

Interim report

Q4 2015



[INCOME STATEMENT](#)

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KLP Kommunekreditt -

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KLP Kommunekreditt AS

Interim Financial Statements 4 / 2015

Main features by fourth 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 2015 were NOK 69.9 million. The corresponding figure last year was 71.7 million. Operating expenses in the same period amounted to NOK 20.5 million and 19.9 million last year. There have not been any losses or loss provisions made on loans. The Company has a pre-tax profit by year end of NOK 19.6 million. The corresponding profit in 2014 was NOK 36.5 million. The decrease is mainly due to losses on financial instruments this year.

Lending

The Company's loans to customers as at 31 December 2015 amounted to NOK 15.6 billion compared to NOK 16.3 billion as at 31 December 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 2.5 billion were issued in the fourth quarter. The Company occasionally restructures the debt portfolio with the purpose of adjusting average maturity. Bond restructuring have caused total accounting costs of NOK 5 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 31 December 2015, the bond portfolio's market value was NOK 3.1 billion. The net loss associated with liquidity investments amounted to NOK 27 million in 2015.

Capital adequacy

At the end of the fourth quarter 2015, core capital i.a.w. the capital adequacy rules was NOK 675.0 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 17.7 per cent at the end of the fourth quarter 2015. The minimum statutory requirement is 11.0 per cent core capital adequacy ratio and 14.5 per cent capital adequacy ratio.

Income statement

KLP Kommunekreditt AS

Note	NOK thousands	Q4 2015	Q4 2014	2015	2014
	Interest income	114 123	147 018	485 635	588 825
	Interest expense	-96 320	-128 429	-415 784	-517 168
3	Net interest income	17 802	18 589	69 850	71 657
16	Net gain/ (loss) financial instruments	-5 462	-7 480	-29 742	-15 217
	Total other operating income	-5 462	-7 480	-29 742	-15 217
	Other operating expenses	-6 557	-6 669	-20 502	-19 927
	Total operating expenses	-6 557	-6 669	-20 502	-19 927
	Operating profit/loss before tax	5 783	4 440	19 606	36 514
	Tax ordinary income	-1 561	-1 199	-5 332	-9 859
	Profit for the period	4 222	3 241	14 274	26 655
	Other comprehensive income	0	0	0	0
	Other comprehensive income for the period	0	0	0	0
	Comprehensive income for the period	4 222	3 241	14 274	26 655

Balance sheet

KLP Kommunekreditt AS

Note	NOK thousands	31.12.2015	31.12.2014
	ASSETS		
	Loans to credit institutions	443 481	444 270
4	Loans to customers	15 646 269	16 338 260
14	Interest-bearing securities	3 133 684	3 076 037
	Financial derivatives	122 900	158 288
11	Other assets	1 251	5 498
	TOTAL ASSETS	19 347 585	20 022 354
	LIABILITIES AND EQUITY		
	LIABILITIES		
8	Debt to credit institutions	2 181 927	2 207 657
7	Debt securities issued	16 114 897	16 642 932
	Financial derivatives	345 305	420 971
	Deffered tax liabilities	5 554	16 718
12	Other Liabilities	9 940	3 982
12	Provision for accrued costs and liabilities	646	1 441
	TOTAL LIABILITIES	18 658 268	19 293 701
	EQUITY		
	Share capital	362 500	362 500
	Share premium	312 500	312 500
	Retained earnings	14 317	53 653
	TOTAL EQUITY	689 317	728 653
	TOTAL LIABILITIES AND EQUITY	19 347 585	20 022 354

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	14 274	14 274
Other comprehensive income	0	0	0	0
Total comprehensive income for the period	0	0	14 274	14 274
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
Total transactions with the owners	0	0	-53 610	-53 610
Equity 31 December 2015	362 500	312 500	14 317	689 317
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
Total comprehensive income for the period	0	0	26 655	26 655
Group contribution received	0	0	8 500	8 500
Group contribution made	0	0	-52 132	-52 132
Total transactions with the owners	0	0	-43 632	-43 632
Equity 31 December 2014	362 500	312 500	53 653	728 653

