annual report 2011

KLP Kreditt AS

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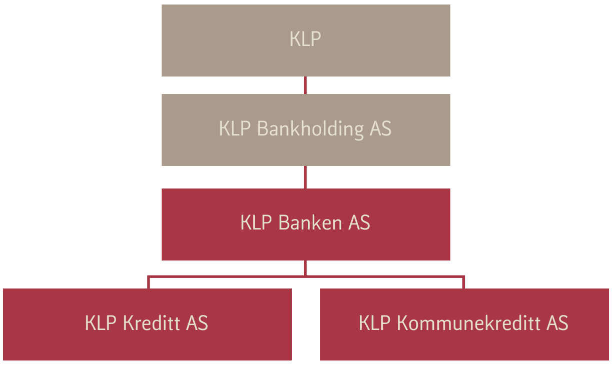
# The report of the Board of Directors for 2011

## KLP Kreditt AS has sold loans to KLP Kommunekreditt AS and KLP in step with the reduction of the borrowing from Eksportfinans ASA. During 2011 the lending portfolio was reduced by NOK 12.7 billion.

In June 2009 KLP Kreditt AS became a wholly owned subsidiary of KLP Banken AS and at the same time changed its name from Kommunekreditt Norge AS. The Company forms part of the KLP Group lending operation.

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

## Financial development

- Pre-tax income: NOK- 3.5 (51.9) million
- Net interest income: NOK 6.0 (22.0) million
- Lending balance: NOK 1.4 (14.1) billion

### INCOME STATEMENT

Operating income was NOK -3.5 million before tax, and NOK -2.5 million after tax. That produced a return on owners' equity of -0.8 per cent before tax and -0.6 per cent after tax. Corresponding figures for 2010 were NOK 8.7 per cent and 6.2 per cent respectively.

### INTEREST INCOME

Net interest income was NOK 6.0 million in 2011, against NOK 22.0 million in 2010.

### LENDING

The Company has been in the market for loans to the public sector since 1993. Following incorporation into KLP in 2009 the strategy has been to sell loans to its sister company KLP Kommunekreditt AS or to KLP. During 2011 loans were sold from KLP Kreditt AS for NOK 11.2 billion. The corresponding figure for 2007 was NOK 8.6 billion.

Total lending at the end of 2011 amounted to NOK 1.4 billion, a net reduction of NOK 12.7 billion from 2010. All loans are to public sector companies with a guarantee from municipalities or county administrations. In addition bank guarantees have been set up to further strengthen the credit quality. The risk in the lending portfolio is assessed as very low.

Interest and repayment arrears over 90 days amounted to NOK 130,000 at the end of 2011. The Company has had no losses on loans.

### BORROWING

KLP Kreditt AS finances its activity through owners' equity as well as one loan from KLP Banken AS. At the time of the acquisition of Kommunekreditt Norge AS in spring 2009 a borrowing agreement was set up with Eksportfinans ASA nominated at NOK 34.4 billion. In accordance with the agreement the loan has been repaid in 8 equal repayments. The last repayment was made in September 2011.

The KLP Kreditt AS lending portfolio has been reduced in 2011 in step with due dates on the borrowing by a current loan being sold simultaneously to KLP Kommunekreditt AS or KLP.

### FINANCIAL POSITION DEVELOPMENT AND SOLVENCY

Total assets were NOK 1.5 billion at the end of 2011. Of this, lending to public sector borrowers represented NOK 1.4 billion.

Based on the Board's proposed allocation of the income, the Company's Tier 1 and Tier 2 capital amounted to NOK 306.5 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 59.5 per cent. Corresponding figures for 2010 were NOK 599.6 million and 17.7 per cent respectively. The authorities' minimum requirement is 8.0 per cent. The risk-weighted balance was NOK 310.8 billion. Solvency is considered to be good.

### THE LIQUIDITY SITUATION

The Company's liquidity situation is very satisfactory. It is shown in the statement of cash flows that funds from operating activities are substantial, and in 2011 amounted to more than NOK 12 billion. The reason for this is that the Company continuously sells its lending stock to its sister company, KLP Kommunekreditt AS, and KLP on the due dates for repayment of the loan.

### ALLOCATION OF INCOME FOR THE YEAR

The annual financial statements show a deficit for 2011 of NOK -2517 million after tax. The Board proposes that NOK 27,803 million be allocated from other owners' equity and that NOK 35,119 million be allocated as Group contribution. The difference of NOK 9833 million is covered by tax refund on the Group contribution.

### THE FINANCIAL STATEMENTS

The Board considers 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 accounts.

KLP Kreditt AS has presented financial statements in accordance with simplified IFRS (International Financial Reporting Standards) since 2007. This means that the majority of items in the statement of financial position are brought to book at fair value. For 2011 an unrealised loss of NOK 1.9 million has been brought to book. This figure expresses net value change according to market value assessment of asset items and liabilities. Financial assets and liabilities in the financial position statement have been corrected for market values including accrued interest and thus deviate from nominal outstanding sums. In 2010 an unrealised gain of NOK 52.1 million was brought to book.

## Risk management

KLP Kreditt 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 and guidelines for the Company's risk control function. The purpose of the risk control function is inter alia to check that the risk policies and other guidelines for risk management are being followed.

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 remuneration of the Board's members and chair, see Note 19 to the annual financial statements.

## Work environment and organisation

KLP Kreditt 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.

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

## Future prospects

KLP has determined a lending strategy that means that the lending business to the public sector is to be financed by KLP Kommunekreditt AS or by KLP. This means that once again in 2012 KLP Kreditt AS will not finance new lending for own account, so that the business of the Company in future will be management of the existing loan agreements.

Oslo, 28 February 2012

Board of Directors KLP Kreditt AS

Sverre Thornes
*Chair*

Mai-Lill Ibsen
*Deputy Chair*

Aage Schaanning

Merete Birgit Hessen

Arnulf Arnøy
*Managing Director*

The Board of Directors of KLP Kreditt, from left to right: Mai-Lill Ibsen, Aage Schaanning and Merete Birgit Hessen.
Sverre Thornes was not present for the picture.

