Annual report 2016

KLP BOLIGKREDITT AS

Contents

Annual report for 2016

KLP Boligkreditt AS's profit before tax in its third year in operation was NOK 11.4 million. The financial position statement at the end of the year was NOK 4.9 billion. The company is mainly being financed by issuing covered bonds. The bonds have the highest rating possible (AAA).

KLP Boligkreditt AS became licensed as a housing credit company in March 2014 and is a wholly owned subsidiary of KLP Banken AS. The operation is a mortgage company which in the main is financed by bonds being issued with security in mortgages.

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 Kommunekreditt AS.

The total activities of KLP Banken AS and its subsidiaries are divided into the retail market and public-sector market business areas. The business is nationwide and the companies' head office is in Trondheim.

KLP Banken's target group in the retail market are the members of KLP pension schemes. The bank is to offer products and services on competitive terms and conditions to contribute to reinforce the perception that organisations that have chosen KLP as their pension provider are attractive employers.

ECONOMIC DEVELOPMENT IN 2016

Profit/loss

NOK MILLIONS	2016	2015	Change
Pre-tax profit/loss	11.4	18.5	-7.1
Net interest income/loss	36.8	47.3	-10.5
Operating costs	-28.8	-27.9	-0.9

Financial position

NOK BILLIONS	2016	2015	Change
Mortgages	4.7	3.7	1.0
Total assets	4.9	4.0	0.9

Figures below in brackets show the preceding year's figures.

Income statement

Profits amounted to NOK 11.4 million before tax. This produced returns on owners' equity of 4.1 (6.9) per cent. Profit after tax was NOK 8.5 (13.5) million.

At the end of 2016 the company has debt in covered bonds amounting to NOK 3.7 billion in a security pool made up of mortgages. In 2016 new bonds were issued for NOK 1.4 billion. The remainder of the financing was owners' equity and loans from the parent company.

Interest income from lending for housing purposes in 2016 amounted to NOK 102.1 (112.9) million. In addition there was income from bank deposits and securities of NOK 2.4 (4.1) million.

Interest costs in the second full year of operation are divided between NOK 58.4 (38.6) million for interest on covered bonds issued, and NOK 9.3 million (31.2) for interest on debt to the parent company.

Net interest income in 2016 amounted to NOK 36.8 (47.3) million. The main reason for the change was that lending rates fell more than the borrowing rates. This was only partly compensated for by growth in the lending volume.

The Company is regularly adjusting the duration of borrowings in order to reduce the liquidity risk and meet regulatory requirements for liquidity indicators and capital adequacy (Basel III and CRD IV). As part of the restructuring of the financing, own issued bonds are repurchased. In 2016 the effect on profits caused by repurchasing borrowings was NOK 2.9 million.

The Company's lending is managed by employees of KLP Banken AS, the parent company, and a large part of the operating costs are regulated in a management agreement with the parent company. The management agreement is organised in such a way that KLP Boligkreditt's part of the parent company's costs related to mortgage management based on volume is charged to KLP Boligkreditt. This is settled on a monthly basis. Operating costs in excess of this are direct costs in the Company for external assistance such as rating, auditing etc. In 2016 the Company's operating costs amounted to NOK 28.8 million as against NOK 27.9 million in 2015.

LENDING

KLP Boligkreditt AS purchased mortgages from KLP Banken AS for NOK 2.6 billion in 2016. In 2015 mortgages equalling NOK 2.6 billion were purchased from KLP Banken and KLP. Mortgages outstanding on the Company's financial position statement stood at NOK 4.7 billion at the end of 2016 as against NOK 3.7 billion in 2015.

The portfolio of mortgages is secured within conservative valuations. The borrower's ability to pay and willingness to service the loan is part of the credit rating. The average lending per customer was NOK 1.2 (1.2) million. All lendings had variable interest rates. No loss on mortgages was brought to book in 2016 and there were no defaults exceeding 90 days at the end of 2016.

BORROWING

The Company has a licence to issue covered bonds in a security pool made up of mortgages.

At the end of 2016 debt in the form of covered bonds is made up of 5 borrowings totalling NOK 3.7 billion. Of this own holdings amount to NOK 0.6 billion. The bonds are issued with collateral in the Company's portfolio of mortgages backed by sound collateral. All issuances have achieved AAA rating.

The Company's debt to credit institutions at the end of the year consisted of internal financing of NOK 0.8 billion provided by KLP Banken AS.

ASSETS AND SOLVENCY

Total assets were NOK 4.9 billion at the end of 2016, as against NOK 4.0 billion in 2015.

The Company's Tier 1 and Tier 2 capital, based on the Board of Directors' recommendation for allocating the profits amounted to NOK 279.8 million at the end of 2016. Core capital and the core capital adequacy ratio was 15.8 per cent.

The applicable capital requirement including capital buffers is 11.5 per cent core capital adequacy and 15.0 per cent capital adequacy. Risk-weighted assets were NOK 1.7 (1.3) billion. Solvency is considered good.

LIQUIDITY

The statement of cash flows in the annual financial statements shows that the liquidity situation is satisfactory. As a result of the taking up of loans at times when conditions are considered to be favourable it sometimes becomes necessary to invest spare liquidity. Such liquidity contributes to profitability and leaves flexibility to handle demand for new lendings.

KLP Boligkreditt AS is subject to strict rules for which assets the Company can invest in. The portfolio of liquidity investments is made up of secure securities and deposits in other banks. The securities are certificates and bonds with very good security, mainly covered bonds and AAA rating.

At the end of 2016 the Company's liquid assets were placed in bank deposits in the amount of NOK 115 (123) million and NOK 44 (91) in interest-bearing securities. Securities are booked at market value. For 2016 this meant a book gain of NOK 0.4 million.

ALLOCATION OF THE PROFITS FOR THE YEAR

The financial statements of KLP Boligkreditt AS show the total comprehensive income for 2016 to be NOK 8.5 million after tax. The Board recommends that a group contribution of 12.1 million be paid to KLP. NOK 9.1 million is received back from KLP as group contribution with no tax effect. Profit after tax and the group contribution is transferred to retained equity.

ABOUT THE FINANCIAL STATEMENTS

The Board believes that the financial statements give a true and fair picture of the Company's assets and liabilities, financial position and result. The going concern assumption is present and this provides the basis for the annual financial statements.

KLP Boligkreditt AS is presenting its financial statements in accordance with IFRS (International Financial Reporting Standard), which is approved by the EU with related interpretations. See Note 2 in the annual financial statements for further information.

In order to ensure that the financial reporting is of good quality, detailed plans are prepared for each time the accounts are presented and the sharing of responsibility and work is clearly set out. Assessments made of the undertaking's assets and liabilities are documented in writing.

