



Interim report

KLP KOMMUNEKREDITT AS
Q3 2019

Table of contents

INTERIM FINANCIAL STATEMENTS	3
INCOME STATEMENT	4
BALANCE SHEET	5
STATEMENT OF CHANGES IN EQUITY	6
STATEMENT OF CASH FLOW	7
NOTES TO THE ACCOUNTS	8
NOTE 1 General information	8
NOTE 2 Accounting principles	8
NOTE 3 Net interest income	9
NOTE 4 Loans to customers	9
NOTE 5 Categories of financial instruments	10
NOTE 6 Fair value hierarchy	12
NOTE 7 Securities liabilities - stock exchange listed covered bonds and certificates	14
NOTE 8 Over-collateralisation	14
NOTE 9 Liabilities to credit institutions	15
NOTE 10 Financial assets and liabilities subject to net settlement	16
NOTE 11 Transactions with related parties	17
NOTE 12 Other assets	17
NOTE 13 Other liabilities and provision for accrued costs	18
NOTE 14 Capital adequacy	19
NOTE 15 Fixed-income securities	20
NOTE 16 Contingent liabilities	20
NOTE 17 Net gain/(loss) on financial instruments	20
NOTE 18 Loan loss provision	21
Quarterly earnings trend	22
Key figures - accumulated	22

Interim Financial Statements

KLP KOMMUNEKREDITT AS

Main features by third quarter end:

- Stable lending volumes
- 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 three quarters of 2019 were NOK 43.6 (50.9)¹ million.

Profit and loss effects of financial instruments so far this year show a net loss of NOK 13.5 (6.7) million.

Operating expenses in the same period amounted to NOK 11.4 (11.3) 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 18.7 (32.9) 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 September 2019 amounted to NOK 16.5 (16.2) billion. The borrowers are municipalities, county administrations and local government enterprises with public guarantees.

BORROWING

The Company's borrowing comprise covered bonds (OMF) as well as borrowing from KLP Banken AS. New covered bonds issued in 2019 amounted to NOK 3.5 (0.8) billion, while re-purchase of previous issues

amounted to NOK 0.6 (0.9) billion. All covered bonds are AAA rated.

The Company regularly restructures the debt portfolio with the purpose of increasing average duration. This may cause either profit or loss. Bond restructuring have caused total accounting losses of NOK 13.2 (7.1) 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 of certificates and bonds of high credit quality, principally investments in AAA rated covered bonds. As at 30 September 2019, the bond portfolio's market value was NOK 1.6 (1.0) billion. The net loss associated with market value changes in liquidity investments amounted to NOK 0.3 (net gain 0.4) 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 third quarter 2019, core capital i.a.w. the capital adequacy rules was NOK 757 (720) million. Loans to municipalities and county administrations are risk-weighted by 20 per cent in accordance with the authorities' capital adequacy regulations. KLP Kommunekreditt AS had a core capital adequacy and capital adequacy ratio of 20.2 (20.0) per cent at the end of the third quarter 2019. The minimum statutory requirement is 15.5 per cent capital adequacy ratio. Leverage ratio was 4.0 (4.0) per cent. The minimum statutory requirement is 3.0 per cent.

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

Income statement

KLP KOMMUNEKREDITT AS

NOTE	NOK THOUSANDS	Q3 2019	Q3 2018	01.01.2019 -30.09.2019	01.01.2018 -30.09.2018	01.01.2018 -31.12.2018
	Interest income, amortised cost	99 064	88 897	285 210	262 131	351 048
	Interest income at fair value	35 594	30 135	99 788	126 527	155 446
3	Total interest income	134 657	119 032	384 998	388 658	506 494
	Interest expense, amortised cost	-92 220	-67 008	-251 488	-197 920	-269 163
	Interest expense at fair value	-29 942	-34 403	-89 942	-139 844	-171 790
3	Total interest costs	-122 163	-101 411	-341 430	-337 765	-440 953
3	Net interest income	12 495	17 621	43 568	50 893	65 541
17	Net gain/(loss) financial instruments	-1 500	-1 125	-13 451	-6 719	-12 484
	Total other operating income	-1 500	-1 125	-13 451	-6 719	-12 484
	Other operating expenses	-3 314	-2 880	-11 377	-11 302	-15 737
18	Net loan losses	-2	1	3	1	-5
	Total operating expenses	-3 316	-2 879	-11 374	-11 302	-15 742
	Operating profit/loss before tax	7 679	13 616	18 743	32 873	37 315
	Tax ordinary income	-1 689	-3 132	-4 124	-7 561	-8 364
	Profit for the period	5 990	10 484	14 620	25 312	28 951
	Other comprehensive income for the period	0	0	0	0	0
	Comprehensive income for the period	5 990	10 484	14 620	25 312	28 951