# Income Statement

| Note | NOK thousands | 2011 | 2010 |
|---|---|---|---|
| | Interest income and similar income | 237 162 | 748 631 |
| | Cost of interest and similar costs | -231 190 | -726 653 |
| 9 | Net interest income | 5 972 | 21 978 |
| | | | |
| | Net charges and commission income | 0 | 0 |
| | | | |
| 4 | Net gain/(loss) on financial instruments fair value | -1 915 | 52 117 |
| | Total other operating income | -1 915 | 52 117 |
| | | | |
| 24 | Management costs | 0 | 2 963 |
| 16 | Depreciation | -263 | -323 |
| | Other operating expenses | -7 086 | -24 813 |
| | Total operating expenses | -7 348 | -22 173 |
| | | | |
| | Gains/losses on securities that are fixed assets | -204 | 0 |
| | | | |
| | Operating income before tax | -3 495 | 51 922 |
| | | | |
| 18 | Tax on ordinary income | 978 | -14 662 |
| | | | |
| | Income for the year | -2 517 | 37 260 |
| | | | |
| | Other comprehensive income | 0 | 0 |
| | Other comprehensive income for the year, net of tax | 0 | 0 |
| | | | |
| | Other income and expenses | 0 | 0 |
| | Total comprehensive income for the year | -2 517 | 37 260 |
| | | | |
| | Group contribution made | -35 119 | -77 759 |
| | Reversed tax on Group contribution | 9 833 | 21 773 |
| | Allocated to/from other owners' equity | 27 803 | -46 235 |
| | Allocated to/from fund for unrealised gains | 0 | 64 962 |
| | TOTAL ALLOCATION OF INCOME | 2 517 | -37 260 |

# Financial Position Statement

| Note | NOK thousands | 31.12.2011 | 31.12.2010 |
|---|---|---|---|
| | ASSETS | | |
| 5,14 | Lending to and receivables from credit institutions | 103 891 | 948 528 |
| 5,14 | Lending to and receivables from customers | 1 397 355 | 14 141 813 |
| 7 | Financial derivatives | 0 | 1 085 |
| 18 | Deferred tax assets | 335 | 0 |
| 16 | Tangible fixed assets | 412 | 675 |
| 25 | Other assets | 11 375 | 251 |
| | TOTAL ASSETS | 1 513 367 | 15 092 352 |
| | | | |
| | LIABILITIES AND OWNERS' EQUITY | | |
| | LIABILITIES | | |
| 5,15 | Debt to credit institutions | 1 201 800 | 14 304 408 |
| 7 | Financial derivatives | 4 355 | 130 802 |
| 18 | Deferred taxes | 0 | 10 476 |
| 21 | Other liabilities | 695 | 46 778 |
| 21 | Provision for accrued costs and liabilities | 0 | 686 |
| | TOTAL LIABILITIES | 1 206 850 | 14 493 150 |
| | | | |
| | OWNERS' EQUITY | | |
| | Share capital | 200 000 | 500 000 |
| | Other owners' equity contributed | 35 119 | 0 |
| | Other owners' equity | 71 398 | 99 202 |
| | TOTAL OWNERS' EQUITY | 306 517 | 599 202 |
| | | | |
| | TOTAL LIABILITIES AND OWNERS' EQUITY | 1 513 367 | 15 092 352 |

Oslo, 28 February 2012

Board of Directors KLP Kreditt AS

Sverre Thornes
*Chair*

Mai-Lill Ibsen
*Deputy Chair*

Aage Schaanning

Merete Birgit Hessen

Arnulf Arnøy
*Managing Director*

# Statement of Owners' equity

| 2011<br>NOK thousands | Owners' equity contributed | Retained earnings | Total owners' equity |
|---|---|---|---|
| Owners' equity 1 January 2011 | 500 000 | 99 202 | 599 202 |
| Income for the year | 0 | -2 517 | -2 517 |
| Other comprehensive income | 0 | 0 | 0 |
| Total comprehensive income for the year | 0 | -2 517 | -2 517 |
| Owners' equity reduction | -300 000 | 0 | -300 000 |
| Group contribution received | 35 119 | 0 | 35 119 |
| Group contribution paid during the period | 0 | -35 119 | -35 119 |
| Reversed tax on Group contribution | 0 | 9 833 | 9 833 |
| Total transactions with the owners | -264 881 | -25 286 | -290 167 |
| Owners' equity 31 December 2011 | 235 119 | 71 399 | 306 517 |

| 2010<br>NOK thousands | Owners' equity contributed | Retained earnings | Total owners' equity |
|---|---|---|---|
| Owners' equity 1 January 2010 | 500 000 | 380 805 | 880 805 |
| Income for the year | 0 | 37 260 | 37 260 |
| Other comprehensive income | 0 | 0 | 0 |
| Total comprehensive income for the year | 0 | 37 260 | 37 260 |
| Group contribution paid during the period | 0 | -340 636 | -340 636 |
| Group contribution paid during the period | 0 | 0 | 0 |
| Reversed tax on Group contribution | 0 | 21 773 | 21 773 |
| Total transactions with the owners | 0 | -318 863 | -318 863 |
| Owners' equity 31 December 2010 | 500 000 | 99 202 | 599 202 |

| NOK thousands | Number of shares | Nominal | Total |
|---|---|---|---|
| As at 1 January 2011 | 5 000 000 | 100 | 500 000 |
| Share capital paid out | -3 000 000 | 100 | -300 000 |
| As at 31 December 2011 | 2 000 000 | 100 | 200 000 |
| Other owners' equity contributed | | | 35 119 |
| Retained earnings | | | 71 398 |
| Owners' equity as at 31 December 2011 | | | 306 517 |

