

Interim report

Q2 2014

KLP
Banken



INCOME STATEMENT

BALANCE SHEET

NOTES

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KLP Banken AS Group

Interim financial statements Q2 2014

Main features of the first half year:

- Increased earnings on mortgage loans
- Satisfactory cost development
- KLP Boligkreditt AS has been established as issuer of mortgage covered bonds

The KLP Banken Group's purpose is financing of housing mortgages and lending to municipalities, county administrations and companies carrying out public sector assignments. The KLP Banken Group is a substantial long-term lender to the public sector. The Group has also steadily expanded its activity in the retail market since 2010. The Group manages lending totalling NOK 59 billion. The overall business 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 office is in Trondheim. KLP Banken AS is wholly owned by Kommunal Landspensjonskasse Gjensidig forsikringsselskap (KLP) through KLP Bankholding AS. KLP Banken AS has two wholly owned subsidiaries, KLP Kommunekreditt AS and KLP Boligkreditt AS.

Income statement

Net interest income for the KLP Banken Group at the end of Q2 2014 amounted to NOK 64.0 million against 54.7 million for the same period the previous year. Operating expenses and depreciation amounted to NOK 68.8 million compared to NOK 64.0 million at the same time last year. A loss provision of NOK 1.0 million related to retail loans has been made in the first half year.

The financial statements have been prepared in NOK and are presented in accordance with the Norwegian Accounting Act, the Annual Accounts Regulations for Banking (Regulation No. 1240 of 16 December 1998), as well as Regulations on Simplified Application of IFRS, the Simplification Regulations (Regulation No. 57 of 21 January 2008). This means that financial instruments are recognised in part at market value. At the end of the second quarter, the income statement includes a net gain associated with securities of NOK 6.6 million. During the same period last year a net gain of NOK 4.0 million was brought to book.

In addition to its own lending, the banking group administers housing mortgages and public sector lending financed by its parent company, Kommunal Landspensjonskasse (KLP). The management fee for this task amounted to NOK 29.0 million in the first half year. The corresponding amount last year was NOK 29.5 million.

At the second quarter end, the KLP Banken Group had achieved pre-tax profits of NOK 30.9 million. At the same time last year the result was NOK 68.9 million. Last year's

result includes a non-recurring income of NOK 50 million related to legal settlements.

Lending

On 30 June 2014, the KLP Banken Group had lending of NOK 22.2 billion compared to NOK 22.3 billion the previous year. The distribution between the retail market and public sector lending was NOK 5.8 billion and NOK 16.3 billion, respectively.

Liquid investment

On the reporting date, the portfolio of liquid investments amounted to NOK 2.6 billion against NOK 3.0 billion at the same time last year. In addition the Group had bank deposits of NOK 1.5 billion.

Borrowing

The KLP Banken Group's external financing comprises of deposits, certificates and bonds. On the date of reporting, deposits from individuals and companies were NOK 5.1 billion and issued securities amounted to NOK 19.6 billion. Of the issued securities, covered bonds (OMF) issued by KLP Kommunekreditt AS represented NOK 16.1 billion. All covered bonds issues have achieved AAA rating. KLP Boligkreditt AS is expected to issue the first covered bonds in the third quarter of 2014.

Risk and capital adequacy

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 subjected to management using policies, limits, procedures and instructions. The bank is to have a prudent risk profile and earnings are to be principally a result of borrowing and lending activity as well as liquidity management. This means that the bank is to have low market risk, and interest and foreign-exchange risk arising within the borrowing and lending activity is reduced using derivatives. The bank is to have responsible long-term financing and limits have been established to ensure that that this objective is achieved. The credit risk in the bank is low and the bank's lending is limited to loans with local government risk and loans with 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.

At the end of the second quarter, eligible Tier 1 and Tier 2 capital i.a.w. the capital adequacy rules was NOK 1,248.7 million. Eligible Tier 1 and Tier 2 capital comprises core capital only. The corresponding figure for last year was NOK 1,194.2 million. Lending is risk-weighted in accordance with the authorities' capital adequacy regulations. The KLP Banken Group had a capital adequacy ratio of 20.1 per cent at the end of the fourth quarter, against 18.2 per cent on the same date last year. The minimum statutory requirement is 9.0 per cent core capital adequacy ratio and 12.5 per cent capital adequacy ratio.

Future prospects

KLP Banken's investment in members is to underpin KLP's strategic focus on the retail customer market. This is founded on an 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 entities. In particular, good 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.

Members of the pension arrangements count to about 500 thousand individuals. Less than 5 per cent of these are KLP Banken customers today. Continued member growth potential is therefore significant. Members are therefore granted favourable terms on banking products compared to non-members. An overall strategy for member growth is in place, quantifying future targets for different time horizons.

