

KLP



Interim report

KLP KOMMUNEKREDITT AS
Q2 2019

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Interim Financial Statements

KLP KOMMUNEKREDITT AS

Main features of the first half year:

- Stable operating costs
- Increased financial expenses because of repurchase of covered bonds
- No losses on lending

OBJECTIVE AND OWNERSHIP

The Company's objective is long-term financing of municipalities, county administrations and enterprises 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 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 has its head office in Trondheim.

INCOME STATEMENT

Net interest and credit commission revenues in the first half year were NOK 31.1 (33.3)¹ million. Profit and loss effects of financial instruments so far this year show a net loss of NOK 12.0 (5.6) million.

Operating expenses in the same period amounted to NOK 8.1 (8.4) million. The Company has not had any credit losses, and very low loan loss provisions are recognized in the income statement.

The pre-tax profit so far this year is NOK 11.1 (19.3) million. The decrease in income is mainly due to reduced net interest margins in average and net loss on financial instruments.

LENDING

The Company's loans to customers as at 30 June 2019 amounted to NOK 16.3 (16.3) billion. The borrowers are municipalities, county administrations and local government enterprises.

BORROWING

The Company's borrowing comprise covered bonds (OMF) as well as borrowing from KLP Banken AS. New covered bonds issued during the first half of 2019 amounted to NOK 3.5 (0.8) billion, while net repurchase of previous issues amounted to NOK 3.1 (1.6) billion. All

covered bonds have an AAA rating. The Company occasionally restructures the debt portfolio with the purpose of increasing average duration. This may cause both profit and loss. Bond restructuring have caused total accounting losses of NOK 13.1 (6.8) million so far this year.

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 certificates and bonds of very high credit quality, principally investments in covered bonds with AAA rating. As at 30 June 2019, the bond portfolio's market value was NOK 2.1 (1.0) billion. The net gain associated with market value changes in liquidity investments amounted to NOK 1.1 (1.3) million so far this year.

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 basically a result of the 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 are reduced using derivatives. The Company is to have sufficient long-term financing within set limits. The credit risk in the Company is low and the Company's lending is limited to local government risk. The Company's liquidity is invested in banks satisfying high credit quality requirements and in securities in accordance with Board-approved credit lines.

At the end of the second quarter 2019, core capital i.a.w. the capital adequacy rules was NOK 756.3 (719.8) million. Loans to municipalities and county administrations are risk-weighted 20 per cent in accordance with the authorities' capital adequacy regulations. KLP Kommunekreditt AS had a core capital adequacy and capital adequacy ratio of 20.3 (20.2) per cent at the end of the second quarter 2019. The minimum statutory requirement is 15.5 per cent capital adequacy ratio. Leverage ratio was 3.9 (4.0) per cent. The minimum statutory requirement is 3.0 per cent.

¹ Figures in parenthesis are from the corresponding period in 2018.

FUTURE PROSPECT

KLP Kommunekreditt AS is licensed as a covered bond issuer and will be developed further by distributing new loans to the market or by purchasing loans from KLP. The lending activities will mainly be funded through the issue of bonds covered by a portfolio of loans to municipalities, county municipalities or companies with public guarantees.

The borrowing requirements in the municipal sector is still growing and a large proportion of the loans taken are financed in the securities market rather than in the financial institutions. KLP Kommunekreditt AS is well capitalised and has an advantage as a stable and long-term lender in the market. The general trends in the financial markets will also in the future determine the Company's ability to finance its lending activities on terms that make it possible to achieve sufficient profitability.

Norwegian municipalities are constantly developing the range of its services to the population. Increasing longevity and population growth gives reason to expect still growing public sector investment requirements. It is

highly likely that the demand for loans in the municipal sector, and to projects with municipal guarantees, accordingly will stay at a high level also in the years ahead.

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

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

Trondheim, 14. August 2019

Aage E. Schaanning
Chair
(Sign.)

