annual report 2012
KLP Banken AS

Coverphoto: Hanne-Kjersti Grinna

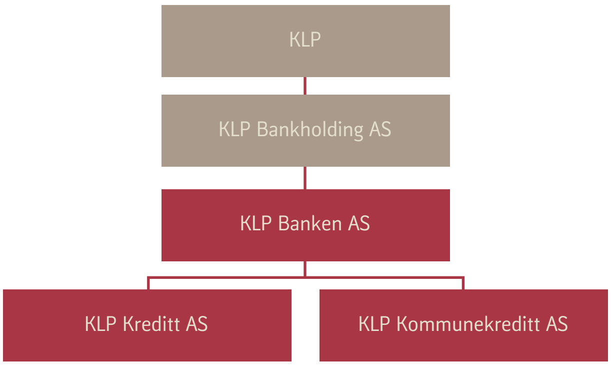
In 2012 KLP hosted an internal photo contest where the staff were to visualize one of KLP's values. Open, Clear, Responsible and Committed. Olav Storm, photographer, was head of the jury.

CONTENT

The report of the Board of Directors for 2012

The KLP Banken Group achieved profits for the year of NOK 83.4 million in 2012 against NOK -62.2 million the year before. The improvement in profits is particularly linked to increased profitability in the public sector loans business area. The investment in the retail market has been taken a step further and the growth in housing lending and deposits was as expected. The Group manages lending totalling NOK 51.6 billion.

KLP Banken AS is wholly owned by KLP through KLP Bankholding AS. KLP Banken AS has two wholly owned subsidiaries, KLP Kreditt AS (formerly Kommunekreditt Norge AS) and KLP Kommunekreditt AS.



The overall business of KLP Banken AS and its subsidiaries is divided into the retail market and public sector loans business areas. The business is nationwide and the companies' head office is in Trondheim.

Financial development

Figures for 2011 are given in brackets.

- Pre-tax income: NOK 83.4 (-62.2) million
- Net interest income: NOK 86.3 (21.1) million
- New lending: NOK 6.8 (5.5) billion
- Lending for own account: NOK 21.9 (28.4) billion
- Lending managed for KLP: NOK 29.8 (24.7) billion

INCOME STATEMENT

The pre-tax income in the KLP Banken Group was NOK 83.4 million, and NOK 50.1 million after taxes. That produced a return on owners' equity of 6.8 (-5.2) per cent before tax and 4.1 (-3.0) per cent after taxes. The income includes management fees from KLP of NOK 79.1 (59.6) million.

The Board of Directors considers the result to be good. It is principally linked to the income in KLP Kommunekreditt AS. The company has implemented adjustments, particularly on the borrowing side, to reduce liquidity risk and meet official requirements for liquidity indicators. This has led to longer average duration periods for borrowing. In the first instance such adjustments produce higher borrowing costs, but the development in the financial markets nevertheless led to lower borrowing costs than in 2011. At the same time, the fall in the interest rate level for public sector loans was not of equal magnitude, so net interest income increased compared to 2011. Non-recurring costs of establishing the borrowing programme and rating of the company were substantial during 2011. Such costs impacted less on the financial position in 2012. The value increase in liquidity investments also affected the result positively in the form of unrealized gains. In 2011 an unrealized loss on these investments was taken to expenses. The income from the development of the retail market in the bank is also positive as expected.

LENDING

KLP Banken AS manages a lending portfolio totalling NOK 51.6 billion, divided between NOK 41.1 billion in lending to public sector borrowers and NOK 10.5 billion in housing mortgages to private individuals.

Outstanding loans per company in the KLP Banken Group as at 31 December 2012:

Company NOK billions	Housing loans	Public sector lending	Total lending
KLP Banken AS (parent)	1,5		1,5
KLP Kreditt AS	-	1,1	1,1
KLP Kommunekreditt AS	-	19,2	19,2
KLP (Management agreement)	9,0	20,8	29,8
Total	10,5	41,1	51,6

KLP Banken AS received NOK 79.1 (59.6) million for the asset management assignment.

LENDING - RETAIL MARKET

KLP Banken AS was launched in February 2010 as an internet-based bank without a physical branch network. The online bank is a retail bank with simple and competitive saving and loans products. By the end of 2012 loans to the retail market for own account were NOK 1.5 billion, a reduction of NOK 1.7 billion compared to 2011.

The reduction was a result of a large part of the bank's lending volume being sold to KLP during the first quarter. This was carried out to accommodate the expiry in autumn 2012 of the temporary permission to borrow from KLP.

During 2012 managed housing mortgages for KLP's account increased from NOK 6.3 billion to NOK 9.0 billion. This is a consequence of the sale of housing mortgages to KLP and a large proportion of new housing mortgages being granted by KLP.

At the end of the year KLP's housing mortgage portfolio in total stood at NOK 10.5 billion in lending to retail customers, mainly local government and health enterprise employees. This represents net growth of NOK 1.0 billion during 2012. The portfolio is mortgage-secured within conservative valuations, where for example the borrower's ability to pay and loan servicing record are included in the creditworthiness assessment. The number of housing mortgagees has increased from 10,400 to 11,100. The average loan per customer was thus about NOK 945,000. Fixed interest mortgages represented 13 per cent of the loan volume at the end of the year (14 per cent): the remaining mortgages were at variable interest rates. There were no known losses on housing mortgages during 2012. Default in excess of 90 days was NOK 6.8 million gross. Corresponding figures for 2011 were confirmed losses and write-downs of NOK 49,000 and NOK 14.1 million of default in excess of 90 days.

KLP Banken offers current accounts, saving accounts, online banking, debit cards, ordinary housing mortgages, framework loans (lines of credit secured in home equity), bridging loans for house purchase, loans for leisure homes and the senior citizens' loan, LittExtra. In 2012 a credit card service was launched and the bank became a BankID issuing bank.

LENDING - PUBLIC SECTOR

KLP's lending business to the public sector is run by the KLP Banken Group under the brand name "KLP Kommunekreditt". KLP Kommunekreditt is an important national operator within its area of activity.

New loans totalling NOK 5.8 billion were paid out to the public sector from the companies in the KLP Group. Redemption amounted to NOK 8.3 billion. During 2011 loans totalling NOK 3.6 billion were paid out. A large proportion of the borrowers in the public sector traditionally choose variable interest terms on taking up a loan. During 2012 KLP Kommunekreditt AS has also been able to offer loans at fixed interest rates on particularly competitive terms, so the majority of new loans have been loans on fixed interest rate terms. Fixed interest rate loans represented 42.5 per cent of total lending at the end of 2012. During the year loan applications for about NOK 40 billion were received. The acceptance proportion is therefore just above 14 per cent.

Total lending amounted to NOK 41.1 billion at the end of 2012, a reduction of NOK 2.5 billion from 2011. The reduction is mainly associated with loans for own account in KLP Kommunekreditt AS and KLP Kreditt AS, whereas loans financed by KLP increased by NOK 2.4 billion.

The borrowers in the public sector are Norwegian municipalities or county administrations directly, or public sector enterprises guaranteed by municipalities or county administrations. The risk in the lending portfolio is assessed as very low. Again in 2012 there have been no losses on lending to the public sector and no defaults in excess of 90 days.

The credit risk associated with lending to municipalities and county administrations in Norway is limited to postponement of payment and not to the payment obligation ceasing. This is laid down in the Norwegian Local Government Act of 1992, which provides the lender with security against loss if a local authority cannot meet its payment obligations. Under the same legislation, in the event of payment postponement, the lender is also secured against loss of accrued interest, interest on late payments and collection expenses. Neither KLP Banken Group nor other lenders have previously had credit losses on lending to Norwegian municipalities or county administrations.

BORROWING

Since the formation of the Bank, there has been particular emphasis on attracting deposit customers through advantageous terms directed towards members. People employed by KLP's owners or who receive pension from one of the Company's public sector occupational pension schemes count as members. Marketing of the bank has largely been directed at increasing the deposit volume. During 2012 the number of active depositing customers in the retail market increased from about 12,000 to more than 19,000. The proportion of members among the depositing customers was 65 per cent. In 2012 it became possible for corporate customers to make deposits as well. At year-end the deposit volume from corporate entities exceeded NOK 200 million.. The total volume of deposits increased by 61 per cent, from NOK 1.8 billion last year to NOK 2.9 billion by the end of the year.

The activity in the subsidiaries is financed in part through the bank's certificate and bond debt. At the end of 2012 the bank's outstanding certificates and bonds liabilities were NOK 3.3 billion, against NOK 2.0 billion in 2011.

KLP Kommunekreditt AS issues covered bonds in a security pool comprising primarily loans to the local government sector. Cost-effective financing should help the KLP Banken Group to offer long-term lending on good terms and conditions. The Company has achieved best rating for its borrowing programme.

In the Norwegian market covered bonds were issued for NOK 18.7 billion. In addition two bonds were issued in the Swedish market corresponding to NOK 1.5 billion.

KLP Kommunekreditt AS has issued bonds secured in lending to local government since 2009 - the only finance institution in Norway to do so. With the exception of the issuance in Sweden, the market conditions have limited the Company's opportunity to use international borrowing.

KLP Kreditt AS financed its activity up until September 2011 through owners' equity as well as a loan from Eksportfinans ASA. This loan was set up on acquisition of Kommunekreditt Norge AS in spring 2009 and was repaid during 2011 as required by the purchase contract. During the lending period the company's loan portfolios have been refinanced by other KLP entities, mainly by KLP Kommunekreditt AS. This is in line with a long-term strategy involving loans to the public sector financed by covered bonds being offered by KLP Kommunekreditt AS. The KLP Kreditt AS lending portfolio was reduced by NOK 0.3 billion during 2012 and at the end of the year amounted to NOK 1.1 billion. This lending portfolio has been financed by owners' equity and borrowing from KLP Banken AS.

STATEMENT OF FINANCIAL POSITION AND SOLVENCY

The KLP Banken Group's total assets at the end of 2012 were NOK 28.3 billion. Of this, lending represented NOK 20.8 billion, of which NOK 20.3 billion is lending to public sector borrowers and NOK 1.5 billion is lending to private individuals. Investments in interest-bearing securities amounted to NOK 4.1 billion.

Based on the Board's proposed allocation of the income of the group companies, the Group's Tier 1 and Tier 2 capital amounted to NOK 1.2 billion at the end of 2012. The core capital is identical to the Tier 1 and Tier 2 capital. This produces a capital adequacy and core capital adequacy ratio of 20.1 per cent. Corresponding figures for 2011 were NOK 1.1 billion and 14.4 per cent respectively. The authorities' minimum requirement is 9.0 per cent. The risk-weighted balance was NOK 5.7 billion. Solvency is considered to be good.

LIQUIDITY

The statement of cash flows in the financial statements shows that the Company's liquidity situation is satisfactory since the Company has obtained financing greater than that demanded by the liquidity requirement from operations.

Spare liquidity is deposited in credit institutions and interest-bearing securities. Placements in credit institutions amounted to NOK 2.1 billion and the portfolio of interest-bearing securities was NOK 4.1 billion at the end of the year. The investments in interest-bearing securities have high credit quality and are principally with KLP Kommunekreditt AS. This portfolio comprises entirely Norwegian AAA-rated covered bonds and bonds issued by Norwegian local government administrations.

ALLOCATION OF INCOME FOR THE YEAR

The annual financial statements for KLP Banken AS show a profit for 2012 of NOK 33.9 million after taxes. The Board proposes that the profit be allocated to the Premium Fund. After this the company's unrestricted equity amounts to NOK 25.8 million.

THE FINANCIAL STATEMENTS

The Board considers the annual financial statements provide an a true and fair picture of the Company's assets and liabilities, financial position and income. The going concern presumption is appropriate and this provides the basis for the annual financial statements.

KLP Banken AS is presenting its financial statements in accordance with the Norwegian "Regulations on annual accounts etc for banks, financial enterprises and their parent companies" of 16 December 1998 (Regulation No. I240) and Norwegian Act No.56 "Act regarding annual accounts etc (the Accounting Act)" of 17 July 1998. The Accounting Act and the regulations require that the Company/Group uses international accounting standards (IAS/IFRS), which are approved by the EU, in the preparation of the financial statements but allows certain exceptions from IFRS through Regulation No. 57: "Regulations on simplified application of international accounting standards" of 21 January 2008 (hereinafter referred to as "the Simplification Regulations"). See Note 2 to the annual financial statements for more detailed information.

Rating

The rating agencies' assessment of KLP Kommunekreditt AS and the KLP Group is important for the terms on which the Company borrows. The Company uses Fitch Ratings and Moody's to provide a credit rating of the Company's bonds. All issuance of covered bonds (obligasjoner med fortrinnsrett - OMF) is rated AAA, which is the best rating that can be achieved. The KLP Banken AS and KLP Kommunekreditt AS companies are rated A- by Fitch Ratings.

Risk management

The KLP Banken Group is exposed to various types of risk. The bank has established a framework for risk management aimed at ensuring risks are identified, analysed and subject to management using policies, limits, procedures and instructions.

Risk policies are set covering the key individual risks (liquidity risk, credit risk, market risk and operating risk) as well as an overall risk policy covering principles, organisation, limits etc for the bank's overall risk. The risk policies are adopted by the Board of Directors and reviewed at least annually. The policies are of an overarching nature and are complemented by procedures, guidelines and instructions laid down at the senior management level.

The overarching risk policy covers inter alia roles in the Company's risk management, including requirements and guidelines for the risk control function. The purpose of the risk control function is, among other things, to check that the risk policies and other guidelines for risk management are being followed.

Stress testing is used as a method of risk assessment and as a tool for communication and the exchange of views concerning risk matters. In this context stress testing means both sensitivity analyses and scenario analyses.

The risk policies include risk tolerance for the individual risks and for the overall risk. The risk tolerances are defined based on various stress scenarios, and different forms of stress testing are conducted regularly to measure that actual exposure remains within predefined tolerances.

The bank is to have a prudent risk profile and earnings are to be principally a result of borrowing and lending activity as well is liquidity management. This means that the bank is to have low market risk, and interest and foreign exchange risk arising within the borrowing and lending activity is reduced using derivatives. The bank is to have responsible long-term financing and limits have been established to ensure that this objective is achieved. The credit risk in the bank is low and the Company's lending is limited to loans with local government risk and loans with lien on housing and leisure property. Management of the bank's liquidity is conducted through investments in banks satisfying credit quality requirements and in securities in accordance with Board-approved credit lines.

The objective is that the bank should have low operating risk and be characterised by high professional competence, good procedures and efficient operation.

The bank has established a process for assessing and quantifying significant risks and calculating the capital requirement (Internal Capital Adequacy and Assessment Process - ICAAP). The capital requirement assessment is forward-looking, and in addition to calculating the requirement based on current exposure (or limits), the requirement is assessed in the light of planned growth, strategic changes decided etc. The bank's Board of Directors participates actively in these assessments and, in conjunction with the capital requirement assessment, the Board adopts a desired level of total capital. This level is known as the capital target.

The work of the Board of Directors

The Board held eight Board meetings during 2012. For details of remuneration of the Board's members and chair, see Note 28 to the annual financial statements.

Working environment and organisation

KLP Banken AS and its subsidiaries had 52 FTEs at the end of 2012 and 49 at the same time in 2011. All the employment contracts are with KLP Banken AS. 3 employees also have functions in the companies KLP Kreditt AS and KLP Kommunekreditt AS. In addition to the bank's own account, by agreement KLP Banken AS manages the lending portfolios of KLP and its subsidiaries KLP Kommunekreditt AS and KLP Kreditt AS.

A new head of the retail market, Jannicke Amundsen Bricaud, has been appointed and started in January 2013. The position has been vacant since December 2011.

The Board of Directors considers cooperation between the management and the staff is functioning well. Regular surveys are carried out amongst all staff measuring commitment, the working environment, well-being and espousal of KLP's values. The result of these measurements shows that employees are generally committed and thriving at KLP. The companies have a working environment and cooperation committee (SAMU) comprising representatives from management, KLP's HR Department and employee representatives. The Board considers the working environment in the banking group to be good.

Sickness absence at the bank was 3.2 per cent in 2012, against 8.1 per cent in 2011, of which long-term absence was 1.8 per cent and short-term absence was 1.4 per cent. The large and positive change results principally from reduction of long-term absence. During 2012 there were no significant injuries or accidents either.

As a part of the KLP Group, KLP Banken AS complies with the Group's policy for equal opportunities and diversity in which targets, measures and activities take account of the discriminatory factors described in legislation. KLP Banken AS also complies with the KLP Group's ethical guidelines, as well as the guidelines for whistleblowing.

Of the banking group's employees, 56 per cent are women. The aim is a balance between women and men at all levels of appointment. The proportion of women in senior management positions was 45 per cent. At the end of 2012 the Board of Directors of KLP Banken AS comprised three women and three men, of which one board member was elected by the employees.

External environment

The KLP Group, including KLP Banken AS, takes its environmental impact seriously. As an office-based company it is primarily energy consumption, transport, waste and procurement that can be influenced. As part of its corporate social responsibility strategy, KLP has committed to developing good procedures for measurement and reduction of its companies' environmental impact. KLP Banken AS is environmentally accredited.

