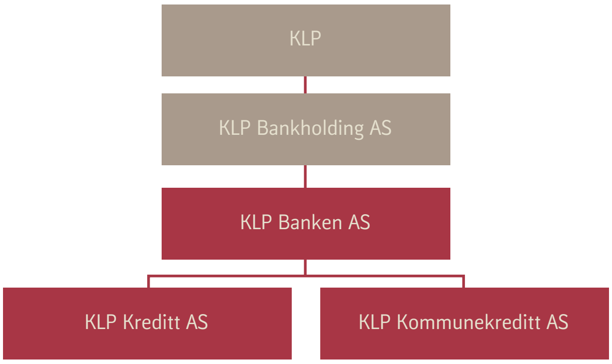
annual report 2011
KLP Banken AS

CONTENT

The Report of the Board of Directors for 2011

The KLP Banken Group is a substantial long-term lender to the public sector and has further developed its activity in the retail market during 2011. The Group manages lending totalling NOK 53.1 billion.

KLP Banken AS is wholly owned by KLP through KLP Bankholding AS. KLP Banken AS has two wholly owned subsidiaries, KLP Kreditt AS (previously 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 offices are in Trondheim.

Financial development – KLP Banken Group

- Pre-tax income: -NOK 62.2 (35.9) million
- Net interest income: NOK 21.1 (31.6) million
- New lending: NOK 5.5 (5.8) billion
- Lending: NOK 28.4 (27.3) million on own account
- Lending managed for KLP: NOK 24.7 (29.4) billion

INCOME STATEMENT

Operating income in the KLP Banken Group was NOK -62.2 million before tax, and NOK -35.1 million after taxes. That produced a return on owners' equity of -5.2 (1.5) per cent before tax and -3.0 (1.2) per cent after taxes. The income includes management fees from KLP of NOK 59.6 million (NOK 52.5 million in 2010).

The negative result has several causes and is principally associated with the result in KLP Kommunekreditt AS. Substantial one-off costs of establishing the Covered bond programme and rating of the company have accrued during 2011. The borrowing markets have been impacted by the financial crisis: this has produced high borrowing costs and thus contributed negatively to income. In addition, value falls in liquidity investments affect income through unrealised losses. The income from the development of the retail market in the Bank is also negative but, seen in isolation, this is better than expected.

LENDING

KLP Banken AS manages a lending portfolio totalling NOK 24.7 billion for KLP, divided between NOK 18.4 billion in lending to public sector borrowers and NOK 6.3 billion in housing mortgages to private individuals.

Outstanding loans per company in the KLP Banken Group as at 31.12.11:

Company NOK billions	Housing loans	Public sector lending	Total lending
KLP Banken AS (parent)	3,2		3,2
KLP Kreditt AS	-	1,4	1,4
KLP Kommunekreditt AS	-	23,8	23,8
KLP (Management agreement)	6,3	18,4	24,7
Total	9,5	43,6	53,1

LENDING - RETAIL MARKET IN KLP BANKEN AS

KLP Banken was launched in February 2010 as an internet-based bank without a physical branch network. The Internet bank is a retail bank with good and simple saving and lending services. By the end of 2011 loans to the retail market for own account increased to NOK 3.2 billion divided between some 3200 mortgage customers. The average lending per customer was thus about NOK 980,000. During the latter half of 2011 demand for fixed interest loans increased significantly and represented almost 16% of lending volume by the end of the year.

During 2011 the Bank has expanded its offer of competitive products to include the sale of KLP's funds through the Bank's online channel. 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 housing, loans for leisure homes and the seniors' loan, LittExtra. The launching of a credit card offer is planned for the first quarter 2012.

During 2011 managed housing loans on KLP's account have been reduced from NOK 7.5 billion to NOK 6.3 billion. This is a consequence of new housing loans being granted by the bank until further notice and of the lending volume on KLP's account being reduced in step with repayments and redemptions.

KLP's housing mortgage portfolio developed well again during 2011. At the end of the year KLP had NOK 9.5 billion in total lending to private customers, mainly local government and health enterprise employees. This represents a total net increase of NOK 700 million. The portfolio is secured through mortgages based on conservative valuations, mainly within 60 per cent of loan value. The mortgagees' ability to pay also forms part of the credit assessment.

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 3.6 billion were paid out to the public sector from the companies in the KLP Group. A large proportion of the borrowers in the public sector choose traditional variable interest terms on taking up a loan. During 2011 KLP Kommunekreditt has been able to offer its best terms on fixed interest loans. It has therefore been challenging to meet the demand for new lending.

Total lending amounted to NOK 43.4 billion at the end of 2011, a reduction of NOK 3.5 billion from 2010. The reduction is mainly associated with loans managed for KLP, but the total of lending for own account in KLP Kommunekreditt AS and KLP Kreditt AS is approximately unchanged.

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.

The credit risk associated with lending to municipalities and county administrations in Norway is limited to postponement of payment and not to the payment liability 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. In the event of payment postponement the lender is also secured against loss of accrued interest, penalty interest and collection expenses under the same legislation. 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 is largely directed at increasing the deposit volume. During 2011 the number of active depositing customers increased from about 6000 to 12,000 and the volume of deposits was doubled from NOK 0.9 billion to NOK 1.8 billion by the end of the year. Deposits thus finance 57 per cent of housing mortgages. The proportion of members among the depositing customers was 59 per cent.

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 have been issued for NOK 20.95 billion. In addition a bond has been issued in the Swedish market with cover for SEK 1.25 billion.

Bonds with cover in housing mortgages have been issued in Norway since 2007. KLP Kommunekreditt AS has issued bonds secured in lending to local government since 2009, the only finance institution in Norway to do so. These have, to a lesser extent than expected, achieved prices reflecting the added security that local administrations represent compared to covered bonds secured in mortgage lending. As the finance crisis has developed, all borrowers in the financial markets have faced higher borrowing costs in relative terms. This has not been so much the case for local government administrations.

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 has been repaid during 2011 as required by the acquisition contract. The Company's lending portfolios have been refinanced during the lending period by other entities in KLP, mainly by KLP Kommunekreditt AS. This is in line with a long-term strategy that involves lending to the public sector financed by covered bonds being offered by KLP Kommunekreditt AS. The KLP Kreditt AS lending portfolio has been reduced by NOK 12.7 billion during 2011 and at the end of the year amounted to NOK 1.4 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 were NOK 31.7 billion at the end of 2011. Of this, lending represented NOK 28.4 billion, of which NOK 25.2 billion is lending to public sector borrowers and NOK 3.2 billion is lending to private individuals. Investments in interest-bearing securities amounted to NOK 1.5 billion.

Based on the Board's proposed allocation of the income in the Group companies, the Group's Tier 1 and Tier 2 capital amounted to NOK 1.116 billion at the end of 2011. The core capital is identical to the Tier 1 and 2 capital. This gives a capital adequacy and core capital adequacy ratio of 14.4 per cent. Corresponding figures for 2010 were NOK 1.159 billion and 14.2 per cent respectively. The authorities' minimum requirement is 8.0 per cent. The risk-weighted balance was NOK 7.5 billion. Solvency is thus considered good.

The liquidity situation

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

Surplus liquidity is deposited in banks and interest-bearing securities. Bank deposits amounted toNOK 784 million and the portfolio of interest-bearing securities was NOK 1537 million at the end of the year. It is KLP Kommunekreditt AS that has made the investments in interest-bearing securities and the whole of this portfolio comprises 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 deficit for 2011 of
-NOK 44.7 million. The Board recommends the deficit be recorded against the Premium Fund.

THE FINANCIAL STATEMENTS

The Board believes that the annual financial statements provide an accurate picture of the Company's assets and liabilities, financial position and income. The going concern assumption 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 16.12.1998 (Regulation No. 1240) and Norwegian Act No. 56 "Act regarding annual accounts etc. (the Norwegian Accounting Act)" of 17.07.1998. See Note 2 to the annual financial statements for more detailed information.

Rating

The rating agency assessment of KLP Kommunekreditt AS and the KLP Group is important for the terms on which the Company borrows. The Company has engaged Fitch Ratings and Moody's to provide a credit rating of the Company's bonds. Issuance of covered bonds (obligasjoner med fortrinnsrett - OMF) totalling NOK 15.8 billion was 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 that 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 operational risk) as well as an overall risk policy covering principles, organisation, limits etc. for the bank's overall risk. The risk policies are of a high level nature and are complemented by procedures, guidelines and instructions laid down at the senior management level.

Among the things that the high-level risk policies cover are roles in the bank's risk management, including requirements and guidelines for the bank's 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. This department also has other tasks associated with the Bank's risk management, including responsibility for development of methods of risk measurement and stress testing, risk analyses as well as documentation of the process of assessment of capital requirements (Internal Capital Adequacy and Assessment Process - ICAAP). The head of the department reports to the Managing Director of the Bank and has an independent role in relation to units with authorisations to take risks.

Arrangements are in place for the use of stress testing 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 policies include risk tolerance for the individual risks and for the overall risk. The risk tolerances are defined on the basis of various stress scenarios. Different forms of stress testing are conducted regularly to measure that the actual exposure remains within laid down tolerance limits.

The work of the Board of Directors

The Board has held eight Board meetings during 2011. For details 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 staff employed at the end of 2011 and 48 at the same time in 2010. All employment contracts are with KLP Banken AS. Three employees also have functions in the KLP Kreditt AS and KLP Kommunekreditt AS companies. 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.

The new Managing Director, Leif Magne Andersen, started work on 1 December. He took over from Bjørn Formo, who has headed the Company during a period of transition from February 2011.

The Board considers cooperation between management and the staff to be 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 mostly 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 8.1 per cent in 2011, against 3.7 per cent in 2010. The increase is connected with two long-term absences. Short-term absence is somewhat lower than in 2010. During 2011 there have been no significant injuries or accidents.

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 legislation describes. 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, 54 per cent are women. The aim is a balance between women and men at all levels of appointment, but there are relatively few women in senior management positions at the Bank. At the end of 2011 the Board of KLP Banken AS comprised two women and four men, of whom one male board member has been 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. In its social responsibility strategy KLP has committed to developing good procedures for measuring and reduction of its companies' environmental impact. KLP Banken AS became environmentally certified in 2010.

