annual report 2011

KLP Kommunekreditt AS

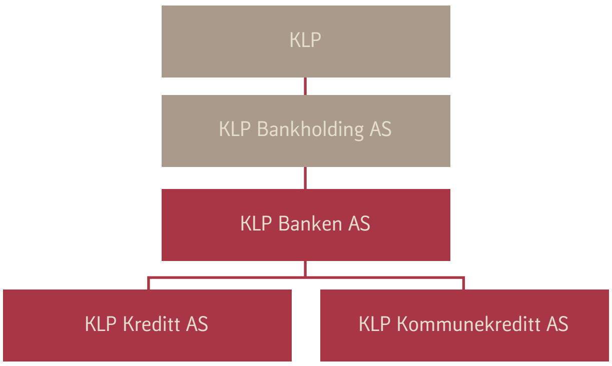
CONTENT

The Report of the Board of Directors for 2011

KLP Kommunekreditt AS increased its lending balance from NOK 10.9 billion to NOK 23.5 billion during 2011. The growth was primarily financed by issuance of covered bonds (obligasjoner med fortrinnsrett - OMF) corresponding to NOK 15.8 billion. The bonds were 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 public sector loans as portfolio security.

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



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

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

Financial development during 2011

Figures for 2010 are stated in brackets.

- Pre-tax income: NOK -50.0 million (NOK -6.4 million)
- Net interest income: NOK 3.0 million (NOK 4.9 million)
- New lending: NOK 12.8 billion (NOK 8.6 billion)
- Lending balance: NOK 23.5 billion (NOK 10.9 billion)

INCOME STATEMENT

There was a loss of NOK 50.0 million before tax, and a loss of NOK 36.0 million after taxes. That produced a return on owners' equity of -9.6 per cent before tax.

As for the previous year, the result for 2011 was affected by the Company being in a developmental phase. This has meant major costs in establishing the covered bond programme as well as external consultancy and facilitation in this connection. Costs of NOK 22.8 million related to external support have been taken to book during 2011. Of this about half were one-off costs. In 2010 income was NOK -6.4 million before tax and NOK -4.6 million after tax.

KLP Kommunekreditt AS has issued bonds secured in lending to local government since 2009, the only finance institution in Norway to do so. These have, to a lesser extent than expected, achieved prices reflecting the added security that local administrations represent compared to covered bonds secured in mortgage lending. As the finance crisis has developed, all borrowers in the financial markets have faced higher borrowing costs in relative terms. This has not been so much the case for local government administrations. KLP Kommunekreditt AS has thus incurred increased borrowing costs without it being possible to adjust lending interest rates in the market correspondingly.

The 2011 income is also affected by unrealised losses on liquidity investments. See more detailed discussion in the section on Liquidity below.

INTEREST INCOME

Net interest income was NOK 3.0 million in 2011, against NOK 4.9 million in 2010.

LENDING

Lending business in the Company commenced in December 2009. Through 2010 and 2011 KLP Kommunekreditt AS has refinanced lending in KLP Kreditt AS and KLP in addition to providing new loans.

Total lending amounted to NOK 23.5 billion at the end of 2011, a net lending growth for the year of NOK 12.8 billion. Net lending growth in 2010 was NOK 8.0 billion.

In the course of 2011, loans from other companies in the KLP Group have been refinanced for NOK 9.3 billion. In addition new loans have been paid out for NOK 3.5 billion. A significant proportion of the new loan payments was at fixed interest terms. The proportion of lending at fixed interest has increased from 0 to 22.3 per cent over the year.

The lending 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 provides the lender with security against loss if a local authority cannot meet its payment liabilities. In the event of payment postponement the lender is also secured against loss of accrued interest, penalty interest and collection expenses under the same legislation. Neither KLP Kommunekreditt AS nor other lenders have so far had credit losses on lending to Norwegian municipalities or county administrations.

The Company has no loans in default at the end of 2011.

LIQUIDITY

As shown in the statement of cash flows in the annual financial statements, 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.

At the end of 2011 outstanding liquidity investments were NOK 1.5 billion. At the same time last year the outstanding liquidity was NOK 252 million. Investments in securities have been taken to book at the end of the year at market value. For 2011 this produces an unrealised loss of NOK 8.6 million. The relevant investments with unrealised loss are AAA rated covered bonds issued by Norwegian banks and acquired to be held to maturity. There are no grounds to expect the losses to be realised. See Note 5.

BORROWING

KLP Kommunekreditt AS has established a programme for the issuance of covered bonds. During 2011 covered bonds (CB) corresponding to NOK 14.7 billion were issued in the Norwegian market (NOK 9.2 billion in 2010) as well as an issue in the Swedish market corresponding to NOK 1.1 billion. The bonds are issued with security in the lending to municipalities, county administrations or companies carrying out public sector tasks. 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 interest and repayments. The Company has achieved best rating on CB issuances and international recognition for its lending programme. With the exception of the issue in Sweden, market conditions have limited the Company's opportunity to use international borrowing for increased competitiveness in the lending market

The security pool in which the CB owners have security is required to represent a minimum of 116% 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 26.6 billion at the end of 2011, against NOK 11.2 billion at the end of 2010. Of this, lending to public sector borrowers represented NOK 23.8 billion.

Based on the Board's proposed allocation of the income, the Company's Tier 1 and Tier 2 capital amounted to NOK 655.8 million at the end of 2011. The core capital is identical to the Tier 1 and 2 capital. This gives a capital adequacy and core capital adequacy ratio of 11.6 per cent. Corresponding figures for 2010 were NOK 368.6 million and 16.4 per cent respectively. The authorities' minimum requirement is 8 per cent. The risk-weighted balance was NOK 5.3 billion. Solvency is considered good.

