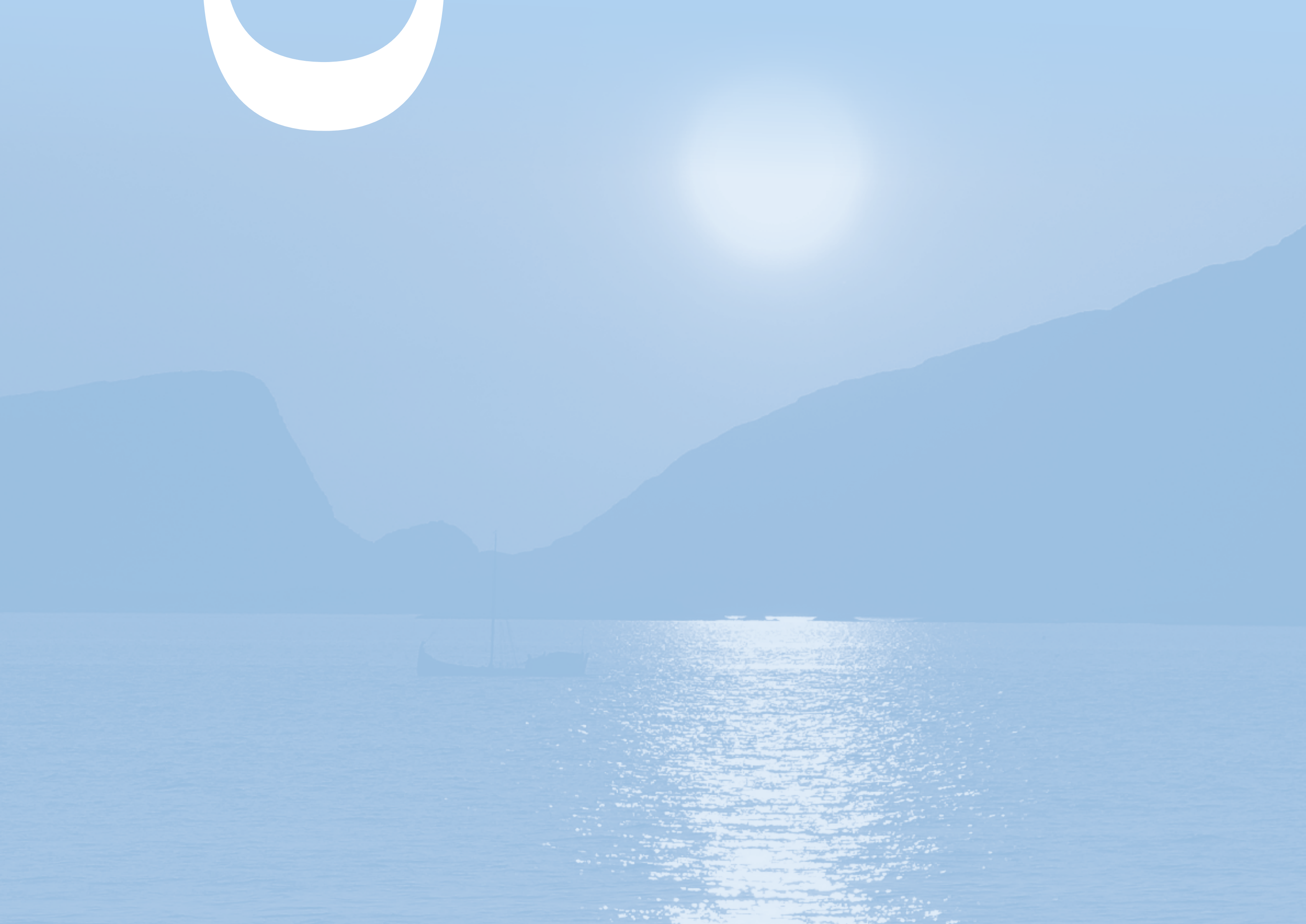
annual report 2015

KLP Kommunekreditt AS



Coverphoto: Elin Anne **Open**

In 2015 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.

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Annual report 2015

KLP Kommunekreditt AS made a profit before tax of NOK 19.6 million. At the end of the year, total lending was NOK 19.3 billion. The company is financed largely through the issue of covered bonds (OMF). These bonds have received the highest possible rating (AAA).

Established in 2009, KLP Kommunekreditt AS is a wholly owned subsidiary of KLP Banken AS. It is a credit institution which is funded primarily through the issue of bonds covered by loans to the public sector.

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 Boligkreditt AS, which was established in 2014.

The collective operations of KLP Banken AS and its subsidiaries are divided into the business areas Private Market and Public Lending. The business is nationwide and the companies' head office is in Trondheim.

KLP Kommunekreditt's presence in the market for public sector lending contributes to competition and so improves access to long-term low-cost financing.

Financial performance in 2015

Figures for 2014 are shown in brackets.

- Profit before tax: NOK 19.6 million (NOK 36.5 million)
- Net interest income: NOK 69.9 million (NOK 71.7 million)
- Payments: NOK 1.4 billion (NOK 0.9 billion)
- Total lending: NOK 15.6 billion (NOK 16.3 billion)

INCOME STATEMENT

The company made a profit before tax of NOK 19.6 million, and a net profit of NOK 14.2 million. This gave a return on equity of 2.8 per cent before tax, compared with 5.0 per cent the previous year.

Since 2009 KLP Kommunekreditt AS has been the only financial institution in Norway to issue bonds covered by loans to municipal and county authorities or companies with public sector guarantees.

The net profit for the year shows that net interest income has maintained almost the same level as in 2014. The 3 per cent reduction is net interest income is associated with a corresponding reduction in total lending. On average, current margins between lending and financing have remained at the same level as last year.

In the second half of 2015, we saw a significant increase in premiums in the securities market. The value of the Company's liquid investments therefore fell. This brought down profits in 2015 by NOK 27.2 million, mostly in unrealized losses. At the end of 2014, the income statement included a net profit of NOK 4.6 million from securities.

During the term of its borrowing agreements the Company makes regular adjustments to reduce its liquidity risk and meet regulatory requirements with respect to liquidity indicators and capital adequacy (Basel III and CRD IV). Restructuring of borrowings then results in a need to buy back own issues. These effects are recognized in profit and loss. Borrowings were also repurchased in 2015, but at much lower cost than in 2014. Profits for 2015 were reduced by NOK 5.1 million by the costs of loan repurchasing. The corresponding figure for 2014 was a cost of NOK 21.5 million. See the Liquidity section below for further details.

Compared with issues of bonds covered by mortgages, KLP Kommunekreditt AS's issues are slightly lower priced, as the investment market considers the underlying risk posed by the municipal sector to be lower than for mortgages.

Operating costs for KLP Kommunekreditt AS were NOK 20.5 million in 2015, an increase of 3 per cent from 2014.

INTEREST INCOME

Net interest income from the lending and investment portfolios came to NOK 69.9 million in 2014, compared with NOK 71.7 million in 2015, a reduction of 3 per cent. Interest income from lending activities and liquid investments fell by 18 per cent compared with the year before, mainly as a result of falling interest rates. Borrowing costs accordingly fell by 20 per cent too.

LENDING

Since the company was established in 2009, KLP Kommunekreditt AS has taken over loans from other companies, in addition to granting new loans. In recent years the refinancing of loans in other companies has had no material significance for the development of lending operations.

Total lending stood at NOK 15.6 billion at the end of 2015. This gives a net reduction in the lending volume of NOK 0.7 billion. 68 per cent of the lending volume is at floating interest rates. The proportion of loans at fixed interest rates decreased from 36 per cent in 2014 to 32 per cent at the end of 2015.

During 2015 new loans worth NOK 1.4 billion were paid out. This is NOK 0.5 billion more than in 2014. The lending portfolio comprises direct loans to Norwegian municipal and county authorities, or loans to companies performing public services which have guarantees from municipal or county authorities. The risk associated with the lending portfolio is considered very low.

The credit risk associated with lending to municipal and county authorities in Norway is limited to the deferment of payment and not to the cessation of payment obligations. This is stipulated in the Local Government Act of 1992, which indemnifies the lender against losses if a local authority is unable to meet its payment obligations. In the event that payment is deferred, the same legislation provides for the lender to be compensated for loss of accrued interest, late-payment interest and debt collection costs. KLP Kommunekreditt AS has not incurred any credit losses on loans to Norwegian municipal or county authorities.

