# annual report 2014
## KLP Boligkreditt AS

Coverphoto: Veronica Norevik **For the days to come**

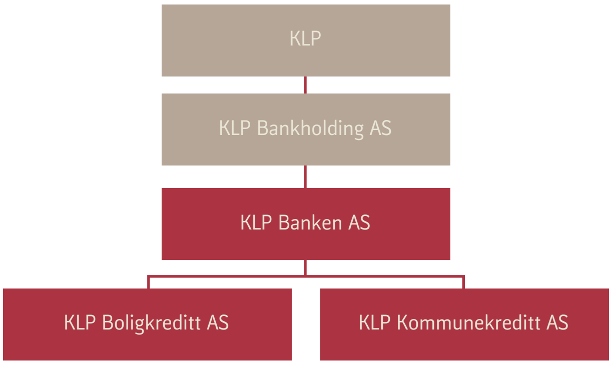
In 2014 KLP hosted an internal photo contest where the staff were to visualize one of KLP's values Open, Clear, Responsible and Committed or "For the days to come".
Olav Storm, photographer, was head of the jury.

## CONTENT

# Report from the Board of Directors for 2014

## In its first year in operation, KLP Boligkreditt AS made a profit before tax of NOK 2.8 million in 2014, and had a total balance of NOK 3.1 billion. The company is financed largely through the issue of covered bonds (OMF). These bonds have received the highest possible rating (AAA).

KLP Boligkreditt AS (formerly KLP BK Prosjekt AS) was licensed as a mortgage lender in March 2014. It is a wholly owned subsidiary of KLP Banken AS. KLP Boligkreditt AS is a mortgage lender that is largely financed through the issue of bonds covered by mortgage sureties.




KLP Banken AS is a commercial bank owned by Kommunal Landspensjonskasse gjensidig forsikringsselskap (KLP) through KLP Bankholding AS. KLP Banken AS also owns all the shares in the subsidiary KLP Kommunekreditt AS.

The operations of KLP Banken AS and its subsidiaries are divided into the business areas Private Market and Public Lending. Both areas are nationwide in scope. The companies are headquartered in Trondheim.

## Financial performance in 2014

- Profit before tax: NOK 2.8 million
- Net interest income: NOK 14.5 million
- Mortgage loans: NOK 3.0 billion
- Total bank assets: NOK 3.1 billion

### PROFIT AND LOSS

The company made a profit before tax of NOK 2.8 million. This gave a return on equity of 1.1 per cent. Net profit for the year totalled NOK 2.0 million.

The bulk of the company's profit was earned in the fourth quarter. The company is newly established and during the second half of 2014 it has built up a portfolio of mortgages through the transfer of loans from KLP Banken AS and KLP. Revenues and costs in the first half reflect that the company was still in a project phase.

At the close of 2014 the company had issued NOK 1.8 billion in bonds covered by mortgage sureties. The first issue came in September 2014. The remaining financing comprises equity and loans from the parent company. Interest expenses resulting therefrom have accrued largely in the second half.

The company's operating costs are primarily linked to the fact that mortgages are managed by KLP Banken AS. The management agreement with the parent company means that the company's costs are tied to the volume of mortgages under management at any given time. Costs are settled monthly. Costs in excess of this are direct costs incurred by the company in connection with external assistance, such as rating, auditing, etc. In 2014 the company's operating costs totalled NOK 11.5 million.

### INTEREST INCOME

The company's interest income from mortgages granted to customers totalled NOK 32.0 million in 2014. Bank deposits generated an additional interest income of NOK 1.5 million.

Interest expenses are divided between covered bonds issued and loans from the parent company. In 2014 these totalled NOK 7.6 million and NOK 11.5 million respectively.

Net interest income in 2014 came to NOK 14.5 million.

### LENDING

In its first year in operation, the company purchased mortgage loans from KLP Banken AS for the sum of NOK 2.0 billion, and from KLP for the sum of NOK 1.2 billion. The company's on-balance sheet mortgages totalled NOK 3.0 billion at the close of the year.

The mortgage portfolio is secured within prudent valuations, with borrowers' willingness and ability to pay being included in an assessment of their creditworthiness. The average loan per customer amounted to NOK 1.0 million. All lending was at floating interest rates. No losses on mortgages were recognised in 2014. At the close of 2014, there were no contracts more than 90 days in default.

### BORROWING

The company is licensed to issue bonds covered by mortgage sureties. The first borrowing issue took place in September 2014.

At the close of 2014, the company's debt, in the form of covered bonds deriving from three issues, totalled NOK 1.8 billion. The bonds were issued with surety in the company's portfolio of well-secured home loans. All the issues received an AAA rating.

The company's debt to credit institutions at the close of the year comprised one loan in the amount of NOK 1.0 billion from KLP Banken AS.

### BALANCE SHEET AND CAPITAL ADEQUACY

Total bank assets stood at NOK 3.1 billion at the close of 2014.

The company's equity and subordinated loan capital, based on the board of director's proposal for the allocation of the year's profit, totalled NOK 252.5 million at the close of 2014. Core capital is identical to equity and subordinated loan capital. This gives a capital adequacy and core capital adequacy of 23.8 per cent. The current capital requirement is 13.5 per cent capital adequacy and 10.0 per cent core capital adequacy. The risk-weighted balance came to NOK 1.1 billion. Capital adequacy is considered good.

### LIQUIDITY

The year-end statement of cash flow shows that the company's liquidity situation is satisfactory. Since new borrowings occur when the terms therefor are considered favourable, a need sometimes arises to invest surplus liquidity. This liquidity contributes to earnings and provides the flexibility needed to meet demand for new lending.

At the close of 2014, the company's surplus liquidity had been invested as bank deposits.

### APPLICATION OF THE YEAR'S PROFIT

The board of directors proposes that the year's profit, in the amount of NOK 2,0 million be transferred to retained earnings.
Equity after this transfer totals NOK 252,5 million.

### ABOUT THE FINANCIAL STATEMENTS

The board of directors believes that the financial statements provide a true and fair view of the company's assets and liabilities, financial position and results. The preconditions exist for continuation as a going concern, and it is on this assumption that the financial statements have been prepared.

KLP Boligkreditt AS prepares its financial statements in accordance with the international accounting standards IFRS, as approved by the EU with associated interpretations. See Note 2 to the year-end financial statements for further details.

## Rating

The rating agencies' assessment of KLP Boligkreditt AS and the KLP Group are important for the company's borrowing terms. The company has engaged Moody's to credit rate the company's bonds. The covered bonds issued in 2014 received an AAA rating.

## Risk management

KLP Boligkreditt AS is subject to KLP Banken's risk management framework, whose purpose is to ensure that risks are identified, analysed and managed by means of policies, limits, routines and instructions.

Risk policies have been drawn up to cover the most important individual risks (liquidity, credit, market and operational risks), as well as an overarching risk policy that covers principles, organisation, limits, etc, for the bank's overall risk. The risk policies are adopted by the board of directors and are reviewed at least once a year. The policies are of an overarching nature and are complemented by routines, guidelines and instructions determined at the administrative level.

The company aims to maintain a low operational risk and a high level of professional competence, good routines and efficient operations.

The company is included in the KLP Banken Group's process to assess and quantify material risks and calculate its capital requirement (ICAAP). The capital requirement assessment is forward-looking and in addition to calculating needs based on current exposure (and, if appropriate, limits) an assessment is made of needs in light of planned growth, determined strategic changes, etc. The company's board of directors takes an active part in these assessments and, in addition to the capital requirement assessment, determines a desired level for total capital. This level is termed the 'target capital'.

