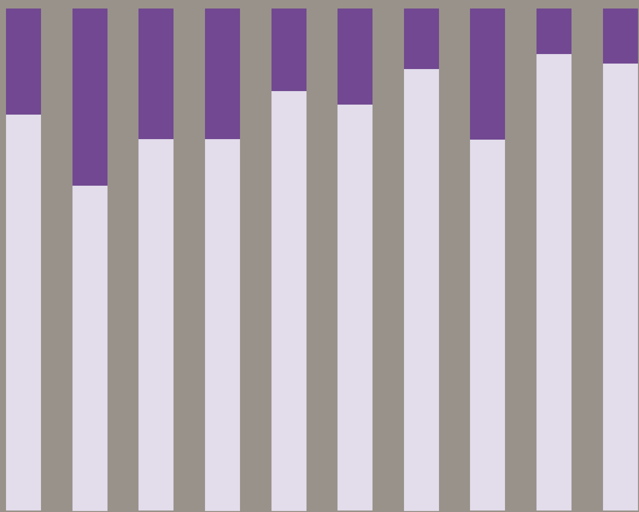
Gjensidige

Annual report 2016



Gjensidige Bank Boligkreditt

200 years

Contents

About the reporting
Gjensidige publishes a web-based annual report on www.gjensidige.no/reporting.
The annual report 2016 will not be printed.

The Board's Report for Gjensidige Bank Boligkreditt AS

The business

Gjensidige Bank Boligkreditt AS (herein called the Company) is a wholly owned subsidiary of Gjensidige Bank ASA. Gjensidige Bank ASA is a wholly owned subsidiary of Gjensidige Bank Holding AS, which, in turn, is a wholly owned subsidiary of Gjensidige Forsikring ASA. The Company's registered business address is in Oslo.

The Company is licensed by the Financial Supervisory Authority of Norway to issue covered bonds. The objective is to furnish residential mortgage loans, and to primarily finance the lending portfolio by issuing covered bonds. The Company only has residential mortgage loans purchased from Gjensidige Bank ASA.

By the end of 2016, the Company had issued covered bonds with a total face value of NOK 14,767.0 million, divided between NOK 14,108.0 million placed in the market and NOK 659.0 million on the parent Company's balance sheet. The bonds have an average remaining maturity of approximately 3.5 years, with an AAA rating from Standard & Poor's.

At the end of 2016, the Company had 11,110 mortgages with an outstanding balance of NOK 18,262.5 million. The Company's loan portfolio is of high quality. The weighted loan-to-value ratio, indexed, was 48.3 per cent.

The Company does not carry out any research and development (R&D) activities.

Comments on the annual accounts

Profit and loss account

The financial statements have been prepared in compliance with IFRS (International Financial Reporting Standards).

Pursuant to the requirements of Norwegian accounting legislation, the Board confirms that the Company will continue its operations and that the annual accounts have been prepared on that basis.

Last year's figures are shown in brackets.

In 2016, the Company made a profit after tax expense of NOK 71.3 million (107.9 million). Expenses increased due to the establishment of a Euro Medium Term Covered Bond Programme and due to lending growth. Margin pressure has reduced net interest income.

Net interest income for 2016 amounted to NOK 112.9 million (148.4 million). The increased lending volume was offset by a lower net interest margin. The net interest margin[1] was 0.60 per cent (1.03). The decrease was driven by overall margin pressure and increased funding costs at the end of 2016.

In 2016, operating expenses totalled NOK 16.0 million (11.3 million). Expenses increased due to the establishment of a Euro Medium Term Covered Bond Programme. Lending growth has increased purchases of services from Gjensidige Bank ASA.

The cost/income ratio was 13.8 per cent (7.5).

[1] The net interest margin is calculated as net interest income in per cent of average total assets.

Write-downs and losses
The Company uses the banking Group's guidelines for assessing and writing down losses on loans, which are recognised in accordance with the principles of IAS39. There were no group write-downs in 2016 (positive NOK 2.0 million). The balance of group write-downs amounted to NOK 6.5 million (6.5 million) at the end of the year.

The Company's total write-downs represented 0.04 per cent of gross lending at the end of the year. They comprised group write-downs only (no individual write-downs).

In the Board's view, the credit risk and the provision levels are satisfactory.

Balance sheet

At the end of 2016, the Company had total assets amounting to NOK 19,129.4 million (16,076.0 million). The Company is mainly funded by issuing covered bonds in the Norwegian market.

Lending
At the end of 2016, gross lending totalled NOK 18,262.5 million (15,203.2 million).

The entire lending portfolio has been acquired from Gjensidige Bank ASA. It consists of loans at variable interest rates. The average loan commitment was NOK 1.6 million per loan at the end of 2016. The largest single exposure was NOK 8.5 million, and 18.8 per cent of the lending portfolio consisted of loans with credit lines (fleksilån). Including the unutilised credit facilities, 26.0 per cent of the lending portfolio consisted of loans with credit lines (fleksilån).

The loan portfolio had a weighted loan-to-value ratio, indexed, of 48.3 per cent (50.9) at the end of 2016. Positive development in the retail bank market is the driver for the development of the ratio. The value is estimated by Eiendomsverdi AS.

Rating
At the end of the second quarter, S&P Global Ratings raised its long-term and short-term counterparty credit ratings for Gjensidige Bank ASA and its subsidiary Gjensidige Bank Boligkreditt AS to 'A/A-1' from 'A-/A-2'. The outlook remained stable. This was driven by a reassessment of Gjensidige Bank's strategic position within the parent company.

Gjensidige Bank Boligkreditt AS will hold the amount of over-collateralisation required to maintain the current rating for the Company`s covered bond programme. This commitment is published on the bank`s website.

Debt securities
Net issues of debt securities amounted to NOK 14,864.9 million at the end of 2016, compared to NOK 12,733.8 million at the end of 2015, an increase of NOK 2,131.1 million. The debt securities consist solely of covered bonds, with a total face value of NOK 14,767.0 million. The Company issued covered bonds totalling NOK 3,917.0 million and NOK 1,750.0 was repaid.

In order to gain access to international capital markets, the Company established a Euro Medium Term Covered Bond Programme amounting to EUR 2 billion during the second quarter. The programme has not been taken into use yet.

As of 31 December 2016, the Company's mortgages amounted to 126.8 per cent of the covered bonds issued.

Liquidity
At the end of 2016, the Company had net liquid assets of NOK 721.5 million, divided between NOK 581.3 million in bank deposits, NOK 100.4 million in covered bonds and NOK 39.8 million in treasury bills.

The Company has a credit facility with Gjensidige Bank ASA that is sufficient at all times to cover the total repayment of the outstanding bonds that fall due within the next 12 months. In addition The Company has a long-term credit facility of NOK 2,000.0 million and a short-term credit facility of up to NOK 2,500.0 million. Unutilised credit facilities amounted to NOK 1,749.8 million at the end of 2016.

The liquidity situation is considered to be good.

Capital adequacy and equity
At the end of 2016, the Company had a common equity Tier 1 capital ratio of 19.3 per cent (21.3). The total capital held by the Company was NOK 1,422.7 million (1,351.5). The capital includes the net profit for 2016.

The Company's equity at the end of 2016 was NOK 1,422.9 million (1,351.7 million), representing 7.4 per cent (8.4) of total assets.

The Board evaluates the Company's equity and capital adequacy ratio to be satisfactory and sufficient in relation to operations.

Key risk and uncertainty factors

Financial risk

The Company's financial risk mainly comprises credit, liquidity and interest rate risk. Risks are monitored and reported regularly in accordance with the principles, strategies, limits and risk appetite statement adopted by the Board.

Credit risk
The Company's credit risk is the risk of losses arising as a result of customers or other counterparties failing to repay their debts or meet their contractual obligations when they fall due. The Board follows up the credit strategy through monthly reports that focus on the development of the loan portfolio, including defaults, risk classification and LTV. The Company uses risk classification models to calculate the risk associated with its credit exposure.

All loans are purchased from Gjensidige Bank ASA in accordance with regulatory requirements. In addition, there are requirements relating to risk and that the loans shall be residential mortgages. Gjensidige Bank ASA provides loans to customers based on credit scores, combined with an individual assessment of their ability to repay the loans.

The Company has mortgage loans to retail customers only. The value of the security is updated quarterly on the basis of estimates from Eiendomsverdi AS. At the end of 2016, the weighted, indexed loan-to-value ratio was 48.3 per cent. There was only one loan in default for over 90 days. Sensitivity analyses are performed regularly in which the consequences of a fall in the housing market are analysed. The Board has adopted minimum requirements for the cover pool and what can be included in it. The Board considers the Company's collateral to be sufficient in the event of a significant decline in house prices.

Liquidity risk
Liquidity risk is the risk of the Company not being able to meet its debt obligations when they fall due and/or not being able to finance growth of its assets without incurring a substantial increase in costs. The Company's financial strategy documents set limits and guidelines for managing the liquidity risk. The company shall have low liquidity risk.

The company manages its liquidity risk by issuing bonds with different maturities, fulfilling regulatory liquidity reserve requirements and having credit facilities with Gjensidige Bank. Moreover, the Company holds a short-term liquid portfolio of short-term, fixed-income securities and bank deposits.

The Board has adopted contingency plans for managing a potential liquidity and capital crisis.

Market risk
Market risk is the risk of losses associated with movements in market prices, which, in this context, relate to positions and activities in the interest rate, currency, credit and stock markets.

The Company's financial strategy documents set limits and guidelines for managing market risk. Risk exposure and development are continuously monitored and reported to the Board. The Company has no exposure in equities and has no currency risk. The Company's interest rate risk and spread risk related to investments shall be low in relation to the core capital.

Interest rate risk refers to the risk of losses as a result of changes in the interest rate level. Risk limits are set to manage the interest rate risk by adjusting the fixed-interest rate period of investments and borrowing. In addition, derivatives are used for hedging purposes.

At the end of the year, the Company had interest rate swaps with a nominal value of NOK 1,450.0 million. In the time interval over three months, the Company is exposed to a profit or loss effect of NOK 0.34 million given a change in interest rates of one percentage point.

Spread risk refers to the risk of losses as a result of changes in credit margins. The Company limits the spread risk relating to assets by investing in high-quality securities with limited maturity, whose value is less exposed to changes in the credit margins. The Company does not hedge the spread risk on its own bond issues.

Concentration risk
Concentration risk is the risk of losses due to the company having large parts of its lending tied to a single borrower or to limited geographic or business areas.

As of 31 December 2016, the portfolio is geographically diverse, with the greatest lending being in the most populous areas of the country. The largest exposure to a single borrower is approximately NOK 8.5 million. The exposure related to the ten largest loans (limit) is approximately NOK 75.0 million. The Company's liquidity reserves consists of bank deposits in the parent company, securities issued by the Norwegian government and Norwegian covered bonds (OMF).

Operational risk
Operational risk is the risk of losses resulting from inadequate or failing internal processes or systems, human error or external events.

Company activities that are outsourced to the Bank are discussed at monthly risk meetings ('Operational Risk Reviews'). Operational incidents, the development of AML activities, internal control self-assessment (RSCA) results, fraud developments, IT security and customer complaints are important focus areas at these meetings. The CEO of Gjensidige Bank ASA and the CEO of Gjensidige Bank Boligkreditt AS attend these meetings together with key managers. In addition, quarterly internal control self-assessments (RCSA) are carried out to ensure that procedures and processes are adhered to in outsourced activities.

The outsourced activities are included in the Bank's annual risk assessment process. The risk assessment is conducted in all business areas based on the bank's objectives and strategies for the plan period. The main risks and risk reduction measures are regularly reported to the Board.

The annual risk assessment of the Company is conducted by the CEO. The output of the risk assessment is reported to the Board.

An independent compliance function, which also covers the Company, has been established by the group in order to avoid official sanctions, financial losses or a loss of reputation as a result of failure to comply with internal and external regulations.. The compliance function identifies, assesses, advises on, monitors and reports on the risk of non-compliance with internal and external regulations. An incidents database has been created in order to close, handle and, not least, learn from undesirable incidents.

