annual report 2013

KLP Kommunekreditt AS

Coverphoto: Marie Luise Leite **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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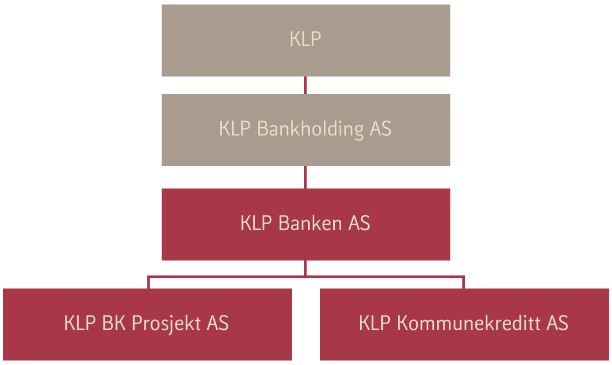
Directors' Report for 2013

KLP Kommunekreditt AS achieved pre-tax profits of NOK 62.0 million in 2013 and a balance of NOK 20.7 billion at 31. December 2013. The Company's financing is principally comprised by covered bonds , totalling NOK 17.2 billion by year end. The bonds have the highest possible rating (AAA).

KLP Kommunekreditt AS was established in 2009 and is a wholly owned subsidiary of KLP Banken AS. The business is a credit enterprise principally financed by the issuance of covered bonds (obligasjoner med fortrinnsrett - OMF), secured by public-sector loans.



KLP Banken AS is a commercial bank owned by Kommunal Landspensjonskasse (KLP) through KLP Bankholding AS. KLP Banken AS also owns all shares in its subsidiary KLP BK Prosjekt AS (KLP Boligkreditt Prosjekt AS, which was established in 2013.

The overall business of KLP Banken AS Group is divided into two business areas; the retail market and public sector loans. The business is nationwide and the companies' head office is in Trondheim.

Financial development 2013

- Pre-tax income: NOK 62.0 (92.2) million
- Net interest income: NOK 92.3 (70.1) million
- New lending: NOK 1.1 (0.9) billion
- Lending balance: NOK 16.8 (19.2) billion

2012 figures in brackets.

INCOME STATEMENT

Profit before tax was NOK 62.0 million, and NOK 44.9 million after taxes. That produced a return on owners' equity of 8.3 per cent before tax, against 13.2 per cent in 2012.

KLP Kommunekreditt AS has issued bonds secured by loans to local authorities since 2009, the only finance institution in Norway to do so.

The 2013 result demonstrates increased earnings in underlying operations compared with the previous year. Net interest income increased as a result of relatively better terms on the Company's covered bond. Compared to covered bonds issuances secured by housing mortgages, KLP Kommunekreditt's issuances are priced somewhat lower bacause the investor market assesses underlying risk for local authorities as lower than for housing mortgage loans.

Money market interest rates continues to stay low during 2013. Loans to the local government sector only partly followed market interest rates downwards. This contributed to an increase in net interest income in KLP Kommunekreditt AS compared to the previous year. New government regulations on capital requirements has meant that banks and credit enterprises generally have a need for increased earnings to satisfy these requirements.

During 2013 the Company reduced its portfolio of liquidity investments in securities issued by other banks from NOK 3.9 billion to NOK 2.8 billion. The investments at the end of the reporting period were largely made in 2012. Over the year prices increased somewhat and value changes in the portfolio made a contribution to the accounting result of NOK 4.1 million. Please see detailed discussion in the section on Liquidity below.

Restructuring of the funding side of KLP Kommunekreditt AS has resulted in a need to repurchase own issuances. This resulted in losses at the time of purchase, which was charged to the income statement. The expectation is that the repurchases will produce lower funding costs in the long run. In total, value changes associated with funding taken through profit or loss were NOK -12.1 million in 2013.

Costs in KLP Kommunekreditt AS were NOK 22.4 million in 2013, which is a reduction from NOK 28.1 million in 2012. The reduction in costs originates from lower lending volumes and other cost-reducing measures.

INTEREST INCOME

Net interest income from the lending and investment portfolios was NOK 92.3 million in 2013, against NOK 70.1 million in 2012.

LENDING

The Company was established in December 2009. In addition to granting new loans, the company purchased loans from KLP Kreditt AS and KLP during the first years. From 2012 on, refinancing of loans from other parts of the group were not material for the development of lending.

The portfolio of loans amounted to NOK 16.8 billion at the end of 2013, producing a net reduction in volume of NOK 2.4 billion. 64 per cent of the volume is at variable interest rates. The proportion of lending at fixed interest increased from 30 per cent to 36 per cent over the year.

During 2013 NOK 1.1 billion was paid out in new loans compared to NOK 0.9 billion in 2012.
The portfolio comprises loans to Norwegian municipalities and county administrations directly, or to companies that carry out public sector tasks and achieve a guarantee from municipalities or county administrations. Risk of loss is assessed to be very low.

In Norway the credit risk associated with lending to municipalities and county administrations is limited to postponement of payment and not to the payment liability ceasing. The Norwegian Local Government Act of 1992 provides the lender security against loss if a local authority cannot meet its payment obligations. The same Act will secure against losses of accrued interest, overdue payment interest and collection expenses. The company has not had credit losses on lending to Norwegian municipalities or county administrations.

The Company had no loans in default at the end of 2013.

FUNDING
KLP Kommunekreditt AS has established a programme for issuance of covered bonds. During 2013 covered bonds (CB) for NOK 2.0 billion were issued in the Norwegian market (NOK 6.5 billion in 2012 including NOK 0.5 billion in the Swedish market).

The bonds are issued with security in a portfolio of loans to municipalities, county administrations or enterprises carrying out tasks on behalf of the public sector that qualify for public sector guarantee. The companys' loans to companies have to be guaranteed by municipalities, county administrations, central government or a bank under Section 50 of the Norwegian Local Government Act. Guarantees have to be the ordinary surety type, covering both repayments and interest. The Company has achieved the best possible rating on its CB issuances and international recognition for its lending programme. With the exception of an issuance in Sweden, the market conditions have limited the Company's opportunity to use international funding.

The cover pool in which the bond owners have their security is required to represent a minimum of 116 per cent of outstanding CB issues. This overcollateralization is financed by owners' equity and loans from KLP Banken AS.

STATEMENT OF FINANCIAL POSITION AND SOLVENCY
Total assets were NOK 20.7 billion at the end of 2013, compared to NOK 24.6 billion at the end of 2012. Of this, loans to public sector borrowers represented NOK 16.8 billion.