At the end of 2015 the company had no loans in default.

BORROWING

KLP Kommunekreditt AS has established a programme for the issue of covered bonds (OMF). In 2015 covered bonds equivalent to NOK 2.9 billion were issued in the Norwegian market (NOK 6.0 billion in 2014).

At the end of 2015, NOK 16.1 billion (NOK 16.4 billion) in bonds covered by loans to the municipal sector had been issued in Norway. No bonds have been issued outside Norway.

Bonds are issued with sureties in a portfolio of loans to municipal and county authorities, or companies performing services on behalf of the public sector and which qualify for public guarantees. Loans to companies are guaranteed by municipal or county authorities, central government or banks in accordance with Section 50 of the Local Government Act. Guarantees have to be framed as ordinary guarantees and cover both interest and instalments. The company has received the best rating for its covered bond issues, and international recognition for its lending programme.

The sureties which the bond owners hold must account for no less than 116 per cent of outstanding covered bond issues. This over-security is financed by equity and loans from KLP Banken AS.

BALANCE SHEET AND CAPITAL ADEQUACY

The company had total bank assets of NOK 19.3 billion at the end of 2015, compared with NOK 20.0 billion a year before Of this amount, lending to public sector borrowers accounted for NOK 15.6 billion.

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 687.5 million at the close of 2015. Core capital is identical to equity and subordinated loan capital. This gives a capital adequacy and core capital adequacy of 17.9 per cent. The corresponding figures for 2014 were NOK 728.7 million and 19.0 per cent. The current capital requirement is 14.5 per cent capital adequacy and 11.0 per cent core capital adequacy. The risk-weighted balance was NOK 3.7 billion. Capital adequacy is considered good.

LIQUIDITY

The year-end statement of cash flow shows that the company's liquidity situation is good. Holdings of cash and cash equivalents have been used to pay out new loans and repay borrowings.

As new borrowings occur when the terms are considered favourable, there is sometimes a need to invest surplus liquidity. This liquidity contributes to earnings and provides the flexibility needed to meet demand for new lending.

KLP Kommunekreditt AS is subject to strict rules with respect to the assets it may invest in. The portfolio of liquid investments comprises safe securities and deposits in other banks. The securities are extremely secure certificates and bonds, largely covered bonds with an AAA rating.

At the end of 2015 the company had outstanding liquid investments in the form of interest-bearing securities amounting to NOK 3.1 billion. The investments are recognised at market value. For 2015 this gave a loss of NOK 27.2 million. At the same time a year before, outstanding investments totalled NOK 3.1 billion. The corresponding figure for 2014 was a gain of NOK 4.6 million. (See Note 5 to the financial statements).

APPLICATION OF THE YEAR'S PROFIT

KLP Kommunekreditt AS's financial statements for 2015 show a total net profit of NOK 14.2 million. The board of directors proposes that a group contribution of NOK 47.0 million be paid to KLP. The same amount will be received from KLP in return as a group contribution without any tax effect. Net profit and net group contribution will be transferred to other owners' equity.

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 Kommunekreditt AS prepares its financial statements in accordance with the international accounting standards IFRS, as approved by the EU with associated interpretations. See Note 2 for further details.

Rating

The rating agencies' assessment of KLP Boligkreditt AS and the KLP Group have a bearing on the company's borrowing terms. The company has engaged Fitch Ratings and Moody's to credit rate the company's bonds. The covered bonds issued in 2015 received an AAA rating. KLP Kommunekreditt AS has been rated A- by Fitch Ratings.

Risk management

KLP Kommunekreditt AS is exposed to various types of risk. The Company has established a 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.

Stress testing is used as a method for risk assessment, and as a tool for communication and the exchange of views relating to risks. In this context, stress testing includes both sensitivity analyses and scenario analyses.

The risk policies include tolerance for the individual risks and for the overall risk. Risk tolerances are defined on the basis of various stress scenarios, and various forms of stress testing are regularly carried out to measure whether actual exposure is within the predefined tolerance limits.

The company should have a prudent risk profile, and earnings should largely be the result of borrowing and lending activities as well as liquidity management. This means that the company should have a low market risk, and that interest and foreign exchange risks which occur in the course of borrowing and lending activities should be reduced by means of derivatives. The company should have an adequate, long-term financing structure, and limits have been set to ensure that this objective is achieved. The company's credit risk is low, and its lending is limited to loans with municipal risk. Management of the company's liquidity is undertaken in the form of investments in banks and securities which meet requirements for credit quality in line with credit lines approved by the board of directors. The company's liquid investments have a high credit quality rating.

The company aims to maintain a low level of operational risk, and to be characterised by a high level of professional competence, solid 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 risk committee deals with matters specifically related to risk and has an advisory function to the Board of KLP Kommunekreditt AS.

The KLP Kommunekreditt brand

KLP's public sector lending activities are operated by the KLP Banken Group under the brand name KLP Kommunekreditt.

KLP Kommunekreditt AS's total lending stood at NOK 52.7 billion at the close of 2015, up NOK 4.4 billion (9 per cent) from 2014. Total payouts through the year came to NOK 8.5 billion.

Lending is financed through the companies KLP and KLP Kommunekreditt AS. KLP Kommunekreditt AS issues bonds covered by sureties comprising loans to the municipal sector. Cost-effective financing will help ensure that KLP Kommunekreditt AS can offer loans at favourable terms.

During 2015 requests for loans amounting to NOK 45 billion were received from municipal and county authorities and municipal companies. New loan agreements for NOK 9.9 billion were entered into (19 per cent of applications received). Overall, KLP Kommunekreditt is a significant long-term lender to public welfare and value creation.

The work of the board of directors

The board of directors held seven board meetings in 2015. For an overview of the remuneration paid to members of the company's board and management, see Note 16 to the year-end financial statements. The board comprised two women and two men in 2015.

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

Article 3 of the company's articles of association stipulates that the board of directors shall be made up of four to seven members. Directors are elected for two years at a time, such that half come up for election every year. The chair and deputy chair of the board are elected separately.

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, including limits and authorisations for the company's borrowing, lending and financial investments. Contracts may be signed by the CEO or the chairman of the board, or by two directors jointly.

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

An account of the management of the bank can be found on our website.

Working environment and organisation

KLP Kommunekreditt AS had two employees at the close of 2015. These also had employment relationships with other companies in the KLP Banken Group. Arnulf V. Arnøy chose to step down from his position as CEO of KLP Kommunekreditt AS in the autumn of 2015. Christopher A. N. Steen was appointed to the position on a temporary basis from 13 October 2015.

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 Kommunekreditt 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. Like the rest of the KLP Group, KLP Kommunekreditt 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.

Corporate responsibility

As part of the KLP Group, KLP Kommunekreditt AS aims to contribute to sustainable investments and responsible business operations. Social responsibility is of strategic importance for KLP. This is manifested through actions linked to the Group's business. KLP has signed the UN Global Compact, and is thereby committed to working for human rights, workers' rights and the environment, and against corruption. More extensive descriptions of objectives, initiatives and results in this area are available from KLP's website.

Outlook

KLP Kommunekreditt AS exploits the high creditworthiness of its lending portfolios to achieve favourable borrowing terms. The authorities' regulation of the banking sector means that financial institutions must meet new regulatory requirements with respect to capital and liquidity. This has prompted a need for higher earnings, which has increased relative borrowing costs for most borrowers, including those in the municipal market. The general trend in the financial markets on which the company depends will affect its opportunities for growth and development in the time ahead.

Norwegian municipalities have developed a good and extensive range of services to the population. Combined with increasing longevity and population growth, there is every reason to expect a continued need for high public sector investment. It is highly likely that demand for loans in the municipal sector and for projects with municipal guarantees and ownership will continue to grow in the years ahead, whatever the changes in local government structure or responsibilities.

A key trend in the market in recent years has been that a larger proportion of the demand for municipal loans is covered by certificates and bonds. This may mean that a large proportion of the municipal authorities' funding will derive from the securities market in the future too. The board of directors nevertheless assumes that there will still be a need for a significant element of long-term financing over and above what the securities market can offer to public-sector borrowers.

