



Interim report

KLP KOMMUNEKREDITT AS
Q2 2018



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Interim Financial Statements

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MAIN FEATURES IN THE FIRST HALF YEAR:

- Stable lending volumes
- Satisfactory earnings
- 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, central government or a bank 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 financed by issuing covered bonds.

KLP Kommunekreditt AS is a wholly owned subsidiary of KLP Banken AS. The KLP Banken Group is owned by Kommunal Landspensjonskasse (KLP). The company has its head office in Trondheim.

INCOME STATEMENT

Net interest and credit commission revenues in H1 2018 were NOK 33.3 million. The corresponding figure last year was 39.5 million. Operating expenses in the same period amounted to 8.4 million and 9.1 million last year. The Company has not had any credit losses in H1. The Company has a pre-tax profit by quarter end of NOK 19.3 million. The corresponding profit in 2017 was NOK 31.8 million. The change is mainly due to somewhat lower average lending volumes and lower gains on financial instruments this year.

LENDING

The Company's loans to customers as at 30 June 2018 amounted to NOK 16.2 billion compared to NOK 17.2 billion as at 30 June 2017. 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 H1 2018 amounted to NOK 0.8 billion, while re-purchase of own debt amounted to NOK 1.6 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 6.8 million by the end of H1.

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 comprises of certificates and bonds of high credit quality, principally investments in covered bonds with AAA rating. As at 30 June 2018, the bond portfolio's market value was NOK 1.0 billion. The net gain associated with liquidity investments amounted to NOK 1.3 million in H1 2018. Last year, a corresponding gain of NOK 4.7 million was brought to book.

RISK AND CAPITAL ADEQUACY

The Company 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 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 credit quality requirements and in securities in accordance with Board-approved credit lines.

At the end of the second quarter 2018, core capital i.a.w. the capital adequacy rules was NOK 719.8 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 20.0 per cent at the end of the second quarter 2018, against 19.9 per cent at the same time last year. The minimum statutory requirement is 15.5 per cent capital adequacy ratio. Leverage ratio was 4.0 per cent.

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FUTURE PROSPECTS

Together with KLP, KLP Kommunekreditt has a good position in the market for public lending. Its presence in the market contributes to competition and access to long-term, low-cost financing. High credit quality in the loan portfolios helps KLP Kommunekreditt AS to obtain the most favourable borrowing terms possible.

The market for loans to the municipal sector is still growing and a large portion of the loans taken are financed in the securities market rather than in the financial institutions. KLP Kommunekreditt AS is well capitalised and has an advantage as a stable and long-term lender in the market. In the future, the Company will still be dependent on the general development of the financial markets in order to be able to obtain financing on terms that make it possible to achieve sufficient profitability.

Norwegian municipalities have developed a good and extensive range of services to the population. The combination of increasing longevity and population growth leads us to expect a continued high level of public sector investment needs. It is highly likely that demand

for loans in the municipal sector and for projects with municipal guarantees and ownership will continue to grow in the years ahead, whatever the changes in local government structure or responsibilities.

A large proportion of the municipal authorities' funding will probably derive from the securities market in the future too. The Board of Directors nevertheless assumes that there will still be a need for a significant element of long-term financing over and above what the securities market can offer to public sector borrowers. Due to the increased attention aimed at sustainability and the environment KLP Kommunekreditt wants to be in front by taking social responsibility. For instance by developing and offering financial solutions that will contribute to realising more environmental projects in the public sector.

KLP Kommunekreditt AS will continue to offer loans for investment purposes in the public sector and to maintain a low risk profile. The further growth and development of the Company is largely dependent on obtaining sufficiently good borrowing terms in the market to compete for public sector loans.

Trondheim, 10. August 2018

Sverre Thornes
Chair
(Sign.)

Aage E. Schaanning
Deputy Chair
(Sign.)

Ingrid Aune
(Sign.)

Aud Norunn Strand
(Sign.)

Carl Steinar Lous
Managing Director
(Sign.)

