

Consolidated financial statements

Interim report

Q3 2014

KLP
Banken



[INCOME STATEMENT](#)

[BALANCE SHEET](#)

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KLP Banken AS Group

Interim financial statements Q3 2014

Main features of the third quarter:

- Maintaining healthy margins on public sector lending
- Satisfactory cost development
- Mortgage covered bonds issued for the first time in September

The KLP Banken Group's purpose is financing of housing mortgages and lending to municipalities, county administrations and companies carrying out public sector assignments. The KLP Banken Group is a substantial long-term lender to the public sector. The Group has also steadily expanded its activity in the retail market since 2010. The Group manages lending totalling NOK 57 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 forsikrings-selskap (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 by Q3 2014 amounted to NOK 92.4 million against 88.0 million for the same period the previous year. Operating expenses and depreciation amounted to NOK 104.5 million compared to NOK 104.9 million at the same time last year. A loss provision of NOK 0.8 million related to retail loans has been made in the first three quarters.

The financial statements have been prepared in NOK and are presented in accordance with the Norwegian Accounting Act, the Annual Accounts Regulations for Banking (Regulation No. 1240 of 16 December 1998), as well as Regulations on Simplified Application of IFRS, the Simplification Regulations (Regulation No. 57 of 21 January 2008). This means that financial instruments are recognised in part at market value. At the end of the third quarter, the income statement includes a net gain associated with securities of NOK 7.1 million. During the same period last year a net gain of NOK 5.5 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 43.5 million by the third quarter. The corresponding amount last year was NOK 43,8 million.

In the first three quarters, the KLP Banken Group achieved pre-tax profits of NOK 31.0 million. At the same time last year the result was NOK 77.2 million. Income after tax amounted to NOK 20.2 million and NOK 69.2 million, respectively. Last year's result includes an income of NOK 50 million related to legal settlements.

Lending

On 30 September 2014, the KLP Banken Group had lending of NOK 22.6 billion compared to NOK 22.0 billion the previous year. The distribution between the retail market and public sector lending was NOK 6.6 billion and NOK 16.0 billion, respectively.

Liquid investment

On the reporting date, the portfolio of liquid investments amounted to NOK 3.1 billion against NOK 2.9 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 5.5 billion and issued securities amounted to NOK 20.2 billion. Of the issued securities, covered bonds (OMF) issued by KLP Kommunekreditt AS represented NOK 17.0 billion, while KLP Boligkreditt AS had NOK 0.5 billion outstanding. All covered bonds issues have achieved AAA rating.

Solvency

At the end of the third quarter, eligible Tier 1 and Tier 2 capital i.a.w. the capital adequacy rules was NOK 1 249.4 million. Eligible Tier 1 and Tier 2 capital comprises core capital only. The corresponding figure for last year was NOK 1194.9 million. Lending is risk-weighted in accordance with the authorities' capital adequacy regulations. The KLP Banken Group had a capital adequacy ratio of 18.4 per cent at the end of the third quarter, against 18,3 per cent on the same date last year. The minimum statutory requirement including buffer requirements is 10.0 per cent core capital adequacy ratio and 13.5 per cent capital adequacy ratio.

Income Statement

KLP Banken AS Group

Note	NOK thousands	Q3 2014	Q3 2013	01.01.2014- 30.09.2014	01.01.2013- 30.09.2013	2013
	Interest income and similar income	178 288	209 245	615 120	631 711	839 397
	Cost of interest and similar costs	-146 738	-175 915	-522 762	-543 714	-717 420
3	Net interest income	31 550	33 330	92 358	87 997	121 977
	Commission income and income from banking services	2 809	1 840	8 144	4 351	8 538
	Commission costs and costs of banking services	-329	-268	-1 006	-562	-727
	Net charges and commission income	2 480	1 572	7 138	3 789	7 811
	Other fee income	14 500	14 250	43 500	43 750	58 063
	Net gain/(loss) financial instruments	-12 981	59	-6 677	46 595	43 806
	Total other operating income	1 519	14 309	36 823	90 345	101 869
	Salary and administrative costs	-10 862	-16 811	-32 804	-38 153	-51 316
	Depreciation	-668	-666	-2 010	-1 686	-2 356
	Other operating expenses	-24 166	-23 405	-69 715	-65 047	-91 026
	Total operating expenses	-35 695	-40 882	-104 528	-104 886	-144 698
	Loss on loans issued, guarantees etc.	218	0	-784	0	0
	Gains/losses on securities that are fixed assets	0	0	0	0	0
	Operating profit/loss before tax	74	8 328	31 008	77 244	86 959
	Tax on ordinary income	-20	-2 791	-8 372	-8 088	-12 564
	Income	54	5 537	22 636	69 156	74 395
	Other comprehensive income	-2 284	0	-3 298	0	-2 085
	Tax on other comprehensive income	616	0	890	0	584
	Other comprehensive income for the period	-1 667	0	-2 407	0	-1 501
	COMPREHENSIVE INCOME FOR THE PERIOD	-1 614	5 537	20 228	69 156	72 894

