

# Interim report

## Q3 2015

**KLP**  
Banken



[INCOME STATEMENT](#)

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# KLP Banken AS and KLP Banken Group

## Interim Financial Statements 3 / 2015

### Main features by third quarter end:

- Positive development in net interest income and mortgage loans in 2015
- The Group has purchased mortgage loans from its parent KLP
- The lending balance in KLP Boligkreditt AS was NOK 4.2 billion at the reporting date.
- Earnings are negatively impacted by financial losses in the liquidity portfolio.

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 also manages a lending portfolio on behalf of KLP. The Group manages lending totalling NOK 77 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 in the first three quarters of 2015 amounted to NOK 133.1 million compared to NOK 92.4 million in the same period of 2014. The improvement from last year is a result of mortgage lending increase as well as relatively cheaper funding. Operating expenses and depreciation amounted to NOK 122.1 million this year compared to NOK 105.7 million at the same time last year. The increase in costs corresponds to the increase in lending

The financial statements have been prepared in NOK and are presented in accordance with International Financial Reporting Standards (IFRS). This means that financial instruments mainly are recognised at market value. At the end of the third quarter, the income statement includes a net loss associated with securities of NOK 23.9 million. During the same period the previous year, a net gain of NOK 7.1 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 43.2 million in the first three quarters. Last year, this amount was NOK 43.5 million.

By the end of the third quarter, the KLP Banken Group had a pre-tax profit of NOK 34.4 million. The retail market segment generated a profit of NOK 17.9 million while the public sector segment achieved a profit of NOK 16.5 million. In 2014, this Group profit was NOK 29.9 million where the retail market segment reported a loss of NOK 4.5 million and the public

sector market a profit of NOK 34.4 million. Group income after tax amounted to NOK 27.1 million by the third quarter this year and NOK 19.4 million at the same time last year.

### Lending

On 30 September 2015, the KLP Banken Group had a lending balance of NOK 26.2 billion compared to NOK 22.6 billion at the same time previous year. The distribution between the retail market and public sector lending was NOK 10.4 billion and NOK 15.8 billion, respectively.

During the first three quarters of 2015, the Group's mortgage lending balance increased by NOK 1.8 billion. The increase is partially explained by the purchase of loans totalling NOK 0.8 billion from the parent company KLP. KLP's own mortgage lending balance was increased by NOK 0.5 billion during the same period.

The public sector lending balance in KLP Banken AS Group has decreased by NOK 0.5 billion in 2015. Managed loans on KLP's own balance sheets has increased by NOK 9.7 billion in the same period. Of this increase, NOK 4.2 billion is represented by loans to foreign debtors in foreign currency.

### Liquid investments

On the reporting date, the portfolio of liquid investments amounted to NOK 1.9 billion against NOK 3.1 billion at the same time last year.

### 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 7.3 billion and issued securities amounted to NOK 19.9 billion. Of the issued securities, covered bonds (OMF) issued by KLP Kommunekreditt AS represented NOK 14.6 billion, while KLP Boligkreditt AS had NOK 2.4 billion outstanding. All covered bonds issues have achieved AAA rating.

### Capital adequacy

At the end of the third quarter, eligible Tier 1 and Tier 2 capital i.a.w. the capital adequacy rules was NOK 1 477.9 million. Eligible Tier 1 and Tier 2 capital comprises core capital only. The corresponding figure for last year was NOK 1 249.4 million. Lending is risk-weighted in accordance with the authorities' capital adequacy regulations. The KLP Banken Group had a capital adequacy ratio of 17.9 per cent at the end of the third quarter, against 18.4 per cent on the same date last year. The minimum statutory requirement is 11.0 per cent core capital adequacy and 14.5 per cent capital adequacy. A capital increase of NOK 200 million was made in KLP Banken during the third quarter to finance further lending growth.