Statement of cash flow

KLP Kommunekreditt AS

NOK thousands	2015	2014
OPERATING ACTIVITIES		
Payments received from customers - interest, commission & charges	4 50 013	526 170
Net receipts/payments on loans to customers	505 434	559 178
Payments on operations	-20 480	-19 964
Net receipts/payments on other operating activities	3 046	12 038
Net interest investment accounts	6 703	12 116
Income tax paid	0	0
Net cash flow from operating activities	944 716	1 089 538
INVESTMENT ACTIVITIES		
Payments on the purchase of securities	-2 355 043	-1 531 983
Receipts on sale of securities	2 266 105	1 254 965
Receipts of interest from securities	48 428	64 201
Net cash flow from investment activities	-40 510	-212 817
FINANCING ACTIVITIES		
Net receipts/payments on loans from credit institutions	-466 261	-676 233
Net payment of interest on loans	-370 876	-527 994
Dividend paid	-28 300	0
Payment on group contribution	-36 513	-63 906
Net cash flows from financing activities	-901 950	-1 268 133
Net cash flow during the period	2 256	-391 413
Cash and cash equivalents at the start of the period	428 660	820 072
Cash and cash equivalents at the end of the period	430 916	428 660
Net receipts/ disbursements (-) of cash	2 256	-391 413

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

Note 2 ACCOUNTING PRINCIPLES

The interim report includes the interim Financial Statements of KLP Kommunekreditt AS for the period 1 January 2015 – 30 December 2015. The interim Financial Statements have not been audited.

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

There are no changes in the accounting principles in 2015 that have been of significance for the interim Financial Statements following the 4th quarter. Attention is drawn to KLP Kommunekreditt's Annual Report for 2014 for detailed description of accounting principles.

The annual report is available at klp.no.

Note 3 NET INTEREST INCOME

NOK thousands	2015	2014
Interest on loans to and receivables from credit institutions	6 702	12 116
Interest on loans to customers	430 665	513 766
Interest on securities	48 267	62 943
Total interest income	485 635	588 825
Interest on covered bonds	368 152	455 559
Interest on liabilities to KLP Banken AS	48 269	59 388
Premium/discount on covered bonds	-636	2 221
Total interest costs	415 784	517 168
Net interest income	69 850	71 657

Note 4 LOANS TO CUSTOMERS

NOK thousands	31.12.2015	31.12.2014
Loans to cutomers before write-downs	15 262 113	15 866 437
Individual write-downs	0	0
Write-downs by group	0	0
Loans to cutomers after write-downs	15 262 113	15 866 437
Accured interest	70 931	90 280
Change in fair value due to interest rate changes (fair value hedging)	313 225	381 544
Loans to customers	15 646 269	16 338 260

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	31.12.2015		31.12.2014	
	Capitalized value	Fair value	Capitalized value	Fair value
FINANCIAL ASSETS AT FAIR VALUE				
Fixed-income securities	3 133 684	3 133 684	3 076 037	3 076 037
Total financial assets at fair value	3 133 684	3 133 684	3 076 037	3 076 037
FINANCIAL ASSETS AT FAIR VALUE HEDGING				
Financial derivatives	122 900	122 900	158 288	158 288
Loans to Norwegian local administrations	5 558 168	5 526 008	6 066 133	6 111 821
Total financial assets at fair value hedging	5 681 068	5 648 908	6 224 421	6 270 109
FINANCIAL ASSETS AT AMORTIZED COST				
Loans to and receivables from credit institutions	443 481	443 481	444 270	444 270
Loans to Norwegian local administrations	10 088 101	10 080 287	10 272 128	10 262 529
Total financial assets at amortized cost	10 531 582	10 523 768	10 716 398	10 706 799
Total financial assets	19 346 334	19 306 361	20 016 855	20 052 945
LIABILITIES TO CREDIT INSTITUTIONS AT FAIR VALUE HEDGING				
Covered bonds issued	1 509 154	1 501 873	2 454 871	2 477 580
Financial derivatives	345 305	345 305	420 971	420 971
Total financial liabilities at fair value hedging	1 854 459	1 847 177	2 875 842	2 898 551
LIABILITIES TO CREDIT INSTITUTIONS AT AMORTIZED COST				
Liabilities to credit institutions	2 181 927	2 181 927	2 207 657	2 207 657
Covered bonds issued	14 605 743	14 549 701	14 188 062	14 251 127
Total financial liabilities at amortized cost	16 787 670	16 731 628	16 395 718	16 458 784
Total financial liabilities	18 642 128	18 578 805	19 271 560	19 357 335

