

# Interim report

## Q3 2015

**KLP**  
Kommunekreditt



**INCOME STATEMENT**

**BALANCE SHEET**

**NOTES**



# Contents

Interim Financial Statements 3/2015	3
Income Statement	4
Balance Sheet	5
Statement of owners' equity	6
Statement of cash flows	7
Notes to the accounts	8
Note 1 General information	8
Note 2 Accounting principles	8
Note 3 Net interest income	9
Note 4 Loans to customers	9
Note 5 Fair value of financial assets and liabilities	10
Note 6 Fair value hierarchy	11
Note 7 Securities liabilities – stock exchange listed covered bonds	12
Note 8 Debt to credit institutions	12
Note 9 Presentation of assets and liabilities subject to net settlement	13
Note 10 Transactions with related parties	14
Note 11 Other assets	14
Note 12 Other liabilities and provision for accrued costs	14
Note 13 Capital adequacy	15
Note 14 Fixed income securities	16
Note 15 Contingent liabilities	16
Note 16 Net gain/(loss) on financial instruments	16
Key figures	17
Report on Review of Interim Financial Information	18

## KLP Kommunekreditt AS

# Interim Financial Statements 3 / 2015

### Main features by third quarter end:

- Maintaining healthy margins
- Weaker earnings compared to last year mainly due to financial losses from the liquidity portfolio and repurchase of own debt
- 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 issue of covered bonds.

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 was established in 2009 and 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 2015 were NOK 52.0 million. The corresponding figure last year was 53.1 million. Operating expenses in the same period amounted to NOK 13.9 million and 13.3 million last year. There have not been any losses or loss provisions made on loans. The Company has a pre-tax profit by quarter end of NOK 13.8 million. The corresponding profit in 2014 was NOK 32.1 million. The decrease is mainly due to losses on financial instruments this year.

### Lending

The Company's loans to customers as at 30 September 2015 amounted to NOK 15.8 billion compared to NOK 16.0 billion as at 30 September 2014. 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. Covered bonds totalling NOK 500 million were issued in the third quarter. The Company occasionally restructures the debt portfolio with the purpose of increasing average maturity. Bond restructuring have caused total accounting costs of NOK 4.4 million by the reporting date. All covered bonds have an AAA rating.

### 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. KLP kommunekreditt AS shall have a liquidity buffer to cover all covered bonds maturing within the next 12 months. The securities comprise of certificates and bonds of high credit quality, principally investments in covered bonds with AAA rating. As at 30 September 2015, the bond portfolio's market value was NOK 1.5 billion. The net loss associated with liquidity investments amounted to NOK 21.8 million in the first three quarters of 2015.

### Capital adequacy

At the end of the third quarter 2015, core capital i.a.w. the capital adequacy rules was NOK 675 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 18.8 per cent at the end of the third quarter 2015. The minimum statutory requirement is 11.0 per cent core capital adequacy ratio and 14.5 per cent capital adequacy ratio.

### Other events

Arnulf Arnøy has left his position as CEO in KLP Kommunekreditt AS. Christopher Steen has been appointed new CEO from 13 October 2015.

# Income statement

KLP Kommunekreditt AS

Note	NOK thousands	Q3 2015	Q3 2014	01.01.2015 -30.09.2015	01.01.2014 -30.09.2014	2014
	Interest income	119 387	144 216	371 512	441 807	588 825
	Interest expense	-102 184	-128 103	-319 464	-388 739	-517 168
3	<b>Net interest income</b>	<b>17 203</b>	<b>16 113</b>	<b>52 048</b>	<b>53 068</b>	<b>71 657</b>
16	Net gain/ (loss) financial instruments	-10 726	-13 177	-24 280	-7 737	-15 217
	<b>Total other operating income</b>	<b>-10 726</b>	<b>-13 177</b>	<b>-24 280</b>	<b>-7 737</b>	<b>-15 217</b>
	Other operating expenses	-4 547	-4 750	-13 945	-13 258	-19 927
	<b>Total operating expenses</b>	<b>-4 547</b>	<b>-4 750</b>	<b>-13 945</b>	<b>-13 258</b>	<b>-19 927</b>
	<b>Operating profit/loss before tax</b>	<b>1 930</b>	<b>-1 814</b>	<b>13 823</b>	<b>32 073</b>	<b>36 514</b>
	Tax ordinary income	-522	490	-3 771	-8 660	-9 859
	<b>Profit for the period</b>	<b>1 410</b>	<b>-1 324</b>	<b>10 052</b>	<b>23 413</b>	<b>26 655</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>1 410</b>	<b>-1 324</b>	<b>10 052</b>	<b>23 413</b>	<b>26 655</b>

