

Interim report Q3 2012
KLP Kommunekreditt AS



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KLP Kommunekreditt AS

Interim financial statement 3/2012

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 repayments and interest. 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 2012 were NOK 46.6 million. Operating costs for KLP Kommunekreditt AS at the third quarter 2012 amounted to NOK 19.7 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 78.3 million.

Lending/Total assets

The Company's lending as at 30 September 2012 was NOK 20.8 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 in 2011. Covered bonds have been issued for NOK 1.5 billion and SEK 500 million in 2012. All the covered bonds have an AAA rating.

Liquid investments

KLP Kommunekreditt AS has strict rules for what assets may be included in the security pool. In addition to loans to the public sector the security pool comprises secured bonds as well as deposits in other banks. The bond portfolio comprises exclusively bonds with very good security. 97% is invested in covered bonds with AAA rating, whilst 3% is invested in bonds where the issuer has AAA rating. All bonds are issued by Norwegian issuers. As at 30 September the bond portfolio's nominal value was NOK 3.4 billion. Unrealised gains amounted to NOK 36.8 million.

Solvency

At the end of the third quarter 2012, core capital in accordance with the capital adequacy rules was NOK 634.4 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 13.4 per cent at the end of the third quarter 2012. The minimum statutory requirement is 8 per cent.



Income statement KLP Kommunekreditt AS

Note	NOK thousands	Q3 2012	Q3 2011	01.01.2012- 30.09.2012	01.01.2011- 30.09.2011	01.01.2011- 31.12.2011
	Interest income and similar income	195 382	188 747	634 969	416 905	644 784
	Cost of interest and similar costs	-173 491	-186 728	-588 362	-417 558	-641 795
3	Net interest income	21 891	2 019	46 607	-653	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	44 370	-4 779	51 432	-1 056	-11 859
	Total other operating income	44 370	-4 779	51 432	-1 056	-11 859
	Other operating expenses	-6 346	-13 636	-19 739	-31 152	-41 135
	Operating income before tax	59 915	-16 396	78 300	-32 861	-50 007
	Tax on ordinary income	-16 776	4 591	-21 924	9 201	14 002
	Income	43 139	-11 805	56 376	-23 660	-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	43 139	-11 805	56 376	-23 660	-36 005

Financial position statement KLP Kommunekreditt AS

Note	NOK thousands	30.09.2012	30.09.2011	31.12.2011
ASSETS				
	Lending to and receivables from credit institutions	793 067	1 101 303	1 031 714
4	Lending to and receivables from customers	20 758 297	24 146 670	23 808 983
11	Interest-bearing securities	3 490 663	1 076 383	1 535 086
	Deferred tax asset	0	10 992	15 793
	Financial derivatives	196 260	66 160	70 165
8	Other assets	5 811	62 682	88 135
	TOTAL ASSETS	25 244 098	26 464 190	26 549 875
LIABILITIES AND OWNERS' EQUITY				
LIABILITIES				
6	Debt to credit institutions	3 413 912	3 415 221	3 568 757
5	Liabilities created on issuance of securities	20 763 227	22 131 684	22 152 457
	Financial derivatives	364 088	157 153	182 842
	Deferred tax	6 131	0	0
9	Other liabilities	5 563	98 554	8 510
9	Provision for accrued costs and liabilities	413	14 845	2 922
	TOTAL LIABILITIES	24 553 333	25 817 457	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	56 376	-23 660	0
	TOTAL OWNERS' EQUITY	690 765	646 733	634 388
	TOTAL LIABILITIES AND OWNERS' EQUITY	25 244 098	26 464 190	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 2012	362 500	271 888	634 388
Income	0	56 376	56 376
Other comprehensive income	0	0	0
Total comprehensive income	0	56 376	56 376
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 September 2012	362 500	328 264	690 765

2011 NOK thousands	Share capital	Share premium fund	Total owners' equity
Owners' equity 1 January 2011	212 500	157 893	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	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 September 2011	362 500	284 233	646 733