Future prospects

KLP Banken's investment in members is to underpin KLP's strategic focus on the retail customer market. This is founded on an objective that the owners of the pension company should be perceived as attractive employers. The bank is to contribute by offering competitive and standardized products aimed at the employees of the owner entities. In particular, good terms and conditions for banking services for KLP's members and pensioners are therefore an important contribution to underpinning KLP as a pensions company. The need for banking services amongst KLP's members is a good base for the Board's desire for further growth in the retail market.

Relatively low inflation and unemployment is expected to continue in the Norwegian economy in the coming year. This will help to maintain good servicing ability in respect of our lending, which provides grounds to expect continuing low credit losses.

Technological solutions should generally be directed at making the organisation more efficient. New technology is to be exploited in business for increased efficiency and improved customer satisfaction. The bank plans to expand access ability for online services by adopting technology oriented towards mobile telephones and tablets during 2013.

The staff have long experience of lending both to retail customers and to the public sector, and have developed substantial credit and market expertise. New products and services involve changes in the business and produce requirements for change in the organisation. Further development of competencies in sales and customer-oriented activities is again included in the Company's targets for 2013.

The Board considers that demand for loans in the local government sector and to projects with local government guarantees and local government ownership will continue to grow in the years to come, but emphasises that there is significant uncertainty associated with predicting how great this growth will be. KLP Kommunekreditt has a well-established position in this market. The presence of KLP Kommunekreditt should contribute to competition and thus to the public sector having access to long-term financing at low cost.

In 2013, KLP Kommunekreditt AS will continue to establish new loans for own account to the extent that profitability can be achieved. Growth in the Company's lending will be decided principally by the opportunities to achieve sufficiently good borrowing terms to compete for local government loans.

The bank's solvency and low credit risk in its lending business should continue to be employed to achieve access to the best possible financing in the capital markets. The Board believes the Company is well positioned for further development and growth in the retail market.

Oslo, 6. mars 2013

Sverre Thornes
Leder

Mai-Lill Ibsen
Nestleder

Aage Schaanning

Mette-Jorun Meisland

Jan Otto Langmoen

Mette Rinde
Valgt av og blant de ansatte

Leif Magne Andersen
Administrerende direktør

THE BOARD OF DIRECTORS OF KLP BANKEN AS

METTE JORUNN MEISLAND

METTE KRISTIN KLEMP RINDE

MAI-LILL IBSEN

JAN OTTO LANGMOEN

SVERRE THORNES

JAN OLAV TRYGGESTAD

Income Statement

KLP Banken AS					KLP Banken AS Group	
2011	2012	Note	NOK thousands	Note	2012	2011
189 324	232 194		Interest income and similar income		956 724	969 147
-177 157	-218 270		Cost of interest and similar costs		-870 387	-948 019
12 167	13 924	9	Net interest income	9	86 337	21 128
4 179	4 888		Commission income and income from banking services		4 888	4 179
-411	-352		Commission costs and costs of banking services		-352	-413
3 768	4 535	10	Net charges and commission income	10	4 535	3 766
0	735	22	Income from ownership interests in Group companies		0	0
59 630	79 075		Others fee income		79 075	59 630
3	202	4	Net gain/(loss) on financial instruments	4	51 148	-6 796
59 633	80 012		Total other operating income		130 223	52 834
-44 833	-48 805	30	Salary and administrative costs	30	-48 805	-44 833
-1 978	-1 978	23,24	Depreciation	23,24	-2 068	-2 241
-44 337	-56 868	34	Other operating expenses	34	-86 792	-92 558
-91 148	-107 651		Total operating expenses		-137 665	-139 632
-50	0	18	Loss on loans issued, guarantees etc.	18	0	-50
-33 297	40 612		Gains/losses on securities that are fixed assets		0	-204
-48 927	31 432		Operating income before tax		83 430	-62 158
4 227	2 515	26	Tax on ordinary income	26	-33 317	27 087
-44 700	33 947		Income for the year		50 113	-35 071
0	0		Other comprehensive income		0	0
0	0		Other comprehensive income for the year after taxes		0	0
-44 700	33 947		COMPREHENSIVE INCOME FOR THE YEAR		50 113	-35 071
44 700	-33 947		Allocated to/from share premium fund			
44 700	-33 947		TOTAL ALLOCATION OF INCOME			

Financial Position Statement

KLP Banken AS					KLP Banken AS Group	
31.12.2011	31.12.2012	Note	NOK thousands	Note	31.12.2012	31.12.2011
			ASSETS			
5 245 841	5 058 250	17	Lending to and receivables from credit institutions	17	2 136 069	1 610 889
3 211 277	1 529 997	17	Lending to and receivables from customers	17	21 875 012	28 415 577
1 874	148 351	12	Interest-bearing securities	12	4 063 485	1 536 960
940 905	831 517	22	Holdings in Group companies		0	0
0	11 878	7	Financial derivatives	7	183 904	70 165
5 250	7 766	26	Deferred tax asset	26	0	21 949
222	150	23	Tangible fixed assets	23	472	634
21 520	21 214	24	Intangible assets	24	21 214	21 520
32 508	7 140	32	Other assets	32	1 358	26 386
9 459 397	7 616 263		TOTAL ASSETS		28 281 515	31 704 079
			LIABILITIES AND OWNERS' EQUITY			
			LIABILITIES			
4 306 449	0	19	Debt to credit institutions	19	0	4 306 449
2 017 278	3 342 970	20	Liabilities created on issuance of securities	20	23 708 404	24 169 735
1 840 261	2 946 196	21	Deposits	21	2 946 196	1 840 261
5 398	19 842	7	Financial derivatives	7	358 770	192 594
0	0	26	Deferred tax	26	1 536	0
115 011	92 967	31	Other liabilities	31	27 377	18 584
14 495	19 837	31	Provision for accrued costs and liabilities	31	20 249	17 418
8 298 892	6 421 812		TOTAL LIABILITIES		27 062 532	30 545 041
			OWNERS' EQUITY			
750 000	750 000		Share capital		750 000	750 000
384 717	418 663		Share premium fund		408 076	348 130
25 788	25 788		Other owners' equity contributed		60 907	60 907
1 160 505	1 194 451		TOTAL OWNERS' EQUITY		1 218 983	1 159 037
9 459 397	7 616 263		TOTAL LIABILITIES AND OWNERS' EQUITY		28 281 515	31 704 079

Oslo, 6. mars 2013

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Administrerende direktør

Statement of Cash Flows

KLP Banken AS 2011	KLP Banken AS 2012	NOK thousands	KLP Banken AS Group 2012	KLP Banken AS Group 2011
		Operating activities		
175 990	234 436	Payments received from customers – interest, commission & charges	885 750	781 784
-50 230	-111 424	Payments to customers – interest, commission & charges	-111 424	-50 230
-3 855 165	1 775 118	Net receipts/disbursements on lending customers	6 545 615	-2 043 066
814 527	1 105 934	Net receipts on customer deposits banking	1 105 934	814 527
-38 962	-51 999	Net receipts/disbursements on operations	-87 734	-84 480
-39 241	-43 274	Payments to employees, pension schemes, employer's social security contribution etc.	-43 274	-39 241
55 541	9 723	Net interest investment accounts	38 500	51 774
7 340	72 210	Net receipts/disbursements regarding operating activities	129 617	108 499
0	0	Income tax paid	0	0
-2 930 200	2 990 724	Net cash flows from operating activities	8 462 984	-460 433
		Investment activities		
0	-148 195	Payments on the purchase of securities	-2 470 499	-1 638 503
0	1 927	Receipts on sales of securities	1 927	98 680
0	0	Receipts of interest from securities	77 313	20 293
-272	-1 600	Payments on the purchase of tangible fixed assets	-1 600	-272
0	150 000	Receipts of share capital from subsidiary	0	0
-272	2 133	Net cash flows from investment activities	-2 392 859	-1 519 802
		Financing activities		
3 100 000	-2 982 317	Net receipts/disbursements on loans from credit institutions	-4 823 855	15 901 453
0	0	Disbursements – loan repayment	0	-12 928 945
-107 457	-109 007	Net payment of interest on loans	-707 994	-768 531
40 636	0	Receipts of Group contributions received	0	0
93 736	-831	Net receipts/ disbursements (-) on other short-term items	30 211	-43 127
3 126 915	-3 092 155	Net cash flows from financing activities	-5 501 638	2 160 850
196 443	-99 298	Net cash flows during the period	568 487	180 616
266 190	462 633	Cash and cash equivalents at the start of the period	1 523 225	1 342 610
462 633	363 335	Cash and cash equivalents at the end of the period	2 091 712	1 523 225
196 443	-99 298	Net receipts/disbursements(-) of cash	568 487	180 616
		RECONCILIATION		
-48 927	31 432	Income before tax	83 430	-62 158
1 070	940	Change in accounts payable	867	646
129 198	71 723	Items classified as investment or financing activities	729 154	980 911
-3 011 540	2 886 629	Changes in other accrual items	7 649 533	-1 379 832
-2 930 200	2 990 724	Net cash flows from operating activities	8 462 984	-460 433

Statement of Owners' equity KLP Banken AS

2012 NOK thousands	Share capital	Share premium fund	Other owners' equity	Total owners' equity
Owners' equity 1 January 2012	750 000	384 717	25 788	1 160 505
Income for the year	0	33 947	0	33 947
Other comprehensive income	0	0	0	0
Comprehensive income for the year	0	33 947	0	33 947
Total transactions with the owners	0	0	0	0
Owners' equity 31 December 2012	750 000	418 663	25 788	1 194 451

2011 NOK thousands	Share capital	Share premium fund	Other owners' equity	Total owners' equity
Owners' equity 1 January 2011	750 000	429 417	25 788	1 205 205
Income for the year	0	-44 700	0	-44 700
Other comprehensive income	0	0	0	0
Comprehensive income for the year	0	-44 700	0	-44 700
Total transactions with the owners	0	0	0	0
Owners' equity 31 December 2011	750 000	384 717	25 788	1 160 505

	Number of shares	The value in whole NOK	Share premium fund	Total
1 January 2012	7 500 000	100	440 000	1 190 000
Changes during the period 1 January - 31 September	-	-		
31 December 2012	7 500 000	100	440 000	1 190 000
Accumulated income				4 451
Owners' equity 31 December 2012				1 194 451

There is one class of share. All shares are owned by KLP Bankholding AS
Income per share 31 December 2012 in whole NOK 4,53
Income per share 31 December 2011 in whole NOK -5,96

Statement of Owners' equity KLP Banken AS Group

2012 NOK thousands	Share capital	Share premium fund	Other owners' equity contributed	Total owners' equity
Owners' equity 1 January 2012	750 000	348 130	60 907	1 159 037
Income for the year	0	50 113	0	50 113
Other comprehensive income	0	0	0	0
Comprehensive income for the year	0	50 113	0	50 114
Net Group contribution received after taxes, corrected from 2011	0	9 833	0	9 833
Total transactions with the owners	0	9 833	0	9 833
Owners' equity 31 December 2012	750 000	408 076	60 907	1 218 983

2011 NOK thousands	Share capital	Share premium fund	Other owners' equity contributed	Total owners' equity
Owners' equity 1 January 2011	750 000	405 645	25 788	1 181 433
Income for the year	0	-35 071	0	-35 071
Other comprehensive income	0	0	0	0
Comprehensive income for the year	0	-35 071	0	-35 071
Change in deferred tax 2010	0	12 675	0	12 675
Group contribution received	0	0	35 119	35 119
Group contribution made	0	-35 119	0	-35 119
Total transactions with the owners	0	-35 119	35 119	0
Owners' equity 31 December 2011	750 000	348 130	60 907	1 159 037

Note 1 General information

KLP Banken AS and its subsidiaries provide or acquire loans to Norwegian municipalities and county authorities, as well as to companies with a public sector guarantee. The lending activities are principally financed by the issuance of covered bonds. The Group also offers standard banking products to private customers. The Company, KLP Banken AS, is registered as domiciled in Norway. Its head office is at Beddingen 8 in Trondheim. The Company has branch offices in Oslo.

KLP Banken AS owns all the shares in KLP Kreditt AS (formerly Kommunekreditt Norge AS) and KLP Kommunekreditt AS. These companies together form the KLP Banken AS Group. The Company, KLP Banken AS, is a subsidiary of KLP Bankholding AS, which is in turn wholly owned by Kommunal Landspensjonskasse (KLP). KLP is a mutual insurance company.

The annual financial statements are available at www.klp.no.

The financial statements presented represent the period 1 January 2012 - 31 December 2012.

Note 2 Summary of the most important accounting principles

Below is a description of the most important accounting principles used in preparation of the KLP Banken AS Company and Group financial statements. These principles are used in the same way in all periods presented unless otherwise indicated.

2.1 FUNDAMENTAL PRINCIPLES

The KLP Banken AS Company and Group financial statements have been prepared in accordance with the Norwegian Regulation 1240 "Regulations on financial statements etc for banks, financial enterprises and their parent companies", hereinafter referred to as the Annual Accounts Regulations of 16 December 1998 and Norwegian Act No. 56 "Act regarding annual accounts etc (the Accounting Act)" of 17 July 1998.

The Accounting Act and the regulations require that the Company/Group uses international accounting standards (IAS/IFRS), which are approved by the EU, in the preparation of the financial statements but allows certain exceptions from IFRS through Regulation No. 57: "Regulations on simplified application of international accounting standards" of 21 January 2008 (hereinafter referred to as "the Simpli-fication Regulations"). The Simplification Regulations allow the presentation in the accounts of a provision for dividend and group contribution at the end of the reporting period even though the resolution is passed at a later date. This is the only accounting principle deviating in regard to IFRS.

The Accounting Act contains certain supplementary information requirements not required in accordance with IFRS. This supplementary information is included in the notes to the financial statements.

The annual accounts have been prepared based on the principle of historic cost, with the following exceptions:

- Financial assets and liabilities (including financial derivatives) are valued at fair value through profit or loss.

To prepare the accounts in accordance with IFRS, management has to make accounting estimates and approximate valuations. This will affect the value of the Group's assets and liabilities, income and expenses recognised in the financial statements. Actual figures may deviate from estimates used. Areas in which discretionary valuations and estimates have been used that are of material significance for the Group are described in Note 3.

All amounts are presented in NOK thousands without decimals unless otherwise stated.

The accounts have been prepared in accordance with the going concern assumption.

2.1.1 Changes in accounting principles and information

(a) New and changed standards adopted by the Company

There are no new or changed IFRSs or IFRIC interpretations implemented for the 2012 annual accounts that are considered to have or are expected to have a significant effect on the Company/Group.

(b) Standards, changes and interpretations of existing standards that have not come into effect and where the Company/Group has not elected advanced application.

The Company/Group has not elected early application of any new or changed IFRSs or IFRIC interpretations.

- IAS 1 "Presentation of financial statements" has been amended and as a result items in other comprehensive income are to be divided into two groups: those that are later to be reclassified through profit or loss and those that are not. The changes do not affect which items are to be included in other comprehensive income.

- IAS 19 "Employee Benefits" was amended in June 2011. The change means that all estimate deviations are recognised in other comprehensive income as they arise (no corridor); immediate recognition in profit/loss of all costs of previous periods' pensions accumulation; and that interest costs and expected returns on pension assets are replaced by an interest sum calculated using discounting interest on net pensions liability (asset). The standard is being implemented in 2013 and the transition effect on owners' equity on 1 January 2013 is shown in Note 27 Pensions obligation.

- IFRS 9 "Financial Instruments" governs classification, measurement and accounting for financial assets and financial liabilities. IFRS 9 was published in November 2009 and October 2010, and replaces those parts of IAS 39 that cover accounting for, classification and measurement of financial instruments. In accordance with IFRS 9, all financial assets are to be divided into two categories based on method of measurement: those measured at fair value and those measured at amortized cost. The classification is made on first recognition in the accounts. Classification will depend on the company's business model for handling its financial instruments and the characteristics of the contractual cash flows from the instrument. For financial liabilities the requirements are generally the same as in IAS 39. The main change, in those cases in which fair value has been selected for financial liabilities, is that the part of the change in fair value resulting from change in the company's own credit risk is recognised in other comprehensive income instead of in the income statement, provided this does not involve an accrual error in income measurement. The Company/Group has not yet assessed the entire impact of the standard on the financial statements, but plans to apply IFRS 9 when the standard comes into force and is approved by the EU. The standard comes into force for accounting periods starting on 1 January 2015. The Company/Group will also look at the consequences of the remaining part-phases of IFRS 9 when they have been finalized by the IASB.

- IFRS 10 "Consolidated Financial Statements" is based on current principles on using the control term as the deciding criterion in deciding whether a company is to be included in the group financial statements of the parent company. The standard provides expanded guidance in determining whether control is present in those cases where this is difficult. The Company/Group has not considered all possible consequences resulting from IFRS 10. The Company/Group plans to apply the standard for 2013, even if the EU does not require to be applied before 1 January 2014.

- IFRS 12 "Disclosures of Interest in Other Entities" contains the information requirements for financial interests in subsidiaries, jointly controlled enterprises, associated companies, special-purpose entities (SPE), and other companies not included in the statement of financial position. The Company/Group has not considered the full consequences of IFRS 12. The Company/Group plans to apply the standard for 2013, even if the EU does not require to be applied before 1 January 2014.