Income statement

KLP KOMMUNEKREDITT AS

NOTE	NOK THOUSANDS	Q2 2018	Q2 2017	01.01.2018 -30.06.2018	01.01.2017 -30.06.2017	01.01.2017 -31.12.2017
	Interest income	92 551	103 097	184 264	207 942	403 726
	Interest expense	-78 115	-82 205	-150 991	-168 481	-321 590
3	Net interest income	14 436	20 891	33 273	39 461	82 135
16	Net gain/(loss) financial instruments	-1 543	-963	-5 593	1 427	-5 006
	Total other operating income	-1 543	-963	-5 593	1 427	-5 006
	Other operating expenses	-3 873	-4 572	-8 422	-9 105	-17 251
	Net loan losses	-2	0	0	0	0
	Total operating expenses	-3 875	-4 572	-8 422	-9 105	-17 251
	Operating profit/loss before tax	9 018	15 356	19 257	31 783	59 878
	Tax ordinary income	-2 074	-3 686	-4 429	-7 628	-14 303
	Profit for the period	6 944	11 671	14 828	24 155	45 575
	Other comprehensive income for the period	0	0	0	0	0
	Comprehensive income for the period	6 944	11 671	14 828	24 155	45 575

Balance sheet

KLP KOMMUNEKREDITT AS

NOTE	NOK THOUSANDS	30.06.2018	30.06.2017	31.12.2017
ASSETS				
	Loans to credit institutions	465 525	561 003	489 485
4	Loans to customers	16 282 191	17 165 853	16 321 451
14	Interest-bearing securities	974 243	1 435 813	1 436 406
	Financial derivatives	90 580	110 064	87 847
11	Other assets	7 350	42 752	3 503
Total assets		17 819 888	19 315 484	18 338 692
LIABILITIES AND EQUITY				
LIABILITIES				
8	Debt to credit institutions	575 299	425 270	275 170
7	Debt securities issued	16 360 267	17 894 237	17 148 732
	Financial derivatives	140 811	215 827	176 243
	Deferred tax liabilities	1 563	1 310	1 563
12	Other Liabilities	5 566	11 367	15 712
12	Provision for accrued costs and liabilities	736	1 454	332
Total liabilities		17 084 242	18 549 465	17 617 753
EQUITY				
	Share capital	362 500	362 500	362 500
	Share premium	312 500	312 500	312 500
	Other owners' eqyity	45 818	66 864	45 939
	Unallocated profit/loss	14 828	24 155	0
Total equity		735 646	766 019	720 939
Total liabilities and equity		17 819 888	19 315 484	18 338 692

Statement of changes in equity

KLP KOMMUNEKREDITT AS

2018 NOK THOUSANDS	Share capital	Share premium	Other equity	Total owners equity
Equity 31 December 2017	362 500	312 500	45 939	720 939
Changes in accounting principles (IFRS 9)	0	0	-121	-121
Equity 1 January 2018	362 500	312 500	45 818	720 818
Profit for the period	0	0	14 828	14 828
Other comprehensive income	0	0	0	0
Total comprehensive income for the period	0	0	14 828	14 828
Group contribution received	0	0	44 491	44 491
Group contribution made	0	0	-44 491	-44 491
Total transactions with the owners	0	0	0	0
Equity 30 June 2018	362 500	312 500	60 646	735 646

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	24 155	24 155
Other comprehensive income	0	0	0	0
Total comprehensive income for the period	0	0	24 155	24 155
Group contribution received	0	0	30 565	30 565
Group contribution made	0	0	-30 565	-30 565
Total transactions with the owners	0	0	0	0
Equity 30 June 2017	362 500	312 500	91 019	766 019

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	45 575	45 575
Other comprehensive income	0	0	0	0
Total comprehensive income for the period	0	0	45 575	45 575
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
Total transactions with the owners	0	0	-66 500	-66 500
Equity 31 December 2017	362 500	312 500	45 939	720 939

