

# Interim report 3/2012

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



**kLP**

for dagene som kommer

# Contents

|  |          |
|--|----------|
| <b>Report from the Board of directors</b>  | <b>3</b> |
| <b>Group accounts after the third quarter 2012</b>   |          |
| - Income statement   | 9        |
| - Balance  | 10       |
| - Changes in Owner's equity  | 11       |
| - Cashflow   | 12       |
| - Notes to the Group accounts  | 13       |
|  | 30       |
| <b>Non-financial accounts interim report</b>   |          |
| <b>Accounts after the third quarter Kommunal Landspensjonskasse gjensidig forsikringsselskap</b> |          |
| - Income statement   | 31       |
| - Balance  | 32       |
| - Changes in Owner's equity  | 33       |
| - Cashflow   | 33       |
| - Notes to the accounts  | 34       |

# Interim report third quarter 2012

## KLP - a very good quarter

- Group operating profit of NOK 8.9 billion and total income for customers in excess of NOK 8.0 billion
- Value-adjusted return, common portfolio public sector occupational pensions 5.3 per cent
- Book return, common portfolio public sector occupational pensions 3.2 per cent
- Return, corporate portfolio 4.0 per cent

## Kommunal Landspensjonskasse gjensidig forsikringselskap (KLP) - a customer-owned company in development

The KLP Group is strengthening its position as the leading provider of public sector occupational pension. This year's tendering process for local government public sector pensions completed on 31 October demonstrated KLP's strength. Of a total 17 schemes put out to tender, 7 so far have chosen KLP as provider (10 municipalities have yet to complete political determination). KLP takes this as a major vote of confidence and confirmation that a number of years of determined marketing effort underpinned by a high level of service, cost efficiency, and good financial results is appreciated by the market.

KLP is working actively to prepare implementation of the new solvency regulations for life insurance, Solvency II. Estimates show that KLP's solvency is well matched to the coming regulations, so it will not be necessary to make significant adjustments of investment profile or make significant adjustments in other ways in order to meet the new requirements.

Life expectancy in Norway is increasing.

Consequently the reserving for long life needs strengthening in line with this development. This challenge is a common one for the whole life business.

## Results after the third quarter 2012

### Returns result

The financial revenues in the third quarter were NOK 1.2 billion higher than the guaranteed interest rate of 3.1 per cent, whilst they were NOK 0.3 billion below the guaranteed interest rate for the same period last year. Financial income from customers' assets totalled NOK 5.5 billion (-2.7 ) for the quarter. Value-adjusted return on the common portfolio was 2.2 per cent (-1.2) for the quarter and book return was 1.2 per cent (0.6). The return after the third quarter was 5.3 per cent (1.1) value adjusted, and 3.2 per cent booked respectively.

### Risk result

There were no unexpected risk matters of significance in the Company's insurance portfolio during the third quarter. The risk result at the end of the quarter was NOK 118 million. This has been provisionally allocated with NOK 60 million to customer profit and NOK 58 million to corporate income provision in the risk equalisation fund.

### Administration result

The Company's administration result shows a surplus of NOK 62 million (NOK 72 million) at the end of the third quarter. Insurance-related operating costs represent 0.31 per cent of customer funds, which is in line with the target for 2012.

### Combined income

Profit for the Company was NOK 210 million for the quarter and NOK 652 million for the first nine months. Value adjusted return to the clients amounts to NOK 3 846 million for the quarter, and

1) Tall i parentes refererer til tilsvarende tall fra 2011



NOK 8 056 million for the year to date. After allocation to the value adjustment fund the booked return to customers were NOK 1292 million for the quarter and NOK 2632 million for the year to date.

| Result<br>NOK million  | Custo-<br>mers | The<br>company | Total |
|--|----------------|----------------|-------|
| Returns result   | 2 385          | 14             | 2 399 |
| Risk result  | 60             | 58             | 118   |
| Interest guarantee premium                                     |                | 62             | 62    |
| Administration profit loss                                     |                | 216            | 216   |
| Net income from investments in the corporate portfolio         |                | 489            | 489   |
| Return from owners' equity contributions credited to customers | 186            | -186           | -     |
| Income Q3 2012   | 2 632          | 652            | 3 284 |
| Income Q3 2011   | 3 324          | 512            | 3 836 |
| Income 2011  | 3 594          | 705            | 4 299 |

## Financial strength and capital-related matters

The total assets of the life company amounted to NOK 291.3 billion, a growth of almost NOK 30 billion through the year. Insurance liabilities have increased by NOK 25.3 billion.

KLP's capital adequacy at the end of the quarter was 10.8 per cent (11.4) and core capital adequacy was 8.8 per cent (9.0). The annual owners' equity contribution of NOK 639 million was paid in during the third quarter.

In the course of the year the securities adjustment fund has been strengthened by NOK 5.4 billion to NOK 10.4. Supplementary reserves total NOK 12.4 billion.

At the end of the quarter KLP had total solvency capital of NOK 47.6 billion, corresponding to 19.6 per cent of the insurance funds with interest guarantee.

The Board of Directors considers the Company's solvency satisfactory in relation to the composition of the financial position, prevailing market conditions and the authorities' requirements.

| Key figures <sup>2</sup><br>Per cent | So far Q3 |      | Year |
|--------------------------------------|-----------|------|------|
|                                      | 2012      | 2011 | 2011 |
| Capital return I                     | 3.2       | 3.7  | 4.5  |
| Capital return II                    | 5.3       | 1.1  | 3.2  |
| Capital return III                   | 6.0       | 1.9  | 3.9  |
| Capital adequacy                     | 10.8      | 11.4 | 11.5 |
| Solvency margin ratio                | 234       | 227  | 244  |

## Premium income

Premium income excluding premium reserves received on transfer totalled NOK 20.6 billion (17.7) for the first three quarters of the year.

## Claims

Pensions paid and other claims increased by 10.8 per cent and amounted to NOK 7 955 million (NOK 7 182 million) so far this year.

## Management of the common portfolio

The assets in the common portfolio totalled NOK 259.1 billion (NOK 230.9 million) and were invested as shown below:

| Assets<br>Per cent     | Portion<br>30.09.<br>2012 | Return at<br>Q3<br>2012 | Portion<br>30.09.<br>2011 | Return at<br>Q3<br>2011 |
|------------------------|---------------------------|-------------------------|---------------------------|-------------------------|
| Shares                 | 17.1                      | 11.5                    | 14.3                      | -14.2                   |
| Short-term bonds       | 22.2                      | 7.0                     | 22.1                      | 5.7                     |
| Long-term/HTM bonds    | 32.2                      | 3.6                     | 33.7                      | 3.8                     |
| Lending                | 11.4                      | 2.9                     | 11.2                      | 2.8                     |
| Property               | 11.8                      | 4.8                     | 12.0                      | 5.6                     |
| Other financial assets | 5.3                       | 2.7                     | 6.6                       | 2.0                     |

Value-adjusted return on the life company's assets was solid during the third quarter mainly because of high equity returns, whilst falling interest rates have provided a solid contribution from short-term bonds..

## Shares

Total exposure in shares including share derivatives was about 17 per cent at the end of the quarter. The equity portfolio had good returns during the third quarter, both from investments in international equity markets and particularly in the Norwegian

<sup>2</sup> Capital return I= return brought to book  
Capital return II= Value adjusted return (i.e. value adjusted return I adjusted for unrealized gains/losses on securities, carried to the securities adjustment fund.  
Capital return III= Capital return II adjusted for gains/losses not brought to book on financial assets measured at amortized cost.



market. KLP's global index rose by 6.0 per cent, whilst Oslo Børs (the Oslo Stock Exchange) rose by 9.5 per cent during the period.

### Short-term bonds

Short-term bonds and money market instruments amounted to 27 per cent of the assets in the common portfolio as at 30 September 2012. Interest-bearing placements in state or state-guaranteed securities represented about 22 per cent of KLP's total investment in short-term bonds. The international credit-bond index KLP uses had a currency hedged return of 4.0 per cent during the third quarter of 2012.

### Bonds held to maturity

Investment in bonds held to maturity represented about 32 per cent of the common portfolio on 30 September 2012. The current interest rate in the portfolio is about five per cent per annum, substantially higher than today's market interest rate. Non-booked added value of financial assets recognised at amortised cost was NOK 4.8 billion as at 30 September 2012. The portfolio is well diversified and comprises securities issued by highly credit-worthy institutions.

## Property

Net property acquisitions to date in 2012 amount to about NOK 2.2 billion. The property market has been stable so far this year, and write-ups of NOK 77 million were carried out during the first three quarters of the year based on property-specific factors. Total value of the property stock is NOK 32.2 billion. The properties have thoroughly solid tenants and long leases. For all the properties the combined economic occupancy rate is 96.5 per cent.

Development of new projects is central to KLP's property activity and our aim is to build environmentally-friendly buildings for the future. Several major projects are expected to be completed over the next three year period. The building of the Fornebu Senter shopping centre outside Oslo started in autumn 2012. KLP's objective is to increase its property exposure, and substantial investments are anticipated in developed property as well in the years to come.

Outside the Nordic region KLP has property exposure through various property funds. At the end of the third quarter the value of investments in such funds was NOK 0.6 billion.

Property management is carried out only within the Group and has thus contributed to the other business areas' incomes, primarily to returns on invested capital for the life insurance

customers. In total property achieved a business return of 5.0 per cent during the first three quarters of the year.

## Lending

Lending in the common portfolio was NOK 29.3 billion. This was divided between NOK 20.4 billion in lending to local administrations and other undertakings, and NOK 8.9 billion in housing mortgages. The lending portfolio is characterised by high quality, with no losses on local government loans and very modest loss provision on housing loans. Non-booked added value in the lending portfolio (fixed interest rate loans) represented NOK 396 million on 30 September 2012.

## Return on the corporate portfolio

The corporate portfolio covers investment of owners' equity and subordinated loan 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 1.3 per cent during the third quarter and 4.0 per cent to date this year.

## Market conditions

In addition to the good results in the local government market and for KLP Bedriftspensjon, the investment in good retail market products, including non-life insurance, banking and funds products, tailored for our customers' employees is achieving good take-up.

## The business areas of the subsidiaries

### Private occupational pensions

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

The Company is growing and has increased its total assets by just under 40 per cent from NOK 904 million at the start of the year to NOK 1260 million at the end of the third quarter.

222 new customers have signed agreements with KLP Bedriftspensjon so far this year.



## Results

The Company has good returns on customer funds and for the third quarter achieved a result for customers of NOK 7.5 million.

### Returns result - common portfolio

The returns result on our insurance customers' assets for the third quarter was NOK 2.9 million (NOK -5.9 million) and NOK 6.9 million so far this year (NOK 6.0 million). This corresponds to a book return of 1.3 per cent for the quarter: 3.6 per cent so far this year. Value-adjusted return on the common portfolio thus amounts to 5.2%. The business strengthened its reserves by NOK 9.5 million during 2011 to meet new longevity assumptions. It is assumed that a further increase in the reserves must be made during the current year. The returns result and the risk result for the year can be used in financing increased reserves.

### Results - investment option portfolio

Net financial returns in the investment option portfolio for the third quarter were NOK 12.3 million (NOK -10.3 million) and NOK 22.2 million so far this year (NOK -7.7 million). This corresponds to a return of 5.1 per cent for the quarter and 10.1 per cent so far this year (-4.1 per cent). The rise in the equities market is the main explanation for the good returns during the quarter.

The return on the various saving profiles is distributed as follows:

## Return - KLP Bedriftspensjon

| Per cent   | So far as at Q3 |       | Year |
|--|-----------------|-------|------|
|  | 2012            | 2011  | 2011 |
| <i>Common portfolio</i>                                    |                 |       |      |
| Capital return I   | 3.6             | 3.8   | 6.3  |
| Capital return II  | 5.2             | 1.3   | 3.7  |
| <i>Defined contribution pension with investment option</i> |                 |       |      |
| Profile P90  | 13.0            | -12.8 | -6.0 |
| Profile P70  | 11.8            | -8.7  | -3.0 |
| Profile P60  | 11.1            | -6.4  | -1.4 |
| Profile P50  | 10.4            | -4.1  | 0.3  |
| Profile P40  | 9.8             | -1.8  | 2.0  |
| Profile P30  | 8.8             | -0.4  | 2.8  |
| Profile P20  | 7.5             | 1.9   | 4.3  |
| Profile P10  | 6.5             | 3.3   | 5.2  |
| Profile PM   | 2.3             | 2.1   | 3.0  |

Name of profile indicates number of shares in the portfolio.

### Result to the Company

The Company achieved a result of NOK -5,4 million for the quarter: NOK -13.5 million so far this year.

## Non-life insurance

KLP Skadeforsikring AS offers products in the public sector market, the corporate market and the retail market.

### The public sector /corporate market

Competition in the market is tough, but KLP Skadeforsikring is achieving satisfactory market progress.

The combined claims ratio for own account for all sectors and years viewed together was 82.0 per cent. During the third quarter two property claims in excess of NOK 5 million were reported with a total claim cost of NOK 23 million. Correspondingly so far this year six such claims have been reported with a combined claim estimate of NOK 71 million.

### The retail market

Sales in the retail market continue to develop well and net new business so far this year stands at NOK 31.6 million. The sales result is in line with expectations.

The claims ratio for own account for all sectors and years viewed together was 77.6 per cent. This is a clear improvement compared to the same time in 2011. It is particularly welcome that the motor insurance sector has a good claims result since it represents about half of the premium revenues within the retail market.

## Results

The pre-tax operating profit as at 30 September 2012 was NOK 98.6 million. At the same time last year the result was NOK 35.7 million.

The 2012 technical result is good. NOK 22.7 million has been taken to income on adjustment of previous years' reserves. At the same time no major claims over NOK 20 million have been reported so far this year.

Contingency reserves have increased by 29.6 million so far this year.

The return on assets invested showed good development during the third quarter and accumulated return at the end of the quarter was 5.1 per cent. In particular the Company's equities portfolio made a positive contribution with an accumulated return of 12.3 per cent.