Aud Norunn Strand
(Sign.)

Kjell Fosse
(Sign.)

Carl Steinar Lous
Managing Director
(Sign.)

Income statement

KLP KOMMUNEKREDITT AS

NOTE	NOK THOUSANDS	Q2 2019	Q2 2018	01.01.2019 -30.06.2019	01.01.2018 -30.06.2018	01.01.2018 -31.12.2018
	Interest income, amortised cost	94 296	87 241	186 146	173 234	351 048
	Interest income at fair value	34 878	31 289	64 195	96 392	155 446
3	Total interest income	129 174	118 530	250 341	269 626	506 494
	Interest expense, amortised cost	-82 785	-69 056	-159 267	-130 912	-269 163
	Interest expense at fair value	-29 813	-35 038	-60 000	-105 442	-171 790
3	Total interest costs	-112 598	-104 094	-219 268	-236 353	-440 953
3	Net interest income	16 576	14 436	31 073	33 273	65 541
17	Net gain/(loss) financial instruments	-6 399	-1 543	-11 951	-5 593	-12 484
	Total other operating income	-6 399	-1 543	-11 951	-5 593	-12 484
	Other operating expenses	-3 444	-3 873	-8 063	-8 422	-15 737
18	Net loan losses	4	-2	5	0	-5
	Total operating expenses	-3 440	-3 875	-8 058	-8 422	-15 742
	Operating profit/loss before tax	6 736	9 018	11 064	19 257	37 315
	Tax ordinary income	-1 482	-2 074	-2 434	-4 429	-8 364
	Profit for the period	5 254	6 944	8 630	14 828	28 951
	Other comprehensive income for the period	0	0	0	0	0
	Comprehensive income for the period	5 254	6 944	8 630	14 828	28 951

Balance sheet

KLP KOMMUNEKREDITT AS

NOTE	NOK THOUSANDS	30.06.2019	30.06.2018	31.12.2018
ASSETS				
5	Loans to credit institutions	440 282	465 525	649 795
4,5	Loans to customers	16 293 140	16 282 191	16 758 620
5,6,15	Interest-bearing securities	2 061 803	974 243	727 246
5,6	Financial derivatives	60 144	90 580	62 461
12	Other assets	7 345	7 350	8 122
Total assets		18 862 713	17 819 888	18 206 245
LIABILITIES AND OWNERS EQUITY				
LIABILITIES				
5,9	Debt to credit institutions	270 137	575 299	430 208
5,7	Debt securities issued	17 740 903	16 360 267	16 909 271
5,6	Financial derivatives	84 966	140 811	105 403
	Deferred tax liabilities	4 810	1 563	4 810
13	Other liabilities	3 499	5 566	6 784
13	Provision for accrued costs and liabilities	0	736	0
Total liabilities		18 104 314	17 084 242	17 456 476
EQUITY				
	Share capital	362 500	362 500	362 500
	Share premium	312 500	312 500	312 500
	Other owners' equity	74 769	45 818	74 769
	Unallocated profit/loss	8 630	14 828	0
Total owners' equity		758 399	735 646	749 769
Total liabilities and equity		18 862 713	17 819 888	18 206 245

Statement of changes in equity

KLP KOMMUNEKREDITT AS

2019 NOK THOUSANDS	Share capital	Share premium	Other equity	Total owners' equity
Equity 1 January 2019	362 500	312 500	74 769	749 769
Profit for the period	0	0	8 630	8 630
Other comprehensive income	0	0	0	0
Total comprehensive income for the period	0	0	8 630	8 630
Group contribution received	0	0	17 009	17 009
Group contribution made	0	0	-17 009	-17 009
Total transactions with the owners	0	0	0	0
Equity 30 June 2019	362 500	312 500	83 399	758 399
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	-122	-122
Equity 1 January 2018	362 500	312 500	45 818	720 818
Profit for the period	0	0	14 828	14 828
Total comprehensive income for the period	0	0	14 828	14 828
Group contribution received	0	0	44 491	44 491
Group contribution made	0	0	-44 491	-44 491
Total transactions with the owners	0	0	0	0
Equity 30 June 2018	362 500	312 500	60 646	735 646
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	-122	-122
Equity 1 January 2018	362 500	312 500	45 818	720 818
Income for the year	0	0	28 951	28 951
Total comprehensive income for the period	0	0	28 951	28 951
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 31 December 2018	362 500	312 500	74 769	749 769