KLP Kommunekreditt has a good position in the market for public sector lending. Its presence in the market contributes to competition and so improves access to long-term, low-cost financing. Customer surveys show that borrowers want competition with regard to municipal lending.The growth through 2015 shows that KLP Kommunekreditt has maintained its position.

In 2016 KLP Kommunekreditt AS will continue to provide loans for public investment purposes and maintain its low risk profile. Developments in the company's lending activities will largely be determined by the extent to which it achieves sufficiently favourable borrowing terms to enable it to compete for public lending contracts.

Trondheim, 9 March 2016

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

....

Christopher A. Steen
CEO

THE BOARD OF DIRECTORS OF KLP KOMMUNEKREDITT AS.
TORIL LAHNSTEIN, SVERRE THORNES, EVA M. SALVESEN OG AAGE SCHAANNING

Income Statement

Notes	NOK thousands	2015	2014
	Interest income and similar income	485 635	588 825
	Cost of interest and similar costs	-415 784	-517 168
10	Net interest income	69 850	71 657
5	Net gain/(loss) on financial instruments	-29 742	-15 217
	Total net value change and gain/loss on currency and securities held for trading	-29 742	-15 217
25	Other operating expenses	-20 502	-19 927
	Total operating expenses	-20 502	-19 927
	Operating profit/loss before tax	19 606	36 514
21	Tax on ordinary income	-5 433	-9 859
	Income for the year	14 173	26 655
	Other comprehensive income	0	0
	Other comprehensive income for the year after tax	0	0
	COMPREHENSIVE INCOME FOR THE YEAR	14 173	26 655
	Allocated to/from retained earnings	-14 173	-26 655
	TOTAL ALLOCATION OF INCOME	-14 173	-26 655

Balance sheet

Note	NOK thousands	31.12.2015	31.12.2014
	ASSETS		
11,28	Loans to and receivables from credit institutions	443 481	444 270
11	Loans to and receivables from customers	15 646 269	16 338 260
8	Fixed-income securities	3 133 684	3 076 037
21	Deferred tax assets	1 746	0
9	Financial derivatives	122 900	158 288
26	Other assets	1 251	5 498
	TOTAL ASSETS	19 349 331	20 022 354
	LIABILITIES AND OWNERS' EQUITY		
	LIABILITIES		
17	Liabilities to credit institutions	2 181 927	2 207 657
18	Liabilities created on issuance of securities	16 114 897	16 642 932
9	Financial derivatives	345 305	420 971
21	Deferred tax	12 695	16 718
23	Other liabilities	4 646	3 982
23	Provisions for accrued costs and liabilities	646	1 441
	TOTAL LIABILITIES	18 660 115	19 293 701
	OWNERS' EQUITY		
	Share capital	362 500	362 500
	Share premium	312 500	312 500
	Retained earnings	14 216	53 653
	TOTAL OWNERS' EQUITY	689 216	728 653
	TOTAL LIABILITIES AND OWNERS' EQUITY	19 349 331	20 022 354

Trondheim, 9 March 2016

Sverre Thornes
Chair

Aage Schaanning
Deputy Chair

Eva M. Salvesen

Toril Lahnstein

Christopher A. Steen
CEO

Statement of owners' equity

2015 NOK thousands	Share capital	Share premium	Retained earnings	Total owners' equity
Owners' equity 1 January 2015	362 500	312 500	53 653	728 653
Income for the year	0	0	14 173	14 173
Other comprehensive income	0	0	0	0
Comprehensive income for the year	0	0	14 173	14 173
Dividends paid	0	0	-28 300	-28 300
Group contribution received	0	0	4 980	4 980
Group contribution paid after tax	0	0	-30 290	-30 290
Total transactions with the owners	0	0	-53 610	-53 610
Owners' equity 31 December 2015	362 500	312 500	14 216	689 216

2014 NOK thousands	Share capital	Share premium	Retained earnings	Total owners' equity
Owners' equity 1 January 2014	362 500	312 500	70 630	745 630
Income for the year	0	0	26 655	26 655
Other comprehensive income	0	0	0	0
Comprehensive income for the year	0	0	26 655	26 655
Group contributions made	0	0	-43 632	-43 632
Total transactions with the owners	0	0	-43 632	-43 632
Owners' equity 31 December 2014	362 500	312 500	53 653	728 653

	Number of shares	Nominal value in whole NOK	Share capital	Share premium	Retained earnings	Total owners' equity
Share capital paid in/share premium	3 625 000	100	362 500	312 500	0	675 000
Changes in other owners' equity	-	-	0	0	14 216	14 216
Owners' equity as at 31.12.2015	3 625 000	100	362 500	312 500	14 216	689 216

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

Statement of Cash flows

NOK thousands	2015	2014
Operational activities		
Payments received from customers – interest, commission & charges	450 013	526 170
Net disbursements on lending to customers	505 434	559 178
Disbursements on operations	-20 480	-19 964
Net receipts/disbursements on other operating activities	3 046	12 038
Net interest investment accounts	6 703	12 116
Income tax paid	0	0
Net cash flow from operational activities	944 716	1 089 538
Investment activities		
Payments on the purchase of securities	-2 355 043	-1 531 983
Receipts on the sale of securities	2 266 105	1 254 965
Receipts of interest from securities	48 428	64 201
Net cash flow from investment activities	-40 510	-212 817
Financing activities		
Net receipts on loans to credit institutions	-466 261	-676 233
Net payment of interest on loans	-370 876	-527 994
Dividends paid	-28 300	0
Group contributions payment made	-36 513	-63 906
Net cash flows from financing activities	-901 950	-1 268 133
Net cash flow during the period	2 256	-391 412
Cash and cash equivalents at start of period	428 660	820 072
Cash and cash equivalents at end of period	430 916	428 660
Net receipts/disbursements (-) of cash	2 256	-391 412

DECLARATION PURSUANT TO THENORWEGIAN 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 2015 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, 9 March 2016

Sverre Thornes
Chair

Aage Schaanning
Deputy Chair

Eva M. Salvesen

Toril Lahnstein

Christopher A. Steen
CEO

Note 1 General information

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

The business is primarily financed by issuing covered bonds (obligasjoner med fortrinnsrett - OMF) with security in public sector guaranteed loans. Some of these are listed on Oslo Børs (Stock Exchange).

KLP Kommunekreditt AS is registered and domiciled in Norway. KLP Kommunekreditt AS has its head office at Beddingen 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 financial statements for KLP Kommunekreditt 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 Kommunekreditt AS have been prepared in accordance with the international accounting standards (IFRS) and interpretations from the IFRS interpretations committee, as adopted by the EU. The Accounting Act contains certain supplementary information requirements not required in accordance with IFRS. These supplementary information requirements have been incorporated into the notes to the financial statements.

The annual accounts have been prepared based on the principle of historic cost, with the following exceptions:

- Financial assets and liabilities (including financial derivatives) are valued at fair value through profit or loss.
- 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 2015

   No standards, changes or interpretations that came into effect during 2015 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 Company has chosen not to apply in advance, the most significant are declared below.

IFRS 9 Financial Instruments governs 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 relate to the classification and measurement of financial instruments. According to IFRS 9, financial assets are to be classified in three categories: fair value of over 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 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 accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Company has still to fully assess the effect of IFRS 9.

IFRS 15 Revenue from Contracts with Customers deals with revenue recognition. The standard calls for analysis of the customer contract, identifying the individual performance obligations. A performance obligation may be a good or service. Income is recognized when a customer achieves control over a good or service, and thus has the opportunity to decide on the use of and may receive the advantages from the good or the service. The standard replaces IAS 18 Revenue and IAS 11 Construction Contracts and associated interpretations. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Company has still 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 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) is 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 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 in the investment business is taken to income and included in the line "Interest income and similar income".

2.3.3 Derivatives and hedging
Financial derivatives are capitalized at fair value at the time the derivative contract is struck. On subsequent measurement the derivatives are recognized at fair value and are presented as an asset if the value is positive and a liability if the value is negative. Recognition of associated gains and losses depends on whether the derivative has been identified as an accounting hedge instrument and in which type of accounting hedge the derivative is included.

