annual report 2014

KLP Kommunekreditt AS

Coverphoto: Ole Jørgen Gangsøy **Open**

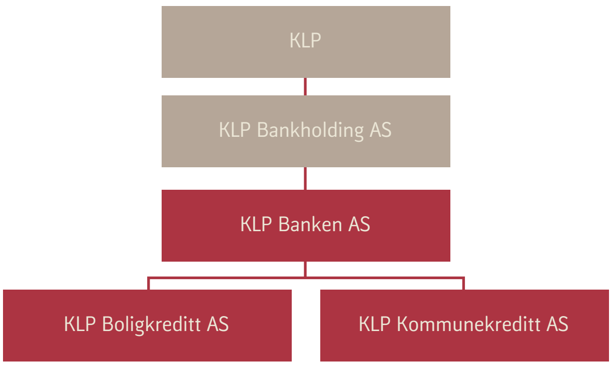
In 2014 KLP hosted an internal photo contest where the staff were to visualize one of KLP's values Open, Clear, Responsible and Committed or "For the days to come".
Olav Storm, photographer, was head of the jury.

CONTENT

Report of the Board of Directors for 2014

KLP Kommunekreditt AS made a profit before tax of NOK 36.5 million in 2014, and had a total balance of NOK 20.0 billion. The company is financed largely through the issue of covered bonds (OMF). The bonds have the received highest possible rating (AAA).

Established in 2009, KLP Kommunekreditt AS is a wholly owned subsidiary of KLP Banken AS. It is a credit institution which is funded primarily through the issue of bonds covered by loans to the public sector.



KLP Banken AS is a commercial bank owned by Kommunal Landspensjonskasse gjensidig forsikringsselskap (KLP) through KLP Bankholding AS. KLP Banken AS also owns all the shares in the subsidiary KLP Boligkreditt AS, which was established in 2014.

The operations of KLP Banken AS and its subsidiaries are divided into the business areas Private Market and Public Lending. Both areas are nationwide in scope. The companies are headquartered in Trondheim.

Financial performance in 2014

- Profit before tax: NOK 36.5 million (NOK 62.0 million)
- Net interest income: NOK 71.7 million (NOK 92.3 million)
- New lending payouts: NOK 0.9 billion (NOK 0.9 billion)
- Total lending: NOK 16.3 billion (NOK 16.8 billion)

Figures for 2013 are stated in parenthesis.

PROFIT AND LOSS

The company made a profit before tax of NOK 36.5 million, and a net profit of NOK 26.7 million in 2014. This gave a return on equity of 5.0 per cent before tax, compared with 8.3 per cent in 2013.

Since 2009 KLP Kommunekreditt AS has been the only financial institution in Norway to issue bonds covered by loans to municipal and county authorities or companies with public sector guarantees.

The company's performance in 2014 shows lower earnings from underlying operations, as well as higher costs linked to restructuring of the borrowing portfolio than the year before. Net interest income fell as a result of a slightly lower average lending volume and reduced margins between lending and borrowing on current loans.

Money market interest rates have fallen sharply over the past few years, and were at a historic low towards the end of 2014. Loans to the municipal sector have largely followed the market rates on their downward path. However, financing costs have not decreased at the same pace as loan interest rates, since a proportion of older borrowings have terms which are less favourable than can be achieved in today's market. This has contributed to a reduction in net interest income for KLP Kommunekreditt AS compared with the year before. Furthermore, a sharply falling level of interest leads to a reduction in the return provided by assets financed by equity.

Borrowing costs for new financing fell substantially through the year. Compared with issues of bonds covered by mortgages, KLP Kommunekreditt AS' issues are slightly lower priced, since the investment market considers the underlying risk posed by the municipal sector to be lower than for mortgages. This difference increased to some extent in 2014.

The restructuring of KLP Kommunekreditt AS's borrowings resulted in the need to buy back own issues. In 2014 this adjustment resulted in further significant non-recurring costs, which have been recognised in profit and loss. At the same time, market conditions for new borrowings led to a reduction in average borrowing costs. A total of NOK -21.4 million was recognised in 2014 with regard to changes in value linked to borrowing.

In 2014 the company increased its portfolio of liquid investments in securities issued by other banks from NOK 2.8 billion to NOK 3.1 billion. Investments recognised on the balance sheet date were largely made in 2012 and 2013. Changes in the value of this portfolio boosted the financial result by NOK 6.2 million, compared with NOK 4.1 million in 2013. See the Liquidity section below for further details.

KLP Kommunekreditt AS recognised NOK 19.9 million in costs, down from NOK 22.4 million in 2013. The 11 per cent decrease in costs is larger than the 3 per cent reduction in the lending volume, and shows increased efficiency in the bank's management of its public lending.

INTEREST INCOME

Net interest income from the lending and investment portfolios came to NOK 71.7 million in 2014, compared with NOK 92.3 million in 2013. Interest income from lending activities and liquid investments fell by 14 per cent compared with the year before. Correspondingly, interest on borrowings fell by 13 per cent.

LENDING

The company initiated its lending operations in December 2009. In the first few years KLP Kommunekreditt AS was provided with loans from other companies, in addition to granting new loans. In subsequent years the refinancing of loans in other companies has had no material significance for the development of lending operations.

Total lending stood at NOK 16.3 billion at the close of 2014. This gives a net reduction in the lending volume of NOK 0.5 billion. The decrease is less than in 2013, and shows that the company has adapted to become more competitive relative to current market conditions. 64 per cent of the lending volume is at floating interest rates. At the close of 2014 the proportion of loans at fixed interest rates was largely unchanged at 36 per cent.

During 2014 new loans worth NOK 0.9 billion were paid out. This is the same level as in 2013. The lending portfolio comprises direct loans to Norwegian municipal and county authorities, or loans to companies performing public services which have guarantees from municipal or county authorities. The risk associated with the lending portfolio is considered extremely low.

The credit risk associated with lending to municipal and county authorities in Norway is limited to the deferment of payment and not to the cessation of payment obligations. This is stipulated in the Local Government Act of 1992, which indemnifies the lender against losses if a local authority is unable to meet its payment obligations. In the event that payment is deferred, the lender is also, pursuant to the same legislation, secured compensation for loss of accrued interest, late-payment interest and debt collection costs. KLP Kommunekreditt AS has not incurred any credit losses on loans to Norwegian municipal or county authorities.

At the close of 2014 the company had no loans in default.

BORROWING

KLP Kommunekreditt AS has established a programme for the issue of covered bonds (OMF). In 2014 covered bonds equivalent to NOK 6.0 billion were issued in the Norwegian market (NOK 2.0 billion in 2013). NOK 2.5 billion of this amount was an extension of previous issues. The market terms for new borrowings covered by municipal loans improved through the year.

At the close of 2014 NOK 16.6 billion in bonds covered by loans to the municipal sector had been issued in Norway. No bonds have been issued abroad.

Bonds are issued with sureties in a portfolio of loans to municipal and county authorities, or companies performing services on behalf of the public sector and which qualify for public guarantees. KLP Kommunekreditt AS's loans to companies shall be guaranteed by municipal or county authorities, central government or banks in accordance with the stipulations of the Local Government Act's s 50. Guarantees shall be framed as ordinary guarantees and shall cover both interest and instalments. The company has received the best rating for its covered bond issues, and international recognition for its lending programme.

The sureties which the bond owners hold shall account for no less than 116 per cent of outstanding covered bond issues. This over-security is financed by equity and loans from KLP Banken AS.

BALANCE SHEET AND CAPITAL ADEQUACY

The company had total bank assets of NOK 20.0 billion at the close of 2014, compared with NOK 20.7 billion at the close of 2013. Of this amount, lending to public sector borrowers accounted for NOK 16.3 billion.

The company's equity and subordinated loan capital, based on the board of director's proposal for the allocation of the year's profit, totalled NOK 728.6 million at the close of 2014. Core capital is identical with equity and subordinated loan capital. This gives a capital adequacy and a core capital adequacy of 19.0 per cent. The corresponding figures for 2013 were NOK 745.6 million and 18.7 per cent respectively. The current requirement is 13.5 per cent capital adequacy and 10.0 per cent core capital adequacy. The risk-weighted balance was NOK 3.7 billion. Capital adequacy is considered good.

LIQUIDITY

The year-end statement of cash flow shows that the company's liquidity situation is good. Holdings of cash and cash equivalents have been reduced, and the funds used to pay out new loans and repay borrowings.

Since new borrowings occur when the terms therefor are considered favourable, a need sometimes arises to invest surplus liquidity. This liquidity contributes to earnings and provides the flexibility needed to meet demand for new lending.

KLP Kommunekreditt AS is subject to strict regulations with respect to the assets it may invest in. The portfolio of liquid investments comprises safe securities and deposits in other banks. The securities are extremely secure certificates and bonds, largely covered bonds with an AAA rating.

At the close of 2014 the company had outstanding liquid investments in the form of interest-bearing securities amounting to NOK 3.1 billion. At the same time a year before, outstanding investments totalled NOK 2.8 billion. The investments are recognised at fair value at the close of the year. For 2014 this gave a gain of NOK 6.2 million. The corresponding figure for 2013 was a gain of NOK 4.1 million.

APPLICATION OF THE YEAR'S PROFIT

The board of directors proposes that the year's profit, amounting to NOK 26.7 million, be allocated as follows:

Group contribution to KLP	NOK 16.8 million
Group contribution to KLP Bankholding AS	NOK 1.0 million
Group contribution to KLP Banken AS	NOK 7.5 million
Transferred to/from other equity	NOK 1.4 million
Total allocation	NOK 26.7 million

ABOUT THE FINANCIAL STATEMENTS

The board of directors believes that the financial statements provide a true and fair picture of the company's assets and liabilities, financial position and results. The preconditions exist for continuation as a going concern, and it is on this assumption that the financial statements have been prepared.

KLP Kommunekreditt AS prepares its financial statements in accordance with the international accounting standards IFRS, as approved by the EU with associated interpretations. See Note 2 to the year-end financial statements for further details.

Rating

The rating agencies' assessment of KLP Kommunekreditt AS and the KLP Group are important for the company's borrowing terms. The company has engaged Fitch Ratings and Moody's to credit rate the company's bonds. Covered bonds issued in 2014 received an AAA rating. KLP Kommunekreditt AS has been rated A- by Fitch Ratings.

Risk management

KLP Kommunekreditt AS is exposed to various types of risk. The bank has established a risk management framework whose purpose is to ensure that risks are identified, analysed and managed by means of policies, limits, routines and instructions.

Risk policies have been drawn up to cover the most important individual risks (liquidity, credit, market and operational risks), as well as an overarching risk policy that covers principles, organisation, limits, etc, for the bank's overall risk. The risk policies are adopted by the board of directors and are reviewed at least once a year. The policies are of an overarching nature and are complemented by routines, guidelines and instructions determined at the administrative level.