Future prospects

KLP's strategic focus on the retail customer market is based on a wish to help the pension company's owners appear attractive employers by offering competitive products directed at the owner companies' staff. KLP Banken's activities in the retail customer market are an important part of this strategy and intended to reinforce KLP as a pension company by having particularly good terms for KLP's members and pensioners. The need for banking services amongst KLP's members is a good basis 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 on our lending, thus producing low expected 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 staff has 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 expertise in sales and customer-oriented activity will continue as an area of investment in 2012.

The Board considers that demand for loans in the local authority sector and for projects with local authority guarantees and local authority ownership will remain high in the years to come, but emphasises that there is significant uncertainty associated with this assessment. KLP Kommunekre¬ditt has a good position in this market. The presence of KLP Kommunekreditt in the market should contribute to competition and thus to the public sector continuing to have access in the future to long-term financing at low-cost.

Growth in lending for KLP Kommunekreditt will depend on the conditions in the borrowing and lending markets. Given today's market conditions and experience from 2011, the Board considers it demanding to further develop the business in regard to profitability and growth.

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

Oslo, 28 February 2012

Sverre Thornes
Chair

Mai-Lill Ibsen
Deputy Chair

Aage Schaanning

Mette Jorun Meisland

Jan Otto Langmoen

Jan Olav Tryggestad
Elected by and from the employees

Leif Magne Andersen
Managing Director

The Board of Directors of KLP Banken, from left to right:
Jan Olav Tryggestad, Mette Kristin Klemp Rinde., Jan Otto Langmoen,
Mai-Lill Ibsen, Mette Jorunn Meisland and Aage Schanning.
Sverre Thornes was not present for the picture.

Income Statement

KLP Banken AS					KLP Banken AS Group	
2010	2011	Note	NOK thousands	Note	2011	2010
74 166	189 324		Interest income and similar income		969 147	898 559
-72 126	-177 157		Cost of interest and similar costs		-948 019	-866 949
2 039	12 167	9	Net interest income	9	21 128	31 610
2 290	4 179		Commission income and income from banking services		4 179	2 290
-178	-411		Commission costs and costs of banking services		-413	-178
2 112	3 768	10	Net charges and commission income	10	3 766	2 112
340 636	0		Income from ownership interests in Group companies		0	0
52 513	59 630		Fees, lending management		59 630	52 513
-326	3	4	Net gain/loss on financial instruments	4	-6 796	59 238
392 823	59 633		Total other operating income		52 834	111 750
-40 750	-44 833	30	Salary and administrative costs	30	-44 833	-37 787
-1 928	-1 978	23,24	Depreciation	23,24	-2 241	-2 250
-33 688	-44 337		Other operating expenses		-92 558	-69 584
-76 366	-91 148		Total operating expenses		-139 632	-109 622
0	-50	18	Loss on loans issued, guarantees etc.	18	-50	0
-270 442	-33 297		Gains/losses on securities that are fixed assets		-204	0
50 166	-48 927		Operating income before tax		-62 158	35 850
-9 995	4 227	26	Tax on ordinary income	26	27 087	-16 667
40 171	-44 700		Income for the year		-35 071	19 182
0	0		Expanded income statement		0	0
40 171	0		Expanded income for the year after tax		0	0
40 171	-44 700		COMPREHENSIVE INCOME FOR THE YEAR		-35 071	19 182
-25 788	0		Group contribution made			
-14 383	44 700		Allocated to/from share premium fund			
-40 171	44 700		TOTAL ALLOCATION OF INCOME			

Financial Position Statement

KLP Banken AS					KLP Banken AS Group	
31.12.2010	31.12.2011	Note	NOK thousands	Note	31.12.2011	31.12.2010
			ASSETS			
3 119 579	5 245 841	17	Lending to and receivables from credit institutions	17	1 610 889	1 466 411
1 266 605	3 211 277	17	Lending to and receivables from customers	17	28 415 577	26 319 684
1 819	1 874	12	Interest-bearing securities	12	1 536 960	1 819
974 202	940 905	22	Holdings in Group companies		0	0
0	0	7	Financial derivatives	7	70 165	1 085
1 023	5 250	26	Deferred tax assets	26	21 949	0
0	222	23	Tangible fixed assets	23	634	675
23 448	21 520	24	Intangible assets	24	21 520	23 448
138 888	32 508	32	Other assets	32	26 386	51 967
5 525 565	9 459 397		TOTAL ASSETS		31 704 079	27 865 090
			LIABILITIES AND OWNERS' EQUITY			
			LIABILITIES			
3 203 964	4 306 449	19	Debt to credit institutions	19	4 306 449	16 166 712
0	2 017 278	20	Liabilities created on issuance of securities	20	24 169 735	9 245 104
1 025 734	1 840 261	21	Deposits	21	1 840 261	1 025 734
0	5 398	7	Financial derivatives	7	192 594	135 752
0	0	26	Deferred taxes	26	0	17 813
80 233	115 011	31	Other liabilities	31	18 584	81 043
10 428	14 495	31	Provision for accrued costs and liabilities	31	17 418	11 497
4 320 359	8 298 892		TOTAL LIABILITIES		30 545 041	26 683 655
			OWNERS' EQUITY			
750 000	750 000		Share capital		750 000	750 000
429 417	384 717		Share premium fund		271 372	306 443
25 788	25 788		Other owners' equity		137 665	124 990
1 205 205	1 160 505		TOTAL OWNERS' EQUITY		1 159 037	1 181 433
5 525 565	9 459 397		TOTAL LIABILITIES AND OWNERS' EQUITY		31 704 079	27 865 090

Oslo, 28 February 2012

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Chair

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Deputy Chair

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Jan Olav Tryggestad
Elected by and from the employees

Leif Magne Andersen
Managing Director

Statement of Cash flows

KLP Banken AS 2010	KLP Banken AS 2011	NOK thousands	KLP Banken AS Group 2011	KLP Banken AS Group 2010
		Operational activities		
63 760	175 990	Payments received from customers - interest, commission & charges	781 784	802 156
-16 573	-50 230	Payments to customers - interest, commission & charges	-50 230	-16 573
-4 114 702	-3 855 165	Net receipts/disbursements on lending to customers	-2 043 066	6 868 963
990 158	814 527	Net receipts on customer deposits in bank	814 527	990 158
164 980	0	Receipts regarding securities	98 680	164 980
0	0	Disbursements regarding securities	-1 618 210	0
-51 431	-38 962	Net receipts/disbursements on operations	-84 480	-90 882
-33 939	-39 241	Payments to staff, pension schemes, employer's social security contribution etc.	-39 241	-33 939
4 921	55 541	Net interest savings accounts	51 774	36 500
52 513	7 340	Net receipts/disbursements regarding operating activities	108 499	-71 288
0	0	Income tax paid	0	0
-2 940 313	-2 930 200	Net cash flow from operating activities	-1 979 963	8 650 075
		Investment activities		
0	-272	Net purchase of intangible assets and tangible fixed assets	-272	-997
0	-272	Net cash flow from investment activities	-272	-997
		Financing activities		
3 200 000	3 100 000	Net receipts on loans from credit institutions	15 901 453	9 438 765
0	0	Disbursements - loan repayment	-12 928 945	-17 242 659
-51 688	-107 457	Net payment of interest on loans	-768 531	-732 715
0	40 636	Receipts of Group contributions received	0	0
-50 688	93 736	Net receipts/disbursements (-) on other short-term items	-43 127	29 494
3 097 624	3 126 915	Net cash flows from financing activities	2 160 852	-8 507 115
157 311	196 443	Net cash flows during the period	180 616	141 963
108 879	266 190	Cash and cash equivalents held at the start of the period	1 342 610	1 200 646
266 190	462 633	Cash and cash equivalents held at the end of the period	1 523 225	1 342 609
157 311	196 443	Net receipts/ disbursements (-) of cash	180 616	141 963
		RECONCILIATION		
50 166	-48 927	Income before tax	-62 158	35 850
-2 662	1 070	Change in accounts payable	646	-1 988
-242 420	129 198	Items classified as investment or financing activities	996 466	390 542
-2 745 397	-3 011 540	Changes in other accrued income and expenditure	-2 914 917	8 225 671
-2 940 313	-2 930 200	Net cash flow from operating activities	-1 979 963	8 650 075

Statement of Owners' equity KLP Banken AS

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
Expanded income	0	0	0	0
Comprehensive income for the year	0	-44 700	0	-44 700
Group contribution	0	0	0	0
Total transactions with the owners	0	0	0	0
Owners' equity 31 December 2011	750 000	384 717	25 788	1 160 505

2011 NOK thousands	Share capital	Share premium fund	Other owners' equity	Total owners' equity
Owners' equity 1 January 2010	750 000	415 034	0	1 165 034
Income for the year	0	40 171	0	40 171
Expanded income	0	0	0	0
Comprehensive income for the year	0	40 171	0	40 171
Group contribution made/received	0	-25 788	25 788	0
Total transactions with the owners	0	-25 788	25 788	0
Owners' equity 31 December 2010	750 000	429 417	25 788	1 205 205

	Number of shares	Nominal	Share premium fund	Total
01 01.2011	7 500 000	100	440 000	1 190 000
Paid in on issuance of shares 2011	-	-	-	-
31.12.2011	7 500 000	100	440 000	1 190 000
Accumulated income				-29 495
Owners' equity 31 December 2011				1 160 505

There is one class of shares. All shares are owned by KLP Bankholding AS
Income per share 2011 in whole NOK: -6,0
Income per share 2010 in whole NOK: 5,4

Statement of Owners' equity KLP Banken AS Group

2011 NOK thousands	Share capital	Share premium fund	Other owners' equity	Total owners' equity
Owners' equity 1 January 2011	750 000	306 443	124 990	1 181 433
Income for the year	0	-35 071	0	-35 071
Expanded income	0	0	0	0
Comprehensive income for the year	0	-35 071	0	-35 071
Change in deferred tax 2010	0	0	12 675	12 675
Group contribution received	0	0	35 119	35 119
Group contribution made	0	0	-35 119	-35 119
Total transactions with the owners	0	0	0	0
Owners' equity 31 December 2011	750 000	306 443	137 665	1 159 037

2010 NOK thousands	Share capital	Share premium fund	Other owners' equity	Total owners' equity
Owners' equity 1 January 2010	750 000	287 261	124 990	1 162 251
Income for the year	0	19 182	0	19 182
Expanded income	0	0	0	0
Comprehensive income for the year	0	19 182	0	19 182
Total transactions with the owners	0	0	0	0
Owners' equity 31 December 2010	750 000	306 443	124 990	1 181 433

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 financial statements presented represent the period 1 January 2011 - 31 December 2011.