Balance Sheet

KLP Banken AS Group

Note	NOK thousands	30.09.2014	30.09.2013	31.12.2013
	ASSETS			
	Loans to and receivables from credit institutions	1 736 173	1 497 382	1 534 079
4	Loans to and receivables from customers	22 571 838	22 024 621	21 317 032
13	Fixed income securities	3 131 075	2 875 561	2 922 819
	Stocks, shares and primary capital certificates	265	0	0
	Financial derivatives	156 767	190 325	210 223
	Tangible fixed assets	518	533	581
	Intangible assets	19 152	21 747	21 098
10	Other assets	58 524	1 277	4 330
	TOTAL ASSETS	27 674 313	26 611 446	26 010 162
	LIABILITIES AND OWNERS' EQUITY			
	LIABILITIES			
7	Liabilities created on issuance of securities	20 244 024	20 699 249	19 981 805
	Deposits	5 485 664	4 164 481	4 406 943
	Financial derivatives	379 665	299 551	265 754
	Deferred tax	394	1 536	13 422
11	Other liabilities	240 847	130 203	22 603
11	Provision for accrued costs and liabilities	34 918	30 656	29 464
	TOTAL LIABILITIES	26 385 514	25 325 676	24 719 991
	OWNERS' EQUITY			
	Share capital	750 000	750 000	750 000
	Share premium	440 000	405 707	440 000
	Retained earnings	78 571	60 907	100 171
	Unallocated profit/loss	20 228	69 156	0
	TOTAL OWNERS' EQUITY	1 288 799	1 285 770	1 290 171
	TOTAL LIABILITIES AND OWNERS' EQUITY	27 674 313	26 611 446	26 010 162

Statement of owners' equity

KLP Banken AS Group

2014 NOK thousands	Share capital	Share premium	Retained earnings	Total owners' equity
Owners' equity 1 January 2014	750 000	440 000	100 171	1 290 171
Income for the period	0	0	22 636	22 636
Other comprehensive income	0	0	-2 407	-2 407
Total comprehensive income for the period	0	0	20 228	20 228
Received group contribution	0	0	8 500	8 500
Group contribution made	0	0	-30 100	-30 100
Total transactions with the owners	0	0	-21 600	-21 600
Owners' equity 30 September 2014	750 000	440 000	98 799	1 288 799

2013 NOK thousands	Share capital	Share premium	Retained earnings	Total owners' equity
Owners' equity 1 January 2013	750 000	405 707	60 907	1 216 614
Income for the period	0	0	69 156	69 156
Other comprehensive income	0	0	0	0
Total comprehensive income for the period	0	0	69 156	69 156
Total transactions with the owners	0	0	0	0
Owners' equity 30 September 2013	750 000	405 707	130 063	1 285 770