Stress testing is used as a method for risk assessment, and as a tool for communication and the exchange of views relating to risks. In this context stress testing may be understood to include both sensitivity analyses and scenario analyses.

The risk policies include tolerance for the individual risks and for the overall risk. Risk tolerances are defined on the basis of various stress scenarios, and various forms of stress testing are regularly carried out to measure whether actual exposure is within the predefined tolerance limits.

The company shall have a prudent risk profile, and earnings shall largely be the result of borrowing and lending activities as well as liquidity management. This means that the company shall have a low market risk, and that interest and foreign exchange risks which occur in the course of borrowing and lending activities shall be reduced by means of derivatives. The company shall have an adequate, long-term financing structure, and limits have been set to ensure that this objective is achieved. The company's credit risk is low, and its lending is limited to loans with municipal risk. Management of the company's liquidity is undertaken in the form of investments in banks and securities which meet requirements for credit quality in line with credit lines approved by the board of directors. The company's liquid investments have a high credit quality rating.

The company aims to maintain a low operational risk, and wishes to be characterised by a high level of professional competence, good routines and efficient operations.

The company is included in the KLP Banken Group's process to assess and quantify material risks and calculate its capital requirement (ICAAP). The capital requirement assessment is forward-looking and in addition to calculating needs based on current exposure (and, if appropriate, limits) an assessment is made of needs in light of planned growth, determined strategic changes, etc. The company's board of directors takes an active part in these assessments and, in addition to the capital requirement assessment, determines a desired level for total capital. This level is termed the 'target capital'.

The board of directors of KLP Banken AS has established a Risk Committee.

The KLP Kommunekreditt brand

KLP's public sector lending activities are operated by the KLP Banken Group under the brand name KLP Kommunekreditt.

KLP Kommunekreditt AS' total lending stood at NOK 48.3 billion at the close of 2014, up NOK 5.9 billion (14 per cent) from 2013. Total payouts through the year came to NOK 9.1 billion.

Lending is financed through the companies KLP and KLP Kommunekreditt AS. KLP Kommunekreditt AS issues bonds covered by sureties comprising loans to the municipal sector. Cost-effective financing will help ensure that KLP Kommunekreditt AS can offer loans at favourable terms.

During 2014 requests for loans amounting to some NOK 35 billion were received from municipal and county authorities and municipal companies. At the same time acceptances in respect of NOK 8.0 billion (23 per cent of applications) were received. This is more than the year before. Overall, KLP Kommunekreditt is a significant long-term lender to public welfare and value creation.

The work of the board of directors

The board of directors held seven board meetings in 2014. For an overview of the remuneration paid to members of the company's board and management, see Note 17 to the year-end financial statements. The board comprised two women and two men in 2014.

Corporate governance

The company's articles of association and applicable legislation provide guidelines for corporate governance, and define a clear division of roles between governing bodies and day-to-day management.

Article 3 of the company's articles of association stipulate that the board of directors shall be made up of four to seven members elected by the supervisory board. Directors are elected for two years at a time, such that half come up for election every year. The Board Chair and Deputy Chair are elected separately.

The board is not authorised to issue or buy back treasury shares.

It falls to the board of directors to issue guidelines for the company's operations, including limits and authorisations for the company's borrowing, lending and financial investments. Contracts may be signed by the CEO or the Board Chair alone, or by two directors jointly.

The CEO is in charge of the company's day-to-day management in accordance with instructions issued by the board of directors.

Working environment and organisation

KLP Kommunekreditt AS had two employees at the close of 2014. These also had employment relationships with other companies in the KLP Banken Group. A management agreement has been entered into with KLP Banken AS with respect to administration, IT support, finance and risk management, as well as borrowing and liquidity management.

As part of the KLP Group, KLP Kommunekreditt AS complies with the Group's guidelines on equality and diversity, whose objectives, initiatives and activities take account of the basis for discrimination described in the legislation. A central working group has drawn up internal targets for equality and diversity. In connection with recruitment, the company routinely states its desire to be contacted by all qualified job applicants irrespective of age, gender, disability, political opinions, sexual orientation or ethnic background. The board of directors considers the working environment to be good.

External environment

Through its social responsibility strategy, KLP has pledged to maintain good routines for the measurement and reduction of its companies' environmental impact. In the same way as the rest of the KLP Group, KLP Kommunekreditt AS takes its environmental impact seriously. As an office-based company, it has greatest control over energy consumption, transport, waste management and procurement. The parent company, KLP Banken AS, is environmentally certified.

Social responsibility

KLP Kommunekreditt AS shall contribute to sustainable investments and responsible business operations. Please see KLP's annual report for further details.

Outlook

KLP Kommunekreditt AS exploits the high creditworthiness of its lending portfolios to achieve favourable borrowing terms. The authorities' regulation of the banking sector means that financial institutions must meet new regulatory requirements with respect to capital and liquidity. This has prompted a need for higher earnings, which has increased relative borrowing costs for most borrowers, including those in the municipal market. This has allowed KLP Kommunekreditt AS to improve its margins in recent years. The general trend in the financial markets on which the company depends will affect its opportunities for growth and development in the time ahead.

For several years the Norwegian economy has been characterised by a national budget surplus and high employment rates. Combined with increasing longevity and population growth, this results in a continued need for high public sector investment. Demand for loans in the municipal sector and for projects with municipal guarantees and ownership is therefore expected to remain high in the years ahead.

A key trend in the market in recent years has been that a larger proportion of the demand for municipal loans is covered by certificates and bonds. This means that a larger proportion of the municipal authorities' funding derives from the securities market.

KLP Kommunekreditt AS has a strong position in the market for public sector lending. Its presence in the market contributes to competition and thereby to the public sector having access to long-term, low-cost financing. Customer surveys show that borrowers want competition with regard to municipal lending, and the growth it achieved in 2014 shows that KLP Kommunekreditt AS has improved its position.

In 2015 KLP Kommunekreditt AS will continue to provide loans for public investment purposes. The company will maintain its low risk profile and establish new loans through its own balance sheet. Developments in the company's lending activities will largely be determined by the extent to which it achieves sufficiently favourable borrowing terms to enable it to compete for public lending contracts.

Trondheim, 4 March 2015

Sverre Thornes
Chair

Aage E. Schaanning
Deputy Chair

Eva M. Salvesen

Toril Lahnstein

Arnulf Arnøy
CEO

THE BOARD OF DIRECTORS OF KLP KOMMUNEKREDITT AS

SVERRE THORNES

EVA M. SALVESEN

TORIL LAHNSTEIN

AAGE SCHAANNING

Income Statement

Note	NOK thousands	2014	2013
	Interest income and similar income	588 825	683 479
	Cost of interest and similar costs	-517 168	-591 167
11	Net interest income	71 657	92 312
5	Net gain/(loss) on financial instruments	-15 217	-7 960
	Total net value change and gain/loss on currency and securities held for trading	-15 217	-7 960
26	Other operating expenses	-19 927	-22 391
	Total operating expenses	-19 927	-22 391
	Operating profit/loss before tax	36 514	61 961
22	Tax on ordinary income	-9 859	-17 048
	Income for the year	26 655	44 913
	Other comprehensive income	0	0
	Other comprehensive income for the year after tax	0	0
	COMPREHENSIVE INCOME FOR THE YEAR	26 655	44 913
	Allocated to/from retained earnings	-26 655	-44 913
	TOTAL ALLOCATION OF INCOME	-26 655	-44 913

Financial Position Statement

Note	NOK thousands	31.12.2014	31.12.2013
	ASSETS		
12,29	Loans to and receivables from credit institutions	444 270	847 720
12	Loans to and receivables from customers	16 338 260	16 833 430
9	Fixed-income securities	3 076 037	2 794 080
10	Financial derivatives	158 288	195 957
27	Other assets	5 498	9 066
	TOTAL ASSETS	20 022 354	20 680 253
	LIABILITIES AND OWNERS' EQUITY		
	LIABILITIES		
18	Liabilities to credit institutions	2 207 657	2 442 841
19	Liabilities created on issuance of securities	16 642 932	17 210 642
10	Financial derivatives	420 971	248 472
22	Deferred tax	16 718	27 133
24	Other liabilities	3 982	4 250
24	Provision for accrued costs and liabilities	1 441	1 285
	TOTAL LIABILITIES	19 293 701	19 934 623
	OWNERS' EQUITY		
	Share capital	362 500	362 500
	Share premium	312 500	312 500
	Retained earnings	53 653	70 630
	TOTAL OWNERS' EQUITY	728 653	745 630
	TOTAL LIABILITIES AND OWNERS' EQUITY	20 022 354	20 680 253

Trondheim, 4 March 2015

Sverre Thornes
Chair

Aage E. Schaanning
Deputy Chair

Eva M. Salvesen

Toril Lahnstein

Arnulf Arnøy
CEO

Statement of owners' equity

2014 NOK thousands	Share capital	Share premium	Retained earnings	Total owners' equity
Owners' equity 1 January 2014	362 500	312 500	70 630	745 630
Income for the year	0	0	26 655	26 655
Other comprehensive income	0	0	0	0
Comprehensive income for the year	0	0	26 655	26 655
Group contribution paid	0	0	-43 632	-43 632
Total transactions with the owners	0	0	-43 632	-43 632
Owners' equity 31 December 2014	362 500	312 500	53 653	728 653

2013 NOK thousands	Share capital	Share premium	Retained earnings	Total owners' equity
Owners' equity 1 January 2013	362 500	312 500	25 717	700 717
Income for the year	0	0	44 913	44 913
Other comprehensive income	0	0	0	0
Comprehensive income for the year	0	0	44 913	44 913
Total transactions with the owners	0	0	0	0
Owners' equity 31 December 2013	362 500	312 500	70 630	745 630

	Number of shares	Nominal value in whole NOK	Share capital	Share premium	Retained earnings	Total owners' equity
Share capital paid in/share premium fund	3 625 000	100	362 500	312 500	0	675 000
Changes in other owners' equity	0	0	0	0	53 653	53 653
Owners' equity as at 31 December 2014	3 625 000	100	362 500	312 500	53 653	728 653

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

Statement of Cash Flows

NOK thousands	2014	2013
Operational activities		
Payments received from customers - interest, commission & charges	526 170	608 425
Net disbursements on lending to customers	559 178	2 288 620
Disbursements on operations	-19 964	-23 160
Net receipts/payments on other operational activities	12 038	-18 804
Net interest investment accounts	12 116	15 625
Income tax paid	0	0
Net cash flow from operating activities	1 089 538	2 870 707
Investment activities		
Payments on purchase of securities	-1 531 983	-1 351 007
Receipts on sales of securities	1 254 965	2 470 089
Interest received from securities	64 201	76 292
Net cash flow from investment activities	-212 817	1 195 374
Financing activities		
Net receipts on loans from credit institutions	-676 233	-3 934 090
Net payment of interest on loans	-527 994	-543 905
Group contribution payment made	-63 906	0
Net cash flow from financing activities	-1 268 133	-4 477 995
Net cash flow during the period	-391 412	-411 915
Cash and cash equivalents at the start of the period	820 072	1 231 988
Cash and cash equivalents at the end of the period	428 660	820 072
Net receipts/ disbursements of cash	-391 412	-411 915

DECLARATION I. A. W. THE NORWEGIAN SECURITIES TRADING ACT SECTION 5-5

We hereby declare that, to the best of our knowledge, the annual financial statements for the period from 1 January to 31 December 2014 have been prepared in accordance with applicable accounting standards, and that the information in the financial statements gives a true and fair view of the Company's assets, liabilities, financial position and overall profit or loss.

