

**Interim report Q3 2011**  
KLP Kommunekreditt AS



# Contents

Interim financial statement 3/2011	3
Income statement	4
Financial position statement	5
Statement of cash flows	6
Statement of owners' equity	7
Notes to the accounts	8
Note 1 General information	8
Note 2 Accounting principles	8
Note 3 Net interest income	8
Note 4 Lending to customers	9
Note 5 Liabilities created on issuance of securities	9
Note 6 Transactions with related parties	10
Note 7 Capital adequacy	11
Note 8 Interest-bearing securities	12
Note 9 Provisions	12
Note 10 Contingent liabilities	12
Note 11 Key figures	12

# KLP Kommunekreditt AS

## Interim financial statement 3/2011

### 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 surety 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 third quarter of 2011 were NOK -0.7 million. Operating expenses for KLP Kommunekreditt as at the third quarter amounted to NOK 31.2 million. The Company has not had losses or made loss provisions on lending. KLP Kommunekreditt has a pre-tax deficit as at the end of the third quarter of NOK 32.9 million.

### Lending/Total assets

The Company's lending as at 30 September 2011 was NOK 24.1 billion as against 10.90 billion as at 31 December 2010. 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 as at 30 September 2011. All covered bonds have an AAA rating.

### Solvency

At the end of the third quarter 2011, core capital i.a.w. the capital adequacy rules was NOK 635.7 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 has a core capital adequacy and capital adequacy ratio of 11.8 per cent at the end of the third quarter 2011. The minimum statutory requirement is 8 per cent.

**Income statement** KLP Kommunekreditt AS

Note	NOK thousands	Q3 2011	Q3 2010	01.01.2011- 30.09.2011	01.01.2010- 30.09.2010	01.01.2010- 31.12.2010
	Interest income and similar income	188 747	29 167	416 905	66 518	126 371
	Cost of interest and similar costs	-186 728	-27 234	-417 558	-61 126	-121 464
3	Net interest income	2 019	1 933	-653	5 393	4 907
	Net gain/(loss) on finan.instrum.	-4 779	0	-1 056	0	-183
	Total other operating income	-4 779	0	-1 056	0	-183
	Fees lending management	0	801	0	801	0
	Other operating expenses	-13 636	-3 231	-31 152	-5 597	-11 083
	Operating income before tax	-16 396	-497	-32 861	596	-6 359
	Tax on ordinary income	4 591	139	9 201	-167	1 780
	Income	-11 805	-358	-23 660	429	-4 579
	Other comprehensive income	0	0	0	0	0
	<b>TOTAL COMPREHENSIVE INCOME</b>	<b>-11 805</b>	<b>-358</b>	<b>-23 660</b>	<b>429</b>	<b>-4 579</b>

## Financial position statement KLP Kommunekreditt AS

Note	NOK thousands	30.09.2011	30.09.2010	31.12.2010
ASSETS				
	Lending to and receivables from credit institutions	1 101 303	222 780	251 692
4	Lending to and receivables from customers	24 146 670	7 405 808	10 920 279
8	Fixed income securities	1 068 984	0	0
	Deferred tax asset	1 791	0	1 791
	Financial derivatives	66 160	0	0
	Other assets	79 282	3 336	2 472
	<b>TOTAL ASSETS</b>	<b>26 464 190</b>	<b>7 631 924</b>	<b>11 176 234</b>
LIABILITIES AND OWNERS' EQUITY				
LIABILITIES				
	Debt to credit institutions	3 415 221	760 906	1 511 729
5	Debt created on issuance of securities	22 131 684	6 495 078	9 245 104
	Financial derivatives	157 153	0	4 950
	Deferred taxes	0	156	0
	Other liabilities	98 554	0	43 676
	Provision for accrued costs and liabilities	14 845	385	383
	<b>TOTAL LIABILITIES</b>	<b>25 817 456</b>	<b>7 256 524</b>	<b>10 805 841</b>
OWNERS' EQUITY				
	Share capital	362 500	212 500	212 500
	Share premium fund	307 893	162 471	157 893
	Unallocated profit/loss	-23 660	429	0
	<b>TOTAL OWNERS' EQUITY</b>	<b>646 734</b>	<b>375 401</b>	<b>370 393</b>
	<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>	<b>26 464 190</b>	<b>7 631 924</b>	<b>11 176 234</b>

## Statement of cash flows KLP Kommunekreditt AS

NOK thousands	01.01.2011- 30.09.2011	01.01.2010- 30.09.2010	01.01.2010- 31.12.2010
Pre-tax income	-32 861	596	-6 359
Acquisition of funds from operation:			
New lending	-13 226 391	-4 455 225	-7 969 696
Unrealised changes	86 043	0	0
Change in short-term investments	-66 850	0	0
Change in:			
Accrued income not yet received	0	0	0
Other receivables	-115 557	49 593	93 165
Other short term debt	109 333	-3 322	863
Total acquisition of funds from operating activities	-13 246 282	-4 408 358	-7 882 027
New financial investments	-1 076 383	0	0
Net cash flow from investment activities	-1 076 383	0	0
Change in liability to credit institutions	14 790 072	4 258 107	7 763 905
Shares issue	300 000	300 000	300 000
Net cash flow from financial activities	15 090 072	4 558 107	8 063 905
Change in rate adjustments on cash and bank equivalents	0	0	0
NET CHANGE IN CASH AND CASH EQUIVALENTS	767 407	149 749	181 878
Cash and cash equivalents at the start of the period	251 692	69 813	69 813
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	1 019 100	219 561	251 692

