

KLP



# Interim report

KLP KOMMUNEKREDITT AS  
Q4 2019

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# Interim Financial Statements

## KLP KOMMUNEKREDITT AS

Main features by fourth 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 2019 were NOK 62.9 (65.5)<sup>1</sup> million. Decrease in income is mainly due to lower average lending volume and reduced margins in a period with increased money market interest rates. Profit and loss effects of financial instruments so far this year show a net loss of NOK 18.2 (loss 12.5) million. Operating expenses in 2019 amounted to NOK 19.6 (15.7) million. The Company has not had any credit losses, and very low loan loss provisions are recognized in the income statement.

The Company has a pre-tax profit by fourth quarter end of NOK 25.1 (37.3) million. The decrease is mainly due to reduced net interest income, increased loss on financial instruments and an increase in operating expenses.

### LENDING

The Company's loans to customers as of 31th of December 2019 amounted to NOK 16.5 (16.8) billion. The borrowers are municipalities, county administrations and local government enterprises with public guarantees.

### BORROWING

The Company's borrowing comprises of covered bonds (OMF) as well as borrowing from KLP Banken AS. New covered bonds issued in 2019 amounted to NOK 6.0 (3.3) billion, while re-purchase of previous issues amounted to NOK 5.5 (3.5) 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 16.3 (loss 11.7) million 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 31 December 2019, the bond portfolio's market value was NOK 1.4 (0.7) billion. The net loss associated with market value changes in liquidity investments amounted to NOK 1.8 (loss 0.8) million by 31th of December 2019.

### 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 fourth quarter 2019, core capital i.a.w. the capital adequacy rules were NOK 768.0 (749.0) million. Loans to municipalities and county administrations are risk-weighted by 20 per cent in accordance with the authorities' capital adequacy regulations. KLP Kommunekreditt AS had a core capital adequacy and capital adequacy ratio of 20.7 (20.3) per cent at the end of 2019. The minimum statutory requirement is 16.0 per cent capital adequacy ratio. Leverage ratio was 4.1 (4.0) per cent. The minimum statutory requirement is 3.0 per cent.

<sup>1</sup> Figures in parenthesis are from the corresponding period in 2018.

# Income statement

## KLP KOMMUNEKREDITT AS

| NOTE | NOK THOUSANDS                                    | Q4<br>2019      | Q4<br>2018      | 01.01.2019<br>-31.12.2019 | 01.01.2018<br>-31.12.2018 |
|------|--|-----------------|-----------------|---------------------------|---------------------------|
|      | Interest income, amortised cost                  | 105 373         | 88 917          | 390 583                   | 351 048                   |
|      | Interest income at fair value                    | 35 339          | 28 919          | 135 127                   | 155 446                   |
| 3    | <b>Total interest income</b>                     | <b>140 712</b>  | <b>117 836</b>  | <b>525 710</b>            | <b>506 494</b>            |
|      | Interest expense, amortised cost                 | -91 671         | -71 243         | -343 159                  | -269 163                  |
|      | Interest expense at fair value                   | -29 725         | -31 945         | -119 667                  | -171 790                  |
| 3    | <b>Total interest costs</b>                      | <b>-121 396</b> | <b>-103 188</b> | <b>-462 826</b>           | <b>-440 953</b>           |
| 3    | <b>Net interest income</b>                       | <b>19 316</b>   | <b>14 648</b>   | <b>62 884</b>             | <b>65 541</b>             |
| 17   | Net gain/(loss) financial instruments            | -4 717          | -5 766          | -18 167                   | -12 484                   |
|      | <b>Total other operating income</b>              | <b>-4 717</b>   | <b>-5 766</b>   | <b>-18 167</b>            | <b>-12 484</b>            |
|      | Other operating expenses                         | -8 217          | -4 435          | -19 593                   | -15 737                   |
| 18   | Net loan losses                                  | 0               | -6              | 2                         | -5                        |
|      | <b>Total operating expenses</b>                  | <b>-8 217</b>   | <b>-4 440</b>   | <b>-19 591</b>            | <b>-15 742</b>            |
|      | <b>Operating profit/loss before tax</b>          | <b>6 382</b>    | <b>4 442</b>    | <b>25 126</b>             | <b>37 315</b>             |
|      | Tax ordinary income                              | -1 404          | -803            | -5 528                    | -8 364                    |
|      | <b>Profit for the period</b>                     | <b>4 978</b>    | <b>3 639</b>    | <b>19 598</b>             | <b>28 951</b>             |
|      | <b>Other comprehensive income for the period</b> | <b>0</b>        | <b>0</b>        | <b>0</b>                  | <b>0</b>                  |
|      | <b>Comprehensive income for the period</b>       | <b>4 978</b>    | <b>3 639</b>    | <b>19 598</b>             | <b>28 951</b>             |

