



Interim report

KLP KOMMUNEKREDITT AS
Q3 2020

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Interim Financial Statements

KLP KOMMUNEKREDITT AS

Main features by third quarter end:

- Increased operating revenues
- Stable lending volumes
- No recognized losses on lending

OBJECTIVE

The Company's objective is long-term financing of municipalities, county administrations and enterprises carrying out public sector assignments. Loans to companies must be guaranteed by municipalities, county administrations or the central government under the Norwegian Local Government Act. Guarantees are to be of the ordinary surety type covering both repayments and interest. The lending business is principally funded issuing covered bonds (OMF).

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

INCOME STATEMENT

Net interest revenues by the third quarter were NOK 57.4 (43.6)¹ million.

In the third quarter, the company's lending margins increased compared with the previous quarter, as a result of the company's financing costs gradually being adjusted to the lower interest rate level that occurred at the start of the pandemic in March. Net interest income has also increased compared to the same period last year.

Net income effects of financial instruments so far this year amounts to NOK -17.5 (-13.5) million for assets and liabilities combined.

Operating expenses in the first three quarters amounted to 12.0 (11.4) million. The Company has not had any credit losses, and very low loan loss provisions are recognized in the income statement.

The pre-tax profit by quarter end was NOK 27.8 (18.7) million. The change in profit is mainly a consequence of higher average lending margins.

LENDING

The Company's loans to customers as of 30 September 2020, amounted to NOK 16.9 (16.5) billion. The Company's borrowers are municipalities, county municipalities and local government enterprise lending covered by municipal guarantees.

LIQUID INVESTMENTS

KLP Kommunekreditt AS has strict rules on what assets may be included in the securities holdings. In addition to loans to the public sector the securities holdings consist of secure bonds as well as deposits in other banks. The securities consist of certificates and bonds of high credit quality, principally investments in covered bonds. As of 30 September 2020, the Company's securities portfolio market

value was NOK 2.1 (1.6) billion. Realized and unrealized market value changes so far this year has created a profit of NOK 0.3 (-0.3) million.

BORROWING

The Company's borrowing consists of covered bonds (OMF) as well as loans from KLP Banken AS. So far in 2020, new covered bond issues amounted NOK 4.0 (3.5) billion and net repurchase of previous issues was NOK -0.4 (0.6) billion. All covered bonds have AAA rating.

The Company regularly restructures its borrowing with the purpose of adjusting average duration. This may cause both loss or gain. Buying back own bond issues have caused a net loss of NOK 17.9 (13.2) million brought to book so far this year.

RISK AND CAPITAL ADEQUACY

KLP Kommunekreditt AS has established a framework for risk management aimed at ensuring that risks are identified, analyzed and subject to management using policies, limits, procedures, and instructions. The Company is to have a prudent risk profile and earnings are to be principally a result of the borrowing and lending activity as well as liquidity management. This means that the Company is to have low market risk. Interest risk arising within the borrowing and lending activity are reduced using derivatives. The Company is to have sufficient long-term financing within set limits. The credit risk in the Company is low and lending is limited to local government risk. Management of the Company's liquidity is conducted through investments in banks satisfying high credit quality requirements and in securities in accordance with Board-approved credit lines.

At the end of the third quarter 2020, core capital i.a.w. the capital adequacy rules were NOK 716 (757) million. Loans to municipalities and county administrations are risk-weighted 20 per cent in accordance with the authorities' capital adequacy regulations. KLP Kommunekreditt AS had a core capital adequacy and capital adequacy ratio of 18.8 (20.2) per cent at the end of the third quarter. The minimum statutory requirement is 14.5 per cent capital adequacy ratio. Leverage ratio was 3.7 (4.0) per cent. The minimum statutory requirement is 3.0 per cent.

SUMMARY OF PANDEMIC EFFECTS ON THE FINANCIAL STATEMENT

The market turmoil due to the pandemic, had a negative effect on the company's lending margins in the second quarter, but has since normalized in the third quarter. (see comments under Income Statement above). Further on, the reduced regulatory capital adequacy for the countercyclical capital buffer, has enhanced the company's capital adequacy position relative to the authoritative requirements

¹ Figures in parenthesis refer to the corresponding period in 2019.

