




# Interim report

KLP KOMMUNEKREDITT



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## KLP KOMMUNEKREDITT

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# Interim Financial Statements 3/2016

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## MAIN FEATURES BY THIRD QUARTER END:

- Lending volume growth and stable margins
- Improved earnings compared to last year mainly due to financial gains from the liquidity portfolio
- 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). 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 2016 were NOK 53.9 million. The corresponding figure last year was 52.0 million. Operating expenses in the same period amounted to 12.8 million and 13.9 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 52.0 million. The corresponding profit in 2015 was NOK 13.8 million. The increase is mainly due to gains on financial instruments this year.

## LENDING

The Company's loans to customers as at 30 September 2016 amounted to NOK 17.3 billion compared to NOK 15.8 billion as at 30 September 2015. 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 2016 amounted to NOK 5.1 billion while re-purchase of own debt amounted to NOK 3.5 billion. The Company occasionally restructures the debt portfolio with the purpose of increasing average maturity. Bond restructuring have caused total accounting losses of NOK 7.3 million by quarter end. 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. The securities comprise of certificates and bonds of high credit quality, principally investments in covered bonds with AAA rating. As at 30 September 2016, the bond portfolio's market value was NOK 2.5 billion. The net gain associated with liquidity investments amounted to NOK 17.3 million by 30 September 2016. Last year, a corresponding loss of NOK 21.8 million was brought to book.

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## RISK AND CAPITAL ADEQUACY

KLP Kommunekreditt AS is exposed to various types of risk. 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 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. The Company's securities portfolio has high credit quality.

At the end of the third quarter 2016, core capital i.a.w. the capital adequacy rules was NOK 739 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 18.3 per cent at the end of the third quarter 2016. The minimum statutory requirement is 15.0 per cent capital adequacy ratio.

# Income statement

KLP KOMMUNEKREDITT AS

NOTE	NOK THOUSANDS	Q3 2016	Q3 2015	01.01.2016- 30.09.2016	01.01.2015- 30.09.2015	2015
	Interest income	109 915	119 387	329 666	371 512	485 635
	Interest expense	-92 657	-102 184	-275 751	-319 464	-415 784
<b>3</b>	<b>Net interest income</b>	<b>17 259</b>	<b>17 203</b>	<b>53 916</b>	<b>52 048</b>	<b>69 850</b>
16	Net gain/(loss) financial instruments	2 467	-10 726	10 878	-24 280	-29 742
	<b>Total other operating income</b>	<b>2 467</b>	<b>-10 726</b>	<b>10 878</b>	<b>-24 280</b>	<b>-29 742</b>
	Other operating expenses	-3 748	-4 547	-12 805	-13 945	-20 502
	<b>Total operating expenses</b>	<b>-3 748</b>	<b>-4 547</b>	<b>-12 805</b>	<b>-13 945</b>	<b>-20 502</b>
	<b>Operating profit/loss before tax</b>	<b>15 977</b>	<b>1 930</b>	<b>51 988</b>	<b>13 823</b>	<b>19 606</b>
	Tax ordinary income	-3 994	-522	-12 997	-3 771	-5 433
	<b>Profit for the period</b>	<b>11 983</b>	<b>1 410</b>	<b>38 991</b>	<b>10 052</b>	<b>14 173</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>11 983</b>	<b>1 410</b>	<b>38 991</b>	<b>10 052</b>	<b>14 173</b>

