

Interim report Q2 2012
KLP Kommunekreditt AS



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KLP Kommunekreditt AS

Interim financial statement 2/2012

Purpose and ownership

The Company's purpose is long-term financing of municipalities, county administrations and companies carrying out public sector assignments. Lending to companies is to be guaranteed by municipalities, county administrations, central government or a bank under Section 50 of the Norwegian Local Government Act. Guarantees are to be of the ordinary guarantor type covering both interest and repayments. The lending activities are principally financed by the issue of covered bonds (obligasjoner med fortrinnsrett – 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 and has its head office 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 the second quarter of 2012 were NOK 24.7 million. Operating costs for KLP Kommunekreditt as at the second quarter 2012 amounted to NOK 13.4 million. The Company has not had losses or made loss provisions on lending. KLP Kommunekreditt has a pre-tax profit for the second quarter 2012 of NOK 18.4 million.

Lending/Total assets

The Company's lending as at 30 June 2012 was NOK 20.9 billion against 23.8 billion as at 31 December 2011. Lending was acquired from KLP Kreditt AS and KLP. The Company's lending is to municipalities, county administrations and local government enterprises.

Borrowing

The Company's borrowing comprises covered bonds as well as borrowing from its parent company. Covered bonds were issued for NOK 15.8 billion during 2011. Covered bond issues have been made for NOK 1 billion and SEK 500 million in 2012. All of the covered bonds have AAA rating.

Solvency

At the end of the the second quarter 2012, core capital i.a.w. the capital adequacy rules was NOK 623.7 million. Lending to municipalities and county administrations is 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 13.1 per cent at the end of the second quarter 2012. The minimum statutory requirement is 8 per cent.

Income statement KLP Kommunekreditt AS

Notes	NOK thousands	Q2 2012	Q2 2011	01.01.2012- 30.06.2012	01.01.2011- 30.06.2011	01.01.2011- 31.12.2011
	Interest income and similar income	214 196	136 235	439 587	228 158	644 784
	Cost of interest and similar costs	-196 541	-139 739	-414 871	-230 830	-641 795
3	Net interest income	17 656	-3 504	24 717	-2 672	2 989
	Commission costs & bank charges	0	0	0	0	-2
	Net charges and commission costs	0	0	0	0	-2
	Net gain/(loss) on financial instruments	-9 899	1 604	7 062	3 723	-11 859
	Total other operating income	-9 899	1 604	7 062	3 723	-11 859
	Other operating expenses	-5 676	-12 918	-13 393	-17 516	-41 135
	Operating profit/loss before tax	2 081	-14 818	18 386	-16 465	-50 007
	Tax on ordinary income	-583	4 149	-5 148	4 610	14 002
	Income	1 498	-10 669	13 238	-11 855	-36 005
	Other comprehensive income	0	0	0	0	0
	Other comprehensive income for the period after tax	0	0	0	0	0
	COMPREHENSIVE INCOME FOR THE PERIOD	1 498	-10 669	13 238	-11 855	-36 005

Financial position statement KLP Kommunekreditt AS

Notes	NOK thousands	30.06.2012	30.06.2011	31.12.2011
ASSETS				
	Lending to and receivables from credit institutions	577 900	1 156 750	1 031 714
4	Lending to and receivables from customers	20 941 841	20 624 087	23 808 983
11	Interest-bearing securities	3 453 059	744 463	1 535 086
	Deferred tax asset	10 645	6 402	15 793
	Financial derivatives	157 870	8 878	70 165
8	Other assets	71 392	129 342	88 135
	TOTAL ASSETS	25 212 708	22 669 921	26 549 875
LIABILITIES AND OWNERS' EQUITY				
LIABILITIES				
6	Debt to credit institutions	3 564 573	3 214 151	3 568 757
5	Liabilities - securities issued	20 692 457	18 634 653	22 152 457
	Financial derivatives	299 038	51 417	182 842
9	Other liabilities	8 995	103 700	8 510
9	Provision for accrued costs and liabilities	18	7 462	2 922
	TOTAL LIABILITIES	24 565 081	22 011 383	25 915 487
OWNERS' EQUITY				
	Share capital	362 500	362 500	362 500
	Share premium fund	271 889	307 893	271 888
	Unallocated profit/loss	13 238	-11 855	0
	TOTAL OWNERS' EQUITY	647 627	658 538	634 388
	TOTAL LIABILITIES AND OWNERS' EQUITY	25 212 708	22 669 921	26 549 875

