annual report 2012

KLP Kommunekreditt AS

Coverphoto: Ole Jacob Frich

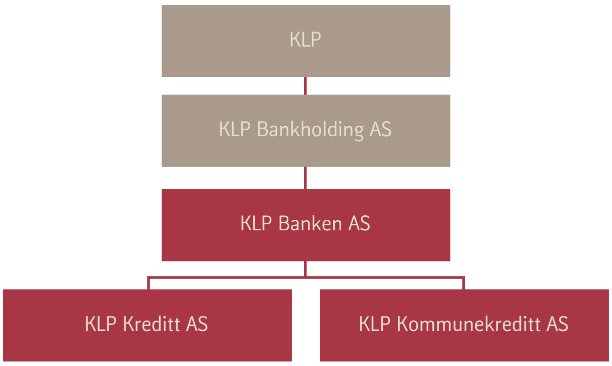
In 2012 KLP hosted an internal photo contest where the staff were to visualize one of KLP's values. Open, Clear, Responsible and Committed. Olav Storm, photographer, was head of the jury.

CONTENT

The report of the Board of Directors for 2012

KLP Kommunekreditt AS achieved pre-tax profits for the year of NOK 92.2 million in 2012 against NOK -50.0 million the year before. The balance sheet was reduced over the year, from NOK 26.6 billion to NOK 24.6 billion. The Company's financing is principally through covered bonds (CB) issued corresponding to NOK 20.4 billion. The bonds are rated AAA.

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 issuance of covered bonds with security in public sector loans.



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

Figures for 2011 are given in brackets.

- Pre-tax income: NOK 92.2 (-50.0) million
- Net interest income: NOK 70.1 (3.0) million
- New lending: NOK 0.9 (3.5) billion
- Lending balance: NOK 19.2 (23.8) billion

INCOME STATEMENT

Income was NOK 92.2 million before tax, and NOK 66.3 million after taxes. That produced a return on owners' equity of 13.2 per cent before tax.

KLP Kommunekreditt AS has issued bonds secured in lending to local government since 2009, the only finance institution in Norway to do so.

The 2012 result shows greatly improved earnings in the underlying operation compared to last year. Net interest income has increased significantly as a result of stable and good terms on the Company's covered bond borrowing. Compared to covered bonds issuances secured on housing mortgages, our issuances have a somewhat more favourable development because the market now prices the underlying risk on local authorities lower than housing mortgages.

Money market interest rates fell substantially through the first half-year and remained low for the rest of 2012. Loans to the local government sector have not followed market interest rates all the way down. This has therefore also helped to increase net interest income in KLP Kommunekreditt AS compared to 2011.

In 2012 the Company expanded its portfolio of financial investments in securities issued by other banks from NOK 1.5 billion to NOK 3.9 billion. The investments were largely made early in the year. Over the year prices increased, and this produced a significant contribution of NOK 54.7 million to the Company's accounting result. See further details in the section on Liquidity below.

In its early years KLP Kommunekreditt AS had major non-recurring costs in establishing its borrowing programme and in external consultancy and management in this connection. Costs associated with external support were NOK 7.4 million during 2012, against NOK 22.8 million in 2011. This has helped reduce overall costs in 2012 by NOK 13.0 million compared to the previous year.

INTEREST INCOME

Net interest income was NOK 70.1 million in 2012, against NOK 3.0 million in 2011.

LENDING

The Company's lending business started in December 2009. During 2010 and 2011 KLP Kommunekreditt AS refinanced loans with KLP Kreditt AS and KLP in addition to providing new loans. During 2012, refinancing loans from other companies did not have major significance for the development of lending.

Total lending amounted to NOK 19.2 billion at the end of 2012, producing a net reduction of NOK 4.6 billion in lending volume Net lending growth in 2011 was NOK 12.8 billion, of which NOK 9.3 billion was refinancing of rolling loans with KLP or KLP Kreditt AS.

During 2012, new lending of NOK 0.9 billion was paid out against NOK 3.5 billion in 2011. New loan payments were principally at fixed interest terms. The proportion of lending at fixed interest increased from 22.3 per cent to 30.2 per cent over the year. One of the Company's aims has been to increase the proportion of fixed interest loans.

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

In Norway the credit risk associated with lending to municipalities and county administrations 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 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 collection expenses. Up to 2012 KLP Kommunekreditt AS has not had credit losses on lending to Norwegian municipalities or county administrations.

The Company had no loans defaulting at the end of 2012.

BORROWING

KLP Kommunekreditt AS has established a programme for the issuance of covered bonds. During 2012 covered bonds (CB) corresponding to NOK 6.5 billion were issued in the Norwegian market (NOK 14.7 billion in 2011) as well as an issue in the Swedish market corresponding to NOK 0.5 billion. The bonds are issued with security in loans to municipalities, county administrations or companies carrying out tasks on behalf of the public sector. Lending to companies is to be guaranteed by municipalities, county administrations, central government or a bank under Section 50 of the Norwegian Local Government Act. Guarantees are to be of the ordinary surety type, covering both repayments and interest. The Company has achieved best rating on its CB issuances and international recognition for its lending programme. With the exception of the issuance in Sweden, the market conditions have limited the Company's opportunity to use international borrowing.

The security pool in which the CB owners have security is required to represent a minimum of 116 per cent of outstanding CB issues. This excess securitisation is financed by owners' equity and loans from KLP Banken AS.

STATEMENT OF FINANCIAL POSITION AND SOLVENCY

Total assets were NOK 24.6 billion at the end of 2012, against NOK 26.6 billion at the end of 2011. Of this, lending to public sector borrowers represented NOK 19.2 billion.

Based on the Board's proposed allocation of the income, the Company's Tier 1 and Tier 2 capital amounted to NOK 700.8 million at the end of 2012. The core capital is identical to the Tier 1 and Tier 2 capital. This produces a capital adequacy and core capital adequacy ratio of 15.1 per cent. Corresponding figures for 2011 were NOK 618.6 million and 11.6 per cent respectively. The authorities' minimum requirement is 9 per cent. The risk-weighted balance was NOK 4.6 billion. Solvency is considered good.

LIQUIDITY

The cash flow statement in the annual financial statements shows that the liquidity situation is good. The holdings of liquid assets have increased as the Company has accumulated financing in excess of new lending.

As a result of loan take-up occurring at times when the terms are considered advantageous the need arises to invest spare liquidity. This liquidity is used to pay out new loans and contributes to earnings.

KLP Kommunekreditt AS is subject to strict rules governing the assets in which investments may be made. The Company's liquid investments comprise safe securities and deposits in other banks. The securities are certificates and bonds with very good security, principally covered bonds and AAA-rating.

At the end of 2012 outstanding liquidity investments were NOK 3.9 billion. At the same time last year the outstanding liquidity was NOK 1.5 million. Investments in securities were taken to book at market value at the end of the reporting period. For 2012 that produces an unrealized gain of NOK 46.1 million. The corresponding figure for 2011 showed a loss of NOK 8.6 million. See Note 9.