Relatively low inflation, interest rates and unemployment are expected to continue in the Norwegian economy the coming year. Housing price expectations are more uncertain compared to last year. The Board, however, believes that the Company's customers will maintain high creditworthiness and that losses on loans therefore will remain low.

New technological solutions and digitalisation are expected to make the business more effective and available to customers. This will increase customer satisfaction.

The Bank has established a mortgage covered bond-issuing entity in 2014. KLP Boligkreditt AS will from the second half of 2014 finance parts of the lending growth with the best possible funding terms. However, deposits from individuals and enterprises will continue to be important sources of funding. The Board expects the last two years' deposit growth rate to continue.

The Group's most important resource is its employees. The staff has long experience of lending both to retail customers and to the public sector, and has developed substantial credit and market expertise. New products, services and regulatory requirements lead to need for re-organisation and new competence. Further development of competencies in sales and customer-oriented activities is included in the Bank's targets going forward.

The Board considers that the demand for loans in the local government sector and to projects with local government guarantees and local government ownership will continue to grow in the years to come, but emphasises that there is significant uncertainty associated with predicting how great this growth will be. KLP Kommunekreditt has a well-established position in this market. The presence of KLP Kommunekreditt should contribute to competition and thus to the public sector having access to long-term financing at low cost.

KLP Kommunekreditt AS will in the foreseeable future grant loan on own balance given profitable terms. Growth in the Company's lending will be decided principally by the opportunities of achieving sufficiently good borrowing terms to compete for local government loans.

The Bank's solvency and low credit risk in its lending business should continue to be employed to achieve access to the best possible financing in the capital markets. The Board believes the bank is well positioned for further development and growth in the retail market.

Oslo, 12 August 2014

Sverre Thornes
Chair
(Sign.)

Eva M. Salvesen
(Sign.)

Jan Otto Langmoen
(Sign.)

Leif Magne Andersen
Managing Director
(Sign.)

Aage Schaanning
Deputy Chair
(Sign.)

Mette-Jorunn Meisland
(Sign.)

Christin Elizabeth Kleppe
Elected by and from the employees
(Sign.)

Income Statement

KLP Banken AS Group

Note	NOK thousands	Q2 2014	Q2 2013	01.01.2014- 30.06.2014	01.01.2013- 30.06.2013	2013
	Interest income and similar income	205 836	212 720	406 770	422 466	839 397
	Cost of interest and similar costs	-176 432	-182 396	-345 963	-367 799	-717 420
3	Net interest income	29 405	30 324	60 808	54 667	121 977
	Commission income and income from banking services	2 839	1 457	5 335	2 511	8 538
	Commission costs and costs of banking services	-355	-140	-677	-294	-727
	Net charges and commission income	2 483	1 317	4 657	2 217	7 811
	Other fee income	14 500	14 250	29 000	29 500	58 063
	Net gain/(loss) financial instruments	2 387	43 047	6 304	46 536	43 806
	Total other operating income	16 887	57 297	35 304	76 036	101 869
	Salary and administrative costs	-9 020	-8 869	-21 942	-21 342	-51 316
	Depreciation	-671	-542	-1 342	-1 020	-2 356
	Other operating expenses	-21 600	-19 919	-45 549	-41 642	-91 026
	Total operating expenses	-31 291	-29 330	-68 833	-64 004	-144 698
	Loss on loans issued, guarantees etc.	-381	0	-1 002	0	0
	Gains/losses on securities that are fixed assets	0	0	0	0	0
	Operating profit/loss before tax	17 103	59 608	30 934	68 916	86 959
	Tax on ordinary income	-4 618	-2 690	-8 352	-5 297	-12 564
	Income	12 485	56 918	22 582	63 620	74 395
	Other comprehensive income	-1 014	0	-1 014	0	-2 085
	Tax on other comprehensive income	274	0	274	0	584
	Other comprehensive income for the period	-740	0	-740	0	-1 501
	COMPREHENSIVE INCOME FOR THE PERIOD	11 745	56 918	21 842	63 620	72 894