The board of directors of KLP Banken AS has established a Risk Committee.

## The work of the board of directors

The board of directors held seven board meetings in 2014. For an overview of the remuneration paid to members of the company's board and management, see Note 14 to the year-end financial statements. The board comprised two women and two men in 2014.

## Corporate governance

The company's articles of association and applicable legislation provide guidelines for corporate governance, and define a clear division of roles between governing bodies and day-to-day management.

The board is not authorised to issue or buy back treasury shares.

It falls to the board of directors to issue guidelines for the company's operations. Contracts may be signed by the CEO or the Board Chair alone.

The CEO is in charge of the company's day-to-day management in accordance with instructions issued by the board of directors.

## Working environment and organisation

KLP Boligkreditt AS had two employees at the close of 2014. These also had employment relationships with other companies in the KLP Banken Group. A management agreement has been entered into with KLP Banken AS with respect to administration, IT support, finance and risk management, as well as borrowing and liquidity management.

As part of the KLP Group, KLP Boligkreditt AS complies with the

Group's guidelines on equality and diversity, whose objectives, initiatives and activities take account of the basis for discrimination described in the legislation. A central working group has drawn up internal targets for equality and diversity. In connection with recruitment, the company routinely states its desire to be contacted by all qualified job applicants irrespective of age, gender, disability, political opinions, sexual orientation or ethnic background. The board of directors considers the working environment to be good.

## External environment

Through its social responsibility strategy, KLP has pledged to maintain good routines for the measurement and reduction of its companies' environmental impact. In the same way as the rest of the KLP Group, KLP Boligkreditt AS takes its environmental impact seriously. As an office-based company, it has greatest control over energy consumption, transport, waste management and procurement. The parent company, KLP Banken AS, is environmentally certified.

## Social responsibility

The KLP Group, including KLP Boligkreditt AS, shall contribute to sustainable investments and responsible business operations. Please see KLP's annual report for further details.

## Outlook

KLP Boligkreditt AS is part of the financing structure of the KLP Banken Group, through the issue of bonds covered by mortgage sureties.

Moving forward, mortgage loans will be purchased from KLP Banken AS or KLP, and will be included in the sureties used to secure existing and new borrowing issues. The board of directors believes that there is potential to further develop the company and that KLP Boligkreditt AS will be able to finance a growing share of KLP Banken's mortgage loans. This will help to reduce the bank group's borrowing costs.

Trondheim, 4 March 2015

Sverre Thornes
Chair

Aage E. Schaanning
Deputy Chair

Eva M. Salvesen

Marit E. Barosen

Christopher A. Steen
CEO

THE BOARD OF DIRECTORS OF KLP BOLIGKREDITT AS

SVERRE THORNES

MARIT BAROSEN

EVA M. SALVESEN

AAGE SCHAANNING

## Income Statement

| Note | NOK thousands | 2014 | 30.10.2013-31.12.2013 |
|---|---|---|---|
| | Interest income and similar income | 33 497 | 3 |
| | Interest expenses and similar expenses | -19 014 | 0 |
| 8 | Net interest income | 14 483 | 3 |
| | | | |
| 5 | Net gain/loss on financial instruments | -233 | 0 |
| | Total net gain/loss on financial instruments | -233 | 0 |
| | | | |
| 22 | Other operating expenses | -11 460 | -12 |
| | Total other operating costs | -11 460 | -12 |
| | | | |
| | Operating profit/loss before tax | 2 790 | -9 |
| | | | |
| 18 | Tax on ordinary income | -753 | 2 |
| | | | |
| | Income for the year | 2 037 | -7 |
| | | | |
| | Other comprehensive income | 0 | 0 |
| | Other comprehensive income for the period after tax | 0 | 0 |
| | | | |
| | TOTAL COMPREHENSIVE INCOME FOR THE YEAR | 2 037 | -7 |
| | | | |
| | Allocated to/from share premium fund | 0 | 7 |
| | Allocated to/from retained earnings | -2 037 | 0 |
| | TOTAL ALLOCATION OF INCOME | -2 037 | 7 |

# Financial Position Statement

| Note | NOK thousands | 31.12.2014 | 31.12.2013 |
|---|---|---|---|
| | ASSETS | | |
| 9 | Loans to and receivables from credit institutions | 102 785 | 991 |
| 9 | Loans to and receivables from customers | 2 971 296 | 0 |
| 18 | Deferred tax asset | 0 | 2 |
| 23 | Other assets | 401 | 0 |
| | TOTAL ASSETS | 3 074 482 | 993 |
| | | | |
| | LIABILITIES AND OWNERS' EQUITY | | |
| | | | |
| | LIABILITIES | | |
| 15 | Liabilities to credit institutions | 1 011 240 | 0 |
| 16 | Liabilities created on issuance of securities | 1 803 395 | 0 |
| 18 | Deferred tax | 751 | 0 |
| 20 | Other liabilities | 6 343 | 0 |
| 20 | Provision for accrued costs and liabilities | 253 | 0 |
| | TOTAL LIABILITIES | 2 821 982 | 0 |
| | | | |
| | OWNERS' EQUITY | | |
| | Share capital | 100 000 | 30 |
| | Share premium | 150 463 | 963 |
| | Retained earnings | 2 037 | 0 |
| | TOTAL OWNERS' EQUITY | 252 500 | 993 |
| | | | |
| | TOTAL LIABILITIES AND OWNERS' EQUITY | 3 074 482 | 993 |

Trondheim, 4 March 2015

Sverre Thornes
Chair

Aage E. Schaanning
Deputy Chair

Eva M. Salvesen

Marit E. Barosen

Christopher A. Steen
CEO

# Changes in equity

| 2014<br>NOK thousands | Share capital | Share premium | Retained earnings | Total owners' equity |
|---|---|---|---|---|
| Owners' equity 1 January 2014 | 30 | 963 | 0 | 993 |
| Profit for the period | 0 | 0 | 2 037 | 2 037 |
| Other comprehensive income | 0 | 0 | 0 | 0 |
| Total comprehensive income | 0 | 0 | 2 037 | 2 037 |
| Owners' equity received during the period | 99 970 | 149 500 | 0 | 249 470 |
| Total transactions with the owners | 99 970 | 149 500 | 0 | 249 470 |
| Owners' equity 31 December 2014 | 100 000 | 150 463 | 2 037 | 252 500 |

| 2013<br>NOK thousands | Share capital | Share premium | Retained earnings | Total owners' equity |
|---|---|---|---|---|
| Opening balance 30.10.2013 | 30 | 970 | 0 | 1 000 |
| Loss for the period | 0 | -7 | 0 | -7 |
| Other comprehensive income | 0 | 0 | 0 | 0 |
| Total comprehensive income | 0 | -7 | 0 | -7 |
| Total transactions with the owners | 0 | 0 | 0 | 0 |
| Owners' equity 31 December 2013 | 30 | 963 | 0 | 993 |

| | Number of shares | Nominal value in whole NOK | Share premium | Total owners' equity |
|---|---|---|---|---|
| As at 1 January 2014 | 1 000 | 30 | 963 | 993 |
| Changes during the period 1 January - 31 December | - | 99 970 | 149 500 | 249 470 |
| Owners' equity as at 31 December 2014 | 1 000 | 100 000 | 150 463 | 250 463 |
| Accumulated income | | | | 2 037 |
| Owners' equity 31 December 2014 | | | | 252 500 |

