

# Quarterly report Q4 2010

Income statement & Balance sheet - Notes



KLP Kommunekreditt AS

## **KLP KOMMUNEKREDITT AS QUARTERLY REPORT 4 / 2010**

**PURPOSE AND OWNERSHIP.** The company's objective is long-term financing of municipalities, counties and companies performing public duties. Loans to companies should be guaranteed by municipal, county, state within the municipal Act § 50 Lending activities are funded mainly by issuing covered bonds (OMF).

KLP Kommunekreditt is a wholly owned subsidiary of KLP Banken. KLP Banken Group is owned by Kommunal Landspensjonskassen (KLP). KLP Kommunekreditt was established in 2009 and is headquartered in Trondheim Norway. The company uses the brand name KLP Kommunekreditt in marketing to customer groups in the public sector.

**INCOME STATEMENT.** Net interest at the end of the fourth quarter 2010 was NOK 4.9 million. Operating expenses, in KLP Kommunekreditt for the fourth quarter amounted to NOK 11.1 million. The company has not incurred losses or made provisions for losses on loans. KLP Kommunekreditt has a profit before tax at the fourth quarter of NOK -6.4 million.

**LOANS/TOTAL ASSETS.** The company's loans as at 31 December 2010 was NOK 10.9 billion, compared with NOK 2.96 billion as of 31.12.2009. All loans are acquired from KLP Kreditt. The company lends to municipalities, counties and municipal companies.

**BORROWING.** The company's borrowings consists of issued covered bonds (OMF) and funding from the parent company. In December KLP Kommunekreditt AS issued NOK 2,75 billion of covered bonds. All issued covered bonds are rated AAA by Moodys and Fitch.

**FINANCIAL STRENGTH.** Core capital according to capital adequacy rules by the end of the fourth quarter of 2010 was NOK 368.6 million. Loans to municipalities and counties are risk-weighted by 20 percent according to the government's regulations for capital adequacy. KLP Kommunekreditt has a core capital adequacy and capital adequacy of 16.4 percent for the fourth quarter of 2010. The minimum requirement is 8 percent.

## Income statement

KLP Kommunekreditt AS

| <i>NOK thousands</i>                         | Note     | 4Q 2010       | 4Q 2009     | 2010          | 25.08.-31.12.2009 |
|--|----------|---------------|-------------|---------------|-------------------|
| Total interest income                        |          | 59 853        | 3 193       | 126 371       | 3 260             |
| Total interest expenses                      |          | -60 338       | -2 860      | -121 464      | -2 860            |
| <b>NET INTEREST INCOME</b>                   | <b>3</b> | <b>-485</b>   | <b>333</b>  | <b>4 907</b>  | <b>400</b>        |
| Net realised + gain/ - loss fin. Instruments |          | -183          | 0           | -183          | 0                 |
| <b>Other income</b>                          |          | <b>-183</b>   | <b>0</b>    | <b>-183</b>   | <b>0</b>          |
| Management fee                               | 6        | -801          |             | 0             | 0                 |
| Operating expenses                           | 6        | -5 486        | -440        | -11 083       | -440              |
| <b>Profit before tax</b>                     |          | <b>-6 954</b> | <b>-107</b> | <b>-6 358</b> | <b>-40</b>        |
| Taxes  |          | 1 947         | 11          | 1 780         | 11                |
| <b>Profit for the period</b>                 |          | <b>-5 007</b> | <b>-96</b>  | <b>-4 578</b> | <b>-29</b>        |
| Other comprehensive income                   |          | 0             | 0           | 0             | 0                 |
| <b>Total comprehensive income</b>            |          | <b>-5 007</b> | <b>-96</b>  | <b>-4 578</b> | <b>-29</b>        |
| Allocated from share premium fund            |          | 4 578         | 29          | 4 578         | 29                |
| TOTAL ALLOCATION                             |          | 4 578         | 29          | 4 578         | 29                |