## Asset management and fund management

Securities management in KLP is conducted by KLP Kapitalforvaltning AS and KLP Fondsforsvaltning AS, and the assets are



managed in discretionary mandates and securities funds. At the end of the third quarter 2012 a total of NOK 203 billion was under management for Group customers and NOK 19 billion for customers outside the Group. Net new subscriptions from customers external to the Group amount to NOK 3.9 billion so far this year.

The number of retail customers in KLP funds is about 20,000 and has increased by 73 per cent in the last year.

The special fund, KLP Alfa Global Rente, was launched in September. The fund is a continuation of the business KLP Kapitalforvaltning previously operated through an Irish securities fund.

### Results

KLP Kapitalforvaltning AS achieved a pre-tax profit of NOK 6.1 million during the first three quarters of the year whereas KLP Fondsforvaltning AS achieved a profit of NOK 7.9 million.

## KLP Banken

KLP Banken has made progress in several areas so far in 2012, with many market-oriented initiatives and a high level of activity.

The public sector market demonstrated improved revenues again during the third quarter. This is a result of improved margins on lending as well as unrealised losses burdening the 2011 result having largely been reversed because of improved market trends.

The retail market effort is in line with the established plans and budgets in regard to lending, but faces greater challenges in achieving progress on deposits. Therefore work is being conducted on measures that may increase the volume of deposits.

There is optimism about the results of efforts aimed at new customer groups. 3 301 new retail customers were registered during the first three quarters, an increase of about 18 per cent. Housing mortgage development has been positive. Net volume increase so far this year is NOK 882 million. There is a steady stream of new mortgage customers and the development is ahead of the sales budget.

Default in housing mortgages is at a low level. As at 30 September 2012 default in excess of 90 days stands at 0.2 per cent. There are no known losses as at the end of the third quarter.

### Results

The KLP Banken Group achieved pre-tax profits of NOK 85.8 million by the end of the third quarter. Of this, NOK 51.7 million is

the result for the third quarter in isolation. Total net interest income in the Bank by the end of the third quarter was NOK 60.0 million. Of this, NOK 24.8 million accrued during the third quarter.

## Corporate responsibility

### Investments for sustainable development

In August KLP entered into an agreement on joint investments with Norfund totalling NOK 1 billion in projects in developing countries intended to contribute to sustainable development. This is the first time an institutional investor such as KLP has embarked on this type of cooperation and investment. In the first instance the investments will be in the areas of renewable energy and finance in Africa. The investments will attach weight to consequences for the environment and society in addition to profitability. The investments' target is an annual financial return of 10 per cent.

## Framework conditions and product matters

### Adaptation to the pensions reform

The Norwegian Ministry of Labour's studies concerning the remaining rules for adaptation of public sector occupational pensions to the pension reform are nearing completion. Rules on harmonisation with National Insurance and longevity adjustment for those born in 1954 and later are expected to reach the consultation phase during the fourth quarter 2012, following a preceding process with the parties to the collective pay agreement. The same is the case for the adaptation of disability benefits in public sector occupational pensions to the new National Insurance disability pension, which comes into effect on 1 January 2015. There is uncertainty as to whether this consultation will come this year or in 2013. Together with the changes in public sector occupational pensions that were decided in 2009/2010 and came into effect on 1 January 2011, this represents the most comprehensive changes in public sector occupational pensions since 1974.

### New longevity assumptions

The increase in expected longevity results in a need to strengthen the premium reserve. There will be a strengthening of the premium reserve in all Norwegian life companies through an escalation over several years within frameworks expected to be determined by the Financial Supervisory Authority of Norway during the fourth quarter of 2012.

### Amendments to the Tax Act

In connection with the presentation of the Budget on 8 October,



it was clarified that the government proposed that the exemption method should not apply to life insurance companies' customer portfolios with effect from 1 January 2012. This is in line with the proposal put out for consultation in January 2012 and, if enacted, means that income from equity investments within the EEA in the customer portfolios is now taxable income, and that losses can be claimed as deductions. KLP has a carry-forward tax deficit of a magnitude that indicates that only in the long term will this tightening of the rules result in tax payable for the Company.

## Group management changes

Marianne Sevaldsen has been appointed as the new Executive Vice President, Life Insurance, taking up her appointment in 2013.

Tore Tenold took over as Managing Director of KLP Skadeforsikring on 1 October.

## Future prospects

KLP appears to emerge as the clear winner of this year's battle in the market over public sector occupational pension and has strengthened its customer base by about NOK 2 billion and about 11 000 new members. It will be an important and a major task to welcome so many members properly at the same time as maintaining operating service levels. This further emphasises the im-

portance of the work on automation of case processing and other systems in order to be able to serve our customers well and efficiently.

Again in 2012 KLP will give priority to surplus returns corresponding to 0.3 per cent of the premium reserve being reallocated to the customers' premium fund to meet the liquidity requirement associated with calling up owners' equity contributions at the usual level. Surplus returns in excess of this will probably have to be used entirely towards increasing reserves for greater longevity.

In the longer term continuing low interest rates and volatile equity markets will challenge the objective of stable good earnings. To counteract this, our administration must be adapted to the changing world.

The work on preparing for transition to the new solvency rules for insurance under Solvency II is proceeding satisfactorily. KLP is both organisationally and financially well positioned in regard to the new regulations when they are implemented.

KLP is a customer-owned company. Work on developing the Company's products and services for the good of its owners and customers therefore remains crucial. KLP will continue in the future to work for low costs, good returns and customer-friendly service in order to contribute to competitive value creation.

Oslo, 1st November 2012

The Board of Kommunal Landspensjonskasse gjensidig forsikringsselskap

Arne Øren  
Chair

Finn Jebsen  
Deputy chair

Liv Kari Eskeland

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 Q3 2012

| Notes | Income statement Group<br>NOK million  | Q3<br>2012    | Q3<br>2011     | 01.01.12-<br>30.09.12 | 01.01.11-<br>30.09.11 | Year<br>2011   |
|-------|--|---------------|----------------|-----------------------|-----------------------|----------------|
| 1,4   | Premium income for own account   | 7 180         | 11 294         | 22 903                | 18 414                | 22 574         |
|       | Current return on financial investments  | 2 464         | 1 681          | 6 476                 | 7 196                 | 9 343          |
|       | Net interest income from bank  | 28            | 34             | 104                   | 88                    | 142            |
|       | Net value change on financial instruments  | 2 974         | -4 325         | 5 629                 | -5 570                | -2 842         |
| 5     | Net income from investment properties  | 297           | 302            | 1 683                 | 1 526                 | 1 879          |
| 6     | Other income   | 195           | 190            | 579                   | 563                   | 748            |
|       | <b>Total income</b>  | <b>13 139</b> | <b>9 176</b>   | <b>37 374</b>         | <b>22 217</b>         | <b>31 845</b>  |
|       | Claims for own account   | -2 858        | -2 661         | -8 529                | -7 894                | -10 615        |
|       | Change in provisions   | -5 831        | -9 986         | -18 671               | -14 513               | -17 291        |
| 7     | Net costs and change in value subordinated<br>loans and perpetual subordinated loans | 32            | -411           | -1                    | -347                  | -406           |
| 8     | Operating expenses   | -280          | -260           | -818                  | -763                  | -1 115         |
| 9     | Other expenses   | -163          | -167           | -484                  | -498                  | -660           |
|       | <b>Total expenses</b>  | <b>-9 099</b> | <b>-13 486</b> | <b>-28 504</b>        | <b>-24 017</b>        | <b>-30 087</b> |
|       | <b>Operating result</b>  | <b>4 039</b>  | <b>-4 309</b>  | <b>8 870</b>          | <b>-1 798</b>         | <b>1 757</b>   |
|       | To/from securities adjustment fund<br>in life insurance                              | -2 562        | 4 037          | -5 437                | 5 607                 | 2 505          |
|       | To/from supplementary provisions in life insurance                                   | 0             | 31             | 0                     | 31                    | -2 156         |
|       | Assets allocated to life insurance customers   | -1 294        | 290            | -2 639                | -3 361                | -1 453         |
| 3     | <b>Consolidated group profit before tax</b>  | <b>183</b>    | <b>49</b>      | <b>794</b>            | <b>479</b>            | <b>653</b>     |
|       | Tax  | 0             | 0              | -2                    | -21                   | -24            |
|       | <b>Result</b>  | <b>183</b>    | <b>49</b>      | <b>793</b>            | <b>459</b>            | <b>629</b>     |
|       | Revaluation own properties   | 4             | 5              | 20                    | 86                    | 92             |
|       | Currency effects foreign affiliates  | 54            | 55             | -121                  | -19                   | 6              |
|       | <b>Total other comprehensive income</b>  | <b>58</b>     | <b>60</b>      | <b>-100</b>           | <b>67</b>             | <b>97</b>      |
|       | <b>Total comprehensive income</b>  | <b>241</b>    | <b>109</b>     | <b>692</b>            | <b>526</b>            | <b>726</b>     |



## Group accounts after Q3 2012

| Notes                                 | Balance<br>NOK million  | 30.09.<br>2012 | 30.09.<br>2011 | 31.12.<br>2011 |
|---------------------------------------|---|----------------|----------------|----------------|
| <b>ASSETS</b>                         |   |                |                |                |
|                                       | Intangible assets   | 352            | 370            | 344            |
|                                       | Tangible fixed assets   | 1 040          | 1 041          | 1 041          |
|                                       | Investments in associated companies   | 3              | 3              | 3              |
| 5                                     | Investment property   | 31 004         | 28 106         | 28 726         |
| 13                                    | Debt instruments held to maturity   | 38 554         | 41 684         | 41 438         |
| 13                                    | Debt instruments at fair value in profit/loss account                               | 49 949         | 41 923         | 46 936         |
| 11,13                                 | Lending to municipalities, companies and private individuals at fair value over P&L | 2 388          | 3 447          | 2 519          |
| 13                                    | Lending to municipalities, companies and private individuals                        | 50 474         | 50 421         | 51 024         |
| 11,13                                 | Debt instruments at fair value over P/L   | 91 860         | 70 574         | 77 050         |
| 11                                    | Equity instruments at fair value over P/L   | 40 046         | 33 860         | 36 168         |
| 11,13                                 | Financial derivatives   | 1 497          | 758            | 915            |
| 12                                    | Receivables   | 13 144         | 8 990          | 1 603          |
|                                       | Assets in life insurance with investment option                                     | 276            | 176            | 198            |
|                                       | Cash and bank deposits  | 3 044          | 3 165          | 3 820          |
|                                       | <b>Total assets</b>   | <b>323 634</b> | <b>284 518</b> | <b>291 784</b> |
| <b>OWNERS' EQUITY AND LIABILITIES</b> |   |                |                |                |
|                                       | Paid-up equity  | 6 853          | 6 217          | 6 217          |
|                                       | Retained earnings   | 6 539          | 5 624          | 5 847          |
|                                       | <b>Total equity</b>   | <b>13 392</b>  | <b>11 841</b>  | <b>12 064</b>  |
| 10                                    | Perpetual subordinated loan   | 1 169          | 1 119          | 1 145          |
| 10                                    | Subordinated loan capital   | 2 965          | 3 146          | 3 143          |
|                                       | Pension obligations   | 518            | 476            | 518            |
| 14                                    | Technical provisions - life insurance   | 269 608        | 238 737        | 244 086        |
| 14                                    | Provisions in life insurance with investment option                                 | 276            | 176            | 198            |
|                                       | Premiums, claims and contingency fund provisions - non-life insurance               | 2 711          | 2 685          | 2 567          |
| 10                                    | Covered bonds issued  | 20 767         | 22 074         | 22 152         |
| 10,11                                 | Debt to financial institutions  | 4 854          | 887            | 1 398          |
| 10                                    | Deposits from and liabilities to customers  | 2 553          | 1 715          | 1 840          |
| 11                                    | Financial derivatives   | 683            | 1 518          | 1 031          |
|                                       | Deferred tax  | 45             | 41             | 45             |
| 15                                    | Other short term debt   | 4 093          | 104            | 1 596          |
|                                       | <b>Total liabilities</b>  | <b>310 242</b> | <b>272 679</b> | <b>279 720</b> |
|                                       | <b>Total owners' equity and liabilities</b>   | <b>323 634</b> | <b>284 518</b> | <b>291 784</b> |
|                                       | Contingent liabilities  | 4 578          | 3 538          | 4 753          |

## Group accounts after Q3 2012

### Changes in Owner's equity

| 2012<br>NOK million                     | Paid-up<br>equity | Retained<br>earnings | Total<br>equity |
|---|-------------------|----------------------|-----------------|
| <b>Equity 01.01.2012</b>                | 6 217             | 5 847                | 12 064          |
| Result for the period                   |                   | 793                  | 793             |
| <b>Other comprehensive income</b>       |                   |                      |                 |
| Revaluation of properties for own use   |                   | 20                   | 20              |
| Currency effect foreign affiliates      |                   | -121                 | -121            |
| <b>Total other comprehensive income</b> |                   | <b>-100</b>          | <b>-100</b>     |
| <b>Total comprehensive income</b>       |                   | <b>692</b>           | <b>692</b>      |
| <b>Transactions with owners</b>         |                   |                      |                 |
| Equity paid-in                          | 639               |                      | 639             |
| Equity reimbursed                       | -4                |                      | -4              |
| <b>Total transactions with owners</b>   | <b>635</b>        |                      | <b>635</b>      |
| <b>Equity 30.09.2012</b>                | <b>6 853</b>      | <b>6 539</b>         | <b>13 392</b>   |

| 2011<br>NOK million                             | Paid-up<br>equity | Retained<br>earnings | Total<br>equity |
|---|-------------------|----------------------|-----------------|
| <b>Equity 01.01.2011</b>                        | 5 628             | 5 186                | 10 814          |
| Result for the period                           |                   | 459                  | 459             |
| <b>Other comprehensive income</b>               |                   |                      |                 |
| Revaluation of properties for own use           |                   | 86                   | 86              |
| Currency effect foreign affiliates              |                   | -19                  | -19             |
| <b>Total other comprehensive income</b>         |                   | <b>67</b>            | <b>67</b>       |
| <b>Total comprehensive income</b>               |                   | <b>526</b>           | <b>526</b>      |
| <b>Transactions with owners</b>                 |                   |                      |                 |
| Equity paid-in                                  | 596               |                      | 596             |
| Equity reimbursed                               | -7                |                      | -7              |
| <b>Total transactions with owners</b>           | <b>589</b>        |                      | <b>589</b>      |
| <b>Other changes</b>                            |                   |                      |                 |
| Reclassification of funds in non-life insurance |                   | -87                  | -87             |
| <b>Total other changes</b>                      |                   | <b>-87</b>           | <b>-87</b>      |
| <b>Equity 30.09.2011</b>                        | <b>6 217</b>      | <b>5 625</b>         | <b>11 841</b>   |