Balance sheet

KLP KOMMUNEKREDITT AS

NOTE	NOK THOUSANDS	30.09.2019	30.09.2018	31.12.2018
ASSETS				
5	Loans to credit institutions	489 300	557 024	649 795
4,5	Loans to customers	16 524 695	16 206 134	16 758 620
5,6,15	Interest-bearing securities	1 633 899	1 011 780	727 246
5,6	Financial derivatives	66 295	98 997	62 461
12	Other assets	37 524	5 798	8 122
Total assets		18 751 713	17 879 731	18 206 245
LIABILITIES AND OWNERS EQUITY				
LIABILITIES				
5,9	Debt to credit institutions	250 139	475 227	430 208
5,7	Debt securities issued	17 646 186	16 510 840	16 909 271
5,6	Financial derivatives	80 504	136 482	105 403
	Deferred tax liabilities	4 810	1 563	4 810
13	Other liabilities	5 686	8 597	6 784
13	Provision for accrued costs and liabilities	0	891	0
Total liabilities		17 987 324	17 133 601	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	14 620	25 312	0
Total owners' equity		764 389	746 130	749 769
Total liabilities and equity		18 751 713	17 879 731	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	14 620	14 620
Total comprehensive income for the period	0	0	14 620	14 620
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 September 2019	362 500	312 500	89 389	764 389
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	25 312	25 312
Total comprehensive income for the period	0	0	25 312	25 312
Group contribution received	0	0	44 491	44 491
Group contribution made	0	0	-44 491	-44 491
Total transactions with the owners	0	0	0	0
Equity 30 September 2018	362 500	312 500	71 130	746 130
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 -30.09.2019	01.01.2018 -30.09.2018	01.01.2018 -31.12.2018
OPERATIONAL ACTIVITIES			
Payments received from customers - interest, commission & charges	246 745	238 306	354 411
Disbursements on loans customers & credit institutions	-1 178 231	-782 726	-1 818 593
Receipts on loans customers & credit institutions	1 381 701	804 878	1 231 153
Net receipts/disbursements on operations	-11 974	-11 350	-16 005
Net receipts/disbursements from operating activities	7 108	170	-7 568
Net interest investment accounts	504	175	5 020
Net cash flow from operating activities	445 853	249 453	-251 582
INVESTMENT ACTIVITIES			
Payments on the purchase of securities	-1 767 374	-797 614	-1 079 547
Receipts on sale of securities	830 542	1 224 148	1 780 991
Receipts of interest from securities	21 543	12 941	20 726
Net cash flow from investment activities	-915 289	439 475	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	-921 000	-3 503 000
Change of interest of loans	297 000	-519 000	-22 000
Change in internal funding	-180 000	200 000	155 000
Net payment of interest on loans	-194 028	-170 467	-233 760
Payment on group contribution	-5 081	-14 050	-14 086
Net cash flows from financing activities	312 891	-624 517	-317 846
Net cash flow during the period	-156 545	64 411	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	474 849	543 063	631 394
Net receipts/ disbursements of cash	-156 545	64 411	152 742

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 2019 – 30 September 2019, specifying the earnings trend in Q3. The interim Financial Statements has not been audited.

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

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	Q3 2019	Q3 2018	01.01.2019 -30.09.2019	01.01.2018 -30.09.2018	01.01.2018 -31.12.2018
Interest income on loans to customers, amortised cost	97 881	87 569	281 529	258 658	346 027
Interest income on loans to credit institutions, amortised cost	1 183	1 328	3 682	3 474	5 020
Interest income on bonds and certificates, fair value	9 513	4 627	22 672	15 657	19 349
Other interest income, fair value	26 080	25 508	77 116	110 870	136 097
Total interest income	134 657	119 032	384 998	388 658	506 494
Interest expenses on debt to KLP Banken AS, amortised cost	-645	-1 677	-2 649	-3 803	-4 871
Interest expenses on issued securities, amortised cost	-91 576	-65 331	-248 839	-194 118	-264 292
Other interest expenses, fair value	-29 942	-34 403	-89 942	-139 844	-171 790
Total interest costs	-122 163	-101 411	-341 430	-337 765	-440 953
Net interest income	12 495	17 621	43 568	50 893	65 541

