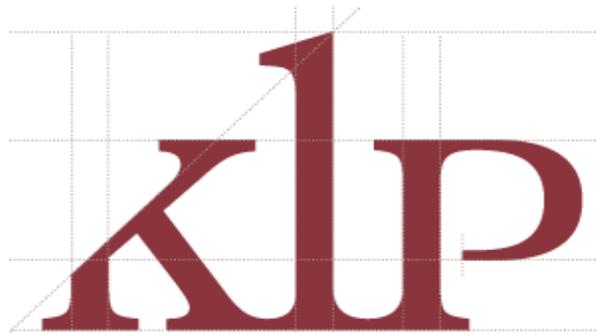


# Interim Report Q2 2011

Income statement, Financial position statement and Notes



KLP Kommunekreditt AS

## **KLP KOMMUNEKREDITT AS INTERIM FINANCIAL STATEMENT 2/2011**

**PURPOSE AND OWNERSHIP.** The Company's purpose is long-term financing of municipalities, county authorities and companies carrying out public sector assignments. Lending to companies is to be guaranteed by municipalities, county authorities, central government or a bank under Section 50 of the Local Government Act. Guarantees are to be of the ordinary surety type, covering both interest and repayments. Lending is financed by the issue of 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). KLP Kommunekreditt AS was established in 2009. Its head office is in Trondheim. The Company uses the brand name KLP Kommunekreditt in its marketing to customer groups in the public sector.

**INCOME STATEMENT.** Net interest and credit commission revenues at the end of the second quarter 2011 were NOK -2.7 million. KLP Kommunekreditt's operating expenses as at the second quarter amounted to NOK 17.5 million. The Company has not had any losses or made loss provisions on lending. KLP Kommunekreditt had a pre-tax deficit as at the second quarter of NOK - 16.5 million.

**LENDING/TOTAL ASSETS.** The Company's lending as at 30 June 2011 stood at NOK 20.6 billion as against NOK 10.90 billion as at 31 December 2010. Lending has been acquired from KLP Kreditt AS and KLP. The Company's lending is to municipalities, county authorities and local government enterprises.

**BORROWING.** The Company's borrowing comprises covered bonds as well as borrowing from its parent company. Covered bonds amounting to NOK 12.3 billion were issued in the first half year 2011. All covered bonds are AAA rated.

**SOLVENCY.** Core capital i.a.w. the capital adequacy rules at the end of the second quarter 2011 was NOK 655.1 million. Lending to municipalities and county authorities is risk weighted at 20 per cent i.a.w. the authorities' capital adequacy regulations. KLP Kommunekreditt AS has a core capital adequacy ratio and a capital adequacy ratio of 14.3 per cent as at the second quarter 2011. The statutory minimum requirement is 8 per cent.

## INCOME STATEMENT

KLP Kommunekreditt AS

<i>NOK thousands</i>	Notes	Q2-2011	Q2-2010	01.01.2011- 30.06.2011	01.01.2010- 30.06.2010	01.01.2010- 31.12.2010
Interest income and similar income		136 235	20 040	228 158	37 351	126 371
Cost of interest and similar costs		-139 739	-18 307	-230 830	-33 892	-121 464
<b>Net interest income</b>	3	<b>-3 504</b>	<b>1 733</b>	<b>-2 672</b>	<b>3 460</b>	<b>4 907</b>
Net gain/(loss) on finan. instr.		1 604	0	3 723	0	-183
<b>Total other operating income</b>		<b>1 604</b>	<b>0</b>	<b>3 723</b>	<b>0</b>	<b>-183</b>
Other operating expenses		-12 918	-1 309	-17 516	-2 366	-11 083
<b>Operating profit/loss before tax</b>		<b>-14 818</b>	<b>423</b>	<b>-16 465</b>	<b>1 093</b>	<b>-6 359</b>
Tax on ordinary profit/loss		4 149	-119	4 610	-306	1 780
<b>Profit/loss from ord. oper. after tax</b>		<b>-10 669</b>	<b>304</b>	<b>-11 855</b>	<b>787</b>	<b>-4 579</b>
Other comprehensive income		0	0	0	0	0
<b>Total comprehensive income</b>		<b>-10 669</b>	<b>304</b>	<b>-11 855</b>	<b>787</b>	<b>-4 579</b>