# Balance sheet

KLP KOMMUNEKREDITT AS

NOTE	NOK THOUSANDS	30.09.2016	30.09.2015	31.12.2015
<b>ASSETS</b>				
	Loans to credit institutions	464 227	251 274	443 481
4	Loans to customers	17 336 300	15 807 684	15 646 269
14	Interest-bearing securities	2 484 784	1 497 185	3 133 684
	Deferred tax assets	1 746	0	1 746
	Financial derivatives	131 471	158 134	122 900
11	Other assets	7 858	7 888	1 251
	<b>Total assets</b>	<b>20 426 387</b>	<b>17 722 167</b>	<b>19 349 331</b>
<b>LIABILITIES AND EQUITY</b>				
<b>LIABILITIES</b>				
8	Debt to credit institutions	1 621 390	2 021 784	2 181 927
7	Debt securities issued	17 737 730	14 600 782	16 114 897
	Financial derivatives	309 144	400 599	345 305
	Deffered tax liabilities	0	5 554	12 695
12	Other Liabilities	15 893	7 635	4 646
12	Provision for accrued costs and liabilities	1 330	718	646
	<b>Total liabilities</b>	<b>19 685 485</b>	<b>17 037 071</b>	<b>18 660 115</b>
<b>EQUITY</b>				
	Share capital	362 500	362 500	362 500
	Share premium	312 500	312 500	312 500
	Retained earnings	65 902	10 096	14 216
	<b>Total equity</b>	<b>740 902</b>	<b>685 096</b>	<b>689 216</b>
	<b>Total liabilities and equity</b>	<b>20 426 387</b>	<b>17 722 167</b>	<b>19 349 331</b>

# Statement of changes in equity

KLP KOMMUNEKREDITT AS

NOK THOUSANDS	SHARE CAPITAL	SHARE PREMIUM	RETAINED EARNINGS	TOTAL EQUITY
Equity 1 January 2016	362 500	312 500	14 216	689 216
Profit for the period	0	0	38 991	38 991
Other comprehensive income	0	0	0	0
<b>Total comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>38 991</b>	<b>38 991</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>

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>

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	14 173	14 173
Other comprehensive income	0	0	0	0
<b>Total comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>14 173</b>	<b>14 173</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 31 December 2015</b>	<b>362 500</b>	<b>312 500</b>	<b>14 216</b>	<b>689 216</b>

# Statement of cash flow

KLP KOMMUNEKREDITT AS

NOK THOUSANDS	01.01.2016- 30.09.2016	01.01.2015- 30.09.2015	2015
<b>OPERATING ACTIVITIES</b>			
Payments received from customers - interest, commission & charges	259 086	301 555	450 013
Net receipts/payments on loans to customers	-1 775 385	456 576	505 434
Payments on operations	-12 881	-14 328	-20 480
Net receipts/payments on other operating activities	-4 409	9 411	3 046
Net interest investment accounts	1 513	3 968	6 703
Income tax paid	0	0	0
<b>Net cash flow from operating activities</b>	<b>-1 532 076</b>	<b>757 182</b>	<b>944 716</b>
<b>INVESTMENT ACTIVITIES</b>			
Payments on the purchase of securities	-1 697 770	-528 828	-2 355 043
Receipts on sale of securities	2 366 431	2 085 652	2 266 105
Receipts of interest from securities	33 219	38 424	48 428
<b>Net cash flow from investment activities</b>	<b>701 880</b>	<b>1 595 248</b>	<b>-40 510</b>
<b>FINANCING ACTIVITIES</b>			
Net receipts/payments on loans from credit institutions	1 051 069	-2 206 277	-466 261
Net payment of interest on loans	-206 107	-265 998	-370 876
Dividend paid	0	-28 300	-28 300
Payment on group contribution	0	-36 513	-36 513
<b>Net cash flows from financing activities</b>	<b>844 962</b>	<b>-2 537 090</b>	<b>-901 950</b>
<b>Net cash flow during the period</b>	<b>14 766</b>	<b>-184 660</b>	<b>2 256</b>
Cash and cash equivalents at the start of the period	430 916	428 660	428 660
Cash and cash equivalents at the end of the period	445 682	244 000	430 916
<b>Net receipts/ disbursements (-) of cash</b>	<b>14 766</b>	<b>-184 660</b>	<b>2 256</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 whose object is to provide and acquire public sector loans that are guaranteed by the Norwegian state, Norwegian county administrations or Norwegian municipalities. Borrowers provide ordinary surety covering both repayments and interest.

The business is primarily financed by issuing covered bonds (obligasjoner med fortrinnsrett - OMF) with security in public sector guaranteed loans. Some of these are listed on Oslo Børs (Stock Exchange).