Statement of cash flow

KLP KOMMUNEKREDITT AS

NOK THOUSANDS	01.01.2018 -30.06.2018	01.01.2017 -30.06.2017	01.01.2017 -31.12.2017
OPERATING ACTIVITIES			
Payments received from customers - interest, commission & charges	168 846	188 149	383 175
Disbursements on loans customers & credit institutions	-527 058	-477 881	-788 790
Receipts on loans customers & credit institutions	480 362	491 614	1 598 555
Payments on operations	-8 531	-12 799	-24 131
Net receipts/payments on other operating activities	1 170	-73 051	1 160
Net interest investment accounts	110	180	4 282
Income tax paid	0	0	0
Net cash flow from operating activities	114 899	116 212	1 174 251
INVESTMENT ACTIVITIES			
Payments on the purchase of securities	-629 605	-799 843	-943 836
Receipts on sale of securities	1 094 032	1 093 227	1 228 843
Receipts of interest from securities	9 104	10 450	23 698
Net cash flow from investment activities	473 531	303 834	308 705
FINANCING ACTIVITIES			
Receipts on loans from credit institutions	1 388 000	2 000 000	3 517 000
Disbursements on loans from credit institutions	-302 942	-1 948 875	-1 039 193
Expense of interest of loans	-1 569 000	-259 000	-3 525 000
Net payment of interest on loans	-115 265	-130 678	-283 233
Dividend paid	0	0	-66 500
Payment on group contribution	-14 050	-10 188	-10 188
Net cash flows from financing activities	-613 257	-348 741	-1 407 114
Net cash flow during the period	-24 827	71 305	75 842
Cash and cash equivalents at the start of the period	478 652	402 810	402 810
Cash and cash equivalents at the end of the period	453 825	474 115	478 652
Net receipts/ disbursements (-) of cash	-24 827	71 305	75 842

Statement pursuant to section § 5-6 of the securities trading act

KLP KOMMUNEKREDITT AS

We hereby confirm that the half yearly financial statement for the company for the period 1 January through 30 June 2018 to the best of our knowledge have been prepared in accordance with current applicable accounting standards, and give a true and fair view of the assets, liabilities, financial position and profit or loss of the company taken as a whole.

To the best of our knowledge, the half-yearly report gives a true and fair overview of important events that occurred during the accounting period and their impact on the half-yearly financial statement, and a description of the principal risks and uncertainties facing the company over the next accounting period.

Trondheim, 10. August 2018

Sverre Thornes
Chair
(Sign.)

Aage E. Schaanning
Deputy Chair
(Sign.)

Ingrid Aune
(Sign.)

Aud Norunn Strand
(Sign.)

Carl Steinar Lous
Managing Director
(Sign.)

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, and the company has a branch office in Dronning Eufemiasgate 10 in Oslo.

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 2018 – 30 June 2018, specifying the earnings trend in Q2. The interim Financial Statements has not been audited.

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

The company applied the IFRS 9 Financial Instruments Act on January 1, 2018. In KLP Kommunekreditt's annual report for 2017, the consequences of the implementation have been described, and it is referred to this for further information. The annual report is available at klp.no. IFRS 9 does not require recasting of comparative figures from previous periods, and the entity has thus chosen not to revise these.

The other accounting principles used in this interim report are consistent with those used in the annual report for 2017, and we refer to the annual report for a detailed description of these.

NOTE 3 Net interest income

NOK THOUSANDS	Q2 2018		01.01.2018 - 30.06.2018	
	Profit and Loss	Other comprehensive income	Profit and Loss	Other comprehensive income
Interest on financial assets to amortised cost and fair value through profit and loss (hedging)	87 241	0	173 234	0
Interest on financial assets for fair value through profit and loss	5 310	0	11 030	0
Total interest income	92 551	0	184 264	0
Interest on financial assets to amortised cost and fair value through profit and loss (hedging)	-69 056	0	-130 912	0
Interest on financial assets for fair value through profit and loss	-9 059	0	-20 079	0
Total interest costs	-78 115	0	-150 991	0
Net interest income	14 436	0	33 273	0

NOTE 4 Loans to customers

NOK THOUSANDS	30.06.2018	30.06.2017	31.12.2017
Loans to customers before write-downs	16 144 862	16 924 360	16 116 995
Provisions and write-downs	-158	0	0
Loans to customers after write-downs	16 144 704	16 924 360	16 116 995
Accrued interest	67 942	78 157	65 700
Change in fair value due to interest rate changes (fair value hedging)	69 545	163 336	138 756
Loans to customers	16 282 191	17 165 853	16 321 451