RATING

The rating agencies' assessment of KLP Boligkreditt and the KLP Group is important for the companies' terms and conditions for borrowing. The Company use Moody's for credit rating of bonds. All issuances of covered bonds have been rated AAA.

In 2016 KLP Boligkreditt AS has terminated its agreement with Fitch and asked Fitch to end its rating of the Company and the bonds. The termination was only based on a desire to lower the costs.

RISK MANAGEMENT

KLP Banken AS is exposed to various types of risk. The Bank has a well established 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 risk, credit risk, market risk, operational risk and compliance risk) and an overarching risk policy that covers principles, organisation, frameworks etc. for the Bank's combined risk. The policies are adopted by the Board and are revised at least once a year. The policies are of an overarching nature and are complemented by procedures, rules and regulations, and instructions laid down at the administrative level.

The objective is that KLP Banken should have low operational risk and be characterized by high professional competence, good procedures and efficient operation.

The Company is covered by the KLP Banken Group's process for assessing and quantifying significant risks and calculating the capital requirement (ICAAP). The capital requirement assessment is forward-looking, and in addition to calculating the requirement based on current exposure (or limits), the requirement is assessed in the light of planned growth, strategic changes decided, etc. The Company's Board of Directors participates actively in these assessments and, in conjunction with the capital requirement assessment, the Board adopts a desired level of total capital. This level is known as the "target capital".

THE WORK OF THE BOARD OF DIRECTORS

The Board held seven meetings during 2016. For details of remuneration of the Board's members and chair, please see Note 15 to the annual financial statements. At the end of the year the Board is made up of two women and two men.

CORPORATE GOVERNANCE

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

The Board is authorised to issue or repurchase own shares.

The Board lays down the guidelines for the company's activities. Binding agreements can be signed by the Managing Director or the Board Chair alone.

The Managing Director has the day-to-day management of the company in accordance with the instructions specified by the Board.

An account of the management of the bank is available at KLP's website (https://www.klp.no/om-klp).

WORKING ENVIRONMENT AND ORGANISATION

KLP Boligkreditt AS had two employees at the end of 2016. These also had employment relationships with other companies in the KLP Banken Group.

A management agreement has been entered into with KLP Banken AS covering administration, IT services, financial and risk management as well as borrowings and liquidity management.

As part of the KLP Group, KLP Boligkreditt AS complies with the Group's guidelines for equality and diversity in which targets, measures and activities take account of the discriminatory factors described in legislation. Separate targets for equality and diversity have been adopted by a central working group. When recruiting people the group express as its standard the desire to have contact with all qualified job seekers irrespective of their age, gender, functionality, political platform, sexual orientation or ethnic background. The Board considers the working environment to be good.

THE EXTERNAL ENVIRONMENT

With its corporate social responsibility policy, KLP is committed to having good procedures for measuring and reducing the companies' impact on the environment. As with the KLP Group as such, KLP Boligkreditt AS takes its impact on the environment seriously. As an office-based company it is above all energy consumption, transport, waste and procurement that may be impacted. KLP Banken AS, the parent company, is environmentally accredited.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

As part of the KLP Group, KLP Boligkreditt AS will contribute to sustainable insvestments and responsible business practices. This materialises through actions linked to the Group's business. KLP has signed the UN Global Compact and is thereby committed to working for human rights, worker rights, the environment, and anti-corruption. An in-depth description of goals, measures and results are available at KLP's website (https://www.klp.no/om-klp/samfunnsansvar).

FUTURE PROSPECTS

KLP Boligkreditt AS is part of the financing structure of the KLP Banken Group through the issuance of covered bonds in a security pool made up of mortgages.

New mortgages will be bought from KLP Banken AS or from KLP, and will be included in the security pool for existing and new borrowing issues. The Board believes there is a potential for further development of the Company and that an increased proportion of KLP Banken's lending for housing purposes are to be financed by KLP Boligkreditt AS. This will contribute to reducing the bank group's borrowing costs. KLP Boligkreditt AS aims to be an important contributor to the financing of mortgages for the employees of KLP's owners.

Oslo, 10 March 2017
The Board of Directors of KLP Boligkreditt AS

Sverre Thornes
Chair

Aage E. Schaanning
Deputy Chair

Eva M. Salvesen

Marit E. Barosen

Christopher A. N. Steen
Managing Director

The Board of Directors of KLP Boligkreditt AS. Aage E. Schaanning, Eva M. Salvesen, Sverre Thornes and Marit E. Barosen.

Income statement

KLP BOLIGKREDITT AS

NOTE	NOK THOUSANDS	01.01.2016 -31.12.2016	01.01.2015 -31.12.2015
	Interest income and similar income	104 511	117 064
	Cost of interest and similar costs	-67 703	-69 795
9	**Net interest income**	**36 808**	**47 269**
5	Net gain/(loss) on financial instruments	3 328	-932
	Total net gain/(loss) on financial instruments	**3 328**	**-932**
23	Other operating expenses	-28 758	-27 863
	Total other operating expenses	**-28 758**	**-27 863**
	Operating profit/loss before tax	**11 379**	**18 474**
19	Tax on ordinary income	-2 865	-5 014
	Income for the year	**8 514**	**13 460**
	Other comprehensive income	0	0
	Other comprehensive income for the year after tax	**0**	**0**
	COMPREHENSIVE INCOME FOR THE YEAR	**8 514**	**13 460**
	ALLOCATION OF INCOME		
	Allocated to/from retained earnings	-8 514	-13 460
	TOTAL ALLOCATION OF INCOME	**-8 514**	**-13 460**
	Total profit in% of total assets	0.17 %	0.34 %

Financial position statement

KLP BOLIGKREDITT AS

NOTE	NOK THOUSANDS	31.12.2016	31.12.2015
	ASSETS		
10,25	Loans to and receivables from credit institutions	115 181	122 973
10	Loans to and receivables from customers	4 722 193	3 743 448
8	Fixed-income securities	44 110	90 575
19	Deferred tax assets	485	321
24	Other assets	3 777	1 826
	TOTAL ASSETS	**4 885 745**	**3 959 142**
	LIABILITIES AND OWNERS' EQUITY		
	LIABILITIES		
16	Liabilities to credit institutions	848 927	825 732
17	Liabilities created on issuance of securities	3 745 457	2 854 556
19	Deferred tax	3 029	5 366
20	Other liabilities	8 204	7 229
20	Provisions for accrued costs and liabilities	288	299
	TOTAL LIABILITIES	**4 605 905**	**3 693 182**
	OWNERS' EQUITY		
	Share capital	100 000	100 000
	Share premium	150 463	150 463
	Other owners' equity	29 377	15 497
	TOTAL OWNERS' EQUITY	**279 840**	**265 960**
	TOTAL LIABILITIES AND OWNERS' EQUITY	**4 885 745**	**3 959 142**