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 - non-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 Norwegian Fund and Asset Management Association. 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 31.12.2015
ASSETS				
Interest-bearing securities	0	3 133 684	0	3 133 684
Financial derivatives	0	122 900	0	122 900
Total financial assets at fair value	0	3 256 584	0	3 256 584
LIABILITIES				
Financial derivatives	0	345 305	0	345 305
Total financial liabilities at fair value	0	345 305	0	345 305

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

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	31.12.2015	31.12.2014
Bond debt, nominal amount	16 055 000	16 452 000
Adjustments	106 565	133 991
Accured interest	33 332	56 941
Own holdings, nominal amount	-80 000	0
Total debt securities issued	16 114 897	16 642 932

NOK thousands	Balance sheet 31.12.2015	Issued	Matured/ redeemed	Other adjustments	Balance sheet 31.12.2014
CHANGES IN DEBT SECURITIES ISSUED					
Bond debt, nominal amount	16 055 000	2 920 000	-3 317 000	0	16 452 000
Adjustments	106 565	0	0	-27 426	133 991
Accured interest	33 332	0	0	-23 609	56 941
Own holdings, nominal amount	-80 000	0	-80 000	0	0
Total debt securities issued	16 114 897	2 920 000	-3 397 000	-51 035	16 642 932

Note 8 LIABILITIES TO CREDIT INSTITUTIONS

NOK thousands	Due date	Nominal	Accrued interest	31.12.2015 Book value
Debt to KLP Banken AS	15.03.2016	2 100 000	1 884	2 101 884
Debt to KLP Banken AS	15.03.2016	80 000	42	80 042
Total liabilities to credit institutions				2 181 927

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
Total liabilities to credit institutions				2 207 657

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	31.12.2015	
					Security in cash	Related sums that are not presented net Net recognised value
ASSETS						
Financial derivatives	122 900	0	122 900	-122 900	0	0
Total	122 900	0	122 900	-122 900	0	0
LIABILITIES						
Financial derivatives	345 305	0	345 305	-122 900	0	222 405
Total	345 305	0	345 305	-122 900	0	222 405
NOK thousands	Gross financial assets/ liabilities	Gross assets/ liabilities presented net	Book value	Financial instruments	31.12.2014	
					Security in cash	Related sums that are not presented net Net recognised value
ASSETS						
Financial derivatives	158 288	0	158 288	-158 288	0	0
Total	158 288	0	158 288	-158 288	0	0
LIABILITIES						
Financial derivatives	420 971	0	420 971	-158 288	0	262 683
Total	420 971	0	420 971	-158 288	0	262 683

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	2015	2014
INCOME STATEMENT ITEMS		
KLP Banken AS, interest on borrowing	-48 269	-59 388
KLP Banken AS, administrative services (at cost)	-14 168	-12 715
KLP Kapitalforvaltning AS, fees for services provided	-321	-314
Total	-62 758	-72 418

NOK thousands	31.12.2015	31.12.2014
FINANCIAL POSITION STATEMENT ITEMS		
KLP Banken AS, borrowing Group current liabilities	-2 181 927	-2 207 657
KLP Banken AS, net internal liabilities	-4 494	-3 647
KLP Banken AS, loan settlement	302	4 441
KLP Kapitalforvaltning, net internal liabilities	-79	-92
Total	-2 186 198	-2 206 955

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	31.12.2015	31.12.2014
Intercompany receivables	302	4 441
Prepaid expenses	949	1 057
Total	1 251	5 498