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

Income per share 2011 in whole NOK: -1,3
Income per share 2010 in whole NOK: 7,5

## Statement of Cash Flows

| NOK thousands | 2011 | 2010 |
|---|---|---|
| Operational activities | | |
| Payments received from customers - interest, commission & charges | 206 696 | 724 341 |
| Net receipts on lending, customers | 12 535 085 | 16 046 661 |
| Disbursements on operations | -13 172 | -344 976 |
| Net interest deposit accounts | 21 040 | 26 719 |
| Net receipts/disbursements concerning other operational activities | 119 194 | -123 801 |
| Income tax paid | 0 | 0 |
| Net cash flow from operating activities | 12 868 843 | 16 328 944 |
| | | |
| Investment activities | | |
| Purchase of fixed assets | 0 | -997 |
| Net cash flow from investment activities | 0 | -997 |
| | | |
| Financing activities | | |
| Net payments to credit institutions | -13 068 945 | -15 902 659 |
| Net payment of interest on loans | -179 112 | -622 515 |
| Net receipts/ disbursements (-) on other short-term items | -9 764 | 0 |
| Disbursements on reduction of owners' capital | -300 000 | 0 |
| Group contributions made | -40 636 | 0 |
| Net cash flows from financing activities | -13 598 455 | -16 525 174 |
| | | |
| Net cash flows during the period | -729 612 | -197 227 |
| | | |
| Cash and cash equivalents at the start of the period | 824 727 | 1 021 954 |
| Cash and cash equivalents held at the end of the period | 95 115 | 824 727 |
| Net receipts/ disbursements (-) of cash | -729 612 | -197 227 |

| | | |
|---|---|---|
| RECONCILIATION | | |
| Income before tax | -3 495 | 51 922 |
| Change in accounts payable | -264 | 326 |
| Items classified as investment or financing activities | 177 422 | 516 413 |
| Changes in other accrued income and expenditure | 12 695 180 | 15 760 284 |
| Net cash flow from operating activities | 12 868 843 | 16 328 944 |

## Note 1 General information

KLP Kreditt AS (previously Kommunekreditt Norge AS) provides financing to municipalities, county administrations and companies conducting public sector activities. The Company has its head office at Beddingen 8, 7014 Trondheim, Norge.

KLP Kreditt is part of a group with the parent company KLP Banken AS and at the peak of the Group, Kommunal Landspensjonskasse (KLP), Karl Johans gate 41 B, postboks 1733 Vika, 0121 Oslo, Norway. The consolidated Group accounts may be obtained by contacting the latter.

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

## Note 2 Summary of the most important accounting principles

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

### 2.1 BASIC PRINCIPLES

The KLP Kreditt AS financial statements have been prepared in accordance with the Norwegian Regulation 1240 "Regulations on financial statements etc. for banks, financial enterprises and their parent companies", hereinafter referred to as the Annual Accounts Regulations of 16.12.1998 and Norwegian Act No. 56 "Act regarding annual accounts etc. (Accounting Act)" of 17.07.1998.

The Accounting Act and the regulations require that the Company uses international accounting standards (IAS/IFRS), which are approved by the EU in the preparation of the accounts, but allows certain exceptions from IFRS through Regulation No. 57: "Regulations on simplified application of international accounting standards" of 21.01.2008 (hereinafter referred to as "the Simplification Regulations". The Simplification Regulations allow the presentation in the accounts of a provision for dividend and group contribution at the end of the reporting period even though the resolution is passed at a later date. This is the only accounting principle deviating in regard to IFRS.

The Accounting Act contains certain supplementary information requirements not required in accordance with IFRS. This supplementary information is included in the notes to the financial statements.

The accounts have been prepared based on the principle of historic cost, with the exception that financial assets and debt (including financial derivatives) have been valued at fair value through profit or loss.

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

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

### 2.2 FINANCIAL ASSETS

The Company's financial position comprises mostly financial instruments. The accounting principles applied to these assets and liabilities therefore have great significance for understanding the financial statements. Financial instruments in the Company's financial position comprise lending, funding/deposit-taking and derivatives. A limited number of derivative agreements have been struck to achieve a financial hedging effect against market risk. The Company has no trading portfolio.

#### 2.2.1 Calculation of fair value

On first recognition, financial instruments are valued at fair value. Subsequent measurement is also carried out at fair value with value changes through profit/loss, in accordance with the IFRS regulations that apply for selection of valuation principles.

Fair value is the sum for which an asset may be traded or a liability settled in a transaction at arm's length distance between well-informed and voluntary parties.

Fair value may be selected as a principle when it provides more relevant information because it eliminates, or significantly reduces, an inconsistency in measuring or recognising (sometimes called an accounting incongruity), which would otherwise arise on measurement of assets or liabilities or on recognition of gains or losses on these on different bases. The most important reason for an accounting incongruity to arise otherwise is that according to the IFRS rules all derivatives should be measured at fair value. Derivatives are used extensively for hedging market risk. To achieve a symmetrical measurement of financial instruments it has therefore been decided to use the option available for valuation at fair value of all financial instruments.

### 2.3 NETTING

Finansielle eiendeler og finansiell gjeld er bare motregnet i den grad det foreligger en juridisk rett til å motregne forpliktelse mot gjeld, samt at forfallstidspunktet for eiendelen samsvarer med forfallstidspunktet for gjelden.

### 2.4 CASH AND CASH EQUIVALENTS

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

2.5 FINANCIAL LIABILITIES
The Company's financial liabilities comprise debts to credit institutions and other financial liabilities. These are valued at fair value.

2.6 OWNERS' EQUITY
Egenkapitalen i konsernet består av innskutt egenkapital og opptjent egenkapital.

2.6.1 Owners' equity contributed
Owners' equity contributed comprises share capital and other owners' equity.

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

2.7 PRESENTATION OF INCOME IN THE ACCOUNTS
Income on sale of services is valued at fair value of the consideration, net after deductions for VAT and any discounts.

2.7.1 Interest income/expenses
Interest income and interest costs associated with all interest-bearing financial assets and liabilities are taken to income as they accrue.

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 prepares estimates and assumptions on future circumstances. These are continuously evaluated and are based on historic data and expectations concerning probable future events considered on the basis of data available at the time of presentation of the financial statements.