ALLOCATION OF INCOME FOR THE YEAR

The Board proposes that dividends be passed for 2011, and that the loss for the year of NOK 36.0 million kroner be brought to book against the share premium fund. The Company does not have unrestricted owners' equity under the proposed year-end allocations.

THE FINANCIAL STATEMENTS

The Board believes that the annual financial statements provide an accurate picture of the Company's assets and liabilities, financial position and income. The going concern assumption is appropriate and this provides the basis for the annual financial statements.

KLP 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 clearly the 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 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 2011 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 subject to management using policies, limits, procedures and instructions.

Risk policies are set covering the key individual risks (liquidity risk, credit risk, market risk and operational risk) as well as an overall risk policy covering principles, organisation, limits etc. for the Bank's overall risk. The risk policies are of a high level nature and are complemented by procedures, guidelines and instructions laid down at the senior management level.

Among other things, the high-level risk policy covers roles in the Company's risk management, including requirements of 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.

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. This department also has other tasks associated with the Company's risk management, including responsibility for development of methods of risk measurement and stress testing, risk analyses as well as documentation of the process of assessment of capital requirements (Internal Capital Adequacy and Assessment Process - ICAAP). The function has an independent role in relation to units with authority to incur risk.

Arrangements are in place for the use of stress testing as a method of risk assessment and as a tool for communication and the exchange of views concerning risk matters. In this context stress testing means both sensitivity analyses and scenario analyses.

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

The 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 43.4 billion at the end of 2011, a reduction of NOK 3.3 billion (7 per cent) from 2010.

The lending is financed through the companies KLP Kreditt AS, KLP Kommunekreditt AS and KLP. 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 to offer loans on good terms and conditions.

In total, "KLP Kommunekreditt" is a substantial long-term lender to public sector wealth creation and well-being and a leading national player within its area of business.

The work of the Board of Directors

The Board has held eight Board meetings during 2011. For details of the Board's members and chair, see Note 15 to the financial statements. The Board comprises four members elected by the Supervisory Board. The members are elected for a term of two years so that half of the members are up for election each year. The Chair and Deputy Chair of the Board of Directors are elected individually by the Supervisory Board.

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 the executive management.

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 and lending activities and its financial investments. The Managing Director or the Chair of the Board of Directors alone, or two of the Members of the Board of Directors jointly, may sign for the Company.

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

Work environment and organisation

KLP Kommunekreditt AS had three employees at the end of 2011. These also had employment in other companies in the KLP Banken Group. An administration agreement has been reached with KLP Banken AS covering administration, IT operations, finance and risk management as well as borrowing and liquidity management.

KLP Kommunekreditt AS complies with the KLP Group's policy for equal opportunities and diversity in which targets, measures and activities take account of the discriminatory factors legislation describes. KLP Kommunekreditt AS also complies with the KLP Group's ethical guidelines, as well as the guidelines for 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 social responsibility strategy KLP has committed to developing good procedures for measuring and reduction of its companies' environmental impact.

Future prospects

In the Board of Directors' view, the future prospects for KLP Kommunekreditt AS will depend on the opportunities to achieve sufficiently advantageous borrowing terms in the market. The finance markets in 2011 have been characterised by the international crisis which has produced increased costs for the great majority of borrowers. The relatively high cost level for the Company's borrowing is expected to continue in 2012, although this is not certain.

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 there is significant uncertainty associated with this. 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 continuing in the future to have access to long-term financing at the lowest possible cost.

During 2012 KLP Kommunekreditt AS will mainly establish new lending for own account, refinancing loans from other companies in the KLP Group to a lesser extent than in 2011. Profitability, and thus growth in the Company's lending, will be limited by the possibility of achieving sufficiently good borrowing terms. Given today's market prospects and experience from 2011, the Board continues to consider it extremely demanding to further develop the Company's business when it comes to profitability and growth.

Oslo, 28 February 2012

Board of Directors KLP Kommunekreditt AS

Sverre Thornes
Chair

Mai-Lill Ibsen
Deputy Chair

Aage Schaanning

Toril Sigrid Lahnstein

Arnulf Arnøy
Managing Director

The Board of Directors of KLP Kommunekreditt, from left to right: Mai-Lill Ibsen, Aage Schaanning and Toril Lahnstein.
Sverre Thornes was not present for the picture.

Income Statement

Note	NOK thousands	2011	2010
	Interest income and similar income	644 784	126 371
	Cost of interest and similar costs	-641 795	-121 464
12	Net interest income	2 989	4 907
	Commission costs & bank charges	-2	0
	Net charges and commission costs	-2	0
5	Net gain/(loss) on finan.instrum.	-11 859	-183
	Total other operating income	-11 859	-183
	Other operating expenses	-41 135	-11 083
	Operating income before tax	-50 007	-6 358
22	Tax on ordinary income	14 002	1 780
	Income for the year	-36 005	-4 578
	Other comprehensive income	0	0
	Other comprehensive income for the year, net of tax	0	0
	TOTAL COMPREHENSIVE INCOME FOR THE YEAR	-36 005	-4 578
	Allocated to/from share premium fund	36 005	4 578
	Allocated to/from other owners' equity	0	0
26	TOTAL ALLOCATION OF INCOME	36 005	4 578

Financial Position Statement

Note	NOK thousands	31.12.2011	31.12.2010
	ASSETS		
13	Lending to and receivables from credit institutions	1 031 714	251 692
13	Lending to and receivables from customers	23 808 983	10 920 279
9	Interest-bearing securities	1 535 086	0
22	Deferred tax assets	15 793	1 791
10	Financial derivatives	70 165	0
27	Other assets	88 135	2 472
	TOTAL ASSETS	26 549 875	11 176 234
	LIABILITIES AND OWNERS' EQUITY		
	LIABILITIES		
19	Debt to credit institutions	3 568 757	1 511 729
20	Liabilities created on issuance of securities	22 152 457	9 245 104
10	Financial derivatives	182 842	4 950
24	Other liabilities	8 510	43 676
24	Provision for accrued costs and liabilities	2 922	383
	TOTAL LIABILITIES	25 915 488	10 805 841
	OWNERS' EQUITY		
	Share capital	362 500	212 500
	Share premium fund	271 888	157 893
	TOTAL OWNERS' EQUITY	634 388	370 393
26	TOTAL LIABILITIES AND OWNERS' EQUITY	26 549 875	11 176 234