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.

2.1 BASIC 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 16.12.1998 and Norwegian Act No. 56 "Act regarding annual accounts etc. (Accounting Act)" of 17.07.1998.

The Accounting Act and the regulations require that the Company uses international accounting standards (IAS/IFRS), which are approved by the EU, in the preparation of the accounts but allows certain exceptions from IFRS through Regulation No. 57: "Regulations on simplified application of international accounting standards" of 21.01.2008 (hereinafter referred to as "the Simplification 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 and 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 presented in the accounts. Actual figures may deviate from estimates used. Areas in which discretionary valuations and estimates of material significance for the Group have been utilised are described in Note 3.

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 other IFRIC interpretations that have come into force for the 2011 annual financial statements that are considered to have or 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 have not elected early application of any new or changed IFRSs or other IFRIC interpretations.

- IAS 19 "Employee Benefits" was changed in June 2011. The change means that all estimate deviations are presented in extended income as they arise (no corridor), immediate recognition in profit/loss of all costs of previous periods' pensions' accumulation as well as interest costs and expected returns on pension assets being replaced by a net interest sum calculated using discounting interest on net pension obligations (assets). The Group has not yet finalised the analysis of the consequences of the changes in IAS 19.

- 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 divided into two categories based on method of measurement: those that are measured at fair value and those that are measured at amortised cost. The classification assessment 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 principally the same as for IAS 39. The main change, in those cases in which fair value has been selected for financial liabilities, is that that part of the change in fair value resulting from change in the company's own credit risk is recognised in extended income instead of in the income statement, provided this does not involve an accrual error in income measurement. The Group will apply IFRS 9 when the standard comes into force and is approved by the EU. The standard comes into force for accounting period starting on 1 January 2015 or later.

- 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 Group has not considered all possible consequences resulting from IFRS 10. The Group plans to apply the standard for accounting periods starting on 1 January 2013 and later.

- IFRS 12 "Disclosures of Interest in Other Entities" contains the information requirements for financial interests in subsidiaries, jointly controlled enterprises, associated companies, companies for special purposes, "SPE", and other companies not included in the statement of financial position. The Group has not considered all possible consequences of IFRS 12. The Group plans to apply the standard for accounting periods starting on 1 January 2013 and later.

- IFRS 13 "Fair Value Measurement" defines what is meant by fair value when the term is used in IFRS, provides a comprehensive 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 accounting at fair value, but provides guidance on the application method where the use is already required or permitted in other IFRSs. (Source text "IFR'er") The Group uses fair value as the measurement criterion for certain assets and liabilities. The Group has not considered all possible consequences of IFRS 13. The Group plans to apply IFRS 13 for accounting periods starting on 1 January 2012 and later.

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

2.2 CONVERSION OF TRANSACTIONS IN FOREIGN CURRENCY

2.2.1 Functional currency and presentational currency

The accounts are presented in NOK, which is the functional currency of the parent company.

2.3 FINANCIAL ASSETS

2.3.1 Functional currency and presentational currency

The accounts are presented in NOK, which is the functional currency of the parent company.

2.3.2 Transactions and statement of financial position items

Transactions in foreign currency are converted to the functional currency at the transaction rate of exchange. Foreign exchange gains or losses realised 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 booked 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 capitalised as part of the fixed asset if it is likely that the expenditure well contribute to future financial benefit for the Company/Group and the cost can be measured reliably. Repair and maintenance are recognised against income 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 value reduction 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 taken to income. 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

In the main the Company's/Group's intangible assets comprise capitalised IT systems. Directly attributable costs capitalised 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 capitalised costs are depreciated by straight line over the expected life (7 years). In the event of subsequent capitalisation 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 capitalised 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 amortised 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 categorised at fair value through income 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 categorised 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 fixed income 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 unrealised gain/loss financial instruments".

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

Fair value in this category is determined in relation to observable purchase prices in an active market or, where such purchase prices are not available, through internal valuation models based on external data.

2.6.2 Financial assets valued at amortised cost

This category comprises loans and receivables with 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/loss.

Loans and receivables are initially recognized in the financial position statement at fair value. Subsequent measurement is at amortised 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 capitalised at fair value at the time the derivative contract is struck. On subsequent measurement the derivatives are booked at fair value. If the hedging no longer fulfils the criteria for hedge accounting, the book effect of the hedging for hedging objects recognised at amortised cost is amortised 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) book value is corrected with the value development in the hedged risk. The value change is taken to account through 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 valued 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

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 a fall in value 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.

2.7 NETTING
Financial assets and financial liabilities are only netted to the extent there is a legal entitlement to net liability against receivable and when the maturity date of the asset corresponds with the date the debt is due to be repaid.

2.8 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 associated with the securities business are defined as financial assets. The statement of cash flows has been prepared in accordance with the direct method.

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

2.9.1 Debt to financial institutions
Debt to financial institutions is capitalised at market value on acquisition. As a rule, on subsequent measurement the liability is recognised at amortised cost in accordance with the effective interest rate method. The interest costs are included in the amortisation and are shown in the line "Interest costs and similar costs" in the income statement.

To the extent it may reduce accounting inconsistencies in measuring the financial activity, fair value is used in subsequent valuation of other financial debt. Fair value is calculated using a valuation model based on observable, externally available data. The value change is included in the line "Net unrealised + gain/ - loss financial instruments" in the income statement.

2.9.2 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 10.06.1988.

The bondholders have security in a security pool comprising lending with government guarantee (loans to Norwegian municipalities or county administrations) and an additional collateral comprising 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 with preference rights 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 FSA of N 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 adjusted for any premium/discount on issue. On subsequent valuation the bonds are valued at amortised cost by the effective interest method. The interest costs are included in the amortisation 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.

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

2.10 OWNERS' EQUITY
The owners' equity in the Group comprises owners' equity contributed and retained earnings.

2.10.1 Owners' equity contributed
Owners' equity contributed comprises share capital and the shares premium fund.

2.10.2 Retained earnings
Retained earnings comprise other owners' equity. Ordinary company law rules apply for any allocation or use of retained earnings.

2.11 PRESENTATION OF INCOME IN THE ACCOUNTS
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.

2.11.1 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.

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

2.12 TAX
The tax expense in the income statement comprises both the period's tax payable and change in deferred tax. Deferred tax is calculated at 28 per cent on the basis of the temporary differences existing between accounting and taxable values, as well the tax deficit to be carried forward at the end of the accounting year. Tax-increasing and tax-reducing temporary differences that reverse or may reverse in the same period are set off. Net deferred tax gains are recorded in the financial position statement to the extent it is likely they may be utilised.

2.13 PENSION OBLIGATIONS FOR 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 current 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 obligation is classified as provision for liability 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 obligations 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 pension obligations are thus based on assumptions that are representative of the whole group.

Social security costs are calculated on net obligations. Gross pension obligations as the basis for determining the amortisation basis for the corridor do 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 capitalised values in future periods are discussed below.

3.1 PENSION OBLIGATIONS FOR 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 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 5 January 2012 has been used as the basis for updated measurement of best-estimate accrued liability and assets as at 31 December 2011.

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).

The discounting interest rate is set on the basis of government bonds interest and was assessed as at 31 December 2011 at 2.6 per cent and as at 31 December 2010 at 4 per cent (25 years' weighted duration).

The assumptions on future salary growth, 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.

Assumptions on longevity (mortality) are based on the latest mortality table (K2005). Future take-up of the contractual early retirement scheme (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 ON 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 fixed income securities are priced on the basis of a yield curve with a risk supplement that represents the market's pricing of the issuer's industry-specific risk.

During the year 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 classified in the category "financial assets at fair value through profit and loss" as they are managed, and their earnings are valued on the basis of fair value. Fair value is determined based on 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 loss of value 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, valuation by group is carried out each quarter of lending with uniform risk profile.

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 depreciation is suspected a write-down test is carried out to check whether the book value of capitalised 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	
2010	2011	NOK thousands	2011	2010
-326	3	Net gain/(loss) on interest-bearing securities	-8 594	-326
0	-5 374	Net gain/(loss) financial derivatives	24 233	4 456
0	5 374	Net value change lending and borrowing, hedge accounting	22 637	4 914
0	0	Net value change lending and receivables	-46 966	-10 360
0	0	Net value change debt to credit institutions	1 894	60 553
-326	3	Total	-6 796	59 238

Note 5 Fair value of financial assets and liabilities

KLP Banken AS 2011		NOK thousands	KLP Banken AS Group 2011	
Capitalised value	Fair value		Capitalised 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 hedging		
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 amortised 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	22 633 326	22 633 326
2 740 903	2 740 903	Lending to private customers	0	0
7 986 744	7 986 744	Total financial assets at amortised 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 amortised 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 amortised cost	27 502 685	27 502 685
8 169 386	8 169 386	Total financial liabilities	30 509 039	30 516 582

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

KLP Banken AS 2010		NOK thousands	KLP Banken AS Group 2010	
Capitalised value	Fair value		Capitalised value	Fair value
		Financial assets at fair value		
1 819	1 819	Interest-bearing securities	1 819	1 819
0	0	Lending to Norwegian local administrations	3 973 825	3 973 825
0	0	Financial derivatives	1 085	1 085
1 819	1 819	Total financial assets at fair value	3 976 729	3 976 729
		Financial assets at amortised cost		
266 190	266 190	Lending to and receivables from credit institutions	1 466 411	1 466 411
0	0	Lending to Norwegian local administrations	21 079 256	21 079 256
2 853 389	2 853 389	Lending to Group companies	0	0
1 266 603	1 266 603	Lending to private customers	1 266 603	1 266 603
4 386 182	4 386 182	Total financial assets at amortised cost	23 812 270	23 812 270
4 388 001	4 388 001	Total financial assets	27 788 999	27 788 999
		Debt to credit institutions at fair value		
0	0	Debt to credit institutions	12 962 748	12 962 748
0	0	Financial derivatives	135 752	135 752
0	0	Total financial liabilities at fair value	13 098 500	13 098 500
		Debt to credit institutions at fair value hedging		
0	0	Liabilities created on issuance of securities	245 086	249 751
0	0	Total financial liabilities at fair value hedging	245 086	249 751
		Debt to credit institutions and deposits at amortised cost		
3 203 964	3 203 964	Debt to credit institutions	3 203 964	3 203 964
0	0	Liabilities created on issuance of securities	9 000 018	9 000 018
1 025 734	1 025 734	Deposits from customers	1 025 734	1 025 734
4 229 698	4 229 698	Total financial liabilities at amortised cost	13 229 716	13 229 716
4 229 698	4 229 698	Total financial liabilities	26 573 302	26 577 967