Oslo, 10 March 2017
The Board of Directors of KLP Boligkreditt AS

Sverre Thornes
Chair

Aage E. Schaanning
Deputy Chair

Eva M. Salvesen

Marit E. Barosen

Christopher A. N. Steen
Managing Director

Statement of owners' equity

KLP BOLIGKREDITT AS

2016 NOK THOUSANDS	Share capital	Share premium	Other equity	Total owners' equity
Owners' equity 1 January 2016	100 000	150 463	15 497	265 960
Income for the year	0	0	8 514	8 514
Other comprehensive income	0	0	0	0
Total comprehensive income	**0**	**0**	**8 514**	**8 514**
Group contribution received	0	0	19 873	19 873
Group contribution paid after tax	0	0	-14 507	-14 507
Total transactions with the owners	**0**	**0**	**5 366**	**5 366**
Owners' equity 31 December 2016	**100 000**	**150 463**	**29 377**	**279 840**

2015 NOK THOUSANDS	Share capital	Share premium	Other equity	Total owners' equity
Owners' equity 1 January 2015	100 000	150 463	2 037	252 500
Income for the year	0	0	13 460	13 460
Other comprehensive income	0	0	0	0
Total comprehensive income	**0**	**0**	**13 460**	**13 460**
Group contribution received	0	0	1 945	1 945
Group contribution paid after tax	0	0	-1 945	-1 945
Total transactions with the owners	**0**	**0**	**0**	**0**
Owners' equity 31 December 2015	**100 000**	**150 463**	**15 497**	**265 960**

NOK THOUSANDS	Number of shares	Par value	Share capital	Share premium	Other equity	Total
Equity at 1 January 2016	1 000	100	100 000	150 463	15 497	265 960
Changes in the period 1 January - 31 December	-	-	0	0	13 880	13 880
Equity at 31 December 2016	**1 000**	**100**	**100 000**	**150 463**	**29 377**	**279 840**

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

Statement of cash flows

KLP BOLIGKREDITT AS

NOK THOUSANDS	01.01.2016 -31.12.2016	01.01.2015 -31.12.2015
OPERATIONAL ACTIVITIES		
Payments received from customers – interest, commission & charges	102 210	114 057
Net disbursements on lending to customers	-980 504	-774 690
Disbursements on operations	-28 086	-26 951
Net receipts/payments on other operating activities	2 313	-5 114
Net interest from investment accounts	1 627	2 738
Income tax paid	0	0
Net cash flow from operating activities	**-902 440**	**-689 960**
INVESTMENT ACTIVITIES		
Payments on purchase of securities	-142 403	-101 361
Receipts on sales of securities	189 161	10 059
Interest received from securities	902	1 196
Net cash flow from investment activities	**47 660**	**-90 106**
FINANCING ACTIVITIES		
Net receipts/payments on loan take-up	910 713	864 293
Net payment of interest on loans	-61 413	-68 434
Receipts on issue of owners' equity	0	-719
Net cash flow from investment activities	**849 300**	**795 140**
Net cash flow during the period	**-5 480**	**15 074**
Cash and cash equivalents at start of period	117 854	102 780
Cash and cash equivalents at end of period	112 374	117 854
Net receipts/disbursements (-) of cash	**-5 480**	**15 074**

Declaration

PURSUANT TO 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 2016 have been prepared in accordance with applicable accounting standards, and that the information in the financial statements gives a true and fair view of the Company's assets, liabilities, financial position and overall profit or loss.

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

Oslo, 10 March 2017
The Board of Directors of KLP Boligkreditt AS

Sverre Thornes
Chair

Aage E. Schaanning
Deputy Chair

Eva M. Salvesen

Marit E. Barosen

Christopher A. N. Steen
Managing Director

Notes to the Accounts

KLP BOLIGKREDITT AS

NOTE 1 Generall information

KLP Boligkreditt AS was formed on 30 October 2013. The company is a housing credit enterprise, and finance the activity primary through issuing covered bonds (OMF).

KLP Boligkreditt AS is registered and domiciled in Norway. KLP Boligkreditt AS's head office is at Beddingen 8 in Trondheim.

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 financial statements for KLP Boligkreditt AS. 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.
- Financial assets and liabilities are valued in accordance with the rules on fair value hedging.

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 information

a) New and changed standards adopted by the Company in 2016

No standards, changes or interpretations that came into effect during 2016 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

IFRS 9 *Financial Instruments* governs the classification, measurement and recognition of financial assets and financial liabilities, introduces new rules on hedge accounting and a new impairment model for financial assets. The group will begin using the standard as of 2018. IFRS 9 replaces the classification and measurement models in IAS 39 with a single model which in principle only has two categories: amortized cost and fair value.

The classification of loans will be dependent on the entity's business model for the management of its financial assets and the characteristics of the cash flows of the financial assets. A debt instrument is measured at amortized cost if: a) the business model is to hold the financial asset to collect the contractual cash flows, and b) the instrument's contractual cash flows exclusively represent the payment of principal and interest.

All other debt and equity instruments, including investments in complex instruments, must be recognized at fair value through profit or loss. There is an exception for investments in equity instruments that are not held for trading. For such investments, the value changes are recognized through other comprehensive income, without subsequent recycling to profit or loss.

For financial liabilities that the entity has chosen to measure at fair value, the share of the value change that is due to a change in the entity's own credit risk must be recognized in other comprehensive income and not in profit or loss.

The new rules for hedge accounting mean that the recognition of hedging better reflects general practice for risk management in the companies. As a general rule, it will be easier to use hedge accounting in the future. The new standard also introduces extended disclosure requirements and changes in the rules on the presentation of hedging.

Other significant changes in classification and measurement include:

- a third measurement category (fair value through other comprehensive income) for certain financial assets that are debt instruments.
- a new impairment model for losses on loans and receivables based on expected credit losses.

The model is based on three stages, depending on the change in credit quality. How the impairment loss is to be measured is laid down for each individual stage and the model uses the effective interest method. A simplified approximation is permitted for financial assets that do not have a significant financing component (e.g. trade receivables). On initial recognition, expected losses are included for the first 12 months (or credit losses over the whole lifetime for trade receivables), unless the assets have to be written down.

The KLP Banken Group has launched a project aimed at establishing a new loss provisioning model that complies with the rules in IFRS 9. In connection with this, since the autumn of 2016, the bank has started using a new risk classification system which, among other things, will be used to provide input for the model. Transfer between risk classes will form the basis for migration between the levels in the impairment model. In addition, the bank will work on developing models for probability of default (PD), loss given default (LGD) and exposure at default.