ALLOCATION OF INCOME FOR THE YEAR

The Board proposes that dividends should not be distributed for 2012, and that the profit for the year of NOK 66.3 million kroner should be allocated by transferring NOK 40.6 million to the share premium fund and NOK 25.7 million to other owners' equity. The Company's unrestricted equity then amounts to NOK 25.7 million.

THE FINANCIAL STATEMENTS

The Board considers the annual financial statements provide a true and fair 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 Kommunekreditt AS is presenting its financial statements in accordance with the international accounting standards IFRS/IAS. See Note 2 to the annual financial statements for more detailed information.

To ensure good quality in the financial reporting, a detailed plan is developed for each presentation of financial statements showing clear division of responsibility and work. Valuations carried out of the assets and liabilities of the enterprise are recorded in writing. Detailed checks are carried out with reconciliation of main ledger accounts, as well as more high-level checks.

Rating

The rating agencies' assessment of KLP Kommunekreditt AS and the KLP Group is important for the terms on which the Company borrows. The Company has engaged Fitch Ratings and Moody's to provide a credit rating of the Company's bonds. The issuance of covered bonds in 2012 was rated AAA. KLP Kommunekreditt AS is rated A- by 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 that risks are identified, analysed and subjected to management using policies, limits, procedures and instructions.

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

Among other things the overarching risk policy covers roles in the Company's risk management, including requirements and guidelines for the 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.

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

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

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

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

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

The 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 41.1 billion at the end of 2012, a reduction of NOK 2.5 billion (6 per cent) from 2011.

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

During 2012 loan applications were received for almost NOK 40 billion from municipalities, county authorities and local government companies. During the same period approval has been reached for NOK 5.6 billion (14 per cent). In total, "KLP Kommunekreditt" is a substantial long-term lender to public sector wealth creation and welfare and a leading national player within its area of business.

The work of the Board of Directors

The Board held eight Board meetings during 2012. See Note 18 to the annual financial statements for an overview of remuneration to the members of the Board and senior management.

Corporate governance

The Company's Articles of Association and applicable legislation provide the framework for corporate governance and a clear division of roles between the governing bodies and executive management.

In accordance with Article 3 of the Articles of Association the Board of Directors shall comprise 4 to 7 members elected by the Supervisory Board. The members of the Board of Directors are elected for a term of two years in such a way that half are up for election each year. The Chair and Deputy Chair of the Board of Directors are elected separately.

The Board does not have the authority to issue or buy back own shares.

It is a matter for the Board to lay down guidelines for the Company's activities, including limits and authorizations for the Company's borrowing, lending and financial investments. The Managing Director or the Chair of the Board of Directors alone, or two of the Members of the Board of Directors together, may sign for the Company.

The Managing Director has the day-to-day direction of the Company's business in accordance with instructions laid down by the Board of Directors.

The presentation of accounts and financial reporting is organised through services bought from KLP's accounting department and is coordinated through the KLP Banken Group's Finance Department. Processes and procedures have been established to quality assure the financial reporting and ensure that any errors and omissions are investigated and corrected without delay. A number of control measures have been established to ensure correct and comprehensive reporting. The measures embrace checks of reasonableness and probability in addition to detailed daily and monthly reconciliation checks.

The external auditor conducts limited audit of the interim financial statements and full audit of the annual financial statement. In addition in-house investigation is undertaken each quarter to ensure the Company's lending satisfies the credit security requirements of the bondholders.

Working environment and organisation

KLP Kommunekreditt AS had three employees at the end of 2012. These also had employment situations in other companies in the KLP Banken Group. A management agreement has been reached with KLP Banken AS covering administration, IT operations, finance and risk management as well as borrowing and liquidity management.

The Board considers the working environment in the Company to be good. There were no injuries or accidents during 2012.

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. The three employees in the Company are men. KLP Kommunekreditt AS also complies with the KLP Group's ethical guidelines, as well as the guidelines for whistleblowing.

External environment

The KLP Group, including KLP Kommunekreditt 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 corporate social responsibility strategy KLP has committed to developing good procedures for measurement and reduction of its companies' environmental impact.

Future prospects

During 2012 KLP Kommunekreditt AS has implemented improvements in operation. However the Board of Directors considers it to be the opportunities to achieve advantageous borrowing terms in the market that will have the greatest significance going forward. In the wake of the international financial crisis most borrowers have met increased borrowing costs. The authorities' regulation of the banking sector indicates also that financial institutions will have to increase their margins in order to be able to meet future capital and liquidity requirements. Even though the Company had favourable margins development during 2012 it is not a given that this development will continue over time. The general development in the financial markets on which the Company depends will affect the opportunities for growth and development.

The demand for loans in the local government sector and for projects with local government guarantees and local administration ownership is expected to remain high in the years to come, but the Board emphasises that the extent of this growth is uncertain. Changing political circumstances may impact the regulatory frameworks within which the Company operates. The brand name "KLP Kommunekreditt" has a good position in the market for public sector lending. Its presence in the market contributes to competition and thus to the public sector having access to long-term financing at as low a cost as possible.

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

Oslo, 6. mars 2013

Styret i KLP Kommunekreditt AS

Sverre Thornes
Leder

Mai-Lill Ibsen
Nestleder

Aage Schaanning

Toril Sigrid Lahnstein

Arnulf Arnøy
Administrerende direktør

THE BOARD OF DIRECTORS OF KLP KOMMUNEKREDITT AS

AAGE SCHAANNING

MAI-LILL IBSEN

TORIL LAHNSTEIN

Sverre Thornes was not present for the picture. Photo: Olav Storm.

Income Statement

Note	NOK thousands	2012	2011
	Interest income and similar income	825 602	644 784
	Cost of interest and similar costs	-755 551	-641 795
12	Net interest income	70 052	2 989
	Commission costs & bank charges	0	-2
	Net charges and commission costs	0	-2
5	Net gain/(loss) on financial instruments	50 293	-11 859
	Total other operating income	50 293	-11 859
26	Other operating expenses	-28 137	-41 135
	Operating income before tax	92 207	-50 007
22	Tax on ordinary income	-25 879	14 002
	Income for the year	66 329	-36 005
	Other comprehensive income	0	0
	Other comprehensive income for the year after taxes	0	0
	COMPREHENSIVE INCOME FOR THE YEAR	66 329	-36 005
	Allocated to/from share premium fund	-40 612	36 005
	Allocated to/from other owners' equity	-25 717	0
	TOTAL ALLOCATION OF INCOME	-66 329	36 005

Financial Position Statement

Note	NOK thousands	31.12.2012	31.12.2011
	ASSETS		
13	Lending to and receivables from credit institutions	1 240 833	1 031 714
13	Lending to and receivables from customers	19 244 195	23 808 983
9	Interest-bearing securities	3 915 133	1 535 086
22	Deferred tax asset	0	15 793
10	Financial derivatives	172 025	70 165
27	Other assets	60 115	88 135
	TOTAL ASSETS	24 632 301	26 549 875
	LIABILITIES AND OWNERS' EQUITY		
	LIABILITIES		
19	Debt to credit institutions	3 213 972	3 568 757
20	Liabilities created on issuance of securities	20 365 434	22 152 457
10	Financial derivatives	336 221	182 842
22	Deferred tax	10 085	0
24	Other liabilities	5 459	8 510
24	Provision for accrued costs and liabilities	412	2 922
	TOTAL LIABILITIES	23 931 584	25 915 487
	OWNERS' EQUITY		
	Share capital	362 500	362 500
	Share premium fund	312 500	271 888
	Other owners' equity	25 717	0
	TOTAL OWNERS' EQUITY	700 717	634 388
	TOTAL LIABILITIES AND OWNERS' EQUITY	24 632 301	26 549 875