## FINANCIAL POSITION STATEMENT

KLP Kommunekreditt AS

<i>NOK thousands</i>	Notes	30.06.2011	30.06.2010	31.12.2010
<b>ASSETS</b>				
Lending to and receivables from credit inst.		1 156 750	159 664	251 692
Lending to and receivables from customers	4	20 624 087	3 206 406	10 920 279
Fixed income securities		740 789	0	0
Deferred tax asset		6 402	11	1 791
Financial derivatives		8 878	0	0
Other assets		133 016	13 128	2 472
<b>TOTAL ASSETS</b>		<b>22 669 921</b>	<b>3 379 209</b>	<b>11 176 234</b>
<b>LIABILITIES AND OWNERS' EQUITY</b>				
<b>LIABILITIES</b>				
Debt to credit institutions		3 214 151	0	1 511 729
Debt created on issuance of securities	5	18 634 653	3 002 291	9 245 104
Financial derivatives		51 417	0	4 950
Deferred tax		0	306	0
Other liabilities		103 700	854	43 676
Provision for accrued costs and liabilities		7 462	0	383
<b>TOTAL LIABILITIES</b>		<b>22 011 383</b>	<b>3 003 451</b>	<b>10 805 841</b>
<b>OWNERS' EQUITY</b>				
Share capital		362 500	212 500	212 500
Share premium fund		307 893	162 471	157 893
Unallocated profit/loss		-11 855	787	0
<b>TOTAL OWNERS' EQUITY</b>		<b>658 538</b>	<b>375 759</b>	<b>370 393</b>
<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>		<b>22 669 921</b>	<b>3 379 209</b>	<b>11 176 234</b>

## STATEMENT OF OWNERS' EQUITY

2011

KLP Kommunekreditt AS

<i>NOK thousands</i>	Owners' equity contributed	Share premium reserve	Total owners' equity
Owners' equity as at 01.01.2011	362 500	7 893	370 393
Income	0	-11 855	-11 855
Other income components	0	0	0
Total comprehensive income	0	-11 855	-11 855
Transactions with owners			
Owners' equity contributed during the period	300 000	0	300 000
Dividends/Group contribution paid during the period	0	0	0
Total transactions with owners	300 000	0	300 000
Owners' equity as at 30.06.2011	662 500	-3 962	658 538

2010

<i>NOK thousands</i>	Owners' equity contributed	Share premium reserve	Total owners' equity
Owners' equity as at 01.01.2010	75 000	-29	74 971
Income	0	787	787
Other income components	0	0	0
Total comprehensive income	0	787	787
Transactions with owners			
Owners' equity contributed during the period	300 000	0	300 000
Dividends/Group contribution during the period	0	0	0
Total transactions with owners	300 000	0	300 000
Owners' equity as at 30.06.2010	375 000	759	375 759

Losses offset against the share premium fund balance at year-end

## STATEMENT OF CASH FLOWS

KLP Kommunekreditt AS	01.01.2011- 30.06 2011	01.01.2010- 30.06 2010	01.01.2010- 31.12.2010
<i>NOK thousands</i>			
Pre-tax income	-16 465	1 093	-6 358
<b>Acquisition of funds from operations:</b>			
New lending	-9 703 808	-255 823	-7 969 696
Unrealised changes	37 589	0	0
<b>Changes in:</b>			
Accrued income not yet received	0	0	0
Other receivables	-66 918	40 684	93 165
Other current liabilities	107 097	-2 348	863
Total acquisition of funds from operating activities	-9 642 505	-216 394	-7 882 026
<b>New financial investments</b>	-744 463	0	0
Net cash flow from investment activities	-744 463	0	0
Change in liability to credit institutions	10 984 568	4 413	7 763 905
Share issue	300 000	300 000	300 000
Net cash flow from financial activities	11 284 568	304 413	8 063 905
Change in rate adjustments on cash and bank equivalents	0	0	0
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	897 599	88 019	181 879
Cash and cash equivalents at the start of the period	251 692	69 813	69 813
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	1 149 291	157 833	251 692

# KLP Kommunekreditt AS

## NOTES TO THE ACCOUNTS AS AT 30.06.2011

### Note 1 General information

KLP Kommunekreditt AS was established on 25 August 2009. The Company provides or acquires public sector loans that are guaranteed by the Norwegian central government, Norwegian county authorities or Norwegian municipalities. Guarantees are to be of the ordinary surety type covering both repayments and interest. The lending business is primarily financed by the issuance of covered bonds. KLP Kommunekreditt AS is registered and domiciled in Norway. Its head office is at Beddingen 8 in Trondheim.