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

## Statement of Cash flows

| NOK thousands | 2014 | 30.10.2013-31.12.2013 |
|---|---|---|
| **Operational activities** | | |
| Payments received from customers - interest, commission & charges | 25 509 | 0 |
| Net disbursements on lending to customers | -2 965 013 | 0 |
| Disbursements on operations | -5 025 | -12 |
| Net receipts/payments on other operational activities | -5 | 0 |
| Net interest investment accounts | 1 467 | 3 |
| Income tax paid | 0 | 0 |
| Net cash flow from operating activities | -2 943 067 | -9 |
| | | |
| Investment activities | 0 | 0 |
| Net cash flow from investment activities | 0 | 0 |
| | | |
| **Financing activities** | | |
| Net receipts/payments on loan take-up | 2 808 437 | 0 |
| Net payment of interest on loans | -13 051 | 0 |
| Receipts on issue of owners' equity | 249 470 | 1 000 |
| Net cash flow from investment activities | 3 044 856 | 1 000 |
| | | |
| Net cash flow during the period | 101 789 | 991 |
| | | |
| Cash and cash equivalents at the start of the period | 991 | 0 |
| Cash and cash equivalents at the end of the period | 102 780 | 991 |
| Net receipts/ disbursements (-) of cash | 101 789 | 991 |

## 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 2014 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.

Trondheim, 4 March 2015

Sverre Thornes
Chair

Aage E. Schaanning
Deputy Chair

Eva M. Salvesen

Marit E. Barosen

Christopher A. Steen
CEO

# Note 1 General information

KLP Boligkreditt AS was formed on 30 October 2013. The company is to run internal project activities associated with establishment of housing credit enterprises, with a view to later conversion and registration as a housing credit enterprise, and to finance the activity primary through issuing covered bonds (obligasjoner med fortrinnsrett - OMF).

KLP Boligkreditt AS is registered and domiciled in Norway. KLP Boligkreditt AS's head office is at Beddingden 8 in Trondheim 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 (KLP) through the holding company KLP Bankholding AS. KLP is a mutual insurance company.

The annual financial statements are available at www.klp.no.

# 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 Boligkreditt AS Company and Group (translator: sic??) financial statements. These principles are used in the same way in all periods presented unless otherwise indicated.

## 2.1 FUNDAMENTAL PRINCIPLES

The financial statements for KLP Boligkreditt 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 Company'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 of material significance for the Company have been shown 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 declarations

a) New and changed standards adopted by the Company in 2014

No standards, changes or interpretations that came into effect during 2014 have been adopted that have had significant effect on the Company's accounts.

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

A range of new standards, changes to standards and interpretations on for future annual financial statements. Amongst those the Group has chosen not to apply in advance, the most significant are declared below.

IFRS 9 *Financial Instruments* addresses classification, measurement and recognition of financial assets and financial liabilities as well as hedge accounting. The complete version of IFRS 9 was published in July 2014. It replaces those parts of IAS 39 that relates to the classification and measurement of financial instruments. In accordance with IFRS 9 financial assets are to be classified in three categories: fair value through other comprehensive income; fair value through profit or loss; and amortized cost. The measurement category is decided when the assets are recognized for the first time. Classification depends on the entity's business model for managing its financial instruments and the characteristics of the the individual instrument's cash flows. Investments in equity instruments are required to be measured at fair value through profit or loss. The enterprise may choose to present the value changes over other comprehensive income, but the choice is binding and, on later sale, gain/loss cannot be reclassified through profit or loss. Impairment resulting from credit risk is now to be recognized based on expected loss instead of the current model where losses must have been incurred. For financial liabilities the standard generally continues the requirements in IAS 39. The greatest change is that in instances in which the fair value option is adopted for a financial liability, changes in fair value resulting from change in the entity's own credit risk are recognized in other comprehensive income. IFRS 9 simplifies the requirements for hedge accounting through the hedging effect's closer linkage to the management's risk management providing greater scope for discretion. At the same time hedging documentation continues to be required. The standard is effective for accouting periods beginning on or after 1. january 2018. Early adoption is permitted. The Company still has yet to fully assess the effect of IFRS 9.

IFRS 15 *Revenue from Contracts with Customers* deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognises when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 "Revenue" and IAS 11 "Construction Contracts" and related interpretations. The standard is effective for annual periods beginning on or after 1. january 2017 and earlier application is permitted. The Company still has yet to fully assess the effect of IFRS 15.

There are no other IFRS standards or IFRIC interpretations not yet in force that are expected to have a significant impact on the Company's 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 parent company and the presentation currency of the Group.

### 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 recognized in the category "Financial assets at amortized cost". The purpose of the asset determines the classification and management undertakes classification on acquisition of the financial asset.

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

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

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

2.3.2 Accounting treatment of financial assets
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 acquisition costs are included in the cost of acquisition. 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.

2.3.3 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 any loss write-down is carried out quarterly on individual loans where there is objective evidence of impairment. Lending is also assessed by group. If there is objective evidence of impairment in a group of loans, write-down is carried out. The write-down is reversed if after the date of write-down events occur that reduce the loss.

2.3.4 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 operation that are included as a part of the financial statement line "Lending to and receivables from credit institutions" are counted as cash and cash equivalents. Bank deposits linked to the securities business are defined as financial assets. The statement of cash flows has been prepared in accordance with the direct method.

2.5 FINANCIAL LIABILITIES
The Company's financial liabilities comprise covered bonds issued.

2.5.1 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 of N) 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.

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

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

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

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

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

The Company's financial position comprises primarily lending secured by housing mortgage, housing title deeds or housing association shares (hypothesised residential loans) or other real estate (hypothesised property loans) and borrowing taken up through issuance of covered bonds.  For accounting purposes these items are valued at amortized cost.

Lending not measured at market value is assessed for impairment at the end of the reporting period. If there is an objective event at the end of the reporting period that has influence on future cash flows, write-down is carried out. In addition, lending with uniform risk profile is valued quarterly by group. Until now it has not been necessary to write down loans in the Company's portfolio.

## Note 4 Segment information

KLP Boligkreditt has no division of its income by products or services. The Company has only the retail market segment, and offers its customers only loans that are secured by property mortgage.

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 | 2014 | 2013 |
|---|---|---|
| Net gain/loss on fixed-income securities | 0 | 0 |
| Net gain/loss financial derivatives | 0 | 0 |
| Other financial income and expenses | -233 | 0 |
| Total | -233 | 0 |

## Note 6 Fair value of financial assets and liabilities

| | 31.12.2014 | | 31.12.2013 | |
|---|---|---|---|---|
| NOK thousands | Book value | Fair value | Book value | Fair value |
| FINANCIAL ASSETS AT AMORTIZED COST | | | | |
| Loans to and receivables from credit institutions | 102 785 | 102 785 | 991 | 991 |
| Loans to retail customers | 2 971 296 | 2 971 296 | 0 | 0 |
| Total financial assets at amortized cost | 3 074 081 | 3 074 081 | 991 | 991 |
| Total financial assets | 3 074 081 | 3 074 081 | 991 | 991 |
| LIABILITIES TO FINANCIAL INSTITUTIONS AT AMORTIZED COST | | | | |
| Debt to credit institutions | 1 011 240 | 1 011 240 | 0 | 0 |
| Covered bonds issued | 1 803 395 | 1 803 504 | 0 | 0 |
| Total financial liabilities at amortized cost | 2 814 635 | 2 814 744 | 0 | 0 |
| Total financial liabilities | 2 814 635 | 2 814 744 | 0 | 0 |

Fair value of investments listed in an active market is based on the current sales price. 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. 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 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:

Fair value of loans to retail customers
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 change in market interest rates.