NOTE 4 Loans to customers

NOK THOUSANDS	30.09.2019	30.09.2018	31.12.2018
Loans to customers before write-downs	16 399 592	16 072 715	16 646 683
Write-downs steps 1 and 2	-160	-157	-163
Loans to customers after write-downs	16 399 431	16 072 558	16 646 520
Accrued interest	92 100	86 052	57 317
Fair value hedging	42 624	59 400	65 732
Premium/discount	-9 460	-11 876	-10 949
Loans to customers	16 524 695	16 206 134	16 758 620

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

NOTE 5 Categories of financial instruments

NOK THOUSANDS	30.09.2019		30.09.2018		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	1 633 899	1 633 899	1 011 780	1 011 780	727 246	727 246
Financial derivatives	66 295	66 295	98 997	98 997	62 461	62 461
Total financial assets at fair value through profit and loss	1 700 194	1 700 194	1 110 776	1 110 776	789 708	789 708
FINANCIAL ASSETS FAIR VALUE HEDGING						
Lending to Norwegian municipalities	2 906 433	2 947 991	3 941 190	3 986 380	3 429 602	3 464 954
Total financial assets fair value hedging	2 906 433	2 947 991	3 941 190	3 986 380	3 429 602	3 464 954
FINANCIAL ASSETS AT AMORTIZED COST						
Loans to and receivables from credit institutions	489 300	489 300	557 024	557 024	649 795	649 795
Lending to Norwegian municipalities	13 618 262	13 610 619	12 264 944	12 253 256	13 329 019	13 316 652
Total financial assets at amortized cost	14 107 562	14 099 919	12 821 967	12 810 279	13 978 813	13 966 447
Total financial assets	18 714 189	18 748 104	17 873 934	17 907 436	18 198 123	18 221 109
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS						
Financial derivatives	80 504	80 504	136 482	136 482	105 403	105 403
Total financial liabilities at fair value through profit and loss	80 504	80 504	136 482	136 482	105 403	105 403
FINANCIAL LIABILITIES FAIR VALUE HEDGING						
Covered bonds issued	1 837 185	1 856 469	1 909 577	1 929 835	1 886 974	1 904 665
Total financial liabilities fair value hedging	1 837 185	1 856 469	1 909 577	1 929 835	1 886 974	1 904 665
FINANCIAL LIABILITIES AT AMORTIZED COST						
Liabilities to credit institutions	250 139	250 139	475 227	475 227	430 208	430 208
Covered bonds issued	15 809 001	15 892 418	14 601 263	14 993 171	15 022 297	15 086 824
Total financial liabilities at amortized cost	16 059 140	16 142 557	15 076 490	15 468 398	15 452 506	15 517 033
Total financial liabilities	17 976 828	18 079 530	17 122 550	17 534 715	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

30.09.2019 NOK THOUSANDS	Level 1	Level 2	Level 3	Total
ASSETS BOOKED AT FAIR VALUE				
Fixed-income securities	59 829	1 574 070	0	1 633 899
Financial derivatives	0	66 295	0	66 295
Total assets at fair value	59 829	1 640 365	0	1 700 194
LIABILITIES BOOKED AT FAIR VALUE				
Financial derivatives (liabilities)	0	80 504	0	80 504
Total financial liabilities at fair value	0	80 504	0	80 504

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

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	30.09.2019	30.09.2018	31.12.2018
Bond debt, nominal amount	18 138 000	17 825 000	17 743 000
Adjustments	39 803	28 268	35 990
Accrued interest	93 383	76 572	52 281
Own holdings, nominal amount	-625 000	-1 419 000	-922 000
Total debt securities issued	17 646 186	16 510 840	16 909 271

Interest rate on borrowings through the issuance of securities on the reporting date: 1.99 % 1.45 % 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 30.09.2019
Bond debt, nominal amount	17 743 000	3 500 000	-3 105 000	0	18 138 000
Adjustments	35 990	0	0	3 813	39 803
Accrued interest	52 281	0	0	41 101	93 383
Own holdings, nominal amount	-922 000	0	297 000	0	-625 000
Total debt securities issued	16 909 271	3 500 000	-2 808 000	44 915	17 646 186

