

KLP



# Interim report

KLP KOMMUNEKREDITT AS  
Q1 2020

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# Interim Financial Statements

## KLP KOMMUNEKREDITT AS

Main features by first quarter end:

- Stable lending balance and net interest income
- Market value of liquid investments down due to market turmoil
- No recognized 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 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.

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 quarter were NOK 14.7 (14.5)<sup>1</sup> million.

Income effects of financial instruments as at the first quarter amounts to a loss of NOK -6.5 (-5.6) million. This is partly due to the negative development of market values on liquid investments as well as loss from repurchasing own bond issues.

Operating expenses in the same period amounted to 4.2 (4.6) million. The Company has not had any credit losses last quarter, and low loan loss provisions are recognized in the income statement.

The pre-tax profit by quarter end was NOK 4.0 (4.3) million. The change in profit is mainly a consequence of decreased market value on investments in liquid bonds, due to market turmoil caused by the Covid-19 pandemic.

### LENDING

The Company's loans to customers as at 31 March 2020 amounted to NOK 16.8 (16.7) billion. The Company's borrowers are municipalities, county municipalities and local government enterprises.

### BORROWING

The Company's borrowing comprises covered bonds as well as borrowing from KLP Banken AS. There has been no covered bond issues this quarter. Repurchase of own issues amounted to NOK 0.8 billion in the quarter. All covered bonds have AAA rating. The Company occasionally restructures the debt portfolio with the purpose of increasing average duration. This may cause both gain and loss. Bond restructuring have caused total accounting losses of NOK -1.8 (-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 high credit quality, principally investments in covered bonds with AAA rating. As at 31 March 2020, the bond portfolio's market value was NOK 2.3 (1.5) billion. Realized and unrealized market value changes so far this year has created a profit and loss effect amounting to NOK -4.7 (-1.2) million.

### 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 and foreign exchange risk arising within the borrowing and lending activity are reduced using derivatives. The Company is to have sufficient long-term financing and limits have been established to ensure that that this objective is achieved. The credit risk in the Company is low and the Company's lending is limited to 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 first quarter 2020, core capital i.a.w. the capital adequacy rules was NOK 715.3 (748.2) 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 18.2 (19.7) per cent at the end of the first quarter. The minimum statutory requirement is 14.5 per cent capital adequacy ratio. Leverage ratio was 3.5 (3.9) per cent. The minimum statutory requirement is 3.0 per cent.

### SUMMARY OF PANDEMIC EFFECTS ON THE FINANCIAL STATEMENT

The market turmoil caused by the corona virus (Covid-19 pandemic) has decreased the market value of the company's liquid investments (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.

Going forward it is expected that the conducted interest adjustments on lending will decrease lending margins, and thus reduce net interest income in the short term. The companies in the KLP Banken Group meets all statutory requirements for capital adequacy and liquidity and possess capacity for further growth. If the crisis persists it is expected that funding provided from KLP still may be used to maintain the financial capacity towards public sector borrowers.

<sup>1</sup>Figures in parenthesis are from the corresponding period last year.

# Income statement

KLP KOMMUNEKREDITT AS

NOTE	NOK THOUSANDS	Q1 2020	Q1 2019	01.01.2019 -31.12.2019
	Interest income, amortised cost	107 835	91 850	390 583
	Interest income at fair value	35 790	29 316	135 127
3	<b>Total interest income</b>	<b>143 624</b>	<b>121 167</b>	<b>525 710</b>
	Interest expense, amortised cost	-99 815	-76 482	-343 159
	Interest expense at fair value	-29 060	-30 187	-119 667
3	<b>Total interest costs</b>	<b>-128 876</b>	<b>-106 669</b>	<b>-462 826</b>
3	<b>Net interest income</b>	<b>14 749</b>	<b>14 497</b>	<b>62 884</b>
17	Net gain/(loss) financial instruments	-6 547	-5 551	-18 167
	<b>Total other operating income</b>	<b>-6 547</b>	<b>-5 551</b>	<b>-18 167</b>
	Other operating expenses	-4 208	-4 619	-19 593
18	Net loan losses	-2	1	2
	<b>Total operating expenses</b>	<b>-4 210</b>	<b>-4 618</b>	<b>-19 591</b>
	<b>Operating profit/loss before tax</b>	<b>3 992</b>	<b>4 328</b>	<b>25 126</b>
	Tax ordinary income	8 074	-952	-5 528
	<b>Profit for the period</b>	<b>12 066</b>	<b>3 376</b>	<b>19 598</b>
	<b>Other comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>0</b>
	<b>Comprehensive income for the period</b>	<b>12 066</b>	<b>3 376</b>	<b>19 598</b>

