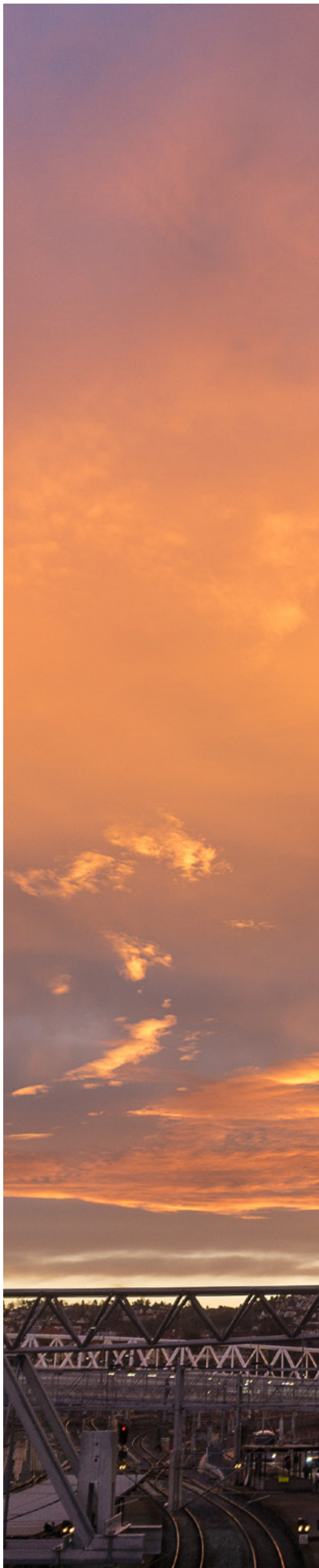
Annual Report 2017

KLP BOLIGKREDITT AS

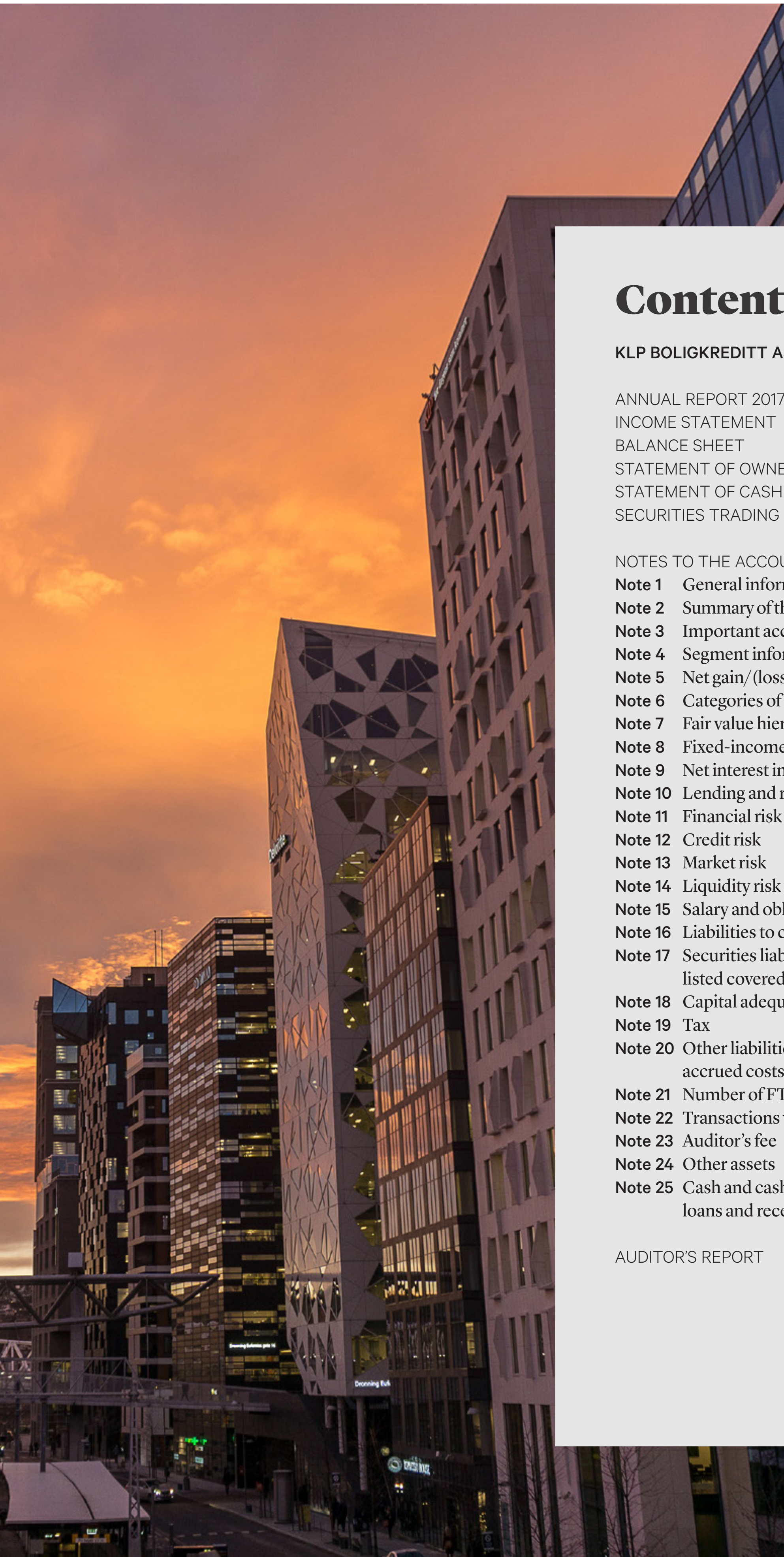


KLP Boligkreditt AS is owned by KLP through its subsidiary KLP Banken AS.

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

The target group for KLP Banken in the Private Market are members of the pension schemes in Kommunal Landspensjonskasse gjensidig forsikringsselskap (KLP). The Bank aims to provide products and services on competitive terms in order to help companies that have chosen KLP as a pension provider to be viewed as attractive employers.

The aim is to develop KLP Boligkreditt AS further so an increasing proportion of KLP Banken's lending for housing can be funded by the company.



Contents

KLP BOLIGKREDITT AS

Picture: Vidar Stenseth, employed in IT

PHOTOGRAPHIC COMPETITION

KLP in pictures

KLP's annual reports are illustrated with pictures from our annual internal photographic competition. Our staff submitted 118 great entries to the competition. Here you can see some of them.

Anders Eidsnes
Employed in Life

Linn Eriksen Løken
Employed in Property

Veronica Norevik
Employed in Life

Anne Westad
Employed in HR

KLP BOLIGKREDITT AS

Annual Report 2017

The Company made a profit before tax in its fourth year of operation of NOK 13.5 million and the balance-sheet at the end of the year was NOK 5.2 billion. The Company is financed largely through the issue of covered bonds (OMF). These bonds have received the highest possible rating (Aaa).

KLP Boligkreditt AS has been licensed as a mortgage lender since March 2014 and is a wholly owned subsidiary of KLP Banken AS. The business is funded largely through the issue of mortgage-backed covered bonds.

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

The 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 Banken's target audience in the retail market are members of the KLP's pension schemes. The Bank aims to provide products and services on competitive terms in order to help companies that have chosen KLP as a pension provider to be viewed as attractive employers.

INCOME STATEMENT

Figures in brackets below refer to last year's figures. The Company made a profit before tax of NOK 13.5 (11.4) million. This gave a return on equity of 4.8 (4.1) per cent. Net profit for the year totalled NOK 10.2 (8.5) million.