Statement of cash flows

KLP Banken AS Group

NOK thousands	01.01.2014- 30.09.2014	01.01.2013- 30.09.2013	2013
OPERATING ACTIVITIES			
Payments received from customers - interest, commission & charges	517 241	530 316	764 031
Payments to customers - interest, commission & charges	-112 095	-89 511	-122 955
Net receipts/disbursements on lending to customers	-1 106 880	-183 119	379 047
Net receipts on customer deposits banking	1 078 721	1 218 285	1 460 748
Net receipts/disbursements on operations	-68 152	-54 910	-94 239
Paym's to employees, pension schemes, employer's soc. security contrib. etc.	-30 059	-38 900	-45 024
Net interest investment accounts	14 619	12 195	29 584
Net receipts/disbursements from operating activities	75 248	135 559	85 432
Income tax paid	0	0	0
Net cash flow from operating activities	368 643	1 529 915	2 456 623
INVESTMENT ACTIVITIES			
Receipts from securities	1 138 764	2 569 968	2 619 973
Payments on purchase of securities	-1 194 701	-1 374 199	-1 478 732
Receipts of interest from securities	45 319	56 601	77 487
Receipts from sale of fixed assets	0	653	0
Payments on purchase of fixed assets	0	-2 602	-2 018
Net cash flows from investment activities	-10 618	1 250 421	1 216 710
FINANCING ACTIVITIES			
Net receipts/disbursements on loans from credit institutions	287 677	-2 998 794	-3 729 547
Net payments of interest on loans	-412 777	-427 486	-549 071
Payment of group contribution	-33 306	0	0
Net cash flows from financing activities	-158 406	-3 426 280	-4 278 619
Net cash flow during the period	199 618	-645 944	-605 287
Cash and cash equivalents at the beginning of the period	1 486 425	2 091 712	2 091 712
Cash and cash equivalents at the end of the period	1 686 043	1 445 768	1 486 425
Net receipts/disbursements of cash	199 618	-645 944	-605 287

Notes to the accounts

KLP Banken AS Group

Note 1 GENERAL INFORMATION

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

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

Note 2 ACCOUNTING PRINCIPLES

This interim report includes the consolidated financial statements of KLP Banken AS for the period 1 January 2014 - 30 September 2014.

The interim financial statements have not been audited

The interim consolidated financial statements have been prepared in accordance with IAS 34 «Interim Financial Reporting».

There are no changes in the accounting rules in 2014, which has had an impact on the interim financial statements for the 3rd quarter. The annual report for 2013 contains a more detailed description of accounting policies. The annual report is available on klp.no.

The Group has in the 2nd and 3rd quarter repurchased some of its outstanding debt securities. Profit/loss elements resulting from the repurchase of debt were classified in the income statement as respectively «Interest income and similar income» and «Cost of interest and similar costs» in the financial statements for Q2. In the financial statements for the 3rd quarter, the classification changed to «Net gain / loss on financial instruments».

Note 3 NET INTEREST INCOME

NOK thousands	01.01.2014- 30.09.2014	01.01.2013- 30.09.2013	2013
Interest on loans to and receivables from credit institutions	20 400	22 567	29 649
Interest on loans to customers	548 067	550 492	734 644
Interest on securities	46 654	58 651	75 103
Total interest income	615 120	631 711	839 397
Interest on debt to credit institutions	313 398	389 771	508 636
Interest on debt to customers	177 887	151 010	204 421
Premium/discount on covered bonds	31 460	2 933	3 893
Other interest costs	18	1	471
Total interest costs	522 762	543 714	717 420
Net interest income	92 358	87 997	121 977

Note 4 LOANS TO CUSTOMERS

NOK thousands	30.09.2014	30.09.2013	31.12.2013
Loans to customers before write-downs	22 132 971	21 666 349	20 989 035
Individual write-downs	-760	-9	-9
Write-downs by group	0	0	0
Loans to customers after individual write-downs	22 132 211	21 666 340	20 989 026
Accrued interest	146 813	154 291	108 906
Change in fair value due to interest rate changes (fair value hedging)	292 815	203 990	219 100
Loans to customers	22 571 838	22 024 621	21 317 032