For derivatives not included in accounting hedge relationships, gains and losses are recognized through profit or loss as they arise in the line for "Net gain/(loss) on financial instruments". These fall into the category of financial assets at fair value reported through the income statement.

The derivatives which are hedging instruments are used for hedging interest rate risk on fixed-interest borrowing and lending. In its hedging activity, the Company safeguards itself against movements in market interest rates. Changes in the credit spread are not taken into account in the hedging effectiveness. The Company uses the rules on fair value hedging, so that the book value of the hedged item (asset or liability) is corrected with the value development in the hedged risk. The value change is recognized in the income statement. On entry into a hedging contract, the connection between the hedging instrument and the hedging object is documented, in addition to the purpose of the risk management and the strategy behind the different hedging transactions. The hedging effectiveness is measured regularly to ensure the hedge is effective.

If the hedging no longer fulfils the criteria for hedge accounting, the recognized effect of the hedging for hedging objects recognized at amortized cost is amortized over the period up to the due date of the hedging instrument.

2.3.4 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.

2.3.5 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.

2.3.6 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 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 Company will have sufficient taxable profit to exploit the tax asset in the future.

Note 3 Important accounting estimates and valuations

The Company's balance sheet principally comprises loans to local government and enterprises with local government guarantee, as well as covered bonds issued. These items are valued in the accounts at amortized cost, with the exception of borrowing and lending with fixed interest rates which are valued at fair value in accordance with the rules on fair value hedging. This means that the accounting value of the hedging object (fixed interest borrowing and lending) is changed when the market interest rate changes. The credit spread is locked at the commencement date, so the market's pricing of credit is not reflected in book value. This is because the credit element is not hedged.

The risk of credit loss is considered very low and there is very little probability credit loss will occur in the local government lending portfolio.

During the year the Company has invested surplus liquidity in fixed-income securities. These were initially recognized in the statement of financial position at fair value. The securities in the portfolio are classified in the category "financial assets at fair value through profit or loss" as they are managed, and their earnings are valued on the basis of fair value. The principles for calculating the fair value of the various instruments are described in Note 6.

Note 4 Segment information

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

Note 5 Net gain/loss on financial instruments

NOK thousands	2015	2014
Net gain/loss on fixed-income securities	-27 160	4 639
Net gain/loss financial derivatives and realized amortization linked to lending	2 470	1 598
Net gain/loss financial derivatives and realized repurchase of own debt	-5 051	-21 453
Total	-29 742	-15 217

Note 6 Categories of financial instruments

	31.12.2015		31.12.2014	
NOK thousands	Book value	Fair value	Book value	Fair value
FINANCIAL ASSETS AT FAIR VALUE HELD FOR TRADING				
Fixed-income securities	3 133 684	3 133 684	3 076 037	3 076 037
Total financial assets at fair value held for trading	3 133 684	3 133 684	3 076 037	3 076 037
FINANCIAL ASSETS AT FAIR VALUE USED FOR HEDGING				
Financial derivatives	122 900	122 900	158 288	158 288
Lending to Norwegian municipalities	5 558 168	5 526 008	6 066 133	6 111 821
Total financial assets at fair value used for hedging	5 681 068	5 648 908	6 224 421	6 270 109
FINANCIAL ASSETS AT AMORTIZED COST				
Loans to and receivables from credit institutions	443 481	443 481	444 270	444 270
Lending to Norwegian municipalities	10 088 101	10 080 287	10 272 128	10 262 529
Total financial assets at amortized cost	10 531 582	10 523 768	10 716 398	10 706 799
Total financial assets	19 346 334	19 306 361	20 016 855	20 052 945
FINANCIAL LIABILITIES AT FAIR VALUE USED FOR HEDGING				
Covered bonds issued	1 509 154	1 501 873	2 454 871	2 477 580
Financial derivatives	345 305	345 305	420 971	420 971
Total financial liabilities at fair value used for hedging	1 854 459	1 847 177	2 875 842	2 898 551
FINANCIAL LIABILITIES AT AMORTIZED COST				
Liabilities to credit institutions	2 181 927	2 181 927	2 207 657	2 207 657
Covered bonds issued	14 605 743	14 549 701	14 188 062	14 251 127
Total financial liabilities at amortized cost	16 787 670	16 731 628	16 395 718	16 458 784
Total financial liabilities	18 642 128	18 578 805	19 271 560	19 357 335

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. 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 - 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. In theoretical pricing a zero-coupon curve is used as well as yield spread curves for the pricing. Reuters is used as the source for the zero-coupon curve from 0 to 10 years. From 12 years and over, Bloomberg is used as the source since Reuters does not provide prices over 10 years. The spread curves are received from the Norwegian Fund and Asset Management Association. These are based on yield spread curves collected from several different market operators and converted to an average curve.

Financial derivatives

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

Fair value of loans to Norwegian local government

Fair value of lending without fixed interest rates is considered virtually the same as book value since the contract terms are continuously changed in step with market interest rates. Lending with fixed interest is valued using a valuation model, including relevant credit spread adjustments obtained from the market.

Fair value of loans to and receivables from credit institutions

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

NOK thousands	Level 1	Level 2	Level 3	Total 31.12.2015
ASSETS				
Financial assets recognized at fair value				
Fixed-income securities	0	3 133 684	0	3 133 684
Financial derivatives	0	122 900	0	122 900
Total financial assets recognized at fair value.	0	3 256 584	0	3 256 584
Financial assets recognized at fair value in Note 6:				
Lending to Norwegian municipalities	0	5 526 008	0	5 526 008
Total financial assets at fair value used for hedging	0	5 526 008	0	5 526 008
Loans to and receivables from credit institutions	0	443 481	0	443 481
Lending to Norwegian municipalities	0	10 080 287	0	10 080 287
Total financial assets at amortized cost	0	10 523 768	0	10 523 768
LIABILITIES				
Financial liabilities recognized at fair value				
Financial derivatives (liabilities)	0	345 305	0	345 305
Total financial derivatives recognized at fair value	0	345 305	0	345 305
Financial liabilities recognized at fair value in Note 6:				
Covered bonds issued	0	1 501 873	0	1 501 873
Total financial liabilities at fair value used for hedging	0	1 501 873	0	1 501 873
Liabilities to credit institutions	0	2 181 927	0	2 181 927
Covered bonds issued	0	14 549 701	0	14 549 701
Total financial liabilities at amortized cost	0	16 731 628	0	16 731 628

NOK thousands	Level 1	Level 2	Level 3	Total 31.12.2014
ASSETS				
Financial assets recognized at fair value				
Fixed-income securities	0	3 076 037	0	3 076 037
Financial derivatives	0	158 288	0	158 288
Total financial assets recognized at fair value.	0	3 234 325	0	3 234 325
Financial assets recognized at fair value in Note 6:				
Lending to Norwegian municipalities	0	6 111 821	0	6 111 821
Total financial assets at fair value used for hedging	0	6 111 821	0	6 111 821
Loans to and receivables from credit institutions	0	444 270	0	444 270
Lending to Norwegian municipalities	0	10 262 529	0	10 262 529
Total financial assets at amortized cost	0	10 706 799	0	10 706 799
LIABILITIES				
Financial liabilities recognized at fair value				
Financial derivatives (liabilities)	0	420 971	0	420 971
Total financial liabilities recognized at fair value.	0	420 971	0	420 971
Financial liabilities recognized at fair value in Note 6:				
Covered bonds issued	0	2 477 580	0	2 477 580
Total financial liabilities at fair value used for hedging	0	2 477 580	0	2 477 580
Liabilities to credit institutions	0	2 207 657	0	2 207 657
Covered bonds issued	0	14 251 127	0	14 251 127
Total financial liabilities at amortized cost	0	16 458 784	0	16 458 784

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	Acquisition cost	Unreal. gain/loss	Accr. int. not due	31.12.2015 Market value
Debtor categories				
Credit enterprises	2 236 739	-12 488	3 798	2 228 049
Local government administration	843 637	10 087	2 117	855 841
Multilateral development banks (not banks)	50 265	-532	61	49 794
Total	3 130 641	-2 933	5 976	3 133 684