The Company's internal auditor function evaluates whether the internal control and risk management system functions satisfactorily and reports the results of the audits to the Board and management.

The Company has appointed an independent investigator that monitors the register of issued bonds. Regular reviews are conducted to assure that the register is booked correctly. Findings are reported to the Board and the Financial Supervisory Authority of Norway.

A risk management function has been established through a risk manager that is responsible for overseeing the Group's risk management system. It shall have an overview of the risks the Group is or may be exposed to. The risk management function shall ensure that the management and the Board are adequately informed at all times about the Company's risk profile.

Internal control and risk management related to financial reporting

The CEO of the Company approves all expenses. Expenses related to the CEO are approved by the chairman of the board. The Company follows Gjensidige's guidelines when preparing the quarterly and annual financial statements.

Corporate social responsibility

Gjensidige's social responsibility is described in a separate statement in the Group's annual report. The Board of Gjensidige has established guidelines for corporate social responsibility. These guidelines also apply to Gjensidige's subsidiaries and, together with the group policy for ethical investments, they are available at www.gjensidige.no/group.

Corporate governance

Corporate governance is a priority for the Board. The Gjensidige group complies with the Norwegian Code of Corporate Governance. A detailed statement about how Gjensidige fulfils the recommendations of the Code and the requirements of the Accounting Act as regards the corporate governance report is provided in the Group's annual report. It is also available at www.gjensidige.no/group.

The Company has adapted its practice to the Group's policies in areas that are appropriate and relevant. Particular emphasis is placed on the composition of governing bodies, the responsibilities of the Board, communication and information, and risk management and auditing. The Board of the Company has approved ethical rules, which are available on the group's intranet.

The Articles of Association, instructions and corporate governance systems establish a clear division of roles and responsibilities in the Company.

Governing bodies

Supervisory Board

Pursuant to the Financial Undertakings Act, which entered into force on 1 January 2016, a Supervisory Board is no longer prescribed by law as a mandatory corporate body. The General Meeting decided to dissolve the Supervisory Board with effect from 1 January 2016.

Control Committee

Pursuant to the Financial Undertakings Act, which entered into force on 1 January 2016, a

Control Committee is no longer prescribed by law as a mandatory corporate body. The General Meeting decided to dissolve the Control Committee with effect from 1 January 2016.

Risk Committee

The Risk Committee is a subcommittee of the Board. It consists of the Chairman and the external board member. The Risk Committee is a preparatory committee for the Board and holds quarterly meetings. The committee regularly assesses the Company to ensure that business administration and controls are in accordance with the risk level in the business. To ensure an adequate degree of independence, the Risk Committee consists of board members who do not take part in the management of the business.

Gjensidige Forsikring ASA decided on 15 December to appoint a Risk Committee at the group level for Gjensidige Forsikring ASA and its subsidiaries effective from 1 January 2017. The Company's Risk Committee was therefore phased out with effect from 31 December 2016.

The Board

The Board is composed of four members elected by the Supervisory Board.

Members are elected for a period of one year. One of the board members is not an employee of the Gjensidige Group. The Board supervises the management of the Company, and it shall ensure that its operations are organised in a satisfactory manner, which includes ensuring that its bookkeeping and asset management are properly audited.

Linn Therese Soltvedt replaced Karin Remøe from 17 March 2016.
Sirianne Haaje Nes replaced Linn Therese Soltvedt from 15 September 2016.

External auditor

KPMG is chosen as the Company's external auditor and it also acts as its independent inspector, cf. Section 11-14 of the Financial Undertakings Act.

Internal auditor

The independent internal audit function monitors that the risk management and internal control systems function as intended. The audit function reports directly to the Board. The director of Corporate Audit is formally employed by the parent company Gjensidige Bank ASA.

Working environment

The Company has one employee, who is based in the bank`s branch in Førde. The working environment is considered to be good. Gjensidige Bank ASA purchases the services of the CEO of Gjensidige Bank Boligkreditt AS, corresponding to 40 per cent of a full-time position. The Company had no sick leave in 2016. There were no personal injuries, damage to property or accidents in the Company in 2016.

Gender equality and diversity

There are two men and two women on the Board. The CEO is a man. The Board and management take a proactive approach to promoting equal opportunity in the Company. The Company follows the Group's guidelines and regulations concerning corporate social responsibility, including those relating to discrimination/diversity and ethics.

The natural environment

The Company's operations result in minimal pollution of the environment. Internal environmental measures focus on energy efficiency, reduced travel through increased use of video conferences, and responsible waste management with extensive use of separation at source.

Strategy and outlook for 2017

Gjensidige Bank Boligkreditt AS shall ensure that Gjensidige Bank ASA has a diversified funding structure. The Company continuously considers the possibility of issuing further covered bonds, depending on the state of the financial markets and the collateral available to the Company.

The Norwegian economy has experienced weak growth in recent years, mainly due to a fall in the oil price and less activity in the petroleum-related industries. Public consumption and investment have increased significantly in recent years and helped to maintain overall growth in the economy.

Investment in houses and house prices have increased markedly during 2015 and 2016. Investment in houses are increasing in most parts of the country, with the strongest increase in Eastern Norway. There has been a slight decline in Rogaland and Vest-Agder, however. Investment in houses is expected to remain high going forward.

Households are more vulnerable to a decline in house prices or an interest rate increase due to the high level of household debt. To reduce this risk the government adopted new mortgage regulations, which came into force on 1 January 2017. The new regulations increase the capital requirements for purchases of secondary housing in Oslo, increase the requirements for instalment payments and set limits on total debt.

In the Board's view, the Company has a good and robust balance in its lending activities.

Events after the balance sheet date

The Board is not aware of any events after the end of the financial year that have a material impact on the financial statements presented.

Allocation of profit

Gjensidige Bank Boligkreditt AS made a profit after tax of NOK 71.3 million. It is proposed that the Company's profit before other comprehensive income be transferred to other equity.

Oslo, 7 March 2017
The Board of Gjensidige Bank Boligkreditt AS

Jørgen Ringdal
Chair

Erik Ranberg

Sirianne Haaje Nes

Solbjørg Lie

Jan Kåre Raae
CEO

Financial statements and notes

Income statement

NOK thousands	Note	1.1.-31.12.2016	1.1.-31.12.2015
Interest income etc.	4	402,164	382,749
Interest costs etc.	4	(289,315)	(234,378)
Net interest income		**112,850**	**148,371**
Commission income and income from bank services		2,351	2,432
Net gains on financial instruments at fair value		60	(183)
Other operating income		588	528
Net commission income and other operating income		**2,999**	**2,777**
Total income		**115,849**	**151,148**
Personnel expenses	5	(1,702)	(1,777)
Other operating expenses	5	(14,333)	(9,521)
Total operating expenses		**(16,035)**	**(11,298)**
Profit / (loss) before loan losses		**99,813**	**139,850**
Write-downs and losses	6, 12		1,958
Profit / (loss) before tax expense		**99,813**	**141,808**
Tax expense	7	(28,542)	(33,904)
Profit / (loss) for the period		**71,272**	**107,904**
Gjensidige Bank Boligkreditt AS 's shareholders		71,272	107,904
Earnings per share, NOK (basic and diluted)		548.24	830.03

Statement of comprehensive income

NOK thousands	Note	1.1.-31.12.2016	1.1.-31.12.2015
Profit/ (loss) for the period		**71,272**	**107,904**
Components of other comprehensive income			
Items that are not subsequently reclassified to profit or loss			
Items that may subsequently be reclassified to profit or loss			
Total components of other comprehensive income			
Total comprehensive income for the period		**71,272**	**107,904**

Balance sheet

NOK thousands	Note	31.12.2016	31.12.2015
Assets			
Loans to and claims on credit institutions	9	581,279	650,370
Loans to and claims on customers	10,12	18,256,022	15,196,697
Certificates, bonds and other interest-bearing securities	11	140,188	70,145
Deferred tax assets	7		4,883
Other assets	8	151,881	153,908
Total assets		**19,129,370**	**16,076,003**
Liabilities and equity			
Liabilities to credit institutions	13,20	2,750,208	1,891,687
Liabilities opened for the issue of securities	14,15	14,864,874	12,733,787
Other liabilities	16	62,618	57,684
Current tax	7	22,244	41,161
Deferred tax liabilities	7	6,490	
Total liabilities		**17,706,434**	**14,724,319**
Equity			
Share capital		208,000	208,000
Share premium		812,020	812,020
Other equity		402,917	331,664
Total equity	1	**1,422,937**	**1,351,684**
Total liabilities and equity		**19,129,370**	**16,076,003**
Number of shares at the end of the period		130,000	130,000

Oslo, 7 March 2017
The Board of Gjensidige Bank Boligkreditt AS

Jørgen Ringdal
Chair

Erik Ranberg

Sirianne Haaje Nes

Solbjørg Lie

Jan Kåre Raae
CEO

Statement of changes in equity

NOK thousands	Share capital	Share premium	Total paid-in equity	Other equity	Total equity
Equity 1.1.2015	182,000	388,020	570,020	223,718	793,738
New equity 2015	26,000	424,000	450,000		450,000
Share-based payment transactions settled in equity				42	42
Profit/ (loss) for the period 1.1.-31.12.2015				**107,904**	**107,904**
Components of other comprehensive income					
Items that are not subsequently reclassified to profit or loss					
Items that may subsequently be reclassified to profit or loss					
Total components of other comprehensive income					
Total comprehensive income for the period 1.1.-31.12.2015				**107,904**	**107,904**
Equity 31.12.2015	**208,000**	**812,020**	**1,020,020**	**331,664**	**1,351,684**
Equity 1.1.2016	208,000	812,020	1,020,020	331,664	1,351,684
New equity 2016					
Share-based payment transactions settled in equity				(19)	(19)
Profit/ (loss) for the period 1.1.-31.12.2016				**71,272**	**71,272**
Components of other comprehensive income					
Items that are not subsequently reclassified to profit or loss					
Items that may subsequently be reclassified to profit or loss					
Total components of other comprehensive income					
Total comprehensive income for the period 1.1.-31.12.2016				**71,272**	**71,272**
Equity 31.12.2016	**208,000**	**812,020**	**1,020,020**	**402,917**	**1,422,937**

Statement of cash flow

NOK thousands	1.1.-31.12.2016	1.1.-31.12.2015
Operating activities		
Net payment of loans to customers	(3,058,538)	(5,030,909)
Payment of interest from customers	389,243	374,331
Net payment of interest from credit institutions etc.	7,394	5,393
Taxes paid	(36,087)	(34,119)
Net other commission income	2,939	2,983
Payment to operations	(14,884)	(10,768)
Net received/paid (-)upon purchase and sale of financial instruments and interest-bearing securities	(92,179)	5,904
Net cash flow from operating activities	**(2,802,113)**	**(4,687,184)**
Investment activities		
Net purchase of intangible assets and fixed assets		
Net cash flow from investing activities		
Financing activities		
Net paid(-)/received when taking out loans with credit institutions and covered bonds	3,012,310	4,652,215
Net payment of interest on financing activities	(285,001)	(231,782)
Net paid(-)/received for other short-term positions	5,713	5,532
Capital increase		450,000
Net cash flow from financing activities	**2,733,022**	**4,875,965**
Total cash flow	**(69,091)**	**188,781**
Cash flow for the year		
Cash and cash equivalents 1.1.	650,370	461,589
Cash and cash equivalents 31.12.	581,279	650,370
Net payment made(-)/received of cash	**(69,091)**	**188,781**
Specification of liquid assets		
Deposits with credit institutions	581,279	650,370
Liquid assets in statement of cash flow	**581,279**	**650,370**

The statement of cash flow shows payments made and received of cash and cash equivalents throughout the year. The statement has been adjusted for items that do not initiate cash flows, such as provisions, depreciation and write-downs of loans and guarantees. Cash flows are classified as operating activities, investment activities or financing activities. The liquid assets are defined as cash and claims on central banks and loans to and claims on credit institutions.