# Income statement

KLP Banken AS Group

Note	NOK thousands	Q3 2015	Q3 2014	01.01.2015- 30.09.2015	01.01.2014- 30.09.2014	2014
	Interest income	202 945	208 350	621 814	615 120	841 945
	Interest expense	-151 325	-176 799	-488 751	-522 762	-708 899
3	<b>Net interest income</b>	<b>51 620</b>	<b>31 551</b>	<b>133 063</b>	<b>92 358</b>	<b>133 046</b>
	Commision income and income from banking services	2 801	2 809	8 592	8 144	11 174
	Commision cost and cost from banking services	-238	-329	-777	-1 006	-1 176
	<b>Net charges and commission income</b>	<b>2 563</b>	<b>2 480</b>	<b>7 815</b>	<b>7 138</b>	<b>9 998</b>
	Other fee income	14 405	14 500	43 215	43 500	58 025
	Net gain/ (loss) financial instruments	-13 599	-12 981	-27 724	-6 677	-14 399
	<b>Total other operating income</b>	<b>806</b>	<b>1 519</b>	<b>15 491</b>	<b>36 823</b>	<b>43 626</b>
	Salaries and administrative costs	-14 824	-10 862	-39 669	-32 804	-48 976
	Depreciation	-653	-668	-1 974	-2 010	-2 677
	Other operating expenses	-22 165	-23 015	-80 474	-70 866	-105 738
	<b>Total operating expenses</b>	<b>-37 642</b>	<b>-34 545</b>	<b>-122 117</b>	<b>-105 680</b>	<b>-157 391</b>
14	Net loan losses	-40	218	106	-784	-607
	<b>Operating profit/loss before tax</b>	<b>17 308</b>	<b>1 223</b>	<b>34 359</b>	<b>29 855</b>	<b>28 672</b>
	Tax ordinary income	-4 673	-331	-9 284	-8 061	-7 849
	<b>Profit/loss for the period</b>	<b>12 635</b>	<b>892</b>	<b>25 075</b>	<b>21 794</b>	<b>20 823</b>
	Other comprehensive income	2 837	-2 284	2 837	-3 298	-5 722
	Tax on other comprehensive income	-766	616	-766	890	1 545
	<b>Other comprehensive income for the period</b>	<b>2 071</b>	<b>-1 668</b>	<b>2 071</b>	<b>-2 407</b>	<b>-4 177</b>
	<b>COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>14 705</b>	<b>-776</b>	<b>27 145</b>	<b>19 386</b>	<b>16 646</b>

# Balance sheet

KLP Banken AS Group

Note	NOK thousands	30.09.2015	30.09.2014	31.12.2014
	<b>ASSETS</b>			
	Loans to credit institutions	870 321	1 736 173	1 113 949
4	Loans to customers	26 245 249	22 571 838	24 945 746
13	Interest-bearing securities	1 946 193	3 131 075	3 486 756
	Shareholdings	265	265	265
	Financial derivatives	186 982	156 767	187 413
	Fixed assets	472	518	499
	Intangible assets	16 557	19 152	18 503
10	Other assets	855	58 524	1 852
	<b>TOTAL ASSETS</b>	<b>29 266 894</b>	<b>27 674 311</b>	<b>29 754 984</b>
	<b>LIABILITIES AND OWNERS EQUITY</b>			
	<b>LIABILITIES</b>			
7	Debt securities issued	19 940 718	20 244 024	21 687 168
	Deposits and borrowings from the public	7 279 095	5 485 664	6 250 873
	Financial derivatives	431 409	379 665	448 146
	Deffered tax liabilities	1 529	83	8 021
11	Other Liabilities	84 389	240 847	38 821
11	Provision for accrued costs and liabilities	35 290	36 069	36 737
	<b>TOTAL LIABILITIES</b>	<b>27 772 430</b>	<b>26 386 352</b>	<b>28 469 766</b>
	<b>EQUITY</b>			
	Share capital	855 000	750 000	750 000
	Share premium	535 000	440 000	440 000
	Retained earnings	104 465	97 958	95 218
	<b>TOTAL EQUITY</b>	<b>1 494 464</b>	<b>1 287 958</b>	<b>1 285 218</b>
	<b>TOTAL LIABILITIES AND EQUITY</b>	<b>29 266 894</b>	<b>27 674 311</b>	<b>29 754 984</b>

# Statement of changes in equity

KLP Banken AS Group

NOK thousands	Share capital	Share premium	Retained earnings	Total equity
Equity 1 January 2015	750 000	440 000	95 218	1 285 218
Profit for the period	0	0	25 075	25 075
Other comprehensive income	0	0	2 071	2 071
<b>Total comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>27 145</b>	<b>27 145</b>
Group contribution received	0	0	4 980	4 980
Group contribution made	0	0	-22 879	-22 879
Owners' equity received during the period	105 000	95 000	0	200 000
<b>Total transactions with the owners</b>	<b>105 000</b>	<b>95 000</b>	<b>-17 899</b>	<b>182 101</b>
<b>Equity 30 September 2015</b>	<b>855 000</b>	<b>535 000</b>	<b>104 465</b>	<b>1 494 464</b>
Equity 1 January 2014	750 000	440 000	100 172	1 290 172
Profit for the period	0	0	21 793	21 793
Other comprehensive income	0	0	-2 407	-2 407
<b>Total comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>19 386</b>	<b>19 386</b>
Group contribution received	0	0	8 500	8 500
Group contribution made	0	0	-30 100	-30 100
<b>Total transactions with the owners</b>	<b>0</b>	<b>0</b>	<b>-21 600</b>	<b>-21 600</b>
<b>Equity 30 September 2014</b>	<b>750 000</b>	<b>440 000</b>	<b>97 958</b>	<b>1 287 958</b>
Equity 1 January 2014	750 000	440 000	100 172	1 290 172
Profit for the period	0	0	20 823	20 823
Other comprehensive income	0	0	-4 177	-4 177
<b>Total comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>16 646</b>	<b>16 646</b>
Group contribution received	0	0	8 500	8 500
Group contribution made	0	0	-30 100	-30 100
<b>Total transactions with the owners</b>	<b>0</b>	<b>0</b>	<b>-21 600</b>	<b>-21 600</b>
<b>Equity 31 December 2014</b>	<b>750 000</b>	<b>440 000</b>	<b>95 218</b>	<b>1 285 218</b>