Effective interest rate: 1.72 %

NOK thousands	Acquisition cost	Unreal. gain/loss	Accr. int. not due	31.12.2014 Market value
Debtor categories				
Credit enterprises	2 837 698	15 617	5 166	2 858 481
Local government administration	203 391	13 194	970	217 556
Total	3 041 089	28 811	6 136	3 076 037

Effective interest rate: 1.74 %

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 Financial derivatives

NOK thousands	31.12.2015 Nominal amount	31.12.2015 Fair value	31.12.2014 Nominal amount	31.12.2014 Fair value
Borrowing in NOK	1 385 000	122 895	2 292 000	158 288
Borrowing in currency	0	0	0	0
Lending	100 000	5	0	0
Total assets	1 485 000	122 900	2 292 000	158 288
Borrowing in NOK	0	0	1 300 000	4 592
Borrowing in currency	0	0	0	0
Lending	4 992 761	336 553	5 632 614	406 137
Investments	100 000	8 752	100 000	10 242
Total liabilities	5 092 761	345 305	7 032 614	420 971

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

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

Note 10 Net interest income

NOK thousands	2015	2014
Interest on loans to and receivables from credit institutions	6 702	12 116
Interest on lending to customers	430 665	513 766
Interest on securities	48 267	62 943
Total interest income	485 634	588 825
Interest on debt to KLP Banken AS	-48 269	-59 388
Interest on debt to credit institutions	-368 152	-455 559
Premium/discount on covered bonds	636	-2 221
Total interest costs	-415 784	-517 168
Net interest income	69 850	71 657

Note 11 Lending and receivables

NOK thousands	31.12.2015	31.12.2014
Loans to and receivables from credit institutions		
Bank deposits	443 481	444 270
Loans to and receivables from credit institutions	443 481	444 270
Loans to and receivables from customers		
Principal on lending	15 284 970	15 893 916
Fair value hedging	313 225	321 195
Premium/discount	-22 857	32 870
Accrued interest	70 931	90 280
Loans to and receivables from customers	15 646 269	16 338 260

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

Note 12 Financial risk management

Organisation of risk management

KLP Kommunekreditt AS is a wholly owned subsidiary of KLP Banken AS. The Board of Directors has established a risk management framework 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 13 Credit risk

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

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

13.1 MEASUREMENT OF CREDIT RISK

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

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

13.2 CONTROL AND LIMITATION OF CREDIT RISK

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

13.3 LOANS ACCORDING TO TYPE OF SECURITY/EXPOSURE (PRINCIPAL)

Loans according to type of security/exposure (principal)

NOK thousands	31.12.2015	31.12.2014
Lending to municipalities and county administrations	13 274 548	14 919 871
Lending with municipal/county administration guarantee	2 010 422	974 045
Total	15 284 970	15 893 916
Sums falling due more than 12 months after the end of the reporting period	14 422 372	14 708 646

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	31.12.2015	31.12.2014
AAA	2 379 000	2 922 000

Securities without external credit assessment

NOK thousands	31.12.2015	31.12.2014
Securities issued by Norwegian municipalities/county administrations	745 445	105 336

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

NOK thousands	31.12.2015	31.12.2014
Aa1-Aa3	229 481	2 917
A1-A3	214 000	441 353
Baa1	0	0
Total	443 481	444 270

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. All derivative agreements are entered into with counterparties with a minimum A1 rating (Moody's).

13.4 MAXIMUM EXPOSURE TO CREDIT RISK

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

Maximum exposure to credit risk

NOK thousands	31.12.2015	31.12.2014
Loans to and receivables from credit institutions	443 481	444 270
Loans to and receivables from customers	15 355 901	15 984 196
Fixed-income securities	3 136 616	3 047 226
Financial derivatives	122 900	158 288
TOTAL	19 058 898	19 633 980

13.5 LOANS FALLEN DUE OR WRITTEN DOWN

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

Loans fallen due or written down

NOK thousands	31.12.2015	31.12.2014
Principal on loans with payments with 1-30 days' default	287 199	357 048
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	287 199	357 048
Relevant security or guarantees	287 199	357 048
Lending that has been written down	0	0

13.6 CONCENTRATION OF CREDIT RISK

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

The concentration against individual borrowers is limited by individual Board-set limits. KLP Kommunekreditt AS's largest exposure as at 31 December 2015 was about 4.8 per cent of the Company's total lending.

Note 14 Market risk

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

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

NOTE 14.1 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 14.2 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.

Interest rate risk arises because the fixed interest periods for assets and liabilities are not the same. The gap in the table below shows the difference between assets and liabilities that can be interest-adjusted within the given time intervals. The repricing date shows the time to the next agreed interest adjustment date. Floating-rate loans and cash, and receivables from credit institutions, fall into the time interval up to one month, while fixed-interest loans, securities and debt fall into the time interval for which interest adjustment has been agreed.

Interest-rate risk KLP Kommunekreditt AS

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

NOK thousands	Total Principal	Up to 1 mth	From 1 mth to 3 mths	From 3 mths til 12 mnd	From 1 year to 5 years	Over 5 years
Lending	15 284 970	10 607 278	37 356	850 527	2 403 725	1 386 084
Securities	3 124 445	300 000	1 979 000	745 445	100 000	0
Cash and receivables from credit institutions	443 481	443 481	0	0	0	0
Total	18 852 896	11 350 759	2 016 356	1 595 972	2 503 725	1 386 084
Liabilities created on issuance of securities	16 055 000	170 000	14 500 000	0	1 385 000	0
Liabilities to financial institutions	2 180 000	2 180 000	0	0	0	0
Total	18 235 000	2 350 000	14 500 000	0	1 385 000	0
Gap	617 896	9 000 759	-12 483 644	1 595 972	1 118 725	1 386 084
Financial derivatives	0	542 547	2 807 984	-756 818	-889 212	-1 704 501
Net gap	617 896	9 543 306	-9 675 660	839 154	229 513	-318 417

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

NOK thousands	Total Principal	Up to 1 mth	From 1 mth to 3 mths	From 3 mths til 12 mnd	From 1 year to 5 years	Over 5 years
Lending	15 893 916	10 292 011	38 499	875 436	3 128 700	1 559 270
Securities	3 027 336	320 000	2 607 336	0	100 000	0
Cash and receivables from credit institutions	444 270	444 270	0	0	0	0
Total	19 365 522	11 056 281	2 645 835	875 436	3 228 700	1 559 270
Liabilities created on issuance of securities	16 452 000	860 000	13 300 000	542 000	1 000 000	750 000
Liabilities to financial institutions	2 205 000	2 205 000	0	0	0	0
Total	18 657 000	3 065 000	13 300 000	542 000	1 000 000	750 000
Gap	708 522	7 991 281	-10 654 165	333 436	2 228 700	809 270
Financial derivatives	4 311	-593 253	3 962 281	-331 139	-2 228 619	-804 959
Net gap	712 833	7 398 028	-6 691 884	2 297	81	4 311

The Company's interest rate sensitivity as at 31 December 2015, measured as value change in the event of one percentage point change in all interest rates, was NOK 4 million.

NOTE 14.3 EXCHANGE RATE RISK

As at 31 December 2015 the Company had no borrowing in foreign currency.

Note 15 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.