Oslo, 06. mars 2013

Sverre Thornes
Leder

Aage E. Schaanning

Mai-Lill Ibsen
Nestleder

Toril Lahnstein

Arnulf Arnøy
Administrerende direktør

Statement of Owners' equity

2012 NOK thousands	Share capital	Share premium fund	Other owners' equity	Total owners' equity
Owners' equity 1 January 2012	362 500	271 888	0	634 388
Income for the year	0	40 612	25 717	66 329
Other comprehensive income	0	0	0	0
Comprehensive income for the year	0	40 612	25 717	66 329
Total transactions with the owners	0	0	0	0
Owners' equity 31 December 2012	362 500	312 500	25 717	700 717

2011 NOK thousands	Share capital	Share premium fund	Other owners' equity	Total owners' equity
Owners' equity 1 January 2012	212 500	157 893	0	370 393
Income for the year	0	-36 005	0	-36 005
Other comprehensive income	0	0	0	0
Comprehensive income for the year	0	-36 005	0	-36 005
Owners' equity contributed during the period	150 000	150 000	0	300 000
Total transactions with the owners	150 000	150 000	0	300 000
Owners' equity 31 December 2011	362 500	271 888	0	634 388

	Number of shares	Nominal value in whole NOK	Share capital	Share premium fund	Other owners' equity	Total owners' equity
Owners' equity contribution paid in/share premium fund	3 625 000	100	362 500	312 500	0	675 000
Changes in other owners' equity	-	-	0	0	25 717	25 717
Owners' equity 31 December 2012	3 625 000	100	362 500	312 500	25 717	700 717

here is one class of shares. All shares are owned by KLP Banken AS.

Income per share 31 January 2012 in whole NOK: 18,30
Income per share 31 January 2011 in whole NOK: -9,93

Statement of Cash Flows

NOK thousands	2012	2011
Operating activities		
Payments received from customers - interest, commission & charges	757 876	501 221
Net disbursements on lending to customers	4 575 635	-12 640 153
Disbursements on operations	-33 604	-32 346
Net receipts/disbursements concerning other operating activities	57 393	-66 237
Net interest investment accounts	22 993	23 394
Income tax paid	0	0
Net cash flows from operating activities	5 380 293	-12 214 121
Investment activities		
Disbursements on purchase of securities	-2 322 305	-1 638 503
Receipts on sales of securities	0	98 680
Receipts of interest from securities	77 313	20 293
Net cash flows from investment activities	-2 244 991	-1 519 530
Financing activities		
Net receipts on loans from credit institutions	-2 191 537	14 851 453
Net payment of interest on loans	-704 772	-576 918
Net receipts/ disbursements (-) on other short-term items	27 519	-127 099
Receipts on issue of owners' equity	0	300 000
Net cash flows from financing activities	-2 868 790	14 447 436
Net cash flows during the period	266 512	713 784
Cash and cash equivalents at the start of the period	965 477	251 692
Cash and cash equivalents held at the end of the period	1 231 988	965 477
Net receipts/ disbursements (-) of cash	266 512	713 784
RECONCILIATION		
Income before tax	92 207	-50 007
Change in accounts payable	-50	-160
Items classified as investment or financing activities	619 446	674 291
Changes in other accrual items	4 668 690	-12 838 245
Net cash flows from operating activities	5 380 293	-12 214 121

Note 1 General information

KLP Kommunekreditt AS is a credit enterprise that was formed on 25 August 2009. The Company provides or acquires 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. A portion of these is listed on Oslo Børs.
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 annual financial statements are available at www.klp.no.

The financial statement presented covers the period from 1 January 2012 to 31 December 2012..

Note 2 Summary of the most important accounting principles

Below is a description of the most important accounting principles used in preparation of the KLP Kommunekreditt AS financial statement. These principles are used in the same way in all periods presented unless otherwise indicated.

2.1 1 FUNDAMENTAL PRINCIPLES

The financial statements for KLP Kommunekreditt AS have been prepared in accordance with the international accounting standards (IFRS) and interpretations from the IFRS interpretations committee, as adopted by the EU.

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

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

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

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

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

2.1.1 Changes in accounting principles and information

(a) New and changed standards adopted by the Company

There are no new or changed IFRSs or IFRIC interpretations that have come into force for the 2012 annual financial statements that are considered to have or expected to have a significant effect on the Company.

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

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

- IAS 1 "Presentation of financial statements" has been amended and as a result items in other comprehensive income are to be divided into two groups: those that are later to be reclassified through profit or loss and those that are not. The changes do not affect which items are to be included in other comprehensive income.
- IFRS 9 "Financial Instruments" governs classification, measurement and accounting of financial assets and financial liabilities. IFRS 9 was published in November 2009 and October 2010, and replaces those parts of IAS 39 that cover accounting for, classification and measurement of financial instruments. In accordance with IFRS 9, all financial assets are to be divided into two categories based on method of measurement: those measured at fair value and those measured at amortized cost. The classification is made on first recognition in the accounts. Classification will depend on the company's business model for handling its financial instruments and the characteristics of the contractual cash flows from the instrument. For financial liabilities the requirements are generally the same as in IAS 39. The main change, in those cases in which fair value has been selected for financial liabilities, is that the part of the change in fair value resulting from change in the company's own credit risk is recognized in other comprehensive income instead of in the income statement, provided this does not involve an accrual error in income measurement. The Company has not yet assessed the entire impact of the standard on the financial statements, but plans to apply IFRS 9 when the standard comes into force and is approved by the EU. The standard comes into force for accounting periods starting on 1 January 2015. The Company will also look at the consequences of the remaining part-phases of IFRS 9 when they have been finalized by the IASB.
- IFRS 12 "Disclosures of Interest in Other Entities" contains the information requirements for financial interests in subsidiaries, jointly controlled enterprises, affiliated companies, special-purpose entities (SPE), and other companies not included in the statement of financial position. The Company has not considered the full consequences of IFRS 12. The Company plans to apply the standard for 2013, even though the EU does not require it to be applied before 1 January 2014.
- IFRS 13 "Fair Value Measurement" defines what is meant by fair value when the term is used in IFRS, provides a uniform description of how fair value is to be determined in IFRS and defines what supplementary information is to be provided when fair value is used. The standard does not expand the scope of recognition at fair value, but provides guidance on the application method where the use is already required or permitted in other IFRSs. The Company uses fair value as the measurement criterion for certain assets and liabilities. The Company has not considered the full consequences of IFRS 13, but will apply the standard for the 2013 reporting year.

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

2.2 TRANSLATION 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 Company.

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

2.3 FINANCIAL ASSETS

2.3.1 Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are assets held for trading purposes unless they form part of a hedge. The asset is classified in this category if it is primarily acquired with the a view to producing profit from short-term price fluctuations. Gain or loss from this category is taken to income in the line "Net gain/loss on financial instruments".

