Interim report Q4 2012 KLP Banken AS Group

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KLP Banken AS Group

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KLP Banken AS Group Interim financial statement 4/2012

Main features of the third quarter:

- · better margins on public sector lending
- · insignificant losses on lending in the personal market, no losses on lending to the public sector
- · good returns on securities investments
- good costs development

The KLP Bank Group's objective is to finance housing mortgages and loans to the municipalities, county administrations and companies carrying out public assignments. The KLP Banken Group is a major long-term lender to the public sector and from 2010 has established business in the personal market. The Group manages lending totalling NOK 51.4 billion. The total business of KLP Banken and its subsidiaries is divided between the personal market and the public lending business areas. The business is countrywide and the companies' head office is in Trondheim. KLP Banken AS is owned 100 per cent by Kommunal Landspensjonskasse Gjensidig forsikringsselskap (KLP) through KLP Bankholding AS. KLP Banken AS has two wholly-owned subsidiaries, namely KLP Kreditt AS (formerly Kommunekreditt Norge AS) and KLP Kommunekreditt AS

Profit and loss account

At the end of the fourth quarter 2012, net interest income for the KLP Banken Group amounts to NOK 86.3 million as against NOK 21.1 million for the same period the year before. Operating expenses and depreciation make up NOK 137.7 million as against NOK 139.6 million at the same time last year. The Group has not had any material losses on housing mortgages and no losses on loans issued to the public sector.

The accounts have been prepared in NOK and have been submitted in line with the Norwegian Accounting Act, the Annual Accounts Regulations for Banks (Regulation no. 1240 of 16 December 1998), and the Regulation on simplified application of IFRS, the Simplification Regulation (Regulation no. 57 of 21 January 2008). This means that financial instruments are partly booked at market value. At the end of the fourth quarter 2012 the accounts show an unrealised gain of NOK 51.1 million linked to securities. During the same period last year, an unrealised gain of NOK 6.8 million was booked. Of the unrealised gains to date NOK 54.7 million is related to added value on liquidity placements.

In addition to discrete lending, the KLP Banken Group administers housing mortgages and public lending financed by Kommunal Landspensjonskasse (KLP), the parent company. The administration fee for this assignment was NOK 79.1 million at the end of the fourth quarter. The corresponding amount last year was NOK 59.6 million.

The KLP Banken Group achieved income before tax of NOK 83.4 million at the end of the fourth quarter. At the same time last year there was a deficit of NOK 62.2 million. The result after tax is NOK 60.1 million and NOK – 35.1 million respectively.



Lending

The KLP Bank Group has lendings amounting to NOK 21.5 billion as at 31 December 2012 as against NOK 28.4 billion as at the fourth quarter 2011. The NOK 21.5 billion is divided between NOK 1.5 billion for the personal market and NOK 20 billion for public sector lending.

Liquid investments

The liquidity investments portfolio at the time of reporting is NOK 4.0 billion as against NOK 1.7 billion at the same time last year.

Borrowing

The KLP Bank Group's external financing is made up of deposits, certificates and bonds. At the time of reporting deposits amounted to NOK 2.9 billion and debts incurred on the issuance of securities amounted to NOK 23.7 billion. Of the securities liabilities covered bonds issued by KLP Kommunekreditt AS made up NOK 20.2 billion. All covered bonds issued have achieved AAA ratings.

Solvency

At the end of the fourth quarter 2012 tier 1 and tier 2 capital ("Ansvarlig kapital") in accordance with the rules for capital adequacy amounted to NOK 1 137.8 million. Tier 1 and tier 2 capital: made up of core capital only. The corresponding figure for last year was NOK 1 115.7 million. Lending is risk-weighted according to the authorities' regulations for capital adequacy. The KLP Bank Group has a capital adequacy of 19.1 per cent at the end of the fourth quarter as against 14.4 per cent at the same time last year. The minimum statutory requirement is 9 per cent.