# Balance sheet

KLP KOMMUNEKREDITT AS

NOTE	NOK THOUSANDS	31.03.2020	31.03.2019	31.12.2019
<b>ASSETS</b>				
5	Loans to credit institutions	797 230	718 225	594 461
4,5	Loans to customers	16 823 530	16 659 827	16 547 394
5,6,15	Fixed-income securities	2 281 582	1 545 342	1 365 769
5,6	Financial derivatives	71 753	69 516	40 785
12	Other assets	1 208	13 770	1 010
<b>Total assets</b>		<b>19 975 303</b>	<b>19 006 680</b>	<b>18 549 418</b>
<b>LIABILITIES AND OWNERS EQUITY</b>				
<b>LIABILITIES</b>				
5,9	Debt to credit institutions	935 246	380 212	320 169
5,7	Debt securities issued	18 136 755	17 277 380	17 387 458
5,6	Financial derivatives	117 917	98 574	60 674
	Deffered tax liabilities	1 385	4 810	1 385
13	Other liabilities	62 606	492 504	10 286
13	Provision for accrued costs and liabilities	652	55	78
<b>Total liabilities</b>		<b>19 254 563</b>	<b>18 253 535</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	12 066	3 376	0
<b>Total owners' equity</b>		<b>720 740</b>	<b>753 145</b>	<b>769 367</b>
<b>Total liabilities and equity</b>		<b>19 975 303</b>	<b>19 006 680</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	12 066	12 066
Other comprehensive income	0	0	0	0
<b>Total comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>12 066</b>	<b>12 066</b>
Group contribution received	0	0	0	0
Group contribution made	0	0	-51 740	-51 740
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 31 March 2020</b>	<b>362 500</b>	<b>312 500</b>	<b>45 740</b>	<b>720 740</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	3 376	3 376
Other comprehensive income	0	0	0	0
<b>Total comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>3 376</b>	<b>3 376</b>
<b>Total transactions with the owners</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Equity 31 March 2019</b>	<b>362 500</b>	<b>312 500</b>	<b>78 145</b>	<b>753 145</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	Q1 2020	Q1 2019	01.01.2019 -31.12.2019
<b>OPERATIONAL ACTIVITIES</b>			
Payments received from customers - interest, commission & charges	82 256	71 286	376 913
Disbursements on loans customers & credit institutions	-584 970	-198 187	-1 603 652
Receipts on loans customers & credit institutions	418 374	298 138	1 748 981
Net receipts/disbursements on operations	-3 925	-5 124	-19 859
Net receipts/disbursements from operating activities	-5 353	8 450	11 584
Net interest investment accounts	323	138	5 603
<b>Net cash flow from operating activities</b>	<b>-93 294</b>	<b>174 701</b>	<b>519 570</b>
<b>INVESTMENT ACTIVITIES</b>			
Payments on the purchase of securities	-1 018 835	-403 207	-2 035 775
Receipts on sale of securities	100 287	59 906	1 396 679
Receipts of interest from securities	6 846	3 257	29 868
<b>Net cash flow from investment activities</b>	<b>-911 702</b>	<b>-340 044</b>	<b>-609 228</b>
<b>FINANCING ACTIVITIES</b>			
Receipts on loans from credit institutions	0	1 500 000	6 000 000
Disbursements on loans from credit institutions	-100 000	-900 000	-5 139 000
Change of interest of loans	800 000	-249 000	-378 000
Net payment of interest on loans credit institutions	-112 543	-58 766	-318 269
Receipts in internal funding	1 090 000	250 000	2 420 000
Disbursements in internal funding	-475 000	-300 000	-2 530 000
Net payment of interest on internal funding	-1 066	-1 039	-3 742
Payment on group contribution	0	0	-5 081
<b>Net cash flows from financing activities</b>	<b>1 201 391</b>	<b>241 195</b>	<b>45 908</b>
<b>Net cash flow during the period</b>	<b>196 394</b>	<b>75 852</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	784 038	707 246	587 644
<b>Net receipts/disbursements of cash</b>	<b>196 394</b>	<b>75 852</b>	<b>-43 750</b>

