

KLP



# Interim report

KLP KOMMUNEKREDITT AS  
Q2 2020

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# Interim Financial Statements

## KLP KOMMUNEKREDITT AS

Main features by second quarter end:

- Lending growth
- P&L affected by the pandemic
- No recognized losses on lending

### OBJECTIVE

The Company's objective is long-term financing of municipalities, county administrations and enterprises carrying out public sector assignments. Loans to companies must be guaranteed by municipalities, county administrations or the central government under 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 issuing covered bonds (OMF).

KLP Kommunekreditt AS is a wholly owned subsidiary of KLP Banken AS. The KLP Banken Group is owned by Kommunal Landspensjonskasse (KLP).

### INCOME STATEMENT

Net interest revenues in the first quarter were NOK 33.2 (31.1)<sup>1</sup> million.

In the second quarter there was a marginal increase in net interest income compared to last year, despite lending rates was set down just after the central bank (Norges Bank) reduced the key rate as a response to the market turmoil arising from the pandemic. As the bank's financing costs could not be reduced immediately, lending margins dropped significantly through the quarter. Increase in lending volume has partly compensated the lower margins.

Net income effects of financial instruments so far this year amounts to NOK -15.2 (-12.0) million for assets and liabilities combined.

Operating expenses in the first half amounted to 8.9 (8.1) 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 by quarter end was NOK 9.1 (11.1) million. The change in profit is mainly a consequence of lower lending margins in average and net loss on financial instruments.

### LENDING

The Company's loans to customers as at 30 June 2020 amounted to NOK 17.4 (16.2) billion. The Company's borrowers are municipalities, county municipalities and local government enterprise lending covered by municipal guarantees.

### LIQUID 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 high credit quality, principally investments in covered bonds with AAA rating. As at 30 June 2020, the Company's securities portfolio market value was NOK 2.0 (2.1) billion. Realized and unrealized market value changes so far this year has created a profit and loss effect of NOK 0.7 (1.1) million.

### BORROWING

The Company's borrowing comprises covered bonds (OMF) as well as borrowing from KLP Banken AS. In the first half of 2020 new covered bond issues amounted NOK 4.0 (3.5) billion and net repurchase of previous issues was NOK 3.2 (3.1) billion. All covered bonds have AAA rating.

The Company evenly restructures its borrowing with the purpose of adjusting average duration. This may cause both loss and gain. Buying back own bond issues have caused a net loss of NOK -15.9 (-13.1) million brought to book 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 to be principally 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 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 lending is limited to 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 second quarter 2020, core capital i.a.w. the capital adequacy rules was NOK 716 (756) 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 18.3 (20.3) per cent at the end of second quarter. The minimum statutory requirement is 14.5 per cent capital adequacy ratio. Leverage ratio was 3.6 (3.9) per cent. The minimum statutory requirement is 3.0 per cent.

<sup>1</sup>Figures in parenthesis refer to the corresponding period last year

**SUMMARY OF PANDEMIC EFFECTS ON THE FINANCIAL STATEMENT**

The market turmoil caused by the pandemic has affected the Company's lending margins (see comments under Income Statement above). Further on, the reduced regulatory capital adequacy for the countercyclical capital buffer, has enhanced the company's capital adequacy position relative to the authoritative requirements.

**FUTURE PROSPECTS**

In the next quarter it is expected that the Bank's funding costs will adapt to the present interest rate levels and that lending margins will stabilize on more normal levels.

The enterprises in the KLP Banken Group satisfies all statutory requirements for capital adequacy and liquidity and have capacity for further growth. Even if the pandemic persists, it is expected that the Group may utilize funding from KLP in order to maintain its financial capacity to the benefit of public borrowers.

KLP Kommunekreditt AS is the only issuer of covered bonds secured by public sector loans in the country. The presence of the Company, together with KLP, contribute to competition in the public sector lending market and thus offering the sector access to long-term financing at favorable terms. The combined growth figures in the past years show a strengthened market position. During the first part of the pandemic KLP extended its lending credit facilities to municipalities and public enterprises by NOK 5 billion. The purpose was to strengthen borrowing opportunities in a period of significantly reduced access to financing from other sources.

High credit quality in the KLP Kommunekreditt AS lending portfolios shall contribute to the best funding terms

possible. Statutory regulations on banks and financial institutions implies that many regulations on capital and liquidity must be met. These requirements presuppose a sufficient level of current earnings.

The public sector lending market is still growing, and a large proportion of the loans taken are financed in the securities markets rather than in the financial institutions. KLP Kommunekreditt AS is well capitalized and has an advantage as a stable and long-term lender in a market characterized by low risk. It will be the general trends in the financial markets who will determine to what extent the Company may be able to finance its lending activities on terms that make it possible to achieve sufficient profitability for future growth.

