

# Interim report 2/2011

Report from the board of directors - Income statement & Balance sheet - Notes



# Content

<b>Report from the Board of directors</b>	3
- Key figures	4
- Result	4
 <b>Group accounts after the second quarter 2011</b>	
- Income statement	8
- Balance	9
- Notes to the Group accounts	12
 <b>Non-financial accounts interim report</b>	27
 <b>Accounts after the second quarter 2011 Kommunal Landspensjonskasse</b>	
- Income statement	28
- Balance	29
- Notes to the accounts	31



# Interim report after second quarter 2011

## Key elements:

- Group operating profit of NOK 2.5 billion and total income for customers in excess of NOK 3.7 billion
- Value-adjusted return on the public sector occupational pensions common portfolio of 2.3 per cent
- Book return on the public sector occupational pensions common portfolio of 3.1 per cent
- Return on the corporate portfolio of 3.3 per cent
- KLP acquires up to 35 per cent of the shares in TrønderEnergi Nett AS

## KLP - Group

It is events after the end of the quarter that dominate our thoughts. The terror attacks on 22 July against Regjeringskvartalet (the central government buildings in Oslo) and the island of Utøya struck Norway as a whole.

KLP was not affected directly very much, fortunately incurring no casualties, but two of KLP's investment properties incurred minor physical damage.

In common with the industry, KLP has decided to extend personal injury cover to include psychological injuries for those directly affected by the terror attack.

These events resulted in the uncertainty surrounding the PIIGS countries' debt situation and the USA's future borrowing being somewhat overshadowed. This uncertainty, however, has contributed to uneasy financial markets, something that makes the management of KLP's pensions assets more challenging. Following the end of the quarter, agreement has been reached on measures to resolve these problems, without this seeming to have succeeded in steadying the financial markets.

The management of the life company's assets through the half-year has produced a satisfactory return in markets characterised by much disquiet and uncertainty.

Through the agreement to purchase up to 35 per cent of the shares in TrønderEnergi Nett AS, KLP has made its first significant infrastructure investment. The total investment amounts to NOK 750 million.

At the end of the quarter the Group had total assets of NOK 285.1 billion and an operating profit of NOK 2519 million.

## Public sector occupational pension

Kommunal Landspensjonskasse (KLP) is the parent company of the Group and its main product is public sector occupational pensions.

## Result for the second quarter 2011

### Returns

Once again in the second quarter of 2011 KLP achieved a good returns result (return in excess of guaranteed interest) of NOK 1.5 billion (0.4 ). Financial income from customer assets was NOK 2.4 (-0.2) billion in the quarter. Book return on the common portfolio was 1.4 per cent and value-adjusted return was 1.0 per cent for the quarter.

### Risk result

There were no unexpected risk matters of significance in the Company's insurance portfolio during the first half-year. The risk result was NOK 43 million for the quarter and NOK 95 million for the half-year.

### Administration result

The Company's administration result shows a surplus of NOK 35 (24) million in the second quarter of 2011.

The total result for the Company was NOK 239 million for the quarter. The total result for customers was NOK 1623 million.

1) Figures in brackets give corresponding values for Q2 2010



<b>Result 30.06.2011</b> <i>NOK million</i>	<b>Customers</b>	<b>The company</b>	<b>Total</b>
Interest result	3 447	8	3 455
Risk result	50	46	95
Administration profit/loss		65	65
Interest guarantee premium		104	104
Net income corporate portfolio		383	383
Return on the corporate portfolio credited to customers	144	-144	-
Result Q2 2011	3 640	461	4 101
Result Q2 2010	1 487	258	1 746
Result 2010	4 651	572	5 222

<b>Key figures</b> <i>Perc cent</i>	<b>Q2 2011</b>	<b>30.06. 2011</b>	<b>Q2 2010</b>	<b>30.06. 2010</b>	<b>Year 2010</b>
Capital return I	1.4	3.1	0.9	2.2	5.1
Capital return II	1.0	2.3	-0.1	2.1	7.5
Capital return III	1.4	2.0	0.2	2.9	7.4
Capital adequacy		11.2		12.2	12.0
Solvency margin ratio		227		219	231
Insurance-related operating expenses as a percentage of average customer funds)		0.30		0.31	0.34

## Financial strength and capital-related matters

Total assets in the parent company were NOK 256.5 (234.8) billion at the end of the quarter. Total Group assets were NOK 285.1 (263.9) billion at the end of the quarter.

The capital adequacy ratio for KLP at the end of the quarter was 11.2 (12.2) per cent and core capital adequacy was 8.8 (9.2) per cent.

The asset side of the statement of financial position shows growth of NOK 12.2 billion so far this year.

During the quarter the securities adjustment fund was weakened by NOK 811 million as an effect of the fall in the equity markets. The securities adjustment fund was NOK 5.9 billion at the end of the quarter and, in addition to the supplementary reserves, represents a solid buffer against fluctuations in the financial markets

At the end of the quarter KLP had total solvency capital of NOK 35.4 billion, representing 16.5 per cent of the insurance funds

with interest guarantees.

The Board of Directors considers the Company's financial strength as good in relation to the risk profile and the authorities' requirements.

## Premium income

Premium income was NOK 6 649 (5 984) million, an increase of NOK 665 million over the first half-year of 2010 (11.1 per cent). Growth in premiums can primarily be attributed to growth in the portfolio. In addition some customers have entered into an agreement on quarterly charging of estimated premium for upward adjustment of accumulated rights as a result of the annual salary and National Insurance basic sum ("G") settlement (indexation premium).

## Claims

Pensions paid and other claims increased by 11.4 per cent and amounted to NOK 4682 (4202) million so far this year.

## Management of the common portfolio

The assets in the common portfolio totalled NOK 236.8 (219.1) billion and as at 30.06.2011 were invested as shown below:

<b>Assets</b> <i>Per cent</i>	<b>Portion 30.06. 2011</b>	<b>Return as at Q2 2011</b>	<b>Return as at Q2 2010</b>	<b>Portion 31.12. 2010</b>
Shares	17.6	0.8	-5.4	18.5
Short-term bonds	23.0	2.6	5.0	22.4
Long-term/HTM bonds	33.0	2.5	2.6	32.8
Lending	12.2	1.8	1.8	13.0
Property	11.4	4.2	5.7	11.3
Other financial assets	2.8	1.5	1.2	2.0

Management of the common portfolio shows positive development, but during the second quarter was affected by negative returns in the equities markets. On the other hand, falling interest rates on long bonds resulted in increased returns for the portfolio of short-term bonds. However, in the longer term a lower interest rate level will have a negative effect on returns. Weaker macro figures than expected, as well as uncertainty surrounding the Euro countries with high levels of debt, contributed most to the uncertainty in the markets during the second quarter.

Investments in government bonds from PIIGS is limited to Italian and Spanish securities. These represented 1.6 per cent of the assets in the common portfolio, whilst bonds issued by the USA represented 0.6 per cent.



## Shares

Total exposure in shares including share derivatives amounted to 17.6 per cent. The equity markets had weak development during the second quarter. KLP's global index fell by 0.3 per cent whilst Oslo Stock Exchange fell by 5.4 per cent during the second quarter.

## Short-term bonds

Short-term bonds and money market instruments amounted to 25.8 per cent of the assets in the common portfolio as at 30.06.2011. Interest-bearing placements in government or government-guaranteed securities comprised a little over 30 per cent of KLP's total bonds investments. The international credit bonds index KLP uses had a exchange-rate hedged return of 2.1 per cent during the second quarter of 2011.

## Bonds held to maturity

Investment in bonds held to maturity amounted to 33.0 per cent of the common portfolio as at 30.06.2011. Added value of financial assets recognised at amortised cost, not brought to book was NOK 1026 million as at 30.06.2011. The portfolio is well diversified and comprises securities issued by institutions with very high creditworthiness. No write-downs have been carried out as a result of credit losses during 2011.

## Property

Property investments amounted to 11.4 per cent of the common portfolio as at 30.06.2011. KLP carries out a thorough valuation of its property stock each quarter. The examination during the second quarter of 2011 shows that central properties with long secure contracts continue to be highly priced in the market. This produced an appreciation of the property values in the common portfolio in the second quarter 2011 by NOK 224 million. The operating profit in the common portfolio including valuation adjustment for the second quarter was 4.2 per cent.

During the period the TDC Building in Denmark was bought for NOK 1316 million, with settlement on 01.07.2011. The Building has a long-term lease with Tele Danmark. The damage to the VG Bygget and Glassmagasinet buildings from 22 July are of limited extent. Contingency plans and procedures functioned pursuant to plan.

## Lending

KLP's lending in the common portfolio was NOK 28.5 billion. This was divided into NOK 21.1 billion in lending to local authorities and other employers, and NOK 7.4 billion in

mortgage-secured housing loans. The lending portfolio is characterised by high quality, with no losses on local government loans and very modest loss provisions on housing loans. Added value not brought to book in the lending portfolio (fixed interest rate loans) represented NOK 149 million as at 30.06.2011.

## Corporate portfolio

The corporate portfolio covers investment of owners' equity and borrowed Tier 1 and Tier 2 capital.