It must be expected that the estimates will deviate from the final outcome and the areas where there is significant risk of substantial change in capitalised values in future periods are discussed below.

3.1 FAIR VALUE ON FINANCIAL ASSETS
None of the Company's financial instruments is listed in an active market. Various estimating methods are therefore used to measure fair value. The methods involve calculating the cash flows from each individual contract and subsequently discounting these to present value. The expected cash flows can be set either directly from contract terms and conditions or by using financial market models if the cash flow is uncertain. These models are based on observable market prices and take account possible changes in credit premiums.

3.2 FAIR VALUE OF FINANCIAL LIABILITIES
Fair value of financial instruments is set using a valuation model.

The method of calculating fair value using a valuation model is to calculate the expected cash flows based on the terms of each individual contract and then to discount these values to a present value. The expected cash flows for each contract are determined either directly by reference to actual cash flows implicit in observable markets or by modelling the cash flows based on relevant models for market pricing. These models use observable market prices and rates as a basis, including for example yield curves for the majority of the asset's or liability's duration and option volatilities.

## Note 4 Net gain/loss on financial instruments at fair value

| NOK thousands | 2011 | 2010 |
|---|---|---|
| Lending and receivables, fair value | -53 940 | -22 903 |
| Financial derivatives, fair value | 50 132 | 9 553 |
| Debt to credit institutions, fair value | 1 894 | 65 467 |
| Total | -1 915 | 52 117 |

## Note 5 Fair value of financial assets and liabilities

| | 2011 | | 2010 | |
|---|---|---|---|---|
| NOK thousands | Capitalised value | Fair value | Capitalised value | Fair value |
| Financial assets | | | | |
| Lending to Norwegian local administrations at fair value | 1 397 355 | 1 397 355 | 14 141 813 | 14 141 813 |
| Loans to and receivables from credit institutions | 103 891 | 103 891 | 948 528 | 948 528 |
| Financial derivatives | 0 | 0 | 1 085 | 1 085 |
| Total financial assets at fair value | 1 501 245 | 1 501 245 | 15 091 426 | 15 091 426 |
| | | | | |
| Financial liabilities | | | | |
| Debt to credit institutions | 0 | 0 | 14 304 408 | 14 304 408 |
| Debt to Group companies | 1 201 800 | 1 201 800 | 0 | 0 |
| Financial derivatives | 4 355 | 4 355 | 130 802 | 130 802 |
| Total financial liabilities at fair value | 1 206 154 | 1 206 154 | 14 435 210 | 14 435 210 |

Lending to Norwegian local administrations
The receivables are valued using a valuation model that uses relevant credit risk premium adjustments obtained from the market. The lending is to municipalities, county administrations and local government supported projects and observable interest-rate curves and credit spread curves are used in a valuation model that discounts future cash flows.

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

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

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

# Note 6 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 | 103 891 | 948 528 |
| Level 2: Value based on observable market data | 1 397 355 | 14 141 813 |
| Level 3: Value based on other than observable market data | 0 | 0 |
| Certificates, bonds, as well as lending and receivables | 1 501 245 | 15 090 341 |
| | | |
| 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 | 0 | 1 085 |
| Level 3: Value based on other than observable market data | 0 | 0 |
| Derivatives and other financial assets | 0 | 1 085 |
| | | |
| Total financial assets valued at fair value | 1 501 245 | 15 091 426 |
| | | |
| Liabilities | | |
| Debt to financial institutions and other deposits/borrowing | | |
| Level 1: Value based on prices in an active market | 0 | 0 |
| Level 2: Value based on observable market data | 1 201 800 | 14 304 408 |
| Level 3: Value based on other than observable market data | 0 | 0 |
| Debt to financial institutions and other deposits/borrowing | 1 201 800 | 14 304 408 |
| | | |
| Derivatives and other financial assets | | |
| Level 1: Value based on prices in an active market | 0 | 0 |
| Level 2: Value based on observable market data | 4 355 | 130 802 |
| Level 3: Value based on other than observable market data | 0 | 0 |
| Derivatives and other financial assets | 4 355 | 130 802 |
| | | |
| Total financial liabilities at fair value | 1 206 155 | 14 435 210 |

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 7 Financial derivatives

| NOK thousands | 2011 Nominal sum | 2011 Fair value | 2010 Nominal sum | 2010 Fair value |
|---|---|---|---|---|
| Lending in NOK, interest rate swap | 352 786 | -4 355 | 4 079 628 | -129 717 |
| Total interest rate swaps | 352 786 | -4 355 | 4 079 628 | -129 717 |

Interest rate agreements are used to correct for imbalances between the Company's lending and borrowing in regard to interest rate exposure. All the agreements struck are hedging deals. The interest-rate differences in the agreements are accrued in the same way as the items the hedging contracts are intended to cover.

Interest rate swaps are agreements on exchange of interest rate terms in a future period. They do not cover exchange of principal.

## Note 8 Categories of financial assets and liabilities

| NOK thousands | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| Financial assets | FVO | HFT | Total | FVO | HFT | Total |
| Lending to and receivables from credit institutions | 103 891 | 0 | 103 891 | 948 528 | 0 | 948 528 |
| Lending to and receivables from customers | 1 397 355 | 0 | 1 397 355 | 14 141 813 | 0 | 14 141 813 |
| Financial derivatives | 0 | 0 | 0 | 0 | 1 085 | 1 085 |
| Total | 1 501 245 | 0 | 1 501 245 | 15 090 341 | 1 085 | 15 091 426 |
| | | | | | | |
| Financial liabilities | FVO | HFT | Total | FVO | HFT | Total |
| Debt to credit institutions | 1 201 800 | 0 | 1 201 800 | 14 304 408 | 0 | 14 304 408 |
| Financial derivatives | 0 | 4 355 | 4 355 | 0 | 130 802 | 130 802 |
| Total | 1 201 800 | 4 355 | 1 206 154 | 14 304 408 | 130 802 | 14 435 210 |

FVO: Financial instruments at fair value through income - fair value option
HFT: Financial instruments at fair value through income - held for trading