Note 5 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

NOK thousands	30.09.2014		30.09.2013		31.12.2013	
	Capitalized value	Fair value	Capitalized value	Fair value	Capitalized value	Fair value
FINANCIAL ASSETS AT FAIR VALUE						
Fixed income securities	3 131 075	3 131 075	2 875 561	2 875 561	2 922 819	2 922 819
Financial derivatives	156 767	156 767	190 325	190 325	210 223	210 223
Total financial assets at fair value	3 287 843	3 287 843	3 065 886	3 065 886	3 133 042	3 133 042
FINANCIAL ASSETS AT FAIR VALUE HEDGING						
Loans to Norwegian local administrations	6 200 960	6 245 930	6 175 364	6 194 309	6 160 311	6 181 146
Loans to retail customers	420 789	407 641	481 005	470 424	454 408	442 592
Total financial assets at fair value hedging	6 621 749	6 653 571	6 656 369	6 664 733	6 614 719	6 623 738
FINANCIAL ASSETS AT AMORTIZED COST						
Loans to and receivables from credit institutions	1 736 173	1 736 173	1 497 382	1 497 382	1 534 079	1 534 079
Loans to Norwegian local administrations	9 843 986	9 835 298	11 717 468	11 714 849	10 673 119	10 671 959
Loans to retail customers	6 106 104	6 106 104	3 650 784	3 650 784	4 029 195	4 029 195
Total financial assets at amortized cost	17 686 263	17 677 575	16 865 634	16 863 015	16 236 393	16 235 233
Total financial assets	27 595 855	27 618 989	26 587 889	26 593 634	25 984 154	25 992 013
DEBT TO CREDIT INSTITUTIONS AT FAIR VALUE						
Financial derivatives	379 665	379 665	299 551	299 551	265 754	265 754
Total financial liabilities at fair value	379 665	379 665	299 551	299 551	265 754	265 754
LIABILITIES CREATED ON ISSUANCE OF SECURITIES AT FAIR VALUE HEDGING						
Liabilities created on issuance of securities	3 025 459	3 066 106	4 715 034	4 745 108	4 748 614	4 969 199
Total financial liabilities at fair value hedging	3 025 459	3 066 106	4 715 034	4 745 108	4 748 614	4 969 199
DEBT TO CREDIT INSTITUTIONS AND DEPOSITS AT AMORTIZED COST						
Liabilities created on issuance of securities	17 218 565	17 311 546	15 984 215	15 874 341	15 233 191	15 121 032
Deposits from customers	5 485 664	5 485 664	4 164 481	4 164 481	4 406 943	4 406 943
Total financial liabilities at amortized cost	22 704 229	22 797 210	20 148 696	20 038 822	19 640 134	19 527 975
Total financial liabilities	26 109 353	26 242 981	25 163 281	25 083 481	24 654 502	24 762 928

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

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

Fixed-income securities – government

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

Fixed-income securities – other than government

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

Financial derivatives

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

Fair value of loans to Norwegian local administrations, loans to retail customers and deposits.

Fair value of lending and deposits without fixed interest rates is considered virtually the same as

book value since the contract terms are continuously changed in step with market interest rates. Lending with fixed interest is valued using a valuation model, including relevant credit spread adjustments obtained from the market.

Fair value of loans to and receivables from credit institutions

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

Fair value of debt to credit institutions

These transactions are valued using a valuation model, including relevant credit spread adjustments obtained from the market.

Liabilities created on issuance of securities

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

Note 6 FAIR VALUE HIERARCHY

NOK thousands	Level 1	Level 2	Level 3	Total 30.09.2014
ASSETS				
Fixed income securities	148 193	2 982 882	0	3 131 075
Stocks, shares and primary capital certificates	0	0	265	265
Financial derivatives	0	156 767	0	156 767
Total financial assets valued at fair value	148 193	3 139 649	265	3 288 107
LIABILITIES				
Financial derivatives	0	379 665	0	379 665
Total financial liabilities at fair value	0	379 665	0	379 665

NOK thousands	Level 1	Level 2	Level 3	Total 30.09.2013
ASSETS				
Fixed income securities	127 933	2 747 628	0	2 875 561
Financial derivatives	0	190 325	0	190 325
Total financial assets valued at fair value	127 933	2 937 953	0	3 065 886
LIABILITIES				
Financial derivatives	0	299 551	0	299 551
Total financial liabilities at fair value	0	299 551	0	299 551

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

Note 6 FAIR VALUE HIERARCHY – CONT.