Accounting policies

General

Gjensidige Bank Boligkreditt AS is wholly owned subsidiary of Gjensidige Bank ASA. Gjensidige Bank ASA is a wholly owned subsidiary of Gjensidige Bank Holding AS, which, in turn is a wholly owned subsidiary of Gjensidige Forsikring ASA. The company's head office is located at Schweigaardsgate 14, Oslo, Norway.

The Company is licensed by the Financial Supervisory Authority of Norway and the object is to furnish and/or provide residential mortgage loans, and to primarily finance the lending portfolio by issuing covered bonds.

The financial statements per 31 December 2016 were approved by the Board on 7 March 2017.

All amounts in the accounts and notes are stated in thousands of Norwegian kroner (NOK) unless otherwise stated. The Company's presentation currency is NOK.

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (EU).

Changes in accounting policies

As a main rule, all income and expenses shall be shown in the income statement. The exception to this rule is the effect of changes to accounting principles. In the event of fundamental accounting reforms/changes in accounting policies, figures for previous years must be recalculated to allow comparison. If items in the financial statement are reclassified, comparative figures must be calculated for the previous periods and reported in the financial statements.

In 2016 the Company has changed its accounting policies from simplified IFRS to IFRS. This has not resulted in change any changes in the accounting figures, but minor adjustments has been made to the notes and the balance sheet.

New standards and interpretations not yet adopted

A number of new standards, changes to standards and interpretations have been issued for financial years beginning after 1 January 2016. They have not been applied when preparing this financial statement. Those that may be relevant to Gjensidige Bank Boligkreditt AS are mentioned below. Gjensidige Bank Boligkreditt AS does not plan early implementation of these standards.

- **IFRS 9 Financial instruments (2014)**

IFRS 9 introduces new requirements for the classification and measurement of financial assets, including a new expected loss model for the recognition of impairment losses, and changed requirements for hedge accounting.

IFRS 9 contains three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income, and fair value through profit or loss. Financial assets will be classified either at amortised cost, at fair value through other comprehensive income, or at fair value through profit or loss, depending on how they are managed and which contractual cash flow properties they have. IFRS 9 introduces a new requirement in connection with financial liabilities earmarked at fair value: where changes in fair value that can be attributed to the liabilities' credit risk are presented in other comprehensive income rather than over profit or loss. According to prevailing rules, impairment for credit losses shall only be recognised when objective evidence of impairment losses exists. Impairment provisions according to IFRS 9 shall be measured using an expected loss model, instead of an incurred loss model as in IAS 39. The impairment rules in IFRS 9 will be applicable to all financial assets measured at amortised cost or at fair value with the changes in fair value recognised in other comprehensive income. In addition, loan commitments, financial guarantee contracts and lease receivables are within the scope of the standard. The measurement of the provision for expected credit losses on financial assets depends on whether the credit risk has increased significantly since initial recognition. At initial recognition and if the credit risk has not increased significantly, the provision should equal 12-month expected credit losses. If the credit risk has increased significantly, the provision should equal lifetime expected credit losses. This dual approach replaces today's collective impairment model. For individual impairment there are no significant changes in the rules compared with the current rules. During 2016, Gjensidige Bank Boligkreditt AS continued the process to analyse the need for changes to the bank's models and IT systems following the implementation of the new rules for impairment provisions. The work has started and is expected to continue during 2017. It is currently too early to estimate the expected impact to the financial statements. Preliminary expectations are that the implementation of IFRS 9 could lead to increased provisions for credit loss due to the change from an incurred loss model to an expected loss model. IFRS 9 is effective from 1 January 2018.

- **IFRS 15 Revenue from Contracts with Customers (2014)**

IFRS 15 applies to the annual reporting period beginning on or after 1 January 2017 and covers all contracts with customers. IFRS 15 establishes a framework for the recognition and measurement of revenue. It is assumed that the change will not have a material effect.

- **IFRS 16 Leases (2016)**

IFRS 16 requires all leases to be reported on a company's balance sheet as assets and liabilities. All leasing will be treated as finance leases. Short-term leases (less than 12 months) and leases of low-value assets are exempt from the requirements. IFRS 16 is effective 1 January 2019. It is assumed that the change will not have a material effect.

- **Amendments to IFRS 2 Classification and measurement of share-based payment transactions (2016)**

IFRS 2 has been amended regarding the classification and measurement of share-based payment transactions with a net settlement feature for withholding tax obligations. If the entity is obliged to withhold an amount for an employee's tax obligation associated with a share-based payment, and transfer that amount in cash to the tax authority on the employee's behalf, then the entity shall account for that obligation as an equity-settled share-based payment transaction. The amendments are effective from 1 January 2018. The tax obligation in the Group's remuneration scheme will be reclassified from liability to equity as at 1 January 2018. From this date the tax obligation will be accounted for as an equity-settled share-based payment transaction instead of cash-settled share-based payment transaction. Our preliminary assessment is that the amendment is not expected to have a significant effect on the financial statements.

Based on our preliminary assessments and on the basis of current operations, other amendments to standards and interpretation statements will not have a material effect.

Principles for recognising income and expenses

Net interest income

Interest income and expenses are calculated and recognised based on the effective interest rate method. The calculation takes into account establishment fees and direct marginal transaction costs that are an integral part of the effective interest rate.

Interest is recognised through profit or loss using the internal rate of return method, both for balance sheet items that are measured at amortised cost and for items that are measured at fair value through the income statement.

Interest income on write-downs on commitments is calculated at internal interest rates of the written down value. See also: 'Value calculation of fair value' and 'Value calculation of amortised cost'.

Commission income and expenses

The way in which commission income from various customer services is recognised depends on the nature of the commission. Fees are recognised as income when the services are delivered or a significant part of the service has been completed. Fees received for completed services are recognised as income in the period the services were performed. Commissions received as payment for various tasks are recognised as income once the service has been completed. Commission costs are transaction-based and are recognised in the period the services were received.

Other operating income

Other operating income that is not related to any of the other lines of income is generally recognised when the transaction has been completed.

Operating expenses

Operating expenses are accrued and expensed in the relevant accounting period.

Currency

The Company's presentation currency and functional currency is NOK.

Segments

Gjensidige Bank Boligkreditt AS has only one business segment: lending to private customers. This segmentation best reflects the way the business is run by the management.

Inclusion of non-financial assets in the balance sheet

Assets and liabilities are included in the Company's balance sheet when the Company obtains real control over rights to the assets or assumes real obligations. Assets are derecognised at the time the actual risk related to the assets has been transferred and the control of the rights to the assets has ended or expired.

Impairment of non-financial assets

The Company reviews the carrying value of assets and identifiable intangible assets annually or more frequently if occurrences or changes in assumptions take place that indicate that the carrying value is irrecoverable. Indicators that are assessed as significant by the company and that can trigger testing for impairment include:

- A significant drop in profitability in relation to past or expected future profitability
- Significant changes in the Company's use of assets or overall strategy for its activities
- A significant downturn in the industry or the economy

Previous impairment losses, except for goodwill, will be reversed if the assumptions relating to the impairments no longer apply. Impairment losses are only reversed to the extent that the new carrying value does not exceed what would have been the carrying value after depreciation at the time of the reversal if there had been no impairment.

Financial instruments

Recognition and derecognition

Financial assets and liabilities are recognised in the balance sheet when the Company becomes a party to the instrument's contractual terms. Ordinary purchases and sales of financial instruments are recognised on the transaction date. When a financial asset or a financial liability is initially recognised (asset/liability not recognised at fair value through profit or loss), it is measured at fair value plus transaction costs that are directly related to the purchase or issue of the financial asset or liability.

Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire or when the business transfers the financial asset in a transaction in which all or practically all the risk and rewards related to ownership of the asset are transferred.

Classification of financial instruments

When initially recognised, financial assets are classified in one of the following categories, depending on the purpose of the investment:

- Loans and receivables, carried in the balance sheet at amortised cost
- Financial assets that are to be recognised at fair value with fair value changes through profit or loss (Fair value option)
- Available-for-sale financial assets, measured at fair value with changes in value recognised in equity
- Held-for-trading financial assets measured at fair value through profit or loss
- Investments held to maturity, carried at amortised cost
- Derivatives classified as hedging instruments
- Financial liabilities classified as equity

When initially recognised, financial liabilities are classified in one of the following categories:

- Financial liabilities defined as liabilities measured at fair value with fair value changes through profit or loss
- Other financial liabilities carried at amortised cost

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed payments or determinable payments. Loans and receivables are initially recognised at fair value, and thereafter at amortised cost using the effective interest rate method. When calculating the effective interest rate, cash flows are estimated and all the contractual terms of the financial instruments are taken into account.

On each balance sheet date, loans, receivables and other financial assets measured at amortised cost are reviewed to determine whether there is objective evidence that a receivable/loan or a group of receivables/loans has been impaired. Individual write-downs are made first, before determining any group write-downs.

If there is objective evidence that a financial asset is impaired, a write-down is made for the estimated loss. The write-down equals the difference between the outstanding balance of the loan and the net present value of estimated future cash flows, discounted by the financial asset's original effective interest rate (i.e. the effective interest rate calculated initially or subsequently agreed with the customer). Objective evidence means occurrences indicating that the loan is impaired. Such evidence can include information about damaged credit histories, bankruptcy or other defaults.

At fair value through the income statement

On implementing IFRS, and in subsequent periods for initial recognition in the accounts, all financial assets and liabilities can be measured at fair value through profit or loss if they have been purchased with the intention of being sold, or:

- the classification reduces a mismatch in the measurement or recognition that would otherwise have arisen as a result of different rules for the measurement of assets and liabilities
- financial assets and liabilities are included in a portfolio that is managed and evaluated regularly at fair value

Financial assets and liabilities measured at fair value through profit or loss are measured at fair value on the balance sheet date. Changes in fair value are recognised through profit or loss. Changes in fair value are included in 'Net income/(loss) on financial instruments'.

Financial derivatives

The trading of financial derivatives is subject to strict limitations. All derivatives are measured at fair value on the contract date. Subsequent measurement is done at fair value with changes in value being recognised as they occur. The fair value of derivatives is measured based on listed prices whenever possible. When listed prices are not available, the Company estimates fair value based on valuation models that use observable market data.

Fair value

Financial assets and liabilities measured at fair value are carried at the amount each asset/liability can be settled for in an orderly transaction between market participants on the measurement date.

Different valuation techniques and methods are used to estimate fair value, depending on the type of financial instruments and to what extent they are traded in active markets. Instruments are classified in their entirety at one of three valuation levels in a hierarchy on the basis of the lowest level input that is significant to the fair value measurement as a whole.

Quoted prices in active markets are considered the best estimate of an asset/liability's fair value. When quoted prices in active markets are not available, the fair value of financial assets/ liabilities is preferably estimated on the basis of valuation techniques based on observable market data. When neither quoted prices in active markets nor observable market data are available, the fair value of financial assets/liabilities is estimated based on valuation techniques that are based on non-observable market data.

Hedge accounting

The Company uses fair value hedges to manage its interest rate risk. Fair value hedges are used when derivatives hedge changes in the fair value of recognised assets or liabilities with a specific risk. Derivatives are recognised in the income statement. Changes in the value of the hedged item, attributable to the hedged risk, adjust the carrying amount of the asset and are recognised in the income statement.

The use of hedge accounting requires that the hedge is effective. A hedge is regarded as highly effective if, at inception and throughout the hedge period, it can be expected that changes in the fair value of the hedged item essentially offset changes in the fair value of the hedged instrument. The effectiveness of the hedge is measured at the individual level. At inception, the hedging effectiveness is measured on the basis of an interest rate shock at the individual instrument level. When assessing the hedge effectiveness retrospectively, the fair value of the hedged instrument is measured and compared with the change in fair value of the hedged item. The result must be within the range of 80-125 per cent.

Amortised cost method

Financial instruments that are not measured at fair value are valued at amortised cost and the income is calculated using the internal rate of return method. In the internal rate of return method, the investment's internal rate of return is used. It is determined by discounting the contractual cash flows within the anticipated term to maturity. Cash flows include establishment fees and the costs of transactions that are not covered by the customer. Amortised cost is the current value of such cash flows discounted by the internal rate of return.