By the end of 2017, the Company had issued NOK 4.3 (3.7) billion in covered bonds secured on mortgage loans. In 2017 covered bonds in the amount of NOK 0.6 (1.4) billion were issued. The remaining financing comprises equity and loans from the parent company.

Interest income from housing loans in 2017 totalled NOK 111.6 (102.1) million. There was also income from bank deposits and securities amounting to NOK 1.8 (2.4) million.

Interest costs in 2017 are divided between NOK 61.5 (58.4) million in interest on covered bonds issued and NOK 5.4 (9.3) million in interest on debt to the parent company.

Net interest income in 2017 came to NOK 46.5 (36.8) million. The main reason for the change is a higher lending volume and lower funding costs.

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). As part of restructuring the funding there have been buybacks of treasury shares. In 2017 the effect on profits of loan buybacks was NOK 29 thousand (2.9 million).

The Company's lending is managed by KLP Banken AS, and a large portion of the operating expenses is regulated in an agreement with the parent company. The management agreement provides that KLP Boligkreditt AS is charged for its part of the parent company's costs for the management of home mortgages based on volume. Costs are settled monthly. Operating costs in excess of this are mainly direct costs incurred by

FINANCIAL PERFORMANCE IN 2017

EARNINGS

NOK MILLIONS	2017	2016	Change
Profit/loss before tax	13.5	11.4	2.1
Net interest income	46.5	36.8	9.6
Operating expenses	-33.1	-28.8	-4.3

BALANCE-SHEET

NOK BILLIONS	2017	2016	Change
Mortgage loans	5.1	4.7	0.3
Total assets	5.2	4.9	0.3

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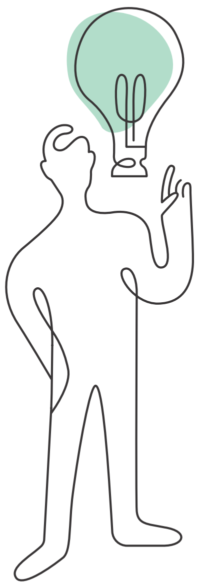
During 2017, KLP Boligkreditt AS purchased home loans worth NOK 2.2 billion from KLP Banken AS. There has been no loss on mortgage loans in the company.



the Company in connection with external assistance, such as rating, auditing, etc. In 2017 the Company's operating costs totalled NOK 33.1 (28.8) million.

LENDING
During 2017, KLP Boligkreditt AS purchased home loans worth NOK 2.2 (2.6) billion from KLP Banken AS. The Company's on-balance sheet mortgages totalled NOK 5.1 (4.7) billion at the end of the year.

The portfolio of mortgage loans is hedged within conservative valuations. Borrowers' ability and willingness to service their loans are included in the credit rating. The average loan per customer came to NOK 1.3 (1.2) million. All lending was at floating interest rates. No losses on mortgages were recognised in 2017 either, and there were no contracts more than 90 days in default at the end of the year.

BORROWING
The Company is licensed to issue mortgage backed covered bonds.

At the end of 2017, the Company's debt, in the form of covered bonds deriving from four issues, totalled NOK 4.3 (3.7) billion. This includes an own holding of NOK 0.6 billion. The bonds were secured against the Company's portfolio of well-secured home loans. All the issues received an Aaa rating.

The Company's debt to credit institutions at the close of the year comprised internal financing from KLP Banken AS in the amount of NOK 0.5 (0.8) billion.

BALANCE SHEET AND CAPITAL ADEQUACY
Total assets stood at NOK 5.2 (4.9) billion at the close of 2017.

The Company's subordinated capital was expanded with a private placement of NOK 120 million in June 2017. In the third quarter, an extraordinary dividend of NOK 28.5 million was paid to the parent company. The Company's equity and subordinated loan capital, based on the Board of Directors' proposal for the allocation of the year's profit, totalled NOK 380.5 (279.3) million at the close of 2017. Core capital is identical with equity and subordinated loan capital. This gives a capital adequacy and core capital adequacy of 20.3 (15.8) per cent.

The current capital requirement, including capital buffers, is 12,0 per cent core capital adequacy and 15.5 per cent capital adequacy. The risk-weighted balance came to NOK 1.8 (1.7) billion. Capital adequacy is considered good.

LIQUIDITY
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.

KLP Boligkreditt 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 largely covered bonds with an Aaa rating.

At the end of 2017, NOK 123 (115) million of the Company's liquidity was invested in bank deposits and NOK 5 (44) million in fixed-interest securities. Securities are recognised at market value. For 2017 this gave a net book gain of NOK 0.2 (0.4) million.

APPLICATION OF THE YEAR'S PROFIT
KLP Boligkreditt AS's financial statements for 2017 show a total net profit of NOK 10.2 million. The Board of Directors proposes that a group contribution of NOK 16.0 million be paid to KLP. NOK 12.2 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

Photo: Roar Grønstad

The Board of Directors of KLP Boligkreditt AS. From the left: Aage E. Schaanning, Ingrid Aune, Sverre Thornes, Marit Barosen.

and liabilities, financial position and results. The preconditions exist for continuation as a going concern, and it is on this assumption that the financial statements have been prepared.

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

To provide for good quality of financial reporting, detailed plans are produced for each set of accounts, 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 Boligkreditt AS and the KLP Group have a bearing on the company's borrowing terms. The Company has engaged Moody's to credit rate the Company's bonds. All issues of covered bonds received an Aaa rating.

RISK MANAGEMENT

KLP Boligkreditt 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 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 Board of Directors of KLP Banken AS has established a Risk Committee. The Risk Committee deals with matters specifically related to risk and has an advisory function to the Board of KLP Boligkreditt AS.

THE WORK OF THE BOARD OF DIRECTORS

The Board of Directors held seven board meetings in 2017. For an overview of the remuneration paid to members of the Company's Board and management, see Note 15. The Board comprised two women and two men at the end of the year.

CORPORATE GOVERNANCE

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

The Board is not authorised to issue or buy back shares in the company.

The Board of Directors determines the guidelines for the Company's activities. Binding contracts may be signed by the CEO or the Chairman of the Board alone.

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

An account of KLP Banken's corporate governance is available on the KLP website; see https://www.klp.no/om-klp.

WORKING ENVIRONMENT AND ORGANISATION

KLP Boligkreditt AS had two employees at the close of 2017. These also had employment relationships with other companies in the KLP Banken Group.

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

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

EXTERNAL ENVIRONMENT

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

CORPORATE SOCIAL RESPONSIBILITY

As part of the KLP Group, KLP Boligkreditt 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, www.klp.no/english/corporate-responsibility).

FUTURE PROSPECTS

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

Moving forward, mortgage loans will be purchased from KLP Banken AS or KLP, and will be included in the sureties used to secure existing and new borrowing issues. The Board of Directors believes that there is potential to further develop the Company and that KLP Boligkreditt AS will be able to finance a growing share of KLP Banken's mortgage loans. This will help to reduce the bank group's borrowing costs. KLP Boligkreditt AS aims to be a major contributor to the financing of home loans to employees of KLP's owners.