- IFRS 13 "Fair Value Measurement" defines what is meant by fair value when the term is used in IFRS, provides a uniform description of how fair value is to be determined in IFRS and defines what supplementary information is to be provided when fair value is used. The standard does not expand the scope of recognition at fair value, but provides guidance on the application method where the use is already required or permitted in other IFRSs. The Company/Group uses fair value as the measurement criterion for certain assets and liabilities. The Company/Group has not considered the full consequences of IFRS 13, but will apply the standard for the 2013 reporting year.

Otherwise there are no other IFRSs or IFRIC interpretations that have not come into force but are expected to have a significant impact on the financial statements.

2.2 CONSOLIDATION PRINCIPLES

2.2.1 Subsidiaries

All entities in which the Group has deciding influence/control are considered subsidiaries. Deciding influence is normally achieved through ownership of more than half of the voting capital. Subsidiaries are consolidated from the date on which the Group takes over control and they are omitted from consolidation when that control ceases.

Internal Group transactions and accounts between Group companies are eliminated. Where Group companies present accounts in accordance with principles other than those of the Group, these are converted to correspond to the Group's accounting principles before they are consolidated. The Group's accounts are presented in NOK.

2.3 TRANSLATION OF TRANSACTIONS IN FOREIGN CURRENCY

2.3.1 Functional currency and presentational currency

Transactions in foreign currency are converted to the functional currency at the transaction rate of exchange. Foreign exchange gains or losses realized on settlement and conversion of money items in foreign currency at the exchange-rate at the end of the reporting period are taken to profit/loss. Foreign exchange gains and losses are presented net on the line "Net gain/loss on financial instruments".

2.3.2 Transactions and financial position statement items

Transactions in foreign currency are converted to the functional currency at the transaction rate of exchange. Foreign exchange gains or losses realized on settlement and conversion of money items in foreign currency at the exchange-rate at the end of the reporting period are taken to profit/loss. Foreign exchange gains and losses are presented net on the line "Net gain/loss on financial instruments".

2.4 TANGIBLE FIXED ASSETS

Tangible fixed assets comprise in the main office machinery, inventory and vehicles used by the Company/Group in its business.

Tangible fixed assets are recognised at cost of acquisition including costs that can be attributed directly to the fixed asset, with deduction for depreciation. Subsequent costs relating to fixed assets are capialized as part of the fixed asset if it is likely that the expenditure will contribute to future financial benefit for the Company/Group and the cost can be measured reliably. Repair and maintenance are recognised through profit or loss during the period in which the expenses are incurred.

Depreciation is by straight-line so the acquisition cost of fixed assets or their reassessed value is depreciated to residual value over expected life, which is:

Office machinery: 3 - 4 years
Vehicles: 5 years
Inventory: 4 - 5 years

The utilisable life of tangible fixed assets is assessed annually. Where there are indications of impairment in excess of residual value, the recoverable sum is calculated. If the recoverable sum is lower than the residual value, write-down is carried out to the recoverable sum.

Gains and losses on disposals comprise the price of sale less the book value at the time of sale. Gains and losses on disposals are recognised through profit or loss. On the sale of revalued fixed assets, any sum in the revaluation reserve linked to the fixed asset is transferred to retained earnings.

2.5 INTANGIBLE ASSETS

The Company/Group's intangible assets generally comprise capitalized IT systems. Directly attributable costs capitalized on the purchase of a new IT system comprise those paid to the system supplier, as well as external consultancy support and internally accrued costs of having the system installed and readied for use.

On further development of IT systems both external and internal costs are capitalized in accordance with the above. System changes regarded as maintenance are taken to expenses as they occur.

When an IT system is operational the capitalized costs are depreciated by straight line over the expected life (7 years). In the event of subsequent capitalization because of further development this is depreciated over the originally set life unless the expenditure increases the total expected life of the system.

If there are indications that the book value of a capitalized IT system is higher than the recoverable sum, a test of decline in value is carried out. If the book value is higher than the recoverable sum (present value on continued use/ownership), the asset is depreciated to the recoverable sum.

2.6 FINANCIAL ASSETS

The Company's/Group's financial assets are divided into the following categories: financial assets measured at fair value through income and financial assets measured at amortized cost. In addition hedge accounting is used in accordance with the rules on fair value hedging. The purpose of the asset determines the classification and management undertakes classification on acquisition of the financial asset.

2.6.1 Financial assets valued at fair value

This category is divided into two subcategories: held for trading and voluntarily categorized at fair value through profit or loss on acquisition according to the fair value option.

a) Financial assets held for trading are assets acquired primarily with a view to providing a profit from short-term price fluctuations.

The Company's/Group's derivatives are included in this category unless they form part of hedging. Fair value is determined on the basis of observable prices in an active market, or where such prices are not available, through internal modelling with regular collection of external pricing to quality-assure the internal pricing model.

b) Financial assets voluntarily categorized at fair value through income on acquisition comprise financial assets managed as a group and where their earnings are valued and reported to management on the basis of fair value. The size of the portfolio is decided on the basis of the Group's desired risk exposure to the interest market.

Gains or losses from changes in fair value of assets classified as financial assets at fair value through income are included in the income statement in the period they arise. This is included in the line "Net unrealized gain/loss financial instruments".

Coupon interest is taken to income as it accrues and included in the line "Net unrealized gain/loss financial instruments".

2.6.2 Loans and receivables at amortized cost
Loans and receivables are financial assets that are not derivatives, and that have set or determinable payments, and that are not traded in an active market or that the Company/Group does not intend to sell in the short term or has earmarked at fair value through profit or loss.

Loans and receivables are initially recognized in the financial position statement at fair value. Subsequent measurement is at amortized cost using the effective interest rate method with write-down for credit losses if appropriate.

Effective interest on loans and receivables in the investment business is taken to income and included in the line "Interest income and similar income".

2.6.3 Derivatives and hedging
Derivatives are capitalized at fair value at the time the derivative contract is struck. On subsequent measurement the derivatives are recognized at fair value. If the hedging no longer fulfils the criteria for hedge accounting, the recognized effect of the hedging for hedging objects recognised at amortized cost is amortized over the period up to the due date of the hedging instrument. The derivatives are used as hedging instruments for hedging of interest rate risk. The Company/Group uses the rules on fair value hedging, so that the hedged item's (asset or liability) recognized value is corrected with the value development in the hedged risk. The value change is recognized in the income statement. On entry into a hedging contract, the connection between the hedging instrument and the hedging object is documented, in addition to the purpose of the risk management and the strategy behind the different hedging transactions. The hedging effectiveness is measured regularly to ensure the hedge is effective. See Note 8 for further information.

2.6.4 Accounting treatment of securities
Purchases and sales of financial assets are taken to account on the trading date, i.e. when the Company/Group has committed itself to buy or sell that financial asset. Financial assets are recognized at fair value. Direct costs of purchase are included in acquisition cost except for purchase costs associated with assets at fair value through income. For these assets purchase costs are taken to expenses directly. Financial assets cease to be recognized when the Company/Group is no longer entitled to receive the cash flow from the asset or the Group has transferred all risk and entitlements associated with its ownership.

2.6.5 Calculation of fair value
Fair value of market-listed investments is based on the applicable purchase price. If the market for the security is not active, or the security is not listed on a stock market or similar, valuation techniques are used to set fair value. The business's stock of lending and borrowing does not have sufficient trading to obtain prices from an active market. Therefore model-based valuation based on observable market data from external sources is used in the valuation. These are based for example on information on recently completed transactions carried out on business terms and conditions, reference to trading in similar instruments and pricing using externally collected yield curves and spread curves.

2.6.6 Write-down
If there is objective proof of value impairment write-down is carried out. In assessing whether there is value impairment weight is attached to whether the debtor has significant financial difficulties and whether there is breach of contract, including default. The write-down is calculated by comparing the new, anticipated cash flows with the original cash flows discounted by the original effective interest rate (assets with fixed interest) or by the effective interest rate at the time of measurement (assets with variable interest).

Loss assessment and loss write-down is carried out quarterly on individual loans. Loans with unpaid repayments older than 90 days or credits with overdrafts older than 90 days are examined at the end of the reporting period. In addition a continuous assessment of other loans is carried out where there is objective evidence of a fall in value in accordance with the Financial Supervisory Authority of Norway Regulation on accounting treatment of lending and guarantees.

Lending is also assessed by group. If there is objective proof of impairment in a group of loans, write-down is carried out. The write-down is reversed if after the date of write-down events occur that reduce the loss.

2.6.7 Net presentation of financial assets and liabilities
Financial assets and liabilities are presented net in the statement of financial position when there is an unconditional offsetting entitlement that can be asserted legally and the intention is to settle net, or realize the asset and liability simultaneously.

2.7 CASH AND CASH EQUIVALENTS
Bank deposits associated with daily operation that are included as a part of the financial statement line "Lending to and receivables from credit institutions" are counted as cash and cash equivalents. Bank deposits linked to the securities business are defined as financial assets.. The statement of cash flows has been prepared in accordance with the direct method.

2.8 FINANCIAL LIABILITIES
The Company's/Group's financial liabilities comprise debt to credit institutions, covered bonds issued and deposits from customers.

2.8.1 Debt to credit institutions
Liabilities to credit institutions are capitalized at market value on take-up. As a rule, on subsequent measurement the liability is recognized at amortized cost in accordance with the effective interest rate method. The interest costs are included in the amortization and are shown in the line "Interest costs and similar costs" in the income statement.

2.8.2 Covered bonds issued
Covered bonds have been issued in accordance with Chapter 2 IV of Act No. 40 "Act on financing activity and financial institutions (Financial Institutions Act)" of 10 June 1988.

The bondholders have security in a security pool comprising lending with government guarantee (local government loans) and additional collateral in the form of a liquidity reserve. The additional collateral may at any time represent up to 20 per cent of the security pool.

The value of the security pool shall at all times exceed the value of the covered bonds in the security pool. A register is kept of the covered bonds in the security pool, as well as of the assets included in the latter. The Financial Supervisory Authority of Norway (the FSA) nominates an independent supervisor who monitors that registration is carried out correctly.

If the issuer of the covered bonds ceases operations, becomes bankrupt, enters into debt negotiations or is placed under public administration, the bond owners are entitled to receive timely payment from the security pool during the debt negotiations. The bond owners have an exclusive, equal and proportionate entitlement to the assets in the security pool that have been provided for them.

Covered bonds issued are brought to account in the first instance at fair value, i.e. nominal value adjusted for any premium/discount on issue. On subsequent valuation the bonds are valued at amortized cost by the effective interest method. The interest costs are included in the amortization and are shown in the line "Interest costs and similar costs" in the income statement. The rules on fair value hedging are used for bonds with fixed interest rates.

Fair value in this category is determined on the basis of internal valuation models based on external observable data.

2.8.3 Deposits from customers

Deposits from customers are recognised at fair value in the financial position statement when the deposit is recorded as transferred to the customer's account.

2.9 OWNERS' EQUITY

The owners' equity in the Group comprises owners' equity contributed.

2.9.1 Owners' equity contributed

Owners' equity contributed comprises share capital, the share premium fund and other owners' equity contributed.

2.10 PRESENTATION OF INCOME

Income on sale of goods and services is valued at fair value of the consideration, net after deductions for VAT and any discounts. Sales internal to the Group are eliminated.

2.10.1 Income from services

Fees for lending management are taken to income in proportion to the management carried out for the period up to the end of the reporting period. Other services are taken to income by straight line over the contract period.

2.10.2 Interest income/expenses

Interest income and interest expenses associated with all interest-bearing financial instruments valued at amortized cost are taken to income using the effective interest rate method.

For interest-bearing financial investments measured at fair value, interest income is classified as "Interest income and similar income", whereas other value changes are classified as "Net gain or loss on financial investments".

2.11 TAX

Tax comprises tax payable and deferred tax. Tax is charged to the income statement, apart from when it relates to items that are recognized through other comprehensive income or directly against owners' equity. If that is the case, the tax is also recognized in other comprehensive income or directly against owners' equity.

Tax payable for the period is calculated in accordance with the tax legislation and regulations enacted, or generally adopted, at the end of the reporting period in the country in which the Company and subsidiaries operate and generate taxable income. Management continuously assesses the assertions made in the tax returns where the applicable taxation legislation is subject to interpretation. Based on the management's assessment, provisions are made for expected tax payments where this is considered necessary.

Deferred tax is calculated on temporary differences between taxable values and consolidated financial statements values of assets and liabilities. Deferred tax is not calculated on goodwill. Should a temporary difference arise on first recognition in the financial position statement of a liability or asset in a transaction, not being a business merger, and that at the time of the transaction affects neither the book income nor the taxable income, deferred tax is not recognised in the financial position statement.

Deferred tax is determined using tax rates and tax legislation enacted or to all intents and purposes enacted at the end of the reporting period, and that are expected to be applicable when the deferred tax asset is realized or when the deferred tax is settled.

Deferred tax assets and deferred tax are to be set off if there is a legally assertable entitlement to set off taxable assets against taxable liabilities, and deferred tax assets and deferred tax involve income tax imposed by the same tax authority for either the same taxable enterprise or different taxable enterprises that intend to settle taxable liabilities and assets net.

Net deferred tax assets are capitalized in the financial position statement to the extent it is likely they may be utilised.

2.12 PENSION OBLIGATIONS - OWN EMPLOYEES

The Group's pension obligations are partially insurance-covered through KLP's public sector occupational pensions through membership of the joint pension scheme for municipalities and enterprises ("Fellesordningen"). Pension liability beyond these schemes is covered through operation. Pension costs are treated in accordance with IAS 19.

Net pension liability is the difference between the pension assets' fair value (i.e. transfer value) and the present value of the calculated pension obligations. These calculations have been carried out according to straight line accruals on the basis of assumptions on mortality, disability, voluntary cessation, take-up of early retirement (AFP), future pay developments (in the local authority sector for the joint pension scheme), future growth in the National Insurance basic sum ('G'), assumptions on future returns etc. The financial assumptions have been set in line with the principles in the Norwegian Accounting Standards Board's (NASB) guidance on pension assumptions. Net liability is classified as provision for obligation in the financial position statement. If the value of the pension assets exceeds the current value of calculated pension obligations, net assets are shown as long-term receivables.

The period's net pension costs comprise the sum of the period's pension accumulation, interest costs on the calculated liability and expected returns on the pension assets.

The joint pension scheme (Fellesordningen) is a multi-enterprise scheme, i.e. the technical insurance risk is spread between all of the local authorities and enterprises participating in the scheme. The financial and actuarial assumptions underlying the calculation of net pensions liabilities are thus based on assumptions that are representative of the whole group.

Social security costs are calculated on net liabilities. Gross pension obligation as the basis for determining the amortization base for the corridor does not include social security costs.

Note 3 Important accounting estimates and valuations

The Company/Group prepares estimates and assumptions on future circumstances. These are continuously evaluated and are based on historic data and expectations concerning probable future events considered on the basis of data available at the time of presentation of the financial statements.

It must be expected that the estimates will deviate from the final outcome and the areas where there is significant risk of substantial change in capitalized values in future periods are discussed below.

3.1 PENSION OBLIGATIONS - OWN EMPLOYEES

The present value of net pension obligations the Company/Group has to its employees depends on a range of economic and demographic assumptions. Small changes in these variables can have a relatively large effect on gross accrued pension obligations and thus on gross pension costs. The Company/Group cushions the accounting effect of changed assumptions when quantifying pension obligations by allocating and taking to income over the remaining duration only estimate deviations in excess of 10 per cent of the higher of gross pension obligations and gross pension assets.

The Company/Group has followed «The guidance for determining pension assumptions» published by the Norwegian Accounting Standards Board (NASB) Updated guidance published on 4 January 2013 has been used as the basis for updated measurement of best-estimate accrued liability and assets as at 31 December 2012.
Weight has been placed on the assumptions being mutually consistent. Those parameters that are of the greatest significance for net pension obligations are the discounting interest rate, assumptions on future salary growth, assumptions on future adjustment of the National Insurance basic sum (G adjustment), pension adjustments, assumptions on future longevity and future likely take-up of the contractual early retirement scheme (AFP).

Previously the Company has used the discounting interest rate determined on the basis of the government bond rate to calculate the pension obligation for own employees. In 2012 the Group took the opportunity provided by the «Guidance for determining pension assumptions» to use the interest rate for covered bonds (OMF), since these satisfy the IFRS requirements of what are known as high-quality bonds with reliable pricing in a well-functioning market. As at 31 December 2012 the Company has used a discounting interest rate of 3.9 per cent.

The assumptions on future salary growth and future G-adjustment/pension adjustment are set in line with the actual recommendations of the Guidance at 3.5 per cent (salary growth) and 3.25 per cent (G and pensions adjustment) respectively. The pension adjustment for the local authority pension scheme should be the same as the G-adjustment.

The assumptions on longevity (mortality) are based on the latest mortality table (K2005). A future take-up propensity for contractual early retirement (AFP) has been assumed at 45 per cent, i.e. 45 per cent will take AFP on reaching the age of 62.