## Group accounts after Q3 2012

| Cashflow - Group<br>NOK million                                | 01.01.12-<br>30.09.12 | 01.01.12-<br>30.06.12 | 01.01.2012<br>-31.03.2012 | 01.01.2011<br>-31.12.2011 | 01.01.2011<br>-30.09.2011 |
|--|-----------------------|-----------------------|---------------------------|---------------------------|---------------------------|
| Net cashflow from operational activities                       | -1 367                | -1 269                | -1 278                    | -2 570                    | 1 004                     |
| Net cashflow from investment activities                        | -45                   | -40                   | -18                       | -96                       | -916                      |
| Net cashflow from financing activities                         | 635                   | 4                     | -81                       | 3 562                     | 153                       |
| <b>Net changes in cash and bank deposits</b>                   | <b>-776</b>           | <b>-1 305</b>         | <b>-1 377</b>             | <b>896</b>                | <b>241</b>                |
| Holdings of cash and bank deposits at start<br>of period       | 3 820                 | 3 820                 | 3 820                     | 2 924                     | 2 924                     |
| <b>Holdings of cash and bank deposits at end<br/>of period</b> | <b>3 044</b>          | <b>2 514</b>          | <b>2 443</b>              | <b>3 820</b>              | <b>3 165</b>              |



## Note 1 Accounting principles- and estimates

The accounts in this interim report show the accounts for Kommunal Landspensjonskasse (KLP) and the Group for the period 01.01.2012 - 30.09.2012. 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 2011.

It is recommended that this interim report be read in conjunction with the annual report for 2011. The annual report may be obtained at [www.klp.no](http://www.klp.no).

### Premium income for own account/change in technical provisions

Salary changes and change to the National Insurance basic amount (G) for members of KLP's defined benefits pension schemes affect the insurance liabilities and this is financed by a discrete indexation premium paid by the employer. Previously the effect of these provisions and the premium income were recognised on invoicing of the discrete indexation premium.

From the start of 2012 indexation premiums linked to salary and G-indexation are being estimated and taken to income on the date the liability increase is registered. Until the indexation premium supplement is invoiced the accrued liability resulting from registered salary adjustments will appear as premiums receivable or, alternatively, as current liabilities to policyholders if the supplement has been prepaid. Similarly, the factors mentioned above result in an increase in changes taken through profit or loss in insurance liabilities - contractual obligations by corresponding amounts from the same date. The net effect on income and owners' equity will thus be nil.

Net effect of the estimate change is increased premium income and increased liabilities of NOK 1 168 million in Q3 2012 against Q3 2011.

### Proposed change to the exemption method

In connection with presentation of the Budget on 8 October, changes were proposed to the exemption method for life insurance companies' customer portfolios with effect from 1 January 2012. The proposal means that income on shares etc. within the EEA is no longer to be exempted from tax, but is to be taxed as ordinary income. Correspondingly, losses on shares etc. will be deductible.

KLP has a carry-forward tax deficit of a magnitude that indicates that this tightening of the rules will only in the very long term result in tax payable for the Company.

## Note 2 Key figures - accumulated

| NOK million                      | Q3-12   | Q2-12   | Q1-12   | Q4-11   | Q3-11   | Q2-11   | Q1-11   | Q4-10   |
|----------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|
| <b>KLP Group</b>                 |         |         |         |         |         |         |         |         |
| Profit before tax                | 793     | 611     | 353     | 653     | 459     | 438     | 183     | 524     |
| Total assets                     | 323 634 | 312 665 | 315 057 | 291 784 | 284 518 | 285 149 | 287 849 | 271 736 |
| Owners' equity                   | 13 392  | 12 519  | 12 304  | 12 064  | 11 841  | 11 138  | 10 943  | 10 814  |
| Capital adequacy                 | 10.4 %  | 10.4 %  | 10.5 %  | 10.9 %  | 11.0 %  | 10.8 %  | 11.0 %  | 11.5 %  |
| Number of employees in the Group | 809     | 802     | 796     | 775     | 769     | 768     | 753     | 762     |



| NOK million  | Q3-12   | Q2-12   | Q1-12   | Q4-11   | Q3-11   | Q2-11   | Q1-11   | Q4-10   |
|--|---------|---------|---------|---------|---------|---------|---------|---------|
| <b>Kommunal Landspensjonskasse gjensidig forsikringselskap</b> |         |         |         |         |         |         |         |         |
| Profit before tax  | 652     | 442     | 235     | 705     | 512     | 461     | 222     | 572     |
| Premium income for own account                                 | 22 186  | 15 159  | 6 158   | 21 752  | 17 772  | 6 649   | 3 315   | 20 345  |
| - of which inflow of premium reserve                           | 1 601   | 1 550   | 1 683   | 112     | 108     | 63      | 63      | 54      |
| Insurance customers' funds incl. acc. profit                   | 8 102   | 5 394   | 2 783   | 10 033  | 7 492   | 4 991   | 2 633   | 10 082  |
| - of which funds with guaranteed returns                       | 147     | 146     | 142     | 310     | 310     | 309     | 297     | 1 389   |
| Net investment common portfolio                                | 259 084 | 254 584 | 262 615 | 242 267 | 230 914 | 236 763 | 240 414 | 225 522 |
| Net investment choice portfolio                                | 1 499   | 1 463   | 1 447   | 1 404   | 1 380   | 1 453   | 1 338   | 274     |
| Insurance funds incl. earnings for the year                    | 267 187 | 258 734 | 251 509 | 243 439 | 238 102 | 233 982 | 229 445 | 227 533 |
| - of which funds with guaranteed interest                      | 240 217 | 234 561 | 226 698 | 226 153 | 223 335 | 214 061 | 207 968 | 207 026 |
| Tier 1 and Tier 2 capital                                      | 15 498  | 14 928  | 14 891  | 14 857  | 14 433  | 13 631  | 13 765  | 13 221  |
| Risk profit  | 118     | 82      | 64      | 308     | 112     | 95      | 53      | 160     |
| Return profits   | 2 399   | 1 183   | 1 202   | 3 286   | 3 127   | 3 455   | 1 915   | 4 280   |
| Administration profit  | 62      | 49      | 8       | 61      | 72      | 65      | 30      | 82      |
| Solvency capital   | 47 579  | 41 680  | 41 336  | 36 190  | 34 657  | 35 408  | 33 427  | 33 308  |
| Solvency margin ratio  | 234 %   | 232 %   | 239.1%  | 244 %   | 227 %   | 227 %   | 230 %   | 224 %   |
| Capital adequacy   | 10.8 %  | 10.9 %  | 11.0 %  | 11.5 %  | 11.4 %  | 11.2 %  | 11.5 %  | 12.0 %  |
| Core capital ratio   | 8.8 %   | 8.7 %   | 8.8 %   | 9.1 %   | 9.0 %   | 8.8 %   | 9.0 %   | 9.3 %   |
| Book return on common portfolio                                | 3.2 %   | 1.9 %   | 1.2 %   | 4.5 %   | 3.7 %   | 3.1 %   | 1.6 %   | 5.1 %   |
| Value-adjusted return on common portfolio                      | 5.3 %   | 3.1 %   | 2.7 %   | 3.2 %   | 1.1 %   | 2.3 %   | 1.2 %   | 7.5 %   |
| Return on unit-linked portfolio                                | 6.0 %   | 3.4 %   | 3.4 %   | 2.2 %   | -0.3 %  | 1.9 %   | 1.1 %   | 8.6 %   |
| Return on corporate portfolio                                  | 4.0 %   | 2.6 %   | 1.4 %   | 4.2 %   | 3.5 %   | 3.3 %   | 1.7 %   | 5.2 %   |

**KLP Skadeforsikring AS**

|   |         |         |         |         |         |         |         |         |
|---|---------|---------|---------|---------|---------|---------|---------|---------|
| Profit before tax                                   | 99      | 71      | 23      | 25      | 33      | 40      | 12      | 72      |
| Gross premium due                                   | 667     | 591     | 427     | 650     | 586     | 520     | 365     | 631     |
| Premium income for own account                      | 486     | 325     | 161     | 599     | 442     | 288     | 141     | 539     |
| Owners' equity                                      | 558     | 535     | 512     | 481     | 497     | 501     | 483     | 481     |
| Claims ratio  | 82.0 %  | 78.9 %  | 102.9 % | 88.3 %  | 82.5 %  | 85.5 %  | 94.4 %  | 91.5 %  |
| Combined-ratio                                      | 107.6 % | 103.3 % | 130.2 % | 118.4 % | 109.6 % | 109.6 % | 123.3 % | 121.9 % |
| Return on assets under management                   | 5.1 %   | 3.0 %   | 2.4 %   | 4.5 %   | 2.6 %   | 2.8 %   | 1.3 %   | 7.2 %   |
| Capital adequacy                                    | 27.7 %  | 29.0 %  | 29.8 %  | 31.8 %  | 30.9 %  | 30.0 %  | 31.5 %  | 32.0 %  |
| Tier 1 and Tier 2 capital                           | 451     | 453     | 453     | 451     | 439     | 438     | 436     | 433     |
| Annual premium in force - retail market             | 151     | 142     | 130     | 120     | 109     | 99      | 88      | 79      |
| Annual premium in force - public sector market      | 580     | 577     | 562     | 548     | 551     | 541     | 542     | 530     |
| Net new subscriptions (accumulated within the year) | 44      | 31      | 14      | 90      | 44      | 34      | 15      | 68      |



| NOK million   | Q3-12   | Q2-12   | Q1-12   | Q4-11   | Q3-11   | Q2-11   | Q1-11   | Q4-10   |
|---|---------|---------|---------|---------|---------|---------|---------|---------|
| <b>KLP Bedriftspensjon AS</b>   |         |         |         |         |         |         |         |         |
| Loss before tax   | -13.5   | -8.1    | -5.1    | -23.8   | -13.8   | -6.8    | -2.4    | -17.1   |
| Premium income for own account  | 308.2   | 274.9   | 66.6    | 286.5   | 259.6   | 212.3   | 47.8    | 149.5   |
| - of which premium reserve added  | 219.4   | 219.9   | 39.2    | 194.7   | 191.2   | 166.3   | 25.3    | 97.7    |
| Insurance customers' funds including accumulated profit                     | 1 187.1 | 1 139.4 | 941.8   | 844.0   | 810.3   | 796.3   | 622.3   | 559.0   |
| - of which funds with guaranteed returns                                    | 848.5   | 842.0   | 662.8   | 605.2   | 589.9   | 566.6   | 423.0   | 396.3   |
| Investment result   | 6.9     | 4.7     | 5.4     | 14.2    | 6.6     | 11.9    | 8.1     | 9.9     |
| Risk result   | 3.5     | 2.9     | 0.3     | 0.1     | 2.8     | 2.3     | 1.2     | 3.6     |
| Administration losses   | -22.6   | -14.0   | -7.4    | -28.2   | -19.0   | -11.6   | -4.9    | -23.4   |
| Tier 1 and Tier 2 capital   | 49.9    | 60.4    | 43.0    | 48.0    | 32.3    | 39.4    | 43.9    | 46.7    |
| Solvency capital  | 132.7   | 122.0   | 94.8    | 90.2    | 77.6    | 88.2    | 87.8    | 89.3    |
| Capital adequacy  | 9.5 %   | 11.9 %  | 11.2 %  | 13.9 %  | 9.4 %   | 12.0 %  | 16.8 %  | 19.6 %  |
| Book capital return on common portfolio                                     | 3.6 %   | 2.3 %   | 1.6 %   | 6.3 %   | 3.8 %   | 4.2 %   | 2.6 %   | 6.0 %   |
| Value-adjusted capital return on common portfolio                           | 5.2 %   | 3.1 %   | 2.3 %   | 3.7 %   | 1.3 %   | 2.6 %   | 1.5 %   | 8.3 %   |
| Return on defined unit-linked contribution pensions                         | 10.1 %  | 4.9 %   | 6.1 %   | 0.2 %   | -4.1 %  | 1.9 %   | 1.5 %   | 9.3 %   |
| Return on corporate portfolio   | 5.3 %   | 3.0 %   | 1.9 %   | 4.8 %   | 3.2 %   | 1.9 %   | 0.6 %   | 5.0 %   |
| <b>KLP Banken Group</b>   |         |         |         |         |         |         |         |         |
| Profit/loss before tax  | 85.8    | 34.1    | 26.4    | -62.2   | -33.5   | -20.9   | 1.6     | 35.9    |
| Net interest income   | 60.0    | 35.2    | 12.8    | 21.1    | 11.1    | 10.1    | 11.3    | 31.6    |
| Other operating income  | 67.8    | 51.5    | 29.5    | 63.4    | 46.2    | 30.9    | 17.6    | 54.6    |
| Operating expenses and depreciation   | -94.1   | -60.3   | -33.4   | -139.9  | -97.7   | -62.4   | -28.5   | -109.6  |
| Net realized/unrealized changes in financial instruments to fair value      | 52.1    | 7.6     | 17.5    | -6.8    | 7.0     | 0.5     | 1.1     | 59.2    |
| Contributions   | 2 552.5 | 2 323.6 | 2 115.0 | 1 840.3 | 1 715.1 | 1 530.4 | 1 440.9 | 1 025.7 |
| Housing mortgages granted   | 1 550.5 | 1 597.4 | 1 653.3 | 3 213.9 | 2 476.9 | 2 057.0 | 1 614.3 | 1 266.6 |
| Loan(s) with public guarantee(s)  | 21 915  | 22 191  | 24 734  | 25 202  | 25 652  | 24 732  | 24 794  | 25 062  |
| Defaulted loans   | 5.9     | 5.7     | 11.8    | 16.1    | 40.8    | 3.5     | -       | -       |
| Borrowing on the issuance of securities                                     | 24 443  | 24 868  | 25 864  | 24 170  | 22 132  | 18 635  | 13 629  | 9 245   |
| Other borrowing   | -       | 200     | 450     | 4 306   | 6 010   | 8 313   | 11 819  | 16 167  |
| Total assets  | 28 668  | 28 960  | 29 932  | 31 716  | 31 387  | 29 859  | 28 237  | 27 865  |
| Average total assets  | 30 186  | 29 752  | 30 238  | 29 790  | 29 626  | 28 862  | 28 051  | 31 252  |
| Owners' equity  | 1 221   | 1 184   | 1 175   | 1 171   | 1 170   | 1 179   | 1 189   | 1 186   |
| Net interest rate   | 0.20 %  | 0.12 %  | 0.04 %  | 0.07 %  | 0.04 %  | 0.04 %  | 0.04 %  | 0.10 %  |
| Profit/loss from general operations before tax                              | 0.28 %  | 0.11 %  | 0.09 %  | -0.21 % | -0.11 % | -0.07 % | 0.01 %  | 0.11 %  |
| Profit/loss from general operations excl. fair value assessments before tax | 0.11 %  | 0.09 %  | 0.03 %  | -0.19 % | -0.14 % | -0.07 % | 0.00 %  | -0.07 % |
| Return on owners' equity before tax   | 7.03 %  | 2.88 %  | 2.25 %  | -5.31 % | -2.86 % | -1.78 % | 0.13 %  | 3.02 %  |
| Capital adequacy  | 18.6 %  | 18.2 %  | 17.2 %  | 14.4 %  | 15.6 %  | 17.1 %  | 17.7 %  | 14.2 %  |
| Retail customers  | 21 572  | 21 144  | 18 715  | 15 622  | 13 535  | 12 555  | 10 082  | 7 965   |
| Retail customers who are members of KLP                                     | 13 938  | 11 769  | 10 539  | 9 151   | 8 217   | 7 495   | 5 936   | 4 729   |
| <b>KLP Kapitalforvaltning AS &amp; KLP Fondsforvaltning AS</b>              |         |         |         |         |         |         |         |         |
| Profit/loss before tax  | 14.0    | 6.2     | 0.1     | 26.3    | 21.0    | 14.0    | 2.5     | 19.2    |
| Total assets under management   | 222 776 | 216 113 | 214 399 | 205 099 | 192 636 | 192 446 | 186 521 | 185 714 |
| Assets managed for external customers                                       | 19 087  | 17 713  | 16 134  | 13 650  | 13 143  | 14 704  | 13 820  | 14 170  |