Based on the Board's proposed allocation of the income, the Company's Tier 1 and Tier 2 capital amounted to NOK 745.6 million 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 18.7 per cent. Corresponding figures for 2012 were NOK 700.7 million and 15.1 per cent respectively. The applicable capital requirement is 12.5 per cent core capital adequacy ratio and 9 per cent capital adequacy ratio. The risk-weighted balance was NOK 3.9 billion. Solvency is considered sound.

LIQUIDITY
The cashflow statement in the annual financial statements shows a pleasing liquidity balance. Liquid assets are reduced in volume by paying out new loans or redeeming borrowing.

New debt is issued when market conditions are considered advantageous. This may lead to the need for investing of spare liquidity. This liquidity contributes to earnings and provides flexibility to handle demand for new loans.

KLP Kommunekreditt AS is subject to strict rules governing the assets in which the Company may invest. The portfolio of liquid investments comprises low risk bonds and bank deposits. They are certificates and bonds with very good security, principally covered bonds and AAA-rating.

Interest bearing securities amounted to NOK 2.8 billion at year-end 2013. The same amount for 2012 was NOK 3.9 billion. Investments in securities are booked at fair market value, which resulted in a gain of NOK 4.1 million in 2013. The corresponding figure in 2012 was a gain of NOK 46.2 million. Please see Note 9 to the annual financial statements.

ALLOCATION OF INCOME FOR THE YEAR
The Board of Directors proposes that the profit for the year of NOK 44.9 million be allocated as follows:

Group contribution to KLP:	NOK 30,1 million
Group contribution to KLP Banken AS:	NOK 22,0 million
Transferred from other equity:	NOK -7,2 million
Total allocations:	NOK 44,9 million

THE FINANCIAL STATEMENTS
The Board finds that the annual financial statements provides a true and fair picture of the Company's assets and liabilities, financial position and income. The going concern assumption is appropriate and this provides the basis for the annual financial statements.

KLP Kommunekreditt AS is presenting its financial statements in accordance with the international accounting standards IAS/IFRS. Please see Note 2 to the annual financial statements for more detailed information.

To ensure good quality in financial reporting, a detailed plan is developed for each presentation of financial statements showing a clear division of responsibility and work. Valuations carried out for assets and liabilities are recorded in writing. Reconciliation of main ledger accounts are done regularly, as well as more high level checks.

Rating
The rating agencies' assessment of KLP Kommunekreditt AS and the KLP Group is important for the terms on which the Company funds itself. The Company has engaged Fitch Ratings and Moody's to provide a credit rating of the Company's bonds. The issuance of covered bonds in 2013 was rated AAA. KLP Kommunekreditt AS is rated A- by Fitch Ratings.

Risk management
KLP Kommunekreditt AS is exposed to various types of risk. The Company has established a framework for risk management aimed at ensuring risks are identified, analysed and subject to management using policies, limits, procedures and instructions.

Risk policies are set covering the key individual risks (liquidity risk, credit risk, market risk and operational risk) as well as an overall risk policy covering principles, organisation, limits etc. for the bank's overall risk. The risk policies are adopted by the Board of Directors and reviewed at least annually. The policies are of a high level nature and are complemented by procedures, guidelines and instructions at administration level.

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 means both sensitivity analyses and scenario analyses.

The risk policies include risk tolerance for the 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 actual exposure remains within predefined tolerances.

The Company 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 Company is to have low market risk, and interest and foreign exchange risk arising within the borrowing and lending activity is reduced using derivatives. The Company is to have responsible long-term financing and limits have been established to ensure that this objective is achieved. The credit risk in the Company is low and the Company's lending is limited to loans with local government risk. Management of the Company's liquidity is conducted through investments in banks and in securities satisfying credit quality requirements in accordance with Board-approved credit lines. The Company's liquidity investments have high credit quality.
It is an objective that the Company is to have low operational risk and to maintain high professional competence, good procedures and efficient operation.

The Company is included in KLP Banken Group's 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 limits), the requirement is assessed in the light of planned growth, strategic changes decided etc. The Company's Board of Directors participates actively in these assessments and, in conjunction with the capital requirement assessment, the Board adopts a desired level of total capital. This level is known as 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 KLP Kommunekreditt brand

KLP's lending business to the public sector is run by the KLP Banken Group under the brand name "KLP Kommunekreditt".

Total lending for KLP Kommunekreditt amounted to NOK 43.6 billion at the end of 2013, an increase of NOK 2.4 billion (6 per cent) from 2012.

The lending is financed through the KLP and KLP Kommunekreditt AS companies. KLP Kommunekreditt AS issues covered bonds in a security pool comprising loans to the local authority sector. Cost effective financing helps "KLP Kommunekreditt" to offer loans with good terms and conditions.

During 2013 loan applications were received for almost NOK 47 billion from municipalities, county authorities and local government companies. During the same period acceptances were received in the amount of NOK 8.7 billion (19 per cent of overall applications). In total, "KLP Kommunekreditt" is a substantial long-term lender to public sector wealth creation and well-being.

The work of the Board of Directors

The Board held seven Board meetings during 2013. Please see note 18 to the annual financial statements for an overview of remuneration to the members of the Board and senior management. At the end of 2013 the Board comprised two women and two men.

Corporate governance

The Company's Articles of Association and applicable legislation provide the framework for corporate governance and a clear division of roles between the governing bodies and executive management.

In accordance with Section 3 of the Articles of Association the, Board of Directors shall comprise four to seven members elected by the Supervisory Board. The members of the Board of Directors are elected for a term of two years in such a way that half are up for election each year. The Chair and Deputy Chair of the Board of Directors are elected individually.

The Board does not have the authority to issue or buy back shares in the Company.

It is a matter for the Board to lay down guidelines for the Company's activities, including limits and authorizations for the Company's borrowing, lending and financial investments. The Managing Director or the Chairman alone, or two of the Members of the Board of Directors together, may sign for the Company.

The Managing Director carries out the general management of the Company in accordance with instructions laid down by the Board of Directors.

Work environment and organisation

KLP Kommunekreditt AS had two employees at the end of 2013. These also had employment situations in additional companies in the KLP Banken Group. An administration agreement has been reached with KLP Banken AS covering administration, IT operations, finance and risk management as well as borrowing and liquidity management.

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

The Board considers the working environment to be good.

External environment

The KLP Group, including KLP Kommunekreditt AS, takes its environmental impact seriously. As an office-based company it is primarily energy consumption, transport, waste and procurement that can be influenced. In its corporate social responsibility strategy KLP has 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.