## Note 9 Net interest income

| NOK thousands | 2011 | 2010 |
|---|---|---|
| Interest on lending to and receivables from credit institutions | 21 992 | 23 553 |
| Interest on lending to customers | 215 170 | 724 341 |
| Interest on securities | 0 | 738 |
| Total interest income | 237 162 | 748 631 |
| | | |
| Interest on debt to KLP Banken AS | -18 977 | -43 085 |
| Interest on debt to credit institutions | -212 213 | -683 563 |
| Other interest costs | 0 | -5 |
| Total interest costs | -231 190 | -726 653 |
| | | |
| Net interest income | 5 972 | 21 978 |

## Note 10 Financial risk management

KLP Kreditt 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 is reporting in the event of breaches of policies or guidelines. The Department, which has an independent role in relation to other departments, also has other tasks associated with the Company's risk management. The responsibility for the operational direction of the Company's liquidity risk, exchange-rate risk and interest rate risk lies with the Finance Department.

# Note 11 **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 Kreditt AS provides loans to, or loans guaranteed by, Norwegian municipalities and county authorities, banks or the state, including loans to local government enterprises and inter-authority companies (public sector loans).

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

| NOK thousands | 31.12.2011 | 31.12.2010 |
|---|---|---|
| Lending to municipalities and county administrations | | 9 121 561 |
| Lending with municipal/county administration guarantee | 1 368 900 | 3 678 870 |
| Security with guarantee from Norwegian banks | | 1 174 939 |
| Lending with Government guarantee | 17 242 | 21 262 |
| Total | 1 386 142 | 13 996 632 |
| Sums falling due more than 12 months after the end of the reporting period | 1 302 495 | 13 384 739 |

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

### 11.1 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.

### 11.2 CONTROL AND LIMITATION OF CREDIT RISK

Ved behandling av alle nye lånesøknader kontrolleres det om kundens kredittramme er større enn summen av omsøkt lånebeløp og løpende lån. I kredittpolicyen omtalt ovenfor er det fastsatt krav til rapportering til styret om utnyttelse av rammene.
Eventuelle overskridelser av rammene skal uansett rapporteres til selskapets styre.

### 11.3 MAXIMUM EXPOSURE TO CREDIT RISK

KLP Kreditt 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 Kreditt AS.

Maximum exposure to credit risk

| NOK thousands | 31.12.2011 | 31.12.2010 |
|---|---|---|
| Lending to and receivables from credit institutions | 103 891 | 948 528 |
| Lending to and receivables from customers | 1 397 355 | 14 202 290 |
| Financial derivatives | 0 | 0 |
| Total | 1 501 246 | 15 150 818 |

Loans fallen due or written down

| NOK thousands | 31.12.2011 | 31.12.2010 |
|---|---|---|
| Principal on loans with payments with 1-30 days' default | 65 279 | 74 871 |
| Principal on loans with payments with 31-90 days' default | 3 500 | - |
| Principal on loans with payments with more than 90 days' default | 39 540 | 75 704 |
| Total principal on loans fallen due | 108 319 | 150 575 |
| Relevant security or guarantees | 108 319 | 150 575 |
| 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.

### 11.4 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 protfolio. 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 Kreditt AS's largest exposure as at 31 December 2011 was about 13 per cent of theCopany's total lending.

# Note 12 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 Kreditt AS is exposed to market risk as a result of the Company's funding/deposit-taking and lending activity and management of the Company's liquidity. The exposure is however limited to interest 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 whole of the lending portfolio comprises loans in Norwegian kroner.

## 12.1 MEASUREMENT OF MARKET RISK

Interest rate risk is measured as change in value on a 1 percentage point change in all interest rates.

## 12.2 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 Kreditt AS

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

| NOK thousands | Total principal | Up to 1 mnth | From 1 mnth to 3 mnths | From 3 mnths to 12 mnths | 1 yr to 5 yrs | Over 5 yrs |
|---|---|---|---|---|---|---|
| Lending | 1 386 142 | 755 205 | 572 780 | 23 229 | 29 928 | 5 000 |
| Cash and receivables from credit institutions | 103 891 | 103 891 | 0 | 0 | 0 | 0 |
| Total | 1 490 033 | 859 096 | 572 780 | 23 229 | 29 928 | 5 000 |
| Debt to credit institutions | 1 200 000 | | 1 200 000 | | | |
| Total | 1 200 000 | 0 | 1 200 000 | 0 | 0 | 0 |
| Gap | 290 033 | 859 096 | -627 220 | 23 229 | 29 928 | 5 000 |
| Financial derivatives | 0 | 33 488 | 233 129 | -233 267 | -28 350 | -5 000 |
| Net gap | 290 033 | 892 584 | -394 091 | -210 038 | 1 578 | 0 |

### Interest risk KLP Kreditt AS

Repricing dates for interest-bearing assets and liabilities as at 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 | 13 996 632 | 6 101 177 | 3 430 488 | 2 402 271 | 1 830 623 | 232 073 |
| Cash and receivables from credit institutions | 948 528 | 948 528 | 0 | 0 | 0 | 0 |
| Total | 14 945 160 | 7 049 705 | 3 430 488 | 2 402 271 | 1 830 623 | 232 073 |
| Debt to credit institutions | 14 222 049 | | 14 222 049 | | | |
| Total | 14 222 049 | 0 | 14 222 049 | 0 | 0 | 0 |
| Gap | 723 111 | 7 049 705 | -10 791 561 | 2 402 271 | 1 830 623 | 232 073 |
| Financial derivatives | 0 | 1 079 966 | 2 701 385 | -1 732 465 | -1 820 528 | -228 358 |
| Net gap | 723 111 | 8 129 671 | -8 090 176 | 669 806 | 10 095 | 3 715 |

The Company's interest rate sensitivity as at 31 December 2011 amounted to NOK 2 million.

## 12.3 EXCHANGE RATE RISK

All receivables and all liabilities as at 31 December 2011 were in Norwegian kroner and the Company was thus not exposed to exchange-rate risk.