Statement of owners' equity KLP Kommunekreditt AS

2012 NOK thousands	Share capital	Share premium fund	Total owners' equity
Owners' equity 1 January 2011	362 500	271 888	634 388
Income	0	13 238	13 238
Other comprehensive income	0	0	0
Total comprehensive income	0	13 238	13 238
Owners' equity contributed during the period	0	0	0
Group contributions received	0	0	0
Total transactions with the owners	0	0	0
Owners' equity 30 June 2011	362 500	285 126	647 627

2011 NOK thousands	Share capital	Share premium fund	Total owners' equity
Owners' equity 1 January 2011	212 500	157 893	370 393
Income	0	-11 855	-11 855
Other comprehensive income	0	0	0
Total comprehensive income	0	-11 855	-11 855
Owners' equity contributed during the period	150 000	150 000	300 000
Dividends/Group contribution paid during the period	0	0	0
Total transactions with the owners	150 000	150 000	300 000
Owners' equity 30 June 2011	362 500	296 038	658 538

2012 NOK thousands	Number of shares	Nominal	Share premium fund	Total
As at 1 January 2012	3 625 000	100	312 500	675 000
Changes during the period 1 January - 30 June	-	-	0	0
As at 30 June 2012	3 625 000	100	312 500	675 000
Retained earnings, attributed to Share Premium Fund				-40 612
Unallocated profit/loss				13 238
Owners' equity as at 30 June 2012				647 627

There is one class of shares. All shares are owned by KLP Banken AS.

Income per share 30 June 2012 in whole NOK 3,7

Income per share 30 June 2011 in whole NOK -3,3

Statement of cash flows KLP Kommunekreditt AS

NOK thousands	30.06.2012	30.06.2011	2011
Operating activities			
Payments received from customers - interest, commission & charges	394 255	146 884	501 221
Net receipts/disbursements (-) on lending, customers	2 903 974	-9 742 933	-12 640 153
Disbursements on operations	-19 479	-10 944	-32 346
Net receipts/disbursements concerning other operational activities	54 293	0	-66 237
Net interest investment accounts	685	212	23 394
Income tax paid	0	0	0
Net cash flows from operating activities	3 333 728	-9 606 781	-12 214 121
Investment activities			
Disbursements on purchase of securities	-1 903 076	-633 658	-1 618 210
Receipts on sales of securities	25 532	0	98 680
Net cash flows from investment activities	-1 877 545	-633 658	-1 519 530
Financing activities			
Net receipts/disbursements (-) on loans from credit institutions	-1 492 753	11 088 704	14 851 453
Net payment of interest on loans	-395 989	-191 726	-576 918
Net receipts/disbursements (-) on other short-term items	20 052	-58 940	-127 099
Proceeds on issue of owners' equity	0	300 000	300 000
Net cash flows from financing activities	-1 868 690	11 138 038	14 447 436
Net cash flows during the period	-412 507	897 599	713 784
Cash and cash equivalents at the start of the period	965 477	251 692	251 692
Cash and cash equivalents held at the end of the period	552 970	1 149 292	965 477
Net receipts/disbursements (-) of cash	-412 507	897 599	713 784

A change has been made in classification of disbursements and receipts on acquisition of securities. These items have been moved from operating activities to investment activities. The comparison figures have been adjusted accordingly

RECONCILIATION

Income before tax	18 386	-16 465	-50 007
Change in accounts payable	-176	-249	-160
Items classified as investment or financing activities	384 132	194 994	674 291
Changes in other accrual items	2 931 386	-9 785 061	-12 838 245
Net cash flows from operating activities	3 333 728	-9 606 781	-12 214 121

Note 1 General information

KLP Kommunekreditt AS was formed on 25 August 2009. The Company provides or acquires public sector loans that are guaranteed by the Norwegian state, Norwegian county administrations or Norwegian municipalities. Guarantees are to be of the ordinary guarantor type covering both repayments and interest. The lending activities are principally financed by the issue 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 in turn 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 covers the period 1 January 2012 to 30 June 2012. The accounts have not been audited.