Fair value of lending 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 continually 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	
31.12.2010	31.12.2011	NOK thousands	31.12.2011	31.12.2010
		Assets		
		Certificates, bonds, as well as lending and receivables		
1 819	1 874	Level 1: Value based on prices in an active market	1 874	1 819
0	0	Level 2: Value based on observable market data	1 682 212	3 973 825
0	0	Level 3: Value based on other than observable market data	0	0
1 819	1 874	Certificates, bonds, as well as lending and receivables	1 684 086	3 975 644
		Derivatives and other financial assets		
0	0	Level 1: Value based on prices in an active market	0	0
0	0	Level 2: Value based on observable market data	70 165	1 085
0	0	Level 3: Value based on other than observable market data	0	0
0	0	Derivatives and other financial assets	70 165	1 085
1 819	1 874	Total financial assets valued at fair value	1 754 251	3 976 729
		Liabilities		
		Debt to financial institutions and other deposits/borrowing		
0	0	Level 1: Value based on prices in an active market	0	0
0	0	Level 2: Value based on observable market data	0	14 304 408
0	0	Level 3: Value based on other than observable market data	0	0
0	0	Debt to financial institutions and other deposits/borrowing	0	14 304 408
		Derivatives and other financial assets		
0	0	Level 1: Value based on prices in an active market	0	0
0	5 398	Level 2: Value based on observable market data	192 594	135 752
0	0	Level 3: Value based on other than observable market data	0	0
0	5 398	Derivatives and other financial assets	192 594	135 752
0	5 398	Total financial liabilities at fair value	192 594	14 440 160

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 regularly available 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 noted prices in an active market (see above) for identical assets or liabilities that the entity has access to 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.

Note 7 Financial derivatives

KLP Banken AS 2010		KLP Banken AS 2011		NOK thousands	KLP Banken AS Group 2011		KLP Banken AS Group 2010	
Nominal sum	Fair value	Nominal sum	Fair value		Nominal sum	Fair value	Nominal sum	Fair value
0	0	465 000	-5 398	Lending in NOK	5 811 365	-177 944	4 079 628	-129 717
0	0	0	0	Borrowing in NOK	2 750 000	69 975	250 000	-4 950
0	0	0	0	Investments	100 000	-3 821	0	0
0	0	0	0	Borrowing in foreign currency	1 095 000	-10 640	0	0
0	0	465 000	-5 398	Total	9 756 365	-122 429	4 329 628	-134 667

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

2011 NOK thousands	Nominal value	Changed value in hedged risk	Effectiveness
Hedged object			
Lending to personal 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 in 2010

KLP Banken AS Group

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 personal 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 personal customers fixed interest in NOK	465 000	5 374	100,00 %
Interest-rate swap borrowing in NOK	2 750 000	69 975	109,75 %

2010 NOK thousands	Nominal value	Changed value in hedged risk	Effectiveness
Hedged object			
10 years fixed interest borrowing with coupon 4.6 %	250 000	4 914	96,42 %
Hedging instrument			
Interest rate swap	250 000	-5 096	103,72 %

The hedging instrument is an interest rate swap where we pay variable interest and receive fixed interest. The purpose of this hedging is to hedge the interest rate risk on the borrowing. The hedging object and the hedging instrument are struck on the same terms and conditions. Principal, interest, duration and interest dates are 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	
2010	2011	NOK thousands	2011	2010
4 923	7 371	Interest on lending to and receivables from credit institutions	52 757	33 336
66 733	181 873	Interest on lending to customers	889 856	861 829
2 510	80	Interest on securities	26 534	3 394
74 166	189 324	Total interest income	969 147	898 559
-55 652	-109 717	Interest on debt to KLP	-109 717	-55 652
0	0	Interest on debt to credit institutions	-763 520	-793 592
-16 473	-67 414	Interest on debt to customers	-67 414	-16 473
0	0	Premium/discount on covered bonds	-7 342	-3 910
0	0	Premium/discount on lending to customers	0	2 685
-1	-26	Other interest costs	-26	-7
-72 126	-177 157	Total interest costs	-948 019	-866 949
2 039	12 167	Net interest income	21 128	31 610

Note 10 Net commission income

KLP Banken AS			KLP Banken AS Group	
2010	2011	NOK thousands	2011	2010
56	185	Interbank commission	185	56
384	782	Short commission	782	384
8	70	Payments handling	70	8
1 843	3 142	Other commission income	3 142	1 843
2 290	4 179	Total commission income	4 179	2 290
-62	-201	Interbank commission	-201	-62
-37	-142	Payments handling	-142	-37
-79	-68	Other commission income	-70	-79
-178	-411	Total commission costs	-413	-178
2 112	3 768	Net commission	3 766	2 112

Note 11 Categories of financial assets and liabilities

KLP Banken AS 2011					NOK thousands	KLP Banken AS Group 2011				
FVO	HFT	FVH	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	0	70 165	0	0	70 165
1 874	0	0	0	1 874	Interest-bearing securities	1 874	1 535 086	0	0	1 536 960
1 874	0	470 374	7 986 744	8 458 992	Total	146 261	1 605 251	5 635 125	24 246 954	31 633 591
FVO	HFT	FVH	OLI	Total	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	0	192 594	0	0	192 594
0	5 398	0	8 163 989	8 169 386	Total	0	192 594	2 813 761	27 502 684	30 509 039

KLP Banken AS 2010					NOK thousands	KLP Banken AS Group 2010				
FVO	HFT	FVL	LAR	Total	Financial assets	FVO	HFT	FVL	LAR	Total
0	0	0	3 119 581	3 119 581	Lending to and receivables from credit institutions	0	0	0	1 466 411	1 466 411
0	0	0	1 266 603	1 266 603	Lending to and receivables from customers	3 973 825	0	0	22 345 859	26 319 684
0	0	0	0	0	Financial derivatives	0	1 085	0	0	1 085
1 819	0	0	0	1 819	Interest-bearing securities	1 819	0	0	0	1 819
1 819	0	0	4 386 184	4 388 003	Total	3 975 644	1 085	0	23 812 270	27 788 999
FVO	HFT	FVH	OLI	Total	Financial liabilities	FVO	HFT	FVH	OLI	Total
0	0	0	3 203 964	3 203 964	Debt to credit institutions	12 962 748	0	0	3 203 964	16 166 712
0	0	0	0	0	Liabilities created on issuance of securities	0	0	245 086	9 000 018	9 245 104
0	0	0	1 025 734	1 025 734	Deposits	0	0	0	1 025 734	1 025 734
0	0	0	0	0	Financial derivatives	0	135 752	0	0	135 752
0	0	0	4 229 698	4 229 698	Total	12 962 748	135 752	245 086	13 229 716	26 573 302

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 amortised cost - loans and receivables
OLI: Financial instruments at amortised cost - other liabilities
FVL: Lending fair value hedging
LFV: Liabilities fair value hedging

Note 12 Interest-bearing securities

2011 KLP Banken AS				NOK thousands	2011 KLP Banken AS Group			
Acquisition cost	Unreal. gain/loss	Accrued interest	Market value	Debtor categories	Acquisition 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 administrations	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 %

2011 KLP Banken AS				NOK thousands	2011 KLP Banken AS Group			
Acquisition cost	Unreal. gain/loss	Accrued interest	Market value	Debtor categories	Acquisition cost	Unreal. gain/loss	Accrued interest	Market value
1 875	-56	0	1 819	Unit trusts	1 875	-56	0	1 819
1 875	-56	0	1 819	Total interest-bearing securities	1 875	-56	0	1 819

Effective interest rate: 3,06 % Effective interest rate: 3,06 %

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

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 overall risk policy that covers principles, organisation, limits etc for the bank's total risk. The risk policies are of a high level 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 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 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 realised, or in the form of more costly financing.

14.1 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 continually 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.

14.2 MATURITY ANALYSIS

The tables below show the maturity analysis of the Group's assets and liabilities as at 31 December 2011 based on expected maturity and contractual maturity respectively.

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Liquidity risk KLP Banken Group

Maturity analysis for assets and liabilities based on expected maturity:

31 December 2011 NOK thousands	Total principal	Up to 1 mnth	From 1 mnth to 3 mnths	From 3 mnths to 12 mnths	1 yr to 5 yrs	Over 5 yrs
Lending	28 129 843	92 116	190 383	2 835 522	10 846 414	14 165 407
Securities	1 552 875	0	1 875	0	398 000	1 153 000
Receivables from credit institutions	1 608 245	0	1 608 245	0	0	0
Total	31 290 963	92 116	1 800 503	2 835 522	11 244 414	15 318 407
Liabilities to depositors	1 839 938	18 399	55 198	91 997	919 969	754 375
Liabilities created on issuance of securities	24 045 000	0	1 500 000	6 400 000	15 395 000	750 000
Debt to credit institutions	4 300 000	0	4 300 000	0	0	0
Total	30 184 938	18 399	5 855 198	6 491 997	16 314 969	1 504 375
Net cash flows	1 106 025	73 717	-4 054 695	-3 656 474	-5 070 555	13 814 033

Maturity analysis for assets and liabilities based on contractual maturity:

31 December 2011 NOK thousands	Total principal	Up to 1 mnth	From 1 mnth to 3 mnths	From 3 mnths to 12 mnths	1 yr to 5 yrs	Over 5 yrs
Lending	28 129 843	92 116	190 383	1 445 242	5 541 165	20 860 937
Securities	1 552 875	0	1 875	0	398 000	1 153 000
Receivables from credit institutions	1 608 245	1 608 245	0	0	0	0
Total	31 290 963	1 700 361	192 258	1 445 242	5 939 165	22 013 937
Liabilities to depositors	1 839 938	1 839 938	0	0	0	0
Liabilities created on issuance of securities	24 045 000	0	1 500 000	6 400 000	15 395 000	750 000
Debt to credit institutions	4 300 000	0	4 300 000	0	0	0
Total	30 184 938	1 839 938	5 800 000	6 400 000	15 395 000	750 000
Net cash flows	1 106 025	-139 577	-5 607 742	-4 954 758	-9 455 835	21 263 937

