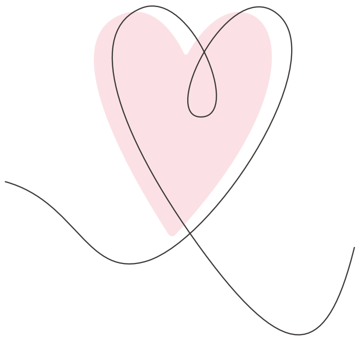
KLP KOMMUNEKREDITT AS

Annual Report 2018



KLP Kommunekreditt AS is owned by KLP through its subsidiary KLP Banken AS.

Together with KLP, KLP Kommunekreditt AS has a good position in the market for public lending. Its presence in the market contributes to competition and so provides the public sector with access to low-cost long-term financing.

The aim is to be a reliable financial partner for the public sector. In the future there will also be major development tasks in the field of care provision, kindergartens, schools, roads, water, drains and renovation in this sector. An increasing focus on climate and the environment will lead to increased funding needs for our customer groups.

We emphasise a high level of competency in local authority financing and advice, cost-effective operation and low-risk financing.

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Annual Report 2018

The profit for the year before tax was NOK 37.3 million and total ending was NOK 16.8 billion. The Company is financed largely through the issue of covered bonds. These bonds have received the highest possible rating (Aaa).

KLP Kommunekreditt AS is a wholly owned subsidiary of KLP Banken AS. The Company is a credit institution which is funded primarily through the issue of bonds covered by loans to the public sector.

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

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

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

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

INCOME STATEMENT

Figures in brackets below refer to last year's figures.

The Company made a profit before tax of NOK 37.3 (59.9) million and total comprehensive income for the was NOK 29.0 (45.6) million. This gave a return on equity of 5.2 (8.1) per cent before tax. The reduced profit compared with last year was mainly due to reduced lending margins and slightly lower average lending volume. Value changes on financial instruments also contributed to reduced profits.

The annual accounts show that net interest income fell compared to last year. The reason for this is the overall increase in money market rates through large parts of 2018. The Company's borrowing costs have increased faster than interest rates on loans could be adjusted upwards. This has given lower loan margins. The average loan volume was also lower through 2018 than in the previous year.

Net interest income from the lending and investment portfolios came to NOK 65.5 (82.1) million in 2018, a decrease of 20 per cent. Gross interest income from lending activities and liquid investments decreased by 7 per cent compared with the year before, mainly as a result of lower lending volume and margins.

Credit spreads in the securities markets fell less in 2018 than in the previous year. The value of the Company's securities investments is thus not much affected. In 2018, realised and unrealised losses on securities totalled NOK -0.8 million. At the end of 2017 the income statement showed a corresponding gain of NOK 4.2 million.

FINANCIAL PERFORMANCE IN 2018

EARNINGS

NOK MILLIONS	2018	2017	Change
Profit before tax	37.3	59.9	-22.6
Net interest income	65.5	82.1	-16.6
Operating expenses	-15.7	-17.3	1.5

BALANCE-SHEET

NOK MILLIONS	2018	2017	Change
New loan payments	1.8	0.8	1.0
Net lending	16.8	16.3	0.4
Liquidity	1.4	1.9	-0.5

During the term of its borrowing agreements the Company makes regular adjustments to reduce its liquidity risk and meet regulatory requirements with respect to liquidity indicators and capital adequacy (Basel III and CRD IV). Restructuring of borrowings then results in a need to buy back own issues. In 2018 the effect on profits of loan buybacks was NOK -11.7 (-9.2) million.

The net accounting effect of changes in value of financial instruments was negative overall for the financial year, at NOK -12.5 (-5.0) million in 2018.

The Company's operating costs decreased to NOK 15.7 (17.3) million in 2018, a reduction of 9 per cent from 2017. The reduction comes mainly because the amount of services purchased from the parent company varies with the loan volume. The management agreement with the parent company implies that KLP Kommunekreditt AS is charged management costs for public loans based on the Company's share of the total loan volume.

LENDING

Lending activities in KLP Kommunekreditt AS are primarily based on the sale of new loans directly from the Company. In recent years the refinancing of loans in other companies has had no material impact on the development of lending operations.

Total lending amounted to NOK 16.8 (16.3) billion at the end of 2018, an increase over the year at around 3 per cent. However, the average loan volume was lower than the previous year. 80 per cent of the lending volume is at floating interest rates. The proportion of loans at fixed interest rates decreased from 26 per cent in 2017 to 20 per cent in 2018.

New loans of NOK 1.8 (0.8) billion were paid out in 2018. The lending portfolio comprises direct loans to Norwegian municipal and county authorities, or loans to companies performing public services with guarantees from municipal or county authorities. The risk associated with the lending portfolio is considered very low.

The credit risk associated with lending to municipal and county authorities in Norway is limited to deferral of payment and does not provide for cessation of payment obligations. This is a consequence of the Norwegian Local Government Act, which indemnifies lenders against losses if a local authority is unable to meet its payment obligations. Where payment is deferred, the lender is also secured against losses of accrued interest, late-payment interest and debt collection costs. KLP Kommunekreditt AS has not incurred any credit losses on loans to Norwegian municipal or county authorities.

At the end of 2018 the Company had no loans in default over 90 days. There were also no individual losses in the financial year. The introduction of estimated loss provisions under IFRS 9 had an effect on profits of NOK 5 thousand in 2018. See note 16.

LENDING ACTIVITIES AND THE BANK'S ROLE

Lending to the public sector is provided by KLP and KLP Kommunekreditt AS and managed by KLP Banken.

Total lending for KLP Banken and KLP together (public sector market) was NOK 67.7 (62.1) billion at the end of 2018, an increase of NOK 5.6 (4.6) billion, or 9 (8) per cent, from 2017. Total payouts on new loans through the year came to NOK 13.5 (9.3) billion.

During 2018 requests for new loans and refinancing amounting to NOK 74 (74) billion were received from municipal and county authorities and municipal companies. New payments amount to 18 (12) per cent of the volume of applications. This makes KLP Banken a significant long-term lender to public welfare and value creation.

BORROWING

KLP Kommunekreditt AS has established a programme for the issue of covered bonds. In 2018 covered bonds for NOK 3.3 (4.5) billion were issued in the Norwegian market. There was a buy-back of earlier issues worth NOK 3.5 (1.9) billion.

At the end of 2018, NOK 17.7 (17.9) billion in bonds covered by loans to the municipal sector had been issued in Norway. No bonds have been issued outside Norway.

The bonds are issued with security in the Company's portfolio of loans to municipal and county authorities, or companies performing services on behalf of the public sector and which qualify for public guarantees. Loans to companies are guaranteed by municipal or county authorities, central government or banks in accordance with Section 50 of the Local Government Act. Guarantees have to be framed as ordinary guarantees and cover both interest and instalments. The Company has received the highest rating for its covered bond issues.

The Company's debt to credit institutions at the close of the year comprised internal financing from KLP Banken AS in the amount of NOK 0.4 (0.3) billion.

BALANCE SHEET AND CAPITAL ADEQUACY

Total assets stood at NOK 18.2 (18.3) billion at the close of 2018. Of this amount, loans to public borrowers total NOK 16.8 (16.3) billion and NOK 1.4 (1.9) billion are liquidity investments.

The Company's subordinated capital, based on the Board of Directors' proposal for the allocation of the year's profit, totalled NOK 749.0 (719.5) million at the end of 2018. Core capital is identical with subordinated capital. This gives a capital adequacy and core capital adequacy of 20.3 (19.7) per cent.

The Board of Directors of KLP Kommunekreditt AS. From the left:
Aage E. Schaanning, Ingrid Aune, Aud Norunn Røsok Strand and Sverre Thornes.

Photo: Glenn Slydal Johansen

The current capital requirement, including capital buffers, is 12,0 per cent core capital adequacy and 15.5 per cent capital adequacy. The unweighted tier 1 capital ratio was 4.0 (3.9) per cent, against the requirement of 3.0 percent.

The risk-weighted balance came to NOK 3.6 (3.5) billion. Capital adequacy is considered good.

LIQUIDITY

KLP Kommunekreditt AS is subject to strict rules with respect to the assets it may invest in. The portfolio of liquid investments comprises safe securities and deposits in other banks. The securities are certificates and bonds with very high credit quality, mainly covered bonds with an Aaa rating. Holdings of cash and cash equivalents have been used to pay out new loans and repay borrowings.

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

At the end of 2018 the Company had outstanding liquid investments in the form of interest-bearing securities amounting to NOK 0.7 (1.4) billion. Securities are recognised at market value. Deposits in other banks totalled NOK 0.6 (0.5) billion at the same point in time.

ALLOCATION OF THE PROFIT FOR THE YEAR

KLP Kommunekreditt AS's financial statements for 2018 show a total net profit of NOK 29.0 million. The Board of Directors proposes that a group contribution of NOK 22.1 million be paid to KLP. NOK 17.0 million will be received from KLP in return as a group contribution without any tax effect. Net profit and group contribution will be transferred to other owners' equity.

ABOUT THE FINANCIAL STATEMENTS

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

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

To provide for good quality in the financial reporting, detailed plans are produced for each reporting period, with a clear allocation of responsibilities and tasks. Valuations of the Company's assets and liabilities are documented in writing.

RATING

The rating agencies' assessment of KLP Kommunekreditt AS and the KLP Group is important for the Company's borrowing terms. The Company has engaged Moody's to credit rate the Company's bonds. All covered bonds issued have been given a rating of Aaa.

RISK MANAGEMENT

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

It has established its own guidelines for the most important individual risks (liquidity, credit, market, operational and compliance risk) and an overall policy for risk management, which includes principles, organisation, limits, etc. for the Bank's overall risk. The risk policies are adopted by the Board of Directors and are reviewed at least once a year. The policies are of an overarching nature and are complemented by procedures, rules, and instructions determined at the administrative level.

The Company aims to maintain a low level of operational risk, and to be characterised by a high level of professional competence, solid routines and efficient operations.

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

The boards of KLP Banken, KLP Bankholding, KLP Kommunekreditt and KLP Boligkreditt have appointed a joint risk committee. Based on the total assets, this is not required by law. The Risk Committee deals with matters specifically related to risk issues in the KLP Banken Group companies and has an advisory function to the Board of KLP Kommunekreditt AS.

THE WORK OF THE BOARD OF DIRECTORS

The Board of Directors held seven board meetings in 2018. For an overview of the remuneration paid to members of the Company's Board and management, see Note 17. The Board comprised two women and two men in 2018.

CORPORATE GOVERNANCE

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

The Board of Directors sets the policies for the Company's activities.

The CEO is in charge of the day-to-day management of the Company in accordance with instructions issued by the Board of Directors.

A description of KLP Banken's corporate governance is available on the KLP website (klp.no/om-klp).

WORKING ENVIRONMENT AND ORGANISATION

There are no direct employees in KLP Kommunekreditt AS. The Company's governance and management are handled by people employed in KLP Banken AS.

A management agreement has been entered into with KLP Banken AS with respect to administration, IT support, finance and risk management, as well as borrowing and liquidity management.

As part of the KLP Group, KLP Kommunekreditt AS complies with the Group's guidelines on equality and diversity, whose objectives, initiatives and activities take account of the basis for discrimination described in the legislation. A central working group has drawn up internal targets for equality and diversity.