An increase in loss provisions is expected as a result of the introduction of the new model, but work has not yet progressed far enough to be able to put a figure on the increase. The new rules for the classification of financial assets and debt are not expected to have significant consequences for the Company because the classification at fair value and amortized cost can largely be continued. The Company's hedge accounting is not expected to be affected by the changeover to the new standard.

IFRS 15 *Revenue from Contracts with Customers* deals with revenue recognition. The standard calls for a division of the customer contract into the individual performance obligations. A performance obligation may be a good or service. Income is recognized when a customer obtains control over a good or service, and thus has the ability to direct the use of and obtain the benefits from the good or service. The standard replaces IAS 18 *Revenue* and IAS 11 *Construction Contracts* and associated interpretations. The Group will begin applying the standard as of 2018. The changeover to IFRS 15 is not expected to have a significant impact on the Company's accounts.

IFRS 16 *Leases* will result in almost all leases being reported on the financial position statement, as the difference between operating and financial leases has been removed. Under the new standard, the right to use a leased item is an asset and the obligation to pay rent is a liability that must be reported on the financial position statement. The exceptions are short-term leases of low value. The accounting treatment for lessors will not be significantly changed. The Company will begin applying the standard as of 2019. The changeover to IFRS 16 is not expected to have a significant impact on the Company's accounts, as the Company does not have any significant leases, owing to the fact that only small assets are leased.

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 presentation currency

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

2.2.2 Transactions and financial position statement items

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

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

2.3 FINANCIAL ASSETS

The Company's financial assets are divided into the following categories: financial assets measured at fair value through profit or loss and financial assets measured at amortized cost. In addition, hedge accounting is used in accordance with the rules on fair value hedging. The purpose of the asset determines the classification and management undertakes classification on acquisition of the financial asset.

2.3.1 Financial assets at fair value through profit or loss
This category is divided into two sub-categories: held for trading, and voluntarily categorized at fair value through profit or loss on acquisition in accordance with the fair value option.

a) Financial assets held for trading are assets acquired primarily with a view to providing a profit from short-term price fluctuations. The Company's derivatives are included in this category unless they are included as an element of accounting hedging in accordance with the rules on hedge accounting.

b) Financial assets voluntarily categorized at fair value through profit or loss on acquisition comprise financial assets managed as a group and where their earnings are valued and reported to management on the basis of fair value. The size of the portfolio is decided on the basis of the Company's desired risk exposure to the interest market.

The principles for calculating the fair value of the various instruments are described in Note 6.

Gains or losses from changes in fair value of assets classified as financial assets at fair value through profit or loss are included in the income statement in the period they arise. This is included in the line "Net unrealized gain/loss financial instruments".

Coupon interest is taken to income as it accrues and is included in the line "Interest income and similar income".

2.3.2 Loans and receivables at amortized cost
Loans and receivables, with the exception of derivatives, are financial assets with fixed or determinable payments that are not traded in an active market or which the Company intends 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 is taken to income and included in the line "Interest income and similar income".

2.3.3 Accounting treatment of financial assets
Purchases and sales of financial assets are recognized on the trading date, i.e. when the Company has committed itself to buying or selling that financial asset. Financial assets are recognized at fair value. Direct costs of purchase are included in acquisition cost except for purchase costs associated with assets at fair value through profit or loss. For these assets purchase costs are taken to expenses directly. Financial assets cease to be recognized when the Company is no longer entitled to receive the cash flow from the asset or the Company has transferred all risk and entitlements associated with its ownership. Recognition of financial liabilities ceases when the underlying obligation in the contract has been met, been cancelled or expired.

2.3.4 Write down of financial assets valued at amortized cost
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 issuer/debtor has significant financial difficulties and whether there is breach of contract, including default. The write-down is calculated by comparing the new, anticipated cash flows with the original cash flows discounted by the original effective interest rate (assets with fixed interest) or by the effective interest rate at the time of measurement (assets with variable interest).

Loss assessment and loss write-down is carried out quarterly on individual loans 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.

2.3.5 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
Cash and cash equivalents are defined as receivables from credit institutions without termination date. The amount does not include receivables from credit institutions that are linked to purchase and sale of securities in the management of the securities portfolios. The statement of cash flows has been prepared in accordance with the direct method.

2.5 FINANCIAL LIABILITIES
The Company's financial liabilities comprise liabilities to credit institutions, covered bonds issued and deposits from customers.

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

2.5.2 Covered bonds issued
In the first instance covered bonds issued are recognized at fair value on take-up adjusted for purchase costs, i.e. nominal 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 shown in the line "Interest costs and similar costs" in the income statement. Bonds with fixed interest are recognized in accordance with the rules on fair value hedging inasmuch as they are hedged against change in interest rate level.

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 retained earnings.

2.7 PRESENTATION OF INCOME
Income on sale of goods and services is valued at fair value of the consideration, net of deductions for VAT and any discounts. Sales internal to the Group are eliminated.

2.7.1 Income from services
Fees for lending management are taken to income in proportion to the management carried out for the period up to the end of the reporting period. Other services are taken to income by straight line over the contract period.

2.7.2 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 costs in the income statement comprise tax payable and changes in deferred tax. Tax is charged to the income statement, apart from tax relating to items reported under "other comprehensive income". Deferred tax and tax assets are calculated as differences between the accounting and taxation value of assets and liabilities. Deferred tax assets are capitalized to the extent it can be shown probable that the companies in the Group will have sufficient taxable profit to exploit the tax asset.

The Company is not covered by the new rules on capital activity tax.

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	01.01.2016 -31.12.2016	01.01.2015 -31.12.2015
Net gain/(loss) on fixed-income securities	421	-932
Net gain/(loss) financial derivatives and realized repurchase of own debt	2 908	0
Total	**3 328**	**-932**

NOTE 6 Categories of financial assets

NOK THOUSANDS	31.12.2016		31.12.2015	
	Book value	Fair value	Book value	Fair value
FINANCIAL ASSETS AT FAIR VALUE				
Fixed-income securities	44 110	44 110	90 575	90 575
Total financial assets at fair value	**44 110**	**44 110**	**90 575**	**90 575**
FINANCIAL ASSETS AT AMORTIZED COST				
Loans to and receivables from credit institutions	115 181	115 181	122 973	122 973
Lending to the retail market	4 722 193	4 722 193	3 743 448	3 743 448
Total financial assets at amortized cost	**4 837 374**	**4 837 374**	**3 866 421**	**3 866 421**
Total financial assets	**4 881 484**	**4 881 484**	**3 956 997**	**3 956 997**
FINANCIAL LIABILITIES AT AMORTIZED COST				
Liabilities to credit institutions	848 927	848 927	825 732	825 732
Covered bonds issued	3 745 457	3 747 200	2 854 556	2 797 035
Total financial liabilities at amortized cost	**4 594 384**	**4 596 127**	**3 680 289**	**3 622 768**
Total financial liabilities	**4 594 384**	**4 596 127**	**3 680 289**	**3 622 768**

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. 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:

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

Fixed-income securities - other than government
Norwegian fixed-income securities except government are generally priced using prices from Nordic Bond Pricing. Those securities that are not included in Nordic Bond Pricing are priced theoretically. Theoretical price is based on the assumed present value on the sale of the position. A zero-coupon curve is used for discounting. The zero-coupon curve is asjusted upwards by means of a credit spread, which is to take account of the risk the bond entails. The credit spread is calculated on the basis of a spread curve taking account of the duration of the bond. Nordic Bond Pricing is the mainsource of spread curves. They provide company-specific curves for Norwegian saving banks, municipalities and energy. Saving banks have various spread curves based on total assets. For companies where Nordic Bond Pricing do not deliver spread curves, the Group use spread curves from three Norwegian banks. When spread curves are available from more than one of these banks, an equal-weighted average is used.