Liquidity risk KLP Banken AS Group

Maturity analysis for assets and liabilities based on expected maturity:

31 December 2010 NOK thousands	Total principal	Up to 1 mnth	From 1 mnth to 3 mnths	From 3 mnths to 12 mnths	1 yr to 5 yrs	Over 5 yrs
Lending	26 121 905	157 303	358 067	1 762 635	9 507 577	14 336 323
Securities	1 875	0	1 875	0	0	0
Receivables from credit institutions	1 466 410	1 466 410	0	0	0	0
Total	27 590 190	1 623 713	359 942	1 762 635	9 507 577	14 336 323
Liabilities to depositors	1 025 734	1 025 734	0	0	0	0
Liabilities created on issuance of securities	9 250 000	0	0	3 000 000	6 000 000	250 000
Debt to credit institutions	16 082 048	0	7 494 016	8 588 032	0	0
Total	26 357 782	1 025 734	7 494 016	11 588 032	6 000 000	250 000
Net cash flows	1 232 408	597 979	-7 134 074	-9 825 397	3 507 577	14 086 323

Maturity analysis for assets and liabilities based on contractual maturity:

31 December 2010 NOK thousands	Total principal	Up to 1 mnth	From 1 mnth to 3 mnths	From 3 mnths to 12 mnths	1 yr to 5 yrs	Over 5 yrs
Lending	26 121 905	70 230	183 921	978 978	5 328 072	19 560 704
Securities	1 875	0	1 875	0	0	0
Receivables from credit institutions	1 466 410	1 466 410	0	0	0	0
Total	27 590 190	1 536 640	185 796	978 978	5 328 072	19 560 704
Liabilities to depositors	1 025 734	1 025 734	0	0	0	0
Liabilities created on issuance of securities	9 250 000	0	0	3 000 000	6 000 000	250 000
Debt to credit institutions	16 082 048	0	7 494 016	8 588 032	0	0
Total	26 357 782	1 025 734	7 494 016	11 588 032	6 000 000	250 000
Net cash flows	1 232 408	510 906	-7 308 220	-10 609 054	-671 928	19 310 704

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. As at 31 December 2010 the exposure was limited to interest rate risk. Interest-rate risk arises as a result of differences in timing of interest rate adjustment for assets and liabilities. The risk associated with such imbalances is reduced by using derivative contracts. All borrowing and lending is in Norwegian kroner, but exchange-rate risk will arise in proportion to the Group issuing debt in foreign currency. The risk associated with changes in exchange rates will be reduced 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 overall guidelines, requirements and limits associated with market risk. The policy dictates that the market risk should be minimised 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 agreed. 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 2011

31 December 2011 NOK thousands	Total principal	Up to 1 mnth	From 1 mnth to 3 mnths	From 3 mnths to 12 mnths	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
Liabilities 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 risk KLP Banken AS Group

Repricing dates for interest-bearing assets and liabilities as at 31 December 2011

31 December 2011 NOK thousands	Total principal	Up to 1 mnth	From 1 mnth to 3 mnths	From 3 mnths to 12 mnths	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
Liabilities 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

Interest rate risk KLP Banken AS

Repricing dates for interest-bearing assets and liabilities as at 31 December 2010

31 December 2010 NOK thousands	Total principal	Up to 1 mnth	From 1 mnth to 3 mnths	From 3 mnths to 12 mnths	1 yr to 5 yrs	Over 5 yrs
Lending	1 264 640	0	1 264 640	0	0	0
Securities	1 875		1 875			
Cash and receivables from credit institutions	3 116 190	266 190	2 850 000	0	0	0
Total	4 382 705	266 190	4 116 515	0	0	0
Liabilities to depositors	1 025 734	1 025 734	0	0	0	0
Liabilities to financial institutions	3 200 000	0	3 200 000	0	0	0
Liabilities created on issuance of securities	0	0	0	0	0	0
Total	4 225 734	1 025 734	3 200 000	0	0	0
Gap	156 971	-759 544	916 515	0	0	0

Interest risk KLP Banken AS Group

Repricing dates for interest-bearing assets and liabilities as at 31 December 2010

31 December 2010 NOK thousands	Total principal	Up to 1 mnth	From 1 mnth to 3 mnths	From 3 mnths to 12 mnths	1 yr to 5 yrs	Over 5 yrs
Lending	26 121 905	16 711 810	4 945 128	2 402 271	1 830 623	232 073
Securities	1 875	0	1 875	0	0	0
Cash and receivables from credit institutions	1 466 410	1 466 410		0	0	0
Total	27 590 190	18 178 220	4 947 003	2 402 271	1 830 623	232 073
Liabilities to depositors	1 025 734	1 025 734	0	0	0	0
Liabilities to financial institutions	16 082 049	0	16 082 049	0	0	0
Liabilities created on issuance of securities	9 250 000	0	9 000 000	0	0	250 000
Total	26 357 783	1 025 734	25 082 049	0	0	250 000
Gap	1 232 407	17 152 486	-20 135 046	2 402 271	1 830 623	-17 927
Financial derivatives	0	1 079 966	2 451 385	-1 732 465	-1 820 528	21 642
Net gap	1 232 407	18 232 452	-17 683 661	669 806	10 095	3 715

The Group's interest-rate sensitivity as at 31 December 2011, measured as value change on a one percentage point change in all interest rates, was NOK 10 million.

15.3 EXCHANGE RATE RISK

The Group has one borrowing in foreign currency of SEK 1,250 million 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 Credit risk

Credit risk is understood here to mean the risk of loss associated with lending 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 were 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	31.12.2011	31.12. 2010	31.12. 2011	31.12. 2010
Lending to the private market with mortgage lien	3 200 863	1 264 640	3 200 863	1 264 640
Lending to municipalities and county administrations	0	0	22 201 352	19 153 951
Lending with municipal/county administration guarantee	0	0	2 710 386	4 507 113
Security with guarantee from Norwegian banks	0	0	-	1 174 939
Lending with Government guarantee	0	0	17 242	21 262
Total	3 200 863	1 264 640	28 129 843	26 121 905
Sums falling due more than 12 months after the end of the reporting period	3 040 820	1 201 408	26 321 534	24 866 769

In addition to lending, the Group has credit risk exposure in the form of deposits in banks and investments in interest-bearing securities, as well as derivative contracts struck. The purpose of such derivative agreements is to reduce risks arising as a result of the Company's borrowing and lending activities.

16.1 MEASUREMENT OF CREDIT RISK

The Board has determined a credit policy that contains overall guidelines, requirements and limits associated with credit risk. The policy lays down 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. Further, 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.

16.2 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 personal market loans are only provided with mortgage lien in 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 authorisations.

16.3 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	31.12.2011	31.12. 2010	31.12. 2011	31.12. 2010
Lending to and receivables from credit institutions	5 243 196	3 116 190	3 036 876	1 466 410
Lending to and receivables from customers	3 213 921	1 269 904	28 418 221	26 392 473
Financial derivatives	0	0	70 165	0
TOTAL	8 457 117	4 386 094	31 525 262	27 858 883

16.4 LOANS FALLEN DUE OR WRITTEN DOWN

The bank has very low losses and considers all receivables to be satisfactorily secured. Losses (see Note 18) are associated only with housing mortgages.

	KLP Banken AS		KLP Banken AS Group	
NOK thousands	31.12.2011	31.12. 2010	31.12. 2011	31.12. 2010
Principal on loans with payments with 1-30 days' default	69 280	36 940	898 964	306 811
Principal on loans with payments with 31-90 days' default	7 340	2610	16 340	2 610
Principal on loans with payments with more than 90 days' default	14 080	550	53 620	76 254
Total loans fallen due	90 700	40 100	968 924	385 675
Relevant security or guarantees	90 700	40 100	968 924	385 675
Lending that has been written down	0	0	0	0

Neither the parent bank nor the Group have incurred losses on lending in excess of any effects of changes in fair value included in the income statement item "Net gains/(loss) from financial investments at fair value". All receivables are considered satisfactorily secured.

16.5 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 2011 was about 3.7 per cent of the Group's total lending.

Note 17 Lending and receivables

KLP Banken AS 2010	KLP Banken AS 2011	NOK thousands	KLP Banken AS Group 2011	KLP Banken AS Group 2010
		Lending to and receivables from credit institutions		
266 190	472 640	Bank deposits	1 610 889	1 466 411
2 850 000	4 762 640	Principal on lending to Group companies	0	0
3 389	10 560	Accrued interest	0	0
3 119 579	5 245 840	Lending to and receivables from credit institutions	1 610 889	1 466 411
1 819	1 874	Bond funds	1 874	1 819
		Lending to and receivables from customers		
1 264 640	3 200 823	Principle on lending to customers	28 240 595	26 116 366
90	313	Overdraft current account	313	90
0	-49	Individual write-downs	-49	0
1 875	4 815	Accrued interest	166 605	139 278
0	5 374	Fair value hedging	8 113	63 950
1 266 605	3 211 277	Lending to and receivables from customers	28 415 577	26 319 684

Note 18 Losses on loans in the retail market

KLP Banken AS 2010	KLP Banken AS 2011	NOK thousands	KLP Banken AS Group 2011	KLP Banken AS Group 2010
0	40	Known losses	40	0
0	0	Reversal of previous write-downs	0	0
0	9	Change in individual write-downs	9	0
0	0	Change in write-downs by group	0	0
0	50	Total losses on lending	50	0
2 411	14 080	Gross default exceeding 90 days	14 080	2 411
0	0	Gross other doubtful loans	0	0

Note 19 Debt to credit institutions

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 NOK thousands	Currency	Interest	Due date	Nominal	Accrued interest	31.12.2010 Book value
Debt to KLP	NOK	Variable	16.03.2011	3 200 000	3 964	3 203 964
Total liabilities to credit institutions				3 200 000	3 964	3 203 964

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

KLP Banken AS Group NOK thousands	Currency	Interest	Due date	Nominal	Accrued interest	31.12.2010 Book value
Debt to KLP	NOK	Variable	16.03.2011	3 200 000	3 964	3 203 964
Export finance loan 6	NOK	Variable	15.03.2011	4 294 016	17 643	4 311 659
Export finance loan 7	NOK	Variable	15.06.2011	4 294 016	15 775	4 309 791
Export finance loan 8	NOK	Variable	15.09.2011	4 294 016	13 617	4 307 634
Value adjustment lien notes Export finance value at fair value						1 894
Interim current liabilities lending						31 770
Total liabilities to credit institutions				16 082 048	50 999	16 166 712