The Company is a subsidiary of KLP Banken AS, which is wholly owned by Kommunal Landspensjonskasse (KLP) through the holding company KLP Bankholding AS. KLP is a mutual insurance company.

### Note 2 Accounting principles

This interim report is for the period from 1 January up to and including 30 June 2011. The accounts have not been audited. The interim report is prepared in accordance with IAS 34. The Company has in 2011 passed from simplified IFRS to IFRS. This transition has had no impact on assessments of the Company's assets, liabilities or equity.

The accounting policies described in the Company's annual financial statements is pertinent to this interim report, and it is recommended that this interim report should be read in conjunction with the financial statements for 2010. The financial statements can be obtained from KLP Kommunekreditt AS, or at [www.KLP.no](http://www.KLP.no).

### Note 3 Net interest income

<i>NOK thousands</i>	30.06.2011	01.01.2010- 30.06.2010	01.01.2010- 31.12.2010
Interest on lending to and receivables from credit institutions	7 670	2 576	4 861
Interest on lending to customers	214 112	34 776	121 364
Interest on securities	6 376	0	146
Total interest income	228 158	37 351	126 371
Interest on debt to credit institutions (covered bonds)	194 000	33 891	110 028
Interest on debt to KLP Banken	32 321	0	7 524
Premium/discount on covered bonds	4 509	1	3 910
Total cost of interest	230 830	33 892	121 464
Net interest income	-2 672	3 460	4 907

### Note 4 Lending to customers

<i>NOK thousands</i>	30.06.2011	30.06.2010	31.12.2010
Lending to customers, nominal principal	20 497 213	3 206 406	10 860 633
Individual write-downs	0	0	0
Lending to customers after individual write-downs	20 497 213	3 206 406	10 860 633
+ Accrued interest	126 874	0	59 646
Lending to customers at amortised cost	20 624 087	3 206 406	10 920 279

All lendings are loans to, or loans guaranteed by, Norwegian municipalities and county authorities, including loans to local government enterprises and inter-municipal companies (public sector loans). Guarantees are to be of the ordinary surety type covering both interest and repayments.

### Note 5 Liabilities created on issuance of securities

<i>NOK thousands</i>							30.06.2011
Covered bonds	Nominal	Currency	Interest	Commencement	Due date	Book value	
ISIN code							
NO0010587793	100 000	NOK	Variable	15.09.2010	21.09.2011	100 000	
NO0010592884	1 500 000	NOK	Variable	10.12.2010	10.12.2012	1 500 000	
NO0010592892	4 000 000	NOK	Variable	10.12.2010	10.12.2013	4 000 000	
XS0605180412	1 250 000	SEK	Variable	15.03.2011	15.03.2013	1 095 000	
NO0010585185	4 300 000	NOK	Variable	15.09.2010	15.09.2015	4 300 000	
NO0010592900	750 000	NOK	Fixed	15.12.2010	15.12.2020	750 000	
NO0010614555	2 900 000	NOK	Variable	28.06.2011	28.06.2013	2 900 000	
NO0010609795	4 000 000	NOK	Variable	20.05.2011	20.05.2014	4 000 000	
Periodiserte renter						50 732	
Amortisation / value adjustment						-61 079	
Total covered bonds issued						18 634 653	

## Note 6 Transactions with related parties

<i>NOK thousands</i>	30.06.2011	30.06.2010	31.12.2010
Income statement items			
KLP Banken AS, interest on borrowing	-32 321	0	-7 524
KLP Banken AS, administrative services (at cost)	-6 762	-1 773	-2 942
KLP Kapitalforvaltning AS, fees for services rendered	-74	-94	-132
<b>TOTAL</b>	<b>-39 157</b>	<b>-1 867</b>	<b>-10 598</b>
Statement of financial position items			
KLP Banken AS, borrowing current liabilities for Group	-3 214 151	0	-1 511 729
KLP Banken AS, net internal receivables	-3 622	-770	-43 314
KLP, net internal receivables	2 164	0	0
KLP Kapitalforvaltning AS, net internal receivables	-34	-40	-13
<b>TOTAL</b>	<b>-3 215 642</b>	<b>-810</b>	<b>-1 555 056</b>

Liabilities to KLP Banken have variable interest falling due on 15.09.2011.