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	30.06.2018		01.01.2018	
	Capitalized value	Fair value	Capitalized value	Fair value
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS				
Fixed-income securities	974 243	974 243	1 436 406	1 436 406
Financial derivatives	90 580	90 580	87 847	87 847
Total financial assets at fair value through profit and loss	1 064 823	1 064 823	1 524 253	1 524 253
FINANCIAL ASSETS FAIR VALUE HEDGING				
Lending to Norwegian municipalities	4 070 625	4 123 176	4 355 849	4 396 440
Total financial assets fair value hedging	4 070 625	4 123 176	4 355 849	4 396 440
FINANCIAL ASSETS AT AMORTIZED COST				
Loans to and receivables from credit institutions	465 525	465 525	489 485	489 485
Lending to Norwegian municipalities	12 211 565	12 211 160	11 965 445	11 961 596
Total financial assets at amortized cost	12 677 090	12 676 685	12 454 930	12 451 081
Total financial assets	17 812 538	17 864 683	18 335 032	18 371 774
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS				
Financial derivatives	140 811	140 811	176 243	176 243
Total financial liabilities at fair value through profit and loss	140 811	140 811	176 243	176 243
FINANCIAL LIABILITIES FAIR VALUE HEDGING				
Covered bonds issued	1 908 595	1 930 193	1 921 041	1 945 028
Total financial liabilities fair value hedging	1 908 595	1 930 193	1 921 041	1 945 028
FINANCIAL LIABILITIES AT AMORTIZED COST				
Liabilities to credit institutions	575 299	575 299	275 170	275 170
Covered bonds issued	14 451 673	14 993 171	15 227 691	15 314 224
Total financial liabilities at amortized cost	15 026 972	15 568 470	15 502 861	15 589 394
Total financial liabilities	17 076 377	17 639 474	17 600 145	17 710 665

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 contract 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

30.06.2018 NOK THOUSANDS	Level 1	Level 2	Level 3	Total
ASSETS BOOKED AT FAIR VALUE				
Fixed-income securities	29 961	944 281	0	974 243
Financial derivatives	0	90 580	0	90 580
Total assets at fair value	29 961	1 034 861	0	1 064 823
LIABILITIES BOOKED AT FAIR VALUE				
Financial derivatives (liabilities)	0	140 811	0	140 811
Total financial liabilities at fair value	0	140 811	0	140 811
30.06.2017 NOK THOUSANDS	Level 1	Level 2	Level 3	Total
ASSETS BOOKED AT FAIR VALUE				
Fixed-income securities	19 968	1 415 845	0	1 435 813
Financial derivatives	0	110 064	0	110 064
Total assets at fair value	19 968	1 525 909	0	1 545 877
LIABILITIES BOOKED AT FAIR VALUE				
Financial derivatives (liabilities)	0	215 827	0	215 827
Total financial liabilities at fair value	0	215 827	0	215 827
31.12.2017 NOK THOUSANDS	Level 1	Level 2	Level 3	Total
ASSETS BOOKED AT FAIR VALUE				
Fixed-income securities	19 985	1 416 421	0	1 436 406
Financial derivatives	0	87 847	0	87 847
Total assets at fair value	19 985	1 504 268	0	1 524 253
LIABILITIES BOOKED AT FAIR VALUE				
Financial derivatives (liabilities)	0	176 243	0	176 243
Total financial liabilities at fair value	0	176 243	0	176 243

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 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 consist of debt securities issued and deposits. The stated fair value of these liabilities is determined by methods qualifying for level 2.

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

NOK THOUSANDS	30.06.2018	30.06.2017	31.12.2017
Bond debt, nominal amount	17 825 000	19 874 000	17 946 000
Adjustments	40 778	60 548	61 593
Accrued interest	63 489	60 689	41 139
Own holdings, nominal amount	-1 569 000	-2 101 000	-900 000
Total debt securities issued	16 360 267	17 894 237	17 148 732

Interest rate on borrowings through the issuance of securities at the reporting date: 1.52% 1.34% 1.24%

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 31.12.2017	Issued	Matured/ redemed	Other adjustments	Balance sheet 30.06.2018
Bond debt, nominal amount	17 946 000	800 000	-921 000	0	17 825 000
Adjustments	61 593	0	0	-20 815	40 778
Accrued interest	41 139	0	0	22 350	63 489
Own holdings, nominal amount	-900 000	0	-669 000	0	-1 569 000
Total debt securities issued	17 148 732	800 000	-1 590 000	1 535	16 360 267

NOTE 8 Liabilities to credit institutions

30.06.2018 NOK THOUSANDS				
	Due date	Nominal	Accrued interest	Book value
Debt to KLP Banken AS	16.09.2019	575 000	299	575 299
Total liabilities to credit institutions				575 299

Interest rate on debt to credit institutions at the reporting date: 1.17%

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

30.06.2017 NOK THOUSANDS				
	Due date	Nominal	Accrued interest	Book value
Debt to KLP Banken AS	17.09.2018	425 000	270	425 270
Total liabilities to credit institutions				425 270