Corporate social responsibility

The KLP Group, including KLP Kommunekreditt AS shall contribute to sustainable investments and responsible business operation. See a more detailed description in KLP's annual report.

Future prospects

In recent years KLP Kommunekreditt AS has carried out operational adjustments to reduce costs and at the same time maintain earnings. The Company has exploited its high creditworthiness and a long-lasting low interest rate market to achieve favourable borrowing terms. The international financial crisis a few years ago sharpened interest in the question of increased capital requirements for the banks. The authorities' regulation of the banking sector dictates that financial institutions will for example have to increase their margins in order to be able to meet capital and liquidity requirements. This has resulted in increased borrowing costs for most borrowers. Even though KLP Kommunekreditt has had favourable margins development in recent years it is not given that this development will continue over time. The general development in the financial markets on which the Company depends will affect the opportunities for growth and development.

For a number of years the Norwegian economy has been characterized by surplus in the state budget and high employment. Combined with increased longevity and population growth this leads to a need for a continuing high level of investment in the public sector. The demand for loans in the local government sector and to projects with local government guarantees and local authority ownership is therefore expected to remain high in the years ahead.

The brand name «KLP Kommunekreditt» has a good position in the market for public sector lending. Its presence in the market contributes to competition and thus to the public sector having access to long-term financing at low cost. Customer surveys carried out show that the borrowers want competition in the provision of credit to local government.

In 2014 KLP Kommunekreditt AS will continue to seek to contribute to credit being accessible for public sector investment purposes. The Company will maintain its low risk profile and establish new loans for own account so far as this can be achieved profitably. The Company's lending development will be decided principally by the opportunities to achieve sufficiently good borrowing terms to compete for public sector lending.

Oslo, 04 March 2014

Sverre Thornes
Chair

Aage E. Schaanning
Deputy Chair

Eva M. Salvesen

Toril Lahnstein

Arnulf Arnøy
Managing Director

THE BOARD OF DIRECTORS OF KLP KOMMUNEKREDITT AS

EVA M. SALVESEN

AAGE SCHAANNING

SVERRE THORNES

TORIL LAHNSTEIN (not present)

Income Statement

Notes	NOK thousands	2013	2012
	Interest income and similar income	683 479	825 602
	Cost of interest and similar costs	-591 167	-755 551
12	Net interest income	92 312	70 052
5	Net gain/(loss) on financial instruments	-7 960	50 293
	Total other operating income	-7 960	50 293
27	Other operating expenses	-22 391	-28 137
	Total operating expenses	-22 391	-28 137
	Operating profit/loss before tax	61 961	92 207
23	Tax on ordinary income	-17 048	-25 879
	Income for the year	44 913	66 329
	Other comprehensive income	0	0
	Other comprehensive income for the year after tax	0	0
	COMPREHENSIVE INCOME FOR THE YEAR	44 913	66 329
	Allocated to/from share premium fund	0	-40 612
	Allocated to/from retained earnings	-44 913	-25 717
	TOTAL ALLOCATION OF INCOME	-44 913	-66 329

Balance sheet

Note	NOK thousands	31.12.2013	31.12.2012
	ASSETS		
13,30	Loans to and receivables from credit institutions	847 720	1 240 833
13	Loans to and receivables from customers	16 833 430	19 244 195
9	Fixed-income securities	2 794 080	3 915 133
10	Financial derivatives	195 957	172 025
28	Other assets	11 834	60 115
	TOTAL ASSETS	20 683 021	24 632 301
	LIABILITIES AND OWNERS' EQUITY		
	LIABILITIES		
19	Debt to credit institutions	2 442 841	3 213 972
20	Liabilities created on issuance of securities	17 210 642	20 365 434
10	Financial derivatives	248 472	336 221
23	Deferred tax	27 133	10 085
25	Other liabilities	7 018	5 459
25	Provision for accrued costs and liabilities	1 285	412
	TOTAL LIABILITIES	19 937 390	23 931 584
	OWNERS' EQUITY		
	Share capital	362 500	362 500
	Share premium fund	312 500	312 500
	Retained earnings	70 630	25 717
	TOTAL OWNERS' EQUITY	745 630	700 717
	TOTAL LIABILITIES AND OWNERS' EQUITY	20 683 021	24 632 301

Oslo, 04 March 2014

Sverre Thornes
Chair

Aage E. Schaanning
Deputy Chair

Eva M. Salvesen

Toril Lahnstein

Arnulf Arnøy
Managing Director

Statement of Owners' equity

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

2012 NOK thousands	Share capital	Share premium fund	Retained earnings	Total owners' equity
Owners' equity 1 January 2012	362 500	271 888	0	634 388
Income for the year	0	40 612	25 717	66 329
Other comprehensive income	0	0	0	0
Total comprehensive income for the year	0	40 612	25 717	66 329
Total transactions with the owners	0	0	0	0
Owners' equity 31 December 2012	362 500	312 500	25 717	700 717

	Number of shares	Pålydende i hele kroner	Share capital	Share premium fund	Retained earnings	Total owners' equity
Share capital paid in/share premium fund	3 625 000	100	362 500	312 500	0	675 000
Changes in other owners' equity	-	-	0	0	70 630	70 630
Owners' equity as at 31 December 2013	3 625 000	100	362 500	312 500	70 630	745 630

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

Statement of Cash Flows

Tusen kroner	2013	2012
Operational activities		
Payments received from customers - interest, commission & charges	608 425	757 876
Net disbursements on lending to customers	2 237 056	4 575 635
Disbursements on operations	-23 160	-33 604
Fixed-income securities	-18 804	57 393
Net interest investment accounts	15 625	22 993
Income tax paid	0	0
Net cash flow from operating activities	2 819 143	5 380 293
Investment activities		
Payments on purchase of securities	-1 351 007	-2 322 305
Receipts on sales of securities	2 470 089	0
Receipts of interest from securities	76 292	77 313
Net cash flows from investment activities	1 195 374	-2 244 991
Financing activities		
Net receipts on loans from credit institutions	-3 934 090	-2 191 537
Net payment of interest on loans	-543 905	-704 772
Net receipts/payments (-) on other short-term items	51 564	27 519
Net cash flow from financing activities	-4 426 431	-2 868 790
Net cash flow during the period	-411 915	266 512
Cash and cash equivalents at the start of the period	1 231 988	965 477
Cash and cash equivalents at the end of the period	820 072	1 231 988
Net receipts/ disbursements (-) of cash	-411 915	266 512
RECONCILIATION		
Profit/loss before tax	61 961	92 207
Change in accounts payable	465	-50
Items classified as investment or financing activities	477 756	619 446
Changes in other accrual items	2 278 961	4 668 690
Net cash flow from operating activities	2 819 143	5 380 293

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 assets, liabilities, financial position and overall profit or loss.