Oslo, 14 March 2018
The Board of Directors of KLP Boligkreditt AS

SVERRE THORNES Chair	AAGE E. SCHAANNING Deputy Chair
INGRID AUNE	MARIT E. BAROSEN

CHRISTOPHER A. N. STEEN
Managing Director

Karoline Baltzersen
Employed in Non-life insurance

Dag Eidstuen
Employed in IT

Vidar Stenseth
Employed in IT

Income Statement

KLP BOLIGKREDITT AS

NOTE	NOK THOUSANDS	01.01.2017 -31.12.2017	01.01.2016 -31.12.2016
	Interest income and similar income	113 366	104 511
	Cost of interest and similar costs	-66 915	-67 703
9	**Net interest income**	**46 451**	**36 808**
5	Net gain/(loss) on financial instruments	148	3 328
	Total net gain/(loss) on financial instruments	**148**	**3 328**
23	Other operating expenses	-33 090	-28 758
	Total other operating expenses	**-33 090**	**-28 758**
	Operating profit/loss before tax	**13 509**	**11 379**
19	Tax on ordinary income	-3 288	-2 865
	Income for the year	**10 220**	**8 514**
	Other comprehensive income	0	0
	Other comprehensive income for the year after tax	**0**	**0**
	COMPREHENSIVE INCOME FOR THE YEAR	10 220	8 514
	ALLOCATION OF INCOME		
	Allocated to/from retained earnings	-10 220	-8 514
	TOTAL ALLOCATION OF INCOME	-10 220	-8 514
	Total profit in% of total assets	0,20 %	0,17 %

Balance Sheet

KLP BOLIGKREDITT AS

NOTE	NOK THOUSANDS	31.12.2017	31.12.2016
	ASSETS		
10,25	Loans to and receivables from credit institutions	123 488	115 181
10	Loans to and receivables from customers	5 057 203	4 722 193
8	Fixed-income securities	5 020	44 110
19	Deferred tax assets	1 064	485
24	Other assets	930	3 777
	TOTAL ASSETS	**5 187 705**	**4 885 745**
	LIABILITIES AND OWNERS' EQUITY		
	LIABILITIES		
16	Liabilities to credit institutions	500 345	848 927
17	Liabilities created on issuance of securities	4 298 444	3 745 457
20	Other liabilities	6 824	11 233
20	Provisions for accrued costs and liabilities	532	288
	TOTAL LIABILITIES	**4 806 145**	**4 605 905**
	OWNERS' EQUITY		
	Share capital	160 000	100 000
	Share premium	210 463	150 463
	Other owners' equity	11 097	29 377
	TOTAL OWNERS' EQUITY	**381 560**	**279 840**
	TOTAL LIABILITIES AND OWNERS' EQUITY	**5 187 705**	**4 885 745**

Oslo, 14 March 2018
The Board of Directors of KLP Boligkreditt AS

SVERRE THORNES
Chair

AAGE E. SCHAANNING
Deputy Chair

INGRID AUNE

MARIT E. BAROSEN

CHRISTOPHER A. N. STEEN
Managing Director

Statement of Owners' Equity

KLP BOLIGKREDITT AS

2017 NOK THOUSANDS	Share capital	Share premium	Other equity	Total owners' equity
Owners' equity 1 January 2017	100 000	150 463	29 377	279 840
Income for the year	0	0	10 220	10 220
Other comprehensive income	0	0	0	0
Total comprehensive income	**0**	**0**	**10 220**	**10 220**
Dividends paid	0	0	-28 500	-28 500
Group contribution received	0	0	9 087	9 087
Group contribution paid after tax	0	0	-9 087	-9 087
Paid-up equity in the period	60 000	60 000	0	120 000
Total transactions with the owners	**60 000**	**60 000**	**-28 500**	**91 500**
Owners' equity 31 December 2017	**160 000**	**210 463**	**11 097**	**381 560**

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

NOK THOUSANDS	Number of shares	Par value	Share capital	Share premium	Other equity	Total
Equity at 1 January 2017	1 000	100	100 000	150 463	29 377	279 840
Changes in the period 1 January - 31 December		60	60 000	60 000	-18 280	101 720
Equity at 31 December 2017	**1 000**	**160**	**160 000**	**210 463**	**11 097**	**381 560**

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

Statement of Cash Flows

KLP BOLIGKREDITT AS

NOTE	NOK THOUSANDS	01.01.2017 -31.12.2017	01.01.2016 -31.12.2016
	OPERATIONAL ACTIVITIES		
	Payments received from customers – interest, commission & charges	111 110	102 210
	Receipts on loans to customers	-2 207 037	-2 582 903
	Payment for the credit card portfolio	1 875 248	1 602 399
	Disbursements on operations	-38 001	-28 086
	Net receipts/payments on other operating activities	-4 677	2 313
	Net interest from investment accounts	1 440	1 627
	Income tax paid	0	0
	Net cash flow from operating activities	**-261 917**	**-902 440**
	INVESTMENT ACTIVITIES		
	Payments on purchase of securities	-4 801	-142 403
	Receipts on sales of securities	43 985	189 161
	Interest received from securities	433	902
	Net cash flow from investment activities	**39 617**	**47 660**
	FINANCING ACTIVITIES		
	Receipts on loans	557 000	1 473 430
	Repayment and redemption of loans	-351 515	-5 717
	Payment for loan buybacks	0	-557 000
	Net payment of interest on loans	-68 024	-61 413
	Change in owners' equity	120 000	0
	Group contribution paid	-3 029	0
	Dividends paid	-28 500	0
	Net cash flow from investment activities	**225 932**	**849 300**
	Net cash flow during the period	**3 632**	**-5 480**
	Cash and cash equivalents at start of period	112 374	117 854
25	Cash and cash equivalents at end of period	116 006	112 374
	Net receipts/disbursements (-) of cash	**3 632**	**-5 480**

Declaration Pursuant to the Norwegian Securities Trading Act, Section 5-5

KLP BOLIGKREDITT AS

We hereby declare that, to the best of our knowledge, the annual financial statements for the period from 1 January to 31 December 2017 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, 14 March 2018
The Board of Directors of KLP Boligkreditt AS

SVERRE THORNES
Chair

AAGE E. SCHAANNING
Deputy Chair

INGRID AUNE

MARIT E. BAROSEN

CHRISTOPHER A. N. STEEN
Managing Director

Notes to the Accounts

KLP BOLIGKREDITT AS

NOTE 1 General information

KLP Boligkreditt AS was founded on 30 October 2013. The company is a housing credit enterprise, and finance the activity primary through issuing covered bonds (OMF). The Company's functional currency is Norwegian kroner.

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

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

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

NOTE 2 Summary of the most important accounting principles

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

2.1 FUNDAMENTAL PRINCIPLES

The financial statements for KLP Boligkreditt AS have been prepared in accordance with 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 2017

No standards, changes or interpretations that came into effect during 2017 have been adopted that have had significant effect on the Company's/Group's accounts.

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

IFRS 9 *Financial instruments* , which covers the classification, measurement and recognition of financial assets and financial liabilities, introduces new rules for hedge accounting, with a new impairment model for financial assets. The Company will start using the standard from 2018 onwards. IFRS 9 has to be applied retrospectively, with the exception of hedge accounting. Retrospective application means that KLP Boligkreditt AS has to produce an opening balance as of 01/01/2018 as if it had always applied the new principles. As permitted in the transitional provisions for IFRS 9, KLP Boligkreditt AS will not restate comparative figures for previous periods when it implements the standard on 01.01.2018. The effects of new policies in the opening balance for 2018 are recognised directly in equity.

IFRS 9 replaces the classification and measurement models in IAS 39 with one model which basically has only three categories: amortised cost, fair value with value changes in other comprehensive income, and fair value with value changes through profit or loss.