NOTE 8 Over-collateralisation

NOK THOUSANDS	30.09.2019	30.09.2018	31.12.2018
SECURITY POOL			
Loans to customers	16 568 222	16 251 822	16 792 892
Financial derivatives (net)	-14 130	-37 360	-42 930
Additional collateral ¹	2 312 685	2 585 936	1 898 505
Total security pool	18 866 777	18 800 398	18 648 467
Outstanding covered bonds incl. own funds and premium/discount	18 284 237	17 963 870	17 829 644
Coverage of the security pool	103.2%	104.7%	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

30.09.2019 NOK THOUSANDS				
	Due date	Nominal	Accrued interest	Book value
Debt to KLP Banken AS	15.12.2020	250 000	139	250 139
Total liabilities to credit institutions				250 139

Interest rate on debt to credit institutions at the reporting date: 1.33 %

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

30.09.2018 NOK THOUSANDS				
	Due date	Nominal	Accrued interest	Book value
Debt to KLP Banken AS	15.12.2020	475 000	227	475 227
Total liabilities to credit institutions				475 227

Interest rate on debt to credit institutions at the reporting date: 1.16 %

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

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 %

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

NOTE 10 Financial assets and liabilities subject to net settlement

30.09.2019 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
ASSETS						
Financial derivatives	66 295	0	66 295	-66 295	0	0
Total	66 295	0	66 295	-66 295	0	0
LIABILITIES						
Financial derivatives	80 504	0	80 504	-66 295	0	14 209
Total	80 504	0	80 504	-66 295	0	14 209

30.09.2018 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
ASSETS						
Financial derivatives	98 997	0	98 997	-98 997	0	0
Total	98 997	0	98 997	-98 997	0	0
LIABILITIES						
Finansielle derivater	136 482	0	136 482	-98 997	0	37 485
Total	136 482	0	136 482	-98 997	0	37 485

31.12.2018 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
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 -30.09.2019	01.01.2018 -30.09.2018	01.01.2018 -31.12.2018
KLP Banken AS, interest on borrowing	2 649	3 803	4 871
KLP Banken AS, administrative services (at cost)	9 820	9 229	12 823
KLP Kapitalforvaltning AS, fees for services provided	78	91	120

NOK THOUSANDS	30.09.2019	30.09.2018	31.12.2018
BALANCES			
KLP Banken AS, debt to credit institutions	-250 139	-475 227	-430 208
KLP Banken AS, loan settlement	37 524	5 798	8 122
Net outstanding accounts to:			
KLP Banken AS	-1 052	-1 019	-1 672
KLP Kapitalforvaltning AS	-35	-16	0

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	30.09.2019	30.09.2018	31.12.2018
Intercompany receivables	37 524	5 798	8 122
Total other assets	37 524	5 798	8 122

NOTE 13 Other liabilities and provision for accrued costs

NOK THOUSANDS	30.09.2019	30.09.2018	31.12.2018
Intercompany payables	1 087	1 035	1 702
Tax payable	0	0	5 081
Other liabilities	4 599	7 562	2
Total other liabilities	5 686	8 597	6 784
Accrued expenses	0	891	0
Total accrued costs and liabilities	0	891	0

NOTE 14 Capital adequacy

NOK THOUSANDS	30.09.2019	30.09.2018	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	-1 634	-1 012	-727
Core capital/Tier 1 capital	756 765	719 806	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)	756 765	719 806	749 042
Capital requirement	298 988	288 565	295 879
Surplus of own funds (Tier 1 and Tier 2 capital)	457 777	431 242	453 163
ESTIMATE BASIS CREDIT RISK:			
Institutions	118 624	132 364	144 076
Local and regional authorities	3 333 570	3 279 552	3 380 301
Covered bonds	157 407	87 764	66 734
Calculation basis credit risk	3 609 601	3 499 680	3 591 111
Credit risk	288 768	279 974	287 289
Operating risk	10 115	8 467	8 467
Credit valuation adjustment	105	124	123
Total capital requirement assets	298 988	288 565	295 879
Core capital adequacy ratio	20.2 %	20.0 %	20.3 %
Supplementary capital ratio	0.0 %	0.0 %	0.0 %
Capital adequacy ratio	20.2 %	20.0 %	20.3 %
Leverage ratio	4.0 %	4.0 %	4.0 %