EXTERNAL ENVIRONMENT

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

SOCIAL RESPONSIBILITY

As part of the KLP Group, KLP Kommunekreditt AS aims to contribute to sustainable investments and responsible business operations. Social responsibility is of strategic importance for KLP. This is manifested through actions linked to the Group's business. KLP has signed the UN Global Compact, and is thereby committed to working for human rights, workers' rights and the environment, and against corruption. A more detailed descriptions of targets, measures and results can be found on the KLP website, klp.no/samfunnsansvar (in Norwegian, but see also www.klp.no/english/corporate-responsibility).

OUTLOOK

Together with KLP, KLP Kommunekreditt has a good position in the market for public lending. Its presence in the market contributes to competition and so improves access to long-term, low-cost financing. Overall growth over the past few years shows that the market position has been strengthened.

High credit quality in the loan portfolios helps KLP Kommunekreditt AS to obtain the most favourable borrowing terms possible. The authorities' regulation of banks and financial institutions means that a number of regulatory requirements with respect to capital and liquidity have to be satisfied. This requires regular earnings that makes it possible to meet the requirements.

The market for loans to the municipal sector is still growing and a large portion of the loans taken are financed in the securities market rather than in the financial institutions. KLP Kommunekreditt AS is well capitalised and has an advantage as a stable and long-term lender in a market characterised by low risk. It will be the general trend in the financial markets that determines the extent to which KLP Kommunekreditt AS can finance its lending activities on terms that make it possible to achieve sufficient profitability. Norwegian municipalities have a good and extensive range of services to the population, and this is constantly developing. It is highly likely that demand for loans in the municipal sector and for projects with municipal guarantees and ownership will continue to grow in the years ahead, whatever the reforms to local government structure or responsibilities.

The Board of Directors assumes that there will still be a need for a significant element of long-term financing in the future over and above what the securities market can offer to public-sector borrowers. KLP Kommunekreditt AS and KLP together aim to be a key player which offers loans for investment purposes in the public sector.

Oslo, 13 March 2019
The Board of Directors of KLP Kommunekreditt AS

SVERRE THORNES
Chair

AAGE E. SCHAANNING
Deputy Chair

INGRID AUNE

AUD NORUNN STRAND

CARL STEINAR LOUS
Director

Income Statement

KLP KOMMUNEKREDITT AS

NOTE	NOK THOUSANDS	01.01.2018 -31.12.2018	01.01.2017 -31.12.2017
	Interest income, amortised cost	351 048	381 043
	Interest income at fair value	155 446	165 847
10	**Total interest income**	**506 494**	**546 889**
	Interest expense, amortised cost	-269 163	-269 088
	Interest expense at fair vaulue	-171 790	-195 666
10	**Total interest costs**	**-440 953**	**-464 754**
10	**Net interest income**	**65 541**	**82 135**
5	Net gain/(loss) on financial instruments	-12 484	-5 006
	Total net value change and gain/loss on currency and securities held for trading	**-12 484**	**-5 006**
27	Other operating expenses	-15 737	-17 251
16	Net loan losses	-5	0
	Total operating expenses	**-15 742**	**-17 251**
	Operating profit/loss before tax	**37 315**	**59 878**
23	Tax on ordinary income	-8 364	-14 303
	Income for the year	**28 951**	**45 575**
	Other comprehensive income	0	0
	Other comprehensive income for the year after tax	**0**	**0**
	COMPREHENSIVE INCOME FOR THE YEAR	**28 951**	**45 575**
	ALLOCATION OF INCOME		
	Allocated to/from retained earnings	-28 951	-45 575
	TOTAL ALLOCATION OF INCOME	**-28 951**	**-45 575**
	Total profit in % of total assets	0.16 %	0.25 %

Balance Sheet

KLP KOMMUNEKREDITT AS

NOTE	NOK THOUSANDS	31.12.2018	31.12.2017
	ASSETS		
6,11,30	Loans to and receivables from credit institutions	649 795	489 485
6,11	Loans to and receivables from customers	16 758 620	16 321 451
6,7,8	Fixed-income securities	727 246	1 436 406
6,9	Financial derivatives	62 461	87 847
28	Other assets	8 122	3 503
	TOTAL ASSETS	**18 206 245**	**18 338 692**
	LIABILITIES AND OWNERS' EQUITY		
	LIABILITIES		
6,18	Liabilities to credit institutions	430 208	275 170
6,19	Liabilities created on issuance of securities	16 909 271	17 148 732
6,9	Financial derivatives	105 403	176 243
23	Deferred tax	4 810	1 563
25	Other liabilities	6 784	15 712
25	Provisions for accrued costs and liabilities	0	332
	TOTAL LIABILITIES	**17 456 476**	**17 617 753**
	OWNERS' EQUITY		
	Share capital	362 500	362 500
	Share premium	312 500	312 500
	Other owners' equity	74 769	45 939
	TOTAL OWNERS' EQUITY	**749 769**	**720 939**
	TOTAL LIABILITIES AND OWNERS' EQUITY	**18 206 245**	**18 338 692**

Oslo, 13 March 2019
The Board of Directors of KLP Kommunekreditt AS

SVERRE THORNES
Chair

AAGE E. SCHAANNING
Deputy Chair

INGRID AUNE

AUD NORUNN STRAND

CARL STEINAR LOUS
Director

Statement of Owners' Equity

KLP KOMMUNEKREDITT AS

2018 NOK THOUSANDS	Share capital	Share premium	Other equity	Total owners' equity
Owners' equity 31 December 2017	362 500	312 500	45 939	720 939
Changes in accounting principles (IFRS 9)	0	0	-158	-158
Tax effect of change of accounting principle	0	0	36	36
Owners' equity 1 Janyary 2018	**362 500**	**312 500**	**45 818**	**720 818**
Income for the year	0	0	28 951	28 951
Other comprehensive income	0	0	0	0
Comprehensive income for the year	**0**	**0**	**28 951**	**28 951**
Group contribution received	0	0	44 491	44 491
Group contribution paid after tax	0	0	-44 491	-44 491
Total transactions with the owners	**0**	**0**	**0**	**0**
Owners' equity 31 December 2018	**362 500**	**312 500**	**74 769**	**749 769**

2017 NOK THOUSANDS	Share capital	Share premium	Other equity	Total owners' equity
Owners' equity 1 January 2017	362 500	312 500	66 864	741 864
Income for the year	0	0	45 575	45 575
Other comprehensive income	0	0	0	0
Comprehensive income for the year	**0**	**0**	**45 575**	**45 575**
Dividends paid	0	0	-66 500	-66 500
Group contribution received	0	0	30 565	30 565
Group contribution paid after tax	0	0	-30 565	-30 565
Total transactions with the owners	**0**	**0**	**-66 500**	**-66 500**
Owners' equity 31 December 2017	**362 500**	**312 500**	**45 939**	**720 939**

NOK THOUSANDS	Number of shares	Par value	Share capital	Share premium	Other equity	Total
Equity at 1 January 2018	3 625 000	0.1	362 500	312 500	45 818	720 818
Changes in the period 1 January - 31 December	-	-	0	0	28 951	28 951
Equity at 31 December 2018	**3 625 000**	**0.1**	**362 500**	**312 500**	**74 769**	**749 769**

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

Statement of Cash Flows

KLP KOMMUNEKREDITT AS

NOTE	NOK THOUSANDS	01.01.2018 -31.12.2018	01.01.2017 -31.12.2017
	OPERATIONAL ACTIVITIES		
	Payments received from customers – interest, commission & charges	354 411	383 175
	Receipts on loans to customers	-1 818 593	-788 790
	Payment for the credit card portfolio	1 231 153	1 598 555
	Disbursements on operations	-16 005	-24 131
	Net receipts/payments on other operating activities	-7 568	1 160
	Net interest from investment accounts	5 020	4 282
	Income tax paid	0	0
	Net cash flow from operating activities	**-251 582**	**1 174 251**
	INVESTMENT ACTIVITIES		
	Payments on purchase of securities	-1 079 547	-943 836
	Receipts on sales of securities	1 780 991	1 228 843
	Interest received from securities	20 726	23 698
	Net cash flow from investment activities	**722 170**	**308 705**
	FINANCING ACTIVITIES		
19	Receipts on loans	3 300 000	3 517 000
19	Repayment and redemption of loans	1 765 000	-1 039 193
19	Payment for loan buybacks	-5 290 000	-3 525 000
	Change in internal funding	155 000	0
	Net payment of interest on loans	-233 760	-283 233
	Dividends paid	0	-66 500
	Group contribution payment made	-14 086	-10 188
	Net cash flow from financing activities	**-317 846**	**-1 407 114**
	Net cash flow during the period	**152 742**	**75 842**
	Cash and cash equivalents at start of period	478 652	402 810
30	Cash and cash equivalents at end of period	631 394	478 652
	Net receipts/disbursements (-) of cash	**152 742**	**75 842**

Declaration Pursuant to the Norwegian Securities trading act, Section 5-5

KLP KOMMUNEKREDITT AS

We hereby declare that, to the best of our knowledge, the annual financial statements for the period from 1 January to 31 December 2018 have been prepared in accordance with applicable accounting standards, and that the information in the financial statements gives a true and fair view of the Company's assets, liabilities, financial position and overall profit or loss.

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

Oslo, 13 March 2019
The Board of Directors of KLP Kommunekreditt AS

SVERRE THORNES
Chair

AAGE E. SCHAANNING
Deputy Chair

INGRID AUNE

AUD NORUNN STRAND

CARL STEINAR LOUS
Director

Notes to the Accounts

KLP KOMMUNEKREDITT AS

NOTE 1 General information

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

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

KLP Kommunekreditt AS is registered and domiciled in Norway. KLP Kommunekreditt AS has its head office at Beddingen 8 in Trondheim.

The Company is a wholly-owned subsidiary of KLP Banken AS, which is in turn wholly owned by Kommunal Landspensjonskasse (KLP) through the holding company, KLP Bankholding AS. KLP is a mutual insurance company.

The annual financial statements are available at klp.no.

NOTE 2 Summary of the most important accounting principles

Below is a description of the most important accounting principles used in preparation of the financial statements for KLP Kommunekreditt AS. These principles are used in the same way in all periods presented unless otherwise indicated.

2.1 FUNDAMENTAL PRINCIPLES

The financial statements for KLP Kommunekreditt AS have been prepared in accordance with international accounting standards (IFRS) and interpretations from the IFRS interpretations committee, as adopted by the EU. The Norwegian Accounting Act and the Regulations concerning annual accounts for banks, mortgage firms and finance companies (the Accounting Regulations) contain individual requirements for additional information which is not required under IFRS. These supplementary information requirements have been incorporated into the notes to the financial statements.

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

- Financial assets and liabilities (including financial derivatives) are valued at fair value through profit or loss
- Financial assets and liabilities are valued in accordance with the rules on fair value hedging

To prepare the accounts in accordance with IFRS, management has to make accounting estimates and approximate valuations. This will affect the value of the Company's assets and liabilities, income and expenses recognised in the financial statements. Actual figures may deviate from estimates used. Areas in which discretionary valuations and estimates of material significance for the Company have been shown are described in Note 3.

All amounts are presented in NOK thousands without decimals unless otherwise stated.