Classification of loans depends on the entity's business model for managing its financial assets and the characteristics of the individual assets' cash flows. A debt-equity instrument is measured at amortised cost if: a) the business model is to own the financial asset in order to receive the contractual cash flows, and b) the instrument's contractual cash flows exclusively represent payments of principal and interest. If these criteria are in place, but the business model also provides for sales from the portfolio, the debt instruments are measured at fair value with value changes through other comprehensive income, with interest income, currency translation effects and any write-downs presented in ordinary profit/loss. Value changes recognised through other comprehensive income have to be reclassified as profit when the assets are sold or otherwise disposed of.

All other debt and equity instruments, including investments in complex instruments, must be recognised at fair value through profit or loss. There is an exception for investments in equity instruments that are not held for sale and are not a conditional payment following the transfer of an enterprise. For such investments, value changes can be passed through other comprehensive income, without any subsequent recycling to the profit.

For financial obligations that the unit chooses to measure at fair value, the portion of the change in value due to changes in credit risk is recognised in other comprehensive income unless this creates or reinforces an accounting mismatch, and not in profit/loss as with IAS 39.

The new rules for hedge accounting mean that the accounting for the hedge better reflects the general practice for risk management in the undertakings. As a general rule, it will be easier to use hedge accounting in the future. The new standard also introduces extended information requirements and changes in the rules for presenting the hedge.

KLP Boligkreditt has assessed the classification and measurement of assets and liabilities covered by the new standard. It has been concluded that lending operations are conducted according to a business model to acquire lending to receive contractual cash flows. The contractual cash flows comprise solely payment of principal and interest. This means that the loans will be accounted for at amortized cost as a continuation of the same measurement method that has been used under IAS 39. Other financial instruments have been recognised at fair value with value changes through profit or loss. This will be continued under IFRS 9. The introduction of the new standard is thus not expected to have a significant impact on the entity's classification and measurement of financial instruments.

Other significant changes in classification and measurement are the introduction of a new impairment model for losses on loans and receivables which is based on expected credit losses.

The model has three stages, depending on the change in credit quality. 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 (step 1). If the credit risk has increased significantly, the provisions should correspond to the expected credit losses over the expected useful life (step 2). If there is a loss event, impairments are raised equal to the expected loss on the commitment throughout its life (step 3).

KLP Boligkreditt has developed a new loss provision model that complies with the rules in IFRS 9. In KLP Boligkreditt AS 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 KLP Boligkreditt 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.

The effect of implementing the new rules and regulations is calculated as the difference between the carrying value of loss provisions according to the old rules at 31 December 2017 and the value of loss provisions calculated according to the new rules as of 1 January 2018. This effect will be recognised as a change in the posted loss provisions with a balancing entry directly against equity, so the income statement is not affected. The company has good collateral in the loan portfolio and no capitalized loss in the balance sheet per. 31.12.2017. The transition to a new write-down model 01.01.2018 also shows no need for loss provisions, and thus there is no effect on equity as a result of the implementation on 01.01.2018. Transitional notes relating to classification and measurement, the new impairment model, and changes in accounting policies for financial instruments (from 1 January 2018) are set out in note 2.8.1 Changes in accounting principles. A summary of significant accounting principles related to financial instruments which are effective from 1 January 2018, is given in note 2.8.2 Summary of significant accounting policies related to financial instruments.

IFRS 15 *Revenue from Contracts with Customers* deals with revenue recognition. The standard calls for analysis of the customer contract, identifying the individual performance obligations. A performance obligation may be a good or service. Income is recognised when a customer achieves control over a good or service, and thus has the opportunity to decide on the use of and may receive the advantages from the good or the service. The standard replaces IAS 18 Revenue and IAS 11 Construction Contracts and associated interpretations. The Company will use the standard from 2018 onwards. The transition to IFRS 15 is not expected to have any material effect on the Company's financial statements.

IFRS 16 *Leases* will result in almost all leases being capitalised, as the distinction between operational and financial leasing has been removed. Under the new standard, the right to use a leased object is an asset, and an obligation to pay a lease is a debt 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 apply the standard from 2019 onwards. The transition to IFRS 16 is not expected to have any material effect on the financial statements, as the Company does not have any leases of significance because only small assets are leased.

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

2.2 FINANCIAL ASSETS

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

2.2.1 Financial assets at fair value through profit or loss

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

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

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

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

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

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

2.2.2 Loans and receivables at amortized cost

Loans and receivables, with the exception of derivatives, are financial assets with fixed or determinable payments that are not traded in an active market or which the Company intends to sell in the short-term or has earmarked at fair value through profit or loss.

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

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

2.2.3 Accounting treatment of financial assets

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

2.2.4 Write down of financial assets valued at amortized cost

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

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

2.2.5 Netting

Financial assets and liabilities are presented net in the statement of financial position when there is an unconditional offsetting entitlement that can be legally enforced and the intention is to settle net, or realize the asset and liability simultaneously.

2.3 CASH AND CASH EQUIVALENTS

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

2.4 FINANCIAL LIABILITIES

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

2.4.1 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.

2.4.2 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.

2.5 OWNERS’ EQUITY

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

2.5.1 Owners’ equity contributed

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

2.5.2 Retained earnings

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

2.6 PRESENTATION OF INCOME

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

2.6.1 Interest income/expenses

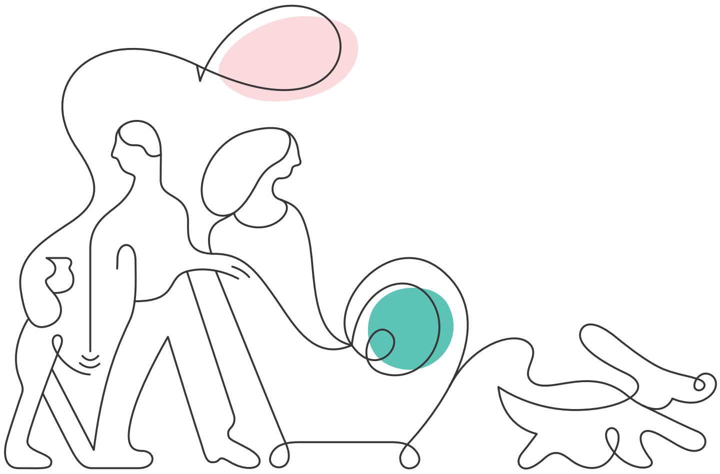
Interest income and interest expenses associated with all interest-bearing financial instruments valued at amortized cost are taken to income using the effective interest rate method.

For interest-bearing financial investments measured at fair value, interest income is classified as “Interest income and similar income”, whereas other value changes are classified as “Net gain or loss on financial investments”.

2.7 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 pays no benefits to employees and is not covered by the rules on financial activity tax. The company's nominal income tax rate in 2017 is 24 per cent, while deferred tax is calculated by 23 per cent as the income tax rate is reduced by one percentage point in 2018.



2.8 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR FINANCIAL INSTRUMENTS (FROM 1 JANUARY 2018)

2.8.1 Changes in accounting principles

KLP Boligkreditt 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 Boligkreditt AS has 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.

2.8.1.1 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 instrument's contractual cash flow characteristics.

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.

2.8.1.2 Changes in the impairment model

Today's rules (IAS 39) involve provisions for losses based on an 'incurred loss' model, i.e. loan loss provisions are conditional on objective evidence that an impairment loss has occurred on the balance sheet date, while IFRS 9 stipulated provisions for expected loss. 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 (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). The individual loss provisions in IAS 39 will not be affected by the transition to IFRS 9 (step 3).