Income Statement

Note	Amounts in NOK thousands	Q4 2012	Q4 2011	01.01.2012- 31.12.2012	01.01.2011- 31.12.2011
	Interest income and similar income	218 856	274 008	956 724	969 147
	Interest costs and similar costs	-192 517	-263 991	-870 387	-948 019
3	Net interest income	26 339	10 017	86 337	21 128
	Commission income and income from banking services	1 289	1 384	4 888	4 179
	Commission costs and costs related to banking services	-104	-174	-352	-413
	Net charges and commission income	1 184	1 210	4 535	3 766
		1/ /17	16 006		
	Other remuneration	14 613	16 026	79 075	59 630
	Net gains/(losses) on financial instruments	-974	-13 778	51 148	-6 796
	Total other operating income	13 639	2 248	130 223	52 834
	Salaries and administration costs	-14 873	-17 129	-48 805	-44 833
	Depreciation	-479	-551	-2 068	-2 241
	Other operating expenses	-28 196	-24 476	-86 792	-92 558
	Total operating expenses	-43 548	-42 156	-137 665	-139 632
	Loss on lending, guarantees etc.	0	0	0	-50
	Gains/losses on securities that are fixed income	0	0	0	-204
	Operating profit/loss before tax	-2 385	-28 681	83 430	-62 158
	Tax on ordinary profit/loss	668	17 713	-23 361	27 087
	Profit/loss	-1 717	-10 968	60 070	-35 071
	Comprehensive profit/loss	0	0	0	0
	Accrued profit/loss after tax	0	0	0	0
		1 717	-10 968	60 070	-35 071
	ACCRUED TOTAL PROFIT/LOSS	-1 717	-TO 202	60 070	-55 U/1

Financial Position Statement

Note	Amounts in NOK thousands	31.1	2.2012		31.12.	2011
	ASSETS					
	Lending to and receivables from credit institutions	2 13	5 069	1	610	889
4	Lending to and receivables from customers	21 87			415	
11	Interest-bearing securities		3 485		536	
	Financial derivatives		3 904	-		165
	Deferred tax asset	10	0			949
	Tangible fixed assets		472			634
	Intangible assets	2	1 214		21	520
8	Other assets		1 358			386
	TOTAL ASSETS	28 28		31	704	
	LIADII ITIES AND OLINEDS' EQUITY					
	LIABILITIES AND OWNERS' EQUITY LIABILITIES					
6	Debt to credit institutions		0	1.	306	/./.Q
5	Debt created on issuance of securities	23 70			169	
)	Deposits		5 196		840	
	Financial derivatives		3 190 3 770	Ŧ	192	
	Deferred tax		1 413		TJZ) 0
9	Other liabilities		7 377		18	584
9	Provision for costs incurred and obligations) 249			418
_	TOTAL LIABILITIES	27 06		30	545	-
		27 00		20		0.1
	OWNERS' EQUITY					
	Share capital	75	000		750	000
	Share premium fund	27	1 372		271	372
	Other owners' equity	13	7 665		137	665
	Unallocated income	6	070			0
	TOTAL OWNERS' EQUITY	1 21	9 108	1	159	037
	TOTAL LIABILITIES AND OWNERS' EQUITY	28 28	1 516	31	704	079

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Statement of owners' equity

2012 Amounts in NOK thousands	Share capital	Share premium reserve	Other owners' equity	Total owners' equity
Owners' equity as at 01.01.2012	750 000	271 372	137 665	1 159 037
Unallocated profit/loss Comprehensive income	0 0	60 070 0	0 0	60 070
Total income	0	60 070	0	60 070
Total transactions with owners	0	0	0	0
Owners' equity as at 31.12.2012	750 000	331 442	137 665	1 219 108

2011 Amounts in NOK thousands	Share capital	Share premium reserve	Other owners' equity	Total owners' equity
Owners' equity as at 01.01.2011	750 000	306 443	137 666	1 194 109
Profit/loss Comprehensive profit/loss	0 0	-35 071 0	0 0	-35 071 0
Total loss	0	-35 071	0	-35 071
Total transactions with owners	0	0	0	0
Owners' equity as at 31.12.2011	750 000	271 372	137 666	1 159 037



Statement of cash flows

Amounts in NOK thousands		20	12		20	11
Operating activities						
Interest and commission received and fees from customers		885	750		781	784
Payment of interest and commission and fees to customers	-	-111			-50	
Net receipts/payments regarding lending to customers		545		-2	043	
Net contributions to customer deposits in bank		105		_	814	
Net receipts/payments regarding operations			734		-84	
Payment to employees, pension schemes, payroll tax etc.		-43	274		-39	241
Net interest investment accounts		38	500		51	774
Net receipts/payment regarding operating activities		129	617		108	499
Income tax paid			0			0
Net cash flows from operating activities	8	462	984		-460	433
Investment activities						
Receipts from securities		1	927		98	680
Disbursements regarding securities	-2	-	499	-1	638	
Interest received from securities	_		313	-		293
Disbursements on purchase of tangible fixed assets		-1	600			-272
Net cash flows from investment activities	-2	392	859	-1	519	802
Financing activities						
Net receipts/disbursements on borrowing from credit institutions	-4	823	855	15	901	453
Disbursements on repayment of loans			0	-12	928	945
Net disbursements for interest on loans	-	-707			-768	
Net receipts/disbursements (-) regarding other short-term items			211		-43	
Net cash flows from financing activities	-5	501	638	2	160	850
Net cash flows accrued		568	487		180	616
Cash and cash equivalents at start of period	1	523	225	1	342	600
Cash and cash equivalents at end of period		091			523	
Net receipts / disbursements (-) of cash	2		487	-	180	
RECONCILLIATION						
Income/loss before tax expense		83	430		-62	158
Change, trade creditor			867			646
Items qualified as investment or financing activity		729	154		980	911
Change, other accruals	7	649	533	-1	379	832
Net cash flows from operating activities	8	462	984		-460	433