The financial statements have been prepared in accordance with the going concern assumption.

2.1.1. Changes in accounting principles and information

a) New and changed standards adopted by the Company in 2018:

IFRS 9 Financial instruments
For information on the new standard and the effect implementation has had on the company, please refer to section 2.3.1.

IFRS 15 Revenue from Contracts with Customers
The new standard deals with revenue recognition. The standard calls for analysis of the customer contract, identifying the individual performance obligations. A performance obligation may be a good or service. Income is recognised when a customer acquires control over a good or service, and thus has the opportunity to decide on the use of, and may receive the advantages from, the good or the service. The standard replaces IAS 18 Revenue and IAS 11 Construction Contracts and associated interpretations. The transition to IFRS 15 has not had any substantial effect on the company's accounting figures because revenues are covered by other standards.

NOTE 2 Summary of the most important accounting principles - cont.

b) Standards, changes to and interpretations of existing standards that have not come into effect and where the company has not chosen early application.

The company is implementing the IFRS 16 standard from 1 January 2019. The standard will result in more leases than before being capitalised, as the distinction between operational and financial leasing has been removed. Under this standard, the right to use a leased object is an asset, and an obligation to pay a lease is a liability to be shown on the balance sheet. The exceptions are short-term and low-value leases. The accounting treatment for lessors will not be significantly altered. The company will implement the standard from 2019. The transition to IFRS 16 will not have any material impact on the company's accounting figures, since it doesn't have any material leases.

There are no other IFRS standards or IFRIC interpretations not yet in force that are expected to have a significant impact on the company's financial statements.

2.2 FOREIGN CURRENCY

2.2.1 Functional currency and presentation currency

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

2.3 FINANCIAL INSTRUMENTS

2.3.1 Changes in accounting principles

KLP Kommunekreditt has used IFRS 9 and IFRS 7R, which apply for the first time to years beginning 1 January 2018 and after.

As permitted in the transitional provisions in IFRS 9, KLP Kommunekreditt AS have chosen not to restate comparative figures. The comparative figures for 2017, reported in accordance with IAS 39, are therefore not comparable with the information presented for 2018. Differences arising from the transition to IFRS 9 are charged directly to other equity as of 1 January 2018.

2.3.1.1 Changes in classification and measurement

Classification and measurement of financial assets in accordance with IFRS 9, apart from equity instruments and derivatives, are based on a combination of the unit's business model for the management of assets and the contractual cash flow characteristics of the instrument.

Measurement categories for financial assets according to IAS 39 (fair value through profit and loss, available for sale, held-to-maturity and loans and receivables) have been replaced by:

- Debt instruments at amortised cost
- Debt instruments at fair value through other comprehensive income, with gains or losses recycled through profit or loss on derecognition.
- Equity instruments at fair value through other comprehensive income, without recycling gains or losses on derecognition
- Financial assets at fair value through profit or loss

Accounting for financial liabilities is largely unchanged, except that for liabilities specifically recognised at fair value, changes in fair value due to own credit risk are recognised through other income and expenses without recycling.

2.3.1.2 Changes in the impairment model

Earlier rules (IAS 39) meant that the company raised provisions for losses based on an 'incurred loss' model, i.e. the loss provisions were conditional on objective evidence of impairment on the reporting date. Under the new rules in IFRS 9, the company has to raise provisions for expected losses. The new principles apply to financial assets that are debt instruments, and which are measured at amortised cost or fair value with value changes recognised through other comprehensive income. Loan commitments, financial guarantee contracts and leases due are covered.

The measurement of impairment for expected loss depends on whether the credit risk has increased significantly since initial recognition. Upon initial recognition, and when the credit risk has not increased significantly after initial recognition, provisions are based on 12 months' expected loss (Stage 1). If the credit risk has increased significantly since initial recognition, but there is no objective evidence of impairment, write-downs are based on expected loss over the lifetime (Stage 2). The individual loss provisions under IAS 39 are not affected by the transition to IFRS 9 (Stage 3).

Information on the effects of the transition to IFRS 9 is given in note 2.3.1.3 to 2.3.1.7 below. Note 2.6.2 «Significant accounting policies related to financial instruments», sets out the accounting policies for financial instruments applied from 1 January 2018 (as well as previous IAS 39 accounting policies for financial instruments applied in the comparative period).

2.3.1.3 Classification and measurement of financial instruments

The table below show the measurement category and book value of financial instruments in accordance with IAS 39 and IFRS 9 at the time of transition.

FINANCIAL INSTRUMENTS	Classification according to IAS 39	Carrying amount according to IAS 39 (MNOK)	Classification according to IFRS 9	Carrying amount according to IFRS 9 (MNOK)
Loans to and receivables from credit institutions	Loans and receivables	489	Amortised cost	489
Loans to and receivables from customers	Loans and receivables	11 966	Amortised cost	11 966
	Loans and receivables (hedging)	4 356	Amortised cost (hedging)	4 356
Fixed-income securities	Fair value through profit or loss (FVO)	1 436	Fair value through profit or loss	1 436
Financial derivatives (assets)	Fair value through profit or loss	88	Fair value through profit or loss	88
Liabilities created on issuance of securities	Amortised cost	-15 503	Amortised cost	-15 503
	Amortised cost (hedging)	-1 921	Amortised cost (hedging)	-1 921
Financial derivatives (liabilities)	Fair value through profit or loss	-176	Fair value through profit or loss	-176
Unused credit ,financial gurantees and loan commitments [1]	Amortised cost	0	Amortised cost	0

[1] Unused credit ,financial gurantees and loan commitments are contigent liabilities.

As shown in the table, there are no material changes regarding calssification and measurement of financial instruments or liabilities.

NOTE 2 Summary of the most important accounting principles - cont.

2.3.1.4 Reconciliation of the book value of financial assets between IAS 39 and IFRS 9

KLP Kommunekreditt has carried out a review of the business model for the management of financial assets and an analysis of their cash flow characteristics

Please see note note 2.4.2 for more detailed information on the new classification requirements under IFRS 9.

The table below reconciles the carrying amounts for financial assets from previous measurement categories under IAS 39 against the new measurement categories at the transition to IFRS 9 from 1 January 2018:

NOTE	FINANCIAL ASSETS FIGURES IN MNOK	Carrying amount according to IAS 39 31 December 2017	Change as a result of reclassific ation	Change as a result of revaluation	Carrying amount according to IFRS 9 1 January 2018
	AMORTISED COST				
	Loans to and receivables from credit institutions	489	0	0	489
	Loans to and receivables from customers	11 966	0	0	11 966
	Loans to and receivables from customers (hedging)	4 356	0	0	4 356
	Total effect at amortised cost	**16 811**	**0**	**0**	**16 811**
	FAIR VALUE WITH VALUE CHANGES THROUGH PROFIT OR LOSS				
	LOANS TO AND RECEIVABLES FROM CUSTOMERS				
A	Fixed-income securities	1 436	0	0	1 436
	Financial derivatives	88	0	0	88
	Total effect on fair value through profit or loss	**1 524**	**0**	**0**	**1 524**
	Total financial assets	**18 335**	**0**	**0**	**18 335**
	FINANCIAL LIABILITIES				
	AMORTISED COST				
	Liabilities created on issuance of securities	15 503	0	0	15 503
	Liabilities created on issuance of securities (hedging)	1 921	0	0	1 921
	Total effect at amortised cost	**17 424**	**0**	**0**	**17 424**
	FAIR VALUE WITH VALUE CHANGES THROUGH PROFIT OR LOSS				
	Financial derivatives	176	0	0	176
	Total effect on fair value through profit or loss	**176**	**0**	**0**	**176**
	Total financial liabilities	**17 600**	**0**	**0**	**17 600**

NOTE A

Interest-bearing securities make up parts of the Bank's liquidity reserve. The portfolio is managed and measured on a fair value basis and has to be classified under IFRS 9 at fair value with changes in value through profit or loss.

2.3.1.5 Reconciliation of loss provisions between IAS 39 and IFRS 9

The table below shows a reconciliation between the loan loss provisions measured according to the IAS 39 'incurred loss' model against the IFRS 9 'expected loss' model at 1 January 2018 for the company:

CHANGE IN PROVISIONS FIGURES IN MNOK	Loss provision according to IAS 39 on 31 December 2017	Change as a result of reclassification	Change as a result of revaluation	Loss provision according to IFRS 9 on 1 January 2018
Loans and receivables under IAS 39 at amortised cost under IFRS 9	0	0	0	0
Financial gurantees and loan commitments	0	0	0	0
Total change in loss provisions	**0**	**0**	**0**	**0**

2.3.1.6 Distribution of loss provisions per Stage (1 January 2018)

The table below shows the loss provisions, broken down into the different stages at the transition to IFRS 9:

SPECIFICATION OF LOSS PROVISIONS FIGURES IN MNOK	Stage 1	Stage 2	Stage 3	Loss provision according to IFRS 9 on 1 January 2018
Loans and receivables under IAS 39 at amortised cost under IFRS 9	0	0	0	0
Financial gurantees and loan commitments	0	0	0	0
Total provisions for losses	**0**	**0**	**0**	**0**

2.3.1.7 Effect of the transition to IFRS 9 on equity

The implementation effect on the company's equity is NOK 0 million.

2.4 SUMMARY OF IMPORTANT ACCOUNTING POLICIES RELATED TO FINANCIAL INSTRUMENTS

The most important accounting policies relating to financial instruments used from 1 January 2018 and in the period before 1 January 2018 are described below.

2.4.1 Recognition and derecognition

Financial assets and liabilities on the balance sheet on the date when the KLP Kommunekreditt becomes party to the instrument's contractual terms and conditions. Regular purchases and sales of investments are recognised on the date of the agreement. Financial assets are removed from the balance sheet when the rights to receive cash flows from the investment expire or when these rights have been transferred and the KLP Kommunekreditt has essentially transferred the risk and the potential gain from ownership. Financial liabilities are derecognised when the rights to the contractual conditions have been fulfilled or cancelled or have expired.

2.4.2. Classification and subsequent measurement

Financial assets – principle applied from 1 January 2018

Financial assets are classified on initial recognition in one of the following categories:

- Amortised cost
- Fair value through profit or loss

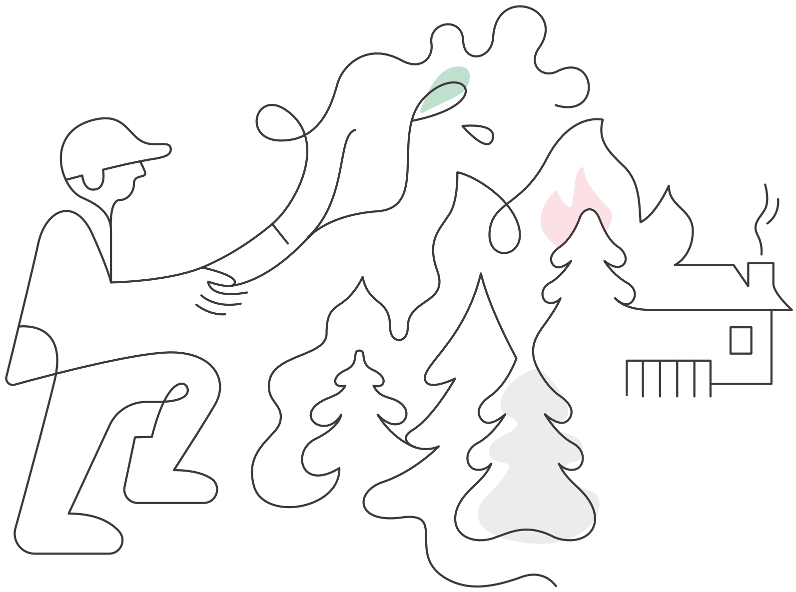
A financial asset is measured at amortised cost if both of the following criteria are met and the financial asset has not been reported at fair value through profit or loss (the 'fair value option'):

- The financial asset is held in a business model whose purpose is to keep financial assets in order to receive the contractual cash flows (the 'business model criterion'), and
- At certain times, the contractual terms of the financial asset lead to cash flows that only include repayments and interest on the outstanding principal amount (the 'cash flow criterion').