We also declare that the Directors' report provides a true and fair overview of the development, profit or loss and the financial position of the Company, together with a description of the most significant risk and uncertainty factors the Company faces.

Trondheim, 4 March 2015

Sverre Thornes
Chair

Aage E. Schaanning
Deputy Chair

Eva M. Salvesen

Toril Lahnstein

Arnulf Arnøy
CEO

Note 1 General information

KLP Kommunekreditt AS was formed on 25 August 2009. The Company is a credit enterprise whose object is to provide and acquire public sector loans that are guaranteed by the Norwegian state, Norwegian county administrations or Norwegian municipalities. Borrowers provide ordinary surety covering both repayments and interest.

The business is primarily financed by issuing covered bonds (obligasjoner med fortrinnsrett - OMF) with security in public sector guaranteed loans. Some of these are listed on Oslo Børs (Stock Exchange).

KLP Kommunekreditt AS is registered and domiciled in Norway. KLP Kommunekreditt AS' head office is at Beddingden 8 in Trondheim and the Company has departmental offices in Oslo.

The Company is a wholly-owned subsidiary of KLP Banken AS, which is in turn wholly owned by Kommunal Landspensjonskasse (KLP) through the holding company, KLP Bankholding AS. KLP is a mutual insurance company.

The annual financial statements are available at www.klp.no.

Note 2 Summary of the most important accounting principles

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

2.1 FUNDAMENTAL PRINCIPLES

The financial statements for KLP Kommunekreditt AS have been prepared in accordance with the international accounting standards (IFRS) and interpretations from the IFRS interpretations committee, as adopted by the EU. The Accounting Act contains certain supplementary information requirements not required in accordance with IFRS. These supplementary information requirements have been incorporated into the notes to the financial statements. The annual accounts have been prepared based on the principle of historic cost, with the following exceptions:

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

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

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

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

2.1.1 Changes in accounting principles and information

a) New and changed standards adopted by the Company

No standards, changes or interpretations that came into effect during 2014 have been adopted that have had significant effect on the Company's accounts.

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

A range of new standards, changes to standards and interpretations on for future annual financial statements. Amongst those the Group has chosen not to apply in advance, the most significant are declared below.

IFRS 9 *Financial Instruments* addresses classification, measurement and recognition of financial assets and financial liabilities as well as hedge accounting. The complete version of IFRS 9 was published in July 2014. It replaces those parts of IAS 39 that relates to the classification and measurement of financial instruments. In accordance with IFRS 9 financial assets are to be classified in three categories: fair value through other comprehensive income; fair value through profit or loss; and amortized cost. The measurement category is decided when the assets are recognized for the first time. Classification depends on the entity's business model for managing its financial instruments and the characteristics of the the individual instrument's cash flows. Investments in equity instruments are required to be measured at fair value through profit or loss. The enterprise may choose to present the value changes over other comprehensive income, but the choice is binding and, on later sale, gain/loss cannot be reclassified through profit or loss. Impairment resulting from credit risk is now to be recognized based on expected loss instead of the current model where losses must have been incurred. For financial liabilities the standard generally continues the requirements in IAS 39. The greatest change is that in instances in which the fair value option is adopted for a financial liability, changes in fair value resulting from change in the entity's own credit risk are recognized in other comprehensive income. IFRS 9 simplifies the requirements for hedge accounting through the hedging effect's closer linkage to the management's risk management providing greater scope for discretion. At the same time hedging documentation continues to be required. The standard is effective for accouting periods beginning on or after 1. january 2018. Early adoption is permitted. The Company still has yet to fully assess the effect of IFRS 9.

IFRS 15 *Revenue from Contracts with Customers* deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognises when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 "Revenue" and IAS 11 "Construction Contracts" and related interpretations. The standard is effective for annual periods beginning on or after 1. january 2017 and earlier application is permitted. The Company still has yet to fully assess the effect of IFRS 15.

There are no IFRS standards or IFRIC interpretations not yet in force that are expected to have a significant impact on the Company's financial statements.

2.2 TRANSLATION OF TRANSACTIONS IN FOREIGN CURRENCY

2.2.1 Functional currency and presentational currency

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

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

Translation differences on non-monetary items (assets and liabilities) is included as a part of the assessment of fair value. Translation differences associated with non-money items, such as shares at fair value through profit or loss, are included as an element of value change taken to profit/loss.

2.3 FINANCIAL ASSETS
The Company's financial assets are divided into the following categories: Financial assets measured at fair value through profit or loss and financial assets measured at amortized cost. In addition hedge accounting is used in accordance with the rules on fair value hedging. The purpose of the asset determines the classification and management undertakes classification on acquisition of the financial asset.

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

Coupon interest is taken to income as it accrues and is included in the line "Interest income and similar income".

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

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

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

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

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

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

2.3.5 Calculation of fair value of financial assets
Fair value of market-listed investments is based on the applicable purchase price. If the market for the security is not active, or the security is not listed on a stock market or similar, valuation techniques are used to set fair value. The business's stock of lending and borrowing does not have sufficient trading to obtain prices from an active market. Therefore model-based valuation based on observable market data from external sources is used in the valuation. These are based for example on information on recently completed transactions carried out on business terms and conditions, reference to trading in similar instruments and pricing using externally collected yield curves and spread curves.

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

Loss assessment and loss write-down is carried out quarterly on individual loans where there is objective evidence of impairment. Lending is also assessed by group. If there is objective evidence of impairment in a group of loans, write-down is carried out. The write-down is reversed if after the date of write-down events occur that reduce the loss. The Company has not identified write-down requirements on its assets.

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

2.4 CASH AND CASH EQUIVALENTS
Bank deposits associated with daily operations are shown as cash and cash equivalents. These bank deposits are shown in the financial position statement line "Loans to and receivables from credit institutions". Bank deposits linked to the securities business are defined as financial assets. The statement of cash flows has been prepared in accordance with the direct method.

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

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

2.5.2 Covered bonds issued
Covered bonds have been issued in accordance with Chapter 2 IV

of Act No. 40 "Act on financing activity and financial institutions (Financial Institutions Act)" of 10 June 1988.

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

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

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

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

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

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

2.6.1 Owners' equity contributed
Owners' equity contributed comprises share capital and the share premium fund.

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

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

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

2.8 TAXES
Tax comprises tax payable and deferred tax. Tax is charged to the income statement, apart from when it relates to items that are recognized through other comprehensive income or directly against owners' equity. If that is the case, the tax is also recognized in other comprehensive income or directly against owners' equity.

Tax payable for the period is calculated in accordance with the tax legislation and regulations enacted, or generally adopted, at the end of the reporting period in the country in which the Company and subsidiaries operate and generate taxable income. Management continuously assesses the assertions made in the tax returns where the applicable taxation legislation is subject to interpretation. Based on the management's assessment, provisions are made for expected tax payments where this is considered necessary.

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

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

Note 3 Important accounting estimates and valuations

The Company's balance sheet principally comprises loans to local government and enterprises with local government guarantee, as well as covered bonds issued. These items are valued in the accounts at amortized cost, with the exception of borrowing and lending with fixed interest rates which are valued at fair value in accordance with the rules on fair value hedging.

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

The risk of credit loss is considered very low and there is very little probability credit loss will occur in the local government lending portfolio.

During the year the Company has invested surplus liquidity in fixed-income securities. These were initially recognized in the statement of financial position at fair value. The securities in the portfolio are classified in the category "financial assets at fair value through profit or loss" as they are managed, and their earnings are valued on the basis of fair value. Fair value is determined based on observable prices in an active market. Where such prices are not available, fair value is determined using a recognized valuation model based on observable market data.

Note 4 Segment information

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

Note 5 Net gain/loss on financial instruments

NOK thousands	2014	2013
Net gain/(loss) on fixed-income securities	6 236	4 131
Net gain/loss financial derivatives	-160 802	17 602
Net value change lending and borrowing, hedge accounting	139 349	-29 693
Total	-15 217	-7 960

Note 6 Fair value of financial assets and liabilities

	31.12.2014		31.12.2013	
NOK thousands	Book value	Fair value	Book value	Fair value
FINANCIAL ASSETS AT FAIR VALUE				
Fixed-income securities	3 076 037	3 076 037	2 794 080	2 794 080
Financial derivatives	158 288	158 288	195 957	195 957
Total financial assets at fair value	3 234 325	3 234 325	2 990 037	2 990 037
FINANCIAL ASSETS AT FAIR VALUE HEDGING				
Loans to Norwegian local administrations	6 066 133	6 111 821	6 160 311	6 181 146
Total financial assets at fair value hedging	6 066 133	6 111 821	6 160 311	6 181 146
FINANCIAL ASSETS AT AMORTIZED COST				
Loans to and receivables from credit institutions	444 270	444 270	847 720	847 720
Loans to Norwegian local administrations	10 272 128	10 262 529	10 673 119	10 671 959
Total financial assets at amortized cost	10 716 398	10 706 799	11 520 839	11 519 679
Total financial assets	20 016 856	20 052 945	20 671 187	20 690 862
FINANCIAL LIABILITIES AT FAIR VALUE				
Financial derivatives	420 971	420 971	248 472	248 472
Total financial liabilities at fair value	420 971	420 971	248 472	248 472
DEBT TO CREDIT INSTITUTIONS AT FAIR VALUE HEDGING				
Covered bonds issued	2 454 871	2 477 580	4 224 558	4 439 762
Total financial liabilities at fair value hedging	2 454 871	2 477 580	4 224 558	4 439 762
LIABILITIES TO FINANCIAL INSTITUTIONS AT AMORTIZED COST				
Debt to credit institutions	2 207 657	2 207 657	2 442 841	2 442 841
Covered bonds issued	14 188 062	14 251 127	12 986 084	12 851 672
Total financial liabilities at amortized cost	16 395 718	16 458 784	15 428 925	15 294 514
Total financial liabilities	19 271 560	19 357 335	19 901 955	19 982 748

	2014	Cumulative 2014	2013	Cumulative 2013
Change in fair value attributable to credit risk				
Loans to Norwegian local administrations at fair value hedging	24 853	45 688	16 609	20 835
Covered bonds issued at fair value hedging	-192 495	22 709	137 745	215 204
Total change in fair value attributable to credit risk	-167 642	68 397	154 354	236 039

Fair value of investments listed in an active market is based on the current sales price. A financial instrument is considered as listed in an active market if listed prices are simply and regularly available from a stock market, dealer, broker, industry group, price-setting service or regulatory authority, and these prices represent actual and regularly occurring transactions at arm's length. If the market for the security is not active, or the security is not listed on a stock market or similar, the Group uses valuation techniques to set fair value. These are based for example on information on recently completed transactions carried out on business terms and conditions, reference to trading in similar instruments and pricing using externally collected yield curves and yield spread curves. As far as possible the estimates are based on externally observable market data and rarely on company-specific information.