# Statement of cash flow

KLP Banken AS Group

NOK thousands	30.09.2015	30.09.2014	2014
<b>OPERATING ACTIVITIES</b>			
Payments received from customers - interest, commission & charges	547 609	517 241	764 555
Payments to customers - interest, commission & charges	-120 766	-112 095	-154 170
Net receipts/disbursements on loans customers & credit institutions	-1 375 083	-1 106 880	-3 573 398
Net receipts on customer deposits banking	1 028 222	1 078 721	1 843 929
Net receipts/disbursements on operations	-80 792	-68 152	-103 940
Payments to employees, pension schemes, employer's social security contribution etc.	-43 396	-30 059	-39 411
Net interest investment accounts	13 788	14 619	26 105
Net receipts/disbursements from operating activities	88 329	75 248	70 594
Income tax paid	0	0	0
<b>Net cash flow from operating activities</b>	<b>57 910</b>	<b>368 643</b>	<b>-1 165 735</b>
<b>INVESTMENT ACTIVITIES</b>			
Payments on the purchase of securities	2 294 238	1 138 764	1 382 690
Receipts on sale of securities	-778 724	-1 194 701	-1 939 590
Receipts of interest from securities	42 937	45 319	66 298
<b>Net cash flow from investment activities</b>	<b>1 558 451</b>	<b>-10 618</b>	<b>-490 602</b>
<b>FINANCING ACTIVITIES</b>			
Net receipts/disbursements on loans from credit institutions	-1 721 476	287 677	1 828 609
Net payment of interest on loans	-316 253	-412 777	-555 043
Receipts on issue of owners' equity	200 000	0	0
Group contributions made	-27 080	-33 306	-33 305
<b>Net cash flows from financing activities</b>	<b>-1 864 809</b>	<b>-158 406</b>	<b>1 240 261</b>
<b>Net cash flow during the period</b>	<b>-248 450</b>	<b>199 618</b>	<b>-416 076</b>
Cash and cash equivalents at the start of the period	1 070 349	1 486 425	1 486 425
Cash and cash equivalents at the end of the period	821 899	1 686 043	1 070 349
<b>Net receipts/ disbursements (-) of cash</b>	<b>-248 450</b>	<b>199 618</b>	<b>-416 076</b>

# 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 public Sector guarantee. The lending activities are principally financed by issuance of covered bonds. The Group also offers standard banking products to private customers. KLP Banken AS is registered and domiciled in Norway. It's 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 KLP Boligkreditt 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 is wholly owned by Kommunal Landspensjonskasse (KLP). KLP is a mutual insurance company.

## Note 2 ACCOUNTING PRINCIPLES

The interim report includes the consolidated financial statements of KLP Banken AS for the period 1 January 2015 – 30 September 2015. The Auditor has reviewed the consolidated Financial Statements of KLP Banken AS.

The interim consolidated Financial Statements has been prepared in accordance with IAS 34 «Interim Financial Reporting».

IFRIC 31 «Levies», came into force from the beginning of 2015. IFRIC 21 stipulates how to recognize a liability for a levy falling within the scope of IAS 37 «Provisions, Contingent Liabilities and Contingent Assets».

The new interpretation raises questions of accrual accounting for the annual levy to The Norwegian Banks' Guarantee Fund (the Guarantee Fund levy) and at present there is a professional debate on whether the interpretation of IFRIC 21 means the whole Guarantee Fund levy must be taken to expense in its entirety when it is set.