Debt to credit institutions

Liabilities to credit institutions are recognised and measured after initial recognition at amortised cost using the effective interest method.

Interest expenses on these instruments are included in 'Net interest income'.

Debt securities in issue

Debt securities include certificates of deposit or bonds issued by the Company. Debt securities are carried at fair value upon initial recognition and at amortised cost using the effective interest method in subsequent periods. When calculating the effective interest rate, cash flows are estimated and all the contractual terms of the financial instruments are taken into account.

Interest expenses and the amortisation of premium/discount on instruments are recognised in 'Net interest income' using the IRR method.

Liabilities and equity

In accordance with the underlying financial reality, financial instruments are classified as liability or equity.

Accounting provisions

A provision is made when the Company has a legal or implicit liability as a result of a past event, and it is probable that this will lead to a payment or transfer of other assets to cover the liability.

Pensions

The Company has a defined-contribution pension schemes for its employees.

Liabilities to contribute to defined-contribution pension schemes are expensed in the income statement at the time they arise.

Taxation
The tax expense comprises tax payable and deferred tax. The inThe tax expense comprises tax payable and deferred tax. The income tax is recognised as an expense or income and, with the exception of income tax on transactions that are recognised directly in equity, is included in the income statement as a tax expense.

Payable tax is based on the Company's taxable income and is calculated in accordance with Norwegian tax regulations and tax rates.

Deferred tax assets and liabilities are recognised by applying the balance method to all temporary differences that arise between the tax and accounting values of assets and liabilities. Deferred tax assets are calculated on unused loss carryforwards and unused tax credits. The tax asset is only recognised to the extent that it is probable that future taxable profits can be used to offset temporary differences, unused tax loss carryforwards and unused tax credits. The carrying values of deferred tax assets and deferred tax are subject to regular review. Deferred tax is calculated on temporary differences and untaxed provisions. Deferred tax assets and deferred tax liabilities are not discounted.

Assets and liabilities are measured at the current tax rate in the period when the asset is realised or the liability is settled, based on the tax rate on the balance sheet date. Payable tax assets and tax liabilities, as well as deferred tax assets and tax liabilities, are offset if legally possible.

Share-based payments
Fair value on the issuing date for share-based payment schemes awarded to employees is recognised as a personnel expense with a corresponding increase in other paid equity. Share-based payment schemes that are realised are immediately expensed on the issuing date. Non-realised shares are included in the measurement of fair value and no adjustment is made to the expensed figure when such shares are not realised. Share-based payment schemes comprise shares in Gjensidige Forsikring ASA as well as schemes where one of the shareholders of Gjensidige Forsikring ASA settles the shares.

1. Equity

Share capital
Gjensidige Bank Boligkreditt AS is a wholly owned subsidiary of Gjensidige Bank ASA. Gjensidige Bank ASA is a wholly owned subsidiary of Gjensidige Bank Holding AS, which, in turn is a wholly owned subsidiary of Gjensidige Forsikring ASA. Share capital for Gjensidige Bank Boligkreditt AS as per 31 December 2016 and 31 December 2015 was NOK 208.0 million divided on 130,000 shares at 160 per share.

Share premium
Payments in excess of the nominal value per share are allocated to share premium.

Other equity
Other earned equity consists of this year’s and previous year’s retained earnings.

2. Critical accounting estimates and judgements

General
The preparation of the financial statements under IFRS and the application of the adopted accounting policies require the management to make assessments, prepare estimates and apply assumptions that affect the reported amounts of assets, liabilities, income and expenses. The estimates and the associated assumptions are based on historic experience and other factors that are assessed as being justifiable based on the underlying conditions. The actual figures may deviate from these estimates. The estimates and the associated assumptions are reviewed regularly. Changes in accounting estimates are recognised in the period the estimates are revised if the change only affects this period, or both in the period the estimates change and in future periods if the changes affect both existing and future periods.

Gjensidige Bank Boligkreditt AS’s accounting principles, in which assessments, estimates and assumptions may significantly diverge from the actual results, are discussed below.

Write-downs and losses
Loans and claims are evaluated on each balance sheet date to assess whether there is objective evidence that a claim/loan or a group of claims/loans is impaired. Individual write-downs are assessed before write-downs on groups are determined.

If there is objective evidence that a financial asset is impaired, a write-down is made for the estimated loss. The write-down equals the difference between the outstanding balance of the loan and the net present value of estimated future cash flows, discounted by the financial asset’s original effective interest rate (i.e. the effective interest calculated initially or subsequently agreed with the customer). Objective evidence means evidence of occurrences that indicate that the loan is impaired. This can be information about bankruptcy or defaults.

Fair value of financial instruments
The fair value of financial instruments that are not traded in an active market (such as unlisted shares) is determined using valuation methods. These valuation methods are primarily based on the market conditions on the balance sheet date.

Impairment of financial assets
Financial assets that are not carried at fair value are evaluated for impairment if there is objective evidence on the balance sheet date that a financial asset or a group of financial assets has fallen in value.

3. Segment information

Gjensidige Bank Boligkreditt AS only has one business segment: lending to private customers. The segment consists of loans to private customers, and the entire loan portfolio is purchased from Gjensidige Bank ASA. The Company’s full accounts therefore fall entirely under the ‘Retail market’ segment.

The Company does not engage in activities outside Norway. Customers with foreign domicile are classified as part of the Norwegian operations. All revenues and the Company's profit are related to the business in Norway.

4. Net interest income

NOK thousands	1.1.-31.12.2016	1.1.-31.12.2015
Interest income		
Loans to and receivables from credit institutions	9,903	6,140
Loans to and receivables from customers	391,419	375,437
Interest-bearing securities	841	1,149
Other income		23
Total interest income[1]	**402,164**	**382,749**
Interest expense		
Deposits from/ debt to credit institutions		
Issued securities	234,869	199,086
Other interest expenses	54,446	35,291
Total interest expenses[2]	**289,315**	**234,378**
Net interest income	**112,850**	**148,371**
[1] Of this total interest income on financial assets that are not measured at fair value	401,323	381,600
[2] Interest expenses on financial liabilities that are not measured at fair value		

5. Operating expenses

NOK thousands	1.1.-31.12.2016	1.1.-31.12.2015
Wages, salaries etc.	1,337	1,438
Pension costs	142	96
Employer's National Insurance contributions	208	201
Other staff-related expenses	15	41
Total personnel expenses	**1,702**	**1,777**
IT expenses	441	434
Consultancy fees	9,613	6,206
Other operating expenses	4,279	2,881
Total other expenses	**14,333**	**9,521**
Ordinary depreciation		
Total operating expenses	**16,035**	**11,298**
Auditor's fee		
Statutory auditing – KPMG[1]	66	64
Audit-related services[1]		
Other services – KPMG[1]	707	197
Total payments to auditor	**773**	**261**
Average full-time equivalents	1	1
Full-time equivalents	1	1

[1]Services relating to the audit are disclosed inclusive of VAT.

5. Operating expenses (cont.)

Salary and other benefits to management and governing bodies in 2016

NOK thousands Name and position	Fixed salary/ fee	Earned varia- ble salary	Calc. value of total benefits other than cash	Rights earned in the finan- cial year according to pension plan	Annual vesting share based pay- ment	Number of shares assigned, not re- deemed	Number of shares re- leased	Number of shares out- stan- ding	Number of shares held	Loans	Interest rate	The current Re- payment schedule
Senior executives												
Jan Kåre Raae, CEO	980	117	19	142	119	808	1,154	1,909	935			
The Board												
Jørgen Ringdal, Chair									19,811			
Erik Ranberg[1]									5,906	888	4.40%	20.8.2033
										300	2.20%	28.11.2026
Sirianne Haaje Nes (15.9-31.12)									3,325			
Linn Therese Soltvedt (17.3-14.9)												
Karin Remøe (1.1-16.3)									28			
Solbjørg Lie	71											
Total for senior executives and the Board	**1,051**	**117**	**19**	**142**	**119**	**808**	**1,154**	**1,909**	**30,005**	**1,188**		
Supervisory board												
Helge Leiro Baastad, Chair									43,491			

[1] Loan in parent company Gjensidige Bank ASA

Salary and other benefits to management and governing bodies in 2015

NOK thousands Name and position	Fixed salary/ fee	Earned varia- ble salary	Calc. value of total benefits other than cash	Rights earned in the finan- cial year according to pension plan	Annual vesting share based pay- ment	Number of shares assigned, not re- deemed	Number of shares re- leased	Number of shares out- stan- ding	Number of shares held	Loans	Interest rate	The current Re- payment schedule
Senior executives												
Jan Kåre Raae, CEO	955	114	17	96	114	888	1,162	2,164	222			
The Board												
Jørgen Ringdal, Chair									17,167			
Erik Ranberg[1]									12,681	469	2,10%	28.5.2033
Karin Remøe									35			
Solbjørg Lie	69											
Total for senior executives and the Board	**1.024**	**114**	**17**	**96**	**114**	**888**	**1,162**	**2,164**	**30,105**	**469**		
Control committee												
Sven Iver Steen, Chair	17								1,778			
Hallvard Strømme	11											
Liselotte Aune Lee	11											
Vigdis Myhre Næsseth	10											
Total	**48**								**1,778**			
Supervisory board												
Helge Leiro Baastad, Chair									36,851			

[1] Loan in parent company Gjensidige Bank ASA

5. Operating expenses (cont.)

Remuneration policies

The Company has established a remuneration policy based on the Group's principles.

The remuneration shall be competitive but not leading. Staff are expected to take an overall view of what the group offers in compensation and benefits. The Group's remuneration arrangements should be transparent and performance-based, so that they, as far as possible, are perceived as fair and predictable. There should be a correlation between performance and the remuneration paid.

The guidelines for remuneration and career development should be linked to the achievement by the Group of its strategic and financial goals and values, where both quantitative and qualitative objectives are taken into consideration. Measurement criteria shall promote wanted corporate culture and long-term value creation, and, as far as possible, take into account the actual cost of capital. The compensation scheme will help to promote and provide incentives for risk management, discourage excessive risk-taking and help to avoid conflicts of interest. A fixed base salary shall be the main element of the total remuneration, which also consists of variable pay, pensions and fringe benefits. Variable remuneration shall be used to reward performance beyond the expected, where both performance and behavior in terms of adherence to core values, brand and management principles will be considered.

Variable remuneration should be performance-based without encouraging undue risk and should reflect both the company, division, department and individual performance and contribution. Other compensation offered shall be deemed attractive for new and current employees.

When deciding which of the company functions to be defined as employees with job tasks of crucial importance for the company's risk exposure, both qualitative criteria related to the role, and quantitative criteria related to the level of remuneration is taken into account. There must also be an individual assessment of the individual risk exposure.

Decision process

The Board of Gjensidige Forsikring ASA has established a Remuneration Committee which also covers Gjensidige Bank Boligkreditt AS. The Committee consists of three members; the Chairman of the Board and two board members.

The main responsibilities of the Committee are to prepare matters for the Board, and:

- Prepare proposals and follow up implementation of the Company's guidelines for and limits on remuneration
- Annually review and recommend remuneration of the CEO
- Annual review and propose a scorecard for the CEO
- Consider other key benefits for senior executives

Guidelines for the coming financial year

Remuneration of the CEO

The CEO's salary and other benefits shall be determined by the Board based on a comprehensive assessment that takes into account Gjensidige Bank's compensation scheme and the market pay for positions of a similar type.

The fixed salary is reviewed annually and determined on the basis of developments in society in general and the financial sector in particular. The variable salary (bonus) is determined by the Board based on agreed objectives and delivery in relation to them, and it may not exceed three months' salary including holiday pay. Variable pay is not included in pensionable salary. The assessment takes into account the company's results in the last two years and includes an assessment of the CEO's personal contribution to the Company's core values, development and results. Half of the variable remuneration will be given in the form of shares in Gjensidige Forsikring ASA, where 1/3 can be placed at the employee's disposal in each of the next three years. The variable remuneration can be reduced if subsequent results and developments indicate that it was based on incorrect assumptions. The CEO is not paid performance-based benefits other than the above bonus, but can be granted fringe benefits such as a company car and reimbursement of expenses for electronic communications. The granting of such fringe benefits shall be related to the executive functions of the Company, and otherwise be in line with market practice.