CAPITAL REQUIREMENT PER 30.09.2019	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	30.09.2019		30.09.2018		31.12.2018	
	Acquisition cost	Market value	Acquisition cost	Market value	Acquisition cost	Market value
Certificates	59 822	59 829	29 949	29 954	59 906	59 902
Bonds	1 572 405	1 574 070	972 926	981 825	666 822	667 344
Total fixed-income securities	1 632 227	1 633 899	1 002 875	1 011 780	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	30.09.2019	30.09.2018	31.12.2018
Loan commitment	286 308	284 305	500 394
Total contingent liabilities	286 308	284 305	500 394

NOTE 17 Net gain/(loss) on financial instruments

NOK THOUSANDS	01.01.2019 -30.09.2019	01.01.2018 -30.09.2018	01.01.2018 -31.12.2018
Net gain/(loss) on fixed-income securities	-264	361	-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	-13 187	-7 067	-11 684
Total net gain/(loss) on financial instruments	-13 451	-6 719	-12 484

NOTE 18 Loan loss provision

Changes in provisions for expected losses at 30th of September 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 18 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
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	-4	0	0	-4
New losses	10	0	0	10
Write-offs	-9	0	0	-9
Closing balance ECL 30.09.2019	160	0	0	160
Changes (01.01.2019-30.09.2019)	-3	0	0	-3

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	-301 980	0	0	-301 980
New lending	1 003 962	0	0	1 003 962
Write-offs	-914 291	0	0	-914 291
Gross lending 30.09.2019	16 491 692	0	0	16 491 692

Quarterly earnings trend

NOK MILLIONS	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018
Interest income	134.7	129.2	121.2	153.3	93.5
Interest expense	-122.2	-112.6	-106.7	-138.7	-75.9
Net interest income	12.5	16.6	14.5	14.6	17.6
Net gain/ (loss) financial instruments	-1.5	-6.4	-5.6	-5.8	-1.1
Total other operating income	-1.5	-6.4	-5.6	-5.8	-1.1
Other operating expenses	-3.3	-3.4	-4.6	-4.4	-2.9
Total operating expenses	-3.3	-3.4	-4.6	-4.4	-2.9
Operating profit/loss before tax	7.7	6.7	4.3	4.4	13.6
Tax ordinary income	-1.7	-1.5	-1.0	-0.8	-3.1
Profit for the period	6.0	5.3	3.3	3.6	10.5

Key figures - accumulated

NOK MILLIONS	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018
Pre-tax income	18.7	11.1	4.3	37.3	32.9
Net interest income	43.6	31.1	14.5	65.5	50.9
Other operating income	0.0	0.0	0.0	0.0	0.0
Other operating cost and depreciation	-11.4	-8.1	-4.6	-15.7	-11.3
Net realized/unrealized change fin. Instruments at fair value	-13.5	-12.0	-5.6	-12.5	-6.7
Lending with public sector guarantee	16 524.7	16 293.1	16 659.8	16 758.6	16 206.1
Non-performing loans	0.0	0.0	0.0	0.0	0.0
Total liabilities created on issuance of securities	17 646.2	17 740.9	17 277.4	16 909.3	16 510.8
Other borrowing	250.1	270.1	380.2	430.2	475.2
Total assets	18 751.7	18 862.7	19 006.5	18 206.2	17 879.7
Average total assets	18 479.0	18 534.5	18 606.5	18 272.5	18 109.2
Equity	764.4	758.4	753.1	749.8	746.1
Interest net	0.24 %	0.17 %	0.08 %	0.36 %	0.28 %
Profit/loss from ordinary operation before taxes	0.10 %	0.06 %	0.02 %	0.20 %	0.18 %
Return on equity	3.33 %	2.95 %	2.31 %	4.97 %	6.08 %
Capital adequacy ratio	20.2 %	20.3 %	19.7 %	20.3 %	20.0 %
Liquidity coverage ratio (LCR)	722 %	262 %	376 %	1592 %	598 %



KLP KOMMUNEKREDITT AS

Beddingen 8, 7042 Trondheim
Organization no.: 994 526 944

VISITOR ADDRESS

Trondheim: Beddingen 8
Oslo: Dronning Eufemias gate 10
klpbanken.no
Phone: + 47 55 54 85 00
klpkommunekreditt@klp.no