KLP Kommunekreditt AS
annual report 2010

Photo: Peter Tornsberg.

CONTENT

Photo: Marianne Gundersen.

Photo: Paloma Roson.

High expertise – low risk

KLP Kommunekreditt AS is a substantial long-term lender towards public sector wealth creation and welfare and a leading national player within its area of business.

As a part of the KLP Group we shall help to secure good terms on lending to the public sector for value creation and welfare.

After KLP took over Kommunekreditt Norge AS from Eksportfinans ASA in June 2009 the business now forms part of the KLP Group's lending operation directed at the public sector under the brand name «KLP Kommunekreditt». The brand name incorporates lending from KLP Banken's subsidiaries KLP Kommunekreditt AS and KLP Kreditt AS as well as lending directly from KLP.

The majority of the country's municipalities and county authorities have established a customer relationship with the company. In the future there will continue to be major development projects in for example care services, kindergartens, schools, roads, water, sewerage/drainage and waste disposal awaiting realisation. Ever stronger focus on tasks associated with the climate and the environment will further increase the need for financing in the public sector. KLP Kommunekreditt's objective is to help in this development with financing on advantageous terms.

We emphasise a high level of expertise in local authority financing and advice, cost effective operation and competitive financing with low risk.

The lending portfolio increased from NOK 3 billion to NOK 10.9 billion during 2010 through transfer of loans from KLP Kreditt AS. The lending is financed through covered bonds (obligasjoner med fortrinnsrett - OMF) with security in loans to the local government sector. During 2010 the Company issued covered bonds amounting to NOK 9.2 billion in the Norwegian market. The lending programme has achieved the top rating and international recognition.

As a part of the KLP Group we are well placed to be able to ensure access to favourable financing for the public sector.

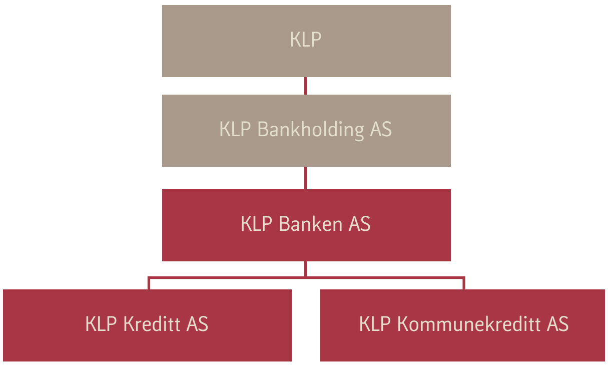
Arnulf Arnøy
Managing Director

The report of the Board of Directors for 2010

KLP Kommunekreditt issued covered bonds (CB - Norwegian "obligasjoner med fortrinnsrett" or "OMF") corresponding to NOK 9.2 billion during 2010. The bonds achieved an AAA rating. After the first ordinary year of operation the balance of lending is NOK 10.9 billion.

KLP Kommunekreditt AS was established in 2009 and is a wholly owned subsidiary of KLP Banken AS. The business is the banking group's credit enterprise for the issue of covered bonds with public sector loans as portfolio security.

KLP Banken AS is a commercial bank owned by KLP through KLP Bankholding AS. KLP Banken AS also owns all the shares in its subsidiary KLP Kreditt AS (previously Kommunekreditt Norge AS).



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

KLP has been given permission to buy covered bonds issued by KLP Kommunekreditt AS. The permission has an upper limit so that KLP may own a maximum of 15 per cent of the total unredeemed bonds and a maximum of 25 per cent of each issue, as well as that the exposure may not represent more than 5 per cent of each of KLP's corporate portfolio and common portfolio.

Financial development during 2010

- Pre-tax profit/loss: NOK - 6.4 million
- Net interest income NOK 4.9 million
- New lending: NOK 8.6 billion
- Lending balance: NOK 10.9 billion

INCOME STATEMENT

The result was a loss of NOK 6.4 million before tax, and a loss of NOK 4.6 million after taxes. That produced a return on owners' equity of -1.7 per cent before tax.

The result was affected by the costs of the establishment of the covered bond programme, consultancy and preparation. Costs of NOK 7.8 million have been taken to book during 2010 in relation to this. Of this about half were one-off costs. In 2009 there was a loss of NOK 40,000 before tax and a loss of NOK 29,000 after taxes.

INTEREST INCOME

Net interest income was NOK 4.9 million in 2010, against NOK 0.4 million in 2009.

LENDING

KLP Kommunekreditt AS took over loans of NOK 8.6 billion from KLP Kreditt AS in 2010, against NOK 3.0 billion in 2009. The lending business in the company started in December 2009.

Total lending amounted to NOK 10.9 billion at the end of 2010, a net lending growth of NOK 8.0 billion from 2009.

The portfolio comprises lending to Norwegian municipalities and county authorities directly, or to public sector enterprises guaranteed by municipalities or county authorities. The risk in the lending portfolio is assessed as very low.

In Norway the credit risk associated with lending to municipalities and county authorities is limited to postponement of payment and not to the payment liability ceasing. This is provided for in the Norwegian Local Government Act of 1992, which gives the lender security against loss if a local authority cannot meet its payment obligations. Under the same Act in the event of payment postponement the lender is also secured against losses of accrued interest, overdue payment interest and costs of recovery. Neither KLP Kommunekreditt AS nor other lenders have so far had credit losses on lending to Norwegian municipalities or county authorities.

The Company has no loans in default at the end of 2010.

COVERED BONDS

KLP Kommunekreditt AS has established a programme for the issue of covered bonds. During 2010 covered bonds (CB) corresponding to NOK 9.2 billion were issued in the Norwegian market. The bonds are issued with security in lending to the local authority sector. The Company has achieved best rating and international recognition for its lending programme. The market conditions have however not yet provided the Company with the opportunity to use international borrowing for increased competitiveness in the lending market

STATEMENT OF FINANCIAL POSITION AND SOLVENCY

Total assets were NOK 11.2 billion at the end of 2010. Of this, lending to public sector borrowers represented NOK 10.9 billion.

Based on the Board's proposed allocation of the result, the Company's risk capital amounted to NOK 368.6 million at the end of 2010. The core capital is identical to the primary capital. This gives a capital adequacy and core capital adequacy ratio of 16.4 per cent. Comparative figures for 2009 were NOK 75.0 million and 12.2 per cent respectively. The authorities' minimum requirement is 8.0 per cent. The risk-weighted balance was NOK 2.2 billion. Solvency is considered good.

The Company will be supplied with equity capital from KLP Banken AS in step with the build-up of the lending balance.

LIQUIDITY

As shown in the cash flow analysis in the annual accounts, the liquidity situation is good. The holdings of liquid assets have increased as the Company has accumulated financing in excess of new lending.

ALLOCATION OF ANNUAL RESULT

The Board proposes that dividends should not be distributed for 2010, and that the loss for the year of NOK 4.6 million kroner should be covered by the share premium reserve. The Company has no unrestricted equity following the proposed allocation of the loss for the year.

THE ACCOUNTS

The Board considers that the annual accounts provide an accurate picture of the Company's assets and liabilities, financial position and profit/loss (result). The going concern presumption is appropriate and this provides the basis for the annual accounts.

KLP Kommunekreditt AS is presenting its accounts in accordance with the Norwegian "Regulations on financial statements etc for banks, financial enterprises and their parent companies" of 16.12.1998 (Regulation No. 1240) and Norwegian Act No. 56 "Act relating to annual accounts etc (the Norwegian Accounting Act)" of 17.07.1998. See Note 2 in the annual accounts for more detailed information.