The CEO's retirement age is 70 years, and the CEO is a member of the Bank's defined contribution pension plan. There is no severance pay arrangement for the CEO.

Binding guidelines for shares, subscription rights, etc. for the coming financial year

Of the variable salary paid to the CEO in 2017, 50 per cent of gross earned variable pay will be granted in the form of shares in Gjensidige Forsikring ASA. One third of the shares are awarded in each of the next three years.

The CEO, like all other employees in Gjensidige, the opportunity to participate in the Group's share saving plan for employees. Under the current programme, through salary deductions, an employee can save shares in Gjensidige Forsikring ASA for up to NOK 75,000 per year. The shares can be bought on a quarterly basis after the publication of the results. A discount of 20 per cent of the purchase price is offered, limited upwards to NOK 1,500 in 2016 and NOK 3,000 from 2017. For those who retain the shares and are still employed by the Group, one bonus share is awarded for every four shares the employee has owned for more than two years.

Statement concerning the management's remuneration policy in the previous accounting year

The Board confirms that the guidelines regarding executive pay for 2016 set out in last year's declaration have been followed.

The Board has decided to pay all full-time employees a bonus of up to NOK 21,900.

6. Write-downs and losses on loans

NOK thousands	1.1.-31.12.2016	1.1.-31.12.2015
Write-downs and losses for the period		
+/- Change in individual write-downs for the period		
+/- Change in group write-downs for the period		(1,958)
+ Losses on loans previously written down		
+ Losses on loans previously not written down		
- Payments on previously written off accounts		
Write-downs and losses for the period		**(1,958)**

7. Tax expense

NOK thousands	1.1.-31.12.2016	1.1.-31.12.2015
Tax payable	22,244	41,161
Change in deferred tax/tax assets	11,373	(2,873)
Other adjustments to previous years	(5,075)	(4,384)
Tax expense	**28,542**	**33,904**
Reconciliation of tax expense		
Profit/ (loss) before tax expense	99,813	141,808
Expected tax at nominal tax rate of 25%	24,953	38,288
Other adjustments to previous years	3,588	(4,384)
Tax expense	**28,542**	**33,904**
The average effective tax rate	29%	24%
Deferred tax assets / (Deferred tax liabilities)		
Deferred tax assets arising from temporary differences		
- Current assets	28	43
- Financial instruments	(6,518)	4,840
Deferred tax assets / (Deferred tax liabilities)	**(6,490)**	**4,883**
Net changes in deferred tax assets/ deferred tax through profit or loss are as follows:		
Current assets	(15)	(18)
Financial instruments	(11,358)	2,891
At the end of the year	**(11,373)**	**2,873**

Deferred tax assets resulting from loss carryforwards are only recognised to the extent that it is probable that they will be realised. Deferred tax assets and deferred tax are offset and the net amount is entered when this is permitted by legislation and the amounts relate to the same tax authority.

8. Other assets

NOK thousands	31.12.2016	31.12.2015
Earned income not yet received	34,370	30,089
Derivatives	117,095	123,476
Advance payments	416	343
Total	**151,881**	**153,908**

9. Loans to and receivables from credit institutions

NOK thousands	31.12.2016	31.12.2015
Loans and receivables without an agreed term to maturity, amortised cost	581,214	650,370
Loans and receivables with an agreed term to maturity, amortised cost	64	
Total loans and receivables to credit institutions, amortised cost	**581,279**	**650,370**

10. Analysis of loans

NOK thousands	31.12.2016	31.12.2015
Loans to customers, amortised cost	18,262,482	15,203,156
Loans to customers, fair value		
Total gross loans to customers	**18,262,482**	**15,203,156**
Individual write-downs		
Group write-downs (see note 12)	6,459	6,459
Net loans to customers	**18,256,022**	**15,196,697**
Loans by sector and industry		
Private individuals	18,262,482	15,203,156
Total	**18,262,482**	**15,203,156**

Loans by region based on customers residential address:

	31.12.2016		31.12.2015	
NOK thousands	Loans	Per cent	Loans	Per cent
Oslo	4,593,361	25.15%	3,486,439	22.93%
Akershus	3,925,012	21.49%	3,321,592	21.85%
Eastern Norway	3,096,953	16.96%	2,502,752	16.46%
Southern Norway	326,580	1.79%	321,708	2.12%
Western Norway	3,618,732	19.82%	3,313,153	21.79%
Central Norway	1,824,232	9.99%	1,510,241	9.93%
Northern Norway, Svalbard	829,898	4.54%	717,625	4.72%
Abroad	47,715	0.26%	29,645	0.19%
Total gross loans by geographical area	**18,262,482**	**100.00%**	**15,203,156**	**100.00%**

Gjensidige Bank Boligkreditt AS has no guarantees to customers

11. Interest-bearing securities

NOK thousands	31.12.2016	31.12.2015
Short-term government bonds	39,806	19,936
Covered bonds	100,614	50,049
Exchange rate adjustment	(232)	160
Total	**140,188**	**70,145**
Stock exchange listed securities	140,188	70,145
Unlisted securities		
Total	**140,188**	**70,145**

12. Impairment of loans

NOK thousands	31.12.2016	31.12.2015
Individual write-downs 1.1.		
Losses on loans previously written down		
Change for the period in individual write-downs		
Payments on previously written off accounts		
Individual write-downs 31.12.		
Group write-downs 1.1.	6,459	8,417
Change for the period in group write-downs		(1,958)
Group write-downs 31.12.	**6,459**	**6,459**
Total write-downs 31.12.	**6,459**	**6,459**
Defaulted loans		
Gross default over 90 days	2,556	2,556

13. Liabilities to credit institutions

NOK thousands	31.12.2016	31.12.2015
Debt without an agreed term to maturity, amortised cost		
Debt with an agreed term to maturity, at amortised cost	2,750,208	1,891,687
Total debt to credit institutions, amortised cost	**2,750,208**	**1,891,687**

14. Liabilities opened for the issue of securities

NOK thousands					Face value
ISIN Number	**Currency**	**Rate**	**Due**	**Ext.due**	**31.12.2016**
NO0010641897	NOK	Floating	11.4.2017	11.4.2018	550,000
NO0010660327	NOK	Floating	21.9.2018	21.9.2019	2,450,000
NO0010662737	NOK	Floating	6.5.2019	6.5.2020	2,700,000
NO0010678766	NOK	Fixed	8.5.2025	8.5.2026	600,000
NO0010680283	NOK	Floating	3.3.2020	3.3.2021	2,850,000
NO0010687429	NOK	Fixed	11.9.2020	13.9.2021	850,000
NO0010727738	NOK	Floating	12.5.2021	12.5.2022	2,767,000
N00010770852	NOK	Floating	20.5.2022	20.5.2023	2,000,000
Total debt incurred through the issue of securities					**14,767,000**

NOK thousands					Face value
ISIN Number	**Currency**	**Rate**	**Due**	**Ext.due**	**31.12.2015**
NO0010629157	NOK	Floating	21.11.2016	21.11.2017	1,000,000
NO0010641897	NOK	Floating	11.4.2017	11.4.2018	1,300,000
NO0010660327	NOK	Floating	21.9.2018	21.9.2019	2,450,000
NO0010662737	NOK	Floating	6.5.2019	6.5.2020	2,300,000
NO0010678766	NOK	Fixed	8.8.2025	8.5.2026	600,000
NO0010680283	NOK	Floating	3.3.2020	3.3.2021	2,350,000
NO0010687429	NOK	Fixed	11.9.2020	13.9.2021	600,000
NO0010727738	NOK	Floating	12.5.2021	12.5.2022	2,000,000
Total debt incurred through the issue of securities					**12,600,000**

Standard contract terms (loan terms) apply to the signed loan agreements, with requirements for overcollateralization of 110 per cent. Gjensidige Bank Boligkreditt AS met all existing terms and conditions in 2016. The Company has in 2016 established a EMTCN program. The program is not yet in use.

15. Hedge accounting

The Company's criteria for classifying a derivative as a hedging instrument are as follows:

1. When entering into a hedge, the correlation between the hedging instrument and the hedged item is documented. In addition, the hedge's goal and strategy is documented.
2. The hedge is expected to be highly effective by offsetting changes in fair value of an identified object.
3. The effectiveness of the hedge can be reliably measured.
4. There is adequate documentation when entering into a hedge that, among other things, shows that the hedging is effective.
5. The hedge is evaluated regularly and has proven to be effective during the accounting period, i.e. within the range 80-125 per cent.

Fair value hedges

The Company uses fair value hedges to manage its interest rate risk. Hedging is performed to hedge against fluctuations in the value of issued fixed rate bonds due to changes in interest rates. Interest rate swaps designated as hedging instruments are measured at fair value and changes in fair value are recognised in the income statement. For the hedged item, the fixed rate bond, a change in fair value attributable to the hedged risk is accounted for as an addition to or deduction from the carrying value in the balance sheet and in the income statement.

If the hedge ceases, changes made to the carrying value of the hedged item are amortised over the remaining life using the effective interest method, if the hedging instrument is a financial instrument recognised using the effective interest method.

Fair value interest rate risk

To hedge exposure to changes in the fair value of financial instruments with a fixed interest rate the Company uses interest rate swaps.
The fair value of derivatives included in the fair value hedge are as follows:

NOK thousands	31.12.2016	31.12.2015
Instrument:		
Interest rate swap	109,917	115,344
Total	**109,917**	**115,344**

Gains (losses) on fair value hedges

Gain (loss) on hedging instruments and hedged items designated in fair value hedges are as follows:

NOK thousands	31.12.2016	31.12.2015
Hedging instrument:		
Interest rate swap	(22,941)	(1,837)
Hedge item:		
Bond debt	23,012	2,065
Total	**71**	**228**

16. Other liabilities

NOK thousands	31.12.2016	31.12.2015
Accounts payable		
Liabilities to public authorities	64	55
Derivater	7,177	8,132
Accrued interest expenses	45,715	42,145
Accrued personnel cost	119	116
Other accrued expenses and deferred income	9,543	7,236
Total other liabilities	**62,618**	**57,684**

17. Off-balance sheet commitments and contingent liabilities

NOK thousands	31.12.2016	31.12.2015
Unused credit facilities	1,761,912	1,753,804
Total contingent liabilities	**1,761,912**	**1,753,804**

Unused credit facilities include approved and unused credit limits on home equity lines of credit. The Company has not received pledges of or pledged assets as security.

18. Fair value of financial instruments

Method used to calculate the fair value of financial instruments

Financial instruments measured at fair value (incl. financial instruments available for sale).

See Note 1 Accounting policies.

Financial instruments measured at amortised cost

Market prices are used to price loans and receivables from credit institutions and loans to customers. The value of loans that have been written down is determined by discounting future cash-flows using the internal rate of return based on market conditions for equivalent loans that have not been written down. Fair value is considered to be the carrying amount for loans and receivables measured at amortised cost. No allowance has been made for any changes in credit risk over and above the changes in estimated future cash flows for loans that have been written down.

The fair value of short-term liabilities to credit institutions is estimated as being their amortised cost. Long-term liabilities to credit institutions are measured at fair value based on the equivalent interest rate the bank pays on its own bonds. Debt securities measured at amortised cost are valued in the same way as debt securities measured at fair value, cf. note 1.

Off-balance sheet obligations and guarantees

Mortgaged assets are measured at fair value, cf. note 1. Other off-balance sheet obligations and guarantees are measured at their nominal value. The fair value is shown in the balance sheet under provisions.