# Notes to the accounts

## KLP KOMMUNEKREDITT AS

### NOTE 1 General information

KLP Kommunekreditt AS was formed on 25 August 2009. The company is a credit enterprise 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 – 31 March 2020, with a specification of the results in the first 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, will have an effect on the interim financial statements. The tax effect of all distributions in 2019 shall be recognized in period 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 is recognized in other owners' equity. At the same time, this is offset against higher earnings, so that the net effect on equity is 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	Q1 2020	Q1 2019	01.01.2019 -31.12.2019
Interest income on loans to customers, amortised cost	106 489	90 665	384 962
Interest income on loans to credit institutions, amortised cost	1 345	1 185	5 622
<b>Total interest income, amortised cost</b>	<b>107 835</b>	<b>91 850</b>	<b>390 583</b>
Interest income on bonds and certificates, fair value	8 856	3 820	31 144
Other interest income, fair value	26 934	25 497	103 983
<b>Total interest, fair value</b>	<b>35 790</b>	<b>29 316</b>	<b>135 127</b>
<b>Total interest income</b>	<b>143 624</b>	<b>121 167</b>	<b>525 710</b>
Interest expenses on debt to KLP Banken AS, amortised cost	-1 142	-1 039	-3 703
Interest expenses on issued securities, amortised cost	-98 673	-75 443	-339 456
<b>Total interest costs, amortised cost</b>	<b>-99 815</b>	<b>-76 482</b>	<b>-343 159</b>
Other interest expenses, fair value	-29 060	-30 187	-119 667
<b>Total interest costs</b>	<b>-128 876</b>	<b>-106 669</b>	<b>-462 826</b>
<b>Net interest income</b>	<b>14 749</b>	<b>14 497</b>	<b>62 884</b>