The different financial instruments are thus priced in the following way:

Fixed-income securities - other than government
All Norwegian fixed-income securities except government are priced theoretically. A zero-coupon curve is used as well as yield spread curves for the pricing. Reuters and Bllomberg are the sources for the curves.

Financial derivatives
These transactions are valued based on the applicable swap curve at the time of valuation. Derivative contracts are to be used only to hedge balance amounts and to enable payments obligations to be met. Derivative contracts may be struck only with counterparties with high credit quality.

Fair value of loans to Norwegian local government
Fair value of lending without fixed interest rates is considered virtually the same as book value since the contract terms are continuously changed in step with market interest rates. Lending with fixed interest is valued using a valuation model, including relevant credit spread adjustments obtained from the market.

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

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

Liabilities created on issuance of covered bonds
Fair value in this category is determined on the basis of internal valuation models based on external observable data.

Note 7 Fair value hierarchy

NOK thousands	Level 1	Level 2	Level 3	Total 31.12.2014
ASSETS				
Fixed-income securities	0	3 076 037	0	3 076 037
Financial derivatives	0	158 288	0	158 288
Total financial assets valued at fair value	0	3 234 325	0	3 234 325
LIABILITIES				
Financial derivatives liabilities	0	420 971	0	420 971
Total financial liabilities at fair value	0	420 971	0	420 971

NOK thousands	Level 1	Level 2	Level 3	Total 31.12.2013
ASSETS				
Fixed-income securities	0	2 794 080	0	2 794 080
Financial derivatives	0	195 957	0	195 957
Total financial assets valued at fair value	0	2 990 037	0	2 990 037
LIABILITIES				
Financial derivatives liabilities	0	248 472	0	248 472
Total financial liabilities at fair value	0	248 472	0	248 472

Fair value shall be a representative price based on what a corresponding asset or liability would have been traded for at 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 as listed in an active market if listed prices are simply and regularly available from a stock market, dealer, broker, industry group, price-setting service or regulatory authority, and these prices represent actual and regularly occurring transactions at arm's length.

Nivå 1: Instruments in this level obtain fair value from listed prices in an active market for identical assets or liabilities to which the entity has access at the reporting date. Examples of instruments in Level 1 are stock market listed securities.

Nivå 2: Instruments in this level obtain fair value from observable market data. This includes prices based on identical instruments, but where the instrument does not maintain a high enough trading frequency and is not therefore considered to be traded in an active market, as well as prices based on corresponding assets and price-leading indicators that can be confirmed from market information. Example instruments at Level 2 are fixed-income securities priced on the basis of interest rate paths.

Nivå 3: Instruments at Level 3 contain non-observable market data or are traded in markets 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.

There has been no movement between the levels.

Note 8 Categories of financial assets and liabilities

NOK thousands	31.12.2014				31.12.2013			
Financial assets	HFT	FVL	LAR	Total	HFT	FVL	LAR	Total
Lending to and receivables from credit institutions	0	0	444 270	444 270	0	0	847 720	847 720
Lending to and receivables from customers	0	6 066 133	10 272 128	16 338 260	0	6 160 311	10 673 119	16 833 430
Certificates and bonds	3 076 037	0	0	3 076 037	2 794 080	0	0	2 794 080
Financial derivatives used in hedging	0	158 288	0	158 288	0	195 957	0	195 957
Total	3 076 037	6 224 421	10 716 398	20 016 856	2 794 080	6 356 268	11 520 839	20 671 187
Financial liabilities	HFT	FVH	OLI	Total	HFT	FVH	OLI	Total
Debt to credit institutions	0	0	2 207 657	2 207 657	0	0	2 442 841	2 442 841
Liabilities created on issuance of securities	0	2 454 871	14 188 062	16 642 932	0	4 224 558	12 986 084	17 210 642
Financial derivatives used in hedging	0	419 385	0	419 385	0	247 873	0	247 873
Financial derivatives at fair value	1 586	0	0	1 586	599	0	0	599
Total	1 586	2 874 255	16 395 718	19 271 560	599	4 472 431	15 428 925	19 901 955

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

Note 9 Fixed-income securities

NOK thousands	Acquisition cost	Unreal. gain/loss	Accr. Inter. not due	31.12.2014 Market value
Debtor categories				
Credit enterprises	2 837 698	15 617	5 166	2 858 481
Local government administration	203 391	13 194	970	217 556
Total	3 041 089	28 811	6 136	3 076 037

Effective interest rate: 1,74 %

NOK thousands	Acquisition cost	Unreal. gain/loss	Accr. Inter. not due	31.12.2013 Market value
Debtor categories				
Credit enterprises	2 659 619	20 128	6 965	2 686 712
Local government administration	98 050	8 889	429	107 368
Total	2 757 669	29 017	7 394	2 794 080

Effective interest rate: 2,06 %

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

Note 10 Financial derivatives

	31.12.2014		31.12.2013	
NOK thousands	Nominal sum	Fair value	Nominal sum	Fair value
Borrowing in NOK	2 292 000	158 288	4 250 000	155 637
Borrowing in foreign currency	0	0	433 500	40 090
Lending	0	0	108 039	230
Total assets	2 292 000	158 288	4 791 539	195 957
Borrowing in NOK	1 300 000	4 592	4 300 000	9 731
Borrowing in foreign currency	0	0	0	0
Lending	5 632 614	406 137	5 798 716	232 237
Investments	100 000	10 242	100 000	6 504
Total liabilities	7 032 614	420 971	10 198 716	248 472

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

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

Note 11 Net interest income

NOK thousands	2014	2013
Interest on loans to and receivables from credit institutions	12 116	15 625
Interest on lending to customers	513 766	594 593
Interest on securities	62 943	73 261
Total interest income	588 825	683 479
Interest on debt to KLP Banken AS	-59 388	-78 638
Interest on debt to credit institutions	-455 559	-508 636
Premium/discount on covered bonds	-2 221	-3 893
Total interest costs	-517 168	-591 167
Net interest income	71 657	92 312

Note 12 Lending and receivables

NOK thousands	31.12.2014	31.12.2013
Loans to and receivables from credit institutions		
Bank deposits	444 270	847 720
Loans to and receivables from credit institutions	444 270	847 720
Loans to and receivables from customers		
Principal on lending	15 893 916	16 564 328
Fair value hedging	321 195	204 397
Premium/discount	32 870	-37 979
Accrued interest	90 280	102 684
Loans to and receivables from customers	16 338 260	16 833 430

All lending comprises loans to, or loans guaranteed by, Norwegian municipalities and county administrations, including loans to local government enterprises and intermunicipal companies (public sector loans). Guarantees are of the ordinary guarantor type covering both repayments and interest.

Note 13 Financial risk management

Organisation of risk management
KLP Kommunekreditt AS is a wholly owned subsidiary of KLP Banken AS. The Board of Directors has established a risk management framework aimed at ensuring that risks are identified, analysed and subjected to management using policies, limits, procedures and instructions. The Board has adopted risk policies covering the key individual risks as well as an overarching risk policy that covers principles, organisation, limits etc. for the bank's total risk. The risk policies are of an overarching nature and are complemented by procedures, guidelines and instructions laid down at the senior management level. The policies state which departments are responsible for handling the various risks and also cover the establishment of a separate risk control function. The purpose of the risk control function is inter alia to check that the risk policies and other guidelines for risk management are being followed. This function is carried out by the Risk Analysis and Control Department, which is responsible for preparing periodic risk reports to senior management and the Board as well as reporting in the event of breaches of policies or guidelines. The Department, which has an independent role in relation to other departments, also has other tasks associated with the Company's risk management. The responsibility for the operational direction of the Company's liquidity risk, exchange-rate risk and interest rate risk lies with the Finance Department.

Note 14 Credit risk

Credit risk is understood here to mean the risk of loss associated with loan customers, counterparties in derivatives, issuers of securities and other counterparties being unable or unwilling to settle at the agreed time and in accordance with written contracts, and the securities established not covering the outstanding demand.
KLP Kommunekreditt AS provides loans to, or loans guaranteed by, Norwegian municipalities and county authorities, including loans to local government enterprises and inter-authority companies (public sector loans). Guarantees should be of the ""selvskyldner"" type (ordinary guarantor - guarantor's liability attaches as soon as the principal debtor defaults).

Loans according to type of security/exposure (principal)

NOK thousands	31.12.2014	31.12.2013
Lending to municipalities and county administrations	14 919 871	15 794 673
Lending with municipal/county administration guarantee	974 045	769 654
Total	15 893 916	16 564 328
Sums falling due more than 12 months after the end of the reporting period	14 708 646	16 198 362

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

Credit quality securities, bank deposits and derivatives
Securities with external credit assessment (Moody's)

NOK thousands	31.12.2014	31.12.2013
AAA	2 922 000	2 760 000

Securities without external credit assessment

NOK thousands	31.12.2014	31.12.2013
Securities issued by the Norwegian municipalities/county administrations	105 336	0

Deposits in banks grouped by external credit assessment (Moody's)

NOK thousands	31.12. 2014	31.12.2013
Aa1-Aa3	2 917	207 735
A1-A3	441 353	639 983
Baa1		2
Total	444 270	847 720

The Company may also be exposed to credit risk as a result of derivatives agreements struck.
The purpose of such agreements is to reduce risks arising as a result of the Company's borrowing and lending activities.
The Company's internal guidelines specify creditworthiness requirements for derivative counterparties.
All derivative agreements are entered into with counterparties with a minimum A1 rating (Moody's).

14.1 MEASUREMENT OF CREDIT RISK
The Board has determined a credit policy that contains overarching guidelines, requirements and limits associated with credit risk. The policy lays down that the bank is to have a low credit risk profile and includes limits on types of lending and principles for organisation and operation of the Company's lending activity.

The policy also includes an overall mandate structure for lending and other counterparty exposure. The mandates are linked to Board-determined limits for a large number of the Company's individual borrowers and these limits derive from a risk classification in which the individual borrowers are assigned a risk class based on a set of fixed criteria.