3.2 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Financial assets/liabilities classified as assets for which changes in fair value are taken to income do not have adequate trading in a market for fair value to be read directly from the market price. Fair value must therefore be estimated. The estimate is based on the market circumstances prevailing at the end of the reporting period. Unlisted interest-bearing securities are priced on the basis of an interest curve with a risk supplement that represents the market's pricing of the issuer's industry-specific risk.

The Company/Group 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 or loss" since they are managed, and their pay-back is valued on the basis of fair value. Fair value is determined on the basis of observable prices in an active market. Where such prices are not available, fair value is determined using a recognised valuation model based on observable market data.

3.3 LOSSES ON FINANCIAL ASSETS

Financial assets not measured at market value are assessed for impairment at the end of the reporting period. The Company's/Group's lending portfolio is valued individually for loans on which default has been observed. If there is an objective event at the end of the reporting period that has influence on future cash flows, the loan is written down. In addition, lending with uniform risk profile is valued quarterly by group.

The lending portfolio has historically shown insignificant losses and has generally very good security in public sector guarantee or mortgage. The Company/Group has insignificant loss provisions, so any future losses will have a direct effect on the income statement.

3.4 CAPITALISED SOFTWARE

If impairment is suspected a write-down test is carried out to check whether the book value of capitalized software is present. In this context the recoverable sum is estimated. There are uncertainties associated with estimating cash flows and discounting factors in connection with calculating a recoverable sum.

Note 4 Net gain/loss on financial instruments

KLP Banken AS			KLP Banken AS Group	
2011	2012	NOK thousands	2012	2011
3	10	Net gain/loss on interest-bearing securities	54 776	-8 594
-5 374	-7 884	Net gain/loss financial derivatives	-81 947	24 233
5 374	8 076	Net value change lending and borrowing, hedge accounting	79 095	22 637
0	0	Net value change lending and receivables	-777	-46 966
0	0	Net value change debt to credit institutions at fair value	0	1 894
3	202	Total	51 148	-6 796

Note 5 Fair value of financial assets and liabilities

KLP Banken AS 31.12.2012		NOK thousands	KLP Banken AS Group 31.12.2012	
Capitalized value	Fair value		Capitalized value	Fair value
		Financial assets at fair value		
148 351	148 351	Interest-bearing securities	4 063 485	4 063 485
0	0	Lending to Norwegian local administrations	33 021	33 021
11 878	11 878	Financial derivatives	183 904	183 904
160 230	160 230	Total financial assets at fair value	4 280 410	4 280 410
		Financial assets at fair value		
0	0	Lending to Norwegian local administrations	5 978 833	5 983 059
524 223	524 223	Lending to private customers	524 223	524 223
524 223	524 223	Total financial assets at fair value hedging	6 503 056	6 507 282
		Financial assets at amortized cost		
392 483	392 483	Lending to and receivables from credit institutions	2 136 069	2 136 069
4 665 767	4 665 767	Lending to Group companies	0	0
0	0	Lending to Norwegian local administrations	14 333 161	14 333 161
1 005 774	1 005 774	Lending to private customers	1 005 774	1 005 774
6 064 024	6 064 024	Total financial assets at amortized cost	17 475 004	17 475 004
6 748 477	6 748 477	Total financial assets	28 258 470	28 262 696
		Debt to credit institutions at fair value		
19 842	19 842	Financial derivatives	358 770	358 770
19 842	19 842	Total financial liabilities at fair value	358 770	358 770
		Debt to credit institutions at fair value hedging		
312 412	320 401	Liabilities created on issuance of securities	3 691 662	3 777 110
312 412	320 401	Total financial liabilities at fair value hedging	3 691 662	3 777 110
		Debt to credit institutions and deposits at amortized cost		
3 030 558	3 042 286	Liabilities created on issuance of securities	20 016 742	20 042 241
2 946 196	2 946 196	Deposits from customers	2 946 196	2 946 196
5 976 754	5 988 482	Total financial liabilities at amortized cost	22 962 938	22 988 437
6 309 008	6 328 724	Total financial liabilities	27 013 369	27 124 316

Note 5 **Fair value of financial assets and liabilities** (continued)

KLP Banken AS 31.12.2011		NOK thousands	KLP Banken AS Group 31.12.2011	
Capitalized value	Fair value		Capitalized value	Fair value
		Financial assets at fair value		
1 874	1 874	Interest-bearing securities	1 536 960	1 536 960
0	0	Lending to Norwegian local administrations	147 126	147 126
0	0	Financial derivatives	70 165	70 165
1 874	1 874	Total financial assets at fair value	1 754 251	1 754 251
		Financial assets at fair value		
0	0	Lending to Norwegian local administrations	5 164 751	5 172 768
470 374	470 374	Lending to private customers	470 374	470 374
470 374	470 374	Total financial assets at fair value hedging	5 635 125	5 643 142
		Financial assets at amortized cost		
472 641	472 641	Lending to and receivables from credit institutions	1 610 889	1 610 889
4 773 200	4 773 200	Lending to Group companies	0	0
0	0	Lending to Norwegian local administrations	19 892 423	19 892 423
2 740 903	2 740 903	Lending to private customers	2 740 903	2 740 903
7 986 744	7 986 744	Total financial assets at amortized cost	24 244 215	24 244 215
8 458 992	8 458 992	Total financial assets	31 633 591	31 641 607
		Debt to credit institutions at fair value		
5 398	5 398	Financial derivatives	192 594	192 594
5 398	5 398	Total financial liabilities at fair value	192 594	192 594
		Debt to credit institutions at fair value hedging		
0	0	Liabilities created on issuance of securities	2 813 761	2 821 304
0	0	Total financial liabilities at fair value hedging	2 813 761	2 821 304
		Debt to credit institutions and deposits at amortized cost		
4 306 449	4 306 449	Debt to credit institutions	4 306 449	4 306 449
2 017 278	2 017 278	Liabilities created on issuance of securities	21 355 974	21 355 974
1 840 261	1 840 261	Deposits from customers	1 840 261	1 840 261
8 163 989	8 163 989	Total financial liabilities at amortized cost	27 502 685	27 502 685
4 229 698	4 229 698	Total financial liabilities	30 509 039	30 516 582

Fair value of loans to Norwegian local administrations
The receivables are valued using a valuation model that uses relevant credit risk premium adjustments obtained from the market. The lending is to municipalities, county administrations and local government supported projects, and observable interest-rate curves and credit-spread curves are used in a valuation model that discounts future cash flows.

Fair value of lending to and receivables from credit institutions
All receivables from credit institutions (bank deposits) are at variable interest rates. Fair value of these is considered virtually the same as book value since the contract terms and conditions are continuously changed in step with change in market interest rates.

Fair value of financial derivatives
These transactions are valued using a valuation model in which the credit risk of the swap counterparty is implicit in the swap prices with the counterparty concerned.

Fair value of debt to credit institutions
These transactions are valued using a valuation model, including relevant credit spread adjustments obtained from the market.

Fair value of receivables from credit institutions, lending to private individuals and deposits from private individuals
Fair value of lending and deposits without fixed interest rates is considered virtually the same as book value since the contract terms are continuously changed in step with market interest rates. Lending with fixed interest is valued using a valuation model, including relevant credit spread adjustments obtained from the market.

Note 6 Fair value hierarchy

KLP Banken AS			KLP Banken AS Group	
31.12.2011	31.12.2012	NOK thousands	31.12.2012	31.12.2011
		Assets		
		Interest-bearing securities		
1 874	148 352	Level 1: Value based on prices in an active market	148 352	1 874
0	0	Level 2: Value based on observable market data	3 915 133	1 535 086
0	0	Level 3: Value based on other than observable market data	0	0
1 874	148 352	Total interest-bearing securities	4 063 485	1 536 960
		Financial derivatives		
0	0	Level 1: Value based on prices in an active market	0	0
0	11 878	Level 2: Value based on observable market data	183 904	70 165
0	0	Level 3: Value based on other than observable market data	0	0
0	11 878	Total financial derivatives	183 904	70 165
1 874	160 230	Total financial assets valued at fair value	4 247 389	1 607 125
		Liabilities		
		Financial derivatives (liabilities)		
0	0	Level 1: Value based on prices in an active market	0	0
5 398	19 842	Level 2: Value based on observable market data	358 770	192 594
0	0	Level 3: Value based on other than observable market data	0	0
5 398	19 842	Total financial do derivatives (liabilities)	358 770	192 594
5 398	19 842	Total financial liabilities at fair value	358 770	192 594

Fair value shall be a representative price based on what a corresponding asset or liability would have been traded for on normal market terms and conditions. The highest quality of fair value is based on listed prices in an active market. A financial instrument is considered as listed in an active market if listed prices are simply and regularlyavailable from a stock market, dealer, broker, industry grouping, price setting service or regulatory authority, and these prices represent actual and regularly occurring transactions at arm's length distance.

Level 1: Instruments in this level obtain fair value from listed prices in an active market (see above) for identical assets or liabilities to which the entity has access at the reporting date. Examples of instruments at Level 1 are cash and stock market listed securities.

Level 2: Instruments at this level obtain fair value from observable market data, but where the instrument is not considered to have an active market. This includes prices based on identical instruments, but where the instrument does not have a high enough trading frequency, as well as prices based on corresponding assets and price leading indicators that can be confirmed from market information. Examples of instruments in Level 2 are derivatives and interest-bearing securities based on observable market data and prices obtained from external market actors and services.

Level 3: Instruments at Level 3 contain no observable market data or where the market is considered to be inactive. The price is based generally on discrete calculations where the actual fair value may deviate if the instrument were to be traded. No instruments at Level 3.

As at 31 December 2012 the names of the individual lines have been changed so they correspond to the lines in the financial position statement.

Note 7 Financial derivatives

KLP Banken AS					KLP Banken AS Group			
31.12.2011		31.12.2012		NOK thousands	31.12.2012		31.12.2011	
Nominal sum	Fair value	Nominal sum	Fair value		Nominal sum	Fair value	Nominal sum	Fair value
0	0	300 000	11 878	Borrowing in NOK	3 550 000	183 903	2 750 000	69 975
0	0	0	0	Lending	0	0	114 925	190
0	0	300 000	11 878	Total assets	3 550 000	183 904	2 864 925	70 165
0	0	0	0	Borrowing in NOK	4 300 000	10 137	0	0
465 000	5 398	510 000	19 842	Lending	6 251 411	311 135	5 696 440	178 134
0	0	0	0	Investments	100 000	7 497	100 000	3 821
0	0	0	0	Borrowing in foreign currency	1 528 500	30 001	1 095 000	10 640
465 000	5 398	510 000	19 842	Total liabilities	12 179 911	358 770	6 891 440	192 594

Interest rate agreements are used to correct for imbalances between the Company's lending and borrowing in regard to interest rate exposure. All the agreements struck are hedging deals. The interest-rate differences in the agreements are accrued in the same way as the items the hedging contracts are intended to cover.

Interest rate swaps are agreements on exchange of interest rate terms in a future period. They do not cover exchange of principal.

Note 8 Hedge accounting

KLP Banken AS

31.12.2012 NOK thousands	Nominal value	Changed value in hedged risk	Effectiveness
Hedged object			
Lending to personal customers fixed interest in NOK	505 162	18 136	100.00 %
Bond loans fixed interest in NOK	300 000	-4 686	100.00 %
Hedging instrument			
Interest rate swap lending fixed interest in NOK	510 000	-18 136	100.00 %
Interest rate swap bond loans in NOK	300 000	4 686	100.00 %

KLP Banken AS Group

31.12.2012 NOK thousands	Nominal value	Changed value in hedged risk	Effectiveness
Hedged object			
Lending public sector market fixed interest in NOK	5 713 241	263 248	100.00 %
Lending to retail customers fixed interest in NOK	505 162	18 136	100.00 %
Bond loans fixed interest in NOK	3 550 000	-133 879	-100.00 %
Hedging instrument			
Interest rate swap lending public sector market fixed interest in NOK	5 708 062	-263 248	100.00 %
Interest-rate swap lending retail customers fixed interest in NOK	510 000	-18 136	100.00 %
Interest rate swap bond loans in NOK	3 550 000	-133 879	-100.00 %

KLP Banken AS

31.12. 2011 NOK thousands	Nominal value	Changed value in hedged risk	Effectiveness
Hedged object			
Lending to retail customers fixed interest in NOK	465 000	-5 374	100.00 %
Hedging instrument			
Interest rate swap lending fixed interest in NOK	465 000	5 374	100.00 %

Hedge accounting was not used in KLP Banken AS in 2010

KLP Banken AS Group

31.12. 2011 NOK thousands	Nominal value	Changed value in hedged risk	Effectiveness
Hedged object			
Lending public sector market fixed interest in NOK	5 008 327	156 424	93.00 %
Lending to retail customers fixed interest in NOK	465 000	-5 374	100.00 %
Borrowing in NOK	2 750 000	-63 761	91.12 %
Hedging instrument			
Interest rate swap lending public sector market fixed interest in NOK	4 993 580	-168 192	107.52 %
Interest-rate swap lending retail customers fixed interest in NOK	465 000	5 374	100.00 %
Interest-rate swap borrowing in NOK	2 750 000	69 975	109.75 %

The hedging instrument is an interest rate swap. The purpose of this hedging is to hedge the interest risk on borrowing. The hedging object and the hedging instrument are struck on the same terms and conditions. Principal, interest, duration and interest dates are virtually identical.

The hedging effectiveness is measured by comparing accumulated value change on the hedging instrument to accumulated value change on the hedged object. The value change on the hedged object and the hedging instrument are taken to income against the line "Net gain/(loss) on financial instruments".

Note 9 Net interest income

KLP Banken AS			KLP Banken AS Group	
2011	2012	NOK thousands	2012	2011
7 371	9 755	Interest on lending to and receivables from credit institutions	38 578	52 757
181 873	222 181	Interest on lending to customers	836 312	889 856
80	258	Interest on securities	81 835	26 534
189 324	232 194	Total interest income	956 724	969 147
-109 717	-26 065	Interest on debt to KLP	-26 065	-109 717
0	0	Interest on debt to credit institutions	-649 339	-763 520
-67 414	-192 202	Interest on debt to customers	-192 202	-67 414
0	0	Premium/discount on covered bonds	-2 778	-7 342
-26	-3	Other interest costs	-3	-26
-177 157	-218 270	Total interest costs	-870 387	-948 019
12 167	13 924	Net interest income	86 337	21 128

Note 10 Net commission items

KLP Banken AS			KLP Banken AS Group	
2011	2012	NOK thousands	2012	2011
185	14	Interbank commission	14	185
782	1 197	Short commission	1 197	782
70	187	Payments handling	187	70
3 142	3 490	Other commission income	3 490	3 142
4 179	4 888	Total commission income	4 888	4 179
-201	-156	Interbank commission	-156	-201
-142	-196	Clearing	-196	-142
-68	0	Other commission income	0	-70
-411	-352	Total commission costs	-352	-413
3 768	4 535	Net commission	4 535	3 766

Note 11 Categories of financial assets and liabilities

KLP Banken AS 31.12.2012					NOK thousands	KLP Banken AS Group 31.12.2012				
FVO	HFT	FVL	LAR	Total	Financial assets	FVO	HFT	FVL	LAR	Total
0	0	0	392 483	392 483	Lending to and receivables from credit institutions	0	0	0	2 136 069	2 136 069
0	0	523 298	5 672 466	6 195 764	Lending to and receivables from customers	33 021	0	6 502 131	15 339 860	21 875 012
0	11 878	0	0	11 878	Financial derivatives used in hedging	0	183 904	0	0	183 904
0	148 351	0	0	148 351	Interest-bearing securities	0	4 063 485	0	0	4 063 485
0	160 230	523 298	6 064 949	6 748 477	Total	33 021	4 247 389	6 502 131	17 475 929	28 258 470
FVO	HFT	FVH	OLI	Total	Financial liabilities	FVK	HFO	FVS	FAM	Total
0	0	312 412	3 030 558	3 342 970	Liabilities created on issuance of securities	0	0	3 691 662	20 016 742	23 708 404
0	0	0	2 946 196	2 946 196	Deposits	0	0	0	2 946 196	2 946 196
0	19 842	0	0	19 842	Financial derivatives used in hedging	0	354 326	0	0	354 326
0	0	0	0	0	Financial derivatives at fair value	0	4 444	0	0	4 444
0	19 842	312 412	5 976 754	6 309 008	Total	0	358 770	3 691 662	22 962 938	27 013 369