Interest rate on debt to credit institutions at the reporting date: 1.46%

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

31.12.2017 NOK THOUSANDS				
	Due date	Nominal	Accrued interest	Book value
Debt to KLP Banken AS	15.03.2019	275 000	170	275 170
Total liabilities to credit institutions				275 170

Interest rate on debt to credit institutions at the reporting date: 1.31%

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

NOTE 9 Financial assets and liabilities subject to net settlement

30.06.2018 NOK THOUSANDS				Related sums that are not presented net		
	Gross financial assets/liabilities	Gross assets/liabilities presented net	Book value	Financial instruments	Security in cash	Net recognised value
ASSETS						
Financial derivatives	90 580	0	90 580	-90 580	0	0
Total	90 580	0	90 580	-90 580	0	0
LIABILITIES						
Financial derivatives	140 811	0	140 811	-90 580	0	50 231
Total	140 811	0	140 811	-90 580	0	50 231

30.06.2017 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
ASSETS						
Financial derivatives	110 064	0	110 064	-110 064	0	0
Total	110 064	0	110 064	-110 064	0	0
LIABILITIES						
Financial derivatives	215 827	0	215 827	-110 064	0	105 763
Total	215 827	0	215 827	-110 064	0	105 763

31.12.2017 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
ASSETS						
Financial derivatives	87 847	0	87 847	-87 847	0	0
Total	87 847	0	87 847	-87 847	0	0
LIABILITIES						
Financial derivatives	176 243	0	176 243	-87 847	0	88 396
Total	176 243	0	176 243	-87 847	0	88 396

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	01.01.2018 -30.06.2018	01.01.2017 -30.06.2017	01.01.2017 -31.12.2017
KLP Banken AS, interest on borrowing	2 126	5 222	7 303
KLP Banken AS, administrative services (at cost)	6 632	7 162	14 392
KLP Kapitalforvaltning AS, fees for services provided	74	142	211

NOK THOUSANDS	30.06.2018	30.06.2017	31.12.2017
BALANCES			
KLP Banken AS, debt to credit institutions	-575 299	-425 270	-275 170
KLP Banken AS, loan settlement	7 350	42 752	3 503
Net outstanding accounts to:			
KLP Banken AS	-984	-3 677	-1 296
KLP Kapitalforvaltning AS	-30	-59	-261

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	30.06.2018	30.06.2017	31.12.2017
Intercompany receivables	7 350	42 752	3 503
Total	7 350	42 752	3 503

NOTE 12 Other liabilities and provision for accrued costs

NOK THOUSANDS	30.06.2018	30.06.2017	31.12.2017
Creditors	120	0	102
Intercompany payables	1 014	3 737	1 558
Tax payable	0	0	14 050
Other liabilities	4 432	7 630	3
Total other liabilities	5 566	11 367	15 712
VAT	0	0	23
Accrued expenses	736	1 454	309
Total accrued costs and liabilities	736	1 454	332

NOTE 13 Capital adequacy

NOK THOUSANDS	30.06.2018	30.06.2017	31.12.2017
Share capital and share premium fund	675 000	675 000	675 000
Other owners' equity	45 818	66 864	45 939
Total owners' equity	720 818	741 864	720 939
Interim Profit qualifying for tier 1 capital	0	24 155	0
Adjustments due to requirements for proper valuation	-974	0	-1 436
Deferred tax asset	0	0	0
Core capital/Tier 1 capital	719 844	766 019	719 503
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)	719 844	766 019	719 503
Capital requirement	287 499	308 003	292 090
Surplus of own funds (Tier 1 and Tier 2 capital)	432 345	458 017	427 413
ESTIMATE BASIS CREDIT RISK:			
Institutions	112 691	142 764	116 167
Local and regional authorities	3 289 495	3 468 752	3 296 369
Covered bonds	84 039	130 880	131 301
Calculation basis credit risk	3 486 225	3 742 396	3 543 837
Credit risk	278 898	299 392	283 507
Operating risk	8 467	8 433	8 433
Credit valuation adjustment	134	179	150
Total capital requirement assets	287 499	308 003	292 090
Core capital adequacy ratio	20.0 %	19.9 %	19.7 %
Supplementary capital ratio	0.0 %	0.0 %	0.0 %
Capital adequacy ratio	20.0 %	19.9 %	19.7 %
Leverage ratio	4.0 %	3.9 %	3.9 %