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Note 1 General information

KLP Banken AS was formed on 25 February 2009. The Company offers standard banking products for its private customers. The bank is an online bank without branches. KLP Banken AS is registered and domiciled in Norway. The head office is at Beddingen 8, Trondheim (Norway). The Company has a branch office in Oslo.

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

Note 2 Accounting principles

This interim report applies for the period between 1 January and 31 December 2012. The accounts are not audited.

The interim accounts of KLP Banken AS Group are prepared in accordance with Regulation nol 1240 "Regulation on annual accounts etc. for banks, financing enterprises and parent companies of the aforementioned", herinafter named the Annual Accounts Regulation of 16 December 1998, and Act no. 56 relating to "Annual Accounts etc. (the Accounting Act)" of 17 July 1998.

The Accounting Act and the Regulation requires the Company to emloy international accounting standards (IAS/IFRS) which are approved by the EU when preparing such accounts, but allows for certain exemptions from IFRS by way of Regulation no. 57: "Regulation relating to simplified application of international accounting standards" of 21 January 2008 (herinafter named the "Simplification Regulation"). The Simplification Regulation allows for booking provision for income and Group contributions on the balance sheet date even if the decision is made at a later date. This is the only deviating principle in the accounts in relation to IFRS.

The interim accounts have been submitted according to the same principles as the annual accounts for 2011, and the interim accounts should therefore be read in such a context. The annual accounts are available at www.klp.no.

Note 3 Net interest income

Amounts in NOK thousands	20)12	2011
Interest on loans to and receivables from credit institutions	38	577	52 757
Interest on loans to customers	836	312	889 856
Interest on securities	81	835	26 534
Total interest income	956	724	969 147
Interest on debt to credit institutions	649	339	763 520
Interest on debt to KLP	26	065	120 669
Interest on debt to customers	192	202	56 462
Premium/discount on covered bonds	2	778	7 342
Other interest expenses		3	26
Total interest expenses	870	387	948 019
Net interest expenses	86	337	21 128

Note 4 Lending to customers

Amounts in NOK thousands	31.12.2012	31.12.2011
Lending to customers before write-downs	21 464 820	28 147 575
Individual write-downs	-9	-49
Write-downs by group	0	0
Lending to customers after individual write-downs	21 464 811	28 147 524
Accrued interest	126 855	166 605
Lending to customers, fair value hedging	281 384	101 449
Lending to customers, fair value adjustments	1 962	2 739
Lending to customers	21 875 012	28 415 577

Note 5 Liabilities created on issuance of securities

Amounts in NOK thousands ISIN code		Nom	inal	Currency	Interest	Commenced	Due date	Accr. Interest	31.12.2012 Book value
NO0010585185	4	300	000	NOK	Floating	15.09.2010	15.09.2015	4 031	4 304 031
NO0010592892	1	103	000	NOK	Floating	10.12.2010	10.12.2013	1 490	1 104 490
N00010592900		750	000	NOK	Fixed	15.12.2010	15.12.2020	1 607	751 607
XS0605180412	1	250	000	SEK	Floating	15.03.2011	15.03.2013	765	1 095 765
NO0010609795	4	000	000	NOK	Floating	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	Floating	17.02.2012	17.02.2015	959	434 459
NO0010642192	1	000	000	NOK	Floating	13.04.2012	13.04.2016	5 092	1 005 092
NO0010662307	3	000	000	NOK	Floating	26.10.2012	10.11.2017	12 898	3 012 898
NO0010663180	2	000	000	NOK	Floating	15.11.2012	16.11.2016	5 797	2 005 797
Amortisation / value adjust	me	ents							85 605
Total covered bonds issued									20 365 434
Certificate loan		360	000	NOK	Floating	18.01.2012	18.01.2013	1 725	361 725
Certificate loan		360	000	NOK	Floating	14.05.2012	14.05.2013	1 109	361 109
Certificate loan		300	000	NOK	Floating	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	Floating	09.07.2012	09.07.2013	1 659	301 659
Bond loan		500	000	NOK	Floating	12.03.2012	11.06.2013	709	500 709
Bond loan		300	000	NOK	Floating	27.04.2012	27.04.2015	1 669	301 669
Bond loan		300	000	NOK	Fixed	15.06.2012	15.06.2017	7 726	307 726
Bond loan		300	000	NOK	Floating	24.08.2012	24.08.2015	963	300 963
Bond loan		300	000	NOK	Floating	15.11.2012	16.11.2016	1 281	301 281
Amortisation / value adjust	me	nts							3 794
Total debt created on issuan	ice	of cer	tifica	te loans a	nd bond lo	ans			3 342 970
Total debt created on issuan		6							23 708 404