The Guarantee Fund levy is determined mainly on the basis of the bank's deposits in previous quarters. In the event of joining the scheme partway through the year a deduction is made for that part of the year in which the bank has not been a member. There is no provision on whether a corresponding deduction is made in the event of departure from the scheme partway through the year, even though considerations of equal treatment would indicate such an arrangement. The Norwegian Ministry of Finance currently decides this through individual decisions. This will have impact on the accrual accounting for the Guarantee Fund levy.

Since there is uncertainty associated with whether levies would be repaid in the event of cessation of membership, KLP Banken AS has chosen to change its practice in regard to accrual of the Guarantee Fund levy in connection with the implementation of IFRIC 21. This means that the annual Guarantee Fund levy is taken to expenses in its entirety when it is set, i.e. during the first quarter. Previously the Guarantee Fund levy accrual was recognized evenly over the year. The change in accounting policy has not had a significant effect on the consolidated financial statement as of 30.09.2015.

There are no other changes in accounting principles in 2015 that have been of significance for the interim consolidated Financial Statements following the third quarter. Attention is drawn to KLP Banken's Annual Report for 2014 for detailed description of accounting principles.

**Note 3 NET INTEREST INCOME**

NOK thousands	01.01.2015- 30.09.2015	01.01.2014- 30.09.2014	2014
Interest on loans to and receivables from credit institutions	14 976	20 400	26 157
Interest on loans to customers	564 261	548 067	750 040
Interest on securities	42 577	46 654	65 748
<b>Total interest income</b>	<b>621 814</b>	<b>615 120</b>	<b>841 945</b>
Interest on liabilities to credit institutions	368 877	313 398	463 141
Interest on liabilities to customers	119 964	177 887	243 638
Premium/discount on covered bonds	-708	31 460	2 105
Other interest costs	618	18	15
<b>Total interest costs</b>	<b>488 751</b>	<b>522 762</b>	<b>708 899</b>
<b>Net interest income</b>	<b>133 063</b>	<b>92 358</b>	<b>133 046</b>

**Note 4 LOANS TO CUSTOMERS**

NOK thousands	30.09.2015	30.09.2014	31.12.2014
Loans to cutomers before write-downs	25 763 146	22 132 971	24 435 400
Individual write-downs	-288	-760	-573
Write-downs by group	0	0	0
<b>Loans to cutomers after write-downs</b>	<b>25 762 858</b>	<b>22 132 211</b>	<b>24 434 827</b>
Accured interest	130 532	146 813	104 463
Change in fair value due to interest rate changes (fair value hedging)	351 859	292 815	406 456
<b>Loans to customers</b>	<b>26 245 249</b>	<b>22 571 838</b>	<b>24 945 746</b>

**Note 5 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES**

NOK thousands	30.09.2015		30.09.2014		31.12.2014	
	Capitalized value	Fair value	Capitalized value	Fair value	Capitalized value	Fair value
<b>FINANCIAL ASSETS AT FAIR VALUE</b>						
Fixed-income securities	1 946 193	1 946 193	3 131 075	3 131 075	3 486 757	3 486 757
Shares, holdings and primary capital certificate	265	265	265	265	265	265
Financial derivatives	186 982	186 982	156 767	156 767	187 413	187 413
<b>Total financial assets at fair value</b>	<b>2 133 440</b>	<b>2 133 440</b>	<b>3 288 108</b>	<b>3 288 108</b>	<b>3 674 435</b>	<b>3 674 435</b>
<b>FINANCIAL ASSETS AT FAIR VALUE HEDGING</b>						
Loans to Norwegian local administrations	5 723 470	5 690 836	6 200 960	6 245 930	6 066 133	6 111 821
Loans to retail customers	406 252	406 207	420 789	407 641	365 713	347 239
<b>Total financial assets at fair value hedging</b>	<b>6 129 722</b>	<b>6 097 043</b>	<b>6 621 749</b>	<b>6 653 571</b>	<b>6 431 846</b>	<b>6 459 060</b>
<b>FINANCIAL ASSETS AT AMORTIZED COST</b>						
Loans to and receivables from credit institutions	870 321	870 321	1 736 173	1 736 173	1 113 949	1 113 949
Loans to Group companies	10 084 215	10 076 078	9 843 986	9 835 298	10 272 128	10 262 529
Loans to retail customers	10 031 312	10 031 312	6 106 104	6 106 104	8 241 773	8 241 773
<b>Total financial assets at amortized cost</b>	<b>20 985 848</b>	<b>20 977 711</b>	<b>17 686 263</b>	<b>17 677 575</b>	<b>19 627 848</b>	<b>19 618 251</b>
<b>Total financial assets</b>	<b>29 249 010</b>	<b>29 208 194</b>	<b>27 596 120</b>	<b>27 619 254</b>	<b>29 734 129</b>	<b>29 751 746</b>
<b>LIABILITIES TO CREDIT INSTITUTIONS AT FAIR VALUE</b>						
Financial derivatives	431 409	431 409	379 665	379 665	448 146	448 146
<b>Total financial liabilities at fair value</b>	<b>431 409</b>	<b>431 409</b>	<b>379 665</b>	<b>379 665</b>	<b>448 146</b>	<b>448 146</b>
<b>LIABILITIES TO CREDIT INSTITUTIONS AT FAIR VALUE HEDGING</b>						
Liabilities created on issuance of securities	2 440 045	2 443 310	3 025 459	3 066 106	2 985 895	3 023 096
<b>Total financial liabilities at fair value hedging</b>	<b>2 440 045</b>	<b>2 443 310</b>	<b>3 025 459</b>	<b>3 066 106</b>	<b>2 985 895</b>	<b>3 023 096</b>
<b>LIABILITIES TO CREDIT INSTITUTIONS AND DEPOSITS AT AMORTIZED COST</b>						
Liabilities created on issuance of securities	17 500 673	17 401 959	17 218 565	17 311 546	18 701 273	18 776 903
Deposits from customers	7 279 095	7 279 095	5 485 664	5 485 664	6 250 873	6 250 873
<b>Total financial liabilities at amortized cost</b>	<b>24 779 768</b>	<b>24 681 054</b>	<b>22 704 229</b>	<b>22 797 210</b>	<b>24 952 146</b>	<b>25 027 776</b>
<b>Total financial liabilities</b>	<b>27 651 221</b>	<b>27 555 772</b>	<b>26 109 353</b>	<b>26 242 981</b>	<b>28 386 187</b>	<b>28 499 018</b>

