

Interim report Q4 2011
KLP Kommunekreditt AS



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KLP Kommunekreditt AS

Interim financial statement 4/2011

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 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 issuance 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 fourth quarter of 2011 were NOK 3 million. Operating expenses for KLP Kommunekreditt as at the the fourth quarter amounted to NOK 41.1 million. The Company has not had losses or made loss provisions on lending. KLP Kommunekreditt has a pre-tax result as at the end of the the fourth quarter of NOK -50 million.

Lending/Total assets

The Company's lending as at 31 December 2011 was NOK 23.8 billion against 10.9 billion as at 31 December 2010. Lending was 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 were issued for NOK 15.8 billion in 2011. All covered bonds have an AAA rating.

Solvency

At the end of the the fourth quarter 2011, core capital i.a.w. the capital adequacy rules was NOK 642.7 million. Lending to municipalities and county authorities 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 12 per cent at the end of the fourth quarter 2011. The minimum statutory requirement is 8 per cent.

Income statement KLP Kommunekreditt AS

Note	NOK thousands	Q4 2011	Q4 2010	01.01.2011- 31.12.2011	01.01.2010- 31.12.2010
	Interest income and similar income	227 879	59 853	644 784	126 371
	Cost of interest and similar costs	-224 237	-60 338	-641 795	-121 464
3	Net interest income	3 642	-485	2 989	4 907
	Commission costs & bank charges	-2	0	-2	0
	Net charges and commission costs	-2	0	-2	0
	Net gain/(loss) on finan.instrum.	-10 803	-183	-11 859	-183
	Total other operating income	-10 803	-183	-11 859	-183
	Fees lending management	0	-801	0	0
	Other operating expenses	-9 983	-5 486	-41 135	-11 083
	Operating income before tax	-17 144	-6 955	-50 007	-6 358
	Tax on ordinary income	19 518	1 947	28 719	1 780
	Income	2 374	-5 008	-21 288	-4 578
	Other comprehensive income	0	0	0	0
	TOTAL COMPREHENSIVE INCOME	2 374	-5 008	-21 288	-4 578
	Allocated to/from share premium fund			21 288	4 578
	Allocated to/from other owners' equity			0	0
	TOTAL ALLOCATION OF INCOME			21 288	4 578

Financial position statement KLP Kommunekreditt AS

Note	NOK thousands	30.12.2011	31.12.2010
ASSETS			
	Lending to and receivables from credit institutions	1 031 714	251 692
4	Lending to and receivables from customers	23 808 983	10 920 279
8	Fixed income securities	1 528 925	0
	Deferred tax asset	30 510	1 791
	Financial derivatives	70 165	0
	Other assets	94 296	2 472
	TOTAL ASSETS	26 564 594	11 176 234
LIABILITIES AND OWNERS' EQUITY			
LIABILITIES			
	Debt to credit institutions	3 568 757	1 511 729
5	Debt created on issuance of securities	22 152 457	9 245 104
	Financial derivatives	182 842	4 950
	Other liabilities	8 510	0
	Provision for accrued costs and liabilities	2 922	43 676
	TOTAL LIABILITIES	25 915 488	10 805 841
OWNERS' EQUITY			
	Share capital	362 500	212 500
	Share premium fund	286 606	157 893
	Other owners' equity	0	0
	TOTAL OWNERS' EQUITY	649 106	370 393
	TOTAL LIABILITIES AND OWNERS' EQUITY	26 564 594	11 176 234

Statement of cash flows KLP Kommunekreditt AS

NOK thousands	2011	2010
Operating activities		
Payments received from customers - interest, commission & charges	501 221	64 664
Net disbursements on lending to customers	-12 640 153	-7 912 996
Disbursements on purchase of securities	-1 618 210	0
Receipts on sales of securities	98 680	0
Disbursements on operations	-32 347	5 525
Net receipts/disbursements concerning other operating activities	-66 237	0
Net interest investment accounts	23 394	4 859
Net cash flow from operating activities	-13 733 652	-7 837 947
Investment activities		
Investment activities	0	0
Net cash flow from investment activities	0	0
Financing activities		
Net receipts on loans from credit institutions	14 851 453	7 748 765
Net payment of interest on loans	-576 918	-109 121
Net receipts/payments (-) on other short-term items	-127 099	80 182
Proceeds on issuance of owners' equity	300 000	300 000
Net cash flows from financing activities	14 447 436	8 019 826
Net cash flows during the period	713 784	181 879
Cash and cash equivalents at the start of the period	251 692	69 813
Cash and cash equivalents at the end of the period	965 477	251 692
Net receipt/ disbursement (-) of cash	713 784	181 879