Information on the effects of the transition to IFRS 9 is given in note 2.8.1.3 to 2.8.1.7 below. Note 2.8.2, Summary of significant accounting policies related to financial instruments, sets out the accounting policies for financial instruments to be applied from 1 January 2018 (as well as previous IAS 39 accounting policies for financial instruments applied in the comparative period).

2.8.1.3 Classification and measurement of financial instruments

The table below shows 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	123	Amortised cost	123
Loans to and receivables from customers	Loans and receivables	5 057	Amortised cost	5 057
Fixed-income securities	Fair value through profit or loss (FVO)	5	Fair value through profit or loss	5
Liabilities created on issuance of securities	(Amortised cost)	-4 799	Amortised cost	-4 799

As is evident from the table, there are no significant changes in the classification and measurement of financial assets or financial liabilities.

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

KLP Boligkreditt 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 2.8.2 for more detailed information on the new classification requirements under IFRS 9.

The following table 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 as of 1 January 2018.

NOTE	FINANCIAL ASSET FIGURES IN MNOK	Carrying amount according to IAS 39 31 December 2017	Change as a result of reclassifi-cation	Change as a result of revaluation	Carrying amount according to IFRS 9 1 January 2018
	AMORTISED COST				
	Loans to and receivables from credit institutions	123	0	0	123
	Loans to and receivables from customers	5 057	0	0	5 057
	Total effect at amortised cost	**5 181**	**0**	**0**	**5 181**
	FAIR VALUE WITH VALUE CHANGES THROUGH PROFIT OR LOSS				
A	Fixed-income securities	5	0	0	5
	Total effect on fair value through profit or loss	**5**	**0**	**0**	**5**
	Total financial assets	**5 186**	**0**	**0**	**5 186**
	FINANCIAL LIABILITIES				
	AMORTISED COST				
	Liabilities created on issuance of securities	4 799	0	0	4 799
	Total effect at amortised cost	**4 799**	**0**	**0**	**4 799**
	Total financial liabilities	**4 799**	**0**	**0**	**4 799**

NOTE A

Interest-bearing securities make up parts of KLP Boligkreditt'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.

2.8.1.5 Reconciliation of loss provisions between IAS 39 and IFRS 9

The following table 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.

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 guarantee contracts and loan commitments	0	0	0	0
Total change in loss provisions	**0**	**0**	**0**	**0**

2.8.1.6 Distribution of loss provisions per step (1 January 2018)

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

SPECIFICATION OF LOSS PROVISIONS FIGURES IN MNOK	Step 1	Step 2	Step 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 guarantee contracts and loan commitments	0	0	0	0
Total provisions for losses	**0**	**0**	**0**	**0**

2.8.1.7 Effect of the transition to IFRS 9 on equity

The impact of the transition to IFRS 9 on equity is MNOK 0.

2.8.2 Summary of important accounting policies related to financial instruments

The most important accounting policies relating to financial instruments to be used from 1 January 2018 are described below.

2.8.2.1 Recognition and derecognition

Financial assets and liabilities on the balance sheet on the date when KLP Boligkreditt AS 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 KLP Boligkreditt AS has generally transferred 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.

2.8.2.2 Classification and subsequent measurement

Financial assets – principle applied from 1 January 2018

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

- Amortised cost
- Fair value through profit or loss

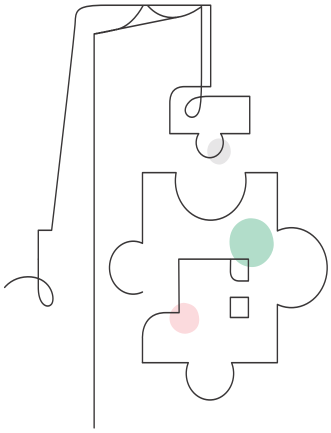
A financial asset is measured at amortised cost if both of the following criteria are met and the financial asset has not been reported at fair value through profit or loss (the 'fair value option'):

- 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 Boligkreditt 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 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 Boligkreditt AS considers 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, i.e.

- 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 Boligkreditt AS 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 (an 'accounting mismatch'). This option is also applicable under IAS 39.

Financial assets – principle applied before 1 January 2018

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

Financial assets:
- 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 chosen to recognise attribution at fair value with value changes through profit or loss. The first category includes KLP Boligkreditt's financial derivatives, unless they are part of a hedge. The second category encompasses financial assets that have been designated at fair value through profit or loss (the 'fair value option').

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.

Financial liabilities

Under both IAS 39 and IFRS 9, financial liabilities classified as [later] are measured at amortised cost, except for:

- Financial liabilities for 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 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 table below shows and compares the presentation, classification and subsequent measurement of each balance sheet item under IAS 39 (before 1 January 2018) and under IFRS 9 (after 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
Fixed-income securities	Fair value through profit or loss (FVO)	Fair value through profit or loss
Liabilities created on issuance of securities	Amortised cost	Amortised cost

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

NOTE 3 Important accounting estimates and valuations

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

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

NOTE 4 Segment information

KLP Boligkreditt has no division of its income by products or services. The Company has only the retail market segment and offers its customers only loans that are secured by property mortgage. The Company has only Norwegian customers. The Company has no external customers representing more than 10 per cent of the Company's total operating income.

NOTE 5 Net gain/loss on financial instruments

NOK THOUSANDS	01.01.2017 -31.12.2017	01.01.2016 -31.12.2016
Net gain/(loss) on fixed-income securities	177	421
Net gain/loss financial derivatives and realized repurchase of own debt	-29	2 907
Total	**148**	**3 328**

NOTE 6 Categories of financial assets

NOK THOUSANDS	31.12.2017		31.12.2016	
	Book value	Fair value	Book value	Fair value
FINANCIAL ASSETS AT FAIR VALUE				
Fixed-income securities	5 020	5 020	44 110	44 110
Total financial assets at fair value	**5 020**	**5 020**	**44 110**	**44 110**
FINANCIAL ASSETS AT AMORTIZED COST				
Loans to and receivables from credit institutions	123 488	123 488	115 181	115 181
Lending to the retail market	5 057 203	5 057 203	4 722 193	4 722 193
Total financial assets at amortized cost	**5 180 691**	**5 180 691**	**4 837 374**	**4 837 374**
TOTAL FINANCIAL ASSETS	**5 185 711**	**5 185 711**	**4 881 484**	**4 881 484**
FINANCIAL LIABILITIES AT AMORTIZED COST				
Liabilities to credit institutions	500 345	500 345	848 927	848 927
Covered bonds issued	4 298 444	4 328 684	3 745 457	3 747 200
Total financial liabilities at amortized cost	**4 798 789**	**4 829 029**	**4 594 384**	**4 596 127**
TOTAL FINANCIAL LIABILITIES	**4 798 789**	**4 829 029**	**4 594 384**	**4 596 127**

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

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

Fixed-income securities - government
Bloomberg is used as a source for pricing Norwegian government bonds. It is Oslo Børs (Stock Exchange) that provides the price (via Bloomberg). The prices are compared with the prices from Reuters to 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 sero-coupon curve is asjusted upwards by means of a credit spread, which is to take account of the risk the bond entails. The credit spread is calculated on the basis of a spread curve taking account of the duration of the bond. Nordic Bond Pricing is the mainsource of spread curves. They provide company-specific curves for Norwegian saving banks, municipalities and energy. Saving banks have various spread curves based on total assets. For companies where Nordic Bond Pricing do not deliver spread curved, the Group use spread curves from three Norwegian banks. When spread curves are available from more than one of these banks, an equal-weighted average is used.