**Fair value** of investments listed in an active market is based on the current sales 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**

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

**Fixed-income securities - other than government**

Norwegian fixed-income securities, except government are priced directly on prices from Nordic Bond Pricing. Those securities that are not included in Nordic Bond Pricing are priced theoretically. In theoretical pricing a zero-coupon curve is used as well as yield spread curved for the pricing. Reuters is used as a source for the zero-coupon curve from 0 to 10 years. From 12 years and over, Bloomberg is used as the source since Reuters does not provide prices over 10 years. The yield curve spreads are received from Nordic Bond Pricing. These are based on yield curve spreads collected from several different market operators and converted to an average curve.

**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 liabilities 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 30.09.2015
<b>ASSETS</b>				
Interest-bearing securities	99 514	1 846 679	0	1 946 193
Shareholdings	0	0	265	265
Financial derivatives	0	186 982	0	186 982
<b>Total financial assets at fair value</b>	<b>99 514</b>	<b>2 033 661</b>	<b>265</b>	<b>2 133 440</b>
<b>LIABILITIES</b>				
Financial derivatives	0	431 409	0	431 409
<b>Total financial liabilities at fair value</b>	<b>0</b>	<b>431 409</b>	<b>0</b>	<b>431 409</b>

NOK thousands	Level 1	Level 2	Level 3	Total 30.09.2014
<b>ASSETS</b>				
Interest-bearing securities	148 193	2 982 882	0	3 131 075
Shareholdings	0	0	265	265
Financial derivatives	0	156 767	0	156 767
<b>Total financial assets at fair value</b>	<b>148 193</b>	<b>3 139 649</b>	<b>265</b>	<b>3 288 107</b>
<b>LIABILITIES</b>				
Financial derivatives	0	379 665	0	379 665
<b>Total financial liabilities at fair value</b>	<b>0</b>	<b>379 665</b>	<b>0</b>	<b>379 665</b>

NOK thousands	Level 1	Level 2	Level 3	Total 31.12.2014
<b>ASSETS</b>				
Interest-bearing securities	149 005	3 337 751	0	3 486 756
Shareholdings	0	0	265	265
Financial derivatives	0	187 413	0	187 413
<b>Total financial assets at fair value</b>	<b>149 005</b>	<b>3 525 164</b>	<b>265</b>	<b>3 674 434</b>
<b>LIABILITIES</b>				
Financial derivatives	0	448 146	0	448 146
<b>Total financial liabilities at fair value</b>	<b>0</b>	<b>448 146</b>	<b>0</b>	<b>448 146</b>

NOK thousands	Book value 31.12.2014	Book value 30.09.2014	Book value 30.09.2015
Opening balance 1 Jan	0	0	265
Sold	0	0	0
Bought	265	265	0
Unrealized changes	0	0	0
<b>Closing balance</b>	<b>265</b>	<b>265</b>	<b>265</b>
Realized gains/losses	0	0	0