The business model criterion

KLP Kommunekreditt AS assesses the target with a business model in which an asset is held at the portfolio level, because this best reflects the way the business is managed, and information is given to management. The information that is assessed includes:

- Explicit guidelines and goals for the portfolio and operation of these guidelines in practice. In particular, if the management's strategy and goal is to keep the asset in order to collect the contractual cash flows, maintain a specific interest profile, and match duration between financial assets and the corresponding financial



NOTE 2 Summary of the most important accounting principles - cont.

liabilities used to finance these assets, or realise cash flows through the sale of the assets;
- How the return on the portfolio is assessed and reported to management;
- The risks that affect the performance of the business model (and the financial assets held within this business model) and how these risks are managed;
- How the managers are compensated, e.g. whether the compensation is based on the fair value of the managed assets or the total contractual cash flows; and
- Frequency, volume and date of sale in previous periods, the reasons for such sales and expectations of future sales activity. Information about the sales activities is not however assessed in isolation, but as part of an overall assessment of how the company's stated goals for managing the financial assets are achieved and how the cash flows are realised

Assessment of the business model is based on reasonable future scenarios without regard to 'worst case' or 'stress case' scenarios. If cash flows after initial recognition are realised in a way that is different from the company's original expectations, the classification of the remaining financial assets in the relevant business model does not change, but the information is incorporated into the assessment of the newly issued or acquired financial assets in the future.

Cash flow criterion
In this evaluation the principal amount is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as payment for the time value of money and for credit risk related to outstanding principal in a specific period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative expenses), as well as a profit margin.

In assessing whether the contractual cash flows are only repayments and interest on the outstanding principal amount, KLP Kommunekreditt AS consider the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual clause that can change the date or the amount of the contractual cash flows so that it will not meet this condition. In assessing this the company considers:

- Contingent events that would change the amount and the date of the cash flows;
- Influence on functions;
- Advance payments and extended terms
- Terms that limit the company's claim to cash flows from specific assets (e.g. 'nonrecourse asset arrangements')
- Terms that change the assessment of the time value of money - e.g. periodic resetting of interest rates.

All other financial assets are measured at fair value with changes in value through profit/loss, so:
- Assets with contractual cash flows that do not meet the cash flow criterion; and/or
- Assets held in a different business model than 'held to collect contractual cash flows'; or
- Assets designated at fair value through profit or loss (the 'fair value option').

KLP Kommunekreditt may designate a debt instrument that meets the criteria to be measured at amortised cost to be reported at fair value through profit or loss if this eliminates or significantly reduces inconsistencies in measurement ('accounting mismatches'). This option is also available under IAS 39.

Impairment model
The impairment model for losses on loans and receivables is based on expected credit losses. The impairment model defines default as "*a payment that is more than 90 days overdue, or an account that is continuously overdrawn for a minimum of 90 days (by at least NOK 500)*". How the impairment loss is to be measured is determined for each individual stage and the model uses the effective interest rate method. A simplified approach is allowed for financial assets that do not have a significant financial component (e.g. trade receivables). Upon initial recognition, and in cases where the credit risk has not increased significantly after initial recognition, provision has to be made for credit losses that are expected to occur over the next 12 months (Stage 1). If the credit risk has increased significantly, the provisions should correspond to the expected credit losses over the expected useful life (Stage 2). If there is a loss event, impairments are raised equal to the expected loss on the commitment throughout its life (Stage 3).

In the company, the assessment of what is considered to be a significant change in credit risk for mortgage loans is based on a combination of quantitative and qualitative indicators and 'backstops'.

For the products where the company has not developed its own PD and LGD (loss given default) models, the loss ratio method is used. Here a change in risk rating of at least one grade from initial recognition to the reporting date is considered to be a significant increase in credit risk.

For more information on loan losses, please refer to note 16.

Financial assets – principle applied before 1 January 2018
Financial assets are classified on initial recognition in one of the following categories:

- Financial assets at fair value through profit or loss
- Lending and receivables recognised at amortised cost

Financial assets at fair value through profit or loss:
Within this category it may be mandatory or a deliberate choice to recognise attribution at fair value with value changes through profit or loss. The first category includes the KLP Kommunekreditt AS financial derivatives, unless they are part of a hedge.

Lending and receivables recognised at amortised cost:
Loans and receivables are financial assets that are not derivatives and have fixed or determinable payments and are not traded on an active market. The category includes loans and receivables as well as bonds that are not defined as assets valued at fair value through profit or loss.

Impairment model for assets valued at amortised cost:
If there is objective evidence of impairment, a write-down is carried out. In assessing whether there is impairment, weight is attached to whether the issuer/debtor has significant financial difficulties and whether there is any breach of contract, including default. The write-down is calculated by comparing the new, anticipated cash flows with the original cash flows discounted by the original effective interest rate (assets with fixed interest) or by the effective interest rate at the time of measurement (assets with variable interest).

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

Financial derivatives and hedging
IFRS 9 allows firms to retain the hedging rules under IAS 39, which the the company has chosen to do. Financial derivatives are capitalised at fair value at the time the derivative contract is struck. On subsequent measurement the derivatives are recognised at fair value and are presented as an asset if the value is positive and a liability if the value is negative. Recognition of associated gains and losses depends on whether the derivative has been identified as an hedging instrument and in which type of accounting hedge the derivative is included.

For derivatives not included in hedging relationships, gains and losses are recognised as net value changes on derivatives and foreign exchange.
In the financial statements, they are included in the line 'Net gain/loss on financial instruments'. These fall into the category of financial assets at fair value reported through profit or loss.

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

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

Financial liabilities

Under both IAS 39 and IFRS 9, financial liabilities are measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss:

This classification applies to derivatives and financial liabilities designated as such upon initial recognition. The company has designated certain liabilities at fair value through the income statement, because this reduces or eliminates inconsistencies in measurement ('accounting mismatches')

- Financial guarantees and loan commitments

Other financial liabilities recognised at amortised cost:
The category includes deposits from customers and credit institutions with no interest rate hedging and other financial liabilities not designated as liabilities measured at fair value through profit or loss.

Presentation, classification and measurement in the balance sheet and the income statement

The tables below show and compare the presentation, classification and subsequent measurement of each balance sheet item under IAS 39 (before 1 January 2018) and under IFRS 9 (from 1 January 2018):

FINANCIAL INSTRUMENTS	Classification according to IAS 39	Classification according to IFRS 9
Loans to and receivables from credit institutions	Amortised cost (loans and receivables)	Amortised cost
Loans to and receivables from customers	Amortised cost (loans and receivables)	Amortised cost
	Loans and receivables (hedging)	Amortised cost (hedging)
Fixed-income securities	Fair value through profit or loss (FVO)	Fair value through profit or loss
Financial derivatives (assets)	Fair value through profit or loss	Amortised cost
Liabilities created on issuance of securities	Amortised cost	Amortised cost
	Amortised cost (hedging)	Amortised cost (hedging)
Financial derivatives (liabilities)	Fair value through profit or loss	Fair value through profit or loss

As can be seen from the table, there are no significant changes in presentation, classification and measurement of financial assets or financial liabilities for the company.

2.4.3 Netting

Financial assets and liabilities are presented net in the statement of financial position when there is an unconditional offsetting entitlement that can be legally enforced and the intention is to settle net, or realise the asset and liability simultaneously. This applies to periods both before and after 1 January 2018.

2.4.4 Modification

When the contractual cash flows from a financial asset are renegotiated or otherwise amended, and the renegotiation or change does not lead to derecognition of the financial asset, the gross book value of the financial asset is recalculated and a gain or loss is recognised in the income statement. The gross book value of the financial asset is recalculated as the present value of the renegotiated or amended contractual cash flows, discounted at the original effective interest rate for the financial asset. Any costs or fees incurred adjust the book value of the modified financial asset and are written down over the remaining lifetime of the changed financial asset.

2.5 CASH AND CASH EQUIVALENTS

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

2.6 FINANCIAL LIABILITIES

The Company's financial liabilities comprise liabilities to credit institutions and covered bonds issued.

2.6.1 Liabilities to credit institutions

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

2.6.2 Covered bonds issued

In the first instance covered bonds issued are recognized at fair value on take-up adjusted for purchase costs, i.e. nominal adjusted for any premium/discount on issue. On subsequent valuation the bonds are valued at amortized cost by the effective interest method. The interest costs are shown in the line "Interest costs and similar costs" in the income statement. Bonds with fixed interest are recognized in accordance with the rules on fair value hedging inasmuch as they are hedged against change in interest rate level

2.7 OWNERS' EQUITY

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

2.7.1 Owners' equity contributed

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

2.7.2 Retained earnings

Retained earnings comprise other owners' equity. Ordinary company law rules apply for any allocation or use of the retained earnings.

2.8 PRESENTATION OF INCOME IN THE ACCOUNTS

Income on sale of goods and services is valued at fair value of the consideration, net of deductions for VAT and any discounts.

2.8.1 Interest income/expenses

Interest income and interest expenses associated with all interest-bearing financial instruments valued at amortised cost and fair value through other comprehensive income are taken to income using the effective interest rate method. Setup fees for lending are included in the amortisation and taken to income over the duration of the loan. This is true except for:

- Purchased or credit-impaired financial assets. For these assets, the company will apply the credit-adjusted effective interest rate on the amortised cost of the financial asset from initial recognition.
- Financial assets that are not purchased or credit-impaired financial assets, but which have subsequently become such. Here, the effective interest rate is applied to the amortised cost of the financial asset in subsequent reporting periods.

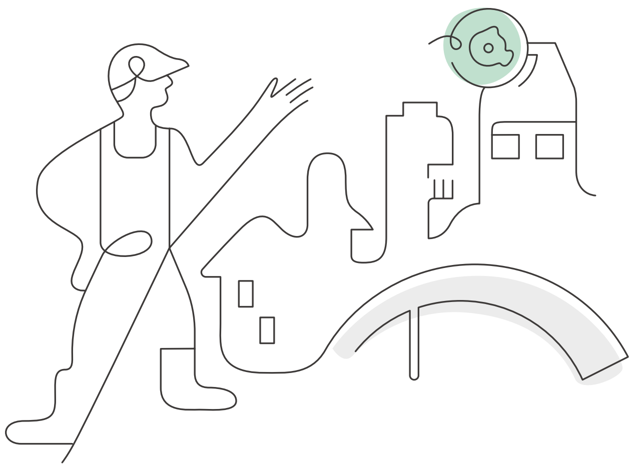
For interest-bearing financial investments and derivatives measured at fair value through the income statement, interest income is classified as "'Interest income and similar income, fair value', while other value changes are classified as 'Net gain or loss on financial investments'.

