



annual report 2013  
KLP Banken AS



Coverphoto: Anders Eidsnes **Open and clear**



In 2013 KLP hosted an internal photo contest where the staff were to visualize one of KLP's values Open, Clear, Responsible and Committed, or in dialog between people. Olav Storm, photographer, was head of the jury.

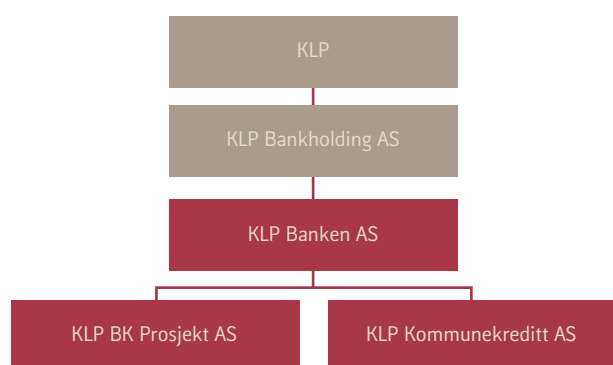
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# The Board of Directors' Report for 2013

**In 2013 the KLP Banken Group achieved profit for the year of NOK 87.0 million before tax. The Board of Directors considers the result as satisfactory and the underlying operation as strengthened.**

KLP Banken AS is wholly owned by Kommunal Landspensjonskasse Gjensidige forsikringsselskap (KLP) through KLP Bankholding AS. KLP Banken AS has two wholly owned subsidiaries, KLP Kommunekreditt AS and KLP BK Prosjekt AS. In 2013 the KLP Kreditt AS company was terminated and removed from the Norwegian Register of Business Enterprises.



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

## Financial development during 2013

- Pre-tax income: NOK 87.0 (83.7) million
- Income after tax: NOK 74.4 (52.8) million
- Net interest income: NOK 122.0 (86.3) million
- Lending disbursements for the year including managed loans: NOK 10.3 (6.8) billion
- Lending on Bank's Group financial position statement: NOK 21.3 (21.9) billion
- Lending managed for KLP: NOK 33.7 (29.8) billion

Figures for 2012 are given in brackets.

## INCOME STATEMENT

The pre-tax income in the KLP Banken Group was NOK 87.0 million, and NOK 74.4 million after taxes, which provided a return on owners'

equity of 7.2 (7.6) per cent before tax and 6.2 (4.9) per cent after taxes. The income includes management fees from KLP of NOK 58.0 million (NOK 79.1 million in 2012).

The Board of Directors considers the result to be satisfactory. The operating income is principally related to the KLP Kommunekreditt AS subsidiary. KLP Banken has implemented adjustments in the duration of borrowings in order to reduce liquidity risk and meet regulatory requirements for liquidity indicators and capital adequacy (Basel III and CRD IV). This has inter alia led to increased duration for borrowing. Although such adjustments principally produce higher funding costs, this effect has not affected the result significantly due to the development of the financial markets. Thus the funding costs in 2013 do not deviate significantly from the previous year. Lending margins have largely been maintained or increased over the year as a result of the adjustment to increased capital requirements in Norwegian banks generally. Overall these conditions have given KLP Banken increased net interest income compared with the previous year.

As in 2012, the value increase in liquidity investments affected the result positively in the form of unrealized gains. In 2012 these gains were substantial. In 2013 unrealized gains in liquidity investments were also positive, but earnings impact is moderate.

Restructuring of the funding of KLP Kommunekreditt AS has resulted in a need to repurchase own issuances. This has resulted in losses at the time of purchase which have been charged to the income statement. In the longer term the repurchases are expected to produce lower funding costs.

KLP Banken AS acquired the company KLP Kreditt AS (previously Kommunekreditt Norge AS) from Eksportfinans ASA in 2009. Subsequently two legal actions arose which were resolved by settlement during 2013, where Eksportfinans ASA accordingly paid out a settlement sum of NOK 50 million. This has principally been recognized as write-up adjustment of previously written down KLP Kreditt AS share values and therefore taken to the KLP Banken AS income statement in 2013. KLP Kreditt AS was wound up in November 2013.

The Bank's retail market business area results are as anticipated in the plan and the budget. Particularly during the second half development has been positive as a result of increased housing loan volume. The

volume increase is a result both of own new sales and acquisition of housing loans from KLP.

#### LENDING

The lending portfolio of both KLP Banken and the portfolio managed for KLP totals NOK 54.7 billion, divided between NOK 43.3 billion in lending to public sector borrowers and NOK 11.4 billion in retail mortgage loans to retail customers.

Outstanding loans (principal) per company in the KLP Banken Group as at 31 December 13:

Company NOK billions	Housing loans	Public sector lending	Total lending
KLP Banken AS (parent)	4,5		4,5
KLP Kommunekreditt AS	-	16,6	16,6
KLP (Managm. Agreem.)	7,0	26,7	33,7
Total	11,4	43,3	54,7

KLP Banken AS received NOK 58 million (NOK 79 million in 2012) for the asset management task.

#### LENDING - RETAIL MARKET

KLP Banken AS was launched in February 2010 as an internet-based bank without a physical branch network. The online bank is a retail bank with uncomplicated saving and loans products which are competitively priced. By the end of 2013 loans to the retail market for own account amounted to NOK 4.5 billion, an increase of NOK 3.0 billion compared to 2012. The increase in outstanding amount comes from new sales as well as acquisition of loans from KLP during the second quarter corresponding to NOK 1.0 billion.

Managed housing mortgage loans in KLP's loan portfolio were reduced from NOK 9.0 billion to NOK 7.0 billion during 2013. This is a result of the Bank's purchase of housing mortgage loans from KLP, in addition to the majority of new housing mortgage loans being granted on the Bank's own balance sheet. The managed portfolio has thus been reduced continuously through repayments and redemptions.

At the end of 2013 KLP's total housing mortgage portfolio totalled at NOK 11.4 billion in lending to retail customers, mainly local government and health enterprise employees. This represents a net growth of NOK 0.9 billion during the year. The portfolio is secured within conservative valuations. The number of housing mortgagees has increased from 10,600 to 11,000. The average loan per customer was thus NOK 1 million. Fixed interest mortgages represented 13 per cent of the loan volume at the end of the year, unchanged from 2012. The remaining mortgages were at variable interest rates. As in 2012, there were no known losses on housing mortgages during 2013. Default in excess of 90 days was NOK 2.6 million gross at the end of 2013 compared to NOK 6.8 million in 2012.

In the retail market KLP Banken AS offers products such as current accounts, saving accounts, online banking, debit cards, ordinary housing mortgages, flexible loans (lines of credit secured in home equity), bridging loans for house purchase, loans for leisure homes, the seniors' loan LittExtra, as well as credit cards. In 2013 new solutions for mobile banking and tablets were launched as well as the savings product «Boligsparing for Ungdom - BSU» (Young Persons housing savings scheme).

#### LENDING - PUBLIC SECTOR

Lending to the public sector is conducted by the KLP Banken Group under the brand name "KLP Kommunekreditt". KLP Kommunekreditt is an important national operator within its field of activity. New loans totalling NOK 8.5 billion were disbursed to, or with guarantee from, the public sector compared to 5.8 billion in 2012. Redemption in 2013 amounted to NOK 6.1 billion. A large proportion of loans to the public sector are at floating interest rates in line with the borrowers' preferences. As in 2012, KLP Kommunekreditt offered loans at fixed interest rates on particularly competitive terms. Fixed interest rate loans represented 44.2 per cent of total lending in 2013, up from 42.5 per cent one year ago. During the year loan applications for about NOK 47 billion were received. The acceptance ratio was 19 per cent in 2013 against 14 per cent in 2012.

Total lending amounted to NOK 43.3 billion at the end of 2013, an increase of NOK 2.4 billion from 2012. The increase is mainly associated with loans financed by KLP, whereas loans in own portfolio have been reduced by NOK 2.3 billion.

The borrowers in the public sector are Norwegian municipalities or county administrations, or companies with local government guarantees. The credit risk in the lending portfolio is very low. As in 2012 there were no losses registered on lending to the public sector in 2013.

The credit risk associated with lending to municipalities and county administrations in Norway is limited to deferrals and not to ceasing payment liability. This is due to Norwegian legislation, providing the lender with security against loss if a local authority cannot meet its payment obligations. Upon deferrals, the Norwegian Local Government Act also assures lenders compensation for accrued interest, interest on late payments and collection expenses. Neither KLP Banken Group nor other lenders have previously had credit losses on lending to Norwegian municipalities or county administrations.

KLP Kreditt AS (previously Kommunekreditt Norge AS) was acquired from Eksportfinans ASA in 2009. KLP Kreditt's lending portfolio has successively been transferred to KLP Kommunekreditt AS and to some extent to KLP. In line with a long-term strategy involving loans to the public sector financed by covered bonds being offered by KLP Kommunekreditt AS, up until termination in the second half of 2013.



## FUNDING

Particular emphasis has been on attracting deposits from customers through favorable terms directed towards members since the establishment of the Bank. Employees of KLP's owners or those who receive pension from one of the KLP's public pension schemes count as members. Marketing of the bank has largely been directed at increasing the deposit volume. During 2013 the number of active depositing customers in the retail market increased from 17,500 to 22,700, with a members share/ratio of 66 per cent.

A deposit product for corporate customers was launched in the summer of 2012. At the end of 2013 corporate deposits amounted to NOK 695 million, which is 16 per cent of total deposits. The total volume of deposits increased by 52 per cent, from NOK 2.9 billion last year to NOK 4.4 billion by the end of the year.

The activity of the subsidiaries is financed in part through KLP Banken's certificate and bond debt. At the end of 2013 the bank's outstanding certificates and bonds liabilities stood at NOK 2.8 billion, against NOK 3.3 billion in 2012.

KLP Kommunekreditt AS issues covered bonds in a security pool comprising primarily loans to the local government sector. Cost effective financing should facilitate the KLP Banken Group in offering good terms and conditions on its long-term lending. The Company has achieved best possible rating for its funding programme.

KLP Banken has by 31 Dec 2013 issued covered bonds in the Norwegian market for NOK 16.5 billion compared to NOK 18.7 billion 31 Dec 2012. Covered bonds corresponding to NOK 0.4 billion have in addition been issued in the Swedish market.

KLP Kommunekreditt AS has issued bonds covered by local government since 2009, the only finance institution in Norway to do so. With the exception of the issuance in Sweden, the market conditions have limited the Company's opportunity to use international borrowing.

Following approval from the Financial Supervisory Authority of Norway, KLP Banken AS established the project company KLP BK Prosjekt AS. The company will be converted into a credit institution for housing loans in the retail market once a licence is granted. Early in 2014 a company rating programme will be initiated in addition to signing of necessary contracts regarding IT infrastructure, legal framework and lending programmes. Through a credit institution, retail lending mortgage can be partly financed by bonds covered by mortgages. Such a company will finance continued growth in the retail market and a proportion of the Bank's borrowing will achieve better terms than other financing.

## STATEMENT OF FINANCIAL POSITION AND SOLVENCY

Total assets of the KLP Banken Group's at the end of 2013 were NOK 26.0 billion. the composition is shown in the table below:

Total assets/NOK billions	KLP Banken Group
Public sector lending/local authority guarantee	16,8
Lending to private individuals	4,5
Securities and liquidity	4,5
Other assets	0,2
<b>Total</b>	<b>26,0</b>

Based on the Board's proposed allocation of the income of the Group companies, the Group's Tier 1 and Tier 2 capital amounted to NOK 1.3 billion at the end of 2013. The core capital is identical to the Tier 1 and Tier 2 capital. This produces a capital adequacy and core capital adequacy ratio of 19.6 per cent. Corresponding figures for 2012 were NOK 1.2 billion and 20.1 per cent respectively. The applicable capital requirement for core capital adequacy ratio is 9 per cent and capital adequacy ratio 12.5 per cent. The risk-weighted balance was NOK 6.2 billion. Solvency is considered to be satisfactory.

From 1 July 2013 the authorities' capital adequacy regulatory requirements introduced capital buffers in addition to minimum requirements, with the intent to increase banks' ability to absorb losses during financial crises and prevent this from spreading to other sectors (Basel III).

## LIQUIDITY

The statement of cash flows shows the KLP Banken's liquidity situation is satisfactory as the company has obtained financing greater than that demanded by the liquidity requirement from operations.

Excess liquidity is invested in credit institutions and fixed income securities. Placements in credit institutions amounted to NOK 1.5 billion and the book value of the portfolio of fixed income securities was NOK 2.9 billion at year end. Investments in fixed income securities are of high credit quality and are principally recorded in KLP Kommunekreditt AS. This portfolio is entirely comprised of Norwegian highly rated covered bonds and bonds issued by Norwegian local authorities.

## ALLOCATION OF INCOME FOR THE YEAR

The annual financial statements for KLP Banken AS show total comprehensive income for 2013 of NOK 48.8 million after taxes. The Board proposes that the profit be allocated as follows: NOK 23.0 million to the share premium fund and NOK 25.8 million to retained earnings.

## THE FINANCIAL STATEMENTS

The Board considers the annual financial statements to provide a true and fair view of the Company's assets and liabilities, financial position and results. The going concern assumption is appropriate and this provides the basis for the annual financial statements.

KLP Banken AS is presenting its financial statements in accordance with the Norwegian "Regulations on annual accounts etc. for banks, financial enterprises and their parent companies" of 16.12.1998 (Regulation No. 1240) and Norwegian Act No. 56 "Act regarding annual accounts etc. (the Accounting Act)" of 17 July 1998. The Accounting Act and the regulations require that the Company/Group uses international accounting standards (IAS/IFRS), which are approved by the EU, in the preparation of the financial statements but allows certain exceptions from IFRS through Regulation No. 57: "Regulations on simplified application of international accounting standards" of 21 January 2008 (hereinafter referred to as "the Simplification Regulations"). Please see Note 2 to the annual financial statements for more detailed information.

## Rating

The rating agencies' assessment of KLP Kommunekreditt AS and the KLP Group is important for the Company's funding terms. The Company uses Fitch Ratings and Moody's to provide credit ratings of the Company's bonds. All issuance of covered bonds (obligasjoner med fortrinnsrett – OMF) is rated AAA, which is the best rating that can be achieved. The KLP Banken AS and KLP Kommunekreditt AS companies are rated A– by Fitch Ratings.

## Risk management

The KLP Banken Group is exposed to various types of risk. The Bank has established a framework for risk management aimed at ensuring that risks are identified, analysed and subject to management using policies, frameworks, procedures and instructions.

Risk policies are set covering key individual risks (liquidity risk, credit risk, market risk and operational risk) as well as an overall risk policy covering principles, organisation, frameworks etc. concerning the Bank's overall risk. The risk policies are adopted by the Board of Directors and reviewed at least once a year. These policies are general and are complemented by procedures, guidelines and instructions at different administrative levels.

The overarching risk policy covers inter alia roles in the Company's risk management, including requirements and guidelines for the risk control function. The purpose of the risk control function is in part to check that the risk policies and other guidelines for risk management are being followed.

Stress testing is used as a method of risk assessment and as a tool for communication and the exchange of views concerning risk matters. In this context stress testing is defined as both sensitivity analyses and scenario analyses.

The risk policies include risk tolerance for individual risks and for the overall risk. The risk tolerances are defined based on various stress scenarios, and different forms of stress testing are conducted regularly to measure that the actual exposures remain within pre-defined tolerances.