Statement of cash flow

KLP KOMMUNEKREDITT AS

NOK THOUSANDS	01.01.2019 -30.06.2019	01.01.2018 -30.06.2018	01.01.2018 -31.12.2018
OPERATIONAL ACTIVITIES			
Payments received from customers - interest, commission & charges	171 584	168 846	354 411
Disbursements on loans customers & credit institutions	-418 187	-527 058	-1 818 593
Receipts on loans customers & credit institutions	867 431	480 362	1 231 153
Net receipts/disbursements on operations	-8 694	-8 531	-16 005
Net receipts/disbursements from operating activities	11 195	1 170	-7 568
Net interest investment accounts	384	110	5 020
Net cash flow from operating activities	623 713	114 899	-251 582
INVESTMENT ACTIVITIES			
Payments on the purchase of securities	-1 495 617	-629 605	-1 079 547
Receipts on sale of securities	164 187	1 094 032	1 780 991
Receipts of interest from securities	11 160	9 104	20 726
Net cash flow from investment activities	-1 320 270	473 531	722 170
FINANCING ACTIVITIES			
Receipts on loans from credit institutions	3 500 000	800 000	3 300 000
Disbursements on loans from credit institutions	-3 105 000	288 000	1 765 000
Change of interest of loans	407 000	-1 878 000	-5 290 000
Change in internal funding	-160 000	300 000	155 000
Net payment of interest on loans	-140 776	-109 207	-233 760
Payment on group contribution	-5 081	-14 050	-14 086
Net cash flows from financing activities	496 143	-613 257	-317 846
Net cash flow during the period	-200 414	-24 827	152 742
Cash and cash equivalents at the start of the period	631 394	478 652	478 652
Cash and cash equivalents at the end of the period	430 980	453 825	631 394
Net receipts/ disbursements of cash	-200 414	-24 827	152 742

STATEMENT PURSUANT TO SECTION § 5-6 OF THE SECURITIES TRADING ACT

KLP KOMMUNEKREDITT AS

We hereby confirm that the half yearly financial statement for the company for the period 1 January through 30 June 2019 to the best of our knowledge have been prepared in accordance with current applicable accounting standards, and give a true and fair view of the assets, liabilities, financial position and profit or loss of the company taken as a whole.

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

Trondheim, 14. august 2019

Aage E. Schaanning

Leder
(Sign.)

Aud Norunn Strand

(Sign.)

Kjell Fosse

(Sign.)

Carl Steinar Lous

Administrerende direktør

(Sign.)

Notes to the accounts

KLP KOMMUNEKREDITT AS

NOTE 1 General information

KLP Kommunekreditt AS was formed on 25 August 2009. The company is a credit enterprise that provides or acquires public sector loans that are guaranteed by the Norwegian municipalities. Borrowers provide surety covering both repayments and interest. The object of the Company is primarily to finance activities by issuing covered bonds with security in public sector guarantees loans. Parts of these loans are listed on Oslo Børs (Stock Exchange).

KLP Kommunekreditt AS is registered and domiciled in Norway. Its 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 2019 – 30 June 2019, specifying the earnings trend in Q2. The auditors have performed a limited review of the interim Financial Statement.

The interim financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting". Other accounting principles and calculations are the same in the interim financial statement as in the last annual report.