2.9 TAX

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

The company is a part of a financial services group and a tax group. With exception for the limitations pursuant to the Financial Institutions Act, any tax-related surplus may be submitted in their entirety to parent company and subsidiaries as group contribution with tax effect.

The company pays no benefits to employees and is not covered by the rules on financial activity tax. The company's nominal income tax rate in 2018 is 23 per cent, while deferred tax is calculated by 22 per cent as the income tax rate is reduced by one percentage point in 2019.



NOTE 3 Important accounting estimates and valuations

The company/group prepares estimates and assumptions about future situations. These are continuously evaluated and are based on historical data and expectations concerning probable future events considered on the basis of data available at the time of presentation of the financial statements. The estimates may be expected to differ from the final outcome.

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

Financial instruments are assessed for impairment for expected losses. The method for measuring impairment for expected loss depends on whether the credit risk has increased significantly since initial recognition. Upon initial recognition, and when the credit risk has not increased significantly after initial recognition, provisions are based on 12 months' expected loss (step 1). If the credit risk has increased significantly since initial recognition, but there is no objective evidence of impairment, write-downs are based on expected loss over the lifetime (step 2). If the credit risk has increased significantly and there is objective evidence of impairment, a provision should be raised for the expected loss over its lifetime (step 3).

In the company, the assessment of what is considered to be a significant change in credit risk for home mortgage loans is based on a combination of quantitative and qualitative indicators and 'backstops'. The most important driver for a significant change in credit risk for home mortgage loans in the group is a change in the probability of default (PD) from the initial recognition up to the reporting date. A relative change in PD of more than 2.5 is considered to be a significant change in credit risk. The change in PD must also be at least 0.6 percentage points for the change to be considered significant.

For the products where the company/group has not developed its own PD and LGD (loss given default) models, the simplified loss ratio method is used. Here a change in risk rating of at least one grade from initial recognition to the reporting date is considered to be a significant increase in credit risk. For more information about the company's calculation of losses, refer to Note 16.

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

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

NOTE 4 Segment information

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

NOTE 5 Net gain/(loss) on financial instruments

NOK THOUSANDS	01.01.2018 -31.12.2018	01.01.2017 -31.12.2017
Net gain/(loss) on fixed-income securities	-787	4 230
Net gain/(loss) financial derivatives and realized amortization linked to lending	-13	0
Net gain/(loss) financial derivatives and realized repurchase of own debt	-11 684	-9 236
Total net gain/(loss) on financial instruments	**-12 484**	**-5 006**

NOTE 6 Categories of financial instruments

NOK THOUSANDS	31.12.2018	
	Capitalized value	Fair value
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS		
Fixed-income securities	727 246	727 246
Financial derivatives	62 461	62 461
Total financial assets at fair value through profit and loss	**789 708**	**789 708**
FINANCIAL ASSETS FAIR VALUE HEDGING		
Lending to Norwegian municipalities	3 429 602	3 464 954
Total financial assets fair value hedging	**3 429 602**	**3 464 954**
FINANCIAL ASSETS AT AMORTIZED COST		
Loans to and receivables from credit institutions	649 795	649 795
Lending to Norwegian municipalities	13 329 019	13 316 652
Total financial assets at amortized cost	**13 978 813**	**13 966 447**
TOTAL FINANCIAL ASSETS	**18 198 123**	**18 221 109**
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS		
Financial derivatives	105 403	105 403
Total financial liabilities at fair value through profit and loss	**105 403**	**105 403**
FINANCIAL LIABILITIES FAIR VALUE HEDGING		
Covered bonds issued	1 886 974	1 904 665
Total financial liabilities fair value hedging	**1 886 974**	**1 904 665**
FINANCIAL LIABILITIES AT AMORTIZED COST		
Liabilities to credit institutions	430 208	430 208
Covered bonds issued	15 022 297	15 086 824
Total financial liabilities at amortized cost	**15 452 506**	**15 517 033**
TOTAL FINANCIAL LIABILITIES	**17 444 883**	**17 527 101**

NOK THOUSANDS	31.12.2017	
	Capitalized value	Fair value
FINANCIAL ASSETS AT FAIR VALUE HELD FOR TRADING		
Fixed-income securities	1 436 406	1 436 406
Total financial assets at fair value held for trading	**1 436 406**	**1 436 406**
FINANCIAL ASSETS AT FAIR VALUE USED FOR HEDGING		
Financial derivatives	87 847	87 847
Lending to Norwegian municipalities	4 355 849	4 396 440
Total financial assets at fair value used for hedging	**4 443 696**	**4 484 287**

NOTE 6 Categories of financial instruments - cont.

NOK THOUSANDS	31.12.2017	
	Capitalized value	Fair value
FINANCIAL ASSETS AT AMORTIZED COST		
Loans to and receivables from credit institutions	489 485	489 485
Lending to Norwegian municipalities	11 965 602	11 961 754
Total financial assets at amortized cost	**12 455 087**	**12 451 239**
TOTAL FINANCIAL ASSETS	**18 335 189**	**18 371 932**
FINANCIAL LIABILITIES AT FAIR VALUE USED FOR HEDGING		
Covered bonds issued	1 921 041	1 945 028
Financial derivatives	176 243	176 243
Total financial liabilities at fair value used for hedging	**2 097 284**	**2 121 271**
FINANCIAL LIABILITIES AT AMORTIZED COST		
Liabilities to credit institutions	275 170	275 170
Covered bonds issued	15 227 691	15 314 224
Total financial liabilities at amortized cost	**15 502 861**	**15 589 394**
TOTAL FINANCIAL LIABILITIES	**17 600 145**	**17 710 665**

	31.12.2018	31.12.2017
GAIN/LOSS FAIR VALUE HEDGING		
On the hedging object	-38 957	-35 916
On the hedged item attributable to hedged risk	38 957	35 916
GAIN AND LOSS IN FAIR VALUE HEDGING	**0**	**0**

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

THE DIFFERENT FINANCIAL INSTRUMENTS ARE THUS PRICED IN THE FOLLOWING WAY:

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

Fixed-income securities - other than government
Norwegian fixed-income securities except government are generally priced using prices from Nordic Bond Pricing. Those securities that are not included in Nordic Bond Pricing are priced theoretically. In theoretical price is based on the assumed present value on the sale of the position. A zero-coupon curve is used for discounting. The zero-coupon curve

NOTE 6 Categories of financial instruments - cont.

is asjusted upwards by means of a credit spread, which is to take account of the risk the bond entails. The credit spread is calculated on the basis of a spread curve taking account of the duration of the bond. Nordic Bond Pricing is the mainsource of spread curves. They provide company-specific curves for Norwegian saving banks, municipalities and energy. Saving banks have various spread curves based on total assets. For companies where Nordic Bond Pricing do not deliver spread curves, the Group use spread curves from three Norwegian banks. When spread curves are available from more than one of these banks, an equal-weighted average is used.

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

Fair value of loans to Norwegian local administrations
Fair value of lending without fixed interest rates is considered virtually the same as book value since the contract terms are continuously changed in step with market interest rates. Fair value of fixedrate loans is calculated by discounting contracual cash flows by the marked rate including a relevant risk-margin on the reporting date. This is valued in Level 2 in the valuation hierarchy, cf. note 7.

Fair value of loans to and receivables from credit institutions
All receivables from credit institutions (bank deposits) are at variable interest rates. Fair value of these is considered virtually the same as book value since the contract terms are continuously changed in step with market interest rates. This is valued in Level 2 in the valuation hierarchy, cf. note 7.

Fair value of liabilities to credit institutions
These transactions are valued using a valuation model, including relevant credit spread adjustments obtained from the market. This is valued in Level 2 in the valuation hierarchy, cf. note 7.

Liabilities created on issuance of securities
Fair value in this category is determined on the basis of internal valuation models based on external observable data. This is valued in Level 2 in the valuation hierarchy, cf. note 7.

NOTE 7 Fair value hierarchy

31.12.2018 NOK THOUSANDS	Level 1	Level 2	Level 3	Total
ASSETS BOOKED AT FAIR VALUE				
Fixed-income securities	59 902	667 344	0	727 246
Financial derivatives	0	62 461	0	62 461
Total assets at fair value	**59 902**	**729 805**	**0**	**789 708**
LIABILITIES BOOKED AT FAIR VALUE				
Financial derivatives (liabilities)	0	105 403	0	105 403
Total financial liabilities at fair value	**0**	**105 403**	**0**	**105 403**

31.12.2017 NOK THOUSANDS	Level 1	Level 2	Level 3	Total
ASSETS BOOKED AT FAIR VALUE				
Fixed-income securities	19 985	1 416 421	0	1 436 406
Financial derivatives	0	87 847	0	87 847
Total assets at fair value	**19 985**	**1 504 268**	**0**	**1 524 253**
LIABILITIES BOOKED AT FAIR VALUE				
Financial derivatives (liabilities)	0	176 243	0	176 243
Total financial liabilities at fair value	**0**	**176 243**	**0**	**176 243**

NOTE 7 Fair value hierarchy - cont.

Fair value should be a representative price based on what a corresponding asset or liability would have been traded for at normal market terms and conditions. Highest quality in regard to fair value is based on listed prices in an active market. A financial instrument is considered as listed in an active market if listed prices are simply and regularly available from a stock market, dealer, broker, industry group, price-setting service or regulatory authority, and these prices represent actual and regularly occurring transactions at arm's length.

LEVEL 1

Instruments in this level obtain fair value from listed prices in an active market for identical assets or liabilities that the entity has access to at the reporting date. Example instruments at Level 1 are stock market listed securities.

LEVEL 2

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

LEVEL 3

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

Note 6 discloses the fair value of financial assets and financial liabilities that are recognized at amortized cost. Financial assets measured at amortized cost comprise lending to and due to credit institutions, Norwegian municipalities and retail customers. The stated fair value of these assets is determined on terms qualifying for level 2. Financial liabilities recognized at amortized cost consist of debt securities issued and deposits. The stated fair value of these liabilities is determined by methods qualifying for level 2.

There have been no transfers between Level 1 and Level 2.

NOTE 8 Fixed-income securities

NOK THOUSANDS				31.12.2018
Debtor categories	**Acquisition cost**	**Unreal. gain/loss**	**Accr. int. not due**	**Market value**
Government/social security administration	59 906	-4	0	59 902
Credit enterprises	666 822	-536	1 058	667 344
Total fixed-income securities	**726 728**	**-539**	**1 058**	**727 246**

Effective interest rate: 1.52 %

NOK THOUSANDS				31.12.2017
Debtor categories	**Acquisition cost**	**Unreal. gain/loss**	**Accr. int. not due**	**Market value**
Government/social security administration	19 992	-7	0	19 985
Credit enterprises	1 305 275	5 733	2 005	1 313 013
Local government administration	98 050	4 929	429	103 408
Total fixed-income securities	**1 423 317**	**10 655**	**2 434**	**1 436 406**

Effective interest rate: 0.98 %

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

NOTE 9 Financial derivatives

NOK THOUSANDS	31.12.2018		31.12.2017	
	Nominal amount	Fair value	Nominal amount	Fair value
Derivatives related to borrowing	1 250 000	40 221	1 250 000	71 648
Derivatives related to lending	1 429 842	22 240	827 109	16 199
Total assets	**2 679 842**	**62 461**	**2 077 109**	**87 847**
Derivatives related to borrowing	600 000	-7 367	600 000	-3 899
Derivatives related to lending	2 117 799	-98 036	3 560 430	-169 393
Derivatives related to investments	0	0	100 000	-2 952
Total liabilities	**2 717 799**	**-105 403**	**4 260 430**	**-176 243**

Interest rate agreements are used to correct for imbalances between the Company's lending and borrowing in regard to interest rate exposure. All the agreements entered into are hedging transactions. The value change from the effective part of the hedging instrument is compared with the value change for the hedged risk of the hedged objects.