The Bank's risk profile is conservative, with earnings principally resulting from borrowing and lending activity as well as liquidity management. This implies a low market risk, and interest and foreign exchange risk arising within the borrowing and lending activity are reduced using derivatives. The Bank is to have a responsible long-term financing, and frameworks have been established to ensure that this objective is achieved. The credit risk in the Bank is low and the Company's lending is limited to loans with municipal risk and loans with a lien on housing and leisure property. Management of the Bank's liquidity is conducted through investments in banks satisfying credit quality requirements and in securities in accordance with Board-approved credit lines.

The Bank's goal is low operational risk, characterized by high professional competence, good procedures and efficient operation.

The Bank has established a process for assessing and quantifying significant risks and calculating the capital requirement (Internal Capital Adequacy and Assessment Process – ICAAP). The capital requirement assessment is forward-looking, and in addition to calculating the requirement based on current exposure (or frameworks), the requirement is assessed in the light of planned growth, strategic changes decided etc. The Bank's Board of Directors participates actively in these assessments and, in conjunction with the capital requirement assessment, the Board decides on a desired level of total capital, the capital target.

In accordance with new requirements in the capital adequacy rules the Board of Directors of KLP Banken AS has established a Risk Committee.

## The work of the Board of Directors

The Board held seven Board meetings during 2013. For details of remuneration of the Board's members and chair, please see Note 28 to the annual financial statements.

## Work environment and organisation

KLP Banken AS and its subsidiaries had 52 full time employees at the end of 2013 and 52 at the same time in 2012. All employment contracts are with KLP Banken AS. 3 employees also have functions with KLP Kommunekreditt AS and 2 employees have functions with KLP BK Prosjekt AS. KLP Banken AS manages by agreement the lending portfolios of KLP and its subsidiary KLP Kommunekreditt AS, in addition to the Bank's own balance sheet.

In the view of the Board of Directors, good cooperation has been established between management and employees. Regular surveys are carried out amongst all staff measuring commitment, the working environment, well-being and compliance of KLP's values. These measurements show that employees are generally committed and thriving at KLP. The companies have a working environment and cooperation committee (SAMU) comprising representatives from management, KLP's HR Department and employee representatives. The Board considers the working environment in the banking group to be good.

A KLP Group objective is sickness absence below 4 per cent. Sickness absence at the Bank was 3.7 per cent in 2013, against 3.2 per cent in 2012, of which long-term absence was 2.4 per cent and short-term absence was 1.2 per cent. The increase in 2013 is linked to increased long-term absence. This is being monitored by managers and the HR Department. No significant injuries or accidents are observed in 2013, nor in 2012.

As a part of the KLP Group, KLP Banken AS complies with the Group's policy for equality and diversity in which targets, measures and activities take account of the discriminatory factors described in legislation. KLP Banken AS also complies with the KLP Group's ethical guidelines, as well as the guidelines for whistleblowing.

KLP Banken endeavors a balance between women and men at all levels of appointment and 44 per cent of the banking group's employees are women. The aim is. The proportion of women in senior management positions was 55 per cent. At the end of 2013 the Board of Directors of KLP Banken AS comprised three women and three men, of which one board member was elected by the employees.

## External environment

The KLP Group, including KLP Banken AS, takes its environmental impact seriously. As an office-based company it is primarily energy consumption, transport, waste and procurement that can be influenced. As part of its corporate social responsibility strategy, KLP is committed to developing good procedures for measurement and reduction of its companies' environmental impact. The annual report for KLP is made available at [klp.no](http://klp.no). KLP Banken AS is environmentally accredited.

## Future prospects

KLP Banken's activities in the retail customer market are to underpin KLP's orientation towards members of its pension schemes. This is based on the objective that the owners of the pension company should be perceived as attractive employers. The Bank is to contribute by offering competitive and standardized products aimed at the employees of the owner companies. In particular, beneficial terms and conditions for banking services for KLP's members and pensioners are therefore an important contribution to underpinning KLP as a pensions company. The need for banking services amongst KLP's members is a good base for the Board's desire for further growth in the retail market.

Membership of the pension schemes includes approximately half a million individuals. Fewer than 5 per cent of these are currently customers of the Bank and the potential for further growth in this target group is substantial. Emphasis is therefore laid on KLP Banken's products being particularly attractive to the members. On this basis overall targets have been worked out for how many members the Bank is to have as customers within various time horizons.

The expectation for the Norwegian economy for the coming year is continued relatively low interest rates, inflation and unemployment, but the future economic outlook is more uncertain now than a year ago. For example recent price development in housing has shown a falling trend. The Board nevertheless believes that the vast majority of our loan customers will maintain a good ability to service their loans in future and there is still justification for expecting low credit losses.

As technological solutions and digitalization generally make organisations more efficient and accessible to its customers, the bank wishes to commercially exploit these solutions for improved customer satisfaction externally and increased efficiency internally.

In 2014 the Bank will establish a housing mortgage credit enterprise aiming to finance a proportion of lending growth with borrowing at best possible terms. At the same time deposits from individuals will continue to be an important foundation for the Bank's financing. The deposit products meet the needs of a large number of present and potential customers. The Board expects future deposit growth at about the same level as during the last two years.

The Bank's most important resource is its employees. The staff have extensive experience in lending both to retail customers and to the public sector, and have developed substantial credit and market expertise. New products, services and regulatory requirements of the Bank involved changes in the operation and result in a need for adjustment and new competency. Further development of the organisation for reinforced market orientation and competency development are again included in the Company's targets for 2014.

The Board considers that demand for loans in the local authority sector and for projects with local authority guarantees and local authority ownership will continue to grow in the years to come. KLP Kommunekreditt has a well-established position in this market and its existence should contribute to competition and thus to the public sector having access to long-term financing at low-cost.

As in previous years, KLP Kommunekreditt AS will in 2014 establish new loans for own account so far as this can be achieved profitably.

The growth in the Company's lending will be decided principally by the opportunities to achieve sufficiently good borrowing terms to compete for local government lending.

The Bank's solvency through a capital base that satisfies regulatory requirements combined with low credit risk in its lending business should continue to be exploited to achieve access to the best possible financing in the capital markets. The Board considers the Bank to be well positioned for further development and growth.

Oslo, 4 March 2014

Sverre Thornes  
*Chair*

Aage Schaanning  
*Deputy Chair*

Eva M. Salvesen

Mette Jorun Meisland

Jan Otto Langmoen

Mette Rinde  
*Elected among the employees*

Leif Magne Andersen  
*Managing Director*



## THE BOARD OF DIRECTORS OF KLP BANKEN AS



## Income Statement

KLP Banken AS			Note	NOK thousands	Note	KLP Banken AS Group	
2012	2013					2013	2012
232 194	234 750			Interest income and similar income		839 397	956 724
-218 270	-204 420			Cost of interests and similar costs		-717 420	-870 387
13 924	30 330	9		Net interests income	9	121 977	86 337
4 888	8 538			Commission income and income from banking services		8 538	4 888
-352	-727			Commission costs and costs of banking services		-727	-352
4 535	7 811	10		Net charges and commission income	10	7 811	4 535
735	30 600	22		Income from ownership interests in Group companies		0	0
79 075	58 063			Other fee income		58 063	79 075
-461	625	4		Net gain/ (loss) on fin. instruments	4	43 806	50 485
79 349	89 288			Total other operating income		101 869	129 560
-47 885	-51 316	30		Salary and administrative costs	30	-51 316	-47 885
-1 978	-2 356	23,24		Depreciation	23,24	-2 356	-2 068
-56 868	-68 378	34		Other operating expenses	34	-91 026	-86 792
-106 731	-122 050			Total operating expenses		-144 698	-136 745
0	0	18		Loss on loans issued, guarantees etc.	18	0	0
40 612	48 830			Gains/losses on securities that are fixed assets		0	0
31 688	54 209			Operating profit/loss before tax		86 959	83 687
2 443	-3 873	26		Tax on ordinary income	26	-12 564	-33 389
34 131	50 336			Income for the year		74 395	50 298
Items that will not be reclassified to income							
6 432	-2 085			Estimate deviation pensions obligations and assets		-2 085	6 432
-1 801	584			Tax estimate deviation pensions obligations and assets		584	-1 801
4 631	-1 501			Other comprehensive income for the year after tax		-1 501	4 631
38 762	48 834			COMPREHENSIVE INCOME FOR THE YEAR		72 894	54 930
0	-25 792			Allocated to/from retained earnings			
-38 762	-23 042			Allocated to/from share premium fund			
-38 762	-48 834			TOTAL ALLOCATION OF INCOME			

## Balance sheet

KLP Banken AS							KLP Banken AS Group	
31.12.2012	31.12.2013	Note	NOK thousands	Note	31.12.2013	31.12.2012		
<b>ASSETS</b>								
5 058 250	3 128 209	17,36	Loans to and receivables from credit institutions	17,36	1 534 079	2 136 069		
1 529 997	4 483 602	17	Loans to and receivables from customers	17	21 317 032	21 875 012		
148 351	128 739	12	Fixed-income securities	12	2 922 819	4 063 485		
831 517	676 000	22	Holdings in Group companies		0	0		
11 878	14 266	7	Financial derivatives	7	210 223	183 904		
8 429	5 140	26	Deferred tax asset	26	0	0		
150	581	23	Tangible fixed assets	23	581	472		
21 214	21 098	24	Intangible assets	24	21 098	21 214		
7 140	34 666	32	Other assets	32	4 330	1 358		
7 616 926	8 492 301		<b>TOTAL ASSETS</b>		26 010 162	28 281 514		
<b>LIABILITIES AND OWNERS' EQUITY</b>								
<b>LIABILITIES</b>								
3 342 970	2 771 163	20	Liabilities created on issuance of securities	20	19 981 805	23 708 404		
2 946 196	4 406 943	21	Deposits	21	4 406 943	2 946 196		
19 842	17 282	7	Financial derivatives	7	265 754	358 770		
0	0	26	Deferred tax	26	13 422	873		
92 967	27 155	31	Other liabilities	31	22 603	27 377		
22 207	28 180	31	Provision for accrued costs and liabilities	31	29 465	22 618		
6 424 181	7 250 721		<b>TOTAL LIABILITIES</b>		24 719 991	27 064 237		
<b>OWNERS' EQUITY</b>								
750 000	750 000		Share capital		750 000	750 000		
416 958	440 000		Share premium fund		440 000	406 370		
25 788	51 580		Retained earnings		100 171	60 907		
1 192 746	1 241 580		<b>TOTAL OWNERS' EQUITY</b>		1 290 171	1 217 277		
7 616 926	8 492 301		<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>		26 010 162	28 281 514		

Oslo, 4 March 2014

Sverre Thornes  
ChairAage E. Schaanning  
Deputy Chair

Eva M. Salvesen

Mette-Jorunn Meisland

Jan Otto Langmoen

Mette Rinde  
Elected by and from the employeesLeif Magne Andersen  
Managing Director

## Statement of Cash Flows

KLP Banken AS			KLP Banken AS Group	
2012	2013	NOK thousands	2013	2012
Operating activities				
234 436	232 076	Payments received from customers - interest, commission & charges	764 031	885 750
-111 424	-180 511	Payments to customers - interest, commission & charges	-180 511	-111 424
1 775 118	-725 241	Net receipts/disbursements on lending to customers	385 286	6 545 615
1 105 934	1 460 748	Net receipts on customer deposits banking	1 460 748	1 105 934
-51 999	-70 138	Net receipts/disbursements on operations	-94 239	-87 734
-43 274	-45 024	Payments to employees, pension schemes, employer's social security contribution etc.	-45 024	-43 274
9 723	8 308	Net interest investment accounts	29 584	38 500
72 210	50 582	Net receipts/disbursements from operating activities	86 013	129 617
0	0	Income tax paid	0	0
2 990 724	730 799	Net cash flow from operating activities	2 405 888	8 462 984
Investment activities				
-148 195	-127 725	Payments on the purchase of securities	-1 478 732	-2 470 499
1 927	149 884	Receipts on sales of securities	2 619 973	1 927
0	1 195	Receipts of interest from securities	77 487	77 313
-1 600	-2 671	Payments on the purchase of tangible fixed assets	-2 018	-1 600
150 000	204 347	Receipts of share capital from subsidiary	0	0
2 133	225 030	Net cash flow from investment activities	1 216 710	-2 392 859
Financing activities				
-2 982 317	-565 457	Net receipts/disbursements on loans from credit institutions	-3 729 547	-4 823 855
-109 007	-24 453	Net payment of interest on loans	-491 514	-707 994
-831	-64 626	Net receipts/payments (-) on other short-term items	-6 822	30 211
0	735	Receipts of Group contributions	0	0
-3 092 155	-653 802	Net cash flows from financing activities	-4 227 884	-5 501 638
-99 298	302 027	Net cash flow during the period	-605 287	568 487
462 633	363 335	Cash and cash equivalents at the start of the period	2 091 712	1 523 225
363 335	665 362	Cash and cash equivalents at the end of the period	1 486 425	2 091 712
-99 298	302 027	Net receipts/ disbursements (-) of cash	-605 287	568 487
RECONCILIATION				
31 688	54 209	Profit/loss before tax	86 959	83 687
0	-38	Change in accounts receivable	-38	0
940	-1 276	Change in accounts payable	-850	867
71 723	-32 113	Items classified as investment or financing activities	466 058	729 154
2 886 373	710 017	Changes in other accrual items	1 853 759	7 649 276
2 990 724	730 799	Net cash flow from operating activities	2 405 888	8 462 984

## Statement of owners' equity KLP Banken AS

2013 NOK thousands	Share capital	Share premium fund	Retained earnings	Total owners' equity
Owners' equity 1 January 2013	750 000	416 957	25 788	1 192 746
Income for the year	0	23 042	27 293	50 335
Other comprehensive income	0	0	-1 501	-1 501
Comprehensive income for the year	0	23 042	25 792	48 834
Total transactions with the owners	0	0		0
Owners' equity 31 December 2013	750 000	440 000	51 580	1 241 580

2012 NOK thousands	Share capital	Share premium fund	Retained earnings	Total owners' equity
Owners' equity 1 January 2012	750 000	384 717	25 788	1 160 505
Zeroing corridor, pension liability	0	-6 522	0	-6 522
Corrected owners' equity 1 January 2012	750 000	378 195	25 788	1 153 982
Income for the year	0	34 131	0	34 131
Other comprehensive income	0	4 631	0	4 631
Comprehensive income for the year	0	38 762	0	38 762
Total transactions with the owners	0	0	0	0
Owners' equity 31 December 2012	750 000	416 957	25 788	1 192 746

	Number of shares	Nominal value in whole NOK	Share premium fund	Total
As at 1 January 2013	7 500 000	100	440 000	1 190 000
Changes during the period 1 January - 31 December	0	0	0	0
As at 31 December 2013	7 500 000	100	440 000	1 190 000
Accumulated income				51 580
Owners' equity as at 31 December 2013				1 241 580

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

Income per share 31 December 2013 in whole NOK: 6,51

Income per share 31 December 2012 in whole NOK: 5,17



## Statement of owners' equity KLP Banken AS Group

2013 NOK thousands	Share capital	Share premium fund	Retained earnings	Total owners' equity
Owners' equity 1 January 2013	750 000	406 371	60 907	1 217 278
Income for the year	0	33 629	40 766	74 395
Other comprehensive income	0	0	-1 501	-1 501
Comprehensive income for the year	0	33 629	39 265	72 894
Total transactions with the owners	0	0	0	0
Owners' equity 31 December 2013	750 000	440 000	100 172	1 290 171

2012 NOK thousands	Share capital	Share premium fund	Retained earnings	Total owners' equity
Owners' equity 1 January 2012	750 000	348 130	60 907	1 159 037
Zeroing corridor, pension liability	0	-6 522	0	-6 522
Corrected owners' equity 1 January 2012	750 000	341 608	60 907	1 152 515
Income for the year	0	50 298	0	50 298
Other comprehensive income	0	4 631	0	4 631
Comprehensive income for the year	0	54 930	0	54 930
Net Group contribution received after tax, corrected from 2011	0	9 833	0	9 833
Total transactions with the owners	0	9 833	0	9 833
Owners' equity 31 December 2012	750 000	406 371	60 907	1 217 277

## 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 2013 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 and the Group'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 and the Group, together with a description of the most significant risk and uncertainty factors the Company and the Group face.