NOK thousands	Booked value 30.09.2014	Booked value 30.09.2013	Booked value 31.12.2013
CHANGES IN LEVEL 3, UNLISTED SHARES			
Opening balance	0	0	0
Sold	0	0	0
Bought	265	0	0
Unrealised changes	0	0	0
Closing balance	265	0	0
Realised 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 in this level obtain fair value from listed prices in an active market for identical assets or liabilities to which the entity has access at the reporting date. Examples of instruments in Level 1 are stock market listed securities.

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

Level 3: Instruments at Level 3 contain no observable market data or are traded in markets considered to be inactive. The price is based generally on discrete calculations where the actual fair value may deviate if the instrument were to be traded.

There have been no movement between levels in the third quarter / year to date.

Note 7 SECURITIES LIABILITIES – STOCK EXCHANGE LISTED COVERED BONDS AND CERTIFICATES

NOK thousands ISIN code	Nominal	Currency	Interest	Issued	Due date	Accrued interest	30.09.2014 Booked value
Secured bonds	300 000	NOK	Floating	27.04.12	27.04.15	1 587	301 587
Secured bonds	300 000	NOK	Fixed	15.06.12	15.06.17	4 172	304 172
Secured bonds	300 000	NOK	Floating	24.08.12	24.08.15	919	300 919
Secured bonds	400 000	NOK	Floating	15.11.12	16.11.16	1 501	401 501
Secured bonds	400 000	NOK	Floating	14.05.13	13.05.16	1 301	401 301
Secured bonds	300 000	NOK	Floating	31.05.13	28.11.14	572	300 572
Secured bonds	200 000	NOK	Fixed	03.10.13	03.10.18	7 101	207 101
Secured bonds	500 000	NOK	Floating	10.03.14	10.03.17	613	500 613
Secured bonds	500 000	NOK	Floating	04.04.14	04.04.18	2 794	502 794
Secured bonds	300 000	NOK	Floating	29.09.14	27.09.19	36	300 036
Amortization / value adjustments							14 373
Total liabilities issuance of certificate loans and secured bonds							3 534 968

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

NOK thousands ISIN code	Nominal	Currency	Interest	Issued	Due date	Accrued interest	30.09.2014 Booked value
N00010585185	1 677 000	NOK	Floating	15.09.10	15.09.15	1 573	1 678 573
N00010592900	750 000	NOK	Fixed	15.12.10	15.12.20	27 411	777 411
N00010624778	612 000	NOK	Fixed	15.09.11	15.05.15	8 157	620 157
N00010642192	1 000 000	NOK	Floating	13.04.12	13.04.16	4 696	1 004 696
N00010662307	3 000 000	NOK	Floating	26.10.12	10.11.17	8 925	3 008 925
N00010663180	2 500 000	NOK	Floating	15.11.12	16.11.16	6 172	2 506 172
N00010675952	1 000 000	NOK	Fixed	02.05.13	19.05.17	8 322	1 008 322
N00010675978	1 500 000	NOK	Floating	15.05.13	15.05.18	4 015	1 504 015
N00010711419	1 000 000	NOK	Floating	15.05.14	15.05.17	2 454	1 002 454
N00010716780	2 000 000	NOK	Floating	26.08.14	10.12.18	3 800	2 003 800
N00010719974	1 000 000	NOK	Floating	17.09.14	20.12.19	735	1 000 735
Amortization / value adjustments							93 756
Total liabilities of issuance of covered bonds in lending by public guarantee							16 209 016
N00010719875	500 000	NOK	1,95	12.09.14	12.09.19	515	500 515
Amortization / value adjustments							-475
Total liabilities of issuance of covered bonds in the mortgage							500 040
Total liabilities created on issuance of securities							20 244 024

ISIN code	Nominal before repurchase	Repurchase	Rate	Purchase amount	Profit/loss	Date
REPURCHASE OF DEPT						
N00010624778	2 500 000	1 441 000	101,66	1 464 916	-23 916	15.05.14
N00010585185	4 300 000	500 000	100,56	502 800	-2 800	25.06.14
N00010585185	3 800 000	1 331 500	100,50	1 338 184	-6 684	26.08.14
N00010585185	3 799 899	165 000	100,50	165 820	-820	28.08.14
N00010585185	3 799 799	570 500	100,46	573 124	-2 624	17.09.14
N00010585185	3 799 699	56 000	100,47	56 262	-262	26.09.14
N00010624778	1 059 000	45 000	101,20	45 540	-540	15.09.14
N00010624778	1 058 899	340 000	101,22	344 138	-4 138	17.09.14
N00010624778	1 058 798	62 000	101,15	62 713	-713	30.09.14
Total repurchase	25 176 093	4 511 000		4 553 498	-42 498	

Linked to repurchase of debt, interest rate swaps were realized with a gain of NOK 27.7 million. The total effect on profit/loss of repurchased debt was therefore NOK -14.8 million.