# Note 13 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.

13.1 MANAGEMENT OF LIQUIDITY RISK

The management of KLP Kreditt's liquidity risk must be seen in the context of the management of the liquidity risk of 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. 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.

13.2 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 Kreditt AS

Maturity analysis for assets and liabilities based on expected maturity as at 31 December 2011

| 31 December 2011<br>NOK thousands | Total principal | Up to<br>1 mnth | From 1 mnth<br>to 3 mnths | From 3 mnths<br>to 12 mnths | 1 yr<br>to 5 yrs | Over<br>5 yrs |
|---|---|---|---|---|---|---|
| Lending | 1 386 142 | 4 796 | 12 560 | 130 685 | 569 332 | 668 768 |
| Receivables from credit institutions | 103 891 | | 103 891 | | | |
| Total | 1 490 033 | 4 796 | 116 451 | 130 685 | 569 332 | 668 768 |
| | | | | | | |
| Debt to credit institutions | 1 200 000 | | 1 200 000 | | | |
| Total | 1 200 000 | 0 | 1 200 000 | 0 | 0 | 0 |
| | | | | | | |
| Net cash flows | 290 033 | 4 796 | -1 083 549 | 130 685 | 569 332 | 668 768 |

Maturity analysis for assets and liabilities based on contractual maturity as at 31 December 2011

| 31 December 2011<br>NOK thousands | Total principal | Up to<br>1 mnth | From 1 mnth<br>to 3 mnths | From 3 mnths<br>to 12 mnths | 1 yr<br>to 5 yrs | Over<br>5 yrs |
|---|---|---|---|---|---|---|
| Lending | 1 386 142 | 4 796 | 12 560 | 61 378 | 305 243 | 1 002 164 |
| Receivables from credit institutions | 103 891 | 103 891 | | | | |
| Total | 1 490 033 | 108 687 | 12 560 | 61 378 | 305 243 | 1 002 164 |
| | | | | | | |
| Debt to credit institutions | 1 200 000 | | 1 200 000 | | | |
| Total | 1 200 000 | 0 | 1 200 000 | 0 | 0 | 0 |
| | | | | | | |
| Net cash flows | 290 033 | 108 687 | -1 187 440 | 61 378 | 305 243 | 1 002 164 |

## Liquidity risk KLP Kreditt AS

Maturity analysis for assets and liabilities based on expected maturity as at 31 December 2010

| 31 December 2010<br>NOK thousands | Total principal | Up to<br>1 mnth | From 1 mnth<br>to 3 mnths | From 3 mnths<br>to 12 mnths | 1 yr<br>to 5 yrs | Over<br>5 yrs |
|---|---|---|---|---|---|---|
| Lending | 13 996 632 | 71 250 | 192 093 | 908 415 | 4 947 594 | 7 877 280 |
| Receivables from credit institutions | 948 528 | 948 528 | | | | |
| Total | 14 945 160 | 1 019 778 | 192 093 | 908 415 | 4 947 594 | 7 877 280 |
| | | | | | | |
| Debt to credit institutions | 14 222 048 | | 5 634 016 | 8 588 032 | | |
| Total | 14 222 048 | 0 | 5 634 016 | 8 588 032 | 0 | 0 |
| | | | | | | |
| Net cash flows | 723 112 | 1 019 778 | -5 441 923 | -7 679 617 | 4 947 594 | 7 877 280 |

Maturity analysis for assets and liabilities based on contractual maturity 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 | 13 996 632 | 24 595 | 98 782 | 488 516 | 2 708 133 | 10 676 606 |
| Receivables from credit institutions | 948 528 | 948 528 | | | | |
| Total | 14 945 160 | 973 123 | 98 782 | 488 516 | 2 708 133 | 10 676 606 |
| Debt to credit institutions | 14 222 048 | | 5 634 016 | 8 588 032 | | |
| Total | 14 222 048 | 0 | 5 634 016 | 8 588 032 | 0 | 0 |
| Net cash flows | 723 112 | 973 123 | -5 535 234 | -8 099 516 | 2 708 133 | 10 676 606 |

| 31 December 2010 NOK thousands | Total principal | Up to 1 mnth | From 1 mnth to 3 mnths | From 3 mnths to 12 mnths | 1 yr to 5 yrs | Over 5 yrs |
|---|---|---|---|---|---|---|
| Lending | 1 264 640 | 2 768 | 6 305 | 32 202 | 165 475 | 1 057 890 |
| Securities | 1 875 | | 1 875 | | | |
| Receivables from credit institutions | 3 116 190 | 266 190 | 2 850 000 | | | |
| Total | 4 382 705 | 268 958 | 2 858 180 | 32 202 | 165 475 | 1 057 890 |
| Liability to depositors | 1 025 734 | 1 025 734 | | | | |
| Liabilities created on issuance of securities | 0 | | | | | |
| Debt to credit institutions | 3 200 000 | | 3 200 000 | | | |
| Total | 4 225 734 | 1 025 734 | 3 200 000 | 0 | 0 | 0 |
| Net cash flows | 156 971 | -756 776 | -341 820 | 32 202 | 165 475 | 1 057 890 |

## Note 14 Lending and receivables

| NOK thousands | 2011 | 2010 |
|---|---|---|
| Lending to and receivables from credit institutions | | |
| Bank deposits | 103 891 | 948 528 |
| Accrued interest | 0 | 0 |
| Lending to and receivables from credit institutions | 103 891 | 948 528 |
| Lending to and receivables from customers | | |
| Principal on lending | 1 386 142 | 13 998 683 |
| Adjustment to fair value. | 2 739 | 63 950 |
| Accrued interest | 8 474 | 79 179 |
| Lending to and receivables from customers | 1 397 355 | 14 141 813 |