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. Fair value of fixedrate loans is calculated by discounting contractual cash flows by the market rate including a relevant risk margin on the reporting date.

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

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

NOTE 7 Fair value hierarchy

31.12.2016 NOK THOUSANDS	Level 1	Level 2	Level 3	Total
ASSETS				
FINANCIAL ASSETS RECOGNIZED AT FAIR VALUE				
Fixed-income securities	999	43 111	0	44 110
Total financial assets recognized at fair value	**999**	**43 111**	**0**	**44 110**
FINANCIAL ASSETS RECOGNIZED AT FAIR VALUE IN NOTE 6:				
Loans to and receivables from credit institutions	0	115 181	0	115 181
Loans to and receivables from customers	0	4 722 193	0	4 722 193
Total financial assets at amortized cost	**0**	**4 837 374**	**0**	**4 837 374**
LIABILITIES				
FINANCIAL LIABILITIES RECOGNIZED AT FAIR VALUE IN NOTE 6:				
Liabilities to credit institutions	0	848 927	0	848 927
Covered bonds issued	0	3 747 200	0	3 747 200
Total financial liabilities at amortized cost	**0**	**4 596 127**	**0**	**4 596 127**

31.12.2015 NOK THOUSANDS	Level 1	Level 2	Level 3	Total
ASSETS				
FINANCIAL ASSETS RECOGNIZED AT FAIR VALUE				
Fixed-income securities	0	90 575	0	90 575
Total financial assets recognized at fair value	**0**	**90 575**	**0**	**90 575**
FINANCIAL ASSETS RECOGNIZED AT FAIR VALUE IN NOTE 6:				
Loans to and receivables from credit institutions	0	122 973	0	122 973
Loans to and receivables from customers	0	3 743 448	0	3 743 448
Total financial assets at amortized cost	**0**	**3 866 421**	**0**	**3 866 421**
LIABILITIES				
FINANCIAL LIABILITIES RECOGNIZED AT FAIR VALUE IN NOTE 6:				
Liabilities to credit institutions	0	825 732	0	825 732
Covered bonds issued	0	2 797 036	0	2 797 036
Total financial liabilities at amortized cost	**0**	**3 622 768**	**0**	**3 622 768**

NOTE 7 Fair value hierarchy - continued

Fair value should 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 that the entity has access to at the reporting date. Example instruments at Level 1 are stock market listed securities.

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

Level 3:
Instruments at Level 3 contain non-observable market data or are traded in markets considered to be inactive. The price is based generally on discrete calculations where the actual fair value may deviate if the instrument were to be traded

There has been no movement between the levels.

NOTE 8 Fixed-income securities

NOK THOUSANDS				31.12.2016
Debtor categories	**Acquisition cost**	**Unreal. gain/loss**	**Accr. int. not due**	**Market value**
Government/social security administration	998	1	0	999
Credit enterprises	42 987	39	86	43 111
Total	**43 985**	**40**	**86**	**44 110**

Effective interest rate: 1.58 %

NOK THOUSANDS				31.12.2015
Debtor categories	**Acquisition cost**	**Unreal. gain/loss**	**Accr. int. not due**	**Market value**
Credit enterprises	91 281	-914	209	90 575
Total	**91 281**	**-914**	**209**	**90 575**

Effective interest rate: 1.60%

Effective interest is calculated as a yield-to-maturity, i.e. it is the constant interest rate level at which one may discount all the future cash flows from the securities to obtain the securities' total market value.

NOTE 9 Net interest income

NOK THOUSANDS	01.01.2016 -31.12.2016	01.01.2015 -31.12.2015
Interest on loans to and receivables from credit institutions	1 627	2 739
Interest on lending to customers	102 106	112 920
Interest on securities	779	1 405
Total interest income	**104 511**	**117 064**
Interest on debt to KLP Banken AS	-55 978	-31 191
Interest on debt to credit institutions	-9 309	-38 381
Premium/discount on covered bonds	-2 415	-222
Total interest costs	**-67 703**	**-69 795**
Net interest income	**36 808**	**47 269**

NOTE 10 Lending and receivables

NOK THOUSANDS	31.12.2016	31.12.2015
Loans to and receivables from credit institutions		
Bank deposits	115 181	122 973
Loans to and receivables from credit institutions	**115 181**	**122 973**
Loans to and receivables from customers		
Principal on loans to customers	4 714 975	3 735 646
Premium/discount	1 938	2 417
Accrued interest	5 280	5 385
Loans to and receivables from customers	**4 722 193**	**3 743 448**

NOTE 11 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 that risks are identified, analysed and subjected to management using policies, limits, procedures and instructions. The Board has adopted risk policies covering the key individual risks as well as an overarching risk policy that covers principles, organisation, limits etc. for the bank's total risk. The risk policies are of an overarching nature and are complemented by procedures, guidelines and instructions laid down at the senior management level. The policies state which departments are responsible for handling the various risks and also cover the establishment of a separate risk control function. One purpose of the risk control function is 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 is 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. KLP Banken has established a risk committee, which is a sub-committee of the Board. The risk committee deals with matters specifically related to risk and has an advisory function to the Board.

NOTE 12 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 is made up of members of KLP, who represent about 78% of the lending volume.

12.1 Control and limitation 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.

KLP Boligkreditt has only loans mortgaged in residential property within 75% of the market value of the mortgaged object 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.

12.2 Loans according to type of security/exposure (principal)

NOK THOUSANDS	31.12.2016	31.12.2015
Loans to the private market with mortgage lien	4 714 975	3 735 646
Total	**4 714 975**	**3 735 646**
Sums falling due more than 12 months after the end of the reporting period	4 532 655	3 574 515

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 of securities, bank deposits and derivatives

Securities with external credit rating (Moody's)

NOK THOUSANDS	31.12.2016	31.12.2015
AAA	**44 000**	**90 000**

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

NOK THOUSANDS	31.12.2016	31.12.2015
Aa1-Aa3	43 503	52 245
A1-A3	71 677	70 728
Baa1	-	-
Total	**115 181**	**122 973**

The Company may also be exposed to credit risk as a result of derivative 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.