# Balance sheet

KLP KOMMUNEKREDITT AS

| NOTE                                 | NOK THOUSANDS                               | 31.12.2019        | 31.12.2018        |
|--------------------------------------|---|-------------------|-------------------|
| <b>ASSETS</b>                        |   |                   |                   |
| 5                                    | Loans to credit institutions                | 594 461           | 649 795           |
| 4,5                                  | Loans to customers                          | 16 547 394        | 16 758 620        |
| 5,6,15                               | Fixed-income securities                     | 1 365 769         | 727 246           |
| 5,6                                  | Financial derivatives                       | 40 785            | 62 461            |
| 12                                   | Other assets                                | 1 010             | 8 122             |
| <b>Total assets</b>                  |   | <b>18 549 418</b> | <b>18 206 245</b> |
| <b>LIABILITIES AND OWNERS EQUITY</b> |   |                   |                   |
| <b>LIABILITIES</b>                   |   |                   |                   |
| 5,9                                  | Debt to credit institutions                 | 320 169           | 430 208           |
| 5,7                                  | Debt securities issued                      | 17 387 458        | 16 909 271        |
| 5,6                                  | Financial derivatives                       | 60 674            | 105 403           |
|                                      | Deferred tax liabilities                    | 1 385             | 4 810             |
| 13                                   | Other liabilities                           | 10 286            | 6 784             |
| 13                                   | Provision for accrued costs and liabilities | 78                | 0                 |
| <b>Total liabilities</b>             |   | <b>17 780 052</b> | <b>17 456 476</b> |
| <b>EQUITY</b>                        |   |                   |                   |
|                                      | Share capital                               | 362 500           | 362 500           |
|                                      | Share premium                               | 312 500           | 312 500           |
|                                      | Other owners' equity                        | 94 367            | 74 769            |
| <b>Total owners' equity</b>          |   | <b>769 367</b>    | <b>749 769</b>    |
| <b>Total liabilities and equity</b>  |   | <b>18 549 418</b> | <b>18 206 245</b> |

# Statement of changes in equity

KLP KOMMUNEKREDITT AS

| 2019<br>NOK THOUSANDS                            | Share<br>capital | Share<br>premium | Other<br>equity | Total owners'<br>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>          |

  

| 2018<br>NOK THOUSANDS                            | Share<br>capital | Share<br>premium | Other<br>equity | Total owners'<br>equity |
|--|------------------|------------------|-----------------|-------------------------|
| Equity 31 December 2017                          | 362 500          | 312 500          | 45 939          | 720 939                 |
| Changes in accounting principles (IFRS 9)        | 0                | 0                | -158            | -158                    |
| Tax effect of change of accounting principle     | 0                | 0                | 36              | 36                      |
| Equity 1 January 2018                            | 362 500          | 312 500          | 45 818          | 720 818                 |
| Profit for the period                            | 0                | 0                | 28 951          | 28 951                  |
| Other comprehensive income                       | 0                | 0                | 0               | 0                       |
| <b>Total comprehensive income for the period</b> | <b>0</b>         | <b>0</b>         | <b>28 951</b>   | <b>28 951</b>           |
| Group contribution received                      | 0                | 0                | 44 491          | 44 491                  |
| Group contribution made                          | 0                | 0                | -44 491         | -44 491                 |
| <b>Total transactions with the owners</b>        | <b>0</b>         | <b>0</b>         | <b>0</b>        | <b>0</b>                |
| <b>Equity 31 December 2018</b>                   | <b>362 500</b>   | <b>312 500</b>   | <b>74 769</b>   | <b>749 769</b>          |

