

KLP



Interim report

KLP KOMMUNEKREDITT AS
Q3 2018

Table of contents

INCOME STATEMENT	4
BALANCE SHEET	5
STATEMENT OF CHANGES IN EQUITY	6
STATEMENT OF CASH FLOW	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 Categories of financial instruments	10
NOTE 6 Fair value hierarchy	12
NOTE 7 Securities liabilities - stock exchange listed covered bonds and certificates	13
NOTE 8 Liabilities to credit institutions	14
NOTE 9 Financial assets and liabilities subject to net settlement	15
NOTE 10 Transactions with related parties	16
NOTE 11 Other assets	16
NOTE 12 Other liabilities and provision for accrued costs	16
NOTE 13 Capital adequacy	17
NOTE 14 Fixed-income securities	18
NOTE 15 Contingent liabilities	18
NOTE 16 Net gain/(loss) on financial instruments	18
NOTE 17 Losses on lending	18
Quarterly earnings trend	19
Key figures - accumulated	19

Interim Financial Statements

KLP KOMMUNEKREDITT AS

Main features by third quarter end:

- Stable lending growth
- Reduced operating costs
- No losses on lending

OBJECTIVE AND OWNERSHIP

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

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

INCOME STATEMENT

Net interest and credit commission revenues in the first three quarters of 2018 were NOK 50.9 million. The corresponding figure last year was NOK 61.3 million. Income effects of financial instruments as at third quarter amounts to a loss of NOK 6.7 million, compared to a loss of NOK 2.0 million last year. Operating expenses in the same period amounted to 11.3 million, which is a reduction of NOK 1.5 million compared to last year. There have not been any losses or significant loss provisions made on loans as a result of the implementation of the Accounting Standard IFRS9 Financial Instruments from January 2018. The Company has a pre-tax profit by third quarter end of NOK 32.9 million. The corresponding profit in 2017 was NOK 46.5 million. The decrease is mainly due to a lower average lending volume compared to last year, some reduction in the lending margins and increased loss on financial instruments.

LENDING

The Company's loans to customers as at 30 September 2018 amounted to NOK 16.2 billion compared to NOK 17.0 billion as at 30 September 2017. The Company's lending is to municipalities, county administrations and local government enterprises. Loans to enterprises have public surety guarantees.

BORROWING

The Company's borrowing comprises of covered bonds as well as borrowing from its parent company. New covered

bond issues in 2018 amounted to NOK 0.8 billion while repurchase of own debt amounted to NOK 0.9 billion. All covered bonds have an AAA rating.

The Company occasionally restructures the debt portfolio with the purpose of increasing average maturity. This may cause either profit or loss. Bond restructuring have caused total accounting losses of NOK 7.1 million by quarter end.

LIQUIDITY INVESTMENTS

KLP Kommunekreditt AS has strict rules on what assets may be included in the securities holdings. In addition to loans to the public sector the securities holdings comprise secure bonds as well as deposits in other banks. The securities comprise of certificates and bonds of high credit quality, principally investments in covered bonds with AAA rating. As at 30 September 2018, the bond portfolio's market value was NOK 1.1 billion. The net gain associated with market value changes in liquidity investments amounted to NOK 0.4 million by 30 September 2018. Last year, a corresponding gain of NOK 5.0 million was brought to book.

RISK AND CAPITAL ADEQUACY

KLP Kommunekreditt AS has established a framework for risk management aimed at ensuring that risks are identified, analyzed and subject 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 high credit quality requirements and in securities in accordance with Board-approved credit lines.

At the end of the third quarter 2018, core capital i.a.w. the capital adequacy rules was NOK 720 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 third quarter 2018, compared to 19.0 per cent at the end of the third quarter last year. The minimum statutory requirement is 15.5 per cent capital adequacy ratio. Leverage ratio was 4.0 per cent. The minimum statutory requirement is 3.0 per cent leverage ratio.

Income statement

KLP KOMMUNEKREDITT AS

NOTE	NOK THOUSANDS	Q3 2018	Q3 2017	01.01.2018 -30.09.2018	01.01.2017 -30.09.2017	01.01.2017 -31.12.2017
	Interest income	93 524	100 970	277 788	308 911	403 726
	Interest expense	-75 903	-79 156	-226 894	-247 637	-321 590
3	Net interest income	17 621	21 814	50 893	61 275	82 135
16	Net gain/(loss) financial instruments	-1 125	-3 395	-6 719	-1 968	-5 006
	Total other operating income	-1 125	-3 395	-6 719	-1 968	-5 006
	Other operating expenses	-2 880	-3 741	-11 302	-12 847	-17 251
	Net loan losses	1	0	1	0	0
	Total operating expenses	-2 879	-3 741	-11 302	-12 847	-17 251
	Operating profit/loss before tax	13 616	14 678	32 873	46 461	59 878
	Tax ordinary income	-3 132	-3 523	-7 561	-11 151	-14 303
	Profit for the period	10 484	11 155	25 312	35 310	45 575
	Other comprehensive income for the period	0	0	0	0	0
	Comprehensive income for the period	10 484	11 155	25 312	35 310	45 575