Oslo, 28 February 2012

Sverre Thornes
Chair

Mai-Lill Ibsen
Deputy Chair

Aage Schaanning

Toril Sigrid Lahnstein

Arnulf Arnøy
Managing Director

Statement of Owners' equity

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

2010 NOK thousands	Share capital	Share premium fund	Total owner's equity
Owners' equity 1 January 2010	62 500	12 471	74 971
Income for the year	0	-4 578	-4 578
Expanded income statement	0	0	0
Comprehensive income for the year	0	-4 578	-4 578
Owners' equity contributed during the period	150 000	150 000	300 000
Dividends/Group contribution paid during the period	0	0	0
Total transactions with the owners	150 000	150 000	300 000
Owners' equity 31 December 2010	212 500	157 893	370 393

NOK thousands	Number of shares	Nominal	Share premium fund	Total
As at 1 January 2011	2 125 000	100	162 500	375 000
Paid in on issuance of shares 2011	1 500 000	100	150 000	300 000
As at 31 December 2011	3 625 000	100	312 500	675 000
Retained earnings, attributed to Share Premium Fund				-40 612
Owners' equity as at 31.12.2011				634 388

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

Income per share 2011 in whole NOK: -9,9
Income per share 2010 in whole NOK: -2,2

Statement of Cash flow

NOK thousands	2011	2010
Operational activities		
Payments received from customers - interest, commission & charges	501 221	64 664
Net disbursements on lending to customers	-12 640 153	-7 912 996
Disbursements on purchase of securities	-1 618 210	0
Receipts on sales of securities	98 680	0
Disbursements on operations	-32 347	5 525
Net receipts/disbursements concerning other operational activities	-66 237	0
Net interest deposit accounts	23 394	4 859
Income tax paid	0	0
Net cash flow from operating activities	-13 733 652	-7 837 947
Investment activities		
Investment activities	0	0
Net cash flow from investment activities	0	0
Financing activities		
Net receipts on loans from credit institutions	14 851 453	7 748 765
Net payment of interest on loans	-576 918	-109 121
Net receipts/disbursements (-) on other short-term items	-127 099	80 182
Proceeds on issue of owners' equity	300 000	300 000
Net cash flows from financing activities	14 447 436	8 019 826
Net cash flows during the period	713 784	181 879
Cash and cash equivalents at the start of the period	251 692	69 813
Cash and cash equivalents held at the end of the period	965 477	251 692
Net receipts/disbursements (-) of cash	713 784	181 879
RECONCILIATION		
Income before tax	-50 007	-6 358
Change in accounts receivable	0	0
Change in accounts payable	-160	348
Items classified as investment or financing activities	689 846	116 549
Changes in other accrued income and expenditure	-14 373 331	-7 948 485
Net cash flow from operating activities	-13 733 652	-7 837 947

Note 1 General information

KLP Kommunekreditt AS is a credit enterprise formed on 25 August 2009. The company provides or acquires public sector loans to Norwegian municipalities and county authorities as well as companies with a public sector guarantee. The lending activities are principally financed by the issue of covered bonds. 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 financial statements presented cover the period from 1 January 2011 to 31 December 2011.

Note 2 Summary of the most important accounting principles

Below is a description of the most important accounting principles used in preparation of the KLP Kommunekreditt AS financial statement.

2.1 BASIC PRINCIPLES

The financial statements for KLP Kommunekreditt AS have been prepared in accordance with the international accounting standards IAS/IFRS, which are approved by the EU.

The Group financial statements 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.

In preparing the annual financial statements management must make accounting estimates and discretionary evaluations. This will affect the value of the Group's assets and liabilities, income and expenses presented in the accounts. Actual figures may deviate from estimates used. Areas in which discretionary valuations and estimates of material significance for the Group have been utilised are described in Note 3.

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 2011 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 Group has not chosen advanced application.

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

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

- IFRS 9 "Financial Instruments" governs classification, measurement and accounting for financial assets and financial liabilities. IFRS 9 was published in November 2009 and October 2010, and replaces those parts of IAS 39 that cover accounting for, classification and measurement of financial instruments. In accordance with IFRS 9, all financial assets are divided into two categories based on method of measurement: those that are measured at fair value and those that are measured at amortised cost. The classification assessment is made on first recognition in the accounts. Classification will depend on the company's business model for handling its financial instruments and the characteristics of the contractual cash flows from the instrument. For financial liabilities the requirements are principally the same as for IAS 39. The main change, in those cases in which fair value has been selected for financial liabilities, is that the part of the change in fair value resulting from change in the company's own credit risk is recognised in extended income instead of in the income statement, provided this does not involve an accrual error in income measurement. The Group will apply IFRS 9 when the standard comes into force and is approved by the EU. The standard comes into force for accounting periods starting on 1 January 2015 or later.

- IFRS 10 "Consolidated Financial Statements" is based on current principles on using the control term as the deciding criterion in deciding whether a company is to be included in the group financial statements of the parent company. The standard provides expanded guidance in determining whether control is present in those cases where this is difficult. The Group has not considered all possible consequences resulting from IFRS 10. The Group plans to apply the standard for accounting periods starting on 1 January 2013 and later.