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

NOTE 10 Net interest income

NOK THOUSANDS	01.01.2018 -31.12.2018	01.01.2017 -31.12.2017
Interest income on loans to customers, amortised cost	346 027	376 760
Interest income on loans to credit institutions, amortised cost	5 020	4 282
Interest income on bonds and certificates, fair value	19 349	22 683
Other interest income, fair value	136 097	143 163
Total interest income	**506 494**	**546 889**
Interest expenses on debt to KLP Banken AS, amortised cost	-4 871	-7 303
Interest expenses on issued securities, amortised cost	-264 292	-261 784
Other interest expenses, fair value	-171 790	-195 667
Total interest costs	**-440 953**	**-464 754**
Net interest income	**65 541**	**82 135**

NOTE 11 Lending and receivables

NOK THOUSAND	31.12.2018	31.12.2017
LOANS TO AND RECEIVABLES FROM CREDIT INSTITUTIONS		
Bank deposits	649 795	489 485
Loans to and receivables from credit institutions	**649 795**	**489 485**
LOANS TO AND RECEIVABLES FROM CUSTOMERS		
Principal on lending	16 646 683	16 131 498
Write-downs steps 1 and 2	-163	0
Fair value hedging	65 732	138 756
Premium/discount	-10 949	-14 503
Accrued interest	57 317	65 700
Loans to and receivables from customers	**16 758 620**	**16 321 451**

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

NOTE 12 Financial risk management

ORGANISATION OF RISK MANAGEMENT

KLP Kommunekreditt AS is a wholly owned subsidiary of KLP Banken AS. The Board of Directors has established a risk management framework aimed at ensuring that risks are identified, analysed and subjected to management using policies, limits, procedures and instructions. The Board has adopted risk policies covering the key individual risks as well as an overarching risk policy that covers principles, organisation, limits etc. for the bank's total risk. The risk policies are of an overarching nature and are complemented by procedures, guidelines and instructions laid down at the senior management level. The policies state which departments are responsible for handling the various risks and also cover the establishment of a separate risk control function. One purpose of the risk control function is to check that the risk policies and other guidelines for risk management are being followed. This function is carried out by the Risk Analysis and Control Department, which is responsible for preparing periodic risk reports to senior management and the Board as well is reporting in the event of breaches of policies or guidelines. The Department, which has an independent role in relation to other departments, also has other tasks associated with the Company's risk management. The responsibility for the operational direction of the Company's liquidity risk, exchange-rate risk and interest rate risk lies with the Finance Department.

NOTE 13 Credit risk

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

KLP Kommunekreditt AS provides loans to, or loans guaranteed by, Norwegian municipalities and county authorities, including loans to local government enterprises and inter-authority companies (public sector loans). Guarantees are payable on demand.

13.1 CONTROL AND LIMITATION OF CREDIT RISK

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

NOTE 13 Credit risk - cont.

assigned a risk class based on a set of fixed criteria. Furthermore requirements are set for reporting to the Board on usage of the limits.

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

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

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

NOK THOUSANDS	31.12.2018	31.12.2017
Lending to municipalities and county administrations	14 482 457	13 939 096
Lending with municipal/county administration guarantee	2 164 226	2 192 402
Total	**16 646 683**	**16 131 498**
Sums falling due more than 12 months after the end of the reporting period	16 646 683	15 363 352

The Company also invests in securities issued by municipalities and county administrations and will in addition have credit risk exposure in the form of "additional collateral". The additional collateral can amount up to 20 percent of the cover. In accordance with the Company's internal guidelines the additional collateral may be in the form of deposits in banks satisfying minimum rating requirements as well as covered bonds issued by Norwegian credit enterprises.

CREDIT QUALITY OF SECURITIES, BANK DEPOSITS AND DERIVATIVES

Securities with external credit rating (Moody's)

NOK THOUSANDS	31.12.2018	31.12.2017
AAA	**727 246**	**1 436 406**

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

NOK THOUSANDS	31.12.2018	31.12.2017
Aa1-Aa3	352 440	195 856
A1-A3	297 355	293 629
Baa1	-	-
Total	**649 795**	**489 485**

The Company may also be exposed to credit risk as a result of derivative agreements struck. The purpose of such agreements is to reduce risks arising as a result of the Company's borrowing and lending activities. The Company's internal guidelines specify creditworthiness requirements for derivative counterparties. All derivative agreements are entered into with counterparties with a minimum A1 rating (Moody's).

NOTE 13 Credit risk - cont.

13.3 MAXIMUM EXPOSURE TO CREDIT RISK

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

Maximum exposure to credit risk

NOK THOUSANDS	31.12.2018	31.12.2017
Loans to and receivables from credit institutions	649 795	489 485
Loans to and receivables from customers	16 704 000	16 197 199
Fixed-income securities	727 246	1 436 406
Financial derivatives	62 461	87 847
Loss write-downs stage 1	163	N/A
TOTAL	**18 143 665**	**18 210 937**

13.4 LOANS FALLEN DUE OR WRITTEN DOWN

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

Loans fallen due or written down

NOK THOUSANDS	31.12.2018	31.12.2017
Principal on loans with payments with 7-30 days' default	0	17 764
Principal on loans with payments with 31-90 days' default	0	0
Principal on loans with payments with more than 90 days' default	0	0
Total loans fallen due	**0**	**17 764**
Relevant security or guarantees	0	17 764
Lending that has been written down	-	-

13.5 CONCENTRATION OF CREDIT RISK

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

The concentration against individual borrowers is limited by individual Board-set limits. KLP Kommunekreditt AS's largest exposure as at 31 December 2018 was about 4.7 per cent of the Company's total lending.

NOTE 14 Market risk

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

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

14.1 MEASUREMENT OF MARKET RISK

Interest rate risk is measured as change in value on a one percentage point change in all interest rates.

14.2 INTEREST RATE RISK

The market risk policy is the Company's overarching guidelines, requirements and limits associated with market risk. The policy dictates that the market risk should be minimized so that the total market risk is low. It further states that the Company should not actively take positions that expose the Company to market risk. The policy also sets limits for interest rate risk both for the total interest rate risk for the infinite future and for rolling 12-month periods. The risk limits are set to ensure that the low market risk profile policy is complied with The operational responsibility for managing the Company's market risk lies with the Finance Department. The Risk Analysis and Control Department reports the Company's actual exposure in relation to limits in accordance with guidelines set by the Board.

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

INTEREST-RATE RISK KLP KOMMUNEKREDITT AS
Repricing dates for interest-bearing assets and liabilities as at 31 December 2018

NOK THOUSANDS	Total Principal	Up to 1 mth	From 1 mth to 3 mths	From 3 mths to 12 mths	From 1 year to 5 years	Over 5 years
Lending	16 646 683	10 388 388	2 480 524	1 167 772	2 119 508	490 491
Securities	721 000	120 000	601 000	0	0	0
Cash and receivables from credit institutions	649 795	649 795	0	0	0	0
Total	**18 017 478**	**11 158 183**	**3 081 524**	**1 167 772**	**2 119 508**	**490 491**
Liabilities created on issuance of securities	16 821 000	7 300 000	6 593 000	1 078 000	1 350 000	500 000
Liabilities to financial institutions	430 000	430 000	0	0	0	0
Total	**17 251 000**	**7 730 000**	**6 593 000**	**1 078 000**	**1 350 000**	**500 000**
Gap	**766 478**	**3 428 183**	**-3 511 476**	**89 772**	**769 508**	**-9 509**
Financial derivatives	0	-33 318	1 673 351	-748 127	-711 809	-180 097
Net gap	**766 478**	**3 394 865**	**-1 838 125**	**-658 355**	**57 699**	**-189 606**

NOTE 14 Market risk - cont.

Repricing dates for interest-bearing assets and liabilities as at 31 December 2017

NOK THOUSANDS	Total Principal	Up to 1 mth	From 1 mth to 3 mths	From 3 mths to 12 mths	From 1 year to 5 years	Over 5 years
Lending	16 131 498	9 014 980	2 577 702	1 299 585	2 748 740	490 491
Securities	1 423 000	225 000	1 098 000	100 000	0	0
Cash and receivables from credit institutions	489 485	489 485	0	0	0	0
Total	**18 043 983**	**9 729 465**	**3 675 702**	**1 399 585**	**2 748 740**	**490 491**
Liabilities created on issuance of securities	17 046 000	4 000 000	11 196 000	0	1 350 000	500 000
Liabilities to financial institutions	275 000	275 000	0	0	0	0
Total	**17 321 000**	**4 275 000**	**11 196 000**	**0**	**1 350 000**	**500 000**
Gap	**722 983**	**5 454 465**	**-7 520 298**	**1 399 585**	**1 398 740**	**-9 509**
Financial derivatives	0	174 498	2 278 137	-916 120	-1 318 778	-217 737
Net gap	**722 983**	**5 628 963**	**-5 242 161**	**483 465**	**79 962**	**-227 246**

The Company's interest rate sensitivity as at 31 December 2018 (2017), measured as value change in the event of one percentage point change in all interest rates, was NOK 0.7 million (8.3).

NOTE 15 Liquidity risk

Liquidity risk means the risk that the Company does not manage to meet its obligations and/or finance increases in its assets without substantial additional costs arising in the form of price falls in assets that must be realized, or in the form of more costly financing.

15.1 MANAGEMENT OF LIQUIDITY RISK

The management of KLP Kommunekreditt's liquidity risk must be viewed in the context of the management of the liquidity risk in the KLP Banken Group. A liquidity policy is established for the Group containing principles, guidelines, requirements and limits that apply to the management of the liquidity risk. The policy states that the Group is to have a moderate liquidity risk profile and various requirements and limits have been set to achieve this, including targets for deposit cover, limits for refinancing requirements for various time periods and requirements for liquidity buffers. The Board has further adopted an emergency plan for liquidity crises as part of the liquidity policy. In addition to the requirements at Group level, separate specific requirements have been established for KLP Kommunekreditt AS, including requirements for continually positive cash flows, limits for refinancing requirements and requirements for liquidity reserves and drawing rights. The operational responsibility for managing the Company's liquidity risk lies with the Finance Department. The Risk Analysis and Control Department reports the Company's actual exposure in relation to limits in accordance with guidelines set by the Board.

NOTE 15 Liquidity risk - cont.