Balance sheet

KLP KOMMUNEKREDITT AS

NOTE	NOK THOUSANDS	30.09.2018	30.09.2017	31.12.2017
ASSETS				
5	Loans to credit institutions	557 024	227 339	489 485
4,5	Loans to customers	16 206 134	17 015 335	16 321 451
5,6,14	Interest-bearing securities	1 011 780	1 436 385	1 436 406
5,6	Financial derivatives	98 997	120 640	87 847
11	Other assets	5 798	5 802	3 503
Total assets		17 879 731	18 805 501	18 338 692
LIABILITIES AND OWNERS EQUITY				
LIABILITIES				
5,8	Debt to credit institutions	475 227	425 180	275 170
5,7	Debt securities issued	16 510 840	17 435 752	17 148 732
5,6	Financial derivatives	136 482	216 496	176 243
	Deferred tax liabilities	1 563	1 310	1 563
12	Other liabilities	8 597	15 125	15 712
12	Provision for accrued costs and liabilities	891	963	332
Total liabilities		17 133 601	18 094 827	17 617 753
EQUITY				
	Share capital	362 500	362 500	362 500
	Share premium	312 500	312 500	312 500
	Other owners' equity	45 818	364	45 939
	Unallocated profit/loss	25 312	35 310	0
Total owners' equity		746 130	710 674	720 939
Total liabilities and equity		17 879 731	18 805 501	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	25 312	25 312
Other comprehensive income	0	0	0	0
Total comprehensive income for the period	0	0	25 312	25 312
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 September 2018	362 500	312 500	71 130	746 130

2017 NOK THOUSANDS	Share capital	Share premium	Other equity	Total owners' equity
Equity 1 January 2017	362 500	312 500	66 864	741 864
Profit for the period	0	0	35 310	35 310
Other comprehensive income	0	0	0	0
Total comprehensive income for the period	0	0	35 310	35 310
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 30 September 2017	362 500	312 500	35 674	710 674

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 -30.09.2018	01.01.2017 -30.09.2017	01.01.2017 -31.12.2017
OPERASJONELLE AKTIVITETER			
Payments received from customers - interest, commission & charges	238 306	263 621	383 175
Disbursements on loans customers & credit institutions	-782 726	-566 022	-788 790
Receipts on loans customers & credit institutions	804 878	769 259	1 598 555
Net receipts/disbursements on operations	-11 350	-16 786	-24 131
Net receipts/disbursements from operating activities	170	6 808	1 160
Net interest investment accounts	175	269	4 282
Income tax paid	0	0	0
Net cash flow from operating activities	249 453	457 149	1 174 251
INVESTMENT ACTIVITIES			
Payments on the purchase of securities	-797 614	-799 488	-943 836
Receipts on sale of securities	1 224 148	1 093 227	1 228 843
Receipts of interest from securities	12 941	15 061	23 698
Net cash flow from investment activities	439 475	308 800	308 705
FINANCING ACTIVITIES			
Receipts on loans from credit institutions	2 100 000	3 000 000	3 517 000
Disbursements on loans from credit institutions	-309 971	-1 262 690	-1 039 193
Expense of interest of loans	-2 231 000	-2 422 000	-3 525 000
Net payment of interest on loans	-169 496	-188 008	-283 233
Dividend paid	0	-66 500	-66 500
Payment on group contribution	-14 050	-10 188	-10 188
Net cash flows from financing activities	-624 517	-949 386	-1 407 114
Net cash flow during the period	64 411	-183 437	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	543 063	219 373	478 652
Net receipts/ disbursements of cash	64 411	-183 437	75 842

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 September 2018, specifying the earnings trend in Q3. 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	Q3 2018	01.01.2018 -30.09.2018
	Profit and Loss	Profit and Loss
Interest on financial assets to amortised cost and fair value through profit and loss (hedging)	88 897	262 131
Interest on financial assets for fair value through profit and loss	4 627	15 657
Total interest income	93 524	277 788
Interest on liabilities to amortised cost and fair value through profit and loss (hedging)	-67 008	-197 920
Interest on liabilities for fair value through profit and loss	-8 895	-28 974
Total interest costs	-75 903	-226 894
Net interest income	17 621	50 893