**NOTE 4** Loans to customers

NOK THOUSANDS	31.03.2020	31.03.2019	31.12.2019
Loans to customers before write-downs	16 637 337	16 537 396	16 468 493
Write-downs steps 1 and 2	-163	-162	-161
<b>Loans to customers after write-downs</b>	<b>16 637 174</b>	<b>16 537 234</b>	<b>16 468 332</b>
Accrued interest	89 599	76 697	65 366
Fair value hedging	103 829	56 520	21 397
Premium/discount	-7 073	-10 624	-7 701
<b>Loans to customers</b>	<b>16 823 530</b>	<b>16 659 827</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	31.03.2020		31.03.2019		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	2 281 582	2 281 582	1 545 342	1 545 342	1 365 769	1 365 769
Financial derivatives	71 753	71 753	69 516	69 516	40 785	40 785
<b>Total financial assets at fair value through profit and loss</b>	<b>2 353 335</b>	<b>2 353 335</b>	<b>1 614 858</b>	<b>1 614 858</b>	<b>1 406 554</b>	<b>1 406 554</b>
<b>FINANCIAL ASSETS FAIR VALUE HEDGING</b>						
Lending to Norwegian municipalities	3 013 729	3 013 229	3 355 352	3 400 339	2 796 387	2 835 237
<b>Total financial assets fair value hedging</b>	<b>3 013 729</b>	<b>3 013 229</b>	<b>3 355 352</b>	<b>3 400 339</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	797 230	797 230	718 225	718 225	594 461	594 461
Lending to Norwegian municipalities	13 809 801	13 797 500	13 304 475	13 294 232	13 751 007	13 744 458
<b>Total financial assets at amortized cost</b>	<b>14 607 030</b>	<b>14 594 729</b>	<b>14 022 700</b>	<b>14 012 457</b>	<b>14 345 468</b>	<b>14 338 919</b>
<b>Total financial assets</b>	<b>19 974 094</b>	<b>19 961 294</b>	<b>18 992 910</b>	<b>19 027 654</b>	<b>18 548 409</b>	<b>18 580 710</b>
<b>FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS</b>						
Financial derivatives	117 917	117 917	98 574	98 574	60 674	60 674
<b>Total financial liabilities at fair value through profit and loss</b>	<b>117 917</b>	<b>117 917</b>	<b>98 574</b>	<b>98 574</b>	<b>60 674</b>	<b>60 674</b>
<b>FINANCIAL LIABILITIES FAIR VALUE HEDGING</b>						
Covered bonds issued	1 856 891	1 858 798	1 898 706	1 918 731	1 793 121	1 809 391
<b>Total financial liabilities fair value hedging</b>	<b>1 856 891</b>	<b>1 858 798</b>	<b>1 898 706</b>	<b>1 918 731</b>	<b>1 793 121</b>	<b>1 809 391</b>
<b>FINANCIAL LIABILITIES AT AMORTIZED COST</b>						
Liabilities to credit institutions	935 246	935 246	380 212	380 212	320 169	320 169
Covered bonds issued	16 279 864	16 277 454	15 378 674	15 465 774	15 594 337	15 662 495
<b>Total financial liabilities at amortized cost</b>	<b>17 215 110</b>	<b>17 212 700</b>	<b>15 758 886</b>	<b>15 845 986</b>	<b>15 914 507</b>	<b>15 982 664</b>
<b>Total financial liabilities</b>	<b>19 189 918</b>	<b>19 189 415</b>	<b>17 756 166</b>	<b>17 863 291</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

31.03.2020 NOK THOUSANDS	Level 1	Level 2	Level 3	Total
<b>ASSETS BOOKED AT FAIR VALUE</b>				
Fixed-income securities	59 965	2 221 618	0	2 281 582
Financial derivatives	0	71 753	0	71 753
<b>Total assets at fair value</b>	<b>59 965</b>	<b>2 293 370</b>	<b>0</b>	<b>2 353 335</b>
<b>LIABILITIES BOOKED AT FAIR VALUE</b>				
Financial derivatives (liabilities)	0	117 917	0	117 917
<b>Total financial liabilities at fair value</b>	<b>0</b>	<b>117 917</b>	<b>0</b>	<b>117 917</b>

  

31.03.2019 NOK THOUSANDS	Level 1	Level 2	Level 3	Total
<b>ASSETS BOOKED AT FAIR VALUE</b>				
Fixed-income securities	19 954	1 525 388	0	1 545 342
Financial derivatives	0	69 516	0	69 516
<b>Total assets at fair value</b>	<b>19 954</b>	<b>1 594 904</b>	<b>0</b>	<b>1 614 858</b>
<b>LIABILITIES BOOKED AT FAIR VALUE</b>				
Financial derivatives (liabilities)	0	98 574	0	98 574
<b>Total financial liabilities at fair value</b>	<b>0</b>	<b>98 574</b>	<b>0</b>	<b>98 574</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	31.03.2020	31.03.2019	31.12.2019
Bond debt, nominal amount	18 504 000	18 343 000	18 604 000
Adjustments	57 275	38 424	19 695
Accrued interest	75 480	66 956	63 764
Own holdings, nominal amount	-500 000	-1 171 000	-1 300 000
<b>Total debt securities issued</b>	<b>18 136 755</b>	<b>17 277 380</b>	<b>17 387 458</b>