Furthermore requirements are set for reporting to the Board on usage of the limits.

Credit risk associated with issuers of securities, derivative counterparties and other counterparties in the financial area is also limited by Board-determined limits on individual counterparties.

These limits are based on the counterparty's solvency and other assessments of the counterparties' creditworthiness.

14.2 CONTROL AND LIMITATION OF CREDIT RISK
In processing all new loan applications checks are made on whether the customer's credit limits are larger than the total of the loan amounts applied for and current lending. In the credit policy described above, requirements are set for reporting to the Board on usage of the limits. Any exceeding of the limits is to be reported to the Company's Board regardless.

14.3 MAXIMUM EXPOSURE TO CREDIT RISK
KLP Kommunekreditt AS measures maximum exposure as principal and accrued interest. Security in cash or securities is not exchanged, nor are other credit improvements carried out. The table below shows the maximum exposure for KLP Kommunekreditt AS.

Maximum exposure to credit risk

NOK thousands	31.12. 2014	31.12.2013
Lending to and receivables from credit institutions	444 270	847 720
Loans to and receivables from customers	15 984 196	16 667 012
Fixed-income securities	3 047 226	2 765 500
Financial derivatives	158 288	195 957
TOTAL	19 633 980	20 476 189

Loans fallen due or written down

NOK thousands	31.12. 2014	31.12.2013
Principal on loans with payments with 1-30 days' default	357 048	559 670
Principal on loans with payments with 31-90 days' default	0	0
Principal on loans with payments with more than 90 days' default	0	0
Total loans fallen due	357 048	559 670
Relevant security or guarantees	357 048	559 670
Lending that has been written down	0	0

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

14.4 CONCENTRATION OF CREDIT RISK
The Company's lending is in its entirety linked to public sector financing and the portfolio thus has high concentration against one single sector. The underlying credit risk against this sector is however so low that it is hardly possible to reduce this concentration without increasing total risk in the portfolio.

The concentration against the Norwegian public sector is thus considered not to be a risk challenge.

The concentration against individual borrowers is limited by individual Board-set limits.

KLP Kommunekreditt AS's largest exposure as at 31 December 2014 was about 4.8 per cent of the Company's total lending.

Note 15 Market risk

Market risk is understood here as the risk of reduced fair value of the Company's owners' equity as a result of fluctuations in market prices for the Company's assets and liabilities. Changes in credit margins are however excluded since this comes under the term credit risk.
KLP Kommunekreditt AS is exposed to market risk as a result of the Company's borrowing and lending activity and management of the Company's liquidity. The exposure is however limited to interest rate risk and exchange rate risk. Interest rate risk arises as a result of differences in timing of interest rate adjustment for the Company's assets and liabilities. The risk associated with such imbalances is reduced by using derivative contracts. All borrowing is in Norwegian kroner. The whole of the lending portfolio comprises loans in NOK.

NOTE 15.1 MEASUREMENT OF MARKET RISK
Interest rate risk is measured as change in value on a one percentage point change in all interest rates. Exchange rate risk is measured as change in value on 10% unfavourable exchange rate change in all currencies.

NOTE 15.2 INTEREST RATE RISK
The market risk policy is the Company's overarching guidelines, requirements and limits associated with market risk. The policy dictates that the market risk should be minimized so that the total market risk is low. It further states that the Company should not actively take positions that expose the Company to market risk. The policy also sets limits for interest rate risk both for the total interest rate risk for the infinite future and for rolling 12-month periods. The limits are set in relation to the Company's Tier 1 and 2 capital and the level of the limits should ensure that the low market risk profile policy is complied with. The operational responsibility for managing the Company's market risk lies with the Finance Department. The Risk Analysis and Control Department reports the Company's actual exposure in relation to limits in accordance with guidelines set by the Board.

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

Interest risk

Repricing dates for interest-bearing assets and liabilities as at 31 December 2014

NOK thousands	Total Principal	Up to 1 mnth	From 1 mnth to 3 mnths	From 3 mnth to 12 mnth	From 1 yr to 5 yrs	Over 5 years
Lending	15 893 916	10 292 011	38 499	875 436	3 128 700	1 559 270
Securities	3 027 336	320 000	2 607 336	0	100 000	0
Cash and receivables from credit institutions	444 270	444 270	0	0		0
Total	19 365 522	11 056 281	2 645 835	875 436	3 228 700	1 559 270
Liabilities created on issuance of securities	16 452 000	860 000	13 300 000	542 000	1 000 000	750 000
Liabilities to financial institutions	2 205 000	2 205 000	0	0	0	0
Total	18 657 000	3 065 000	13 300 000	542 000	1 000 000	750 000
Gap	708 522	7 991 281	-10 654 165	333 436	2 228 700	809 270
Financial derivatives	4 311	-593 253	3 962 281	-331 139	-2 228 619	-804 959
Net gap	712 833	7 398 028	-6 691 884	2 297	81	4 311

Repricing dates for interest-bearing assets and liabilities as at 31 December 2013

NOK thousands	Total Principal	Up to 1 mnth	From 1 mnth to 3 mnths	From 3 mnth to 12 mnth	From 1 yr to 5 yrs	Over 5 years
Lending	16 564 328	8 117 511	1 994 007	1 422 086	3 267 396	1 763 327
Securities	2 760 000	866 000	1 794 000	0	100 000	0
Cash and receivables from credit institutions	847 720	847 720	0	0	0	0
Total	20 172 048	9 831 231	3 788 007	1 422 086	3 367 396	1 763 327
Liabilities created on issuance of securities	16 982 500	1 000 000	11 732 500	0	3 500 000	750 000
Liabilities to financial institutions	2 440 000	2 440 000	0	0	0	0
Total	19 422 500	3 440 000	11 732 500	0	3 500 000	750 000
Gap	749 548	6 391 231	-7 944 493	1 422 086	-132 604	1 013 327
Financial derivatives	0	-5 483 190	7 171 498	-794 534	127 854	-1 021 628
Net gap	749 548	908 041	-772 995	627 552	-4 750	-8 301

The Company's interest rate sensitivity as at 31 December 2014, measured as value change in the event of one percentage point change in all interest rates was NOK 7 million.

NOTE 15.3 EXCHANGE RATE RISK
As at 31 December 2014 the Company had no borrowing in foreign currency.

Note 16 Liquidity risk

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

16.1 MANAGEMENT OF LIQUIDITY RISK
The management of KLP Kommunekreditt AS' liquidity risk must be viewed in the context of the management of the liquidity risk in the KLP Banken Group. A liquidity policy is established for the Group containing principles, guidelines, requirements and limits that apply to the management of the liquidity risk. The policy states that the Group is to have a moderate liquidity risk profile and various requirements and limits have been set to achieve this, including targets for deposit cover, limits for refinancing requirements for various time periods and requirements for liquidity buffers.

The Board has further adopted an emergency plan for liquidity crises as part of the liquidity policy. In addition to the requirements at Group level, separate specific requirements have been established for KLP Kommunekreditt AS, including requirements for continually positive cash flows, limits for refinancing requirements and requirements for liquidity reserves and drawing rights. The operational responsibility for managing the Company's liquidity risk lies with the Finance Department. The Risk Analysis and Control Department reports the Company's actual exposure in relation to limits in accordance with guidelines set by the Board.

NOTE 16.2 MATURITY ANALYSIS
The tables below show the maturity analysis of the Company's assets and liabilities including stipulated interest rates.

Liquidity risk

Maturity analysis for assets and liabilities as at 31 December 2014:

NOK thousands	Total	Undefined	Up to 1 mnth	From 1 mnth to 3 mnths	From 3 mnth to 12 mnth	From 1 yr to 5 yrs	Over 5 years
Lending	21 156 568	0	86 603	187 859	1 278 843	4 747 970	14 855 294
Securities	3 235 143	0	246	119 984	99 383	2 757 283	258 248
Receivables from credit institutions	444 270	444 270	0	0	0	0	0
Total	24 835 982	444 270	86 848	307 843	1 378 225	7 505 253	15 113 542
Liabilities created on issuance of securities	17 313 638	0	4 483	62 080	1 903 460	14 559 115	784 500
Financial derivatives	246 635	0	6 028	10 076	54 826	131 946	43 759
Debt to credit institutions	2 219 599	0	5 045	2 214 554	0	0	0
Total	19 779 872	0	15 557	2 286 711	1 958 286	14 691 061	828 259
Net cash flows	5 056 109	444 270	71 291	-1 978 868	-580 061	-7 185 808	14 285 284

Maturity analysis for assets and liabilities as at 31 December 2013:

NOK thousands	Total	Undefined	Up to 1 mnth	From 1 mnth to 3 mnths	From 3 mnth to 12 mnth	From 1 yr to 5 yrs	Over 5 years
Lending	22 737 086	0	114 730	211 771	1 351 361	5 342 301	15 716 923
Securities	2 972 210	0	4 833	10 030	98 315	2 757 341	101 691
Receivables from credit institutions	847 705	847 705	0	0	0	0	0
Total	26 557 001	847 705	119 563	221 801	1 449 676	8 099 642	15 818 614
Liabilities created on issuance of securities	18 248 111	0	5 308	59 425	1 329 860	16 034 518	819 000
Financial derivatives	201 419	0	36 065	-827	7 589	106 470	52 122
Debt to credit institutions	2 456 515	0	5 505	2 451 010	0	0	0
Total	20 906 045	0	46 878	2 509 608	1 337 449	16 140 988	871 122
Net cash flows	5 650 956	847 705	72 685	-2 287 807	112 227	-8 041 346	14 947 492

A 3-month internal loan of NOK 2,205,000 has been provided from KLP Banken AS to KLP Kommunekreditt AS, which is defined as "Liabilities to credit institutions". This loan is rolled over currently every third month and the interest rate is set each month. This loan is rolled over currently every third month and the interest rate is set each month.