The interim financial statements for KLP Kommunekreditt AS have been prepared in accordance with the international accounting standards IAS/IFRS approved by the EU. This interim report has been prepared in accordance with IAS 34 "Interim Financial Reporting".

The interim financial statements are presented in accordance with the same principles as the annual accounts for 2011. This interim report should therefore be read in conjunction with the latter. The annual financial statements are available at www.klp.no.

Note 3 Net interest income

NOK thousands	01.01.2012- 30.06.2012	01.01.2011- 30.06.2011	The year 2011
Interest on lending to and receivables from credit institutions	13 671	7 670	23 394
Interest on lending to customers	392 731	214 112	594 936
Interest on securities	33 185	6 376	26 454
Total interest income	439 587	228 158	644 784
Interest on debt to credit institutions (covered bonds)	359 027	194 000	551 306
Interest on debt to KLP Banken	54 277	32 321	83 146
Premium/discount on covered bonds	1 566	4 509	7 342
Total interest costs	414 871	230 830	641 795
Net interest income	24 717	-2 672	2 989

Note 4 Lending to customers

NOK thousands	30.06.2012	30.06.2011	31.12.2011
Lending to customers before write-downs	20 651 682	20 497 213	23 559 548
Individual write-downs	0	0	0
Write-downs by group	0	0	0
Lending to customers after individual write-downs	20 651 682	20 497 213	23 559 548
Lending customers fair value hedging	138 322	0	96 075
Accrued interest	151 836	126 874	153 361
Lending to customers	20 941 841	20 624 087	23 808 983

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

Note 5 Liabilities – securities issued

NOK thousands ISIN code	Nominal	Currency	Interest rate	Commencement	Due date	Accr. interest	30.06.2012 Book value
Covered bonds							
N00010585185	4 300 000	NOK	Variable	15.09.2010	15.09.2015	5 256	4 305 256
N00010592884	2 470 000	NOK	Variable	10.12.2010	10.12.2012	3 513	2 473 513
N00010592892	4 000 000	NOK	Variable	10.12.2010	10.12.2013	5 956	4 005 956
N00010592900	750 000	NOK	Fixed	15.12.2010	15.12.2020	18 758	768 758
XS0605180412	1 250 000	SEK	Variable	15.03.2011	15.03.2013	1 190	1 096 190
N00010609795	4 000 000	NOK	Variable	20.05.2011	20.05.2014	11 617	4 011 617
N00010624778	2 500 000	NOK	Fixed	15.09.2011	15.05.2015	11 267	2 511 267
XS0747335494	500 000	SEK	Variable	17.02.2012	17.02.2015	1 353	434 853
N00010642192	1 000 000	NOK	Variable	13.04.2012	13.04.2016	5 991	1 005 991
Amortisation / value adjustments							79 057
Total covered bonds issued							20 692 457

NOK thousands ISIN code	Nominal	Currency	Interest rate	Commencement	Due date	Accr. interest	30.06.2011 Book value
Covered bonds							
N00010587793	100 000	NOK	Variable	15.09.2010	21.09.2011	128	100 128
N00010585185	4 300 000	NOK	Variable	15.09.2010	15.09.2015	6 268	4 306 268
N00010592884	1 500 000	NOK	Variable	10.12.2010	10.12.2012	2 616	1 502 616
N00010592892	4 000 000	NOK	Variable	10.12.2010	10.12.2013	7 257	4 007 257
N00010592900	750 000	NOK	Fixed	15.12.2010	15.12.2020	18 715	768 715
XS0605180412	1 250 000	SEK	Variable	15.03.2011	15.03.2013	1 327	1 096 327
N00010609795	4 000 000	NOK	Variable	20.05.2011	20.05.2014	13 720	4 013 720
N00010614555	2 900 000	NOK	Variable	28.06.2011	28.06.2013	701	2 900 701
Amortisation / value adjustments							-61 079
Total covered bonds issued							18 634 653