The corporate portfolio is managed with a long-term investment horizon aiming at stable returns and growth in the owners' equity. The investments in the corporate portfolio achieved a return of 1.6 per cent during the second quarter. The positive development on properties in the area of Bjørvika has contributed to the good return.

## Regulatory framework, product and market conditions

The Ministry of Finance reacted quickly and positively to the industry's identification of unintended, negative effects of the new asset management regulations not allowing investment in corporate forms other than limited companies for real estate. The modified regulations are entirely satisfactory for KLP's activities.

The work towards the introduction of Solvency II is fully underway.

Parallel to this, the process surrounding the pension reform is also being continuously monitored, including in regard to the authorities and organisations involved.

The competition picture in 2011 reflects the trend from previous years. One local authority has chosen to return to KLP after 14 years with a competitor. Nine of our local authorities have decided to retain KLP as supplier following a thorough process. Also, this year it looks as though few of KLP's local authority customers seem to want to go out to tender during 2011.

## The business areas of the subsidiaries

### Private occupational pensions

The Group's private occupational pension effort is through its subsidiary KLP Bedriftspensjon AS.

There is a high level of activity in KLP Bedriftspensjon and this is demonstrated by a satisfactory growth in volume. The insurance funds represent NOK 796 (486) million as at 30.06.2011.



KLP Bedriftspensjon achieved good results on its management of customer funds, with a book return in the common portfolio of 1.6 per cent and a value-adjusted return of 1.1 per cent in the second quarter. The defined contribution pension customers achieved a return of 0.4 per cent for the quarter.

The company has good returns on customer's assets and during the first half-year achieved a result for customers of NOK 11.3 (3.3) million. The administration result continues to be characterised by low volume in relation to the investment level in systems and other costs. Taking into account a negative administration result of NOK 11.6 (-11.1) million, the company's comprehensive income for the first half-year was NOK -6.8 (-7.0) million.

Return	As at 30.06. 2011	As at 30.06. 2010	Year 2010
Common portfolio			
Capital return I	4.2	3.1	6.0
Capital return II	2.6	2.4	8.3
Defined contribution with investment choice	1.9	-2.0	9.3
Profile P90	1.1		12.1
Profile P70	1.3		11.2
Profile P60	1.6		10.5
Profile P50	1.9		9.9
Profile P40	2.2		9.2
Profile P30	2.0		8.5
Profile P20	2.5		6.9
Profile P10	2.3		6.2
Profile PM	1.4		2.5

"Profile" indicates equity share in portfolio.

## Non-life insurance

At the end of the first half-year KLP Skadeforsikring AS had an operating profit of NOK 40.1 (12.1) million. The operating profit for the second quarter itself was NOK 27.7 (-24.1) million. Financial income was NOK 85.5 (81.7) million.

The claims ratio was 82.3 (108.0) per cent. So far this year the company has not been notified of any major individual claims.

The terror attack in Oslo on 22 July affected three of the company's insured buildings. The damage is nevertheless of limited extent. Terrorism is covered by the company's reinsurance.

The development of sales for the personal customer market continues well with net sales of NOK 23 million after the first six months of the year.

The market for public sector/corporate improved development with net sales of NOK 11 million. In addition the company has made good progress in the health sector.

## Asset management services

Securities management in the KLP Group is conducted by KLP Kapitalforvaltning AS and KLP Fondsforvaltning AS, and the assets are managed in discretionary mandates and securities funds.

At the end of the first half-year 2011 a total of NOK 178 billion was under management for Group customers and NOK 15 billion for customers outside the Group. During the first half-year net new subscriptions from customers outside the Group were about NOK 530 million. The number of personal customers in KLP funds passed 10,000 during the half-year.

During the half-year two new securities funds, KLP Kombinasjon and KLP Kombinasjon M, were started. KLP Kombinasjon M is a fund for members of KLP. The two funds are identical, apart from the management fee, which is lower in the members' fund.

KLP Kapitalforvaltning AS achieved a result of NOK 10.1 million during the first half-year whereas KLP Fondsforvaltning AS achieved a profit of NOK 3.8 million.

## Banking business

After almost one and a half years' operation as an online bank, in June KLP Banken passed NOK 2 billion in lending to personal customers. Growth in the first half-year was 63 per cent. The demand for new housing loans is good, but the market is characterised by strong competition. Ever since the start-up emphasis has been placed on offering good terms for deposits and in particular for members of KLP's pension schemes. KLP Banken is amongst the market leaders on deposits. The proportion of members who are active depositors is 58 per cent. In addition KLP Banken manages an existing portfolio of housing mortgages (about NOK 7 billion) for KLP, but all new loans are paid out by KLP Banken.

KLP Kommunekreditt is the brand-name for the Group's lending to the public sector. The lending volume is about NOK 46 billion and during the first half-year has been roughly evenly divided between loan-financed business and lending financed by the life company's assets. The financing of the lending activity is increasingly conducted through issuance of covered bonds in Norway and abroad. The lending-financed proportion of public sector lending was more or less unchanged during the first half-year, but the loan portfolio under management has been reduced by about 4 per cent. As a result of the financing method KLP Kommunekreditt is most competitive in fixed interest rate lending.

## Overarching Group activities

### KLP and society

In 2010 KLP presented non-financial accounts for the first time. This practice is being continued into 2011, so this interim report includes non-financial accounts, which replace most of the previous written description.

### A responsible investor and owner

KLP and the KLP funds are active owners and consider it important to use their right to vote at general meetings in those companies in which they have shares. An important element in this work is also an active dialogue with the relevant companies.

### The organisation

The Senior Group Management has been expanded with the addition of an Executive Vice President, Marketing, Mette-Jorunn Meisland.

## Future prospects

Events after the books were closed such as the uncertainty surrounding the USA's renewal of its debt program and the debt situation in what are known as the PIIGS countries underline the importance of good risk management and systems.

KLP experiences strong competition in the market for public sector occupational pensions, however, the majority of KLP's customers are satisfied with our good customer service, good results and financial strength. Therefore a minority of customers have conducted tender exercises in recent years. KLP will continue to emphasise good service and efficient operation so that our customers will feel sure that they are well looked after. KLP is working continuously on improving service, increasing efficiency and limiting cost growth.

Increased investment in the personal market provides good opportunities to succeed even better in a market with tough competition.

Oslo, 16th August 2011

The Board of directors Kommunal Landspensjonskasse

Arne Øren  
Chair

Finn Jebsen  
Deputy chair

Gunn Marit Helgesen

Marit Torgersen

Herlof Nilssen

Jan Helge Gulbrandsen

Siv Holland  
Elected by and from the employees

Freddy Larsen  
Elected by and from the employees



## Group accounts after the second quarter 2011

Notes	Income statement Group NOK million	Q2 2011	Q2 2010	01.01.11- 30.06.11	01.01.10- 30.06.10	01.01.10 - 31.12.10
	Premium income for own account	3 632	3 378	7 120	6 529	20 959
	Current return on financial investments	2 540	1 805	5 515	3 629	7 542
	Net gain on financial investments	39	5	54	10	87
	Net income from investment properties	-752	-2 068	-1 245	-14	5 920
5	Net profit from investments in associated companies	803	525	1 223	1 214	2 907
	Other income	195	183	373	375	781
	<b>Total income</b>	<b>6 457</b>	<b>3 828</b>	<b>13 040</b>	<b>11 743</b>	<b>38 196</b>
	Claims for own account	-2 466	-2 547	-5 239	-6 101	-10 590
	Change in provisions	-2 487	-2 105	-4 528	-2 957	-15 394
	Net costs subordinated loans and perpetual subordinated loans	-33	-365	64	-351	-301
4	Operating expenses	-242	-219	-489	-478	-980
	Other expenses	-166	-165	-330	-345	-670
	<b>Total expenses</b>	<b>-5 394</b>	<b>-5 400</b>	<b>-10 522</b>	<b>-10 233</b>	<b>-27 935</b>
	<b>Operating result</b>	<b>1 063</b>	<b>-1 573</b>	<b>2 519</b>	<b>1 511</b>	<b>10 261</b>
	To/from valuation reserves in life insurance	814	2 046	1 571	123	-5 077
	To/from supplementary provisions in life insurance	0	0	0	0	-2 074
	Assets allocated to life insurance customers	-1 627	-432	-3 651	-1 490	-2 586
3	<b>Consolidated group profit before tax</b>	<b>250</b>	<b>41</b>	<b>438</b>	<b>143</b>	<b>524</b>
	Tax	-1	0	-21	0	-21
	<b>Result</b>	<b>249</b>	<b>41</b>	<b>417</b>	<b>143</b>	<b>503</b>
	Revaluation own properties	39	19	72	25	43
	Currency effects foreign affiliates	-96	65	-74	90	26
	<b>Total other comprehensive income</b>	<b>-56</b>	<b>83</b>	<b>-2</b>	<b>115</b>	<b>69</b>
	<b>Total comprehensive income</b>	<b>193</b>	<b>124</b>	<b>415</b>	<b>258</b>	<b>572</b>