**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 at 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 at 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 therefore not 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** SECURITIES LIABILITIES – STOCK EXCHANGE LISTED COVERED BONDS AND CERTIFICATES

NOK thousands	30.09.2015	30.09.2014	31.12.2014
Bond debt, nominal amount	19 720 000	20 039 000	21 452 000
Adjustments	141 881	107 654	155 222
Accured interest	78 837	97 370	79 946
<b>Total debt securities issued</b>	<b>19 940 718</b>	<b>20 244 024</b>	<b>21 687 168</b>

NOK thousands	Balance sheet 30.09.2015	Issued	Matured/ redeemed	Other adjustments	Balance sheet 31.12.2014
CHANGES IN DEBT SECURITIES ISSUED					
Bond debt, nominal amount	19 720 000	1 400 000	-3 132 000	0	21 452 000
Adjustments	141 881	0	0	-13 341	155 222
Accured interest	78 837	0	0	-1 109	79 946
<b>Total debt securities issued</b>	<b>19 940 718</b>	<b>1 400 000</b>	<b>-3 132 000</b>	<b>-14 450</b>	<b>21 687 168</b>

**Note 8 FINANCIAL ASSETS AND LIABILITIES SUBJECT TO NET SETTLEMENT**

NOK thousands	Gross financial assets/ liabilities	Gross assets/ liabilities presented net	Book value	Financial instruments	30.09.2015	
					Security in cash	Related sums that are not presented net Net recognised value
ASSETS						
Financial derivatives	186 982	0	186 982	-186 982	-6 200	0
<b>Total</b>	<b>186 982</b>	<b>0</b>	<b>186 982</b>	<b>-186 982</b>	<b>-6 200</b>	<b>0</b>
LIABILITIES						
Financial derivatives	431 409	0	431 409	-186 982	-10 700	233 727
<b>Total</b>	<b>431 409</b>	<b>0</b>	<b>431 409</b>	<b>-186 982</b>	<b>-10 700</b>	<b>233 727</b>

NOK thousands	Gross financial assets/ liabilities	Gross assets/ liabilities presented net	Book value	Financial instruments	30.09.2014	
					Security in cash	Related sums that are not presented net Net recognised value
ASSETS						
Financial derivatives	156 768	0	156 768	-156 768	-3 910	0
<b>Total</b>	<b>156 768</b>	<b>0</b>	<b>156 768</b>	<b>-156 768</b>	<b>-3 910</b>	<b>0</b>
LIABILITIES						
Financial derivatives	379 666	0	379 666	-156 768	-15 658	207 240
<b>Total</b>	<b>379 666</b>	<b>0</b>	<b>379 666</b>	<b>-156 768</b>	<b>-15 658</b>	<b>207 240</b>

NOK thousands	Gross financial assets/ liabilities	Gross assets/ liabilities presented net	Book value	Financial instruments	31.12.2014	
					Security in cash	Related sums that are not presented net Net recognised value
ASSETS						
Financial derivatives	187 413	0	187 413	-187 413	-3 101	0
<b>Total</b>	<b>187 413</b>	<b>0</b>	<b>187 413</b>	<b>-187 413</b>	<b>-3 101</b>	<b>0</b>
LIABILITIES						
Financial derivatives	448 146	0	448 146	-187 413	-2 239	258 494
<b>Total</b>	<b>448 146</b>	<b>0</b>	<b>448 146</b>	<b>-187 413</b>	<b>-2 239</b>	<b>258 494</b>

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	01.01.2015- 30.09.2015	01.01.2014- 30.09.2014	2014
INCOME STATEMENT ITEMS			
KLP, fees lending management	43 215	43 500	58 000
KLP Kapitalforvaltning AS, fees for services provided	-329	-335	-434
KLP, rent	-2 772	-2 650	-3 557
KLP, pension premium	-5 659	-5 378	-3 603
KLP, staff services (at cost)	-34 988	-29 801	-42 214
KLP Group companies, subsidised interest employee loans	747	1 376	1 856
<b>Total</b>	<b>214</b>	<b>6 712</b>	<b>10 048</b>

NOK thousands	30.09.2015	30.09.2014	31.12.2014
FINANCIAL POSITION STATEMENT ITEMS			
KLP, net internal accounts	-9 617	-4 448	-10 430
KLP, loan settlement	-54 700	-18 396	-17 051
KLP Group companies, net other internal accounts	5	-19	400
<b>Total</b>	<b>-64 312</b>	<b>-22 863</b>	<b>-27 081</b>