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

Time series result - by quarter

| NOK million                                 | Q3-12      | Q2-12      | Q1-12      | Q4-11      | Q3-11     | Q2-11      | Q1-11      | Q4-10      |
|---|------------|------------|------------|------------|-----------|------------|------------|------------|
| Total income                                | 13 139     | 10 974     | 13 262     | 11 527     | 13 534    | 6 457      | 7 340      | 11 647     |
| Total expenses                              | -12 955    | -10 716    | -12 909    | -11 351    | -13 485   | -6 212     | -7 157     | -11 491    |
| <b>Consolidated group profit before tax</b> | <b>183</b> | <b>258</b> | <b>353</b> | <b>176</b> | <b>49</b> | <b>245</b> | <b>183</b> | <b>148</b> |
| Results by segment                          |            |            |            |            |           |            |            |            |
| Life insurance                              | 97         | 193        | 305        | 224        | 79        | 210        | 167        | 84         |
| Non-life                                    | 27         | 48         | 23         | -7         | -19       | 40         | 12         | 10         |
| Banking                                     | 52         | 8          | 26         | -47        | -15       | -21        | 2          | 41         |
| Asset management                            | 8          | 7          | -1         | 5          | 5         | 14         | 2          | 12         |
| Other business                              | -1         | 1          | 0          | 2          | -1        | 2          | 0          | 0          |
| <b>Consolidated group profit before tax</b> | <b>183</b> | <b>258</b> | <b>353</b> | <b>176</b> | <b>49</b> | <b>245</b> | <b>183</b> | <b>148</b> |

**Note 4 Premium income for own account**

| NOK million   | Q3<br>2012   | Q3<br>2011    | 01.01.12<br>-30.09.12 | 01.01.11<br>-30.09.11 | Year<br>2011  |
|---|--------------|---------------|-----------------------|-----------------------|---------------|
| Premium- salary- and adjustment of pension benefits | 3 082        | 7 753         | 9 108                 | 7 941                 | 7 851         |
| Gross premiums due                                  | 4 069        | 3 553         | 12 022                | 10 281                | 14 465        |
| - Reinsurance premiums ceded                        | -21          | -11           | -47                   | -38                   | -48           |
| Transfer of premium reserved from others            | 50           | 0             | 1 820                 | 229                   | 306           |
| <b>Total premium income</b>                         | <b>7 180</b> | <b>11 294</b> | <b>22 903</b>         | <b>18 414</b>         | <b>22 574</b> |

**Note 5 Investment property**

| Profit/loss<br>NOK million                   | Q3<br>2012 | Q3<br>2011 | 01.01.12<br>-30.09.12 | 01.01.11<br>-30.09.11 | Year<br>2011 |
|--|------------|------------|-----------------------|-----------------------|--------------|
| Rental income property                       | 384        | 261        | 1 626                 | 1 147                 | 1 469        |
| Value adjustment                             | - 86       | 42         | 57                    | 379                   | 410          |
| <b>Net income from investment properties</b> | <b>297</b> | <b>302</b> | <b>1 683</b>          | <b>1 526</b>          | <b>1 879</b> |

| Balance<br>NOK million                       | 30.09.<br>2012 | 30.09.<br>2011 | 31.12.<br>2011 |
|--|----------------|----------------|----------------|
| Value investment property 01.01              | 28 726         | 26 105         | 26 105         |
| Value adjustment                             | 57             | 379            | 410            |
| Net increase                                 | 2 187          | 1 614          | 2 211          |
| Other changes                                | 34             | 8              | 0              |
| <b>Value investment property 30.09/31.12</b> | <b>31 004</b>  | <b>28 106</b>  | <b>28 726</b>  |





## Note 6 Other income

| NOK million  | Q3<br>2012 | Q3<br>2011 | 01.01.12-<br>30.09.12 | 01.01.11-<br>30.09.11 | Year<br>2011 |
|--|------------|------------|-----------------------|-----------------------|--------------|
| Supplement contractual early retirement scheme (AFP) | 162        | 165        | 483                   | 494                   | 655          |
| Fee income   | 26         | 22         | 81                    | 68                    | 94           |
| Other income/expenses                                | 7          | 3          | 15                    | 1                     | 0            |
| <b>Total other income</b>                            | <b>195</b> | <b>190</b> | <b>579</b>            | <b>563</b>            | <b>748</b>   |

## Note 7 Subordinated loan and Perpetual hybrid Tier 1 securities

| NOK million   | Q3<br>2012 | Q3<br>2011  | 01.01.12-<br>30.09.12 | 01.01.11-<br>30.09.11 | Year<br>2011 |
|---|------------|-------------|-----------------------|-----------------------|--------------|
| <b>Subordinated loan</b>  |            |             |                       |                       |              |
| Interest costs <sup>1</sup>   | -36        | -40         | -107                  | -115                  | -151         |
| Value changes   | 62         | -122        | 152                   | -67                   | -41          |
| <b>Total subordinated loan</b>  | <b>26</b>  | <b>-162</b> | <b>45</b>             | <b>-181</b>           | <b>-192</b>  |
| <b>Perpetual hybrid Tier 1 securities</b>   |            |             |                       |                       |              |
| Interest costs  | -11        | -11         | -32                   | -31                   | -42          |
| Value changes   | 16         | -238        | -14                   | -135                  | -172         |
| <b>Total Perpetual hybrid Tier 1 securities</b>   | <b>5</b>   | <b>-249</b> | <b>-46</b>            | <b>-165</b>           | <b>-213</b>  |
| <b>Total interest costs and value change subordinated loan and perpetual hybrid Tier 1 securities</b> | <b>32</b>  | <b>-411</b> | <b>-1</b>             | <b>-347</b>           | <b>-406</b>  |

<sup>1</sup> Besides pure interest costs this includes recognition through profit/loss of a discount on one subordinated loan.

The note provides a specification of the line "Net costs and change in value subordinated loan and perpetual hybrid Tier 1 securities" attributed to interest costs and value change during the stated periods.

The large fluctuations in value change are predominantly due to the loans being denominated in foreign currency. One subordinated loan is issued in euros, whereas the other subordinated loan and the perpetual hybrid Tier 1 securities are issued in Japanese yen. Hedge accounting is used on the hybrid Tier 1 securities. The two subordinated loans have ordinary financial hedging. In practice, the use of hedging involves a minimal total income effect if account is taken of the hedged object and the hedging instrument together. For more information concerning hedging and terms of the subordinated loans and perpetual hybrid Tier 1 securities attention is drawn to the annual report.

## Note 8 Operating costs

| NOK million                     | Q3<br>2012 | Q3<br>2011 | 01.01.12-<br>30.09.12 | 01.01.11-<br>30.09.11 | Year<br>2011 |
|---------------------------------|------------|------------|-----------------------|-----------------------|--------------|
| Staff costs                     | 238        | 206        | 582                   | 507                   | 608          |
| Depreciation                    | 24         | 28         | 73                    | 75                    | 138          |
| Other operating expenses        | 18         | 27         | 164                   | 181                   | 370          |
| <b>Total operating expenses</b> | <b>280</b> | <b>260</b> | <b>818</b>            | <b>763</b>            | <b>1 115</b> |



**Note 9 Other expenses**

| NOK million                 | Q3<br>2012 | Q3<br>2011 | 01.01.12-<br>30.09.12 | 01.01.11-<br>30.09.11 | Year<br>2011 |
|-----------------------------|------------|------------|-----------------------|-----------------------|--------------|
| Expenses AFP                | 163        | 166        | 482                   | 494                   | 655          |
| Other expenses              | 0          | 1          | 2                     | 4                     | 5            |
| <b>Total other expenses</b> | <b>163</b> | <b>167</b> | <b>484</b>            | <b>498</b>            | <b>660</b>   |

**Note 10 Financial liabilities**

| NOK million   | Nominal<br>value in<br>NOK <sup>1</sup> | Currency        | Interest<br>rate | Due<br>date | Book value<br>30.09.2012 | Book value<br>30.09.2011 | Book value<br>31.12.2011 |
|---|---|-----------------|------------------|-------------|--------------------------|--------------------------|--------------------------|
| <b>Subordinated loan capital and perpetual subordinated loans</b>       |   |                 |                  |             |                          |                          |                          |
| <b>Perpetual subordinated loans</b>                                     |   |                 |                  |             |                          |                          |                          |
| Kommunal Landspensjonskasse   | 2 372                                   | EUR             | Fixed            | Perpetual   | 2 255                    | 2 411                    | 2 402                    |
| Kommunal Landspensjonskasse   | 554                                     | JPY             | Fixed            | Perpetual   | 711                      | 736                      | 742                      |
| <b>Hybrid Tier 1 capital</b>  |   |                 |                  |             |                          |                          |                          |
| Kommunal Landspensjonskasse   | 984                                     | JPY             | Fixed            | 2034        | 1 169                    | 1 119                    | 1 145                    |
| <b>Total subordinated loan capital and perpetual subordinated loans</b> | <b>3 910</b>                            |                 |                  |             | <b>4 135</b>             | <b>4 265</b>             | <b>4 288</b>             |
| <b>Debt contracted by issuing securities</b>                            |   |                 |                  |             |                          |                          |                          |
| <b>Covered bonds</b>  |   |                 |                  |             |                          |                          |                          |
| KLP Kommunekreditt AS   | 2 470                                   | NOK             | Floating         | 2012        | 2 473                    | 5 900                    | 5 900                    |
| KLP Kommunekreditt AS   | 1 091                                   | SEK             | Floating         | 2013        | 1 092                    | 1 095                    | 1 095                    |
| KLP Kommunekreditt AS   | 4 000                                   | NOK             | Floating         | 2013        | 4 005                    | 4 000                    | 4 000                    |
| KLP Kommunekreditt AS   | 4 000                                   | NOK             | Floating         | 2014        | 4 011                    | 4 000                    | 4 000                    |
| KLP Kommunekreditt AS   | 437                                     | SEK             | Floating         | 2015        | 438                      | 0                        | 0                        |
| KLP Kommunekreditt AS   | 4 300                                   | NOK             | Floating         | 2015        | 2 533                    | 4 300                    | 4 300                    |
| KLP Kommunekreditt AS   | 2 500                                   | NOK             | Fixed            | 2015        | 4 304                    | 2 000                    | 2 000                    |
| KLP Kommunekreditt AS   | 1 000                                   | NOK             | Floating         | 2016        | 1 006                    | 0                        | 0                        |
| KLP Kommunekreditt AS   | 750                                     | NOK             | Fixed            | 2020        | 777                      | 750                      | 750                      |
| Valuation adjustment and accrued interest                               |   |                 |                  |             | 127                      | 29                       | 107                      |
| <b>Total covered bonds</b>  | <b>20 548</b>                           |                 |                  |             | <b>20 767</b>            | <b>22 074</b>            | <b>22 152</b>            |
| <b>Liabilities to credit institutions</b>                               |   |                 |                  |             |                          |                          |                          |
| KLP Kreditt AS  | 0                                       |                 | Fixed            | 2012        | 0                        | 559                      | 1 006                    |
| KLP Banken AS   | 500                                     | NOK             | Floating         | 2012        | 501                      | 0                        | 0                        |
| KLP Banken AS   | 1 960                                   | NOK             | Floating         | 2013        | 1 969                    | 0                        | 0                        |
| KLP Banken AS   | 300                                     | NOK             | Fixed            | 2013        | 301                      | 0                        | 0                        |
| KLP Banken AS   | 600                                     | NOK             | Floating         | 2015        | 602                      | 0                        | 0                        |
| KLP Banken AS   | 300                                     | NOK             | Fixed            | 2017        | 304                      | 0                        | 0                        |
| Kommunal Landspensjonskasse   | 0                                       | NOK/EUR/<br>USD | Floating         | 2011        | 0                        | 328                      | 0                        |
| Kommunal Landspensjonskasse   | 1 178                                   | NOK/EUR/<br>USD | Floating         | 2012        | 1 178                    | 0                        | 392                      |
| <b>Total liabilities to credit institutions</b>                         | <b>4 838</b>                            |                 |                  |             | <b>4 854</b>             | <b>887</b>               | <b>1 398</b>             |
| <b>Deposits from customers <sup>1</sup></b>                             |   |                 |                  |             |                          |                          |                          |
| Private   | 2 458                                   | NOK             |                  |             | 2 458                    | 1 695                    | 1 809                    |
| Business  | 94                                      | NOK             |                  |             | 94                       | 20                       | 31                       |
| <b>Total contributions from customers</b>                               | <b>2 553</b>                            |                 |                  |             | <b>2 553</b>             | <b>1 715</b>             | <b>1 840</b>             |
| <b>Total financial liabilities</b>                                      | <b>31 848</b>                           |                 |                  |             | <b>32 309</b>            | <b>28 941</b>            | <b>29 680</b>            |

<sup>1</sup> There are no contractual due dates for deposits.