## Statement of owners' equity KLP Kommunekreditt AS

2011 NOK thousands	Owners' equity contributed	Retained earnings	Total owners' equity
Owners' equity 01.01.2011	362 500	7 893	370 393
Income	0	-23 660	-23 660
Other comprehensive income	0	0	0
Total comprehensive income	0	-23 660	-23 660
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 30.09.2011	662 500	-15 767	646 734

2010 NOK thousands	Owners' equity contributed	Retained earnings	Total owners' equity
Owners' equity 01.01.2010	75 000	-29	74 971
Income	0	429	429
Other comprehensive income	0	0	0
Total comprehensive income	0	429	429
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 30.09.2010	375 000	400	375 401

Losses are offset against the share premium fund in the statement of financial position at year-end.

## 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 government, Norwegian county administrations 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 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 to 30 September 2011. The accounts have not been audited.

The interim report has been prepared in accordance with IAS 34. In 2011 the Company moved from simplified IFRS to IFRS. This transition has had no impact on assessments of the Company's assets, liabilities or equity. The accounting principles described in the Company's annual financial statement therefore apply to this interim report as well, with some exceptions described below. It is therefore recommended that this interim report be read in conjunction with the annual financial statements for 2010. The annual financial statements are available on application to KLP Kommunekreditt and at [www.klp.no](http://www.klp.no).

During the year the Company has invested surplus liquidity in fixed income securities. These were initially recognised in the statement of financial position at fair value. The securities in the portfolio are earmarked for the category "financial assets at fair value through profit/loss" since they are managed and their earnings are valued on the basis of fair value. Fair value is set based on observable prices in an active market. Where such prices are not available, fair value is set on the basis of recognised valuation models based on observable market data.

The Company hedges against interest rate risk using derivatives. In order best to reflect the hedging arrangements in the accounts, the hedge accounting rules are used (fair value hedging). This involves the value for accounting purposes of the hedging object (fixed interest borrowing and lending) changing when the market interest rate changes. The credit spread is fixed to the commencement date, so the market's pricing of credit is not reflected in book value. This is because the credit element is not hedged.

The value change in the hedged object is reflected in the value change of the hedging instrument (interest rate derivatives) which is recorded at fair value. Regular checks are made that the hedging effect is satisfactory so the hedging function qualifies for the use of hedge accounting.

## Note 3 Net interest income

NOK thousands	01.01.2011- 30.09.2011	01.01.2010- 30.09.2010	01.01.2010- 31.12.2010
Interest on lending to and receivables from credit institutions	16 149	3 723	4 861
Interest on lending to customers	386 293	62 795	121 364
Interest on securities	14 463	0	146
<b>Total interest income</b>	<b>416 905</b>	<b>66 518</b>	<b>126 371</b>
Interest on debt to credit institutions (covered bonds)	354 687	57 851	110 028
Interest on debt to KLP Banken	56 769	906	7 524
Premium/discount on covered bonds	6 102	2 367	3 910
<b>Total interest costs</b>	<b>417 558</b>	<b>61 125</b>	<b>121 464</b>
<b>Net interest income</b>	<b>-653</b>	<b>5 393</b>	<b>4 907</b>

## Note 4 Lending to customers

NOK thousands	30.09.2011	30.09.2010	31.12.2010
Lending to customers, nominal principal	23 970 864	7 357 410	10 860 633
Individual write-downs	0	0	0
Lending to customers after individual write-downs	23 970 864	7 357 410	10 860 633
Accrued interest	175 806	48 398	59 646
Lending to customers	24 146 670	7 405 808	10 920 279

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 surety type covering both repayments and interest.

## Note 5 Liabilities created on issuance of securities

NOK thousands						30.09.2011
Covered bonds						
ISIN code	Nominal	Currency	Interest	Commencement	Due date	Book value
NO0010585185	4 300 000	NOK	Variable	15.09.2010	15.09.2015	4 300 000
NO0010592884	3 000 000	NOK	Variable	10.12.2010	10.12.2012	3 000 000
NO0010592892	4 000 000	NOK	Variable	10.12.2010	10.12.2013	4 000 000
NO0010592900	750 000	NOK	Fixed	15.12.2010	15.12.2020	750 000
XS0605180412	1 250 000	SEK	Variable	15.03.2011	15.03.2013	1 095 000
NO0010609795	4 000 000	NOK	Variable	20.05.2011	20.05.2014	4 000 000
NO0010614555	2 900 000	NOK	Variable	28.06.2011	28.06.2012	2 900 000
NO0010624778	2 000 000	NOK	Fixed	15.09.2011	15.05.2015	2 000 000
Accrued interest						66 659
Amortisation / value adjustment						20 024
Total covered bonds issued						22 131 684