Oslo, 4 March 2014

Sverre Thornes  
Chair

Aage E. Schaanning  
Deputy Chair

Eva M. Salvesen

Mette-Jorunn Meisland

Jan Otto Langmoen

Mette Rinde  
Elected by and from the employees

Leif Magne Andersen  
Managing Director

## Note 1 General information

KLP Banken AS was formed on 25 February 2009. KLP Banken AS and its subsidiaries provide or acquire loans to Norwegian municipalities and county authorities, as well as to companies with a public sector guarantee. The lending activities are principally financed by the issuance of covered bonds. The Group also offers standard banking products to private customers. The Company, KLP Banken AS, is registered as domiciled in Norway. The bank is an online bank without branches. KLP Banken AS is registered and domiciled in Norway. Its head office is at Beddingen 8 in Trondheim. The Company has a branch office in Oslo.

KLP Banken AS owned all the shares in KLP Kreditt AS (formerly Kommunekreditt Norge AS), which was wound up during 2013, and

owns all the shares in KLP Kommunekreditt AS and PK Prosjekt AS. These companies together form the KLP Banken AS Group. The Company, KLP Banken AS, is a subsidiary of KLP Bankholding AS, which is in turn wholly owned by Kommunal Landspensjonskasse gjensidig forsikringsselskap (KLP). KLP is a mutual insurance company.

The annual financial statements are available at [klp.no](http://klp.no).

The financial statements presented represent the period 1 January 2013 – 31 December 2013.

## 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 Banken AS Company and Group financial statements. These principles are used in the same way in all periods presented unless otherwise indicated.

### 2.1 FUNDAMENTAL PRINCIPLES

The KLP Banken AS financial statements and Group financial statements have been prepared in accordance with the Norwegian Regulation 1240 «Regulations on financial statements etc for banks, financial enterprises and their parent companies», hereinafter referred to as the Annual Accounts Regulations of 16 December 1998 and Norwegian Act No. 56 «Act concerning annual accounts etc. (the Accounting Act)» of 17 July 1998.

The Accounting Act and the regulations require that the Company/Group uses international accounting standards (IAS/IFRS), which are approved by the EU, in the preparation of the financial statements but allows certain exceptions from IFRS through Regulation No. 57: «Regulations on simplified application of international accounting standards» of 21 January 2008 (hereinafter referred to as «the Simplification Regulations»). The Simplification Regulations allow the presentation in the accounts of a provision for dividend and group contribution at the end of the reporting period even though the resolution is passed at a later date. This is the only accounting principle deviating in regard to IFRS.

The Accounting Act contains certain supplementary information requirements not required in accordance with IFRS. 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 Group'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 have been used that are of material significance for the Group 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.

### 2.2 CONSOLIDATION PRINCIPLES

#### 2.2.1 Subsidiaries

All entities in which the Group has deciding influence/control are considered subsidiaries. Deciding influence is normally achieved through ownership of more than half of the voting capital. Subsidiaries are consolidated from the date on which the Group takes over control and they are omitted from consolidation when that control ceases.

Internal Group transactions and accounts between Group companies are eliminated. Where Group companies present accounts in accordance with principles other than those of the Group, these are converted to correspond to the Group's accounting principles before they are consolidated. The Group's accounts are presented in NOK.

### 2.3 TRANSLATION OF TRANSACTIONS IN FOREIGN CURRENCY

#### 2.3.1 Functional currency and presentational currency

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

#### 2.3.2 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.

### 2.4 TANGIBLE FIXED ASSETS

Tangible fixed assets comprise in the main office machinery, inventory and vehicles used by the Company/Group in its business.

Tangible fixed assets are recognized at cost of acquisition including costs that can be attributed directly to the fixed asset, with deduction for depreciation. Subsequent costs relating to fixed assets are capitalized as part of the fixed asset if it is likely that the expenditure will contribute to future financial benefit for the Company/Group and the cost can be measured reliably. Repair and maintenance are recognized through profit or loss during the period in which the expenses are incurred.

Depreciation is by straight-line so the acquisition cost of fixed assets or their reassessed value is depreciated to residual value over expected life, which is:

Office machinery: 4 years  
 Vehicles: 5 years  
 Inventory: 4 years

The utilisable life of tangible fixed assets is assessed annually. Where there are indications of impairment in excess of residual value, the recoverable sum is calculated. If the recoverable sum is lower than the residual value, write-down is carried out to the recoverable sum.

Gains and losses on disposals comprise the sale price less the book value at the time of sale. Gains and losses on disposals are recognized through profit or loss. On the sale of revalued fixed assets, any sum in the revaluation reserve linked to the fixed asset is transferred to retained earnings.

## 2.5 INTANGIBLE ASSETS

The Company/Group's intangible assets generally comprise capitalized IT systems and software. On the purchase of a new IT system, directly attributable costs for the system/software and costs of having the system installed and readied for use are capitalized.

On further development of IT systems and software both external and internal costs are capitalized in accordance with the above. System changes regarded as maintenance are taken to expenses as they occur.

When an IT system is operational the capitalized costs are depreciated by straight line over the expected life (7 years). In the event of subsequent capitalization because of further development this is depreciated over the originally set life unless the expenditure increases the total expected life of the system.

If there are indications that the book value of a capitalized IT system is higher than the recoverable sum an impairment test is carried out. If the book value is higher than the recoverable sum (present value on continued use/ownership), the asset is depreciated to the recoverable sum.

## 2.6 FINANCIAL ASSETS

The Company's/Group's financial assets are divided into the following categories: financial assets measured at fair value through income 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.

### 2.6.1 Financial assets at fair value through profit or loss

This category is divided into two subcategories: held for trading and voluntarily categorized at fair value through profit or loss on acquisition according to the fair value option.

- a) Financial assets held for trading are assets acquired primarily with a view to providing a profit from short-term price fluctuations. The Company's/Group's derivatives are included in this category unless they form part of hedging. Fair value is determined on the basis of observable prices in an active market, or where such prices are not available, through internal modelling with regular collection of external pricing to quality-assure the internal pricing model.
- b) Financial assets voluntarily categorized at fair value through income on acquisition comprise financial assets managed as a group and where their earnings are valued and reported to management on the basis of fair value. The size of the portfolio is decided on the basis of the Group's desired risk exposure to the interest market.

Gains or losses from changes in fair value of assets classified as financial assets at fair value through income 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".

### 2.6.2 Loans and receivables at amortized cost

Loans and receivables are financial assets that are not derivatives, and that have set or determinable payments, and that are not traded in an active market or that the Company/Group does not intend to sell in the short term or has earmarked at fair value through profit or loss.

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".

### 2.6.3 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/Group uses the rules on fair value hedging, so that the hedged item's (asset or liability) recognized 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. See Note 8 for further information.

### 2.6.4 Accounting treatment of financial assets

Purchases and sales of financial assets are taken to account on the trading date, i.e. when the Company/Group 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 income. For these assets purchase costs are taken to expenses directly. Financial assets cease to be recognized when the Company/Group is no longer entitled to receive the cash flow from the asset or the Group has transferred all risk and entitlements associated with its ownership.

### 2.6.5 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.

### 2.6.6 Write-down

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

Loss assessment and loss write-down is carried out quarterly on individual loans. Loans with unpaid repayments older than 90 days or credits with overdrafts older than 90 days are examined at the end of the reporting period. In addition a continuous assessment of other loans is carried out where there is objective evidence of a fall in value in accordance with the Financial Supervisory Authority of Norway Regulation on accounting treatment of lending and guarantees.

Lending is also assessed by group. If there is objective proof 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.

### 2.6.7 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.

## 2.7 CASH AND CASH EQUIVALENTS

Bank deposits associated with daily operation that are included as a part of the financial statement line "Lending to and receivables from credit institutions" are counted as cash and cash equivalents. 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.

## 2.8 Financial liabilities

The Company's/Group's financial liabilities comprise debt to credit institutions, covered bonds issued and deposits from customers.

### 2.8.1 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.

### 2.8.2 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) 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.

### 2.8.3 Deposits from customers

Deposits from customers are recognized at fair value in the financial position statement when the deposit is recorded as transferred to the customer's account.

## 2.9 OWNERS' EQUITY

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

### 2.9.1 Owners' equity contributed

Owners' equity contributed comprises share capital, the share premium fund and other owners' equity contributed.

### 2.9.2 Retained earnings

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

## 2.10 PRESENTATION OF INCOME

Income on sale of goods and services is valued at fair value of the consideration, net after deductions for VAT and any discounts. Sales internal to the Group are eliminated.

### 2.10.1 Income from services

Fees for lending management are taken to income in proportion to the management carried out for the period up to the end of the reporting period. Other services are taken to income by straight line over the contract period.

### 2.10.2 Interest income/expenses

Interest income and interest expenses associated with all fixed-income 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 fixed-income 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".

## 2.11 TAX

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. Deferred tax is not calculated on goodwill. 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 that are 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.

## 2.12 PENSION OBLIGATIONS - OWN EMPLOYEES

The Group's pension obligations are partially insurance-covered through KLP's public sector occupational pensions through

membership of the joint pension scheme for municipalities and enterprises ("Fellesordningen"). Pension liability beyond these schemes is covered through operation. Pension costs are treated in accordance with IAS 19. The Company has a defined benefits based pension scheme for its employees. The accounting obligation for defined benefit schemes is the present value of the obligation on the reporting date, with deduction for fair value of the pension assets. The gross obligation is calculated using the straight-line method. The gross obligation is discounted to present value using the interest rates on Norwegian high-quality bonds. Gains and losses arising on recalculation of the obligation as a result of known deviation and changes in actuarial assumptions are charged to owners' equity via other comprehensive income during the period in which they arise. The effect of changes in the scheme's benefits is taken to profit/loss immediately.

Presentation of the pension costs in the income statement is in accordance with IAS 1. This standard allows the option of classifying the net interest element either as an operating cost or as a financial cost. The option the company adopts must be followed consistently for later periods. The Company has presented the pension costs under the accounting line "Salary and administrative costs", whilst the net interest element is presented in the accounting line "Net gain/(loss) on financial instruments". The estimate deviation has been classified under "Items that will not be reclassified to income" in the accounting line "Estimate deviation pension obligations and pension assets".

The change in employee benefits has been implemented by reworking comparison figures and the transition effect has been charged directly to owners' equity 1 January 2012. It is shown in the statement of owners' equity that this effect has led to a reduction in other owners' equity of NOK 6.5 million as at 1 January 2012, and NOK 1.7 million as at 31 December 2012. The table below provides a specification of the magnitude of the effects the standard has had:

NOK thousands	Change 1 January 2012	Change Q4 2012	Financial statement presented 2012	The year 2012 Effect IAS 19	Adjusted financial statements
<b>Income statement</b>					
Pension costs	0	-920	9 447	-920	8 527
Net gain/(loss) on financial instruments	0	663	0	663	663
Cost of taxes	0	72	33 317	72	33 389
Profit/loss for the period	0	-185	42 764	-185	42 579
<b>Other profit/loss elements for the period</b>					
Estimate deviation pensions, including SSC	0	-6 432	0	-6 432	-6 432
Tax on other profit/loss elements	0	1 801	0	1 801	1 801
Total comprehensive income	0	-4 816	42 764	-4 816	37 948
<b>Financial position statement</b>					
Pension obligation	9 058	-6 689	12 132	-6 689	14 501
Deferred tax/tax asset	-2 536	1 873	1 536	1 873	873
<b>Owners' equity</b>					
Total owners' equity	-6 522	4 816	1 218 983	4 816	1 217 277

## Note 3 Important accounting estimates and valuations

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

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

### 3.1 PENSION OBLIGATIONS - OWN EMPLOYEES

The present value of the Company's net pensions liability in regard to its employees depends on a range of economic and demographic assumptions. The Company complies with the "Guidance for determining pension assumptions" published by the Norwegian Accounting Standards Board (NASB). Updated guidance published on 6 January 2014 has been used as the basis for updated measurement of best-estimate accrued obligations and assets as at 31 December 2013.

In accounting for pension schemes in accordance with IAS 19 and Norwegian Accounting Standard (NAS) 6 a range of actuarial assumptions must be specified. This specification involves significant elements of judgement and practical approaches. Weight has been placed on the assumptions being mutually consistent. Those parameters that are of the greatest significance for net pension liabilities are the discount interest rate, assumptions on future salary growth, assumptions on future adjustment of the National Insurance basic amount (G adjustment), pension adjustments, assumptions on future longevity and future likely take-up of the contractual early retirement scheme (AFP).

The Company uses the option given by the "Guidance for determining pension assumptions" to use the interest rate for covered bonds (OMF) as the discount interest rate based on the belief that a liquid market exists for covered bonds of long duration. In this evaluation account is taken of market volume; bid/ask spread; price reliability; trading volume and frequency; and issuance volume. As at 31 December 2013 a discount interest rate of 4.0 per cent has been used.

The assumptions on future salary growth and future G-adjustment/pension adjustment are set in line with the actual recommendations of the Guidance at 3.75 per cent (salary growth) and 3.5 per cent (G and pensions adjustment) respectively. The pension adjustment for the local government pension scheme should be the same as the G-adjustment.

New mortality assumptions have been used in measuring accrued pension obligations (best estimate) as at 31 December 2013. The

Company has used the K2013BE mortality table based on Finance Norway's analyses of mortality in life insurance populations in Norway and Statistics Norway's extrapolations.

Future take-up of contractual early retirement scheme (AFP) has been assumed at 45 per cent, i.e. 45 per cent will take AFP on reaching the age of 62.

### 3.2 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Financial assets/liabilities classified as assets for which changes in fair value are taken to income do not have adequate trading in a market for fair value to be read directly from the market price. Fair value must therefore be estimated. The estimate is based on the market circumstances prevailing at the end of the reporting period. Unlisted fixed-income securities are priced on the basis of a yield curve with a risk supplement that represents the market's pricing of the issuer's industry-specific risk.

During the year the Company/Group has invested surplus liquidity in fixed-income securities. These were registered for the first time in the statement of financial position at fair value. The securities in the portfolio are earmarked for the category "Financial assets at fair value through profit or loss" since they are managed, and their pay-back is valued on the basis of fair value. Fair value is determined on the basis of 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.

### 3.3 LOSSES ON FINANCIAL ASSETS

Financial assets not measured at market value are assessed for impairment at the end of the reporting period. The Company's/Group's lending portfolio is valued individually for loans on which default has been observed. If there is an objective event at the end of the reporting period that has influence on future cash flows, the loan is written down. In addition, lending with uniform risk profile is valued quarterly by group.

The lending portfolio has historically shown insignificant losses and has generally very good security in public sector guarantee or mortgage. The Company/Group has insignificant loss provisions, so any future losses will have a direct effect on the income statement.

### 3.4 CAPITALIZED SOFTWARE

If impairment is suspected a write-down test is carried out to check whether the book value of capitalized software is present. In this context the recoverable sum is estimated. There are uncertainties associated with estimating cash flows and discounting factors in connection with calculating a recoverable sum.