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 September	-	-	0	0
As at 30 September 2012	3 625 000	100	312 500	675 000
Retained earnings, attributed to Share Premium Fund				-40 612
Unallocated profit/loss				56 376
Owners' equity as at 30 September 2012				690 765

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

Income per share 30 September 2012 in whole NOK: 15,6

Income per share 30 September 2011 in whole NOK: -6,5



Statement of cash flows KLP Kommunekreditt AS

NOK thousands	30.09.2012	30.09.2011	2011
Operating activities			
Payments received from customers - interest, commission & charges	532 604	270 132	501 221
Net receipts/disbursements (-) on lending, customers	3 177 685	-12 880 713	-12 640 153
Disbursements on operations	-25 086	-56 979	-32 346
Net receipts/disbursements concerning other operational activities	-4 651	-66 850	-66 237
Net interest investment accounts	2 478	796	23 394
Income tax paid	0	0	0
Net cash flows from operating activities	3 683 030	-12 733 614	-12 214 121
Investment activities			
Disbursements on purchase of securities	-1 903 076	-1 164 000	-1 638 503
Receipts on sales of securities	2 430	98 680	98 680
Receipts of interest from securities	51 438	7 065	20 293
Net cash flows from investment activities	-1 849 208	-1 058 255	-1 519 530
Financing activities			
Net receipts/disbursements (-) on loans from credit institutions	-1 631 501	14 675 137	14 851 453
Net payment of interest on loans	-542 585	-356 922	-576 918
Net receipts/disbursements (-) on other short-term items	81 805	-58 940	-127 099
Proceeds on issue of owners' equity	0	300 000	300 000
Net cash flows from financing activities	-2 092 281	14 559 275	14 447 436
Net cash flows during the period	-258 459	767 407	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	707 017	1 019 100	965 477
Net receipts/disbursements (-) of cash	-258 459	767 407	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	78 300	-32 861	-50 007
Change in accounts payable	-188	-316	-160
Items classified as investment or financing activities	523 642	453 730	674 291
Changes in other accrual items	3 081 276	-13 154 167	-12 838 245
Net cash flows from operating activities	3 683 030	-12 733 614	-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

Note 2 Accounting principles

This interim report covers the period 1 January 2012 to 30 September 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 accounts are presented in accordance with the same principles as the annual accounts for 2011. This interim report ought therefore to 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- 30.09.2012	01.01.2011- 30.09.2011	The year 2011
Interest on lending to and receivables from credit institutions	17 639	16 149	23 394
Interest on lending to customers	558 832	386 293	594 936
Interest on securities	58 497	14 463	26 454
Total interest income	634 969	416 905	644 784
Interest on debt to credit institutions (covered bonds)	505 397	354 687	551 306
Interest on debt to KLP Banken	80 982	56 769	83 146
Premium/discount on covered bonds	1 983	6 102	7 342
Total interest costs	588 362	417 558	641 795
Net interest income	46 607	-653	2 989

Note 4 Lending to customers

NOK thousands	30.09.2012	30.09.2011	31.12.2011
Lending to customers before write-downs	20 316 883	23 970 864	23 499 198
Individual write-downs	0	0	0
Write-downs by group	0	0	0
Lending to customers after individual write-downs	20 316 883	23 970 864	23 499 198
Accrued interest	179 589	175 806	153 361
Lending customers fair value hedging	261 825	0	156 424
Lending to customers	20 758 297	24 146 670	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-authority companies (public sector lending). Guarantees are of the ordinary guarantor type covering both repayments and interest.