Note 17 Salary and obligations to senior management

2014	Paid from KLP Kommunekreditt AS					Paid from another company in the same group						
NOK thousands	Salaries, fees etc	Other benefits	Annual pension-accumulation	Plan change pension-benefits[3]	Loan	Salaries, fees etc	Other benefits	Annual pension-accumulation	Plan change pension-benefits[3]	Loan	Interest rate as at 31.12.2014	Repayment-plan[1]
Senior employees												
Arnulf Arnøy, Managing Director	-	-	-	-	-	1 474	110	582	-276	1 242	2,90	A31
Board of Directors												
Sverre Thornes, Chair	-	-	-	-	-	3 569	164	1 257	-1 133	7 211	2,70-3,15	A41
Aage E. Schaanning	-	-	-	-	-	3 190	149	1 085	-1 048	2 483	2,70-3,15	A22/A31
Toril Lahnstein	68	-	-	-	-	-	-	-	-	-	-	-
Eva M. Salvesen	21	-	-	-	-	118	-	-	-	-	-	-
Control Committee												
Ole Hetland	-	-	-	-	-	97	-	-	-	-	-	-
Bengt P. Johansen	-	-	-	-	-	80	-	-	-	-	-	-
Mathilde Irene Skiri[2]	-	-	-	-	-	39	-	-	-	-	-	-
Berit Bore	-	-	-	-	-	41	-	-	-	-	-	-
Dordi E. Flormælen	-	-	-	-	-	80	-	-	-	-	-	-
Thorvald Hillestad	-	-	-	-	-	80	-	-	-	-	-	-
Supervisory Board												
Total Supervisory Board	-	-	-	-	-	75	-	-	-	14 283	-	-
Employees												
Total loans to employees of KLP Kommunekreditt	-	-	-	-	-	-	-	-	-	2 990	-	-

2013	Paid from KLP Kommunekreditt AS					Paid from another company in the same group						
NOK thousands	Salaries, fees etc	Other benefits	Annual pension-accumulation	Plan change pension-benefits	Loan	Salaries, fees etc	Other benefits	Annual pension-accumulation	Plan change pension-benefits[3]	Loan	Interest rate as at 31.12.2014	Repayment-plan[1]
Ledende ansatte												
Arnulf Arnøy, adm. direktør	-	-	-	-	-	1 473	185	496	-	1 686	2,95-3,15	S31 og boligkreditt
Styret												
Sverre Thornes, leder	-	-	-	-	-	3 433	162	1 055	-	7 410	2,70-3,80	A41
Aage E. Schaanning	-	-	-	-	-	3 072	149	915	-	3 723	2,70-3,80	A41/S22
Mai-Lill Ibsen	10	-	-	-	-	70	-	-	-	-	-	-
Toril Lahnstein	66	-	-	-	-	-	-	-	-	-	-	-
Eva M. Salvesen	10	-	-	-	-	60	-	-	-	-	-	-
Kontrollkomité												
Hetland Ole	-	-	-	-	-	93	-	-	-	-	-	-
Fagermoen Jan Rune	-	-	-	-	-	38	-	-	-	-		
Johansen Bengt P.	-	-	-	-	-	77	-	-	-	-	-	-
Flormælen Dordi E.	-	-	-	-	-	77	-	-	-	-		
Irene Mathilde Skiri	-	-	-	-	-	39	-	-	-	-	-	-
Thorvald Hillestad						68			-			
Representantskap												
Sum representantskap	-	-	-	-	-	66	-	-	-	5 507	-	-
Ansatte												
Sum lån ansatte i KLP Kommunekreditt AS	-	-	-	-	-	-	-	-	-	2 990	-	-

1) S= Serial loan, A= Annuity loan, last payment. 2) Resigned during the year. 3) Plan change pension benefits shows the effect of longevity adjustment for the year groups from 1954 adopted in 2008, as well as changes in the disability pension regulations adopted in 2014. Both these plan changes were incorporated in the calculation of the pension obligation in 2014.

The KLP Board of Directors has laid down principles and guidelines for remuneration that apply for the entire Group and set up a remuneration committee as a subcommittee of the Board. The committee reports on and carries out checks that the remuneration schemes in the Group are in line with the Board's principles and guidelines. Managing director is a contracted-in function from the parent company, KLP Banken AS, and the individual receives no benefits directly from KLP Kommunekreditt AS for the appointment. KLP Kommunekreditt AS refunds that part of the benefits associated with the role as managing director. The Managing Director has no agreement on performance pay (bonus), but has a salary guarantee of 21 months in the event of termination. The incumbent is entitled to full retirement pension on reaching the age of 62. There are no obligations to provide the Chair of the Board of Directors special consideration or other benefits on termination or change in employment contract or appointment.

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

KLP Kommunekreditt AS has a joint Control Committee with the rest of the KLP Group and a joint Supervisory Board with the rest of the banking group.

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

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

Note 18 Liabilities to credit institutions

NOK thousands	Currency	Interest	Due date	Nominal	Accrued interest	31.12.2014 Book value
Debt to KLP Banken AS	NOK	Fixed	16.03.2015	2 205 000	2 657	2 207 657
Total liabilities to credit institutions				2 205 000	2 657	2 207 657

NOK thousands	Currency	Interest	Due date	Nominal	Accrued interest	31.12.2013 Book value
Debt to KLP Banken AS	NOK	Fixed	17.03.2014	2 440 000	2 841	2 442 841
Total liabilities to credit institutions				2 440 000	2 841	2 442 841

Note 19 Securities liabilities - stock exchange listed covered bonds

NOK thousands	Nominal	Currency	Interest	Issued	Due date	Accrued interest	31.12.2014 Book value
ISIN code							
NO0010585185	1 300 000	NOK	Variable	15.09.2010	15.09.2015	1 148	1 301 148
NO0010592900	750 000	NOK	Fixed	15.12.2010	15.12.2020	1 607	751 607
NO0010624778	542 000	NOK	Fixed	15.09.2011	15.05.2015	12 006	554 006
NO0010642192	860 000	NOK	Variable	13.04.2012	13.04.2016	3 899	863 899
NO0010662307	3 000 000	NOK	Variable	26.10.1202	10.11.2017	8 797	3 008 797
NO0010663180	2 500 000	NOK	Variable	15.11.2012	16.11.2016	6 281	2 506 281
NO0010675952	1 000 000	NOK	Fixed	02.05.2013	19.05.2017	13 993	1 013 993
NO0010675978	1 500 000	NOK	Variable	15.05.2013	15.05.2018	3 825	1 503 825
NO0010711419	1 000 000	NOK	Variable	15.05.2014	15.05.2017	2 338	1 002 338
NO0010716780	2 000 000	NOK	Variable	26.08.2014	10.12.2018	2 114	2 002 114
NO0010719974	2 000 000	NOK	Variable	17.09.2014	20.12.2019	933	2 000 933
Amortisering / verdijusteringer							133 991
Total covered bonds issued with preferential rights in public sector loans							16 642 932

Repurchase of debt	Nominal before repurchase	Repurchase	Rate	Purchase price	Gain/loss	Date
ISIN code						
NO0010624778	2 500 000	1 441 000	101,66	1 464 916	-23 916	15.05.2014
NO0010585185	4 300 000	500 000	100,56	502 800	-2 800	25.06.2014
NO0010585185	3 800 000	1 331 500	100,50	1 338 184	-6 684	26.08.2014
NO0010585185	3 799 899	165 000	100,50	165 820	-820	28.08.2014
NO0010585185	3 799 799	570 500	100,46	573 124	-2 624	17.09.2014
NO0010585185	3 799 699	56 000	100,47	56 262	-262	26.09.2014
NO0010624778	1 059 000	45 000	101,20	45 540	-540	15.09.2014
NO0010624778	1 058 899	340 000	101,22	344 138	-4 138	17.09.2014
NO0010624778	1 058 798	62 000	101,15	62 713	-713	30.09.2014
NO0010585185	1 677 000	220 000	100,46	221 001	-1 001	03.10.2014
NO0010585185	1 457 000	116 000	100,45	116 524	-524	06.10.2014
NO0010585185	1 341 000	41 000	100,39	41 158	-158	20.11.2014
NO0010624778	612 000	70 000	100,90	70 629	-629	20.11.2014
NO0010642192	1 000 000	50 000	100,62	50 310	-310	10.10.2014
NO0010642192	950 000	45 000	100,57	45 257	-257	06.11.2014
NO0010642192	905 000	45 000	100,62	45 279	-279	07.11.2014
Total repurchased	33 118 093	5 098 000		5 143 657	-45 657	

Interest rate swaps with a gain of NOK 24.2 million were realized in connection with repurchase of debt.
The total effect on the income statement of repurchased debt was therefore NOK - 21.5 million.

NOK thousands	Nominal	Currency	Interest	Issued	Due date	Accrued interest	31.12.2013 Book value
ISIN code							
NO0010585185	4 300 000	NOK	Variable	15.09.2010	15.09.2015	3 918	4 303 918
NO0010592900	750 000	NOK	Fixed	15.12.2010	15.12.2020	1 607	751 607
NO0010609795	999 000	NOK	Variable	20.05.2011	20.05.2014	2 238	1 001 238
NO0010624778	2 500 000	NOK	Fixed	15.09.2011	15.05.2015	55 377	2 555 377
XS0747335494	500 000	SEK	Variable	17.02.2012	17.02.2015	925	434 425 [1)]
NO0010642192	1 000 000	NOK	Variable	13.04.2012	13.04.2016	4 608	1 004 608
NO0010662307	3 000 000	NOK	Variable	26.10.2012	10.11.2017	8 798	3 008 798
NO0010663180	2 000 000	NOK	Variable	15.11.2012	16.11.2016	4 840	2 004 840
NO0010675952	1 000 000	NOK	Fixed	02.05.2013	19.05.2017	15 041	1 015 041
NO0010675978	1 000 000	NOK	Variable	15.05.2013	15.05.2018	2 611	1 002 611
Amortization / value adjustments							128 180
Total covered bonds issued with preferential rights in public sector loans							17 210 642

1) Paid NOK 500 million in January 2012.

Note 20 Presentation of assets and liabilities subject to net settlement

NOK thousands	Gross financial assets/liabilities	Gross assets/ liabilities presented net	Book value	Related sums that are not presented net: Financial instruments	Security in cash	31.12.2014 Net value
ASSETS						
Financial derivatives	158 288	0	158 288	-158 288	0	0
Total	158 288	0	158 288	-158 288	0	0
LIABILITIES						
Financial derivatives	420 971	0	420 971	-158 288	0	262 683
Total	420 971	0	420 971	-158 288	0	262 683

NOK thousands	Gross financial assets/liabilities	Gross assets/ liabilities presented net	Book value	Related sums that are not presented net: Financial instruments	Security in cash	31.12.2013 Net value
ASSETS						
Financial derivatives	195 957	0	195 957	-121 285	0	74 672
Total	195 957	0	195 957	-121 285	0	74 672
LIABILITIES						
Financial derivatives	248 472	0	248 472	-121 285	0	127 187
Total	248 472	0	248 472	-121 285	0	127 187

The purpose of this note is to show the potential effect of netting agreements on KLP Kommunekreditt AS.
The note shows the derivative positions in the financial position statement.