KLP Kommunekreditt AS is registered and domiciled in Norway. KLP Kommunekreditt AS has its head office at Beddingen 8 in Trondheim and the Company has departmental offices in Oslo. The Company is a wholly-owned subsidiary of KLP Banken AS, which is in turn wholly owned by Kommunal Landspensjonskasse (KLP) through the holding company, 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 2016 – 30 September 2016. 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 2016 that have been of significance for the interim financial statements following the third quarter. Attention is drawn to KLP Kommunekreditt's annual report for 2015 for detailed description of accounting principles.

The annual report is available at [klp.no](http://klp.no)

**NOTE 3** Net interest income

NOK THOUSANDS	01.01.2016- 30.09.2016	01.01.2015- 30.09.2015	2015
Interest on loans to and receivables from credit institutions	3 083	5 042	6 702
Interest on loans to customers	289 611	328 784	430 665
Interest on securities	36 972	37 687	48 267
<b>Total interest income</b>	<b>329 666</b>	<b>371 512</b>	<b>485 634</b>
Interest on covered bonds	244 293	282 063	368 152
Interest on liabilities to KLP Banken AS	31 400	38 320	48 269
Premium/discount on covered bonds	57	-919	-636
<b>Total interest costs</b>	<b>275 751</b>	<b>319 464</b>	<b>415 784</b>
<b>Net interest income</b>	<b>53 916</b>	<b>52 048</b>	<b>69 850</b>

**NOTE 4** Loans to customers

NOK THOUSANDS	30.09.2016	30.09.2015	31.12.2015
Loans to cutomers before write-downs	16 978 838	15 360 108	15 262 113
Individual write-downs	0	0	0
Write-downs by group	0	0	0
<b>Loans to cutomers after write-downs</b>	<b>16 978 838</b>	<b>15 360 108</b>	<b>15 262 113</b>
Accured interest	101 456	117 509	70 931
Change in fair value due to interest rate changes (fair value hedging)	256 006	330 067	313 225
<b>Loans to customers</b>	<b>17 336 300</b>	<b>15 807 684</b>	<b>15 646 269</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	30.09.2016		30.09.2015		31.12.2015	
	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	2 484 784	2 484 784	1 497 185	1 497 185	3 133 684	3 133 684
<b>Total financial assets at fair value held for trading</b>	<b>2 484 784</b>	<b>2 484 784</b>	<b>1 497 185</b>	<b>1 497 185</b>	<b>3 133 684</b>	<b>3 133 684</b>
<b>FINANCIAL ASSETS AT FAIR VALUE USED FOR HEDGING</b>						
Financial derivatives	131 471	131 471	158 134	158 134	122 900	122 900
Lending to Norwegian municipalities	5 406 395	5 418 438	5 723 470	5 690 836	5 558 168	5 526 008
<b>Total financial assets at fair value used for hedging</b>	<b>5 537 866</b>	<b>5 549 909</b>	<b>5 881 604</b>	<b>5 848 970</b>	<b>5 681 068</b>	<b>5 648 908</b>
<b>FINANCIAL ASSETS AT AMORTIZED COST</b>						
Loans to and receivables from credit institutions	464 227	464 227	251 274	251 274	443 481	443 481
Lending to Norwegian municipalities	11 929 905	11 920 512	10 084 215	10 076 078	10 088 101	10 080 287
<b>Total financial assets at amortized cost</b>	<b>12 394 132</b>	<b>12 384 739</b>	<b>10 335 489</b>	<b>10 327 352</b>	<b>10 531 582</b>	<b>10 523 768</b>
<b>Total financial assets</b>	<b>20 416 783</b>	<b>20 419 432</b>	<b>17 714 277</b>	<b>17 673 508</b>	<b>19 346 334</b>	<b>19 306 361</b>
<b>FINANCIAL LIABILITIES AT FAIR VALUE HEDGING</b>						
Covered bonds issued	1 795 507	1 801 241	1 909 632	1 909 258	1 509 154	1 501 873
Financial derivatives	309 144	309 144	400 599	400 599	345 305	345 305
<b>Total financial liabilities at fair value used for hedging</b>	<b>2 104 650</b>	<b>2 110 384</b>	<b>2 310 231</b>	<b>2 309 857</b>	<b>1 854 459</b>	<b>1 847 177</b>
<b>FINANCIAL LIABILITIES AMORTIZED COST</b>						
Liabilities to credit institutions	1 621 390	1 621 390	2 021 784	2 021 784	2 181 927	2 181 927
Covered bonds issued	15 942 223	15 980 849	12 691 149	12 657 870	14 605 743	14 549 701
<b>Total financial liabilities at amortized cost</b>	<b>17 563 613</b>	<b>17 602 239</b>	<b>14 712 933</b>	<b>14 679 653</b>	<b>16 787 670</b>	<b>16 731 628</b>
<b>Total financial liabilities</b>	<b>19 668 263</b>	<b>19 712 623</b>	<b>17 023 165</b>	<b>16 989 511</b>	<b>18 642 128</b>	<b>18 578 805</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 (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 priced directly on prices from Nordic Bond Pricing. Those securities that are not included in Nordic Bond Pricing are priced theoretically. The theoretical price is based on the assumed present value on the sale of the position. A zero-coupon curve is used for discounting. The zero-coupon curve is adjusted upwards by means of a credit spread, which is to take account of the risk the bond entails. The credit spread is calculated on the basis of a spread curve taking account of the duration of the bond. Nordic Bond Pricing is the main source of spread curves.