# Balance sheet

KLP Kommunekreditt AS

Note	NOK thousands	30.09.2015	30.09.2014	31.12.2014
<b>ASSETS</b>				
	Loans to credit institutions	251 274	887 319	444 270
4	Loans to customers	15 807 684	16 044 946	16 338 260
14	Interest-bearing securities	1 497 185	2 721 041	3 076 037
	Financial derivatives	158 134	134 482	158 288
11	Other assets	7 888	69 384	5 498
	<b>TOTAL ASSETS</b>	<b>17 722 167</b>	<b>19 857 173</b>	<b>20 022 354</b>
<b>LIABILITIES AND EQUITY</b>				
<b>LIABILITIES</b>				
8	Debt to credit institutions	2 021 784	2 357 596	2 207 657
7	Debt securities issued	14 600 782	16 209 016	16 642 932
	Financial derivatives	400 599	348 598	420 971
	Deffered tax liabilities	5 554	6 860	16 718
12	Other Liabilities	7 635	209 325	3 982
12	Provision for accrued costs and liabilities	718	366	1 441
	<b>TOTAL LIABILITIES</b>	<b>17 037 071</b>	<b>19 131 761</b>	<b>19 293 701</b>
<b>EQUITY</b>				
	Share capital	362 500	362 500	362 500
	Share premium	312 500	312 500	312 500
	Retained earnings	10 096	50 412	53 653
	<b>TOTAL EQUITY</b>	<b>685 096</b>	<b>725 412</b>	<b>728 653</b>
	<b>TOTAL LIABILITIES AND EQUITY</b>	<b>17 722 167</b>	<b>19 857 173</b>	<b>20 022 354</b>

# Statement of changes in equity

KLP Kommunekreditt AS

NOK thousands	Share capital	Share premium	Retained earnings	Total equity
Equity 1 January 2015	362 500	312 500	53 653	728 653
Profit for the period	0	0	10 052	10 052
Other comprehensive income	0	0	0	0
<b>Total comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>10 052</b>	<b>10 052</b>
Dividend paid	0	0	-28 300	-28 300
Group contribution received	0	0	4 980	4 980
Group contribution made	0	0	-30 290	-30 290
<b>Total transactions with the owners</b>	<b>0</b>	<b>0</b>	<b>-53 610</b>	<b>-53 610</b>
<b>Equity 30 September 2015</b>	<b>362 500</b>	<b>312 500</b>	<b>10 096</b>	<b>685 096</b>
Equity 1 January 2014	362 500	312 500	70 630	745 630
Profit for the period	0	0	23 413	23 413
Other comprehensive income	0	0	0	0
<b>Total comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>23 413</b>	<b>23 413</b>
Group contribution received	0	0	8 500	8 500
Group contribution made	0	0	-52 132	-52 132
<b>Total transactions with the owners</b>	<b>0</b>	<b>0</b>	<b>-43 632</b>	<b>-43 632</b>
<b>Equity 30 September 2014</b>	<b>362 500</b>	<b>312 500</b>	<b>50 412</b>	<b>725 412</b>
Equity 1 January 2014	362 500	312 500	70 630	745 630
Profit for the period	0	0	26 655	26 655
Other comprehensive income	0	0	0	0
<b>Total comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>26 655</b>	<b>26 655</b>
Group contribution received	0	0	8 500	8 500
Group contribution made	0	0	-52 132	-52 132
<b>Total transactions with the owners</b>	<b>0</b>	<b>0</b>	<b>-43 632</b>	<b>-43 632</b>
<b>Equity 31 December 2014</b>	<b>362 500</b>	<b>312 500</b>	<b>53 653</b>	<b>728 653</b>