The note shows the financial liabilities the Group has at the end of the reporting period.



## Note 11 Fair value hierarchy

| NOK million  | 30.09.2012     | 30.09.2011     | 31.12.2011     |
|--|----------------|----------------|----------------|
| <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   | 0              | 0              | 0              |
| Level 2: Value based on observable market data   | 2 388          | 3 447          | 2 519          |
| Level 3: Value based on other than observable market data  | 0              | 0              | 0              |
| <b>Lending local authorities, enterprises and personal customers</b>                               | <b>2 388</b>   | <b>3 447</b>   | <b>2 519</b>   |
| <b>Debt instruments (bonds, certificates and investments in financial institutions)</b>            |                |                |                |
| Level 1: Value based on prices in an active market   | 54 317         | 47 652         | 49 219         |
| Level 2: Value based on observable market data   | 37 543         | 22 923         | 27 832         |
| Level 3: Value based on other than observable market data  | 0              | 0              | 0              |
| <b>Debt instruments (bonds, certificates and investments in financial institutions)</b>            | <b>91 860</b>  | <b>70 574</b>  | <b>77 050</b>  |
| <b>Owners' equity instruments (shares; equity and property funds; and alternative investments)</b> |                |                |                |
| Level 1: Value based on prices in an active market   | 35 249         | 29 445         | 31 363         |
| Level 2: Value based on observable market data   | 1 808          | 2 049          | 2 259          |
| Level 3: Value based on other than observable market data  | 2 989          | 2 366          | 2 547          |
| <b>Owners' equity instruments (shares; equity and property funds; and alternative investments)</b> | <b>40 046</b>  | <b>33 860</b>  | <b>36 168</b>  |
| <b>Financial derivatives</b>   |                |                |                |
| Level 1: Value based on prices in an active market   | 0              | 0              | 0              |
| Level 2: Value based on observable market data   | 1 497          | 758            | 915            |
| Level 3: Value based on other than observable market data  | 0              | 0              | 0              |
| <b>Financial derivatives</b>   | <b>1 497</b>   | <b>758</b>     | <b>915</b>     |
| <b>Total financial assets valued at fair value</b>   | <b>135 792</b> | <b>108 640</b> | <b>116 653</b> |
| <b>Liabilities</b>   |                |                |                |
| <b>Financial derivatives</b>   |                |                |                |
| Level 1: Value based on prices in an active market   | 0              | 0              | 0              |
| Level 2: Value based on observable market data   | 683            | 1 518          | 1 031          |
| Level 3: Value based on other than observable market data  | 0              | 0              | 0              |
| <b>Financial derivatives</b>   | <b>683</b>     | <b>1 518</b>   | <b>1 031</b>   |
| <b>Debt to financial institutions</b>  |                |                |                |
| Level 1: Value based on prices in an active market   | 1 178          | 328            | 392            |
| Level 2: Value based on observable market data   | 3 676          | 559            | 1 006          |
| Level 3: Value based on other than observable market data  | 0              | 0              | 0              |
| <b>Debt to financial institutions</b>  | <b>4 854</b>   | <b>887</b>     | <b>1 398</b>   |
| <b>Total financial liabilities at fair value</b>   | <b>5 537</b>   | <b>2 405</b>   | <b>2 429</b>   |



## Note 11 Fair value hierarchy, contd.

| Changes in level 3<br>NOK million | Q3<br>2012   | Q3<br>2011   | Year<br>2011 |
|-----------------------------------|--------------|--------------|--------------|
| <b>Holdings 01.01</b>             | 2 547        | 1 589        | 1 589        |
| Sold                              | -638         | -292         | -360         |
| Bought                            | 997          | 775          | 1 018        |
| Value change                      | 83           | 293          | 300          |
| <b>Holdings 30.09/31.12</b>       | <b>2 989</b> | <b>2 366</b> | <b>2 547</b> |
| Realised loss/gain                | 48           | 30           | 62           |

<sup>1</sup> In addition to the assets listed, assets in defined contribution plans also fall within the realm of the fair value hierarchy (NOK 276 million). Those assets are not included in the table, however, of the NOK 276 million concerned NOK 130 million relate to equity investments and participation under level 1, and 146 million to debt instruments at fair value under level 1 as of 30.09.2012.

Changes in level 3 (Q3 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 12 Accounts receivable

| NOK million  | 30.09.<br>2012 | 30.09.<br>2011 | 31.12.<br>2011 |
|--|----------------|----------------|----------------|
| Short-term receivable trade in securities                | 333            | 373            | 134            |
| Premium receivable                                       | 11 556         | 7 736          | 305            |
| Reinsurance share of gross outstanding claims provisions | 195            | 255            | 218            |
| Other receivable   | 1 061          | 627            | 946            |
| <b>Total receivable</b>                                  | <b>13 144</b>  | <b>8 990</b>   | <b>1 603</b>   |



**Note 13 Credit risk**

| 30.09.2012<br>NOK million   | AAA           | AA           | A             | BBB          | NR/NIG        | Total         |
|---|---------------|--------------|---------------|--------------|---------------|---------------|
| <b>Debt instruments held to maturity - at amortised cost</b>                          |               |              |               |              |               |               |
| Financial and credit enterprises  | 0             | 1 007        | 806           | 0            | 526           | 2 338         |
| Public guarantee  | 0             | 0            | 0             | 0            | 1 012         | 1 012         |
| Savings banks   | 1 398         | 0            | 0             | 0            | 52            | 1 450         |
| Government and government guarantee within OECD                                       | 20 731        | 0            | 0             | 828          | 0             | 21 560        |
| State enterprises and Covered Bonds   | 2 719         | 527          | 0             | 0            | 1 488         | 4 734         |
| Other   | 0             | 993          | 2 618         | 0            | 3 849         | 7 460         |
| <b>Total</b>  | <b>24 849</b> | <b>2 527</b> | <b>3 424</b>  | <b>828</b>   | <b>6 927</b>  | <b>38 554</b> |
| <b>Debt instruments classified as loans and receivables - at amortised cost</b>       |               |              |               |              |               |               |
| Banks   | 0             | 1 792        | 4 386         | 0            | 651           | 6 829         |
| Financial and credit enterprises  | 502           | 0            | 255           | 0            | 256           | 1 012         |
| Public guarantee  | 1 133         | 0            | 0             | 0            | 826           | 1 959         |
| Government and government guarantee within OECD                                       | 14 399        | 0            | 0             | 2 023        | 0             | 16 422        |
| State enterprises and Covered Bonds   | 6 810         | 827          | 862           | 0            | 2 376         | 10 875        |
| Other   | 0             | 1 684        | 2 751         | 877          | 7 540         | 12 852        |
| <b>Total</b>  | <b>22 844</b> | <b>4 303</b> | <b>8 254</b>  | <b>2 900</b> | <b>11 648</b> | <b>49 949</b> |
| <b>Debt instruments at fair value - bonds and other securities with fixed returns</b> |               |              |               |              |               |               |
| Banks   | 0             | 443          | 3 223         | 52           | 9 503         | 13 221        |
| Financial and credit enterprises  | 11            | 576          | 458           | 0            | 289           | 1 334         |
| Public guarantee  | 855           | 55           | 0             | 0            | 973           | 1 883         |
| Government and government guarantee within OECD                                       | 5 945         | 3 970        | 0             | 528          | 0             | 10 443        |
| State enterprises and Covered Bonds   | 1 874         | 206          | 0             | 100          | 5 956         | 8 136         |
| Other   | 0             | 289          | 445           | 33           | 7 420         | 8 187         |
| <b>Total</b>  | <b>8 685</b>  | <b>5 539</b> | <b>4 125</b>  | <b>712</b>   | <b>24 143</b> | <b>43 204</b> |
| <b>Financial derivatives classified as assets</b>                                     |               |              |               |              |               |               |
| Denmark   | 0             | 0            | 264           | 0            | 0             | 264           |
| Finland   | 0             | 71           | 0             | 0            | 0             | 71            |
| Norway  | 0             | 38           | 355           | 0            | 0             | 394           |
| Great Britain   | 0             | 0            | 0             | 0            | 0             | 0             |
| Switzerland   | 0             | 0            | 125           | 0            | 0             | 125           |
| Sweden  | 0             | 0            | 309           | 0            | 0             | 309           |
| Germany   | 0             | 0            | 14            | 0            | 0             | 14            |
| USA   | 0             | 0            | 321           | 0            | 0             | 321           |
| <b>Total</b>  | <b>0</b>      | <b>110</b>   | <b>1 388</b>  | <b>0</b>     | <b>0</b>      | <b>1 497</b>  |
| <b>Debt instruments at fair value - fixed income fund units</b>                       |               |              |               |              |               |               |
| Government and government guarantee within OECD                                       | 0             | 0            | 0             | 0            | 120           | 120           |
| Other   | 0             | 0            | 19 147        | 0            | 16 090        | 35 236        |
| <b>Total</b>  | <b>0</b>      | <b>0</b>     | <b>19 147</b> | <b>0</b>     | <b>16 210</b> | <b>35 357</b> |



**Note 13 Credit risk, contd.**

| 30.09.2012<br>NOK million   | AAA           | AA            | A             | BBB           | NR/NIG        | Total          |
|---|---------------|---------------|---------------|---------------|---------------|----------------|
| <b>Debt instruments at fair value - lending and receivables</b>                   |               |               |               |               |               |                |
| Denmark   | 0             | 0             | 2 074         | 0             | 0             | 2 074          |
| Norway  | 0             | 0             | 4 171         | 0             | 3 133         | 7 304          |
| Great Britain   | 0             | 0             | 2 013         | 0             | 0             | 2 013          |
| Sweden  | 125           | 0             | 1 416         | 0             | 0             | 1 542          |
| USA   | 0             | 0             | 367           | 0             | 0             | 367            |
| <b>Total</b>  | <b>125</b>    | <b>0</b>      | <b>10 041</b> | <b>0</b>      | <b>3 133</b>  | <b>13 299</b>  |
| <b>Total securities</b>   | <b>56 502</b> | <b>12 479</b> | <b>46 378</b> | <b>4 441</b>  | <b>62 061</b> | <b>181 861</b> |
| <b>Lending local government, enterprises &amp; personal customers<sup>1</sup></b> |               |               |               |               |               |                |
|   |               | <b>0 %</b>    | <b>20 %</b>   | <b>35 %</b>   | <b>100 %</b>  | <b>Total</b>   |
| Public sector <sup>1</sup>  |               | 0             | 38 819        | 0             | 1 660         | 40 479         |
| Credit institutions   |               | 0             | 1 053         | 4             | 864           | 1 921          |
| Private individuals   |               | 0             | 0             | 10 118        | 344           | 10 462         |
| <b>Total</b>  |               | <b>0</b>      | <b>39 871</b> | <b>10 122</b> | <b>2 869</b>  | <b>52 862</b>  |
| <b>31.12.2011</b>   |               |               |               |               |               |                |
| NOK million   | AAA           | AA            | A             | BBB           | NR/NIG        | Total          |
| <b>Debt instrument held to maturity - at amortised cost</b>                       |               |               |               |               |               |                |
| Financial and credit enterprises  | 0             | 2 043         | 1 042         | 1 032         | 861           | 4 977          |
| Public guarantee  | 1 368         | 0             | 0             | 0             | 50            | 1 419          |
| Savings banks   | 0             | 0             | 50            | 0             | 210           | 260            |
| Government and government guarantee within OECD                                   | 21 087        | 839           | 1 581         | 0             | 0             | 23 506         |
| State enterprises and Covered Bonds   | 3 246         | 0             | 0             | 0             | 1 462         | 4 708          |
| Other   | 0             | 989           | 2 587         | 0             | 2 991         | 6 568          |
| <b>Total</b>  | <b>25 701</b> | <b>3 871</b>  | <b>5 260</b>  | <b>1 032</b>  | <b>5 574</b>  | <b>41 438</b>  |
| <b>Debt instruments classified as loans and receivables -at amortised cost</b>    |               |               |               |               |               |                |
| Financial and credit enterprises  | 510           | 259           | 3 889         | 0             | 2 302         | 6 960          |
| Public guarantee  | 1 111         | 0             | 0             | 0             | 829           | 1 940          |
| Savings banks   | 0             | 0             | 451           | 0             | 681           | 1 132          |
| Government and government guarantee within OECD                                   | 14 355        | 0             | 2 045         | 0             | 0             | 16 400         |
| State enterprises and Covered Bonds   | 5 973         | 1 118         | 1 768         | 0             | 2 401         | 11 260         |
| Other   | 0             | 1 268         | 2 245         | 389           | 5 341         | 9 243          |
| <b>Total</b>  | <b>21 949</b> | <b>2 645</b>  | <b>10 399</b> | <b>389</b>    | <b>11 555</b> | <b>46 936</b>  |