# Statement of cash flow

KLP KOMMUNEKREDITT AS

| NOK THOUSANDS   | 01.01.2019<br>-31.12.2019 | 01.01.2018<br>-31.12.2018 |
|---|---------------------------|---------------------------|
| <b>OPERATIONAL ACTIVITIES</b>                                     |                           |                           |
| Payments received from customers - interest, commission & charges | 376 913                   | 354 411                   |
| Disbursements on loans customers & credit institutions            | -1 603 652                | -1 818 593                |
| Receipts on loans customers & credit institutions                 | 1 748 981                 | 1 231 153                 |
| Net receipts/disbursements on operations                          | -19 859                   | -16 005                   |
| Net receipts/disbursements from operating activities              | 11 584                    | -7 568                    |
| Net interest investment accounts                                  | 5 603                     | 5 020                     |
| <b>Net cash flow from operating activities</b>                    | <b>519 570</b>            | <b>-251 582</b>           |
| <b>INVESTMENT ACTIVITIES</b>                                      |                           |                           |
| Payments on the purchase of securities                            | -2 033 470                | -1 079 547                |
| Receipts on sale of securities                                    | 1 394 374                 | 1 780 991                 |
| Receipts of interest from securities                              | 29 868                    | 20 726                    |
| <b>Net cash flow from investment activities</b>                   | <b>-609 228</b>           | <b>722 170</b>            |
| <b>FINANCING ACTIVITIES</b>                                       |                           |                           |
| Receipts on loans from credit institutions                        | 6 000 000                 | 3 300 000                 |
| Disbursements on loans from credit institutions                   | -5 139 000                | -3 503 000                |
| Change of interest of loans                                       | -378 000                  | -22 000                   |
| Net payment of interest on loans credit institutions              | -318 269                  | -228 928                  |
| Receipts in internal funding                                      | 2 420 000                 | 1 875 000                 |
| Disbursements in internal funding                                 | -2 530 000                | -1 720 000                |
| Net payment of interest on internal funding                       | -3 742                    | -4 832                    |
| Payment on group contribution                                     | -5 081                    | -14 086                   |
| <b>Net cash flows from financing activities</b>                   | <b>45 908</b>             | <b>-317 846</b>           |
| <b>Net cash flow during the period</b>                            | <b>-43 750</b>            | <b>152 742</b>            |
| Cash and cash equivalents at the start of the period              | 631 394                   | 478 652                   |
| Cash and cash equivalents at the end of the period                | 587 644                   | 631 394                   |
| <b>Net receipts/ disbursements of cash</b>                        | <b>-43 750</b>            | <b>152 742</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 2019 – 31 December 2019, specifying the earnings trend in Q4. 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   | Q4<br>2019      | Q4<br>2018      | 01.01.2019<br>-31.12.2019 | 01.01.2018<br>-31.12.2018 |
|---|-----------------|-----------------|---------------------------|---------------------------|
| Interest income on loans to customers, amortised cost           | 103 433         | 87 370          | 384 962                   | 346 027                   |
| Interest income on loans to credit institutions, amortised cost | 1 940           | 1 547           | 5 622                     | 5 020                     |
| <b>Total interest income, amortised cost</b>                    | <b>105 373</b>  | <b>88 917</b>   | <b>390 583</b>            | <b>351 048</b>            |
| Interest income on bonds and certificates, fair value           | 8 472           | 3 692           | 31 144                    | 19 349                    |
| Other interest income, fair value                               | 26 867          | 25 227          | 103 983                   | 136 097                   |
| <b>Total interest, fair value</b>                               | <b>35 339</b>   | <b>28 919</b>   | <b>135 127</b>            | <b>155 446</b>            |
| <b>Total interest income</b>                                    | <b>140 712</b>  | <b>117 836</b>  | <b>525 710</b>            | <b>506 494</b>            |
| Interest expenses on debt to KLP Banken AS, amortised cost      | -1 054          | -1 068          | -3 703                    | -4 871                    |
| Interest expenses on issued securities, amortised cost          | -90 617         | -70 175         | -339 456                  | -264 292                  |
| <b>Total interest costs, amortised cost</b>                     | <b>-91 671</b>  | <b>-71 243</b>  | <b>-343 159</b>           | <b>-269 163</b>           |
| Other interest expenses, fair value                             | -29 725         | -31 945         | -119 667                  | -171 790                  |
| <b>Total interest costs</b>                                     | <b>-121 396</b> | <b>-103 188</b> | <b>-462 826</b>           | <b>-440 953</b>           |
| <b>Net interest income</b>                                      | <b>19 316</b>   | <b>14 648</b>   | <b>62 884</b>             | <b>65 541</b>             |