## Group accounts after the second quarter 2011

Notes	Balance sheet NOK million	30.06. 2011	30.06. 2010	31.12. 2010
<b>ASSETS</b>				
	Intangible assets	372	418	366
	Tangible fixed assets	1 042	987	959
	Investments in associated companies	3	3	3
5	Investment property	26 812	24 421	26 105
9	Debt instruments held to maturity	42 266	44 961	42 291
9	Debt instruments at fair value in profit/loss account	41 244	34 058	39 897
8,9	Lending to municipalities, companies and private individuals at fair value over P&L	4 260	4 330	3 974
9	Lending to municipalities, companies and private individuals	51 218	55 868	52 041
8,9	Debt instruments at fair value over P/L	70 475	60 747	64 305
8	Equity instruments at fair value over P/L	36 269	24 071	35 933
8,9	Financial derivatives	904	620	1 386
	Other loans and receivables incl. receivables from policyholders	5 329	10 773	1 460
9	Assets in life insurance with investment choice	173	91	126
	Cash and bank deposits	4 782	2 525	2 924
	<b>Total assets</b>	<b>285 149</b>	<b>263 874</b>	<b>271 769</b>
<b>OWNERS' EQUITY AND LIABILITIES</b>				
	Paid-up equity	5 624	5 086	5 628
	Retained earnings	5 601	4 873	5 186
	<b>Total equity</b>	<b>11 226</b>	<b>9 958</b>	<b>10 814</b>
6	Perpetual subordinated loan	870	1 053	973
6	Subordinated loan capital	2 984	3 120	3 100
	Pension obligations	476	519	476
7	Technical provisions - life insurance	234 605	209 135	227 966
	Provisions in life insurance with investment option	173	91	126
	Premiums, claims and contingency fund provisions - non-life ins.	2 684	2 627	2 544
6	Covered bonds issued	18 649	2 551	9 250
6, 8	Debt to financial institutions	4 894	21 565	13 287
6	Deposits from and liabilities to customers	1 530	540	1 026
8	Financial derivatives	311	1 145	520
	Deferred tax	41	0	21
	Other short term debt	6 706	11 570	1 665
	<b>Total liabilities</b>	<b>273 923</b>	<b>253 916</b>	<b>260 955</b>
	<b>Total owners' equity and liabilities</b>	<b>285 149</b>	<b>263 874</b>	<b>271 769</b>
	Conditional liabilities	3 538	2 543	3 678



## Group accounts after the second quarter 2011

Cashflow - Group NOK million	01.01.11 -30.06.11	01.01.11 -31.03.11	01.01.10 -31.12.10	01.01.10 -30.09.10	01.01.10 -30.06.10
Net cashflow from operational activities	8 269	4 757	17 526	12 663	11 669
Net cashflow from investment activities	-6 074	-1 719	-6 047	-6 478	-4 231
Net cashflow from financing activities	-337	-2 392	-10 668	-6 141	-7 027
<b>Net changes in cash and bank deposits</b>	<b>1 857</b>	<b>647</b>	<b>810</b>	<b>44</b>	<b>412</b>
Holdings of cash and bank deposits at start of period	2 924	2 924	2 113	2 113	2 113
<b>Holdings of cash and bank deposits at end of period</b>	<b>4 782</b>	<b>3 571</b>	<b>2 924</b>	<b>2 157</b>	<b>2 525</b>



## Group accounts after the second quarter 2011

### Changes in Owner's equity

2011 NOK million	Paid-up equity	Retained earnings	Total equity
Equity 01.01.2011	5 628	5 186	10 814
Result for the period	0	417	417
<b>Other comprehensive income</b>			
Revaluation of properties for own use	0	72	72
Currency effect foreign affiliates	0	-74	-74
<b>Total other comprehensive income</b>	<b>0</b>	<b>-2</b>	<b>-2</b>
<b>Total comprehensive income</b>	<b>0</b>	<b>415</b>	<b>415</b>
<b>Transactions with owners</b>			
Equity paid-in	3	0	3
Equity reimbursed	-7	0	-7
<b>Total transactions with owners</b>	<b>-3</b>	<b>0</b>	<b>-3</b>
Equity 30.06.2011	5 624	5 601	11 226

2010 NOK million	Paid-up equity	Retained earnings	Total equity
Equity 01.01.2010	5 107	4 614	9 721
Result for the period	0	503	503
<b>Other comprehensive income</b>			
Revaluation of properties for own use	0	43	43
Currency effect foreign affiliates	0	26	26
<b>Total other comprehensive income</b>	<b>0</b>	<b>69</b>	<b>69</b>
<b>Total comprehensive income</b>	<b>0</b>	<b>572</b>	<b>572</b>
<b>Transactions with owners</b>			
Equity paid-in	556	0	556
Equity reimbursed	-35	0	-35
<b>Total transactions with owners</b>	<b>521</b>	<b>0</b>	<b>521</b>
Equity 31.12.2010	5 628	5 186	10 814



## Note 1 Accounting principles

The accounts in this interim report show the accounts for Kommunal Landspensjonskasse (KLP) and the Group for the period 01.01.2011 – 30.06.2011. The accounts have not been audited.

The Group interim accounts are presented in accordance with internationally EU-approved accounting standards (IAS/IFRS). This interim report has been prepared in accordance with IAS 34 "Interim Financial Reporting" and follows the same accounting principles as used in the annual account for 2010.

It is recommended that this interim report be read in conjunction with the annual report for 2010. This may be obtained on application to the Company's registered office, Dronning Eufemias gate 10, Oslo, or at [www.klp.no](http://www.klp.no).

## Note 2 Key figures - accumulated

NOK million	Q2-11	Q1-11	Q4-10	Q3-10	Q2-10	Q1-10	Q4-09	Q3-09
<b>KLP Group</b>								
Profit before tax	438	188	524	368	143	102	776	676
Total assets	285 149	287 849	271 736	267 318	263 880	258 128	258 549	254 370
Owners' equity	11 228	11 031	10 814	10 632	9 958	9 829	9 721	9 021
Capital adequacy	10.8 %	11.0 %	11.5 %	11.6 %	11.6 %	n/a	12.0 %	n/a
Number of employees in the Group	768	753	762	763	755	745	741	720
<b>Kommunal Landspensjonskasse</b>								
Profit before tax	461	222	572	412	258	134	738	523
Premium income for own account	6 649	3 315	20 345	16 960	5 984	2 956	18 868	15 841
- of which inflow of premium reserve	63	63	54	49	20	17	285	297
Insurance customers' funds incl. acc. profit	4 991	2 633	10 082	7 881	5 589	3 415	9 979	7 936
- of which funds with guaranteed returns	309	297	1 389	1 389	1 387	1 328	2 069	2 069
Net investment common portfolio	236 763	240 414	225 522	214 704	208 638	208 273	204 237	193 820
Net investment choise portfolio	1 453	1 338	274	267	254	248	239	236
Insurance funds incl. earnings for the year	233 982	229 445	227 533	222 120	208 740	208 239	204 486	200 277
- of which funds with guaranteed interest	214 061	207 968	207 026	203 870	196 573	194 476	193 641	189 262
Tier 1 and Tier 2 capital	13 631	13 765	13 221	13 201	12 705	12 595	12 606	11 489
Risk profit	95	53	160	61	45	20	274	112
Return profits	3 455	1 915	4 280	3 371	1 360	996	6 126	5 874
Administration profit	65	30	82	79	60	36	161	130
Solvency capital	35 408	33 427	33 308	34 583	28 940	29 533	25 329	25 113
Solvency margin ratio	227 %	230 %	224 %	216 %	219 %	220 %	222 %	182 %
Capital adequacy	11.2 %	11.5 %	12.0 %	12.3 %	12.2 %	12.7 %	12.6 %	12.3 %
Core capital ratio	8.8 %	9.0 %	9.3 %	9.4 %	9.2 %	9.7 %	9.6 %	9.1 %
Boook return on common portfolio	3.1 %	1.6 %	5.1 %	3.9 %	2.2 %	1.2 %	6.4 %	5.5 %
Vaue-adjusted return on common portfolio	2.3 %	1.2 %	7.5 %	5.1 %	2.1 %	2.2 %	7.7 %	5.8 %
Return on unit-linked portfolio	1.9 %	1.1 %	8.6 %	5.3 %	1.7 %	2.6 %	9.2 %	6.8 %
Return on corporate portfolio	3.3 %	1.7 %	5.2 %	3.8 %	2.4 %	1.1 %	6.7 %	4.3 %



NOK million	Q2-11	Q1-11	Q4-10	Q3-10	Q2-10	Q1-10	Q4-09	Q3-09
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**KLP Skadeforsikring AS**

Profit before tax	40	12	78	60	12	36	217	179
Gross premium due	520	365	631	574	521	362	609	547
Premium income for own account	288	141	539	400	265	131	569	421
Owners' equity	501	483	483	454	424	446	430	493
Claims ratio	82.3 %	94.4 %	91.5 %	94.2 %	108.0 %	106.9 %	66.5 %	67.7 %
Combined-ratio	109.6 %	123.3 %	121.9 %	123.1 %	134.9 %	134.3 %	95.5 %	95.4 %
Return on assets under management	2.8 %	1.3 %	7.2 %	5.2 %	2.7 %	2.5 %	8.3 %	6.4 %
Capital adequacy	30.0 %	31.5 %	32.0 %	27.1 %	29.8 %	29.9 %	33.6 %	29.1 %
Tier 1 and Tier 2 capital	438	436	433	381	387	383	387	341
Annual premium volume per person	54	25	79	51	33	15	39	23
Annual premium volume employer	466	341	552	524	488	347	570	524
Net new subscriptions (accumulated within the year)	34	15	68	51	40	12	52	63