RECONCILIATION

Income before tax	-50 007	-6 358
Change in accounts receivable	0	0
Change in accounts payable	-160	348
Items classified as investment or financing activities	689 846	116 549
Changes in other accrued income and expenditure	-14 373 331	-7 948 485
Net cash flow from operating activities	-13 733 652	-7 837 947

Statement of owners' equity KLP Kommunekreditt AS

2011 NOK thousands	Shareholders' equity contributed	Retained earnings	Total owners' equity
Owners' equity 1 January 2011	362 500	7 893	370 393
Income	0	-21 288	-21 288
Other comprehensive income	0	0	0
Total comprehensive income	0	-21 288	-21 288
Owners' equity contributed during the period	300 000	0	300 000
Group contributions made	0	0	0
Total transactions with the owners	300 000	0	300 000
Owners' equity 31 December 2011	662 500	-13 395	649 106

2010 NOK thousands	Shareholders' equity contributed	Retained earnings	Total owners' equity
Owners' equity 1 January 2010	62 500	12 471	74 971
Income	0	-4 578	-4 578
Other comprehensive income	0	0	0
Total comprehensive income	0	-4 578	-4 578
Owners' equity contributed during the period	300 000	0	300 000
Group contribution paid during the period	0	0	0
Total transactions with the owners	300 000	0	300 000
Owners' equity 31 December 2010	362 500	7 893	370 393

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 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 in turn 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 covers the period 1 January to 31 December 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 statements 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.

During the year the Company has invested surplus liquidity in interest-bearing 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 of the hedged object for accounting purposes (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 contract qualifies for the use of hedge accounting.

Note 3 Net interest income

NOK thousands	01.01.2011- 31.12.2011	01.01.2010- 31.12.2010
Interest on lending to and receivables from credit institutions	23 394	4 861
Interest on lending to customers	594 936	121 364
Interest on securities	26 454	146
Total interest income	644 784	126 371
Interest on debt to credit institutions (covered bonds)	551 306	110 028
Interest on debt to KLP Banken	83 146	7 524
Premium/discount on covered bonds	7 342	3 910
Total interest costs	641 795	121 464
Net interest income	2 989	4 907

Note 4 Lending to customers

NOK thousands	31.12.2011	31.12.2010
Lending to customers before write-downs	23 655 623	10 860 633
Individual write-downs	0	0
Lending to customers after individual write-downs	23 655 623	10 860 633
Accrued interest	153 361	59 646
Lending to customers	23 808 983	10 920 279

All lending comprises loans to, or loans guaranteed by, Norwegian municipalities and county authorities, 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							31.12.2011
Covered bonds							
ISIN code	Nominal	Currency	Interest	Commencem.	Due date	Accr. interest	Book value
NO0010585185	4 300 000	NOK	Variable	15.09.2010	15.09.2015	7 208	4 307 208
NO0010592884	3 000 000	NOK	Variable	10.12.2010	10.12.2012	5 500	3 005 500
NO0010592892	4 000 000	NOK	Variable	10.12.2010	10.12.2013	7 600	4 007 600
NO0010592900	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
NO0010609795	4 000 000	NOK	Variable	20.05.2011	20.05.2014	15 443	4 015 443
NO0010614555	2 900 000	NOK	Variable	28.06.2011	28.06.2012	938	2 900 938
NO0010624778	2 000 000	NOK	Fixed	15.09.2011	15.05.2015	20 741	2 020 741
Amortisation / value adjustment							46 827
Total covered bonds issued							22 131 684