Trondheim, 28. October 2020

Aage E. Schaanning
Chair
(Sign.)

Aina Slettedal Eide
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Aud Norunn Strand
(Sign.)

Kristian Lie-Pedersen
(Sign.)

Carl Steinar Lous
Managing Director
(Sign.)

Income statement

KLP KOMMUNEKREDITT AS

NOTE	NOK THOUSANDS	Q3 2020	Q3 2019	01.01.2020 -30.09.2020	01.01.2019 -30.09.2019	01.01.2019 -31.12.2019
	Interest income, amortised cost	58 267	99 064	248 234	285 210	390 583
	Interest income at fair value	21 835	35 594	90 198	99 788	135 127
3	Total interest income	80 103	134 657	338 432	384 998	525 710
	Interest expense, amortised cost	-33 849	-92 220	-203 252	-251 488	-343 159
	Interest expense at fair value	-22 056	-29 942	-77 824	-89 942	-119 667
3	Total interest costs	-55 905	-122 163	-281 076	-341 430	-462 826
3	Net interest income	24 198	12 495	57 356	43 568	62 884
17	Net gain/(loss) financial instruments	-2 318	-1 500	-17 525	-13 451	-18 167
	Total other operating income	-2 318	-1 500	-17 525	-13 451	-18 167
	Other operating expenses	-3 159	-3 314	-12 021	-11 377	-19 593
18	Net loan losses	4	-2	-5	3	2
	Total operating expenses	-3 154	-3 316	-12 026	-11 374	-19 591
	Operating profit/loss before tax	18 726	7 679	27 805	18 743	25 126
	Tax ordinary income	-4 120	-1 689	2 835	-4 124	-5 528
	Profit for the period	14 606	5 990	30 641	14 620	19 598
	Other comprehensive income for the period	0	0	0	0	0
	Comprehensive income for the period	14 606	5 990	30 641	14 620	19 598

Balance sheet

KLP KOMMUNEKREDITT AS

NOTE	NOK THOUSANDS	30.09.2020	30.09.2019	31.12.2019
ASSETS				
5	Loans to credit institutions	231 373	489 300	594 461
4,5	Loans to customers	16 932 681	16 524 695	16 547 394
5,6,15	Fixed-income securities	2 121 842	1 633 899	1 365 769
5,6	Financial derivatives	88 126	66 295	40 785
12	Other assets	7 087	37 524	1 010
Total assets		19 381 108	18 751 713	18 549 418
LIABILITIES AND OWNERS EQUITY				
LIABILITIES				
5,9	Debt to credit institutions	515 053	250 139	320 169
5,7	Debt securities issued	17 990 601	17 646 186	17 387 458
5,6	Financial derivatives	127 709	80 504	60 674
	Deffered tax liabilities	1 385	4 810	1 385
13	Other liabilities	7 026	5 686	10 286
13	Provision for accrued costs and liabilities	18	0	78
Total liabilities		18 641 793	17 987 324	17 780 052
EQUITY				
	Share capital	362 500	362 500	362 500
	Share premium	312 500	312 500	312 500
	Other owners' eqyity	33 674	74 769	94 367
	Unallocated profit/loss	30 641	14 620	0
Total owners' equity		739 315	764 389	769 367
Total liabilities and equity		19 381 108	18 751 713	18 549 418

Statement of changes in equity

KLP KOMMUNEKREDITT AS

2020 NOK THOUSANDS	Share capital	Share premium	Other equity	Total owners' equity
Equity 1 January 2020	362 500	312 500	94 367	769 367
Profit for the period	0	0	30 641	30 641
Other comprehensive income	0	0	0	0
Total comprehensive income for the period	0	0	30 641	30 641
Group contribution received	0	0	31 740	31 740
Group contribution made	0	0	-83 480	-83 480
Tax on group contribution given 2019	0	0	-8 952	-8 952
Total transactions with the owners	0	0	-60 693	-60 693
Equity 30 September 2020	362 500	312 500	64 315	739 315

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
Other comprehensive income	0	0	0	0
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