NOTE 4 Loans to customers

NOK THOUSANDS	30.09.2018	30.09.2017	31.12.2017
Loans to customers before write-downs	16 072 715	16 780 572	16 131 498
Provisions and write-downs	-157	0	0
Loans to customers after write-downs	16 072 558	16 780 572	16 131 498
Accrued interest	86 052	97 055	65 700
Change in fair value to interest rate changes (fair value hedging)	47 524	137 707	124 253
Loans to customers	16 206 134	17 015 335	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	30.09.2018		01.01.2018	
	Capitalized value	Fair value	Capitalized value	Fair value
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS				
Fixed-income securities	1 011 780	1 011 780	1 436 406	1 436 406
Financial derivatives	98 997	98 997	87 847	87 847
Total financial assets at fair value through profit and loss	1 110 776	1 110 776	1 524 253	1 524 253
FINANCIAL ASSETS FAIR VALUE HEDGING				
Lending to Norwegian municipalities	3 941 190	3 986 380	4 355 849	4 396 440
Total financial assets fair value hedging	3 941 190	3 986 380	4 355 849	4 396 440
FINANCIAL ASSETS AT AMORTIZED COST				
Loans to and receivables from credit institutions	557 024	557 024	489 485	489 485
Lending to Norwegian municipalities	12 264 944	12 253 256	11 965 445	11 961 596
Total financial assets at amortized cost	12 821 967	12 810 279	12 454 930	12 451 081
Total financial assets	17 873 934	17 907 436	18 335 032	18 371 774
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS				
Financial derivatives	136 482	136 482	176 243	176 243
Total financial liabilities at fair value through profit and loss	136 482	136 482	176 243	176 243
FINANCIAL LIABILITIES FAIR VALUE HEDGING				
Covered bonds issued	1 909 577	1 929 835	1 921 041	1 945 028
Total financial liabilities fair value hedging	1 909 577	1 929 835	1 921 041	1 945 028
FINANCIAL LIABILITIES AT AMORTIZED COST				
Liabilities to credit institutions	475 227	475 227	275 170	275 170
Covered bonds issued	14 601 263	14 993 171	15 227 691	15 314 224
Total financial liabilities at amortized cost	15 076 490	15 468 398	15 502 861	15 589 394
Total financial liabilities	17 122 550	17 534 715	17 600 145	17 710 665

NOTE 5 Categories of financial instruments (continues)

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 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. 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 mainsource 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 marked 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 covered bonds

Fair value in this category is determined on the basis of internal valuation models based on external observable data.

NOTE 6 Fair value hierarchy

30.09.2018 NOK THOUSANDS	Level 1	Level 2	Level 3	Total
ASSETS BOOKED AT FAIR VALUE				
Fixed-income securities	29 954	981 825	0	1 011 780
Financial derivatives	0	98 997	0	98 997
Total assets at fair value	29 954	1 080 822	0	1 110 776
LIABILITIES BOOKED AT FAIR VALUE				
Financial derivatives (liabilities)	0	136 482	0	136 482
Total financial liabilities at fair value	0	136 482	0	136 482

30.09.2017 NOK THOUSANDS	Level 1	Level 2	Level 3	Total
ASSETS BOOKED AT FAIR VALUE				
Fixed-income securities	19 984	1 416 401	0	1 436 385
Financial derivatives	0	120 640	0	120 640
Total assets at fair value	19 984	1 537 041	0	1 557 025
LIABILITIES BOOKED AT FAIR VALUE				
Financial derivatives (liabilities)	0	216 496	0	216 496
Total financial liabilities at fair value	0	216 496	0	216 496

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

NOTE 6 Fair value hierarchy (continues)

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

Level 1:

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

Level 2:

Instruments at this level obtain fair value from observable market data. This includes prices based on identical instruments, but where the instrument does not maintain a high enough trading frequency and is therefore not considered to be traded in an active market, as well as prices based on corresponding assets and price-leading indicators that can be confirmed from market

information. Example instruments at Level 2 are fixed-income securities priced on the basis of interest rate paths.