Note 6 Transactions with related parties

NOK thousands	31.12.2011	31.12.2010
Income statement items		
KLP Banken AS, interest on borrowing	-83 146	-7 524
KLP Banken AS, administrative services (at cost)	-19 592	-2 942
KLP Kapitalforvaltning AS, fees for services provided	-177	-132
TOTAL	-102 915	-10 598

NOK thousands	31.12.2011	31.12.2010
Statement of financial position items		
KLP Banken AS, borrowing Group current liabilities	-3 568 757	-1 511 729
KLP Banken AS, net internal receivables	-8 259	-3 321
KLP Banken AS, settlement banking system	87 106	-39 993
KLP Kapitalforvaltning AS, net internal receivables	-63	-13
TOTAL	-3 489 974	-1 555 056

The liabilities to KLP Banken have fixed market interest rates. Principal 2760 million falling due 15 March 2012. Principal 400 million falling due 1 March 2012, and principal 400 million falling due 14 December 2012.

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 internal accounts are settled as they arise.

Note 7 Capital adequacy

NOK thousands	31.12.2011	31.12.2010
Share capital and share premium fund	649 106	370 393
Other owners' equity	23 815	0
Owners' equity	672 921	370 393
Unrealised value changes	0	0
Interim profit/loss	0	0
Deduction goodwill and other intangible assets	0	0
Deferred tax asset	-30 510	-1 791
Core capital	642 411	368 602
Supplementary capital	0	0
Supplementary capital	0	0
Total qualifying Tier 1 and 2 capital	642 411	368 602
Capital requirement	428 337	179 889
Surplus of Tier 1 and 2 capital	214 074	188 713
Estimate basis credit risk		
Institutions	250 775	53 563
Local and regional authorities	4 786 663	2 184 050
Holdings securities	305 788	0
Other holdings	0	0
Estimate basis credit risk	5 343 225	2 237 613
Credit risk	427 458	179 009
Operational risk	879	879
Total capital requirement assets	428 337	179 888
Core capital adequacy ratio	12,0 %	16,4 %
Supplementary capital ratio	0,0 %	0,0 %
Capital adequacy ratio	12,0 %	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	31.12.2011		31.12.2010	
	Acquisition cost	Market value	Acquisition cost	Market value
Bonds	1 537 522	1 528 925	0	0

The bonds are brought to account at market value

Note 9 Contingent liabilities

NOK thousands	31.12.2011
Credit facilities for lending not utilised	-
Loan promises	80 709
Total conditional liabilities	80 709

Note 10 Key figures

Accumulated figures in NOK millions	Q4-11	Q3-11	Q2-11	Q1-11	Q4-10
Pre-tax income	-50,0	-32,9	-16,5	-1,6	-6,4
Net interest income	3,0	-0,7	-2,7	0,8	4,9
Other operating income	0,0	0,0	0,0	0,0	0,0
Operating expenses and depreciation	-41,1	-31,2	-17,5	-4,6	-11,1
Net realised/unrealised change fin. instruments at f.v.	-11,9	-1,1	3,7	2,1	-0,2
Lending with public sector guarantee	23 809,0	24 146,7	20 624,1	15 576,2	10 920,3
Defaulted loans	-	-	-	-	-
Borrowing on issuance of securities	22 152,5	22 131,7	18 634,7	13 629,1	9 245,1
Other borrowing	3 568,8	3 415,2	3 214,2	2 412,9	1 511,7
Total assets	26 588,4	26 464,2	22 669,9	15 537,6	11 176,2
Average total assets	18 882,3	18 820,2	16 923,1	13 356,9	7 126,1
Owners' equity	672,9	646,7	658,5	469,2	370,4
Interest net	0,02 %	0,00 %	-0,02 %	0,01 %	0,07 %
Income from ordinary operations before taxes	-0,26 %	-0,17 %	-0,10 %	-0,01 %	-0,09 %
Income from ordin. operations excl. f.v.assessm't before tax	-0,20 %	-0,17 %	-0,12 %	-0,03 %	-0,09 %
Return on owners' equity before tax	-7,43 %	-5,08 %	-2,50 %	-0,35 %	-1,73 %
Capital adequacy	12,0 %	11,8 %	14,2 %	14,0 %	16,4 %



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