Interest rate on borrowings through the issuance of securities on the reporting date: 2.16 % 1.68 % 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 31.03.2020
Bond debt, nominal amount	18 604 000	0	-100 000	0	18 504 000
Adjustments	19 695	0	0	37 580	57 275
Accrued interest	63 764	0	0	11 716	75 480
Own holdings, nominal amount	-1 300 000	0	800 000	0	-500 000
<b>Total debt securities issued</b>	<b>17 387 458</b>	<b>0</b>	<b>700 000</b>	<b>49 297</b>	<b>18 136 755</b>

**NOTE 8** Over-collateralisation

NOK THOUSANDS	31.03.2020	31.03.2019	31.12.2019
<b>SECURITY POOL</b>			
Loans to customers	16 817 394	16 705 349	16 587 551
Financial derivatives (net)	-46 176	-29 074	-20 236
Additional collateral <sup>1</sup>	3 026 732	2 702 976	2 790 615
<b>Total security pool</b>	<b>19 797 951</b>	<b>19 379 251</b>	<b>19 357 930</b>
Outstanding covered bonds incl. own funds and premium/discount	18 640 412	18 491 145	18 710 618
<b>Coverage of the security pool</b>	<b>106.2 %</b>	<b>104.8 %</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

31.03.2020 NOK THOUSANDS				
	Due date	Nominal	Accrued interest	Book value
Debt to KLP Banken AS	15.12.2021	40 000	24	40 024
Debt to KLP Banken AS	15.12.2021	120 000	73	120 073
Debt to KLP Banken AS	15.12.2021	75 000	46	75 046
Debt to KLP Banken AS	15.12.2021	500 000	95	500 095
Debt to KLP Banken AS	15.12.2021	200 000	8	200 008
<b>Total liabilities to credit institutions</b>		<b>935 000</b>	<b>246</b>	<b>935 246</b>

Interest rate on debt to credit institutions at the reporting date: 1.37 %

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

31.03.2019 NOK THOUSANDS				
	Due date	Nominal	Accrued interest	Book value
Debt to KLP Banken AS	15.12.2020	230 000	135	230 135
Debt to KLP Banken AS	15.12.2020	100 000	48	100 048
Debt to KLP Banken AS	15.12.2020	50 000	29	50 029
<b>Total liabilities to credit institutions</b>		<b>380 000</b>	<b>212</b>	<b>380 212</b>

Interest rate on debt to credit institutions at the reporting date: 1.24 %

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

31.03.2020 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
<b>ASSETS</b>						
Financial derivatives	71 753	0	71 753	0	0	0
<b>Total</b>	<b>71 753</b>	<b>0</b>	<b>71 753</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>LIABILITIES</b>						
Financial derivatives	117 917	0	117 917	-71 753	0	46 165
<b>Total</b>	<b>117 917</b>	<b>0</b>	<b>117 917</b>	<b>-71 753</b>	<b>0</b>	<b>46 165</b>

31.03.2019 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
<b>ASSETS</b>						
Financial derivatives	69 516	0	69 516	-69 516	0	0
<b>Total</b>	<b>69 516</b>	<b>0</b>	<b>69 516</b>	<b>-69 516</b>	<b>0</b>	<b>0</b>
<b>LIABILITIES</b>						
Financial derivatives	98 574	0	98 574	-69 516	0	29 058
<b>Total</b>	<b>98 574</b>	<b>0</b>	<b>98 574</b>	<b>-69 516</b>	<b>0</b>	<b>29 058</b>