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 10 OTHER ASSETS**

NOK thousands	30.09.2015	30.09.2014	31.12.2014
Intercompany receivables	118	144	492
Miscellaneous receivables	0	57 393	0
Prepaid expenses	737	987	1 360
<b>Total</b>	<b>855</b>	<b>58 524</b>	<b>1 852</b>

**Note 11 OTHER LIABILITIES AND PROVISION FOR ACCRUED COSTS**

NOK thousands	30.09.2015	30.09.2014	31.12.2014
Creditors	1 785	3 462	7 296
Intercompany payables	64 431	23 106	27 573
Short-term liabilities securities	2	196 400	0
Other liabilities	18 171	17 879	3 952
<b>Total other liabilities</b>	<b>84 389</b>	<b>240 847</b>	<b>38 821</b>
Withholding tax	1 173	1 156	2 647
Social security costs	977	990	1 869
Holiday pay	3 084	2 830	4 173
Pension obligations	25 072	21 565	25 381
VAT	548	360	301
Provisioned costs	4 436	9 168	2 366
<b>Total accrued costs and liabilities</b>	<b>35 290</b>	<b>36 069</b>	<b>36 737</b>

**Note 12 CAPITAL ADEQUACY**

NOK thousands	30.09.2015	30.09.2014	31.12.2014
Share capital and share premium fund	1 390 000	1 190 000	1 190 000
Other owners' equity	77 319	78 571	95 218
<b>Total owners' equity</b>	<b>1 467 319</b>	<b>1 268 571</b>	<b>1 285 218</b>
Interim profit/loss	27 145	0	0
Deduction goodwill and other intangible assets	-16 557	-19 152	-18 503
Deferred tax asset	0	0	0
<b>Core capital/Tier 1 capital</b>	<b>1 477 907</b>	<b>1 249 419</b>	<b>1 266 715</b>
Supplementary capital/Tier 2 capital	0	0	0
<b>Supplementary capital/Tier 2 capital</b>	<b>0</b>	<b>0</b>	<b>0</b>
Total eligible own funds (Tier 1 and Tier 2 capital)	1 477 907	1 249 419	1 266 715
Capital requirement	660 139	542 634	598 438
<b>Surplus of own funds (Tier 1 and Tier 2 capital)</b>	<b>817 768</b>	<b>706 785</b>	<b>668 277</b>
<b>ESTIMATE BASIS CREDIT RISK</b>			
Local and regional authorities (incl. Municipalities/ county administrations)	3 211 120	3 271 616	3 311 173
Institutions	234 213	427 312	265 665
Investments with mortgage security in real estate	4 146 330	2 421 181	3 180 713
Investments fallen due	95 802	58 790	78 758
Covered bonds	164 307	272 104	311 967
Other holdings	738	783	1 064
<b>Calculation basis credit risk</b>	<b>7 852 510</b>	<b>6 451 786</b>	<b>7 149 340</b>
Credit risk	628 201	516 143	571 947
Operating risk	31 938	26 491	26 491
<b>Total capital requirement assets</b>	<b>660 139</b>	<b>542 634</b>	<b>598 438</b>
Core capital adequacy ratio	17.9 %	18.4 %	16.9 %
Supplementary capital ratio	0.0 %	0.0 %	0.0 %
<b>Capital adequacy ratio</b>	<b>17.9 %</b>	<b>18.4 %</b>	<b>16.9 %</b>
<b>Leverage ratio</b>	<b>5.0 %</b>		<b>4.4 %</b>
<b>Capital requirement per 30.09.2015</b>	<b>Tier 1 capital</b>	<b>Tier 2 capital</b>	<b>Tier 1 &amp; Tier 2 capital</b>
Minimum requirement excl. buffers	4.5 %	3.5 %	8.0 %
Protective buffer	2.5 %	0.0 %	2.5 %
Systemic risk buffer	3.0 %	0.0 %	3.0 %
Counter-cyclical capital buffer	1.0 %	0.0 %	1.0 %
<b>Current capital requirement incl. buffers</b>	<b>11.0 %</b>	<b>3.5 %</b>	<b>14.5 %</b>

**Note 13** FIXED-INCOME SECURITIES

NOK thousands	30.09.2015		30.09.2014		31.12.2014	
	Acquisition cost	Market value	Acquisition cost	Market value	Acquisition cost	Market value
Certificates	99 346	99 514	348 541	348 718	253 538	254 929
Bonds	1 843 296	1 846 679	2 742 463	2 782 357	4 196 865	3 231 827
<b>Total fixed-income securities</b>	<b>1 942 642</b>	<b>1 946 193</b>	<b>3 091 004</b>	<b>3 131 075</b>	<b>4 450 403</b>	<b>3 486 756</b>

Fixed income securities are brought to account at market value, including accrued but not due interests.