**NOTE 4** Loans to customers

| NOK THOUSANDS                               | 31.12.2019        | 31.12.2018        |
|---|-------------------|-------------------|
| Loans to customers before write-downs       | 16 468 493        | 16 646 683        |
| Write-downs steps 1 and 2                   | -161              | -163              |
| <b>Loans to customers after write-downs</b> | <b>16 468 332</b> | <b>16 646 520</b> |
| Accrued interest                            | 65 366            | 57 317            |
| Fair value hedging                          | 21 397            | 65 732            |
| Premium/discount                            | -7 701            | -10 949           |
| <b>Loans to customers</b>                   | <b>16 547 394</b> | <b>16 758 620</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  | 31.12.2019        |                   | 31.12.2018        |                   |
|--|-------------------|-------------------|-------------------|-------------------|
|  | Capitalized value | Fair value        | Capitalized value | Fair value        |
| <b>FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS</b>            |                   |                   |                   |                   |
| Fixed-income securities  | 1 365 769         | 1 365 769         | 727 246           | 727 246           |
| Financial derivatives  | 40 785            | 40 785            | 62 461            | 62 461            |
| <b>Total financial assets at fair value through profit and loss</b>      | <b>1 406 554</b>  | <b>1 406 554</b>  | <b>789 708</b>    | <b>789 708</b>    |
| <b>FINANCIAL ASSETS FAIR VALUE HEDGING</b>                               |                   |                   |                   |                   |
| Lending to Norwegian municipalities                                      | 2 796 387         | 2 835 237         | 3 429 602         | 3 464 954         |
| <b>Total financial assets fair value hedging</b>                         | <b>2 796 387</b>  | <b>2 835 237</b>  | <b>3 429 602</b>  | <b>3 464 954</b>  |
| <b>FINANCIAL ASSETS AT AMORTIZED COST</b>                                |                   |                   |                   |                   |
| Loans to and receivables from credit institutions                        | 594 461           | 594 461           | 649 795           | 649 795           |
| Lending to Norwegian municipalities                                      | 13 751 007        | 13 744 458        | 13 329 019        | 13 316 652        |
| <b>Total financial assets at amortized cost</b>                          | <b>14 345 468</b> | <b>14 338 919</b> | <b>13 978 813</b> | <b>13 966 447</b> |
| <b>Total financial assets</b>  | <b>18 548 409</b> | <b>18 580 710</b> | <b>18 198 123</b> | <b>18 221 109</b> |
| <b>FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS</b>       |                   |                   |                   |                   |
| Financial derivatives  | 60 674            | 60 674            | 105 403           | 105 403           |
| <b>Total financial liabilities at fair value through profit and loss</b> | <b>60 674</b>     | <b>60 674</b>     | <b>105 403</b>    | <b>105 403</b>    |
| <b>FINANCIAL LIABILITIES FAIR VALUE HEDGING</b>                          |                   |                   |                   |                   |
| Covered bonds issued   | 1 793 121         | 1 809 391         | 1 886 974         | 1 904 665         |
| <b>Total financial liabilities fair value hedging</b>                    | <b>1 793 121</b>  | <b>1 809 391</b>  | <b>1 886 974</b>  | <b>1 904 665</b>  |
| <b>FINANCIAL LIABILITIES AT AMORTIZED COST</b>                           |                   |                   |                   |                   |
| Liabilities to credit institutions                                       | 320 169           | 320 169           | 430 208           | 430 208           |
| Covered bonds issued   | 15 594 337        | 15 662 495        | 15 022 297        | 15 086 824        |
| <b>Total financial liabilities at amortized cost</b>                     | <b>15 914 506</b> | <b>15 982 665</b> | <b>15 452 506</b> | <b>15 517 033</b> |
| <b>Total financial liabilities</b>                                       | <b>17 768 302</b> | <b>17 852 729</b> | <b>17 444 883</b> | <b>17 527 101</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