2.3.2 Loans and receivables at amortized cost
Loans and receivables are financial assets that are not derivatives, and that have set or determinable payments, and that are not traded in an active market or that the Group intends to sell in the short term or has earmarked at fair value through profit or 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 amortized cost using the effective interest rate method with write-down for credit losses if appropriate.

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

2.3.3 Derivatives and hedgingg
Derivatives are capitalized at fair value at the time the derivative contract is struck. On subsequent measurement the derivatives are recognized at fair value. If the hedging no longer fulfils the criteria for hedge accounting, the recognized effect of the hedging for hedging objects recognized at amortized cost is amortized over the period up to the due date of the hedging instrument. The derivatives are used as hedging instruments for hedging of interest rate risk. The Company 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 recognized 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 11 for further information.

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

2.3.5 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.

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

Loss assessment and loss write-down is carried out quarterly on individual loans. Loans with unpaid repayments older than 90 days or credits with overdrafts older than 90 days are examined at the end of the reporting period. In addition continuous assessment is carried out of other lending engagements where there is objective proof of impairment. The Company has not identified write-down requirements on its assets.

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

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 direct method.

2.5 FINANCIAL LIABILITIES
The Company's financial liabilities comprise debts to credit institutions and covered bonds issued.

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

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

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

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

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

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

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

2.6 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.

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

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

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

2.8 TAX
Tax comprises tax payable and deferred tax. Tax is charged to the income statement, apart from when it relates to items that are recognized through other comprehensive income or directly against owners' equity. If that is the case, the tax is also recognized in other comprehensive income or directly against owners' equity. Tax payable for the period is calculated in accordance with the tax legislation and regulations enacted, or generally adopted, at the end of the reporting period in the country in which the Company and subsidiaries operate and generate taxable income. Management continuously assesses the assertions made in the tax returns where the applicable taxation legislation is subject to interpretation. Based on the management's assessment, provisions are made for expected tax payments where this is considered necessary.

Deferred tax is calculated on temporary differences between taxable values and consolidated financial statement values of assets and liabilities. Deferred tax is not calculated on goodwill. Should a temporary difference arise on first recognition in the financial position statement of a liability or asset in a transaction, not being a business merger, and that at the time of the transaction affects neither the book income nor the taxable income, deferred tax is not recognized in the financial position statement. Deferred tax is determined using tax rates and tax legislation enacted or to all intents and purposes enacted at the end of the reporting period, and that are expected to be applicable when the deferred tax asset is realized or when the deferred tax is settled.

Deferred tax assets and deferred tax are to be set off if there is a legally enforceable entitlement to set off taxable assets against taxable liabilities, and deferred tax assets and deferred tax involve income tax imposed by the same tax authority for either the same taxable enterprise or different taxable enterprises that intend to settle taxable liabilities and assets net. Net deferred tax assets are capitalized in the financial position statement to the extent it is likely they may be utilised.

Note 3 Important accounting estimates and valuations

The Company's 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 amortized 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. This means that the hedging object's (fixed interest borrowing and lending) accounting value is changed when the market interest rate changes. The credit spread is locked at the commencement date, so the market's pricing of credit is not reflected in book value. This is because the credit element is not hedged.

The 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 Company has invested surplus liquidity in interest-bearing securities. These were initially recognized 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 recognized valuation model based on observable market data.

Note 4 Segments

KLP Kommunekreditt has no division of its income by products or services. The Company has only the public sector market segment and offers only loans to its customers. The Company has only Norwegian customers. The Company has no external customers representing more than 10 per cent of the Company's total operating income.

Note 5 Net gain/loss on financial instruments

NOK thousands	2012	2011
Net gain/(loss) on interest-bearing securities	54 766	-8 597
Net gain/loss financial derivatives	-75 493	-20 525
Net value change lending and borrowing, hedge accounting	71 019	17 262
Total	50 293	-11 859

Note 6 Fair value of financial assets and liabilities

	31.12.2012		31.12.2011	
NOK thousands	Capitalized value	Fair value	Capitalized value	Fair value
Financial assets				
Total loans issued to and receivables from credit institutions at amortized cost	1 240 833	1 240 833	1 031 714	1 031 714
Loans to Norwegian local administrations at amortized cost	13 265 362	13 265 362	18 644 232	18 644 232
Loans to Norwegian local administrations at fair value hedging	5 978 833	5 983 059	5 164 751	5 172 768
Total lending to and receivables from customers	19 244 195	19 248 421	23 808 983	23 817 000
Interest-bearing securities at fair value	3 915 133	3 915 133	1 535 086	1 535 086
Financial derivatives at fair value	172 025	172 025	70 165	70 165
Total financial assets	24 572 186	24 576 412	26 445 948	26 453 965
Financial liabilities				
Debt to financial institutions at amortized cost	3 213 972	3 213 972	3 568 757	3 568 757
Covered bonds issued at amortized cost	16 986 184	16 999 955	19 338 696	19 338 696
Covered bonds issued at fair value hedging	3 379 250	3 456 709	2 813 761	2 821 304
Total liabilities created on issuance of securities	20 365 434	20 456 664	22 152 457	22 160 000
Financial derivatives at fair value	336 221	336 221	182 842	182 842
Total financial liabilities	23 915 627	24 006 857	25 904 055	25 911 598

	2012	Cumulative 2012	2011	Cumulative 2011
Change in fair value attributable to credit risk				
Loans to Norwegian local administrations at fair value hedging	-3 791	4 226	8 017	8 017
Covered bonds issued at fair value hedging	69 916	77 459	2 878	7 543
Total change in fair value attributable to credit risk	66 125	81 685	10 894	15 560

Loans to Norwegian local administrations
The receivables are valued using a valuation model that uses relevant credit spread 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.

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

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.

Liabilities to Group companies
These transactions are valued using a valuation model, including relevant credit spread adjustments obtained from the market.

Note 7 Fair value hierarchy

NOK thousands	31.12.2012	31.12.2011
Assets		
Interest-bearing securities		
Level 1: Value based on prices in an active market	0	0
Level 2: Value based on observable market data	3 915 133	1 535 086
Level 3: Value based on other than observable market data	0	0
Accrued interest	0	0
Total interest-bearing securities	3 915 133	1 535 086
Financial derivatives		
Level 1: Value based on prices in an active market	0	0
Level 2: Value based on observable market data	172 025	70 165
Level 3: Value based on other than observable market data	0	0
Total financial derivatives	172 025	70 165
Total financial assets valued at fair value	4 087 158	1 605 251
Liabilities		
Financial derivatives (liabilities)		
Level 1: Value based on prices in an active market	0	0
Level 2: Value based on observable market data	336 221	182 842
Level 3: Value based on other than observable market data	0	0
Total financial derivatives (liabilities)	336 221	182 842
Total financial liabilities at fair value	336 221	182 842

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.

Level 1: Instruments at this level obtain fair value from listed 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 players and services.