31.12.2019 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
<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	Q1 2020	Q1 2019	01.01.2019 -31.12.2019
KLP Banken AS, interest on borrowing	1 142	1 039	3 703
KLP Banken AS, administrative services (at cost)	2 828	3 611	13 335
KLP Kapitalforvaltning AS, fees for services provided	0	25	103

NOK THOUSANDS	31.03.2020	31.03.2019	31.12.2019
<b>BALANCES</b>			
KLP Banken AS, debt to credit institutions	-935 246	-380 212	-320 169
KLP Banken AS, loan settlement	1 208	13 770	1 010
<b>Net outstanding accounts to:</b>			
KLP Banken AS	-988	-1 039	-1 196
KLP	-51 740	0	0
KLP Kapitalforvaltning AS	0	-25	-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	31.03.2020	31.03.2019	31.12.2019
Intercompany receivables	1 208	13 770	1 010
<b>Total other assets</b>	<b>1 208</b>	<b>13 770</b>	<b>1 010</b>

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

NOK THOUSANDS	31.03.2020	31.03.2019	31.12.2019
Creditors	47	75	113
Intercompany payables	988	1 064	1 221
Tax payable	8 952	5 081	8 952
Owed group contribution	51 740	0	0
Other liabilities	879	486 285	1
<b>Total other liabilities</b>	<b>62 606</b>	<b>492 504</b>	<b>10 286</b>
VAT	0	55	78
Accrued expenses	652	0	0
<b>Total accrued costs and liabilities</b>	<b>652</b>	<b>55</b>	<b>78</b>

**NOTE 14** Capital adequacy

NOK THOUSANDS	31.03.2020	31.03.2019	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>
Adjustments due to requirements for proper valuation	-2 282	-1 545	-1 366
<b>Core capital/Tier 1 capital</b>	<b>715 345</b>	<b>748 224</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)	715 345	748 224	768 001
Capital requirement	315 258	303 346	297 257
<b>Surplus of own funds (Tier 1 and Tier 2 capital)</b>	<b>400 087</b>	<b>444 878</b>	<b>470 745</b>
ESTIMATE BASIS CREDIT RISK:			
Institutions	173 592	160 302	127 049
Local and regional authorities	3 453 586	3 351 124	3 346 561
Covered bonds	200 540	152 539	130 589
Other items	2 231	0	1 010
<b>Calculation basis credit risk</b>	<b>3 829 949</b>	<b>3 663 965</b>	<b>3 605 209</b>
Credit risk	306 396	293 117	288 417
Operating risk	8 745	10 115	8 745
Credit valuation adjustment	117	114	96
<b>Total capital requirement assets</b>	<b>315 258</b>	<b>303 346</b>	<b>297 257</b>
Core capital adequacy ratio	18.2 %	19.7 %	20.7 %
Supplementary capital ratio	0.0 %	0.0 %	0.0 %
<b>Capital adequacy ratio</b>	<b>18.2 %</b>	<b>19.7 %</b>	<b>20.7 %</b>
<b>Leverage ratio</b>	<b>3.5 %</b>	<b>3.9 %</b>	<b>4.1 %</b>
CAPITAL REQUIREMENT PER 31.03.2020	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	31.03.2020		31.03.2019		31.12.2019	
	Acquisition cost	Market value	Acquisition cost	Market value	Acquisition cost	Market value
Certificates	275 452	276 180	19 950	19 954	59 832	59 879
Bonds	2 009 354	2 005 402	1 523 143	1 525 388	1 306 280	1 305 890
<b>Total fixed-income securities</b>	<b>2 284 806</b>	<b>2 281 582</b>	<b>1 543 093</b>	<b>1 545 342</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	31.03.2020	31.03.2019	31.12.2019
Loan commitment	456 368	191 583	370 820
<b>Total contingent liabilities</b>	<b>456 368</b>	<b>191 583</b>	<b>370 820</b>