Rating

The rating agencies' assessment of KLP Kommunekreditt AS and the KLP Group is important for the terms on which the Company obtains fundings. The Company has engaged Fitch Ratings and Moody's to provide a credit rating of the Company's bonds. The issuance of covered bonds in September and December 2010 were given an AAA rating. The Company KLP Kommunekreditt AS has the rating A- from Fitch Ratings.

Risk management

KLP Kommunekreditt AS is exposed to various types of risk. The Company has established a framework for risk management aimed at ensuring risks are identified, analysed and subjected to management using policies, limits, procedures and instructions.

Risk policies are set covering the most important 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 Company'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.

The high-level risk policy covers such things as roles in the companies risk management, including requirements and guidelines for the Company'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 of KLP Banken AS, 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 Company'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 authorised 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 verify that the actual exposure remains within laid down tolerance limits.

Internal Audit examines the Company's management and control of overall risk and individual risks and presents an annual report to the Board of Directors on this.

The KLP Kommunekreditt brand

KLP's lending business to the public sector is run by the KLP Banken Group under the brand name "KLP Kommunekreditt".

Total lending for "KLP Kommunekreditt" amounted to NOK 46.7 billion at the end of 2010, a reduction of NOK 5.8 billion from 2009. Notwithstanding this reduction, "KLP Kommunekreditt" still holds its position as a leading provider of long-term loans to the local authority sector in Norway.

The lending is financed through the companies KLP Kreditt AS, KLP Kommunekreditt AS, and KLP. KLP Kommunekreditt AS issues covered bonds in a covered pool comprising loans to the local authority sector. Cost effective financing should help the KLP Banken Group to offer loans on good terms and conditions.

In total, "KLP Kommunekreditt" is a substantial long-term lender to public sector wealth creation and wellfare and a leading national player within this segment.

The work of the Board of Directors

The Board has held eight Board meetings during 2010. For details of the Board's members and chair, see Note 15 to the annual accounts.

Work environment and organisation

KLP Kommunekreditt AS had three employees at the end of 2010. These also had employment in other companies in the KLP Banken Group. An administration agreement has been reached with KLP Banken AS covering administration, IT operations, finance and risk management as well as borrowing/deposit acceptance and liquidity management.

KLP Kommunekreditt AS complies with the KLP Group's policy for equal opportunities and diversity in which targets, measures and activities take account of the discriminatory factors legislation describes. KLP Kommunekreditt AS also complies with the KLP Group's ethical guidelines, as well as the guidelines for whistle blowing.

Future prospects

The Board considers that demand for loans in the local authority sector and to 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 the assessment of future prospects. "KLP Kommunekreditt" has a good position in this market. The presence of "KLP Kommunekreditt" in the market contributes to competition and thus in the future to the public sector continuing to have access to long-term financing at low cost.

Lending growth for "KLP Kommunekreditt" will depend on good borrowing terms and conditions. Therefore this is also identified as a priority area in future. Given today's market conditions the Board considers it to be demanding to develop the business in regard to profitability and growth.

KLP Kommunekreditt AS will continue in 2011 principally to acquire loans from KLP Kreditt AS in addition to establishing new lending agreements on its own behalf.

Oslo, 2 March 2011
Board of Directors KLP Kommunekreditt AS

Stig Helberg
Chair

Aage Schaanning
Vice Chair

Mai-Lill Ibsen

Merete Birgit Hessen

Arnulf Arnøy
Managing Director

The photograph shows board members of the various companies in KLP's banking group.
Back row from left to right: Stig Helberg (Managing Director of KLP Banken up to and including 28 February 2011), Mai-Lill Ibsen, Aage Schaanning, and Sverre Thornes.
Front row from left to right: Torgeir Gustafson (Employee Representative), Astrid Sommerstad, Merete Birgit Hessen, Jan Olav Tryggestad (Employee Representative), Mette-Jorunn Meisland, and Jan Otto Langmoen.

KLP Kommunekreditt AS Income Statement

Note	NOK thousands	2010	25.08.-31.12.2009
	Interest income and similar income	126 371	3 260
	Cost of interest and similar costs	-121 464	-2 860
9	Net interest income	4 907	400
4	Net gain/(loss) on financial instruments at fair value	-183	0
	Total other operating income	-183	0
	Other operating costs	-11 083	-440
	Operating income before tax	-6 358	-40
19	Tax on ordinary income	1 780	11
	Profit for the year from total operations	-4 578	-29
	Other comprehensive income	0	0
	TOTAL COMPREHENSIVE INCOME FOR THE YEAR	-4 578	-29
	Allocated to/from share premium fund	4 578	29
	TOTAL INCOME ALLOCATION	4 578	29

KLP Kommunekreditt AS Financial Position Statement

Note	NOK thousands	31.12.2010	31.12.2009
	ASSETS		
5,7,10	Lending to and receivables from credit institutions	251 692	69 813
5,7,10	Lending to and receivables from customers	10 920 279	2 950 583
19	Deferred tax assets	1 791	11
24	Other assets	2 472	55 644
	TOTAL ASSETS	11 176 234	3 076 051
	LIABILITIES AND OWNERS' EQUITY		
	LIABILITIES		
5,7,16	Debt to financial institutions	1 511 729	2 763
5,7,17	Liabilities created on issue of securities	9 245 104	2 997 877
6,8	Financial derivatives	4 950	0
21	Other liabilities	43 676	440
21	Provision for accrued costs and liabilities	383	0
	TOTAL LIABILITIES	10 805 841	3 001 080
	OWNERS' EQUITY		
	Share capital	212 500	62 500
	Share premium fund	157 893	12 471
	Total owners' equity	370 393	74 971
	TOTAL LIABILITIES AND OWNERS' EQUITY	11 176 234	3 076 051

Oslo, 2 March 2011
Board of Directors KLP Kommunekreditt AS

Stig Helberg
Chair

Aage Schaanning
Vice Chair

Mai-Lill Ibsen

Merete Birgit Hessen

Arnulf Arnøy
Managing Director

KLP Kommunekreditt AS Statement of Cash Flows

NOK thousands	2010	2009
Pre-tax income	-6 358	-40
Provision of funds from operation:		
New lending	-7 969 696	-2 947 672
Change in:		
Accrued income not yet received	0	-2 911
Other receivables	93 165	-55 644
Other short term debt	863	3 203
Total acquisition of funds from operating activities	-7 882 026	-3 003 064
Net cash flow from investment activities	0	0
Change in liability to credit institutions	7 763 905	2 997 877
Shares issue	300 000	75 000
Net cash flow from financial activities	8 063 905	3 072 877
Change in rate adjustments on cash and bank equivalents	0	0
NET CHANGE IN CASH AND CASH EQUIVALENTS	181 879	69 813
Cash and cash equivalents at the start of the period	69 813	0
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	251 692	69 813

KLP Kommunekreditt AS Statement of Owners' equity

2010

NOK thousands	Owners' equity contributed	Retained earnings	Total owners' equity
Owners' equity 01.01.2010	62 500	12 471	74 971
Income	0	-4 578	-4 578
Other income components	0	0	0
Total comprehensive income	0	-4 578	-4 578
Transactions with owners			
Owners' equity contributed during the period	150 000	150 000	300 000
Total transactions with owners	150 000	150 000	300 000
Owners' equity 31.12.2010	212 500	157 893	370 393
The share capital comprises 2,125,000 shares at NOK 100. There is one class of shares.			
Income per share (after tax) (figures in whole NOK)			-2,2

2009

NOK thousands	Owners' equity contributed	Retained earnings	Total owners' equity
Owners' equity 01.01.2009	0	0	0
Income	0	-29	-29
Other income components	0	0	0
Total comprehensive income	0	-29	-29
Transactions with owners			
Owners' equity contributed on formation 25.08.09	50 000	0	50 000
Capital expansion during the period	12 500	12 500	25 000
Total transactions with owners	62 500	12 500	75 000
Owners' equity 31.12.2009	62 500	12 471	74 971
The share capital comprises 625,000 shares at NOK 100. There is one class of shares.			
All shares are owned by KLP Banken AS.			
Income per share (after tax) (figures in whole NOK)			-0,1

Photo: Grete Ingelsrud

During 2010 KLP had an internal photographic competition. The contributions from employees were to visualise KLP's core values, which are «open», «clear», «responsible» and «committed». Jury members included Morten Krogvold. We are presenting the four winning pictures in this annual report.