Note 5 Liabilities created on issuance of securities

NOK thousands							30.09.2012
ISIN code	Nominal	Currency	Interest	Commencement	Due date	Accr. interest	Book value
Covered bonds							
N00010585185	4 300 000	NOK	Variable	15.09.2010	15.09.2015	3 930	4 303 930
N00010592884	2 470 000	NOK	Variable	10.12.2010	10.12.2012	3 184	2 473 184
N00010592892	4 000 000	NOK	Variable	10.12.2010	10.12.2013	5 437	4 005 437
N00010592900	750 000	NOK	Fixed	15.12.2010	15.12.2020	27 430	777 430
XS0605180412	1 250 000	SEK	Variable	15.03.2011	15.03.2013	866	1 095 866
N00010609795	4 000 000	NOK	Variable	20.05.2011	20.05.2014	10 967	4 010 967
N00010624778	2 500 000	NOK	Fixed	15.09.2011	15.05.2015	33 322	2 533 322
XS0747335494	500 000	SEK	Variable	17.02.2012	17.02.2015	1 344	434 844
N00010642192	1 000 000	NOK	Variable	13.04.2012	13.04.2016	5 889	1 005 889
Amortisation/value adjustments							122 359
Total covered bonds issued							20 763 227

NOK thousands							30.09.2011
ISIN code	Nominal	Currency	Interest	Commencement	Due date	Accr. interest	Book value
Covered bonds							
N00010585185	4 300 000	NOK	Variable	15.09.2010	15.09.2015	6 651	4 306 651
N00010592884	3 000 000	NOK	Variable	10.12.2010	10.12.2012	5 304	3 005 304
N00010592892	4 000 000	NOK	Variable	10.12.2010	10.12.2013	7 326	4 007 326
N00010592900	750 000	NOK	Fixed	15.12.2010	15.12.2020	27 411	777 411
XS0605180412	1 250 000	SEK	Variable	15.03.2011	15.03.2013	1 356	1 096 356
N00010609795	4 000 000	NOK	Variable	20.05.2011	20.05.2014	14 800	4 014 800
N00010614555	2 900 000	NOK	Variable	28.06.2011	28.06.2012	740	2 900 740
N00010624778	2 000 000	NOK	Fixed	15.09.2011	15.05.2015	3 073	2 003 073
Amortisation/value adjustments							20 024
Total covered bonds issued							22 131 684

NOK thousands							31.12.2011
ISIN code	Nominal	Currency	Interest	Commencement	Due date	Accr. interest	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	Accr. interest	30.09.2012 Book value
Loan KLP Banken	17.12.2012	3 410 000	3 912	3 413 912
Total liabilities to credit institutions				3 413 912

NOK thousands	Due date	Nominal	Accr. interest	30.09.2011 Book value
Loan KLP Banken	15.12.2011	3 010 000	4 130	3 014 130
Loan KLP Banken	01.03.2012	400 000	1 092	401 092
Total liabilities to credit institutions				3 415 221

NOK thousands	Due date	Nominal	Accr. 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 liabilities to credit institutions				3 568 757

Note 7 Transactions with related parties

NOK thousands	30.09.2012	30.09.2011	31.12.2011
Income statement items			
KLP Banken AS, interest on borrowing	-80 982	-56 769	-83 146
KLP Banken AS, administrative services (at cost)	-16 045	-11 256	-19 592
KLP Kapitalforvaltning AS, fees for services provided	-281	-113	-177
TOTAL	-97 307	-68 138	-102 915
Financial position statement items			
KLP Banken AS, borrowing Group current liabilities	-3 413 912	-3 415 221	-3 568 757
KLP Banken AS, net intra-Group accounts	-5 376	-4 646	-8 259
KLP Banken AS, settlement banking system	5 301	18 946	87 106
KLP Kreditt AS, net intra-Group accounts	0	42 690	0
KLP, net intra-Group accounts	0	-93 835	0
KLP Kapitalforvaltning AS, net intra-Group accounts	-187	-40	-63
TOTAL	-3 414 174	-3 452 106	-3 489 974