Fair value of debt to 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.

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 Categories of financial assets and liabilities

| NOK thousands | 31.12.2014 | | | | 31.12.2013 | | | |
|---|---|---|---|---|---|---|---|---|
| Financial assets | HFT | FVL | LAR | Total | HFT | FVL | LAR | Total |
| Lending to and receivables from credit institutions | 0 | 0 | 102 785 | 102 785 | 0 | 0 | 991 | 991 |
| Lending to and receivables from customers | 0 | 0 | 2 971 296 | 2 971 296 | 0 | 0 | 0 | 0 |
| Certificates and bonds | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Financial derivatives used in hedging | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 0 | 0 | 3 074 081 | 3 074 081 | 0 | 0 | 991 | 991 |
| Financial liabilities | HFT | FVH | OLI | Total | HFT | FVH | OLI | Total |
| Debt to credit institutions | 0 | 0 | 1 011 240 | 1 011 240 | 0 | 0 | 0 | 0 |
| Liabilities created on issuance of securities | 0 | 0 | 1 803 395 | 1 803 395 | 0 | 0 | 0 | 0 |
| Financial derivatives used in hedging | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Financial derivatives at fair value | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 0 | 0 | 2 814 635 | 2 814 635 | 0 | 0 | 0 | 0 |

FVO: Financial instruments at fair value through profit or loss - fair value option
HFT: Financial instruments at fair value through profit or loss - 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 8 Net interest income

| NOK thousands | 2014 | 2013 |
|---|---|---|
| Interest on loans to and receivables from credit institutions | 1 469 | 3 |
| Interest on lending to customers | 32 029 | 0 |
| Interest on securities | 0 | 0 |
| Total interest income | 33 497 | 3 |
| Interest on debt to KLP Banken AS | -11 549 | 0 |
| Interest on debt to credit institutions | -7 582 | 0 |
| Premium/discount on covered bonds | 116 | 0 |
| Total interest costs | -19 014 | 0 |
| Net interest income | 14 483 | 3 |

## Note 9 Loans and receivables

| NOK thousands | 31.12.2014 | 31.12.2013 |
|---|---|---|
| Loans to and receivables from credit institutions | | |
| Bank deposits | 102 785 | 991 |
| Loans to and receivables from credit institutions | 102 785 | 991 |
| Loans to and receivables from customers | | |
| Principal on loans to customers | 2 964 774 | 0 |
| Accrued interest | 6 522 | 0 |
| Loans to and receivables from customers | 2 971 296 | 0 |

# Note 10 Financial risk management

Organisation of risk management
KLP Boligkreditt AS is a wholly owned subsidiary of KLP Banken AS. The Board of Directors has established a risk management framework aimed at ensuring 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 11 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 Boligkreditt AS provides property mortgage loans to retail customers. The principal customer group's members of KLP, who represent about 67% of the lending volume

Loans according to type of security/exposure (principal)

| NOK thousands | 31.12.2014 | 31.12.2013 |
|---|---|---|
| Loans to the private market with mortgage lien | 2 964 774 | 0 |
| Total | 2 964 774 | 0 |
| Sums falling due more than 12 months after the end of the reporting period | 2 918 328 | 0 |

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 - bank deposits
Deposits in banks grouped by external credit assessment (Moody's)

| NOK thousands | 31.12.2014 | 31.12.2013 |
|---|---|---|
| Aa1-Aa3 | 417 | 0 |
| A1-A3 | 102 367 | 0 |
| Total | 102 785 | 0 |

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.

11.1 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.

11.2 CONTROL AND LIMITATION OF CREDIT RISK
KLP Boligkreditt has only loans mortgaged in residential property in the portfolio. In processing loan applications the borrower's servicing ability and the value of the mortgage object is assessed and loans are provided only within set limits and authorizations.

# Note 11 Credit risk

### 11.3 MAXIMUM EXPOSURE TO CREDIT RISK

KLP Boligkreditt 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 Boligkreditt AS.

Maximum exposure to credit risk

| NOK thousands | 31.12.2014 | 31.12.2013 |
|---|---|---|
| Lending to and receivables from credit institutions | 102 785 | 0 |
| Loans to and receivables from customers | 2 971 296 | 0 |
| Fixed-income securities | 0 | 0 |
| Financial derivatives | 0 | 0 |
| TOTAL | 3 074 081 | 0 |

Utlån som er forfalt eller nedskrevet

| NOK thousands | 31.12.2014 | 31.12.2013 |
|---|---|---|
| Principal on loans with payments with 1-30 days' default | 38 961 | 0 |
| Principal on loans with payments with 31-90 days' default | 0 | 0 |
| Principal on loans with payments with more than 90 days' default | 0 | 0 |
| Total loans fallen due | 38 961 | 0 |
| Relevant security or guarantees | 38 961 | 0 |
| 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.

### 11.4 CONCENTRATION OF CREDIT RISK

The Company's lending is in its entirety linked to financing of real estate with security within 75% of the value of the residential property. 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 individual borrowers is limited by individual Board-set limits. KLP Boligkreditt AS 's largest exposure as at 31 December 2014 was about 0.2 per cent of the Company's total lending.

## Note 12 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 Boligkreditt 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.  All borrowing is in Norwegian kroner. The whole of the lending portfolio comprises loans in NOK.

NOTE 12.1 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.

NOTE 12.2 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-rate risk KLP Boligkreditt AS

Repricing dates for interest-bearing assets and liabilities as at 31 December 2014

| NOK thousands | Total Principal | Up to 1 mnth | From 1 mnth to 3 mnths | From 3 mnth to 12 mnth | From 1 yr to 5 yrs | Over 5 years |
|---|---|---|---|---|---|---|
| Lending | 2 964 774 | 2 964 774 | 0 | 0 | 0 | 0 |
| Securities | 0 | | 0 | 0 | 0 | 0 |
| Cash and receivables from credit institutions | 102 785 | 102 785 | 0 | 0 | 0 | 0 |
| Total | 3 067 559 | 3 067 559 | 0 | 0 | 0 | 0 |
| Liabilities created on issuance of securities | 1 800 000 | 600 000 | 1 200 000 | 0 | 0 | 0 |
| Liabilities to financial institutions | 1 010 000 | 1 010 000 | 0 | 0 | 0 | 0 |
| Total | 2 810 000 | 1 610 000 | 1 200 000 | 0 | 0 | 0 |
| Gap | 257 559 | 1 457 559 | -1 200 000 | 0 | 0 | 0 |
| Financial derivatives | 0 | 0 | 0 | 0 | 0 | 0 |
| Net gap | 257 559 | 1 457 559 | -1 200 000 | 0 | 0 | 0 |

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 mnth to 12 mnth | From 1 yr to 5 yrs | Over 5 years |
|---|---|---|---|---|---|---|
| Lending | | | | | | |
| Securities | | | | | | |
| Cash and receivables from credit institutions | | | | | | |
| Total | 0 | 0 | 0 | 0 | 0 | 0 |
| Liabilities created on issuance of securities | | | | | | |
| Liabilities to financial institutions | | | | | | |
| Total | 0 | 0 | 0 | 0 | 0 | 0 |
| Gap | 0 | 0 | 0 | 0 | 0 | 0 |
| Financial derivatives | 0 | | | | | |
| Net gap | 0 | 0 | 0 | 0 | 0 | 0 |

The Company's interest rate sensitivity as at 31 December 2014, measured as value change in the event of one percentage point change in all interest rates, was NOK 0.8 million.