Balance Sheet

KLP Banken AS Group

Note	NOK thousands	30.06.2014	30.06.2013	31.12.2013
	ASSETS			
	Loans to and receivables from credit institutions	1 464 049	1 466 191	1 534 079
4	Loans to and receivables from customers	22 153 972	22 289 506	21 317 032
13	Fixed income securities	2 643 706	3 045 510	2 922 819
	Other Securities	20	0	0
	Financial derivatives	161 490	155 670	210 223
	Tangible fixed assets	537	437	581
	Intangible assets	19 801	22 396	21 098
10	Other assets	2 205	3 115	4 330
	TOTAL ASSETS	26 445 781	26 982 825	26 010 162
	LIABILITIES AND OWNERS' EQUITY			
	LIABILITIES			
7	Liabilities created on issuance of securities	19 603 712	21 333 345	19 981 805
	Deposits	5 079 322	3 957 134	4 406 943
	Financial derivatives	363 767	320 149	265 754
	Deferred tax	646	6 834	13 422
11	Other liabilities	76 065	62 160	22 603
11	Provision for accrued costs and liabilities	31 855	22 970	29 464
	TOTAL LIABILITIES	25 155 367	25 702 591	24 719 991
	OWNERS' EQUITY			
	Share capital	750 000	750 000	750 000
	Share premium	440 000	405 707	440 000
	Retained earnings	78 571	60 907	100 171
	Unallocated profit/loss	21 842	63 620	0
	TOTAL OWNERS' EQUITY	1 290 413	1 280 234	1 290 171
	TOTAL LIABILITIES AND OWNERS' EQUITY	26 445 781	26 982 825	26 010 162

Statement of owners' equity

KLP Banken AS Group

2014 NOK thousands	Share capital	Share premium	Retained earnings	Total owners' equity
Owners' equity 1 January 2014	750 000	440 000	100 171	1 290 171
Income for the period	0	0	21 842	21 842
Other comprehensive income	0	0	0	0
Total comprehensive income for the period	0	0	21 842	21 842
Received group contribution	0	0	8 500	8 500
Group contribution made	0	0	-30 100	-30 100
Total transactions with the owners	0	0	-21 600	-21 600
Owners' equity 30 June 2014	750 000	440 000	100 413	1 290 413

2013 NOK thousands	Share capital	Share premium	Retained earnings	Total owners' equity
Owners' equity 1 January 2013	750 000	405 707	60 907	1 216 614
Income for the period	0	0	63 620	63 620
Other comprehensive income	0	0	0	0
Total comprehensive income for the period	0	0	63 620	63 620
Total transactions with the owners	0	0	0	0
Owners' equity 30 June 2013	750 000	405 707	124 527	1 280 234

Statement of cash flows

KLP Banken AS Group

NOK thousands	01.01.2014- 30.06.2014	01.01.2013- 30.06.2013	2013
OPERATING ACTIVITIES			
Payments received from customers - interest, commission & charges	357 893	354 422	764 031
Payments to customers - interest, commission & charges	-73 215	-57 777	-122 955
Net receipts/disbursements on lending to customers	-812 426	-472 346	379 047
Net receipts on customer deposits banking	672 379	1 010 938	1 460 748
Net receipts/disbursements on operations	-41 466	-41 898	-94 239
Paym's to employees, pension schemes, employer's soc. security contrib. etc.	-23 809	-24 084	-45 024
Net interest investment accounts	9 744	8 507	29 584
Net receipts/disbursements from operating activities	89 442	126 209	85 432
Income tax paid	0	0	0
Net cash flow from operating activities	178 542	903 972	2 456 623
INVESTMENT ACTIVITIES			
Receipts from securities	715 968	2 270 070	2 619 973
Payments on purchase of securities	-426 165	-1 247 131	-1 478 732
Receipts of interest from securities	32 497	40 895	77 487
Receipts from sale of fixed assets	0	100	0
Payments on purchase of fixed assets	0	-2 166	-2 018
Net cash flows from investment activities	322 300	1 061 767	1 216 710
FINANCING ACTIVITIES			
Net receipts/disbursements on loans from credit institutions	-237 161	-2 302 533	-3 729 547
Net payments of interest on loans	-302 467	-334 135	-549 071
Payment of group contribution	-33 306	0	0
Net cash flows from financing activities	-572 933	-2 636 668	-4 278 619
Net cash flow during the period	-72 093	-670 930	-605 287
Cash and cash equivalents at the beginning of the period	1 486 425	2 091 712	2 091 712
Cash and cash equivalents at the end of the period	1 414 332	1 420 782	1 486 425
Net receipts/disbursements of cash	-72 093	-670 930	-605 287
RECONCILIATION			
Profit/loss before tax	30 934	68 916	86 959
Change in accounts receivables	38	0	-38
Change in accounts payable	-611	-1 449	-850
Items classified as investment or financing activities	149 399	227 835	523 615
Changes in other accrual items	-1 220	608 670	1 846 939
Net cash flow from operating activities	178 542	903 972	2 456 623

KLP Banken AS Group

Statement pursuant to section § 5-6 of the securities trading act

We hereby confirm that the half yearly financial statement for the banking group and the company for the period 1 January through 30 June to the best of our knowledge have been prepared in accordance with current applicable accounting standards, and give a true and fair view of the assets, liabilities, financial position and profit or loss of the banking group and the company taken as a whole.

To the best of our knowledge, the half-yearly report gives a true and fair overview of important events that occurred during the accounting period and their impact on the half-yearly financial statement, and a description of the principal risks and uncertainties facing the banking group over the next accounting period.

Oslo, 12 August 2014

Sverre Thornes
Chair
(Sign.)