15.1 MANAGEMENT OF LIQUIDITY RISK

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

15.2 MATURITY ANALYSIS

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

Liquidity risk KLP Kommunekreditt AS

Maturity analysis for assets and liabilities as at 31 December 2015

Tusen kroner	Total	Undefined	Up to 1 mth	From 1 mth to 3 mths	From 3 mths til 12 mnd	From 1 year to 5 years	Over 5 years
Lending	19 755 998	0	57 181	184 518	1 004 673	4 354 051	14 155 575
Securities	3 262 393	0	1 104	8 475	936 873	2 265 216	50 725
Receivables from credit institutions	443 481	0	443 481	0	0	0	0
Total	23 461 872	0	501 766	192 993	1 941 546	6 619 267	14 206 300
Liabilities created on issuance of securities	16 719 110	0	656	51 991	2 327 383	14 339 080	0
Financial derivatives	224 794	0	5 200	14 081	48 730	115 604	41 179
Liabilities to credit institutions	2 190 558	0	3 653	2 186 905	0	0	0
Total	19 134 462	0	9 509	2 252 977	2 376 113	14 454 684	41 179
Net cash flow	4 327 410	0	492 257	-2 059 984	-434 567	-7 835 417	14 165 121

Maturity analysis for assets and liabilities as at 31 December 2014

Tusen kroner	Total	Undefined	Up to 1 mth	From 1 mth to 3 mths	From 3 mths til 12 mnd	From 1 year to 5 years	Over 5 years
Lending	21 156 568	0	86 603	187 859	1 278 843	4 747 970	14 855 294
Securities	3 235 143	0	246	119 984	99 383	2 757 283	258 248
Receivables from credit institutions	444 270	0	444 270	0	0	0	0
Total	24 835 981	0	531 118	307 843	1 378 225	7 505 253	15 113 542
Liabilities created on issuance of securities	17 313 638	0	4 483	62 080	1 903 460	14 559 115	784 500
Financial derivatives	246 635	0	6 028	10 076	54 826	131 946	43 759
Liabilities to credit institutions	2 219 599	0	5 045	2 214 554	0	0	0
Total	19 779 872	0	15 557	2 286 711	1 958 286	14 691 061	828 259
Net cash flow	5 056 109	0	515 561	-1 978 868	-580 061	-7 185 808	14 285 284

A 3-month internal loan of NOK 2,180,000 has been provided from KLP Banken AS to KLP Kommunekreditt 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 16 Salary and obligations to senior management

2015	Paid from KLP Kommunekreditt AS					Paid from another company in the same group						
NOK thousands	Salaries, fees etc.	Other benefits	Annual pension accumulation	Plan change pension benefits	Loans	Salaries, fees etc.	Other benefits	Annual pension accumulation	Plan change pension benefits	Loans	Interest rate as at 31.12.2015	Repayment plan [1]
Senior employees												
Arnulf Arnøy, Managing Director to mid-October [2)4)]	-	-	-	-	-	1 161	86	430	-	919	2.25	A28
Christopher A. Steen, Managing Director from mid-October [4)]	-	-	-	-	-	237	5	52	-	2 939	2.25-2.45	A34/A42
Board of Directors												
Sverre Thornes, Chair	-	-	-	-	-	3 694	167	1 509	-	10 017	2.25	A45
Aage E. Schaanning	-	-	-	-	-	3 264	150	1 301	-	3 127	2.25-2.45	A22/A23
Toril Lahnstein	70	-	-	-	-	-	-	-	-	-	-	-
Eva M. Salvesen	21	-	-	-	-	137	-	-	-	-	-	-
Control Committee												
Hetland Ole	-	-	-	-	-	98	-	-	-	-	-	-
Johansen Bengt P.	-	-	-	-	-	83	-	-	-	-	-	-
Berit Bore	-	-	-	-	-	86	-	-	-	-	-	-
Flormælen Dordi E.	-	-	-	-	-	83	-	-	-	-	-	-
Thorvald Hillestad	-	-	-	-	-	83	-	-	-	-	-	-
Supervisory Board												
Total Supervisory Board	-	-	-	-	-	74	-	-	-	13 791	-	-
Employees												
Total loans to employees of KLP Kommunekreditt	-	-	-	-	-	-	-	-	-	3 858	-	-

2014	Paid from KLP Kommunekreditt AS					Paid from another company in the same group						
NOK thousands	Salaries, fees etc.	Other benefits	Annual pension accumulation	Plan change pension benefits	Loans	Salaries, fees etc.	Other benefits	Annual pension accumulation	Plan change pension benefits	Loans	Interest rate as at 31.12.2014	Repayment plan [1]
Senior employees												
Arnulf Arnøy, Managing Director	-	-	-	-	-	1 474	110	582	-276	1 242	2.90	A31
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
Toril Lahnstein	68	-	-	-	-	-	-	-	-	-	-	-
Eva M. Salvesen	21	-	-	-	-	118	-	-	-	-	-	-
Control Committee												
Hetland Ole	-	-	-	-	-	97	-	-	-	-	-	-
Johansen Bengt P.	-	-	-	-	-	80	-	-	-	-	-	-
Mathilde Irene Skiri2)	-	-	-	-	-	39	-	-	-	-	-	-
Berit Bore	-	-	-	-	-	41	-	-	-	-	-	-
Flormælen Dordi E.	-	-	-	-	-	80	-	-	-	-	-	-
Thorvald Hillestad	-	-	-	-	-	80	-	-	-	-	-	-
Supervisory Board												
Total Supervisory Board	-	-	-	-	-	75	-	-	-	14 283	-	-
Employees												
Total loans to employees of KLP Kommunekreditt	-	-	-	-	-	-	-	-	-	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.

4) Benefits are shown for the period in which each person held the position of Managing Director of KLP Kommunekreditt. The outgoing Managing Director has moved to another position in KLP Banken.

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.

Managing director is a contracted-in function from the parent company, KLP Banken AS, and the individual receives no benefits directly from KLP Kommunekreditt AS for the appointment (this applies to both the old and new Managing Directors). KLP Kommunekreditt AS refunds that part of the benefits associated with the role as managing director. The former Managing Director has no agreement on performance pay, but has a salary guarantee of 21 months in the event of dismissal/agreed termination. The incumbent is entitled to full retirement pension on reaching the age of 62. The new Managing Director has no agreement on performance pay (bonus) or guaranteed salary on termination. He is pensionable aged 70.

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

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

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 17 Liabilities to credit institutions

NOK thousands	Currency	Interest	Due date	Nominal	Accrued interest	31.12.2015 Book value
Debt to KLP Banken AS	NOK	Fixed	16.03.16	2 180 000	1 927	2 181 927
Total liabilities to credit institutions				2 180 000	1 927	2 181 927

NOK thousands	Currency	Interest	Due date	Nominal	Accrued interest	31.12.2014 Book value
Debt to KLP Banken AS	NOK	Fixed	16.03.15	2 205 000	2 657	2 207 657
Total liabilities to credit institutions				2 205 000	2 657	2 207 657

Note 18 Securities liabilities - stock exchange listed covered bonds

NOK thousands	31.12.2015	31.12.2014
Bonds, nominal value	16 055 000	16 452 000
Revaluations	106 565	133 991
Accrued interest	33 332	56 941
Own funds, nominal value	-80 000	0
Total liabilities created on issuance of securities	16 114 897	16 642 932

NOK thousands	Balance 31.12.2015	Issued	Fallen due/ redeemed Repurchased	Others changes	Balance 31.12.2014
Change in liabilities created on issuance of securities					
Bonds, nominal value	16 055 000	2 920 000	-3 317 000	0	16 452 000
Revaluations	106 565	0	0	-27 426	133 991
Accrued interest	33 332	0	0	-23 609	56 941
Own funds, nominal value	-80 000	0	-80 000	0	0
Total liabilities created on issuance of securities	16 114 897	2 920 000	-3 397 000	-51 035	16 642 932

Note 19 Presentation of assets and liabilities subject to net settlement

NOK thousands	Gross financial assets/liabilities	Gross assets/ liabilities presented net	Book value	Financial instruments	Security in cash	Net value
				31.12.2015 Related sums that are not presented net		
ASSETS						
Financial derivatives	122 900	0	122 900	-122 900	0	0
Total	122 900	0	122 900	-122 900	0	0
LIABILITIES						
Financial derivatives	345 305	0	345 305	-122 900	0	222 405
Total	345 305	0	345 305	-122 900	0	222 405

NOK thousands	Gross financial assets/liabilities	Gross assets/ liabilities presented net	Book value	Financial instruments	Security in cash	Net value
				31.12.2014 Relaterte beløp ikke presentert netto		
ASSETS						
Financial derivatives	158 288	0	158 288	-158 288	0	0
Total	158 288	0	158 288	-158 288	0	0
LIABILITIES						
Financial derivatives	420 971	0	420 971	-158 288	0	262 683
Total	420 971	0	420 971	-158 288	0	262 683