Fair value of loans to retail customers
Fair value of lending without fixed interest rates is considered virtually the same as book value since the contract terms are continuously changed in step with market interest rates. Fair value of fixedrate loans is calculated by discounting contractual cash flows by the marked rate including a relevant risk margin on the reporting date.

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

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

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

NOTE 7 Fair value hierarchy

31.12.2017 NOK THOUSANDS	Level 1	Level 2	Level 3	Total
ASSETS BOOKED AT FAIR VALUE				
Fixed-income securities	1 999	3 021	0	5 020
Total assets at fair value	**1 999**	**3 021**	**0**	**5 020**

31.12.2016 NOK THOUSANDS	Level 1	Level 2	Level 3	Total
ASSETS BOOKED AT FAIR VALUE				
Fixed-income securities	999	43 111	0	44 110
Total assets at fair value	**999**	**43 111**	**0**	**44 110**

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

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

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

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

There has been no movement between the levels.

Note 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.

NOTE 8 Fixed-income securities

NOK THOUSANDS				31.12.2017
Debtor categories	**Acquisition cost**	**Unreal. gain/loss**	**Accr. int. not due**	**Market value**
Government/social security administration	1 994	5	0	1 999
Credit enterprises	3 017	0	4	3 021
Total	**5 011**	**5**	**4**	**5 020**

Effective interest rate: 0,80%

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

Effective interest rate: 1,58%

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

NOTE 9 Net interest income

NOK THOUSANDS	01.01.2017 -31.12.2017	01.01.2016 -31.12.2016
Interest on loans to and receivables from credit institutions	1 439	1 627
Interest on lending to customers	111 575	102 106
Interest on securities	351	779
Total interest income	**113 366**	**104 511**
Interest on debt to KLP Banken AS	-5 431	-9 309
Interest on debt to credit institutions	-58 004	-55 978
Premium/discount on covered bonds	-3 479	-2 415
Total interest costs	**-66 915**	**-67 703**
NET INTEREST INCOME	**46 451**	**36 808**

NOTE 10 Lending and receivables

NOK THOUSANDS	31.12.2017	31.12.2016
Loans to and receivables from credit institutions		
Bank deposits	123 488	115 181
Loans to and receivables from credit institutions	**123 488**	**115 181**
Loans to and receivables from customers		
Principal on loans to customers	5 049 999	4 714 975
Premium/discount	1 458	1 938
Accrued interest	5 746	5 280
Loans to and receivables from customers	**5 057 203**	**4 722 193**

NOTE 11 Financial risk management

ORGANISATION OF RISK MANAGEMENT

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

NOTE 12 Credit risk

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

KLP Boligkreditt AS provides property mortgage loans to retail customers. The principal customer group is made up of members of KLP, who represent about 78% of the lending volume.

12.1 CONTROL AND LIMITATION OF CREDIT RISK

The Board has determined a credit policy that contains overarching guidelines, requirements and limits associated with credit risk. The policy lays down that the bank is to have a low credit risk profile and includes limits on types of lending and principles for organisation and operation of the Company's lending activity. The policy also includes an overall mandate structure for lending and other counterparty exposure.
KLP Boligkreditt AS has only loans mortgaged in residential property within 75% of the market value of the mortgaged object in the portfolio. In processing loan applications the borrower's servicing ability and the value of the mortgage object is assessed and loans are provided only within set limits and authorizations. The market value of the mortage assets is updated quarterly against Eiendomsverdis estimation of market value of housing in Norway.

NOTE 12 Credit risk cont.

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

NOK THOUSANDS	31.12.2017	31.12.2016
Loans to the private market with mortgage lien	5 049 999	4 714 975
Total	**5 049 999**	**4 714 975**
Sums falling due more than 12 months after the end of the reporting period	4 840 506	4 532 655

BREAKDOWN OF LOAN RATIO (PRINCIPAL)

NOK THOUSANDS	31.12.2017	31.12.2016
Loan ratio up to 50 percent	2 827 682	2 742 668
Loan ratio from 51 to 60 percent	1 196 373	1 033 817
Loan ratio from 61 to 75 percent	1 025 688	916 928
Loan ratio over 75 percent	257	21 561
Total	**5 049 999**	**4 714 975**

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	31.12.2017	31.12.2016
AAA	**5 000**	**44 000**

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

NOK THOUSANDS	31.12.2017	31.12.2016
Aa1-Aa3	51 021	43 503
A1-A3	72 467	71 677
Baa1	-	-
Total	**123 488**	**115 181**

The Company may also be exposed to credit risk as a result of derivative agreements struck. The purpose of such agreements is to reduce risks arising as a result of the Company's borrowing and lending activities. The Company's internal guidelines specify creditworthiness requirements for derivative counterparties.

NOTE 12 Credit risk - cont.

12.3 MAXIMUM EXPOSURE TO CREDIT RISK

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

Maximum exposure to credit risk

NOK THOUSANDS	31.12.2017	31.12.2016
Loans to and receivables from credit institutions	123 488	115 181
Loans to and receivables from customers	5 055 745	4 720 255
Fixed-income securities	5 020	44 110
Financial derivatives	0	0
TOTAL	**5 184 253**	**4 879 546**

12.4 LOANS FALLEN DUE OR WRITTEN DOWN

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

Loans fallen due or written down

NOK THOUSANDS	31.12.2017	31.12.2016
Principal on loans with payments with 7-30 days' default	50 962	45 909
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	**50 962**	**45 909**
Relevant security or guarantees	50 962	45 909
Lending that has been written down	-	-

12.5 CONCENTRATION OF CREDIT RISK

The Company's lending is in its entirety linked to financing of real estate with security within 75% of the value of the residential property. All borrowers are Norwegian and the collateral is in Norwegian housing. The company has a risk consentration where it is exposed to a general impairment in the Norwegian housing market.

The concentration against individual borrowers is limited by individual Board-set limits. KLP Boligkreditt AS's largest exposure as at 31 December 2017 was about 0.2 per cent of the Company's total lending.

NOTE 13 Market risk

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

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

NOTE 13.1 MEASUREMENT OF MARKET RISK

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

NOTE 13.2 INTEREST RATE RISK

The market risk policy is the Company's overarching guidelines, requirements and limits associated with market risk. The policy dictates that the market risk should be minimized so that the total market risk is low. It further states that the Company should not actively take positions that expose the Company to market risk. The policy also sets limits for interest rate risk both for the total interest rate risk for the infinite future and for rolling 12-month periods. The limits are set in relation to the Company's Tier 1 and 2 capital and the level of the limits should ensure that the low market risk profile policy is complied with. The operational responsibility for managing the Company's market risk lies with the Finance Department in KLP Banken. The Risk Analysis and Control Department reports the Company's actual exposure in relation to limits in accordance with guidelines set by the Board. Interest rate risk arises because the fixed interest periods for the bank's assets and liabilities are not the same. The table below shows repricing dates for the Company's interest-bearing assets and liabilities, and the gap shows the difference between assets and liabilities that can be interest-adjusted within the given time intervals. Lending at variable rates, and cash and receivables with credit institutions, are assumed to be able to be repriced within a 1-month horizon. The debt falls into the time interval for which interest adjustment has been agreed.

