120 640
<b>Total financial assets recognized at fair value</b>	<b>19 985</b>	<b>1 537 041</b>	<b>0</b>	<b>1 557 025</b>
Financial assets recognized at fair value in Note 5:				
Lending to Norwegian municipalities	0	4 740 051	0	4 740 051
<b>Total financial assets at fair value used for hedging</b>	<b>0</b>	<b>4 740 051</b>	<b>0</b>	<b>4 740 051</b>
Loans to and receivables from credit institutions				
Lending to Norwegian municipalities	0	227 339	0	227 339
Lending to Norwegian municipalities	0	12 306 405	0	12 306 405
<b>Total financial assets at amortized cost</b>	<b>0</b>	<b>12 533 745</b>	<b>0</b>	<b>12 533 745</b>
<b>LIABILITIES</b>				
Financial liabilities recognized at fair value:				
Financial derivatives (liabilities)	0	216 496	0	216 496
<b>Total financial derivatives recognized at fair value</b>	<b>0</b>	<b>216 496</b>	<b>0</b>	<b>216 496</b>
Financial liabilities recognized at fair value in Note 5:				
Covered bonds issued	0	1 974 699	0	1 974 699
<b>Total financial liabilities at fair value used for hedging</b>	<b>0</b>	<b>1 974 699</b>	<b>0</b>	<b>1 974 699</b>
Liabilities to credit institutions				
Covered bonds issued	0	425 180	0	425 180
Covered bonds issued	0	15 561 712	0	15 561 712
<b>Total financial liabilities at amortized cost</b>	<b>0</b>	<b>15 986 893</b>	<b>0</b>	<b>15 986 893</b>

30.09.2016 NOK THOUSANDS	Level 1	Level 2	Level 3	Total
<b>ASSETS</b>				
Financial assets recognized at fair value:				
Fixed-income securities	49 949	2 434 835	0	2 484 784
Financial derivatives	0	131 471	0	131 471
<b>Total financial assets recognized at fair value</b>	<b>49 949</b>	<b>2 566 306</b>	<b>0</b>	<b>2 616 255</b>
Financial assets recognized at fair value in Note 5:				
Lending to Norwegian municipalities	0	5 418 438	0	5 418 438
<b>Total financial assets at fair value used for hedging</b>	<b>0</b>	<b>5 418 438</b>	<b>0</b>	<b>5 418 438</b>
Loans to and receivables from credit institutions				
Lending to Norwegian municipalities	0	464 227	0	464 227
Lending to Norwegian municipalities	0	11 920 512	0	11 920 512
<b>Total financial assets at amortized cost</b>	<b>0</b>	<b>12 384 739</b>	<b>0</b>	<b>12 384 739</b>

## NOTE 6 Fair value hierarchy — continues

30.09.2016 NOK THOUSANDS	Level 1	Level 2	Level 3	Total
<b>LIABILITIES</b>				
Financial liabilities recognized at fair value:				
Financial derivatives (liabilities)	0	309 144	0	309 144
<b>Total financial derivatives recognized at fair value</b>	<b>0</b>	<b>309 144</b>	<b>0</b>	<b>309 144</b>
Financial liabilities recognized at fair value in Note 5:				
Covered bonds issued	0	1 801 241	0	1 801 241
<b>Total financial liabilities at fair value used for hedging</b>	<b>0</b>	<b>1 801 241</b>	<b>0</b>	<b>1 801 241</b>
Liabilities to credit institutions	0	1 621 390	0	1 621 390
Covered bonds issued	0	15 980 849	0	15 980 849
<b>Total financial liabilities at amortized cost</b>	<b>0</b>	<b>17 602 239</b>	<b>0</b>	<b>17 602 239</b>
31.12.2016 NOK THOUSANDS	Level 1	Level 2	Level 3	Total
<b>ASSETS</b>				
Financial assets recognized at fair value:				
Fixed-income securities	49 884	1 673 705	0	1 723 589
Financial derivatives	0	107 927	0	107 927
<b>Total financial assets recognized at fair value</b>	<b>49 884</b>	<b>1 781 632</b>	<b>0</b>	<b>1 831 516</b>
Financial assets recognized at fair value in Note 5:				
Lending to Norwegian municipalities	0	5 186 458	0	5 186 458
<b>Total financial assets at fair value used for hedging</b>	<b>0</b>	<b>5 186 458</b>	<b>0</b>	<b>5 186 458</b>
Loans to and receivables from credit institutions	0	414 803	0	414 803
Lending to Norwegian municipalities	0	12 071 700	0	12 071 700
<b>Total financial assets at amortized cost</b>	<b>0</b>	<b>12 486 503</b>	<b>0</b>	<b>12 486 503</b>
<b>LIABILITIES</b>				
Financial liabilities recognized at fair value:				
Financial derivatives (liabilities)	0	240 602	0	240 602
<b>Total financial derivatives recognized at fair value</b>	<b>0</b>	<b>240 602</b>	<b>0</b>	<b>240 602</b>
Financial liabilities recognized at fair value in Note 5:				
Covered bonds issued	0	1 748 349	0	1 748 349
<b>Total financial liabilities at fair value used for hedging</b>	<b>0</b>	<b>1 748 349</b>	<b>0</b>	<b>1 748 349</b>
Liabilities to credit institutions	0	1 170 823	0	1 170 823
Covered bonds issued	0	15 980 849	0	15 980 849
<b>Total financial liabilities at amortized cost</b>	<b>0</b>	<b>17 151 672</b>	<b>0</b>	<b>17 151 672</b>