Note 21 Capital adequacy

NOK thousands	31.12.2014	31.12.2013
Share capital and share premium fund	675 000	675 000
Other owners' equity	53 653	70 630
Total owners' equity	728 653	745 630
Deduction goodwill and other intangible assets	0	0
Deferred tax asset	0	0
Core capital/Tier 1 capital	728 653	745 630
Supplementary capital/Tier 2 capital	0	0
Supplementary capital/Tier 2 capital	0	0
Total own funds (eligible Tier 1 and Tier 2 capital)	728 653	745 630
Capital requirement	307 281	319 683
Surplus of own funds (eligible Tier 1 and Tier 2 capital)	421 372	425 947
Calculation basis credit risk		
Institutions	121 611	250 294
Local and regional authorities	3 311 173	3 388 172
Covered bonds	285 843	279 408
Calculation basis credit risk	3 718 627	3 917 874
Credit risk	297 490	313 430
Operating risk	9 791	6 253
Total capital requirement assets	307 281	319 683
Core capital adequacy ratio	19,0 %	18,7 %
Supplementary capital ratio	0,0 %	0,0 %
Capital adequacy ratio	19,0 %	18,7 %

Capital requirement as at 31.12.2014	Core capital	Supplementary capital/ Tier 2 capital	Own funds (eligible Tier 1 and 2 capital)
Minimum requirement without buffers	4,5 %	3,5 %	8,0 %
Protective buffers	2,5 %	0,0 %	2,5 %
System risk buffers	3,0 %	0,0 %	3,0 %
Applicable capital requirements including buffers	10,0 %	3,5 %	13,5 %

Note 22 Tax

NOK thousands	2014	2013
Accounting income before taxes	36 513	61 961
Differences between accounting and tax income:		
Reversal of value increase financial assets	206	17 152
Other permanent differences	0	-169
Change in differences affecting relationship between book and taxable income	4 631	-645
Taxable income	41 350	78 300
Base for tax payable	41 350	78 300
Deficit carryforward allowable from previous years	0	-5 894
Change for the year in carryforward deficit	0	5 894
Total allowable carryforward deficit as at 31 December	0	0
Tax surplus	41 350	72 406
Reconciliation of deferred tax/tax assets		
Deferred tax linked to:		
Securities	7 779	7 835
Lending to customers and credit enterprises	98 241	47 540
Total deferred tax	106 020	55 375
Deferred tax asset linked to:		
Financial instruments	-60 855	-7 884
Borrowing	-39 611	-40 631
Total deferred tax assets	-100 466	-48 515
Net deferred tax/tax asset	5 554	6 860
Carryforward deficit	0	0
Deferred tax on carryforward deficit	0	0
27%/28% deferred tax/tax asset	5 554	6 860
27%/28% Tax effect of group contribution	11 164	20 274
Capitalized deferred tax asset	16 718	27 133
Summary of tax expense for the year		
Change in deferred tax taken to income	-1 305	-3 226
Capitalized tax from Group contribution	11 164	20 274
Total taxes	9 859	17 048
Effective tax percentage	27,0 %	27,5 %
Reconciliation of tax percentage:		
Other permanent differences	0	-169
28% Tax permanent differences	0	-47
Corrected tax	9 859	17 095
Change in deferred tax benefit as a result of changed tax rate	0	253
Tax percentage	27,0 %	28,0 %

Note 23 Number of FTEs and employees

KLP Kommunekreditt AS has 1 employee, but the individual does not receive remuneration or other benefits from the Company.
KLP Kommunekreditt AS buys personnel services from other companies in the Group.

Note 24 Other liabilities and provision for accrued costs and liabilities

NOK thousands	31.12.2014	31.12.2013
Receivables between companies in the same Group	3 740	3 644
Creditors	238	602
Other liabilities	4	5
Total other liabilities	3 982	4 250
Value-added tax	220	138
Provisioned costs	1 220	1 146
Total accrued costs and liabilities	1 441	1 285

Note 25 Transactions with related parties

NOK thousands	2014	2013
Income statement items		
KLP Banken AS, interest on borrowing	-59 388	-78 638
KLP Banken AS, administrative services (at cost)	-12 715	-16 018
KLP Kapitalforvaltning AS, fees for services provided	-314	-337
Total	-72 417	-94 993

NOK thousands	31.12.2014	31.12.2013
Financial position statement items		
KLP Banken AS, debt to credit institutions	-2 207 657	-2 442 841
KLP Banken AS, loan settlement	4 441	8 023
Net outstanding accounts to:		
KLP Banken AS - banking	-3 647	-3 547
KLP	0	-1
KLP Kapitalforvaltning AS	-92	-96
Total	-2 206 955	-2 438 462

There are no direct salary costs in KLP Kommunekreditt AS. Personnel costs (administrative services) are allocated from KLP Banken AS. Transactions with related parties are carried out on general market terms, with the exception of the Company's share of common functions, which is allocated at cost. Allocation is based on actual use. All internal receivables are settled as they arise.

Note 26 Auditor's fee

NOK thousands	2014	2013
Ordinary audit	322	394
Certification services	403	321
Tax advisory services	59	29
Non-audit services	0	0
Total auditor's fee	784	745

The sums above include VAT.

Note 27 Other assets

NOK thousands	31.12.2014	31.12.2013
Receivables between Group companies	4 441	8 023
Prepaid expenses	1 057	1 043
Total	5 498	9 066

Note 28 Conditional obligations

NOK thousands	31.12.2014	31.12.2013
Credit facilities for lending not utilized	134 116	98 779
Promised loans	50 600	32 000
Total contingent liabilities	184 716	130 779

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

Note 29 Cash and cash equivalents

NOK thousands	31.12.2014	31.12.2013
Cash and bank deposits	444 270	847 720
Total cash and bank deposits	444 270	847 720
In the statement of cash flows, cash and cash equivalents comprise the following:		
Cash and bank deposits	444 270	847 720
Bank accounts for use for acquisition and sale of securities	-15 611	-27 648
Cash and cash equivalents at the end of the period	428 660	820 072

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

Independent auditor's report

Report on the Financial Statements

We have audited the accompanying financial statements of KLP Kommunekreditt AS, which comprise the balance sheet as at 31 December 2014, income statement, changes in equity and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by EU, and for such internal control as The Board of Directors and the Managing Director determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements are prepared in accordance with the law and regulations and present fairly, in all material respects, the financial position of KLP Kommunekreditt AS as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers AS, Brattørkaia 17 B, NO-7492 Trondheim
T: 02316, org. no.: 987 009 713 MVA, www.pwc.no
Statsautoriserte revisorer, medlemmer av Den norske Revisorforening og autorisert regnskapsførerselskap

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

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

Opinion on Registration and Documentation

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

Trondheim, 4 March 2015
PricewaterhouseCoopers AS

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

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

This is KLP

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

KLP's vision is to be the best partner for the days to come. This vision points the way for KLP's employees, and helps ensure that KLP is perceived by its clients to be a reliable partner, who strengthens their finances, make their lives easier day to day, help make them a more attractive employer and contribute towards a more sustainable public sector. KLP's main objective is to be Norway's leading provider of pensions to the public sector. KLP's most important task is therefore to provide pensions with a competitive rate of return over the long term, the lowest costs and a high level of service.

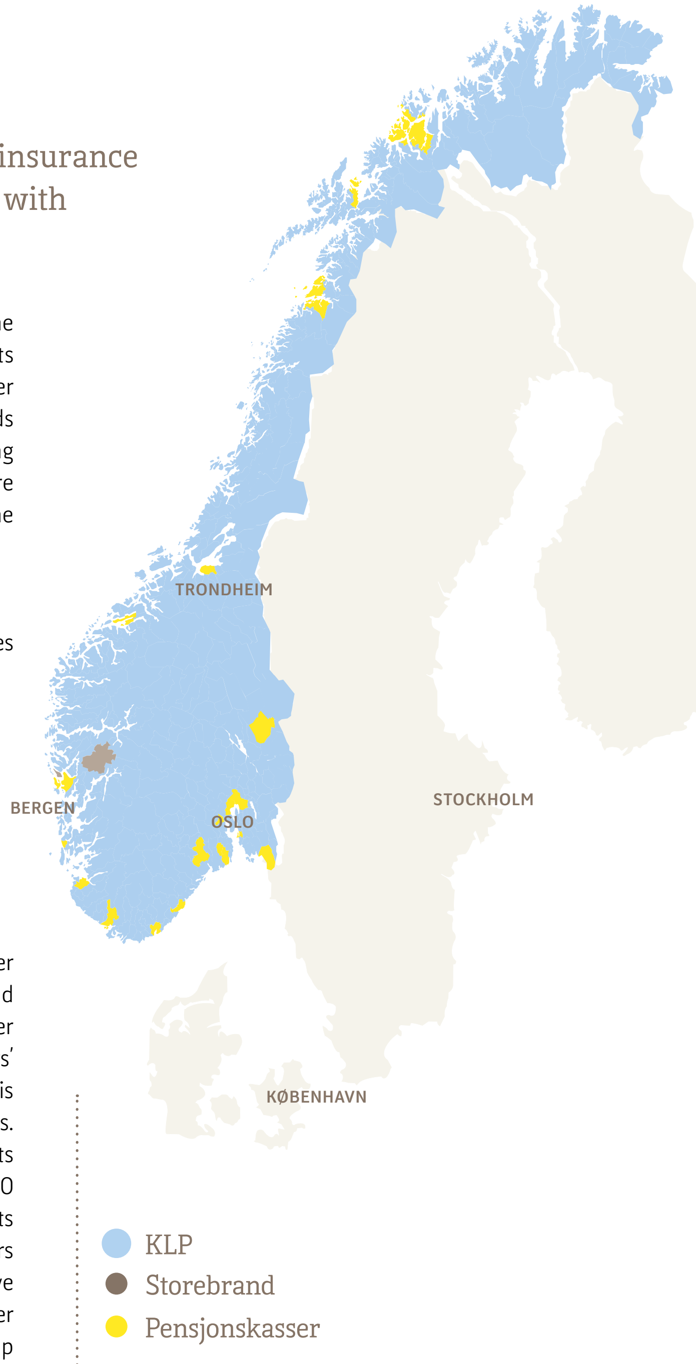
Market leader – public service pensions

At the start of 2015, 403 municipal and county authorities had pension schemes with the company. In addition, 25 of the country's 26 health trusts and the four regional health authorities all have one or more pension agreements with KLP. Around 2,500 companies also have pension schemes with KLP. The company's pension schemes cover more than 418,000 people in work and 230,000 pensioners. More than 167,000 people also have a pension entitlement with KLP deriving from previous jobs. A further 15 municipal authorities will transfer to KLP in 2015.

Successful focus on members

KLP offers finance and insurance-related products and services to the consumer market. The products are aimed at employees and pensioners of clients and owners whose pension schemes are managed by KLP. The objective is to offer these members attractive products and services in order to enhance our owners' ability to recruit and retain the desired labour resources. At the same time, this focus contributes to the growth and profitability of KLP's various business units. In recent years, KLP has actively emphasised the provision of insurance products and financial services which meet the needs of our members. More than 76,000 client relationships have been established in recent years. The number of clients who are also members now stands at 39,000. The products offered to members in the areas of banking, non-life insurance and investment funds are competitive both in terms of price and content. Their ranking on *Finansportalen* and other market comparison sites shows that these membership products are well up among the best. The increase in new customers also shows that the benefits available to members are starting to become known, which can largely be attributed to a series of marketing campaigns.