2019 NOK THOUSANDS	Share capital	Share premium	Other equity	Total owners' equity
Equity 1 January 2019	362 500	312 500	74 769	749 769
Profit for the period	0	0	19 598	19 598
Other comprehensive income	0	0	0	0
Total comprehensive income for the period	0	0	19 598	19 598
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 31 December 2019	362 500	312 500	94 367	769 367

Statement of cash flow

KLP KOMMUNEKREDITT AS

NOK THOUSANDS	01.01.2020 -30.09.2020	01.01.2019 -30.09.2019	01.01.2019 -31.12.2019
OPERATIONAL ACTIVITIES			
Payments received from customers - interest, commission & charges	248 556	246 745	376 913
Disbursements on loans customers & credit institutions	-1 855 372	-1 178 231	-1 603 652
Receipts on loans customers & credit institutions	1 533 567	1 381 701	1 748 981
Net receipts/disbursements on operations	-13 155	-11 974	-19 859
Net receipts/disbursements from operating activities	-3 865	7 108	11 584
Net interest investment accounts	539	504	5 603
Net cash flow from operating activities	-89 730	445 853	519 570
INVESTMENT ACTIVITIES			
Payments on the purchase of securities	-2 682 010	-1 767 374	-2 035 775
Receipts on sale of securities	1 926 723	830 542	1 396 679
Receipts of interest from securities	22 889	21 543	29 868
Net cash flow from investment activities	-732 399	-915 289	-609 228
FINANCING ACTIVITIES			
Receipts on loans from credit institutions	4 000 000	3 500 000	6 000 000
Disbursements on loans from credit institutions	-3 829 000	-3 105 000	-5 139 000
Change of interest of loans	404 000	297 000	-378 000
Net payment of interest on loans credit institutions	-250 908	-191 310	-318 269
Receipts in internal funding	3 040 000	1 350 000	2 420 000
Disbursements in internal funding	-2 845 000	-1 530 000	-2 530 000
Net payment of interest on internal funding	-4 363	-2 718	-3 742
Payment on group contribution	-60 693	-5 081	-5 081
Net cash flows from financing activities	454 036	312 891	45 908
Net cash flow during the period	-368 092	-156 545	-43 750
Cash and cash equivalents at the start of the period	587 644	631 394	631 394
Cash and cash equivalents at the end of the period	219 551	474 849	587 644
Net receipts/disbursements of cash	-368 092	-156 545	-43 750

Notes to the accounts

KLP KOMMUNEKREDITT AS

NOTE 1 General information

KLP Kommunekreditt AS was formed on 25 August 2009. The company is a credit enterprise that provides or acquires public sector loans that are guaranteed by the Norwegian municipalities. Borrowers provide surety covering both repayments and interest.

The object of the Company is primarily to finance activities by issuing covered bonds with security in public sector guarantees loans. Parts of these loans are listed on Oslo Børs (Stock Exchange).

KLP Kommunekreditt AS is registered and domiciled in Norway. It's head office is at Beddingen 8 in Trondheim, and the company has a branch office in Dronning Eufemiasgate 10 in Oslo.

The company is a wholly-owned subsidiary of KLP Banken AS which is in turn wholly-owned by Kommunal Landspensjonskasse (KLP), through KLP Bankholding AS. KLP is a mutual insurance company.

NOTE 2 Accounting principles

The interim report includes the interim Financial Statements of KLP Kommunekreditt AS for the period 1 January 2020 – 30 September 2020, with a specification of the results in the third quarter. The interim Financial Statements has not been audited.