There are no direct salary costs at KLP Kommunekreditt AS. Staff costs (administrative services) are paid from KLP Banken AS.

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

## Note 7 Capital adequacy

<i>NOK thousands</i>	30.06.2011	30.06.2010	31.12.2010
Share capital and share premium fund	670 393	374 971	370 393
Other owners' equity	0	0	0
Owners' equity	670 393	374 971	370 393
Unrealised changes in value	0	0	0
Interim profit/loss	-11 855	0	0
Deduction goodwill and other intangible assets	0	0	0
Deferred tax asset	-6 402	-11	-1 791
<b>Core capital</b>	<b>652 136</b>	<b>374 960</b>	<b>368 602</b>
Supplementary capital	0	0	0
<b>Supplementary capital</b>	<b>0</b>	<b>0</b>	<b>0</b>
Total Tier 1 and Tier 2 capital to count	652 136	374 960	368 602
<b>Capital requirement</b>	<b>366 113</b>	<b>55 245</b>	<b>179 889</b>
Surplus of Tier 1 and Tier 2 capital	286 023	319 715	188 713
Estimate basis credit risk			
Institutions	275 050	36 163	53 563
Local and regional authorities	4 142 213	641 288	2 184 050
Holdings securities funds	148 163	0	0
Other holdings	0	0	0
<b>Estimate basis credit risk</b>	<b>4 565 425</b>	<b>677 451</b>	<b>2 237 613</b>
Credit risk	365 234	54 196	179 009
Operational risk	879	1 050	879
<b>Total capital requirement assets</b>	<b>366 113</b>	<b>55 246</b>	<b>179 888</b>
Core capital adequacy ratio	14,2 %	54,3 %	16,4 %
Supplementary capital ratio	0,0 %	0,0 %	0,0 %
<b>Capital adequacy ratio</b>	<b>14,2 %</b>	<b>54,3 %</b>	<b>16,4 %</b>

The Basel II regulations have been used in calculating capital adequacy.

The authorities' minimum capital requirement is set at 8 per cent for financial institutions.

## Note 8 Provisions

In connection with the establishment of programs for the issuance of covered bonds in the international market, KLP Kommunekreditt AS has entered into an agreement with the facilitator of a fee to be settled and cleared 1 October. In the accounts for 2. quarter there is a provision of 7.3 million to cover the fee. The amount is included in the line 'Other expenses' in the income statement.

## Note 9 Conditional liabilities

NOK thousands

30.06.2011

Credit lines for lending not employed	-
Borrowing/lending promises	86 955
<b>Total conditional liabilities</b>	<b>86 955</b>

## Note 10 Key figures

NOK millions accumulated

	Q2-11	Q1-11	Q4-10	Q3-10	Q2-10
Pre-tax income	-14,8	-1,6	-6,4	0,6	1,1
Net interest income	-3,5	0,8	4,9	5,4	3,5
Other operating income	0,0	0,0	-0,2	0,8	-
Operating expenses and depreciation	-12,9	-4,6	-11,1	-5,6	-2,4
Net realised/unrealised changes finan. instruments at f.v.	1,6	2,1	-	-	-
Lending with public sector guarantee	20 624,1	15 576,2	10 920,3	7 405,8	3 206,4
Defaulted loans	-	-	-	-	-
Borrowing on issuance of securities	18 634,7	13 629,1	9 245,1	6 495,1	3 000,0
Other borrowing	3 214,2	2 412,9	1 511,7	760,9	-
Total assets	22 669,9	15 537,6	11 176,2	7 631,9	3 379,2
Average total assets	16 923,1	13 356,9	7 126,1	5 354,0	3 227,6
Owners' equity	658,5	469,2	370,4	375,4	375,8
Interest net	-0,02 %	0,01 %	0,07 %	0,10 %	0,11 %
Income from ordinary operations before tax	-0,09 %	-0,01 %	-0,09 %	0,01 %	0,03 %
Income from ordin. operations excl. f. v. assessm. before tax	-0,10 %	-0,03 %	-0,09 %	0,01 %	0,03 %
Return on owners' equity before tax	-2,25 %	-0,35 %	-1,73 %	0,16 %	0,29 %
Capital adequacy	14,3 %	14,0 %	16,4 %	24,3 %	54,3 %