**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

NOK THOUSANDS	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL 30.09.2016
<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	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>
<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>

NOK THOUSANDS	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL 30.09.2015
<b>ASSETS</b>				
Financial assets recognized at fair value:				
Fixed-income securities	0	1 497 185	0	1 497 185
Financial derivatives	0	158 134	0	158 134
<b>Total financial assets recognized at fair value</b>	<b>0</b>	<b>1 655 319</b>	<b>0</b>	<b>1 655 319</b>
Financial assets recognized at fair value in Note 5:				
Lending to Norwegian municipalities	0	5 690 836	0	5 690 836
<b>Total financial assets at fair value used for hedging</b>	<b>0</b>	<b>5 690 836</b>	<b>0</b>	<b>5 690 836</b>
Loans to and receivables from credit institutions	0	251 274	0	251 274
Lending to Norwegian municipalities	0	10 076 078	0	10 076 078
<b>Total financial assets at amortized cost</b>	<b>0</b>	<b>10 327 352</b>	<b>0</b>	<b>10 327 352</b>

**NOTE 6** Fair value hierarchy — cont.

NOK THOUSANDS	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL 30.09.2015
<b>LIABILITIES</b>				
Financial liabilities recognized at fair value:				
Financial derivatives (liabilities)	0	400 599	0	400 599
<b>Total financial derivatives recognized at fair value</b>	<b>0</b>	<b>400 599</b>	<b>0</b>	<b>400 599</b>
Financial liabilities recognized at fair value in Note 5:				
Covered bonds issued	0	1 909 258	0	1 909 258
<b>Total financial liabilities at fair value used for hedging</b>	<b>0</b>	<b>1 909 258</b>	<b>0</b>	<b>1 909 258</b>
Liabilities to credit institutions	0	2 021 784	0	2 021 784
Covered bonds issued	0	12 657 870	0	12 657 870
<b>Total financial liabilities at amortized cost</b>	<b>0</b>	<b>14 679 654</b>	<b>0</b>	<b>14 679 654</b>

NOK THOUSANDS	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL 31.12.2015
<b>ASSETS</b>				
Financial assets recognized at fair value:				
Fixed-income securities	0	3 133 684	0	3 133 684
Financial derivatives	0	122 900	0	122 900
<b>Total financial assets recognized at fair value</b>	<b>0</b>	<b>3 256 584</b>	<b>0</b>	<b>3 256 584</b>
Financial assets recognized at fair value in Note 5:				
Lending to Norwegian municipalities	0	5 526 008	0	5 526 008
<b>Total financial assets at fair value used for hedging</b>	<b>0</b>	<b>5 526 008</b>	<b>0</b>	<b>5 526 008</b>
Loans to and receivables from credit institutions	0	443 481	0	443 481
Lending to Norwegian municipalities	0	10 080 287	0	10 080 287
<b>Total financial assets at amortized cost</b>	<b>0</b>	<b>10 523 768</b>	<b>0</b>	<b>10 523 768</b>