**KLP Bedriftspensjon AS**

Loss before tax	-6.8	-2.4	-17.1	-12.1	-7.1	-3.1	-13.5	-5.8
Premium income for own account	212.3	47.8	149.5	113.1	93.1	80.1	51.6	41.0
- of which premium reserve added	166.3	25.3	97.7	77.0	73.0	68.0	26.6	23.7
Insurance customers' funds including accumulated profit	796.3	622.3	559.0	512.8	485.6	486.8	389.3	371.2
- of which funds with guaranteed returns	566.6	423.0	396.3	392.1	389.7	380.5	358.6	345.9
Investment result	11.9	8.1	9.9	9.5	2.5	4.7	11.6	7.4
Risk result	2.3	1.2	3.6	3.4	3.2	1.2	1.2	3.8
Administration losses	-11.6	-4.9	-23.4	-17.5	-11.1	-5.3	-18.3	-11.9
Tier 1 and Tier 2 capital	39.4	43.9	46.7	51.5	24.9	29.3	32.5	39.6
Solvency capital	88.2	87.8	89.3	95.7	63.3	72.9	68.1	73.8
Capital adequacy	12.0 %	16.8 %	19.6 %	23.1 %	11.9 %	14.2 %	18.9 %	25.1 %
Book capital return on common portfolio	4.2 %	2.6 %	6.0 %	5.1 %	3.1 %	2.0 %	7.1 %	4.7 %
Value-adjusted capital return on common portfolio	2.6 %	1.5 %	8.3 %	5.6 %	2.4 %	2.5 %	8.3 %	5.9 %
Return on defined unit-linked contribution pensions	1.9 %	1.5 %	9.3 %	4.4 %	-2.0 %	2.9 %	23.3 %	17.7 %
Return on corporate portfolio	1.9 %	0.6 %	5.0 %	4.6 %	2.4 %	1.4 %	8.4 %	7.4 %



NOK million	Q2-11	Q1-11	Q4-10	Q3-10	Q2-10	Q1-10	Q4-09	Q3-09
<b>KLP Banken Konsern</b>								
Profit/loss before tax	-20.9	1.6	35.9	-8.0	-4.9	-19.8	6.1	4.0
Net interest income	10.1	11.3	31.6	25.6	10.3	5.8	144.4	120.9
Other operating income	30.9	17.6	54.6	35.8	20.7	10.1	17.9	10.2
Operating expenses and depreciation	-62.4	-28.5	-109.6	-79.8	-53.1	-28.8	-76.6	-36.9
Net realized/unrealized changes in financial instruments to fair value	0.5	1.1	59.2	10.5	17.2	-7.0	-79.6	-90.2
Contributions	1 530.4	1 440.9	1 025.7	656.2	539.7	359.2	35.6	-
Housing mortgages granted	2 057.0	1 614.3	1 266.6	797.9	345.1	49.1	-	-
Loan(s) with public guarantee(s)	24 732	24 794	25 062	26 433	26 909	32 374	33 158	34 442
Defaulted loans	3.5	-	-	-	-	-	-	-
Borrowing on the issuance of securities	18 635	13 629	9 245	6 487	3 000	3 000	3 000	-
Other borrowing	8 313	11 819	16 167	19 782	24 076	29 229	30 241	34 571
Total assets	29 859	28 237	27 865	28 310	29 005	33 968	34 666	36 003
Average total assets	28 862	28 051	31 252	31 488	31 835	34 317	17 334	18 009
Owners' equity	1 179	1 189	1 186	1 187	1 190	1 175	1 195	1 193
Net interest rate	0.04 %	0.04 %	0.10 %	0.08 %	0.03 %	0.02 %	0.83 %	0.67 %
Profit/loss from general operations before tax	-0.07 %	0.01 %	0.11 %	-0.03 %	-0.02 %	-0.06 %	0.04 %	0.02 %
Profit/loss from general operations excl. fair value assessments before tax	-0.07 %	0.00 %	-0.07 %	-0.06 %	-0.07 %	-0.04 %	0.49 %	0.52 %
Return on owners' equity before tax	-1.78 %	0.13 %	3.02 %	-0.67 %	-0.41 %	-1.69 %	0.51 %	0.34 %
Capital adequacy	17.1 %	17.7 %	14.2 %	17.6 %	17.9 %	16.2 %	16.0 %	n/a
Number of personal customers	12 555	10 082	7 965	6 099	4 512	2 767	411	44
Of which members in KLP	7 495	5 936	4 729	3 728	2 819	1 833	408	44

**KLP Kapitalforvaltning AS og KLP Fondsforvaltning AS**

Profit/loss before tax	14.0	2.5	19.2	7.3	0.3	-12.9	11.5	9.3
Total assets under management	192 446	186 521	185 714	172 810	166 424	171 052	167 052	158 173
Assets managed for external customers	14 704	13 820	14 170	12 771	11 969	12 461	11 378	10 777

**Note 3 Segment information - profit/loss (i.a.w. IFRS) by business area**

## Time series result - by quarter

NOK million	Q2-11	Q1-11	Q4-10	Q3-10	Q2-10	Q1-10	Q4-09	Q3-09
Total income	6 457	7 340	11 647	12 808	5 657	8 140	7 049	14 974
Total expenses	-6 207	-7 153	-11 491	-12 583	-5 615	-8 038	-6 786	-14 873
Consolidated group profit before tax	250	188	156	225	41	102	263	101
Results by segment								
Life insurance	215	172	84	174	36	98	236	6
Non-life	40	12	18	47	-24	36	38	83
Banking	-21	2	41	-3	15	-20	-14	2
Asset management	14	2	12	6	14	-13	2	11
Other business	2	0	0	0	1	0	1	-1
Consolidated group profit before tax	250	188	156	225	41	102	263	101



## Note 4 Operating expenses

NOK million	Q2 2011	Q2 2010	01.01.11 -30.06.11	01.01.10 -30.06.10	01.01.10 -31.12.10
<b>By class:</b>					
Staff costs	144	125	301	285	540
Depreciation	19	16	38	30	156
Other operating costs	79	78	149	163	284
<b>Total operating expenses</b>	<b>242</b>	<b>219</b>	<b>489</b>	<b>478</b>	<b>980</b>

## Note 5 Investment property

Profit/loss NOK million	Q2 2011	Q2 2010	01.01.11 -30.06.11	01.01.10 -30.06.10	01.01.10 -31.12.10
Profit/loss property	576	343	877	593	1 342
Value adjustment	227	182	346	621	1 565
<b>Net income from investment properties</b>	<b>803</b>	<b>525</b>	<b>1 223</b>	<b>1 214</b>	<b>2 907</b>

Balance NOK million	30.06.2011	30.06.2010	31.12.2010
Value: investment property - opening balance	26 105	23 089	23 089
Value adjustment	346	621	1 565
Net increase	330	364	1 074
Other changes	31	347	377
<b>Value: investment property - closing balance</b>	<b>26 812</b>	<b>24 421</b>	<b>26 105</b>

## Note 6 Financial liabilities

NOK million	Nominal value in NOK	Currency	Interest rate	Due date	Book value 30.06.2011	Book value 30.06.2010	Book value 31.12.2010
<b>Subordinated loan capital and perpetual subordinated loans</b>							
<b>Perpetual subordinated loans</b>							
Kommunal Landspensjonskasse	2 372	EUR	Fixed	Perpetual	2 349	2 418	2 415
Kommunal Landspensjonskasse	554	JPY	Fixed	Perpetual	635	703	685
<b>Hybrid Tier 1 capital</b>							
Kommunal Landspensjonskasse	984	JPY	Fixed	2034	870	1 053	973
Total subordinated loan capital and perpetual subordinated loans	3 910				3 854	4 174	4 074
<b>Debt contracted by issuing securities</b>							
<b>Covered bonds</b>							
KLP Kommunekreditt	100	NOK	Floating	2011	100	2 551	3 004
KLP Kommunekreditt	1 500	NOK	Floating	2012	1 500	0	1 503
KLP Kommunekreditt	6 900	NOK	Floating	2013	6 900	0	1 002
KLP Kommunekreditt	1 250	SEK	Floating	2013	1 095	0	0
KLP Kommunekreditt	4 000	NOK	Floating	2014	4 000	0	0
KLP Kommunekreditt	4 300	NOK	Floating	2015	4 300	0	3 505
KLP Kommunekreditt	750	NOK	Fixed	2020	750	0	251
Valuation adjustment and accrued interest					4	0	-13
Total covered bonds	18 800				18 649	2 551	9 250
<b>Liabilities to credit institutions</b>							
KLP Kreditt				2010	0	8 626	0
KLP Kreditt	4 294	NOK	Floating	2011	4 294	12 939	12 958
Kommunal Landspensjonskasse	600	NOK/ EUR/USD	Floating	2011	600	0	330
Total liabilities to credit institutions	4 894				4 894	21 565	13 287
<b>Deposits from customers <sup>1</sup></b>							
Private	1 504	NOK			1 504	540	905
Business	26	NOK			26	0	121
Total contributions from customers	1 530				1 530	540	1 026
<b>Total financial liabilities</b>	<b>29 134</b>				<b>28 927</b>	<b>28 829</b>	<b>27 637</b>

<sup>1</sup> The due date for deposits is not laid down in any contract. The note shows the financial liabilities the Group has at the end of the reporting period.