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

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

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

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

NOTE 3 Net interest income

NOK THOUSANDS	Q3 2020	Q3 2019	01.01.2020 -30.09.2020	01.01.2019 -30.09.2019	01.01.2019 -31.12.2019
Interest income on loans to customers, amortised cost	58 114	97 881	246 555	281 529	384 962
Interest income on loans to credit institutions, amortised cost	154	1 183	1 678	3 682	5 622
Total intere income, amortised cost	58 267	99 064	248 234	285 210	390 583
Interest income on bonds and certificates, fair value	5 470	9 513	23 398	22 672	31 144
Other interest income, fair value	16 365	26 080	66 800	77 116	103 983
Total interest, fair value	21 835	35 594	90 198	99 788	135 127
Total interest income	80 103	134 657	338 432	384 998	525 710
Interest expenses on debt to KLP Banken AS, amortised cost	-460	-645	-4 246	-2 649	-3 703
Interest expenses on issued securities, amortised cost	-33 389	-91 576	-199 006	-248 839	-339 456
Total interest costs, amortised cost	-33 849	-92 220	-203 252	-251 488	-343 159
Other interest expenses, fair value	-22 056	-29 942	-77 824	-89 942	-119 667
Total interest costs	-55 905	-122 163	-281 076	-341 430	-462 826
Net interest income	24 198	12 495	57 356	43 568	62 884

NOTE 4 Loans to customers

NOK THOUSANDS	30.09.2020	30.09.2019	31.12.2019
Loans to cutomers before write-downs	16 768 017	16 399 592	16 468 493
Write-downs steps 1 and 2	-165	-160	-161
Loans to cutomers after write-downs	16 767 852	16 399 431	16 468 332
Accrued interest	63 364	92 100	65 366
Fair value hedging	101 464	42 624	21 397
Premium/discount	0	-9 460	-7 701
Loans to customers	16 932 681	16 524 695	16 547 394

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	30.09.2020		30.09.2019		31.12.2019	
	Capitalized value	Fair value	Capitalized value	Fair value	Capitalized value	Fair value
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS						
Fixed-income securities	2 121 842	2 121 842	1 633 899	1 633 899	1 365 769	1 365 769
Financial derivatives	88 126	88 126	66 295	66 295	40 785	40 785
Total financial assets at fair value through profit and loss	2 209 968	2 209 968	1 700 194	1 700 194	1 406 554	1 406 554
FINANCIAL ASSETS FAIR VALUE HEDGING						
Lending to Norwegian municipalities	3 514 842	3 566 041	2 906 433	2 947 991	2 796 387	2 835 237
Total financial assets fair value hedging	3 514 842	3 566 041	2 906 433	2 947 991	2 796 387	2 835 237
FINANCIAL ASSETS AT AMORTIZED COST						
Loans to and receivables from credit institutions	231 373	231 373	489 300	489 300	594 461	594 461
Lending to Norwegian municipalities	13 417 839	13 417 839	13 618 262	13 610 619	13 751 007	13 744 458
Total financial assets at amortized cost	13 649 211	13 649 211	14 107 562	14 099 919	14 345 468	14 338 919
Total financial assets	19 374 021	19 425 221	18 714 189	18 748 104	18 548 409	18 580 710
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS						
Financial derivatives	127 709	127 709	80 504	80 504	60 674	60 674
Total financial liabilities at fair value through profit and loss	127 709	127 709	80 504	80 504	60 674	60 674
FINANCIAL LIABILITIES FAIR VALUE HEDGING						
Covered bonds issued	1 869 145	1 878 218	1 837 185	1 856 469	1 793 121	1 809 391
Total financial liabilities fair value hedging	1 869 145	1 878 218	1 837 185	1 856 469	1 793 121	1 809 391
FINANCIAL LIABILITIES AT AMORTIZED COST						
Liabilities to credit institutions	515 053	515 053	250 139	250 139	320 169	320 169
Covered bonds issued	16 121 456	16 196 335	15 809 001	15 892 418	15 594 337	15 662 495
Total financial liabilities at amortized cost	16 636 509	16 711 388	16 059 140	16 142 557	15 914 507	15 982 664
Total financial liabilities	18 633 364	18 717 315	17 976 828	18 079 530	17 768 302	17 852 729

NOTE 5 Categories of financial instruments (continues)

Fair value shall be a representative price based on what a corresponding asset or liability would have been traded for on normal market terms and conditions. A financial instrument is considered to be listed in an active market if the listed price is simply and regularly available from a stock market, dealer, broker, industry grouping, price setting service or regulatory authority, and these prices represent actual and regularly occurring transactions at arm's length. If the market for the security is not active, or the security is not listed on a stock market or similar, valuation techniques are used to set fair value. These are based for example on information on recently completed transactions carried out on business terms and conditions, reference to trading in similar instruments and pricing using externally collected yield curves and yield spread curves. As far as possible the estimates are based on externally observable market data and rarely on company-specific information.