15.2 MATURITY ANALYSIS

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

LIKVIDITETSRISIKO KLP KOMMUNEKREDITT AS

Maturity analysis for assets and liabilities as at 31 December 2018

NOK THOUSANDS	Total	Unde-fined	Up to 1 mth	From 1 mth to 3 mths	From 3 mths to 12 mths	From 1 year to 5 years	Over 5 years
Lending	19 583 010	0	49 524	180 918	976 380	4 768 146	13 608 043
Securities	757 787	0	465	62 468	80 401	614 453	0
Receivables from credit institutions	649 795	0	649 795	0	0	0	0
Total	**20 990 593**	**0**	**699 784**	**243 386**	**1 056 782**	**5 382 599**	**13 608 043**
Liabilities created on issuance of securities	17 689 065	0	29 777	30 455	1 406 540	15 674 292	548 000
Financial derivatives	42 741	0	2 147	9 577	7 191	37 586	-13 761
Liabilities to credit institutions	440 394	0	427	860	4 007	435 100	0
Total	**18 172 200**	**0**	**32 351**	**40 892**	**1 417 739**	**16 146 979**	**534 239**
Net cash flow	**2 818 393**	**0**	**667 433**	**202 494**	**-360 957**	**-10 764 380**	**13 073 803**

Maturity analysis for assets and liabilities as at 31 December 2017

NOK THOUSANDS	Total	Unde-fined	Up to 1 mth	From 1 mth to 3 mths	From 3 mths to 12 mths	From 1 year to 5 years	Over 5 years
Lending	20 164 563	0	48 362	183 798	876 205	4 420 020	14 636 177
Securities	1 470 064	0	3 764	22 925	147 255	1 275 973	20 147
Receivables from credit institutions	489 485	0	489 485	0	0	0	0
Total	**22 124 112**	**0**	**541 611**	**206 723**	**1 023 460**	**5 695 993**	**14 656 324**
Liabilities created on issuance of securities	17 842 995	0	21 773	25 008	1 289 594	15 946 620	560 000
Financial derivatives	1 370 141	0	1 581	10 637	118 670	1 203 222	36 032
Liabilities to credit institutions	279 403	0	320	590	2 752	275 741	0
Total	**19 492 539**	**0**	**23 674**	**36 236**	**1 411 016**	**17 425 582**	**596 032**
Net cash flow	**2 631 573**	**0**	**517 937**	**170 487**	**-387 555**	**-11 729 589**	**14 060 293**

A 24-month internal loan of NOK 430 Million has been provided from KLP Banken AS to KLP Kommunekreditt AS, which is defined as "Liabilities to credit institutions". This loan is rolled over currently every third month and the interest rate is set each month.

NOTE 16 Loan loss provision

The new accounting standard IFRS 9 has changed the methodology for provisions for losses on financial instruments in the accounts. For KLP Kommunekreditt, the exception in the rules for very low credit risk in public-sector lending has been used, and there will be no estimated future losses on the basis of substantially increased credit risk since initial recognition. All loans are classed in stage 1, which corresponds to unchanged credit risk since initial recognition. For KLP Kommunekreditt, a simplified loss rate method has been chosen to calculate the expected credit loss (ECL), where the bank uses a very low loss rate to calculate its losses, corresponding to 0.001 per cent of total lending.

A part of the assessment of future losses is the assessment of how the future will look with regard to the future in terms of macroeconomic conditions affecting the bank's credit losses, e.g. interest rates, house prices, unemployment, etc. The expected credit loss (ECL) should be probability-weighted based on several scenarios defined by the bank. The scenarios used by the bank are one expected outcome, one pessimistic outcome, and one optimistic outcome for expected credit loss, where the three scenarios have a factor for outcome and a probability that the scenario occurs. The sum of the weighted scenarios constitutes the expected credit loss, and the probability that each scenario will occur will thus affect the expected credit loss For the Bank's products, a positive scenario is considered at least as likely as a negative scenario. The expected scenario is considered to have the highest probability at the end of 2018. The connection between the probability of each scenario is also based on how strong the projected negative and positive outcomes are. KLP Banken's risk forum reviews the three scenarios and their weightings each quarter in light of changes in macroeconomic conditions or other factors that could affect the impairments in the Bank.

FOLLOW-UP ON NON-PERFORMING COMMITMENTS

Non-performing exposures are currently monitored by the public-sector loan administration department. There have been no recorded losses on public-sector lending in KLP Kommunekreditt or KLP at any time. Loans with payments over 30 days past due are followed up by way of dialogue with the public-sector customers, which is believed to be the reason why there have been no cases of default over 90 days in recent years.

NOTE 16 Loan loss provision - cont.

Expected credit loss (ECL) - loans to customers, amortized cost

NOK THOUSANDS	12 months ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
	Stage 1	Stage 2	Stage 3	Total
Opening balanse ECL 01.01.2018	158	0	0	158
Transfer to Stage 1	0	0	0	0
Transfer to Stage 2	0	0	0	0
Transfer to Stage 3	0	0	0	0
Net changes	0	0	0	0
New losses	11	0	0	11
Write-offs	-6	0	0	-6
Closing balance ECL 31.12.2018	**163**	**0**	**0**	**163**
Changes (01.01.2018 - 31.12.2018)	5	0	0	5

Value of lending and receivables for customers recognised in the balance sheet - all segments

NOK THOUSANDS	12 months ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
	Stage 1	Stage 2	Stage 3	Total
Gross lending 01.01.2018	16 131 498	0	0	16 131 498
Transfer to Stage 1	0	0	0	0
Transfer to Stage 2	0	0	0	0
Transfer to Stage 3	0	0	0	0
Net change	-691 448	0	0	-691 448
New lending	2 241 784	0	0	2 241 784
Write-offs	-977 834	0	0	-977 834
Gross lending 31.12.2018	**16 704 000**	**0**	**0**	**16 704 000**

Accrued interest is not included in the book value.

NOTE 17 Salary and obligations to senior management

2018 NOK THOUSANDS	Paid from KLP Kommunekreditt AS				Paid from another company in the same group					
	Salaries, fees etc.	Other benefits	Annual pension accumulation	Loans	Salaries, fees etc.	Other benefits	Annual pension accumulation	Loans	Interest rate as at 31.12.2018	Repayment plan[1]
SENIOR EMPLOYEES										
Carl Steinar Lous, Department manager Public Market/ Managing Director	-	-	-	-	1 311	27	376	2 211	2.30	A20/A32
BOARD OF DIRECTORS										
Sverre Thornes, Chair	-	-	-	-	4 016	201	1 496	11 939	2.30-2.40	A45
Aage E. Schaanning	-	-	-	-	3 498	163	1 255	5 779	2.30	HC
Ingrid Aune	23	-	-	-	138	-	-	-	-	-
Aud Norunn Strand	76	-	-	-	-	-	-	1 349	2.40	HC
EMPLOYEES										
Total loans to employees of KLP Kommunekreditt					-	-	-	2 211	-	-

2017 NOK THOUSANDS	Paid from KLP Kommunekreditt AS				Paid from another company in the same group					
	Salaries, fees etc.	Other benefits	Annual pension accumulation	Loans	Salaries, fees etc.	Other benefits	Annual pension accumulation	Loans	Interest rate as at 31.12.2017	Repayment plan[1]
SENIOR EMPLOYEES										
Carl Steinar Lous, Department manager Public Market/Managing Director	-	-	-	-	1 234	24	369	2 376	2.11	A20/A31
BOARD OF DIRECTORS										
Sverre Thornes, Chair	-	-	-	-	3 900	205	1 457	13 556	2,10-2,35	A45/A47
Aage E. Schaanning	-	-	-	-	3 413	167	1 223	5 991	2.10	HC
Ingrid Aune	11	-	-	-	68	-	-	-	-	-
Aud Norunn Strand	37	-	-	-	-	-	-	1 321	2.35	HC
Toril Lahnstein	37	-	-	-	-	-	-	-	-	-
Eva M. Salvesen[2]	11	-	-	-	71	-	-	-	-	-
EMPLOYEES										
Total loans to employees of KLP Kommunekreditt					-	-	-	2 376	-	-

1 A= Annuity loan, last payment, HC=Home Credit.
2 The individual has stepped down from the appointment during the year.

NOTE 17 Salary and obligations to senior management - cont.

The KLP Board of Directors has laid down principles and guidelines for remuneration that apply for the entire Group and set up a remuneration committee as a subcommittee of the Board. The committee reports on and carries out checks that the remuneration schemes in the Group are in line with the Board's principles and guidelines.

Managing director is a contracted-in function from the parent company, KLP Banken AS, and the individual receives no benefits directly from KLP Kommunekreditt AS for the appointment. KLP Kommunekreditt AS refunds that part of the benefits associated with the role as managing director. The Managing Director has no agreement on performance pay (bonus) or guaranteed salary on termination. He is pensionable aged 70.

There are no obligations to provide the Chair of the Board of Directors special consideration or other benefits on termination or change in employment contract or appointment.

Directors' fees are set by the General Assembly. Board members employed in the KLP Group, not having been elected by and from the employees, do not receive a fee for the Board appointment.

Benefits in addition to Directors' fees for Board members employed in the KLP Group are stated only if they are included in the senior management group employed in the KLP Group. This also applies to any loans they may have with the Group.

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

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

NOTE 18 Liabilities to credit institutions

31.12.2018 NOK THOUSANDS	Currency	Interest	Due date	Nominal	Accrued interest	Book value
Debt to KLP Banken AS	NOK	Fixed	15.12.2020	330 000	168	330 168
Debt to KLP Banken AS	NOK	Fixed	15.12.2020	100 000	41	100 041
Total liabilities to credit institutions				**430 000**	**208**	**430 208**
Interest rate on debt to credit institutions at the reporting date						**1.21 %**

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

31.12.2017 NOK THOUSANDS	Currency	Interest	Due date	Nominal	Accrued interest	Book value
Debt to KLP Banken AS	NOK	Fixed	15.03.2019	275 000	170	275 170
Total liabilities to credit institutions				**275 000**	**170**	**275 170**
Interest rate on debt to credit institutions at the reporting date						**1.31 %**

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

NOTE 19 Securities liabilities - stock exchange listed covered bonds

NOK THOUSANDS	31.12.2018	31.12.2017
Bonds, nominal value	17 743 000	17 946 000
Revaluations	35 990	61 593
Accrued interest	52 281	41 139
Own funds, nominal value	-922 000	-900 000
Total liabilities created on issuance of securities	**16 909 271**	**17 148 732**
Interest rate on borrowings through the issuance of securities at the reporting date.	**1.58 %**	**1.24 %**

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

NOK THOUSANDS	Balance 31.12.2017	Issued	Fallen due/ redeemed Repurchased	Other changes	Balance 31.12.2018
CHANGE IN LIABILITIES CREATED ON ISSUANCE OF SECURITIES					
Bonds, nominal value	17 946 000	3 300 000	-3 503 000	0	17 743 000
Revaluations	61 593	0	0	-25 603	35 990
Accrued interest	41 139	0	0	11 142	52 281
Own funds, nominal value	-900 000	0	-22 000	0	-922 000
Total liabilities created on issuance of securities	**17 148 732**	**3 300 000**	**-3 525 000**	**-14 461**	**16 909 271**

NOTE 20 Over-collateralisation

NOK THOUSANDS	Fair value	
	31.12.2018	31.12.2017
SECURITY POOL		
Loans to customers	16 792 892	16 461 833
Financial derivatives (net)	-42 930	-86 432
Additional collateral 1)	1 898 505	2 651 597
Total security pool	**18 648 467**	**19 026 998**
Outstanding covered bonds incl. own funds and premium/discount	17 829 644	18 096 006
Coverage of the security pool	**104.6 %**	**105.1 %**

[1] Additional collateral includes loans to and receivables from credit institutions and bonds and certificates. Liquid assets used in the LCR liquidity reserve are not included in additional collateral.