# Statement of cash flow

KLP Kommunekreditt AS

NOK thousands	01.01.2015 -30.09.2015	01.01.2014 -30.09.2014	2014
<b>OPERATING ACTIVITIES</b>			
Payments received from customers - interest, commission & charges	301 555	351 733	526 170
Net receipts/payments on loans to customers	456 576	844 609	559 178
Payments on operations	-14 328	-15 171	-19 964
Net receipts/payments on other operating activities	9 411	12 003	12 038
Net interest investment accounts	3 968	4 120	12 116
Income tax paid	0	0	0
<b>Net cash flow from operating activities</b>	<b>757 182</b>	<b>1 197 295</b>	<b>1 089 538</b>
<b>INVESTMENT ACTIVITIES</b>			
Payments on the purchase of securities	-528 828	-786 732	-1 531 983
Receipts on sale of securities	2 085 652	1 011 039	1 254 965
Receipts of interest from securities	38 424	44 681	64 201
<b>Net cash flow from investment activities</b>	<b>1 595 248</b>	<b>268 988</b>	<b>-212 817</b>
<b>FINANCING ACTIVITIES</b>			
Net receipts/payments on loans from credit institutions	-2 206 277	-956 903	-676 233
Net payment of interest on loans	-265 998	-399 232	-527 994
Dividend paid	-28 300	0	0
Payment on group contribution	-36 513	-63 906	-63 906
<b>Net cash flows from financing activities</b>	<b>-2 537 090</b>	<b>-1 420 041</b>	<b>-1 268 133</b>
<b>Net cash flow during the period</b>	<b>-184 660</b>	<b>46 243</b>	<b>-391 413</b>
Cash and cash equivalents at the start of the period	428 660	820 072	820 072
Cash and cash equivalents at the end of the period	244 000	866 315	428 660
<b>Net receipts/ disbursements (-) of cash</b>	<b>-184 660</b>	<b>46 243</b>	<b>-391 413</b>

# Notes to the accounts

## 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.

KLP Kommunekreditt AS is registered and domiciled in Norway. Its 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 2015 – 30 September 2015. The Auditor has reviewed the interim Financial Statements of KLP Kommunekreditt AS.

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

There are no changes in the accounting principles in 2015 that have been of significance for the interim Financial Statements following the third quarter. Attention is drawn to KLP Kommunekreditt's Annual Report for 2014 for detailed description of accounting principles.

**Note 3 NET INTEREST INCOME**

NOK thousands	01.01.2015- 30.09.2015	01.01.2014- 30.09.2014	2014
Interest on loans to and receivables from credit institutions	5 042	9 479	12 116
Interest on loans to customers	328 784	386 977	513 766
Interest on securities	37 687	45 351	62 943
<b>Total interest income</b>	<b>371 512</b>	<b>441 807</b>	<b>588 825</b>
Interest on covered bonds	282 063	312 883	455 559
Interest on liabilities to KLP Banken AS	38 320	44 397	59 388
Premium/discount on covered bonds	-919	31 460	2 221
<b>Total interest costs</b>	<b>319 464</b>	<b>388 739</b>	<b>517 168</b>
<b>Net interest income</b>	<b>52 048</b>	<b>53 068</b>	<b>71 657</b>