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

KLP Banken AS NOK thousands	Nominal	Currency	Interest	Issued	Due date	Accrued interest	31.12.2011 Book value
Certificate loan, KLP	1 000 000	NOK	Fixed	31.08.2011	01.12.2012	10 952	1 010 952
Certificate loan	1 000 000	NOK	Fixed	01.09.2011	01.03.2012	6 326	1 006 326
Total certificate loans issued							2 017 278

KLP Banken AS Group NOK thousands	Nominal	Currency	Interest	Issued	Due date	Accrued interest	31.12.2011 Book value
Securities liabilities - stock exchange listed covered bonds							
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
Amortisation / value adjustment							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	1 000 000	NOK	Fixed	01.09.2011	01.03.2012	6 326	1 006 326
Total certificate loans issued							2 017 278
Total liabilities created on issuance of securities							24 169 735

KLP Banken AS Group NOK thousands	Nominal	Currency	Interest	Issued	Due date	Accrued interest	31.12.2010 Book value
Securities liabilities - stock exchange listed covered bonds							
ISIN code							
NO0010587793	3 000 000	NOK	Variable	2010	2011	2 530	3 002 530
NO0010585185	3 500 000	NOK	Variable	2010	2015	1 760	3 501 760
NO0010592884	1 500 000	NOK	Variable	2010	2012	536	1 500 536
NO0010592892	1 000 000	NOK	Variable	2010	2013	3 641	1 003 641
NO0010592900	250 000	NOK	Fixed	2010	2020	4 909	254 909
Amortisation / value adjustment							-18 271
Total covered bonds issued							9 245 104

Note 21 Deposits from customers

KLP Banken AS 2010	 2011	NOK thousands	KLP Banken AS Group 2011	 2010
1 025 734	1 840 262	Deposits from customers without agreed duration	1 840 262	1 025 734
1 025 734	1 840 262	Total deposits from customers without agreed duration	1 840 262	1 025 734
3,2 %	3,5 %	Average interest rate	3,5 %	3,2 %
		Customer deposits divided by customer groups		
720 569	1 808 845	Deposits from customers, personal market	1 808 845	720 569
305 165	31 417	Deposits from customers, public sector market	31 417	305 165
1 025 734	1 840 262	Total deposits from customers	1 840 262	1 025 734

Note 22 Shares in Group companies

KLP Banken AS NOK millions	Office and business address	Book value 31.12.2010	Book value 31.12.2011	Holding %	OE on first acquisition	Acquisition cost	Owners' equity transaction	Writedown
Enterprises in the same Group								
KLP Kreditt AS	Beddingen 9, 7014 Trondheim	599,2	306,5	100	869,6	869,6	-300,0	-263,1
KLP Kommunekreditt AS	Beddingen 9, 7014 Trondheim	375,0	634,4	100	50,0	50,0	625,0	-40,6
Total		974,2	941,0		919,6	919,6	325,0	-303,7

Note 23 Fixed assets

KLP Banken AS			KLP Banken AS Group	
2010	2011	NOK thousands	2011	2010
0	0	Acquisition cost 01.01	998	998
0	272	Acquired during the period	272	0
0	272	Acquisition cost 31.12	1 270	998
0	0	Acc. depreciation previous years	-323	0
0	-50	Annual depreciation	-313	-323
0	222	Book value 31.12	634	675

Note 24 Intangible assets

KLP Banken AS			KLP Banken AS Group	
2010	2011	NOK thousands	2011	2010
25 376	25 376	Acquisition cost 01.01	25 376	25 376
0	0	Additions	0	0
0	0	Disposals	0	0
25 376	25 376	Acquisition cost 31.12	25 376	25 376
0	-1 928	Accumulated depreciation previous years	-1 928	0
-1 928	-1 928	Ordinary depreciation for the year	-1 928	-1 928
0	0	Write-down	0	0
23 448	21 520	Book value 31.12	21 520	23 448
7 years		Depreciation period	7 years	

Note 25 Capital adequacy

KLP Banken AS			KLP Banken AS Group	
2010	2011	NOK thousands	2011	2010
1 190 000	1 134 717	Share capital and share premium fund	1 021 372	1 056 443
15 205	25 788	Other owners' equity	137 665	124 990
1 205 205	1 160 505	Owners' equity	1 159 037	1 181 433
0		Unrealised value changes	0	0
0		Interim profit/loss	0	0
-23 448	-21 520	Deduction goodwill and other intangible assets	-21 520	-23 448
-1 023	-5 250	Deferred tax assets	-21 949	0
1 180 734	1 133 735	Core capital	1 115 568	1 158 344
0	0	Supplementary capital	0	0
0	0	Supplementary capital	0	0
1 180 734	1 133 735	Total counting Tier 1 and 2 capital	1 115 568	1 158 344
354 054	670 335	Capital requirement	619 028	652 407
826 680	463 400	Surplus of Tier 1 and 2 capital	496 540	505 937
		Estimate basis credit risk:		
2 491 825	5 573 438	Institutions	5 727 763	4 666 330
0	0	Enterprises	0	129 150
506 075	1 083 538	Investments with mortgage security in real estate	1 083 538	2 386 113
0	35 063	Investments fallen due	0	0
363	375	Holdings securities funds	306 163	506 075
1 023 375	1 282 738	Other holdings	346 513	0
4 021 638	7 975 150	Estimate basis credit risk	7 463 975	7 687 668
321 731	638 012	Credit risk	597 118	615 013
32 323	32 323	Operational risk	21 910	0
354 054	670 335	Total capital requirement assets	619 028	630 497
26,7 %	13,5 %	Core capital adequacy ratio	14,4 %	14,2 %
0,0 %	0,0 %	Supplementary capital ratio	0,0 %	0,0 %
26,7 %	13,5 %	Capital adequacy ratio	14,4 %	14,2 %

Basel II regulations have been used in calculating capital adequacy.
The authorities' minimum requirement for capital adequacy is set at 8 per cent for financial institutions.

Note 26 Tax

KLP Banken AS 2010	KLP Banken AS 2011	NOK thousands	KLP Banken AS Group 2011	KLP Banken AS Group 2010
50 166	-48 928	Accounting income before taxes	-62 158	35 850
		Differences between accounting and tax income:		
270 442	33 297	Reversal of income share re investment in subsidiaries	0	0
3 449	0	Reversal of value reduction, financial assets	35 545	3 449
-340 636	0	Other deductions (Group contribution received during the year)	0	-10 315
-4 654	-3	Reversal of value increase financial assets	-110 303	-4 654
303	535	Other permanent differences	538	746
3 598	3 796	Change in differences between accounting and tax income	120 143	29 176
-17 332	-11 304	Taxable income	-16 235	54 253
77 760	0	Group contribution received with tax effect		
-25 788	0	Group contribution paid with tax effect	-35 119	-25 788
34 640	-11 304	Base for tax payable	-51 354	28 465
-34 640	0	Deficit carryforward allowed from previous years	-6 215	-34 679
34 640	-11 304	Change for the year in allowable carryforward deficit	-51 354	28 464
0	-11 304	Total allowable carryforward deficit as at 31 December	-57 569	-6 215
		Reconciliation of basis for deferred tax		
		Tax-increasing temporary differences:		
0	5 374	Lending to customers and credit enterprises	104 188	63 950
0	0	Elimination of losses on realisation internally within the Group	6 974	0
0	5 374	Total tax-increasing temporary differences	111 162	63 950
		Tax-reducing temporary differences:		
-7	-30	Fixed assets	-501	-363
0	-5 374	Financial instruments	-32 555	-28 785
-3 591	-7 364	Pension obligations	-81 263	727
-56	-53	Securities	-8 650	-1 950
0	0	Correction of NIBOR loan from fair value to amortised cost in the Group	36 255	36 255
0	0	Correction of incorrect OB Group corrections Atlanterhavstunnelen	-45 267	-45 267
-3 654	-12 821	Total tax-reducing temporary differences	-131 981	-39 382
-3 654	-7 447	Net temporary differences	-20 819	24 568
0	-11 304	Allowable carryforward deficit	-57 569	-6 215
-3 654	-18 751	Basis for deferred tax	-78 388	18 353
-1 023	-5 250	28% deferred tax assets	-21 949	5 139
0	0	Cost of taxes on items under expanded income	0	0
1 023	5 250	Capitalised deferred tax assets	-21 949	5 139
9 995	4 227	Change in deferred tax taken to income	-27 087	16 667
		Summary of tax expense for the year		
9 995	4 227	Change in deferred tax taken to income	-27 087	16 667
0	0	Tax payable taken to income	0	0
9 995	4 227	Total taxes	-27 087	16 667

It is expected that the operating margins will improve in immediate years. At the same time a number of one-off costs have been taken, resulting in future fixed costs being reduced.

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 views on the future we believe it justifiable to capitalise the entire 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 benefits-based pension scheme that satisfies the requirements for mandatory occupational pensions ('obligatorisk tjenestepensjon', or OTP). The company has a contract pension (AFP) scheme.