Note 1 General information

KLP Kommunekreditt AS is a credit enterprise formed on 25 August 2009. The company provides or acquires public sector loans to Norwegian municipalities and county authorities as well as companies with a public sector guarantee. The lending activities are principally financed by the issue of covered bonds. KLP Kommunekreditt AS is registered and domiciled in Norway. Its head office is in Trondheim and the company has departmental offices in Oslo.

The Company is a subsidiary of KLP Banken AS, which is in turn wholly owned by Kommunal Landspensjonskasse (KLP) through the holding company KLP Bankholding AS. KLP is a mutual insurance company.

The financial statement presented covers the period from 1 January 2010 to 31 December 2010.

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 Kommunekreditt AS financial statement.

2.1 BASIC PRINCIPLES

The KLP Kommunekreditt AS accounts has 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". None of the simplifications are applied in the 2010 annual accounts.

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 accounts have been prepared based on the principle of historic cost.

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

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

2.2 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

The Company's assets principally comprise financial assets. The Company has no trading portfolio.

2.3.1 Financial assets valued at amortised cost

Loans and receivables are financial assets, with the exception of derivatives, with set or determinable payments, and which are not traded in an active market or which the Group intends to sell in the short term or has earmarked at fair value through profit and loss.

Loans and receivables comprise loans to local authorities and enterprises with local government guarantee.

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".

2.3.2 Derivatives and hedging

Derivatives are capitalised at fair value at the time they are contracted. On subsequent measurement the derivatives are booked at fair value. The derivatives are used as hedging instruments for hedging of interest rate risk. The Company uses the rules on fair value hedging, so that the hedged item's book value is corrected with the value development in the hedged risk. The value change is taken to account through income. The hedging effectiveness is measured regularly to ensure the hedge is effective. See Note 8 for further information.

2.3.3 Write-down

If there is objective proof of value impairment write-down is carried out. In assessing whether there is value impairment weight is attached to whether the debtor has significant financial difficulties and whether there is breach of contract, including default. The write-down is calculated by comparing the new, anticipated cash flows with the original cash flows discounted by the original effective interest rate (assets with fixed interest) or by the effective interest rate at the time of measurement (assets with variable interest). The Company has not identified write-down requirements on its assets.

2.4 CASH AND CASH EQUIVALENTS

Bank deposits associated with daily operations are shown as cash and cash equivalents. These bank deposits are shown in the financial position statement line "Lending to and receivables from credit institutions". Bank deposits associated with the securities business are defined as financial assets. The statement of cash flows has been prepared in accordance with the indirect method.

2.5 FINANCIAL LIABILITIES

2.5.1 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 covered pool comprising lending with government guarantee (government loans) and a top-up security comprising a liquidity reserve. The top-up security may at any time represent up to 20 per cent of the covered pool.

The value of the covered pool shall at all times exceed the value of the covered bonds in the covered pool. A register is kept of the covered bonds in the covered pool, as well as of the assets included in the latter. The Financial Services Authority of Norway 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 covered pool during the debt negotiations. The bond owners have an exclusive, equal and proportionate entitlement to the assets in the covered 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.

2.6 OWNERS' EQUITY

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

2.6.1 Owners' equity contributed

Owners' equity contributed comprises share capital and the shares premium fund. Losses are charged against the shares premium fund.

2.6.2 Retained earnings

Retained earnings comprise principally other owners' equity. Ordinary company law rules apply for any allocation or use of the equity capital fund.

2.7 PRESENTATION OF INCOME IN THE ACCOUNTS

2.7.1 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. Setting-up fees for lending are included in the amortisation and taken to income over the loan's expected duration.

2.8 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.

Note 3 Important accounting estimates and valuations

The Company's statement of financial position principally comprises lending to local government and enterprises with local government guarantee, as well as covered bonds issued. These items are valued in the accounts at amortised cost, with the exception of borrowings with fixed interest rates which are valued at fair value in accordance with the rules on fair value hedging. Fair value is calculated on the basis of recognised models and is based on external, observable data.

The risk of credit loss is considered very low and there is very little probability credit loss will occur in the local government lending portfolio. The accounts therefore contain no significant estimates as at 31 December 2010.

Note 4 Net gain /(loss) on financial instruments

NOK thousands	2010	2009
Unrealised change interest rate swaps	-5 096	0
Unrealised change in hedged lending	4 914	0
Total	-183	0

Note 5 Fair value of financial assets and liabilities

NOK thousands	2010 Capitalised value	2010 Fair value	2009 Capitalised value	2009 Fair value
Financial assets				
Lending and receivables				
Lending to and receivables from customers	10 920 279	10 920 279	2 950 583	2 950 583
Loans to and receivables from credit institutions	251 692	251 692	69 813	69 813
Total financial assets at amortised cost	11 171 971	11 171 971	3 020 396	3 020 396
Financial liabilities				
Debt to financial institutions				
Covered bonds issued	9 000 017	9 004 682	2 997 877	2 999 327
Short-term financial liabilities to Group companies	1 511 729	1 511 729	2 763	2 763
Total financial liabilities at amortised cost	10 511 745	10 511 411	3 000 640	3 002 090
Covered bonds issued	245 087	245 087	-	-
Total financial liabilities at fair value hedging	245 087	245 087	-	-
Financial derivatives	4 950	4 950	-	-
Total financial liabilities at fair value	4 950	4 950	-	-
Total financial liabilities	10 761 783	11 011 535	3 000 640	3 002 090

Lending and receivables
All lending to and receivables from credit institutions carry a floating interest rate. 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.

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.

Note 6 Fair value hierarchy

NOK thousands	31.12.2010	31.12.2009
Liabilities		
Derivatives and other financial assets		
Level 1: Value based on prices in an active market	0	0
Level 2: Value based on observable market data	4 950	0
Level 3: Value based on other than observable market data	0	0
Derivatives and other financial assets	4 950	0
Total financial liabilities at fair value	4 950	0

Fair value shall be a representative price based on what a corresponding asset or liability would have been traded for at 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 noted in an active market if noted prices are simply and regularly available from a stock market, dealer, broker, industry group, price setting service or regulatory authority, and these prices represent actual regularly occurring transactions at arm's length.

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.

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.