## Note 4 Net gain/loss on financial instruments

KLP Banken AS			KLP Banken AS Group	
2012	2013	NOK thousands	2013	2012
10	1 635	Net gain/loss on fixed-income securities	4 742	54 776
-7 884	-5 400	Net gain/loss financial derivatives	-139 066	-81 947
8 076	5 222	Net value change lending and borrowing, hedge accounting	128 198	79 095
-663	-832	Other financial income and expenses	48 702	-663
0	0	Net value change lending and receivables	1 231	-777
-461	625	Total	43 806	50 485

## Note 5 Fair value of financial assets and liabilities

KLP Banken AS 31.12.2013		NOK thousands	KLP Banken AS Group 31.12.2013	
Capitalized value	Fair value		Capitalized value	Fair value
Financial assets at fair value				
128 739	128 739	Fixed-income securities	2 922 819	2 922 819
14 266	14 266	Financial derivatives	210 223	210 223
143 005	143 005	Total financial assets at fair value	3 133 042	3 133 042
Financial assets at fair value hedging				
0	0	Loans to Norwegian local administrations	6 160 311	6 181 146
454 408	442 592	Loans to retail customers	454 408	442 592
454 408	442 592	Total financial assets at fair value hedging	6 614 719	6 623 738
Financial assets at amortized cost				
685 368	685 368	Lending to and receivables from credit institutions	1 534 079	1 534 079
2 442 841	2 442 841	Lending to Group companies	0	0
0	0	Loans to Norwegian local administrations	10 673 119	10 671 959
4 029 195	4 029 195	Loans to retail customers	4 029 195	4 029 195
7 157 403	7 157 404	Total financial assets at amortized cost	16 236 394	16 235 233
7 754 816	7 743 001	Total financial assets	25 984 154	25 992 013
Debt to credit institutions at fair value				
17 282	17 282	Financial derivatives	265 754	265 754
17 282	17 282	Total financial liabilities at fair value	265 754	265 754
Debt to credit institutions at fair value hedging				
524 056	529 437	Liabilities created on issuance of securities	4 748 614	4 969 199
524 056	529 437	Total financial liabilities at fair value hedging	4 748 614	4 969 199
Debt to credit institutions and deposits at amortized cost				
2 247 106	2 269 360	Liabilities created on issuance of securities	15 233 191	15 121 032
4 406 943	4 406 943	Deposits from customers	4 406 943	4 406 943
6 654 050	6 676 303	Total financial liabilities at amortized cost	19 640 134	19 527 976
7 195 388	7 223 021	Total financial liabilities	24 654 502	24 762 928

## Note 5 Fair value of financial assets and liabilities (continued)

KLP Banken AS 31.12.2012		NOK thousands	KLP Banken AS Group 31.12.2012	
Capitalized value	Fair value		Capitalized value	Fair value
		<b>Financial assets at fair value</b>		
148 351	148 351	Fixed-income securities	4 063 485	4 063 485
0	0	Loans to Norwegian local administrations	33 021	33 021
11 878	11 878	Financial derivatives	183 904	183 904
160 230	160 230	<b>Total financial assets at fair value</b>	<b>4 280 410</b>	<b>4 280 410</b>
		<b>Financial assets at fair value hedging</b>		
0	0	Loans to Norwegian local administrations	5 978 833	5 983 059
524 223	524 223	Loans to retail customers	524 223	524 223
524 223	524 223	<b>Total financial assets at fair value hedging</b>	<b>6 503 056</b>	<b>6 507 282</b>
		<b>Financial assets at amortized cost</b>		
392 483	392 483	Lending to and receivables from credit institutions	2 136 069	2 136 069
4 665 767	4 665 767	Lending to Group companies	0	0
0	0	Loans to Norwegian local administrations	14 333 161	14 333 161
1 005 774	1 005 774	Loans to retail customers	1 005 774	1 005 774
6 064 024	6 064 024	<b>Total financial assets at amortized cost</b>	<b>17 475 004</b>	<b>17 475 004</b>
6 748 477	6 748 477	<b>Total financial assets</b>	<b>28 258 470</b>	<b>28 262 696</b>
		<b>Debt to credit institutions at fair value</b>		
19 842	19 842	Financial derivatives	358 770	358 770
19 842	19 842	<b>Total financial liabilities at fair value</b>	<b>358 770</b>	<b>358 770</b>
		<b>Debt to credit institutions at fair value hedging</b>		
312 412	320 401	Liabilities created on issuance of securities	3 691 662	3 777 110
312 412	320 401	<b>Total financial liabilities at fair value hedging</b>	<b>3 691 662</b>	<b>3 777 110</b>
		<b>Debt to credit institutions and deposits at amortized cost</b>		
3 030 558	3 042 286	Liabilities created on issuance of securities	20 016 742	20 042 241
2 946 196	2 946 196	Deposits from customers	2 946 196	2 946 196
5 976 754	5 988 482	<b>Total financial liabilities at amortized cost</b>	<b>22 962 938</b>	<b>22 988 437</b>
6 309 008	6 328 724	<b>Total financial liabilities</b>	<b>27 013 369</b>	<b>27 124 316</b>

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

Reuters is used as a source for pricing Norwegian government bonds. It is Oslo Børs (Stock Exchange) that provides the price (via Reuters). The prices are compared with the prices from Bloomberg to reveal any errors.

#### 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 Bloomberg are the sources of 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 administrations, loans to retail customers and deposits.

Fair value of lending and deposits 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 securities

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

## Note 6 Fair value hierarchy

KLP Banken AS			KLP Banken AS Group	
31.12.2012	31.12.2013	NOK thousands	31.12.2013	31.12.2012
<b>Assets</b>				
Fixed-income securities				
148 352	128 739	Level 1: Value based on prices in an active market	128 739	148 352
0	0	Level 2: Value based on observable market data	2 794 080	3 915 133
0	0	Level 3: Value based on other than observable market data	0	0
148 352	128 739	Total fixed-income securities	2 922 819	4 063 485
<b>Financial derivatives</b>				
0	0	Level 1: Value based on prices in an active market	0	0
11 878	14 266	Level 2: Value based on observable market data	210 223	183 904
0	0	Level 3: Value based on other than observable market data	0	0
11 878	14 266	Total financial derivatives	210 223	183 904
160 230	143 005	Total financial assets valued at fair value	3 133 042	4 247 389
<b>Liabilities</b>				
<b>Financial derivatives (liabilities)</b>				
0	0	Level 1: Value based on prices in an active market	0	0
19 842	17 282	Level 2: Value based on observable market data	265 754	358 770
0	0	Level 3: Value based on other than observable market data	0	0
19 842	17 282	Total financial derivatives (liabilities)	265 754	358 770
19 842	17 282	Total financial liabilities at fair value	265 754	358 770

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.

- Level 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.
- Level 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.
- Level 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.



## Note 7 Financial derivatives

KLP Banken AS				KLP Banken AS Group				
31.12.2012		31.12.2013		NOK thousands	31.12.2013		31.12.2012	
Nominal sum	Fair value	Nominal sum	Fair value		Nominal sum	Fair value	Nominal sum	Fair value
300 000	11 878	500 000	14 266	Borrowing in NOK	4 750 000	169 903	3 550 000	183 904
0	0	0	0	Borrowing in foreign currency	433 500	40 090	0	0
0	0	0	0	Lending	108 039	230	0	0
300 000	11 878	500 000	14 266	Total assets	5 291 539	210 223	3 550 000	183 904
0	0	0	0	Borrowing in NOK	4 300 000	9 731	4 300 000	10 137
0	0	0	0	Borrowing in foreign currency	0	0	1 528 500	30 001
510 000	19 842	510 000	16 540	Lending	6 308 716	248 778	6 251 411	311 135
0	0	130 000	742	Investments	230 000	7 245	100 000	7 497
510 000	19 842	640 000	17 282	Total liabilities	10 838 716	265 754	12 179 911	358 770

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

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

## Note 8 Hedge accounting

### KLP Banken AS

31.12.2013 NOK thousands	Nominal value	Changed value hedged risk	Effectiveness
<b>Hedged object</b>			
Lending to retail customers fixed interest in NOK	438 325	14 704	100,00 %
Bond loans fixed interest in NOK	500 000	-6 654	100,00 %
<b>Hedging instrument</b>			
Interest rate swap lending fixed interest in NOK	510 000	-14 704	100,00 %
Interest rate swap bond loans in NOK	500 000	6 654	100,00 %

### KLP Banken AS Group

31.12.2013 NOK thousands	Nominal value	Changed value in hedged risk	Effectiveness
<b>Hedged object</b>			
Lending public sector market fixed interest in NOK	5 921 900	225 232	110,25 %
Lending to retail customers fixed interest in NOK	438 325	14 704	100,00 %
Bond loans fixed interest in NOK	4 750 000	-124 392	119,47 %
<b>Hedging instrument</b>			
Interest rate swap lending public sector market fixed interest in NOK	5 906 755	-204 284	90,70 %
Interest-rate swap lending retail customers fixed interest in NOK	510 000	-14 704	100,00 %
Interest rate swap bond loans in NOK	4 750 000	104 122	83,70 %

### KLP Banken AS

31.12. 2012 NOK thousands	Nominal value	Changed value in hedged risk	Effectiveness
<b>Hedged object</b>			
Lending to retail customers fixed interest in NOK	505 162	18 136	100,00 %
Bond loans fixed interest in NOK	300 000	-4 949	105,61 %
<b>Hedging instrument</b>			
Interest rate swap lending fixed interest in NOK	510 000	-18 136	100,00 %
Interest rate swap bond loans in NOK	300 000	4 686	94,69 %

### KLP Banken AS Group

31.12. 2012 NOK thousands	Nominal value	Changed value in hedged risk	Effectiveness
<b>Hedged object</b>			
Lending public sector market fixed interest in NOK	5 713 241	275 628	104,70 %
Lending to retail customers fixed interest in NOK	505 162	18 136	100,00 %
Bond loans fixed interest in NOK	3 550 000	-154 674	115,53 %
<b>Hedging instrument</b>			
Interest rate swap lending pub. sector market fixed interest NOK	5 708 062	-263 248	95,51 %
Interest-rate swap lending retail customers fixed interest NOK	510 000	-18 136	100,00 %
Interest rate swap bond loans in NOK	3 550 000	133 879	86,56 %

The hedging instrument is an interest rate swap. The purpose of this hedging is to hedge the interest rate risk.

The hedged object and the hedging instrument are struck on the same terms and conditions. Principal, interest, duration and interest dates are identical.

The hedging effectiveness is measured by comparing accumulated value change on the hedging instrument to accumulated value change on the hedged object. The value change on the hedged object and the hedging instrument are taken to income against the line "Net gain/(loss) on financial instruments".

## Note 9 Net interest income

KLP Banken AS			KLP Banken AS Group	
2012	2013	NOK thousands	2013	2012
9 755	8 252	Interest on loans to and receivables from credit institutions	29 650	38 578
222 181	224 656	Interest on loans to customers	734 645	836 312
258	1 842	Interest on securities	75 103	81 835
232 194	234 750	Total interest income	839 397	956 724
-26 065	0	Interest on debt to KLP	0	-26 065
0	0	Interest on debt to credit institutions	-508 636	-649 339
-192 202	-204 420	Interest on debt to customers	-204 420	-192 202
0	0	Premium/discount on covered bonds	-3 893	-2 778
-3	0	Other interest costs	-471	-3
-218 270	-204 420	Total interest costs	-717 420	-870 387
13 924	30 330	Net interest income	121 977	86 337

## Note 10 Net commission items

KLP Banken AS			KLP Banken AS Group	
2012	2013	NOK thousands	2013	2012
14	22	Interbank commission	22	14
1 197	1 617	Short commission	1 617	1 197
187	279	Payments handling	279	187
3 490	6 620	Other commission income	6 620	3 490
4 888	8 538	Total commission income	8 538	4 888
-156	-334	Interbank commission	-334	-156
-196	-393	Payments handling	-393	-196
-352	-727	Total commission costs	-727	-352
4 535	7 811	Net commission	7 811	4 535

## Note 11 Categories of financial assets and liabilities

KLP Banken AS 31.12.2013					KLP Banken AS Group 31.12.2013					
NOK thousands										
FVO	HFT	FVL	LAR	Total	Financial assets	FVO	HFT	FVL	LAR	Total
0	0	0	685 368	685 368	Lending to and receivables from credit institutions	0	0	0	1 534 079	1 534 079
0	0	453 611	6 472 832	6 926 443	Lending to and receivables from customers	0	0	6 613 922	14 703 109	21 317 033
0	14 266	0	0	14 266	Financial derivatives used in hedging	0	210 223	0	0	210 223
0	128 739	0	0	128 739	Fixed-income securities	0	2 922 819	0	0	2 922 819
0	143 005	453 611	7 158 200	7 754 816	Total	0	3 133 042	6 613 922	16 237 188	25 984 154
FVO	HFT	FVH	OLI	Total	Financial liabilities	FVO	HFT	FVH	OLI	Total
0	0	524 056	2 247 107	2 771 163	Liabilities created on issuance of securities	0	0	4 748 614	15 233 191	19 981 805
0	0	0	4 406 943	4 406 943	Deposits	0	0	0	4 406 943	4 406 943
0	17 282	0	0	17 282	Financial derivatives used in hedging	0	265 155	0	0	265 155
0	0	0	0	0	Financial derivatives at fair value	0	599	0	0	599
0	17 282	524 056	6 654 050	7 195 388	Total	0	265 754	4 748 614	19 640 134	24 654 502
KLP Banken AS 31.12.2012					KLP Banken AS Group 31.12.2012					
NOK thousands										
FVO	HFT	FVL	LAR	Total	Financial assets	FVO	HFT	FVL	LAR	Total
0	0	0	392 483	392 483	Lending to and receivables from credit institutions	0	0	0	2 136 069	2 136 069
0	0	523 298	5 672 466	6 195 764	Lending to and receivables from customers	33 021	0	6 502 131	15 339 860	21 875 012
0	11 878	0	0	11 878	Financial derivatives used in hedging	0	183 904	0	0	183 904
0	148 351	0	0	148 351	Fixed-income securities	0	4 063 485	0	0	4 063 485
0	160 230	523 298	6 064 949	6 748 477	Total	33 021	4 247 389	6 502 131	17 475 929	28 258 470
FVO	HFT	FVH	OLI	Total	Financial liabilities	FVO	HFT	FVH	OLI	Total
0	0	312 412	3 030 558	3 342 970	Liabilities created on issuance of securities	0	0	3 691 662	20 016 742	23 708 404
0	0	0	2 946 196	2 946 196	Deposits	0	0	0	2 946 196	2 946 196
0	19 842	0	0	19 842	Financial derivatives used in hedging	0	354 326	0	0	354 326
0	0	0	0	0	Financial derivatives at fair value	0	4 444	0	0	4 444
0	19 842	312 412	5 976 754	6 309 008	Total	0	358 770	3 691 662	22 962 938	27 013 369

FVO: Financial instruments at fair value through income – fair value option  
HFT: Financial instruments at fair value through income – held for trading  
LAR: Financial instruments at amortized cost – loans and receivables

OLI: Financial instruments at amortized cost – other liabilities  
FVL: Lending fair value hedging  
LFV: Liabilities fair value hedging

## Note 12 Interest-bearing securities

KLP Banken AS 31.12.2013				KLP Banken AS Group 31.12.2013				
NOK thousands								
Acquisition cost	Unreal. gain/loss	Accrued interest	Market value	Debtor categories	Acquisition cost	Unreal. gain/loss	Accrued inter- est not due	Market value
127 725	1 014	0	128 739	Government/social security admin.	127 725	1 014	0	128 739
0	0	0	0	Credit enterprises	2 659 619	20 128	6 965	2 686 712
0	0	0	0	Local government administration	98 050	8 889	429	107 368
127 725	1 014	0	128 739	Total fixed-income securities	2 885 394	30 031	7 394	2 922 819

Effective interest rate: 1,39 %

Effective interest rate: 2,05 %

KLP Banken AS 31.12.2012				KLP Banken AS konsern 31.12.2012				
				NOK thousands				
Acquisition cost	Unreal. gain/loss	Accrued interest	Market value	Debtor categories	Acquisition cost	Unreal. gain/loss	Accrued interest not due	Market value
148 342	10	0	148 352	Government/social security admin.	148 342	10	0	148 352
0	0	0	0	Credit enterprises	3 342 548	36 760	8 599	3 387 907
0	0	0	0	Local government administration	515 991	9 410	1 826	527 226
148 342	10	0	148 351	Total fixed-income securities	4 006 881	46 179	10 425	4 063 485

Effective interest rate: 1,57 %

Effective interest rate: 2,40 %

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 from the securities to obtain the securities' total market value.