| 31.12.2019<br>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>    |

| 31.12.2018<br>NOK THOUSANDS                      | Level 1       | Level 2        | Level 3  | Total          |
|--|---------------|----------------|----------|----------------|
| <b>ASSETS BOOKED AT FAIR VALUE</b>               |               |                |          |                |
| Fixed-income securities                          | 59 902        | 667 344        | 0        | 727 246        |
| Financial derivatives                            | 0             | 62 461         | 0        | 62 461         |
| <b>Total assets at fair value</b>                | <b>59 902</b> | <b>729 805</b> | <b>0</b> | <b>789 708</b> |
| <b>LIABILITIES BOOKED AT FAIR VALUE</b>          |               |                |          |                |
| Financial derivatives (liabilities)              | 0             | 105 403        | 0        | 105 403        |
| <b>Total financial liabilities at fair value</b> | <b>0</b>      | <b>105 403</b> | <b>0</b> | <b>105 403</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                       | 31.12.2019        | 31.12.2018        |
|-------------------------------------|-------------------|-------------------|
| Bond debt, nominal amount           | 18 604 000        | 17 743 000        |
| Adjustments                         | 19 695            | 35 990            |
| Accrued interest                    | 63 764            | 52 281            |
| Own holdings, nominal amount        | -1 300 000        | -922 000          |
| <b>Total debt securities issued</b> | <b>17 387 458</b> | <b>16 909 271</b> |

Interest rate on borrowings through the issuance of securities on the reporting date: 2.22 % 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<br>31.12.2018 | Issued           | Matured/<br>redemed | Other<br>adjustments | Balance sheet<br>31.12.2019 |
|-------------------------------------|-----------------------------|------------------|---------------------|----------------------|-----------------------------|
| Bond debt, nominal amount           | 17 743 000                  | 6 000 000        | -5 139 000          | 0                    | 18 604 000                  |
| Adjustments                         | 35 990                      | 0                | 0                   | -16 295              | 19 695                      |
| Accrued interest                    | 52 281                      | 0                | 0                   | 11 483               | 63 764                      |
| Own holdings, nominal amount        | -922 000                    | 0                | -378 000            | 0                    | -1 300 000                  |
| <b>Total debt securities issued</b> | <b>16 909 271</b>           | <b>6 000 000</b> | <b>-5 517 000</b>   | <b>-4 813</b>        | <b>17 387 458</b>           |

**NOTE 8 Over-collateralisation**

| NOK THOUSANDS  | 31.12.2019        | 31.12.2018        |
|--|-------------------|-------------------|
| SECURITY POOL  |                   |                   |
| Loans to customers   | 16 587 551        | 16 792 892        |
| Financial derivatives (net)                                    | -20 236           | -42 930           |
| Additional collateral <sup>1</sup>                             | 2 790 615         | 1 898 505         |
| <b>Total security pool</b>                                     | <b>19 357 930</b> | <b>18 648 467</b> |
| Outstanding covered bonds incl. own funds and premium/discount | 18 710 618        | 17 862 666        |
| <b>Coverage of the security pool</b>                           | <b>103.5 %</b>    | <b>104.4 %</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

| 31.12.2019<br>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>320 169</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.

| 31.12.2018<br>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        |
| <b>Total liabilities to credit institutions</b>                     |            |         |                  | <b>430 208</b> |
| 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

| 31.12.2019<br>NOK THOUSANDS |   |  |                | Related sums that are<br>not presented net |                     |                            |
|-----------------------------|---|--|----------------|--|---------------------|----------------------------|
|                             | Gross<br>financial<br>assets/<br>liabilites | Gross<br>assets/<br>liabilites<br>presented<br>net | Book value     | Financial<br>instruments                   | Security in<br>cash | Net<br>recognised<br>value |
| ASSETS                      |   |  |                |  |                     |                            |
| 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>                   |
| LIABILITIES                 |   |  |                |  |                     |                            |
| 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>              |
| 31.12.2018<br>NOK THOUSANDS |   |  |                | Related sums that are<br>not presented net |                     |                            |
|                             | Gross<br>financial<br>assets/<br>liabilites | Gross<br>assets/<br>liabilites<br>presented<br>net | Book value     | Financial<br>instruments                   | Security in<br>cash | Net<br>recognised<br>value |
| ASSETS                      |   |  |                |  |                     |                            |
| Financial derivatives       | 62 461                                      | 0  | 62 461         | -62 461                                    | 0                   | 0                          |
| <b>Total</b>                | <b>62 461</b>                               | <b>0</b>   | <b>62 461</b>  | <b>-62 461</b>                             | <b>0</b>            | <b>0</b>                   |
| LIABILITIES                 |   |  |                |  |                     |                            |
| Finansielle derivater       | 105 403                                     | 0  | 105 403        | -62 461                                    | 0                   | 42 942                     |
| <b>Total</b>                | <b>105 403</b>                              | <b>0</b>   | <b>105 403</b> | <b>-62 461</b>                             | <b>0</b>            | <b>42 942</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   | 01.01.2019<br>-31.12.2019 | 01.01.2018<br>-31.12.2018 |
|---|---------------------------|---------------------------|
| KLP Banken AS, interest on borrowing                  | 3 703                     | 4 871                     |
| KLP Banken AS, administrative services (at cost)      | 13 335                    | 12 823                    |
| KLP Kapitalforvaltning AS, fees for services provided | 103                       | 120                       |