Aage Schaanning
Deputy Chair
(Sign.)

Eva M. Salvesen
(Sign.)

Mette-Jorunn Meisland
(Sign.)

Jan Otto Langmoen
(Sign.)

Christin Elisabeth Kleppe
Elected by and from the employees
(Sign.)

Leif Magne Andersen
Managing Director
(Sign.)

Notes to the accounts

KLP Banken AS Group

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 owns all the shares in KLP Kommunekreditt AS and BK 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 wholly owned by Kommunal Landspensjonskasse gjensidig forsikringsselskap (KLP). KLP is a mutual insurance company.

Note 2 ACCOUNTING PRINCIPLES

This is an interim report for the period 1 January 2014 – 30 June 2014. The accounts have not been audited.

The interim financial statements for the company KLP Banken AS presents financial statements in accordance with the Norwegian Accounting Act of 17 July 1998, the Norwegian Regulation 1240 "Regulation on financial statements etc. for banks, financial enterprises and their parent companies" of 16 December 1998, and the Norwegian Regulation 1057 "Regulation on simplified application of international accounting standards" of 21 January 2008.

The interim financial statements for the Group KLP Banken have been prepared in accordance with international accounting standards IAS/IFRS as adopted by the EU. This interim report is prepared in accordance with IAS 34 "Interim Financial Reporting".

There are no new or amended IFRSs or IFRIC interpretations that are effective for the 2014 which has a significant impact on the financial statements. The financial statements for 2nd Quarter 2014 have been prepared using the same accounting principles as the annual financial statements for 2013 and the interim financial statements for 1st Quarter 2014 (Company and the Group). This interim report should therefore be read in conjunction with these. The financial statements are available on klp.no.

The Group has in the 2nd quarter repurchased some of its outstanding debt securities. Profit/loss elements resulting from the repurchase of debt classified in the income statement as respectively "Interest income and similar income" and "Cost of interest and similar costs".

Note 3 NET INTEREST INCOME

NOK thousands	01.01.2014- 30.06.2014	01.01.2013- 30.06.2013	2013
Interest on loans to and receivables from credit institutions	13 798	15 973	29 649
Interest on loans to customers	361 294	364 807	734 644
Interest on securities	31 679	41 686	75 103
Total interest income	406 770	422 466	839 397
Interest on debt to credit institutions	202 090	264 968	508 636
Interest on debt to customers	115 209	100 859	204 421
Premium/discount on covered bonds	28 659	1 971	3 893
Other interest costs	4	1	471
Total interest costs	345 963	367 799	717 420
Net interest income	60 808	54 667	121 977

Note 4 LOANS TO CUSTOMERS

NOK thousands	30.06.2014	30.06.2013	31.12.2013
Loans to customers before write-downs	21 745 948	21 906 132	20 989 035
Individual write-downs	-962	-9	-9
Write-downs by group	0	0	0
Loans to customers after individual write-downs	21 744 986	21 906 123	20 989 026
Accrued interest	118 752	142 528	108 906
Change in fair value due to interest rate changes (fair value hedging)	290 233	240 855	219 100
Loans to customers	22 153 972	22 289 506	21 317 032

Note 5 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

NOK thousands	30.06.2014		30.06.2013		31.12.2013	
	Capitalized value	Fair value	Capitalized value	Fair value	Capitalized value	Fair value
FINANCIAL ASSETS AT FAIR VALUE						
Fixed income securities	2 643 706	2 643 706	3 045 510	3 045 510	2 922 819	2 922 819
Financial derivatives	161 490	161 490	155 670	155 670	210 223	210 223
Total financial assets at fair value	2 805 197	2 805 197	3 201 180	3 201 180	3 133 042	3 133 042
FINANCIAL ASSETS AT FAIR VALUE HEDGING						
Loans to Norwegian local administrations	6 331 715	6 371 247	6 202 047	6 218 707	6 160 311	6 181 146
Loans to retail customers	437 557	422 253	491 840	478 876	454 408	442 592
Total financial assets at fair value hedging	6 769 272	6 793 500	6 693 887	6 697 583	6 614 719	6 623 738
FINANCIAL ASSETS AT AMORTIZED COST						
Loans to and receivables from credit institutions	1 464 049	1 464 049	1 466 191	1 466 191	1 534 079	1 534 079
Loans to Norwegian local administrations	9 982 249	9 974 004	12 474 517	12 471 793	10 673 119	10 671 959
Loans to retail customers	5 402 450	5 402 450	3 121 102	3 121 102	4 029 195	4 029 195
Total financial assets at amortized cost	16 848 748	16 840 503	17 061 810	17 059 086	16 236 393	16 235 233
Total financial assets	26 423 217	26 439 200	26 956 877	26 957 849	25 984 154	25 992 013
DEBT TO CREDIT INSTITUTIONS AT FAIR VALUE						
Financial derivatives	363 767	363 767	320 149	320 149	265 754	265 754
Total financial liabilities at fair value	363 767	363 767	320 149	320 149	265 754	265 754
LIABILITIES CREATED ON ISSUANCE OF SECURITIES AT FAIR VALUE HEDGING						
Liabilities created on issuance of securities	3 453 555	3 490 410	4 692 161	4 725 164	4 748 614	4 969 199
Total financial liabilities at fair value hedging	3 453 555	3 490 410	4 692 161	4 725 164	4 748 614	4 969 199
DEBT TO CREDIT INSTITUTIONS AND DEPOSITS AT AMORTIZED COST						
Liabilities created on issuance of securities	16 150 157	14 908 067	16 641 184	16 711 312	15 233 191	15 121 032
Deposits from customers	5 079 322	5 079 322	3 957 134	3 957 134	4 406 943	4 406 943
Total financial liabilities at amortized cost	21 229 479	19 987 389	20 598 318	20 668 446	19 640 134	19 527 975
Total financial liabilities	25 046 801	23 841 566	25 610 628	25 713 759	24 654 502	24 762 928