**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 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.

There has been no movement between the levels.



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

NOK THOUSANDS	30.09.2017	30.09.2016	31.12.2016
Bond debt, nominal amount	18 532 000	19 985 000	19 985 000
Adjustments	62 968	84 813	67 646
Accrued interest	72 784	62 917	44 896
Own holdings, nominal amount	-1 232 000	-2 395 000	-2 755 000
<b>Total debt securities issued</b>	<b>17 435 752</b>	<b>17 737 730</b>	<b>17 342 542</b>

Interest rate on borrowings through the issuance of securities at the reporting date 1.25% 1.46% 1.52%

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 30.09.2017	Issued	Matured/ redemed	Other adjustments	Balance sheet 31.12.2016
Bond debt, nominal amount	18 532 000	3 000 000	-4 453 000	0	19 985 000
Adjustments	62 968	0	0	-4 678	67 646
Accrued interest	72 784	0	0	27 888	44 896
Own holdings, nominal amount	-1 232 000	0	1 523 000	0	-2 755 000
<b>Total debt securities issued</b>	<b>17 435 752</b>	<b>3 000 000</b>	<b>-2 930 000</b>	<b>23 210</b>	<b>17 342 542</b>

**NOTE 8** Liabilities to credit institutions

30.09.2017 NOK THOUSANDS				
	Due	Nominal	Accrued interest	Book value
Debt to KLP Banken AS	17.12.2018	325 000	170	325 170
Debt to KLP Banken AS	17.12.2018	100 000	10	100 010
<b>Total liabilities to credit institutions</b>				<b>425 180</b>

Interest rate on debt to credit institutions at the reporting date 1.18%

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

30.09.2016 NOK THOUSANDS				
	Due	Nominal	Accrued interest	Book value
Debt to KLP Banken AS	15.12.2017	1 620 000	1 390	1 621 390
<b>Total liabilities to credit institutions</b>				<b>1 621 390</b>

Interest rate on debt to credit institutions at the reporting date 1.93%

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

31.12.2016 NOK THOUSANDS				
	Due	Nominal	Accrued interest	Book value
Debt to KLP Banken AS	15.03.2018	990 000	697	990 697
Debt to KLP Banken AS	15.03.2018	180 000	127	180 127
<b>Total liabilities to credit institutions</b>				<b>1 170 823</b>

Interest rate on debt to credit institutions at the reporting date 1.49%

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

**NOTE 9** Financial assets and liabilities subject to net settlement

30.09.2017 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
<b>ASSETS</b>						
Financial derivatives	120 640	0	120 640	-120 640	0	0
<b>Total</b>	<b>120 640</b>	<b>0</b>	<b>120 640</b>	<b>-120 640</b>	<b>0</b>	<b>0</b>
<b>LIABILITIES</b>						
Financial derivatives	216 496	0	216 496	-120 640	0	95 856
<b>Total</b>	<b>216 496</b>	<b>0</b>	<b>216 496</b>	<b>-120 640</b>	<b>0</b>	<b>95 856</b>

30.09.2016 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
<b>ASSETS</b>						
Financial derivatives	131 471	0	131 471	-131 471	0	0
<b>Total</b>	<b>131 471</b>	<b>0</b>	<b>131 471</b>	<b>-131 471</b>	<b>0</b>	<b>0</b>
<b>LIABILITIES</b>						
Financial derivatives	309 144	0	309 144	-131 471	0	177 673
<b>Total</b>	<b>309 144</b>	<b>0</b>	<b>309 144</b>	<b>-131 471</b>	<b>0</b>	<b>177 673</b>

31.12.2016 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
<b>ASSETS</b>						
Financial derivatives	107 927	0	107 927	-107 927	0	0
<b>Total</b>	<b>107 927</b>	<b>0</b>	<b>107 927</b>	<b>-107 927</b>	<b>0</b>	<b>0</b>
<b>LIABILITIES</b>						
Financial derivatives	240 602	0	240 602	-107 927	0	132 675
<b>Total</b>	<b>240 602</b>	<b>0</b>	<b>240 602</b>	<b>-107 927</b>	<b>0</b>	<b>132 675</b>