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

- IFRS 13 "Fair Value Measurement" defines what is meant by fair value when the term is used in IFRS, provides a comprehensive description of how fair value is to be determined in IFRS and defines what supplementary information is to be provided when fair value is used. The standard does not expand the scope of accounting at fair value, but provides guidance on the application method where the use is already required or permitted in other IFRSs. The Group uses fair value as the measurement criterion for certain assets and liabilities. The Group has not considered all possible consequences of IFRS 13. The Group plans to apply IFRS 13 for accounting periods starting on 1 January 2012 and later.

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

2.2 CONVERSION OF TRANSACTIONS IN FOREIGN CURRENCY

2.2.1 Functional currency and presentational currency

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

2.2.2 Transactions and statement of financial position items

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

2.3 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. The asset is classified in this category if it is primarily acquired with 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 Financial assets valued at amortised cost

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

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

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

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

2.3.3 Derivatives and hedging

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

2.3.4 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 valued at fair value. Direct costs of purchase are included in acquisition cost except for purchase costs associated with assets at fair value through income. For these assets purchase costs are taken to expenses directly. Financial assets cease to be recognized when the Company 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, the Group uses valuation techniques to set fair value. The company'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). 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 asserted legally and the intention is to settle net, or realise 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
2.5.1 Covered bonds issued
Covered bonds have been issued in accordance with Chapter 2 IV of Act No. 40 "Act on financing activity and financial institutions (Financial Institutions Act)" of 10.06.1988.

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

The value of the security pool shall at all times exceed the value of the covered bonds with preference rights in the security pool. A register is kept of the covered bonds in the security pool, as well as of the assets included in the latter. The FSA of N nominates an independent supervisor who monitors that registration is carried out correctly.

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

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

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

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

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

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

2.7 PRESENTATION OF INCOME IN THE ACCOUNTS
2.7.1 Interest income/expenses
Interest income and interest expenses associated with all interest-bearing financial instruments valued at amortised cost are taken to income using the effective interest rate method. Setting-up fees for lending are included in the amortisation and taken to income over the loan's expected duration.

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

Note 3 Important accounting estimates and valuations

The Company's statement of financial position principally comprises lending to lo¬cal government and enterprises with local government guarantee, as well as covered bonds issued. These items are valued in the accounts at amortised cost, with the exception of borrowings with fixed interest rates which are valued at fair value in accordance with the rules on fair value hedging. 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.

During the year the Company has invested surplus liquidity in interest-bearing securities. These were initially recognised in the statement of financial position at fair value. The securities in the portfolio are earmarked for the category "financial assets at fair value through profit/loss" since they are managed and their earnings are valued on the basis of fair value. Fair value is set based on observable prices in an active market. Where such prices are not available, fair value is set on basis of recognised valuation models based on observable market data.

Note 4 Segment note

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. Company has no external customers representing more than 10% of the Company's total operating income.

Note 5 Net gain/(loss) on financial instruments

NOK thousands	2011	2010
Net gain/(loss) on interest-bearing securities	-8 597	0
Net gain/(loss) financial derivatives	-20 525	-5 096
Net value change lending and borrowing, hedge accounting	17 262	4 914
Total	-11 859	-183

Note 6 Fair value of financial assets and liabilities

	2011		2010	
NOK thousands	Capitalised value	Fair value	Capitalised value	Fair value
Financial assets				
Total loans issued to and receivables from credit institutions at amortised cost	1 031 714	1 031 714	251 692	251 692
Loans to Norwegian local administrations at amortised cost	18 644 232	18 644 232	10 920 279	10 920 279
Lending to Norwegian local administrations at fair value hedging	5 164 751	5 172 768	0	0
Total lending to and receivables from customers	23 808 983	23 817 000	10 920 279	10 920 279
Interest-bearing securities at fair value	1 535 086	1 535 086	0	0
Financial derivatives at fair value	70 165	70 165	0	0
Total financial assets	26 445 948	26 453 965	11 171 971	11 171 971
Financial liabilities				
Debt to financial institutions at amortised cost	3 568 757	3 568 757	1 511 729	1 511 729
Covered bonds issued at amortised cost	19 338 696	19 338 696	9 000 018	9 000 018
Covered bonds issued at fair value hedging	2 813 761	2 821 304	245 086	249 751
Total liabilities created on issuance of securities	22 152 457	22 160 000	9 245 104	9 249 769
Financial derivatives at fair value	182 842	182 842	4 950	4 950
Total financial liabilities	25 904 055	25 911 598	10 761 783	10 766 448

	2011	Cumulative 2011	2010	Cumulative 2010
Change in fair value attributable to credit risk				
Lending to Norwegian local administrations at fair value hedging	8 017	8 017	0	-
Covered bonds issued at fair value hedging	2 878	7 543	4 665	4 665
Total change in fair value attributable to credit risk	10 894	15 560	4 665	4 665

Lending to and receivables from credit institutions
All lending to and receivables from credit institutions carry a floating interest rate. Fair value of these is considered virtually the same as book value since the contract terms are continuously changed in step with market interest rates.

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

Note 7 Fair value hierarchy

NOK thousands	31.12.2011	31.12.2010
Assets		
Lending to credit institutions and other lending		
Level 1: Value based on prices in an active market	0	0
Level 2: Value based on observable market data	1 535 086	0
Level 3: Value based on other than observable market data	0	0
Accrued interest	0	0
Certificates, bonds, as well as lending and receivables	1 535 086	
Derivatives and other financial assets		
Level 1: Value based on prices in an active market	0	0
Level 2: Value based on observable market data	70 165	0
Level 3: Value based on other than observable market data	0	0
Derivatives and other financial assets	70 165	0
Total financial assets valued at fair value	1 605 251	0
Liabilities		
Derivatives and other financial assets		
Level 1: Value based on prices in an active market	0	0
Level 2: Value based on observable market data	182 842	4 950
Level 3: Value based on other than observable market data	0	0
Derivatives and other financial assets	182 842	4 950
Total financial liabilities at fair value	182 842	4 950

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

Level 1: Instruments in this level obtain fair value from 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 actors and services.