## Note 13 Financial risk management

### Organisation of risk management

KLP Banken's Board of Directors has established a risk management framework to ensure 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 bank's risk management. The responsibility for the operational direction of the bank'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.

The Group provides loans to retail customers, Norwegian municipalities and county administrations, local government enterprises, intermunicipal companies and loans to companies where the loan is guaranteed by a Norwegian municipality, county administration, the state or a bank.

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

NOK thousands	KLP Banken AS		KLP Banken AS Group	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Lending to the retail market with mortgage lien	4 462 164	1 509 370	4 462 164	1 509 370
Lending to municipalities and county administrations	0	0	15 794 673	18 224 818
Lending with municipal/county administration guarantee	0	0	769 654	1 759 958
Lending with Government guarantee	0	0	0	13 224
Total	4 462 164	1 509 370	21 026 492	21 507 370
Total due more than 12 months after balance sheet date	4 346 401	1 471 561	20 544 763	20 387 974

The KLP Banken Group also invests in securities issued by the Norwegian state, Norwegian municipalities and county authorities, in deposits in banks that satisfy the minimum rating requirements as well as in covered bonds issued by Norwegian credit enterprises.

### Credit quality securities, bank deposits and derivatives

Securities with external credit assessment (Moody's) NOK thousands	KLP Banken AS		KLP Banken AS Group	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
AAA	130 000	150 000	2 890 000	3 610 000
Securities without external credit assessment NOK thousands	KLP Banken AS		KLP Banken AS Group	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Securities issued by the Norwegian municipalities/county administrations	0	0	0	417 000
Deposits in banks grouped by external credit assessment (Moody's) NOK thousands	KLP Banken AS		KLP Banken AS Group	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Aa1-Aa3	352 475	253 046	560 210	1 341 999
A1-A3	331 015	137 418	973 867	785 671
Baa1	1	2 019	3	8 400
Total	683 491	392 483	1 534 080	2 136 069

The banking group 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 Group's borrowing and lending activities.

The Group'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 stipulates 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 bank's lending activity. The policy also includes an overall mandate structure for lending and other counterparty exposure.

The mandates within the public sector 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 in the public sector, checks are made on whether the customer's credit limits are larger than the total of the loan amounts applied for and current loans. 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. In the retail market, loans are only provided with mortgage on housing or leisure real estate. In processing loan applications the borrower's servicing ability and the value of the mortgage object is assessed and loans are provided only within set limits and authorizations.

#### 14.3 MAXIMUM EXPOSURE TO CREDIT RISK

Maximum exposure is measured as a total of 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 the parent bank and the Group.

##### Maximum exposure to credit risk

NOK thousands	KLP Banken AS		KLP Banken AS Group	
	31.12.2013	31.12.2012	31.12. 2013	31.12.2012
Lending to and receivables from credit institutions	3 128 209	5 058 250	1 533 088	3 587 865
Lending to and receivables from customers	4 468 898	1 511 861	21 135 910	21 634 513
Interest-bearing securities	130 000	150 000	2 895 500	4 034 724
Financial derivatives	14 266	11 879	210 223	183 904
<b>TOTAL</b>	<b>7 741 373</b>	<b>6 731 990</b>	<b>25 774 721</b>	<b>29 441 006</b>

#### 14.4 LOANS THAT ARE PAST DUE OR WRITTEN DOWN

The bank has very low losses and considers all receivables to be satisfactorily secured.

##### Loans fallen due or written down

NOK thousands	KLP Banken AS		KLP Banken AS Group	
	31.12.2013	31.12.2012	31.12. 2013	31.12.2012
Principal on loans with payments with 1-30 days' default	121 439	28 467	681 109	573 426
Principal on loans with payments with 31-90 days' default	25 005	4 957	25 005	21 846
Principal on loans with payments with more than 90 days' default	9 661	6 854	9 661	47 754
<b>Total loans fallen due</b>	<b>156 105</b>	<b>40 278</b>	<b>715 775</b>	<b>643 026</b>
Relevant security or guarantees	156 105	40 278	715 775	643 026
Lending that has been written down	0	0	0	0

#### 14.5 CONCENTRATION OF CREDIT RISK

A large proportion of the Group's lending at the end of the year was 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.

Lending to the Group's largest borrower as at 31 December 2013 was about 2.9 per cent of the Group's total lending.

## Note 15 Market risk

Market risk is understood here as the risk of reduced fair value of the bank's equity capital as a result of fluctuations in market prices for the bank's assets and liabilities. Changes in credit margins are however excluded since this comes under the term credit risk.

The Group is exposed to market risk as a result of the Group's borrowing and lending activity and management of the Group's liquidity. The exposure is however limited to interest rate risk and exchange-rate risk. Interest-rate risk arises as a result of differences in timing of interest rate adjustment for the Company's assets and liabilities. The risk associated with such imbalances is reduced by using derivative contracts. The Company has one loan in SEK, whereas all other borrowing is in NOK. The whole of the lending portfolio comprises loans in NOK. The risk associated with changes in exchange rates is reduced virtually entirely, using derivative contracts.

### 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 a 10% unfavourable exchange rate change in all currencies.

### 15.2 INTEREST RATE RISK

The market risk policy is the Group's overarching guidelines, and 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 Group should not actively take positions that expose the Group 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 Tier 1 and 2 capital and the level of the limits should ensure compliance with the low market risk profile policy adopted. 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 parent bank's and the Group's interest-bearing assets and liabilities.

#### Interest risk KLP Banken AS

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 mnths to 12 mnths	From 1 yr to 5 yrs	Over 5 years
Lending	4 462 164	4 982	4 025 783	120 493	212 383	98 523
Securities	130 000	0	0	130 000	0	0
Cash and receivables from credit institutions	3 123 491	3 123 491	0	0	0	0
<b>Total</b>	<b>7 715 655</b>	<b>3 128 473</b>	<b>4 025 783</b>	<b>250 493</b>	<b>212 383</b>	<b>98 523</b>
Liability to depositors	4 406 422	4 406 422	0	0	0	0
Liabilities to financial institutions	0	0	0	0	0	0
Liabilities created on issuance of securities	2 750 000	300 000	1 950 000	0	500 000	0
<b>Total</b>	<b>7 156 422</b>	<b>4 706 422</b>	<b>1 950 000</b>	<b>0</b>	<b>500 000</b>	<b>0</b>
<b>Gap</b>	<b>559 233</b>	<b>-1 577 949</b>	<b>2 075 783</b>	<b>250 493</b>	<b>-287 617</b>	<b>98 523</b>
Financial derivatives	0	-155 000	295 000	-275 000	245 000	-110 000
<b>Net gap</b>	<b>559 233</b>	<b>-1 732 949</b>	<b>2 370 783</b>	<b>-24 507</b>	<b>-42 617</b>	<b>-11 477</b>

#### Renterisiko KLP Banken AS konsern

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 mnths to 12 mnths	From 1 yr to 5 yrs	Over 5 years
Lending	21 026 492	8 122 493	6 019 790	1 542 579	3 479 779	1 861 850
Securities	2 890 000	866 000	1 794 000	130 000	100 000	0
Cash and receivables from credit institutions	1 534 079	1 534 079	0	0	0	0
<b>Total</b>	<b>25 450 571</b>	<b>10 522 572</b>	<b>7 813 790</b>	<b>1 672 579</b>	<b>3 579 779</b>	<b>1 861 850</b>
Liability to depositors	4 406 422	4 406 422	0	0	0	0
Liabilities to financial institutions	0	0	0	0	0	0
Liabilities created on issuance of securities	19 732 500	1 300 000	13 682 500	0	4 000 000	750 000
<b>Total</b>	<b>24 138 922</b>	<b>5 706 422</b>	<b>13 682 500</b>	<b>0</b>	<b>4 000 000</b>	<b>750 000</b>
<b>Gap</b>	<b>1 311 649</b>	<b>4 816 150</b>	<b>-5 868 710</b>	<b>1 672 579</b>	<b>-420 221</b>	<b>1 111 850</b>
Financial derivatives	0	-5 638 190	7 466 498	-1 069 534	372 854	-1 131 628
<b>Net gap</b>	<b>1 311 649</b>	<b>-822 040</b>	<b>1 597 788</b>	<b>603 045</b>	<b>-47 367</b>	<b>-19 778</b>

The Group's interest rate sensitivity as at 31 December 2013, measured as value change in the event of one percentage point change in all interest rates was NOK 1 million.



## Interest risk KLP Banken AS

Repricing dates for interest-bearing assets and liabilities as at 31 December 2012

NOK thousands	Total Principal	Up to 1 mnth	From 1 mnth to 3 mnths	From 3 mnths to 12 mnths	From 1 yr to 5 yrs	Over 5 years
Lending	1 509 370	0	1 004 239	0	391 821	113 310
Securities	150 000	0	0	150 000	0	0
Cash and receivables from credit institutions	5 052 483	392 483	4 660 000	0	0	0
<b>Total</b>	<b>6 711 853</b>	<b>392 483</b>	<b>5 664 239</b>	<b>150 000</b>	<b>391 821</b>	<b>113 310</b>
Liability to depositors	2 946 196	2 946 196	0	0	0	0
Liabilities to financial institutions	0	0	0	0	0	0
Liabilities created on issuance of securities	3 320 000	1 260 000	1 760 000	0	300 000	0
<b>Total</b>	<b>6 266 196</b>	<b>4 206 196</b>	<b>1 760 000</b>	<b>0</b>	<b>300 000</b>	<b>0</b>
<b>Gap</b>	<b>445 657</b>	<b>-3 813 713</b>	<b>3 904 239</b>	<b>150 000</b>	<b>91 821</b>	<b>113 310</b>
Financial derivatives	0	45 000	165 000	0	-100 000	-110 000
<b>Net gap</b>	<b>445 657</b>	<b>-3 768 713</b>	<b>4 069 239</b>	<b>150 000</b>	<b>-8 179</b>	<b>3 310</b>

## Interest rate risk KLP Banken AS Group

Repricing dates for interest-bearing assets and liabilities as at 31 December 2012

NOK thousands	Total Principal	Up to 1 mnth	From 1 mnth to 3 mnths	From 3 mnths to 12 mnths	From 1 yr to 5 yrs	Over 5 years
Lending	21 507 370	10 828 855	3 709 601	963 767	3 730 205	2 274 942
Securities	4 027 000	841 000	2 936 000	150 000	0	100 000
Cash and receivables from credit institutions	2 136 070	2 136 070	0	0	0	0
<b>Total</b>	<b>27 670 440</b>	<b>13 805 925</b>	<b>6 645 601</b>	<b>1 113 767</b>	<b>3 730 205</b>	<b>2 374 942</b>
Liability to depositors	2 946 196	2 946 196	0	0	0	0
Liabilities to financial institutions	0	0	0	0	0	0
Liabilities created on issuance of securities	23 501 500	2 260 000	17 691 500	0	2 800 000	750 000
<b>Total</b>	<b>26 447 696</b>	<b>5 206 196</b>	<b>17 691 500</b>	<b>0</b>	<b>2 800 000</b>	<b>750 000</b>
<b>Gap</b>	<b>1 222 744</b>	<b>8 599 729</b>	<b>-11 045 899</b>	<b>1 113 767</b>	<b>930 205</b>	<b>1 624 942</b>
Financial derivatives	0	-5 484 186	8 233 522	-192 689	-935 014	-1 621 633
<b>Net gap</b>	<b>1 222 744</b>	<b>3 115 543</b>	<b>-2 812 377</b>	<b>921 078</b>	<b>-4 809</b>	<b>3 309</b>

## 15.3 EXCHANGE-RATE RISK

The Group has one borrowing in foreign currency of SEK 500,000,000 in KLP Kommunekreditt AS. The foreign currency exposure resulting from this borrowing is hedged in its entirety through a swap agreement and the banking Group therefore has no net exposure to exchange-rate risk.

## Note 16 Liquidity risk

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

## 16.1 MANAGEMENT OF LIQUIDITY RISK

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 contains various requirements and limits in order to comply with the desired liquidity risk profile, including targets for deposit cover, limits for

refinancing needs for various time frames and liquidity buffer requirements. 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 subsidiaries, including requirements for continuously positive cash flows, limits for refinancing requirements and requirements for liquidity reserves and drawing rights. The Risk Analysis and Control Department reports the Company's actual exposure in relation to limits in accordance with guidelines set by the Board.

## 16.2 MATURITY ANALYSIS

The tables below show the maturity analysis of the Group's assets and liabilities including stipulated interest rates.