  

| NOK THOUSANDS                              | 31.12.2019 | 31.12.2018 |
|--|------------|------------|
| <b>BALANCES</b>                            |            |            |
| KLP Banken AS, debt to credit institutions | -320 169   | -430 208   |
| KLP Banken AS, loan settlement             | 1 010      | 8 122      |
| <b>Net outstanding accounts to:</b>        |            |            |
| KLP Banken AS                              | -1 196     | -1 672     |
| KLP Kapitalforvaltning AS                  | -24        | -29        |

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             | 31.12.2019   | 31.12.2018   |
|---------------------------|--------------|--------------|
| Intercompany receivables  | 1 010        | 8 122        |
| <b>Total other assets</b> | <b>1 010</b> | <b>8 122</b> |

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

| NOK THOUSANDS                              | 31.12.2019    | 31.12.2018   |
|--|---------------|--------------|
| Creditors                                  | 113           | 0            |
| Intercompany payables                      | 1 221         | 1 702        |
| Tax payable                                | 8 952         | 5 081        |
| Other liabilities                          | 1             | 2            |
| <b>Total other liabilities</b>             | <b>10 286</b> | <b>6 784</b> |
| VAT  | 78            | 0            |
| <b>Total accrued costs and liabilities</b> | <b>78</b>     | <b>0</b>     |

**NOTE 14** Capital adequacy

| NOK THOUSANDS   | 31.12.2019                      | 31.12.2018                                 |               |
|---|---------------------------------|--|---------------|
| Share capital and share premium fund                    | 675 000                         | 675 000                                    |               |
| Other owners' equity                                    | 94 367                          | 74 769                                     |               |
| <b>Total owners' equity</b>                             | <b>769 367</b>                  | <b>749 769</b>                             |               |
| Adjustments due to requirements for proper valuation    | -1 366                          | -727                                       |               |
| <b>Core capital/Tier 1 capital</b>                      | <b>768 001</b>                  | <b>749 042</b>                             |               |
| Supplementary capital/Tier 2 capital                    | 0                               | 0  |               |
| <b>Supplementary capital/Tier 2 capital</b>             | <b>0</b>                        | <b>0</b>                                   |               |
| Total eligible own funds (Tier 1 and Tier 2 capital)    | 768 001                         | 749 042                                    |               |
| Capital requirement                                     | 297 257                         | 295 879                                    |               |
| <b>Surplus of own funds (Tier 1 and Tier 2 capital)</b> | <b>470 744</b>                  | <b>453 163</b>                             |               |
| ESTIMATE BASIS CREDIT RISK:                             |                                 |  |               |
| Institutions  | 127 049                         | 144 076                                    |               |
| Local and regional authorities                          | 3 346 561                       | 3 380 301                                  |               |
| Covered bonds   | 130 589                         | 66 734                                     |               |
| Other items   | 1 010                           | 0  |               |
| <b>Calculation basis credit risk</b>                    | <b>3 605 209</b>                | <b>3 591 111</b>                           |               |
| Credit risk   | 288 417                         | 287 289                                    |               |
| Operating risk  | 8 745                           | 8 467                                      |               |
| Credit valuation adjustment                             | 96                              | 123  |               |
| <b>Total capital requirement assets</b>                 | <b>297 257</b>                  | <b>295 879</b>                             |               |
| Core capital adequacy ratio                             | 20.7 %                          | 20.3 %                                     |               |
| Supplementary capital ratio                             | 0.0 %                           | 0.0 %                                      |               |
| <b>Capital adequacy ratio</b>                           | <b>20.7 %</b>                   | <b>20.3 %</b>                              |               |
| <b>Leverage ratio</b>                                   | <b>4.1 %</b>                    | <b>4.0 %</b>                               |               |
| CAPITAL REQUIREMENT PER 31.12.2019                      | Core capital/<br>Tier 1 capital | Supplementary<br>capital/Tier 2<br>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                         | 2.5 %                           | 0.0 %                                      | 2.5 %         |
| <b>Current capital requirement incl. buffers</b>        | <b>12.5 %</b>                   | <b>3.5 %</b>                               | <b>16.0 %</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                        | 31.12.2019       |                  | 31.12.2018       |                |
|--------------------------------------|------------------|------------------|------------------|----------------|
|                                      | Acquisition cost | Market value     | Acquisition cost | Market value   |
| Certificates                         | 59 832           | 59 879           | 59 906           | 59 902         |
| Bonds                                | 1 306 280        | 1 305 890        | 666 822          | 667 344        |
| <b>Total fixed-income securities</b> | <b>1 366 112</b> | <b>1 365 769</b> | <b>726 728</b>   | <b>727 246</b> |