NOTE 3 Net interest income

NOK THOUSANDS	Q2 2019	Q2 2018	01.01.2019 -30.06.2019	01.01.2018 -30.06.2018	01.01.2018 -31.12.2018
Interest income on loans to customers, amortised cost	92 982	86 181	183 648	171 088	346 027
Interest income on loans to credit institutions, amortised cost	1 314	1 060	2 499	2 146	5 020
Interest income on bonds and certificates, fair value	9 339	5 310	13 159	11 030	19 349
Other interest income, fair value	25 539	25 979	51 036	85 363	136 097
Total interest income	129 174	118 530	250 341	269 626	506 494
Interest expenses on debt to KLP Banken AS, amortised cost	-965	-1 247	-2 004	-2 126	-4 871
Interest expenses on issued securities, amortised cost	-81 820	-67 809	-157 263	-128 786	-264 292
Other interest expenses, fair value	-29 813	-35 038	-60 000	-105 442	-171 790
Total interest costs	-112 598	-104 094	-219 268	-236 353	-440 953
Net interest income	16 576	14 436	31 073	33 273	65 541

NOTE 4 Loans to customers

NOK THOUSANDS	30.06.2019	30.06.2018	31.12.2018
Loans to customers before write-downs	16 182 413	16 144 862	16 646 683
Write-downs steps 1 and 2	-158	-158	-163
Loans to customers after write-downs	16 182 254	16 144 704	16 646 520
Accrued interest	69 380	67 942	57 317
Fair value hedging	51 274	83 278	65 732
Premium/discount	-9 769	-13 733	-10 949
Loans to customers	16 293 140	16 282 191	16 758 620

NOTE 5 Categories of financial instruments

NOK THOUSANDS	30.06.2019		30.06.2018		31.12.2018	
	Capitalized value	Fair value	Capitalized value	Fair value	Capitalized value	Fair value
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS						
Fixed-income securities	2 061 803	2 061 803	974 243	974 243	727 246	727 246
Financial derivatives	60 144	60 144	90 580	90 580	62 461	62 461
Total financial assets at fair value through profit and loss	2 121 947	2 121 947	1 064 823	1 064 823	789 708	789 708
FINANCIAL ASSETS FAIR VALUE HEDGING						
Lending to Norwegian municipalities	3 155 193	3 196 634	4 070 625	4 123 176	3 429 602	3 464 954
Total financial assets fair value hedging	3 155 193	3 196 634	4 070 625	4 123 176	3 429 602	3 464 954
FINANCIAL ASSETS AT AMORTIZED COST						
Loans to and receivables from credit institutions	440 282	440 282	465 525	465 525	649 795	649 795
Lending to Norwegian municipalities	13 137 947	13 129 140	12 211 565	12 211 160	13 329 019	13 316 652
Total financial assets at amortized cost	13 578 229	13 569 422	12 677 090	12 676 685	13 978 813	13 966 447
Total financial assets	18 855 368	18 888 002	17 812 538	17 864 683	18 198 123	18 221 109
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS						
Financial derivatives	84 966	84 966	140 811	140 811	105 403	105 403
Total financial liabilities at fair value through profit and loss	84 966	84 966	140 811	140 811	105 403	105 403
FINANCIAL LIABILITIES FAIR VALUE HEDGING						
Covered bonds issued	1 825 671	1 805 912	1 908 595	1 930 193	1 886 974	1 904 665
Total financial liabilities fair value hedging	1 825 671	1 805 912	1 908 595	1 930 193	1 886 974	1 904 665
FINANCIAL LIABILITIES AT AMORTIZED COST						
Liabilities to credit institutions	270 137	270 137	575 299	575 299	430 208	430 208
Covered bonds issued	15 915 232	15 890 535	14 451 673	14 993 171	15 022 297	15 086 824
Total financial liabilities at amortized cost	16 185 368	16 160 671	15 026 972	15 568 470	15 452 506	15 517 033
Total financial liabilities	18 096 005	18 051 549	17 076 377	17 639 474	17 444 883	17 527 101

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 main source of spread curves. They provide company-specific curves for Norwegian saving banks, municipalities and energy. Saving banks have various spread curves based on total assets. For companies where Nordic Bond Pricing do not

deliver spread curves, the Group use spread curves from three Norwegian banks. When spread curves are available from more than one of these banks, an equal-weighted average is used.