The different financial instruments are thus priced in the following way:**Fixed-income securities - government**

Bloomberg is used as a source for pricing Norwegian government bonds. It is Oslo Stock Exchange that provides the price (via Bloomberg). The prices are compared with the prices from Reuters to reveal any errors.

Fixed-income securities - other than government

Norwegian fixed-income securities except government are generally priced using prices from Nordic Bond Pricing. Those securities that are not included in Nordic Bond Pricing are priced theoretically. The theoretical price is based on the assumed present value on the sale of the position. A zero-coupon curve is used for discounting. The zero-coupon curve is adjusted upwards by means of a credit spread, which is to take account of the risk the bond entails. The credit spread is calculated on the basis of a spread curve taking account of the duration of the bond. Nordic Bond Pricing is the main source of spread curves. They provide company-specific curves for Norwegian saving banks, municipalities and energy. Saving banks have various spread curves based on total assets. For companies where Nordic Bond Pricing do not deliver spread curves, the Group use spread curves from three Norwegian banks. When spread curves are available

from more than one of these banks, an equal-weighted average is used. If a bond lacks an appropriate spread curve, spread from a comparable bond from the same issuer is used. If a bond lacks an appropriate spread curve, spread from a comparable bond from the same issuer is used.

Financial derivatives

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

Fair value of loans to Norwegian local administrations

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

Fair value of loans to and receivables from credit institutions

All receivables from credit institutions (bank deposits) are at variable interest rates. Fair value of these is considered virtually the same as book value since the contract terms are continuously changed in step with marked interest rates. This is valued in Level 2 in the valuation hierarchy, cf. note 6.

Fair value of liabilities to credit institutions

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

Liabilities created on issuance of covered bonds

Fair value in this category is determined on the basis of internal valuation models based on external observable data. This is valued in Level 2 in the valuation hierarchy, cf. note 6.

NOTE 6 Fair value hierarchy

30.09.2020 NOK THOUSANDS	Level 1	Level 2	Level 3	Total
ASSETS BOOKED AT FAIR VALUE				
Fixed-income securities	35 003	2 086 840	0	2 121 842
Financial derivatives	0	88 126	0	88 126
Total assets at fair value	35 003	2 174 965	0	2 209 968
LIABILITIES BOOKED AT FAIR VALUE				
Financial derivatives (liabilities)	0	127 709	0	127 709
Total financial liabilities at fair value	0	127 709	0	127 709

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

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

NOTE 6 Fair value hierarchy (continues)

Fair value shall be a representative price based on what a corresponding asset or liability would have been traded for at normal market terms and conditions. Highest quality in regard to fair value is based on listed prices in an active market. A financial instrument is considered as listed in an active market if listed prices are simply and regularly available from a stock market, dealer, broker, industry group, price-setting service or regulatory authority, and these prices represent actual and regularly occurring transactions at arm's length.

Level 1:

Instruments at this level obtain fair value from listed prices in an active market for identical assets or liabilities to which the entity has access at the reporting date. Examples of instruments in Level 1 are stock market listed securities.

Level 2:

Instruments at this level obtain fair value from observable market data. This includes prices based on identical instruments, but where the instrument does not maintain a high enough trading frequency and is therefore not considered to be traded in an active market, as well as prices based on corresponding assets and price-leading indicators that can be confirmed from market

information. Example instruments at Level 2 are fixed-income securities priced on the basis of interest rate paths.

Level 3:

Instruments at Level 3 contain non-observable market data or are traded in markets considered to be inactive. The price is based generally on discrete calculations where the actual fair value may deviate if the instrument were to be traded.

Note 5 discloses the fair value of financial assets and financial liabilities that are recognized at amortized cost and according to the rules on hedge accounting. Financial assets measured at amortized cost and hedge accounting comprise lending to and due to credit institutions, Norwegian municipalities and retail customers. The stated fair value of these assets is determined on terms qualifying for Level 2. Financial liabilities recognized at amortized cost and hedge accounting consist of debt securities issued and deposits. The stated fair value of these liabilities is determined by methods qualifying for Level 2.