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

NOK thousands	Joint scheme	Via operation	2011	2010
Pension costs				
Present value of accumulation for the year	5 101	648	5 750	3 858
Interest cost	476	234	710	417
Gross pension cost	5 578	882	6 460	4 275
Expected return	-302	0	-302	-122
Administration costs/Interest guarantee	168	0	168	180
Net pension cost including administration costs	5 444	882	6 326	4 334
Social security costs net pension cost including administration costs	768	124	892	611
Actuarial loss/gain taken to income	79	204	283	190
Plan change taken to income	0	0	0	-466
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 taken to income	6 290	1 211	7 501	4 668
Of which SSC on actuarial loss/gain taken to income	11	29	40	27

NOK thousands	Joint scheme	Via operation	2011	2010
Pension obligations				
Gross accrued obligations	16 465	6 866	23 332	12 449
Pension assets	8 939	0	8 939	4 491
Net pension obligations/assets before social security costs	7 527	6 866	14 393	7 958
Social security costs	1 061	968	2 029	1 122
Net pension obligations incl. social security costs	8 588	7 835	16 422	9 080
Actuarial loss/gain excl social security costs not taken to income	-4 058	-3 880	-7 939	-4 811
Actuarial loss/gain social security costs not taken to income	-572	-547	-1 119	-678
Plan changes not taken to income	0	0	0	0
Capitalised net liabilities/assets including social security costs	3 957	3 407	7 364	3 591

Number	2011	2010
Member status ("Fellesordningen")		
Number active	50	34
Number deferred	0	0
Number of pensioners	4	0

NOK thousands	Joint scheme	Via operation	2011	2010
Development of actuarial gains/losses not taken to income				
Actuarial gains/losses not taken to income OB	-1 892	-3 597	-5 489	-3 202
Actuarial gain/loss funds	1 932	0	1 932	709
Actuarial gain/loss obligation	-4 400	-907	-5 308	-2 880
Actuarial loss/gain taken to income	79	204	283	190
SSC on deviation	-348	-128	-476	-306
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 CB	-4 631	-4 428	-9 058	-5 489

NOK thousands	Joint scheme	Via operation	2011	2010
Change in pension assets				
Gross pension assets book value 01.01.	4 491	0	4 491	622
Expected return	302	0	302	122
Actuarial losses/gains	1 932	0	1 932	709
Administration costs/Interest guarantee	-168	0	-168	-180
Takeovers/acquisitions	0	0	0	0
Premiums paid in/contribution (including administration costs)	3 020	247	3 267	3 456
Curtailment/settlement	0	0	0	0
Payments	-638	-247	-885	-238
Gross pension assets book value 31.12.	8 939	0	8 939	4 491

NOK thousands	Joint scheme	Via operation	2011	2010
Change in pension obligations				
Gross pension obligations book value 01.01.	7 125	5 324	12 449	5 940
Plan change	0	0	0	-409
Gross pension obligations OB after plan change	7 125	5 324	12 449	5 531
Present value of accumulation for the year	5 101	648	5 750	3 858
Interest cost	476	234	710	417
Curtailment/settlement	0	0	0	0
Actuarial losses/gains	4 400	907	5 308	2 880
Takeovers/acquisitions	0	0	0	0
Payments	-638	-247	-885	-238
Gross pension obligations book value 31.12.	16 465	6 866	23 332	12 449

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

NOK thousands	Joint scheme	Via operation	2011	2010
Pension scheme's over-/under-financing				
Present value of the defined benefits pension obligation	16 465	6 866	23 332	12 449
Fair value of the pension assets	8 939	0	8 939	4 491
Net pension obligations	7 527	6 866	14 393	7 958

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 the pension assets	4 491	622		
Net pension obligations	7 958	589	0	0

NOK thousands	Joint scheme	Via operation	2011	2010
Return on pension assets				
Expected returns on pension assets	302	0	302	122
Actuarial loss/gain on pension funds	1 932	0	1 932	709
Actual return on pension funds	2 234	0	2 234	831

NOK thousands	Joint scheme	Via operation	2011	2010
Plan changes during the period				
Plan changes during the period	0	0	0	-409
SSC on plan changes	0	0	0	-58
Plan changes during the period taken to income	0	0	0	466
Plan change not taken to income CB	0	0	0	0

Financial assumptions for the result (common to all pension schemes)	2011	2010
Discount rate	4,00 %	4,50 %
Salary growth	4,00 %	4,50 %
National Insurance basic sum (G)	3,75 %	4,25 %
Pension increases	2,97 %	4,25 %
Expected return	5,40 %	5,70 %
Social security contribution rates	14,10 %	14,10 %
Amortisation time	15	15
Corridor magnitude	10,00 %	10,00 %

Financial assumptions for the financial position statement (common to all pension schemes)	2011	2010
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 %
Amortisation time	15	15
Corridor magnitude	10,00 %	10,00 %

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 invalidity develop amongst the members of the pension scheme. The 2011 calculation is based on a strengthened K2005 mortality tariff and an invalidity frequency corresponding with that observed in KLP's total membership.

Take-up of AFP for 2011 (per cent in relation to remaining employees):
On reaching 62 years there are 45 per cent who retire with an AFP pension. The remainder retire on reaching pensionable age.

Voluntary termination for Fellesordning during 2011 (in %)

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

Longevity: K2005 without a safety margin has been used for mortality assumptions in 2011.

Pensions via operation:
Take-up of AFP/premature 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:	2011	2010
Property	11,7 %	11,3 %
Lending	10,4 %	13,1 %
Shares	14,3 %	18,5 %
Long-term/HTM bonds	33,1 %	32,9 %
Short-term bonds	22,0 %	22,5 %
Liquidity/money market	8,6 %	1,6 %
Total	100,0 %	100,0 %

The pension funds are based on KLP's financial funds in the common portfolio. The table shows percentage placing of the pension funds managed at the end of the year by KLP. Value-adjusted return on the assets was 3.3 per cent in 2011 and 7.5 per cent in 2010.

Expected payment into benefits plans after cessation of employment for the period 1 January 2011 – 31 December 2011 is NOK 4,184,250.

Note 28 Salary and obligations towards senior management/governing bodies

2011 NOK thousands	Salary, fees etc.	Other benefits	Annual pension accumulation	Loan with the Group	Interest rate as at 31 Dec 11	Payments plan [4]
Senior staff						
Leif Magne Andersen, Managing Director KLP Banken AS [3]	206	10	51	0	-	-
Arnulf Arnøy, Managing Director KLP Kommunekreditt AS/KLP Kreditt AS	1 427	145	543	2 269	2,95-3,15	S2031
Board of Directors [1]						
Sverre Thornes, Chair	0			7 507	2,70-3,60	A2041
Aage E. Schaanning	0			2 977	2,70-2,95	A2031
Mette-Jorunn Meisland	0			6 000	2,95-3,45	A2038
Mai-Lill Ibsen	93			0	-	-
Jan Otto Langmoen	92			0	-	-
Jan Tryggestad, elected by and from the employees	87			0	-	-
Control Committee [2]						
Ole Hetland	19			0	-	-
Jan Rune Fagermoen	16					
Bengt P. Johansen	16			0	-	-
Dordi E. Flormælen	8					
Line Alfarrustad	8			0	-	-
Anne-Marie Barane	8			0	-	-
Aud Mork	8					
Thorvald Hillestad	6			0	-	-
Tor Berge	6					
Supervisory Board						
Total Supervisory Board	83			8 432		
Employees						
Total loans to employees of KLP Banken AS				61 056		

2010 NOK thousands	Salary, fees etc.	Other benefits	Annual pension accumulation	Loan with the Group	Interest rate as at 31 Dec 10	Payments plan [4]
Senior staff						
Stig Helberg, Managing Director KLP Banken AS	1 719	118	502	0	-	-
Arnulf Arnøy, Managing Director KLP Kommunekreditt AS/KLP Kreditt AS	1 399	143	496	1 497	3,15	A2032
Board of Directors [1]						
Sverre Thornes, Chair	0			6 907	3,15-3,40	A2038
Aage E. Schaanning	0			3 127	3,15-3,40	S2033
Mette-Jorunn Meisland	0			6 000	3,15-3,50	A2038
Mai-Lill Ibsen	215			0	-	-
Jan Otto Langmoen	135			0	-	-
Jan Tryggestad, elected by and from the employees	45			0	-	-
Control Committee [2]						
Ole Hetland, Chair	15			0	-	-
Anne-Marie Barane	13			0	-	-
Aud Mork	13			0	-	-
Jan Rune Fagermoen	13			0	-	-
Bengt Johansen	8			0	-	-
Supervisory Board						
Total Supervisory Board	37			4 747		
Employees						
Total loans to employees of KLP Banken AS				20 770		

[1] Board fees are paid to external board members and board members elected by the employees. Other internal board members do not receive fees, but a sum corresponding to standard board fees is refunded to the Company in which the individual is employed.
[2] KLP Banken/the Group have a common Control Committee with the rest of the Group. All considerations for 2011 in regard to the banking group were paid from KLP Banken AS. The members of the control committee have together received a further NOK 363,000 from the Group during 2011 and NOK 295,000 during 2010.
[3] During the period from January to November 2011 the positions of managing director of KLP Banken AS and KLP Bank Holding AS have been filled by a contracted consultant.
[4] S= Serial loan, A= Annuity loan, last payment.

The Managing Directors of KLP Banken AS and of KLP Kommunekreditt AS/KLP Kreditt AS have a pensionable age of 65.
None of the senior management has a bonus scheme.

There are no obligations to provide the Chairman of the Board special consideration or other benefits on termination or change of the appointment.
All employees in the KLP Group may take up loans with the Group on standard lending terms and conditions for staff. No senior management have terms and conditions that deviate from this. Loans to external members of the Board of Directors, the Control Committee and the Supervisory Board are only made on ordinary lending terms and conditions. The Group's lending to the personal market/employees will from 2010 be provided from KLP Banken AS: previously such loans were provided from Kommunal Landspensjonskassse.

All benefits are shown without any social security costs.

Note 29 Number of employees

KLP Banken AS 2010	KLP Banken AS 2011		KLP Banken AS Group 2011	KLP Banken AS Group 2010
48	52	Number of employees as at 31.12	52	48
41	50	Average number of employees	50	48

The company is subject to the rules for public sector occupational pension.