## Note 7 Insurance-related provisions in life

NOK million	30.06. 2011	30.06. 2010	31.12. 2010
Premium reserve	211 069	194 381	206 707
Premium funds, buffer funds and pensioners' surplus funds	3 648	2 813	954
Supplementary reserves	10 203	8 112	10 179
Securities adjustment fund	5 893	2 264	7 463
Other provisions	141	74	77
Non-allocated profit/loss of insurance contracts in the common portfolio	3 651	1 490	2 586
<b>Insurance-related provisions in life insurance incl. investment options</b>	<b>234 605</b>	<b>209 135</b>	<b>227 966</b>

## Note 8 Fair value hierarchy

NOK million	30.06.2011	30.06.2010	31.12.2010
<b>Assets<sup>1</sup></b>			
<b>Lending local authorities, enterprises and personal customers</b>			
Level 1: Value based on prices in an active market	-	-	-
Level 2: Value based on observable market data	4 260	4 330	3 974
Level 3: Value based on other than observable market data	-	-	-
<b>Lending local authorities, enterprises and personal customers</b>	<b>4 260</b>	<b>4 330</b>	<b>3 974</b>
<b>Debt instruments (bonds, certificates and investments in financial institutions)</b>			
Level 1: Value based on prices in an active market	46 392	42 062	44 177
Level 2: Value based on observable market data	24 083	18 686	20 128
Level 3: Value based on other than observable market data	-	-	-
<b>Debt instruments (bonds, certificates and investments in financial institutions)</b>	<b>70 475</b>	<b>60 747</b>	<b>64 305</b>
<b>Owners' equity instruments (shares; equity and property funds; and alternative investments)</b>			
Level 1: Value based on prices in an active market	32 334	20 699	32 335
Level 2: Value based on observable market data	2 120	2 024	2 008
Level 3: Value based on other than observable market data	1 815	1 349	1 589
<b>Owners' equity instruments (shares; equity and property funds; and alternative investments)</b>	<b>36 269</b>	<b>24 071</b>	<b>35 933</b>
<b>Financial derivatives</b>			
Level 1: Value based on prices in an active market	-	-	-
Level 2: Value based on observable market data	904	620	1 386
Level 3: Value based on other than observable market data	-	-	-
<b>Financial derivatives</b>	<b>904</b>	<b>620</b>	<b>1 386</b>
<b>Total financial assets valued at fair value</b>	<b>111 908</b>	<b>89 769</b>	<b>105 598</b>

## Note 8 Fair value hierarchy (contd.)

NOK million	30.06.2011	30.06.2010	31.12.2010
<b>Liabilities</b>			
<b>Financial derivatives</b>			
Level 1: Value based on prices in an active market	-	-	-
Level 2: Value based on observable market data	311	1 145	520
Level 3: Value based on other than observable market data	-	-	-
<b>Financial derivatives</b>	<b>311</b>	<b>1 145</b>	<b>520</b>
<b>Debt to financial institutions</b>			
Level 1: Value based on prices in an active market	600	-	330
Level 2: Value based on observable market data	4 294	21 565	12 958
Level 3: Value based on other than observable market data	-	-	-
<b>Debt to financial institutions</b>	<b>4 894</b>	<b>21 565</b>	<b>13 287</b>
<b>Total financial liabilities at fair value</b>	<b>5 205</b>	<b>22 710</b>	<b>13 807</b>
<b>Changes in level 3</b>			
NOK million	Q2 2011	Q2 2010	2010
Opening balance	1 589	889	889
Sold	-196	-50	-390
Bought	307	373	975
Unrealised change	115	136	115
Realised loss/gain	5	15	66
<b>Closing balance</b>	<b>1 815</b>	<b>1 349</b>	<b>1 589</b>

<sup>1</sup> In addition to the assets listed, assets in defined contribution plans also fall within the realm of the fair value hierarchy. Those assets are not included in the table, however, of the NOK 173 million concerned NOK 82 million relate to equity investments and participation under level 1, and 91 million to debt instruments at fair value under level 1 as of 30.06.2011.

Changes in level 3 (Q2 columns) reflects changes in book-value for the year to date.

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. Highest quality in regard to fair value is based on listed prices in an active market. A financial instrument is considered to be listed in an active market if the listed price is simply and regularly available from a stock market, dealer, broker, industry grouping, price setting service or regulatory authority and these prices represent actual and regularly occurring transactions at arm's length.

Level 1: Instruments at this level obtain fair value from listed prices in an active market (see above) for identical assets or liabilities to which the unit has access at the date of reporting. Examples of instruments at Level I are 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 principally includes prices based on identical instruments, but where the instrument does not have a sufficiently high trading frequency, as well as prices based on corresponding assets and price-leading indicators that can be confirmed by market information. Examples of instruments at Level 2 are interest-bearing securities priced on the basis of interest rate paths.

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. The financial instruments included in level three in the KLP Group include un-listed stocks and private equity.

## Note 9 Credit risk

30.06.2011	AAA	AA	A	BBB	NR/NIG	Totalt
<b>Debt instruments held to maturity - at amortised cost</b>						
Financial and credit enterprises	0	3 108	1 602	10	883	5 603
Public guarantee	1 058	0	0	0	202	1 260
Savings bank	0	0	51	0	277	328
Government and government guarantee within OECD	21 000	819	1 585	0	0	23 404
State enterprises and Covered Bonds	3 051	0	0	0	1 471	4 522
Other	234	1 013	2 605	0	3 297	7 150
<b>Total</b>	<b>25 343</b>	<b>4 941</b>	<b>5 843</b>	<b>10</b>	<b>6 131</b>	<b>42 266</b>
<b>Debt instruments classified as loans and receivables - at amortised cost</b>						
Financial and credit enterprises	526	501	3 168	0	624	4 820
Public guarantee	1 125	31	0	0	669	1 825
Savings bank	0	0	446	0	678	1 124
Government and government guarantee within OECD	14 371	0	2 002	0	0	16 373
State enterprises and Covered Bonds	4 666	1 118	2 046	0	1 561	9 391
Other	0	250	2 069	333	5 060	7 713
<b>Total</b>	<b>20 688</b>	<b>1 900</b>	<b>9 731</b>	<b>333</b>	<b>8 592</b>	<b>41 244</b>
<b>Gjeldsinstrumenter til virkelig verdi - Obligasjoner og andre verdipapirer med fast avkastning</b>						
Financial and credit enterprises	17	3 473	2 583	0	1 023	7 096
Public guarantee	644	0	0	0	675	1 319
Savings bank	0	0	637	0	6 304	6 941
Government and government guarantee within OECD	5 193	3 215	381	0	0	8 789
State enterprises and Covered Bonds	238	0	11	0	1 363	1 611
Other	0	221	10	27	3 040	3 299
<b>Total</b>	<b>6 092</b>	<b>6 909</b>	<b>3 622</b>	<b>27</b>	<b>12 404</b>	<b>29 055</b>
<b>Financial derivatives classified as assets</b>						
Denmark	0	0	333	0	0	333
Finland	0	45	0	0	0	45
Norway	0	94	173	0	0	267
Great Britain	0	0	3	0	0	3
Switzerland	0	0	96	0	0	96
Sweden	0	0	113	0	0	113
Germany	0	0	1	0	0	1
USA	0	42	3	0	0	45
<b>Total</b>	<b>0</b>	<b>181</b>	<b>724</b>	<b>0</b>	<b>0</b>	<b>904</b>

**Note 9 Credit risk, contd.**

30.06.2011	AAA	AA	A	BBB	NR/NIG	Total
Debt instruments at fair value - fixed interest fund units						
Financial and credit enterprises	0	0	0	0	1 094	1 094
Government and government guarantee within OECD	0	0	0	0	114	114
Other	0	0	13 824	0	12 425	26 250
Total	0	0	13 824	0	13 633	27 457
Debt instruments at fair value - loans and receivables						
Norway	0	2 503	-914	0	6 624	8 213
Great Britain	0	3 696	0	0	0	3 696
France	0	1 032	0	0	0	1 032
Sweden	0	65	216	0	0	281
USA	0	12	730	0	0	742
Total	0	7 307	32	0	6 624	13 963
Total securities	52 123	21 237	33 776	370	47 384	154 890
NOK million		0 %	20 %	35 %	100 %	Total
Lending local government, enterprises & pers. customers <sup>1</sup>						
Public sector <sup>1</sup>		0	43 043	0	0	43 043
Credit institutions		0	0	0	3 633	3 633
Private individuals		0	0	8 795	7	8 802
Total		0	43 043	8 795	3 639	55 478