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

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

Note 8 Categories of financial assets and liabilities

NOK thousands	31.12.2012				31.12.2011			
Financial assets	HFT	FVL	LAR	Total	HFT	FVL	LAR	Total
Lending to and receiv's from credit institutions	0	0	1 240 833	1 240 833	0	0	1 031 714	1 031 714
Lending to and receivables from customers	0	5 978 833	13 265 362	19 244 195	0	5 008 221	18 800 762	23 808 983
Certificates and bonds	3 915 133	0	0	3 915 133	1 535 086	0	0	1 535 086
Financial derivatives used in hedging	172 025	0	0	172 025	70 165	0	0	70 165
Total	4 087 159	5 978 833	14 506 195	24 572 186	1 605 251	5 008 221	19 832 476	26 445 948

Financial liabilities	HFT	FVH	OLI	Total	HFT	FVH	OLI	Total
Debt to credit institutions	0	0	3 213 972	3 213 972	0	0	3 568 757	3 568 757
Liabilities created on issuance of securities	0	3 379 250	16 986 184	20 365 434	0	2 796 827	19 355 630	22 152 457
Financial derivatives used in hedging	334 484	0	0	334 484	182 842	0	0	182 842
Financial derivatives at fair value	1 737	0	0	1 737	0	0	0	0
Total	336 221	3 379 250	20 200 156	23 915 627	182 842	2 796 827	22 924 387	25 904 055

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

Note 9 Interest-bearing securities

NOK thousands	Acquisition cost	Unreal. gain/loss	Accrued interest	31.12.2012 Market value
Debtor categories				
Credit enterprises	3 342 548	36 760	8 599	3 387 907
Local government administration	515 991	9 410	1 826	527 226
Total	3 858 539	46 169	10 425	3 915 133

Effective interest rate: 2,40 %

NOK thousands	Acquisition cost	Unreal. gain/loss	Accrued interest	31.12.2011 Market value
Debtor categories				
Savings banks	98 880	-605	418	98 692
Credit enterprises	1 340 592	-13 551	5 314	1 332 354
Local government administrations	98 050	5 560	429	104 039
Total	1 537 522	-8 597	6 161	1 535 086

Effective interest rate: 3,98 %

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

Note 10 Financial derivatives

NOK thousands	31.12.2012 Nominal sum	31.12.2012 Fair value	31.12.2011 Nominal sum	31.12.2011 Fair value
Borrowing in NOK	3 250 000	172 025	2 750 000	69 975
Lending	0	0	114 925	190
Total assets	3 250 000	172 025	2 864 925	70 165
Borrowing in NOK	4 300 000	10 137	0	0
Lending	5 708 062	288 586	4 878 654	168 381
Investments	100 000	7 497	100 000	3 821
Borrowing in foreign currency	1 528 500	30 001	1 095 000	10 640
Total liabilities	11 636 562	336 221	6 073 654	182 842

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 11 Hedge accounting

31.12.2012 NOK thousands	Nominal value	Changed value hedged risk	Effectiveness
Hedged object			
Lending fixed interest in NOK	5 713 241	263 248	100.00 %
Borrowing in NOK	3 250 000	-129 193	100.00 %
Hedging instrument			
Interest rate swap lending fixed interest in NOK	5 708 062	-263 248	100.00 %
Interest-rate swap borrowing in NOK	3 250 000	129 193	100.00 %

31.12.2012 NOK thousands	Nominal value	Changed value hedged risk	Effectiveness
Hedged object			
Lending fixed interest in NOK	5 008 327	156 424	93.00 %
Borrowing in NOK	2 750 000	-63 761	91.12 %
Hedging instrument			
Interest rate swap lending fixed interest in NOK	4 993 580	-168 192	107.52 %
Interest-rate swap borrowing in NOK	2 750 000	69 975	109.75 %

The hedging instrument is an interest-rate swap. The purpose of this hedging is to hedge the interest-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 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 12 Net interest income

NOK thousands	2012	2011
Interest on lending to and receivables from credit institutions	22 993	23 394
Interest on lending to customers	721 032	594 936
Interest on securities	81 577	26 454
Total interest income	825 602	644 784
Interest on debt to KLP Banken AS	-105 790	-83 146
Interest on debt to credit institutions	-646 983	-551 306
Premium/discount on covered bonds	-2 778	-7 342
Total interest costs	-755 551	-641 795
Net interest income	70 052	2 989

Note 13 Lending and receivables

NOK thousands	31.12.2012	31.12.2011
Lending to and receivables from credit institutions		
Bank deposits	1 240 833	1 031 714
Lending to and receivables from credit institutions	1 240 833	1 031 714
Lending to and receivables from customers		
Principal on lending	18 905 239	23 542 838
Fair value hedging	263 248	156 424
Premium/discount	-40 809	-43 639
Accrued interest	116 517	153 361
Lending to and receivables from customers	19 244 195	23 808 983

All lending comprises loans to, or loans guaranteed by, Norwegian municipalities and county administrations, including loans to local government enterprises and inter-authority companies. Guarantees are of the ordinary guarantor type covering both repayments and interest.

Note 14 Financial risk management

KLP Kommunekreditt AS is a wholly owned subsidiary of KLP Banken AS. 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 overarching risk policy that covers principles, organisation, limits etc for the bank's total risk. The risk policies are of an overarching nature and are complemented by procedures, guidelines and instructions laid down at the senior management level. The policies state which departments are responsible for handling the various risks and also cover the establishment of a separate risk control function. The purpose of the risk control function is inter alia to check that the risk policies and other guidelines for risk management are being followed. This function is carried out by the Risk Analysis and Control Department, which is responsible for preparing periodic risk reports to senior management and the Board as well as 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 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 15 Credit risk

Credit risk is understood here to mean the risk of loss associated with loan customers, counterparties in derivatives, issuers of securities and other counterparties being unable or unwilling to settle at the agreed time and in accordance with written contracts, and the securities established not covering the outstanding demand.

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 "selvskyldner" type (ordinary guarantor - guarantor's liability attaches as soon as the principal debtor defaults).

Loans according to type of security/exposure (principal)

NOK thousands	31.12.2012	31.12.2011
Lending to municipalities and county administrations	18 224 818	22 201 352
Lending with municipal/county administration guarantee	680 421	1 341 486
Total	18 905 239	23 542 838
Sums falling due more than 12 months after the end of the reporting period	17 899 421	21 978 220

The Company will in addition have credit risk exposure in the form of "additional collateral". In accordance with the Company's internal guidelines the additional collateral may be in the form of deposits in banks satisfying minimum rating requirements as well as covered bonds issued by Norwegian credit enterprises.

Credit quality securities, bank deposits and derivatives

Securities with external credit assessment (Moody's) NOK thousands	31.12. 2012	31.12.2011
AAA	3 460 000	1 551 000

Securities without external credit assessment NOK thousands	31.12. 2012	31.12.2011
Securities issued by the Norwegian municipalities/county administrations	417 000	0

Deposits in banks grouped by external credit assessment (Moody's) NOK thousands	31.12. 2012	31.12.2011
Aa1-Aa3	791 348	524 246
A1-A3	444 205	507 468
Baa1	5 279	-
Total	1 240 833	1 031 714

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. All derivative agreements are entered into with counterparties with a minimum A1 rating (Moody's)

15.1 MEASUREMENT OF CREDIT RISK
The Board has determined a credit policy that contains overarching guidelines, requirements and limits associated with credit risk. The policy 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. Furthermore requirements are set for reporting to the Board on usage of the limits.