## Liquidity risk KLP Banken AS

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 mnths to 12 mnths	From 1 yr to 5 yrs	Over 5 years
Lending	6 892 329	0	25 398	51 073	234 883	1 255 185	5 325 789
Securities	130 000	0	0	0	130 000	0	0
Receivables from credit institutions	3 141 833	685 368	5505	2 451 010	0	0	0
<b>Total</b>	<b>10 164 212</b>	<b>685 368</b>	<b>30 903</b>	<b>2 502 083</b>	<b>364 883</b>	<b>1 255 185</b>	<b>5 325 789</b>
Liability to depositors	4 406 422	4 406 422	0	0	0	0	0
Liabilities created on issuance of securities	3 238 640	0	2 198	311 224	1 114 841	1 810 378	0
Financial derivatives	5 696	0	2 500	306	876	-4 777	6 791
Debt to credit institutions	0	0	0	0	0	0	0
<b>Total</b>	<b>7 650 758</b>	<b>4 406 422</b>	<b>4 698</b>	<b>311 530</b>	<b>1 115 717</b>	<b>1 805 601</b>	<b>6 791</b>
<b>Net cash flows</b>	<b>2 513 454</b>	<b>-3 721 054</b>	<b>26 206</b>	<b>2 190 554</b>	<b>-750 834</b>	<b>-550 415</b>	<b>5 318 998</b>

## Liquidity risk KLP Banken AS Group

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 mnths to 12 mnths	From 1 yr to 5 yrs	Over 5 years
Lending	29 629 415	0	140 128	262 844	1 586 244	6 597 486	21 042 712
Securities	3 102 210	0	4 833	10 030	228 315	2 757 341	101 691
Receivables from credit institutions	1 534 079	1 534 079	0	0	0	0	0
<b>Total</b>	<b>34 265 704</b>	<b>1 534 079</b>	<b>144 961</b>	<b>272 874</b>	<b>1 814 559</b>	<b>9 354 827</b>	<b>21 144 403</b>
Liability to depositors	4 406 422	4 406 422	0	0	0	0	0
Liabilities created on issuance of securities	21 486 751	0	7 506	370 649	2 444 701	17 844 896	819 000
Financial derivatives	207 115	0	38 565	-521	8 465	101 693	58 913
Debt to credit institutions	0	0	0	0	0	0	0
<b>Total</b>	<b>26 100 288</b>	<b>4 406 422</b>	<b>46 071</b>	<b>370 128</b>	<b>2 453 166</b>	<b>17 946 589</b>	<b>877 913</b>
<b>Net cash flows</b>	<b>8 165 416</b>	<b>-2 872 343</b>	<b>98 891</b>	<b>-97 253</b>	<b>-638 607</b>	<b>-8 591 761</b>	<b>20 266 490</b>

## Liquidity risk KLP Banken AS

Maturity analysis for assets and liabilities as at 31 December 2012:

NOK thousands	Total	Undefined	Up to 1 mnth	From 1 mnth to 3 mnths	From 3 mnths to 12 mnths	From 1 yr to 5 yrs	Over 5 years
Lending	1 869 800	0	7 212	14 095	64 035	350 595	1 433 862
Securities	150 000	0	0	0	150 000	0	0
Receivables from credit institutions	5 085 999	392 483	11172	4 682 344	0	0	0
<b>Total</b>	<b>7 105 799</b>	<b>392 483</b>	<b>18 384</b>	<b>4 696 439</b>	<b>214 035</b>	<b>350 595</b>	<b>1 433 862</b>
Liability to depositors	2 946 196	2 946 198	0	0	0	0	0
Liabilities created on issuance of securities	3 503 061	0	368 232	12 062	1 808 795	1 313 971	0
Financial derivatives	16 103	0	1 113	651	2 310	4 111	7 917
Debt to credit institutions	0	0	0	0	0	0	0
<b>Total</b>	<b>6 465 360</b>	<b>2 946 198</b>	<b>369 345</b>	<b>12 713</b>	<b>1 811 105</b>	<b>1 318 082</b>	<b>7 917</b>
<b>Net cash flows</b>	<b>640 439</b>	<b>-2 553 715</b>	<b>-350 961</b>	<b>4 683 726</b>	<b>-1 597 070</b>	<b>-967 487</b>	<b>1 425 945</b>

## Liquidity risk KLP Banken AS Group

Maturity analysis for assets and liabilities as at 31 December 2012:

NOK thousands	Total	Undefined	Up to 1 mnth	From 1 mnth to 3 mnths	From 3 mnths to 12 mnths	From 1 yr to 5 yrs	Over 5 years
Lending	29 597 594	0	105 318	279 979	1 423 829	7 002 851	20 785 617
Securities	4 870 715	0	5 257	436 201	272 195	2 700 243	1 456 819
Receivables from credit institutions	2 151 542	2 140 370	11 172	0	0	0	0
<b>Total</b>	<b>36 619 852</b>	<b>2 140 370</b>	<b>121 747</b>	<b>716 180</b>	<b>1 696 024</b>	<b>9 703 094</b>	<b>22 242 437</b>
Liability to depositors	2 946 196	2 946 196	0	0	0	0	0
Liabilities created on issuance of securities	25 266 429	0	374 107	1 173 619	3 305 308	19 558 396	855 000
Financial derivatives	308 459	0	40 379	16 951	27 724	161 937	61 468
Debt to credit institutions	0	0	0	0	0	0	0
<b>Total</b>	<b>28 521 084</b>	<b>2 946 196</b>	<b>414 486</b>	<b>1 190 570</b>	<b>3 333 031</b>	<b>19 720 332</b>	<b>916 468</b>
<b>Net cash flows</b>	<b>8 098 768</b>	<b>-805 826</b>	<b>-292 739</b>	<b>-474 390</b>	<b>-1 637 007</b>	<b>-10 017 239</b>	<b>21 325 969</b>

## Note 17 Lending and receivables

KLP Banken AS		NOK thousands	KLP Banken AS Group	
2012	2013		2013	2012
		Lending to and receivables from credit institutions		
392 483	685 368	Bank deposits	1 534 079	2 136 067
4 660 000	2 440 000	Principal on lending to Group companies	0	0
0	0	Accrued interest on bank deposits	0	2
5 767	2 841	Principal on lending to Group companies	0	0
5 058 250	3 128 209	Lending to and receivables from credit institutions	1 534 079	2 136 069
		Lending to and receivables from customers		
1 509 370	4 462 164	Principal on lending to customers	21 026 492	21 507 370
300	522	Overdraft current account	522	300
-9	-9	Individual write-downs	-9	-9
2 200	6 222	Accrued interest	108 906	126 852
0	0	Premium/discount	-37 979	-40 809
18 136	14 704	Fair value hedging	219 101	281 308
1 529 997	4 483 602	Lending to and receivables from customers	21 317 032	21 875 012

## Note 18 Losses on loans in the retail market

KLP Banken AS		NOK thousands	KLP Banken AS Group	
2012	2013		2013	2012
0	0	Known losses	0	0
0	0	Reversal of previous write-downs	0	0
0	0	Change in individual write-downs	0	0
0	0	Change in write-downs by group	0	0
0	0	Total loss on lending	0	0
6 854	9 661	Gross default exceeding 90 days	9 661	6 854
0	0	Gross other doubtful loans	0	0

This applies to housing loans. Losses or write-downs are not expected on loans in default in the public sector.

## Note 19 Financial assets and liabilities subject to net settlement

KLP Banken AS 31.12.2013				Related sums that are not presented net		
NOK thousands	Gross financial assets/liabilities	Gross assets /liabilities presented net	Book value	Financial instruments	Security in cash	Net recognised value
ASSETS						
Financial derivatives	14 266	0	14 266	-14 266	0	0
Total	14 266	0	14 266	-14 266	0	0
LIABILITIES						
Financial derivatives	17 282	0	17 282	-14 266	-1 858	1 158
Total	17 282	0	17 282	-14 266	-1 858	1 158

KLP Banken AS Group 31.12.2013				Related sums that are not presented net		
NOK thousands	Gross financial assets/liabilities	Gross assets /liabilities presented net	Book value	Financial instruments	Security in cash	Net recognised value
ASSETS						
Financial derivatives	210 223	0	210 223	-137 147	0	73 076
Total	210 223	0	210 223	-137 147	0	73 076
LIABILITIES						
Financial derivatives	265 754	0	265 754	-137 147	-1 858	126 749
Total	265 754	0	265 754	-137 147	-1 858	126 749

KLP Banken AS 31.12.2012				Related sums that are not presented net		
NOK thousands	Gross financial assets/liabilities	Gross assets /liabilities presented net	Book value	Financial instruments	Security in cash	Net recognised value
ASSETS						
Financial derivatives	11 878	0	11 878	-11 878	0	0
Total	11 878	0	11 878	-11 878	0	0
LIABILITIES						
Financial derivatives	19 842	0	19 842	-11 878	-18 419	-10 455
Total	19 842	0	19 842	-11 878	-18 419	-10 455

KLP Banken AS Group 31.12.2012				Related sums that are not presented net		
NOK thousands	Gross financial assets/liabilities	Gross assets /liabilities presented net	Book value	Financial instruments	Security in cash	Net recognised value
ASSETS						
Financial derivatives	183 904	0	183 904	-183 904	0	0
Total	183 904	0	183 904	-183 904	0	0
LIABILITIES						
Financial derivatives	358 770	0	358 770	-183 904	-20 190	154 676
Total	358 770	0	358 770	-183 904	-20 190	154 676

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

## Note 20 Securities liabilities - stock exchange listed covered bonds and certificates

KLP Banken AS							31.12.2013
NOK thousands	Nominal	Currency	Interest	Issued	Due date	Accrued interest	Book value
Certificate loan	300 000	NOK	Variable	21.03.2013	21.03.2014	142	300 142
Certificate loan	300 000	NOK	Variable	11.06.2013	11.06.2014	340	300 340
Certificate loan	150 000	NOK	Variable	30.08.2013	29.08.2014	265	150 265
Secured bonds	300 000	NOK	Variable	27.04.2012	27.04.2015	1 587	301 587
Secured bonds	300 000	NOK	Fixed	15.06.2012	15.06.2017	7 726	307 726
Secured bonds	300 000	NOK	Variable	24.08.2012	24.08.2015	891	300 891
Secured bonds	300 000	NOK	Variable	15.11.2012	16.11.2016	1 111	301 111
Secured bonds	300 000	NOK	Variable	14.05.2013	13.05.2016	947	300 947
Secured bonds	300 000	NOK	Variable	31.05.2013	28.11.2014	547	300 547
Secured bonds	200 000	NOK	Fixed	03.10.2013	03.10.2018	1 761	201 761
Amortization / value adjustments							5 846
Total liabilities issuance of certificate loans and secured bonds							2 771 163

KLP Banken AS							31.12.2012
NOK thousands	Nominal	Currency	Interest	Issued	Due date	Accrued interest	Book value
Certificate loan	360 000	NOK	Variable	18.01.2012	18.01.2013	1 725	361 725
Certificate loan	360 000	NOK	Variable	14.05.2012	14.05.2013	1 109	361 109
Certificate loan	300 000	NOK	Variable	01.06.2012	31.05.2013	635	300 635
Certificate loan	300 000	NOK	Fixed	05.07.2012	05.04.2013	1 701	301 701
Certificate loan	300 000	NOK	Variable	09.07.2012	09.07.2013	1 659	301 659
Secured bonds	500 000	NOK	Variable	12.03.2012	11.06.2013	709	500 709
Secured bonds	300 000	NOK	Variable	27.04.2012	27.04.2015	1 669	301 669
Secured bonds	300 000	NOK	Fixed	15.06.2012	15.06.2017	7 726	307 726
Secured bonds	300 000	NOK	Variable	24.08.2012	24.08.2015	963	300 963
Secured bonds	300 000	NOK	Variable	15.11.2012	16.11.2016	1 281	301 281
Amortization / value adjustments							3 794
Total liabilities issuance of certificate loans and secured bonds							3 342 970

KLP Banken AS Group							31.12.2013
NOK thousands	Nominal	Currency	Interest	Issued	Due date	Accrued interest	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 <sup>1)</sup>
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							17 210 642

<sup>1)</sup> Paid NOK 500 million in January 2012.

KLP Banken AS Group							31.12.2013
NOK thousands	Nominal	Currency	Interest	Issued	Due date	Accrued interest	Book value
Certificate loan	300 000	NOK	Variable	21.03.2013	21.03.2014	142	300 142
Certificate loan	300 000	NOK	Variable	11.06.2013	11.06.2014	340	300 340
Certificate loan	150 000	NOK	Variable	30.08.2013	29.08.2014	265	150 265
Secured bonds	300 000	NOK	Variable	27.04.1202	27.04.2015	1 587	301 587
Secured bonds	300 000	NOK	Fixed	15.06.2012	15.06.2017	7 726	307 726
Secured bonds	300 000	NOK	Variable	24.08.2012	24.08.2015	891	300 891
Secured bonds	300 000	NOK	Variable	15.11.2012	16.11.2016	1 111	301 111
Secured bonds	300 000	NOK	Variable	14.05.2013	13.05.2016	947	300 947
Secured bonds	300 000	NOK	Variable	31.05.2013	28.11.2014	547	300 547
Secured bonds	200 000	NOK	Fixed	03.10.2013	03.10.2018	1 761	201 761
Amortization / value adjustments							5 846
Total liabilities issuance of certificate loans and secured bonds							2 771 163
Total liabilities created on issuance of securities							19 981 805
KLP Banken AS Group							31.12.2012
NOK thousands	Nominal	Currency	Interest	Issued	Due date	Accrued interest	Book value
ISIN code							
NO0010585185	4 300 000	NOK	Variable	15.09.2010	15.09.2015	4 031	4 304 031
NO0010592892	1 103 000	NOK	Variable	10.12.2010	10.12.2013	1 490	1 104 490
NO0010592900	750 000	NOK	Fixed	15.12.2010	15.12.2020	1 607	751 607
XS0605180412	1 250 000	SEK	Variable	15.03.2011	15.03.2013	765	1 095 765
NO0010609795	4 000 000	NOK	Variable	20.05.2011	20.05.2014	10 313	4 010 313
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	959	434 459
NO0010642192	1 000 000	NOK	Variable	13.04.2012	13.04.2016	5 092	1 005 092
NO0010662307	3 000 000	NOK	Variable	26.10.2012	10.11.2017	12 898	3 012 898
NO0010663180	2 000 000	NOK	Variable	15.11.2012	16.11.2016	5 797	2 005 797
Amortization / value adjustments							85 605
Total covered bonds issued							20 365 434
NOK thousands	Nominal	Currency	Interest	Issued	Due date	Accrued interest	Book value
Certificate loan	360 000	NOK	Variable	18.01.2012	18.01.2013	1 725	361 725
Certificate loan	360 000	NOK	Variable	14.05.2012	14.05.2013	1 109	361 109
Certificate loan	300 000	NOK	Variable	01.06.2012	31.05.2013	635	300 635
Certificate loan	300 000	NOK	Fixed	05.07.2012	05.04.2013	1 701	301 701
Certificate loan	300 000	NOK	Variable	09.07.2012	09.07.2013	1 659	301 659
Secured bonds	500 000	NOK	Variable	12.03.2012	11.06.2013	709	500 709
Secured bonds	300 000	NOK	Variable	27.04.2012	27.04.2015	1 669	301 669
Secured bonds	300 000	NOK	Fixed	15.06.2012	15.06.2017	7 726	307 726
Secured bonds	300 000	NOK	Variable	24.08.2012	24.08.2015	963	300 963
Secured bonds	300 000	NOK	Variable	15.11.2012	16.11.2016	1 281	301 281
Amortization / value adjustments							3 794
Total liabilities issuance of certificate loans and secured bonds							3 342 970
Total liabilities created on issuance of securities							23 708 404

## Note 21 Deposits from customers

KLP Banken AS			KLP Banken AS Group	
31.12.2012	31.12.2013	NOK thousands	31.12.2013	31.12.2012
2 946 196	4 406 943	Deposits from customers without agreed duration	4 406 943	2 946 196
2 946 196	4 406 943	Total deposits from customers without agreed duration	4 406 943	2 946 196
Customer deposits divided by customer groups				
2 734 426	3 711 533	Deposits from customers, retail market	3 711 533	2 734 426
211 770	695 410	Deposits from customers, public sector market	695 410	211 770
2 946 196	4 406 943	Total deposits from customers	4 406 943	2 946 196

## Note 22 Shares in Group companies

NOK millions	Office and business address	Book value 31.12.2012	Book value 31.12.2013	Ownership interest %	OE on first acquisition	Acquisition cost	Owners' equity transaction	Write- down
Enterprises in the same group								
KLP Kreditt AS	Beddingen 9, 7014 Trondheim	156,5	0,0	100	869,6	869,6	-869,6	0,0
KLP BK Prosjekt AS	Beddingen 9, 7014 Trondheim	0,0	1,0	100	1,0	1,0	0,0	0,0
KLP Kommunekreditt AS	Beddingen 9, 7014 Trondheim	675,0	675,0	100	50,0	50,0	625,0	0,0
Total		831,5	676,0		920,6	920,6	-244,6	0,0

KLP Kreditt AS was wound up in 2013.