## Note 15 Debt to credit institutions

| NOK thousands | Currency | Interest | Due date | Nominal | Accrued interest | 31.12.2011 Book value |
|---|---|---|---|---|---|---|
| Debt to KLP Banken | NOK | Fixed | 16.03.2012 | 1 200 000 | 1 800 | 1 201 800 |
| Total liabilities to credit institutions | | | | 1 200 000 | 1 800 | 1 201 800 |

| NOK thousands | Currency | Interest | Due date | Nominal | Accrued interest | 31.12.2010 Book value |
|---|---|---|---|---|---|---|
| Export finance loan 6 | NOK | Flytende | 15.03.2011 | 4 294 016 | 17 643 | 4 311 659 |
| Export finance loan 7 | NOK | Flytende | 15.06.2011 | 4 294 016 | 15 775 | 4 309 791 |
| Export finance loan 8 | NOK | Flytende | 15.09.2011 | 4 294 016 | 13 617 | 4 307 634 |
| Value adjustment covered bonds at fair value | | | | | | 1 894 |
| Debt to KLP Banken | NOK | Flytende | 16.03.2011 | 1 340 000 | 1 660 | 1 341 660 |
| Interim current liabilities lending | | | | | | 31 770 |
| Total liabilities to credit institutions | | | | 14 222 048 | 48 695 | 14 304 408 |

## Note 16 Fixed assets

| NOK thousands | 2011 | 2010 |
|---|---|---|
| Acquisition cost 01.01 | 998 | 998 |
| Acquired during the period | 0 | 0 |
| Acquisition cost 31.12 | 998 | 998 |
| | | |
| Accumulated depreciation previous years | -323 | 0 |
| Annual depreciation | -263 | -323 |
| Book value 31.12 | 412 | 675 |
| | | |
| Economic life | 1-3 years | 1-3 years |
| Depreciation scheme | Straight-line | Straight-line |

## Note 17 Capital adequacy

| NOK thousands | 31.12.2011 | 31.12.2010 |
|---|---|---|
| Share capital and share premium fund | 200 000 | 500 000 |
| Other owners' equity | 106 517 | 99 202 |
| Owners' equity | 306 517 | 599 202 |
| Fund for unrealised value changes | 0 | 0 |
| Interim profit/loss | 0 | 0 |
| Unrealised value changes | 0 | 359 |
| Deduction goodwill and other intangible assets | 0 | 0 |
| Deferred tax assets | -335 | 0 |
| Core capital | 306 182 | 599 561 |
| | | |
| Supplementary capital | 0 | 0 |
| Supplementary capital | 0 | 0 |
| | | |
| Total counting Tier 1 and 2 capital to count | 306 182 | 599 561 |
| Capital requirement | 41 155 | 271 273 |
| Surplus of Tier 1 and 2 capital | 265 027 | 328 288 |
| | | |
| Estimate basis credit risk: | | |
| Local and regional authorities | 0 | 2 482 288 |
| Publicly owned enterprises | 550 | 130 950 |
| Institutions | 300 075 | 430 025 |
| Other holdings | 10 175 | 144 013 |
| Estimate basis credit risk | 310 800 | 3 187 276 |
| | | |
| Credit risk | 24 864 | 254 982 |
| Operational risk | 16 291 | 16 291 |
| Total capital requirement assets | 41 155 | 271 273 |
| | | |
| Core capital adequacy ratio | 59,5 % | 17,7 % |
| Supplementary capital ratio | 0,0 % | 0,0 % |
| Capital adequacy ratio | 59,5 % | 17,7 % |

Basel II regulations have been used in calculating capital adequacy.

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

# Note 18 Tax

| NOK thousands | 2011 | 2010 |
|---|---|---|
| Accounting income before taxes | -3 495 | 51 922 |
| Differences between accounting and tax income: | | |
| Other permanent differences | 4 | 443 |
| Change in differences affecting relationship between accounting and tax income | 38 611 | 25 394 |
| Taxable income | 35 119 | 77 759 |
| Group contribution received with tax effect | 0 | 0 |
| Group contribution paid with tax effect | -35 119 | -77 759 |
| Base for tax payable | 0 | 0 |
| | | |
| Deficit carryforward allowed from previous years | 0 | 0 |
| Change for the year in allowable carryforward deficit | 0 | 0 |
| Total allowable carryforward deficit as at 31 December | 0 | 0 |
| | | |
| Reconciliation of basis for deferred tax | | |
| Tax-increasing temporary differences: | | |
| Lending to customers and credit enterprises | 2 739 | 63 950 |
| Total tax-increasing temporary differences | 2 739 | 63 950 |
| | | |
| Tax-reducing temporary differences: | | |
| Fixed assets | -471 | -356 |
| Financial instruments | -3 463 | -23 689 |
| Pension obligations | 0 | -595 |
| Securities | 0 | -1 894 |
| Total tax-reducing temporary differences | -3 934 | -26 534 |
| | | |
| Net temporary differences | -1 195 | 37 416 |
| Allowable carryforward deficit | 0 | 0 |
| Basis for deferred tax | -1 195 | 37 416 |
| 28% deferred tax assets | -335 | 10 476 |
| | | |
| Cost of taxes on items under expanded income | 0 | 0 |
| | | |
| Capitalised deferred tax assets | -335 | 10 476 |
| Change in deferred tax taken to income | -10 811 | -1 780 |
| | | |
| Summary of tax expense for the year | | |
| Change in deferred tax taken to income | -10 811 | -1 780 |
| Tax payable taken to income | 0 | 0 |
| Total taxes | -10 811 | -1 780 |

## Note 19 Benefits for senior management/governing bodies

| NOK thousands | 2011 | 2010 |
|---|---|---|
| Remuneration of the Board of Directors | 399 | 285 |
| Remuneration of the Supervisory Board | 83 | 37 |
| Remuneration of the Control Committee | 92 | 74 |

The Company does not pay remuneration to governing bodies, but refunds its share to the company the remuneration is paid from. Remuneration is declared with total remuneration from the KLP Banken AS Group.

| NOK thousands | 2011 | 2010 |
|---|---|---|
| Salary and other remuneration of the MD | 2 115 | 2 039 |
| Of which: | | |
| Salary | 1 427 | 1 399 |
| Other benefits | 145 | 143 |
| Pension accumulation | 543 | 496 |
| Loan from the Group | 2 269 | 1 497 |

KLP Kreditt does not provide loans to individuals, but KLP Group employees are allowed to take up loans at standard terms and conditions applying to employees in the KLP Group from the companies that provide personal loans including externally. The loan is a serial loan with the final repayment being in 2031. The loan has an interest rate of 2.95 - 3.15 per cent.