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

NOK thousands ISIN code	Nominal	Currency	Interest	Issued	Due date	Accrued interest	30.09.2013 Booked value
Certificate loan	300 000	NOK	Floating	21.03.13	21.03.14	131	300 131
Certificate loan	300 000	NOK	Floating	11.06.13	11.06.14	333	300 333
Certificate loan	150 000	NOK	Floating	30.08.13	29.08.14	263	150 263
Secured bonds	300 000	NOK	Floating	27.04.12	27.04.15	1 579	301 579
Secured bonds	300 000	NOK	Fixed	15.06.12	15.06.17	4 172	304 172
Secured bonds	300 000	NOK	Floating	24.08.12	24.08.15	891	300 891
Secured bonds	300 000	NOK	Floating	15.11.12	16.11.16	1 181	301 181
Secured bonds	300 000	NOK	Floating	14.05.13	13.05.16	980	300 980
Secured bonds	300 000	NOK	Floating	31.05.13	28.11.14	570	300 570
Amortization / value adjustments							4 045
Total liabilities issuance of certificate loans and secured bonds							2 564 143
N00010585185	4 300 000	NOK	Floating	15.09.10	15.09.15	3 852	4 303 852
N00010592892	602 000	NOK	Floating	10.12.10	10.12.13	713	602 713
N00010592900	750 000	NOK	Fixed	15.12.10	15.12.20	27 411	777 411
N00010609795	1 339 000	NOK	Floating	20.05.11	20.05.14	3 093	1 342 093
N00010624778	2 500 000	NOK	Fixed	15.09.11	15.05.15	33 322	2 533 322
XS0747335494	500 000	SEK	Floating	17.02.12	17.02.15	913	434 413
N00010642192	1 000 000	NOK	Floating	13.04.12	13.04.16	4 463	1 004 463
N00010662307	3 000 000	NOK	Floating	26.10.12	10.11.17	8 792	3 008 792
N00010663180	2 000 000	NOK	Floating	15.11.12	16.11.16	5 188	2 005 188
N00010675952	1 000 000	NOK	Fixed	02.05.13	19.05.17	9 370	1 009 370
N00010675978	1 000 000	NOK	Floating	15.05.13	15.05.18	2 703	1 002 703
Amortization / value adjustments							110 787
Total liabilities of issuance of covered bonds in lending by public guarantee							18 135 106
Total liabilities created on issuance of securities							20 699 249

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

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

Note 8 PRESENTATION OF ASSETS AND LIABILITIES SUBJECT TO NET SETTLEMENT

NOK thousands	Gross financial assets/liabilities	Gross assets/liabilities presented net	Booked value	30.09.2014		
				Related amounts Financial instruments	not presented Security in cash	Net amount
ASSETS						
Financial derivatives	156 768	0	156 768	-156 768	-3 910	0
Total	156 768	0	156 768	-156 768	-3 910	0
LIABILITIES						
Financial derivatives	379 666	0	379 666	-156 768	-15 658	207 240
Total	379 666	0	379 666	-156 768	-15 658	207 240

NOK thousands	Gross financial assets/liabilities	Gross assets/liabilities presented net	Booked value	30.09.2013		
				Related amounts Financial instruments	not presented Security in cash	Net amount
ASSETS						
Financial derivatives	190 325	0	190 325	-159 392	0	30 933
Total	190 325	0	190 325	-159 392	0	30 933
LIABILITIES						
Financial derivatives	299 551	0	299 551	-159 392	-15 953	124 205
Total	299 551	0	299 551	-159 392	-15 953	124 205