### Group contribution:

NOK thousands	2013	2012
Group contribution received from KLP Kommunekreditt AS	30 600	0
Group contribution received from KLP Kreditt AS	0	735
Income from ownership interests in Group companies	30 600	735

## Note 23 Fixed assets

KLP Banken AS			KLP Banken AS Group	
31.12.2012	31.12.2013	NOK thousands	31.12.2013	31.12.2012
272	272	Acquisition cost 01.01	1 270	1 270
0	505	Acquired during the period	183	0
0	0	Disposals in period (winding up KLP K)	-676	0
272	777	Acquisition cost 31.12	777	1 270
-50	-122	Acc. depreciation previous years	-798	-636
-71	-74	Annual depreciation	-74	-161
0	0	Acc. depreciation (winding up KLP K)	676	0
150	581	Book value	581	472

## Note 24 Intangible assets

KLP Banken AS			KLP Banken AS Group	
31.12.2012	31.12.2013	NOK thousands	31.12.2013	31.12.2012
25 376	26 976	Purchase cost 01.01	26 976	25 376
1 600	2 166	Additions	2 166	1 600
0	0	Disposals	0	0
26 976	29 142	Acquisition cost 31.12	29 142	26 976
-3 856	-5 762	Accumulated depreciation previous years	-5 762	-3 856
-1 906	-2 282	Ordinary depreciation for the year	-2 282	-1 906
0	0	Write-down	0	0
21 214	21 098	Book value	21 098	21 214
7 years		Depreciation period	7 years	



## Note 25 Capital adequacy

KLP Banken AS				KLP Banken AS Group		
31.12.2012	2012 after change in principles	31.12.2013	NOK thousands	31.12.2013	2012 after change in principles	31.12.2012
1 168 663	1 166 958	1 190 000	Share capital and share premium fund	1 190 000	1 156 370	1 158 076
25 788	25 788	51 580	Other owners' equity	100 171	60 907	60 907
1 194 451	1 192 746	1 241 580	Total owners' equity	1 290 171	1 217 277	1 218 983
-21 214	-21 214	-21 098	Deduction goodwill and other intangible assets	-21 098	-21 214	-21 214
-7 766	-8 429	-5 140	Deferred tax asset	0	0	0
1 165 471	1 163 103	1 215 342	Core capital/Tier 1 capital	1 269 073	1 196 063	1 197 769
0	0	0	Supplementary capital/Tier 2 capital	0	0	0
0	0	0	Supplementary capital/Tier 2 capital	0	0	0
1 165 471	1 192 746	1 215 342	Total eligible Tier 1 and 2 capital	1 269 073	1 196 063	1 197 769
594 636	594 636	580 221	Capital requirement	518 050	476 921	476 921
570 835	598 110	635 121	Surplus of Tier 1 and 2 capital	751 023	719 142	720 848
Estimate basis credit risk:						
5 056 411	5 056 411	4 037 722	Institutions	394 712	713 342	713 342
0	0	0	Local and regional authorities	3 388 172	3 964 218	3 964 218
552 376	552 376	0	Publicly owned enterprises	0	2 439	2 439
0	0	46 608	States	0	2 645	2 645
649 286	649 286	2 088 362	Investments with mortgage security in real estate	2 088 362	649 286	649 286
26 619	26 619	46 608	Investments fallen due	46 706	26 619	26 619
0	0	0	Holdings mutual funds	0	0	0
0	0	0	Covered bonds	279 408	338 791	338 791
831 667	831 667	676 581	Other holdings	581	472	472
7 116 359	7 116 359	6 895 881	Calculation basis credit risk	6 197 941	5 697 812	5 697 812
569 309	569 309	551 670	Credit risk	495 835	455 825	455 825
25 327	25 327	28 551	Operating risk	22 215	21 096	21 096
594 636	594 636	580 221	Total capital requirement assets	518 050	476 921	476 921
15,7 %	15,6 %	16,8 %	Core capital adequacy ratio	19,6 %	20,1 %	20,1 %
0,0 %	0,0 %	0,0 %	Supplementary capital ratio	0,0 %	0,0 %	0,0 %
15,7 %	15,6 %	16,8 %	Capital adequacy ratio	19,6 %	20,1 %	20,1 %
			Tier 1 capital	Tier 2 capital	Tier 1 and 2 capital	
Minimum requirement without buffers			4,5 %	3,5 %	8,0 %	
Protective buffers (w.e.f. 1 July 2013)			2,5 %	0,0 %	2,5 %	
System risk buffers (w.e.f. 1 July 2013)			2,0 %	0,0 %	2,0 %	
Applicable capital requirement incl. buffers			9,0 %	3,5 %	12,5 %	

Basel II regulations have been used in calculating capital adequacy.

## Note 26 Tax

KLP Banken AS			NOK thousands	KLP Banken AS Group		
2012	2012 after change in principles	2013		2013	2012 after change in principles	2012
31 432	31 688	54 209	Accounting income before taxes	86 959	83 687	83 430
			Other income components:			
0	6 432	-2 085	Estimate deviation pensions obligations and assets	-2 085	6 432	0
0	-9 058	0	Zeroing of corridor, OB effect 010112	0	-9 058	0
			Differences between book and tax income:			
-40 612	-40 612	-48 830	Reversal of income share re investment in subsidiaries	0	0	0
0	0	0	Reversal of value increase financial assets	-33 312	-54 828	-54 828
0	0	-30 600	Other deductions (Group contribution received during the year)	0	0	0
-62	-62	-1 635	Reversal of value increase financial assets	0	0	0
-538	-538	116	Other permanent differences	-2 224	445	445
0	0	8 286	Other additions (case expenses)	8 286	0	0
4 687	7 056	5 570	Change in differences between book and tax income	4 164	9 335	6 966
-5 094	-5 094	-14 969	Taxable income	61 788	36 013	36 013
735	735	30 600	Group contribution received with tax effect	0	0	0
0	0	0	Group contribution paid with tax effect	0	0	0
-4 359	-4 359	15 631	Base for tax payable	61 788	36 013	36 013
-11 304	-11 304	-15 661	Deficit carryforward allowable from previous years	-21 556	-57 569	-57 569
-4 359	-4 359	15 631	Change for the year in carryforward deficit	21 517	36 013	36 013
-15 663	-15 663	-30	Total allowable carryforward deficit as at 31 December	-39	-21 556	-21 556
0	0	0	Tax surplus	40 233	0	0
			Reconciliation of basis for deferred tax			
			Tax-increasing temporary differences:			
5 078	5 078	3 970	Lending to customers and credit enterprises	51 510	68 417	68 417
3	3	274	Securities	8 108	12 930	12 930
5 081	5 081	4 244	Total tax-increasing temporary differences	59 619	81 347	81 347
			Tax-reducing temporary differences:			
			Gains and losses account			
-18	-18	-13	Fixed assets	-13	-142	-142
-3 734	-3 734	-2 196	Financial instruments	-10 079	-37 278	-37 278
-1 312	-1 312	-1 797	Borrowing	-42 428	-32 387	-32 387
-3 397	-4 060	-5 370	Pension obligations	-5 370	-4 060	-3 397
0	0	0	Correction of NIBOR loan from fair value to amortised cost in the Group	0	-570	-570
-8 461	-9 124	-9 375	Total tax-reducing temporary differences	-57 890	-74 437	-73 774
-3 380	-4 043	-5 132	Net temporary differences	1 728	6 910	7 573
-15 663	-15 663	-30	Carryforward deficit	-39	-21 556	-21 556
-4 386	-4 386	-8	Deferred tax on carryforward deficit	-10	-6 036	-6 036
-7 766	-8 429	-5 140	27%/28% deferred tax/tax assets	1 718	874	1 537
0	0	0	27%/28% Tax effect of group contribution	11 705	0	0
-7 766	-8 429	-5 140	Capitalized deferred tax assets	13 422	874	1 537
-2 515	-3 179	3 099	Change in deferred tax taken to income - old rate	12 612	22 821	23 484
0	0	190	Change in deferred tax taken to income - new rate	-64	0	0
0	735	584	Corrected for tax on dir. capitalized differences incl. in calculating deferred tax	584	735	0
0	0	0	Capitalized tax	-568	0	0
			Summary of tax expense for the year			
-2 515	-2 443	3 873	Change in deferred tax taken to income	12 564	23 556	23 484
0	0	0	Tax payable taken to income	0	9 833	9 833
-2 515	-2 443	3 873	Total taxes	12 564	33 389	33 317
-8,0 %	-7,7 %	7,1 %	Effective tax percentage	14,4 %	39,9 %	39,9 %
			Reconciliation of tax percentage:			
-41 150	-41 150	-72 662	Permanent differences	-42 767	445	445
735	736	30 600	Group contribution	0	35 119	35 119
-40 415	-40 414	-42 062	Total permanent differences	-42 767	35 564	35 564
-11 316	-11 316	-11 777	28% Tax permanent differences	-11 975	9 958	9 958
8 801	8 873	15 651	Corrected tax	24 539	23 431	23 359
0	0	-190	Change in deferred tax benefit as a result of changed tax rate	-464	0	0
0	0	-281	Corrected for temporary differences on securities other than shares i.a.w. the exemption method	0	0	0
28,0 %	28,0 %	28,0 %	Tax percentage	27,7 %	28,0 %	28,0 %

## Note 27 Pensions obligations, own employees

The majority of the pension obligation is covered through KLP's joint pension scheme for local authorities and enterprises ("Fellesordningen"). The Company also offers a pension scheme in addition to Fellesordningen. This obligation is covered through operation. Fellesordningen is a defined benefits-based pension scheme that satisfies the requirements for mandatory occupational pensions ('obligatorisk tjenestepensjon', or OTP). The Company has a contract pension (AFP) scheme.

The accounting treatment of pension obligations is described in more detail in Notes 2 and 3.

NOK thousands	Joint scheme	Via operation	2013	Joint scheme	Via operation	2012
<b>Pension costs</b>						
Present value of accumulation for the year	5 221	524	5 745	6 715	622	7 337
Administration cost	125	0	125	136	0	136
Social security contributions – Pension costs	754	74	828	966	88	1 054
<b>Pension costs incl. social security and administration costs taken to income</b>	<b>6 100</b>	<b>598</b>	<b>6 698</b>	<b>7 817</b>	<b>710</b>	<b>8 527</b>
<b>Net financial costs</b>						
Interest cost	929	294	1 223	594	190	784
Expected return	-572	0	-572	-269	0	-269
Management costs	78	0	78	67	0	67
Net interest cost	435	294	729	391	190	581
Social security contributions – Net interest cost	61	41	103	55	27	82
<b>Net interest cost including social security contributions</b>	<b>497</b>	<b>335</b>	<b>832</b>	<b>446</b>	<b>217</b>	<b>663</b>
<b>Estimate deviation pensions</b>						
Actuarial gains (losses)	1 107	720	1 827	-5 532	-104	-5 637
Social security costs	156	102	258	-780	-15	-795
<b>Actuarial gains (losses) including social security costs</b>	<b>1 263</b>	<b>822</b>	<b>2 085</b>	<b>-6 313</b>	<b>-119</b>	<b>-6 432</b>
<b>Total pension costs including interest costs and estimate deviation</b>	<b>7 860</b>	<b>1 755</b>	<b>9 615</b>	<b>1 950</b>	<b>808</b>	<b>2 758</b>
<b>NOK thousands</b>	<b>Joint scheme</b>	<b>Via operation</b>	<b>2013</b>	<b>Joint scheme</b>	<b>Via operation</b>	<b>2012</b>
<b>Pension obligations</b>						
Gross accrued pension liabilities	27 525	8 365	35 889	19 156	7 203	26 359
Pension assets	18 458	0	18 458	13 650	0	13 650
Net obligation before SSC	9 066	8 365	17 431	5 506	7 203	12 709
Social security costs	1 278	1 179	2 458	776	1 016	1 792
Gross accrued obligations incl. social security costs	28 803	9 544	38 347	19 932	8 219	28 151
<b>Net obligations incl. social security costs</b>	<b>10 345</b>	<b>9 544</b>	<b>19 889</b>	<b>6 282</b>	<b>8 219</b>	<b>14 501</b>
<b>NOK thousands</b>	<b>Joint scheme</b>	<b>Via operation</b>	<b>2013</b>	<b>Joint scheme</b>	<b>Via operation</b>	<b>2012</b>
<b>Reconciliation pension obligation</b>						
Capitalized net obligation/(asset) 31.12 last year	6 282	8 219	14 501	3 957	3 407	7 364
Zeroing of corridor 01.01.12	0	0	0	4 058	3 880	7 939
Zeroing of corridor social security contribution 01.01.12	0	0	0	572	547	1 119
Capitalized net obligation/(asset) 01.01.2012	6 282	8 219	14 501	8 588	7 835	16 422
Pension costs taken to profit/loss	6 100	598	6 698	7 817	710	8 527
Financial costs taken to profit/loss	497	335	832	446	217	663
Actuarial gains and losses incl. social security contributions	1 263	822	2 085	-6 313	-119	-6 432
Social security contributions paid in premiums/supplement	-469	-53	-522	-526	-52	-578
Premium/supplement paid-in including admin	-3 328	-377	-3 705	-3 730	-371	-4 101
<b>Capitalized net obligation/(asset) 31.12 this year</b>	<b>10 345</b>	<b>9 544</b>	<b>19 889</b>	<b>6 282</b>	<b>8 219</b>	<b>14 501</b>

### Dissolving of corridor

The revised accounting standard IAS 19 came into effect for the reporting year starting 1 January 2013. The Group applied the revised standard from 1 January 2013 but the implementation has been undertaken with retrospective effect from 1 January 2012 for comparison purposes. The changes in IAS 19 have significance for how the pension obligation and the pension cost are presented in the financial statements. An important change is that the actuarial gains and losses are recognized in other income and expenses in the other comprehensive income statement and are not included in the ordinary income for the period. The corridor method in which actuarial losses and gains beyond a certain level are distributed over the remaining accumulation period is no longer permitted.

As at 1 January 2012 the corridor showed an actuarial loss of NOK 9 million including social security contributions. Zeroing of corridor is seen in the table above.

Number	Joint scheme	Via operation	2013	Joint scheme	Via operation	2012
<b>Membership status</b>						
Number active	54	4	58	52	6	58
Number deferred (previous employees with deferred entitlements)	9	3	12	6	0	6
Number of pensioners	8	2	10	5	2	7

## Note 27 Pensions obligations, own employees (continued)

NOK thousands	Joint scheme	Via operation	2013	Joint scheme	Via operation	2012
<b>Change in pension obligations</b>						
Gross pension assets 1 January before plan change	19 932	8 219	28 151	17 526	7 835	25 361
Gross pension obligations after plan change	19 932	8 219	28 151	17 526	7 835	25 361
Present value of accumulation for the year	5 221	524	5 745	6 715	622	7 337
Interest cost	929	294	1 223	594	190	784
Actuarial losses (gains) gross pension obligation	3 463	822	4 285	-4 722	-119	-4 841
Social security contributions - pension costs	754	74	828	966	88	1 054
Social security contributions - net interest cost	61	41	103	55	27	82
Social security contributions paid in premiums/supplement	-469	-53	-522	-526	-52	-578
Gross pension obligation 31.12.	28 803	9 544	38 347	19 932	8 219	28 151

NOK thousands	Joint scheme	Via operation	2013	Joint scheme	Via operation	2012
<b>Change in pension assets</b>						
Pension assets 01.01	13 650	0	13 650	8 939	0	8 939
Expected return	572	0	572	269	0	269
Actuarial (loss) gain on pension assets	2 200	0	2 200	1 591	0	1 591
Management cost	-125	0	-125	-136	0	-136
Financing cost	-78	0	-78	-67	0	-67
Premium/supplement paid-in including admin	3 328	377	3 705	3 730	371	4 101
Pension assets 31.12	18 458	0	18 458	13 650	0	13 650

NOK thousands	Joint scheme	Via operation	2013	Joint scheme	Via operation	2012
<b>Pension scheme's over-/under-financing</b>						
Present value of the defined benefits pension obligation	28 803	9 544	38 347	19 932	8 219	28 151
Fair value of the pension assets	18 458	0	18 458	13 650	0	13 650
Net pension liability	10 345	9 544	19 889	6 282	8 219	14 501

Financial assumptions for the income statement (common to all pension schemes)	2013	2012
Discount rate	4,00 %	3,90 %
Salary growth	3,75 %	3,50 %
National Insurance basic sum (G)	3,50 %	3,25 %
Pension increases	2,72 %	2,48 %
Expected return	4,00 %	3,90 %
Social security contribution rates	14,10 %	14,10 %
Amortization time	15	15

### Actuarial assumptions

KLP's joint pension scheme for local authorities and enterprises ("Fellesordningen"):

An important part of the basis of pension costs and pension liabilities is how mortality and disability develop amongst the members of the scheme.