Level 3:

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

There has been no movement between the levels. Note 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 and hedge accounting 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	30.09.2018	30.09.2017	31.12.2017
Bond debt, nominal amount	17 825 000	18 532 000	17 946 000
Adjustments	28 268	62 968	61 593
Accrued interest	76 572	72 784	41 139
Own holdings, nominal amount	-1 419 000	-1 232 000	-900 000
Total debt securities issued	16 510 840	17 435 752	17 148 732

Interest rate on borrowings through the issuance of securities on the reporting date	1.45 %	1.25 %	1.24 %
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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 30.09.2018
Bond debt, nominal amount	17 946 000	800 000	-921 000	0	17 825 000
Adjustments	61 593	0	0	-33 325	28 268
Accrued interest	41 139	0	0	35 433	76 572
Own holdings, nominal amount	-900 000	0	-519 000	0	-1 419 000
Total debt securities issued	17 148 732	800 000	-1 440 000	2 108	16 510 840

NOTE 8 Liabilities to credit institutions

30.09.2018 NOK THOUSANDS				
	Due date	Nominal	Accrued interest	Book value
Debt to KLP Banken AS	15.12.2020	475 000	227	475 227
Total liabilities to credit institutions				475 227
Interest rate on debt to credit institutions at the reporting date				1.16 %
The interest rate is calculated as a weighted average of the act/360 basis.				

30.09.2017 NOK THOUSANDS				
	Due date	Nominal	Accrued interest	Book value
Debt to KLP Banken AS	17.12.2018	325 000	170	325 170
Debt to KLP Banken AS	17.12.2018	100 000	10	100 010
Total liabilities to credit institutions				425 180
Interest rate on debt to credit institutions at the reporting date				1.18 %
The interest rate is calculated as a weighted average of the act/360 basis.				

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

30.09.2018 NOK THOUSANDS				Related sums that are not presented net		
	Gross financial assets/liabilites	Gross assets liabilities presented net	Book value	Financial instruments	Security in cash	Net recognised value
ASSETS						
Financial derivatives	98 996	0	98 996	-98 996	0	0
Total	98 996	0	98 996	-98 996	0	0
LIABILITIES						
Financial derivatives	136 482	0	136 482	-98 996	0	37 486
Total	136 482	0	136 482	-98 996	0	37 486

30.09.2017 NOK THOUSANDS				Related sums that are not presented net		
	Gross financial assets/liabilites	Gross assets liabilities presented net	Book value	Financial instruments	Security in cash	Net recognised value
ASSETS						
Financial derivatives	120 640	0	120 640	-120 640	0	0
Total	120 640	0	120 640	-120 640	0	0
LIABILITIES						
Finansielle derivater	216 496	0	216 496	-120 640	0	95 856
Total	216 496	0	216 496	-120 640	0	95 856

31.12.2017 NOK THOUSANDS				Related sums that are not presented net		
	Gross financial assets/liabilites	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						
Finansielle derivater	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 statement.

NOTE 10 Transactions with related parties

NOK THOUSANDS	01.01.2018 -30.09.2018	01.01.2017 -30.09.2017	01.01.2017 -31.12.2017
KLP Banken AS, interest on borrowing	3 803	6 311	7 303
KLP Banken AS, administrative services (at cost)	9 229	10 224	14 392
KLP Kapitalforvaltning AS, fees for services provided	91	173	211

NOK THOUSANDS	30.09.2018	30.09.2017	31.12.2017
BALANCES			
KLP Banken AS, debt to credit institutions	-475 227	-425 180	-275 170
KLP Banken AS, loan settlement	5 798	5 802	3 503
Net outstanding accounts to:			
KLP Banken AS	-1 019	-3 062	-1 296
KLP Eiendom AS	0	0	-223
KLP Kapitalforvaltning AS	-16	-31	-38

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	30.09.2018	30.09.2017	31.12.2017
Intercompany receivables	5 798	5 802	3 503
Total	5 798	5 802	3 503

NOTE 12 Other liabilities and provision for accrued costs

NOK THOUSANDS	30.09.2018	30.09.2017	31.12.2017
Creditors	0	881	102
Intercompany payables	1 035	3 093	1 558
Tax payable	0	0	14 050
Other liabilities	7 562	11 152	3
Total other liabilities	8 597	15 125	15 712
VAT	0	293	23
Accrued expenses	891	670	309
Total accrued costs and liabilities	891	963	332