NOTE 12.3 EXCHANGE RATE RISK
As at 31 December 2014 the Company had no borrowing in foreign currency.

# Note 13 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.

NOTE 13.1 MANAGEMENT OF LIQUIDITY RISK
The management of KLP Boligkreditt AS' 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 Boligkreditt AS, 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.

NOTE 13.2 MATURITY ANALYSIS
The tables below show the maturity analysis of the Company's assets and liabilities including stipulated interest rates.

Maturity analysis for assets and liabilities as at 31 December 2014:

| NOK thousands | Total | Undefined | Up to 1 mnth | From 1 mnth to 3 mnths | From 3 mnth to 12 mnth | From 1 yr to 5 yrs | Over 5 years |
|---|---|---|---|---|---|---|---|
| Lending | 4 170 367 | 0 | 16 987 | 36 220 | 161 946 | 866 183 | 3 089 030 |
| Securities | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Receivables from credit institutions | 102 785 | 102 785 | 0 | 0 | 0 | 0 | 0 |
| Total | 4 273 153 | 102 785 | 16 987 | 36 220 | 161 946 | 866 183 | 3 089 030 |
| Liabilities created on issuance of securities | 1 965 232 | 0 | 2 714 | 5 627 | 25 057 | 1 309 051 | 622 783 |
| Financial derivatives | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Debt to credit institutions | 1 016 711 | 0 | 2 334 | 1 014 377 | 0 | 0 | 0 |
| Total | 2 981 943 | 0 | 5 048 | 1 020 004 | 25 057 | 1 309 051 | 622 783 |
| Net cash flows | 1 291 210 | 102 785 | 11 939 | -983 784 | 136 890 | -442 868 | 2 466 248 |

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 mnth to 12 mnth | From 1 yr to 5 yrs | Over 5 years |
|---|---|---|---|---|---|---|---|
| Lending | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Securities | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Receivables from credit institutions | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Liabilities created on issuance of securities | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Financial derivatives | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Debt to credit institutions | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net cash flows | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

A 3-month internal loan of NOK 1,010,000 has been provided from KLP Banken AS to KLP Boligkreditt AS, which is defined as Liabilities to credit institutions. This loan is rolled over currently every third month and the interest rate is set each month.

## Note 14 Salary and obligations to senior management

| 2014 | Paid from KLP Boligkreditt AS | | | | | Paid from another company in the same group | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| NOK thousands | Salaries, fees etc | Other benefits | Annual pension-accumulation | Plan change pension-benefits[3] | Loan | Salaries, fees etc | Other benefits | Annual pension-accumulation | Plan change pension-benefits[3] | Loan | Interest rate as at 31.12.2014 | Repayment-plan[1] |
| **Senior employees** | | | | | | | | | | | | |
| Christopher A. Steen, Managing Director | - | - | - | - | - | 1 067 | 17 | 196 | -116 | 2 990 | 2,90-3,15 | A38/A42 |
| **Board of Directors** | | | | | | | | | | | | |
| Sverre Thornes, Chair | - | - | - | - | - | 3 569 | 164 | 1 257 | -1 133 | 7 211 | 2,70-3,15 | A41 |
| Aage E. Schaanning | - | - | - | - | - | 3 190 | 149 | 1 085 | -1 048 | 2 483 | 2,70-3,15 | A22/A31 |
| Marit Barosen | 35 | - | - | - | - | - | - | - | - | - | - | - |
| Eva M. Salvesen | 11 | - | - | - | - | 128 | - | - | - | - | - | - |
| **Control Committee** | | | | | | | | | | | | |
| Ole Hetland | - | - | - | - | - | 97 | - | - | - | - | - | - |
| Bengt P. Johansen | - | - | - | - | - | 80 | - | - | - | - | - | - |
| Mathilde Irene Skiri[2] | - | - | - | - | - | 39 | - | - | - | - | - | - |
| Berit Bore | - | - | - | - | - | 41 | - | - | - | - | - | - |
| Dordi E. Flormælen | - | - | - | - | - | 80 | - | - | - | - | - | - |
| Thorvald Hillestad | - | - | - | - | - | 80 | - | - | - | - | - | - |
| **Supervisory Board** | | | | | | | | | | | | |
| Total Supervisory Board | - | - | - | - | - | 75 | - | - | - | 14 283 | - | - |
| **Employees** | | | | | | | | | | | | |
| Total loans to employees of KLP Boligkreditt | - | - | - | - | - | - | - | - | - | 2 990 | - | - |

1) S= Serial loan, A= Annuity loan, last payment. 2) Resigned during the year. 3) Plan change pension benefits shows the effect of longevity adjustment for the year groups from 1954 adopted in 2008, as well as changes in the disability pension regulations adopted in 2014. Both these plan changes were incorporated in the calculation of the pension obligation in 2014.

The KLP Board of Directors has laid down principles and guidelines for remuneration that apply for the entire Group and set up a remuneration committee as a subcommittee of the Board. The committee reports on and carries out checks that the remuneration schemes in the Group are in line with the Board's principles and guidelines. The Managing Director is employed by the Company, but receives no remuneration or pension accumulation. The incumbent receives all benefits from the parent company, KLP Banken AS, where he holds the appointment of Head of the Finance Department. KLP Boligkreditt refunds the portion of the benefits that can be linked to the role as Managing Director. There is no agreement on performance pay or special consideration on termination or change in employment contract. The pensionable age is 70 years.

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. This also applies to any loans they may have with the Group.

KLP Boligkreditt 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.

Attention is drawn otherwise to the description of the main principles on determination of remuneration in the KLP Group that may be found at www.klp.no.

## Note 15 Liabilities to credit institutions

| NOK thousands | Currency | Interest | Due date | Nominal | Accrued interest | 31.12.2014 Book value |
|---|---|---|---|---|---|---|
| Debt to KLP Banken AS | NOK | Fast | 16.03.2015 | 1 010 000 | 1 240 | 1 011 240 |
| Total liabilities to credit institutions | | | | 1 010 000 | 1 240 | 1 011 240 |

| NOK thousands | Currency | Interest | Due date | Nominal | Accrued interest | 31.12.2013 Book value |
|---|---|---|---|---|---|---|
| Total liabilities to credit institutions | | | | 0 | 0 | 0 |

## Note 16 Securities liabilities - stock exchange listed covered bonds

| NOK thousands | Nominal | Currency | Interest | Issued | Due date | Accrued interest | 31.12.2014 Book value |
|---|---|---|---|---|---|---|---|
| **ISIN code** | | | | | | | |
| NO0010719875 | 600 000 | NOK | 1,84 | 12.09.14 | 12.09.19 | 613 | 600 613 |
| NO0010721244 | 600 000 | NOK | 1,77 | 06.10.14 | 06.10.17 | 2 567 | 602 567 |
| NO0010723018 | 600 000 | NOK | 1,87 | 05.11.14 | 05.11.21 | 1 777 | 601 777 |
| Amortization / value adjustments | | | | | | | -1 562 |
| Total covered bonds issued with preferential rights in housing mortgages | | | | | | | 1 803 395 |

| NOK thousands | Nominal | Currency | Interest | Issued | Due date | Accrued interest | 31.12.2013 Book value |
|---|---|---|---|---|---|---|---|
| Total covered bonds issued with preferential rights in housing mortgages | | | | | | | 0 |