**Note 13 Credit risk, contd.**

| 31.12.2011<br>NOK million   | AAA           | AA            | A             | BBB          | NR/<br>NIG    | Total          |
|---|---------------|---------------|---------------|--------------|---------------|----------------|
| <b>Debt instruments at fair value - bonds and other securities with fixed returns</b> |               |               |               |              |               |                |
| Financial and credit enterprises  | 45            | 2 477         | 4 029         | 10           | 1 959         | 8 520          |
| Public guarantee  | 681           | 55            | 0             | 0            | 720           | 1 456          |
| Savings banks   | 0             | 0             | 826           | 0            | 7 972         | 8 797          |
| Government and government guarantee within OECD                                       | 5 452         | 3 832         | 349           | 0            | 0             | 9 633          |
| State enterprises and Covered Bonds   | 1 311         | 0             | 0             | 0            | 3 077         | 4 388          |
| Other   | 0             | 223           | 25            | 391          | 4 272         | 4 910          |
| <b>Total</b>  | <b>7 490</b>  | <b>6 586</b>  | <b>5 229</b>  | <b>401</b>   | <b>17 999</b> | <b>37 704</b>  |
| <b>Financial derivatives classified as assets</b>                                     |               |               |               |              |               |                |
| Denmark   | 0             | 0             | 170           | 0            | 0             | 170            |
| Finland   | 0             | 42            | 0             | 0            | 0             | 42             |
| Norway  | 0             | 75            | 136           | 0            | 0             | 211            |
| Great Britain   | 0             | 0             | 2             | 0            | 0             | 2              |
| Switzerland   | 0             | 0             | 43            | 0            | 0             | 43             |
| Sweden  | 0             | 0             | 152           | 0            | 0             | 152            |
| Germany   | 0             | 0             | 84            | 0            | 0             | 84             |
| USA   | 0             | 0             | 211           | 0            | 0             | 211            |
| <b>Total</b>  | <b>0</b>      | <b>117</b>    | <b>798</b>    | <b>0</b>     | <b>0</b>      | <b>915</b>     |
| <b>Debt instruments at fair value - fixed income fund units</b>                       |               |               |               |              |               |                |
| Public sector, Financial and credit enterprises                                       | 0             | 0             | 0             | 0            | 1 240         | 1 240          |
| Government and government guarantee within OECD                                       | 0             | 0             | 0             | 0            | 117           | 117            |
| Other   | 0             | 0             | 16 405        | 0            | 12 871        | 29 276         |
| <b>Total</b>  | <b>0</b>      | <b>0</b>      | <b>16 405</b> | <b>0</b>     | <b>14 228</b> | <b>30 633</b>  |
| <b>Debt instruments at fair value - lending and receivables</b>                       |               |               |               |              |               |                |
| Denmark   | 0             | 0             | 130           | 0            | 0             | 130            |
| Finland   | 0             | 299           | 0             | 0            | 0             | 299            |
| France  | 0             | 0             | 0             | 0            | 0             | 0              |
| Norway  | 0             | 0             | 2 743         | 0            | 2 661         | 5 404          |
| Sweden  | 0             | 195           | 444           | 0            | 0             | 639            |
| Great Britain   | 0             | 1 763         | 9             | 0            | 0             | 1 771          |
| USA   | 0             | 0             | 470           | 0            | 0             | 470            |
| <b>Total</b>  | <b>0</b>      | <b>2 257</b>  | <b>3 796</b>  | <b>0</b>     | <b>2 661</b>  | <b>8 713</b>   |
| <b>Total securities</b>   | <b>55 140</b> | <b>15 476</b> | <b>41 886</b> | <b>1 822</b> | <b>52 016</b> | <b>166 339</b> |
| <b>Lending local government, enterprises &amp; personal customers<sup>1</sup></b>     |               |               |               |              |               |                |
|   |               | 0 %           | 20 %          | 35 %         | 100 %         | Totalt         |
| Public sector <sup>1</sup>  |               | 0             | 39 789        | 0            | 3 098         | 42 887         |
| Companies   |               | 0             | 0             | 0            | 1 474         | 1 474          |
| Private individuals   |               | 0             | 0             | 9 100        | 82            | 9 182          |
| <b>Total</b>  |               | <b>0</b>      | <b>39 789</b> | <b>9 100</b> | <b>4 654</b>  | <b>53 543</b>  |

## Note 13 Credit risk, contd.

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).

### Geographic extract of debt instruments - Exposure against profiled countries in the Eurozone (PIIGS<sup>2</sup>)

| 30.09.2012<br>NOK million                 | Acquisition cost | Unrealised gain/loss | Of which due to rate of exchange | Market value | Book value 30.09.2012 |
|---|------------------|----------------------|----------------------------------|--------------|-----------------------|
| <b>Spain</b>                              |                  |                      |                                  |              |                       |
| Fixed income securities at fair value     | 158              | -19                  | -9                               | 139          | 139                   |
| Fixed income securities at amortised cost | 813              | -21                  | 0                                | 792          | 813                   |
| <b>Total Spain</b>                        | <b>971</b>       | <b>-40</b>           | <b>-9</b>                        | <b>931</b>   | <b>952</b>            |
| <b>Italy</b>                              |                  |                      |                                  |              |                       |
| Fixed income securities at fair value     | 444              | -55                  | -44                              | 389          | 389                   |
| Fixed income securities at amortised cost | 2 000            | -39                  | 0                                | 1 961        | 2 000                 |
| <b>Total Italy</b>                        | <b>2 444</b>     | <b>-95</b>           | <b>-44</b>                       | <b>2 350</b> | <b>2 389</b>          |
| <b>Total exposure PIIGS</b>               | <b>3 416</b>     | <b>-135</b>          | <b>-53</b>                       | <b>3 281</b> | <b>3 341</b>          |

In Spain and Italy pure government debt represents 139 million and 2 350 million respectively, and government guaranteed securities 792 million and 0 million (market value) as at 30.09.2012.

| 30.09.2012<br>Rating | Spain | Italy |
|----------------------|-------|-------|
| Moody's              | Baa3  | Baa2  |
| Standard & Poor's    | BBB+  | BBB+  |
| Fitch                | BBB   | A-    |





**Note 13 Credit risk, contd.**

| 31.12.2011<br>NOK million                 | Acquisition<br>cost | Unrealised<br>gain/loss | Of which<br>due to rate<br>of exchange | Market<br>value | Book value<br>31.12.<br>2011 |
|---|---------------------|-------------------------|--|-----------------|------------------------------|
| <b>Spain</b>                              |                     |                         |  |                 |                              |
| Fixed income securities at fair value     | 176                 | -9                      | -3                                     | 167             | 167                          |
| Fixed income securities at amortised cost | 813                 | -18                     | 0                                      | 795             | 813                          |
| <b>Total Spain</b>                        | <b>988</b>          | <b>-27</b>              | <b>-3</b>                              | <b>962</b>      | <b>980</b>                   |
| <b>Italy</b>                              |                     |                         |  |                 |                              |
| Fixed income securities at fair value     | 422                 | -72                     | -22                                    | 349             | 349                          |
| Fixed income securities at amortised cost | 3 587               | -289                    | -31                                    | 3 298           | 3 556                        |
| <b>Total Italy</b>                        | <b>4 009</b>        | <b>-361</b>             | <b>-54</b>                             | <b>3 648</b>    | <b>3 905</b>                 |
| <b>Total exposure PIIGS</b>               | <b>4 997</b>        | <b>-388</b>             | <b>-56</b>                             | <b>4 609</b>    | <b>4 885</b>                 |

In Spain and Italy pure government debt represents 167 million and 3 647.7 million respectively, and government guaranteed securities 794.6 million and 0 million (market value) on 31 December 2011

| 31.12.2011<br>Rating | Spain | Italy |
|----------------------|-------|-------|
| Moody's              | A1    | A2    |
| Standard & Poor's    | AA-   | A     |
| Fitch                | AA-   | A+    |

<sup>1</sup> The credit risk to which lending is exposed is calculated based on the regulations on minimum capital adequacy requirements, and the rules that apply on determining the basis for calculations. The loans are shown separately since they are not included in the same rating categories.

<sup>2</sup> The acronym PIIGS refers to the countries assumed to be most exposed as a result of the market disquiet concerning government debt in the Eurozone and is used in regard to Portugal, Ireland, Italy, Greece, Spain.

The overview shows government debt the KLP Group holds against selected countries, and the rating. The countries in the table are selected on the basis of the profile they have gained as exposed economies in the Eurozone, and in the continuing unease about debt. The debt unease is 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 fixed income securities. The KLP Group has no government securities in Ireland and Portugal as at 30.09.2012. The securities measured at amortised cost have not been written down.



**Note 14 Insurance-related provisions in life including investment choice**

| NOK million  | 30.09.<br>2012 | 30.09.<br>2011 | 31.12.<br>2011 |
|--|----------------|----------------|----------------|
| Premium reserve  | 242 631        | 221 246        | 224 051        |
| Premium funds, buffer funds and pensioners' surplus funds                      | 1 747          | 2 161          | 1 106          |
| Supplementary reserves   | 12 380         | 10 173         | 12 344         |
| Securities adjustment fund   | 10 395         | 1 856          | 4 958          |
| Other provisions   | 99             | 116            | 76             |
| Non-allocated profit/loss of insurance contracts in the common portfolio       | 2 632          | 3 361          | 0              |
| Profit/loss allocated to insurance contracts                                   | 0              | 0              | 1 749          |
| <b>Insurance-related provisions in life insurance incl. investment options</b> | <b>269 884</b> | <b>238 913</b> | <b>244 284</b> |

**Note 15 Other short term liabilities**

| NOK million                               | Q3<br>2012   | Q3<br>2011 | 31.12.<br>2011 |
|---|--------------|------------|----------------|
| Short-term liabilities securities         | 187          | 780        | 92             |
| Advance tax-deduction pension scheme      | 205          | 189        | 204            |
| Accounts payable                          | 650          | 710        | 1 046          |
| Pre-called contribution to insurance      | 2 882        | 516        | 74             |
| Other short-term liabilities              | 170          | -2 091     | 179            |
| <b>Total other short-term liabilities</b> | <b>4 093</b> | <b>104</b> | <b>1 596</b>   |

<sup>1</sup> This includes net debt to subsidiaries in the Group. As of 30.09.2011 this amounted to a net receivable of NOK 2 237 million.



## Note 16 Interest rate risk

| 30.09.2012   |                |                           |                        |                          |               | Changes in cashflow<br>01.01.12-<br>30.09.12 | Total         |
|--|----------------|---------------------------|------------------------|--------------------------|---------------|--|---------------|
| NOK million  | Up to 3 months | From 3 mths. to 12 mnths. | From 1 year to 5 years | From 5 years to 10 years | Over 10 years |  |               |
| <b>Assets</b>  |                |                           |                        |                          |               |  |               |
| Mutual funds shares <sup>1</sup>   | -1             | 0                         | 0                      | 0                        | 0             | 3  | 2             |
| Alternative investments  | -1             | 0                         | 0                      | 0                        | 0             | 3  | 2             |
| Financial derivatives classified as assets                               | 19             | 5                         | -174                   | -102                     | -210          | -55  | -517          |
| Debt instruments classified as loans and receivables – at amortised cost | 0              | 0                         | 0                      | 0                        | 0             | 5  | 5             |
| Bonds and other fixed-return securities                                  | -18            | -45                       | -323                   | -404                     | -201          | 112  | -879          |
| Fixed income fund holdings   | -1 849         | 0                         | 0                      | 0                        | 0             | 15   | -1 835        |
| Shares in Non-UCIT funds   | -1             | 0                         | 0                      | 0                        | 0             | 3  | 2             |
| Lending and receivables  | -3             | -12                       | 0                      | 0                        | 0             | 53   | 39            |
| Lending  | 0              | -1                        | -1                     | 0                        | 0             | 159  | 158           |
| <b>Total assets</b>  | <b>-1 853</b>  | <b>-52</b>                | <b>-497</b>            | <b>-506</b>              | <b>-411</b>   | <b>297</b>                                   | <b>-3 023</b> |
| <b>Liabilities</b>   |                |                           |                        |                          |               |  |               |
| Deposit  | 0              | 0                         | 0                      | 0                        | 0             | -25  | -25           |
| Liabilities created on issue of securities                               | 0              | 0                         | 81                     | 53                       | 0             | -207   | -73           |
| Financial derivatives classified as liabilities                          | -15            | -5                        | 193                    | 138                      | 0             | 40   | 351           |
| Hybrid capital, subordinated loans                                       | 0              | 0                         | 0                      | 48                       | 35            | 0  | 84            |
| Call Money   | 0              | 0                         | 0                      | 0                        | 0             | -5   | -5            |
| <b>Total liabilities</b>   | <b>-15</b>     | <b>-5</b>                 | <b>274</b>             | <b>239</b>               | <b>35</b>     | <b>-197</b>                                  | <b>332</b>    |
| <b>Total</b>   | <b>-1 869</b>  | <b>-57</b>                | <b>-223</b>            | <b>-267</b>              | <b>-376</b>   | <b>101</b>                                   | <b>-2 691</b> |

| 31.12.2011   |                |                           |                        |                          |               | Changes in cashflow<br>01.01.11-<br>31.12.11 | Total         |
|--|----------------|---------------------------|------------------------|--------------------------|---------------|--|---------------|
| NOK million  | Up to 3 months | From 3 mths. to 12 mnths. | From 1 year to 5 years | From 5 years to 10 years | Over 10 years |  |               |
| <b>Assets</b>  |                |                           |                        |                          |               |  |               |
| Mutual funds shares <sup>1</sup>   | 0              | 0                         | 0                      | 0                        | 0             | 5  | 4             |
| Alternative investments  | 0              | 0                         | 0                      | 0                        | 0             | 7  | 6             |
| Financial derivatives classified as assets                               | 4              | 6                         | -94                    | -330                     | -190          | 349  | -255          |
| Debt instruments classified as loans and receivables – at amortised cost | 0              | 0                         | 0                      | 0                        | 0             | 7  | 7             |
| Bonds and other fixed-return securities                                  | -15            | -28                       | -305                   | -351                     | -189          | 63   | -826          |
| Fixed income fund holdings   | -1 486         | 0                         | 0                      | 0                        | 0             | 13   | -1 473        |
| Shares in Non-UCIT funds   | 0              | 0                         | 0                      | 0                        | 0             | 1  | 0             |
| Lending and receivables  | -10            | -13                       | 0                      | -6                       | 0             | 80   | 52            |
| Lending  | 0              | -1                        | -1                     | 0                        | 0             | 199  | 198           |
| <b>Total assets</b>  | <b>-1 507</b>  | <b>-36</b>                | <b>-400</b>            | <b>-687</b>              | <b>-380</b>   | <b>722</b>                                   | <b>-2 288</b> |