Excellent personal treatment and service is characteristic for KLP's customer relations. This was confirmed through a customer satisfaction survey undertaken among private customers in November 2014. The results were extremely positive, with all business areas achieving a score of 74 or more. This is high also in comparison with other financial institutions in Norway. Customers are particularly happy with our level of service, responsiveness and personal treatment.



The vast majority of municipal and county authorities are KLP clients. KLP is headquartered in Oslo. KLP also has an office in Bergen, which looks after life insurance and pension services. The property company has offices in Oslo, Trondheim, Copenhagen and Stockholm. The bank has offices in Trondheim and Oslo.

Group structure

Kommunal Landspensjonskasse gjensidig forsikringsselskap (KLP) is a client-owned enterprise, and the parent company of a financial group of wholly owned subsidiaries incorporated as private limited companies.

Public sector pensions are the main product offered by the mutual company KLP, and it is this product's customers who own the company. The mutual ownership model has been chosen both because it is financial efficient, and because it gives customers and owners influence over delivery of an important service.

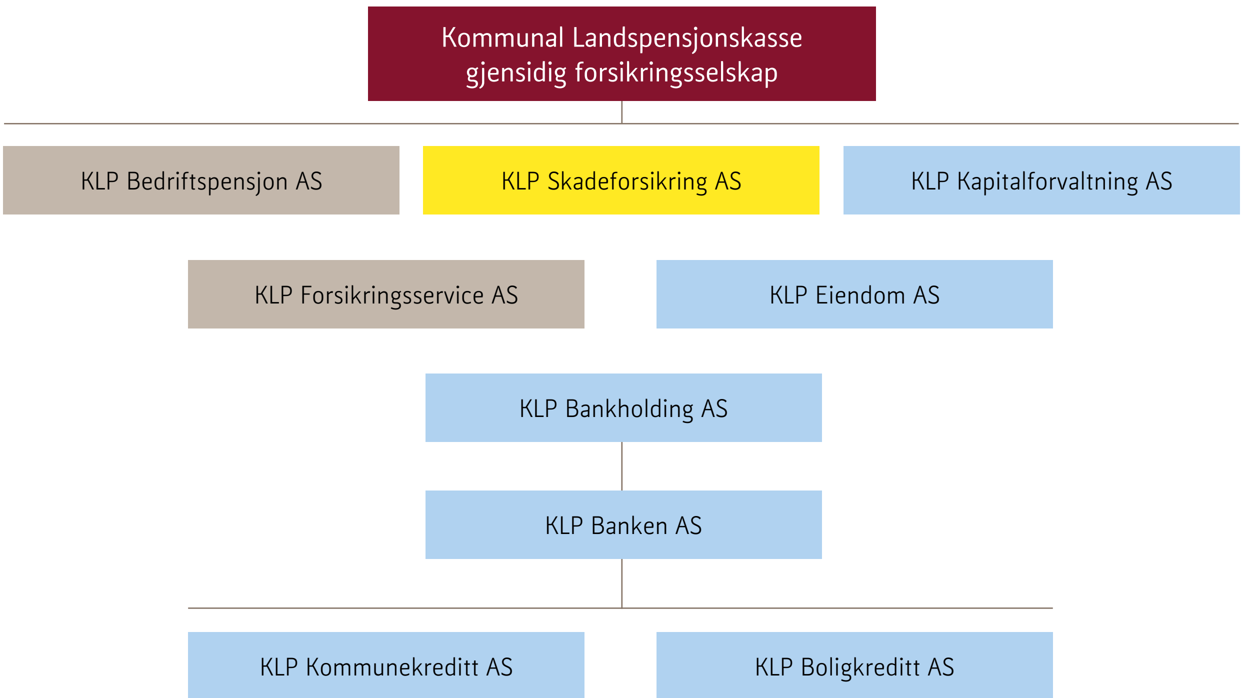
The subsidiaries were created to support KLP's core business, and to offer secure and competitive services to KLP's owners and their employees.

Employees in the KLP-Group

899

At the close of 2014 the Group employed a total of 899 people, and managed total assets of NOK 490.9 billion.

KLP provides products and services within the following areas:
- Pensions and pension fund services
- Banking
- Insurance
- Investment funds and capital management



KLP BANKEN AS The overall business activities of KLP Banken AS, including the subsidiaries KLP Boligkreditt AS and KLP Kommunekreditt AS, are divided into the business areas Consumer Market (CM) and Public Sector (PS). The Group operates nationwide and its offices are located in Trondheim.

KLP Banken is an online bank, focusing on home mortgage lending and deposits. This provides the basis for efficient operations and low costs. At the start of the year the bank had over 33,000 active consumer customers.

KLP Boligkreditt AS is a subsidiary of KLP Banken, and was licensed as a mortgage lender in 2014. A proportion of the bank's lending in the consumer market has been transferred to this company. The business is funded largely through the issue of mortgage-backed covered bonds.

KLP Kommunekreditt AS is also a subsidiary of KLP Banken. The company aims to be a key financing partner for the public sector. KLP Kommunekreditt meets a wide range of local authority borrowing needs, eg for schools, nurseries, care homes and projects relating to municipal climate and energy plans. In addition, KLP finances some council-run infrastructure.

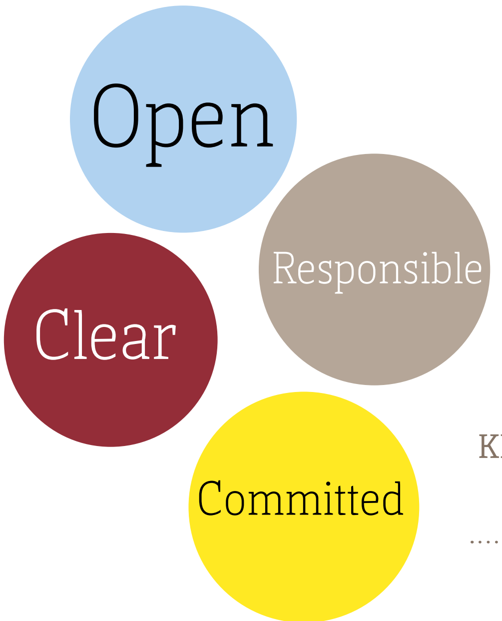
KLP SKADEFORSIKRING AS offers non-life insurance to the public sector and enterprises with a public sector connection. At the close of 2014 the company had 315 municipal and 14 county authorities on its client list, as well as 2,864 enterprises and 31 customers linked to health trusts. The company also offers insurance solutions in the consumer market, with particular benefits for KLP members. At the close of last year, it had 28,000 individual customers.

KLP FORSIKRINGSSERVICE AS has specialist expertise with regard to public sector pension schemes, and offers a full range of pension fund services.

KLP BEDRIFTSPENSJON AS offers defined-contribution occupational pensions, including the management of pension capital certificates, for public and private sector enterprises. The company manages total capital assets of NOK 2,270.3 million.

KLP KAPITALFORVALTNING AS manages investment funds on behalf of the KLP Group's insurance business and other clients through the KLP Funds. KLP Kapitalforvaltning AS holds a licence from the Financial Supervisory Authority of Norway to manage securities funds and alternative investment funds, as well as perform active asset management and associated services. At the close of last year the company managed assets worth approx. NOK 370 billion on behalf of the parent company and external clients.

KLP EIENDOM AS is one of Norway's largest property companies, It manages 1,554,000 m2 of building space and 372,000 m2 of leasehold land, and is engaged in several major property development projects. As at 31 December 2014, the property was worth a total of NOK 45.7 billion. KLP Eiendom has operations in Norway, Sweden, Denmark, Luxembourg and the UK (London). Its properties have excellent locations, a high standard of construction and effective utilisation of space. For KLP, property is an investment class on the same level as shares, bonds and lending.



KLP's values

Social responsibility

Much hyperbole has been employed to describe corporate social responsibility. But for KLP it is simply about how the company runs its business. Pensions, banking, insurance, savings and property are products that bring us close to the lives of our members. It is a responsibility that KLP feels it is important to discharge well.

The company's social responsibility goals are to contribute to a sustainable public sector and integrate sustainable and responsible practices into all its business processes. Social responsibility is therefore of strategic significance to KLP, and its endeavours are associated with four principal areas: responsibility in investments and products, responsible environmental solutions, the sharing of knowledge and local engagement.

Responsibility in investments and products

KLP aims to be among the leaders within the area of responsible investment. 2014 saw intense public debate about investments in coal companies. KLP has a major responsibility as the country's largest life insurance company. It is important to achieve a good return that safeguards future pensions. At the same time, it is important to consider how its long-term investments can contribute to sustainable development. KLP therefore decided to invest an additional NOK 500 million in increased renewable energy capacity, and pull out of companies that generate a significant proportion of their revenues from coal. With this move, KLP wishes to contribute to a shift from fossil fuels to renewable energy. This effort has already begun. Through its partnership with Norfund, KLP invested in Africa's largest wind farm in Kenya in 2014, as well as solar power plants in Rwanda and Honduras.

KLP signed the UN Global Compact as far back as 2003. By doing so it has pledged to work for human and labour rights, environmental protection and efforts to eradicate corruption.

KLP also endorses investor initiatives such as the UN's principles for responsible investments and the CDP (an initiative to increase and improve companies' carbon emission reporting), and uses international reporting guidelines such as the Integrated Reporting Framework and the Global Reporting Initiative to improve its own reporting.

History

1949–2014

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

1950
KLPs Harald Bastiansen develops an average premium system for hospital doctors.

1961
The Nurses' Scheme with average premiums is introduced. The Norwegian Act concerning Pension Scheme for Nurses came into force in 1962.

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

1974
The Transfer Agreement, to which KLP contributes, secures pension rights in the event of a change of job within the public sector.

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

1986
KLP achieves breakthrough pensions to be indexed in line with the National Insurance Basic Amount («G»).

1988
Contractual early retirement (AFP) is introduced.

1990
KLP establishes scheme with equity capital contribution i.a.w. the Norwegian Insurance Act.

1995–1996
Competition over the local authority pension schemes becomes fiercer.

2003
The Banking Act Commission delivers reports on competition in local government occupational pension schemes, and gender and age neutrality in group pension schemes.

2004
KLP's premium system becomes part of the industry norm and is incorporated into the Norwegian Insurance Act.

2008
The Norwegian Insurance Act is amended. Differentiation is made between customer assets and corporate assets.

2011
Public sector occupational pension is adjusted to the changes in the Pension Reform.

2013
KLP's principal competitors in the market for public sector occupational pensions opt to withdraw.

2014
The Storting adopts new disability pension in the public sector from 1 January 2015.

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