**Note 4 LOANS TO CUSTOMERS**

NOK thousands	30.09.2015	30.09.2014	31.12.2014
Loans to cutomers before write-downs	15 360 108	15 632 622	15 866 437
Individual write-downs	0	0	0
Write-downs by group	0	0	0
<b>Loans to cutomers after write-downs</b>	<b>15 360 108</b>	<b>15 632 622</b>	<b>15 866 437</b>
Accured interest	117 509	137 928	90 280
Change in fair value due to interest rate changes (fair value hedging)	330 067	274 396	381 544
<b>Loans to customers</b>	<b>15 807 684</b>	<b>16 044 946</b>	<b>16 338 260</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 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES**

NOK thousands	30.09.2015		30.09.2014		31.12.2014	
	Capitalized value	Fair value	Capitalized value	Fair value	Capitalized value	Fair value
<b>FINANCIAL ASSETS AT FAIR VALUE</b>						
Fixed-income securities	1 497 185	1 497 185	2 721 041	2 721 041	3 076 037	3 076 037
Financial derivatives	158 134	158 134	134 482	134 482	158 288	158 288
<b>Total financial assets at fair value</b>	<b>1 655 320</b>	<b>1 655 320</b>	<b>2 855 524</b>	<b>2 855 524</b>	<b>3 234 325</b>	<b>3 234 325</b>
<b>FINANCIAL ASSETS AT FAIR VALUE HEDGING</b>						
Loans to Norwegian local administrations	5 723 470	5 690 836	6 200 960	6 245 930	6 066 133	6 111 821
<b>Total financial assets at fair value hedging</b>	<b>5 723 470</b>	<b>5 690 836</b>	<b>6 200 960</b>	<b>6 245 930</b>	<b>6 066 133</b>	<b>6 111 821</b>
<b>FINANCIAL ASSETS AT AMORTIZED COST</b>						
Loans to and receivables from credit institutions	251 274	251 274	887 319	887 319	444 270	444 270
Loans to Norwegian local administrations	10 084 215	10 076 078	9 843 986	9 835 298	10 272 128	10 262 529
<b>Total financial assets at amortized cost</b>	<b>10 335 489</b>	<b>10 327 352</b>	<b>10 731 305</b>	<b>10 722 617</b>	<b>10 716 398</b>	<b>10 706 799</b>
<b>Total financial assets</b>	<b>17 714 278</b>	<b>17 673 508</b>	<b>19 787 788</b>	<b>19 824 071</b>	<b>20 016 855</b>	<b>20 052 945</b>
<b>FINANCIAL LIABILITIES AT FAIR VALUE</b>						
Financial derivatives	400 599	400 599	348 598	348 598	420 971	420 971
<b>Total financial liabilities at fair value</b>	<b>400 599</b>	<b>400 599</b>	<b>348 598</b>	<b>348 598</b>	<b>420 971</b>	<b>420 971</b>
<b>LIABILITIES TO CREDIT INSTITUTIONS AT FAIR VALUE HEDGING</b>						
Covered bonds issued	1 909 632	1 909 258	2 501 266	2 524 408	2 454 871	2 477 580
<b>Total financial liabilities at fair value hedging</b>	<b>1 909 632</b>	<b>1 909 258</b>	<b>2 501 266</b>	<b>2 524 408</b>	<b>2 454 871</b>	<b>2 477 580</b>
<b>LIABILITIES TO CREDIT INSTITUTIONS AT AMORTIZED COST</b>						
Liabilities to credit institutions	2 021 784	2 021 784	2 357 596	2 357 596	2 207 657	2 207 657
Covered bonds issued	12 691 149	12 657 870	13 707 750	13 781 376	14 188 062	14 251 127
<b>Total financial liabilities at amortized cost</b>	<b>14 712 933</b>	<b>14 679 653</b>	<b>16 065 346</b>	<b>16 138 972</b>	<b>16 395 718</b>	<b>16 458 784</b>
<b>Total financial liabilities</b>	<b>17 023 165</b>	<b>16 989 511</b>	<b>18 915 210</b>	<b>19 011 977</b>	<b>19 271 560</b>	<b>19 357 335</b>