## Balance Sheet Statement

KLP Kommunekreditt AS

| <i>NOK thousands</i>                                     |      | 31.12.2010        | 31.12.2009       |
|--|------|-------------------|------------------|
| ASSETS   | Note |                   |                  |
| Loans issued to and receivables from credit institutions |      | 251 692           | 69 813           |
| Loans issued to and receivables from customers           | 4    | 10 920 279        | 2 950 583        |
| Deferred tax asset                                       |      | 1 791             | 11               |
| Other assets   |      | 2 472             | 55 644           |
| <b>TOTAL ASSETS</b>                                      |      | <b>11 176 234</b> | <b>3 076 051</b> |
| LIABILITIES AND OWNERS' EQUITY                           |      |                   |                  |
| LIABILITIES  |      |                   |                  |
| Liabilities to credit institutions                       | 6    | 1 511 729         | 2 763            |
| Debt securities issued                                   | 5    | 9 245 104         | 2 997 877        |
| Derivatives  |      | 4 950             | 0                |
| Other liabilities  |      | 43 676            | 440              |
| Provisions   |      | 383               | 0                |
| <b>TOTAL LIABILITIES</b>                                 |      | <b>10 805 841</b> | <b>3 001 080</b> |
| OWNERS' EQUITY   |      |                   |                  |
| Share capital  |      | 212 500           | 62 500           |
| Share premium fund                                       |      | 157 893           | 12 471           |
| <b>TOTAL OWNERS' EQUITY</b>                              |      | <b>370 393</b>    | <b>74 971</b>    |
| <b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>              |      | <b>11 176 234</b> | <b>3 076 051</b> |

## Changes in Owner's equity

2010

KLP Kommunekreditt AS

| <i>NOK thousands</i>                | Paid in capital | Retained earnings | Total equity |
|-------------------------------------|-----------------|-------------------|--------------|
| Equity at 01.01.2010                | 75 000          | -29               | 74 971       |
| Profit for the period               | 0               | -4 578            | -4 578       |
| Other comprehensive income          | 0               | 0                 | 0            |
| Total income                        | 0               | -4 578            | -4 578       |
| Equity transactions with the owner: |                 |                   |              |
| Capital increase                    | 300 000         | 0                 | 300 000      |
| Equity reimbursed                   | 0               | 0                 | 0            |
| Total transactions with owners      | 300 000         | 0                 | 300 000      |
| Equity at 31.12.2010                | 375 000         | -4 607            | 370 393      |

2009

| <i>NOK thousands</i>                | Paid in capital | Retained earnings | Total equity |
|-------------------------------------|-----------------|-------------------|--------------|
| Equity at 01.01.2009                | 0               | 0                 | 0            |
| Profit for the period               | 0               | -29               | -29          |
| Other comprehensive income          | 0               | 0                 | 0            |
| Total income                        | 0               | -29               | -29          |
| Equity transactions with the owner: |                 |                   |              |
| Capital increase                    | 50 000          | 0                 | 50 000       |
| Equity reimbursed                   | 25 000          | 0                 | 25 000       |
| Total transactions with owners      | 75 000          | 0                 | 75 000       |
| Equity at 31.12.2009                | 75 000          | -29               | 74 971       |

## Cash flow statement

KLP Kommunekreditt AS

|  |                |
|--|----------------|
| <i>NOK thousands</i>   | 31.12.2010     |
| Pre-tax profit/loss  | -6 358         |
| <u>Provision of funds from operation:</u>                      |                |
| New lending  | -7 969 696     |
| <u>Change in:</u>  |                |
| Other receivables  | 93 165         |
| Other short term debt  | 863            |
| Total acquisition of funds from operating activities           | -7 882 026     |
| Net cash flow from investment activities                       | 0              |
| Change in liability to credit institutions                     | 7 763 905      |
| Shares issue   | 300 000        |
| Net cash flow from financing activities                        | 8 063 905      |
| <u>Change in rate adjustments on cash and cash equivalents</u> | <u>0</u>       |
| NET CHANGE IN CASH AND CASH EQUIVALENTS                        | 181 879        |
| <u>Cash and cash equivalents at the start of the period</u>    | <u>69 813</u>  |
| <u>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</u>      | <u>251 692</u> |