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

**NOTE 16** Contingent liabilities

| NOK THOUSANDS                       | 31.12.2019     | 31.12.2018     |
|-------------------------------------|----------------|----------------|
| Loan commitment                     | 370 820        | 500 394        |
| <b>Total contingent liabilities</b> | <b>370 820</b> | <b>500 394</b> |

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

| NOK THOUSANDS   | 01.01.2019<br>-31.12.2019 | 01.01.2018<br>-31.12.2018 |
|---|---------------------------|---------------------------|
| Net gain/(loss) on fixed-income securities  | -1 824                    | -787                      |
| Net gain/(loss) financial derivatives and realized amortization linked to lending | 0                         | -13                       |
| Net gain/(loss) financial derivatives and realized repurchase of own debt         | -16 343                   | -11 684                   |
| <b>Total net gain/(loss) on financial instruments</b>                             | <b>-18 167</b>            | <b>-12 484</b>            |

**NOTE 18** Loan loss provision

No changes have been made to the assumptions or input to the model for calculating loan loss provisions in 4th quarter. Changes in loan loss provisions are related to changes in lending volume. Refer to note 16 and note 2 in the annual report 2018 for more model details.

| NOK THOUSANDS  | 12-month ECL<br>stage 1 | Lifetime ECL<br>not credit<br>impaired<br>stage 2 | Lifetime ECL<br>credit impaired<br>stage 3 | Total      |
|--|-------------------------|---|--|------------|
| <b>EXPECTED CREDIT LOSS (ECL) - LOANS TO CUSTOMERS, AMORTISED COST</b> |                         |   |  |            |
| 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  | -6                      | 0   | 0  | -6         |
| New losses   | 14                      | 0   | 0  | 14         |
| Write-offs   | -10                     | 0   | 0  | -10        |
| <b>Closing balance ECL 31.12.2019</b>                                  | <b>161</b>              | <b>0</b>  | <b>0</b>                                   | <b>161</b> |
| Changes (01.01.2019-31.12.2019)  | -2                      | 0   | 0  | -2         |

| NOK THOUSANDS  | 12-month ECL<br>stage 1 | Lifetime ECL<br>not credit<br>impaired<br>stage 2 | Lifetime ECL<br>credit impaired<br>stage 3 | Total             |
|--|-------------------------|---|--|-------------------|
| <b>VALUE OF LENDING AND RECEIVABLES FOR CUSTOMERS RECOGNISED IN THE BALANCE SHEET - AMORTISED COST</b> |                         |   |  |                   |
| 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  | -550 989                | 0   | 0  | -550 989          |
| New lending  | 1 467 607               | 0   | 0  | 1 467 607         |
| Write-offs   | -1 086 759              | 0   | 0  | -1 086 759        |
| <b>Gross lending 31.12.2019</b>  | <b>16 533 859</b>       | <b>0</b>  | <b>0</b>                                   | <b>16 533 859</b> |