### New mortality assumptions

New mortality assumptions have been used in measuring accrued obligation (best estimate) as at 31 December 2013.

KLP has used the new K2013BE mortality table based on Finance Norway's analyses of mortality in life insurance populations in Norway and Statistics Norway's extrapolations. Seen in isolation the new assumptions produce an increase in the obligation of just under 10%.

Take-up of contractual early retirement (AFP) for 2013 (per cent in relation to remaining employees):

The costs of AFP depend on how many in each year-group take AFP. On reaching 62 years there are 45 per cent who retire with an AFP pension. It is only those who are employed and working right up to retirement who are entitled to AFP. This is taken into account in the calculation of the AFP obligation.

### Voluntary termination for Fellesordning during 2013 (in %)

Age (in years)	Turnover
< 20	20 %
20-23	15 %
24-29	10 %
30-39	7,5 %
40-50	5 %
51-55	2 %
>55	0 %

### Pensions via operations

Take-up of AFP/premature retirement is not relevant to this scheme. In regard to mortality the same variant of K2013BE has been used as for the joint pension scheme for municipalities and enterprises ("Fellesordningen")

## Note 27 Pensions obligations, own employees (continued)

Composition of the pension assets:	2013	2012
Property	12,3 %	11,5 %
Lending	10,9 %	11,0 %
Shares	16,9 %	16,2 %
Long-term/HTM bonds	28,8 %	30,6 %
Short-term bonds	20,9 %	22,2 %
Liquidity/money market	10,1 %	8,5 %
Total	100,0 %	100,0 %

The pension funds are based on KLP's financial funds in the common portfolio. The table shows percentage placing of the pension assets managed by KLP at the year-end. Value-adjusted return on the assets was 6.7 per cent in 2013 and 6.6 per cent in 2012.

Expected payment into benefits plans after cessation of employment for the period 1 January 2014 – 31 December 2014 is NOK 5.6 million.

### Sensitivity analysis as at 31 December 2013

The discounting interest rate is reduced by 0.5%	Increase
Gross pension obligation	10,80 %
Accumulation for the year	14,80 %

Salary growth increases by 0.25%	Increase
Gross pension obligation	1,3 %
Accumulation for the year	3,2 %

Mortality is strengthened by 10%	Økning
Gross pension obligation	2,5 %
Accumulation for the year	1,9 %

The sensitivity analysis above is based on all other assumptions being unchanged. In practice that is an unlikely scenario and changes in some assumptions are correlated. The calculation of gross pension obligation and accumulation for the year in the sensitivity analysis has been done using the same method as in calculating gross pension liability in the financial position statement.

The duration in the Joint scheme is estimated at 16.2

## Note 28 Salary and obligations towards senior management etc.

2013	Paid from KLP Banken AS						Paid from another company in the same group					
NOK thousands	Salaries, fees etc.	Other bene- fits	Annual pension- accumulation	Loan	Interest rate 31.12.2013	Repay- ment plan <sup>1)</sup>	Salaries, fees etc.	Other bene- fits	Annual pension- accumulation	Loan	Interest rate 31.12.2013	Repay- ment plan <sup>1)</sup>
<b>Senior employees</b>												
Leif Magne Andersen, Man. Director KLP Banken AS	1 874	146	590	490	3,80	A24	-	-	-	4 177	3,15-3,80	A42
Arnulf Arnøy, Director Public Sector Market	1 473	129	496	371	3,15	Housing credit	-	-	-	1 315	2,95	S31
<b>Board of Directors</b>												
Sverre Thornes, Chair	-	-	-	-	-	-	3 433	162	1 055	7 410	2,70-3,80	A41
Aage E. Schaanning	-	-	-	1 072	3,80	S22	3 072	149	915	2 650	2,70-2,95	A31
Mette-Jorunn Meisland	-	-	-	-	-	-	1 275	146	381	6 041	2,95-3,65	A38
Mai-Lill Ibsen	80	-	-	-	-	-	-	-	-	-	-	-
Jan Otto Langmoen	99	-	-	-	-	-	-	-	-	-	-	-
Eva M. Salvesen	70	-	-	-	-	-	-	-	-	-	-	-
Mette Rinde, elected by and from the employees	99	-	-	-	-	-	-	-	-	-	-	-
<b>Control Committee</b>												
Ole Hetland	20	-	-	-	-	-	73	-	-	-	-	-
Jan Rune Fagermoen	8	-	-	-	-	-	30	-	-	-	-	-
Bengt P. Johansen	17	-	-	-	-	-	60	-	-	-	-	-
Dordi E. Flormælen	17	-	-	-	-	-	60	-	-	-	-	-
Irene Mathilde Skiri	9	-	-	-	-	-	31	-	-	-	-	-
Thorvald Hillestad	14	-	-	-	-	-	53	-	-	-	-	-
<b>Supervisory Board</b>												
Total Supervisory Board	66	-	-	-	-	-	-	-	-	5 507	-	-
<b>Employees</b>												
Total loans to employees of KLP Banken AS -	-	-	-	31 182	-	-	-	-	-	51 630	-	-

## Note 28 Salary and obligations towards senior management etc. (continued.)

2012 NOK thousands	Paid from KLP Banken AS						Paid from another company in the same group					
	Salaries, fees etc.	Other bene- fits	Annual pension- accumulation	Loan	Interest rate 31.12.2012	Repay- ment plan <sup>1)</sup>	Salaries, fees etc.	Other bene- fits	Annual pension- accumulation	Loan	Interest rate 31.12.2012	Repay- ment plan <sup>1)</sup>
<b>Senior employees</b>												
Leif Magne Andersen, Man. Director KLP Banken AS	1 744	122	702	-	-	-	-	-	-	4 264	3,15-3,60	A2043
Arnulf Arnøy, Director Public Sector Market	1 453	148	593	151	3,15	Bolig- kreditt	-	-	-	1 538	2,95	S2032
<b>Board of Directors</b>												
Sverre Thornes, Chair	-	-	-	-	-	-	3 254	122	1 230	7 507	2,70-3,60	A2042
Aage E. Schaanning	-	-	-	-	-	-	3 180	125	1 094	4 017	2,70-3,60	A and S2032
Mette-Jorunn Meisland	-	-	-	-	-	-	1 203	120	487	5 999	2,95-3,45	A2038
Mai-Lill Ibsen	158	-	-	-	-	-	-	-	-	-	-	-
Jan Otto Langmoen	95	-	-	-	-	-	-	-	-	-	-	-
Mette Rinde, elected by and from the employees	48	-	-	-	-	-	-	-	-	-	-	-
Jan Tryggestad, elected by and from the employees	47	-	-	-	-	-	-	-	-	-	-	-
<b>Control Committee</b>												
Ole Hetland	19	-	-	-	-	-	70	-	-	-	-	-
Fagermoen Jan Rune	16	-	-	-	-	-	58	-	-	-	-	-
Johansen Bengt P.	16	-	-	-	-	-	58	-	-	-	-	-
Flormælen Dordi E.	16	-	-	-	-	-	58	-	-	-	-	-
Alfarrustad Line	8	-	-	-	-	-	29	-	-	-	-	-
<b>Supervisory Board</b>												
Total Supervisory Board	95	-	-	-	-	-	-	-	-	6 981	-	-
<b>Employees</b>												
Total loans to employees of KLP Banken AS -	-	-	-	1 623	-	-	-	-	-	47 160	-	-

<sup>1)</sup> S=Serial loan, A= Annuity loan, last payment.

The Managing Director of KLP Banken AS has no agreement on performance pay (bonus) or salary guarantee. He is pensionable aged 65.

The Director Public Sector Market also holds the position of Managing Director of the wholly-owned subsidiaries KLP Kommunekreditt AS and KLP Kreditt AS (wound up during Q4 2013). He has received no remuneration from these subsidiaries for these appointments. The Director Public Sector Market has no agreement on performance pay (bonus), but has a salary guarantee of 21 months on termination. The Director Public Sector Market 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.

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. Of the Directors' fees declared totalling NOK 349,000, NOK 291,000 are associated with KLP Banken AS: NOK 58,000 relates to other companies in the same group.

KLP Banken 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 stated without addition for social security contributions.



## Note 29 Number of employees

KLP Banken AS			KLP Banken AS Group	
2012	2013		2013	2012
50	52	Number of FTEs	52	52
56	55	Number of employees as at 31 December	55	56
54	53,5	Average number of employees	53,5	54

## Note 30 Pay and general management costs

KLP Banken AS		NOK thousands	KLP Banken AS Group	
2012	2013		2013	2012
-33 653	-37 887	Salary	-37 887	-33 653
-5 369	-5 497	Employer's National Insurance contributions	-5 497	-5 369
-7 980	-6 698	Pensions including social security contributions	-6 698	-7 980
-883	-1 234	Other benefits	-1 234	-883
-47 885	-51 316	Total	-51 316	-47 885

## Note 31 Other liabilities and provision for accrued costs

KLP Banken AS		NOK thousands	KLP Banken AS Group	
31.12.2012	31.12.2013		31.12.2013	31.12.2012
90 255	25 136	Intercompany receivables	17 210	24 489
2 507	1 231	Creditors	1 833	2 684
204	788	Miscellaneous liabilities	3 560	204
92 967	27 155	Total other liabilities	22 603	27 377
2 349	2 421	Withholding tax	2 421	2 349
1 589	1 620	Social security costs	1 620	1 589
3 574	3 685	Holiday pay	3 685	3 574
14 501	19 889	Pension liability	19 889	14 500
43	20	VAT	158	258
151	545	Provisioned costs	1 692	347
22 207	28 180	Total accrued costs and liabilities	29 465	22 618

## Note 32 Other assets

KLP Banken AS		NOK thousands	KLP Banken AS Group	
31.12.2012	31.12.2013		31.12.2013	31.12.2012
6 365	3 723	Intercompany receivables	176	56
0	30 600	Group contribution	0	0
53	38	Miscellaneous receivables	2 806	53
721	306	Prepaid expenses	1 348	1 249
7 140	34 666	Total	4 330	1 358

### Note 33 Transactions with related parties

KLP Banken AS			KLP Banken AS Group	
2012	2013	NOK thousands	2013	2012
Income statement items				
79 000	58 000	KLP, fees lending management	58 000	79 000
21 321	16 018	KLP Kommunekreditt AS, administrative services (at cost)	0	0
1 226	482	KLP Kreditt AS, administrative services (at cost)	0	0
105 790	78 638	KLP Kommunekreditt AS, interest lending	0	0
37 985	20 415	KLP Kreditt AS, interest lending	0	0
-26 065	0	KLP, interest borrowing	0	-26 065
-18 028	0	KLP, interest on certificate loan	0	-18 028
-78	-147	KLP Kapitalforvaltning AS, fees for services provided	-527	-503
-3 447	-3 435	KLP, rent	-3 435	-3 447
-8 900	-6 223	KLP, pension premium	-6 223	-8 900
-42 610	-41 637	KLP, staff services (at cost)	-41 637	-42 610
615	1 086	KLP Group companies, subsidised interest employee loans	1 086	615
146 810	123 197	Total	7 264	-19 937

KLP Banken AS			KLP Banken AS Group	
31.12.2012	31.12.2013	NOK thousands	31.12.2013	31.12.2012
Financial position statement items				
1 451 794	0	Lending KLP Kreditt AS	0	0
3 213 972	2 442 841	Lending KLP Kommunekreditt AS	0	0
-59 587	-8 023	KLP Kommunekreditt AS, loan settlement	0	0
-6 240	0	KLP Kreditt AS, loan settlement	0	0
-16 520	-8 950	KLP, loan settlement	-8 950	-16 520
Net outstanding accounts to:				
-7 900	-8 163	KLP	-8 163	-7 900
5 277	3 547	KLP Kommunekreditt AS, net internal receivables	0	0
1 033	0	KLP Kreditt AS, net internal receivables	0	0
48	176	KLP Group companies, net other receivables	176	-13
4 581 876	2 421 428	Total	-16 937	-24 433

Transactions with related parties are carried out at general market terms and conditions, with the exception of the Company's share of common functions (staff services), which are allocated at cost. The receivable is based on actual use. All internal receivables are settled as they arise.

## Note 34 Auditor's fee

KLP Banken AS			KLP Banken AS Group	
2012	2013	NOK thousands	2013	2012
363	334	Ordinary audit	769	929
0	60	Certification services	382	339
0	33	Tax consultancy	62	0
48	56	Other services excluding audit	48	64
412	483	Total Auditor's fee	1 260	1 332

The sums above include VAT.

## Note 35 Conditional obligations

KLP Banken AS			KLP Banken AS Group	
31.12.2012	31.12.2013	NOK thousands	31.12.2013	31.12.2012
48 357	193 600	Credit facilities for lending not utilised	193 600	48 357
34 169	129 511	Loan promise	260 290	83 840
20 181 500	16 982 500	Credit facility KLP Kommunekreditt AS	0	0
552 376	0	Guarantee KLP Kreditt AS	0	0
20 816 402	17 305 611	Total conditional obligations	453 890	132 197

## Note 36 Cash and cash equivalents

KLP Banken AS			KLP Banken AS Group	
31.12.2012	31.12.2013	NOK thousands	31.12.2013	31.12.2012
392 483	685 368	Cash and bank deposits	1 534 079	2 136 070
392 483	685 368	Total cash and bank deposits	1 534 079	2 136 070

In the statement of cash flows, cash and cash equivalents comprise the following:

392 483	685 368	Cash and bank deposits	1 534 079	2 136 070
-29 148	-20 006	Bank accounts for use for acquisition and sale of securities	-47 654	-44 358
363 335	665 362	Cash and cash equivalents held at the end of the period	1 486 425	2 091 712



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

## **Independent auditor's report**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of KLP Banken AS, which comprise the financial statements of the parent company and the financial statements of the group. The financial statements of the parent company and the financial statements of the group comprise the balance sheet as at 31 December 2013, income statement, changes in equity and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these financial statements in accordance with simplified IFRS pursuant to § 3-9 of the Norwegian Accounting Act, 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 entity'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 the parent company and the group KLP Banken AS as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with simplified IFRS pursuant to § 3-9 of the Norwegian Accounting Act.

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Statsautoriserte revisorer, medlemmer av Den norske Revisorforening og autorisert regnskapsførerselskap



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## **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 2014

**PricewaterhouseCoopers AS**

Rune Kenneth S. Lædre

State Authorised Public Accountant (Norway)

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



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