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

Oslo, 04 March 2014

Sverre Thornes Chair	Aage E. Schaanning Deputy Chair
Eva M. Salvesen	Toril Lahnstein

Arnulf Arnøy
Managing Director

Note 1 General information

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

The object of the Company is primarily to finance activities by issuing covered bonds (OMF) with security in public sector guarantees loans. Some of these are listed on Oslo Børs (Stock Exchange).

KLP Kommunekreditt AS is registered and domiciled in Norway.

KLP Kommunekreditt's head office is at Beddingden 8 inTrondheim and the Company has departmental offices in Oslo.

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

The annual financial statements are available at klp.no.

The financial statements presented cover the period from 1 January 2013 to 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 Kommunekreditt AS financial statement. These principles are used in the same way in all periods presented unless otherwise indicated.

2.1 FUNDAMENTAL PRINCIPLES

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

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

To prepare the accounts in accordance with IFRS, management has to make accounting estimates and approximate valuations. This will affect the value of the 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.

2.1.1 Changes in accounting principles and information

(a) New and changed standards adopted by the Company

IAS 1 – Financial information

There is now a requirement that items in other comprehensive income are to be divided into two groups: those that are later to be reclassified through profit or loss and those that are not to be reversed in the income statement. There are no changes affecting which items are to be included in other comprehensive income.

IFRS 7 Financial instruments

Information is to be provided showing the effect net presentation of financial assets and liabilities has on the company's financial position. The information requirement applies to financial instruments shown net in accordance with IAS 32, as well as financial instruments that may be subject to net settlement, regardless of presentation in accordance with IAS 32.

IFRS 13 Fair value measurement

This standard defines what is meant by fair value when the term is used in IFRS, provides a uniform description of how fair value is to be determined in IFRS and defines what supplementary information is to be provided when fair value is used. The standard does not expand the scope of recognition at fair value and it has had no effect on the accounts.

There are no new or changed IFRSs or IFRIC interpretations that have come into force for the 2013 annual financial statements that are considered to have or expected to have a significant effect on the Company.

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

The Company/Group has not elected early application of any new or changed IFRSs or IFRIC interpretations.

- IFRS 9 "Financial Instruments" governs classification, measurement and accounting for financial assets and financial liabilities. IFRS 9 was published in November 2009 and October 2010, and replaces those parts of IAS 39 that cover accounting for, classification and measurement of financial instruments. In accordance with IFRS 9, all financial assets are to be divided into two categories based on method of measurement: those measured at fair value and those measured at amortized cost. The classification is made on first recognition in the accounts. Classification will depend on the company's business model for handling its financial instruments and the characteristics of the contractual cash flows from the instrument. For financial liabilities the requirements are generally the same as in IAS 39. The main change, in those cases in which fair value has been selected for financial liabilities, is that the part of the change in fair value resulting from change in the company's own credit risk is recognized in other comprehensive income instead of in the income statement, provided this does not involve an accrual error in income measurement. The Company has not yet assessed the entire impact of the standard on the financial statements, but plans to apply IFRS 9 when the standard comes into force and is approved by the EU. The Company will also look at the consequences of the remaining part-phases of IFRS 9 when they have been finalized by the IASB.

Otherwise there are no other IFRSs or IFRIC interpretations that have not come into force but are expected to have a significant impact on the financial statements.

2.2 TRANSLATION OF TRANSACTIONS IN FOREIGN CURRENCY

2.2.1 Functional currency and presentational currency
The accounts are presented in NOK, which is the functional currency of the Company.

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

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

2.3 FINANCIAL ASSETS
The Company's financial assets are divided into the following categories: Financial assets measured at fair value through 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.

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

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

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

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

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

2.3.3 Derivatives and hedging
Derivatives are capitalized at fair value at the time the derivative contract is struck. On subsequent measurement the derivatives are recognized at fair value. If the hedging no longer fulfils the criteria for hedge accounting, the recognized effect of the hedging for hedging objects recognized at amortized cost is amortized over the period up to the due date of the hedging instrument. The derivatives are used as hedging instruments for hedging of interest rate risk. The Company uses the rules on fair value hedging, so that the hedged item's (asset or liability) book value is corrected with the value development in the hedged risk. The value change is recognized in the income statement. On entry into a hedging contract, the connection between the hedging instrument and the hedging object is documented, in addition to the purpose of the risk management and the strategy behind the different hedging transactions. The hedging effectiveness is measured regularly to ensure the hedge is effective. See Note 11 for further information.

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

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

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

Loss assessment and loss write-down is carried out quarterly on individual loans. 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 continuous assessment is carried out of other lending engagements where there is objective proof of impairment.The Company has not identified write-down requirements on its assets.

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

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

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

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

2.5.2 Covered bonds issued
Covered bonds have been issued in accordance with Chapter 2 IV of Act No. 40 "Act on financing activity and financial institutions (Financial Institutions Act)" of 10 June 1988.

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

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

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

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

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

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

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

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

2.7 PRESENTATION OF INCOME
2.7.1 Interest income/expenses
Interest income and interest expenses associated with all fixed-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".

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

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

Deferred tax is calculated on temporary differences between taxable values and consolidated financial statement values of assets and liabilities. 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.

Note 3 Important accounting esimates and assessments

The Company's financial position statement mainly comprises lending to local authorities and enterprises with municipal guarantees, and covered bonds issued. These items are assessed for accounting purposes at amortised cost with exceptions for borrowing and lending with fixed interest, which is assessed at fair value according to the rules for fair value hedging.

This means that the hedged object's (lending and borrowing respectively) accounting value changes when the market interest rate changes. Credit spreads are locked to the take-up date, so that the market's pricing of credit is not reflected in book value. This is because the credit item is not hedged.

The risk of credit loss is considered to be minor, and it is very unlikely that a credit loss will arise in the municipal loans portfolio.

The Company has placed surplus liquidity in fixed-income securities. These were registered for the first time in the financial position statement at fair value. The securities in the portfolio are earmarked for the category named "financial assets at fair value via profit/loss" since they are under management and their earnings are assessed on 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 on the basis of a recognised valuation model based on observable market data.