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

15.2 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.

15.3 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.

Maximum exposure to credit risk

NOK thousands	31.12.2012	31.12.2011
Lending to and receivables from credit institutions	4 628 704	2 460 345
Lending to and receivables from customers	19 432 501	23 913 010
Financial derivatives	31 104	70 166
TOTAL	24 092 309	26 443 521

Loans fallen due or written down

NOK thousands	31.12.2012	31.12.2011
Principal on loans with payments with 1-30 days' default	528 140	764 405
Principal on loans with payments with 31-90 days' default	16 889	5 500
Principal on loans with payments with more than 90 days' default	-	-
Total loans fallen due	545 029	769 905
Relevant security or guarantees	545 029	769 905
Lending that has been written down	-	-

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

15.4 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 largest exposure as at 31 December 2012 was about 3.1 per cent of the Company's total lending.

Note 16 Market risk

Market risk is understood here as the risk of reduced fair value of the Company's equity capital as a result of fluctuations in market prices for the Company'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 Company has two loans in SEK but all other borrowing is in NOK. The whole of the lending portfolio comprises loans in NOK. The risk associated with changes in exchange rates is reduced virtually entirely, using derivative contracts.

16.1 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 10% unfavourable exchange rate change in all currencies.

16.2 INTEREST RATE RISK

The market risk policy is the Company's overarching guidelines, requirements and limits associated with market risk. The policy dictates that the market risk should be minimized so that the total market risk is low. It further states that the 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 interest-bearing assets and liabilities as at 31 December 2012

NOK thousands	Total Principal	Up to 1 mnth	From 1 mnth to 3 mnths	From 3 mnths to 12 mnths	From 1 yr to 5 yrs	Over 5 yrs
Lending	18 905 239	10 041 509	2 439 625	948 511	3 313 962	2 161 632
Securities	3 877 000	841 000	2 936 000			100 000
Cash and receivables from credit institutions	1 240 833	1 240 833	0	0	0	0
Total	24 023 072	12 123 342	5 375 625	948 511	3 313 962	2 261 632
Liabilities created on issuance of securities	20 181 500	1 000 000	15 931 500	0	2 500 000	750 000
Liabilities to financial institutions	3 210 000	3 210 000	0	0		
Total	23 391 500	4 210 000	15 931 500	0	2 500 000	750 000
Gap	631 572	7 913 342	-10 555 875	948 511	813 962	1 511 632
Financial derivatives	0	-5 539 406	8 045 733	-183 419	-811 275	-1 511 633
Net gap	631 572	2 373 936	-2 510 142	765 092	2 687	-1

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

NOK thousands	Total Principal	Up to 1 mnth	From 1 mnth to 3 mnths	From 3 mnths to 12 mnths	From 1 yr to 5 yrs	Over 5 yrs
Lending	23 542 838	13 182 075	4 334 934	1 268 982	2 824 269	1 932 578
Securities	1 551 000	498 000	953 000			100 000
Cash and receivables from credit institutions	1 031 714	1 031 714	0	0	0	0
Total	26 125 552	14 711 789	5 287 934	1 268 982	2 824 269	2 032 578
Liabilities created on issuance of securities	22 045 000	0	19 295 000	0	2 000 000	750 000
Liabilities to financial institutions	3 560 000	0	3 560 000	0		
Total	25 605 000	0	22 855 000	0	2 000 000	750 000
Gap	520 552	14 711 789	-17 567 066	1 268 982	824 269	1 282 578
Financial derivatives	0	-764 310	2 999 339	-129 459	-822 454	-1 283 116
Net gap	520 552	13 947 479	-14 567 727	1 139 523	1 815	-538

The Company's interest rate sensitivity as at 12 December 2012, measured as value change in the event of one percentage point change in all interest rates was NOK 4 million.

16.3 EXCHANGE-RATE RISK

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

Note 17 Liquidity risk

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

17.1 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.

17.2 MATURITY ANALYSIS

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

Liquidity risk KLP Kommunekreditt AS

Maturity analysis for assets and liabilities as at 31 December 2012:

NOK thousands	Total	Undefined	Up to 1 mnth	From 1 mnth to 3 mnths	From 3 mnths to 12 mnths	From 1 yr to 5 yrs	Over 5 yrs
Lending	26 215 716		91 508	250 619	1 269 215	6 261 442	18 342 931
Securities	4 720 715		5 257	436 201	122 195	2 700 243	1 456 819
Receivables from credit institutions	1 240 833	1 240 833	0	0	0	0	0
Total	32 177 264	1 240 833	96 765	686 820	1 391 410	8 961 685	19 799 751
Liabilities created on issuance of securities	21 763 368		5 875	1 161 557	1 496 512	18 244 424	855 000
Financial derivatives	289 348		39 048	16 124	24 966	155 660	53 550
Debt to credit institutions	3 234 396		8 132	3 226 264	0	0	0
Total	25 287 112	0	53 055	4 403 944	1 521 478	18 400 084	908 550
Net cash flows	5 649 319	1 240 833	43 710	-3 717 124	-130 068	-9 438 399	18 891 200

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

NOK thousands	Total	Undefined	Up to 1 mnth	From 1 mnth to 3 mnths	From 3 mnths to 12 mnths	From 1 yr to 5 yrs	Over 5 yrs
Lending	32 504 272		78 133	163 218	1 975 877	7 460 548	22 826 496
Securities	1 878 128		4 554	8 517	49 270	617 763	1 198 025
Receivables from credit institutions	1 031 714	1 031 714					
Total	35 414 114	1 031 714	82 686	171 736	2 025 147	8 078 311	24 024 520
Liabilities created on issuance of securities	23 930 000			137 500	6 312 500	16 595 000	885 000
Financial derivatives	152 667		17 226	-1 940	41 698	73 709	21 974
Debt to credit institutions	3 582 250			3 582 250			
Total	27 664 917	0	17 226	3 717 810	6 354 198	16 668 709	906 974
Net cash flows	7 749 196	1 031 714	65 460	-3 546 075	-4 329 051	-8 590 399	23 117 547

Note 18 Salary and obligations towards senior management/governing bodies

2012 NOK thousands	Paid from KLP Kommunekreditt AS Salaries, fees etc.	Other benefits	Annual pension accum.	Loan	Paid from another company in the same group Salaries, fees etc.	Other benefits	Annual pension accum.	Loan	Interest rate 31.12.2012	Repay-ment plan [1]
Senior employees										
Arnulf Arnøy, Managing Director	-	-	-	-	1 453	148	593	1 538	2.95-3.15	S19 and housing credit
Board of Directors										
Sverre Thornes, Chair	-	-	-	-	3 254	122	1 230	7 507	2.70-3.60	A42
Aage E. Schaanning	-	-	-	-	3 180	125	1 094	4 017	2.70-3.60	A og S32
Mai-Lill Ibsen	-	-	-	-	158	-	-	-	-	-
Toril Lahnstein	-	-	-	-	95	-	-	-	-	-
Control Committee										
Ole Hetland	-	-	-	-	89	-	-	-	-	-
Jan Rune Fagermoen	-	-	-	-	75	-	-	-		
Bengt P. Johansen	-	-	-	-	75	-	-	-	-	-
Dordi E. Flormælen	-	-	-	-	75	-	-	-		
Line Alfarrustad	-	-	-	-	37	-	-	-	-	-
Supervisory Board										
Total Supervisory Board	-	-	-	-	95	-	-	8 432	-	-
Employees										
Total loans to employees of KLP Kommunekreditt AS			-	-	-	-	-	8 873	-	-