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

NOK THOUSANDS	Q1 2020	Q1 2019	01.01.2019 -31.12.2019
Net gain/(loss) on fixed-income securities	-4 737	1 226	-1 824
Net gain/(loss) financial derivatives and realized repurchase of own debt	-1 810	-6 777	-16 343
<b>Total net gain/(loss) on financial instruments</b>	<b>-6 547</b>	<b>-5 551</b>	<b>-18 167</b>

**NOTE 18** Loan loss provision

Changes in provisions for expected losses at 31st of March 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	-1	0	0	-1
New losses	6	0	0	6
Write-offs	-3	0	0	-3
<b>Closing balance ECL 31.03.2020</b>	<b>163</b>	<b>0</b>	<b>0</b>	<b>163</b>
Changes (01.01.2020-31.03.2020)	2	0	0	2

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	-107 269	0	0	-107 269
New lending	626 184	0	0	626 184
Write-offs	-325 838	0	0	-325 838
<b>Gross lending 31.03.2020</b>	<b>16 726 935</b>	<b>0</b>	<b>0</b>	<b>16 726 935</b>

## Quarterly earnings trend

NOK MILLIONS	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Interest income	143.6	140.7	134.7	129.2	121.2
Interest expense	-128.9	-121.4	-122.2	-112.6	-106.7
<b>Net interest income</b>	<b>14.7</b>	<b>19.3</b>	<b>12.5</b>	<b>16.6</b>	<b>14.5</b>
Net gain/ (loss) financial instruments	-6.5	-4.7	-1.5	-6.4	-5.6
<b>Total other operating income</b>	<b>-6.5</b>	<b>-4.7</b>	<b>-1.5</b>	<b>-6.4</b>	<b>-5.6</b>
Other operating expenses	-4.2	-8.2	-3.3	-3.4	-4.6
<b>Total operating expenses</b>	<b>-4.2</b>	<b>-8.2</b>	<b>-3.3</b>	<b>-3.4</b>	<b>-4.6</b>
<b>Operating profit/loss before tax</b>	<b>4.0</b>	<b>6.4</b>	<b>7.7</b>	<b>6.7</b>	<b>4.3</b>
Tax ordinary income	8.1	-1.4	-1.7	-1.5	-1.0
<b>Profit for the period</b>	<b>12.1</b>	<b>5.0</b>	<b>6.0</b>	<b>5.3</b>	<b>3.3</b>

## Key figures - accumulated

NOK MILLIONS	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Pre-tax income	4.0	25.1	18.7	11.1	4.3
Net interest income	14.7	62.9	43.6	31.1	14.5
Other operating income	0.0	0.0	0.0	0.0	0.0
Other operating cost	-4.2	-19.6	-11.4	-8.1	-4.6
Net realized/unrealized change fin. Instruments at fair value	-6.5	-18.2	-13.5	-12.0	-5.6
Lending with public sector guarantee	16 823.5	16 547.4	16 524.7	16 293.1	16 659.8
Non-performing loans	0.0	0.0	0.0	0.0	0.0
Total liabilities created on issuance of securities	18 136.8	17 387.5	17 646.2	17 740.9	17 277.4
Other borrowing	935.2	320.2	250.1	270.1	380.2
Total assets	19 975.3	18 549.4	18 751.7	18 862.7	19 006.5
Average total assets	19 262.4	18 377.8	18 479.0	18 534.5	18 606.5
Equity	720.7	769.4	764.4	758.4	753.1
Interest net	0.08 %	0.34 %	0.24 %	0.17 %	0.08 %
Profit/loss from ordinary operation before taxes	0.02 %	0.14 %	0.10 %	0.06 %	0.02 %
Return on equity	2.08 %	3.35 %	3.33 %	2.95 %	2.31 %
Capital adequacy ratio	18.2 %	20.7 %	20.2 %	20.3 %	19.7 %
Liquidity coverage ratio (LCR)	215 %	288 %	722 %	262 %	376 %



**KLP KOMMUNEKREDITT AS**

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