## Note 17 Capital adequacy

| NOK thousands | 31.12.14 |
|---|---|
| Share capital and share premium fund | 250 463 |
| Other owners' equity | 2 037 |
| Total owners' equity | 252 500 |
| Deduction goodwill and other intangible assets | 0 |
| Deferred tax asset | 0 |
| Core capital/Tier 1 capital | 252 500 |
| | |
| Supplementary capital/Tier 2 capital | 0 |
| Supplementary capital/Tier 2 capital | 0 |
| | |
| Total own funds (eligible Tier 1 and Tier 2 capital) | 252 500 |
| Capital requirement | 84 848 |
| Surplus of own funds (eligible Tier 1 and Tier 2 capital) | 167 652 |
| | |
| **Calculation basis credit risk** | |
| Institutions | 20 635 |
| Mortgage security in real estate | 1 039 966 |
| Calculation basis credit risk | 1 060 601 |
| | |
| Credit risk | 84 848 |
| Operating risk | 0 |
| Total capital requirement assets | 84 848 |
| | |
| Core capital adequacy ratio | 23,8 % |
| Supplementary capital ratio | 0,0 % |
| Capital adequacy ratio | 23,8 % |

| Capital requirement as at 31.12.2014 | Core capital | Supplementary capital/ Tier 2 capital | Own funds (eligible Tier 1 and 2 capital) |
|---|---|---|---|
| Minimum requirement without buffers | 4,5 % | 3,5 % | 8,0 % |
| Protective buffers | 2,5 % | 0,0 % | 2,5 % |
| System risk buffers | 3,0 % | 0,0 % | 3,0 % |
| Applicable capital requirement incl. buffers | 10,0 % | 3,5 % | 13,5 % |

## Note 18 Skatt

| NOK thousands | 2014 | 2013 |
|---|---|---|
| Accounting income before taxes | 2 790 | 2 |
| Permanent differences | 0 | -11 |
| Change in differences between book and taxable income | 0 | 0 |
| Taxable income | 2 790 | -9 |
| | | |
| Group contribution received with tax effect | 0 | 0 |
| Group contribution paid with tax effect | -2 781 | 0 |
| Allocation of carryforward deficit | -9 | 0 |
| Base for tax payable | 0 | -9 |
| | | |
| Deficit carryforward allowable from previous years | -9 | 0 |
| Change for the year in carryforward deficit | 9 | -9 |
| Total allowable carryforward deficit as at 31 December | 0 | -9 |
| | | |
| Net temporary differences | 0 | 0 |
| Carryforward deficit | 0 | -9 |
| Deferred tax on carryforward deficit | 0 | -2 |
| | | |
| Capitalized deferred tax/(deferred tax asset) | 0 | 2 |
| Tax effect of group contribution | 751 | |
| Capitalized deferred tax/deferred tax assets | 751 | 2 |
| | | |
| Change in deferred tax taken to profit/loss | -2 | 2 |
| | | |
| **Summary of tax expense for the year** | | |
| Change in deferred tax taken to profit/loss | 0 | 2 |
| Tax on Group contribution taken to profit/loss | -751 | |
| Total taxes | -753 | 2 |
| | | |
| Effective tax percentage | 27 % | -155,2 % |
| | | |
| **Reconciliation of tax percentage:** | | |
| Permanent differences | 0 | -11 |
| Tax permanent differences | 0 | -3 |
| Corrected tax | -753 | 2 |
| Tax percentage | 27 % | 27 % |

## Note 19 Number of FTEs and employees

KLP Boligkreditt AS has 1 employee. The individual receives no salary or other form of remuneration from the Company.
KLP Boligkreditt AS buys personnel services from other companies in the KLP Group.

## Note 20 Other liabilities and provision for accrued costs and liabilities

| NOK thousands | 31.12.2014 | 31.12.2013 |
|---|---|---|
| Receivables between companies in the same Group | 6 305 | 0 |
| Creditors | 38 | 0 |
| Other liabilities | 0 | 0 |
| Total other liabilities | 6 343 | 0 |
| Value-added tax | 21 | 0 |
| Provisioned costs | 232 | 0 |
| Total accrued costs and liabilities | 253 | 0 |

## Note 21 Transactions with related parties

| NOK thousands | 2014 | 2013 |
|---|---|---|
| **Income statement items** | | |
| KLP Banken AS, interest on borrowing | -11 549 | 0 |
| KLP Banken AS, administrative services (at cost) | -7 941 | 0 |
| KLP Kapitalforvaltning AS, fees for services provided | 272 | 0 |
| Total | -19 218 | 0 |

| NOK thousands | 31.12.2014 | 31.12.2013 |
|---|---|---|
| **Financial position statement items** | | |
| KLP Banken AS, debt to credit institutions | -1 011 240 | 0 |
| KLP Banken AS, loan settlement | 239 | 0 |
| Net outstanding accounts to: | | 0 |
| KLP Banken AS - banking | -6 305 | 0 |
| KLP Group companies, net other internal accounts | 162 | 0 |
| Total | -1 017 144 | 0 |

There are no direct salary costs in KLP Boligkreditt 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 22 Auditor's fee

| NOK thousands | 2014 | 2013 |
|---|---|---|
| Ordinary audit | 133 | 0 |
| Certification services | 160 | 0 |
| Tax advisory services | 0 | 0 |
| Non-audit services | 9 | 0 |
| Total auditor's fee | 301 | 0 |

The sums above include VAT.

## Note 23 Other assets

| NOK thousands | 31.12.2014 | 31.12.2013 |
|---|---|---|
| Receivables between Group companies | 401 | 0 |
| Prepaid expenses | 0 | 0 |
| Total | 401 | 0 |

## Note 24 Cash and cash equivalents

| NOK thousands | 31.12.2014 | 31.12.2013 |
|---|---|---|
| Cash and bank deposits | 102 785 | 991 |
| Total cash and bank deposits | 102 785 | 991 |
| | | |
| In the statement of cash flows, cash and cash equivalents comprise the following: | | |
| Cash and bank deposits | 102 785 | 991 |
| Bank accounts for use for acquisition and sale of securities | -5 | 0 |
| Cash and cash equivalents at the end of the period | 102 780 | 991 |

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

## Independent auditor’s report

### Report on the Financial Statements

We have audited the accompanying financial statements of KLP Boligkreditt AS, which comprise the balance sheet as at 31 December 2014, 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 Boligkreditt AS as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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*Statsautoriserte revisorer, medlemmer av Den norske Revisorforening og autorisert regnskapsførerselskap*

**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 2015
**PricewaterhouseCoopers AS**

Rune Kenneth S. Lædre
State Authorised Public Accountant (Norway)

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

# This is KLP

## KLP provides secure and competitive financial and insurance services to the public sector, enterprises associated with the public sector and their employees.

KLP's vision is to be the best partner for the days to come. This vision points the way for KLP's employees, and helps ensure that KLP is perceived by its clients to be a reliable partner, who strengthens their finances, make their lives easier day to day, help make them a more attractive employer and contribute towards a more sustainable public sector. KLP's main objective is to be Norway's leading provider of pensions to the public sector. KLP's most important task is therefore to provide pensions with a competitive rate of return over the long term, the lowest costs and a high level of service.