Note 12 OTHER LIABILITIES AND PROVISION FOR ACCRUED COSTS

NOK thousands	31.12.2015	31.12.2014
Creditors	69	238
Intercompany payables	4 573	3 740
Short-term liabilities securities	4	0
Other liabilities	5 294	4
Total other liabilities	9 940	3 982
VAT	69	220
Accrued expenses	577	1 220
Total accrued costs and liabilities	646	1 441

Note 13 CAPITAL ADEQUACY

NOK thousands	31.12.2015	31.12.2014	
Share capital and share premium fund	675 000	675 000	
Other owners' equity	43	53 653	
Total owners' equity	675 043	728 653	
Interim profit/loss	0	0	
Deferred tax asset	0	0	
Core capital/Tier 1 capital	675 043	728 653	
Supplementary capital/Tier 2 capital	0	0	
Supplementary capital/Tier 2 capital	0	0	
Total eligible own funds (Tier 1 and Tier 2 capital)	675 043	728 653	
Capital requirement	305 964	307 281	
Surplus of own funds (Tier 1 and Tier 2 capital)	369 079	421 372	
ESTIMATE BASIS CREDIT RISK			
Institutions	113 526	121 611	
Local and regional authorities	3 320 023	3 311 173	
Covered bonds	227 784	285 843	
Calculation basis credit risk	3 661 333	3 718 627	
Credit risk	292 907	297 490	
Operating risk	13 057	9 791	
Total capital requirement assets	305 964	307 281	
Core capital adequacy ratio	17.7 %	19.0 %	
Supplementary capital ratio	0.0 %	0.0 %	
Capital adequacy ratio	17.7 %	19.0 %	
Leverage ratio	3.5 %	3.6 %	
Capital requirement per 31.12.2015	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	1.0 %	0.0 %	1.0 %
Current capital requirement incl. buffers	11.0 %	3.5 %	14.5 %

Note 14 FIXED-INCOME SECURITIES

NOK thousands	31.12.2015		31.12.2014	
	Acquisition cost	Market value	Acquisition cost	Market value
Certificates	745 587	747 238	105 341	105 924
Bonds	2 385 054	2 386 446	2 935 748	2 970 113
Total fixed-income securities	3 130 641	3 133 684	3 041 089	3 076 037

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

Note 15 CONTINGENT LIABILITIES

NOK thousands	31.12.2015	31.12.2014
Loan promise	196 015	184 716
Total contingent liabilities	196 015	184 716

Note 16 NET GAIN/(LOSS) ON FINANCIAL INSTRUMENTS

NOK thousands	2015	2014
Loss on repurchase of loan	-5 051	-21 453
Gain (loss) liquidity portfolio	-27 160	6 236
Gain (loss) from realization of loans with premium/discount	2 470	0
Total net gain/loss financial instruments	-29 742	-15 217

Key figures

Accumulated figures in NOK millions	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014
Pre-tax income	19.6	13.8	11.9	0.8	36.5
Net interest income	69.9	52.0	34.8	16.9	71.7
Other operating income	0.0	0.0	0.0	0.0	0.0
Other operating cost and depreciation	-20.5	-13.9	-9.4	-5.2	-19.9
Net realized/unrealized change financial instruments at fair value	-29.7	-24.3	-13.6	-10.9	-15.2
Lending with public sector guarantee	15 646.3	15 807.7	15 591.0	15 951.1	16 338.3
Non-performing loans	-	-	-	-	-
Total liabilities created on issuance of securities	16 114.9	14 600.8	15 321.5	16 006.5	16 642.9
Other borrowing	2 181.9	2 021.8	2 207.2	2 097.3	2 207.7
Total assets	19 347.6	17 722.2	18 548.8	19 254.8	20 022.4
Average total assets	19 685.0	18 872.3	19 285.6	19 638.6	20 351.3
Equity	689.3	685.1	683.7	703.9	728.7
Interest net	0.35 %	0.28 %	0.18 %	0.09 %	0.35 %
Profit/loss from ordinary operation before taxes	0.10 %	0.07 %	0.06 %	0.00 %	0.18 %
Return on equity	2.84 %	2.02 %	1.74 %	0.11 %	5.01 %
Capital adequacy ratio	17.7 %	18.8 %	18.6 %	18.5 %	19.0 %



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