**Note 16 Interest rate risk, contd.**

| 31.12.2011                                      |                |                            |                        |                          |               | Changes in cashflow |               |
|---|----------------|----------------------------|------------------------|--------------------------|---------------|---------------------|---------------|
| NOK million                                     | Up to 3 months | From 3 mnths. to 12 mnths. | From 1 year to 5 years | From 5 years to 10 years | Over 10 years | 01.01.11-31.12.11   | Total         |
| <b>Liabilities</b>                              |                |                            |                        |                          |               |                     |               |
| Deposit   | 0              | 0                          | 0                      | 0                        | 0             | -18                 | -18           |
| Liabilities created on issue of securities      | 0              | 0                          | 64                     | 60                       | 0             | -256                | -132          |
| Liabilities to financial institutions           | 0              | 0                          | 0                      | 0                        | 0             | -63                 | -63           |
| Financial derivatives classified as liabilities | 0              | 8                          | 64                     | 133                      | 0             | -698                | -494          |
| Hybrid capital, subordinated loans              | 0              | 0                          | 0                      | 50                       | 33            | 0                   | 83            |
| Lending and receivables - call money            | 0              | 0                          | 0                      | 0                        | 0             | -6                  | -6            |
| <b>Total liabilities</b>                        | <b>0</b>       | <b>8</b>                   | <b>128</b>             | <b>243</b>               | <b>33</b>     | <b>-1 042</b>       | <b>-630</b>   |
| <b>Total</b>                                    | <b>-1 507</b>  | <b>-28</b>                 | <b>-272</b>            | <b>-444</b>              | <b>-347</b>   | <b>-320</b>         | <b>-2 918</b> |

<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.

The note shows the effect on profits if market interest rates were to increase by one percent, for fair value risk and variable interest risk.

Change in fair value (fair value risk) is shown in the first five columns and is calculated by the change in fair value of interest-bearing instruments if interest rates had been one percent higher at the end of the period. The sixth column shows the change in cash flows if the interest had been one percent higher over the year being reported on. The sum of these results reflects the overall effect that the scenario had given the group during the period being reported on.

The fair value risk applies to fixed interest securities where the market value of the securities is affected by market interest rates. Floating rate risk applies to securities with floating interest rates, where a change in market interest rates affects the cash-flow from the interest bearing securities.

The following securities are included in the note; securities measured at fair value through profit or loss (floating and fixed interest rates), investments held to maturity (only those with floating interest rates) and loans and receivables (only those with floating interest rates). The group has no securities classified as available for sale.

The Groups total interest rate risk is limited as a significant portion of the investments are bonds with fixed interest rates that are classified as held to maturity and loans and receivables, or fixed rate lending, measured at amortized cost. A change in market interest rate does not affect profit or loss for these assets.



## Note 17 Liquidity risk

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

| 30.09.2012<br>NOK million            | Within<br>1 mnth | 1-12<br>mnth. | 1-5<br>years  | 5-10<br>years | Over 10<br>years | Total         |
|--------------------------------------|------------------|---------------|---------------|---------------|------------------|---------------|
| Subordinated loan                    | 14               | 144           | 3 368         | 0             | 0                | 3 526         |
| Perpetual hybrid Tier 1 securities   | 0                | 63            | 167           | 208           | 1 576            | 2 014         |
| Debt to and deposits from customers  | 2 553            | 0             | 0             | 0             | 0                | 2 553         |
| Covered bonds issued                 | 0                | 3 907         | 17 012        | 862           | 0                | 21 782        |
| Receivables from credit institutions | 1 178            | 2 822         | 970           | 0             | 0                | 4 969         |
| Financial derivatives                | 28               | 84            | 326           | 147           | -25              | 560           |
| Accounts payable                     | 650              | 0             | 0             | 0             | 0                | 650           |
| Contingent liabilities               | 4 578            | 0             | 0             | 0             | 0                | 4 578         |
| <b>Total</b>                         | <b>9 000</b>     | <b>7 019</b>  | <b>21 843</b> | <b>1 218</b>  | <b>1 551</b>     | <b>40 631</b> |

| 31.12.2011<br>NOK million            | Within<br>1 mnth | 1-12<br>mnth. | 1-5<br>years  | 5-10<br>years | Over 10<br>years | Total         |
|--------------------------------------|------------------|---------------|---------------|---------------|------------------|---------------|
| Subordinated loan                    | 0                | 151           | 2 930         | 766           | 0                | 3 848         |
| Perpetual hybrid Tier 1 securities   | 0                | 43            | 174           | 217           | 1 699            | 2 134         |
| Debt to and deposits from customers  | 1 840            | 0             | 0             | 0             | 0                | 1 840         |
| Covered bonds issued                 | 0                | 6 564         | 16 528        | 855           |                  | 23 948        |
| Receivables from credit institutions | 0                | 1 398         | 0             | 0             | 0                | 1 398         |
| Financial derivatives                | 393              | 160           | 185           | 175           | -125             | 788           |
| Accounts payable                     | 1 046            | 0             | 0             | 0             | 0                | 1 046         |
| Contingent liabilities               | 4 753            | 0             | 0             | 0             | 0                | 4 753         |
| <b>Total</b>                         | <b>8 033</b>     | <b>8 318</b>  | <b>19 817</b> | <b>2 013</b>  | <b>1 574</b>     | <b>39 756</b> |

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. Banking contains the largest proportion of the financial liabilities in the Group.



# Non-financial accounts interim report Q3 2012

| Notes              | As at<br>Q3 2012                             | As at<br>Q2 2012 | As at<br>Q1 2012 | Target<br>2012 | 2011      | 2010      | 2009      |    |
|--------------------|--|------------------|------------------|----------------|-----------|-----------|-----------|----|
| <b>Environment</b> |  |                  |                  |                |           |           |           |    |
| 1                  | Energy consumption kWh own office Oslo       | 2 739 234        | 1 913 273        | 997 235        | 3 314 954 | 3 489 425 | 5 367 259 | NA |
| 1                  | Energy consumption kWh own offices Trondheim | 144 926          | 94 120           | 51 631         | 188 254   | 165 135   | 357 159   | NA |
| 1                  | Energy consumption kwh own office Bergen     | 172 455          | 130 446          | 81 072         | 437 492   | 460 518   | 541 337   | NA |

| Notes            | As at<br>Q3 2012                                       | As at<br>Q2 2012 | As at<br>Q1 2012 | Target<br>2012 | 2011    | 2010 | 2009 |     |
|------------------|--|------------------|------------------|----------------|---------|------|------|-----|
| <b>Employees</b> |  |                  |                  |                |         |      |      |     |
|                  | Number of employees                                    | 809              | 802              | 796            | NA      | 775  | 762  | 742 |
|                  | Percentage reported sickness absence 12 months rolling | 4,2              | 4,2              | 4,6            | below 4 | 4,6  | 4,4  | 4,2 |
|                  | Percentage reported sickness absence quarter           | 4,0              | 4,5              | 5,3            | NA      | 4,6  |      |     |

| Notes                          | As at<br>Q3 2012   | As at<br>Q2 2012 | As at<br>Q1 2012 | Target<br>2012 | 2011 | 2010  | 2009  |       |
|--------------------------------|--|------------------|------------------|----------------|------|-------|-------|-------|
| <b>Responsible investments</b> |  |                  |                  |                |      |       |       |       |
|                                | Number of exclusions of companies from the investment portfolio          | 63               | 63               | 64             | NA   | 64    | 59    | 47    |
|                                | Number of companies reinstated in the investment portfolio               | 1                | 1                | 0              | NA   | 1     | 3     | 10    |
| 2                              | Number of general meetings in Norwegian companies in which KLP has voted | 92 %<br>(12)     | 93 %<br>(96)     | 92%<br>(11)    | 90 % | 130   | 127   | 123   |
| 2                              | Number of general meetings in foreign companies in which KLP has voted   | 81%<br>(211)     | 77%<br>(1 421)   | 55%<br>(211)   | 70 % | 1 662 | 1 533 | 1 558 |
|                                | Number of companies KLP has been in dialogue with                        | 140              | 135              | 106            | 116  | 96    |       |       |

## Note 1 Energy consumption

Target is set at 5 per cent reduction in tonnes CO<sub>2</sub>/employee.

1 kWh approximates to NOK 1 and 100g CO<sub>2</sub> equivalents at 'Nordic mix'.

Energy consumption related to common areas in Trondheim is estimated due to missing reporting from the supplier.

Figures for 2009 are not available.

## Note 2 Responsible investing

The indicator shows both percentage (accumulated) and actual number (not accumulated) of general meetings.



## Accounts after the third quarter Kommunal Landspensjonskasse

| Notes | Income statement<br>NOK million  | Q3<br>2012   | Q3<br>2011    | 01.01.12<br>- 30.09.12 | 01.01.11<br>- 30.09.11 | Year<br>2011 |
|-------|--|--------------|---------------|------------------------|------------------------|--------------|
| 6     | Premium income   | 7 027        | 11 123        | 22 186                 | 17 772                 | 21 752       |
|       | Income from investments in subsidiaries, associated enterprises and jointly controlled enterprises | 324          | 325           | 1 444                  | 1 352                  | 1 696        |
|       | Interest income/dividends on financial assets  | 2 258        | 1 626         | 5 942                  | 6 790                  | 8 790        |
|       | Value changes on investments   | 2 147        | -3 762        | 5 201                  | -6 541                 | -2 728       |
|       | Gains and losses realised on investments   | 796          | -884          | 391                    | 821                    | -337         |
|       | <b>Net income from investments in the common portfolio</b>   | <b>5 525</b> | <b>-2 696</b> | <b>12 978</b>          | <b>2 421</b>           | <b>7 420</b> |
|       | Net income of the investment option portfolio  | 36           | -30           | 84                     | -6                     | 30           |
|       | Other insurance-related income   | 165          | 166           | 486                    | 497                    | 660          |
|       | Claims   | -2 708       | -2 501        | -8 102                 | -7 492                 | -10 033      |
|       | Changes in insurance liabilities taken to profit/loss - contractual liabilities                    | -8 316       | -5 925        | -23 698                | -8 619                 | -16 618      |
|       | Changes in insurance liabilities investment option portfolio                                       | -13          | -13           | -58                    | -59                    | -45          |
|       | Funds assigned to insurance contracts - contractual liabilities                                    | -1 292       | 316           | -2 632                 | -3 324                 | -1 451       |
| 3     | Insurance-related operating expenses   | -213         | -207          | -597                   | -550                   | -788         |
|       | Other insurance-related costs  | -162         | -166          | -484                   | -495                   | -656         |
|       | <b>Technical profit/loss</b>   | <b>48</b>    | <b>67</b>     | <b>163</b>             | <b>146</b>             | <b>271</b>   |
|       | Net income from investments in the corporate portfolio   | 214          | 40            | 638                    | 520                    | 639          |
|       | Other income   | 2            | 2             | 8                      | 8                      | 10           |
|       | Administration costs and other costs associated with the corporate portfolio                       | -54          | -58           | -157                   | 162                    | -215         |
|       | <b>Non-technical profit/loss</b>   | <b>162</b>   | <b>-16</b>    | <b>489</b>             | <b>367</b>             | <b>434</b>   |
|       | Profit/loss pre-tax  | 210          | 51            | 652                    | 512                    | 705          |
|       | Tax  | 0            | 0             | 0                      | 0                      | 0            |
|       | <b>Profit/loss before other comprehensive income</b>   | <b>210</b>   | <b>51</b>     | <b>652</b>             | <b>512</b>             | <b>705</b>   |
|       | Other P/L-items  | 0            | 0             | 0                      | 0                      | 0            |
|       | <b>TOTAL RESULT</b>  | <b>210</b>   | <b>51</b>     | <b>652</b>             | <b>512</b>             | <b>705</b>   |