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 Categories of financial assets and liabilities

NOK thousands			2010				2009	
Financial assets	FVO	HFT	LAR	Total	FVO	HFT	LAR	Total
Lending to and receivables from credit institutions	0	0	251 692	251 692	0	0	69 813	0
Lending to and receivables from customers	0	0	10 920 279	10 920 279	0	0	2 950 583	0
Other assets	0	0	2 472	2 472	0	0	55 644	0
Total	0	0	11 174 443	11 174 443	0	0	3 076 040	0
Financial liabilities	FVH	HFT	OLI	Total	FVO	HFT	OLI	Total
Debt to financial institutions	0	0	1 511 729	1 511 729	0	0	2 763	2 763
Liabilities created on issue of securities	245 087	0	9 000 017	9 245 104	0	0	2 997 877	2 997 877
Finansielle derivater	0	4 950	0	4 950			0	0
Other liabilities	0		43 676	43 676	0	0	440	440
Total	245 087	4 950	10 555 421	10 805 458	0	0	3 001 080	3 001 080

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
FVH: Fair value hedging

Note 8 Hedge accounting

2010

NOK thousands	Nominal value	Changed value in hedged risk	Book value
Hedged object			
10 years fixed interest borrowing with coupon 4.6 %	-250 000	4 914	-245 086
Hedge instrument			
Interest rate swap	250 000	-5 096	-5 096
Hedging effectiveness as at 31.12.2010		103,72 %	
Hedging effectiveness through the year		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 hedged object and the hedging instrument are struck on the same terms and conditions. Principal, interest, duration and interest dates are identical.

The hedging effect 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 surplus

NOK thousands	2010	2009
Interest on lending to and receivables from credit institutions	4 861	287
Interest on lending to customers	121 364	2 973
Interest interest rate swaps	146	0
Total interest income	126 371	3 260
Interest on debt to KLP Banken AS	-7 524	0
Interest on debt to credit institutions	-110 028	-2 763
Premium/discount on covered bonds	-3 910	-97
Other interest expenses	-1	0
Total cost of interest	-121 464	-2 860
Net interest surplus	4 907	400

Note 10 Lending and receivables

NOK thousands	2010	2009
Lending to and receivables from credit institutions		
Bank deposits	251 692	69 813
Lending to and receivables from customers		
Principal on lending	10 860 633	2 947 638
Accrued interest	59 646	2 946
Lending to and receivables from customers	10 920 279	2 950 583

Note 11 Financial risk management

The 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 business'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 independent 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 also has other tasks associated with the Company's risk management. The responsibility for the operational direction of the Company's liquidity risk, exchange-rate risk and interest rate risk lies with the Finance Department.

Note 12 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.

KLP Kommunekreditt AS provides loans to, or loans guaranteed by, Norwegian municipalities and county authorities, including loans to local government enterprises and inter-authority companies (public sector loans). Guarantees should be of the ordinary guarantee type (ordinary guarantor - guarantor's liability attaches as soon as the principal debtor defaults).

Loans according to type of security/exposure (principal):

NOK thousands	31.12.10	31.12.09
Lending to municipalities and county authorities	10 032 390	2 954 664
Lending with municipal/county authority guarantee	828 243	0
Total	10 860 633	2 954 664
Sums falling due more than 12 months after the end of the reporting period	10 280 622	2 692 812

The Company will in addition have credit risk exposure in the form of "top-up security". In accordance with the Company's internal guidelines the top-up security may be in the form of deposits in banks satisfying minimum rating requirements as well as fixed interest securities issued by the Norwegian state, Norwegian municipalities and County authorities and covered bonds issued by Norwegian credit enterprises.

The Company may also be exposed to credit risk as a result of derivatives agreements struck. The purpose of such agreements is to reduce risks arising as a result of the Company's borrowing and lending activities. The Company's internal guidelines specify creditworthiness requirements for derivative counterparties.

12.1 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 Company's lending activity. The policy also includes an overall mandate structure for lending and other counterparty exposure. The mandates 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.

12.2 CONTROL AND LIMITATION OF CREDIT RISK

In processing all new loan applications checks are made on whether the customer's credit limits are larger than the total of the loan amounts applied for and current lending. 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.

12.3 MAXIMUM EXPOSURE TO CREDIT RISK

KLP Kommunekreditt AS measures maximum exposure as 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 KLP Kommunekreditt AS.

NOK thousands	31.12.10	31.12.09
Lending to and receivables from credit institutions	251 692	109 562
Lending to and receivables from customers	10 920 279	2 966 038
Financial derivatives	0	0
Total	11 171 971	3 075 600

12.4 LOANS FALLEN DUE OR WRITTEN DOWN

NOK thousands	31.12.10	31.12.09
Principal on loans with payments with 1-30 days' default	195 000	0
Principal on loans with payments with 31-90 days' default	0	0
Principal on loans with payments with more than 90 days' default	0	0
Total loans fallen due	195 000	0
Relevant security or guarantees	195 000	
Lending that has been written down	0	0

The Company has not incurred losses on lending. The company considers all receivables to be satisfactorily secured.

12.5 CONCENTRATION OF CREDIT RISK

The Company's lending is in its entirety 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. KLP Kommunekreditt AS's largest exposure as at 31 December 2010 was about 4 per cent of the Company's total lending.

Note 13 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.

KLP Kommunekreditt AS is exposed to market risk as a result of the Company's borrowing and lending activity and management of the Company's liquidity. The exposure is however limited to interest rate risk and exchange-rate risk. Interest-rate risk arises as a result of differences in timing of interest rate adjustment for the Company's assets and liabilities. The risk associated with such imbalances is reduced by using derivative contracts. The entire lending portfolio comprises loans in Norwegian kroner, but exchange-rate risk will arise in proportion to the Company issuing debt in foreign currency. The risk associated with changes in exchange rates will be reduced using derivative contracts.

13.1 MEASUREMENT OF MARKET RISK

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

13.2 INTEREST RATE RISK

The market risk policy is the Company'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 Company should not actively take positions that expose the Company 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 the Company's Tier 1 and 2 capital and the level of the limits should ensure that the low market risk profile policy is complied with. 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 Company's interest-bearing assets and liabilities Lending at variable rates is assumed to be able to be repriced within a 1-month horizon.

Interest risk KLP Kommunekreditt AS

Repricing dates for assets and liabilities as at 31 December 2010

NOK thousands	Total principal	Up to 1 month	From 1 month to 3 months	From 3 months to 12 months	1 year to 5 years	Over 5 years
Lending	10 860 633	10 610 633	250 000	0	0	0
Securities	0					
Cash and receivables from credit institutions	251 692	251 692	0	0	0	0
Total	11 112 325	10 862 325	250 000	0	0	0
Liabilities created on issue of securities	9 250 000	0	9 000 000	0	0	250 000
Liabilities to financial institutions	1 510 000		1 510 000			
Total	10 760 000	0	10 510 000	0	0	250 000
Gap	352 325	10 862 325	-10 260 000	0	0	-250 000
Financial derivatives	0		-250 000			250 000
Net gap	352 325	10 862 325	-10 510 000	0	0	0

Repricing dates for assets and liabilities as at 31 December 2009

NOK thousands	Total principal	Up to 1 month	From 1 month to 3 months	From 3 months to 12 months	1 year to 5 years	Over 5 years
Lending	2 954 664	2 954 664	0	0	0	0
Cash and receivables from credit institutions	109 562	109 562	0	0	0	0
Total	3 064 226	3 064 226	0	0	0	0
Liabilities created on issue of securities	3 000 000	0	3 000 000	0	0	0
Total	3 000 000	0	3 000 000	0	0	0
Gap	64 226	3 064 226	-3 000 000	0	0	0

The Company's interest rate sensitivity as at 31 December 2010 amounted to NOK 13.8 million.