2011 NOK thousands	Paid from KLP Kommunekreditt AS Salaries, fees etc.	Other benefits	Annual pension accum.	Loan	Paid from another company in the same group Salaries, fees etc.	Other benefits	Annual pension accum.	Loan	Interest rate 31.12.2011	Repay-ment plan [1]
Senior employees										
Arnulf Arnøy, Managing Director	-	-	-	-	1 427	145	543	2 269	2.95-3.15	S2031
Board of Directors										
Sverre Thornes, Chair	-	-	-	-	3 063	165	1 001	7 507	2.70-3.60	A2041
Aage E. Schaanning	-	-	-	-	2 814	120	871	2 977	2.70-2.95	A2031
Mai-Lill Ibsen	-	-	-	-	93	-	-	-	-	-
Astrid Sommerstad	-	-		-	61	-	-	-	-	-
Control Committee										
Ole Hetland	-	-	-	-	86	-	-	-	-	-
Jan Rune Fagermoen	-	-	-	-	72	-	-	-	-	-
Bengt P. Johansen	-	-	-	-	99	-	-	-	-	-
Dordi E. Flormælen	-	-	-	-	37	-	-	-	-	-
Line Alfarrustad	-	-	-	-	37	-	-	-	-	-
Anne-Marie Barane	-	-	-	-	35	-	-	-	-	-
Aud Mork	-	-	-	-	35	-	-	-	-	-
Supervisory Board										
Total Supervisory Board	-	-	-	-	83	-	-	8 432	-	-
Employees										
Total loans to employees of KLP Kommunekreditt AS		-	-	-	-	-	-	6 249	-	-

[1] S= Serial loan, A= Annuity loan, last payment.

The Managing Director has no agreement on performance pay (bonus), but has a salary guarantee of 21 months on termination. The Managing Director has an apartment at his disposal gratis in connection with his position. The Managing Director is entitled to full retirement pension on reaching the age of 62. The Managing Director receives no benefits directly from the Company, but the Company refunds 41.6 per cent of his remuneration to the company that pays his salary and benefits (KLP Banken AS).

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

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

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

All benefits are shown without the addition of national insurance contributions.

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

Note 19 Debt to credit institutions

NOK thousands	Currency	Interest	Due date	Nominal	Accrued interest	31.12.2012 Book value
Debt to KLP Banken AS	NOK	Fixed	15.03.2012	3 210 000	3 972	3 213 972
Total liabilities to credit institutions				3 210 000	3 972	3 213 972

Tusen kroner	Currency	Interest	Due date	Nominal	Accrued interest	31.12.2011 Book value
Debt to KLP Banken AS	NOK	Fixed	15.03.2012	2 760 000	4 139	2 764 139
Debt to KLP Banken AS	NOK	Fixed	01.03.2011	400 000	179	400 179
Debt to KLP Banken AS	NOK	Fixed	14.12.2012	400 000	4 439	404 439
Total liabilities to credit institutions				3 560 000	8 757	3 568 757

Note 20 Securities liabilities - stock exchange listed covered bonds

NOK thousands	Nominal	Currency	Interest	Issued	Due date	Accrued interest	31.12.2012 Book value
ISIN code							
NO0010585185	4 300 000	NOK	Variable	15.09.2010	15.09.2015	4 031	4 304 031
NO0010592892	1 103 000	NOK	Variable	10.12.2010	10.12.2013	1 490	1 104 490
NO0010592900	750 000	NOK	Fixed	15.12.2010	15.12.2020	1 607	751 607
XS0605180412	1 250 000	SEK	Variable	15.03.2011	15.03.2013	765	1 095 765
NO0010609795	4 000 000	NOK	Variable	20.05.2011	20.05.2014	10 313	4 010 313
NO0010624778	2 500 000	NOK	Fixed	15.09.2011	15.05.2015	55 377	2 555 377
XS0747335494	500 000	SEK	Variable	17.02.2012	17.02.2015	959	434 459
NO0010642192	1 000 000	NOK	Variable	13.04.2012	13.04.2016	5 092	1 005 092
NO0010662307	3 000 000	NOK	Variable	26.10.2012	10.11.2017	12 898	3 012 898
NO0010663180	2 000 000	NOK	Variable	15.11.2012	16.11.2016	5 797	2 005 797
Amortization/value adjustments							85 605
Total covered bonds issued							20 365 434

NOK thousands	Nominal	Currency	Interest	Issued	Due date	Accrued interest	31.12.2011 Book value
ISIN code							
NO0010585185	4 300 000	NOK	Variable	15.09.2010	15.09.2015	7 208	4 307 208
NO0010592884	3 000 000	NOK	Variable	10.12.2010	10.12.2012	5 500	3 005 500
NO0010592892	4 000 000	NOK	Variable	10.12.2010	10.12.2013	7 600	4 007 600
NO0010592900	750 000	NOK	Fixed	15.12.2010	15.12.2020	1 602	751 602
XS0605180412	1 250 000	SEK	Variable	15.03.2011	15.03.2013	1 597	1 096 597
NO0010609795	4 000 000	NOK	Variable	20.05.2011	20.05.2014	15 443	4 015 443
NO0010614555	2 900 000	NOK	Variable	28.06.2011	28.06.2012	938	2 900 938
NO0010624778	2 000 000	NOK	Fixed	15.09.2011	15.05.2015	20 741	2 020 741
Amortization/value adjustments							46 827
Total covered bonds issued							22 152 457

Note 21 Capital adequacy

NOK thousands	31.12.2012	31.12.2011
Share capital and share premium fund	675 000	634 388
Other owners' equity	25 717	0
Total owners' equity	700 717	634 388
Deduction goodwill and other intangible assets	0	0
Deferred tax asset	0	-15 793
Core capital	700 717	618 595
Supplementary capital	0	0
Supplementary capital	0	0
Total eligible Tier 1 and 2 capital	700 717	618 595
Capital requirement	370 359	427 956
Surplus of Tier 1 and 2 capital	330 358	190 639
Estimate basis credit risk		
Institutions	315 485	246 015
Local and regional authorities	3 964 218	4 786 663
Covered bonds	338 791	305 788
Estimate basis credit risk	4 618 494	5 338 465
Credit risk	369 480	427 077
Operating risk	879	879
Total capital requirement assets	370 359	427 956
Core capital adequacy ratio	15.1 %	11.6 %
Supplementary capital ratio	0.0 %	0.0 %
Capital adequacy ratio	15.1 %	11.6 %

Basel II regulations have been used in calculating capital adequacy.

The authorities' minimum requirement for capital adequacy is set at 9 per cent for financial institutions.