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

Note 20 Capital adequacy

NOK thousands	31.12.2015	31.12.2014
Share capital and share premium	675 000	675 000
Other owners' equity	14 216	53 653
Total owners' equity	689 216	728 653
Deduction goodwill and other intangible assets	0	0
Deferred tax assets	-1 746	0
Core capital/Tier 1 capital	687 470	728 653
Supplementary capital/Tier 2 capital	0	0
Supplementary capital/Tier 2 capital	0	0
Total own funds (eligible Tier 1 and Tier 2 capital)	687 470	728 653
Capital requirement	306 812	307 281
Surplus of own funds (eligible Tier 1 and Tier 2 capital)	380 658	421 372
Calculation basis credit risk		
Institutions	122 521	121 611
Local and regional authorities	3 320 023	3 311 173
Covered bonds	227 784	285 843
Calculation basis credit risk	3 670 328	3 718 627
Credit risk	293 626	297 490
Operational risk	13 186	9 791
Total capital requirement assets	306 812	307 281
Core capital adequacy ratio	17.9 %	19.0 %
Supplementary capital ratio	0.0 %	0.0 %
Capital adequacy ratio	17.9 %	19.0 %
Unweighted capital adequacy	3.5 %	3.6 %

Capital requirement as at 31.12.2015	Core capital/ Tier 1 capital	Supplementary capital/ Tier 2 capital	Own funds (eligeble 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 %
Counter-cyclical buffers	1.0 %	0.0 %	1.0 %
Applicable capital requirements including buffers	11.0 %	3.5 %	14.5 %

Note 21 Tax

NOK thousands	2015	2014
Accounting income before taxes	19 606	36 513
Differences between accounting and tax income:		
Reversal of value increase financial assets	31 743	206
Other permanent differences	-143	0
Change in differences affecting relationship between book and taxable income	-4 189	4 631
Taxable income	47 017	41 350
Base for tax payable	47 017	41 350
Reconciliation of deferred tax/tax assets		
Deferred tax asset linked to:		
Financial instruments	-45 699	-60 855
Hedging of borrowing	-30 736	-39 611
Securities	-733	0
Premium/discount on borrowing	-230	0
Total deferred tax assets	-77 398	-100 466
Deferred tax linked to:		
Securities	0	7 779
Lending to customers and credit enterprises	75 652	98 241
Total deferred tax	75 652	106 020
Net deferred tax/tax assets	-1 746	5 554
Deferred tax assets	-1 746	0
Capitalized deferred tax asset	-1 746	0
Deferred tax	0	5 554
Tax effect of group contribution	12 695	11 164
Capitalized deferred tax	12 695	16 718
Summary of tax expense for the year:		
Tax charged to the income statement for previous years	38	0
Change in deferred tax taken to income	-7 300	-1 305
Capitalized tax from Group contribution	12 695	11 164
Total tax costs	5 433	9 859
Effective tax percentage	27.7 %	27.0 %
Reconciliation of tax percentage:		
Permanent differences	143	0
27% Tax permanent differences	39	0
Corrected tax	5 394	9 859
Change in deferred tax benefit as a result of changed tax rate	-140	0
Tax percentage	27 %	27 %

Note 22 Number of FTEs and employees

KLP Kommunekreditt AS has 2 employees, but they do not receive any remuneration or other benefits from the Company.
KLP Kommunekreditt AS buys personnel services from other companies in the KLP Group.

Note 23 Other liabilities and provision for accrued costs and liabilities

NOK thousands	31.12.2015	31.12.2014
Receivables between companies in the same Group	4 573	3 740
Creditors	69	238
Other liabilities	4	4
Total other liabilities	4 646	3 982
Value-added tax	69	220
Provisioned costs	577	1 220
Total accrued costs and liabilities	646	1 441

Note 24 Transactions with related parties

NOK thousands	2015	2014
Income statement items		
KLP Banken AS, interest on borrowing	-48 269	-59 388
KLP Banken AS, administrative services (at cost)	-14 168	-12 715
KLP Kapitalforvaltning AS, fees for services provided	-321	-314
Total	-62 758	-72 417

NOK thousands	31.12.2015	31.12.2014
Financial position statement items		
KLP Banken AS, debt to credit institutions	-2 181 927	-2 207 657
KLP Banken AS, loan settlement	302	4 441
Net outstanding accounts to:		
KLP Banken AS	-4 494	-3 647
KLP Kapitalforvaltning AS	-79	-92
Total	-2 186 198	-2 206 955

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

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

Note 25 Auditor's fee

NOK thousands	2015	2014
Ordinary audit	428	443
Certification services	86	282
Tax advisory services	0	59
Total auditor's fee	514	784

The sums above include VAT.

Note 26 Other assets

NOK thousands	31.12.2015	31.12.2014
Receivables between Group companies	302	4 441
Prepaid expenses	949	1 057
Total	1 251	5 498

Note 27 Contingent liabilities

NOK thousands	31.12.2015	31.12.2014
Promised loans	196 015	184 716
Total contingent liabilities	196 015	184 716

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

Note 28 Cash and cash equivalents

NOK thousands	31.12.2015	31.12.2014
Cash and bank deposits	443 481	444 270
Total cash and bank deposits	443 481	444 270
In the statement of cash flows, cash and cash equivalents comprise the following:		
Cash and bank deposits	443 481	444 270
Bank accounts for use for acquisition and sale of securities	-12 565	-15 611
Cash and cash equivalents at end of period	430 916	428 660

To the Annual Shareholders' Meeting of KLP Kommunekreditt AS

Independent auditor's report

Report on the Financial Statements

We have audited the accompanying financial statements of KLP Kommunekreditt AS, which comprise the balance sheet as at 31 December 2015, income statement, changes in equity and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Board of Directors and the Managing Director's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements are prepared in accordance with the law and regulations and present fairly, in all material respects, the financial position of KLP Kommunekreditt AS as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers AS, Brattørkaia 17 B, NO-7492 Trondheim
T: 02316, org. no.: 987 009 713 MVA, www.pwc.no
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, 9 March 2016
PricewaterhouseCoopers AS

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

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

KLP PROVIDES PRODUCTS AND SERVICES WITHIN THE FOLLOWING AREAS:
- PENSIONS AND PENSION FUND SERVICES
- BANKING
- INSURANCE
- INVESTMENT FUNDS AND CAPITAL MANAGEMENT

KLP'S VALUES

open

clear

committed

responsible

This is KLP

Kommunal Landspensjonskasse gjensidig forsikringsselskap (KLP) is Norway's largest life insurance company.

KLP's main objective is to be Norway's leading provider of pensions to the public sector. KLP's most important task is to pay the right pension at the right time, and to manage the pension assets for its policy holders in an effective and secure manner. The return on the pension capital should be competitive, maintaining good service and efficient operation while keeping costs down.

The company provides services to employers and employees in municipal and county administrations, health trusts and businesses in the public and private sectors.

Its main product is public-sector occupational pensions; these pension schemes are stipulated in collective agreements and by law. The Group is also a major provider of non-life insurance, banking services and investment products. KLP Eiendom is the third-largest property management company in the Nordic region.

Market leader – public sector pensions

KLP is the dominant provider of funded public-sector occupational pensions, after three years of exceptional growth following its competitors' decision to withdraw from the market for insured schemes.

At the start of 2016, 419 municipal and county authorities had pension schemes with the company. 29 of the 30 health enterprises and the four regional health enterprises 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 440,000 people in work and 248,000 pensioners. 200,000 members also have a pension entitlement with KLP deriving from previous jobs.

Good returns and low costs

KLP has had good returns and low costs for many years. This has taken KLP to a strong position in the market for occupational pensions. The confidence that comes with this position is an opportunity KLP intends to exploit to develop the core business and expand its other business activities.

Successful focus on members

KLP also offers finance and insurance-related products and services to the retail market, mainly to members of KLP. The products are aimed at employees and pensioners of clients and owners whose pension schemes are managed by KLP. Almost 47,000 members are now customers in one or more business areas. Together with the other customers, the total is 67,500.

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, as shown by the growth in volumes and number of customers. 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

KLP aims to deliver secure and competitive financial and insurance services to the public sector and enterprises associated with the public sector and their employees.

KLP'S BUSINESS CONCEPT

THE VAST MAJORITY OF MUNICIPAL AND COUNTY AUTHORITIES ARE KLP CLIENTS. KLP'S HEAD OFFICE IS 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.

to become known, which can largely be attributed to a series of marketing campaigns.