13.3 EXCHANGE RATE RISK

All receivables and all liabilities as at 31 December 2010 were in Norwegian kroner and the Company was thus not exposed to exchange-rate risk.

Note 14 Liquidity risk

Liquidity risk means the risk that the Company 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

The management of KLP Kommunekreditt's liquidity risk must be viewed in the context of the management of the liquidity risk in the KLP Banken Group. 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 lays down that the Group is to have a moderate liquidity risk profile and various requirements and limits are set to achieve this, including targets for deposit cover, limits for refinancing requirements for various time periods and requirements for liquidity buffers. 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 KLP Kommunekreditt, 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 table below shows the maturity analysis of the Company's assets and liabilities based on expected maturity and contractual maturity respectively.

Liquidity risk

Maturity analysis for assets and liabilities based on expected maturity:

31. December 2010 NOK thousands	Total principal	Up to 1 month	From 1 month to 3 months	From 3 months to 12 months	1 year to 5 years	Over 5 years
31.12.2010						
Lending	10 860 633	79 069	151 238	784 079	4 192 165	5 654 081
Receivables from credit institutions	251 692	251 692				
Total	11 112 325	330 761	151 238	784 079	4 192 165	5 654 081
Liabilities created on issue of securities	9 250 000			3 000 000	6 000 000	250 000
Debt to financial institutions	1 510 000		1 510 000			
Total	10 760 000	0	1 510 000	3 000 000	6 000 000	250 000
Net cash flows	352 325	330 761	-1 358 762	-2 215 921	-1 807 835	5 404 081

Maturity analysis for assets and liabilities based on contractual maturity:

31. December 2010 NOK thousands	Total principal	Up to 1 month	From 1 month to 3 months	From 3 months to 12 months	1 year to 5 years	Over 5 years
31.12.2010						
Lending	10 860 633	42 867	78 834	458 260	2 454 464	7 826 208
Receivables from credit institutions	251 692	251 692				
Total	11 112 325	294 559	78 834	458 260	2 454 464	7 826 208
Liabilities created on issue of securities	9 250 000			3 000 000	6 000 000	250 000
Debt to financial institutions	1 510 000		1 510 000			
Total	10 760 000	0	1 510 000	3 000 000	6 000 000	250 000
Net cash flows	352 325	294 559	-1 431 166	-2 541 740	-3 545 536	7 576 208

Maturity analysis for assets and liabilities based on expected maturity:

31. December 2010 NOK thousands	Total principal	Up to 1 month	From 1 month to 3 months	From 3 months to 12 months	1 year to 5 years	Over 5 years
31.12.2009						
Lending	2 954 664	20 816	46 676	264 365	1 073 636	1 549 171
Receivables from credit institutions	109 562	109 562				
Total	3 064 226	130 378	46 676	264 365	1 073 636	1 549 171
Liabilities created on issue of securities	3 000 000	0	0	3 000 000	0	0
Debt to financial institutions	0	0	0	0	0	0
Total	3 000 000	0	0	3 000 000	0	0
Net cash flows	64 226	130 378	46 676	-2 735 635	1 073 636	1 549 171

Maturity analysis for assets and liabilities based on contractual maturity:

31. December 2010 NOK thousands	Total principal	Up to 1 month	From 1 month to 3 months	From 3 months to 12 months	1 year to 5 years	Over 5 years
31.12.2009						
Lending	2 954 664	10 967	27 117	177 750	653 987	2 084 843
Receivables from credit institutions	109 562	109 562				
Total	3 064 226	120 529	27 117	177 750	653 987	2 084 843
Liabilities created on issue of securities	3 000 000	0	0	3 000 000	0	0
Debt to financial institutions	0	0	0	0	0	0
Total	3 000 000	0	0	3 000 000	0	0
Net cash flows	64 226	120 529	27 117	-2 822 250	653 987	2 084 843

Note 15 Salary and obligations towards senior management/governing bodies

2010 NOK thousands	Salaries, fees etc.	Other benefits	Annual pension costs 5)	Loans with the Group	Interest rate as at 31.12.09	Repayment plan 5)
Senior staff						
Arnulf Arnøy, Managing Director 1)	1 399	143	1 004	1 497	3,15	S2032
Board of Directors						
Stig Helberg, Chair 2) 3)						
Aage E. Schaanning 3)				3 127	3,15-3,40	S2033
Mai - Lill Ibsen	215					
Astrid Sommerstad	70					
Control Committee						
Ole Hetland, Chair	15					
Anne-Marie Barane	13					
Aud Mork	13					
Jan R. Fagermoen	13					
Bengt Johansen	8					
Supervisory Board						
Total Supervisory Board	37			4 747		

1) The Managing Director has no severance agreement or bonus agreement.

2) The Company has no obligations to the Chair of the Board of Directors on termination or change of appointment

3) Internal Board Members (except for employee representatives) do not receive Board Directors' fees but the company will refund a sum corresponding to the fee to external Board members to the company in which the individual is employed

4) The pension costs for the year include accumulated pension for the year

5) A= annuity loan, S= serial loan, final repayment

The Managing Director has pensionable age of 65 with the option of retirement from 62.

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

The Company does not provide loans to individuals, but the Company's employees may take up loans from other Group companies in the Group at standard terms and conditions applicable for loans to KLP Group staff. The interest discount given to employees is covered by the company in which the individual is employed.

Externally elected members of governing bodies and their immediate family can take up loans from KLP on ordinary market terms.

The Company has a control committee and supervisory board jointly with the Group. Benefits are not paid to members of these bodies from KLP Kommunekreditt. The remuneration to these bodies is therefore what they have received in total from the KLP Banken AS Group.

The Company started its operation towards the end of 2009, and remuneration was not paid for operation and direction of the Company during 2009.

Note 16 Debt to credit institutions

NOK thousands	31.12 2010	31.12 2009
Debt to financial institutions		
Group debt	-1 510 000	0
Accrued interest Group debt	-1 729	0
Provision interest bond loans	0	-2 763
Total lending and receivables	-1 511 729	-2 763

Note 17 Securities liabilities - stock exchange listed covered bonds

NOK thousands	Nominal	Currency	Interest		Issued	Due date	31.12.10	31.12.09
ISIN								
NO0010587793	3 000 000	NOK	Floating	3M Nibor + 0	2010	2011	3 000 000	0
NO0010585185	3 500 000	NOK	Floating	3m Nibor + 40	2010	2015	3 500 000	0
NO0010592884	1 500 000	NOK	Floating	3m Nibor + 20	2010	2012	1 500 000	0
NO0010592892	1 000 000	NOK	Floating	3m Nibor + 32	2010	2013	1 000 000	0
NO0010592900	250 000	NOK	Fixed	4,6 %	2010	2020	250 000	0
Covered bonds							0	3 000 000
Accrued interest							13 375	0
Amortisation / value adjustment							-18 271	-2 123
Total covered bonds							9 245 104	2 997 877

Note 18 Capital adequacy

NOK thousands	31.12 2010	31.12 2009
Share capital and premium fund	370 393	74 971
Other owners' equity	0	0
Owners' equity	370 393	74 971
Deferred tax assets	-1 791	-11
Core capital (Tier 1)	368 602	74 960
Supplementary capital	0	0
Supplementary capital (Tier 2)	0	0
Total Tier 1 and 2 capital to count	368 602	74 960
Capital requirement	179 889	49 217
Surplus of Tier 1 and 2 capital	188 713	25 743
Estimate basis credit risk:		
Local and regional authorities	2 184 050	590 125
Enterprises	0	13 963
Institutions	53 563	0
Other holdings	0	11 125
Estimate basis credit risk	2 237 613	615 213
Credit risk	179 009	49 217
Operational risk	879	0
Total capital requirement assets	179 889	49 217
Core capital adequacy ratio	16,4 %	12,2 %
Supplementary capital ratio	0,0 %	0,0 %
Capital adequacy ratio	16,4 %	12,2 %

Basel II regulations have been used in calculating capital adequacy.