NOK thousands	Gross financial assets/liabilities	Gross assets/liabilities presented net	Booked value	31.12.2013		
				Related amounts Financial instruments	not presented Security in cash	Net amount
ASSETS						
Financial derivatives	210 223	0	210 223	-137 147	0	73 076
Total	210 223	0	210 223	-137 147	0	73 076
LIABILITIES						
Financial derivatives	265 754	0	265 754	-137 147	-1 858	126 749
Total	265 754	0	265 754	-137 147	-1 858	126 749

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

Note 9 TRANSACTIONS WITH RELATED PARTIES

NOK thousands	01.01.2014- 30.09.2014	01.01.2013- 30.09.2013	2013
INCOME STATEMENT ITEMS			
KLP, fees income lending management	43 500	43 750	58 000
KLP Kapitalforvaltning, fees for services provided	-335	-417	-527
KLP, rent	-2 650	-2 619	-3 435
KLP, pension premium	-5 378	-5 874	-6 223
KLP, staff services (at cost)	-29 801	-30 020	-41 637
KLP Group companies, subsidised interest employee loans	1 376	630	1 086
TOTAL	6 712	5 450	7 264
NOK thousands	30.09.2014	30.09.2013	31.12.2013
FINANCIAL POSITION STATEMENT ITEMS			
KLP, net intra-Group accounts	-4 448	-89 266	-8 164
KLP, clearance banking system	-18 396	-26 354	-8 950
KLP Group companies	-19	57	176
TOTAL	-22 863	-115 563	-16 938

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

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

Note 10 OTHER ASSETS

NOK thousands	30.09.2014	30.09.2013	31.12.2013
Intercompany receivables	144	77	176
Short-term receivables trade in securities	57 393	0	2 768
Miscellaneous receivables	0	3	38
Prepaid expenses	987	1 197	1 348
Total other assets	58 524	1 277	4 330

Note 11 OTHER LIABILITIES AND PROVISION FOR ACCRUED COSTS

NOK thousands	30.09.2014	30.09.2013	31.12.2013
Creditors	3 462	2 826	1 833
Intercompany liabilities	23 106	115 729	17 210
Short-term liabilities securities	196 400	0	0
Miscellaneous liabilities	17 879	11 648	3 560
Total other liabilities	240 847	130 203	22 603
Withholding tax	1 156	1 105	2 421
Social security costs	990	1 093	1 620
Holiday pay	2 830	2 613	3 685
Pension obligations	21 565	14 501	19 889
VAT	360	450	158
Accrued costs	8 017	10 894	1 691
Total accrued costs and liabilities	34 918	30 656	29 464

Note 12 CAPITAL ADEQUACY

NOK thousands	30.09.2014	30.09.2013	31.12.2013
Share capital and share premium fund	1 190 000	1 155 707	1 190 000
Other owners' equity	78 571	60 907	100 171
Owners' equity	1 268 571	1 216 614	1 290 171
Interim profit/loss	0	0	0
Less goodwill and other intangible assets	-19 152	-21 747	-21 098
Deferred tax asset	0	0	0
Core capital	1 249 419	1 194 867	1 269 073
Supplementary capital	0	0	0
Supplementary capital	0	0	0
Total eligible Tier 1 and 2 capital	1 249 419	1 194 867	1 269 073
Capital requirement	542 634	521 778	518 042
Surplus of Tier 1 and 2 capital	706 785	673 089	751 031

Note 12 CAPITAL ADEQUACY - CONT.

NOK thousands	30.09.2014	30.09.2013	31.12.2013
CALCULATION BASIS CREDIT RISK			
Local and regional authorities (including municipalities/county administrations)	3 271 616	3 620 723	3 388 172
Institutions	427 312	346 999	394 712
Investments with mortgage security in real estate	2 421 181	1 962 075	2 088 362
Investments fallen due	58 790	39 445	46 608
Covered bonds	272 104	274 763	279 408
Other holdings	783	533	581
Calculation basis credit risk	6 451 786	6 244 538	6 197 843
Credit risk	516 143	499 563	495 827
Operating risk	26 491	22 215	22 215
Total capital requirement	542 634	521 778	518 042
Core capital adequacy ratio	18,4 %	18,3 %	19,6 %
Supplementary capital ratio	0,0 %	0,0 %	0,0 %
Capital adequacy ratio	18,4 %	18,3 %	19,6 %
Capital requirement per 30.09.2014	Tier 1 capital	Tier 2 capital	Tier 1 and Tier 2 capital
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 %
Current capital requirement incl. buffers	10,0 %	3,5 %	13,5 %