NOTE 13 Capital adequacy

NOK THOUSANDS	30.09.2018	30.09.2017	31.12.2017
Share capital and share premium fund	675 000	675 000	675 000
Other owners' equity	45 818	364	45 939
Total owners' equity	720 818	675 364	720 939
Interim profit/loss	0	35 310	0
Adjustments due to requirements for proper valuation	-1 012	0	-1 436
Deferred tax asset	0	0	0
Core capital/Tier 1 capital	719 806	710 674	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)	719 806	710 674	719 503
Capital requirement	288 565	299 831	292 090
Surplus of own funds (Tier 1 and Tier 2 capital)	431 241	410 844	427 413
ESTIMATE BASIS CREDIT RISK:			
Institutions	132 364	70 756	116 167
Local and regional authorities	3 279 552	3 438 699	3 296 369
Covered bonds	87 764	130 891	131 301
Calculation basis credit risk	3 499 680	3 640 346	3 543 837
Credit risk	279 974	291 228	283 507
Operating risk	8 467	8 433	8 433
Credit valuation adjustment	124	170	150
Total capital requirement assets	288 565	299 831	292 090
Core capital adequacy ratio	20.0 %	19.0 %	19.7 %
Supplementary capital ratio	0.0 %	0.0 %	0.0 %
Capital adequacy ratio	20.0 %	19.0 %	19.7 %
Leverage ratio	4.0 %	3.7 %	3.9 %

CAPITAL REQUIREMENT PER 30.09.2018	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	30.09.2018		30.09.2017		31.12.2017	
	Acquisition cost	Market value	Acquisition cost	Market value	Acquisition cost	Market value
Certificates	29 949	29 954	19 973	19 985	19 992	19 985
Bonds	972 926	981 825	1 398 724	1 416 401	1 403 325	1 416 421
Total fixed-income securities	1 002 875	1 011 780	1 418 697	1 436 385	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	30.09.2018	30.09.2017	31.12.2017
Loan promise	284 305	101 371	113 972
Total contingent liabilities	284 305	101 371	113 972

NOTE 16 Net gain/(loss) on financial instruments

NOK THOUSANDS	Q3 2018		01.01.2018 -30.09.2018	
	Profit and Loss	Other comprehensive income	Profit and Loss	Other comprehensive income
Net gain/(loss) on financial assets and liabilities for fair value through profit and loss	9 543	0	37 429	0
Net gain/(loss) on financial assets and liabilities, hedge accounting	-10 433	0	-37 081	0
Net gain/(loss) assets at amortised cost	-235	0	-7 067	0
Total	-1 125	0	-6 719	0

NOTE 17 Losses on lending

NOK THOUSANDS	12-month ECL step 1	Lifetime ECL - not credit-impaired step 2	Lifetime ECL credit-impaired 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	-5	0	0	-5
New losses	11	0	0	11
Derecognised loss	-6	0	0	-6
Closing balance 30.09.2018	157	0	0	157

Quarterly earnings trend

NOK MILLIONS	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017
Interest income	93.5	92.6	91.7	94.8	101.0
Interest expense	-75.9	-78.1	-72.9	-74.0	-79.2
Net interest income	17.6	14.4	18.8	20.8	21.8
Net gain/ (loss) financial instruments	-1.1	-1.5	-4.1	-3.0	-3.4
Total other operating income	-1.1	-1.5	-4.1	-3.0	-3.4
Other operating expenses	-2.9	-3.9	-4.5	-4.4	-3.7
Total operating expenses	-2.9	-3.9	-4.5	-4.4	-3.7
Operating profit/loss before tax	13.6	9.0	10.2	13.4	14.7
Tax ordinary income	-3.1	-2.1	-2.4	-3.2	-3.5
Profit for the period	10.5	6.9	7.9	10.3	11.2

Key figures - accumulated

NOK MILLIONS	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017
Pre-tax income	32.9	19.3	10.2	59.9	46.5
Net interest income	50.9	33.3	18.8	82.1	61.3
Other operating income	0.0	0.0	0.0	0.0	0.0
Other operating cost and depreciation	-11.3	-8.4	-4.5	-17.3	-12.8
Net realized/unrealized change fin. Instruments at fair value	-6.7	-5.6	-4.1	-5.0	-2.0
Lending with public sector guarantee	16 206.1	16 282.2	16 090.9	16 321.5	17 015.3
Non-performing loans	0.0	0.0	0.0	0.0	0.0
Total liabilities created on issuance of securities	16 510.8	16 360.3	16 803.7	17 148.7	17 435.8
Other borrowing	475.2	575.3	275.2	275.2	425.2
Total assets	17 879.7	17 819.9	17 965.6	18 338.7	18 805.5
Average total assets	18 109.2	18 079.3	18 152.1	18 927.5	19 160.9
Equity	746.1	735.6	728.7	720.9	710.7
Interest net	0.28 %	0.18 %	0.10 %	0.43 %	0.32 %
Profit/loss from ordinary operation before taxes	0.18 %	0.11 %	0.06 %	0.32 %	0.24 %
Return on equity	6.08 %	5.24 %	5.68 %	8.07 %	8.21 %
Capital adequacy ratio	20.0 %	20.0 %	20.2 %	19.7 %	19.0 %
Liquidity coverage ratio (LCR)	598 %	771 %	338 %	396 %	348 %



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