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

Note 8 Categories of financial assets and liabilities

NOK thousands	2011				2010			
Financial assets	HFT	FVL	LAR	Total	HFT	FVL	LAR	Total
Lending to and receivables from credit institutions	0	0	1 031 714	1 031 714	0	0	251 692	251 692
Lending to and receivables from customers	0	5 008 221	18 800 762	23 808 983	0	0	10 920 279	10 920 279
Bonds	1 535 086	0	0	1 535 086	0	0	0	0
Financial derivatives	70 165	0	0	70 165	0	0	0	0
Total	1 605 251	5 008 221	19 832 476	26 445 948	0	0	11 171 971	11 171 971
Financial liabilities	HFT	FVH	OLI	Total	HFT	FVH	OLI	Total
Debt to credit institutions	0	0	3 568 757	3 568 757	0	0	1 511 729	1 511 729
Liabilities created on issuance of securities	0	22 152 457		22 152 457	0	245 086	9 000 018	9 245 104
Financial derivatives	182 842	0	0	182 842	4 950		0	4 950
Total	182 842	22 152 457	3 568 757	25 904 055	4 950	245 086	10 511 746	10 761 783

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

Note 9 Interest-bearing securities

NOK thousands	2011			
	Acquisition cost	Unreal. gain/loss	Accrued interest	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.

No interest-bearing securities in 2010

Note 10 Financial derivatives

NOK thousands	2011		2011	
	Nominal sum	Fair value	Nominal sum	Fair value
Lending	4 993 580	-168 192	0	0
Borrowing in NOK	2 750 000	69 975	250 000	-4 950
Investments	100 000	-3 821	0	0
Borrowing in foreign currency	1 095 000	-10 640	0	0
Total	8 938 580	-112 677	250 000	-4 950

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

2011 NOK thousands	Nominal value	Changed value in 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 %

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

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

The hedging 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	2011	2010
Interest on lending to and receivables from credit institutions	23 394	4 861
Interest on lending to customers	594 936	121 364
Interest on securities	26 454	146
Total interest income	644 784	126 371
Interest on debt to KLP Banken AS	-83 146	-7 524
Interest on debt to credit institutions	-551 306	-110 028
Premium/discount on covered bonds	-7 342	-3 910
Other interest costs	0	-1
Total interest costs	-641 795	-121 464
Net interest income	2 989	4 907

Note 13 Lending and receivables

NOK thousands	2011	2010
Lending to and receivables from credit institutions		
Bank deposits	1 031 714	251 692
Lending to and receivables from credit institutions	1 031 714	251 692
Lending to and receivables from customers		
Principal on lending	23 542 838	10 860 633
Fair value hedging	96 075	0
Premium / discount	16 710	0
Accrued interest	153 361	59 646
Lending to and receivables from customers	23 808 983	10 920 279

All loans are loans with an unconditional and irrevocable on-demand guarantees covering both interest and principal
All loans are either loans made directly to, or unconditionally guaranteed by, Norwegian municipalities or county administrations.

Note 14 Financial risk management

ORGANISATION OF 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 overall risk policy that covers principles, organisation, limits etc for the bank's total risk. The risk policies are of a high level nature and are complemented by procedures, guidelines and instructions laid down at the senior management level. The policies state which departments are responsible for handling the various risks and also cover the establishment of a separate risk control function. The purpose of the risk control function is inter alia to check that the risk policies and other guidelines for risk management are being followed. This function is carried out by the Risk Analysis and Control Department, which is responsible for preparing periodic risk reports to senior management and the Board as well 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 the bank's risk management. The responsibility for the operational direction of the the bank's liquidity risk, exchange-rate risk and interest rate risk lies with the Finance Department.

Note 15 Credit risk

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

KLP Kommunekreditt AS provides loans to, or loans guaranteed by, Norwegian municipalities and county authorities, including loans to local government enterprises and inter-authority companies (public sector loans). Guarantees should be of the "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	31.12.2011	31.12.2010
Lending to municipalities and county administrations	22 201 352	10 032 390
Lending with municipal/county administration guarantee	1 341 486	828 243
Total	23 542 838	10 860 633
Sums falling due more than 12 months after the end of the reporting period	21 978 219	10 280 622

The Company will also have credit risk exposure in the form of «substitute assets». In accordance with the Company's internal guidelines the substitute assets may be deposits in banks satisfying minimum rating requirements as well as fixed interest securities issued by the Norwegian state, Norwegian municipalities and county authorities, and covered bonds issued by Norwegian credit enterprises.

The Company may also be exposed to credit risk as a result of derivatives agreements concluded. 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.

15.1 MEASUREMENT OF CREDIT RISK
The Board has determined a credit policy that contains overall guidelines, requirements and limits associated with credit risk. The policy lays down that the bank is to have a low credit risk profile and includes limits on types of lending and principles for organisation and operation of the Company's lending activity. The policy also includes an overall mandate structure for lending and other counterparty exposure. The mandates are linked to Board-determined limits for a large number of the Company's individual borrowers and these limits derive from a risk classification in which the individual borrowers are assigned a risk class based on a set of fixed criteria. Further, requirements are set for reporting to the Board on usage of the limits.