**Fair value** of investments listed in an active market is based on the current sales price. 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 - other than government**

Norwegian fixed-income securities, except government are priced directly on prices from Nordic Bond Pricing. Those securities that are not included in Nordic Bond Pricing are priced theoretically. In theoretical pricing a zero-coupon curve is used as well as yield spread curves for the pricing. Reuters is used as a source for the zero-coupon curve from 0 to 10 years. From 12 years and over, Bloomberg is used as the source since Reuters does not provide prices over 10 years. The yield curve spreads are received from Nordic Bond Pricing. These are based on yield curve spreads collected from several different market operators and converted to an average curve.

**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. Lending with fixed interest is valued using a valuation model, including relevant credit spread adjustments obtained from the market.

**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**

NOK thousands	Level 1	Level 2	Level 3	Total 30.09.2015
<b>ASSETS</b>				
Interest-bearing securities	0	1 497 185	0	1 497 185
Financial derivatives	0	158 134	0	158 134
<b>Total financial assets at fair value</b>	<b>0</b>	<b>1 655 319</b>	<b>0</b>	<b>1 655 319</b>
<b>LIABILITIES</b>				
Financial derivatives	0	400 599	0	400 599
<b>Total financial liabilities at fair value</b>	<b>0</b>	<b>400 599</b>	<b>0</b>	<b>400 599</b>

NOK thousands	Level 1	Level 2	Level 3	Total 30.09.2014
<b>ASSETS</b>				
Interest-bearing securities	0	2 721 041	0	2 721 041
Financial derivatives	0	134 482	0	134 482
<b>Total financial assets at fair value</b>	<b>0</b>	<b>2 855 523</b>	<b>0</b>	<b>2 855 523</b>
<b>LIABILITIES</b>				
Financial derivatives	0	348 598	0	348 598
<b>Total financial liabilities at fair value</b>	<b>0</b>	<b>348 598</b>	<b>0</b>	<b>348 598</b>

NOK thousands	Level 1	Level 2	Level 3	Total 31.12.2014
<b>ASSETS</b>				
Interest-bearing securities	0	3 076 037	0	3 076 037
Financial derivatives	0	158 288	0	158 288
<b>Total financial assets at fair value</b>	<b>0</b>	<b>3 234 325</b>	<b>0</b>	<b>3 234 325</b>
<b>LIABILITIES</b>				
Financial derivatives	0	420 971	0	420 971
<b>Total financial liabilities at fair value</b>	<b>0</b>	<b>420 971</b>	<b>0</b>	<b>420 971</b>

**Fair value** shall be a representative price based on what a corresponding asset or liability would have been traded for at normal market terms and conditions. Highest quality in regard to fair value is based on listed prices in an active market. A financial instrument is considered as listed in an active market if listed prices are simply and regularly available from a stock market, dealer, broker, industry group, price-setting service or regulatory authority, and these prices represent actual and regularly occurring transactions at arm's length.

**Level 1:** Instruments at this level obtain fair value from listed prices in an active market for identical assets or liabilities to which the entity has access at the reporting date. Examples of instruments in Level 1 are stock market listed securities.

**Level 2:** Instruments at this level obtain fair value from observable market data. This includes prices based on identical instruments, but where the instrument does not maintain a high enough trading frequency and is therefore not considered to be traded in an active market, as well as prices based on corresponding assets and price-leading indicators that can be confirmed from market information. Example instruments at Level 2 are fixed-income securities priced on the basis of interest rate paths.

**Level 3:** Instruments at Level 3 contain non-observable market data or are traded in markets considered to be inactive. The price is based generally on discrete calculations where the actual fair value may deviate if the instrument were to be traded.