Note 4 Segments

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

Note 5 Net gain/loss on financial instruments

NOK thousands	2013	2012
Net gain/(loss) on fixed-income securities	3 107	54 766
Net gain/loss financial derivatives	-134 043	-75 493
Net value change lending and borrowing, hedge accounting	122 976	71 019
Total	-7 960	50 293

Note 6 Fair value of financial assets and liabilities

	31.12.2013		31.12.2012	
NOK thousands	Book value	Fair value	Book value	Fair value
FINANCIAL ASSETS AT FAIR VALUE				
Fixed-interest securities	2 794 080	2 794 080	3 915 133	3 915 133
Financial derivatives	195 957	195 957	172 025	172 025
Total financial assets at fair value	2 990 037	2 990 037	4 087 158	4 087 158
FINANCIAL ASSETS AT FAIR VALUE HEDGING				
Loans to Norwegian local administrations	6 160 311	6 181 146	5 978 833	5 983 059
Total financial assets at fair value hedging	6 160 311	6 181 146	5 978 833	5 983 059
FINANCIAL ASSETS AT AMORTIZED COST				
Loans to and receivables from credit institutions	847 720	847 720	1 240 833	1 240 833
Loans to Norwegian local administrations	10 673 119	10 671 959	13 265 362	13 265 362
Total financial assets at amortized cost	11 520 839	11 519 679	14 506 195	14 506 195
Total financial assets	20 671 187	20 690 862	24 572 186	24 576 412
FINANCIAL LIABILITIES AT FAIR VALUE				
Financial derivatives	248 472	248 472	336 221	336 221
Total financial liabilities at fair value	248 472	248 472	336 221	336 221
DEBT TO CREDIT INSTITUTIONS AT FAIR VALUE HEDGING				
Covered bonds issued	4 224 558	4 439 762	3 379 250	3 456 709
Total financial liabilities at fair value hedging	4 224 558	4 439 762	3 379 250	3 456 709
DEBT TO FINANCIAL INSTITUTIONS AT AMORTIZED COST				
Debt to credit institutions	2 442 841	2 442 841	3 213 972	3 213 972
Covered bonds issued	12 986 084	12 851 672	16 986 184	16 999 955
Total financial liabilities at amortized cost	15 428 925	15 294 514	20 200 156	20 213 927
Total financial liabilities	19 901 955	19 982 748	23 915 627	24 006 857

	2013	Cumulative 2013	2012	Cumulative 2012
Change in fair value attributable to credit risk				
Loans to Norwegian local administrations at fair value hedging	16 609	20 835	-3 791	4 226
Covered bonds issued at fair value hedging	137 745	215 204	69 916	77 459
Total change in fair value attributable to credit risk	154 354	236 039	66 125	81 685

Note 6 Fair value of financial assets and liabilities

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, the Group uses valuation techniques to set fair value. These are based for example on information on recently completed transactions carried out on business terms and conditions, reference to trading in similar instruments and pricing using externally collected interest rate curves and 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-interest 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 government
Fair value of lending without fixed interest rates is considered virtually the same as book value since the contract terms are continuously changed in step with market interest rates. Lending with fixed interest is valued using a valuation model, including relevant credit spread adjustments obtained from the market.

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

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

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

Note 7 Fair value hierarchy

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

NOK thousands	Level 1	Level 2	Level 3	Total 31.12.2012
ASSETS				
Fixed-income securities	0	3 915 133	0	3 915 133
Financial derivatives	0	172 025	0	172 025
Total financial assets valued at fair value	0	4 087 158	0	4 087 158
LIABILITIES				
Financial derivatives liabilities	0	336 221	0	336 221
Total financial liabilities at fair value	0	336 221	0	336 221

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 8 Categories of financial assets and liabilities

NOK thousands	31.12.2013				31.12.2012			
Financial assets	HFT	FVL	LAR	Total	HFT	FVL	LAR	Total
Lending to and receivables from credit institutions	0	0	847 720	847 720	0	0	1 240 833	1 240 833
Lending to and receivables from customers	0	6 160 311	10 673 119	16 833 430	0	5 978 833	13 265 362	19 244 195
Certificates and bonds	2 794 080	0	0	2 794 080	3 915 133	0	0	3 915 133
Financial derivatives used in hedging	195 957	0	0	195 957	172 025	0	0	172 025
Total	2 990 037	6 160 311	11 520 839	20 671 187	4 087 159	5 978 833	14 506 195	24 572 186
Financial liabilities	HFT	FVH	OLI	Total	HFT	FVH	OLI	Total
Debt to credit institutions	0	0	2 442 841	2 442 841	0	0	3 213 972	3 213 972
Liabilities created on issuance of securities	0	4 224 558	12 986 084	17 210 642	0	3 379 250	16 986 184	20 365 434
Financial derivatives used in hedging	247 873	0	0	247 873	334 484	0	0	334 484
Financial derivatives at fair value	599	0	0	599	1 737	0	0	1 737
Total	248 472	4 224 558	15 428 925	19 901 955	336 221	3 379 250	20 200 156	23 915 627

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 9 Fixed-income securities

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

Effective interest rate: 2,06 %

NOK thousands	Acquisition cost	Unreal. gain/loss	Accrued not due interest	31.12.2012 Market value
Debtor categories				
Credit enterprises	3 342 548	36 760	8 599	3 387 907
Local government administration	515 991	9 410	1 826	527 226
Total	3 858 539	46 169	10 425	3 915 133

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

Note 10 Financial derivatives

	31.12.2013		31.12.2012	
NOK thousands	Nominal sum	Fair value	Nominal sum	Fair value
Borrowing in NOK	4 250 000	155 637	3 250 000	172 025
Borrowing in foreign currency	433 500	40 090	0	0
Lending	108 039	230	0	0
Total assets	4 791 539	195 957	3 250 000	172 025
Borrowing in NOK	4 300 000	9 731	4 300 000	10 137
Borrowing in foreign currency	0	0	1 528 500	30 001
Lending	5 798 716	232 237	5 708 062	288 586
Investments	100 000	6 504	100 000	7 497
Total liabilities	10 198 716	248 472	11 636 562	336 221

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

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

Note 11 Hedge accounting

31.12.2013 NOK thousands	Nominal value	Changed value in hedged risk	Effectiveness
Hedged object			
Lending fixed interest in NOK	5 921 900	225 232	110,25 %
Borrowing in NOK	4 250 000	-117 738	120,80 %
Hedging instrument			
Interest rate swap lending fixed interest in NOK	5 906 755	-204 284	90,70 %
Interest-rate swap borrowing in NOK	4 250 000	97 467	82,78 %

31.12.2012 NOK thousands	Nominal value	Changed value in hedged risk	Effectiveness
Hedged object			
Lending fixed interest in NOK	5 713 241	275 628	104,70 %
Borrowing in NOK	3 250 000	-149 725	115,89 %
Hedging instrument			
Interest rate swap lending fixed interest in NOK	5 708 062	-263 248	95,51 %
Interest-rate swap borrowing in NOK	3 250 000	129 193	86,29 %