NOTE 12 Credit risk - continued

12.3 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	31.12.2016	31.12.2015
Loans to and receivables from credit institutions	115 181	122 973
Loans to and receivables from customers	4 722 193	3 743 448
Fixed-income securities	44 110	90 575
Financial derivatives	0	0
TOTAL	**4 881 484**	**3 956 996**

12.4 Loans fallen due or written down

The Company has not incurred losses on lending. The company considers all receivables to be satisfactorily secured. The loans are secured loans within 75% of market value, and any losses will only occur when the realizable value of the mortgaged object falls below the residual amount of the loan.

Loans fallen due or written down

NOK THOUSANDS	31.12.2016	31.12.2015
Principal on loans with payments with 7-30 days' default	45 909	27 566
Principal on loans with payments with 31-90 days' default	0	1 599
Principal on loans with payments with more than 90 days' default	0	0
Total loans fallen due	**45 909**	**29 165**
Relevant security or guarantees	45 909	29 165
Lending that has been written down	-	-

12.5 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. All borrowers are Norwegian and the collateral is in Norwegian housing. The company has a risk consentration where it is exposed to a general impairment in the Norwegian housing market.

The concentration against individual borrowers is limited by individual Board-set limits. KLP Boligkreditt AS's largest exposure as at 31 December 2016 was about 0.1 per cent of the Company's total lending.

NOTE 13 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 13.1 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 13.2 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 in KLP Banken. The Risk Analysis and Control Department reports the Company's actual exposure in relation to limits in accordance with guidelines set by the Board.

Interest rate risk arises because the fixed interest periods for the bank's assets and liabilities are not the same. The table below shows repricing dates for the Company's interest-bearing assets and liabilities, and the gap shows the difference between assets and liabilities that can be interest-adjusted within the given time intervals. Lending at variable rates, and cash and receivables with credit institutions, are assumed to be able to be repriced within a 1-month horizon. The debt falls into the time interval for which interest adjustment has been agreed.

Interest-rate risk KLP Boligkreditt AS

Repricing dates for interest-bearing assets and liabilities as at 31 December 2016

NOK THOUSANDS	Total Principal	Up to 1 month	From 1 mth to 3 mths	From 3 mths to 12 mths	From 1 year to 5 years	Over 5 years
Lending	4 714 975	4 714 975	0	0	0	0
Securities	44 000	0	44 000	0	0	0
Cash and receivables from credit institutions	115 181	115 181	0	0	0	0
Total	**4 874 156**	**4 830 156**	**44 000**	**0**	**0**	**0**
Liabilities created on issuance of securities	3 743 000	2 543 000	1 200 000	0	0	0
Liabilities to financial institutions	848 431	848 431	0	0	0	0
Total	**4 591 431**	**3 391 431**	**1 200 000**	**0**	**0**	**0**
Gap	**282 725**	**1 438 725**	**-1 156 000**	**0**	**0**	**0**
Financial derivatives	0	0	0	0	0	0
Net gap	**282 725**	**1 438 725**	**-1 156 000**	**0**	**0**	**0**

NOTE 13 Market risk - continued

Repricing dates for interest-bearing assets and liabilities as at 31 December 2015

NOK THOUSANDS	Total Principal	Up to 1 month	From 1 mth to 3 mths	From 3 mths to 12 mths	From 1 year to 5 years	Over 5 years
Lending	3 735 646	3 735 646	0	0	0	0
Securities	90 000	0	90 000	0	0	0
Cash and receivables from credit institutions	122 973	122 973	0	0	0	0
Total	**3 948 619**	**3 858 619**	**90 000**	**0**	**0**	**0**
Liabilities created on issuance of securities	3 400 000	2 200 000	1 200 000	0	0	0
Liabilities to financial institutions	825 000	825 000	0	0	0	0
Total	**4 225 000**	**3 025 000**	**1 200 000**	**0**	**0**	**0**
Gap	**-276 381**	**833 619**	**-1 110 000**	**0**	**0**	**0**
Financial derivatives	0	0	0	0	0	0
Net gap	**-276 381**	**833 619**	**-1 110 000**	**0**	**0**	**0**

The Company's interest rate sensitivity as at 31 December 2016, measured as value change in the event of one percentage point change in all interest rates, was NOK 2.1 million. The corresponding figure at 31 December 2015 amounted to NOK 1.2 million.

13.3 Exchange rate risk

As at 31 December 2016 the Company had no borrowing in foreign currency.

NOTE 14 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.

14.1 Management of liquidity risk

The management of KLP Boligkreditts's liquidity risk must be viewed in the context of the management of the liquidity risk in the KLP Banken Group. A liquidity policy is established for the Group containing principles, guidelines, requirements and limits that apply to the management of the liquidity risk. The policy states that the Group is to have a moderate liquidity risk profile and various requirements and limits have been set to achieve this, including targets for deposit cover, limits for refinancing requirements for various time periods and requirements for liquidity buffers. The Board has further adopted an emergency plan for liquidity crises as part of the liquidity policy. In addition to the requirements at Group level, separate specific requirements have been established for KLP Boligkreditt, 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 14.2 Maturity analysis

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

Liquidity risk KLP Boligkreditt AS

Maturity analysis for assets and liabilities as at 31 December 2016

NOK THOUSANDS	Total	Undefined	Up to 1 mth	From 1 mth to 3 mths	From 3 mths to 12 mths	From 1 year to 5 years	Over 5 years
Lending	5 963 944	0	24 526	50 978	229 690	1 228 914	4 429 835
Securities	45 938	0	0	1 172	3 492	41 273	0
Receivables from credit institutions	115 181	0	115 181	0	0	0	0
Total	**6 125 063**	**0**	**139 707**	**52 151**	**233 182**	**1 270 188**	**4 429 835**
Liabilities created on issuance of securities	3 981 892	0	10 991	4 156	88 105	3 878 640	0
Financial derivatives	0	0	0	0	0	0	0
Liabilities to credit institutions	862 916	0	1 024	1 947	9 073	850 872	0
Total	**4 844 809**	**0**	**12 015**	**6 102**	**97 179**	**4 729 512**	**0**
Net cash flow	**1 280 254**	**0**	**127 692**	**46 049**	**136 003**	**-3 459 324**	**4 429 835**