NOK thousands ISIN code	Nominal	Currency	Interest rate	Commencement	Due date	Accr. interest	31.12.2011 Book value
Covered bonds							
N00010585185	4 300 000	NOK	Variable	15.09.2010	15.09.2015	7 208	4 307 208
N00010592884	3 000 000	NOK	Variable	10.12.2010	10.12.2012	5 500	3 005 500
N00010592892	4 000 000	NOK	Variable	10.12.2010	10.12.2013	7 600	4 007 600
N00010592900	750 000	NOK	Fixed	15.12.2010	15.12.2020	1 602	751 602
XS0605180412	1 250 000	SEK	Variable	15.03.2011	15.03.2013	1 597	1 096 597
N00010609795	4 000 000	NOK	Variable	20.05.2011	20.05.2014	15 443	4 015 443
N00010614555	2 900 000	NOK	Variable	28.06.2011	28.06.2012	938	2 900 938
N00010624778	2 000 000	NOK	Fixed	15.09.2011	15.05.2015	20 741	2 020 741
Amortisation / value adjustments							46 827
Total covered bonds issued							22 152 457

Note 6 Debt to credit institutions

NOK thousands	Due date	Nominal	Accrued interest	30.06.2012 Book value
Loan KLP Banken	15.09.2012	3 560 000	4 573	3 564 573
Total liabilities to credit institutions				3 564 573

NOK thousands	Due date	Nominal	Accrued interest	30.06.2011 Book value
Loan KLP Banken	15.09.2011	3 210 000	4 151	3 214 151
Total liabilities to credit institutions				3 214 151

NOK thousands	Due date	Nominal	Accrued interest	31.12.2011 Book value
Loan KLP Banken	01.03.2012	400 000	4 439	404 439
Loan KLP Banken	15.03.2012	2 760 000	4 139	2 764 139
Loan KLP Banken	14.12.2012	400 000	179	400 179
Total debt to credit institutions				3 568 757

Note 7 Transactions with related parties

NOK thousands	30.06.2012	30.06.2011	31.12.2011
Income statement items			
KLP Banken AS, interest on borrowing	-54 277	-32 321	-83 146
KLP Banken AS, administrative services (at cost)	-10 669	-6 762	-19 592
KLP Kapitalforvaltning AS, fees for services provided	-31	-74	-177
TOTAL	-64 977	-39 157	-102 915

Financial position statement items			
KLP Banken AS, borrowing Group current liabilities	-3 564 573	-3 214 151	-3 568 757
KLP Banken AS, net intra-Group outstanding accounts	-4 704	-3 622	-8 259
KLP Banken AS, settlement banking system	67 054	18 946	87 106
KLP, net internal outstanding accounts	0	2 164	0
KLP Kapitalforvaltning AS, net intra-Group outstanding accounts	0	-34	-63
TOTAL	-3 502 222	-3 196 696	-3 489 974

There are no direct labour costs at 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 shared services, which are allocated at cost. Allocation is based on actual use. All intra-Group accounts are settled as they arise.