Note 13 FIXED INCOME SECURITIES

NOK thousands	30.09.2014		31.12.2013	
	Acquisition cost	Market value	Acquisition cost	Market value
Certificates	348 541	348 718	0	0
Bonds	2 742 463	2 782 357	2 885 394	2 922 819
Total interest-bearing securities	3 091 004	3 131 075	2 885 394	2 922 819

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

Note 14 LOSSES ON LOANS ISSUED ETC.

NOK thousands	30.09.2014	30.09.2013	31.12.2013
Confirmed losses	0	0	0
Reversal of previous write-downs	0	0	0
Change in individual write-downs	784	0	0
Change in write-downs by group	0	0	0
Total loss on lending	784	0	0
Gross default exceeding 90 days	18 391	12 356	9 661
Gross other doubtful loans	0	0	0

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

Note 15 CONTINGENT LIABILITIES

NOK thousands	30.09.2014	30.09.2013	31.12.2013
Credit facilities for lending not utilised	232 314	189 916	193 600
Loan commitments	792 881	311 534	260 290
Total contingent liabilities	1 025 195	501 450	453 890

Note 16 PENSION OBLIGATIONS – OWN EMPLOYEES

NOK thousands	30.09.2014	31.12.2013
Net pension cost incl. social security costs & admin. taken to profit/loss	2 304	6 100
Net interest cost including social security costs (SSC)	398	497
Actuarial loss incl. SSC OCI	3 298	1 263
Net obligations incl. SSC	21 565	19 889
ASSUMPTIONS		
Discount rate	3,00 %	4,00 %
Salary growth	3,25 %	3,75 %
Adjustment NI basic amount (G)	3,00 %	3,50 %
Pension increases	2,23 %	2,72 %
Expected return	3,00 %	4,00 %
SSC rate	14,10 %	14,10 %

A plan change in the pension obligation as at 30 September 2014 has been incorporated. The effect of the plan change is a reduction of the obligation of NOK 2.5 million. The plan change is presented as a reduction of the cost of pensions in the income statement.

Key figures

Accumulated figures in NOK millions	Q3 2014	Q2 2014	Q1 2014	Q4 2014	Q3 2014
Pre-tax income	31,0	30,9	13,8	87,0	77,2
Net interest income	92,4	60,8	31,4	122,0	88,0
Other operating income	50,6	33,7	16,7	65,9	47,5
Other operating costs and depreciation	-105,3	-69,8	-38,2	-144,7	-104,9
Net realized / unrealized change fin. instruments at fair value	-6,7	6,3	3,9	43,8	46,6
Deposits	5 485,7	5 079,3	4 706,4	4 406,9	4 164,5
Housing mortgage lending	6 526,9	5 840,0	4 816,6	4 483,6	4 133,8
Lending with public sector guarantee	16 044,9	16 314,0	16 559,5	16 833,4	17 890,8
Defaulted loans	18,4	7,6	10,1	9,7	12,4
Total liabilities created on issuance of securities	20 244,0	19 603,7	19 753,1	19 981,8	20 699,2
Other borrowing	0,0	0,0	0,0	0,0	0,0
Total assets	27 674,3	26 445,8	26 103,7	26 010,2	26 611,4
Average total assets	26 842,2	26 228,0	26 056,9	27 145,8	27 446,5
Owners' equity	1 288,8	1 290,4	1 278,7	1 290,2	1 285,8
Interest net	0,34 %	0,23 %	0,12 %	0,45 %	0,32 %
Profit/loss from ordinary operation before taxes	0,12 %	0,12 %	0,05 %	0,32 %	0,28 %
Return on owners' equity before tax	2,40 %	2,42 %	1,07 %	7,15 %	6,35 %
Capital adequacy ratio	18,4 %	20,1 %	20,2 %	19,6 %	18,3 %



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