**NOTE 6** Fair value hierarchy — cont.

NOK THOUSANDS	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL 31.12.2015
<b>LIABILITIES</b>				
Financial liabilities recognized at fair value:				
Financial derivatives (liabilities)	0	345 305	0	345 305
<b>Total financial derivatives recognized at fair value</b>	<b>0</b>	<b>345 305</b>	<b>0</b>	<b>345 305</b>
Financial liabilities recognized at fair value in Note 5:				
Covered bonds issued	0	1 501 873	0	1 501 873
<b>Total financial liabilities at fair value used for hedging</b>	<b>0</b>	<b>1 501 873</b>	<b>0</b>	<b>1 501 873</b>
Liabilities to credit institutions	0	2 181 927	0	2 181 927
Covered bonds issued	0	14 549 701	0	14 549 701
<b>Total financial liabilities at amortized cost</b>	<b>0</b>	<b>16 731 628</b>	<b>0</b>	<b>16 731 628</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.

There has been no movement between the levels.

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

NOK THOUSANDS	30.09.2016	30.09.2015	31.12.2015
Bond debt, nominal amount	19 985 000	14 420 000	16 055 000
Adjustments	84 813	124 243	106 565
Accrued interest	62 916	56 539	33 332
Own holdings, nominal amount	-2 395 000	0	-80 000
<b>Total debt securities issued</b>	<b>17 737 730</b>	<b>14 600 782</b>	<b>16 114 897</b>

## Changes in debt securities issued

NOK THOUSANDS	BALANCE SHEET 30.09.2016	ISSUED	MATURED/ REDEEMED	OTHER ADJUSTMENTS	BALANCE SHEET 31.12.2015
Bond debt, nominal amount	19 985 000	5 100 000	-1 170 000	0	16 055 000
Adjustments	84 813	0	0	-21 752	106 565
Accrued interest	62 916	0	0	29 584	33 332
Own holdings, nominal amount	-2 395 000	0	-2 315 000	0	-80 000
<b>Total debt securities issued</b>	<b>17 737 730</b>	<b>5 100 000</b>	<b>-3 485 000</b>	<b>7 833</b>	<b>16 114 897</b>

**NOTE 8** Liabilities to credit institutions

NOK THOUSANDS	DUE DATE	NOMINAL	ACCRUED INTEREST	30.09.2016 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>

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	31.12.2015 BOOK VALUE
Debt to KLP Banken AS	15.03.2016	2 100 000	1 885	2 101 885
Debt to KLP Banken AS	15.03.2016	80 000	42	80 042
<b>Total liabilities to credit institutions</b>				<b>2 181 927</b>

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

						30.09.2016	
						RELATED SUMS THAT ARE NOT PRESENTED NET	
NOK THOUSANDS	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>	

						30.09.2015	
						RELATED SUMS THAT ARE NOT PRESENTED NET	
NOK THOUSANDS	GROSS FINANCIAL ASSETS/ LIABILITIES	GROSS ASSETS/ LIABILITIES PRESENTED NET	BOOK VALUE	FINANCIAL INSTRUMENTS	SECURITY IN CASH	NET RECOGNISED VALUE	
<b>ASSETS</b>							
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>	
<b>LIABILITIES</b>							
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>	