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 12 Net interest income

NOK thousands	2013	2012
Interest on loans to and receivables from credit institutions	15 625	22 993
Interest on lending to customers	594 593	721 032
Interest on securities	73 261	81 577
Total interest income	683 479	825 602
Interest on debt to KLP Banken AS	-78 638	-105 790
Interest on debt to credit institutions	-508 636	-646 983
Premium/discount on covered bonds	-3 893	-2 778
Total interest costs	-591 167	-755 551
Net interest income	92 312	70 052

Note 13 Lending and receivables

NOK thousands	31.12.2013	31.12.2012
Lending to and receivables from credit institutions		
Bank deposits	847 720	1 240 833
Lending to and receivables from credit institutions	847 720	1 240 833
Lending to and receivables from customers		
Principal on lending	16 564 328	18 905 239
Fair value hedging	204 397	263 248
Premium/discount	-37 979	-40 809
Accrued interest	102 684	116 517
Lending to and receivables from customers	16 833 430	19 244 195

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

Note 14 Financial risk management

Organisation of risk management
KLP Kommunekreditt AS is a wholly owned subsidiary of KLP Banken AS. The Board of Directors has established a risk management framework 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 Company's risk management. The responsibility for the operational direction of the Company's liquidity risk, exchange-rate risk and interest rate risk lies with the Finance Department.

Note 15 Credit risk

Credit risk is understood here to mean the risk of loss associated with loan customers, counterparties in derivatives, issuers of securities and other counterparties being unable or unwilling to settle at the agreed time and in accordance with written contracts, and the securities established not covering the outstanding demand.

KLP Kommunekreditt AS provides loans to, or loans guaranteed by, Norwegian municipalities and county authorities, including loans to local government enterprises and inter-authority companies (public sector loans). Guarantees should be of the "selvskyldner" type (ordinary guarantor - guarantor's liability attaches as soon as the principal debtor defaults).

Loans according to type of security/exposure (principal)

NOK thousands	31.12.2013	31.12.2012
Lending to municipalities and county administrations	15 794 673	18 224 818
Lending with municipal/county administration guarantee	769 654	680 421
Total	16 564 328	18 905 239
Total due more than 12 months after balance sheet date	16 198 362	17 899 421

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

Credit quality securities, bank deposits and derivatives

Securities with external credit assessment (Moody's) NOK thousands	31.12.2013	31.12.2012
AAA	2 760 000	3 460 000

Securities without external credit assessment NOK thousands	31.12.2013	31.12.2012
Securities issued by the Norwegian municipalities/county administrations	0	417 000

Deposits in banks grouped by external credit assessment (Moody's) NOK thousands	31.12. 2013	31.12.2012
Aa1-Aa3	207 735	791 348
A1-A3	639 983	444 205
Baa1	2	5 279
Total	847 720	1 240 833

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

15.1 MEASUREMENT OF CREDIT RISK

The Board has determined a credit policy that contains overarching guidelines, requirements and limits associated with credit risk. The policy lays down that the bank is to have a low credit risk profile and includes limits on types of lending and principles for organisation and operation of the Company's lending activity. The policy also includes an overall mandate structure for lending and other counterparty exposure. The mandates are linked to Board-determined limits for a large number of the Company's individual borrowers and these limits derive from a risk classification in which the individual borrowers are assigned a risk class based on a set of fixed criteria. Furthermore requirements are set for reporting to the Board on usage of the limits.

Credit risk associated with issuers of securities, derivative counterparties and other counterparties in the financial area is also limited by Board-determined limits on individual counterparties. These limits are based on the counterparty's solvency and other assessments of the counterparty's creditworthiness.

15.2 CONTROL AND LIMITATION OF CREDIT RISK

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

15.3 MAXIMUM EXPOSURE TO CREDIT RISK

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

Maximum exposure to credit risk

NOK thousands	31.12. 2013	31.12.2012
Lending to and receivables from credit institutions	847 720	1 240 833
Lending to and receivables from customers	16 667 012	19 021 756
Interest bearing securities	2 765 500	3 884 724
Financial derivatives	195 957	172 025
TOTAL	20 476 189	24 319 338

Loans that are past due or written down

NOK thousands	31.12. 2013	31.12.2012
Principal on loans with payments with 1-30 days' default	559 670	528 140
Principal on loans with payments with 31-90 days' default	0	16 889
Principal on loans with payments with more than 90 days' default	0	0
Total loans fallen due	559 670	545 029
Relevant security or guarantees	559 670	545 029
Lending that has been written down	0	0

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

15.4 CONCENTRATION OF CREDIT RISK

The Company's lending is in its entirety linked to public sector financing and the portfolio thus has high concentration against one single sector. The underlying credit risk against this sector is however so low that it is hardly possible to reduce this concentration without increasing total risk in the portfolio. The concentration against the Norwegian public sector is thus considered not to be a risk challenge.

The concentration against individual borrowers is limited by individual Board-set limits. KLP Kommunekreditt AS's largest exposure as at 31 December 2013 was about 3.7 per cent of the Company's total lending.

Note 16 Market risk

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

KLP Kommunekreditt AS is exposed to market risk as a result of the Company's borrowing and lending activity and management of the Company's liquidity. The exposure is however limited to interest rate risk and exchange-rate risk. Interest-rate risk arises as a result of differences in timing of interest rate adjustment for the Company's assets and liabilities. The risk associated with such imbalances is reduced by using derivative contracts. 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.

16.1 MEASUREMENT OF MARKET RISK

Interest rate risk is measured as change in value on a one percentage point change in all interest rates. Exchange-rate risk is measured as change in value on 10% unfavourable exchange rate change in all currencies.

16.2 INTEREST RATE RISK

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

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

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

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	18 905 239	10 041 509	2 439 625	948 511	3 313 962	2 161 632
Securities	3 877 000	841 000	2 936 000			100 000
Cash and receivables from credit institutions	1 240 833	1 240 833	0	0	0	0
Total	24 023 072	12 123 342	5 375 625	948 511	3 313 962	2 261 632
Liabilities created on issuance of securities	20 181 500	1 000 000	15 931 500	0	2 500 000	750 000
Liabilities to financial institutions	3 210 000	3 210 000	0	0		
Total	23 391 500	4 210 000	15 931 500	0	2 500 000	750 000
Gap	631 572	7 913 342	-10 555 875	948 511	813 962	1 511 632
Financial derivatives	0	-5 539 406	8 045 733	-183 419	-811 275	-1 511 633
Net gap	631 572	2 373 936	-2 510 142	765 092	2 687	-1

The Company'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 2 million.