Financial derivatives

These transactions are valued based on the applicable swap curve at the time of valuation. Derivative contracts are to be used only to hedge balance amounts and to enable payments obligations to be met. Derivative contracts may be struck only with counterparties with high credit quality.

Fair value of loans to Norwegian local administrations

Fair value of lending without fixed interest rates is considered virtually the same as book value since the contract terms are continuously changed in step with market interest rates. Fair value of fixed rate loans is calculated by discounting contractual cash flows by the marked rate including a relevant risk margin on the reporting date. This is valued in Level 2 in the valuation hierarchy, cf. note 6.

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. This is valued in Level 2 in the valuation hierarchy, cf. note 6.

Fair value of liabilities to credit institutions

These transactions are valued using a valuation model, including relevant credit spread adjustments obtained from the market. This is valued in Level 2 in the valuation hierarchy, cf. note 6.

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. This is valued in Level 2 in the valuation hierarchy, cf. note 6.

NOTE 6 Fair value hierarchy

30.06.2019 NOK THOUSANDS	Level 1	Level 2	Level 3	Total
ASSETS BOOKED AT FAIR VALUE				
Fixed-income securities	29 925	2 031 877	0	2 061 803
Financial derivatives	0	60 144	0	60 144
Total assets at fair value	29 925	2 092 021	0	2 121 947
LIABILITIES BOOKED AT FAIR VALUE				
Financial derivatives (liabilities)	0	84 966	0	84 966
Total financial liabilities at fair value	0	84 966	0	84 966

30.06.2018 NOK THOUSANDS	Level 1	Level 2	Level 3	Total
ASSETS BOOKED AT FAIR VALUE				
Fixed-income securities	29 961	944 281	0	974 243
Financial derivatives	0	90 580	0	90 580
Total assets at fair value	29 961	1 034 861	0	1 064 823
LIABILITIES BOOKED AT FAIR VALUE				
Financial derivatives (liabilities)	0	140 811	0	140 811
Total financial liabilities at fair value	0	140 811	0	140 811

31.12.2018 NOK THOUSANDS	Level 1	Level 2	Level 3	Total
ASSETS BOOKED AT FAIR VALUE				
Fixed-income securities	59 902	667 344	0	727 246
Financial derivatives	0	62 461	0	62 461
Total assets at fair value	59 902	729 805	0	789 708
LIABILITIES BOOKED AT FAIR VALUE				
Financial derivatives (liabilities)	0	105 403	0	105 403
Total financial liabilities at fair value	0	105 403	0	105 403

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 have been no transfers between Level 1 and Level 2.

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	30.06.2019	30.06.2018	31.12.2018
Bond debt, nominal amount	18 138 000	17 825 000	17 743 000
Adjustments	44 456	40 778	35 990
Accrued interest	73 447	63 489	52 281
Own holdings, nominal amount	-515 000	-1 569 000	-922 000
Total debt securities issued	17 740 903	16 360 267	16 909 271

Interest rate on borrowings through the issuance of securities on the reporting date

	30.06.2019	30.06.2018	31.12.2018
	1.82 %	1.52 %	1.58 %

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 31.12.2018	Issued	Matured/redemed	Other adjustments	Balance sheet 30.06.2019
Bond debt, nominal amount	17 743 000	3 500 000	-3 105 000	0	18 138 000
Adjustments	35 990	0	0	8 466	44 456
Accrued interest	52 281	0	0	21 165	73 447
Own holdings, nominal amount	-922 000	0	407 000	0	-515 000
Total debt securities issued	16 909 271	3 500 000	-2 698 000	29 632	17 740 903