						31.12.2015	
						RELATED SUMS THAT ARE NOT PRESENTED NET	
NOK THOUSANDS	GROSS FINANCIAL ASSETS/ LIABILITIES	GROSS ASSETS/ LIABILITIES PRESENTED NET	BOOK VALUE	FINANCIAL INSTRUMENTS	SECURITY IN CASH	NET RECOGNISED VALUE	
<b>ASSETS</b>							
Financial derivatives	122 900	0	122 900	-122 900	0	0	
<b>Total</b>	<b>122 900</b>	<b>0</b>	<b>122 900</b>	<b>-122 900</b>	<b>0</b>	<b>0</b>	
<b>LIABILITIES</b>							
Financial derivatives	345 305	0	345 305	-122 900	0	222 405	
<b>Total</b>	<b>345 305</b>	<b>0</b>	<b>345 305</b>	<b>-122 900</b>	<b>0</b>	<b>222 405</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	01.01.2016- 30.09.2016	01.01.2015- 30.09.2015	2015
<b>INCOME STATEMENT ITEMS</b>			
KLP Banken AS, interest on borrowing	-31 400	-38 320	-48 269
KLP Banken AS, administrative services (at cost)	-8 812	-9 674	-14 168
KLP Kapitalforvaltning AS, fees for services provided	-249	-242	-321
<b>Total</b>	<b>-40 462</b>	<b>-48 236</b>	<b>-62 759</b>

NOK THOUSANDS	30.09.2016	30.09.2015	31.12.2015
<b>FINANCIAL POSITION STATEMENT ITEMS</b>			
KLP Banken AS, debt to credit institutions	-1 621 390	-2 021 784	-2 181 927
KLP Banken AS, loan settlement	7 858	7 212	302
Net outstanding accounts to:			
KLP Banken AS	-2 809	-2 995	-4 494
KLP Kapitalforvaltning AS	-87	-49	-79
<b>Total</b>	<b>-1 616 428</b>	<b>-2 017 616</b>	<b>-2 186 198</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	30.09.2016	30.09.2015	31.12.2015
Intercompany receivables	7 858	7 212	302
Prepaid expenses	0	676	949
<b>Total</b>	<b>7 858</b>	<b>7 888</b>	<b>1 251</b>

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

NOK THOUSANDS	30.09.2016	30.09.2015	31.12.2015
Creditors	0	856	69
Intercompany payables	2 896	3 044	4 573
Other liabilities	12 997	3 735	4
<b>Total other liabilities</b>	<b>15 893</b>	<b>7 635</b>	<b>4 646</b>
VAT	0	548	69
Accrued expenses	1 330	170	577
<b>Total accrued costs and liabilities</b>	<b>1 330</b>	<b>718</b>	<b>646</b>

**NOTE 13** Capital adequacy

NOK THOUSANDS	30.09.2016	30.09.2015	31.12.2015
Share capital and share premium fund	675 000	675 000	675 000
Other owners' equity	26 911	43	14 216
<b>Total owners' equity</b>	<b>701 911</b>	<b>675 043</b>	<b>689 216</b>
Interim profit/loss	38 991	0	0
Deferred tax asset	-1 746	0	-1 746
<b>Core capital/Tier 1 capital</b>	<b>739 156</b>	<b>675 043</b>	<b>687 470</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)	739 156	675 043	687 470
Capital requirement	323 991	287 701	306 812
<b>Surplus of own funds (Tier 1 and Tier 2 capital)</b>	<b>415 165</b>	<b>387 342</b>	<b>380 658</b>
Estimate basis credit risk:			
Institutions	131 829	83 459	122 521
Local and regional authorities	3 596 362	3 211 120	3 320 023
Covered bonds	206 299	138 470	227 784
<b>Calculation basis credit risk</b>	<b>3 934 490</b>	<b>3 433 049</b>	<b>3 670 328</b>
Credit risk	314 759	274 644	293 626
Operating risk	9 045	13 057	13 186
Credit valuation adjustment	187	0	0
<b>Total capital requirement assets</b>	<b>323 991</b>	<b>287 701</b>	<b>306 812</b>
Core capital adequacy ratio	18.3 %	18.8 %	17.9 %
Supplementary capital ratio	0.0 %	0.0 %	0.0 %
<b>Capital adequacy ratio</b>	<b>18.3 %</b>	<b>18.8 %</b>	<b>17.9 %</b>
<b>Leverage ratio</b>	<b>3.5 %</b>	<b>3.8 %</b>	<b>3.5 %</b>

CAPITAL REQUIREMENT PER 30.09.2016	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>