Maturity analysis for assets and liabilities as at 31 December 2015

NOK THOUSANDS	Total	Undefined	Up to 1 mth	From 1 mth to 3 mths	From 3 mths to 12 mths	From 1 year to 5 years	Over 5 years
Lending	4 866 390	0	19 440	43 123	193 359	1 028 472	3 581 996
Securities	93 968	0	0	401	1 200	92 367	0
Receivables from credit institutions	122 973	0	122 973	0	0	0	0
Total	**5 083 331**	**0**	**142 413**	**43 524**	**194 559**	**1 120 839**	**3 581 996**
Liabilities created on issuance of securities	3 030 620	0	6 091	4 118	30 495	1 779 466	1 210 450
Financial derivatives	0	0	0	0	0	0	0
Liabilities to credit institutions	828 964	0	1 379	827 585	0	0	0
Total	**3 859 584**	**0**	**7 470**	**831 703**	**30 495**	**1 779 466**	**1 210 450**
Net cash flow	**1 223 747**	**0**	**134 943**	**-788 179**	**164 064**	**-658 627**	**2 371 546**

A 15-month internal loan of NOK 848.431 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 15 Salary and obligations to senior management

2016 NOK THOUSANDS	Paid from KLP Boligkreditt AS						Paid from another company in the same group					
	Salaries, fees etc.	Other benefits	Annual pension accumulation	Loans	Interest rate as at 31.12.2016	Repayment plan[1]	Salaries, fees etc.	Other benefits	Annual pension accumulation	Loans	Interest rate as at 31.12.2016	Repayment plan[1]
Senior employees												
Christopher A. Steen, Managing Director	-	-	-	199	2,20	A2034	1 181	23	212	2 700	1,95	A42
Board of Directors												
Sverre Thornes, Chair	-	-	-	-	-	-	3 807	206	1 413	11 840	1,95-2,35	A46
Aage E. Schaanning	-	-	-	-	-	-	3 338	164	1 193	5 680	1,95	HC
Marit Barosen	72	-	-	-	-	-	-	-	-	-	-	-
Eva M. Salvesen	22	-	-	-	-	-	130	-	-	-	-	-
Employees												
Total salary for employees of KLP Boligkreditt				199	-	-				2 700	-	-

2015 NOK THOUSANDS	Paid from KLP Boligkreditt AS						Paid from another company in the same group					
	Salaries, fees etc.	Other benefits	Annual pension accumulation	Loans	Interest rate as at 31.12.2015	Repayment plan[1]	Salaries, fees etc.	Other benefits	Annual pension accumulation	Loans	Interest rate as at 31.12.2015	Repayment plan[1]
Senior employees												
Christopher A. Steen, Managing Director	-	-	-	239	2,45	A2034	1 140	24	251	2 700	2,25	A42
Board of Directors												
Sverre Thornes, Chair	-	-	-	-	-	-	3 694	167	1 509	10 017	2,25	A45
Aage E. Schaanning	-	-	-	812	2,45	A2022	3 264	150	1 301	2 315	2,25	A23
Marit Barosen	70	-	-	-	-	-	-	-	-	-	-	-
Eva M. Salvesen	21	-	-	-	-	-	137	-	-	-	-	-
Employees												
Total salary for employees of KLP Boligkreditt				239	-	-	-	-	-	2 700	-	-

1) S= Serial loan, A= Annuity loan, last payment, HC = Housing Credit.

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 receives no remuneration or pension accumulation from KLP Boligkreditt AS. The incumbent receives all benefits from the parent company, KLP Banken AS, where he holds the position of Head of Finance. 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.

Directors' fees are set by the General Assembly. 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.

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 16 Liabilities to credit institutions

31.12.2016 NOK THOUSANDS	Currency	Interest	Due date	Nominal	Accrued interest	Book value
Debt to KLP Banken AS	NOK	Fixed	15.03.2018	848 430	497	848 927
Total liabilities to credit institutions				**848 430**	**497**	**848 927**
Interest rate on debt to credit institutions at the reporting date						**1.40 %**

The interest rate is calculated as a weighted average of the act/360 basis.

31.12.2015 NOK THOUSANDS	Currency	Interest	Due date	Nominal	Accrued interest	Book value
Debt to KLP Banken AS	NOK	Fixed	16.03.2016	825 000	732	825 732
Total liabilities to credit institutions				**825 000**	**732**	**825 732**
Interest rate on debt to credit institutions at the reporting date						**1.88 %**

The interest rate is calculated as a weighted average of the act/360 basis.

NOTE 17 Securities liabilities - stock exchange listed covered bonds

NOK THOUSANDS	31.12.2016	31.12.2015
Bonds, nominal value	4 300 000	3 400 000
Revaluations	-7 987	-2 269
Accrued interest	10 444	6 825
Own funds, nominal value	-557 000	-550 000
Total liabilities created on issuance of securities	**3 745 457**	**2 854 556**
Interest rate on borrowings through the issuance of securities at the reporting date.	**1.66 %**	**1.44 %**

The interest rate is calculated as a weighted average of the act/360 basis. It includes interest rate effects and amortization costs.

NOK THOUSANDS	Balance 31.12.2016	Issued	Fallen due/redeemed repurchased	Others changes	Balance 31.12.2015
Change in liabilities created on issuance of securities					
Bonds, nominal value	4 300 000	1 395 000	-495 000	0	3 400 000
Revaluations	-7 987	0	0	-5 718	-2 269
Accrued interest	10 444	0	0	3 619	6 825
Own funds, nominal value	-557 000	0	-7 000	0	-550 000
Total liabilities created on issuance of securities	**3 745 457**	**1 395 000**	**-502 000**	**-2 099**	**2 854 556**

NOTE 18 Capital adequacy

NOK THOUSANDS	31.12.2016	31.12.2015
Share capital and share premium	250 463	250 463
Other owners' equity	29 377	15 497
Total owners' equity	**279 840**	**265 960**
Deduction goodwill and other intangible assets	0	0
Deferred tax assets	-485	-321
Core capital/Tier 1 capital	**279 355**	**265 639**
Supplementary capital/Tier 2 capital	0	0
Supplementary capital/Tier 2 capital	**0**	**0**
Total own funds (eligible Tier 1 and Tier 2 capital)	279 355	265 639
Capital requirement	141 426	108 217
Surplus of own funds (eligible Tier 1 and Tier 2 capital)	**137 929**	**157 422**
Calculation basis credit risk		
Institutions	24 148	25 300
Mortgage security in real estate	1 652 477	1 309 374
Covered bonds	4 311	9 128
Calculation basis credit risk	**1 680 936**	**1 343 802**
Credit risk	134 475	107 504
Operational risk	6 951	713
Total capital requirement assets	**141 426**	**108 217**
Core capital adequacy ratio	15.8 %	19.6 %
Supplementary capital ratio	0.0 %	0.0 %
Capital adequacy ratio	**15.8 %**	**19.6 %**
Unweighted Tier 1 capital	**5.7 %**	**6.9 %**