**Note 7 SECURITIES LIABILITIES - STOCK EXCHANGE LISTED COVERED BONDS**

NOK thousands	30.09.2015	30.09.2014	31.12.2014
Bond debt, nominal amount	14 420 000	16 039 000	16 452 000
Adjustments	124 243	93 756	133 991
Accured interest	56 539	76 260	56 941
<b>Total debt securities issued</b>	<b>14 600 782</b>	<b>16 209 016</b>	<b>16 642 932</b>

NOK thousands	Balance sheet 30.09.2015	Issued	Matured/ redeemed	Other adjustments	Balance sheet 31.12.2014
<b>CHANGES IN DEBT SECURITIES ISSUED</b>					
Bond debt, nominal amount	14 420 000	500 000	-2 532 000	0	16 452 000
Adjustments	124 243	0	0	-9 748	133 991
Accured interest	56 539	0	0	-402	56 941
<b>Total debt securities issued</b>	<b>14 600 782</b>	<b>500 000</b>	<b>-2 532 000</b>	<b>-10 150</b>	<b>16 642 932</b>

**Note 8 LIABILITIES TO CREDIT INSTITUTIONS**

NOK thousands	Due date	Nominal	Accrued interest	30.09.2015 Book value
Debt to KLP Banken AS	15.12.2015	2 005 000	1 782	2 006 782
Debt to KLP Banken AS	15.12.2015	15 000	2	15 002
<b>Total liabilities to credit institutions</b>				<b>2 021 784</b>

NOK thousands	Due date	Nominal	Accrued interest	30.09.2014 Book value
Debt to KLP Banken AS	15.12.2014	2 155 000	2 567	2 157 567
Debt to KLP Banken AS	15.12.2014	200 000	29	200 029
<b>Total liabilities to credit institutions</b>				<b>2 357 596</b>

NOK thousands	Due date	Nominal	Accrued interest	31.12.2014 Book value
Debt to KLP Banken AS	16.03.2015	2 155 000	2 646	2 157 646
Debt to KLP Banken AS	16.03.2015	50 000	11	50 011
<b>Total liabilities to credit institutions</b>				<b>2 207 657</b>

**Note 9 FINANCIAL ASSETS AND LIABILITIES SUBJECT TO NET SETTLEMENT**

NOK thousands	Gross financial assets/ liabilities	Gross assets/ liabilities presented net	Book value	Financial instruments	30.09.2015	
					Related sums that are not presented net Security in cash	Net recognised value
ASSETS						
Financial derivatives	158 134	0	158 134	-158 134	0	0
<b>Total</b>	<b>158 134</b>	<b>0</b>	<b>158 134</b>	<b>-158 134</b>	<b>0</b>	<b>0</b>
LIABILITIES						
Financial derivatives	400 599	0	400 599	-158 134	0	242 465
<b>Total</b>	<b>400 599</b>	<b>0</b>	<b>400 599</b>	<b>-158 134</b>	<b>0</b>	<b>242 465</b>
NOK thousands	Gross financial assets/ liabilities	Gross assets/ liabilities presented net	Book value	Financial instruments	30.09.2014	
					Related sums that are not presented net Security in cash	Net recognised value
ASSETS						
Financial derivatives	134 483	0	134 483	-134 483	0	0
<b>Total</b>	<b>134 483</b>	<b>0</b>	<b>134 483</b>	<b>-134 483</b>	<b>0</b>	<b>0</b>
LIABILITIES						
Financial derivatives	348 598	0	348 598	-134 483	0	214 115
<b>Total</b>	<b>348 598</b>	<b>0</b>	<b>348 598</b>	<b>-134 483</b>	<b>0</b>	<b>214 115</b>
NOK thousands	Gross financial assets/ liabilities	Gross assets/ liabilities presented net	Book value	Financial instruments	31.12.2014	
					Related sums that are not presented net Security in cash	Net recognised value
ASSETS						
Financial derivatives	158 288	0	158 288	-158 288	0	0
<b>Total</b>	<b>158 288</b>	<b>0</b>	<b>158 288</b>	<b>-158 288</b>	<b>0</b>	<b>0</b>
LIABILITIES						
Financial derivatives	420 971	0	420 971	-158 288	0	262 683
<b>Total</b>	<b>420 971</b>	<b>0</b>	<b>420 971</b>	<b>-158 288</b>	<b>0</b>	<b>262 683</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	01.01.2015 -30.09.2015	01.01.2014 -30.09.2014	2014
INCOME STATEMENT ITEMS			
KLP Banken AS, interest on borrowing	-38 320	-44 397	-59 388
KLP Banken AS, administrative services (at cost)	-9 674	-9 068	-12 715
KLP Kapitalforvaltning AS, fees for services provided	-242	-222	-314
<b>TOTAL</b>	<b>-48 236</b>	<b>-53 686</b>	<b>-72 418</b>