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

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	31.12.2011	31.12.2010
Lending to and receivables from credit institutions	2 460 345	251 692
Lending to and receivables from customers	23 913 010	10 920 279
Financial derivatives	70 165	0
TOTAL	26 443 520	11 171 971

Loans fallen due or written down

NOK thousands	31.12.2011	31.12.2010
Principal on loans with payments with 1-30 days' default	764 405	195 000
Principal on loans with payments with 31-90 days' default	5 500	0
Principal on loans with payments with more than 90 days' default	0	0
Total loans fallen due	769 905	195 000
Relevant security or guarantees	769 905	195 000
Lending that has been written down	0	0

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

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's largest exposure as at 31 December 2011 was about 4 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 bank's equity capital as a result of fluctuations in market prices for the bank's assets and liabilities. Changes in credit margins are however excluded since this comes under the term credit risk.

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

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

The table below shows repricing dates for the Company's interest-bearing assets and liabilities Lending at variable rates is assumed to be able to be repriced within a 1-month horizon.

Interest risk KLP Kommunekreditt AS

Repricing dates for assets and liabilities

31 December 2011 NOK thousands	Total principal	Up to 1 mnth	From 1 mnth to 3 mnths	From 3 mnths to 12 mnths	1 yr to 5 yrs	Over 5 yrs
Lending	to 12 mnths*	1 yr to 5 yrs	Over 5 yrs	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

Interest risk KLP Kommunekreditt AS

Repricing dates for assets and liabilities as at 31 December 2010

31 December 2010 NOK thousands	Total principal	Up to 1 mnth	From 1 mnth to 3 mnths	From 3 mnths to 12 mnths	1 yr to 5 yrs	Over 5 yrs
Lending	10 860 633	10 610 633	250 000	0	0	0
Securities	0					
Cash and receivables from credit institutions	251 692	251 692	0	0	0	0
Total	11 112 325	10 862 325	250 000	0	0	0
Liabilities created on issuance of securities	9 250 000	0	9 000 000	0	0	250 000
Liabilities to financial institutions	1 510 000		1 510 000			
Total	10 760 000	0	10 510 000	0	0	250 000
Gap	352 325	10 862 325	-10 260 000	0	0	-250 000
Financial derivatives	0		-250 000			250 000
Net gap	352 325	10 862 325	-10 510 000	0	0	0

The Company's interest-rate sensitivity as at 31 December 2011, measured as value change on a one percentage point change in all interest rates, was NOK 24 million.

16.4 EXCHANGE RATE RISK

The Company has one borrowing in foreign currency of SEK 1,250,000,000 in KLP Kommunekreditt AS. The foreign currency exposure resulting from this borrowing is hedged in its entirety through a swap agreement and the Company therefore has no net exposure

Note 17 Liquidity risk

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

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 table below shows the maturity analysis of the Company's assets and liabilities based on expected maturity and contractual maturity respectively.

Liquidity risk KLP Kommunekreditt AS

Maturity analysis for assets and liabilities based on expected maturity:

31 December 2011 NOK thousands	Total principal	Up to 1 mnth	From 1 mnth to 3 mnths	From 3 mnths to 12 mnths	1 yr to 5 yrs	Over 5 yrs
Lending	23 542 838	78 133	163 218	2 493 292	9 304 163	11 504 032
Securities	1 551 000				398 000	1 153 000
Receivables from credit institutions	1 031 714		1 031 714			
Total	26 125 552	78 133	1 194 932	2 493 292	9 702 163	12 657 032
Liabilities created on issuance of securities	22 045 000			5 900 000	15 395 000	750 000
Debt to credit institutions	3 560 000		3 160 000	400 000		
Total	25 605 000	0	3 160 000	6 300 000	15 395 000	750 000
Net cash flows	520 552	78 133	-1 965 068	-3 806 708	-5 692 837	11 907 032

Maturity analysis for assets and liabilities based on contractual maturity:

31 December 2011 NOK thousands	Total principal	Up to 1 mnth	From 1 mnth to 3 mnths	From 3 mnths to 12 mnths	1 yr to 5 yrs	Over 5 yrs
Lending	23 542 838	78 133	163 218	1 316 334	4 822 374	17 162 779
Securities	1 551 000				398 000	1 153 000
Receivables from credit institutions	1 031 714	1 031 714				
Total	26 125 552	1 109 847	163 218	1 316 334	5 220 374	18 315 779
Liabilities created on issuance of securities	22 045 000			5 900 000	15 395 000	750 000
Debt to credit institutions	3 560 000		3 160 000	400 000		
Total	25 605 000	0	3 160 000	6 300 000	15 395 000	750 000
Net cash flows	520 552	1 109 847	-2 996 782	-4 983 666	-10 174 626	17 565 779

Liquidity risk KLP Kommunekreditt AS

Maturity analysis for assets and liabilities based on expected maturity:

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

Maturity analysis for assets and liabilities based on contractual maturity:

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

Note 18 Salary and obligations towards senior management/governing bodies

2011 NOK thousands	Salary, fees etc.	Other benefits	Annual pension accumulation	Loan with the Group	Interest rate as at 31 Dec 11	Payments plan [4]
Senior staff						
Arnulf Arnøy, Managing Director [1]	1 427	145	543	2 269	2,95-3,15	S2031
Board of Directors						
Sverre Thornes, Chair [2] [3]				7 507	2,70-3,60	A2041
Aage E. Schaanning [3]				2 977	2,70-3,95	A2031
Mai-Lill Ibsen (deducted because of overpayment 2010)	-5					
Toril Lahnstein	0					
Astrid Sommerstad	30					
Control Committee						
Ole Hetland, Chair	19					
Anne-Marie Barane	8					
Aud Mork	8					
Jan R. Fagermoen	16					
Bengt Johansen	16					
Thorvald Hillestad (waiting)	6					
Tor Berge (waiting)	6					
Supervisory Board						
Total Supervisory Board	37			8 432		