**Note 9 Credit risk, contd.**

31.12.2010	AAA	AA	A	BBB	NR/NIG	Total
<b>Debt instruments held to maturity - at amortised cost</b>						
Financial and credit enterprises	0	3 067	1 556	9	917	5 549
Public guarantee	1 030	0	0	0	50	1 080
Savings bank	0	0	49	0	278	328
Government and government guarantee within OECD	21 420	839	1 587	0	0	23 845
State enterprises and Covered Bonds	3 007	0	0	0	1 466	4 473
Other	0	542	2 984	0	3 491	7 016
<b>Total</b>	<b>25 456</b>	<b>4 447</b>	<b>6 176</b>	<b>9</b>	<b>6 203</b>	<b>42 291</b>
<b>Debt instruments classified as loans and receivables - at amortised cost</b>						
Financial and credit enterprises	510	1 717	2 694	0	1 306	6 228
Public guarantee	1 111	30	0	0	679	1 820
Savings bank	0	0	656	0	788	1 443
Government and government guarantee within OECD	13 924	0	2 045	0	0	15 970
State enterprises and Covered Bonds	4 689	1 118	263	0	1 862	7 931
Other	0	259	2 650	359	3 237	6 505
<b>Total</b>	<b>20 234</b>	<b>3 124</b>	<b>8 308</b>	<b>359</b>	<b>7 872</b>	<b>39 897</b>
<b>Debt instruments at fair value - bonds and certificates</b>						
Financial and credit enterprises	0	2 857	2 751	20	846	6 474
Public guarantee	643	0	0	0	756	1 399
Savings bank	0	0	657	0	6 066	6 722
Government and government guarantee within OECD	7 080	1 554	379	0	0	9 013
State enterprises and Covered Bonds	522	0	0	0	971	1 493
Other	0	0	118	106	2 602	2 826
<b>Total</b>	<b>8 244</b>	<b>4 411</b>	<b>3 905</b>	<b>126</b>	<b>11 242</b>	<b>27 927</b>
<b>Financial derivatives classified as assets</b>						
Denmark	0	0	358	0	0	358
Finland	0	459	0	0	0	459
Norway	0	106	23	0	0	128
Great Britain	0	8	4	0	0	12
Switzerland	0	0	260	0	0	260
Sweden	0	0	68	0	0	68
USA	0	0	101	0	0	101
<b>Total</b>	<b>0</b>	<b>573</b>	<b>813</b>	<b>0</b>	<b>0</b>	<b>1 386</b>



**Note 9 Credit risk, contd.**

31.12.2010	AAA	AA	A	BBB	NR/NIG	Total
<b>Debt instruments at fair value - fixed interest fund units</b>						
Public sector, Financial and credit enterprises	0	0	0	0	1 053	1 053
Government and government guarantee within OECD	0	0	0	0	106	106
Other	0	0	13 369	0	12 081	25 450
<b>Total</b>	<b>0</b>	<b>0</b>	<b>13 369</b>	<b>0</b>	<b>13 240</b>	<b>26 609</b>
<b>Debt instruments at fair value - loans and receivables</b>						
Denmark	0	0	21	0	0	21
France	0	894	0	0	0	894
Norway	0	573	1 630	0	2 480	4 683
Great Britain	0	2 884	0	0	0	2 884
Sweden	0	82	651	0	0	733
USA	0	105	448	0	0	554
<b>Total</b>	<b>0</b>	<b>4 538</b>	<b>2 751</b>	<b>0</b>	<b>2 480</b>	<b>9 769</b>
<b>Total securities</b>	<b>53 935</b>	<b>17 093</b>	<b>35 322</b>	<b>494</b>	<b>41 036</b>	<b>147 880</b>

NOK million	0 %	20 %	35 %	100 %	Total
<b>Lending local government, enterprises &amp; pers. customers <sup>1</sup></b>					
Public sector	3	42 881	0	2 858	45 741
Private individuals	0	0	8 909	71	8 980
Credit institutions	0	1 192	0	4	1 196
Ufordelt	0	0	0	98	98
<b>Total</b>	<b>3</b>	<b>44 073</b>	<b>8 909</b>	<b>3 030</b>	<b>56 014</b>

Emphasis is placed on diversification of credit exposure to avoid concentration of credit risk against individual debtors. To monitor credit risk in lending and investments a special credit committee has been established, meeting regularly. The limits for credit risk against the individual debtor are set by the committee. Changes in debtors' credit assessments are monitored and followed up by KLP Kapitalforvaltning.

The Group has good balance between Norwegian bonds and international bonds and has a portfolio of exclusively good credit notes. The Group can be said to have a high concentration of debt instruments directed at the Norwegian public sector, however this does not imply concentration risk in the ordinary meaning since the counterparty risk is minimal.

Only ratings from Standard and Poor's have been used in the note grouping. KLP Group also uses ratings from Moody's Investor Services and Fitch Ratings and all three are considered equal as a basis for investments in interest-bearing securities. The table shows exposure against the rating categories that S & P uses, where AAA is linked to securities with the highest creditworthiness. Non-rated/non-investment-grade mostly applies to individual Norwegian financial institutions, municipalities / county authorities and other investments within Norwegian finance. KLP Group has strict guidelines for investments in interest-bearing securities, which also apply to investments falling into this category.

The lines in the note coincide with the financial position statement layout. The exceptions are debt instruments at fair value, which are divided into three categories in the note and lending which is shown combined in the note, but is shown in two lines in the financial position statement (fair value and amortised cost).

<sup>1</sup> Credit exposure in lending is compiled on the basis of Norwegian capital adequacy calculations, and regulations regarding re asset valuation.



## Note 9 Credit risk, contd.

Geographic extract of debt instruments - Exposure against profiled countries in the Eurozone (PIIGS) and the USA

30.06.2011 NOK million	USA	Spain	Italy	Total
Government issue	1 482	955	3 911	6 348

Rating	USA	Spain	Italy	Total
Moody's	Aaa	Aa2	Aa2	
Standard & Poor's	AAA	AA	A+	
Fitch	AAA	AA+	AA-	

The overview shows government debt held by the KLP Group against selected countries, as well as the associated rating of the countries in which the KLP Group has assets placed. The USA is included in view of the disquiet that arose in connection with the increase in the debt ceiling. The other countries are selected on the basis of the profile they have gained as exposed economies in the Eurozone, and in the associated continuing concerns about debt. Debt concerns are primarily based on the fear of default in government debt. In Greece, the country where the probability of default is highest, the KLP Group has no interest-bearing securities. Nor has the Group any government securities issued by Portugal or Ireland.

<sup>1</sup> The credit risk to which lending is exposed is calculated based on the regulations concerning minimum requirements for capital adequacy, and the rules that apply on determining the calculation base. The lending is placed separately since it is not included with the same rating categories.

<sup>2</sup> The acronym PIIGS refers to the countries assumed to be the most vulnerable, namely Portugal, Ireland, Italy, Greece and Spain.



## Note 10 Interest rate risk

30.06.2011									
NOK million	Up to 3 mnths.	From 3 mnths. to 12 mnths.	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Changes in cashflow Q2	Changes in cashflow year to date	Total Q2	Total year to date
<b>Assets</b>									
Mutual funds shares <sup>1</sup>	0	0	0	0	0	1	2	1	2
Alternative investments	1	0	0	0	0	2	3	2	4
Financial derivatives classified as assets	21	5	9	-188	-200	0	-1	-354	-354
Debt instruments classified as loans and receivables – at amortised cost	0	0	0	0	0	2	3	2	3
Debt instruments held to maturity measured at fair value	0	0	0	0	0	0	0	0	0
Bonds and other fixed-return securities	-10	-22	-245	-391	-145	13	26	-800	-788
Fixed income fund holdings	-1 307	0	0	0	0	3	5	-1 303	-1 302
Deposits	0	0	0	0	-6	2	4	-4	-3
Lending	0	-4	-59	-16	0	59	118	-20	39
Lending and receivables	-12	-5	0	0	0	14	31	-3	14
<b>Total assets</b>	<b>-1 307</b>	<b>-26</b>	<b>-295</b>	<b>-596</b>	<b>-351</b>	<b>95</b>	<b>191</b>	<b>-2 480</b>	<b>-2 384</b>
<b>Liabilities</b>									
Financial derivatives classified as liabilities	-1	10	63	100	0	0	-1	172	172
Hybrid Tier 1 securities, subordinated loan capital	0	0	0	39	26	0	0	65	65
Debt to credit institutions	10	0	0	0	0	-24	-48	-14	-38
Liabilities created on issue of securities	0	0	0	57	0	-45	-90	12	-33
Call Money	0	0	0	0	0	-4	-8	-4	-8
<b>Total liabilities</b>	<b>9</b>	<b>10</b>	<b>63</b>	<b>196</b>	<b>26</b>	<b>-73</b>	<b>-146</b>	<b>231</b>	<b>159</b>
<b>Total</b>	<b>-1 298</b>	<b>-17</b>	<b>-232</b>	<b>-399</b>	<b>-325</b>	<b>22 45</b>		<b>-2 248</b>	<b>-2 226</b>