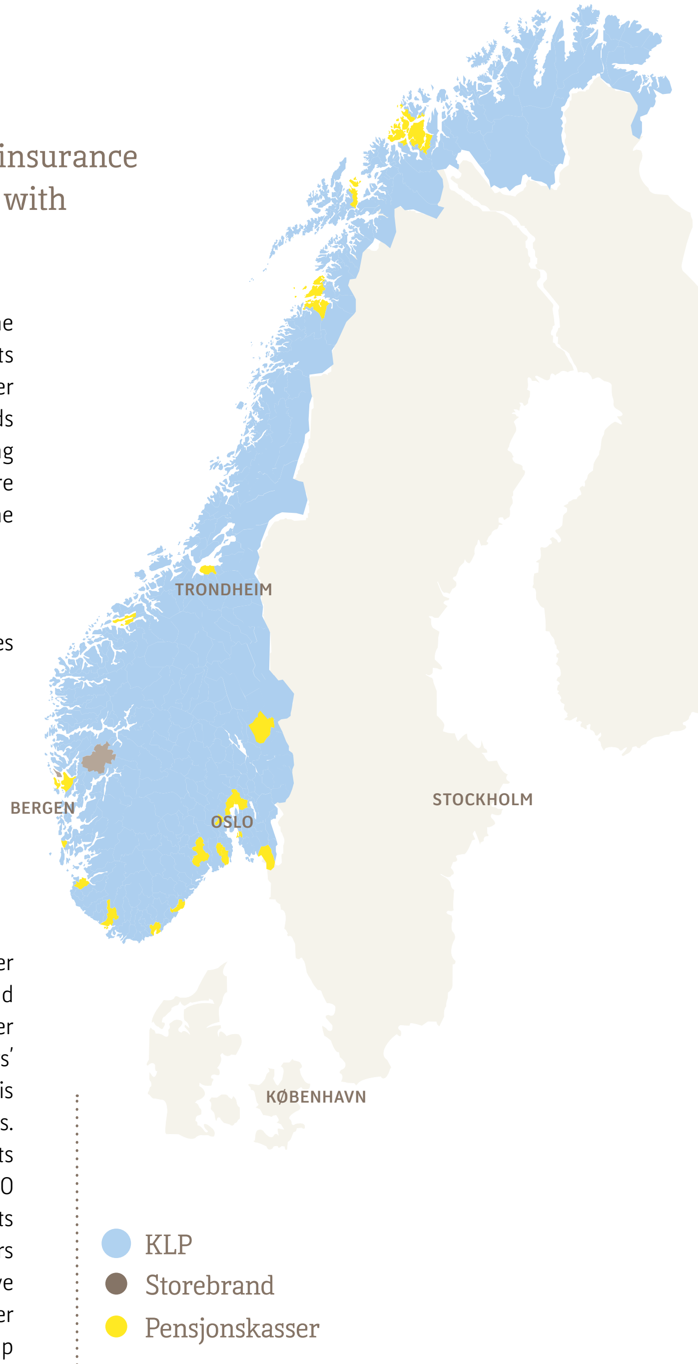
### Market leader – public service pensions

At the start of 2015, 403 municipal and county authorities had pension schemes with the company. In addition, 25 of the country's 26 health trusts and the four regional health authorities all have one or more pension agreements with KLP. Around 2,500 companies also have pension schemes with KLP. The company's pension schemes cover more than 418,000 people in work and 230,000 pensioners. More than 167,000 people also have a pension entitlement with KLP deriving from previous jobs. A further 15 municipal authorities will transfer to KLP in 2015.

### Successful focus on members

KLP offers finance and insurance-related products and services to the consumer market. The products are aimed at employees and pensioners of clients and owners whose pension schemes are managed by KLP. The objective is to offer these members attractive products and services in order to enhance our owners' ability to recruit and retain the desired labour resources. At the same time, this focus contributes to the growth and profitability of KLP's various business units. In recent years, KLP has actively emphasised the provision of insurance products and financial services which meet the needs of our members. More than 76,000 client relationships have been established in recent years. The number of clients who are also members now stands at 39,000. The products offered to members in the areas of banking, non-life insurance and investment funds are competitive both in terms of price and content. Their ranking on *Finansportalen* and other market comparison sites shows that these membership products are well up among the best. The increase in new customers also shows that the benefits available to members are starting to become known, which can largely be attributed to a series of marketing campaigns.

Excellent personal treatment and service is characteristic for KLP's customer relations. This was confirmed through a customer satisfaction survey undertaken among private customers in November 2014. The results were extremely positive, with all business areas achieving a score of 74 or more. This is high also in comparison with other financial institutions in Norway. Customers are particularly happy with our level of service, responsiveness and personal treatment.




The vast majority of municipal and county authorities are KLP clients. KLP is headquartered in Oslo. KLP also has an office in Bergen, which looks after life insurance and pension services. The property company has offices in Oslo, Trondheim, Copenhagen and Stockholm. The bank has offices in Trondheim and Oslo.

## Group structure

Kommunal Landspensjonskasse gjensidig forsikringsselskap (KLP) is a client-owned enterprise, and the parent company of a financial group of wholly owned subsidiaries incorporated as private limited companies.

Public sector pensions are the main product offered by the mutual company KLP, and it is this product's customers who own the company. The mutual ownership model has been chosen both because it is financial efficient, and because it gives customers and owners influence over delivery of an important service.

The subsidiaries were created to support KLP's core business, and to offer secure and competitive services to KLP's owners and their employees.

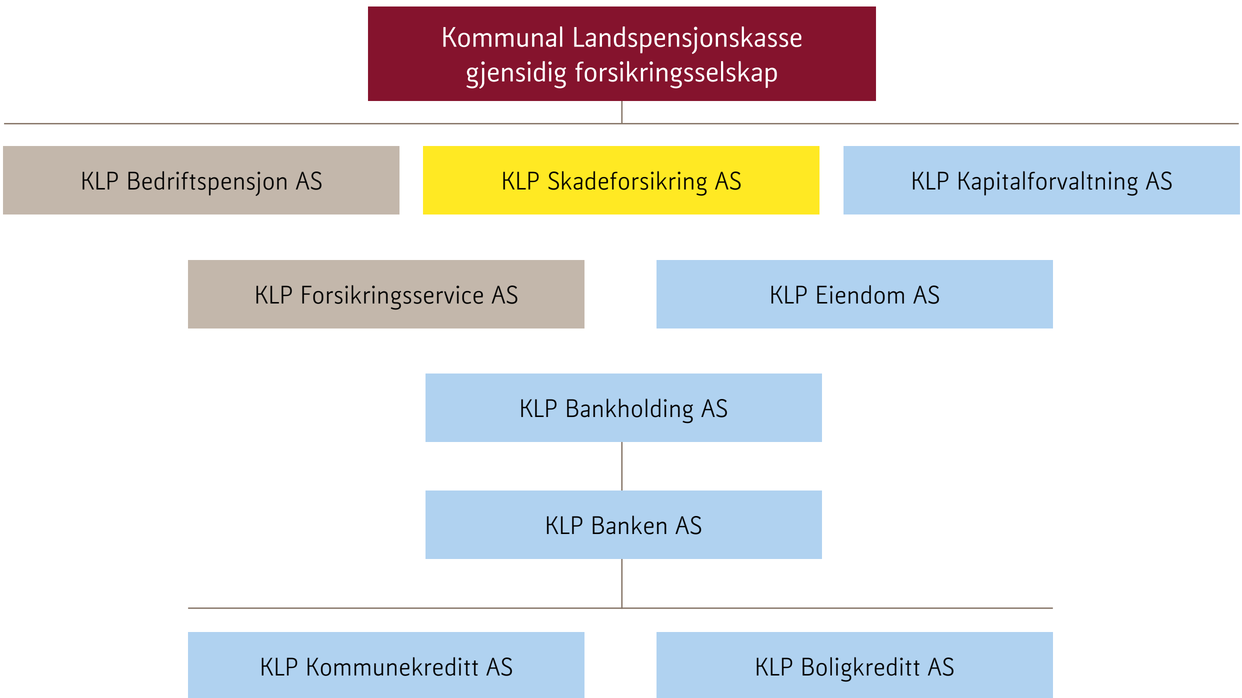
Employees in the KLP-Group

# 899

At the close of 2014 the Group employed a total of 899 people, and managed total assets of NOK 490.9 billion.