Norwegian municipalities have during many years developed good and comprehensive public services. The combination of increased life-time prospects and population growth gives reason to expect a continued high level of investment needs in the public sector. The demand for project credits that contribute to climate adaption is expected to increase ahead. The Board assumes that considerable volumes of long-term and stable financing will be needed in addition to what the securities market can offer public sector borrowers.

KLP Banken's competence in municipal finance shall, independent on the size of the Company's own balance, be used for the benefit of the KLP management task. KLP Kommunekreditt AS and KLP, as a unit, will continue to be a central provider of loans for investment purposes in the public sector.

Trondheim, 12. August 2020

**Aage E. Schaanning**

Chair  
(Sign.)

**Kjell Fosse**

(Sign.)

**Aud Norunn Strand**

(Sign.)

**Karianne Oldernes Tung**

(Sign.)

**Carl Steinar Lous**

Managing Director  
(Sign.)

# Income statement

## KLP KOMMUNEKREDITT AS

NOTE	NOK THOUSANDS	Q2 2020	Q2 2019	01.01.2020 -30.06.2020	01.01.2019 -30.06.2019	01.01.2019 -31.12.2019
	Interest income, amortised cost	82 132	94 296	189 966	186 146	390 583
	Interest income at fair value	32 573	34 878	68 363	64 195	135 127
3	<b>Total interest income</b>	<b>114 705</b>	<b>129 174</b>	<b>258 329</b>	<b>250 341</b>	<b>525 710</b>
	Interest expense, amortised cost	-69 588	-82 785	-169 403	-159 267	-343 159
	Interest expense at fair value	-26 707	-29 813	-55 768	-60 000	-119 667
3	<b>Total interest costs</b>	<b>-96 295</b>	<b>-112 598</b>	<b>-225 171</b>	<b>-219 268</b>	<b>-462 826</b>
3	<b>Net interest income</b>	<b>18 410</b>	<b>16 576</b>	<b>33 158</b>	<b>31 073</b>	<b>62 884</b>
17	Net gain/(loss) financial instruments	-8 660	-6 399	-15 207	-11 951	-18 167
	<b>Total other operating income</b>	<b>-8 660</b>	<b>-6 399</b>	<b>-15 207</b>	<b>-11 951</b>	<b>-18 167</b>
	Other operating expenses	-4 654	-3 444	-8 862	-8 063	-19 593
18	Net loan losses	-7	4	-9	5	2
	<b>Total operating expenses</b>	<b>-4 661</b>	<b>-3 440</b>	<b>-8 871</b>	<b>-8 058</b>	<b>-19 591</b>
	<b>Operating profit/loss before tax</b>	<b>5 088</b>	<b>6 736</b>	<b>9 080</b>	<b>11 064</b>	<b>25 126</b>
	Tax ordinary income	-1 119	-1 482	6 955	-2 434	-5 528
	<b>Profit for the period</b>	<b>3 969</b>	<b>5 254</b>	<b>16 035</b>	<b>8 630</b>	<b>19 598</b>
	<b>Other comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
	<b>Comprehensive income for the period</b>	<b>3 969</b>	<b>5 254</b>	<b>16 035</b>	<b>8 630</b>	<b>19 598</b>

# Balance sheet

KLP KOMMUNEKREDITT AS

NOTE	NOK THOUSANDS	30.06.2020	30.06.2019	31.12.2019
<b>ASSETS</b>				
5	Loans to credit institutions	278 532	440 282	594 461
4,5	Loans to customers	17 356 534	16 293 140	16 547 394
5,6,15	Fixed-income securities	2 037 807	2 061 803	1 365 769
5,6	Financial derivatives	81 383	60 144	40 785
12	Other assets	13 507	7 345	1 010
<b>Total assets</b>		<b>19 767 762</b>	<b>18 862 713</b>	<b>18 549 418</b>
<b>LIABILITIES AND OWNERS EQUITY</b>				
<b>LIABILITIES</b>				
5,9	Debt to credit institutions	675 127	270 137	320 169
5,7	Debt securities issued	18 231 671	17 740 903	17 387 458
5,6	Financial derivatives	128 898	84 966	60 674
	Deffered tax liabilities	1 385	4 810	1 385
13	Other liabilities	5 921	3 499	10 286
13	Provision for accrued costs and liabilities	51	0	78
<b>Total liabilities</b>		<b>19 043 053</b>	<b>18 104 314</b>	<b>17 780 052</b>
<b>EQUITY</b>				
	Share capital	362 500	362 500	362 500
	Share premium	312 500	312 500	312 500
	Other owners' eqyity	33 674	74 769	94 367
	Unallocated profit/loss	16 035	8 630	0
<b>Total owners' equity</b>		<b>724 709</b>	<b>758 399</b>	<b>769 367</b>
<b>Total liabilities and equity</b>		<b>19 767 762</b>	<b>18 862 713</b>	<b>18 549 418</b>