Total debt created on issuance of securities

23 708 404

Amounts in NOK thousands ISIN code	Nominal	Currency	Interest	Commenced	Due date	Accr. Interest	31.12.2011 Book value
NO0010585185	4 300 000	NOK	Floating	15.09.2010	15.09.2015	7 208	4 307 208
NO0010592884	3 000 000	NOK	Floating	10.12.2010	10.12.2012	5 500	3 005 500
NO0010592892	4 000 000	NOK	Floating	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	Floating	15.03.2011	15.03.2013	1 597	1 096 597
NO0010609795	4 000 000	NOK	Floating	20.05.2011	20.05.2014	15 443	4 015 443
NO0010614555	2 900 000	NOK	Floating	28.06.2011	28.06.2012	938	2 900 938
NO0010624778	2 000 000	NOK	Fixed	15.09.2011	15.05.2015	20 741	2 020 741
Amortisation / value adju	stments						46 827
Total covered bonds issued	1						22 152 457
Certificate loan, KLP	1 000 000	NOK	Fixed	31.08.2011	01.02.2012	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	Floating	16.12.2011	14.12.2012	778	500 778
Total debt issuance of certi	ificate loann						2 017 278
Total debt created on issua	nce of securitie	S					24 169 735

Note 5 Liabilities created on issuance of securities (continued)

Note 6 **Debt to credit institutions**

				31.12.2012
Amounts in NOK thousands	Due date	Nominal	Accr. Interest	Book value
				0
Total interest to credit institutions				0

Amounts in NOK thousands	Due date	Nominal	Accr. Interest	31.12.2011 Book value
Debt to KLP	15.03.2012	4 300 000	6 449	4 306 449
Total debt to credit institutions			6 449	4 306 449



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25

-38

0

-22

Note 7 Transactions with related parties

Amounts in NOK thousands	2012	2011
Income statement items		
KLP, fees received for loan management	79 000	59 480
KLP, interest on borrowing	-26 065	-109 717
KLP, interest on certificate loans	-18 028	-10 952
KLP Kapitalforvaltning, fees for services provided	-503	-680
KLP, rent	-3 447	-3 411
KLP, pension premium	-8 900	-7 146
KLP, staff services (at cost)	-42 610	-39 226
KLP Group companies, subsidised interest on loans to employees	615	655
TOTAL	-19 938	-110 997
Amounts in NOK thousands	31.12.2012	31.12.2011
Statement of financial position items		
KLP, borrowing Group current liabilities	0	-4 306 449
KLP, certificate loan issued	0	-1 010 952
KLP, net internal accounts	-7 900	-8 980
KLP, bank clearing system	-16 520	19 128

TOTAL-24433-5307275Transactions with related parties have been carried out on general market terms with the exception of the Company's

share of common administrative functions, which is allocated at cost.

The allocation is based on actual use. All internal accounts are settled as they arise.

Note 8 Other assets

KLP Group companies

KLP Bankholding AS, net internal accounts

Amounts in NOK thousands	31.12.2012	31.12.2011
Intra-Group company accounts	56	21 943
Miscellaneous expenses	53	520
Pre-paid costs	1 249	3 923
Total other assets	1 358	26 386



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Note 9 Other liabilities and provision for accrued costs

Amounts in NOK thousands	31.12.	2012	31.12.2011
Creditors	2	684	1 817
Intra-Group company accounts	24	474	16 767
Miscellaneous liabilities		219	0
Total other liabilities	27	377	18 584
Withholding tax	2	349	2 170
Payroll tax	1	589	1 562
Holiday pay	3	574	3 344
Pension obligations	12	132	7 421
VAT		259	2 922
Accrued expenses		346	0
Total costs and obligations incurred	20	249	17 418