18. Fair value of financial instruments (cont.)

NOK thousands	31.12.2016 Book value	31.12.2016 Fair value	31.12.2015 Book value	31.12.2015 Fair value
Classification of financial instruments				
Net loans to and receivables from credit institutions				
Loans to and receivables from credit institutions, amortised cost	581,279	581,279	650,370	650,370
Loans to and receivables from credit institutions	**581,279**	**581,279**	**650,370**	**650,370**
Bonds and other fixed-income securities				
Certificates and bonds, fair value	140,188	140,188	70,145	70,145
Total bonds and other fixed-income securities	**140,188**	**140,188**	**70,145**	**70,145**
Net loans to customers				
Loans to and receivables from customers, amortised cost	18,262,482	18,262,482	15,203,156	15,203,156
Total loans before individual and group write-downs	**18,262,482**	**18,262,482**	**15,203,156**	**15,203,156**
- Write-downs of individual loans				
- Group write-downs	6,459	6,459	6,459	6,459
Total net loans to customers	**18,256,022**	**18,256,022**	**15,196,697**	**15,196,697**
Other assets				
Interest rate swaps, fair value	117,095	117,095	123,476	123,476
Other financial assets, amortised cost	34,370	34,370	30,089	30,089
Total other financial assets	**151,465**	**151,465**	**153,565**	**153,565**
Total financial assets	**19,128,954**	**19,128,954**	**16,070,777**	**16,070,777**
Classification of financial liabilities				
Liabilities to credit institutions				
Loans and deposits from credit institutions, amortised cost	2,750,208	2,750,208	1,891,687	1,891,687
Total liabilities to credit institutions	**2,750,208**	**2,750,208**	**1,891,687**	**1,891,687**
Debt Securities				
Commercial paper and bonds, amortised cost	13,304,988	13,324,510	11,418,430	11,330,786
Liability incurred through the issue of securities, fair value hedge	1,559,886	1,563,153	1,315,357	1,295,521
Total debt securities	**14,864,874**	**14,887,663**	**12,733,787**	**12,626,307**
Other financial liabilities				
Interest rate swaps, fair value	7,177	7,177	8,132	8,132
Other financial liabilities, amortised cost	48,027	48,027	44,192	44,192
Total other financial liabilities	**55,205**	**55,205**	**52,324**	**52,324**
Total financial liabilities	**17,670,287**	**17,693,076**	**14,677,798**	**14,570,318**

18. Fair value of financial instruments (cont.)

		31.12.2016		
NOK thousands	**Level 1**	**Level 2**	**Level 3**	**Total**
Loans to and receivables from customers, designated at fair value				
Interest-bearing securities, designated at fair value	39,830	100,358		140,188
Interest rate swaps		117,095		117,095
Total assets measured at fair value	**39,830**	**217,453**		**257,283**
Interest rate swaps		7,177		7,177
Total liabilities measured at fair value		**7,177**		**7,177**
Liability incurred through the issue of securities, amortised cost		13,324,510		13,324,510
Total liabilities measured at amortised cost		**13,324,510**		**13,324,510**
Liability incurred through the issue of securities, fair value hedge		1,563,153		1,563,153
Total liabilities included in fair value hedge		**1,563,153**		**1,563,153**

		31.12.2015		
NOK thousands	**Level 1**	**Level 2**	**Level 3**	**Total**
Loans to and receivables from customers, designated at fair value				
Interest-bearing securities, designated at fair value	19,924	50,221		70,145
Interest rate swaps		123,476		123,476
Total assets measured at fair value	**19,924**	**173,697**		**193,621**
Interest rate swaps		8.132		8.132
Total liabilities measured at fair value		**8,132**		**8,132**
Liability incurred through the issue of securities, amortised cost		11,330,786		11,330,786
Total liabilities measured at amortised cost		**11,330,786**		**11,330,786**
Liability incurred through the issue of securities, fair value hedge		1,295,521		1,295,521
Total liabilities included in fair value hedge		**1,295,521**		**1,295,521**

There were no major moves between levels 1 and 2 in 2016.

If any transfers are made between levels of the fair value hierarchy, they are recognised at the end of the reporting period during which the change has occurred.

Assets and liabilities that are measured at fair value, whether because they are part of the trading portfolio, were designated at fair value on initial recognition or are held as available for sale, shall be classified according to how reliable the fair value estimate is. There are three classification levels, with level 1 assets having prices quoted in active markets. Level 2 valuations are directly or indirectly based on observable prices for similar assets. Level 3 valuations are not based on observable prices, and instead rely on e.g. our own valuation models.

For assets and liabilities for which amortised cost and fair value are highly similar, book values and the fair value are presented with identical amounts equal to amortised cost and are not included in the fair value hierarchy above.

19. Cover pool

NOK thousands	31.12.2016	31.12.2015
Gross loans to customers	18,262,482	15,203,156
Number of loans	11,110	9,792
Loans in default over 90 days	2,556	2,556
Total value basis for loans	52,107,340	41,913,320
Weighted average remaining life (months)	221	213
Weighted indexed average loan-to-value ratio	48%	51%
Lending to customers divided by weighted loan-to-value:		
Loan-to-value 0-40 per cent	5,257,459	3,717,326
Loan-to-value 40-50 per cent	3,736,742	2,979,622
Loan-to-value 50-60 per cent	4,521,322	3,216,804
Loan-to-value 60-75 per cent	4,573,144	5,087,738
Loan-to-value over 75 per cent	173,816	201,666
Total	**18,262,482**	**15,203,156**
Composition cover pool:		
Mortgage[1]	18,249,394	15,186,968
Substitute assets:		
Bank deposits Gjensidige Bank ASA	429,243	650,370
Covered bonds (rated AAA)	50,173	50,221
Treasury bills	19,903	19,924
Derivative	95,050	117,991
Total	**18,843,763**	**16,025,474**

[1] Loans exceeding 75 per cent of the value basis and loans default over 90 days are not included in the cover pool.

20. Related parties

Gjensidige Bank ASA is the parent company. Gjensidige Forsikring ASA is the parent company for the group. All companies in the group are to be regarded as related parties and will be specified to the extent that the Company has transactions or balances with them. All transactions and agreements with these parties are carried out in accordance with arm's length principles.

Gjensidige Bank Boligkreditt AS purchases services such as customer support and loan management, as well as day-to-day management and administrative services, from Gjensidige Bank ASA.

Gjensidige Bank Boligkreditt AS has access to strong credit facilities with Gjensidige Bank ASA. This ensure that the Company can pay interest and principal to the covered bonds owners, and finance the transferring of loans and the cover pool.

Further information about the credit agreements:
a) A long-term credit facility of up to NOK 2,000.0 million. Expiry date 31 December 2018.
b) A short-term credit facility of up to NOK 2,500.0 million. Expiry date 31 December 2017.
c) Credit facility agreement that enables Gjensidige Bank Boligkreditt AS to borrow money in order to repay its outstanding bond debt. The credit facility shall be sufficient to cover the total repayment of the outstanding bonds over the next 12 months. As of 31 December 2016, the credit limit of the agreement was NOK 500.0 million.

NOK 9,203.2 million in loans to and claims on customers was transferred from Gjensidige Bank ASA to Gjensidige Bank Boligkreditt AS in 2016.

Transactions with the Board and the Supervisory Board are not included, see note 5.

The list below shows the transactions with related parties that are recognised in the income statement

NOK thousands	31.12.2016	31.12.2015
Interest income deposit Gjensidige Bank ASA	9,903	6,140
Interest expense liability Gjensidige Bank ASA	54,446	35,291
Interest expense covered bonds Gjensidige Bank ASA	21,601	21,346
Purchase of services from Gjensidige Bank ASA	8,840	5,945
Services to Gjensidige Bank ASA (outsoursing the CEO)	588	528

The list below shows assets / liabilities with / to related parties

NOK thousands	31.12.2016	31.12.2015
Deposit in Gjensidige Bank ASA	581,214	650,370
Liability to Gjensidige Bank ASA	2,762,595	1,901,345
Covered Bonds to Gjensidige Bank ASA	661,075	851,707

21. Events after the balance sheet day

No significant events have occurred after the balance sheet date.

22. Capital adequacy

NOK thousands	31.12.2016	31.12.2015
Share capital and share premium	1,020,020	1,020,020
Other equity	402,917	331,664
Equity	**1,422,937**	**1,351,684**
Deductions		
Goodwill and other intangible assets		
Value adjustments due to the requirements for prudent valuation	(264)	(202)
Common equity Tier 1 capital	**1,422,673**	**1,351,482**
Net primary capital	**1,422,673**	**1,351,482**
Minimum requirement for equity and subordinated debt		
Credit risk		
Of which:		
Institutions	15,497	16,633
Mass market positions	3,660	4,017
Positions secured by mortgage	534,282	448,376
Overdue positions	212	203
Covered bonds	806	401
Other positions	33	1,004
Total minimum requirement credit risk	**554,490**	**470,634**
Operational risk	20,450	20,894
CVA-risk	13,312	16,193
Minimum requirement for net primary capital	**588,252**	**507,721**
Basis of calculation of balance sheet items not included in trading portfolio	**6,549,075**	**5,500,187**
Basis of calculation of off-balance sheet items not included in trading portfolio	**382,048**	**382,738**
Risk-weighted assets (calculation basis for capital adequacy ratio)	**7,353,149**	**6,346,511**
Buffer requirements		
Systemic risk buffer	220,594	190,395
Conservation buffer	183,829	158,663
Countercyclical buffer	110,297	63,465
Total buffer requirement for common equity Tier 1 capital	**514,720**	**412,523**
Available Core Tier 1 capital net minimum requirement	**577,061**	**653,366**
Capital adequacy		
Capital adequacy ratio	19.3%	21.3%
Tier 1 capital ratio	19.3%	21.3%
Common equity Tier 1 capital ratio	19.3%	21.3%
Leverage ratio	7.1%	8.0%

23. Classification of financial instruments

NOK thousands Balance 31.12.2016	Financial instruments measured at fair value through profit or loss	Available for sale	Financial assets and liabilities at amortised cost	Financial assets and liabilities at cost	Financial derivatives as hedging instruments	Non-financial assets and liabilities	Total
Assets							
Loans to and claims on credit institutions			581,279				581,279
Loans to and claims on customers			18,256,022				18,256,022
Certificates, bonds and other interest-bearing securities	140,188						140,188
Interest rate swaps					117,095		117,095
Other assets			34,370			416	34,787
Total assets	**140,188**		**18,871,671**		**117,095**	**416**	**19,129,370**
Liabilities and equity							
Liabilities to credit institutions			2,750,208				2,750,208
Liabilities opened for the issue of securities			14,864,874				14,864,874
Interest rate swaps					7,177		7,177
Other liabilities			48,027			29,657	77,685
Deferred tax liabilities						6,490	6,490
Total liabilities			**17,663,109**		**7,177**		**17,706,434**
Total equity						**1,422,937**	**1,422,937**
Total liabilities and equity			**17,663,109**		**7,177**	**1,422,937**	**19,129,370**

NOK thousands Balance 31.12.2015	Financial instruments measured at fair value through profit or loss	Available for sale	Financial assets and liabilities at amortised cost	Financial assets and liabilities at cost	Financial derivatives as hedging instruments	Non-financial assets and liabilities	Total
Assets							
Loans to and claims on credit institutions			650,370				650,370
Loans to and claims on customers			15,196,697				15,196,697
Certificates, bonds and other interest-bearing securities	70,145						70,145
Deferred tax assets						4,883	4,883
Interest rate swaps					123,476		123,476
Other assets			30,089			343	30,432
Total assets	**70,145**		**15,877,156**		**123,476**	**5,226**	**16,076,003**
Liabilities and equity							
Liabilities to credit institutions			1,891,687				1,891,687
Liabilities opened for the issue of securities			12,733,787				12,733,787
Interest rate swaps					8,132		8,132
Other liabilities			44,192			46,521	90,713
Total liabilities			**14,669,666**		**8,132**	**46,521**	**14,724,319**
Total equity						**1,351,684**	**1,351,684**
Total liabilities and equity			**14,669,666**		**8,132**	**1,398,205**	**16,076,003**

24. Risk

Gjensidige Bank Boligkreditt AS is exposed mainly to credit risk, market risk, liquidity risk and operational risk, where credit risk is the largest risk. The Board emphasises that the Company should have low risk, and limits have been established for all types of risks.