NOTE 8 Over-collateralisation

NOK THOUSANDS	30.06.2019	30.06.2018	31.12.2018
SECURITY POOL			
Loans to customers	16 335 692	16 335 874	16 792 892
Financial derivatives (net)	-24 736	-50 101	-42 930
Additional collateral ¹	2 613 578	2 780 388	1 898 505
Total security pool	18 924 534	19 066 161	18 648 467
Outstanding covered bonds incl. own funds and premium/discount	18 293 736	17 934 853	17 829 644
Coverage of the security pool	103.4%	106.3%	104.6%

¹ Additional collateral includes loans and receivables from credit institutions and bonds and certificates. Liquidity reserve are not included in additional collateral.

Section 11-7 of the Regulations on Financial Institutions lays down a requirement for over-collateralisation by at least 2 per cent of the value of the outstanding covered bonds.

NOTE 9 Liabilities to credit institutions

30.06.2019 NOK THOUSANDS				
	Due date	Nominal	Accrued interest	Book value
Debt to KLP Banken AS	15.12.2020	50 000	25	50 025
Debt to KLP Banken AS	15.12.2020	170 000	86	170 086
Debt to KLP Banken AS	15.12.2020	50 000	25	50 025
Total liabilities to credit institutions				270 137
Interest rate on debt to credit institutions at the reporting date				1.17 %
The interest rate is calculated as a weighted average of the act/360 basis.				

30.06.2018 NOK THOUSANDS				
	Due date	Nominal	Accrued interest	Book value
Debt to KLP Banken AS	16.09.2019	575 000	299	575 299
Total liabilities to credit institutions				575 299
Interest rate on debt to credit institutions at the reporting date				1.17 %
The interest rate is calculated as a weighted average of the act/360 basis.				

31.12.2018 NOK THOUSANDS				
	Due date	Nominal	Accrued interest	Book value
Debt to KLP Banken AS	15.12.2020	330 000	168	330 168
Debt to KLP Banken AS	15.12.2020	100 000	41	100 041
Total liabilities to credit institutions				430 208
Interest rate on debt to credit institutions at the reporting date				1.21 %

NOTE 10 Financial assets and liabilities subject to net settlement

30.06.2019 NOK THOUSANDS				Related sums that are not presented net		
	Gross financial assets/liabilities	Gross assets liabilities presented net	Book value	Financial instruments	Security in cash	Net recognised value
ASSETS						
Financial derivatives	60 144	0	60 144	-60 144	0	0
Total	60 144	0	60 144	-60 144	0	0
LIABILITIES						
Financial derivatives	84 966	0	84 966	-60 144	0	24 822
Total	84 966	0	84 966	-60 144	0	24 822

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

31.12.2018 NOK THOUSANDS				Related sums that are not presented net		
	Gross financial assets/liabilities	Gross assets liabilities presented net	Book value	Financial instruments	Security in cash	Net recognised value
ASSETS						
Financial derivatives	62 461	0	62 461	-62 461	0	0
Total	62 461	0	62 461	-62 461	0	0
LIABILITIES						
Finansielle derivater	105 403	0	105 403	-62 461	0	42 942
Total	105 403	0	105 403	-62 461	0	42 942

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 11 Transactions with related parties

NOK THOUSANDS	01.01.2019 -30.06.2019	01.01.2018 -30.06.2018	01.01.2018 -31.12.2018
KLP Banken AS, interest on borrowing	2 004	2 126	4 871
KLP Banken AS, administrative services (at cost)	6 643	6 632	12 823
KLP Kapitalforvaltning AS, fees for services provided	44	74	120