KLP provides products and services within the following areas:

- Pensions and pension fund services
- Banking
- Insurance
- Investment funds and capital management




**KLP BANKEN AS** The overall business activities of KLP Banken AS, including the subsidiaries KLP Boligkreditt AS and KLP Kommunekreditt AS, are divided into the business areas Consumer Market (CM) and Public Sector (PS). The Group operates nationwide and its offices are located in Trondheim.

KLP Banken is an online bank, focusing on home mortgage lending and deposits. This provides the basis for efficient operations and low costs. At the start of the year the bank had over 33,000 active consumer customers.

**KLP Boligkreditt AS** is a subsidiary of KLP Banken, and was licensed as a mortgage lender in 2014. A proportion of the bank's lending in the consumer market has been transferred to this company. The business is funded largely through the issue of mortgage-backed covered bonds.

**KLP Kommunekreditt AS** is also a subsidiary of KLP Banken. The company aims to be a key financing partner for the public sector. KLP Kommunekreditt meets a wide range of local authority borrowing needs, eg for schools, nurseries, care homes and projects relating to municipal climate and energy plans. In addition, KLP finances some council-run infrastructure.

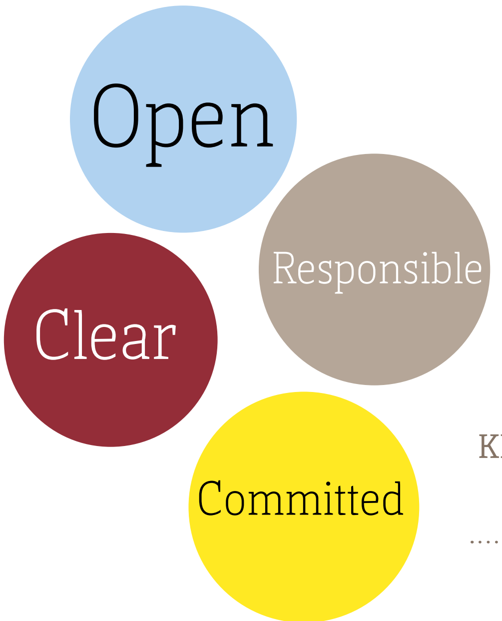
**KLP SKADEFORSIKRING AS** offers non-life insurance to the public sector and enterprises with a public sector connection. At the close of 2014 the company had 315 municipal and 14 county authorities on its client list, as well as 2,864 enterprises and 31 customers linked to health trusts. The company also offers insurance solutions in the consumer market, with particular benefits for KLP members. At the close of last year, it had 28,000 individual customers.

**KLP FORSIKRINGSSERVICE AS** has specialist expertise with regard to public sector pension schemes, and offers a full range of pension fund services.

**KLP BEDRIFTSPENSJON AS** offers defined-contribution occupational pensions, including the management of pension capital certificates, for public and private sector enterprises. The company manages total capital assets of NOK 2,270.3 million.

**KLP KAPITALFORVALTNING AS** manages investment funds on behalf of the KLP Group's insurance business and other clients through the KLP Funds. KLP Kapitalforvaltning AS holds a licence from the Financial Supervisory Authority of Norway to manage securities funds and alternative investment funds, as well as perform active asset management and associated services. At the close of last year the company managed assets worth approx. NOK 370 billion on behalf of the parent company and external clients.

**KLP EIENDOM AS** is one of Norway's largest property companies, It manages 1,554,000 m2 of building space and 372,000 m2 of leasehold land, and is engaged in several major property development projects. As at 31 December 2014, the property was worth a total of NOK 45.7 billion. KLP Eiendom has operations in Norway, Sweden, Denmark, Luxembourg and the UK (London). Its properties have excellent locations, a high standard of construction and effective utilisation of space. For KLP, property is an investment class on the same level as shares, bonds and lending.




KLP's values

## Social responsibility

Much hyperbole has been employed to describe corporate social responsibility. But for KLP it is simply about how the company runs its business. Pensions, banking, insurance, savings and property are products that bring us close to the lives of our members. It is a responsibility that KLP feels it is important to discharge well.

The company's social responsibility goals are to contribute to a sustainable public sector and integrate sustainable and responsible practices into all its business processes. Social responsibility is therefore of strategic significance to KLP, and its endeavours are associated with four principal areas: responsibility in investments and products, responsible environmental solutions, the sharing of knowledge and local engagement.

## Responsibility in investments and products

KLP aims to be among the leaders within the area of responsible investment. 2014 saw intense public debate about investments in coal companies. KLP has a major responsibility as the country's largest life insurance company. It is important to achieve a good return that safeguards future pensions. At the same time, it is important to consider how its long-term investments can contribute to sustainable development. KLP therefore decided to invest an additional NOK 500 million in increased renewable energy capacity, and pull out of companies that generate a significant proportion of their revenues from coal. With this move, KLP wishes to contribute to a shift from fossil fuels to renewable energy. This effort has already begun. Through its partnership with Norfund, KLP invested in Africa's largest wind farm in Kenya in 2014, as well as solar power plants in Rwanda and Honduras.

KLP signed the UN Global Compact as far back as 2003. By doing so it has pledged to work for human and labour rights, environmental protection and efforts to eradicate corruption.

KLP also endorses investor initiatives such as the UN's principles for responsible investments and the CDP (an initiative to increase and improve companies' carbon emission reporting), and uses international reporting guidelines such as the Integrated Reporting Framework and the Global Reporting Initiative to improve its own reporting.

# History 1949–2014

**1949**
The Union of Norwegian Cities and the Norwegian Association of Rural Municipalities (forerunners to the Norwegian Association of Local and Regional Authorities - KS) resolve to establish Kommunal Landspensjonkasse. KLP was established as a «managed» pension scheme under Norsk Kollektiv Pensjonskasse.

**1950**
KLPs Harald Bastiansen develops an average premium system for hospital doctors.

**1961**
The Nurses' Scheme with average premiums is introduced. The Norwegian Act concerning Pension Scheme for Nurses came into force in 1962.

**1967**
The Norwegian parliament, the Storting, passed a resolution to introduce National Insurance.

**1974**
The Transfer Agreement, to which KLP contributes, secures pension rights in the event of a change of job within the public sector.

**1974**
KLP obtains its own licence as an insurance company and establishes a joint local authority pension scheme.

**1986**
KLP achieves breakthrough pensions to be indexed in line with the National Insurance Basic Amount («G»).

**1988**
Contractual early retirement (AFP) is introduced.


**1990**
KLP establishes scheme with equity capital contribution i.a.w. the Norwegian Insurance Act.

**1995–1996**
Competition over the local authority pension schemes becomes fiercer.

**2003**
The Banking Act Commission delivers reports on competition in local government occupational pension schemes, and gender and age neutrality in group pension schemes.

**2004**
KLP's premium system becomes part of the industry norm and is incorporated into the Norwegian Insurance Act.

**2008**
The Norwegian Insurance Act is amended. Differentiation is made between customer assets and corporate assets.

**2011**
Public sector occupational pension is adjusted to the changes in the Pension Reform.

**2013**
KLP's principal competitors in the market for public sector occupational pensions opt to withdraw.

**2014**
The Storting adopts new disability pension in the public sector from 1 January 2015.

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