## Accounts after the third quarter Kommunal Landspensjonskasse

| Notes                                    | Balance<br>NOK million   | 30.09.<br>2012 | 30.09.<br>2011 | 31.12.<br>2011 |
|--|--|----------------|----------------|----------------|
| <b>ASSETS</b>                            |  |                |                |                |
| <b>ASSETS IN THE CORPORATE PORTFOLIO</b> |  |                |                |                |
|  | Intangible assets  | 297            | 320            | 293            |
| 5  | Investments  | 17 560         | 16 502         | 16 468         |
|  | Receivables  | 12 399         | 8 143          | 964            |
|  | Other assets   | 420            | 478            | 350            |
|  | <b>Total assets in the corporate portfolio</b>   | <b>30 676</b>  | <b>25 443</b>  | <b>18 075</b>  |
| <b>ASSETS IN THE CUSTOMER PORTFOLIOS</b> |  |                |                |                |
|  | Shares and holdings in property subsidiaries   | 29 707         | 27 472         | 27 816         |
| 6  | Receivables from and securities issued by subsidiaries,<br>associated enterprises and jointly controlled enterprises | 0              | 4 506          | 4 306          |
| 5  | Financial assets valued at amortised cost  | 108 364        | 102 155        | 104 059        |
| 5  | Financial assets valued at fair value  | 121 013        | 96 781         | 106 085        |
|  | <b>Total assets in the common portfolios</b>   | <b>259 084</b> | <b>230 914</b> | <b>242 267</b> |
|  | Shares and holdings in property subsidiaries   | 182            | 168            | 170            |
| 5  | Financial assets at amortised costs  | 559            | 528            | 538            |
| 5  | Financial assets at fair value   | 758            | 684            | 696            |
|  | <b>Total assets in investment portfolio</b>  | <b>1 499</b>   | <b>1 380</b>   | <b>1 404</b>   |
|  | <b>ASSETS</b>  | <b>291 258</b> | <b>257 737</b> | <b>261 746</b> |
| <b>OWNERS' EQUITY AND LIABILITIES</b>    |  |                |                |                |
|  | Owners' equity contributed   | 6 853          | 6 217          | 6 217          |
|  | Retained earnings  | 6 376          | 5 619          | 5 723          |
|  | Subordinated loan capital etc.   | 4 135          | 4 265          | 4 288          |
| 4  | Insurance obligations in life insurance - contractual liabilities  | 267 187        | 236 725        | 242 045        |
|  | Insurance liabilities unit-linked portfolio  | 1 510          | 1 377          | 1 394          |
|  | Provision for liabilities  | 362            | 340            | 362            |
|  | Liabilities  | 4 778          | 3 134          | 1 662          |
|  | Accrued costs and prepaid income   | 58             | 60             | 54             |
|  | <b>OWNERS' EQUITY AND LIABILITIES</b>  | <b>291 258</b> | <b>257 737</b> | <b>261 746</b> |
| <b>Off-balance sheet items</b>           |  |                |                |                |
|  | Contingent liabilities   | 4 352          | 3 189          | 4 510          |





## Accounts after the third quarter Kommunal Landspensjonskasse

| Changes in Owner's equity<br>NOK million | Paid-up<br>equity | Retained<br>earnings | Total<br>equity |
|--|-------------------|----------------------|-----------------|
| <b>2012</b>                              |                   |                      |                 |
| Own funds 01.01.2012                     | 6 217             | 5 723                | 11 941          |
| Total other comprehensive income         |                   | 652                  | 652             |
| <b>Total comprehensive income</b>        |                   | <b>652</b>           | <b>652</b>      |
| <b>Transaction with owners</b>           |                   |                      |                 |
| Equity paid-in                           | 639               |                      | 639             |
| Equity reimbursed                        | -4                |                      | -4              |
| <b>Sum transaction with owners</b>       | <b>635</b>        |                      | <b>635</b>      |
| <b>Own funds 30.09.2012</b>              | <b>6 853</b>      | <b>6 376</b>         | <b>13 228</b>   |

| NOK million                        | Paid-up<br>equity | Retained<br>earnings | Total<br>equity |
|------------------------------------|-------------------|----------------------|-----------------|
| <b>2011</b>                        |                   |                      |                 |
| Own funds 01.01.2011               | 5 628             | 5 107                | 10 735          |
| Total other comprehensive income   |                   | 512                  | 512             |
| <b>Total comprehensive income</b>  |                   | <b>512</b>           | <b>512</b>      |
| <b>Transaction with owners</b>     |                   |                      |                 |
| Equity paid-in                     | 596               |                      | 596             |
| Equity reimbursed                  | -7                |                      | -7              |
| <b>Sum transaction with owners</b> | <b>589</b>        |                      | <b>589</b>      |
| <b>Own funds 30.09.2011</b>        | <b>6 217</b>      | <b>5 619</b>         | <b>11 837</b>   |

| Cash flow analysis<br>NOK million                          | 01.01.12<br>-30.09.12 | 01.01.12<br>-30.06.12 | 01.01.12<br>-31.03.12 | 01.01.11<br>-31.12.11 | 01.01.11<br>-30.09.11 |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Net cashflow from operational activities                   | -510                  | 130                   | 40                    | -673                  | -578                  |
| Net cashflow from investment activities                    | -50                   | -36                   | -18                   | -88                   | -65                   |
| Net cashflow from financing activities                     | 635                   | 4                     | -3                    | 589                   | 596                   |
| <b>Net changes in cash and bank deposits</b>               | <b>75</b>             | <b>98</b>             | <b>19</b>             | <b>-172</b>           | <b>-47</b>            |
| Holdings of cash and bank deposits at start of period      | 288                   | 288                   | 288                   | 460                   | 460                   |
| <b>Holdings of cash and bank deposits at end of period</b> | <b>363</b>            | <b>385</b>            | <b>307</b>            | <b>288</b>            | <b>413</b>            |



## Note 1 Accounting principles and estimates

The financial statements in this interim report show the financial statements for Kommunal Landspensjonskasse (KLP) for the period 1 January 2012 - 30 September 2012. The accounts have not been audited. The interim financial statements do not contain all the information required of full annual financial statements.

It is recommended that this interim report be read in conjunction with the annual report for 2011 and the quarterly reports for first and second quarter. 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 financial statements 2011, the interim financial statements have been submitted in accordance with Regulation 1241 of 16 December 1998: Regulations on annual accounts etc. for insurance companies (the Annual Accounts Regulations).

### Premium income for own account/change in technical provisions

Salary changes and change to the National Insurance basic amount (G) for members of KLP's defined benefits pension schemes affect the insurance liabilities and this is financed by a discrete indexation premium paid by the employer. Previously the effect of these provisions and the premium income were recognised on invoicing of the discrete indexation premium.

From the start of 2012 indexation premiums linked to salary and G-indexation are being estimated and taken to income on the date the liability increase is registered. Until the indexation premium supplement is invoiced the accrued liability resulting from registered salary adjustments will appear as premiums receivable or, alternatively, as current liabilities to policyholders if the supplement has been prepaid.

Similarly, the factors mentioned above result in an increase in changes taken through profit or loss in insurance liabilities - contractual obligations by corresponding amounts from the same date. The net effect on income and owners' equity will thus be nil.

Net effect of the estimate change is increased premium income and increased liabilities of NOK 1 168 million in Q3 2012 against Q3 2011.

### Proposed change to the exemption method

In connection with presentation of the Budget on 8 October, changes were proposed to the exemption method for life insurance companies' customer portfolios with effect from 1 January 2012. The proposal means that income on shares etc. within the EEA is no longer to be exempted from tax, but is to be taxed as ordinary income. Correspondingly, losses on shares etc. will be deductible.

KLP has a carry-forward tax deficit of a magnitude that indicates that this tightening of the rules will only in the very long term result in tax payable for the Company.

## Note 2 Value-adjustment investment property

The portfolio of investment properties including investment properties owned via subsidiaries has been valued as at 30 September 2012.

| NOK million  | Q3<br>2012 | Q3<br>2011 | 01.01.12-<br>30.09.12 | 01.01.11-<br>30.09.11 | Year<br>2011 |
|--|------------|------------|-----------------------|-----------------------|--------------|
| Value adjustment incl. foreign exchange            | -83        | 47         | 77                    | 465                   | 472          |
| Foreign exchange effect on hedging                 | 2          | -93        | 208                   | 2                     | 12           |
| <b>Net value adjustment incl. exchange hedging</b> | <b>-81</b> | <b>-46</b> | <b>285</b>            | <b>467</b>            | <b>484</b>   |



### Note 3 Operating expenses

| NOK million                | Q3<br>2012 | Q3<br>2011 | 01.01.12-<br>30.09.12 | 01.01.11-<br>30.09.11 | Year<br>2011 |
|----------------------------|------------|------------|-----------------------|-----------------------|--------------|
| Staff costs                | 130        | 123        | 333                   | 299                   | 419          |
| Depreciation               | 17         | 17         | 52                    | 48                    | 101          |
| Other operating expenses   | 65         | 67         | 212                   | 202                   | 268          |
| Insurance related expenses | <b>213</b> | <b>207</b> | <b>597</b>            | <b>550</b>            | <b>788</b>   |

### Note 4 Insurance obligations

| NOK million   | 30.09.<br>2012 | 30.09.<br>2011 | 31.12.<br>2011 |
|---|----------------|----------------|----------------|
| Premium reserve   | 240 217        | 219 249        | 221 983        |
| Premium fund(s)   | 1 677          | 2 091          | 1 350          |
| Supplementary reserve   | 12 270         | 10 090         | 12 234         |
| Securities adjustment fund  | 10 382         | 1 856          | 4 958          |
| Other provisions  | 63             | 79             | 69             |
| Non-allocated profit/loss to insurance contracts in the common portfolio            | 2 578          | 3 360          |                |
| Allocated profit/loss to insurance contracts in the common portfolio                |                |                | 1 451          |
| <b>Insurance-related provisions - obligations under contract</b>                    | <b>267 187</b> | <b>236 725</b> | <b>242 045</b> |
| Premium reserve   | 1 332          | 1 280          | 1 275          |
| Premium fund(s)   | 41             | 39             | 35             |
| Supplementary reserve   | 83             | 94             | 85             |
| Non-allocated profit/loss to insurance contracts in the investment option portfolio | 54             | -36            |                |
| Allocated profit/loss to insurance contracts in the investment option portfolio     |                |                | 0              |
| <b>Total insurance liabilities - investment option portfolio</b>                    | <b>1 510</b>   | <b>1 377</b>   | <b>1 394</b>   |



**Note 5 Financial assets**

| NOK million   | 30.09.<br>2012 | 30.09.<br>2011 | 31.12.<br>2011 |
|---|----------------|----------------|----------------|
| <b>Financial assets corporate portfolio</b>               |                |                |                |
| Investments held to maturity                              | 3 117          | 3 349          | 3 225          |
| Bonds loans and receivables                               | 3 977          | 3 656          | 3 860          |
| <b>Total financial assets valued at amortised cost</b>    | <b>7 094</b>   | <b>7 006</b>   | <b>7 085</b>   |
| Shares and holdings                                       | 550            | 1 222          | 968            |
| Bonds and other fixed-return securities                   | 4 245          | 2 815          | 3 114          |
| Lending and receivables                                   | 851            | 626            | 723            |
| Financial derivatives                                     | 274            | 231            | 252            |
| Other financial assets                                    | 0              | 138            | 10             |
| <b>Total financial assets valued at fair value</b>        | <b>5 920</b>   | <b>5 032</b>   | <b>5 067</b>   |
| <b>Total financial assets corporate portfolio</b>         | <b>13 014</b>  | <b>12 037</b>  | <b>12 152</b>  |
| Real-estate investments                                   | 952            | 932            | 941            |
| Affiliated companies                                      | 3 594          | 3 533          | 3 375          |
| <b>Total investments in the common portfolio</b>          | <b>17 560</b>  | <b>16 502</b>  | <b>16 468</b>  |
| <b>Financial assets common portfolio</b>                  |                |                |                |
| Investments held to maturity                              | 34 316         | 37 112         | 37 013         |
| Bonds loans and receivables                               | 44 710         | 39 315         | 41 942         |
| Lending   | 29 338         | 25 729         | 25 104         |
| <b>Total financial assets valued at amortised cost</b>    | <b>108 364</b> | <b>102 155</b> | <b>104 059</b> |
| Shares and holdings                                       | 39 552         | 32 024         | 34 562         |
| Bonds and other fixed-return securities                   | 67 969         | 51 870         | 58 654         |
| Lending and receivables                                   | 12 293         | 13 263         | 12 228         |
| Financial derivatives                                     | 974            | 378            | 571            |
| Other financial assets                                    | 226            | -755           | 70             |
| <b>Total financial assets valued at fair value</b>        | <b>121 013</b> | <b>96 781</b>  | <b>106 085</b> |
| <b>Total financial assets common portfolio</b>            | <b>229 377</b> | <b>198 936</b> | <b>210 145</b> |
| <b>Financial assets investment choice portfolio</b>       |                |                |                |
| Investments held to maturity                              | 174            | 190            | 189            |
| Bonds loans and receivables                               | 385            | 338            | 349            |
| <b>Total financial assets valued at amortised cost</b>    | <b>559</b>     | <b>528</b>     | <b>538</b>     |
| Shares and holdings                                       | 311            | 254            | 267            |
| Bonds and other fixed-return securities                   | 426            | 414            | 409            |
| Lending and receivables                                   | 19             | 21             | 16             |
| Financial derivatives                                     | 1              | 0              | 1              |
| Other financial assets                                    | 0              | -6             | 2              |
| <b>Financial assets valued at fair value</b>              | <b>758</b>     | <b>684</b>     | <b>696</b>     |
| <b>Total financial assets investment choice portfolio</b> | <b>1 317</b>   | <b>1 212</b>   | <b>1 234</b>   |
| <b>Total financial assets</b>                             | <b>248 254</b> | <b>216 650</b> | <b>227 847</b> |

## Note 6 Premium income

| NOK million  | Q3<br>2012   | Q3<br>2011    | 01.01.12-<br>30.09.12 | 01.01.11-<br>30.09.11 | Year<br>2011  |
|--|--------------|---------------|-----------------------|-----------------------|---------------|
| Premium- salary- and adjustment of<br>pension benefits | 3 082        | 7 753         | 9 108                 | 7 941                 | 7 851         |
| Gross premiums due <sup>1</sup>                        | 3 894        | 3 325         | 11 480                | 9 726                 | 13 793        |
| - Reinsurance premiums ceded                           | 0            | 0             | -3                    | -3                    | -3            |
| Transfer of premium reserved from others               | 51           | 45            | 1 601                 | 108                   | 112           |
| <b>Total premium income</b>                            | <b>7 027</b> | <b>11 123</b> | <b>22 186</b>         | <b>17 772</b>         | <b>21 752</b> |

<sup>1</sup> For more information regarding the increase in premiums due, see note 1.





**Kommunal Landspensjonskasse  
gjensidig forsikringselskap**  
Org.nr. 938 708 606  
Pb. 400 Sentrum, 0103 Oslo  
E-post: [klp@klp.no](mailto:klp@klp.no)  
[www.klp.no](http://www.klp.no)

**Head office**  
Dronning Eufemias gate 10,  
0103 Oslo, Norway  
Tel: 22 03 35 00  
Fax: 22 03 36 00

**Regional office**  
Vågsallmenningen 16, Bergen,  
Norway  
Tel: 05554  
Fax: 55 54 85 90