# Statement of changes in equity

KLP KOMMUNEKREDITT AS

2020 NOK THOUSANDS	Share capital	Share premium	Other equity	Total owners' equity
Equity 1 January 2020	362 500	312 500	94 367	769 367
Profit for the period	0	0	16 035	16 035
Other comprehensive income	0	0	0	0
<b>Total comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>16 035</b>	<b>16 035</b>
Group contribution received	0	0	31 740	31 740
Group contribution made	0	0	-83 480	-83 480
Tax on group contribution given 2019	0	0	-8 952	-8 952
<b>Total transactions with the owners</b>	<b>0</b>	<b>0</b>	<b>-60 693</b>	<b>-60 693</b>
<b>Equity 30 June 2020</b>	<b>362 500</b>	<b>312 500</b>	<b>49 709</b>	<b>724 709</b>
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
<b>Total comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>8 630</b>	<b>8 630</b>
Group contribution received	0	0	17 009	17 009
Group contribution made	0	0	-17 009	-17 009
<b>Total transactions with the owners</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Equity 30 June 2019</b>	<b>362 500</b>	<b>312 500</b>	<b>83 399</b>	<b>758 399</b>
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	19 598	19 598
Other comprehensive income	0	0	0	0
<b>Total comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>19 598</b>	<b>19 598</b>
Group contribution received	0	0	17 009	17 009
Group contribution made	0	0	-17 009	-17 009
<b>Total transactions with the owners</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Equity 31 December 2019</b>	<b>362 500</b>	<b>312 500</b>	<b>94 367</b>	<b>769 367</b>

# Statement of cash flow

KLP KOMMUNEKREDITT AS

NOK THOUSANDS	01.01.2020 -30.06.2020	01.01.2019 -30.06.2019	01.01.2019 -31.12.2019
<b>OPERATIONAL ACTIVITIES</b>			
Payments received from customers - interest, commission & charges	189 848	171 584	376 913
Disbursements on loans customers & credit institutions	-1 547 872	-418 187	-1 603 652
Receipts on loans customers & credit institutions	812 562	867 431	1 748 981
Net receipts/disbursements on operations	-7 635	-8 694	-19 859
Net receipts/disbursements from operating activities	-1 367	11 195	11 584
Net interest investment accounts	405	384	5 603
<b>Net cash flow from operating activities</b>	<b>-554 059</b>	<b>623 713</b>	<b>519 570</b>
<b>INVESTMENT ACTIVITIES</b>			
Payments on the purchase of securities	-1 722 545	-1 495 617	-2 035 775
Receipts on sale of securities	1 053 267	164 187	1 396 679
Receipts of interest from securities	15 828	11 160	29 868
<b>Net cash flow from investment activities</b>	<b>-653 449</b>	<b>-1 320 270</b>	<b>-609 228</b>
<b>FINANCING ACTIVITIES</b>			
Receipts on loans from credit institutions	4 000 000	3 500 000	6 000 000
Disbursements on loans from credit institutions	-3 179 000	-3 105 000	-5 139 000
Change of interest of loans	0	407 000	-378 000
Net payment of interest on loans credit institutions	-222 387	-138 700	-318 269
Receipts in internal funding	2 910 000	400 000	2 420 000
Disbursements in internal funding	-2 555 000	-560 000	-2 530 000
Net payment of interest on internal funding	-3 828	-2 076	-3 742
Payment on group contribution	-60 693	-5 081	-5 081
<b>Net cash flows from financing activities</b>	<b>889 092</b>	<b>496 143</b>	<b>45 908</b>
<b>Net cash flow during the period</b>	<b>-318 416</b>	<b>-200 414</b>	<b>-43 750</b>
Cash and cash equivalents at the start of the period	587 644	631 394	631 394
Cash and cash equivalents at the end of the period	269 227	430 980	587 644
<b>Net receipts/disbursements of cash</b>	<b>-318 416</b>	<b>-200 414</b>	<b>-43 750</b>



# 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 2020 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, 12. August 2020

**Aage E. Schaanning**  
Chair  
(Sign.)

**Kjell Fosse**  
(Sign.)

**Aud Norunn Strand**  
(Sign.)

**Karianne Oldernes Tung**  
(Sign.)

**Carl Steinar Lous**  
Managing Director  
(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. 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 2020 – 30 June 2020, with a specification of the results in the second quarter. The interim Financial Statements has not been audited.