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

NOK thousands	Level 1	Level 2	Level 3	Total 30.06.2014
ASSETS				
Fixed income securities	129 681	2 514 025	0	2 643 706
Financial derivatives	0	161 490	0	161 490
Total financial assets valued at fair value	129 681	2 675 515	0	2 805 196
LIABILITIES				
Financial derivatives	0	363 767	0	363 767
Total financial liabilities at fair value	0	363 767	0	363 767

NOK thousands	Level 1	Level 2	Level 3	Total 30.06.2013
ASSETS				
Fixed income securities	149 517	2 895 993	0	3 045 510
Financial derivatives	0	155 670	0	155 670
Total financial assets valued at fair value	149 517	3 051 663	0	3 201 180
LIABILITIES				
Financial derivatives	0	320 149	0	320 149
Total financial liabilities at fair value	0	320 149	0	320 149

NOK thousands	Level 1	Level 2	Level 3	Total 31.12.2013
ASSETS				
Fixed income securities	128 739	2 794 080	0	2 922 819
Financial derivatives	0	210 223	0	210 223
Total financial assets valued at fair value	128 739	3 004 303	0	3 133 042
LIABILITIES				
Financial derivatives	0	265 754	0	265 754
Total financial liabilities at fair value	0	265 754	0	265 754

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 no 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 SECURITIES LIABILITIES – STOCK EXCHANGE LISTED COVERED BONDS AND CERTIFICATES

NOK thousands ISIN code	Nominal	Currency	Interest	Issued	Due date	Accrued interest	30.06.2014 Booked value
Certificate loan	150 000	NOK	Floating	30.08.13	29.08.14	279	150 279
Secured bonds	300 000	NOK	Floating	27.04.12	27.04.15	1 600	301 600
Secured bonds	300 000	NOK	Fixed	15.06.12	15.06.17	618	300 618
Secured bonds	300 000	NOK	Floating	24.08.12	24.08.15	924	300 924
Secured bonds	400 000	NOK	Floating	15.11.12	16.11.16	1 625	401 625
Secured bonds	400 000	NOK	Floating	14.05.13	13.05.16	1 345	401 345
Secured bonds	300 000	NOK	Floating	31.05.13	28.11.14	601	300 601
Secured bonds	200 000	NOK	Fixed	03.10.13	03.10.18	5 301	205 301
Secured bonds	500 000	NOK	Floating	10.03.14	10.03.17	653	500 653
Secured bonds	500 000	NOK	Floating	04.04.14	04.04.18	2 725	502 725
Amortization / value adjustments							15 401
Total liabilities issuance of certificate loans and secured bonds							3 381 072
N00010585185	3 800 000	NOK	Floating	15.09.10	15.09.15	3 515	3 803 515
N00010592900	750 000	NOK	Fixed	15.12.10	15.12.20	18 715	768 715
N00010624778	1 059 000	NOK	Fixed	15.09.11	15.05.15	4 773	1 063 773
XS0747335494	500 000	SEK	Floating	17.02.12	17.02.15	745	434 245
N00010642192	1 000 000	NOK	Floating	13.04.12	13.04.16	4 680	1 004 680
N00010662307	3 000 000	NOK	Floating	26.10.12	10.11.17	9 167	3 009 167
N00010663180	2 500 000	NOK	Floating	15.11.12	16.11.16	6 804	2 506 804
N00010675952	1 000 000	NOK	Fixed	02.05.13	19.05.17	2 651	1 002 651
N00010675978	1 500 000	NOK	Floating	15.05.13	15.05.18	4 210	1 504 210
N00010711419	1 000 000	NOK	Floating	15.05.14	15.05.17	2 585	1 002 585
Amortization / value adjustments							122 295
Total covered bonds issued							16 222 639
Total liabilities created on issuance of securities							19 603 712