2010 NOK thousands	Salary, fees etc.	Other benefits	Annual pension accumulation	Loan with the Group	Interest rate as at 31 Dec 10	Payments plan [4]
Senior staff						
Arnulf Arnøy, Managing Director [1]	1 399	143	496	1 497	3,15	S2032
Board of Directors						
Sverre Thornes, Chair [2] [3]						
Aage E. Schaanning [3]				3 127	3,15-3,40	S2033
Mai-Lill Ibsen	215					
Astrid Sommerstad	70					
Control Committee						
Ole Hetland, Chair	15					
Anne-Marie Barane	13					
Aud Mork	13					
Jan R. Fagermoen	13					
Bengt Johansen	8					
Supervisory Board						
Total Supervisory Board	37			4 747		

[1] The Managing Director has no severance agreement or bonus agreement.
[2] The Company has no obligations to the Chair of the Board of Directors on termination or change of appointment
[3] Internal Board Members (except for employee representatives) do not receive Board Directors' fees, but the Company refunds a sum corresponding to the fee to external Board members to the company in which the individual is employed.
[4] A=Annuity loan, S=Serial loan, last repayment.

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

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

The Company does not provide loans to individuals, but the Company's employees may take up loans from other Group companies at standard terms and conditions applicable for loans to KLP Group staff.

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

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

Note 19 Debt to credit institutions

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

NOK thousands	Currency	Interest	Due date	Nominal	Accrued interest	31.12.2010 Book value
Debt to KLP Banken	NOK	Fixed	16.03.2011	1 510 000	1 729	1 511 729
Total liabilities to credit institutions				1 510 000	1 729	1 511 729

Note 20 Securities liabilities - stock exchange listed covered bonds

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
Amortisation/value adjustment							46 827
Total covered bonds issued							22 152 457

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

Note 21 Capital adequacy

NOK thousands	2011	2010
Share capital and share premium fund	634 388	370 393
Other owners' equity	0	0
Owners' equity	634 388	370 393
Unrealised value changes	0	0
Interim profit/loss	0	0
Deduction goodwill and other intangible assets	0	0
Deferred tax assets	-15 793	-1 791
Core capital	618 595	368 602
Supplementary capital	0	0
Supplementary capital	0	0
Total counting Tier 1 and 2 capital	642 411	368 602
Capital requirement	428 337	179 889
Surplus of Tier 1 and 2 capital	214 074	188 713
Estimate basis credit risk		
Institutions	250 775	53 563
Local and regional authorities	4 786 663	2 184 050
Holdings securities	305 788	0
Other holdings	0	0
Estimate basis credit risk	5 343 225	2 237 613
Credit risk	427 458	179 009
Operational risk	879	879
Total capital requirement assets	428 337	179 888
Core capital adequacy ratio	11,6 %	16,4 %
Supplementary capital ratio	0,0 %	0,0 %
Capital adequacy per cent	11,6 %	16,4 %

Basel II regulations have been used in calculating capital adequacy.

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

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

Note 22 Tax

NOK thousands	2011	2010
Accounting income before taxes	-50 007	-6 359
Differences between accounting and tax income:		
Reversal of value reduction, financial assets	35 545	0
Reversal of value increase financial assets	-103 325	0
Other permanent differences	0	0
Change in differences affecting relationship between accounting and tax income	77 737	183
Taxable income	-40 050	-6 176
Group contribution received with tax effect	0	0
Group contribution paid with tax effect		
Base for tax payable	-40 050	-6 176
Deficit carryforward allowable from previous years	-6 215	-39
Change for the year in allowable carryforward deficit	-40 050	-6 176
Total allowable carryforward deficit as at 31 December	-46 265	-6 215
Reconciliation of basis for deferred tax		
Tax-increasing temporary differences:		
Lending to customers and credit enterprises	96 075	0
Total tax-increasing temporary differences	96 075	0
Tax-reducing temporary differences:		
Gains and losses account	0	0
Fixed assets	0	0
Financial instruments	-23 718	-5 096
Pension obligations	-73 899	4 913
Securities	-8 597	0
Total tax-reducing temporary differences	-106 214	-183
Net temporary differences	-10 139	-183
Allowable carryforward deficit	-46 265	-6 215
Basis for deferred tax	-56 404	-6 398
28% deferred tax assets	-15 793	-1 791
Cost of taxes on items under expanded income	0	0
Capitalised deferred tax assets	-15 793	-1 791
Change in deferred tax taken to income	-14 002	-1 780
Summary of tax expense for the year		
Change in deferred tax taken to income	-14 002	-1 780
Tax payable taken to income	0	0
Total taxes	-14 002	-1 780

It is expected that the operating margins will improve in immediate years. At the same time a number of one-off costs have been taken, resulting in future fixed costs being reduced. The organisation has also become more streamlined and tailored to the Company's operation. This combination will probably produce positive results in the future that result in being able to exploit the allowable carryforward deficits. It is also expected that the temporary differences will be reversed. Based on these future outlooks we consider it justifiable to bring to book the entire tax asset..

Note 23 Number of employees

	2011	2010
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	31.12.2011	31.12.2010
Receivables between companies in the same Group	8 323	43 328
Creditors	188	348
Total other liabilities	8 510	43 676
Value Added Tax	2 922	383
Total accrued costs and liabilities	2 922	383

Note 25 Transactions with related parties

NOK thousands	2011	2010
Income statement items		
KLP Banken AS, interest on borrowing	-83 146	-7 524
KLP Banken AS, administrative services (at cost)	-19 592	-2 942
KLP Kapitalforvaltning AS, fees for services provided	-177	-132
Total	-102 915	-10 598
Statement of financial position items		
KLP Banken AS, debt to credit institutions	-3 568 757	-1 511 729
KLP Banken AS, settlement banking system	87 106	-39 993
Net outstanding accounts to:		
KLP Banken AS	-8 259	-3 321
KLP Kapitalforvaltning AS	-63	-13
Total	-3 489 973	-1 555 057

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 are allocated at cost. Allocation is based on actual use. All internal receivables are settled as they arise.