NOK thousands	30.09.2015	30.09.2014	31.12.2014
FINANCIAL POSITION STATEMENT ITEMS			
KLP Banken AS, borrowing Group current liabilities	-2 021 784	-2 357 596	-2 207 657
KLP Banken AS, net internal liabilities	-2 995	-2 035	-3 647
KLP Banken AS, loan settlement	7 212	11 202	4 441
KLP Kapitalforvaltning, net internal liabilities	-49	-99	-92
<b>TOTAL</b>	<b>-2 017 616</b>	<b>-2 348 528</b>	<b>-2 206 955</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	30.09.2015	30.09.2014	31.12.2014
Intercompany receivables	7 212	11 202	4 441
Prepaid expenses	676	789	1 057
Other receivables	0	57 393	0
<b>Total</b>	<b>7 888</b>	<b>69 384</b>	<b>5 498</b>

**Note 12** OTHER LIABILITIES AND PROVISION FOR ACCRUED COSTS

NOK thousands	30.09.2015	30.09.2014	31.12.2014
Creditors	856	799	238
Intercompany payables	3 044	2 134	3 740
Short-term liabilities securities	2	196 400	0
Other liabilities	3 733	9 993	4
<b>Total other liabilities</b>	<b>7 635</b>	<b>209 325</b>	<b>3 982</b>
VAT	548	255	220
Accrued expenses	169	110	1 220
<b>Total accrued costs and liabilities</b>	<b>718</b>	<b>365</b>	<b>1 441</b>

**Note 13 CAPITAL ADEQUACY**

NOK thousands	30.09.2015	30.09.2014	31.12.2014
Share capital and share premium fund	675 000	675 000	675 000
Other owners' equity	43	26 999	53 653
<b>Total owners' equity</b>	<b>675 043</b>	<b>701 999</b>	<b>728 653</b>
Interim profit/loss	0	0	0
Deferred tax asset	0	0	0
<b>Core capital/Tier 1 capital</b>	<b>675 043</b>	<b>701 999</b>	<b>728 653</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)	675 043	701 999	728 653
Capital requirement	287 701	313 050	307 281
<b>Surplus of own funds (Tier 1 and Tier 2 capital)</b>	<b>387 342</b>	<b>388 949</b>	<b>421 372</b>
<b>ESTIMATE BASIS CREDIT RISK</b>			
Institutions	83 459	247 014	121 611
Local and regional authorities	3 211 120	3 271 616	3 311 173
Covered bonds	138 470	272 104	285 843
<b>Calculation basis credit risk</b>	<b>3 433 049</b>	<b>3 790 734</b>	<b>3 718 627</b>
Credit risk	274 644	303 259	297 490
Operating risk	13 057	9 791	9 791
<b>Total capital requirement assets</b>	<b>287 701</b>	<b>313 050</b>	<b>307 281</b>
Core capital adequacy ratio	18.8 %	17.9 %	19.0 %
Supplementary capital ratio	0.0 %	0.0 %	0.0 %
<b>Capital adequacy ratio</b>	<b>18.8 %</b>	<b>17.9 %</b>	<b>19.0 %</b>
<b>Leverage ratio</b>	<b>3.8 %</b>		<b>3.6 %</b>
<b>Capital requirement per 30.09.2015</b>			
	<b>Tier 1 capital</b>	<b>Tier 2 capital</b>	<b>Tier 1 and Tier 2 capital</b>
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	1.0 %	0.0 %	1.0 %
<b>Current capital requirement incl. buffers</b>	<b>11.0 %</b>	<b>3.5 %</b>	<b>14.5 %</b>