16.3 EXCHANGE-RATE RISK

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

Note 17 Liquidity risk

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

17.1 MANAGEMENT OF LIQUIDITY RISK
The management of KLP Kommunekreditt's liquidity risk must be viewed in the context of the management of the liquidity risk in the KLP Banken Group. A liquidity policy is established for the Group containing principles, guidelines, requirements and limits that apply to the management of the liquidity risk. The policy states that the Group is to have a moderate liquidity risk profile and various requirements and limits have been set to achieve this, including targets for deposit cover, limits for refinancing requirements for various time periods and requirements for liquidity buffers. The Board has further adopted an emergency plan for liquidity crises as part of the liquidity policy. In addition to the requirements at Group level, separate specific requirements have been established for KLP Kommunekreditt, including requirements for continually positive cash flows, limits for refinancing requirements and requirements for liquidity reserves and drawing rights. The operational responsibility for managing the Company's liquidity risk lies with the Finance Department. The Risk Analysis and Control Department reports the Company's actual exposure in relation to limits in accordance with guidelines set by the Board.

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

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

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	26 215 716	0	91 508	250 619	1 269 215	6 261 442	18 342 931
Securities	4 720 715	0	5 257	436 201	122 195	2 700 243	1 456 819
Receivables from credit institutions	1 240 833	1 240 833	0	0	0	0	0
Total	32 177 264	1 240 833	96 765	686 820	1 391 410	8 961 685	19 799 751
Liabilities created on issuance of securities	21 763 368	0	5 875	1 161 557	1 496 512	18 244 424	855 000
Financial derivatives	289 348	0	39 048	16 124	24 966	155 660	53 550
Debt to credit institutions	3 234 396	0	8 132	3 226 264	0	0	0
Total	25 287 112	0	53 055	4 403 944	1 521 478	18 400 084	908 550
Net cash flows	6 890 152	1 240 833	43 710	-3 717 124	-130 068	-9 438 399	18 891 200

A 3 month internal loan of NOK 2,440,000 has been provided from KLP Banken AS to KLP Kommunekreditt AS, which is defined as Debt to credit institutions. This loan is rolled over currently every third month and the interest rate is set each month.

Note 18 Salary and obligations towards senior management/governing bodies

2013	Paid from KLP Kommunekreditt AS				Paid from another company in the same group					
NOK thousands	Salaries, fees etc.	Other bene-fits	Annual pension acc.	Loan	Salaries, fees etc.	Other bene-fits	Annual pension acc.	Loan	Interest rate 31.12.2013	Repay-ment plan [1]
Senior employees										
Arnulf Arnøy, Managing Director	-	-	-	-	1 473	185	496	1 686	2,95-3,15	S31 and housing credit
Board of Directors										
Sverre Thornes, Chair	-	-	-	-	3 433	162	1 055	7 410	2,70-3,80	A41
Aage E. Schaanning	-	-	-	-	3 072	149	915	3 723	2,70-3,80	A41/S22
Mai-Lill Ibsen	-	-	-	-	80	-	-	-	-	-
Toril Lahnstein	-	-	-	-	66	-	-	-	-	-
Eva M. Salvesen					70	-	-	-	-	-
Control Committee										
Ole Hetland	-	-	-	-	93	-	-	-	-	-
Fagermoen Jan Rune	-	-	-	-	38	-	-	-		
Johansen Bengt P.	-	-	-	-	77	-	-	-	-	-
Flormælen Dordi E.	-	-	-	-	77	-	-	-		
Irene Mathilde Skiri	-	-	-	-	39	-	-	-	-	-
Thorvald Hillestad					68					
Supervisory Board										
Total Supervisory Board	-	-	-	-	66	-	-	5 507	-	-
Employees										
Tot. loans to empl's of KLP Kommunekreditt		-	-	-	-	-	-	4 698	-	-

2012	Paid from KLP Kommunekreditt AS				Paid from another company in the same group					
NOK thousands	Salaries, fees etc.	Other bene-fits	Annual pension acc.	Loan	Salaries, fees etc.	Other bene-fits	Annual pension acc.	Loan	Interest rate 31.12.2012	Repay-ment plan [1]
Senior employees										
Arnulf Arnøy, Managing Director	-	-	-	-	1 453	148	593	1 538	2,95-3,15	S19 and housing credit
Board of Directors										
Sverre Thornes, Chair	-	-	-	-	3 254	122	1 230	7 507	2,70-3,60	A42
Aage E. Schaanning	-	-	-	-	3 180	125	1 094	4 017	2,70-3,60	A og S32
Mai-Lill Ibsen	-	-	-	-	158	-	-	-	-	-
Toril Lahnstein	-	-		-	95	-	-	-	-	-
Control Committee										
Ole Hetland	-	-	-	-	89	-	-	-	-	-
Fagermoen Jan Rune	-	-	-	-	75	-	-	-		
Johansen Bengt P.	-	-	-	-	75	-	-	-	-	-
Flormælen Dordi E.	-	-	-	-	75	-	-	-		
Alfarrustad Line	-	-	-	-	37	-	-	-	-	-
Supervisory Board										
Total Supervisory Board	-	-	-	-	95	-	-	8 432	-	-
Employees										
Tot. loans to empl's of KLP Kommunekreditt		-	-	-	-	-	-	8 873	-	-

[1] S=Serial loan, A= Annuity loan, last payment.

The Managing Director has no agreement on performance pay (bonus), but has a salary guarantee of 21 months in the event of termination. The Managing Director is entitled to full retirement pension on reaching the age of 62. The Managing Director receives no benefits directly from the Company, but the Company refunds 41.6 per cent of his remuneration to the company that pays his salary and benefits (KLP Banken AS).

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 company's 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.

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

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

Note 19 Debt to credit institutions

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

NOK thousands	Currency	Interest	Due date	Nominal	Accr. interest	31.12.2012 Book value
Debt to KLP Banken AS	NOK	Fixed	15.03.2013	3 210 000	3 972	3 213 972
Total debt to credit institutions				3 210 000	3 972	3 213 972

Note 20 Securities liabilities - stock exchange listed covered bonds

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

[1)] Paid NOK 500 million in January 2012.