## Quarterly earnings trend

| NOK MILLIONS                            | Q4<br>2019  | Q3<br>2019  | Q2<br>2019  | Q1<br>2019  | Q4<br>2018  |
|---|-------------|-------------|-------------|-------------|-------------|
| Interest income                         | 140.7       | 134.7       | 129.2       | 121.2       | 117.8       |
| Interest expense                        | -121.4      | -122.2      | -112.6      | -106.7      | -103.2      |
| <b>Net interest income</b>              | <b>19.3</b> | <b>12.5</b> | <b>16.6</b> | <b>14.5</b> | <b>14.6</b> |
| Net gain/ (loss) financial instruments  | -4.7        | -1.5        | -6.4        | -5.6        | -5.8        |
| <b>Total other operating income</b>     | <b>-4.7</b> | <b>-1.5</b> | <b>-6.4</b> | <b>-5.6</b> | <b>-5.8</b> |
| Other operating expenses                | -8.2        | -3.3        | -3.4        | -4.6        | -4.4        |
| <b>Total operating expenses</b>         | <b>-8.2</b> | <b>-3.3</b> | <b>-3.4</b> | <b>-4.6</b> | <b>-4.4</b> |
| <b>Operating profit/loss before tax</b> | <b>6.4</b>  | <b>7.7</b>  | <b>6.7</b>  | <b>4.3</b>  | <b>4.4</b>  |
| Tax ordinary income                     | -1.4        | -1.7        | -1.5        | -1.0        | -0.8        |
| <b>Profit for the period</b>            | <b>5.0</b>  | <b>6.0</b>  | <b>5.3</b>  | <b>3.3</b>  | <b>3.6</b>  |

## Key figures - accumulated

| NOK MILLIONS  | Q4<br>2019 | Q3<br>2019 | Q2<br>2019 | Q1<br>2019 | Q4<br>2018 |
|---|------------|------------|------------|------------|------------|
| Pre-tax income  | 25.1       | 18.7       | 11.1       | 4.3        | 37.3       |
| Net interest income   | 62.9       | 43.6       | 31.1       | 14.5       | 65.5       |
| Other operating income  | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        |
| Other operating cost and depreciation                         | -19.6      | -11.4      | -8.1       | -4.6       | -15.7      |
| Net realized/unrealized change fin. Instruments at fair value | -18.2      | -13.5      | -12.0      | -5.6       | -12.5      |
| Lending with public sector guarantee                          | 16 547.4   | 16 524.7   | 16 293.1   | 16 659.8   | 16 758.6   |
| Non-performing loans  | 0.0        | 0.0        | 0.0        | 0.0        | 0.0        |
| Total liabilities created on issuance of securities           | 17 387.5   | 17 646.2   | 17 740.9   | 17 277.4   | 16 909.3   |
| Other borrowing   | 320.2      | 250.1      | 270.1      | 380.2      | 430.2      |
| Total assets  | 18 549.4   | 18 751.7   | 18 862.7   | 19 006.5   | 18 206.2   |
| Average total assets  | 18 377.8   | 18 479.0   | 18 534.5   | 18 606.5   | 18 272.5   |
| Equity  | 769.4      | 764.4      | 758.4      | 753.1      | 749.8      |
| Interest net  | 0.34 %     | 0.24 %     | 0.17 %     | 0.08 %     | 0.36 %     |
| Profit/loss from ordinary operation before taxes              | 0.14 %     | 0.10 %     | 0.06 %     | 0.02 %     | 0.20 %     |
| Return on equity  | 3.35 %     | 3.33 %     | 2.95 %     | 2.31 %     | 4.97 %     |
| Capital adequacy ratio  | 20.7 %     | 20.2 %     | 20.3 %     | 19.7 %     | 20.3 %     |
| Liquidity coverage ratio (LCR)                                | 288 %      | 722 %      | 262 %      | 376 %      | 1 592 %    |



**KLP KOMMUNEKREDITT AS**

Beddingen 8, 7042 Trondheim

Organization no.: 994 526 944

**VISITOR ADDRESS**

Trondheim: Beddingen 8

Oslo: Dronning Eufemias gate 10

[klpbanken.no](http://klpbanken.no)

Phone: + 47 55 54 85 00

[klpkommunekreditt@klp.no](mailto:klpkommunekreditt@klp.no)