Capital adequacy regulations

The regulations are built on three pillars:

- Pillar 1 Minimum capital requirements
- Pillar 2 ICAAP process for evaluation of the bank's total capital requirements
- Pillar 3 Requirements for the public disclosure of financial information

Pillar 1: The Company uses the standard method for reporting credit risk and the basic indicator approach for reporting operational risk.

Pillar 2: Gjensidige Bank ASA prepares the ICAAP document for the Gjensidige Bank Group. The ICAAP document is approved by the Board in the bank. Guidelines for ICAAP are approved by the Board. The document is prepared with broad involvement of management and specialists in the bank, as well the Board. The Board in Gjensidige Bank Boligkreditt AS are also involved as part of this process. The Board in Gjensidige Bank Boligkreditt AS has defined guidelines for common equity Tier 1 capital ratio, Tier 1 capital ratio and Capital adequacy ratio. These guidelines as in line with the requirements for Gjensidige Bank ASA and Gjensidige Bank Group, approved by the Board.

Pillar 3: Gjensidige Bank ASA has defined guidelines for the public disclosure of information, and they have been adopted by the Board. The Pillar 3 document is presented together with the annual report.

Credit risk

Credit risk refers to the risk the Company faces in the event of a borrower's failure to repay a loan or credit or to meet their contractual obligations.

The Company's credit risk originates from residential mortgages to consumers in Norway. The Company is also exposed to credit risk through placements within the liquidity reserve. Risk exposure and development are continuously monitored and reported to the Board.

All loans are purchased from Gjensidige Bank ASA in accordance with regulatory requirements. At the time of purchase, the individual loans are required to be within 75 per cent of the approved value of the collateral. The value of the property is used as collateral for mortgage loans and this is updated every three months. The value is set using estimates from Eiendomsverdi AS. Gjensidige Bank ASA provides loans to customers based on credit scores, combined with an individual assessment of their ability to repay the loan.

The handling of individual loan customers and the administration of loans are managed by Gjensidige Bank ASA in accordance with the SLA. The weighted loan to value ratio, indexed was 48.3 per cent for the portfolio. Approximately 74 per cent of the loan portfolio is within 60 per cent of collateral value.

As of 31 December 2016, the Company's gross lending was NOK 18,262.5 million and one loans was in default over 90 days. The loan portfolio is mainly secured by residences in Eastern Norway. The largest single exposure was NOK 8.5 million. Development of the loan portfolio is monitored through monthly credit risk reports with the focus on LTV, the development of property prices, geographical distribution, credit scores and delinquency.

The Company uses application score models and behaviour score models set by the Bank. The models predict the probability of default in for decisions related to top-ups, collections, group write-downs and other portfolio management decisions. With the help of these score models, the lending portfolios in the bank are grouped into risk classes, starting from the lowest risk to the worst risk, based on their probability of default. They are then further grouped into three main risk groups: Low risk, Medium risk and High risk.

The portfolio risk is considered to be low.

In order to limit credit risk relating to the liquidity reserve, the Company has placements with solid counterparties and limits exposure to each of them. The liquidity reserve consists of bank placements with Gjensidige Bank ASA, treasury bills and covered bonds.

The Company's maximum credit exposure related to lending is NOK 20,012.3 million.

TThe table below shows the lending portfolio and provisions as of 31 December 2016 segmented by the risk groups:

NOK million	Gross lending	Guarantees	Total off-balance commitments to customers:	Individual Provisions	Other non-customer exposure	Maximum credit exposure
Low	18,141		1,751			19,892
Medium	48		4			52
High	69		1			70
Not classified	2					2
Impaired and written down	3					3
Total 31.12.2016	**18,262**		**1,756**			**20,019**
Group provisions	6					6
Total net 31.12.2016	**18,256**		**1,756**			**20,012**

24. Risk (cont.)

Market risk

Market risk is the risk of losses associated with movements in market prices, which, in this context, relates to positions and activities in the interest rate-, currency-, credit- and stock markets. The Company's financial strategy sets limits and guidelines for managing the market risk.

Risk exposure and development are continuously monitored and reported to the Board. The Company has no exposure to equities and no currency risk. The Company's exposure to interest rate risk shall be kept low, and the spread risk kept moderate in relation to the core capital.

Interest rate risk refers to the risk of a loss as a result of changes in the interest rate level. Risk arises from the Company's assets and liabilities having different remaining fixed interest periods. The Company manages interest rate risk by adapting the interest terms for assets and liabilities. In addition, derivatives are used for hedging. Interest rate risk exposure is measured in 'milli-years' (MY), which are assets and liabilities with fixed interest in NOK millions multiplied by the remaining fixed interest period. Net cumulative interest rate risk exposure over three months shall not exceed plus / minus 400 MY for any year range. Net interest rate risk exposure shall, within each time interval be within plus / minus 300 MY. However, for the interval three to 12 months, exposure within plus and minus 500 MY 300 is permitted. Interest rate risk under three months is measured and reported, but the exposure is not included in the interest risk limits. When the limit is fully utilised, the loss for the Company in the event of a one percentage point change in the yield curve will be NOK 5 million.

As of 31 December 2016 the Company has a positive interest rate exposure over 3 months of 34 MY.

Spread risk refers to the risk of a loss as a result of changes in credit spreads. The Company limits the spread risk on assets by investing in high quality securities with limited maturity, where the value is expected to be less exposed to changes in the credit spread. The Company does not hedge the spread risk on its own bond issues.

Concentration risk

Concentration risk is the risk of losses due to the Company having large parts of its lending tied to a single borrower or to limited geographic or business areas.

As of 31 December 2016, the portfolio is geographically diverse, with the greatest lending in the most populous areas of the country. The largest exposure is about NOK 8.5 million. The exposure related to the ten largest loans (limit) is about NOK 75.0 million. The Company's liquidity reserves consist of bank deposits in parent company, securities issued by the Norwegian government and Norwegian covered bonds (OMF).

Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet all its financial obligations on their due date, or be unable to finance assets, including desired growth, without a significant increase in financing costs. The Company's finance strategy set by the Board provides guidelines and limits for managing the Company's liquidity risk both inside and outside the company's cover pool. The Company shall have low liquidity risk.

The Company manages its liquidity risk by having a liquid securities portfolio and credit facilities in Gjensidige Bank ASA. It also matches the maturities of its assets and liabilities. The credit facility in Gjensidige Bank ASA shall be sufficient at all times to cover the total repayment of the outstanding bonds in the next 12 months. The Company had a long-term credit facility of up to NOK 2,000.0 million, as well as short-term vendor financing of up to NOK 2,500.0 million. Unutilised credit facilities amounted to NOK 1,749.8 million at the end of the year.

Operational risk

Operational risk refers to the risk of a loss resulting from human errors, external events or fraud, deficiencies and/or inadequacies in the Company's internal systems, procedures or processes.

Services such as customer support and loan management, as well as day-to-day management and administrative services, are provided by Gjensidige Bank ASA and Gjensidige Forsikring ASA. The agreement is regulated by an SLA that sets requirements for quality and timely deliveries.

Company activities that are outsourced to the Bank are also covered at monthly operational risk meetings ('Operational Risk Reviews'). Operational incidents, the development of AML activities, internal control self-assessment (RSCA) results, fraud development, IT / security and customer complaints are important focus areas at these meetings. The CEO of Gjensidige Bank ASA and CEO of Gjensidige Bank Boligkreditt AS attend these meetings together with key managers. In addition, quarterly internal control self-assessments (RCSA) are carried out to ensure that procedures and processes are followed for outsourced activities.

The annual risk assessment of Gjensidige Bank Boligkreditt AS is conducted by the CEO. The output of the risk assessment is reported to the Board.

The Company has appointed an independent investigator that monitors the register of issued bonds as required by the Financial Institutions Act. Regular reviews are conducted to ensure that the register is booked correctly. Findings are reported to the Financial Supervisory Authority.

25. Credit risk

Credit exposure for loans

Mortgage customers are assessed in relation to their willingness and ability to repay their loans. Their ability to service the loans is calculated and the customers are risk assessed at the time of application. The loan to value ratio for customers in Gjensidige Bank Boligkreditt AS is less than 75 per cent at the time of transfer from Gjensidige Bank ASA.

The loans are secured through mortgages on residential property. The collateral is considered to be good and the portfolio has a low credit risk.

Commitments by customer groups

31.12.2016 NOK thousands	Loans and receivables to/from customers	Guarantees	Unused credit facilities	Total commitments	Average size of loans	Gross non-performing loans	Individual impairment	Net non-performing loans
Private individuals	18,262,482		1,761,912	20,024,393	1,644	2,556		2,556
Total	**18,262,482**		**1,761,912**	**20,024,393**	**1,644**	**2,556**		**2,556**
- Group write-downs	6,459			6,459				
+ other changes in value								
Total loans and receivables to/from customers	**18,256,022**		**1,761,912**	**20,017,934**	**1,644**	**2,556**		**2,556**

Loans by geographical area based on the collateral address

31.12.2016 NOK thousands	Loans and receivables to/from customers	Guarantees	Unused credit facilities	Total commitments	Gross non-performing loans	Individual impairment	Net non-performing loans
Eastern Norway	11,717,157		974,952	12,692,108	2,556		2,556
Western Norway	3,612,789		455,614	4,068,402			
Central Norway	1,793,336		210,193	2,003,529			
Northern Norway	803,058		72,657	875,715			
Southern Norway	336,143		48,496	384,639			
Abroad							
Total	**18,262,482**		**1,761,912**	**20,024,393**	**2,556**		**2,556**

Total commitments by remaining maturity

31.12.2016 NOK thousands	Loans and receivables to/from customers	Guarantees	Unused credit facilities	Total commitments	Gross non-performing loans	Individual impairment	Net non-performing loans
1 month	31		598	629			
1-3 months	12,833		13,430	26,263			
3-12 months	124,481		106,459	230,940			
1-5 years	1,172,538		762,813	1,935,351			
More than 5 years	16,952,599		878,613	17,831,212	2,556		2,556
Total	**18,262,482**		**1,761,912**	**20,024,393**	**2,556**		**2,556**

25. Credit risk (cont.)

Age analysis of loans that are due

31.12.2016 NOK thousands	Loans and receivables to/ from customers	Guarantees	Accrued interest	Total commitments
Default 1 - 30 days	92,557		10,869	103,426
Default 31 - 60 days				
Default 61 - 90 days	1,054		35	1,088
Default over 90 days	2,556		119	2,675
Total	**96,166**		**11,023**	**107,189**
Overdue loans over 90 days by geographical area				
Eastern Norway	2,556		119	2,675
Western Norway				
Central Norway				
Northern Norway				
Total	**2,556**		**119**	**2,675**

Only non-performing loans are classified by geographical area in this overview. Commitments are deemed to be in default when credit is overdrawn for more than 90 days and the amount is at least NOK 1,000.