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

**NOTE 10** Transactions with related parties

NOK THOUSANDS	01.01.2017 -30.09.2017	01.01.2016 -30.09.2016	01.01.2016 -31.12.2016
<b>INCOME STATEMENT ITEMS</b>			
KLP Banken AS, interest on borrowing	-6 311	-31 400	-37 215
KLP Banken AS, administrative services (at cost)	-10 224	-8 812	-12 830
KLP Kapitalforvaltning AS, fees for services provided	-173	-249	-341
<b>Total</b>	<b>-16 707</b>	<b>-40 462</b>	<b>-50 386</b>

NOK THOUSANDS	30.09.2017	30.09.2016	31.12.2016
<b>FINANCIAL POSITION STATEMENT ITEMS</b>			
KLP Banken AS, debt to credit institutions	-425 180	-1 621 390	-1 170 823
KLP Banken AS, loan settlement	5 802	7 858	24 060
Net outstanding accounts to:			
KLP Banken AS	-3 062	-2 809	-4 018
KLP Kapitalforvaltning AS	-31	-87	-92
<b>Total</b>	<b>-422 471</b>	<b>-1 616 428</b>	<b>-1 150 873</b>

There are no direct salary cost in KLP Kommunekreditt AS. Personnel costs (administrative services) are allocated from KLP Banken AS.

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 11** Other assets

NOK THOUSANDS	30.09.2017	30.09.2016	31.12.2016
Intercompany receivables	5 802	7 858	24 060
Prepaid expenses	0	0	0
<b>Total</b>	<b>5 802</b>	<b>7 858</b>	<b>24 060</b>

**NOTE 12** Other liabilities and provision for accrued costs

NOK THOUSANDS	30.09.2017	30.09.2016	31.12.2016
Creditors	881	0	394
Intercompany payables	3 093	2 896	4 110
Other liabilities	11 152	12 997	4
<b>Total other liabilities</b>	<b>15 125</b>	<b>15 893</b>	<b>4 508</b>
VAT	293	0	264
Accrued expenses	670	1 330	4 131
<b>Total accrued costs and liabilities</b>	<b>963</b>	<b>1 330</b>	<b>4 395</b>

**NOTE 13** Capital adequacy

NOK THOUSANDS	30.09.2017	30.09.2016	31.12.2016
Share capital and share premium fund	675 000	675 000	675 000
Other owners' equity	364	26 911	66 864
<b>Total owners' equity</b>	<b>675 364</b>	<b>701 911</b>	<b>741 864</b>
Interim profit/loss	35 310	38 991	0
Deferred tax asset	0	-1 746	0
<b>Core capital/Tier 1 capital</b>	<b>710 674</b>	<b>739 156</b>	<b>741 864</b>
Supplementary capital/Tier 2 capital	0	0	0
<b>Supplementary capital/Tier 2 capital</b>	<b>0</b>	<b>0</b>	<b>0</b>
Total eligible own funds (Tier 1 and Tier 2 capital)	710 674	739 156	741 864
Capital requirement	299 831	323 991	310 430
<b>Surplus of own funds (Tier 1 and Tier 2 capital)</b>	<b>410 843</b>	<b>415 165</b>	<b>431 434</b>
<b>ESTIMATE BASIS CREDIT RISK:</b>			
Institutions	70 756	131 829	117 712
Local and regional authorities	3 438 699	3 596 362	3 491 045
Covered bonds	130 891	206 299	156 780
<b>Calculation basis credit risk</b>	<b>3 640 346</b>	<b>3 934 490</b>	<b>3 765 537</b>
Credit risk	291 228	314 759	301 243
Operating risk	8 433	9 045	9 045
Credit valuation adjustment	170	187	142
<b>Total capital requirement assets</b>	<b>299 831</b>	<b>323 991</b>	<b>310 430</b>
Core capital adequacy ratio	19.0 %	18.3 %	19.1 %
Supplementary capital ratio	0.0 %	0.0 %	0.0 %
<b>Capital adequacy ratio</b>	<b>19.0 %</b>	<b>18.3 %</b>	<b>19.1 %</b>
<b>Leverage ratio</b>	<b>3.7 %</b>	<b>3.5 %</b>	<b>3.8 %</b>