## Note 6 Transactions with related parties

| <i>NOK thousands</i>                               | 31.12.2010 |
|--|------------|
| KLP Banken AS, interest paid                       | -7 524     |
| KLP Banken AS, services purchased                  | -2 942     |
| KLP Kapitalforvaltning AS, services purchased      | -132       |
| Total  | -10 598    |
| Net inter-company balances:                        |            |
| KLP Banken AS, liabilities to credit institutions* | -1 511 729 |
| Short term liabilities:                            |            |
| KLP Banken AS                                      | -43 315    |
| KLP Kapitalforvaltning AS                          | -13        |
| Total  | -1 555 057 |

\* Floating rate loan with maturity 16.03.2011.

There are no employees in KLP Kommunekreditt.

Transactions with related parties are carried out on ordinary market terms and conditions. Allocation of joint costs is based on a full cost coverage basis. All inter-company balances are settled as they arise.

## Note 7 Capital adequacy

| <i>NOK thousands</i>                 | 31.12.2010 |
|--------------------------------------|------------|
| Share capital and premium fund       | 370 393    |
| Owners' equity                       | 370 393    |
| Deferred tax                         | -1 791     |
| Core capital (Tier 1)                | 368 602    |
| Supplementary capital                | 0          |
| Supplementary capital (Tier 2)       | 0          |
| Total Tier 1 and 2 capital to count. | 368 602    |
| Capital requirement                  | 879        |
| Surplus of Tier 1 and 2 capital      | 367 723    |
| Risk weighted credit risk exposure   |            |
| Institutions                         | 53 563     |
| Local regional authorities           | 2 184 050  |
| Credit risk                          | 2 237 613  |
| Operational risk                     | 879        |
| Impairment                           | 0          |
| Core capital adequacy per cent       | 16,4 %     |
| Capital adequacy per cent            | 16,4 %     |

Capital adequacy is calculated in accordance with the Basel II regulations.

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



## Note 8 Key figures

| <i>NOK millions</i>                  | Q4-10   | Q3-10  | Q2-10  | Q1-10  | Q4-09  |
|--------------------------------------|---------|--------|--------|--------|--------|
| Pretax operating profit              | -6,4    | 0,6    | 1,1    | 0,7    | 0,0    |
| Net interest income                  | 4,9     | 5,4    | 3,5    | 1,7    | 0,4    |
| Other income                         | -0,2    | 0,8    | 0,0    | 0,0    | 0,0    |
| Operating costs                      | -11,1   | -5,6   | -2,4   | -1,1   | -0,4   |
| Loans to municipalities and counties | 10 920  | 7 406  | 3 206  | 2 944  | 2 951  |
| Non-performing loans                 | 0,0     | 0,0    | 0,0    | 0,0    | 0,0    |
| Debt securities issued               | 9 245   | 6 495  | 3 000  | 3 000  | 3 000  |
| Liabilities to credit institutions   | 1 512   | 761    | 0      | 0      | 0      |
| Total assets                         | 11 176  | 7 632  | 3 379  | 3 378  | 3 076  |
| Average total assets                 | 7 126   | 5 354  | 3 228  | 3 227  | 1 563  |
| Equity                               | 370,4   | 375,4  | 375,8  | 375,5  | 75,0   |
| Net interest                         | 0,07 %  | 0,10 % | 0,11 % | 0,05 % | 0,03 % |
| Pretax operating profit              | -0,09 % | 0,01 % | 0,03 % | 0,02 % | 0,00 % |
| Return on equity (pretax)            | -1,73 % | 0,16 % | 0,29 % | 0,18 % | 0,05 % |
| Capital adequacy per cent            | 16,4 %  | 24,3 % | 54,3 % | 55,5 % | 12,2 % |