INTEREST-RATE RISK KLP BOLIGKREDITT AS
Repricing dates for interest-bearing assets and liabilities as at 31 December 2017

NOK THOUSANDS	Total Principal	Up to 1 mth	From 1 mths to 3 mths	From 3 mths to 12 mths	From 1 year to 5 years	Over 5 years
Lending	5 049 999	0	5 049 999	0	0	0
Securities	5 000	0	5 000	0	0	0
Cash and receivables from credit institutions	123 488	123 488	0	0	0	0
Total	**5 178 487**	**123 488**	**5 054 999**	**0**	**0**	**0**
Liabilities created on issuance of securities	4 300 000	2 500 000	1 800 000	0	0	0
Liabilities to financial institutions	500 000	500 000	0	0	0	0
Total	**4 800 000**	**3 000 000**	**1 800 000**	**0**	**0**	**0**
Gap	**378 487**	**-2 876 512**	**3 254 999**	**0**	**0**	**0**
Financial derivatives	0	0	0	0	0	0
Net gap	**378 487**	**-2 876 512**	**3 254 999**	**0**	**0**	**0**

NOTE 13 Market risk - cont.

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

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

The Company's interest rate sensitivity as at 31 December 2017 (2016), measured as value change in the event of one percentage point change in all interest rates, was NOK 1.8 million (2.1 million).

NOTE 13.3 EXCHANGE RATE RISK

As at 31 December 2017 the Company had no borrowing in foreign currency.

NOTE 14 Liquidity risk

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

Note 14.1 Management of liquidity risk

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

NOTE 14 Liquidity risk - cont.

14.2 MATURITY ANALYSIS

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

LIQUIDITY RISK KLP BOLIGKREDITT AS
Maturity analysis for assets and liabilities as at 31 December 2017

NOK THOUSANDS	Total	Undefined	Up to 1 mth	From 1 mths to 3 mths	From 3 mths to 12 mths	From 1 year to 5 years	Over 5 years
Lending	6 470 076	0	26 557	54 615	247 270	1 333 035	4 808 599
Securities	5 069	0	0	2 009	26	3 034	0
Receivables from credit institutions	123 488	0	123 488	0	0	0	0
Total	**6 598 633**	**0**	**150 045**	**56 624**	**247 296**	**1 336 069**	**4 808 599**
Liabilities created on issuance of securities	4 472 168	0	9 059	4 870	41 480	4 416 759	0
Financial derivatives	0	0	0	0	0	0	0
Liabilities to credit institutions	508 922	0	649	1 196	5 576	501 501	0
Total	**4 981 090**	**0**	**9 708**	**6 066**	**47 056**	**4 918 260**	**0**
NET CASH FLOW	**1 617 543**	**0**	**140 337**	**50 558**	**200 240**	**-3 582 191**	**4 808 599**

Maturity analysis for assets and liabilities as at 31 December 2016

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

A 15-month internal loan of NOK 500 mill has been provided from KLP Banken AS to KLP Boligkreditt AS, which is defined as Liabilities to credit institutions. This loan is rolled over currently every third month and the interest rate is set each month.

NOTE 15 Salary and obligations to senior management

2017 NOK THOUSANDS	Paid from KLP Boligkreditt AS						Paid from another company in the same group					
	Salaries, fees etc.	Other benefits	Annual pension accumulation	Loans	Interest rate as at 31.12.2017	Repayment plan[1]	Salaries, fees etc.	Other benefits	Annual pension accumulation	Loans	Interest rate as at 31.12.2017	Repayment plan[1]
SENIOR EMPLOYEES												
Christopher A. Steen, Managing Director	-	-	-	182	2,35	A31	1 221	28	221	6 176	2.10-2.35	A42/A44
BOARD OF DIRECTORS												
Sverre Thornes, Chair	-	-	-	9 515	2,10	A45	3 900	205	1 457	4 041	2.35	A47
Aage E. Schaanning	-	-	-	-	-	-	3 413	167	1 223	5 991	2.10	HC
Ingrid Aune	11	-	-	-	-	-	68	-	-	-	-	-
Marit Barosen	79	-	-	-	-	-	-	-	-	-	-	-
Eva M. Salvesen	16	-	-	-	-	-	66	-	-	-	-	-
EMPLOYEES												
Total loans for employees of KLP Boligkreditt	-	-	-	182	-	-	-	-	-	6 176	-	-

2016 NOK THOUSANDS	Paid from KLP Boligkreditt AS						Paid from another company in the same group					
	Salaries, fees etc.	Other benefits	Annual pension accumulation	Loans	Interest rate as at 31.12.2016	Repayment plan[1]	Salaries, fees etc.	Other benefits	Annual pension accumulation	Loans	Interest rate as at 31.12.2016	Repayment plan[1]
SENIOR EMPLOYEES												
Christopher A. Steen, Managing Director	-	-	-	199	2,20	A2034	1 181	23	212	2 700	1.95	A42
BOARD OF DIRECTORS												
Sverre Thornes, Chair	-	-	-	-	-	-	3 807	206	1 413	11 840	1.95-2,35	A46
Aage E. Schaanning	-	-	-	-	-	-	3 338	164	1 193	5 680	1.95	HC
Marit Barosen	72	-	-	-	-	-	-	-	-	-	-	-
Eva M. Salvesen	22	-	-	-	-	-	130	-	-	-	-	-
EMPLOYEES												
Total loans for employees of KLP Boligkreditt	-	-	-	199	-	-	-	-	-	2 700	-	-

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

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

The Managing Director receives no remuneration or pension accumulation from KLP Boligkreditt AS. The incumbent receives all benefits from the parent company, KLP Banken AS, where he holds the position of Head of Finance KLP Boligkreditt refunds the portion of the benefits that can be linked to the role as Managing Director. There is no agreement on performance pay or special consideration on termination or change in employment contract. The pensionable age is 70 years.

There are no obligations to provide the Chair of the Board of Directors special consideration or other benefits on termination or change in employment contract or appointment. Directors' fees are set by the General Assembly. Board members employed in the KLP Group, not having been elected by and from the employees, do not receive a fee for the Board appointment. Benefits in addition to Directors' fees for Board members employed in the KLP Group are stated only if they are included in the senior management group employed in the KLP Group. This also applies to any loans they may have with the Group. All benefits are shown without the addition of social security costs. Attention is drawn otherwise to the description of the main principles on determination of remuneration in the KLP Group that may be found at klp.no.

NOTE 16 Liabilities to credit institutions

31.12.2017 NOK THOUSANDS	Currency	Interest	Due date	Nominal	Accrued interest	Book value
Debt to KLP Banken AS	NOK	Fixed	15.03.2019	500 000	345	500 345
Total liabilities to credit institutions				**500 000**	**345**	**500 345**
Interest rate on debt to credit institutions at the reporting date						**1,46 %**

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

31.12.2016 NOK THOUSANDS	Currency	Interest	Due date	Nominal	Accrued interest	Book value
Debt to KLP Banken AS	NOK	Fixed	15.03.2018	848 430	497	848 927
Total liabilities to credit institutions				**848 430**	**497**	**848 927**
Interest rate on debt to credit institutions at the reporting date						**1,40 %**

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

NOTE 17 Securities liabilities - stock exchange listed covered bonds

NOK THOUSANDS	31.12.2017	31.12.2016
Bonds, nominal value	4 300 000	4 300 000
Revaluations	-11 071	-7 987
Accrued interest	9 515	10 444
Own funds, nominal value	0	-557 000
Total liabilities created on issuance of securities	**4 298 444**	**3 745 457**
Interest rate on borrowings through the issuance of securities at the reporting date	**1.36 %**	**1.66 %**