CAPITAL REQUIREMENT AS AT 31.12.2016	Core capital/ tier 1 capital	Supplementary capital/ tier 2 capital	Own funds
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 %
Counter-cyclical buffers	1.5 %	0.0 %	1.5 %
Applicable capital requirement incl. buffers	**11.5 %**	**3.5 %**	**15.0 %**

NOTE 19 Tax

NOK THOUSANDS	2016	2015
Accounting income before taxes	11 379	18 474
Permanent differences	0	116
Reversal of value increase financial assets	-954	915
Change in differences between book and taxable income	1 691	368
Taxable income	**12 116**	**19 873**
DEFERRED TAX ASSET LINKED TO:		
Financial instruments	0	-229
Amortization of premium fund, borrowing	-494	-92
Total tax-reducing temporary differences	**-494**	**-321**
DEFERRED TAX LINKED TO:		
Financial instruments	10	0
Net deferred tax assets	**10**	**0**
Net deferred tax/tax assets	**-485**	**-321**
Tax effect of group contribution	3 029	5 366
Capitalized deferred tax	**3 029**	**5 366**
SUMMARY OF TAX EXPENSE FOR THE YEAR:		
Tax charged to the income statement for previous years	0	32
Change in deferred tax taken to income	164	321
Capitalized tax from Group contribution	-3 029	-5 366
Total tax costs	**-2 865**	**-5 013**
Effective tax rate	25.2 %	27.1 %
RECONCILIATION OF TAX RATE:		
Accounting income before taxes	11 379	18 474
Income tax expense, nominal tax rate	2 845	4 988
Income tax expense, effective tax rate	2 865	5 013
Difference between effective and nominal tax	**-20**	**-25**
Recognised tax relating to previous years	0	32
Tax effects of permanent differences	0	-31
Effect of change in tax rate on deferred tax	-20	-26
Total	**-20**	**-25**

NOTE 20 Other liabilities and provision for accrued costs and liabilities

NOK THOUSANDS	31.12.2016	31.12.2015
Receivables between companies in the same Group	8 096	7 229
Creditors	108	0
Total other liabilities	**8 204**	**7 229**
Value-added tax	0	23
Provisioned costs	288	276
Total accrued costs and liabilities	**288**	**299**

NOTE 21 Number of FTEs and employees

KLP Boligkreditt AS has 2 employees, who receive no salary or other form of remuneration from the Company. KLP Boligkreditt AS buys personnel services from other companies in the KLP Group.

NOTE 22 Transactions with related parties

NOK THOUSANDS	01.01.2016 -31.12.2016	01.01.2015 -31.12.2015
Income statement items		
KLP Banken AS, interest on borrowing	-9 309	-31 191
KLP Banken AS, administrative services (at cost)	-26 794	-25 611
KLP Group companies, subsidised interest on staff loans	1 234	573
Total	**-34 869**	**-56 230**

NOK THOUSANDS	31.12.2016	31.12.2015
Financial position statement items		
KLP Banken AS, debt to credit institutions	-848 927	-825 732
KLP Banken AS, loan settlement	3 295	1 640
Net outstanding accounts to:		
KLP Banken AS	-8 096	-7 229
KLP Group companies, net other internal accounts	482	186
Total	**-853 246**	**-831 135**

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 23 Auditor's fee

NOK THOUSANDS	01.01.2016 -31.12.2016	01.01.2015 -31.12.2015
Ordinary audit	181	288
Certification services	148	85
Tax advisory services	0	0
Non-audit services	0	0
Total auditor's fee	**329**	**373**

The sums above include VAT.

NOTE 24 Other assets

NOK THOUSANDS	31.12.2016	31.12.2015
Receivables between Group companies	3 777	1 826
Total	**3 777**	**1 826**

NOTE 25 Cash and cash equivalents and other loans and receivables from credit institutions

NOK THOUSANDS	31.12.2016	31.12.2015
Bank deposits operations	112 374	117 854
Cash	0	0
Total cash and cash equivalents (liquidity)	**112 374**	**117 854**
Bank accounts to be used for the purchase and sale of securities	2 806	5 119
Loans and receivables from credit institutions	**115 181**	**122 973**

To the General Meeting of KLP Boligkreditt AS

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of KLP Boligkreditt AS which comprise the balance sheet as at 31 December 2016, income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements are prepared in accordance with law and regulations and present fairly, in all material respects, the financial position of the Company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, included International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the Key Audit Matter
Loan to customers The company has loans to private individuals amounting to NOK 4.7 bn that have collateral in real estate property, and has issued covered bonds. Processes and controls have been established to ensure that the company complies with the various requirements the company is	In order to comply with the requirements in the regulations applicable to covered bonds, the company has established controls in the process of granting loans. These controls ensure the company has reviewed the applications for loans and associated documentation. The process includes formal controls and division of responsibilities, which are directed at ensuring that the process has been carried out prior to

subject to, including that the value of the collateral consistently backs the covered bonds. The value of the collateral at any time shall be above 75 % of the loan.

Historically, the company has realized only limited losses on loans. As the requirements and the processes and controls are of fundamental importance for the company's operations, limited losses and compliance with the regulations, we have focused our attention on this subject.

granting or transfer of loans from other group companies to the company. Our audit was conducted by obtaining documentation and examining whether the process was conducted appropriately and timely. This included assessing if the underlying documentation that the company has collected supported the conclusions drawn by the company that the requirements in legislation and regulations was met.

Our testing substantiated that the company's investigation and processes support that the regulations in this area are complied with.

IT systems supporting processes over financial reporting

Weaknesses in automated processes and controls can potentially lead to a significant risk in the daily operations and risk of misstatements. We have focused on this area because it is important for the company's financial reporting systems, and their business model is dependent on complex IT systems.

The company uses external service providers to operate some of the important IT systems. The auditor at the relevant service organisation evaluates the design and efficiency of the established control systems, and tests the controls designed to ensure the integrity of the IT system that are relevant to financial reporting. We examined the reports and evaluated possible misstatement and improvements. Furthermore, we have tested IT general controls where necessary for our audit. Our work gave us sufficient evidence to enable us to rely on the operation of the company's IT systems relevant for our audit.

Other information

Management is responsible for the other information. The other information comprises the Board of Directors' report, statements on Corporate Governance and Corporate Social Responsibility, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsiblities of The Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (management) are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, included International Standards on Auditing (ISAs), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit 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 Company's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit

We also provide the Board of Directors with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 and statements on Corporate Governance and Corporate Social Responsibility 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, 10 March 2017
PricewaterhouseCoopers AS

Rune Kenneth S. Lædre
State Authorised Public Accountant

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

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