Note 26 Auditor's fee

NOK thousands	2011	2010
Ordinary audit	242	99
Certification services	424	138
Tax consultancy	0	0
Other services excluding audit	11	619
Total Auditor's fee	677	855

The sums above include VAT.

Note 27 Other assets

NOK thousands	31.12.2011	31.12.2010
Prepaid expenses	1 029	2 472
Receivables between companies in Group	87 106	0
Total	88 135	2 472

Note 28 Conditional liabilities

NOK thousands	31.12.2011	31.12.2010
Credit facilities for lending not utilised	0	0
Loan promise	80 709	0
Total conditional liabilities	80 709	0

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

Note 29 Cash and cash equivalents

NOK thousands	31.12.2011	31.12.2010
Cash and bank deposits	1 031 714	251 692
Total cash and bank deposits	1 031 714	251 692
In the statement of cash flows, cash and cash equivalents comprise the following:		
Cash and bank deposits	1 031 714	251 692
Bank accounts for use for acquisition and sale of securities	-66 237	0
Cash and cash equivalents held at the end of the period	965 477	251 692

Note 30 First application of IFRS

KLP Kommunekreditt's corporate financial statements were previously presented in accordance with simplified IFRS. In 2011 the Company has gone over from simplified IFRS to IFRS. This transition has had no significant impact on assessments of the Company's assets, liabilities or equity. IFRS does not permit the bringing to book of group contribution before it is resolved to pay it. This means that Group contribution received from parent is not brought to book in the accounts before it has been resolved in 2012. No Group contribution was resolved to be received/paid from/to the parent for the accounting year 2010. Thus no Group contribution has been received during 2011.

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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 2011, income statement, changes in equity and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these financial statements in accordance with 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 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

PricewaterhouseCoopers AS, Brattørkaia 17 B, NO-7492 Trondheim
T: 02316, www.pwc.no
Org.no.: 987 009 713 MVA, Medlem av Den norske Revisorforening

Independent auditor's report - 2011 - KLP Kommunekreditt AS, page 2

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 coverage of the loss is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

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

Trondheim, 6 March 2012
PricewaterhouseCoopers AS

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

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

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To the Supervisory Board and General Meeting of
KLP Kommunekreditt AS

THE CONTROL COMMITTEE`S STATEMENT ON THE FINANCIAL STATEMENT FOR 2011

In accordance with Section 8 of its instructions, the Control Committee has reviewed the annual report and the report of the Board of Directors, the income statement and financial position statement, as well as the auditors` report for KLP 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 (deficit) for 2011 of NOK -36 005 257.
The share premium fund provides provision for the entire deficit.

Oslo, 2 March 2012

Ole Hetland

Line Alfarrustad

Bengt P Johansen

Dordi Flormælen

Jan Rune Fagermoen

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

KLP Kommunekreditt AS`s annual financial statement shows a result (deficit) for 2011 of NOK -36 005 257. The share premium fund provides provision for the entire deficit.

Trondheim, 7 March 2012

Hege Sørlie

Hege Sørlie

This is KLP

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

Its customers should find that KLP is a predictable partner that strengthens their finances, simplifies their everyday lives, helps to make them good and attractive employers as well as helping to create a world that is a little better. KLP's mutual ownership model, in which the customers are also the owners, means that KLP must always supply products and solutions in consultation with its customers.

KLP'S VISION:
The best partner for the days to come.

VALUES: The values to which employees at KLP aspire are "Open. Responsible. Clear. Committed".

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

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

HISTORY

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

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

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

1972 – KLP passed NOK 1 billion in total assets.

Market leader

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

Retail market initiative in progresses

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

The KLP Group

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

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

- Pensions and pension fund services
- Banking
- Insurance
- Funds and asset management
- Property

Subsidiaries

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

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

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

1974

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

1984

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

1993

Establishment of KLP Skadeforsikring AS (non-life) and KLP Fondsforvaltning AS (funds management).

1994

sites under management, as well as substantial projects under development. The property stock had a value of NOK 29.8 billion as at 31 December 2011. KLP Eiendom has operations in Norway, Sweden and Denmark. The properties have good locations, a high standard of building and efficient space utilisation.

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

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

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

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

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

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

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

It pays to be a KLP owner

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

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

Corporate responsibility

KLP will contribute to a sustainable public sector through responsible business operation. Taking corporate social responsibility is about how we respond to society's challenges through our own activity. For KLP, corporate social responsibility is not something the Company does in parallel to the Company's actual business. KLP's corporate responsibility is a natural part of our business, embracing for example: responsible investment; reduction of energy consumption in commercial properties; prevention of damage to health, the environment and safety.
The description of KLP's corporate responsibility is integrated into the discussion of the different business areas.

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

1995 – KLP buys Nora Eiendom.

1997 – Nora Eiendom was renamed KLP Eiendom AS.

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

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

2003 – KLP signed the UN Global Compact

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

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

Reporting of corporate social responsibility

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

Global Compact

Since 2003 KLP has been a member of Global Compact, a UN initiative uder which companies and other organisations voluntarily commit to supporting international human rights, protecting the environment, respecting workers' rights and working against corruption. This commits us always to working towards sustainable social development as the Group CEO, Sverre Thornes, confirms in his introduction to KLP's annual report 2011.

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

Responsible investment

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

All the companies in which KLP invests are monitored in regard to discreditable situations and potential breaches of key UN conventions and declarations in the following areas:
- Human and worker rights
- The environment
- Corruption
- Business ethics

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

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

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

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

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

2010
KLP Banken is launched.

2011
KLP assumes the position of Norway's largest life insurance company.

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