KLP Banken AS 31.12.2011					NOK thousands	KLP Banken AS Group 31.12.2011				
FVO	HFT	FVL	LAR	Total	Financial assets	FVO	HFT	FVL	LAR	Total
0	0	0	5 245 841	5 245 841	Lending to and receivables from credit institutions	0	0	0	1 610 889	1 610 889
0	0	470 374	2 740 903	3 211 277	Lending to and receivables from customers	144 387	0	5 635 125	22 636 065	28 415 577
0	0	0	0	0	Financial derivatives used in hedging	0	70 165	0	0	70 165
0	1 874	0	0	1 874	Interest-bearing securities	0	1 536 960	0	0	1 536 960
0	1 874	470 374	7 986 744	8 458 992	Total	144 387	1 607 125	5 635 125	24 246 954	31 633 591
FVK	HFO	FVS	FAM	Sum	Financial liabilities	FVO	HFT	FVH	OLI	Total
0	0	0	4 306 449	4 306 449	Debt to credit institutions	0	0	0	4 306 449	4 306 449
0	0	0	2 017 278	2 017 278	Liabilities created on issuance of securities	0	0	2 813 761	21 355 974	24 169 735
0	0	0	1 840 261	1 840 261	Deposits	0	0	0	1 840 261	1 840 261
0	5 398	0	0	5 398	Financial derivatives used in hedging	0	188 239	0	0	188 239
0	0	0	0	0	Financial derivatives at fair value	0	4 355	0	0	4 355
0	5 398	0	8 163 989	8 169 386	Total	0	192 594	2 813 761	27 502 684	30 509 039

FVO: Financial instruments at fair value through income – fair value option
HFT: Financial instruments at fair value through income – held for trading
LAR: Financial instruments at amortized cost – loans and receivables
OLI: Financial instruments at amortized cost – other liabilities
FVL: Lending fair value hedging
LFV: Liabilities fair value hedging

Note 12 Interest-bearing securities

KLP Banken AS 31.12.2012				NOK thousands	KLP Banken AS Group 31.12.2012			
Acquisition cost	Unreal. gain/loss	Accrued interest	Market value	Debtor categories	Acquisi-tion cost	Unreal. gain/loss	Accrued interest	Market value
148 342	10	0	148 352	Government/social security administration	148 342	10	0	148 352
0	0	0	0	Credit enterprises	3 342 548	36 760	8 599	3 387 907
0	0	0	0	Local government administration	515 991	9 410	1 826	527 226
148 342	10	0	148 351	Total interest-bearing securities	4 006 881	46 179	10 425	4 063 485

Effective interest rate: 1.57 %

Effective interest rate: 2.40 %

KLP Banken AS 31.12.2011				NOK thousands	KLP Banken AS Group 31.12.2011			
Acquisition cost	Unreal. gain/loss	Accrued interest	Market value	Debtor categories	Acquisi-tion cost	Unreal. gain/loss	Accrued interest	Market value
0	0	0	0	Savings banks	98 880	-605	418	98 692
0	0	0	0	Credit enterprises	1 340 592	-13 551	5 314	1 332 354
0	0	0	0	Local government	98 050	5 560	429	104 039
1 927	-53	0	1 874	Unit trusts	1 927	-53	0	1 874
1 927	-53	0	1 874	Total interest-bearing securities	1 539 449	-8 650	6 161	1 536 960

Effective interest rate: 3.74 %

Effective interest rate: 3.98 %

Effective interest is calculated as a yield-to-maturity, i.e. it is the constant interest rate level at which one may discount all the future cash flows from the securities to obtain the securities' total market value.

Note 13 Financial risk management

ORGANISATION OF RISK MANAGEMENT

KLP Banken's Board of Directors has established a risk management framework aimed at ensuring risks are identified, analysed and subjected to management using policies, limits, procedures and instructions. The Board has adopted risk policies covering the key individual risks as well as an overarching risk policy that covers principles, organisation, limits etc for the bank's total risk. The risk policies are of an overarching nature and are complemented by procedures, guidelines and instructions laid down at the senior management level. The policies state which departments are responsible for handling the various risks and also cover the establishment of a separate risk control function. The purpose of the risk control function is inter alia to check that the risk policies and other guidelines for risk management are being followed. This function is carried out by the Risk Analysis and Control Department, which is responsible for preparing periodic risk reports to senior management and the Board as well is reporting in the event of breaches of policies or guidelines. The Department, which has an independent role in relation to other departments, also has other tasks associated with the bank's risk management. The responsibility for the operational direction of the the bank's liquidity risk, exchange-rate risk and interest rate risk lies with the Finance Department.

Note 14 Credit risk

Credit risk is understood here to mean the risk of loss associated with loan customers, counterparties in derivatives, issuers of securities and other counterparties being unable or unwilling to settle at the agreed time and in accordance with written contracts, and the securities established not covering the outstanding demand. The Group provides loans to personal customers, Norwegian municipalities and county administrations, local government enterprises, intermunicipal companies and loans to companies where the loan is guaranteed by a Norwegian municipality, county administration, the state or a bank.

Loans according to type of security/exposure (principal)

	KLP Banken AS		KLP Banken AS Group	
NOK thousands	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Lending to the private market with mortgage	1 509 370	3 200 863	1 509 370	3 200 863
Lending to municipalities and county administrations	0	0	18 224 818	22 201 352
Lending with municipal/county administration guarantee	0	0	1 759 958	2 710 385
Lending with Government guarantee	0	0	13 224	17 243
Total	1 509 370	3 200 863	21 507 370	28 129 843
Sums falling due more than 12 months after the end of the reporting period	1 471 561	3 040 820	20 387 974	26 321 536

The KLP Banken Group also invests in securities issued by the Norwegian state, Norwegian municipalities and county authorities, in deposits in banks that satisfy the minimum rating requirements as well is in covered bonds issued by Norwegian credit enterprises.

Credit quality securities, bank deposits and derivatives

Securities with external credit assessment (Moody's)	KLP Banken AS		KLP Banken AS Group	
NOK thousands	31.12.2012	31.12.2011	31.12.2012	31.12.2011
AAA	150 000	0	3 610 000	1 551 000

Securities without external credit assessment	KLP Banken AS		KLP Banken AS Group	
NOK thousands	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Securities issued by the Norwegian municipalities/county administrations	0	0	417 000	0

Deposits in banks grouped by external credit assessment (Moody's)	KLP Banken AS		KLP Banken AS Group	
NOK thousands	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Aa1-Aa3	253 046	299 397	1 341 999	845 791
A1-A3	137 418	173 243	785 671	762 454
Baa1	2 019	-	8 400	-
Sum	392 483	472 640	2 136 069	1 608 245

The banking group may also be exposed to credit risk as a result of derivatives agreements struck. The purpose of such agreements is to reduce risks arising as a result of the Group's borrowing and lending activities. The Group's internal guidelines specify creditworthiness requirements for derivative counterparties. All derivative agreements are entered into with counterparties with a minimum A1 rating (Moody's)

14.1 MEASUREMENT OF CREDIT RISK

The Board has determined a credit policy that contains overarching guidelines, requirements and limits associated with credit risk. The policy stipulates that the bank is to have a low credit risk profile and includes limits on types of lending and principles for organisation and operation of the bank's lending activity. The policy also includes an overall mandate structure for lending and other counterparty exposure.

The mandates within the public sector are linked to Board-determined limits for a large number of the Company's individual borrowers and these limits derive from a risk classification in which the individual borrowers are assigned a risk class based on a set of fixed criteria. Furthermore requirements are set for reporting to the Board on usage of the limits.

Credit risk associated with issuers of securities, derivative counterparties and other counterparties in the financial area is also limited by Board-determined limits on individual counterparties. These limits are based on the counterparty's solvency and other assessments of the counterparties' creditworthiness.

14.2 CONTROL AND LIMITATION OF CREDIT RISK

In processing all new loan applications in the public sector, checks are made on whether the customer's credit limits are larger than the total of the loan amounts applied for and current loans. In the credit policy described above, requirements are set for reporting to the Board on usage of the limits. Any exceeding of the limits is to be reported to the Company's Board regardless. In the retail market, loans are only provided with mortgage on housing or leisure real estate. In processing loan applications the borrower's servicing ability and the value of the mortgage object is assessed and loans are provided only within set limits and authorizations.

14.3 MAXIMUM EXPOSURE TO CREDIT RISK

Maximum exposure is measured as a total of principal and accrued interest. Security in cash or securities is not exchanged, nor are other credit improvements carried out. The table below shows the maximum exposure for the parent bank and the Group.

Maximum exposure to credit risk

	KLP Banken AS		KLP Banken AS Group	
NOK thousands	31.12.2012	31.12.2011	31.12. 2012	31.12.2011
Lending to and receivables from credit institutions	5 058 250	5 243 196	5 523 940	3 036 876
Lending to and receivables from customers	1 678 348	3 213 921	22 550 625	28 418 221
Financial derivatives	0	0	31 104	70 165
TOTAL	6 736 598	8 457 117	28 105 669	31 525 262

14.4 LOANS FALLEN DUE OR WRITTEN DOWN

The bank has very low losses and considers all receivables to be satisfactorily secured.

Loans fallen due or written down

	KLP Banken AS		KLP Banken AS Group	
NOK thousands	31.12.2012	31.12.2011	31.12. 2012	31.12.2011
Principal on loans with payments with 1-30 days' default	28 467	69 281	573 426	898 965
Principal on loans with payments with 31-90 days' default	4 957	7 340	21 846	16 340
Principal on loans with payments with more than 90 days' default	6 854	14 080	47 754	53 620
Total loans fallen due	40 278	90 701	643 026	968 925
Relevant security or guarantees	40 278	90 701	643 026	968 925
Lending that has been written down	0	0	0	0

14.5 CONCENTRATION OF CREDIT RISK

A large proportion of the Group's lending at the end of the year was linked to public sector financing and the portfolio thus has high concentration against one single sector. The underlying credit risk against this sector is however so low that it is hardly possible to reduce this concentration without increasing total risk in the portfolio. The concentration against the Norwegian public sector is thus considered not to be a risk challenge. The concentration against individual borrowers is limited by individual Board-set limits.

Lending to the Group's largest borrower as at 31 December 2012 was about 3.1 per cent of the Group's total lending.

Note 15 Market risk

Market risk is understood here as the risk of reduced fair value of the bank's equity capital as a result of fluctuations in market prices for the bank's assets and liabilities. Changes in credit margins are however excluded since this comes under the term credit risk.

The Group is exposed to market risk as a result of the Group's borrowing and lending activity and management of the Group's liquidity. The exposure is however limited to interest rate risk and exchange-rate risk. Interest-rate risk arises as a result of differences in timing of interest rate adjustment for the Company's assets and liabilities. The risk associated with such imbalances is reduced by using derivative contracts. The company has two loans in SEK but all other borrowing is in NOK. The whole of the lending portfolio comprises loans in NOK. The risk associated with changes in exchange rates is reduced virtually entirely, using derivative contracts.

15.1 MEASUREMENT OF MARKET RISK

Interest rate risk is measured as change in value on a 1 percentage point change in all interest rates. Exchange-rate risk is measured as change in value on a 10% unfavourable exchange rate change in all currencies.

15.2 INTEREST RATE RISK

The market risk policy is the Group's overarching guidelines, and requirements and limits associated with market risk. The policy dictates that the market risk should be minimized so that the total market risk is low. It further states that the Group should not actively take positions that expose the Group to market risk. The policy also sets limits for interest rate risk both for the total interest rate risk for the infinite future and for rolling 12 month periods. The limits are set in relation to Tier 1 and 2 capital and the level of the limits should ensure compliance with the low market risk profile policy adopted. The operational responsibility for managing the Company's market risk lies with the Finance Department. The Risk Analysis and Control Department reports the Company's actual exposure in relation to limits in accordance with guidelines set by the Board.

The table below shows repricing dates for the parent bank's and the Group's interest-bearing assets and liabilities.

Interest rate risk KLP Banken AS

Repricing dates for interest-bearing assets and liabilities as at 31 December 2012

NOK thousands	Total Principal	Up to 1 mnth	From 1 mnth to 3 mnths	From 3 mnths to 12 mnths	From 1 yr to 5 yrs	Over 5 yrs
Lending	1 509 370	0	1 004 239	0	391 821	113 310
Securities	150 000	0	0	150 000	0	0
Cash and receivables from credit institutions	5 052 483	392 483	4 660 000	0	0	0
Total	6 711 853	392 483	5 664 239	150 000	391 821	113 310
Liability to depositors	2 946 196	2 946 196	0	0	0	0
Liabilities to financial institutions	0	0	0	0	0	0
Liabilities created on issuance of securities	3 320 000	1 260 000	1 760 000	0	300 000	0
Total	6 266 196	4 206 196	1 760 000	0	300 000	0
Gap	445 657	-3 813 713	3 904 239	150 000	91 821	113 310
Financial derivatives	0	45 000	165 000	0	-100 000	-110 000
Net gap	445 657	-3 768 713	4 069 239	150 000	-8 179	3 310

Interest rate risk KLP Banken AS Group

Repricing dates for interest-bearing assets and liabilities as at 31 December 2012

NOK thousands	Total Principal	Up to 1 mnth	From 1 mnth to 3 mnths	From 3 mnths to 12 mnths	From 1 yr to 5 yrs	Over 5 yrs
Lending	21 507 370	10 828 855	3 709 601	963 767	3 730 205	2 274 942
Securities	4 027 000	841 000	2 936 000	150 000	0	100 000
Cash and receivables from credit institutions	2 136 070	2 136 070	0	0	0	0
Total	27 670 440	13 805 925	6 645 601	1 113 767	3 730 205	2 374 942
Liability to depositors	2 946 196	2 946 196	0	0	0	0
Liabilities to financial institutions	0	0	0	0	0	0
Liabilities created on issuance of securities	23 501 500	2 260 000	17 691 500	0	2 800 000	750 000
Total	26 447 696	5 206 196	17 691 500	0	2 800 000	750 000
Gap	1 222 744	8 599 729	-11 045 899	1 113 767	930 205	1 624 942
Financial derivatives	0	-5 484 186	8 233 522	-192 689	-935 014	-1 621 633
Net gap	1 222 744	3 115 543	-2 812 377	921 078	-4 809	3 309

Interest rate risk KLP Banken AS
Repricing dates for interest-bearing assets and liabilities as at 31 December 2011

NOK thousands	Total Principal	Up to 1 mnth	From 1 mnth to 3 mnths	From 3 mnths to 12 mnths	From 1 yr to 5 yrs	Over 5 yrs
Lending	3 200 863	0	2 699 123	0	390 750	110 990
Securities	1 875		1 875			
Cash and receivables from credit institutions	5 232 640	472 640	4 760 000	0	0	0
Total	8 435 378	472 640	7 460 998	0	390 750	110 990
Liability to depositors	1 839 938	1 839 938	0	0	0	0
Liabilities to financial institutions	4 300 000	0	4 300 000	0	0	0
Liabilities created on issuance of securities	2 000 000	0	1 500 000	500 000	0	0
Total	8 139 938	1 839 938	5 800 000	500 000	0	0
Gap	295 440	-1 367 298	1 660 998	-500 000	390 750	110 990
Financial derivatives	0	0	465 000	0	-365 000	-100 000
Net gap	295 440	-1 367 298	2 125 998	-500 000	25 750	10 990

Interest rate risk KLP Banken AS Group
Repricing dates for interest-bearing assets and liabilities as at 31 December 2011

NOK thousands	Total Principal	Up to 1 mnth	From 1 mnth to 3 mnths	From 3 mnths to 12 mnths	From 1 yr to 5 yrs	Over 5 yrs
Lending	28 129 843	13 937 280	7 606 837	1 292 211	3 244 947	2 048 568
Securities	1 552 875	498 000	954 875	0	0	100 000
Cash and receivables from credit institutions	1 608 245	1 608 245	0	0	0	0
Total	31 290 963	16 043 525	8 561 712	1 292 211	3 244 947	2 148 568
Liability to depositors	1 839 938	1 839 938	0	0	0	0
Liabilities to financial institutions	4 300 000	0	4 300 000	0	0	0
Liabilities created on issuance of securities	24 045 000	0	20 795 000	500 000	2 000 000	750 000
Total	30 184 938	1 839 938	25 095 000	500 000	2 000 000	750 000
Gap	1 106 025	14 203 587	-16 533 288	792 211	1 244 947	1 398 568
Financial derivatives	0	-730 822	3 697 468	-362 726	-1 215 804	-1 388 116
Net gap	1 106 025	13 472 765	-12 835 820	429 485	29 143	10 452

The Group's interest rate sensitivity as at 31 December 2012, measured as value change in the event of one percentage point change in all interest rates was NOK 1 million.

15.3 EXCHANGE-RATE RISK

The Group has two borrowings in foreign currency of SEK 1,750,000,000 in KLP Kommunekreditt AS. The foreign currency exposure resulting from this borrowing is hedged in its entirety through a swap agreement and the banking Group therefore has no net exposure to exchange-rate risk.

Note 16 Liquidity risk

Liquidity risk means the risk that the bank does not manage to meet its liabilities and/or finance increases in its assets without substantial additional costs arising in the form of price falls in assets that must be realized, or in the form of more costly financing.

16.1 MANAGEMENT OF LIQUIDITY RISK

A liquidity policy is established for the Group containing principles, guidelines, requirements and limits that apply to the management of the liquidity risk. The policy contains various requirements and limits in order to comply with the desired liquidity risk profile, including targets for deposit cover, limits for refinancing needs for various time frames and liquidity buffer requirements. The Board has further adopted an emergency plan for liquidity crises as part of the liquidity policy. In addition to the requirements at Group level, separate specific requirements have been established for subsidiaries, including requirements for continuously positive cash flows, limits for refinancing requirements and requirements for liquidity reserves and drawing rights. The operational responsibility for managing the Company's liquidity risk lies with the Finance Department. The Risk Analysis and Control Department reports the Company's actual exposure in relation to limits in accordance with guidelines set by the Board.