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

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

NOK THOUSANDS	30.09.2020	30.09.2019	31.12.2019
Bond debt, nominal amount	18 775 000	18 138 000	18 604 000
Adjustments	60 603	39 803	19 695
Accrued interest	50 999	93 383	63 764
Own holdings, nominal amount	-896 000	-625 000	-1 300 000
Total debt securities issued	17 990 601	17 646 186	17 387 458

Interest rate on borrowings through the issuance of securities on the reporting date: 0.63 % 1.99 % 2.22 %

The interest rate is calculated as a weighted average of the act/360 basis. It includes interest rate effects and amortization costs.

NOK THOUSANDS	Balance sheet 31.12.2019	Issued	Matured/ redemed	Other adjustments	Balance sheet 30.09.2020
Bond debt, nominal amount	18 604 000	4 000 000	-3 829 000	0	18 775 000
Adjustments	19 695	0	0	40 908	60 603
Accrued interest	63 764	0	0	-12 765	50 999
Own holdings, nominal amount	-1 300 000	0	404 000	0	-896 000
Total debt securities issued	17 387 458	4 000 000	-3 425 000	28 143	17 990 601

NOTE 8 Over-collateralisation

NOK THOUSANDS	30.09.2020	30.09.2019	31.12.2019
SECURITY POOL			
Loans to customers	16 984 048	16 568 222	16 587 551
Financial derivatives (net)	-39 475	-14 130	-20 236
Additional collateral ¹	2 748 833	2 312 685	2 790 615
Total security pool	19 693 407	18 866 777	19 357 930
Outstanding covered bonds incl. own funds and premium/discount	18 977 294	18 284 237	18 710 618
Coverage of the security pool	103.8 %	103.2 %	103.5 %

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

30.09.2020 NOK THOUSANDS				
	Due date	Nominal	Accrued interest	Book value
Debt to KLP Banken AS	15.12.2021	50 000	6	50 006
Debt to KLP Banken AS	15.12.2021	50 000	3	50 003
Debt to KLP Banken AS	15.12.2021	40 000	5	40 005
Debt to KLP Banken AS	15.12.2021	85 000	10	85 010
Debt to KLP Banken AS	15.12.2021	40 000	1	40 001
Debt to KLP Banken AS	15.12.2021	250 000	29	250 029
Total liabilities to credit institutions		515 000	53	515 053

Interest rate on debt to credit institutions at the reporting date: 0.26 %

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

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		250 000	139	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.

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

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

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

NOTE 10 Financial assets and liabilities subject to net settlement

30.09.2020 NOK THOUSANDS				Related sums that are not presented net		
	Gross financial assets/ liabilities	Gross assets/ liabilities presented net	Book value	Financial instruments	Security in cash	Net recognised value
ASSETS						
Financial derivatives	88 126	0	88 126	-88 126	0	0
Total	88 126	0	88 126	-88 126	0	0
LIABILITIES						
Financial derivatives	127 709	0	127 709	-88 126	0	39 584
Total	127 709	0	127 709	-88 126	0	39 584

30.09.2019 NOK THOUSANDS				Related sums that are not presented net		
	Gross financial assets/ liabilities	Gross assets/ liabilities presented net	Book value	Financial instruments	Security in cash	Net recognised value
ASSETS						
Financial derivatives	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

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

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

NOTE 11 Transactions with related parties

NOK THOUSANDS	01.01.2020 -30.09.2020	01.01.2019 -30.09.2019	01.01.2019 -31.12.2019
KLP Banken AS, interest on borrowing	4 246	2 649	3 703
KLP Banken AS, interest on deposits	-123	0	0
KLP Banken AS, administrative services (at cost)	8 295	9 820	13 335
KLP Kapitalforvaltning AS, fees for services provided	69	78	103

NOK THOUSANDS	30.09.2020	30.09.2019	31.12.2019
BALANCES			
KLP Banken AS, debt to credit institutions	-515 053	-250 139	-320 169
KLP Banken AS, deposit	100 123	0	0
KLP Banken AS, loan settlement	6 409	37 524	1 010
Net outstanding accounts to:			
KLP Banken AS	-908	-1 052	-1 196
KLP Kapitalforvaltning AS	0	-35	-24

There are no direct salary cost in KLP Kommunekreditt AS. Personnel costs (administrative services) are allocated from KLP Banken AS.