NOK THOUSANDS	30.06.2019	30.06.2018	31.12.2018
BALANCES			
KLP Banken AS, debt to credit institutions	-270 137	-575 299	-430 208
KLP Banken AS, loan settlement	7 345	7 350	8 122
Net outstanding accounts to:			
KLP Banken AS	-938	-984	-1 672
KLP Kapitalforvaltning AS	-19	-30	-30

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 12 Other assets

NOK THOUSANDS	30.06.2019	30.06.2018	31.12.2018
Intercompany receivables	7 345	7 350	8 122
Total other assets	7 345	7 350	8 122

NOTE 13 Other liabilities and provision for accrued costs

NOK THOUSANDS	30.06.2019	30.06.2018	31.12.2018
Creditors	107	120	0
Intercompany payables	956	1 014	1 702
Tax payable	0	0	5 081
Other liabilities	2 435	4 432	2
Total other liabilities	3 499	5 566	6 784
Accrued expenses	0	736	0
Total accrued costs and liabilities	0	736	0

NOTE 14 Capital adequacy

NOK THOUSANDS	30.06.2019	30.06.2018	31.12.2018
Share capital and share premium fund	675 000	675 000	675 000
Other owners' equity	74 769	45 818	74 769
Total owners' equity	749 769	720 818	749 769
Interim profit/loss	8 630	0	0
Adjustments due to requirements for proper valuation	-2 062	-974	-727
Core capital/Tier 1 capital	756 337	719 844	749 042
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)	756 337	719 844	749 042
Capital requirement	298 008	287 499	295 879
Surplus of own funds (Tier 1 and Tier 2 capital)	458 329	432 346	453 163
ESTIMATE BASIS CREDIT RISK:			
Institutions	101 554	112 691	144 076
Local and regional authorities	3 292 607	3 289 495	3 380 301
Covered bonds	203 188	84 039	66 734
Calculation basis credit risk	3 597 349	3 486 225	3 591 111
Credit risk	287 788	278 898	287 289
Operating risk	10 115	8 467	8 467
Credit valuation adjustment	105	134	123
Total capital requirement assets	298 008	287 499	295 879
Core capital adequacy ratio	20.3 %	20.0 %	20.3 %
Supplementary capital ratio	0.0 %	0.0 %	0.0 %
Capital adequacy ratio	20.3 %	20.0 %	20.3 %
Leverage ratio	3.9 %	4.0 %	4.0 %

CAPITAL REQUIREMENT PER 30.06.2019	Core capital/ Tier 1 capital	Supplementary capital/Tier 2 capital	Own funds
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 15 Fixed-income securities

NOK THOUSANDS	30.06.2019		30.06.2018		31.12.2018	
	Acquisition cost	Market value	Acquisition cost	Market value	Acquisition cost	Market value
Certificates	29 925	29 925	29 952	29 961	59 906	59 902
Bonds	2 028 176	2 031 877	934 357	944 281	666 822	667 344
Total fixed-income securities	2 058 102	2 061 803	964 309	974 243	726 728	727 246

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

NOTE 16 Contingent liabilities

NOK THOUSANDS	30.06.2019	30.06.2018	31.12.2018
Loan commitment	339 793	122 780	500 394
Total contingent liabilities	339 793	122 780	500 394

NOTE 17 Net gain/(loss) on financial instruments

NOK THOUSANDS	01.01.2019 -30.06.2019	01.01.2018 -30.06.2018	01.01.2018 -31.12.2018
Net gain/(loss) on fixed-income securities	1 135	1 252	-787
Net gain/(loss) financial derivatives and realized amortization linked to lending	0	-13	-13
Net gain/(loss) financial derivatives and realized repurchase of own debt	-13 086	-6 832	-11 684
Total net gain/(loss) on financial instruments	-11 951	-5 593	-12 484

NOTE 18 Loan loss provision

Changes in provisions for expected losses at 30th of June 2019 are related to changes in lending volume. No other changes have been made to the assumptions or input to the model for calculating loss provisions. Refer to Note 16 and Note 2 to the annual report for more details of the model.