Repurchase of dept ISIN code	Nominal before repurchase	Repurchase	Rate	Purchase amount	Profit/loss	Date
N00010624778	2 500 000	1 441 000	101,66	1 464 916	-23 916	15.05.14
N00010585185	4 300 000	500 000	100,56	502 800	-2 800	25.06.14
Total repurchase	6 800 000	1 941 000		1 967 716	-26 716	

In connection with the repurchase of debt was realized interest rate swaps with a profit of 18.3 million. Total effect on net interest income of repurchased debt is thus minus 8.4 million.

Note 7 SECURITIES LIABILITIES – STOCK EXCHANGE LISTED COVERED BONDS AND CERTIFICATES (CONT.)

NOK thousands ISIN code	Nominal	Currency	Interest	Issued	Due date	Accrued interest	30.06.2013 Booked value
Certificate loan	270 000	NOK	Floating	09.07.12	09.07.13	1 432	271 432
Certificate loan	300 000	NOK	Floating	21.03.13	21.03.14	166	300 166
Certificate loan	300 000	NOK	Floating	11.06.13	11.06.14	338	300 338
Secured bonds	300 000	NOK	Floating	27.04.12	27.04.15	1 591	301 591
Secured bonds	300 000	NOK	Fixed	15.06.12	15.06.17	618	300 618
Secured bonds	300 000	NOK	Floating	24.08.12	24.08.15	950	300 950
Secured bonds	300 000	NOK	Floating	15.11.12	16.11.16	1 200	301 200
Secured bonds	300 000	NOK	Floating	14.05.13	13.05.16	984	300 984
Secured bonds	300 000	NOK	Floating	31.05.13	28.11.14	530	300 530
Amortization / value adjustments							3 005
Total liabilities issuance of certificate loans and secured bonds							2 680 813
N00010585185	4 300 000	NOK	Floating	15.09.10	15.09.15	3 629	4 303 629
N00010592892	1 053 000	NOK	Floating	10.12.10	10.12.13	1 271	1 054 271
N00010592900	750 000	NOK	Fixed	15.12.10	15.12.20	18 715	768 715
N00010609795	1 439 000	NOK	Floating	20.05.11	20.05.14	3 327	1 442 327
N00010624778	2 500 000	NOK	Fixed	15.09.11	15.05.15	11 267	2 511 267
XS0747335494	500 000	SEK	Floating	17.02.12	17.02.15	921	434 421
N00010642192	1 000 000	NOK	Floating	13.04.22	13.04.16	4 813	1 004 813
N00010662307	3 000 000	NOK	Floating	26.10.12	10.11.17	9 273	3 009 273
N00010663180	2 000 000	NOK	Floating	15.11.12	16.11.16	5 316	2 005 316
N00010675952	1 000 000	NOK	Fixed	02.05.13	19.05.17	3 699	1 003 699
N00010675978	1 000 000	NOK	Floating	15.05.13	15.05.18	2 768	1 002 768
Amortization / value adjustments							112 035
Total covered bonds issued							18 652 532
Total liabilities created on issuance of securities							21 333 345

Note 7 SECURITIES LIABILITIES – STOCK EXCHANGE LISTED COVERED BONDS AND CERTIFICATES (CONT.)

NOK thousands ISIN code	Nominal	Currency	Interest	Issued	Due date	Accrued interest	31.12.2013 Booked value
Certificate loan	300 000	NOK	Floating	21.03.13	21.03.14	142	300 142
Certificate loan	300 000	NOK	Floating	11.06.13	11.06.14	340	300 340
Certificate loan	150 000	NOK	Floating	30.08.13	29.08.14	265	150 265
Secured bonds	300 000	NOK	Floating	27.04.12	27.04.15	1 587	301 587
Secured bonds	300 000	NOK	Fixed	15.06.12	15.06.17	7 726	307 726
Secured bonds	300 000	NOK	Floating	24.08.12	24.08.15	891	300 891
Secured bonds	300 000	NOK	Floating	15.11.12	16.11.16	1 111	301 111
Secured bonds	300 000	NOK	Floating	14.05.13	13.05.16	947	300 947
Secured bonds	300 000	NOK	Floating	31.05.13	28.11.14	547	300 547
Secured bonds	200 000	NOK	Fixed	03.10.13	03.10.18	1 761	201 761
Amortization / value adjustments							5 846
Total liabilities issuance of certificate loans and secured bonds							2 771 163
N00010585185	4 300 000	NOK	Floating	15.09.10	15.09.15	3 918	4 303 918
N00010592900	750 000	NOK	Fixed	15.12.10	15.12.20	1 607	751 607
N00010609795	999 000	NOK	Floating	20.05.11	20.05.14	2 238	1 001 238
N00010624778	2 500 000	NOK	Fixed	15.09.11	15.05.15	55 377	2 555 377
XS0747335494	500 000	SEK	Floating	17.02.12	17.02.15	925	434 425
N00010642192	1 000 000	NOK	Floating	13.04.12	13.04.16	4 608	1 004 608
N00010662307	3 000 000	NOK	Floating	26.10.12	10.11.17	8 798	3 008 798
N00010663180	2 000 000	NOK	Floating	15.11.12	16.11.16	4 840	2 004 840
N00010675952	1 000 000	NOK	Fixed	02.05.13	19.05.17	15 041	1 015 041
N00010675978	1 000 000	NOK	Floating	15.05.13	15.05.18	2 611	1 002 611
Amortization / value adjustments							128 180
Total covered bonds issued							17 210 642
Total liabilities created on issuance of securities							19 981 805