**Note 14** LOSSES ON LENDING

NOK thousands	30.09.2015	30.09.2014	31.12.2014
Known losses	0	0	-23
Reversal of previous write-downs	562	0	9
Change in individual write-downs	-456	-784	-593
Change in write-downs by group	0	0	0
<b>Total loss on lending</b>	<b>106</b>	<b>-784</b>	<b>-607</b>

NOK thousands	30.09.2015	30.09.2014	31.12.2014
Balance of write-down losses on lending 1 January	573	9	9
Reversal of write-down on individual loans for the period	-562	11	-42
Write-down on individual loans for the period	277	740	607
<b>Total write-down on individual loans</b>	<b>288</b>	<b>760</b>	<b>573</b>
Gross default exceeding 90 days	26 455	18 391	26 151
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	30.09.2015	30.09.2014	31.12.2014
Credit facilities for lending not utilized	330 661	232 314	240 585
Loan promise	359 891	792 881	482 834
<b>Total contingent liabilities</b>	<b>690 552</b>	<b>1 025 195</b>	<b>723 419</b>

**Note 16 PENSION OBLIGATIONS - OWN EMPLOYEES**

NOK thousands	30.09.2015	30.09.2014	31.12.2014
Capitalized net liability	25 381	19 889	19 889
Pension costs taken to profit/loss	5 853	2 304	4 232
Financial costs taken to profit/loss	425	398	1 097
Actuarial gains and losses	-2 837	3 298	5 722
Premiums/supplement paid-in including admin	-3 750	-4 324	-5 560
<b>Capitalized net liability</b>	<b>25 072</b>	<b>21 564</b>	<b>25 381</b>

	30.09.2015	30.09.2014	31.12.2014
ASSUMPTIONS			
Discount rate	2.50 %	3.00 %	2.30 %
Salary growth	2.50 %	3.25 %	2.75 %
The National Insurance basic amount (G)	2.25 %	3.00 %	2.50 %
Pension increases	1.48 %	2.23 %	1.73 %
Expected return	2.50 %	3.00 %	2.30 %
Social security contribution rate	14.10 %	14.10 %	14.10 %

**Key figures**

Accumulated figures in NOK millions	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014
Pre-tax income	34.4	17.1	-1.8	28.7	29.9
Net interest income	133.1	81.4	38.4	133.0	92.4
Other operating income	51.0	34.1	17.2	68.0	50.6
Other operating cost and depreciation	-122.1	-84.5	-46.3	-157.4	-105.7
Net realized/unrealized change fin. Instruments at fair value	-27.7	-14.1	-11.6	-14.4	-6.7
Deposits	7 279.1	7 305.2	7 128.2	6 250.9	5 485.7
Housing mortgage lending	10 437.5	9 604.2	9 438.5	8 607.5	6 526.9
Lending with public sector guarantee	15 807.7	15 591.0	15 951.1	16 338.2	16 044.9
Non-performing loans	26.5	34.1	25.8	26.2	18.4
Total liabilities created on issuance of securities	19 940.7	20 776.8	21 553.0	21 687.2	20 244.0
Other borrowing	0.0	0.0	0.0	0.0	0.0
Total assets	29 266.9	29 813.9	30 469.5	29 755.0	27 674.3
Average total assets	29 510.9	29 784.5	30 112.2	27 881.2	26 840.8
Equity	1 494.5	1 279.8	1 266.0	1 285.2	1 288.0
Interest net	0.45 %	0.27 %	0.13 %	0.48 %	0.34 %
Profit/loss from ordinary operation before taxes	0.12 %	0.06 %	-0.01 %	0.10 %	0.12 %
Return on equity	2.67 %	1.32 %	-0.14 %	2.24 %	2.40 %
Capital adequacy ratio	17.9 %	15.1 %	15.6 %	16.9 %	18.4 %



To the Board of Directors of KLP Banken AS

## **Report on Review of Interim Financial Information**

### *Introduction*

We have reviewed the accompanying interim financial information of KLP Banken AS, which comprise the financial statements of the group and the financial statements of the parent company. The financial statements of the group and the financial statements of the parent company comprise balance sheet as of 30 September 2015 and the related statements of income, changes in equity and cash flows for the nine-month period then ended. Management is responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review.

### *Scope of Review*

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with standards on auditing adopted by Den Norske Revisorforening, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

Trondheim, 29. October 2015

**PricewaterhouseCoopers AS**

Rune Kenneth S. Lædre  
State Authorised Public Accountant

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



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