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

Note 8 Other liabilities and provision for accrued costs

NOK thousands	30.09.2012	30.09.2011	31.12.2011
Intra-Group accounts	5 301	61 637	87 106
Miscellaneous receivables	0	0	0
Prepaid expenses	510	1 046	1 029
Total other assets	5 811	62 682	88 135

Note 9 Other liabilities and provision for accrued costs

NOK thousands	30.09.2012	30.09.2011	31.12.2011
Creditors	0	32	188
Intra-Group accounts	5 563	98 522	8 323
Interim securities liabilities	0	0	0
Total other liabilities	5 563	98 554	8 510
VAT	143	3 205	2 922
Provisioned costs	270	11 640	0
Total accrued costs and liabilities	413	14 845	2 922

Note 10 Capital adequacy

NOK thousands	30.09.2012	30.09.2011	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	-32 861	0
Deferred tax asset	0	-1 791	-15 793
Core capital	634 389	635 741	618 596
Supplementary capital	0	0	0
Supplementary capital	0	0	0
Total eligible Tier 1 and 2 capital	634 389	635 741	618 596
Capital requirement	379 869	430 720	428 337
Surplus of Tier 1 and 2 capital	254 520	205 021	190 259
Estimate basis credit risk			
Institutions	214 059	311 900	250 775
Local and regional authorities	4 186 239	4 847 313	4 786 663
Publicly owned enterprises	0	0	0
Covered bonds	337 074	213 800	305 788
Estimate basis credit risk	4 737 372	5 373 013	5 343 225
Credit risk	378 990	429 841	427 458
Operational risk	879	879	879
Total capital requirement assets	379 869	430 720	428 337
Core capital adequacy ratio	13,4 %	11,8 %	11,6 %
Supplementary capital ratio	0,0 %	0,0 %	0,0 %
Capital adequacy ratio	13,4 %	11,8 %	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	30.09.2012		31.12.2011	
	Acquisition cost	Market value	Acquisition cost	Market value
Bonds	3 440 598	3 490 663	1 537 522	1 535 086

The bonds are brought to account at market value.

Note 12 Contingent liabilities

NOK thousands	30.09.2012	30.09.2011	31.12.2011
Credit facilities for lending not utilised	0	0	0
Promised loans	24 679	45 540	80 709
Total contingent liabilities	24 679	45 540	80 709

Note 13 Key figures

Accumulated figures in NOK millions	Q3-12	Q2-12	Q1-12	Q4-11	Q3-11
Pre-tax income	78,3	18,4	16,3	-50,0	-32,9
Net interest income	46,6	24,7	7,1	3,0	-0,7
Other operating income	0,0	0,0	0,0	0,0	0,0
Depreciation and write down	-19,7	-13,4	-7,7	-41,1	-31,2
Net realised/unrealised change fin. Instruments at f.v.	51,4	7,1	17,0	-11,9	-1,1
Lending with public sector guarantee	20 758,3	20 941,8	23 371,8	23 809,0	24 146,7
Defaulted loans	-	-	-	-	-
Borrowing on issuance of securities	20 763,2	206 925,5	21 947,5	22 152,5	22 131,7
Other borrowing	3 413,9	3 564,6	3 565,4	3 568,8	3 415,2
Total assets	25 244,1	25 212,7	26 410,5	26 549,9	26 464,2
Average total assets	25 897,0	25 881,3	26 480,2	13 274,9	13 232,1
Owners' equity	690,8	647,6	646,1	634,4	646,7
Interest net	0,18 %	0,10 %	0,03 %	0,02 %	0,00 %
Income from ordinary operation before tax	0,30 %	0,07 %	0,06 %	-0,38 %	-0,25 %
Income from ordin. operations excl. f.v.assessm'nt before tax	0,10 %	0,04 %	0,00 %	-0,29 %	-0,24 %
Return on owners' equity before tax	11,34 %	2,84 %	2,52 %	-7,88 %	-5,08 %
Capital adequacy ratio	13,4 %	13,1 %	12,1 %	11,6 %	11,8 %



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