Note 8 Other assets

NOK thousands	30.06.2012	30.06.2011	31.12.2011
Intra-Group outstanding accounts	67 054	2 164	87 106
Miscellaneous receivables	4 277	126 350	0
Prepaid expenses	60	827	1 029
Total other assets	71 392	129 342	88 135

Note 9 Other liabilities and provision for accrued costs

NOK thousands	30.06.2012	30.06.2011	31.12.2011
Creditors	11	99	188
Intra-Group outstanding accounts	4 704	3 656	8 323
Interim securities liabilities	4 280	99 945	0
Total other liabilities	8 995	103 700	8 510
VAT	18	1 529	2 922
Provisioned costs	0	5 933	0
Total accrued costs and liabilities	18	7 462	2 922

Note 10 Capital adequacy

NOK thousands	30.06.2012	30.06.2011	31.12.2011
Share capital and share premium fund	634 389	670 393	634 389
Other owners' equity	0	0	0
Owners' equity	634 389	670 393	634 389
Interim profit/loss	0	-11 855	0
Deferred tax asset	-10 645	-6 402	-15 793
Core capital	623 744	652 136	618 596
Supplementary capital	0	0	0
Supplementary capital	0	0	0
Total Tier 1 and 2 capital to count	623 744	652 136	618 596
Capital requirement	379 466	366 113	428 337
Surplus of Tier 1 and 2 capital	244 278	286 023	190 259
Estimate basis credit risk			
Institutions	176 200	275 050	250 775
Local and regional authorities	3 963 469	4 142 213	4 786 663
Publicly owned enterprises	258 961	0	0
Covered bonds	333 708	148 163	305 788
Estimate basis credit risk	4 732 338	4 565 426	5 343 225
Credit risk	378 587	365 234	427 458
Operational risk	879	879	879
Total capital requirement assets	379 466	366 113	428 337
Core capital adequacy ratio	13,1 %	14,2 %	11,6 %
Supplementary capital ratio	0,0 %	0,0 %	0,0 %
Capital adequacy ratio	13,1 %	14,2 %	11,6 %

Basel II regulations have been used in calculating capital adequacy.

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

Note 11 Interest-bearing securities

NOK thousands	30.06.2012		31.12.2011	
	Acquis. cost	Market value	Acquis. cost	Market value
Bonds	3 440 598	3 453 059	1 537 522	1 535 086

The bonds are brought to account at market value.

Note 12 Contingent liabilities

NOK thousands	30.06.2012	30.06.2011	31.12.2011
Credit facilities for lending not utilised	0	0	0
Promised loans	24 679	86 955	80 709
Total contingent liabilities	24 679	86 955	80 709

Note 13 Key figures

Accumulated figures in NOK millions	Q2-12	Q1-12	Q4-11	Q3-11	Q2-11
Pre-tax income	18,4	16,3	-50,0	-32,9	-16,5
Net interest income	24,7	7,1	3,0	-0,7	-2,7
Other operating income	0,0	0,0	0,0	0,0	0,0
Operating costs and depreciation	-13,4	-7,7	-41,1	-31,2	-17,5
Net realised/unrealised change fin. instruments at f.v.	7,1	17,0	-11,9	-1,1	3,7
Lending with public sector guarantee	20 941,8	23 371,8	23 809,0	24 146,7	20 624,1
Defaulted loans	-	-	-	-	-
Borrowing on issuance of securities	20 692,5	21 947,5	22 152,5	22 131,7	18 634,7
Other borrowing	3 564,6	3 565,4	3 568,8	3 415,2	3 214,2
Total assets	25 212,7	26 410,5	26 549,9	26 464,2	22 669,9
Average total assets	25 881,3	26 480,2	13 274,9	13 232,1	11 335,0
Owners' equity	647,6	646,1	634,4	646,7	658,5
Interest net	0,10 %	0,03 %	0,02 %	0,00 %	-0,02 %
Income from ordinary operations before tax	0,07 %	0,06 %	-0,38 %	-0,25 %	-0,15 %
Income from ordin. operations excl. f.v.assessm't before tax	0,04 %	0,00 %	-0,29 %	-0,24 %	-0,18 %
Return on owners' equity before tax	2,84 %	2,52 %	-7,88 %	-5,08 %	-2,50 %
Capital adequacy ratio	13,1 %	12,1 %	11,6 %	11,8 %	14,2 %



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