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

NOTE 12 Other assets

NOK THOUSANDS	30.09.2020	30.09.2019	31.12.2019
Intercompany receivables	6 409	37 524	1 010
Prepaid expenses	678	0	0
Total other assets	7 087	37 524	1 010

NOTE 13 Other liabilities and provision for accrued costs

NOK THOUSANDS	30.09.2020	30.09.2019	31.12.2019
Creditors	0	0	113
Intercompany payables	908	1 087	1 221
Tax payable	0	0	8 952
Other liabilities	6 118	4 599	1
Total other liabilities	7 026	5 686	10 286
VAT	18	0	78
Total accrued costs and liabilities	18	0	78

NOTE 14 Capital adequacy

NOK THOUSANDS	30.09.2020	30.09.2019	31.12.2019
Share capital and share premium fund	675 000	675 000	675 000
Other owners' equity	42 627	74 769	94 367
Total owners' equity	717 627	749 769	769 367
Interim profit/loss	0	8 630	0
Adjustments due to requirements for proper valuation	-2 122	-1 634	-1 366
Core capital/Tier 1 capital	715 505	756 765	768 001
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)	715 505	756 765	768 001
Capital requirement	304 835	298 988	297 257
Surplus of own funds (Tier 1 and Tier 2 capital)	410 671	457 777	470 745
ESTIMATE BASIS CREDIT RISK:			
Institutions	65 182	118 624	127 049
Local and regional authorities	3 444 351	3 333 570	3 346 561
Covered bonds	189 410	157 407	130 589
Other items	678	0	1 010
Calculation basis credit risk	3 699 620	3 609 601	3 605 209
Credit risk	295 970	288 768	288 417
Operating risk	8 746	10 115	8 745
Credit valuation adjustment	119	105	96
Total capital requirement assets	304 835	298 988	297 257
Core capital adequacy ratio	18.8 %	20.2 %	20.7 %
Supplementary capital ratio	0.0 %	0.0 %	0.0 %
Capital adequacy ratio	18.8 %	20.2 %	20.7 %
Leverage ratio	3.7 %	4.0 %	4.1 %

CAPITAL REQUIREMENT PER 30.09.2020	Core capital/ Tier 1 capital	Supplementary capital/Tier 2 capital	Own funds
Minimum requirement excl. buffers	4.5 %	3.5 %	8.0 %
Protective buffer	2.5 %	0.0 %	2.5 %
Systemic risk buffer	3.0 %	0.0 %	3.0 %
Counter-cyclical capital buffer	1.0 %	0.0 %	1.0 %
Current capital requirement incl. buffers	11.0 %	3.5 %	14.5 %
Capital requirement leverage ratio	3.0 %	0.0 %	3.0 %

NOTE 15 Fixed-income securities

NOK THOUSANDS	30.09.2020		30.09.2019		31.12.2019	
	Acquisition cost	Market value	Acquisition cost	Market value	Acquisition cost	Market value
Certificates	226 765	227 745	59 822	59 829	59 832	59 879
Bonds	1 889 887	1 894 098	1 572 405	1 574 070	1 306 280	1 305 890
Total fixed-income securities	2 116 651	2 121 842	1 632 227	1 633 899	1 366 112	1 365 769

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

NOTE 16 Contingent liabilities

NOK THOUSANDS	30.09.2020	30.09.2019	31.12.2019
Loan commitment	192 670	286 308	370 820
Total contingent liabilities	192 670	286 308	370 820

NOTE 17 Net gain/(loss) on financial instruments

NOK THOUSANDS	01.01.2020 -30.09.2020	01.01.2019 -30.09.2019	01.01.2019 -31.12.2019
Net gain/(loss) on fixed-income securities	301	-264	-1 824
Net gain/(loss) financial derivatives and realized amortization linked to lending	41	0	0
Net gain/(loss) financial derivatives and realized repurchase of own debt	-17 867	-13 187	-16 343
Total net gain/(loss) on financial instruments	-17 525	-13 451	-18 167

NOTE 18 Loan loss provision

Changes in provisions for expected losses in third quarter at 2020 are related to changes in lending volume. No other changes have been made to the assumptions or input to the model for calculating loss provisions.