## Note 6 Transactions with related parties

NOK thousands	30.09.2011	30.09.2010	31.12.2010
Income statement items			
KLP Banken AS, interest on borrowing	-56 769	-906	-7 524
KLP Banken AS, administrative services (at cost)	-11 256	-2 070	-2 942
KLP Kapitalforvaltning AS, fees for services provided	-113	-94	-132
<b>TOTAL</b>	<b>-68 138</b>	<b>-3 070</b>	<b>-10 598</b>

NOK thousands	30.09.2011	30.09.2010	31.12.2010
Statement of financial position items			
KLP Banken AS, borrowing Group current liabilities	-3 415 221	-760 906	-1 511 729
KLP Banken AS, net internal receivables	-4 646	3 336	-43 314
KLP Kreditt AS, net internal receivables	42 690	0	0
KLP, net internal receivables	-93 835	0	0
KLP Kapitalforvaltning AS, net internal receivables	-40	0	-13
<b>TOTAL</b>	<b>-3 471 052</b>	<b>-757 570</b>	<b>-1 555 056</b>

The liabilities to KLP Banken have fixed market interest rates. Principal 3,010,000 falling due 15 December 2011. Principal 400,000 falling due 1 March 2012.

There are no direct salary costs in KLP Kommunekreditt AS. Personnel costs (administrative services) are allocated 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 are allocated at cost. Allocation is based on actual use. All internal accounts are settled as they arise.

## Note 7 Capital adequacy

NOK thousands	30.09.2011	30.09.2010	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 value changes	0	0	0
Interim profit/loss	-32 861	0	0
Deduction goodwill and other intangible assets	0	0	0
Deferred tax asset	-1 791	0	-1 791
Core capital	635 741	374 971	368 602
Supplementary capital	0	0	0
Supplementary capital	0	0	0
Total Tier 1 and 2 capital to count.	635 741	374 971	368 602
Capital requirement	430 720	123 367	179 889
Surplus of Tier 1 and 2 capital	205 021	251 604	188 713
Estimate basis credit risk			
Institutions	311 900	47 800	53 563
Local and regional authorities	4 847 313	1 481 163	2 184 050
Holdings securities	213 800	0	0
Other holdings	0	0	0
Estimate basis credit risk	5 373 013	1 528 963	2 237 613
Credit risk	429 841	122 317	179 009
Operational risk	879	1 050	879
Total capital requirement assets	430 720	123 367	179 888
Core capital adequacy ratio	11,8 %	24,3 %	16,4 %
Supplementary capital ratio	0,0 %	0,0 %	0,0 %
Capital adequacy ratio	11,8 %	24,3 %	16,4 %

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 8 Interest-bearing securities

NOK thousands	30.09.2011	
	Acquisition cost	Market value
Bonds	1 066 442	1 068 984

The bonds are brought to account at market value

## Note 9 Provisions

In connection with the establishment of programmes for the issuance of covered bonds in the international market, an agreement has been entered into with the facilitator on a fee to be calculated and settled during Q4 2011. In the financial statement as at 30 September, provision has been made for NOK 14.6 million to cover the fee. The sum is included in the accounting line «Other operating costs» in the income statement.

## Note 10 Contingent liabilities

NOK thousands	30.09.2011
Credit facilities for lending not utilised	-
Loan promises	45 540
<b>Total conditional liabilities</b>	<b>45 540</b>

## Note 11 Key figures

Accumulated figures in NOK millions	Q3-11	Q2-11	Q1-11	Q4-10	Q3-10
Pre-tax income	-32,9	-16,5	-1,6	-6,4	0,6
Net interest income	-0,7	-2,7	0,8	4,9	5,4
Other operating income	0,0	0,0	0,0	0,0	0,8
Operating costs and depreciation	-31,2	-17,5	-4,6	-11,1	-5,6
Net realised/unrealised change fin. instruments at f.v.	-1,1	3,7	2,1	-0,2	0,0
Lending with public sector guarantee	24 146,7	20 624,1	15 576,2	10 920,3	7 405,8
Defaulted loans	-	-	-	-	-
Borrowing on issuance of securities	22 131,7	18 634,7	13 629,1	9 245,1	6 495,1
Other borrowing	3 415,2	3 214,2	2 412,9	1 511,7	760,9
Total assets	26 464,2	22 669,9	15 537,6	11 176,2	7 631,9
Average total assets	18 820,2	16 923,1	13 356,9	7 126,1	5 354,0
Owners' equity	646,7	658,5	469,2	370,4	375,4
Interest net	0,00 %	-0,02 %	0,01 %	0,07 %	0,10 %
Income from ordinary operation before taxes	-0,17 %	-0,10 %	-0,01 %	-0,09 %	0,01 %
Income from ordin. operations excl. f.v. assessmnt. before tax	-0,17 %	-0,12 %	-0,03 %	-0,09 %	0,01 %
Return on owners' equity before tax	-5,08 %	-2,50 %	-0,35 %	-1,73 %	0,16 %
Capital adequacy	11,8 %	14,2 %	14,0 %	16,4 %	24,3 %



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