16.2 MATURITY ANALYSIS

The tables below show the maturity analysis of the Group's assets and liabilities including stipulated interest rates.

Liquidity risk KLP Banken Group

Maturity analysis for assets and liabilities as at 31 December 2012

NOK thousands	Total	Undefined	Up to 1 mnd	From 1 mnth to 3 mnths	From 3 mnths to 12 mnths	From 1 yr to 5 yrs	Over 5 yrs
Lending	29 597 594	0	105 318	279 979	1 423 829	7 002 851	20 785 617
Securities	4 870 715	0	5 257	436 201	272 195	2 700 243	1 456 819
Receivables from credit institutions	2 151 542	2 140 370	11 172	0	0	0	0
Total	36 619 852	2 140 370	121 747	716 180	1 696 024	9 703 094	22 242 437
Liability to depositors	2 946 196	2 946 196	0	0	0	0	0
Liabilities created on issuance of securities	25 266 429	0	374 107	1 173 619	3 305 308	19 558 396	855 000
Financial derivatives	308 459	0	40 379	16 951	27 724	161 937	61 468
Debt to credit institutions	0	0	0	0	0	0	0
Total	28 521 084	2 946 196	414 486	1 190 570	3 333 031	19 720 332	916 468
Net cash flows	8 098 768	-805 826	-292 739	-474 390	-1 637 007	-10 017 239	21 325 969

Maturity analysis for assets and liabilities as at 31 December 2011:

NOK thousands	Total	Undefined	Up to 1 mnd	From 1 mnth to 3 mnths	From 3 mnths to 12 mnths	From 1 yr to 5 yrs	Over 5 yrs
Lending	39 279 797	0	92 116	190 383	2 237 686	8 760 958	27 998 654
Securities	1 880 003	0	4 554	10 392	49 270	617 763	1 198 025
Receivables from credit institutions	1 608 245	1 608 245	0	0	0	0	0
Total	42 768 045	1 608 245	96 670	200 775	2 286 955	9 378 721	29 196 678
Liability to depositors	1 839 938	1 839 938	0	0	0	0	0
Liabilities created on issuance of securities	25 942 500	0	0	1 646 875	6 815 625	16 595 000	885 000
Financial derivatives	167 419	0	16 838	-5 158	49 039	80 644	26 055
Debt to credit institutions	4 326 875	0	0	4 326 875	0	0	0
Total	32 276 732	1 839 938	16 838	5 968 592	6 864 664	16 675 644	911 055
Net cash flows	10 491 313	-231 693	79 832	-5 767 817	-4 577 709	-7 296 923	28 285 624

Note 17 Lending and receivables

KLP Banken AS			KLP Banken AS Group	
31.12.2011	31.12.2012	NOK thousands	31.12.2012	31.12.2011
		Lending to and receivables from credit institutions		
472 640	392 483	Bank deposits	2 136 067	1 610 889
4 762 640	4 660 000	Principal on lending to Group companies	0	0
0	0	Accrued interest on bank deposits	2	0
10 560	5 767	Principal on lending to Group companies	0	0
5 245 840	5 058 250	Lending to and receivables from credit institutions	2 136 069	1 610 889
		Lending to and receivables from customers		
3 200 823	1 509 370	Principal on lending to customers	21 507 370	28 240 595
313	300	Overdraft current account	300	313
-49	-9	Individual write-downs	-9	-49
4 815	2 200	Accrued interest	126 852	166 605
0	0	Premium/discount	-40 809	0
5 374	18 136	Fair value hedging	281 308	8 113
3 211 276	1 529 997	Lending to and receivables from customers	21 875 012	28 415 577

Note 18 Losses on loans in the retail market

KLP Banken AS 2011	KLP Banken AS 2012	NOK thousands	KLP Banken AS Group 2012	KLP Banken AS Group 2011
40	0	Known losses	0	40
0	0	Reversal of previous write-downs	0	0
9	0	Change in individual write-downs	0	9
0	0	Change in write-downs by group	0	0
50	0	Total losses on lending	0	50
14 080	6 854	Gross default exceeding 90 days	6 854	14 080
0	0	Gross other doubtful loans	0	0

This applies to housing loans. Losses or write-downs are not expected on loans in default in the public sector.

Note 19 Debt to credit institutions

KLP Banken AS NOK thousands	Currency	Interest	Due date	Nominal	Accrued interest	31.12.2012 Book value
Debt to KLP				0	0	0
Total liabilities to credit institutions				0	0	0

KLP Banken AS NOK thousands	Currency	Interest	Due date	Nominal	Accrued interest	31.12.2011 Book value
Debt to KLP	NOK	Fixed	15.03.2012	4 300 000	6 449	4 306 449
Total liabilities to credit institutions				4 300 000	6 449	4 306 449

KLP Banken AS Group NOK thousands	Currency	Interest	Due date	Nominal	Accrued interest	31.12.2012 Book value
Debt to KLP				0	0	0
Total liabilities to credit institutions				0	0	0

KLP Banken AS Group NOK thousands	Currency	Interest	Due date	Nominal	Accrued interest	31.12.2011 Book value
Debt to KLP	NOK	Fixed	15.03.2012	4 300 000	6 449	4 306 449
Total liabilities to credit institutions				4 300 000	6 449	4 306 449

Note 20 Securities liabilities - stock exchange-listed covered bonds and certificates

KLP Banken AS NOK thousands	Nominal	Currency	Interest	Issued	Due date	Accrued interest	31.12.2012 Book value
Certificate loan	360 000	NOK	Variable	18.01.2012	18.01.2013	1 725	361 725
Certificate loan	360 000	NOK	Variable	14.05.2012	14.05.2013	1 109	361 109
Certificate loan	300 000	NOK	Variable	01.06.2012	31.05.2013	635	300 635
Certificate loan	300 000	NOK	Fixed	05.07.2012	05.04.2013	1 701	301 701
Certificate loan	300 000	NOK	Variable	09.07.2012	09.07.2013	1 659	301 659
Secured bonds	500 000	NOK	Variable	12.03.2012	11.06.2013	709	500 709
Secured bonds	300 000	NOK	Variable	27.04.2012	27.04.2015	1 669	301 669
Secured bonds	300 000	NOK	Fixed	15.06.2012	15.06.2017	7 726	307 726
Secured bonds	300 000	NOK	Variable	24.08.2012	24.08.2015	963	300 963
Secured bonds	300 000	NOK	Variable	15.11.2012	16.11.2016	1 281	301 281
Amortization / value adjustments							3 794
Total certificate loans and secured bonds issued							3 342 970

Note 20 Securities liabilities - stock exchange-listed covered bonds and certificates (contd.)

KLP Banken AS NOK thousands	Nominal	Currency	Interest	Issued	Due date	Accrued interest	31.12.2011 Book value
Certificate loan, KLP	1 000 000	NOK	Fixed	31.08.2011	01.12.2012	10 952	1 010 952
Certificate loan	500 000	NOK	Fixed	01.09.2011	01.03.2012	5 548	505 548
Certificate loan	500 000	NOK	Variable	16.12.2011	14.12.2012	778	500 778
Total liabilities issuance of certificate loans							2 017 278

KLP Banken AS Group NOK thousands	Nominal	Currency	Interest	Issued	Due date	Accrued interest	31.12.2012 Book value
ISIN code							
NO0010585185	4 300 000	NOK	Variable	15.09.2010	15.09.2015	4 031	4 304 031
NO0010592892	1 103 000	NOK	Variable	10.12.2010	10.12.2013	1 490	1 104 490
NO0010592900	750 000	NOK	Fixed	15.12.2010	15.12.2020	1 607	751 607
XS0605180412	1 250 000	SEK	Variable	15.03.2011	15.03.2013	765	1 095 765
NO0010609795	4 000 000	NOK	Variable	20.05.2011	20.05.2014	10 313	4 010 313
NO0010624778	2 500 000	NOK	Fixed	15.09.2011	15.05.2015	55 377	2 555 377
XS0747335494	500 000	SEK	Variable	17.02.2012	17.02.2015	959	434 459
NO0010642192	1 000 000	NOK	Variable	13.04.2012	13.04.2016	5 092	1 005 092
NO0010662307	3 000 000	NOK	Variable	26.10.2012	10.11.2017	12 898	3 012 898
NO0010663180	2 000 000	NOK	Variable	15.11.2012	16.11.2016	5 797	2 005 797
Amortization/value adjustments							85 605
Total covered bonds issued							20 365 434
Certificate loan	360 000	NOK	Variable	18.01.2012	18.01.2013	1 725	361 725
Certificate loan	360 000	NOK	Variable	14.05.2012	14.05.2013	1 109	361 109
Certificate loan	300 000	NOK	Variable	01.06.2012	31.05.2013	635	300 635
Certificate loan	300 000	NOK	Fixed	05.07.2012	05.04.2013	1 701	301 701
Certificate loan	300 000	NOK	Variable	09.07.2012	09.07.2013	1 659	301 659
Secured bonds	500 000	NOK	Variable	12.03.2012	11.06.2013	709	500 709
Secured bonds	300 000	NOK	Variable	27.04.2012	27.04.2015	1 669	301 669
Secured bonds	300 000	NOK	Fixed	15.06.2012	15.06.2017	7 726	307 726
Secured bonds	300 000	NOK	Variable	24.08.2012	24.08.2015	963	300 963
Secured bonds	300 000	NOK	Variable	15.11.2012	16.11.2016	1 281	301 281
Amortization/value adjustments							3 794
Total liabilities issuance of certificate loans and secured bonds							3 342 970
Total liabilities - securities issued							23 708 404

KLP Banken AS Group NOK thousands	Nominal	Currency	Interest	Issued	Due date	Accrued interest	31.12.2011 Book value
ISIN code							
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	15.05.2011	15.05.2015	20 741	2 020 741
Amortization/value adjustments							46 827
Total covered bonds issued							22 152 457
Certificate loan, KLP	1 000 000	NOK	Fixed	31.08.2011	01.12.2012	10 952	1 010 952
Certificate loan	500 000	NOK	Fixed	01.09.2011	01.03.2012	5 548	505 548
Certificate loan	500 000	NOK	Variable	16.12.2011	14.12.2012	778	500 778
Total liabilities issuance of certificate loans							2 017 278
Total liabilities - securities issued							24 169 735

Note 21 Deposits from customers

KLP Banken AS			KLP Banken AS Group	
31.12.2011	31.12.2012	NOK thousands	31.12.2012	31.12.2011
1 840 262	2 946 196	Deposits from customers without agreed duration	2 946 196	1 840 262
1 840 262	2 946 196	Total deposits from customers without agreed duration	2 946 196	1 840 262
		Customer deposits divided by customer groups		
1 808 845	2 734 426	Deposits from customers, retail market	2 734 426	1 808 845
31 417	211 770	Deposits from customers, public sector market	211 770	31 417
1 840 262	2 946 196	Total deposits from customers	2 946 196	1 840 262

Note 22 Shares in Group companies

NOK millions	Office and business address	Book value 31.12.2011	Book value 31.12.2012	Ownership interest %	OE on first acquisition	Acquisition cost	Owners' equity transaction	Write-down
Enterprises in same Group								
KLP Kreditt AS	Beddingen 9, 7014 Trondheim	306.5	156.5	100	869.6	869.6	-450.0	-263.1
KLP Kommunekreditt AS	Beddingen 9, 7014 Trondheim	634.4	675.0	100	50.0	50.0	625.0	0.0
Total		941.0	831.5		919.6	919.6	175.0	-263.1

Group contribution:

NOK thousands	2012	2011
Group contribution received from KLP Kreditt AS	735	0
Income from ownership interests in Group companies	735	0

Note 23 Fixed assets

KLP Banken AS			KLP Banken AS Group	
31.12.2011	31.12.2012	NOK thousands	31.12.2012	31.12.2011
0	272	Acquisition cost 1 January	1 270	998
272	0	Acquired during the period	0	272
272	272	Acquisition cost 31 December	1 270	1 270
0	-50	Acc. depreciation previous years	-636	-323
-50	-71	Annual depreciation	-161	-313
222	150	Book value	472	634

Note 24 Intangible assets

KLP Banken AS			KLP Banken AS Group	
31.12.2011	31.12.2012	NOK thousands	31.12.2012	31.12.2011
25 376	25 376	Purchase cost 1 January	25 376	25 376
0	1 600	Additions	1 600	0
0	0	Disposals	0	0
25 376	26 976	Acquisition cost 31 December	26 976	25 376
-1 928	-3 856	Accumulated depreciation previous years	-3 856	-1 928
-1 928	-1 906	Ordinary depreciation for the year	-1 906	-1 928
0	0	Write-down	0	0
21 520	21 214	Book value	21 214	21 520
	7 years	Depreciation period	7 years	

Note 25 Capital adequacy

KLP Banken AS			KLP Banken AS Group	
31.12.2011	31.12.2012	NOK thousands	31.12.2012	31.12.2011
1 134 717	1 168 663	Share capital and share premium fund	1 158 076	1 021 372
25 788	25 788	Other owners' equity	60 907	137 665
1 160 505	1 194 451	Owners' equity	1 218 983	1 159 037
-21 520	-21 214	Deduction goodwill and other intangible assets	-21 214	-21 520
-5 250	-7 766	Deferred tax asset	0	-21 949
1 133 735	1 165 471	Core capital	1 197 769	1 115 568
0	0	Supplementary capital	0	0
0	0	Supplementary capital	0	0
1 133 735	1 165 471	Total eligible Tier 1 and 2 capital	1 197 769	1 115 568
670 335	594 636	Capital requirement	476 921	619 028
463 400	570 835	Surplus of Tier 1 and 2 capital	720 848	496 540
		Estimate basis credit risk:		
5 573 438	5 056 411	Institutions	713 342	940 138
0	0	Local and regional authorities	3 964 218	4 786 663
0	552 376	Publicly owned enterprises	2 439	963
0	0	States	2 645	0
1 083 538	649 286	Investments with mortgage security in real estate	649 286	1 083 538
35 063	26 619	Investments fallen due	26 619	0
375	0	Holdings mutual funds	0	375
0	0	Covered bonds	338 791	305 788
1 282 738	831 667	Other holdings	472	346 513
7 975 150	7 116 359	Estimate basis credit risk	5 697 812	7 463 975
638 012	569 309	Credit risk	455 825	597 118
32 323	25 327	Operating risk	21 096	21 910
670 335	594 636	Total capital requirement assets	476 921	619 028
13.5 %	15.7 %	Core capital adequacy ratio	20.1 %	14.4 %
0.0 %	0.0 %	Supplementary capital ratio	0.0 %	0.0 %
13.5 %	15.7 %	Capital adequacy ratio	20.1 %	14.4 %

Basel II regulations have been used in calculating capital adequacy.
The authorities' minimum requirement for capital adequacy is set at 9 per cent for financial institutions.

Note 26 Tax

KLP Banken AS			KLP Banken AS Group	
2011	2012	NOK thousands	2012	2011
-48 928	31 432	Book income before tax	83 430	-62 158
		Differences between book and tax income:		
33 297	-40 612	Reversal of income share re investment in subsidiaries	0	0
0	0	Reversal of value reduction, financial assets	0	35 545
0	0	Other deductions (Group contribution received during the year)	0	0
-3	-62	Reversal of value increase financial assets	-54 828	-110 303
535	-538	Other permanent differences	445	538
3 796	4 687	Change in differences between book and tax income	6 966	120 143
-11 304	-5 094	Taxable income	36 013	-16 235
0	735	Group contribution received with tax effect	0	0
0	0	Group contribution paid with tax effect	0	-35 119
-11 304	-4 359	Base for tax payable	36 013	-51 354
0	-11 304	Deficit carryforward allowed from previous years	-57 569	-6 215
-11 304	-4 359	Change for the year in carryforward deficit	36 013	-51 354
-11 304	-15 663	Total allowable carryforward deficit as at 31 December	-21 556	-57 569
		Reconciliation of basis for deferred tax		
		Tax-increasing temporary differences:		
1 505	5 078	Lending to customers and credit enterprises	68 417	29 173
0	3	Securities	12 930	0
0	0	Elimination of losses on realization internally within the Group	0	1 953
1 505	5 081	Total tax-increasing temporary differences	81 347	31 125
		Tax-reducing temporary differences:		
-8	-18	Fixed assets	-142	-140
-1 505	-3 734	Financial instruments	-37 278	-9 115
0	-1 312	Borrowing	-32 387	0
-2 062	-3 397	Pension obligations	-3 397	-22 754
-15	0	Securities	0	-2 422
0	0	Correction of NIBOR loan from fair value to amortized cost in Group	-570	-2 523
-3 590	-8 461	Total deferred tax	-73 774	-36 956
-2 085	-3 380	Net temporary differences	7 573	-5 830
-11 304	-15 663	Carryforward deficit	-21 556	-57 569
-3 165	-4 386	Deferred tax on carryforward deficit	-6 036	-16 119
-5 250	-7 766	28% deferred tax/deferred tax assets	1 536	-21 949
-5 250	-7 766	Capitalized deferred tax/deferred tax assets	1 536	-21 949
-4 227	-2 515	Change in deferred tax taken to income	23 484	-27 087
		Summary of tax expense for the year		
-4 227	-2 515	Change in deferred tax taken to income	23 484	-27 087
0	0	Tax payable taken to income, error from 2011	9 833	0
-4 227	-2 515	Total taxes	33 317	-27 087
8.6 %	-8.0 %	Effective tax percentage	39.9 %	-43.6 %
		Reconciliation of tax percentage:		
33 832	-41 150	Permanent differences	445	538
0	735	Group contribution	35 119	-35 119
33 832	-40 415	Total permanent differences	35 564	-34 581
9 473	-11 316	28% tax permanent differences	9 958	-9 683
-13 700	8 801	Corrected tax	23 359	-17 404
28.0 %	28.0 %	Tax percentage	28.0 %	28.0 %

It is expected that the operating margins will improve in immediate years. At the same time a number of non-recurring costs have been taken, which means future fixed costs will fall. The business is well equipped for business growth without this being expected to bring significantly increased levels of cost. Overall this will probably produce profits in future that will mean it will be possible to benefit from the allowable carryforward deficits. It is also expected that the temporary difference will be reversed. Based on these future prospects we consider it justifiable to capitalize the entire deferred tax asset.