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

The amendments to IAS 12 Income Tax, effective from 2019, have had an effect on the interim financial statements. The tax effect of all distributions in 2019 was in the first quarter recognized to profit or loss, other income and expenses or in equity in accordance with

where the company originally recognized the transactions that generated the distribution. This entails an income recognition of the tax effect on the group contribution provided in the income statement, which was recognized in other owners' equity. At the same time, this was offset against higher earnings, so that the net effect on equity was zero. Comparative figures are not changed.

Other accounting principles and calculations are the same in the interim financial statement as in the annual report for 2019, please see the annual report for further information.

**NOTE 3** Net interest income

NOK THOUSANDS	Q2 2020	Q2 2019	01.01.2020 -30.06.2020	01.01.2019 -30.06.2019	01.01.2019 -31.12.2019
Interest income on loans to customers, amortised cost	81 952	92 982	188 441	183 648	384 962
Interest income on loans to credit institutions, amortised cost	180	1 314	1 525	2 499	5 622
<b>Total interest income, amortised cost</b>	<b>82 132</b>	<b>94 296</b>	<b>189 966</b>	<b>186 146</b>	<b>390 583</b>
Interest income on bonds and certificates, fair value	9 073	9 339	17 928	13 159	31 144
Other interest income, fair value	23 501	25 539	50 435	51 036	103 983
<b>Total interest, fair value</b>	<b>32 573</b>	<b>34 878</b>	<b>68 363</b>	<b>64 195</b>	<b>135 127</b>
<b>Total interest income</b>	<b>114 705</b>	<b>129 174</b>	<b>258 329</b>	<b>250 341</b>	<b>525 710</b>
Interest expenses on debt to KLP Banken AS, amortised cost	-2 644	-965	-3 786	-2 004	-3 703
Interest expenses on issued securities, amortised cost	-66 943	-81 820	-165 617	-157 263	-339 456
<b>Total interest costs, amortised cost</b>	<b>-69 588</b>	<b>-82 785</b>	<b>-169 403</b>	<b>-159 267</b>	<b>-343 159</b>
Other interest expenses, fair value	-26 707	-29 813	-55 768	-60 000	-119 667
<b>Total interest costs</b>	<b>-96 295</b>	<b>-112 598</b>	<b>-225 171</b>	<b>-219 268</b>	<b>-462 826</b>
<b>Net interest income</b>	<b>18 410</b>	<b>16 576</b>	<b>33 158</b>	<b>31 073</b>	<b>62 884</b>

**NOTE 4** Loans to customers

NOK THOUSANDS	30.06.2020	30.06.2019	31.12.2019
Loans to customers before write-downs	17 188 243	16 182 413	16 468 493
Write-downs steps 1 and 2	-170	-158	-161
<b>Loans to customers after write-downs</b>	<b>17 188 073</b>	<b>16 182 254</b>	<b>16 468 332</b>
Accrued interest	63 959	69 380	65 366
Fair value hedging	111 043	51 274	21 397
Premium/discount	-6 541	-9 769	-7 701
<b>Loans to customers</b>	<b>17 356 534</b>	<b>16 293 140</b>	<b>16 547 394</b>

All lending comprises loans to, or loans guaranteed by, Norwegian municipalities and county administrations, including loans to local government enterprises and intermunicipal (public sector lending). Guarantees are of the ordinary surety type covering both repayments and interest.