Refer to Note 16 and Note 2 in the annual report for more details of the model.

NOK THOUSANDS	12-month ECL stage 1	Lifetime ECL not credit impaired stage 2	Lifetime ECL credit impaired stage 3	Total
EXPECTED CREDIT LOSS (ECL) - LOANS TO CUSTOMERS, AMORTISED COST				
Opening balance ECL 01.01.2020	161	0	0	161
Transfers to stage 1	0	0	0	0
Transfers to stage 2	0	0	0	0
Transfers to stage 3	0	0	0	0
Net changes	-4	0	0	-4
New losses	23	0	0	23
Write-offs	-14	0	0	-14
Closing balance ECL 30.09.2020	166	0	0	166
Changes (01.01.2020-30.09.2020)	5	0	0	5

NOK THOUSANDS	12-month ECL stage 1	Lifetime ECL not credit impaired stage 2	Lifetime ECL credit impaired stage 3	Total
VALUE OF LENDING AND RECEIVABLES FOR CUSTOMERS RECOGNISED IN THE BALANCE SHEET - AMORTISED COST				
Gross lending 01.01.2020	16 533 859	0	0	16 533 859
Transfers to stage 1	0	0	0	0
Transfers to stage 2	0	0	0	0
Transfers to stage 3	0	0	0	0
Net changes	-575 630	0	0	-575 630
New lending	2 350 440	0	0	2 350 440
Write-offs	-1 477 286	0	0	-1 477 286
Gross lending 30.09.2020	16 831 382	0	0	16 831 382

Quarterly earnings trend

NOK MILLIONS	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019
Interest income	80.1	114.7	143.6	140.7	134.7
Interest expense	-55.9	-96.3	-128.9	-121.4	-122.2
Net interest income	24.2	18.4	14.7	19.3	12.5
Net gain/(loss) financial instruments	-2.3	-8.7	-6.5	-4.7	-1.5
Total other operating income	-2.3	-8.7	-6.5	-4.7	-1.5
Other operating expenses	-3.2	-4.7	-4.2	-8.2	-3.3
Total operating expenses	-3.2	-4.7	-4.2	-8.2	-3.3
Operating profit/loss before tax	18.7	5.1	4.0	6.4	7.7
Tax ordinary income	-4.1	-1.1	8.1	-1.4	-1.7
Profit for the period	14.6	4.0	12.1	5.0	6.0

Key figures - accumulated

NOK MILLIONS	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019
Pre-tax income	27.8	9.1	4.0	25.1	18.7
Net interest income	57.4	33.2	14.7	62.9	43.6
Other operating income	0.0	0.0	0.0	0.0	0.0
Other operating cost	-12.0	-8.9	-4.2	-19.6	-11.4
Net gain/(loss) financial instruments	-17.5	-15.2	-6.5	-18.2	-13.5
Lending with public sector guarantee	16 932.7	17 356.5	16 823.5	16 547.4	16 524.7
Non-performing loans	0.0	0.0	0.0	0.0	0.0
Total liabilities created on issuance of securities	17 990.6	18 231.7	18 136.8	17 387.5	17 646.2
Other borrowing	515.1	675.1	935.2	320.2	250.1
Total assets	19 381.1	19 767.8	19 975.3	18 549.4	18 751.7
Average total assets	18 965.3	19 158.6	19 262.4	18 377.8	18 479.0
Equity	739.3	724.7	720.7	769.4	764.4
Interest net	0.30 %	0.17 %	0.08 %	0.34 %	0.24 %
Profit/loss from ordinary operation before taxes	0.15 %	0.05 %	0.02 %	0.14 %	0.10 %
Return on equity	4.82 %	2.36 %	2.08 %	3.35 %	3.33 %
Capital adequacy ratio	18.8 %	18.3 %	18.2 %	20.7 %	20.2 %
Liquidity coverage ratio (LCR)	248 %	5 046 %	215 %	288 %	722 %



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