Credit risk by customer groups

31.12.2016 NOK thousands	Total loans with impairment	Total commitments	Total value changes	Total impairment	Total value changes over income statement
Private individuals		20,024,393			
Total		**20,024,393**			

Commitments by customer groups

31.12.2015 NOK thousands	Loans and receivables to/from customers	Guarantees	Unused credit facilities	Total commitments	Average size of loans	Gross non-performing loans	Individual impairment	Net non-performing loans
Private individuals	15,203,156		1,753,804	16,956,960	1,553	2,556		2,556
Total	**15,203,156**		**1,753,804**	**16,956,960**	**1,553**	**2,556**		**2,556**
- Group write-downs	6,459			6,459				
+ other changes in value								
Total loans and receivables to/from customers	**15,196,697**		**1,753,804**	**16,950,501**	**1,553**	**2,556**		**2,556**

Loans by geographical area based on the collateral address

31.12.2015 NOK thousands	Loans and receivables to/from customers	Guarantees	Unused credit facilities	Total commitments	Gross non-performing loans	Individual impairment	Net non-performing loans
Eastern Norway	9,339,141		985,072	10,324,213	2,556		2,556
Western Norway	3,314,581		447,703	3,762,284			
Central Norway	1,512,858		207,093	1,719,951			
Northern Norway	709,561		58,936	768,497			
Southern Norway	327,015		55,000	382,015			
Abroad							
Total	**15,203,156**		**1,753,804**	**16,956,960**	**2,556**		**2,556**

25. Credit risk (cont.)

Total commitments by remaining maturity

31.12.2015 NOK thousands	Loans and receivables to/from customers	Guarantees	Unused credit facilities	Total commitments	Average size of loans	Gross non-performing loans	Individual impairment	Net non-performing loans
1 month	4			4				
1-3 months	167		11	178				
3-12 months	1,477		69	1,546				
1-5 years	1,624,662		980,512	2,605,174				
More than 5 years	13,576,847		773,212	14,350,058		2,556		2,556
Total	**15,203,156**		**1,753,804**	**16,956,960**		**2,556**		**2,556**

Age analysis of loans that are due

31.12.2015 NOK thousands	Loans and receivables to/from customers	Guarantees	Accrued interest	Total commitments
Default 1 - 30 days	50,852		2,639	53,491
Default 31 - 60 days	1,453		30	1,483
Default 61 - 90 days	3,503		52	3,555
Default over 90 days	2,556		53	2,609
Total	**58,364**		**2,774**	**61,138**
Overdue loans over 90 days by geographical area				
Eastern Norway	2,556		53	2,609
Western Norway				
Central Norway				
Northern Norway				
Total	**2,556**		**53**	**2,609**

Only non-performing loans are classified by geographical area in this overview. Commitments are deemed to be in default when credit is overdrawn for more than 90 days and the amount is at least NOK 1,000.

Credit risk by customer groups

31.12.2015 NOK thousands	Total loans with impairment	Total commitments	Total value changes	Total impairment	Total value changes over income statement
Private individuals		16,956,960			
Total		**16,956,960**			

26. Liquidity risk

As of 31 December 2016, the Company had net liquid assets of NOK 721.5 million, divided between NOK 581.3 million in bank deposits, NOK 100.4 million in covered bonds and NOK 39.8 million in treasury bills.

In addition the Company has credit facility agreements with the parent company.

31.12.2016 NOK thousands	1 month	1-3 months	3-12 months	1-5 years	More than 5 years	No fixed maturity	Total
Loans to and claims on credit institutions	581,279						581,279
Loans to and claims on customers	86,073	184,021	887,357	5,038,324	15,544,526		21,740,301
Certificates, bonds and other interest-bearing securities	115	320	110,712	30,113			141,260
Other financial assets	34,370					117,095	151,465
Derivatives – gross inflows		52,625	179,475	86,400			318,500
Total financial assets	**701,837**	**236,966**	**1,177,544**	**5,154,837**	**15,544,526**	**117,095**	**22,932,805**
Liabilities to credit institutions	3,935	7,870	785,255	2,035,800			2,832,861
Liabilities opened for the issue of securities	2,657	51,949	763,238	12,277,394	2,703,604		15,798,841
Unused credit facilities	1,761,912						1,761,912
Derivatives – gross outflows	6,357	18,983	83,182	37,246			145,768
Total financial liabilities	**1,774,860**	**78,802**	**1,631,675**	**14,350,440**	**2,703,604**		**20,539,382**

31.12.2015 NOK thousands	1 month	1-3 months	3-12 months	1-5 years	More than 5 years	No fixed maturity	Total
Loans to and claims on credit institutions	650,370						650,370
Loans to and claims on customers	79,591	158,978	700,155	4,448,871	13,377,824		18,765,420
Certificates, bonds and other interest-bearing securities		217	45,440	25,236			70,894
Other financial assets	30,089					123,476	153,565
Derivatives – gross inflows			43,500	195,600	86,400		325,500
Total financial assets	**760,050**	**159,196**	**789,095**	**4,669,708**	**13,464,224**	**123,476**	**19,965,749**
Liabilities to credit institutions	3,248	6,495	620,496	1,328,210			1,958,449
Liabilities opened for the issue of securities	6,112	43,518	1,192,335	11,640,530	686,400		13,568,895
Unused credit facilities	1,753,804						1,753,804
Derivatives – gross outflows		5,044	15,238	89,280	37,459		147,021
Total financial liabilities	**1,763,164**	**55,056**	**1,828,069**	**13,058,021**	**723,859**		**17,428,168**

The figure includes interest. The current interest rate at the end of the year is used to calculate the interest costs.

27. Sensitivity analysis

A change in the market risk that occurs within one year will affect the result and equity as shown below based on the balance sheet at 31 December 2016.

Effect on income statement / equity

2016	**Interest**	
NOK thousands	**-1.5%**	**1.5%**
Asset swap	(97,875)	97,875
Loans to and receivables from credit institutions	(6,539)	6,539
Loans to and receivables from customers	(181,747)	181,747
Interest-bearing securities	(1,213)	1,213
Liabilities to credit institutions	30,940	(30,940)
Liabilities opened for the issue of securities (variable interest)	131,089	(131,089)
Liabilities opened for the issue of securities (fixed interest)	97,875	(97,875)
Total	**(27,470)**	**27,470**

2015	**Interest**	
NOK thousands	**-1.5%**	**1.5%**
Asset swap	(105,120)	105,120
Loans to and receivables from credit institutions	(7,122)	7,122
Loans to and receivables from customers	(147,266)	147,266
Interest-bearing securities	(422)	422
Liabilities to credit institutions	20,714	(20,714)
Liabilities opened for the issue of securities (variable interest)	109,226	(109,226)
Liabilities opened for the issue of securities (fixed interest)	105,120	(105,120)
Total	**(24,869)**	**24,869**

This note shows the effect over a 12 month period of an immediate parallel change in interest rates of + 1.5 per cent and - 1.5 per cent.

28. Equity-based remuneration

Description of the share-based payment scheme

As at 31 December 2016, Gjensidige has the following share-based payment arrangements.

Share-based payments for key employees with settlement in shares and cash (remuneration scheme)

As described in the Board's statement on salaries and other remuneration in Note 5, half of the variable remuneration should be given in form of shares in Gjensidige Forsikring ASA, where 1/3 is at the employee's disposal in each of the next three years. Of this, 50 per cent will be given as shares and 50 per cent will be settled in cash to cover tax liabilities (net settlement).

The fair value on the grant date is measured based on market prices. The amount is recognised as a salary expense. It is not associated with specific company-related or market-related vesting criteria for the shares, but the company can make a reassessment based on major qualitative events and/or developments. The expected disbursement is set at 100 per cent.

Share purchase programme for employees

Gjensidige has established a share savings programme for employees of the Group with the exception of employees of Gjensidige Baltic. All employees are given an opportunity to save an annual amount of up to NOK 75,000. Saving take the form of fixed deductions from salary that is used to buy shares four times a year. The employees are offered a discount in the form of a contribution of 20 per cent, limited upwards to NOK 1,500 in 2016 and NOK 3,000 from 2017, which corresponds to the maximum tax-exempt discount. Employees will receive one bonus share for every four shares they have owned for more than two years, provided that they are still employed by the Company or have become retired.

The fair value at grant date is based on the market price. The discount is recognised as payroll expenses at the time of allocation. The value of the bonus shares is recognised as payroll expenses over the vesting period, which is two years.

Measurement of fair value

The fair value of the shares allocated through the share-based payment for executive personnel is calculated on the basis of the share price at grant date. The amount is recognised immediately. The cash-settled share is adjusted consecutively based on the share price at the reporting time.

Fair value of the bonus shares allocated through the share savings program is calculated on the basis of the share price at grant date, taking into account the likelihood of the employee still being employed after two years and that he/she has not sold his/her shares during the same two-year period. The amount is recognised during the vesting period which is two years.

The following assumptions were used in the calculation of fair value at the time of calculation

	Remuneration scheme		Share savings programme	
	2016	2015	2016	2015
Weighted average share price (NOK)	143.60	131.40	141.86	128.91
Expected turnover	IA	IA	10%	10%
Expected sale	IA	IA	5%	5%
Lock-in period (years)	3	3	2	2
Expected dividend (NOK per share)[1]	6.67	5.41	6.67	5.41

[1]The expected return is based on the Group's actual profit/loss after tax expense as of the third quarter, grossed up to a full year, plus the maximum distribution of dividend corresponding to 70 per cent of the profit after tax expense. This was carried out as a technical calculation because the Company's forecast for the fourth quarter result was not available at the time the calculations were carried out.

Personnel expenses

NOK thousands	31.12.2016	31.12.2015
Share-based remuneration	76	105
Share savings programme for employees	6	3
Total	**83**	**109**

28. Equity-based remuneration (cont.)

Share savings programme	Number of bonus shares 2016	Number of bonus shares 2015
Outstanding 1.1.	66	12
Granted during the period	49	54
Movement to (from) during the period		
Released	(12)	
Cancelled during the period		
Forfeited during the period		
Exercised during the period		
Expired during the period		
Outstanding 31.12	**103**	**66**
Exercisable 31.12.		
Average remaining life on outstanding bonus shares	0.96	1.00
Weighted average fair value of allocated bonus shares	122.90	112.88
Weighted average share price of bonus shares exercised during the period	142.43	128.75
The weighted average exercise price will always be 0, since the scheme comprises bonus shares and not options.		

Remuneration scheme	Number of shares 2016	Number of cash-settled shares 2016	Number of shares 2015	Number of cash-settled shares 2015
Outstanding 1.1.	1,097	1,001	1,218	1,121
Granted during the period	426	382	440	394
Forfeited during the period				
Cancelled during the period				
Exercised during the period	(602)	(552)	(612)	(550)
Expired during the period				
Modification dividend during the period	76	81	51	36
Outstanding 31.12	**997**	**912**	**1,097**	**1,001**
Exercisable 31.12.				
Average remaining life			**0.85**	**1.08**

	2016	2015
Weighted average fair value of allocated shares[2]	143.60	131.40
Weighted average share price of bonus shares exercised during the period	143.59	126.87
The value of shares granted that are to be cash-settled	149.20	142.10

[2]The fair value is calculated based on the market value of the share at the time of allocation.

Declaration from the Board and CEO

The Board and the CEO have today discussed and approved the annual report and financial statements for Gjensidige Bank Boligkreditt AS for the calendar year 2016 and as of 31 December 2016 (Annual Report 2016).

We declare that, to the best of our knowledge, the financial statements for 2016 have been prepared in accordance with IFRS as adopted by the EU, and in accordance with additional requirements set out in the Accounting Act, and taking into account the limitations of accounting regulations for banks, credit institutions and financing companies. The accounting data provide a true and fair picture of the company's assets, liabilities, financial position and results as a whole, and the annual report gives a true picture of important events in the accounting period and their impact on the financial statements, related material transactions and the most important risks and uncertainties faced by the company in the next accounting period.

Oslo, 7 March 2017
The Board of Gjensidige Bank Boligkreditt AS

Jørgen Ringdal
Chair

Erik Ranberg

Sirianne Haaje Nes

Solbjørg Lie

Jan Kåre Raae
CEO

Auditor's report

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To the General Meeting of Gjensidige Bank Boligkreditt AS

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for Opinion

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

Other information

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

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

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

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

Auditor's report

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Auditor's report

KPMG

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.

Oslo, 7 March 2017
KPMG

Lars Inge Pettersen
State Authorised Public Accountant

[Translation has been made for information purposes only]

Gjensidige is a leading Nordic insurance group listed on the Oslo Stock Exchange. We have about 4000 employees and offer insurance products in Norway, Denmark, Sweden and the Baltic states. In Norway, we also offer banking, pension and savings. Gjensidige Bank ASA, which is a wholly-owned subsidiary of Gjensidige Forsikring ASA, offers electronic distribution of day-to-day banking services and consumer financing. The Group's operating income was NOK 25.5 billion in 2016, while total assets were NOK 136 billion.

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