## NOTE 5 Categories of financial instruments

NOK THOUSANDS	30.06.2020		30.06.2019		31.12.2019	
	Capitalized value	Fair value	Capitalized value	Fair value	Capitalized value	Fair value
<b>FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS</b>						
Fixed-income securities	2 037 807	2 037 807	2 061 803	2 061 803	1 365 769	1 365 769
Financial derivatives	81 383	81 383	60 144	60 144	40 785	40 785
<b>Total financial assets at fair value through profit and loss</b>	<b>2 119 190</b>	<b>2 119 190</b>	<b>2 121 947</b>	<b>2 121 947</b>	<b>1 406 554</b>	<b>1 406 554</b>
<b>FINANCIAL ASSETS FAIR VALUE HEDGING</b>						
Lending to Norwegian municipalities	3 691 277	3 741 577	3 155 193	3 196 634	2 796 387	2 835 237
<b>Total financial assets fair value hedging</b>	<b>3 691 277</b>	<b>3 741 577</b>	<b>3 155 193</b>	<b>3 196 634</b>	<b>2 796 387</b>	<b>2 835 237</b>
<b>FINANCIAL ASSETS AT AMORTIZED COST</b>						
Loans to and receivables from credit institutions	278 532	278 532	440 282	440 282	594 461	594 461
Lending to Norwegian municipalities	13 665 257	13 658 998	13 137 947	13 129 140	13 751 007	13 744 458
<b>Total financial assets at amortized cost</b>	<b>13 943 788</b>	<b>13 937 529</b>	<b>13 578 229</b>	<b>13 569 422</b>	<b>14 345 468</b>	<b>14 338 919</b>
<b>Total financial assets</b>	<b>19 754 255</b>	<b>19 798 296</b>	<b>18 855 368</b>	<b>18 888 002</b>	<b>18 548 409</b>	<b>18 580 710</b>
<b>FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS</b>						
Financial derivatives	128 898	128 898	84 966	84 966	60 674	60 674
<b>Total financial liabilities at fair value through profit and loss</b>	<b>128 898</b>	<b>128 898</b>	<b>84 966</b>	<b>84 966</b>	<b>60 674</b>	<b>60 674</b>
<b>FINANCIAL LIABILITIES FAIR VALUE HEDGING</b>						
Covered bonds issued	1 862 106	1 869 421	1 825 671	1 805 912	1 793 121	1 809 391
<b>Total financial liabilities fair value hedging</b>	<b>1 862 106</b>	<b>1 869 421</b>	<b>1 825 671</b>	<b>1 805 912</b>	<b>1 793 121</b>	<b>1 809 391</b>
<b>FINANCIAL LIABILITIES AT AMORTIZED COST</b>						
Liabilities to credit institutions	675 127	675 127	270 137	270 137	320 169	320 169
Covered bonds issued	16 369 565	16 425 573	15 915 232	15 890 535	15 594 337	15 662 495
<b>Total financial liabilities at amortized cost</b>	<b>17 044 692</b>	<b>17 100 700</b>	<b>16 185 368</b>	<b>16 160 671</b>	<b>15 914 507</b>	<b>15 982 664</b>
<b>Total financial liabilities</b>	<b>19 035 696</b>	<b>19 099 019</b>	<b>18 096 005</b>	<b>18 051 549</b>	<b>17 768 302</b>	<b>17 852 729</b>

**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. If a bond lacks an appropriate spread curve, spread from a comparable bond from the same issuer is used. If a bond lacks an appropriate spread curve, spread from a comparable bond from the same issuer 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

30.06.2020 NOK THOUSANDS	Level 1	Level 2	Level 3	Total
<b>ASSETS BOOKED AT FAIR VALUE</b>				
Fixed-income securities	34 994	2 002 813	0	2 037 807
Financial derivatives	0	81 383	0	81 383
<b>Total assets at fair value</b>	<b>34 994</b>	<b>2 084 196</b>	<b>0</b>	<b>2 119 190</b>
<b>LIABILITIES BOOKED AT FAIR VALUE</b>				
Financial derivatives (liabilities)	0	128 898	0	128 898
<b>Total financial liabilities at fair value</b>	<b>0</b>	<b>128 898</b>	<b>0</b>	<b>128 898</b>

  

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

  

31.12.2019 NOK THOUSANDS	Level 1	Level 2	Level 3	Total
<b>ASSETS BOOKED AT FAIR VALUE</b>				
Fixed-income securities	59 879	1 305 890	0	1 365 769
Financial derivatives	0	40 785	0	40 785
<b>Total assets at fair value</b>	<b>59 879</b>	<b>1 346 675</b>	<b>0</b>	<b>1 406 554</b>
<b>LIABILITIES BOOKED AT FAIR VALUE</b>				
Financial derivatives (liabilities)	0	60 674	0	60 674
<b>Total financial liabilities at fair value</b>	<b>0</b>	<b>60 674</b>	<b>0</b>	<b>60 674</b>

**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.

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.

There have been no transfers between Level 1 and Level 2.

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

NOK THOUSANDS	30.06.2020	30.06.2019	31.12.2019
Bond debt, nominal amount	19 425 000	18 138 000	18 604 000
Adjustments	65 397	44 456	19 695
Accrued interest	41 275	73 447	63 764
Own holdings, nominal amount	-1 300 000	-515 000	-1 300 000
<b>Total debt securities issued</b>	<b>18 231 671</b>	<b>17 740 903</b>	<b>17 387 458</b>

Interest rate on borrowings through the issuance of securities on the reporting date: 0.74 % 1.82 % 2.22 %

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 31.12.2019	Issued	Matured/redemed	Other adjustments	Balance sheet 30.06.2020
Bond debt, nominal amount	18 604 000	4 000 000	-3 179 000	0	19 425 000
Adjustments	19 695	0	0	45 702	65 397
Accrued interest	63 764	0	0	-22 489	41 275
Own holdings, nominal amount	-1 300 000	0	0	0	-1 300 000
<b>Total debt securities issued</b>	<b>17 387 458</b>	<b>4 000 000</b>	<b>-3 179 000</b>	<b>23 213</b>	<b>18 231 671</b>