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

## Note 20 Number of employees

| | 2011 | 2010 |
|---|---|---|
| Number of employees as at 31.12 | 3 | 3 |
| Average number of employees | 3 | 3 |

## Note 21 Other liabilities and provision for accrued costs and liabilities

| NOK thousands | 31.12.2011 | 31.12.2010 |
|---|---|---|
| Creditors | 62 | 326 |
| Receivables from companies in the same Group | 633 | 46 453 |
| Miscellaneous liabilities | 0 | 0 |
| Total other liabilities | 695 | 46 778 |
| | | |
| Provisioned costs | 0 | 116 |
| Social security costs | 0 | 0 |
| Holiday Pay | 0 | 0 |
| Pension obligations | 0 | 595 |
| VAT | 0 | -25 |
| Total accrued costs and liabilities | 0 | 686 |

## Note 22 Transactions with related parties

| NOK thousands | 2011 | 2010 |
|---|---|---|
| Income statement items | | |
| KLP Banken AS, interest on borrowing | -18 977 | -43 085 |
| KLP Banken AS, administrative services (at cost) | -5 406 | -17 003 |
| KLP Kapitalforvaltning AS, fees for services provided | -406 | -298 |
| Total | -24 789 | -60 387 |
| | | |
| Statement of financial position items | | |
| KLP Banken AS, debt to credit institutions | -1 201 800 | -1 341 660 |
| Net outstanding accounts to: | | |
| KLP Banken AS | -503 | -46 329 |
| KLP Banken AS, settlement banking system | 9 764 | 0 |
| KLP | 1 600 | 0 |
| KLP Kapitalforvaltning AS | -130 | -124 |
| Total | -1 191 069 | -1 388 113 |

There are no direct salary costs in KLP Kreditt 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 23 Auditor's fee

| NOK thousands | 2011 | 2010 |
|---|---|---|
| Ordinary audit | 322 | 395 |
| Certification services | 8 | 40 |
| Tax consultancy | 0 | 0 |
| Other services excluding audit | 10 | 13 |
| Total Auditor's fee | 339 | 448 |

The sums above include VAT.

## Note 24 Pay and general management costs

| NOK thousands | 2011 | 2010 |
|---|---|---|
| Pensions | 0 | 3 011 |
| Other benefits | 0 | -48 |
| Total | 0 | 2 963 |

From the start of 2011 all benefits in connection with pensions are taking care of from the parent company KLP Banken AS.

## Note 25 Other assets

| NOK thousands | 31.12.2011 | 31.12.2010 |
|---|---|---|
| Shares in Kommunekonsult AS | 0 | 204 |
| Prepaid costs | 0 | 47 |
| Settlement KLP Banken - KLP Kreditt | 9 764 | 0 |
| Miscellaneous receivables | 1 611 | 0 |
| Total | 11 375 | 251 |

## Note 26 Conditional liabilities

| NOK thousands | 31.12.2011 | 31.12.2010 |
|---|---|---|
| Credit facilities for lending not utilised | 0 | 0 |
| Loan promise | 0 | 700 000 |
| Total conditional liabilities | 0 | 0 |

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

## Independent auditor's report

### Report on the Financial Statements

We have audited the accompanying financial statements of KLP Kreditt 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 simplified application of international accounting standards according to the Norwegian Accounting Act § 3-9, 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 Kreditt AS as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with simplified application of international accounting standards according to the Norwegian Accounting Act § 3-9.

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

pwc



## Report on Other Legal and Regulatory Requirements

*Opinion on the Board of Directors' report*

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors report concerning the financial statements and the going concern assumption, and the proposal for coverage of the loss is consistent with the financial statements and complies with the law and regulations.

*Opinion on Registration and Documentation*

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

Trondheim, 6 March 2012
**PricewaterhouseCoopers AS**

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

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

To the Supervisory Board and General Meeting of
KLP Kreditt 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 Kreditt AS.

The Control Committee advises the Supervisory Board and the Genereal Meeting of KLP Kreditt 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 Kreditt AS`s financial statement shows a result (deficit) for 2011 of NOK -2 517 000. NOK 27 803 000 is allocated from the other owner`s equity and NOK 35 119 000 is allocated as Group contribution. The difference of NO 9 833 000 is covered by tax refund on the Group contribution.*

Oslo, 2 March 2012

Ole Hetland

Line Alfarrustad

Bengt P. Johansen

Dordi Flormælen

Jan Rune Fagermoen

To the KLP Kreditt AS General Meeting

The KLP Kreditt 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 oard 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 Kreditt AS`s financial statement shows a result (deficit) for 2011 of NOK -2 517 000. NOK 27 803 000 is allocated from the other owner`s equity and NOK 35 119 000 is allocated as Group contribution.
The difference of NOK 9 833 000 is covered by tax refund on the Group contribution.

Trondheim, 7. mars 2012

Hege Sørlie

Hege Sørlie
Representantskapets leder

# This is KLP

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

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

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

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

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


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

HISTORY

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

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

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

1972 – KLP passed NOK 1 billion in total assets.


## Market leader

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

## Retail market initiative in progresses

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

## The KLP Group

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

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

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

## Subsidiaries

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

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

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

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

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

1994 – Establishment of KLP Skadeforsikring AS (non-life) and KLP Fondsforvaltning AS (funds management).

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

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

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

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

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

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

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

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

## It pays to be a KLP owner

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

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

## Corporate responsibility

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

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

KLP buys Nora Eiendom.

1995

1997

Nora Eiendom was renamed KLP Eiendom AS.

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

1999

2001

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

KLP signed the UN Global Compact

2003

*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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