**NOTE 14** Fixed-income securities

NOK THOUSANDS	30.09.2016		30.09.2015		31.12.2015	
	Acquisition cost	Market value	Acquisition cost	Market value	Acquisition cost	Market value
Certificates	260 188	262 084	0	0	745 587	747 238
Bonds	2 203 832	2 222 700	1 490 963	1 497 185	2 385 054	2 386 446
<b>Total fixed-income securities</b>	<b>2 464 020</b>	<b>2 484 784</b>	<b>1 490 963</b>	<b>1 497 185</b>	<b>3 130 641</b>	<b>3 133 684</b>

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

**NOTE 15** Contingent liabilities

NOK THOUSANDS	30.09.2016	30.09.2015	31.12.2015
Loan promise	660 381	270 856	196 015
<b>Total contingent liabilities</b>	<b>660 381</b>	<b>270 856</b>	<b>196 015</b>

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

NOK THOUSANDS	01.01.2016- 30.09.2016	01.01.2015- 30.09.2015	2015
Net gain/(loss) financial derivatives and realized repurchase of own debt	-7 256	-4 395	-5 051
Net gain/(loss) on fixed-income securities	17 338	-21 767	-27 160
Net gain/(loss) financial derivatives and realized amortization linked to lending	795	1 882	2 470
<b>Total net gain/(loss) financial instruments</b>	<b>10 878</b>	<b>-24 280</b>	<b>-29 742</b>

## Quarterly earnings trend

NOK MILLIONS	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015
Interest income	109.9	109.0	110.7	114.1	119.4
Interest expense	-92.7	-91.2	-91.9	-96.3	-102.2
<b>Net interest income</b>	<b>17.3</b>	<b>17.8</b>	<b>18.8</b>	<b>17.8</b>	<b>17.2</b>
Net gain/ (loss) financial instruments	2.5	5.1	3.3	-5.5	-10.7
<b>Total other operating income</b>	<b>2.5</b>	<b>5.1</b>	<b>3.3</b>	<b>-5.5</b>	<b>-10.7</b>
Other operating expenses	-3.7	-4.1	-4.9	-6.6	-4.5
<b>Total operating expenses</b>	<b>-3.7</b>	<b>-4.1</b>	<b>-4.9</b>	<b>-6.6</b>	<b>-4.5</b>
<b>Operating profit/loss before tax</b>	<b>16.0</b>	<b>18.8</b>	<b>17.2</b>	<b>5.8</b>	<b>1.9</b>
Tax ordinary income	-4.0	-4.7	-4.3	-1.7	-0.5
<b>Profit for the period</b>	<b>12.0</b>	<b>14.1</b>	<b>12.9</b>	<b>4.1</b>	<b>1.4</b>

## Key figures

ACCUMULATED FIGURES IN NOK MILLIONS	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015
Pre-tax income	52.0	36.0	17.2	196	13.8
Net interest income	53.9	36.7	18.9	69.9	52.0
Other operating income	0.0	0.0	0.0	0.0	0.0
Other operating cost and depreciation	-12.8	-9.1	-4.9	-20.5	-13.9
Net realized/unrealized change fin. Instruments at fair value	10.9	8.4	3.3	-29.7	-24.3
Lending with public sector guarantee	17 336.3	16 047.5	15 782.9	15 646.3	15 807.7
Non-performing loans	-	-	-	-	-
Total liabilities created on issuance of securities	17 737.7	16 833.0	15 249.4	16 114.9	14 600.8
Other borrowing	1 621.4	2 041.7	2 832.4	2 181.9	2 021.8
Total assets	20 426.4	19 971.9	19 183.7	19 349.3	17 722.2
Average total assets	19 887.9	19 660.6	19 266.5	19 685.8	18 872.3
Equity	740.9	728.9	714.8	689.2	685.1
Interest net	0.27 %	0.19 %	0.10 %	0.36 %	0.28 %
Profit/loss from ordinary operation before taxes	0.26 %	0.18 %	0.09 %	0.10 %	0.07 %
Return on equity	7.02 %	4.94 %	2.41 %	2.84 %	2.02 %
Capital adequacy ratio	18.3 %	17.8 %	18.6 %	17.9 %	18.8 %
Liquidity coverage ratio (LCR)	270 %	279 %	579 %	356 %	447 %



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