**NOTE 8** Over-collateralisation

NOK THOUSANDS	30.06.2020	30.06.2019	31.12.2019
<b>SECURITY POOL</b>			
Loans to customers	17 937 792	16 335 692	16 587 551
Financial derivatives (net)	-47 376	-24 736	-20 236
Additional collateral <sup>1</sup>	2 775 306	2 613 578	2 790 615
<b>Total security pool</b>	<b>20 665 723</b>	<b>18 924 534</b>	<b>19 357 930</b>
Outstanding covered bonds incl. own funds and premium/discount	19 600 303	18 293 736	18 710 618
<b>Coverage of the security pool</b>	<b>105.4 %</b>	<b>103.4 %</b>	<b>103.5 %</b>

<sup>1</sup> 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

30.06.2020 NOK THOUSANDS				
	Due date	Nominal	Accrued interest	Book value
Debt to KLP Banken AS	15.12.2021	50 000	10	50 010
Debt to KLP Banken AS	15.12.2021	100 000	19	100 019
Debt to KLP Banken AS	15.12.2021	150 000	27	150 027
Debt to KLP Banken AS	15.12.2021	40 000	8	40 008
Debt to KLP Banken AS	15.12.2021	85 000	16	85 016
Debt to KLP Banken AS	15.12.2021	250 000	48	250 048
<b>Total liabilities to credit institutions</b>		<b>675 000</b>	<b>127</b>	<b>675 127</b>

Interest rate on debt to credit institutions at the reporting date: 0.43 %

The interest rate is calculated as a weighted average of the act/360 basis.

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
<b>Total liabilities to credit institutions</b>		<b>270 000</b>	<b>137</b>	<b>270 137</b>

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.

31.12.2019 NOK THOUSANDS				
	Due date	Nominal	Accrued interest	Book value
Debt to KLP Banken AS	15.12.2021	220 000	116	220 116
Debt to KLP Banken AS	15.12.2021	100 000	53	100 053
<b>Total liabilities to credit institutions</b>		<b>320 000</b>	<b>169</b>	<b>320 169</b>

Interest rate on debt to credit institutions at the reporting date: 1.19 %

The interest rate is calculated as a weighted average of the act/360 basis.

**NOTE 10** Financial assets and liabilities subject to net settlement

30.06.2020 NOK THOUSANDS				Related sums that are not presented net		
	Gross financial assets/ liabilites	Gross assets/ liabilites presented net	Book value	Financial instruments	Security in cash	Net recognised value
<b>ASSETS</b>						
Financial derivatives	81 383	0	81 383	-81 383	0	0
<b>Total</b>	<b>81 383</b>	<b>0</b>	<b>81 383</b>	<b>-81 383</b>	<b>0</b>	<b>0</b>
<b>LIABILITIES</b>						
Financial derivatives	128 898	0	128 898	-81 383	0	47 515
<b>Total</b>	<b>128 898</b>	<b>0</b>	<b>128 898</b>	<b>-81 383</b>	<b>0</b>	<b>47 515</b>

  

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

  

31.12.2019 NOK THOUSANDS				Related sums that are not presented net		
	Gross financial assets/ liabilites	Gross assets/ liabilites presented net	Book value	Financial instruments	Security in cash	Net recognised value
<b>ASSETS</b>						
Financial derivatives	40 785	0	40 785	-40 785	0	0
<b>Total</b>	<b>40 785</b>	<b>0</b>	<b>40 785</b>	<b>-40 785</b>	<b>0</b>	<b>0</b>
<b>LIABILITIES</b>						
Financial derivatives	60 674	0	60 674	-40 785	0	19 889
<b>Total</b>	<b>60 674</b>	<b>0</b>	<b>60 674</b>	<b>-40 785</b>	<b>0</b>	<b>19 889</b>

The purpose of the note is to show the potential effect of netting agreements at the KLP Kommunekreditt AS. The note shows derivative positions in the financial statement.

**NOTE 11** Transactions with related parties

NOK THOUSANDS	01.01.2020 -30.06.2020	01.01.2019 -30.06.2019	01.01.2019 -31.12.2019
KLP Banken AS, interest on borrowing	3 786	2 004	3 703
KLP Banken AS, administrative services (at cost)	6 026	6 643	13 335
KLP Kapitalforvaltning AS, fees for services provided	69	44	103

NOK THOUSANDS	30.06.2020	30.06.2019	31.12.2019
<b>BALANCES</b>			
KLP Banken AS, debt to credit institutions	-675 127	-270 137	-320 169
KLP Banken AS, loan settlement	12 152	7 345	1 010
<b>Net outstanding accounts to:</b>			
KLP Banken AS	-1 098	-938	-1 196
KLP Kapitalforvaltning AS	-69	-19	-24

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 on general market terms, with the exception of the Company's share of common functions, which is allocated at cost. Allocation is based on actual use. All internal receivables are settled as they arise.