NOK thousands	Nominal	Currency	Interest	Issued	Due date	Accr. interest	31.12.2012 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	15.12.2200	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
Amortisering / verdijusteringer							85 605
Sum utstedte obligasjoner med fortrinnsrett							20 365 434

Note 21 Presentation of assets and liabilities subject to net settlement

						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	195 957	0	195 957	-121 285	0	74 672
Total	195 957	0	195 957	-121 285	0	74 672
LIABILITIES						
Financial derivatives	248 472	0	248 472	-121 285	0	127 187
Total	248 472	0	248 472	-121 285	0	127 187

						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	172 025	0	172 025	-172 025	0	0
Total	172 025	0	172 025	-172 025	0	0
LIABILITIES						
Financial derivatives	336 221	0	336 221	-172 025	0	164 196
Total	336 221	0	336 221	-172 025	0	164 196

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

Note 22 Capital adequacy

NOK thousands	31.12.2013	31.12.2012
Share capital and share premium fund	675 000	675 000
Other owners' equity	70 630	25 717
Total owners' equity	745 630	700 717
Deduction goodwill and other intangible assets	0	0
Deferred tax asset	0	0
Core capital/Tier 1 capital	745 630	700 717
Supplementary capital/Tier 2 capital	0	0
Supplementary capital/Tier 2 capital	0	0
Total eligible Tier 1 and 2 capital	745 630	700 717
Capital requirement	319 683	370 359
Surplus of Tier 1 and 2 capital	425 947	330 358
Calculation basis credit risk		
Institutions	250 294	315 485
Local and regional authorities	3 388 172	3 964 218
Covered bonds	279 408	338 791
Calculation basis credit risk	3 917 874	4 618 494
Credit risk	313 430	369 480
Operating risk	6 253	879
Total capital requirement assets	319 683	370 359
Core capital adequacy ratio	18,7 %	15,1 %
Supplementary capital ratio	0,0 %	0,0 %
Capital adequacy ratio	18,7 %	15,1 %

	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 23 Tax

NOK thousands	2013	2012
Accounting income before taxes	61 961	92 207
Differences between book and tax income:		
Reversal of value increase financial assets	17 152	-54 766
Other permanent differences	-169	217
Change in differences affecting relationship between book and tax income	-645	2 713
Taxable income	78 300	40 371
Base for tax payable	78 300	40 371
Deficit carryforward allowable from previous years	-5 894	-46 265
Change for the year in carryforward deficit	5 894	40 371
Total allowable carryforward deficit as at 31 December	0	-5 894
Tax surplus	72 406	0
Reconciliation of deferred tax/tax assets		
Deferred tax linked to:		
Securities	7 835	12 927
Lending to customers and credit enterprises	47 540	62 790
Total deferred tax	55 375	75 717
Deferred tax asset linked to:		
Financial instruments	-7 884	-32 906
Borrowing	-40 631	-31 075
Total deferred tax assets	-48 515	-63 982
Net deferred tax/tax asset	6 860	11 736
Carryforward deficit	0	-5 894
Deferred tax on carryforward deficit	0	-1 650
27%/28% deferred tax/tax assets	6 860	10 085
27%/28% Tax effect of group contribution	20 274	0
Capitalized deferred tax assets	27 133	10 085
Change in deferred tax taken to income - old rate	17 301	25 879
Change in deferred tax taken to income - new rate	-253	0
Summary of tax expense for the year		
Change in deferred tax taken to income	17 048	25 879
Tax payable taken to income	0	0
Total taxes	17 048	25 879
Effective tax percentage	27,5 %	28,1 %
Reconciliation of tax percentage:		
Other permanent differences	-169	217
28% Tax permanent differences	-47	61
Corrected tax	17 095	25 818
Change in deferred tax benefit as a result of changed tax rate	253	0
Tax percentage	28,0 %	28,0 %

Note 24 Number of FTEs and employees

	2013	2012
Number of FTEs	1	1
Number of employees as at 31 December	2	3
Average number of employees	2,5	3

The company is subject to the rules for public sector occupational pension.

Note 25 Other liabilities and provision for accrued costs and liabilities

NOK thousands	31.12.2013	31.12.2012
Intercompany receivables	3 644	5 322
Creditors	602	138
Other liabilities	2 772	0
Total other liabilities	7 018	5 459
Value-added tax	138	216
Provisioned costs	1 146	196
Total accrued costs and liabilities	1 285	412

Note 26 Transactions with related parties

NOK thousands	2013	2012
Income statement items		
KLP Banken AS, interest on borrowing	-78 638	-105 790
KLP Banken AS, administrative services (at cost)	-16 018	-21 321
KLP Kapitalforvaltning AS, fees for services provided	-337	-326
Total	-94 993	-127 437

NOK thousands	31.12.2013	31.12.2012
Financial position statement items		
KLP Banken AS, debt to credit institutions	-2 442 841	-3 213 972
KLP Banken AS, loan settlement	8 023	59 587
Net outstanding accounts to:		
KLP Banken AS - banking	-3 547	-5 277
KLP	-1	0
KLP Kapitalforvaltning AS	-96	-45
Total	-2 438 462	-3 159 707

There are no direct salary costs in KLP Kommunekreditt AS. Personnel costs (administrative services) are allocated from KLP Banken AS.

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

Note 27 Auditor’s fee

NOK thousands	2013	2012
Ordinary audit	394	408
Certification services	321	329
Tax consultancy	29	0
Other services excluding audit	0	0
Total Auditor’s fee	745	737

The sums above include VAT.

Note 28 Other assets

NOK thousands	31.12.2013	31.12.2012
Receivables between Group companies	8 023	59 587
Miscellaneous receivables	2 768	0
Prepaid expenses	1 043	528
Total	11 834	60 115

Note 29 Contingent liabilities

NOK thousands	31.12.2013	31.12.2012
Credit facilities for lending not utilised	0	0
Promised loans	130 779	49 671
Total contingent liabilities	130 779	49 671

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

Note 30 Cash and cash equivalents

NOK thousands	31.12.2013	31.12.2012
Cash and bank deposits	847 720	1 240 833
Total cash and bank deposits	847 720	1 240 833
In the statement of cash flows, cash and cash equivalents comprise the following:		
Cash and bank deposits	847 720	1 240 833
Bank accounts for use for acquisition and sale of securities	-27 648	-8 844
Cash and cash equivalents at the end of the period	820 072	1 231 988

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

Independent auditor's report

Report on the Financial Statements

We have audited the accompanying financial statements of KLP Kommunekreditt AS, which comprise the balance sheet as at 31 December 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 International Financial Reporting Standards as adopted by EU, and for such internal control as The Board of Directors and the Managing Director determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements are prepared in accordance with the law and regulations and present fairly, in all material respects, the financial position of KLP Kommunekreditt AS as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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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