CAPITAL REQUIREMENT PER 30.06.2018:	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	2.0 %	0.0 %	2.0 %
Current capital requirement incl. buffers	12.0 %	3.5 %	15.5 %
Capital requirement leverage ratio	3.0 %	0.0 %	3.0 %

NOTE 14 Fixed-income securities

NOK THOUSANDS	30.06.2018		30.06.2017		31.12.2017	
	Acquisition cost	Market value	Acquisition cost	Market value	Acquisition cost	Market value
Certificates	29 952	29 961	19 973	19 968	19 992	19 985
Bonds	934 357	944 281	1 398 724	1 415 845	1 403 325	1 416 421
Total fixed-income securities	964 309	974 243	1 418 697	1 435 813	1 423 317	1 436 406

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

NOTE 15 Contingent liabilities

NOK THOUSANDS	30.06.2018	30.06.2017	31.12.2017
Loan promise	122 780	141 771	113 972
Total contingent liabilities	122 780	141 771	113 972

NOTE 16 Net gain/(loss) on financial instruments

NOK THOUSANDS	Q2 2018		01.01.2018 - 30.06.2018	
	Profit and Loss	Other comprehensive income	Profit and Loss	Other comprehensive income
Net gain/(loss) on financial assets at fair value through profit and loss	3 591	0	27 886	0
Net gain/(loss) on financial assets and liabilities, hedge accounting	-3 517	0	-26 647	0
Net gain/(loss) assets at amortised cost	-1 618	0	-6 832	0
Total	-1 543	0	-5 593	0

NOTE 17 Losses on lending

	12-month ECL	Lifetime ECL - not credit-impaired	Lifetime ECL credit-impaired	
NOK THOUSANDS	step 1	step 2	step 3	Total
Opening balance 01.01.2018	158	0	0	158
Transfers to step 1	0	0	0	0
Transfers to step 2	0	0	0	0
Transfers to step 3	0	0	0	0
Net changes	-3	0	0	-3
New losses	8	0	0	8
Derecognised loss	-5	0	0	-5
Closing balance 30.06.2018	158	0	0	158

Quarterly earnings trend

NOK MILLIONS	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017
Interest income	92.6	91.7	94.8	101.0	103.1
Interest expense	-78.1	-72.9	-74.0	-79.2	-82.2
Net interest income	14.4	18.8	20.8	21.8	20.9
Net gain/ (loss) financial instruments	-1.5	-4.1	-3.0	-3.4	-1.0
Total other operating income	-1.5	-4.1	-3.0	-3.4	-1.0
Other operating expenses	-3.9	-4.5	-4.4	-3.7	-4.6
Total operating expenses	-3.9	-4.5	-4.4	-3.7	-4.6
Operating profit/loss before tax	9.0	10.2	13.4	14.7	15.4
Tax ordinary income	-2.1	-2.4	-3.2	-3.5	-3.7
Profit for the period	6.9	7.9	10.3	11.2	11.7

Key figures - accumulated

NOK MILLIONS	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017
Pre-tax income	19.3	10.2	59.9	46.5	31.8
Net interest income	33.3	18.8	82.1	61.3	39.5
Other operating income	-	-	-	-	-
Other operating cost and depreciation	-8.4	-4.5	-17.3	-12.8	-9.1
Net realized/unrealized change fin. Instruments at fair value	-5.6	-4.1	-5.0	-2.0	1.4
Lending with public sector guarantee	16 282.2	16 090.9	16 321.5	17 015.3	17 165.9
Non-performing loans	-	-	-	-	-
Total liabilities created on issuance of securities	16 360.3	16 803.7	17 148.7	17 435.8	17 894.2
Other borrowing	575.3	275.2	275.2	425.2	425.3
Total assets	17 819.9	17 965.6	18 338.7	18 805.5	19 315.5
Average total assets	18 079.3	18 152.1	18 927.5	19 160.9	19 415.9
Equity	735.6	728.7	720.9	710.7	766.0
Interest net	0.18 %	0.10 %	0.43 %	0.32 %	0.20 %
Profit/loss from ordinary operation before taxes	0.11 %	0.06 %	0.32 %	0.24 %	0.16 %
Return on equity	5.24 %	5.68 %	8.07 %	8.09 %	8.30 %
Capital adequacy ratio	200 %	20.2 %	19.4 %	19.0 %	19.9 %
Liquidity coverage ratio (LCR)	771 %	338 %	396 %	348 %	266 %

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