**NOTE 12** Other assets

NOK THOUSANDS	30.06.2020	30.06.2019	31.12.2019
Intercompany receivables	12 152	7 345	1 010
Prepaid expenses	1 355	0	0
<b>Total other assets</b>	<b>13 507</b>	<b>7 345</b>	<b>1 010</b>

**NOTE 13** Other liabilities and provision for accrued costs

NOK THOUSANDS	30.06.2020	30.06.2019	31.12.2019
Creditors	2 755	107	113
Intercompany payables	1 167	956	1 221
Tax payable	0	0	8 952
Other liabilities	1 998	2 435	1
<b>Total other liabilities</b>	<b>5 921</b>	<b>3 499</b>	<b>10 286</b>
VAT	51	0	78
<b>Total accrued costs and liabilities</b>	<b>51</b>	<b>0</b>	<b>78</b>

**NOTE 14** Capital adequacy

NOK THOUSANDS	30.06.2020	30.06.2019	31.12.2019
Share capital and share premium fund	675 000	675 000	675 000
Other owners' equity	42 627	74 769	94 367
<b>Total owners' equity</b>	<b>717 627</b>	<b>749 769</b>	<b>769 367</b>
Interim profit/loss	0	8 630	0
Adjustments due to requirements for proper valuation	-2 038	-2 062	-1 366
<b>Core capital/Tier 1 capital</b>	<b>715 589</b>	<b>756 337</b>	<b>768 001</b>
Supplementary capital/Tier 2 capital	0	0	0
<b>Supplementary capital/Tier 2 capital</b>	<b>0</b>	<b>0</b>	<b>0</b>
Total eligible own funds (Tier 1 and Tier 2 capital)	715 589	756 337	768 001
Capital requirement	313 059	298 008	297 257
<b>Surplus of own funds (Tier 1 and Tier 2 capital)</b>	<b>402 530</b>	<b>458 329</b>	<b>470 745</b>
ESTIMATE BASIS CREDIT RISK:			
Institutions	74 413	101 554	127 049
Local and regional authorities	3 579 358	3 292 607	3 346 561
Covered bonds	147 238	203 188	130 589
Other items	1 355	0	1 010
<b>Calculation basis credit risk</b>	<b>3 802 364</b>	<b>3 597 349</b>	<b>3 605 209</b>
Credit risk	304 189	287 788	288 417
Operating risk	8 746	10 115	8 745
Credit valuation adjustment	124	105	96
<b>Total capital requirement assets</b>	<b>313 059</b>	<b>298 008</b>	<b>297 257</b>
Core capital adequacy ratio	18.3 %	20.3 %	20.7 %
Supplementary capital ratio	0.0 %	0.0 %	0.0 %
<b>Capital adequacy ratio</b>	<b>18.3 %</b>	<b>20.3 %</b>	<b>20.7 %</b>
<b>Leverage ratio</b>	<b>3.6 %</b>	<b>3.9 %</b>	<b>4.1 %</b>
CAPITAL REQUIREMENT PER 30.06.2020	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	1.0 %	0.0 %	1.0 %
<b>Current capital requirement incl. buffers</b>	<b>11.0 %</b>	<b>3.5 %</b>	<b>14.5 %</b>
<b>Capital requirement leverage ratio</b>	<b>3.0 %</b>	<b>0.0 %</b>	<b>3.0 %</b>

**NOTE 15** Fixed-income securities

NOK THOUSANDS	30.06.2020		30.06.2019		31.12.2019	
	Acquisition cost	Market value	Acquisition cost	Market value	Acquisition cost	Market value
Certificates	562 180	565 424	29 925	29 925	59 832	59 879
Bonds	1 470 555	1 472 383	2 028 176	2 031 877	1 306 280	1 305 890
<b>Total fixed-income securities</b>	<b>2 032 735</b>	<b>2 037 807</b>	<b>2 058 102</b>	<b>2 061 803</b>	<b>1 366 112</b>	<b>1 365 769</b>

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

**NOTE 16** Contingent liabilities

NOK THOUSANDS	30.06.2020	30.06.2019	31.12.2019
Loan commitment	19 650	339 793	370 820
<b>Total contingent liabilities</b>	<b>19 650</b>	<b>339 793</b>	<b>370 820</b>