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

NOK THOUSANDS	Balance 31.12.2016	Issued	Fallen due/ redeemed repurchased	Others changes	Balance 31.12.2017
Change in liabilities created on issuance of securities					
Bonds, nominal value	4 300 000	600 000	-600 000	0	4 300 000
Revaluations	-7 987	0	0	-3 084	-11 071
Accrued interest	10 444	0	0	-929	9 515
Own funds, nominal value	-557 000	0	557 000	0	0
Total liabilities created on issuance of securities	**3 745 457**	**600 000**	**-43 000**	**-4 013**	**4 298 444**

NOTE 18 Capital adequacy

NOK THOUSANDS	31.12.2017	31.12.2016
Share capital and share premium	370 463	250 463
Other owners' equity	11 097	29 377
Total owners' equity	**381 560**	**279 840**
Adjustments due to requirements for proper valuation	-5	0
Deferred tax assets	-1 064	-485
Core capital/Tier 1 capital	**380 491**	**279 355**
Supplementary capital/Tier 2 capital	0	0
Supplementary capital/Tier 2 capital	**0**	**0**
Total own funds (eligible Tier 1 and Tier 2 capital)	380 491	279 355
Capital requirement	150 125	141 426
Surplus of own funds (eligible Tier 1 and Tier 2 capital)	**230 366**	**137 929**
CALCULATION BASIS CREDIT RISK		
Institutions	25 165	24 148
Mortgage security in real estate	1 770 021	1 652 477
Covered bonds	302	4 311
Calculation basis credit risk	**1 795 488**	**1 680 936**
Credit risk	143 639	134 475
Operational risk	6 486	6 951
Total capital requirement assets	**150 125**	**141 426**
Core capital adequacy ratio	20,3 %	15,8 %
Supplementary capital ratio	0,0 %	0,0 %
Capital adequacy ratio	**20,3 %**	**15,8 %**
Unweighted Tier 1 capital	**7,3 %**	**5,7 %**

CAPITAL REQUIREMENT AS AT 31.12.2017	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 requirement incl. buffers	**12.0 %**	**3.5 %**	**15.5 %**
Capital requirement leverage ratio	**3.0 %**	**0.0 %**	**3.0 %**

NOTE 19 Tax

NOK THOUSANDS	2017	2016
Accounting income before taxes	13 509	11 379
Reversal of value increase financial assets	35	-954
Change in differences between book and taxable income	2 574	1 691
Taxable income	**16 117**	**12 116**
DEFERRED TAX ASSET LINKED TO:		
Amortization of premium fund, borrowing	-1 065	-494
Total tax-reducing temporary differences	**-1 065**	**-494**
DEFERRED TAX LINKED TO:		
Financial instruments	1	10
Net deferred tax assets	**1**	**10**
Net deferred tax/tax assets	**-1 064**	**-485**
SUMMARY OF TAX EXPENSE FOR THE YEAR:		
Change in deferred tax taken to income	580	164
Capitalized tax from Group contribution	-3 868	-3 029
Total tax costs	**-3 288**	**-2 865**
Effective tax rate	24.3 %	25.2 %
RECONCILIATION OF TAX RATE:		
Accounting income before taxes	13 509	11 379
Income tax expense, nominal tax rate	3 242	2 845
Income tax expense, effective tax rate	3 288	2 865
Difference between effective and nominal tax	**-46**	**-20**
Effect of change in tax rate on deferred tax	-46	-20
Total	**-46**	**-20**

NOTE 20 Other liabilities and provision for accrued costs and liabilities

NOK THOUSANDS	31.12.2017	31.12.2016
Receivables between companies in the same Group	2 956	8 096
Creditors	0	108
Payable taxes	3 868	3 029
Total other liabilities	**6 824**	**11 233**
Value-added tax	223	0
Provisioned costs	309	288
Total accrued costs and liabilities	**532**	**288**

NOTE 21 Number of FTEs and employees

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

NOTE 22 Transactions with related parties

NOK THOUSANDS	01.01.2017 -31.12.2017	01.01.2016 -31.12.2016
INCOME STATEMENT ITEMS		
KLP Banken AS, interest on borrowing	-5 431	-9 309
KLP Banken AS, administrative services (at cost)	-31 178	-26 794
KLP Group companies, subsidised interest on staff loans	1 437	1 234
Total	**-35 173**	**-34 869**

NOK THOUSANDS	31.12.2017	31.12.2016
FINANCIAL POSITION STATEMENT ITEMS		
KLP Banken AS, debt to credit institutions	-500 345	-848 927
KLP Banken AS, loan settlement	538	3 295
Net outstanding accounts to:		
KLP Banken AS	-2 956	-8 096
KLP Group companies, net other internal accounts	392	482
Purchase of loans from KLP Banken AS	2 207 037	2 582 903
Total	**1 704 667**	**1 729 657**

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

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

NOTE 23 Auditor's fee

NOK THOUSANDS	01.01.2017 -31.12.2017	01.01.2016 -31.12.2016
Ordinary audit	148	181
Certification services	94	148
Total auditor's fee	**242**	**329**

The sums above include VAT.

NOTE 24 Other asset

NOK THOUSANDS	31.12.2017	31.12.2016
Receivables between Group companies	930	3 777
Total	**930**	**3 777**

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

NOK THOUSANDS	31.12.2017	31.12.2016
Bank deposits operations	116 006	112 374
Cash	0	0
Total cash and cash equivalents (liquidity)	**116 006**	**112 374**
Bank accounts to be used for the purchase and sale of securities	7 483	2 806
Loans and receivables from credit institutions	**123 488**	**115 181**

Elin Anne Pedersen
Employed in Life

To the General Meeting of KLP Boligkreditt AS

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of KLP Boligkreditt AS which comprise the balance sheet as at 31 December 2017, income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements are prepared in accordance with law and regulations and present fairly, in all material respects, the financial position of the Company as at 31 December 2017, 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.

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.

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 2017 financial statements. "Loan 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 2017 as for 2016.

Key Audit Matter	How our audit addressed the Key Audit Matter
Loan to customers	
The mortgage company has loans to private individuals amounting to NOK 5.1 bn that have collateral in real estate, and has issued covered bonds. Processes and controls have been established to ensure that the mortgage company complies with	In order to comply with the requirements in the regulations applicable to covered bonds when granting loans, the mortgage company had established a process for reviewing the applications for loans and associated documentation. The process included formal controls and segregation of duties, which were directed at

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Independent Auditor's Report - KLP Boligkreditt AS

the requirements related to the collateral in real estate when covered bonds are issued. The requirements are that the value of the collateral at all times should amount to at least 102 percent of the value of the covered bonds. For loans included in the collateral, the loan-to-value ratio may not exceed 75 percent for mortgage loans secured in housing properties and 60 percent for mortgage loans secured in vacation properties.

Historically, the mortgage company has not realized limited loan losses. As the requirements and the processes and controls are of fundamental importance for the mortgage company's operations, limited losses and compliance with the regulations, we have focused on this subject.

ensuring that the process had been carried out prior to granting or transfer of loans from other 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 mortgage company that the requirements in legislation and regulations was met.

Our work gave us sufficient evidence to enable us to rely on the operation of the mortgage company's internal controls in the area of regulatory compliance relevant for our audit.

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 mortgage company's financial reporting systems, and their business model is dependent on complex IT systems.

The mortgage 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 the Board of Directors' report, the statements on Corporate Governance and Corporate Social Responsibility, but does not include the financial statements and our auditor's report thereon.

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

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

Independent Auditor's Report - KLP Boligkreditt AS

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

Independent Auditor's Report - KLP Boligkreditt AS

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.

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 proposal for the allocation of the profit is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements *(ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the Company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 14 March 2018

PricewaterhouseCoopers AS

Erik Andersen

State Authorised Public Accountant

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