Note 8 PRESENTATION OF ASSETS AND LIABILITIES SUBJECT TO NET SETTLEMENT

NOK thousands	Gross financial assets/liabilities	Gross assets/liabilities presented net	Booked value	30.06.2014		
				Related amounts not presented net Financial instruments	Security in cash	Net amount
ASSETS						
Financial derivatives	161 490	0	161 490	-161 490	0	0
Total	161 490	0	161 490	-161 490	0	0
LIABILITIES						
Financial derivatives	363 767	0	363 767	-161 490	-13 551	188 726
Total	363 767	0	363 767	-161 490	-13 551	188 726

NOK thousands	Gross financial assets/liabilities	Gross assets/liabilities presented net	Booked value	30.06.2013		
				Related amounts not presented net Financial instruments	Security in cash	Net amount
ASSETS						
Financial derivatives	155 670	0	155 670	-155 670	0	0
Total	155 670	0	155 670	-155 670	0	0
LIABILITIES						
Financial derivatives	320 149	0	320 149	-155 670	-15 955	148 525
Total	320 149	0	320 149	-155 670	-15 955	148 525

NOK thousands	Gross financial assets/liabilities	Gross assets/liabilities presented net	Booked value	31.12.2013		
				Related amounts not presented net Financial instruments	Security in cash	Net amount
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

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

Note 9 TRANSACTIONS WITH RELATED PARTIES

NOK thousands	01.01.2014- 30.06.2014	01.01.2013- 30.06.2013	2013
INCOME STATEMENT ITEMS			
KLP, fees income lending management	29 000	29 500	58 000
KLP Kapitalforvaltning, fees for services provided	-143	-283	-527
KLP, rent	-1 736	-1 747	-3 435
KLP, pension premium	-3 062	-2 252	-6 223
KLP, staff services (at cost)	-20 458	-19 937	-41 637
KLP Group companies, subsidised interest employee loans	995	306	1 086
TOTAL	4 596	5 587	7 264

NOK thousands	30.06.2014	30.06.2013	31.12.2013
FINANCIAL POSITION STATEMENT ITEMS			
KLP, net intra-Group accounts	-8 844	-5 305	-8 164
KLP, clearance banking system	-52 692	-55 542	-8 950
KLP Group companies	108	278	176
TOTAL	-61 428	-60 569	-16 938

Transactions with related parties are carried out at general market terms and conditions, with the exception of the Company's share of common administrative functions which is allocated at cost.

Allocation is based on actual use. All internal receivables are settled as they arise.

Note 10 OTHER ASSETS

NOK thousands	30.06.2014	30.06.2013	31.12.2013
Intercompany receivables	166	279	176
Miscellaneous receivables	1 703	2 522	2 806
Prepaid expenses	336	314	1 348
Total other assets	2 205	3 115	4 330

Note 11 OTHER LIABILITIES AND PROVISION FOR ACCRUED COSTS

NOK thousands	30.06.2014	30.06.2013	31.12.2013
Creditors	1 221	1 236	1 833
Intercompany liabilities	61 594	60 915	17 210
Miscellaneous liabilities	13 250	8	3 560
Total other liabilities	76 065	62 160	22 603
Withholding tax	1 338	1 359	2 421
Social security costs	1 319	1 316	1 620
Holiday pay	1 734	1 666	3 685
Pension obligations	21 461	14 501	19 889
VAT	3	28	158
Accrued costs	6 000	4 099	1 691
Total accrued costs and liabilities	31 855	22 970	29 464