Note 30 Pay and general management costs

KLP Banken AS 2010	KLP Banken AS 2011	NOK thousands	KLP Banken AS Group 2011	KLP Banken AS Group 2010
-30 804	-31 370	Salary	-31 370	-30 804
-4 951	-4 883	Social security costs	-4 883	-4 951
-4 269	-7 146	Pensions	-7 146	-1 258
-727	-1 435	Other benefits	-1 435	-774
-40 750	-44 832	Total	-44 833	-37 787

Note 31 Other liabilities and provision for accrued costs

KLP Banken AS 2010	KLP Banken AS 2011	NOK thousands	KLP Banken AS Group 2011	KLP Banken AS Group 2010
497	1 568	Creditors	1 817	1 171
79 559	113 433	Receivables by companies in the same Group	16 767	79 696
177	0	Miscellaneous liabilities	0	177
80 233	115 001	Total other liabilities	18 584	81 043
2 110	2 170	Advances	2 170	2 110
1 514	1 562	Social security costs	1 562	1 514
3 213	3 344	Holiday Pay	3 344	3 213
3 591	7 364	Pension obligations	7 421	4 186
0	56	VAT	2 922	358
0	0	Provisioned costs	0	116
10 428	14 495	Total accrued costs and liabilities	17 418	11 497

Note 32 Other assets

KLP Banken AS 2010	KLP Banken AS 2011	NOK thousands	KLP Banken AS Group 2011	KLP Banken AS Group 2010
138 864	28 065	Receivables from companies in the same Group	21 943	49 221
24	520	Miscellaneous receivables	520	24
0	0	Shares in Kommunekonsult AS	0	204
0	3 923	Prepaid expenses	3 923	2 519
138 888	32 508	Total	26 386	51 967

Note 33 Transactions with related parties

KLP Banken AS 2010	KLP Banken AS 2011	NOK thousands	KLP Banken AS Group 2011	KLP Banken AS Group 2010
		Income statement items		
52 513	59 480	KLP, fees lending management	59 480	52 513
2 942	19 592	KLP Kommunekreditt AS, administrative services (at cost)	0	0
17 003	5 406	KLP Kreditt AS, administrative services (at cost)	0	0
7 524	83 146	KLP Kommunekreditt AS, interest lending	0	0
43 085	18 977	KLP Kreditt AS, interest lending	0	0
-55 652	-109 717	KLP, interest borrowing	-109 717	-55 652
0	-10 952	KLP, interest on certificate loan	-10 952	0
-69	-97	KLP Kapitalforvaltning AS, fees for services provided	-680	-499
-3 329	-3 411	KLP, rent	-3 411	-3 329
-4 269	-7 146	KLP, pension premium	-7 146	-4 269
-31 197	-39 226	KLP, staff services (at cost)	-39 226	-31 197
0	491	KLP, subsidised interest employee loans	491	0
0	55	KLP Skade AS, subsidised interest employee loans	55	0
0	7	KLP Fondsforvaltning AS, subsidised interest employee loans	7	0
0	65	KLP Kapitalforvaltning AS, subsidised interest employee loans	65	0
0	9	KLP Bedriftspensjon AS, subsidised interest employee loans	9	0
0	28	KLP Eiendom AS, subsidised interest employee loans	28	0
28 551	16 708	Total	-110 997	-42 433
		Statement of financial position items		
-3 203 964	-4 306 449	Debt to KLP	-4 306 449	-3 203 964
0	-1 010 952	Debt to KLP, certificate loan	-1 010 952	
1 341 660	1 201 800	Lending KLP Kreditt AS	0	0
1 511 729	3 568 757	Lending KLP Kommunekreditt AS	0	0
39 993	-87 106	KLP Kommunekreditt AS, clearance banking system	0	0
0	-9 764	KLP Kreditt AS, clearance banking system	0	0
-78 646	19 128	KLP, clearance banking system	19 128	-78 646
		Net outstanding accounts to:		
-912	-10 580	KLP	-8 980	-912
50	22	KLP Kapitalforvaltning AS	-171	-87
0	50	KLP Bankholding AS	50	0
3 321	8 259	KLP Kommunekreditt AS, net internal receivables	0	0
46 329	503	KLP Kreditt AS, net internal receivables	0	0
0	55	KLP Skade AS, net internal receivables	55	0
0	7	KLP Fondsforvaltning AS, net internal receivables	7	0
0	9	KLP Bedriftspensjon AS, net internal receivables	9	0
0	28	KLP Eiendom AS, net internal receivables	28	0
-340 440	-626 232	Total	-5 307 275	-3 283 609

The liability to KLP of NOK 4.3 billion excluding accrued market interest rates has fixed interest and falls due on 15 March 2012. The certificate loan to KLP of NOK 1.0 billion excluding accrued market interest rates has fixed interest and falls due on 1 February 2012. Lending to KLP Kommunekreditt of NOK 3.560 billion excluding accrued market interest rates has fixed interest with due dates 1 March 2012, 15 March 2012 and 14 December 2012. Lending to KLP Kreditt of NOK 1.2 billion excluding accrued market interest rates has fixed interest and falls due on 15 March 2012..

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	
2010	2011	NOK thousands	2011	2010
214	314	Ordinary audit	813	708
25	0	Certification services	498	202
0	0	Tax consultancy	0	0
41	106	Other services excluding audit	126	673
279	420	Total Auditor's fee	1 436	1 583

The sums above include VAT.

Note 35 Conditional liabilities

KLP Banken AS			KLP Banken AS Group	
2010	2011	NOK thousands	2011	2010
80 607	99 328	Credit facilities for lending not utilised	99 328	80 607
0	0	Loan promise	80 709	700 000
0	9	Total conditional liabilities	180 037	780 607

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 2011, income statement, 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 2011, 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, www.pwc.no
Org.no.: 987 009 713 MVA, Medlem av Den norske Revisorforening

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 coverage of the loss 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 2012
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 2011

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 (deficit) for 2011 of NOK -44700 260. The share premium fund provides provision for the entire deficit.

Oslo, 2 March 2012

Ole Hetland

Line Alfarrustad

Bengt P Johansen

Dordi Flormælen

Jan Rune Fagermoen

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 loss for 2011 should be determined in accordance with the recommendation of the Board of Directors.

KLP Banken AS`s annual financial statement shows a result (deficit) for 2011 of NOK -44700 260. The share premium fund provides provision for the entire deficit.

Trondheim, 7 March 2012

Hege Sørlie

Hege Sørlie

This is KLP

KLP is Norway's largest life insurance company. KLP provides safe and competitive financial and insurance services to the public sector, to enterprises associated with it and to their employees.

Its customers should find that KLP is a predictable partner that strengthens their finances, simplifies their everyday lives, helps to make them good and attractive employers as well as helping to create a world that is a little better. 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.

VALUES: The values to which employees at KLP aspire are "Open. Responsible. Clear. 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 scheme under Norsk Kollektiv Pensjonskasse.

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

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

1972 – KLP passed NOK 1 billion in total assets.

Market leader

KLP is the leading provider of occupational pensions to the public sector and associated organisations. At the start of 2012, 333 municipalities and county administrations had their pension schemes with the Company. The same applies to 23 of the country's 25 health enterprises, as well as the four regional health enterprises and about 2300 corporate enterprises. The Company's pension schemes cover more than 309,000 occupationally active individuals and 172,000 pensioners. In addition more than 124,000 members have a pension entitlement with KLP from previous employment. KLP Skadeforsikring is also the market leader in non-life insurance to 295 local government administrations and 2650 enterprises.

Retail market initiative in progresses

Over the last two years KLP has actively invested in offering good and advantageous banking, insurance and fund products primarily to its owners' employees. 37,000 customer relationships have been established in the course of a relatively short period, showing that KLP is offering competitive and good products in the market. At the end of the year, after almost 2 years' operating as an online bank, KLP Banken had 18,700 active customers. KLP Skadeforsikring has 12,400 retail customers and a premiums volume of NOK 120 million. The KLP funds also now have more than 9100 retailcustomers/direct customers.

The KLP Group

The Group's parent company is Kommunal Landspensjonskasse gjensidig forsikringsselskap (Kommunal Landspensjonskasse Mutual Insurance Company). The parent company, KLP, and its subsidiaries together have more than 775 employees. The Group's total assets were (NOK) 291.8 billion at the end of 2011 and KLP is thus Norway's largest life insurance company.

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 a significant provider of accident, occupational injury and property insurance to 295 Norwegian municipal and county administrations as well as to 2650 public sector enterprises. The company also delivers retail insurance products, primarily directed at the employees of the Group's owners.

KLP Eiendom AS is one of the country's largest property managers with 1 252 000 m² of premises and 366 000 m² of leasehold

1974 – KLP obtains its own licence 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 (non-life) and KLP Fondsforvaltning AS (funds management).

sites under management, as well as substantial projects under development. The property stock had a value of NOK 29.8 billion as at 31 December 2011. 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 profiles according to the customer's wishes, both to private and to public sector organisations.

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 institutions', companies' and private clients' investments. All the funds are managed in line with KLP's ethical criteria.

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

KLP Kommunekreditt AS and KLP Kreditt AS are subsidiaries of KLP Banken AS. These companies should help to secure good terms on loans for the public sector.

KLP Alternative Investments plc enables KLP further to specialise active asset management mandates and in this way to increase returns on the life company's money.

It pays to be a KLP owner

KLP's corporate form brings a number of advantages. KLP's customers themselves provide equity capital and are thus also owners of the Company. This produces good returns and great opportunities to influence matters.

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

Corporate responsibility

KLP will contribute to a sustainable public sector through responsible business operation. Taking corporate social responsibility is about how we respond to society's challenges through our own activity. For KLP, corporate social responsibility is not something the Company does in parallel to the Company's actual business. KLP's corporate 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 responsibility is integrated into the discussion of the different business areas.

In 2011 at Board level, KLP adopted a new strategy for corporate social responsibility . The strategy describes two objectives: one is to contribute to a sustainable public sector and the other is to integrate sustainability and responsible business operations into our working processes. To ensure we achieve our objectives we have implemented a number of measures and more await implementation. You will find comprehensive information on this on our website.

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 IS TO

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 Code of Ethics ("Precautionary Principle") in environmental questions.*
8. *Take initiatives to promote greater environmental responsibility*
9. *Encourage the development and spread 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.

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 assure and demonstrate continuous improvement. KLP, as the first company in Norway to do so, 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 uder which companies and other organisations voluntarily commit to supporting international human rights, protecting the environment, respecting workers' rights and working against corruption. This commits us always to working towards sustainable social development as the Group CEO, Sverre Thornes, confirms in his introduction to KLP's annual report 2011.

To ensure that KLP achieves its goals of continuous improvement KLP wishes to continue the dialogue with its stakeholders. On the Company's website, www.klp.no/english/corporate-responsibility and KLP's blog, everyone can give KLP feedback and comment as well as find relevant information.

Responsible investment

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. We shall manage these assets in a responsible and sustainable way.

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 worker rights
- The environment
- Corruption
- Business ethics

As an investor, KLP engages in dialogue with companies about these subjects and in the most serious cases companies may be excluded from our investments. At the end of 2011, 64 listed companies were excluded from KLP's investments. (See the list of excluded companies on our website). Excluding companies is not a goal in itself. KLP has a continuing dialogue with excluded companies and with companies that are in danger of becoming so. This is important both in preventing companies having to be excluded and to getting excluded companies back into the portfolios.

In addition KLP has chosen not to invest in companies that produce tobacco or weapons that breach fundamental humanitarian principles.

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

2008
KLP Skadeforsikring AS launched sales of retail non-life insurance.
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 (Kredittilsynet) 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 assumes the position of Norway's largest life insurance company.

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