**Note 10 Interest rate risk, contd.**

31.12.2010							
NOK million	Up to 3 mths.	From 3 mths. to 12 mths.	From 1 year to 5 years	From 5 years to 10 years	Over 10 years	Changes in cashflow	Total
<b>Assets</b>							
Mutual funds shares <sup>1</sup>	1	0	0	0	0	4	5
Alternative investments	-13	0	0	0	0	5	-8
Financial derivatives classified as assets	-34	6	3	-169	-158	-11	-364
Debt instruments classified as loans and receivables – at amortised cost	0	0	0	0	0	7	7
Debt instruments held to maturity measured at fair value	-20	-20	-282	-385	-130	49	-787
Parts in fixed-income funds	-1 290	0	0	0	0	5	-1 285
Lendings and receivables	-7	-13	0	0	0	54	33
Lending	0	-13	-53	-3	0	240	171
Call Money	0	0	0	0	0	0	0
<b>Total assets</b>	<b>-1 364</b>	<b>-40</b>	<b>-332</b>	<b>-557</b>	<b>-289</b>	<b>353</b>	<b>-2 228</b>
<b>Liabilities</b>							
Deposit	0	0	0	0	0	-2	-2
Liabilities created on issue of securities	0	0	0	20	0	-44	-24
Liabilities to financial institutions	17	0	0	0	0	-240	-223
Financial derivatives classified as liabilities	1	8	60	101	0	18	187
Hybrid capital, subordinated loans	0	0	0	43	28	0	71
Call Money	0	0	0	0	0	0	0
<b>Total liabilities</b>	<b>18</b>	<b>8</b>	<b>60</b>	<b>164</b>	<b>28</b>	<b>-268</b>	<b>9</b>
<b>Total post tax</b>	<b>-1 346</b>	<b>-32</b>	<b>-273</b>	<b>-392</b>	<b>-261</b>	<b>85</b>	<b>-2 219</b>

The note shows the effect on profits on the change in market interest rate of one per cent, for fair value risk and variable interest rate risk. Fair value risk is calculated on the change in fair value of related instruments if the interest rate had been 1 per cent higher at the end of the period. Variable interest rate risk indicates the change in cash flows if the interest rate had been one per cent higher over the year being reported on. The total of these reflects the total impact on profits that the scenario of one per cent higher interest rate would have had on the Group.

The Group's total interest rate risk is limited as a significant portion of investments are bond held to maturity or fixed rate lending measured at amortized cost, where changes in market rates will not have a P/L-effect.

<sup>1</sup> Equity fund holdings covers that part of the fund that is not shares, but that comprises assets covered by interest rate risk; surplus liquidity in the form of bank accounts and derivatives used for hedging purposes.





## Note 11 Liquidity risk

The table below specifies the company's financial obligations ranked by maturity. The amounts given are non-discounted contractual flows of cash.

30.06.2011 NOK million	Within 1 mnth	1-12 mnth.	1-5 years	5-10 years	Over 10 years	Total
Subordinated loan <sup>1</sup>	0	160	2 925	656	0	3 742
Perpetual hybrid Tier 1 securities <sup>1</sup>	0	59	156	195	1 478	1 889
Financial derivatives	48	320	692	278	96	1 434
Call money	-600	0	0	0	0	-600
Deposits	1 530	0	0	0	0	1 530
Gjeld stiftet ved utstedelse av verdipapirer	0	650	18 995	863	0	20 508
Receivables from credit institutions	0	8 534	0	0	0	8 534
Contingent liabilities	3 538	0	0	0	0	3 538
<b>Total</b>	<b>4 517</b>	<b>9 723</b>	<b>22 768</b>	<b>1 993</b>	<b>1 574</b>	<b>40 575</b>

31.12.2010 NOK million	Within 1 mnth	1-12 mnth.	1-5 years	5-10 years	Over 10 years	Total
Subordinated loan	0	150	600	3 197	0	3 948
Perpetual hybrid Tier 1 securities	0	42	169	212	1 639	2 063
Debt to and deposits from customers	1 026	0	0	0	0	1 026
Covered bonds issued	0	3 263	6 505	308	0	10 076
Receivables from credit institutions	0	13 411	0	0	0	13 411
Financial derivatives	49	239	406	223	-18	901
Accounts payable	672	0	0	0	0	672
Contingent liabilities	3 678	0	0	0	0	3 678
<b>Total</b>	<b>5 425</b>	<b>17 105</b>	<b>7 681</b>	<b>3 940</b>	<b>1 622</b>	<b>35 773</b>

<sup>1</sup> KLP has two subordinated issues and one hybrid, all perpetual. The present table indicates the first optional redemption date..

The risk that the Group would not have adequate liquidity to meet its current liabilities and current operations is very small since a major part of the Group's assets is liquid. The Group has significant funds invested in the money market, bonds and shares that can be sold in the event of a liquidity requirement. The Group's liquidity strategy involves the Group always having adequate liquid assets to meet the Group's liabilities as they fall due without accruing significant costs associated with releasing assets.

Asset composition in the Group's portfolios should be adequately liquid to be able to cover other liquidity needs that may arise. KLP Kapitalforvaltning manages the Group's liquidity. Internal parameters have been established for the size of the liquidity holding. The Group's risk management unit monitors and reports developments in the liquidity holding continuously. The Group Board determines an asset management and liquidity strategy annually. The liquidity strategy includes parameters, responsibilities, risk measurement and an emergency plan for liquidity management.

The table above shows financial liabilities the Group has grouped by interest payments and repayment of principal, based on the date payment is due. The KLP Banken Group contains the largest proportion of the financial liabilities in the Group.

For information regarding disbursement profile on insurance liabilities please refer to the liquidity note in the annual report for 2010.

# Non-financial accounts interim report Q2 2011

Notes		Q2 2011	Q1 2011	Target 2011	2010	2009
<b>Environment</b>						
1	Energy consumption kWh KLP Huset	1 929 930	1 130 790	5 098 896	5 367 259	N/A
1	Energy consumption kWh own offices Trondheim	88 234	59 937	339 301	357 159	N/A
1	Energy consumption kwh own office Bergen	287 010	223 546	514 270	541 337	N/A
<b>Employees</b>						
	Number of employees	768	753		762	742
	Percentage reported sickness absence 12 months rolling	4.6	4.5	under 4.5	4.4	4.2
	Percentage reported sickness absence quarter	4.5	4.9			
<b>Responsible investments</b>						
	Number of exclusions of companies from the investment portfolio	63	59		59	47
	Number of companies reinstated in the investment portfolio	0	0		3	10
	Number of general meetings in Norwegian companies in which KLP has voted	94	11		127	123
	Number of general meetings in foreign companies in which KLP has voted	1 186	150		1 533	1 558
	Dialogue with number of companies	76	71	110		

## Note 1 Energy consumption

Target is based on Group scorecard 5% reduction in tonne CO<sub>2</sub>/employee, 1 kwh corresponds to about NOK 1 and 1 g CO<sub>2</sub>.



## Accounts after the second quarter 2011 Kommunal Landspensjonskasse

Notes	Income statement NOK million	Q2 2011	Q2 2010	01.01.11- 30.06.11	01.01.10- 30.06.10	2010
	Premium income	3 334	3 029	6 649	5 984	20 345
	Income from investments in subsidiaries, associated enterprises and jointly controlled enterprises	644	543	1 027	1 309	2 922
	Interest income/dividends on financial assets	2 372	1 632	5 164	3 312	6 998
	Value changes on investments	-1 094	-1 516	-2 779	523	5 438
	Gains and losses realised on investments	422	-835	1 705	-928	69
	Net income from investments in the common portfolio	2 344	-175	5 117	4 216	15 427
	Net income of the investment option portfolio	11	-2	24	4	21
	Other insurance-related income	166	160	331	318	650
	Claims	-2 358	-2 175	-4 991	-5 590	-10 080
	Changes in insurance liabilities taken to profit/loss - contractual liabilities	-1 437	-65	-2 694	-2 758	-22 331
	Changes in insurance liabilities investment option portfolio	-52	-10	-46	-13	-29
	Funds assigned to insurance contracts - contractual liabilities	-1 623	-434	-3 640	-1 487	-2 581
3	Insurance-related operating expenses	-171	-164	-343	-318	-714
	Other insurance-related costs	-165	-161	-329	-319	-651
	<b>Technical profit/loss</b>	<b>49</b>	<b>2</b>	<b>79</b>	<b>38</b>	<b>59</b>
	Net income from investments in the corporate portfolio	237	172	479	318	712
	Other income	4	3	7	6	13
	Administration costs and other costs associated with the corporate portfolio	-51	-53	-104	-103	-212
	<b>Non-technical profit/loss</b>	<b>189</b>	<b>122</b>	<b>383</b>	<b>221</b>	<b>513</b>
	Profit/loss pre-tax	239	124	461	258	572
	Tax	0	0	0	0	0
	<b>Profit/loss before other comprehensive income</b>	<b>239</b>	<b>124</b>	<b>461</b>	<b>258</b>	<b>572</b>
	<b>COMPREHENSIVE INCOME</b>	<b>239</b>	<b>124</b>	<b>461</b>	<b>258</b>	<b>572</b>