Note 27 Pensions obligations, own employees

The major part of the pension obligation is covered through KLP's joint pension scheme for local authorities and enterprises "Fellesordningen"). The Company also offers a pension scheme in addition to Fellesordningen. This obligation is covered through operation. Fellesordningen is a defined benefits-based pension scheme that satisfies the requirements for mandatory occupational pensions ('obligatorisk tjenestepension', or OTP). The company has a contractual pension (AFP) scheme.

The accounting treatment of pension obligations is described in more detail in Note 1.

NOK thousands	Joint scheme	Via operation	2012	2011
Pension costs				
Present value of accumulation for the year	6 715	622	7 337	5 750
Interest cost	594	190	784	710
Gross pension cost	7 309	812	8 121	6 460
Expected return	-425	0	-425	-302
Administration costs/Interest rate guarantee	190	0	190	168
Net pension cost including administration costs	7 074	812	7 886	6 326
Social security costs net pension cost including administration costs	997	115	1 112	892
Actuarial loss/gain taken to income	199	249	448	283
Plan change taken to income	0	0	0	0
Proportion of actuarial loss/gain taken to income on curtailment	0	0	0	0
Proportion of net obligation taken to income on curtailment	0	0	0	0
Extraordinary costs	0	0	0	0
Pension costs including social security costs through income	8 270	1 176	9 447	7 501
Of which SSC on actuarial loss/gain taken to income	28	35	63	40

NOK thousands	Joint scheme	Via operation	2012	2011
Pension obligations				
Gross accrued obligations	19 156	7 203	26 359	23 332
Pension assets	13 650	0	13 650	8 939
Net pension liabilities/assets before social security costs	5 506	7 203	12 709	14 393
Social security costs	776	1 016	1 792	2 029
Net liability incl. social security costs	6 282	8 219	14 501	16 422
Actuarial loss/gain excl. social security costs not taken to income	1 481	-3 558	-2 077	-7 939
Actuarial loss/gain social security costs not taken to income	209	-502	-293	-1 119
Plan changes not taken to income	0	0	0	0
Capitalized net liability/assets incl. social security costs	7 972	4 160	12 132	7 364

Number	2012	2011
Member status ("Fellesordningen")		
Number active	52	50
Number deferred	6	0
Number of pensioners	5	4

NOK thousands	Joint scheme	Via operation	2012	2011
Development of actuarial gains/losses not taken to income				
Actuarial gains/(losses) not taken to income 1 January	-4 631	-4 428	-9 058	-5 489
Actuarial gain/loss assets	1 423	0	1 423	1 932
Actuarial gain/loss liability	3 941	104	4 046	-5 308
Actuarial loss/gain taken to income	199	249	448	283
SSC on deviation	756	15	771	-476
Proportion of actuarial loss/gain taken to income on curtailment	0	0	0	0
Taken to owners' equity	0	0	0	0
Taken to owners' equity SSC	0	0	0	0
Actuarial gains/(losses) not taken to income 31 December	1 690	-4 059	-2 369	-9 058

NOK thousands	Joint scheme	Via operation	2012	2011
Change in pension assets				
Gross pension assets book value 1 January	8 939	0	8 939	4 491
Expected return	425	0	425	302
Actuarial losses/gains	1 423	0	1 423	1 932
Administration costs/Interest guarantee	-190	0	-190	-168
Takeovers/acquisitions	0	0	0	0
Premiums paid in/contribution (including administration costs)	3 730	371	4 101	3 267
Curtailment/settlement	0	0	0	0
Payments	-677	-371	-1 048	-885
Gross pension assets book value 31 December	13 650	0	13 650	8 939

Note 27 Pensions obligations, own employees (continued)

NOK thousands	Joint scheme	Via operation	2012	2011
Change in pension obligations				
Gross pension obligations book value 1 January	16 465	6 866	23 332	12 449
Plan change	0	0	0	0
Gross pension obligations OB after plan change	16 465	6 866	23 332	12 449
Present value of accumulation for the year	6 715	622	7 337	5 750
Interest cost	594	190	784	710
Curtailment/settlement	0	0	0	0
Actuarial losses/gains	-3 941	-104	-4 046	5 308
Takeovers/acquisitions	0	0	0	0
Payments	-677	-371	-1 048	-885
Gross pension obligations book value 31 December	19 156	7 203	26 359	23 332

NOK thousands	Joint scheme	Via operation	2012	2011
Pension scheme's over-/under-financing				
Present value of the defined benefits pension obligation	19 156	7 203	26 359	23 332
Fair value of pension assets	13 650	0	13 650	8 939
Net pension liability	5 506	7 203	12 709	14 393

NOK thousands	2010	2009	2008	2007
Pension scheme's over-/under-financing last 4 years				
Present value of the defined benefits pension obligation	12 449	1 211		
Fair value of pension assets	4 491	622		
Net pension liability	7 958	589	0	0

NOK thousands	Joint scheme	Via operation	2012	2011
Return on pension assets				
Expected returns on pension assets	425	0	425	302
Actuarial loss/gain on pension funds	1 423	0	1 423	1 932
Actual return on pension funds	1 849	0	1 849	2 234

NOK thousands	Joint scheme	Via operation	2012	2011
Plan changes during the period				
Plan changes during the period	0	0	0	0
SSC on plan changes	0	0	0	0
Plan changes during the period taken to income	0	0	0	0
Plan change not taken to income	0	0	0	0

Financial assumptions for the income statement (common to all pension schemes)	2012	2011
Discount rate	2.60 %	4.00 %
Salary growth	3.50 %	4.00 %
National Insurance basic sum (G)	3.25 %	3.75 %
Pension increases	2.48 %	2.97 %
Expected return	4.10 %	5.40 %
Social security contribution rates	14.10 %	14.10 %
Amortization time	15	15
Corridor magnitude	10.00 %	10.00 %

Financial assumptions for the financial position statement (common to all pension schemes)	2012	2011
Discount rate	3.90 %	2.60 %
Salary growth	3.50 %	3.50 %
National Insurance basic sum (G)	3.25 %	3.25 %
Pension increases	2.48 %	2.48 %
Expected return	3.90 %	4.10 %
Social security contribution rates	14.10 %	14.10 %
Amortization time	15	15
Corridor magnitude	10.00 %	10.00 %

Note 27 **Pensions obligations, own employees** (continued)

Actuarial assumptions

KLP's joint pension scheme for municipalities and enterprises ("Fellesordningen"): An important part of the basis of pension costs and pension obligations is how mortality and disability develop amongst the members of the pension scheme. The 2012 calculation is based on a strengthened K2005 mortality tariff and a disability frequency corresponding to that observed in KLP's total membership.

Take-up of AFP for 2012 (per cent in relation to remaining employees):
The costs of AFP depend on how many in each year-group take AFP. On reaching 62 years there are 45 per cent who retire with an AFP pension. It is only those who are employed and working right up to retirement who are entitled to AFP. This is taken into account in the calculation of the AFP obligation.

Voluntary termination for Fellesordningen during 2012 (in %)

Age(in years)	Turnover
< 20	20 %
20-23	15 %
24-29	10 %
30-39	7,5 %
40-50	5 %
51-55	2 %
>55	0 %

Longevity:
K2005 without a safety margin has been used for mortality assumptions in 2012.

Pensions via operation:
Take-up of AFP/early retirement is not relevant to this scheme. In regard to mortality the same variant of K2005 has been used as for Fellesordningen

Composition of the pension assets:	2012	2011
Property	11.5 %	11.7 %
Lending	11.0 %	10.4 %
Shares	16.2 %	14.3 %
Long-term/HTM bonds	30.6 %	33.1 %
Short-term bonds	22.2 %	22.0 %
Liquidity/money market	8.5 %	8.6 %
Total	100.0 %	100.0 %

The pension funds are based on KLP's financial assets in the common portfolio. The table shows percentage placing of the pension assets administered by KLP at the end of the year. Value-adjusted return on the assets was 6.5 per cent in 2012 and 3.3 per cent in 2011.

Expected payment into benefits plans after cessation of employment for the period 1 January 2013 - 31 December 2013 is NOK 4,251,310.

The revised accounting standard IAS 19 comes into effect for the accounting year starting 1 January 2013. Changes in IAS 19 have significance for how the pension obligation and the pension cost are presented in the financial statements. An important change is that the actuarial gains and losses are to be recognised in other income and costs in the comprehensive income statement and not to be included in the ordinary income for the period. The corridor method in which actuarial losses and gains in excess of a certain level are distributed over the remaining accumulation time will not be allowed. On transition to the new rules on the date of transition, 1 January 2013, the corridor must be attributed to the owners' equity. As at 31 December 2012 the corridor shows an actuarial loss of NOK 2,369,398.

Note 28 Salary and obligations towards senior management/governing bodies

2012	Paid from KLP Banken AS						Paid from another company in the same group					
NOK thousands	Salaries, fees etc.	Other benefits	Annual pension accum.	Loan	Interest rate 31.12.2012	Repay-ment plan [1]	Salaries, fees etc.	Other benefits	Annual pension accum.	Loan	Interest rate 31.12.2012	Repay-ment plan [1]
Senior employees												
Leif Magne Andersen, Managing Director, KLP Banken AS [2]	1 744	122	702	-	-	-	-	-	-	4 264	3.15-3.60	A2043
Arnulf Arnøy, Director Public Sector Market	1 453	148	593	151	3,15	Housing credit	-	-	-	1 538	2.95	S2032
Board of Directors												
Sverre Thornes, Chair	-	-	-	-	-	-	3 254	122	1 230	7 507	2.70-3.60	A2042
Aage E. Schaanning	-	-	-	-	-	-	3 180	125	1 094	4 017	2.70-3.60	A og S2032
Mette-Jorunn Meisland	-	-	-	-	-	-	1 203	120	487	5 999	2.95-3.45	A2038
Mai-Lill Ibsen	158	-	-	-	-	-	-	-	-	-	-	-
Jan Otto Langmoen	95	-	-	-	-	-	-	-	-	-	-	-
Mette Rinde, elected by and from the employees	48	-	-	-	-	-	-	-	-	-	-	-
Jan Tryggestad, elected by and from the employees	47	-	-	-	-	-	-	-	-	-	-	-
Control Committee												
Ole Hetland	19	-	-	-	-	-	70	-	-	-	-	-
Jan Rune Fagermoen	16	-	-	-	-	-	58	-	-	-		
Bengt P. Johansen	16	-	-	-	-	-	58	-	-	-	-	-
Dordi E. Flormælen	16	-	-	-	-	-	58	-	-	-		
Line Alfarrustad	8	-	-	-	-	-	29	-	-	-	-	-
Supervisory Board												
Total Supervisory Board	95	-	-	-	-	-	-	-	-	6 981	-	-
Employees												
Total loans to employees of KLP Banken AS	-	-	-	1 623	-	-	-	-	-	47 160	-	-

Note 28 **Salary and obligations towards senior management/governing bodies** (contd.)

2011	Paid from KLP Banken AS						Paid from another company in the same group					
NOK thousands	Salaries, fees etc.	Other benefits	Annual pension accum.	Loan	Interest rate 31.12.2011	Repay-ment plan [1]	Salaries, fees etc.	Other benefits	Annual pension accum.	Loan	Interest rate 31.12.2011	Repay-ment plan [1]
Senior employees												
Leif Magne Andersen, Managing Director, KLP Banken AS [2]	206	10	51	-	-	-	-	-	-	-	-	-
Arnulf Arnøy, Director Public Sector Market	1 427	145	543	-	-	-	-	-	-	2 269	2.95-3.15	S2031
Board of Directors												
Sverre Thornes, Chair	-	-	-	-	-	-	3 063	165	1 001	7 507	2.70-3.60	A2041
Aage E. Schaanning	-	-	-	-	-	-	2 814	120	871	2 977	2.70-2.95	A2031
Mette-Jorunn Meisland	-	-	-	-	-	-	1 134	117	381	6 000	2.95-3.45	A2038
Mai-Lill Ibsen	93	-	-	-	-	-	-	-	-	-	-	-
Jan Otto Langmoen	92	-	-	-	-	-	-	-	-	-	-	-
Jan Tryggestad, elected by and from the employees	92	-	-	-	-	-	-	-	-	-	-	-
Control Committee												
Ole Hetland	19	-	-	-	-	-	67	-	-	-	-	-
Jan Rune Fagermoen	16	-	-	-	-	-	56	-	-	-	-	-
Bengt P. Johansen	16	-	-	-	-	-	84	-	-	-	-	-
Dordi E. Flormælen	8	-	-	-	-	-	29	-	-	-	-	-
Line Alfarrustad	8	-	-	-	-	-	29	-	-	-	-	-
Anne-Marie Barane	8	-	-	-	-	-	28	-	-	-	-	-
Aud Mork	8	-	-	-	-	-	28	-	-	-	-	-
Supervisory Board												
Total Supervisory Board	83	-	-	-	-	-	-	-	-	8 432	-	-
Employees												
Total loans to employees of KLP Banken AS	-	-	-	-	-	-	-	-	-	61 056	-	-

[1] S= Serial loan, A= Annuity loan, last payment.
[2] during the period from January to November 2011 the position of Managing Director of KLP Banken AS was filled by a contracted consultant.

The Managing Director of KLP Banken AS has no agreement on performance pay (bonus) or salary guarantee. He is pensionable aged 65.

The Director Public Sector Market also holds the position of Managing Director of the wholly-owned subsidiaries KLP Kommunekreditt AS and KLP Kreditt AS. He receives no remuneration from these subsidiaries for these appointments. The Director Public Sector Market has no agreement on performance pay (bonus), but has a salary guarantee of 21 months on termination. An apartment is at his disposal free of charge in connection with his position. The Director Public Sector Market is entitled to full retirement pension on reaching the age of 62.

There are no obligations to provide the Chair of the Board of Directors special consideration or other benefits on termination or change in employment contract or appointment.

Director's fees are set by the Supervisory Board. The Company shares a Supervisory Board with the rest of the companies in the KLP Bankholding Group. Board members employed in the KLP Group, not having been elected by and from the employees, do not receive a fee for the Board appointment. Benefits in addition to Director's fees for Board members employed in the KLP Group are stated only if they are included in the senior management group employed in the KLP Group.

KLP Banken AS has a common Control Committee with the rest of the KLP Group.

All benefits are shown without the addition of social security costs.

Attention is drawn otherwise to the description of the main principles on determination of remuneration in the KLP Group that may be found at www.klp.no.