Note 10 Capital adequacy

Amounts in NOK thousands	31.12.2012	31.12.2011
Share capital and share premium fund	1 021 372	1 021 372
Other owners' equity	137 665	137 665
Owners' equity	1 159 037	1 159 037
Interim profit/loss	0	0
Less goodwill and other intangible assets	-21 214	-21 520
Deferred tax asset	0	-21 949
Core capital	1 137 823	1 115 568
Supplementary capital	0	0
Supplementary capital	0	0
Total Tier 1 and tier 2 capital to count	1 137 823	1 115 568
Capital requirement	476 061	619 029
Surplus for Tier 1 and tier 2 capital	661 762	496 539
Calculation basis for credit risk		
Local and regional authorities (including municipalities)	3 888 420	4 786 666
Government-owned enterprises	2 439	959
States	2 645	0
Institutions	736 936	905 079
Holdings with security in real estate	649 286	1 427 667
Holdings fallen due	26 619	35 065
Covered bonds	379 728	304 286
Other securities	0	1 874
Other holdings	472	2 388
Calculation basis for credit risk	5 686 546	7 463 984
Credit risk	454 924	597 119
Operating risk	21 137	21 910
Total capital requirement	476 061	619 029
Core capital adequacy ratio	19,1 %	14,4 %
Supplementary capital ratio	0,0 %	0,0 %
Capital adequacy ratio	19,1 %	14,4 %

The Basel II regulatory framework has been used in calculating capital adequacy. The authorities' requirement for minimum capital adequacy is set at 9 % for financial institutions.

Note 11 Interest-bearing securities

	31.12.2	2012	31.12.2011		
Amounts in NOK thousands	Acquisition cost	Market value	Acquisition cost	Market value	
Certificates	417 941	419 370	0	0	
Bonds	3 588 940	3 644 115	1 537 522	1 536 960	
Total interest-bearing securities	4 006 881	4 063 485	1 537 522	1 536 960	

Bonds are booked at market value

Note 12 Losses on loans issued etc.

Amounts in NOK thousands	As at 31.12.2012	As at 31.12.2011
Actual loss	0	40
Reversal of earlier write-downs	0	0
Change in individual write-downs	0	9
Change in write-downs by group	0	0
Total loss on lending	0	49
Gross defaulted in excess of 90 days	6 854	14 080
Gross remaining potential losses	0	0
This concerns housing loans. No losses or write-downs on defaulted loans to the public		

Note 13 Contingent liabilities

Amounted in NOK thousands	31.12.2012	31.12.2011
Unused credit lines lendings	48 358	99 328
Loan promises	83 840	80 709
Total contingent obligations	132 198	180 037

Note 14 Key figures

Accumulated figures in NOK millions	Q4-12	Q3-12	Q2-12	Q1-12	Q4-11
Profit/loss before tax	83,4	85,8	34,1	26,4	-62,2
Net interest income	86,3	60,0	35,2	12,8	21,1
Other operating income	83,6	67,8	51,5	29,5	63,4
Operating expenses and depreciation	-137,7	-94,1	-60,3	-33,4	-139,9
Net realised/unrealised change financial instruments to fair value	51,1	52,1	7,6	17,5	-6,8
Deposits/contributions	2 946,2	2 552,5	2 323,6	2 115,0	1 840,3
Lending with security in residence	1 530,0	1 550,5	1 597,4	1 653,3	3 211,3
Lending with government guarantee	20 345,0	21 915,4	22 190,5	24 734,0	25 204,3
Defaulted loans	6,9	5,9	5,7	11,8	14,1
Total debt created on issuance of securities	23 708,4	24 443,4	24 868,4	25 864,0	24 169,7
Other borrowing	0,0	0,0	200,1	450,1	4 306,4
Total assets	28 281,5	28 668,2	28 959,7	29 931,6	31 704,1
Average total assets	29 992,8	30 186,1	30 331,9	30 238,3	29 784,6
Owners' equity	1 219,1	1 220,8	1 183,6	1 174,8	1 159,0
Net interest income	0,29 %	0,20 %	0,12 %	0,04 %	0,07 %
Profit/loss from ordinary operations before tax	0,28 %	0,28 %	0,11 %	0,09 %	-0,21 %
Profit/loss from ordinary oeprations excl. fair value assessments	0,11 %	0,11 %	0,09 %	0,03 %	-0,19 %
Return on owners' equity before tax	6,84 %	7,03 %	2,88 %	2,25 %	-5,36 %
Capital adequacy	19,1 %	18,6 %	18,1 %	17,2 %	14,4 %



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