CAPITAL REQUIREMENT PER 30.09.2017	TIER 1 CAPITAL	TIER 2 CAPITAL	TIER 1 AND TIER 2 CAPITAL
Minimum requirement excl. buffers	4.5 %	3.5 %	8.0 %
Protective buffer	2.5 %	0.0 %	2.5 %
Systemic risk buffer	3.0 %	0.0 %	3.0 %
Counter-cyclical capital buffer	1.5 %	0.0 %	1.5 %
<b>Current capital requirement incl. buffers</b>	<b>11.5 %</b>	<b>3.5 %</b>	<b>15.0 %</b>
<b>Capital requirement leverage ratio</b>	<b>3.0%</b>	<b>0.0%</b>	<b>3.0 %</b>

**NOTE 14** Fixed-income securities

NOK THOUSANDS	30.09.2017		30.09.2016		31.12.2016	
	Acquisition cost	Market value	Acquisition cost	Market value	Acquisition cost	Market value
Certificates	19 973	19 985	260 188	262 084	49 883	49 884
Bonds	1 398 724	1 416 401	2 203 832	2 222 700	1 659 544	1 673 705
<b>Total fixed-income securities</b>	<b>1 418 697</b>	<b>1 436 385</b>	<b>2 464 020</b>	<b>2 484 784</b>	<b>1 709 427</b>	<b>1 723 589</b>

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

**NOTE 15** Contingent liabilities

NOK THOUSANDS	30.09.2017	30.09.2016	31.12.2016
Loan promise	101 371	660 381	206 936
<b>Total contingent liabilities</b>	<b>101 371</b>	<b>660 381</b>	<b>206 936</b>

**NOTE 16** Net gain/(loss) on financial instruments

NOK THOUSANDS	01.01.2017 -30.09.2017	01.01.2016 -30.09.2016	01.01.2016 -31.12.2016
Net gain/(loss) financial derivatives and realized repurchase of own debt	-6 924	-7 256	-13 118
Net gain/(loss) on fixed-income securities	4 957	17 338	15 320
Net gain/(loss) financial derivatives and realized amortization linked to lending	0	795	1 867
<b>Total net gain/(loss) financial instruments</b>	<b>-1 968</b>	<b>10 878</b>	<b>4 070</b>

## Quarterly earnings trend

NOK MILLIONS	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016
Interest income	101.0	103.1	104.8	107.9	109.9
Interest expense	-79.2	-82.2	-86.3	-93.8	-92.7
<b>Net interest income</b>	<b>21.8</b>	<b>20.9</b>	<b>18.5</b>	<b>14.1</b>	<b>17.3</b>
Net gain/ (loss) financial instruments	-3.4	-1.0	2.4	-6.8	2.5
<b>Total other operating income</b>	<b>-3.4</b>	<b>-1.0</b>	<b>2.4</b>	<b>-6.8</b>	<b>2.5</b>
Other operating expenses	-3.7	-4.6	-4.5	-6.1	-3.7
<b>Total operating expenses</b>	<b>-3.7</b>	<b>-4.6</b>	<b>-4.5</b>	<b>-6.1</b>	<b>-3.7</b>
<b>Operating profit/loss before tax</b>	<b>14.7</b>	<b>15.4</b>	<b>16.4</b>	<b>1.2</b>	<b>16.0</b>
Tax ordinary income	-3.5	-3.7	-3.9	-0.3	-4.0
<b>Profit for the period</b>	<b>11.2</b>	<b>11.7</b>	<b>12.5</b>	<b>0.9</b>	<b>12.0</b>

## Key figures - accumulated

NOK MILLIONS	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016
Pre-tax income	465	318	164	532	520
Net interest income	613	395	186	680	539
Other operating income	-	-	-	-	-
Other operating cost and depreciation	-12.8	-91	-4.5	-18.9	-12.8
Net realized/unrealized change fin. Instruments at fair value	-2.0	1.4	2.4	4.1	10.9
Lending with public sector guarantee	17 015.3	17 165.9	17 281.5	17 245.9	17 336.3
Non-performing loans	-	-	-	-	-
Total liabilities created on issuance of securities	17 435.8	17 894.2	17 572.6	17 342.5	17 737.7
Other borrowing	425.2	425.3	525.4	1 170.8	1 621.4
Total assets	18 805.5	19 315.5	19 101.3	19 516.2	20 426.4
Average total assets	19 160.9	19 415.9	19 308.8	19 432.8	19 887.9
Equity	710.7	766.0	754.3	741.9	740.9
Interest net	0.32 %	0.20 %	0.10 %	0.35 %	0.27 %
Profit/loss from ordinary operation before taxes	0.24 %	0.16 %	0.08 %	0.27 %	0.26 %
Return on equity	8.21 %	8.43 %	8.70 %	7.72 %	10.06 %
Capital adequacy ratio	19.0 %	19.9 %	19.4 %	19.1 %	18.3 %
Liquidity coverage ratio (LCR)	348 %	266 %	731 %	1 356 %	270 %





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