Note 29 Number of FTE's and employees

KLP Banken AS			KLP Banken AS Group	
2011	2012		2012	2011
47	50	Number of FTEs	52	49
52	56	Number of employees as at 31 December	56	52
50	54	Average number of employees	54	50

Note 30 Pay and general management costs

KLP Banken AS			KLP Banken AS Group	
2011	2012	NOK thousands	2012	2011
-31 370	-33 653	Salary	-33 653	-31 370
-4 883	-5 369	Social security costs	-5 369	-4 883
-7 146	-8 900	Pensions	-8 900	-7 146
-1 435	-883	Other benefits	-883	-1 435
-44 833	-48 805	Total	-48 805	-44 833

Note 31 Other liabilities and provision for accrued costs and liabilities

KLP Banken AS			KLP Banken AS Group	
31.12.2011	31.12.2012	NOK thousands	31.12.2012	31.12.2011
113 433	90 255	Receivables between companies in the same Group	24 489	16 767
1 568	2 507	Creditors	2 684	1 817
10	204	Miscellaneous liabilities	204	0
115 011	92 967	Total other liabilities	27 377	18 584
2 170	2 349	Advances	2 349	2 170
1 562	1 589	Social security costs	1 589	1 562
3 344	3 574	Holiday pay	3 574	3 344
7 364	12 132	Pension obligations	12 132	7 421
56	43	VAT	258	2 922
0	151	Provisioned costs	347	0
14 495	19 837	Total accrued costs and liabilities	20 249	17 418

Note 32 Other assets

KLP Banken AS			KLP Banken AS Group	
31.12.2011	31.12.2012	NOK thousands	31.12.2012	31.12.2011
28 065	6 365	Receivables from companies in the same Group	56	21 943
520	53	Miscellaneous receivables	53	520
3 923	721	Prepaid expenses	1 249	3 923
32 508	7 140	Total	1 358	26 386

Note 33 Transactions with related parties

KLP Banken AS 2011	KLP Banken AS 2012	NOK thousands	KLP Banken AS Group 2012	KLP Banken AS Group 2011
		Income statement items		
59 480	79 000	KLP, fees lending management	79 000	59 480
19 592	21 321	KLP Kommunekreditt AS, administrative services (at cost)	0	0
5 406	1 226	KLP Kreditt AS, administrative services (at cost)	0	0
83 146	105 790	KLP Kommunekreditt AS, interest lending	0	0
18 977	37 985	KLP Kreditt AS, interest lending	0	0
-109 717	-26 065	KLP, interest borrowing	-26 065	-109 717
-10 952	-18 028	KLP, interest on certificate loan	-18 028	-10 952
-97	-78	KLP Kapitalforvaltning AS, fees for services provided	-503	-680
-3 411	-3 447	KLP, rent	-3 447	-3 411
-7 146	-8 900	KLP, pension premium	-8 900	-7 146
-39 226	-42 610	KLP, staff services (at cost)	-42 610	-39 226
655	615	KLP Group companies, subsidised interest employee loans	615	655
16 872	146 810	Total	-19 937	-110 833

KLP Banken AS 31.12.2011	KLP Banken AS 31.12.2012	NOK thousands	KLP Banken AS Group 31.12.2012	KLP Banken AS Group 31.12.2011
		Financial position statement items		
-4 306 449	0	Debt to KLP	0	-4 306 449
-1 010 952	0	Debt to KLP, certificate loan	0	-1 010 952
1 201 800	1 451 794	Lending KLP Kreditt AS	0	0
3 568 757	3 213 972	Lending KLP Kommunekreditt AS	0	0
-87 106	-59 587	KLP Kommunekreditt AS, clearance banking system	0	0
-9 764	-6 240	KLP Kreditt AS, clearance banking system	0	0
19 128	-16 520	KLP, clearance banking system	-16 520	19 128
		Net outstanding accounts to:		
-10 580	-7 900	KLP	-7 900	-8 980
22	-8	KLP Kapitalforvaltning AS	-69	-171
50	25	KLP Bankholding AS	25	50
8 259	5 277	KLP Kommunekreditt AS, net internal receivables	0	0
503	1 033	KLP Kreditt AS, net internal receivables	0	0
55	16	KLP Skade AS, net internal receivables	16	55
7	3	KLP Fondsforvaltning AS, net internal receivables	3	7
9	0	KLP Bedriftspensjon AS, net internal receivables	0	9
28	12	KLP Eiendom AS, net internal receivables	12	28
-626 232	4 581 876	Total	-24 433	-5 307 275

Transactions with related parties are carried out at general market terms and conditions, with the exception of the Company's share of common functions (staff services), which are allocated at cost. The receivable is based on actual use. All internal receivables are settled as they arise.

Note 34 Auditor's fee

KLP Banken AS			KLP Banken AS Group	
2011	2012	NOK thousands	2012	2011
314	363	Ordinary audit	929	813
0	0	Certification services	339	498
0	0	Tax advisory services	0	0
106	48	Other services excluding audit	64	126
420	412	Total Auditor's fee	1 332	1 436

The sums above include VAT.

Note 35 Conditional obligations

KLP Banken AS			KLP Banken AS Group	
31.12.2011	31.12.2012	NOK thousands	31.12.2012	31.12.2011
99 328	48 357	Credit facilities for lending not utilised	48 357	99 328
0	34 169	Loan promise	83 840	80 709
22 545 000	20 181 500	Credit facility KLP Kommunekreditt AS	0	0
0	552 376	Guarantee KLP Kreditt AS	0	0
22 644 328	20 816 402	Total conditional obligations	132 197	180 037

Note 36 Cash and cash equivalents

KLP Banken AS			KLP Banken AS Group	
31.12.2011	31.12.2012	NOK thousands	31.12.2012	31.12.2011
472 640	392 483	Cash and bank deposits	2 136 070	1 608 245
472 640	392 483	Total cash and bank deposits	2 136 070	1 608 245

In the statement of cash flows, cash and cash equivalents comprise the following:

472 640	392 483	Cash and bank deposits	2 136 070	1 608 245
-10 007	-29 148	Bank accounts for use for acquisition and sale of securities	-44 358	-85 020
462 633	363 335	Cash and cash equivalents held at the end of the period	2 091 712	1 523 225

To the Supervisory Board and the Annual Shareholders' Meeting of KLP Banken AS

Independent auditor's report

Report on the Financial Statements

We have audited the accompanying financial statements of KLP Banken AS, which comprise the financial statements of the parent company and the financial statements of the group. The financial statements of the parent company and the financial statements of the group comprise the balance sheet as at 31 December 2012, income statement, statement of comprehensive income, changes in equity and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Board of Directors and the Managing Director's Responsibility for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these financial statements in accordance with simplified IFRS pursuant to § 3-9 of the Norwegian Accounting Act, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements are prepared in accordance with the law and regulations and present fairly, in all material respects, the financial position of the parent company and the group KLP Banken AS as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with simplified IFRS pursuant to § 3-9 of the Norwegian Accounting Act.

PricewaterhouseCoopers AS, Brattørkaia 17 B, NO-7492 Trondheim
T: 02316, org. no.: 987 009 713 MVA, www.pwc.no
Statsautoriserte revisorer, medlemmer av Den norske Revisorforening og autorisert regnskapsførerselskap

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors report concerning the financial statements and the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements ISAE 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information", it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Trondheim, 6 March 2013
PricewaterhouseCoopers AS

Rune Kenneth S. Lædre
State Authorised Public Accountant (Norway)

Note: This translation from Norwegian has been prepared for information purposes only.

To the Supervisory Board and General Meeting of
KLP Banken AS

THE CONTROL COMMITTEE`S STATEMENT ON THE FINANCIAL STATEMENT FOR 2012

In accordance with Section 8 of its instructions, the Control Committee has reviewed the annual report and the report of the Board of Directors, the income statement and financial position statement, as well as the auditors` report for KLP Banken AS.

The Control Committee advises the Supervisory Board and the Genereal Meeting of KLP Banken AS to approve the financial statement and the Board`s report and, in accordance with the resolutions of the Board, to resolve to allocate the result for the year as follows:

KLP Banken AS`s annual financial statement shows a result (profit) for 2012 of NOK 33 947 000. The share premium fund provides provision for the entire profit.

Oslo, 8 March 2013

Ole Hetland

Jan Rune Fagermoen

Bengt P Johansen

Dordi Flormælen

Thorvald Hillestad

To the KLP Banken AS General Meeting

The KLP Banken AS Supervisory Board has examined the annual financial statements produced by the Board of Directors for KLP Banken AS and KLP Banken Group, comprising the income statement, the statement of financial position, the statement of cash flow and the notes, the Report of the Board Directors, the Auditor`s Report and the Control Committee`s statement. In addition there is the statement of owners` equity.

The Supervisory Board recommends that the Company`s annual report, financial statements and allocation of profit for 2012 should be determined in accordance with the recommendation of the Board of Directors.

KLP Banken AS`s annual financial statement shows a result (profit) for 2012 of NOK 33 947 000. The share premium fund provides provision for the entire profit.

Trondheim, 15 March 2013

Hege Sørlie

Hege Sørlie
Representantskapets leder

This is KLP

KLP provides safe and competitive financial and insurance services to the public sector, to enterprises associated with it and to their employees.

The Company's most important task is to be the leader in pensions through having the lowest costs, best returns over time and high customer satisfaction. KLP is Norway's largest life insurance company.

Its customers should perceive KLP to be a predictable partner that strengthens their finances, simplifies their everyday life, helps to make them good and attractive employers and at the same time helps to create a slightly better world. KLP's mutual ownership model, in which the customers are also the owners, means that KLP must always supply products and solutions in consultation with its customers.

KLP's vision: "The best partner for the days to come".

KLP's core values: These values express how each KLP employee must act to realize the vision. All employees are to comply with the values in relation to customers and colleagues: Open. Clear. Responsible. Committed.

Business concept: KLP will deliver safe and competitive financial and insurance services to the public sector, enterprises associated with the public sector and their employees.

KLP's head office is in Oslo.
The company also has offices in Oslo, Trondheim, Copenhagen and Stockholm.

HISTORY

1949 – The Union of Norwegian Cities and the Norwegian Association of Rural Municipalities (forerunners to the Norwegian Association of Local and Regional Authorities - KS) decided to establish Kommunal Landspensjonkasse. KLP was established as a "managed" pension fund under Norsk Kollektiv Pensjonskasse.

1962 – The pension scheme for nurses was established at KLP by special statute.

1967 – The Norwegian parliament, the Storting, passed a resolution to introduce National Insurance.

1972 – KLP passed NOK 1 billion in total assets

The KLP Group

KLP is organised as a financial services group, where the parent company is a mutual life insurance company with seven wholly-owned subsidiaries organised as limited companies. The parent company is called Kommunal Landspensjonskasse gjensidig forsikringsselskap (KLP). The Group has a total of 808 employees and total assets of NOK 331.8 billion at the end of 2012.

In addition to pensions and pension fund services, the Group provides products and services in:

- pensions and pension fund services
- banking
- insurance
- funds and asset management
- property

Subsidiaries

KLP Skadeforsikring AS is market leader in non-life insurance in the public sector. At the end of 2012, the Company has a customer relationship with 308 municipalities and county administrations, more than 2,600 corporate enterprises and 16,000 retail customers. The Company also delivers insurance products to the retail market, primarily directed at the employees of the Group's owners.

KLP Eiendom AS is one of the country's largest property managers with more than 1,350,000 m² of premises and 365,000 m² of leasehold sites under management, as well as substantial projects under development. The property stock had a value of NOK 33.5 billion as at 31 December 2012. KLP Eiendom has operations in Norway, Sweden and Denmark. The properties have good locations, a high standard of building and efficient space utilisation.

KLP Forsikringsservice AS has specialist expertise in public sector pension schemes and offers a full spectrum of pension fund services.

KLP Bedriftspensjon AS offers defined contribution and defined benefit pensions, with risk cover according to the customer's wishes, both to private and public sector enterprises.

KLP Kapitalforvaltning AS is one of Norway's largest asset management operations and offers a broad spectrum of investment and management services. In its investment process KLP works systematically to assure and promote ethical considerations as well as sustainable value creation.

KLP Fondsforvaltning AS offers a broad spectrum of funds with a variety of investment mandates and risk. The company has funds in active and index-tracking management suitable for investment for institutions, enterprises and private customers. All the funds are managed in line with KLP's ethical criteria.

KLP Banken AS was launched on 1 February 2010 and is an online bank focused on housing mortgage lending and deposits. This provides the basis for efficient operation and low costs.

KLP Kommunekreditt AS and **KLP Kreditt AS** are subsidiaries of KLP Banken AS. These companies shall help to secure good loan terms for the public sector.

1974 — KLP obtains its own license as an insurance company and establishes a joint local authority pension scheme.

1984 — KLP expanded its product range with group life and accident insurance for local authority employees.

1993 — Kommunal Ulykkesforsikring (KUF) obtained a licence to engage in property insurance.

1994 — Establishment of KLP Skadeforsikring AS

It pays to be a KLP owner

KLP's corporate form brings a number of advantages. It is the public sector occupational pension customers that own the Company and subscribe the necessary equity capital. This produces good returns and a great deal of influence.

As well as the direct return there is also an element of profit in having equity in KLP. As owners of the mutual KLP, customers benefit from the surplus on the premium elements being retroceded to the owners/customers. Were KLP a limited company, this surplus would go to the shareholders and not to the customers. Being a customer and owner of KLP as a mutual company is therefore profitable.

Market leader - public sector occupational pension

KLP's is market leader on public sector occupational pensions in Norway. The Company has the lowest costs and for several years in a row has had the industry's best returns. KLP is winning market share in public sector occupational pensions and has strengthened the market position of the Group's other business operations. At the start of 2013, 347 municipalities and county administrations had their pension schemes with the Company, as well as around 2,500 corporate enterprises and organisations. Of the country's 27 health enterprises 25 have at least one pension scheme with KLP.

Retail market initiative forges ahead

In recent years KLP has invested actively in offering its members insurance products and financial services that meet their needs. More than 48,000 customer relationships have been established over the last couple of years, showing that KLP is offering competitive and good products in the market.

Corporate social responsibility

KLP shall contribute to sustainable investments and responsible business operation. The corporate social responsibility is a natural part of our business embracing for example: responsible investment; reduction of energy consumption in commercial properties; prevention of damage to health, the environment and safety. The description of KLP's corporate social responsibility is integrated into the discussion of the different business areas.

Reporting of corporate social responsibility

Just as important as setting goals is the reporting of goal achievement. KLP's corporate social responsibility reporting is important in order to ensure and demonstrate continuous improvement. As the first company in Norway to do so, KLP has published non-financial accounts in its interim reports. The Company's different goals, performance indicators and goal achievement comply with the Global Reporting Initiative reporting standard (Level A) and Global Compact's requirements for Communication on Progress through comprehensive reporting on our website.

Global Compact

Since 2003 KLP has been a member of Global Compact, a UN initiative in which companies and other organisations voluntarily commit to supporting international human rights, protecting the environment, respecting workers' rights and working against corruption. KLP is working for sustainable social development. To ensure that KLP achieves its goals of continuous improvement KLP invites to dialogue with its stakeholders.

Responsible investment and exercising ownership

KLP is an active and responsible owner of companies, working actively to promote corporate
social responsibility and sustainable value creation through dialogue, a number of measures and projects as well as by voting at companies' general meetings.

KLP has owner principles to signalize to stakeholders and the market who we are and what we stand for as owners and investors. The principles are to ensure that we act responsibly in relation to our value base and that we safeguard our financial interests through good governance.

KLP has signed the UN Principles for Responsible Investment (UN PRI) and thereby committed itself to integrating these themes into its asset management. This is important because KLP manages the pensions of more than half a million Norwegians. KLP should manage these assets in a responsible and sustainable way.

1995 — KLP buys Nora Eiendom.

1997 — Nora Eiendom was renamed KLP Eiendom AS.

1999 — KLP Kapitalforvaltning AS was formed under the name KLP Aktiv Forvaltning ASA.

2001 — KLP exceeds NOK 100 million in total assets and establishes the strategy for responsible investment with the exclusion of tobacco-producing companies.

2003 — KLP signed the UN Global Compact

THE COMPANY SHALL:

1. *Support internationally recognized human rights within the areas in which the Company operates*
2. *Ensure the Company is not complicit in human rights abuses*
3. *Recognize freedom of association and the right to conduct collective bargaining*
4. *Eliminate all forms of forced labour*
5. *Abolish the use of child labour*
6. *Eliminate discrimination in respect of employment and occupation*
7. *Support the "Precautionary Principle" in environmental questions.*
8. *Take initiatives to promote greater environmental responsibility*
9. *Encourage the development and diffusion of environmentally friendly technologies*
10. *Work against corruption in all its forms, including extortion and bribery.*

Global Compact is a UN-initiated network that mobilises business and voluntary organisations for a sustainable world. KLP has been a member since 2002. Membership involves an undertaking to comply with 10 principles associated with human rights, working conditions, the environment and corruption.

KLP has chosen not to invest in companies that produce tobacco or weapons that breach fundamental humanitarian principles. All the companies in which KLP invests are monitored in regard to discreditable situations and potential breaches of key UN conventions and declarations in the following areas:

- Human and workers' rights
- The environment
- Corruption
- Business ethics

At the end of 2012, 64 stock exchange listed companies were excluded from KLP's investments (see the list of excluded companies at www.klp.no). Excluding companies is not a goal in itself.

KLP's role as investor, owner and manager of future pension assets is rooted in our vision and our values. By being the best partner for the days to come we must put the long-term perspective centre stage. Read more about KLP's ownership ambitions, our performance and achievements at klp.no.

10 years of ethics at KLP

In 2012 it is 10 years since KLP established ethical criteria for all of its investments. Many well-known brand names have been on the KLP list of excluded companies. Many of the companies have also taken remedial action and improved their practices, making it possible to invest in them once more. Over the 10 years this has been the case for 43 companies.

Historic development agreement

In 2012 KLP entered into a historic investment agreement with Norfund by signing an agreement on joint investment totalling NOK 1 billion in projects in developing countries intended to contribute to sustainable development. This is the first time an institutional investor such as KLP has embarked on this type of collaboration.

2008

KLP Skadeforsikring AS launched sales of non-life insurance to private customers
KLP passed NOK 200 billion in total assets.
KLP exceeded 300,000 occupationally active members.

2009

KLP received a licence from the Financial Supervisory Authority of Norway (Finanstilsynet) to establish banking business. KLP bought Kommunekreditt Norge AS from Eksportfinans. KLP is Eco-Lighthouse accredited. KLP becomes climate neutral

2010

KLP Banken is launched.

2011

KLP takes its position as Norway's largest life insurance company.

2012

KLP passes 300 billion in total assets.

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