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

Note 19 Tax

NOK thousands	2010	2009
Income before tax	-6 358	-40
Total basis for tax	-6 358	-40
Change in temporary differences related to:		
Previous mistakes corrected manually	183	0
Carry-forward deficit for the year	6 176	40
Total change in temporary differences	6 359	40
Base for tax payable	0	0
Previous year's deficit	-40	0
Annual loss	-6 176	-40
Surplus to carry forward	-6 216	-40
Basis for deferred tax / deferred tax assets	6 359	40
Allocation of tax expense:		
Change in deferred tax	1 780	11
Total taxes	1 780	11
Total cost of tax		
Outstanding accounts/Receivables	183	0
Financial instruments	6 216	40
Basis for deferred tax / deferred tax assets in the statement of financial position	6 399	40
Deferred taxes (-) / Deferred taxes (+)	1 792	11

Note 20 Number of employees

	2010	2009
Number of employees as at 31.12	3	3
Average number of employees	3	3

Note 21 Other liabilities and provision for accrued costs and liabilities

NOK thousands	31.12 2010	31.12 2009
Receivables from companies in the same Group	43 328	440
Creditors	348	0
Total other liabilities	43 676	440
Value Added Tax	383	0
Total accrued costs and liabilities	383	0

Note 22 Transactions with related parties

NOK thousands	2010	2009
Income statement items		
KLP Banken AS, interest on borrowing	-7 524	0
KLP Banken AS, administrative services (at cost)	-2 942	-440
KLP Kapitalforvaltning AS, fees services provided	-132	0
Total	-10 598	-440
Statement of financial position items		
KLP Banken AS, debt to credit institutions	-1 511 729	0
Net outstanding accounts/receivables to:		
KLP Banken AS	-43 314	-440
KLP Kapitalforvaltning AS	-13	0
Total	-1 555 056	-440

Note 23 Auditor’s fee

NOK thousands	2010	2009
Ordinary audit	99	0
Certification services	138	0
Other services excluding audit	619	0
Total Auditor’s fee	855	0

The sums above include VAT.

Note 24 Other assets

NOK thousands	31.12 2010	31.12 2009
Prepaid expenses	2 472	15 455
Settlement KLP Banken AS	0	40 189
Total	2 472	55 644

Photo: Øyvind Arnegård

PricewaterhouseCoopers AS
Brattørkaia 17 B
NO-7492 Trondheim
Telefon 02316

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

Independent auditor's report

Report on the Financial Statements

We have audited the accompanying financial statements of KLP Kommunekreditt AS, which comprise the balance sheet at December 31, 2010, income statement, changes in equity, 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 is responsible for the preparation and fair presentation of these financial statements in accordance with simplified IFRS according to the Norwegian accounting act § 3-9, and for such internal control as The Board of Directors and the Managing Director determines 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 give a true and fair view of the financial position of KLP Kommunekreditt AS as at December 31, 2010, and of its financial performance and its cash flows for the year then ended in accordance with simplified IFRS according to the Norwegian accounting act § 3-9.

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 the company's 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, 2 March 2011
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 Kommunekreditt AS

THE CONTROL COMMITTEE'S STATEMENT ON THE FINANCIAL STATEMENT FOR 2010

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 Kommunekreditt AS.

The Control Committee advises the Supervisory Board and the General Meeting of KLP Kommunekreditt AS to approve the financial statement and the Board's report and, in accordance with the resolution of the Board, to resolve to allocate the profits for the year as follows:

KLP Kommunekreditt AS's financial statement for the year shows a result of the year (loss) for 2010 of NOK -4,578,000. The loss is to be charged entirely to the share premium fund.

Oslo, 4 March 2011

Ole Hetland

Aud Mørk

Bengt P. Johansen

Anne-Marie Barane

Jan Rune Fagermoen

To the KLP Kommunekreditt AS General Meeting

The KLP Kommunekreditt AS Supervisory Board has examined the annual financial statements produced by the Board of Directors for the Company, comprising the income statement, the statement of financial position, the statement of cash flow and the notes, the Report of the Board of 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 profits for 2010 be determined in accordance with the recommendation of the Board of Directors.

KLP Kommunekreditt AS's financial statement for the year shows a result of the year (loss) for 2010 of NOK -4,578,000. The loss is to be charged entirely to the share premium fund.

Trondheim, 9 March 2011

Ragna Dahl Grønnevet
The Chair of the Supervisory Board

Photo: Øyvind Arnegård

Risk management

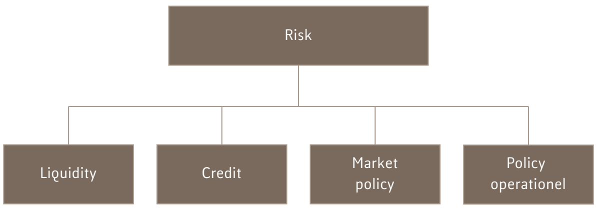
The KLP Banken-Group is exposed to different types of risk and has established a framework for risk management. The objective is to ensure that risks are identified, analysed and subjected to management using policies, limits, procedures and instructions.

KLP Kommunekreditt AS is part of KLP Banken-Group and is embraced by the Group's risk management processes.

The boards of directors of the bank and its subsidiaries have adopted risk policies covering the key individual risks as well as an overall risk policy that covers principles, organisation, limits etc for the banking group'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. The five risk policies are shown in the figure below.

KLP Banken-Group risk policies



Each one of these policies covers the bank and its subsidiaries and includes principles, guidelines, limits, reporting requirements etc that apply for the whole group. In certain areas the policies also contain specific limits for individual companies in the Group.

Risk policy

The risk policy addresses principles that are general for various types of risk, and in this way the policy provides high-level policies for individual risks. Among other things, the policy covers roles in the banking group's risk management, including requirements of and guidelines for the bank's risk control function.

The purpose of the risk control function is, among other things, to check that the risk policies and other guidelines for risk management are being followed. 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, which has an independent role in relation to the bank's other departments, also has other tasks associated with risk management, including responsibility for development of methods of risk measurement and stress testing, risk analyses as well as documentation of the bank's process for assessing capital requirements (Internal Capital Adequacy and Assessment Process - ICAAP).

The policy contains a description of the group's risk appetite, risk profile and risk tolerance. The description of the risk profile states that revenues should be a result of borrowing and lending activity and not other financial risk taking.

Guidelines are given in the policy for the banking group's internal capital requirement assessment process (ICAAP). This process should involve the Board and various groupings in the Bank.

Both in the high-level risk policy and in the policies for individual risks there are arrangements to use stress testing as a method for risk measurement and as a tool for communication and exchange of opinions 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 Bank's overall risk, and these risk tolerances are defined based on various stress scenarios. Different forms of stress testing are to be conducted regularly to monitor that the bank's actual exposure remains within laid down tolerance limits.

The high-level risk policy and the policies for individual risks require that Internal Audit examines the bank's management and control of overall risk and individual risks and presents an annual report to the Board of Directors on this.

Liquidity risk

Liquidity risk means the risk that the banking group does not manage to meet its liabilities and/or finance increases in its assets without substantial additional costs arising in the form of price drops in assets that must be realised, or in the form of extra costly financing.