**Note 14** FIXED-INCOME SECURITIES

NOK thousands	30.09.2015		30.09.2014		31.12.2014	
	Acquisition cost	Market value	Acquisition cost	Market value	Acquisition cost	Market value
Certificates	0	0	200 344	200 525	105 341	105 924
Bonds	1 490 963	1 497 185	2 481 346	2 520 516	2 935 748	2 970 113
<b>Total fixed-income securities</b>	<b>1 490 963</b>	<b>1 497 185</b>	<b>2 681 690</b>	<b>2 721 041</b>	<b>3 041 089</b>	<b>3 076 037</b>

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

**Note 15** CONTINGENT LIABILITIES

NOK thousands	30.09.2015	30.09.2014	31.12.2014
Loan promise	270 856	424 879	184 716
<b>Total contingent liabilities</b>	<b>270 856</b>	<b>424 879</b>	<b>184 716</b>

**Note 16** NET GAIN/(LOSS) ON FINANCIAL INSTRUMENTS

NOK thousands	30.09.2015	30.09.2014	2014
Loss on repurchase of loan	-4 395	-14 842	-21 453
Gain (loss) liquidity portfolio	-21 767	7 105	6 236
Gain (loss) from realization of loans with premium/discount	1 882	0	0
<b>Total net gain/loss fin. Instruments</b>	<b>-24 280</b>	<b>-7 737</b>	<b>-15 217</b>

## Key figures

Accumulated figures in NOK millions	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014
Pre-tax income	13.8	11.9	0.8	36.5	32.1
Net interest income	52.0	34.8	16.9	71.7	53.1
Other operating income	0.0	0.0	0.0	0.0	0.0
Other operating cost and depreciation	-13.9	-9.4	-5.2	-19.9	-13.3
Net realized/unrealized change fin. instruments at fair value	-24.3	-13.6	-10.9	-15.2	-7.7
Lending with public sector guarantee	15 807.7	15 591.0	15 951.1	16 338.3	16 044.9
Non-performing loans	-	-	-	-	-
Total liabilities created on issuance of securities	14 600.8	15 321.5	16 006.5	16 642.9	16 209.0
Other borrowing	2 021.8	2 207.2	2 097.3	2 207.7	2 357.6
Total assets	17 722.2	18 548.8	19 254.8	20 022.4	19 857.2
Average total assets	18 872.3	19 285.6	19 638.6	20 351.3	20 270.1
Equity	685.1	683.7	703.9	728.7	725.4
Interest net	0.28 %	0.18 %	0.09 %	0.35 %	0.26 %
Profit/loss from ordinary operation before taxes	0.07 %	0.06 %	0.00 %	0.18 %	0.16 %
Return on equity	2.02 %	1.74 %	0.11 %	5.01 %	4.43 %
Capital adequacy ratio	18.8 %	18.6 %	18.5 %	19.0 %	17.9 %



To the Board of Directors of KLP Kommunekreditt AS

## **Report on Review of Interim Financial Information**

### *Introduction*

We have reviewed the accompanying balance sheet of KLP Kommunekreditt AS as of 30 September 2015 and the related statements of income, changes in equity and cash flows for the nine-month period then ended. Management is responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review.

### *Scope of Review*

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with standards on auditing adopted by Den Norske Revisorforening, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

Trondheim, 29 October 2015  
**PricewaterhouseCoopers AS**

Rune Kenneth S. Lædre  
State Authorised Public Accountant

Note: This translation from Norwegian has been prepared for information purposes only.



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