Section 11-7 of the Regulations on Financial Institutions lays down a requirement for over-collateralisation by at least 2 per cent of the value of the outstanding covered bonds.

NOTE 21 Presentation of assets and liabilities subject to net settlement

31.12.2018 NOK THOUSANDS				Related sums that are not presented net		
	Gross financial assets/liabilities	Gross assets/ liabilities presented net	Book value	Financial instruments	Security in cash	Net value
ASSETS						
Financial derivatives	62 461	0	62 461	-62 461	0	0
Total	**62 461**	**0**	**62 461**	**-62 461**	**0**	**0**
LIABILITIES						
Financial derivatives	105 403	0	105 403	-62 461	0	42 942
Total	**105 403**	**0**	**105 403**	**-62 461**	**0**	**42 942**

31.12.2017 NOK THOUSANDS				Related sums that are not presented net		
	Gross financial assets/liabilities	Gross assets/ liabilities presented net	Book value	Financial instruments	Security in cash	Net value
ASSETS						
Financial derivatives	87 847	0	87 847	-87 847	0	0
Total	**87 847**	**0**	**87 847**	**-87 847**	**0**	**0**
LIABILITIES						
Financial derivatives	176 243	0	176 243	-87 847	0	88 396
Total	**176 243**	**0**	**176 243**	**-87 847**	**0**	**88 396**

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

NOTE 22 Capital adequacy

NOK THOUSANDS	31.12.2018	31.12.2017
Share capital and share premium fund	675 000	675 000
Other owners' equity	74 769	45 939
Total owners' equity	**749 769**	**720 939**
Deduction goodwill and other intangible assets	0	0
Deferred tax assets	0	0
Adjustments due to requirements for proper valuation	-727	-1 436
Core capital/Tier 1 capital	**749 042**	**719 503**
Supplementary capital/Tier 2 capital	0	0
Supplementary capital/Tier 2 capital	**0**	**0**
Total own funds (eligible Tier 1 and Tier 2 capital)	749 042	719 503
Capital requirement	295 879	292 090
Surplus of own funds (eligible Tier 1 and Tier 2 capital)	**453 163**	**427 413**
CALCULATION BASIS CREDIT RISK		
Institutions	144 076	116 167
Local and regional authorities	3 380 301	3 296 369
Covered bonds	66 734	131 301
Calculation basis credit risk	**3 591 111**	**3 543 837**
Credit risk	287 289	283 507
Operational risk	8 467	8 433
Credit valuation adjustment	123	150
Total capital requirement assets	**295 879**	**292 090**
Core capital adequacy ratio	20,3 %	19,7 %
Supplementary capital ratio	0,0 %	0,0 %
Capital adequacy ratio	**20.3 %**	**19.7 %**
Unweighted capital adequacy	**4.0 %**	**3.9 %**

CAPITAL REQUIREMENT AS AT 31.12.2018	Core capital/ Tier 1 capital	Supplementary capital/ Tier 2 capital	Own funds
Minimum requirement without buffers	4.5 %	3.5 %	8.0 %
Protective buffers	2.5 %	0.0 %	2.5 %
System risk buffers	3.0 %	0.0 %	3.0 %
Counter-cyclical buffers	2.0 %	0.0 %	2.0 %
Applicable capital requirements including buffers	**12.0 %**	**3.5 %**	**15.5 %**
Leverage ratio	**3.0 %**	**0.0 %**	**3.0 %**

NOTE 23 Tax

NOK THOUSANDS	2018	2017
Accounting income before taxes	37 315	59 878
DIFFERENCES BETWEEN ACCOUNTING AND TAX INCOME		
Reversal of value increase financial assets	-47 997	-33 099
Other permanent differences	-158	0
Change in differences affecting relationship between book and taxable income	32 930	31 762
Taxable income	**22 089**	**58 541**
RECONCILIATION OF DEFERRED TAX/TAX ASSETS		
Deferred tax asset linked to:		
Financial instruments	0	-16 033
Hedging of borrowing	-8 693	-14 884
Securities	-119	0
Premium/discount on borrowing	-505	-1 071
Total deferred tax assets	**-9 316**	**-31 987**
Deferred tax linked to:		
Securities	0	2 451
Lending to customers and credit enterprises	14 126	31 100
Total deferred tax	**14 126**	**33 550**
Net deferred tax/tax assets	**4 810**	**1 563**
SUMMARY OF TAX EXPENSE FOR THE YEAR		
Tax charged to the income statement for previous years	3 247	253
Changes to deferred tax recognised directly in equity	36	0
Change in deferred tax taken to income	5 081	14 050
Total tax costs	**8 364**	**14 303**
Effective tax rate	22.4 %	23.9 %
Reconciliation of tax rate:		
Accounting income before taxes	37 315	59 878
Income taxs expense, nominal tax rate	8 582	14 371
Income tax expense, effective tax rate	8 364	14 303
Difference between effective and nominal tax rate	**219**	**68**
Recognised tax relating to previous years	36	0
Tax effects of permanent differences	-36	0
Effect of change in tax rate on deferred tax	219	68
Total	**219**	**68**

NOTE 24 Number of FTEs and employees

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

NOTE 25 Other liabilities and provision for accrued costs and liabilities

NOK THOUSANDS	31.12.2018	31.12.2017
Receivables between companies in the same Group	1 702	1 558
Creditors	0	102
Other liabilities	2	3
Payable taxes	5 081	14 050
Total other liabilities	**6 784**	**15 712**
Value-added tax	0	23
Provisioned costs	0	309
Total accrued costs and liabilities	**0**	**332**

NOTE 26 Transactions with related parties

NOK THOUSANDS	01.01.2018 -31.12.2018	01.01.2017 -31.12.2017
INCOME STATEMENT ITEMS		
KLP Banken AS, interest on borrowing	-4 871	-7 303
KLP Banken AS, administrative services (at cost)	-12 823	-14 392
KLP Kapitalforvaltning AS, fees for services provided	-120	-211
Total	**-17 813**	**-21 905**

NOK THOUSANDS	31.12.2018	31.12.2017
FINANCIAL POSITION STATEMENT ITEMS		
KLP Banken AS, debt to credit institutions	-430 208	-275 170
KLP Banken AS, loan settlement	8 122	3 503
Net outstanding accounts to:		
KLP Banken AS	-1 672	-1 296
KLP Eiendom AS	0	-223
KLP Kapitalforvaltning AS	-29	-38
Total	**-423 788**	**-273 225**

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

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

NOTE 27 Auditor's fee

NOK THOUSANDS	01.01.2018 -31.12.2018	01.01.2017 -31.12.2017
Ordinary audit	291	206
Certification services	119	86
Non-audit services	0	19
Total auditor's fee	**410**	**311**

The audit fee is expensed according to received invoice. The amounts above include VAT.

NOTE 28 Other assets

NOK THOUSANDS	31.12.2018	31.12.2017
Receivables between Group companies	8 122	3 503
Total other assets	**8 122**	**3 503**

NOTE 29 Contingent liabilities

NOK THOUSANDS	31.12.2018	31.12.2017
Loan commitment	500 394	113 972
Total contingent liabilities	**500 394**	**113 972**

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

NOTE 30 Cash and cash equivalents and other loans and receivables from credit institutions

NOK THOUSANDS	31.12.2018	31.12.2017
Bank deposits operations	631 394	478 652
Cash	0	0
Total cash and cash equivalents (liquidity)	**631 394**	**478 652**
Bank accounts to be used for the purchase and sale of securities	18 401	10 833
Loans and receivables from credit institutions	**649 795**	**489 485**

To the General Meeting of KLP Kommunekreditt AS

Independent auditor's report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of KLP Kommunekreditt AS, which comprise the balance sheet as at 31 December 2018, the income statement, statement of owners' equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements are prepared in accordance with law and regulations and give a true and fair view of the financial position of the Company as at 31 December 2018, 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, including 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.

The mortgage company's business activities has in general been unchanged compared to the previous year. There has not been any regulatory changes, transactions or other events with material impact on the 2018 financial statements. "Risk of credit losses in loans to customers" and "IT systems supporting processes over financial reporting" are areas with the same characteristics and risks this year as last year, and these important areas of focus have been the same in 2018 as for 2017.

Key Audit Matters

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

KLP Kommunekreditt's business and operations has been stable in 2018 compared to prior year. There has not been any significant regulatory changes, transactions or events with material impact that has led to new areas of focus. *Risk of credit losses in loans to customers* and *IT systems supporting processes over financial reporting* are areas with the same characteristics and risks as last year, and these important areas of focus have been the same in 2018 as for 2017.

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Key Audit Matter	How our audit addressed the Key Audit Matter
Risk of credit losses in loans to customers The mortgage company has NOK 16.8 bn in loans to municipalities and counties and companies with public guarantees. The Local Government Act ensures credit losses will not occur on such loans when the Local Government Act's requirements for raising loans are fulfilled. We refer to the Board of Directors' report for further information. We have focused on the mortgage company's controls directed at compliance with the requirements of the law at the time the loans are granted. This is a fundamental presumption for no loss potential in the portfolio, which may affect the result.	To ensure that the mortgage company's loans are protected against credit losses based on the regulations in the Local Government Act, the company had established processes directed at ensuring a detailed review of the applications for loans and associated documentation to ensure compliance with the requirements in the Local Government Act at the time of granting the loan. The process includes formal controls and segregation of duties which are directed at ensuring that the process has been carried out prior to granting or transfer of loans from group companies to the mortgage company. Our audit was performed by obtaining documentation and examining whether the process was conducted appropriately and timely. This included assessing whether the underlying documentation collected by the mortgage company supported the conclusions drawn by the company that the requirements in the Local Government Act was met. Our examinations did not reveal any differences of significance.
IT systems supporting processes over financial reporting Weaknesses in automated processes and controls can potentially lead to a significant risk in the daily operations and risk of misstatements. We have focused on this area because it is important for the company's financial reporting systems, and their business model is dependent on complex IT systems.	The company used external service providers to operate some of the important IT systems. The auditor at the relevant service organisation evaluated the design and efficiency of the established control systems, and tested the controls designed to ensure the integrity of the IT system that were relevant to financial reporting. We examined the reports and evaluated possible misstatement and improvements. Furthermore, we tested IT general controls where necessary for our audit. Our work gave us sufficient evidence to enable us to rely on the operation of the mortgage company's IT systems relevant for our audit.

Other information

Management is responsible for the other information. The other information comprises information in the annual report, except 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.

(2)

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.

Responsibilities 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 in accordance with law and regulations, including 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, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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

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

Auditors Report - KLP Kommunekreditt AS

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

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption and the proposed allocation of the result 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, 13 March 2019
PricewaterhouseCoopers AS

Erik Andersen
State Authorised Public Accountant

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

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