The bank's lending in the personal market will be financed mainly through deposits. In the somewhat longer term however it could become realistic to establish a credit enterprise in which the housing mortgages are financed by issuance of covered bonds.

The banking group's lending to the public sector is currently financed by a deposit from Eksportfinans ASA and covered bonds. The last instalment on the loan from Eksportfinans ASA falls due in September 2011. A programme has been established for issuance of covered bonds and such bonds are the banking group's most important funding instrument and in due course will finance the major part of the portfolio of public sector lending.

In the years ahead the banking group will be affected by how well the market for covered bonds functions, but has an extra security associated with the refinancing capability resulting from the high credit quality in the lending to the public sector. This lending represents an attractive kind of asset for KLP and an agreement has been established between KLP Banken AS and KLP, in which an option to sell loans has been formalised for a set sum.

The liquidity policy deals with principles, guidelines, requirements and limits that apply to the management of the liquidity risk in the banking group. This includes a formulation of the Bank's liquidity risk profile and various requirements and limits in order to comply with this have been set, including targets for deposit cover, limits for refinancing needs for various timeframes and liquidity buffer requirements.

The policy also contains specific requirements for KLP Kommunekreditt AS in order to meet particular liquidity requirements for issuers of covered bonds. The Board has further adopted an emergency plan for handling liquidity crises as part of the liquidity policy.

Credit risk

Credit risk is the risk of loss associated with lending customers, derivatives counterparties, issuers of securities and other counterparties who cannot or will not settle at the agreed time and where securities established do not cover outstanding demands.

Credit risk linked to the bank's lending operation is low because a large proportion of the lending is loans to, or loans guaranteed by, Norwegian municipalities or county authorities. All lending operations in the personal market are loans with mortgage lien in residential or leisure real estate. The lending operation is organisationally divided into the personal market and the market for the public sector.

All lending is to Norwegian borrowers and the bank's exposure to the public sector represents a large part of the total lending stock. The portfolio therefore has a high concentration against one individual sector, but the underlying credit risk against this sector is 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 limits set by the Board of Directors.

The credit policy deals with the Bank's high-level guidelines, requirements and limits associated with credit risk. It 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 authorisations outside the personal market area are limited by limits adoptecd by the Board for individual borrowers. In setting limits for borrowers a risk classification methodology is used in which the individual borrower is allocated to a risk class based on a set of criteria.

Certain credit cases require referral to the credit committee before decision. This applies for example to all cases lying outside the senior management's authorisation and that therefore must be decided by the Board. The credit committee has no authorisations and has thus only an advisory role in relation to the decision maker.

Credit risk associated to banks, issuers of securities and derivatives counterparties is also limited by limits set by the Board on individual counterparties. The credit policy also includes some specific requirements for individual companies. This applies for example to KLP Kommunekreditt AS where stringent guidelines are operated for composition of the security stock.

Market risk

Market risk is understood here as the risk of reduced fair value of the owners' equity as a result of fluctuations in market prices for the banking group's assets and liabilities. Changes in credit margins are however excluded and this is dealt with in the credit policy.

The banking group will be exposed to market risk as a result of funding/deposit taking and lending operations and the administration of liquidity. The exposure is however limited to interest rate risk and exchange-rate risk.

Interest-rate risk arises as a result of differences in timing of interest rate adjustment for the bank's assets and liabilities. The risk associated with such imbalances is reduced by using derivative contracts. The entire lending portfolio comprises loans in Norwegian kroner, but exchange-rate risk will arise in proportion to the bank issuing debt in foreign currency. The risk associated with changes in exchange rates will be reduced using derivative contracts.

The market risk policy is the bank's overall guidelines, requirements and limits associated with market risk. The policy dictates that the market risk should be minimised so that the bank's total market risk is low. It further states that the bank should not actively take positions that expose the bank to market risk.

Limits are also set in the policy for interest rate risk and exchange-rate risk. The limits are set in relation to the bank's Tier 1 and 2 capital and the level of the limits should ensure that the bank's low market risk profile policy is complied with. The operational responsibility for managing the bank's market risk lies with the bank's Finance Department.

Operational risk

Operational risk is the risk of loss as a result of inadequate or failing internal processes or systems, human error, or external events.

The banking group aims to have good management and control of this operational risk. To achieve this the bank must have good processes and procedures, clear division of authority and high professional competence. A special policy for operational risk has been established containing high-level principles and requirements linked to the process of identifying and assessing operational risks, how operational risks are to be handled, control activities and division of responsibility linked to operational risk as well as reporting to the Board on operational risk.

Other risks

In addition to the policies described above a separate compliance policy has been established that is to help to reduce the risk of the banking group incurring official sanctions, financial loss or loss of reputation as a result of inadequate compliance with legislation, regulations and standards, such as for example good business practice. A compliance function has been established that should ensure that relevant changes in the regulations are captured and made known to senior management as well as that the business is adapted to such changes. The compliance function is also to keep the Board briefed on changes in the regulations that may have substantial significance for the banking group and provide advice associated with compliance.

The banking group is also exposed to risks other than those that arededicated to a special policy. This includes the bank's business risk where the most important uncertainty is linked to margin development for borrowing and lending, and this is a risk that attracts major attention from senior management and the Board.

Internal capital assessment process

Assessment and planning of capital matters is an important part of risk management. ICAAP (Internal Capital Adequacy Assessment Process) is the banking group's special process for assessing the capital requirement. The purpose of the process is, among other things, to calculate the magnitude of the capital requirement and the process helps to ensure high awareness of the risks to which the banking group is exposed.

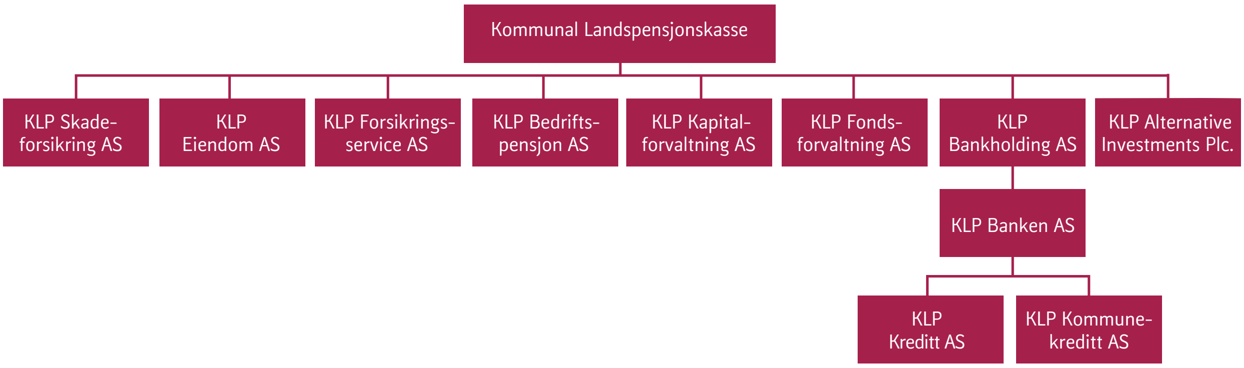
The assessment carried out is forward-looking, and the capital requirement is assessed in relation to the banking group's present and future risk profiles. The assessment and numerical estimates must therefore allow for known internal changes, changes in the regulatory framework, growth plans etc. The numerical calculations are carried out in the form of sensitivity analyses and scenario analyses.