# Accounts after the second quarter 2011 Kommunal Landspensjonskasse

Notes	Balance NOK million	30.06. 2011	30.06. 2010	31.12. 2010
<b>ASSETS</b>				
<b>ASSETS IN THE CORPORATE PORTFOLIO</b>				
	Intangible assets	319	346	306
	Investments	16 344	13 918	14 787
	Receivables	1 032	532	756
	Other assets	634	626	521
	<b>Total assets in the corporate portfolio</b>	<b>18 329</b>	<b>15 421</b>	<b>16 371</b>
<b>ASSETS IN THE CUSTOMER PORTFOLIOS</b>				
	Investments in the common portfolio			
	Shares and holdings in property subsidiaries	26 571	22 769	25 122
6	Receivables from and securities issued by subsidiaries, associated enterprises and jointly controlled enterprises	4 000	3 350	3 200
5	Financial assets valued at amortised cost	99 499	100 646	100 223
5	Financial assets valued at fair value	106 693	92 367	99 092
	<b>Total assets in the common portfolios</b>	<b>236 763</b>	<b>219 133</b>	<b>227 637</b>
	Assets in the investment option portfolio			
	Shares and holdings in property subsidiaries	167	30	33
5	Financial assets at amortised costs	518	98	103
5	Financial assets at fair value	768	132	139
	<b>Total assets in investment portfolio</b>	<b>1 453</b>	<b>260</b>	<b>274</b>
	<b>ASSETS</b>	<b>256 545</b>	<b>234 816</b>	<b>244 282</b>
<b>OWNERS' EQUITY AND LIABILITIES</b>				
	Owners' equity contributed	5 624	5 086	5 628
	Retained earnings	5 568	4 793	5 107
	Subordinated loan capital etc.	3 854	4 174	4 074
4	Insurance obligations in life insurance - contractual liabilities	232 578	208 487	227 260
	Insurance liabilities unit-linked portfolio	1 404	253	273
	Provision for liabilities	340	379	340
	Liabilities	7 134	11 608	1 544
	Accrued costs and prepaid income	43	35	57
	<b>OWNERS' EQUITY AND LIABILITIES</b>	<b>256 545</b>	<b>234 816</b>	<b>244 282</b>
	<b>Off-balance sheet items</b>			
	Contingent liabilities	3 309	2 388	2 978

Oppstilling over endringer i egenkapital



## Accounts after the second quarter 2011 Kommunal Landspensjonskasse

Changes in Owner's equity NOK million	Paid-up equity	Retained earnings	Total equity
<b>2011</b>			
Own funds 01.01.2011	5 628	5 107	10 735
Total other comprehensive income	0	461	461
<b>Total income</b>	<b>0</b>	<b>461</b>	<b>461</b>
<b>Transaction with owners</b>			
Equity paid-in	3	0	3
Equity reimbursed	-7	0	-7
Sum transaction with owners	-3	0	-3
<b>Own funds 30.06.2011</b>	<b>5 624</b>	<b>5 568</b>	<b>11 193</b>

NOK million	Paid-up equity	Retained earnings	Total equity
<b>2010</b>			
Own funds 01.01.2010	5 107	4 535	9 642
Total other comprehensive income	0	572	572
<b>Total income</b>	<b>0</b>	<b>572</b>	<b>572</b>
<b>Transaction with owners</b>			
Equity paid-in	556	0	556
Equity reimbursed	-35	0	-35
Total transaction with owners	521	0	521
<b>Own funds 30.06.2011</b>	<b>5 628</b>	<b>5 107</b>	<b>10 735</b>

Cash flow analysis NOK million	01.01.11 -30.06.11	01.01.11 -31.03.11	01.01.10 -31.12.10	01.01.10 -30.09.10	01.01.10 -30.06.10
Net cashflow from operational activities	4 956	1 506	16 395	5 353	4 327
Net cashflow from investment activities	-4 847	-1 199	-17 101	-5 986	-4 260
Net cashflow from financing activities	0	-5	662	519	-21
<b>Net changes in cash and bank deposits</b>	<b>110</b>	<b>302</b>	<b>-44</b>	<b>-114</b>	<b>46</b>
Holdings of cash and bank deposits at start of period	460	460	504	504	504
<b>Holdings of cash and bank deposits at end of period</b>	<b>569</b>	<b>762</b>	<b>460</b>	<b>390</b>	<b>549</b>

## Note 1 Accounting principles

The accounts in this interim report show the accounts for Kommunal Landspensjonskasse (KLP) and the Group for the period 01.01.2011 - 30.06.2011. The accounts have not been audited. The interim accounts do not contain all the information required of full annual accounts.

It is recommended that this interim report be read in conjunction with the annual report for 2009 and the interim report for Q1, Q2 and Q3 2010. This may be obtained on application to the Company's registered office, Dronning Eufemias gate 10, Oslo, or at [www.klp.no](http://www.klp.no).

Similarly to the annual accounts 2010, the interim accounts have been submitted in accordance with Regulation 1241 of 16 December 1998: Regulations on annual accounts etc. for insurance companies (the Annual Accounts Regulations).

## Note 2 Value-adjustment investment property

The portfolio of investment properties including investment properties owned via subsidiaries has been valued as at 30th June 2011.

NOK million	Q2 2011	Q2 2010	01.01.11- 30.06.11	01.01.10- 30.06.10	01.01.10 - 31.12.10
Value adjustment incl. foreign exchange	276	201	419	646	1 634
Foreign exchange effect on hedging	123	11	95	64	106
<b>Net value adjustment incl. exchange hedging</b>	<b>399</b>	<b>212</b>	<b>514</b>	<b>710</b>	<b>1 740</b>

## Note 3 Operating expenses

NOK million	Q2 2011	Q2 2010	01.01.11- 30.06.11	01.01.10- 30.06.10	01.01.10- 31.12.10
Staff costs	79	71	176	162	344
Depreciation	16	13	32	24	118
Other operating expenses	76	80	135	132	252
<b>Insurance related expenses</b>	<b>171</b>	<b>164</b>	<b>343</b>	<b>318</b>	<b>714</b>

## Note 4 Insurance-related provisions - obligations under contract

NOK million	30.06. 2011	30.06. 2010	31.12. 2010
Premium reserve	209 313	193 771	206 075
Premium fund(s)	3 582	2 802	3 512
Supplementary reserve	10 090	8 091	10 144
Securities adjustment fund	5 886	2 262	7 450
Other provisions	70	74	79
Not-appropriated result to insurance contracts in the common portfolio	3 636	1 487	0
<b>Insurance-related provisions - obligations under contract</b>	<b>232 578</b>	<b>208 487</b>	<b>227 260</b>



## Note 5 Financial assets

NOK million	30.06.2011	30.06.2010	31.12.2010
<b>Financial assets corporate portfolio</b>			
Investments held to maturity	3 376	3 339	3 238
Bonds loans and receivables	3 496	2 443	3 341
<b>Total financial assets valued at amortised cost</b>	<b>6 872</b>	<b>5 782</b>	<b>6 579</b>
Shares and holdings	1 312	1 250	1 222
Bonds and other fixed-return securities	1 985	2 024	2 021
Lending and receivables	502	524	504
Financial derivatives	-32	161	86
Other financial assets	1 190	0	0
<b>Total financial assets valued at fair value</b>	<b>4 957</b>	<b>3 959</b>	<b>3 833</b>
<b>Total financial assets corporate portfolio</b>	<b>11 829</b>	<b>9 741</b>	<b>10 411</b>
<b>Financial assets common portfolio</b>			
Investments held to maturity	37 651	40 433	37 982
Bonds loans and receivables	37 386	30 230	35 788
Lending	24 462	29 983	26 453
<b>Total financial assets valued at amortised cost</b>	<b>99 499</b>	<b>100 646</b>	<b>100 223</b>
Shares and holdings	34 202	22 392	34 235
Bonds and other fixed-return securities	53 015	51 249	51 456
Lending and receivables	16 296	9 096	12 266
Financial derivatives	761	384	1 117
Other financial assets	2 418	9 246	18
<b>Total financial assets valued at fair value</b>	<b>106 693</b>	<b>92 367</b>	<b>99 092</b>
<b>Total financial assets common portfolio</b>	<b>206 192</b>	<b>193 014</b>	<b>199 315</b>
<b>Financial assets investment choice portfolio</b>			
Investments held to maturity	196	49	48
Bonds loans and receivables	322	49	55
<b>Total financial assets valued at amortised cost</b>	<b>518</b>	<b>98</b>	<b>103</b>
Shares and holdings	301	44	64
Bonds and other fixed-return securities	400	82	73
Lending and receivables	67	8	1
Financial derivatives	2	0	0
Other financial assets	-2	-1	0
<b>Financial assets valued at fair value</b>	<b>768</b>	<b>132</b>	<b>139</b>
<b>Total financial assets investment choice portfolio</b>	<b>1 286</b>	<b>230</b>	<b>241</b>
<b>Total financial assets</b>	<b>219 307</b>	<b>202 984</b>	<b>209 967</b>

## Note 6 Transactions with related parties

KLP has granted KLP Banken a loan of 4 NOK billion as at 30.06.2011. The loan was given at market rate (NIBOR + margin) and is due 15.09.2011.

## Note 7 Events after the date of the statement of financial position

During the second quarter, owners' equity contributions of NOK 593 million were invoiced for payment during the third quarter. Owners' equity contributions are brought to book on receipt, so invoiced owners' equity contributions have no accounting effect on the financial statement following the second quarter. At the end of July NOK 583.4 million of the invoiced owners' equity contributions had been paid in. It is expected the remainder will be paid in shortly.

So far in the third quarter the securities adjustment fund has been reduced by NOK 3,6 (as at 12. August 2011).

**Kommunal Landspensjonskasse**

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