Note 12 CAPITAL ADEQUACY

NOK thousands	30.06.2014	30.06.2013	31.12.2013
Share capital and share premium fund	1 190 000	1 155 707	1 190 000
Other owners' equity	78 571	60 907	100 171
Owners' equity	1 268 571	1 216 614	1 290 171
Interim profit/loss	0	0	0
Less goodwill and other intangible assets	-19 901	-22 396	-21 098
Deferred tax asset	0	0	0
Core capital	1 248 770	1 194 218	1 269 073
Supplementary capital	0	0	0
Supplementary capital	0	0	0
Total eligible Tier 1 and 2 capital	1 248 770	1 194 218	1 269 073
Capital requirement	497 951	525 972	518 042
Surplus of Tier 1 and 2 capital	750 819	668 246	751 031
CALCULATION BASIS CREDIT RISK			
Local and regional authorities (including municipalities/county administrations)	3 285 114	3 837 465	3 388 172
Institutions	470 561	354 897	394 712
Investments with mortgage security in real estate	1 845 168	1 777 467	2 088 362
Investments fallen due	51 586	37 101	46 608
Covered bonds	240 267	289 599	279 408
Other holdings	557	437	581
Calculation basis credit risk	5 893 253	6 296 965	6 197 843
Credit risk	471 460	503 757	495 827
Operating risk	26 491	22 215	22 215
Total capital requirement	497 951	525 972	518 042
Core capital adequacy ratio	20,1 %	18,2 %	19,6 %
Supplementary capital ratio	0,0 %	0,0 %	0,0 %
Capital adequacy ratio	20,1 %	18,2 %	19,6 %
	Tier 1 capital	Tier 2 capital	Tier 1 and Tier 2 capital
Minimum requirement excl. buffers	4,5 %	3,5 %	8,0 %
Protective buffer (w.e.f. 01.07.2013)	2,5 %	0,0 %	2,5 %
Systemic risk buffer (w.e.f. 01.07.2013)	2,0 %	0,0 %	2,0 %
Current capital requirement incl. buffers	9,0 %	3,5 %	12,5 %

The Basel II framework has been used to calculate the capital adequacy ratio.

Note 13 FIXED INCOME SECURITIES

NOK thousands	30.06.2014		31.12.2013	
	Acquisition cost	Market value	Acquisition cost	Market value
Certificates	127 725	129 681	0	0
Bonds	2 473 116	2 514 025	2 885 394	2 922 819
Total interest-bearing securities	2 600 841	2 643 706	2 885 394	2 922 819

The bonds are brought to account at market value, including accrued but not due interests.

Note 14 LOSSES ON LOANS ISSUED ETC.

NOK thousands	30.06.2014	30.06.2013	31.12.2013
Confirmed losses	0	0	0
Reversal of previous write-downs	0	0	0
Change in individual write-downs	1 002	0	0
Change in write-downs by group	0	0	0
Total loss on lending	1 002	0	0
Gross default exceeding 90 days	7 622	13 186	9 661
Gross other doubtful loans	0	0	0

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

Note 15 CONTINGENT LIABILITIES

NOK thousands	30.06.2014	30.06.2013	31.12.2013
Credit facilities for lending not utilised	223 332	168 412	193 600
Promised loans	527 138	481 116	260 290
Total contingent liabilities	750 470	649 528	453 890

Note 16 KEY FIGURES

Accumulated figures in NOK millions	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013
Pre-tax income	30,9	13,8	87,0	77,2	68,9
Net interest income	60,8	31,4	122,0	88,0	54,7
Other operating income	33,7	16,7	65,9	47,5	31,7
Other operating costs and depreciation	-69,8	-38,2	-144,7	-104,9	-64,0
Net realized / unrealized change fin. instruments at fair value	6,3	3,9	43,8	46,6	46,5
Deposits	5 079,3	4 706,4	4 406,9	4 164,5	3 957,1
Housing mortgage lending	5 840,0	4 816,6	4 483,6	4 133,8	3 615,0
Lending with public sector guarantee	16 314,0	16 559,5	16 833,4	17 890,8	18 674,5
Defaulted loans	7,6	10,1	9,7	12,4	13,2
Total liabilities created on issuance of securities	19 603,7	19 753,1	19 981,8	20 699,2	21 333,3
Other borrowing	0,0	0,0	0,0	0,0	0,0
Total assets	26 445,8	26 103,7	26 010,2	26 611,4	26 982,8
Average total assets	26 228,0	26 056,9	27 145,8	27 446,5	27 632,2
Owners' equity	1 290,4	1 278,7	1 290,2	1 285,8	1 280,2
Interest net	0,23 %	0,12 %	0,45 %	0,32 %	0,20 %
Profit/loss from ordinary operation before taxes	0,12 %	0,05 %	0,32 %	0,28 %	0,25 %
Profit/loss from ordinary op. excl. fair value assessments	0,09 %	0,04 %	0,16 %	0,11 %	0,08 %
Return on owners' equity before tax	2,42 %	1,07 %	7,15 %	6,35 %	5,66 %
Capital adequacy ratio	20,1 %	20,2 %	19,6 %	18,3 %	18,2 %



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