The Company's aim is that its capital adequacy should be at least 10 per cent.

Note 22 Tax

NOK thousands	2012	2011
Book income before tax	92 207	-50 007
Differences between book and tax income:		
Reversal of value reduction, financial assets	0	35 545
Reversal of value increase financial assets	-54 766	-103 325
Other permanent differences	217	0
Change in differences affecting relationship between book and tax income	2 713	77 737
Taxable income	40 371	-40 050
Group contribution received with tax effect	0	0
Group contribution paid with tax effect	0	0
Base for tax payable	40 371	-40 050
Deficit carryforward allowable from previous years	-46 265	-6 215
Change for the year in carryforward deficit	40 371	-40 050
Total allowable carryforward deficit as at 31 December	-5 894	-46 265
Reconciliation of deferred tax/tax assets		
Deferred tax linked to:		
Securities	12 927	0
Lending to customers and credit enterprises	62 790	26 901
Total deferred tax	75 717	26 901
Deferred tax asset linked to:		
Financial instruments	-32 906	-6 641
Borrowing	-31 075	-20 692
Securities	0	-2 407
Total deferred tax assets	-63 982	-29 740
Net deferred tax/tax asset	11 736	-2 839
Carryforward deficit	-5 894	-46 265
Deferred tax on carryforward deficit	-1 650	-12 954
28 % deferred tax	10 085	-15 793
Cost of taxes on items under other comprehensive income	0	0
Capitalized deferred tax/deferred tax assets	10 085	-15 793
Change in deferred tax taken to income	25 879	-14 002
Summary of tax expense for the year		
Change in deferred tax taken to income	25 879	-14 002
Tax payable taken to income	0	0
Total taxes	25 879	-14 002
Effective tax percentage	28.1 %	28.0 %
Reconciliation of tax percentage:		
Other permanent differences	61	0
Total taxes	25 818	-14 002
Tax percentage	28.0 %	28.0 %

Note 23 Number of FTEs and employees

	2012	2011
Number of FTEs	1	1
Number of employees as at 31 December	3	3
Average number of employees	3	3

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

Note 24 Other liabilities and provision for accrued costs and liabilities

NOK thousands	31.12.2012	31.12.2011
Receivables between companies in the same Group	5 322	8 323
Creditors	138	188
Total other liabilities	5 459	8 510
Value-added tax	216	2 922
Provisioned costs	196	0
Total accrued costs and liabilities	412	2 922

Note 25 Transactions with related parties

NOK thousands	2012	2011
Income statement items		
KLP Banken AS, interest on borrowing	-105 790	-83 146
KLP Banken AS, administrative services (at cost)	-21 321	-19 592
KLP Kapitalforvaltning AS, fees for services provided	-326	-177
Total	-127 437	-102 915

NOK thousands	31.12.2012	31.12.2011
Financial position statement items		
KLP Banken AS, debt to credit institutions	-3 213 972	-3 568 757
KLP Banken AS, settlement banking system	59 587	87 106
Net outstanding accounts to:		
KLP Banken AS	-5 277	-8 259
KLP Kapitalforvaltning AS	-45	-63
Total	-3 159 707	-3 489 973

There are no direct salary costs in KLP Kommunekreditt AS. Personnel costs (administrative services) are allocated from KLP Banken AS.

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

Note 26 Auditor's fee

NOK thousands	2012	2011
Ordinary audit	408	242
Certification services	329	424
Tax advisory services	0	0
Other services excluding audit	0	11
Total Auditor's fee	737	677

The sums above include VAT.

Note 27 Other assets

NOK thousands	31.12.2012	31.12.2011
Receivables between Group companies	59 587	87 106
Prepaid expenses	528	1 029
Total	60 115	88 135

Note 28 Conditional obligations

NOK thousands	31.12.2012	31.12.2011
Credit facilities for lending not utilised	0	0
Promised loans	49 671	80 709
Total conditional obligations	49 671	80 709

These are contractual payments to borrowers that will be highly likely to be paid out.

Note 29 Cash and cash equivalents

NOK thousands	31.12.2012	31.12.2011
Cash and bank deposits	1 240 833	1 031 714
Total cash and bank deposits	1 240 833	1 031 714
In the statement of cash flows, cash and cash equivalents comprise the following:		
Cash and bank deposits	1 240 833	1 031 714
Bank accounts for use for acquisition and sale of securities	-8 844	-66 237
Cash and cash equivalents held at the end of the period	1 231 988	965 477

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 as at 31 December 2012, 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 International Financial Reporting Standards as adopted by EU, 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 company'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 KLP Kommunekreditt AS as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report and statement of corporate governance principles and practices

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 and statement of corporate governance principles and practices concerning the financial statements and the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

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

Trondheim, 6 March 2013
PricewaterhouseCoopers AS

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

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

To the Supervisory Board and General Meeting of
KLP Banken AS

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

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

The Control Committee advises the Supervisory Board and the Genereal Meeting of KLP Kommunekreditt 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 Kommunekreditt AS`s financial statement shows a result (profit) for 2012 of NOK 66 329 000. The profit should be allocated by transferring NOK 40 612 000 to the share premium fund and NOK 25 717 000 to other owners` equity.

Oslo, 8 March 2013

Jan Rune Fagermoen

Ole Hetland

Bengt P Johansen

Dordi Flormælen

Thorvald Hillestad

To the KLP Kommunekreditt AS General Meeting

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

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

KLP Kommunekreditt AS`s annual financial statement shows a result (profit) for 2012 of NOK 66 329 000. The profit should be allocated by transferring NOK 40 612 000 to the share premium fund and NOK 25 717 000 to other owners` equity.

Trondheim, 15 March 2013

Hege Sørlie

Hege Sørlie
Representantskapets leder

This is KLP

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

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

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

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

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

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

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

HISTORY

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

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

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

1972 KLP passed NOK 1 billion in total assets

The KLP Group

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

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

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

Subsidiaries

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

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

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

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

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

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

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

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

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

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

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

1994 – Establishment of KLP Skadeforsikring AS

It pays to be a KLP owner

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

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

Market leader - public sector occupational pension

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

Retail market initiative forges ahead

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

Corporate social responsibility

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

Reporting of corporate social responsibility

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

Global Compact

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

Responsible investment and exercising ownership

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

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

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

1995 — KLP buys Nora Eiendom.

1997 — Nora Eiendom was renamed KLP Eiendom AS.

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

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

2003 — KLP signed the UN Global Compact

THE COMPANY SHALL:

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

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

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

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

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

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

10 years of ethics at KLP

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

Historic development agreement

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

2008
KLP Skadeforsikring AS launched sales of non-life insurance to private customers
KLP passed NOK 200 billion in total assets.
KLP exceeded 300,000 occupationally active members.

2009
KLP received a licence from the Financial Supervisory Authority of Norway (Finanstilsynet) to establish banking business. KLP bought Kommunekreditt Norge AS from Eksportfinans. KLP is Eco-Lighthouse accredited. KLP becomes climate neutral

2010
KLP Banken is launched.

2011
KLP takes its position as Norway's largest life insurance company.

2012
KLP passes 300 billion in total assets.

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