**NOTE 17** Net gain/(loss) on financial instruments

NOK THOUSANDS	01.01.2020 -30.06.2020	01.01.2019 -30.06.2019	01.01.2019 -31.12.2019
Net gain/(loss) on fixed-income securities	682	1 135	-1 824
Net gain/(loss) financial derivatives and realized repurchase of own debt	-15 889	-13 086	-16 343
<b>Total net gain/(loss) on financial instruments</b>	<b>-15 207</b>	<b>-11 951</b>	<b>-18 167</b>

**NOTE 18** Loan loss provision

Changes in provisions for expected losses at 30th of June 2020 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 in 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
<b>EXPECTED CREDIT LOSS (ECL) - LOANS TO CUSTOMERS, AMORTISED COST</b>				
Opening balance ECL 01.01.2020	161	0	0	161
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	17	0	0	17
Write-offs	-7	0	0	-7
<b>Closing balance ECL 30.06.2020</b>	<b>170</b>	<b>0</b>	<b>0</b>	<b>170</b>
Changes (01.01.2020-30.06.2020)	9	0	0	9

NOK THOUSANDS	12-month ECL stage 1	Lifetime ECL not credit impaired stage 2	Lifetime ECL credit impaired stage 3	Total
<b>VALUE OF LENDING AND RECEIVABLES FOR CUSTOMERS RECOGNISED IN THE BALANCE SHEET - AMORTISED COST</b>				
Gross lending 01.01.2020	16 533 859	0	0	16 533 859
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	-340 853	0	0	-340 853
New lending	1 749 125	0	0	1 749 125
Write-offs	-689 929	0	0	-689 929
<b>Gross lending 30.06.2020</b>	<b>17 252 202</b>	<b>0</b>	<b>0</b>	<b>17 252 202</b>

## Quarterly earnings trend

NOK MILLIONS	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019
Interest income	114.7	143.6	140.7	134.7	129.2
Interest expense	-96.3	-128.9	-121.4	-122.2	-112.6
<b>Net interest income</b>	<b>18.4</b>	<b>14.7</b>	<b>19.3</b>	<b>12.5</b>	<b>16.6</b>
Net gain/(loss) financial instruments	-8.7	-6.5	-4.7	-1.5	-6.4
<b>Total other operating income</b>	<b>-8.7</b>	<b>-6.5</b>	<b>-4.7</b>	<b>-1.5</b>	<b>-6.4</b>
Other operating expenses	-4.7	-4.2	-8.2	-3.3	-3.4
<b>Total operating expenses</b>	<b>-4.7</b>	<b>-4.2</b>	<b>-8.2</b>	<b>-3.3</b>	<b>-3.4</b>
<b>Operating profit/loss before tax</b>	<b>5.1</b>	<b>4.0</b>	<b>6.4</b>	<b>7.7</b>	<b>6.7</b>
Tax ordinary income	-1.1	8.1	-1.4	-1.7	-1.5
<b>Profit for the period</b>	<b>4.0</b>	<b>12.1</b>	<b>5.0</b>	<b>6.0</b>	<b>5.3</b>

## Key figures - accumulated

NOK MILLIONS	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019
Pre-tax income	9.1	4.0	25.1	18.7	11.1
Net interest income	33.2	14.7	62.9	43.6	31.1
Other operating income	0.0	0.0	0.0	0.0	0.0
Other operating cost	-8.9	-4.2	-19.6	-11.4	-8.1
Net gain/(loss) financial instruments	-15.2	-6.5	-18.2	-13.5	-12.0
Lending with public sector guarantee	17 356.5	16 823.5	16 547.4	16 524.7	16 293.1
Non-performing loans	0.0	0.0	0.0	0.0	0.0
Total liabilities created on issuance of securities	18 231.7	18 136.8	17 387.5	17 646.2	17 740.9
Other borrowing	675.1	935.2	320.2	250.1	270.1
Total assets	19 767.8	19 975.3	18 549.4	18 751.7	18 862.7
Average total assets	19 158.6	19 262.4	18 377.8	18 479.0	18 534.5
Equity	724.7	720.7	769.4	764.4	758.4
Interest net	0.17 %	0.08 %	0.34 %	0.24 %	0.17 %
Profit/loss from ordinary operation before taxes	0.05 %	0.02 %	0.14 %	0.10 %	0.06 %
Return on equity	2.36 %	2.08 %	3.35 %	3.33 %	2.95 %
Capital adequacy ratio	18.3 %	18.2 %	20.7 %	20.2 %	20.3 %
Liquidity coverage ratio (LCR)	5 046 %	215 %	288 %	722 %	262 %





**KLP KOMMUNEKREDITT AS**

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