Excellent personal treatment and service are characteristic of KLP's customer relations. This was confirmed through a customer satisfaction survey undertaken among private customers in the autumn of 2015. The results were extremely positive, with both Banking and Insurance achieving a score of 74 or more. This also compares very well with other financial institutions in Norway. Customers are particularly happy with our level of service, responsiveness and personal treatment.

Good reputation

KLP experienced strong growth in reputation in 2015, improving from 46 to 53 points in the TNS annual reputation survey. This places KLP among the best-regarded finance companies in the country; only Skandiabanken rates higher. Local government employees have improved their perception of KLP, which explains much of the development. The perception of KLP has improved in all aspects of reputation, but particularly with regard to financial soundness. The numbers who feel KLP is doing well financially rose from 28 to 39 per cent. As many as 76 per cent have great trust in KLP.

Company structure

Customers with public sector occupational pensions in KLP own the company. The mutual company model is economically efficient and helps to ensure that all added value goes to these customers, without the need to pay external investors for providing capital to the business.

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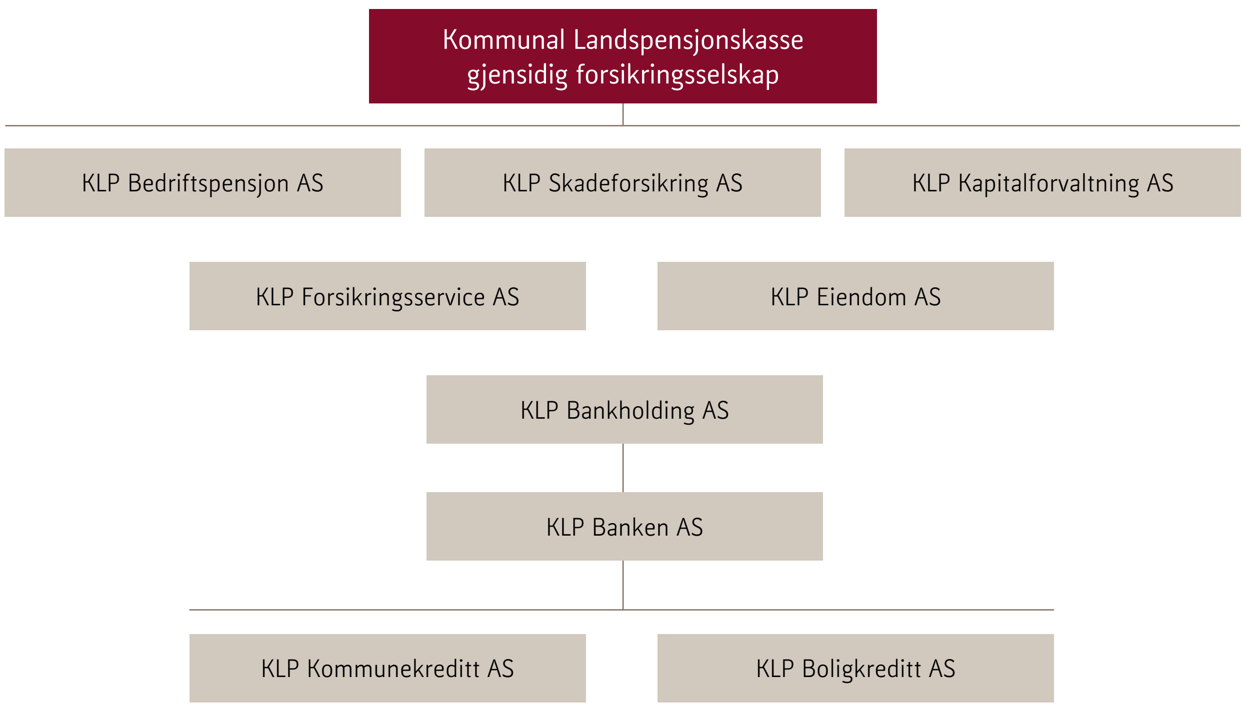
EMPLOYEES IN THE KLP GROUP
31.12.15

KLP has seven wholly-owned subsidiaries, which are organized as limited companies. The subsidiaries were created to support KLP's core business, and to offer secure and competitive services to KLP's owners and their employees.

At the end of 2015 the KLP Group employed more than 900 people, and managed total assets of NOK 540 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 is an online bank, offering 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 36,700 active retail customers. At the end of 2015, the Bank and its subsidiaries had a lending volume of NOK 26.4 billion; home mortgages accounted for NOK 10.7 billion, while NOK 15.7 billion went to local authorities and municipal companies.

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

KLP Boligkreditt AS is a subsidiary of KLP Banken, and was licensed as a mortgage lender in 2014. A proportion of the group'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 finances a broad spectrum of local administrations' needs, from schools, kindergartens and sheltered housing to projects related to the administrations' climate and energy plans. KLP also finances some council-run infrastructure.

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NOK BILLION MANAGED TOTAL ASSETS AT THE END OF 2015

KLP's vision is to be the best partner for the days to come.

KLP SKADEFORSIKRING AS offers insurance solutions to the public sector and enterprises, and also to the consumer market, with particular benefits for KLP members. At the end of 2015 the company had 318 municipal and 14 county authorities on its client list, as well as 2,914 enterprises including 29 health trusts. The company had 33,250 customers in the retail market.

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 2,943 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, and to provide active asset management and associated services. At the end of last year the company managed assets worth approx. NOK 398 billion.

KLP EIENDOM AS is one of Norway's largest property companies, with 1,780,000 m^2 of floor space and 373,000 m2 of leasehold land under management, along with several major property development projects. As at 31 December 2015, the properties were worth a total of NOK 55,4 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 utilization of space. KLP Eiendom only manages the Group's own properties, and does not provide real estate services to external customers.

Social responsibility

KLP aims to contribute to a sustainable public sector and to integrate sustainability and responsibility into all its business processes. We find that our owners and other stakeholders are more and more concerned with this.

KLP's social responsibility work can be grouped into four areas:
1. Responsibility in investments and products
2. Environmental solutions
3. Sharing of knowledge
4. Local engagement

These are topics identified by employees, management and other stakeholders as areas of great importance.

RESPONSIBILITY IN INVESTMENTS AND PRODUCTS

KLP aims to be among the leading financial institutions in the area of responsible investment in Norway. The tools that KLP uses in this connection are active ownership, exclusion and investments in sustainable development.

ENVIRONMENTAL SOLUTIONS

In KLP's business, it is the property company that has the greatest direct impact on the environment. KLP Eiendom manages and operates almost two million m2, mainly within the office, shopping centre and hotel sectors. KLP places great stress on optimizing the operation of the buildings so as to provide both a good indoor climate and working environment for the users and the lowest possible energy consumption.

The whole group is Miljøfyrtårn-certified, except for KLP Eiendom which is ISO 140001-certified. The Group's premises in Trondheim and Oslo were re-certified under the Miljøfyrtårn scheme in 2015.

SHARING OF KNOWLEDGE

KLP has information and knowledge on the causes of claims and disability, and on effective preventive measures. Sharing this knowledge is an important part of KLP's social responsibility. KLP has HSE teams which can assist both pension and insurance customers with their HSE projects. KLP offers courses, information days and inspections covering a wide range of topics such as damage prevention in buildings, fire safety, working environment development, seniors policy and measures to increase the average leaving age.

LOCAL ENGAGEMENT

All projects that KLP provides knowledge to are locally based. Local engagement is also fostered through KLP's Community Volunteering Fund, which provides financial support to local projects implemented on a voluntary basis. In 2015, 23 voluntary projects out of a total of 107 applications from all over Norway were given support.

OPENNESS AND SUSTAINABILITY REPORTING

The cornerstone of KLP's social responsibility work is the company's openness. More detailed descriptions of objectives, initiatives and results are available from klp.no/samfunnsansvar. This also contains details of companies that KLP has excluded, KLP's voting history and ownership.

INTERNATIONAL STANDARDS

KLP signed the UN Global Compact in 2003. The UN Global Compact encompasses ten principles which the signatories undertake to work towards.

KLP also endorses the UN principles for responsible investments, promoting concern for the environment, society and corporate governance.

History
1949–2016

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.

2016
New Solvency II regulations

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