NOK THOUSANDS	12-month ECL stage 1	Lifetime ECL not credit impaired stage 2	Lifetime ECL credit impaired stage 3	Total
EXPECTED CREDIT LOSS (ECL) - LOANS TO CUSTOMERS, AMORTISED COST				
Opening balance ECL 01.01.2019	163	0	0	163
Transfers to stage 1	0	0	0	0
Transfers to stage 2	0	0	0	0
Transfers to stage 3	0	0	0	0
Net changes	-2	0	0	-2
New losses	2	0	0	2
Write-offs	-5	0	0	-5
Closing balance ECL 30.06.2019	158	0	0	158
Changes (01.01.2019-30.06.2019)	-5	0	0	-5

NOK THOUSANDS	12-month ECL stage 1	Lifetime ECL not credit impaired stage 2	Lifetime ECL credit impaired stage 3	Total
VALUE OF LENDING AND RECEIVABLES FOR CUSTOMERS RECOGNISED IN THE BALANCE SHEET - AMORTISED COST				
Gross lending 01.01.2019	16 704 000	0	0	16 704 000
Transfers to stage 1	0	0	0	0
Transfers to stage 2	0	0	0	0
Transfers to stage 3	0	0	0	0
Net changes	-148 101	0	0	-148 101
New lending	224 964	0	0	224 964
Write-offs	-529 070	0	0	-529 070
Gross lending 30.06.2019	16 251 793	0	0	16 251 793

Quarterly earnings trend

NOK MILLIONS	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018
Interest income	129.2	121.2	153.3	93.5	92.6
Interest expense	-112.6	-106.7	-138.7	-75.9	-78.1
Net interest income	16.6	14.5	14.6	17.6	14.4
Net gain/ (loss) financial instruments	-6.4	-5.6	-5.8	-1.1	-1.5
Total other operating income	-6.4	-5.6	-5.8	-1.1	-1.5
Other operating expenses	-3.4	-4.6	-4.4	-2.9	-3.9
Total operating expenses	-3.4	-4.6	-4.4	-2.9	-3.9
Operating profit/loss before tax	6.7	4.3	4.4	13.6	9.0
Tax ordinary income	-1.5	-1.0	-0.8	-3.1	-2.1
Profit for the period	5.3	3.3	3.6	10.5	6.9

Key figures - accumulated

NOK MILLIONS	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018
Pre-tax income	11.1	4.3	37.3	32.9	19.3
Net interest income	31.1	14.5	65.5	50.9	33.3
Other operating income	0.0	0.0	0.0	0.0	0.0
Other operating cost and depreciation	-8.1	-4.6	-15.7	-11.3	-8.4
Net realized/unrealized change fin. Instruments at fair value	-12.0	-5.6	-12.5	-6.7	-5.6
Lending with public sector guarantee	16 293.1	16 659.8	16 758.6	16 206.1	16 282.2
Non-performing loans	0.0	0.0	0.0	0.0	0.0
Total liabilities created on issuance of securities	17 740.9	17 277.4	16 909.3	16 510.8	16 360.3
Other borrowing	270.1	380.2	430.2	475.2	575.3
Total assets	18 862.7	19 006.5	18 206.2	17 879.7	17 819.9
Average total assets	18 534.5	18 606.5	18 272.5	18 109.2	18 079.3
Equity	758.4	753.1	749.8	746.1	735.6
Interest net	0.17 %	0.08 %	0.36 %	0.28 %	0.18 %
Profit/loss from ordinary operation before taxes	0.06 %	0.02 %	0.20 %	0.18 %	0.11 %
Return on equity	2.95 %	2.31 %	4.97 %	6.08 %	5.24 %
Capital adequacy ratio	20.3 %	19.7 %	20.3 %	20.0 %	20.0 %
Liquidity coverage ratio (LCR)	262 %	376 %	1592 %	598 %	771 %



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