The division of roles between the Board and senior management means that the Board, which has overall ownership of the process, approves formulation and choice of methodology as well as the calculations made by management. Management present a report that is discussed by the Board at least once a year. The process concludes in a capital target for the banking group, as well as a plan for the capital for the immediate years ahead. ICAAP is subject to assessment by Internal Audit.

Photo: Anne-Therese Sande

This is KLP

KLP provides safe and competitive pensions, finance and insurance services to municipalities, county authorities and health enterprises, as well as to businesses both in the public and the private sector, and to their employees.



Competitiveness and efficient operation – high-level targets

Competitiveness and efficient operation are high level strategic objectives for KLP's business. KLP aims to meet its customers' needs, operate profitably and deliver quality in all its services. Its customers should find that KLP strengthens their finances, simplifies their everyday life and helps to make them good and attractive employers. All activity in the Group should contribute to strengthening relationships with present and potential future owners. It is an objective that other activities in the Group should strengthen its market position in relation to this group of customers.

Market leader

KLP's main product is public sector occupational pension. At the start of 2011, 330 municipalities and county authorities had their pension schemes with the Company. The same applies to 25 of the country's 27 health enterprises and about 2500 corporate enterprises. The Company's pension schemes cover more than 300,000 occupationally active individuals and 150,000 pensioners. In addition more than 115,000 members have a pension entitlement with KLP from previous employment.

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 762 employees. The Group's total assets were (NOK) 271.7 billion at the end of 2010 and KLP is thus the second-biggest life insurance company in Norway.

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

- Banking
- Insurance
- Fund and asset management
- Property

Subsidiaries

KLP Skadeforsikring AS is the leading provider of accident, occupational injury and property insurance to Norwegian local authorities and companies in the public sector. The company also delivers personal insurance products, primarily directed at public sector employees.

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 Landspensjonskasse. 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

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 and enterprises associated with the public sector, and their employees".

KLP's head office is in Oslo. The Company also has an office in Bergen, which services KLP's pension customers in West and South Norway. Other pension customers are serviced from Oslo. KLP Eiendom has offices in Oslo, Trondheim, Copenhagen and Stockholm. KLP Banken has its head office in Trondheim.

KLP Eiendom AS is one of the country's largest property managers, with more than 1,300,000 m² divided between office/commercial premises, shopping centres, hotels, housing and leasehold sites. The company administers all of KLP's property interests and has offices in Oslo, Trondheim, Copenhagen and Stockholm.

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

Through its wholly owned subsidiary, **KLP Bedriftspensjon AS**, defined contribution and defined benefit pensions are offered, with various risk profiles at the customer's option.

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 systematically applies and promotes ethical considerations based on international norms for such things as human rights, employee rights and the environment.

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 will help to secure good terms and conditions on loans for the public sector.

KLP Alternative Investments plc enables KLP further to specialise active asset management 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 several advantages. KLP's customers themselves provide equity capital and are thus also owners of the Company. This produces good returns and a great deal of influence.

As well as the direct return there is also an element of profit in having equity in KLP. Being an owner of the mutual KLP 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.

Social responsibility

KLP's customers and owners are committed to contribute to a good and sustainable development, and they have high expectations that KLP should also contribute in an effective way. We are well pleased with these expectations and we try to live up to them. KLP emphasises very strongly the responsibility the Company has for society and the environment.

1974 – KLP obtains its own permit as an insurance company, and establishes a joint local authority pension scheme.

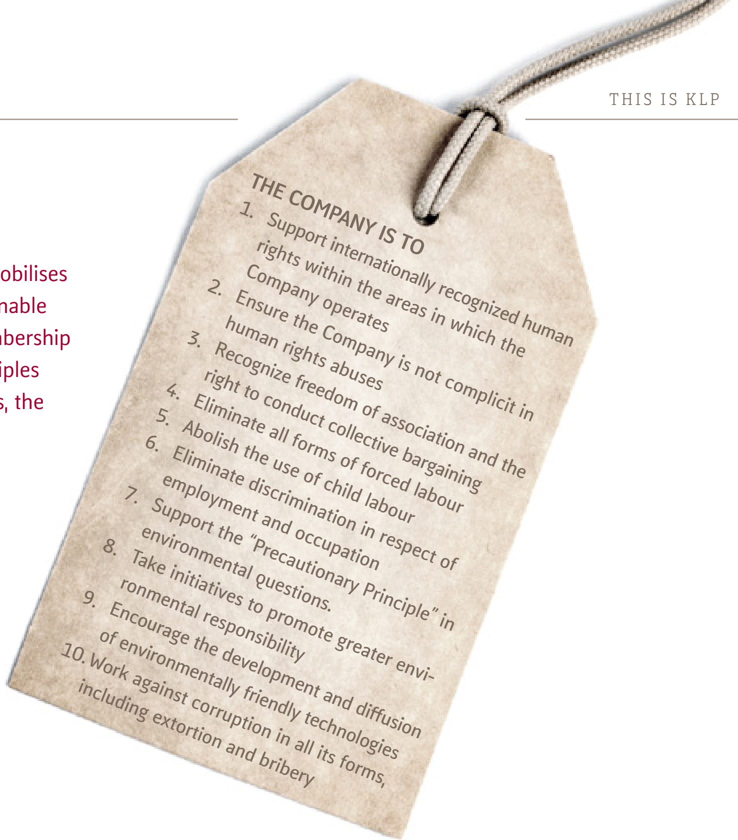
1984 – KLP expanded its product range with group life and accident insurance for local authority employees.

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).

1995 – KLP buys Nora Eiendom.

1997 – Nora Eiendom was renamed KLP Eiendom AS.



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.

Throughout membership in the UN's Global Compact Company has pledged itself to take account of human rights, workers rights, the environment and anticorruption throughout its operation. Social responsibility is integrated in KLP's overall strategy and included in the Group's balanced scorecard reporting and other directives.

KLP has also signed the UN Principles for Responsible Investment 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 do our best to manage these funds in a responsible, long-term 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 practice this means that KLP excludes companies that may be linked to breaches of conventions in the following areas:

- Human rights, including child labour
- Employee rights
- The environment
- Arms
- Corruption

To exclude companies is not a goal in itself and KLP uses dialogue with companies as an active tool, both to prevent companies from having to be excluded and to achieve the reinclusion of companies previously excluded.

KLP is also a responsible owner in companies and works actively to promote environmental and social responsibility through dialogue, projects and voting at general meetings.

Since the work on social responsibility has a long history in KLP we know that continuous improvement is the only thing that works. To integrate social responsibility into our day-to-day operations and business is important, and to emphasise this social responsibility is included in the Board's report and notes to the financial statements for the first time this year. Together with this report the non-financial accounts provide important information about the Company's administration of its human capital and how the Company behaves in regard to society and the environment.

In its social responsibility strategy KLP has committed to developing good procedures for measuring and reduction of the Company's environmental impact. The Company wishes to contribute to reducing the burden on the environment and climate as well is promoting new behavioural patterns, products, services and technical solutions that may reduce the environmental burden.

To ensure that we achieve our goals of continuous improvement and integration of social responsibility into our business, KLP wishes to continue the dialogue with our stakeholders. On our website, klp.no/samfunnsansvar, and our blogg, blogg.klp.no, you can give us your opinions and comments, and find relevant information.

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

2001 — KLP passed NOK 100 billion in total assets

2008 — KLP Skadeforsikring AS launched sales of personal 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 activities. KLP bought Kommunekreditt Norge AS from Eksportfinans.

2010 — KLP Banken is launched

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