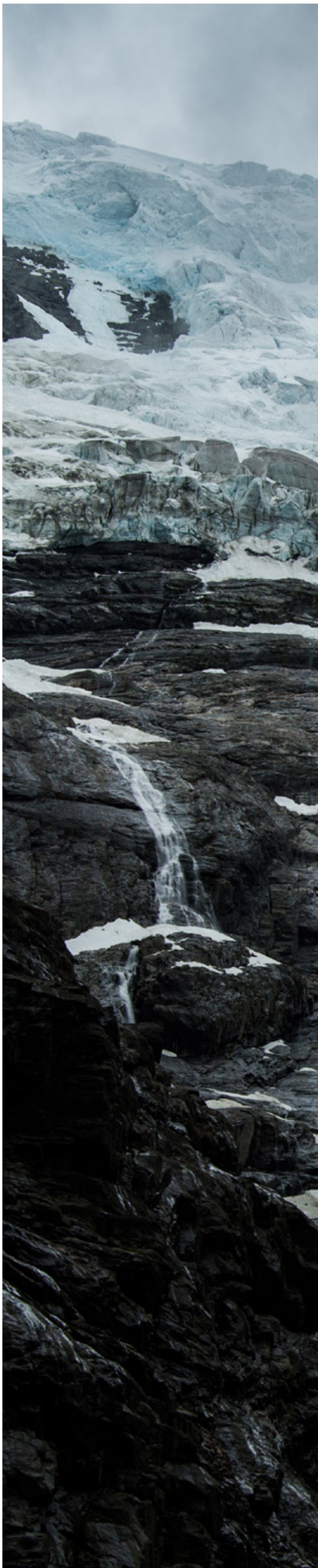
Annual Report 2017

KLP KOMMUNEKREDITT AS

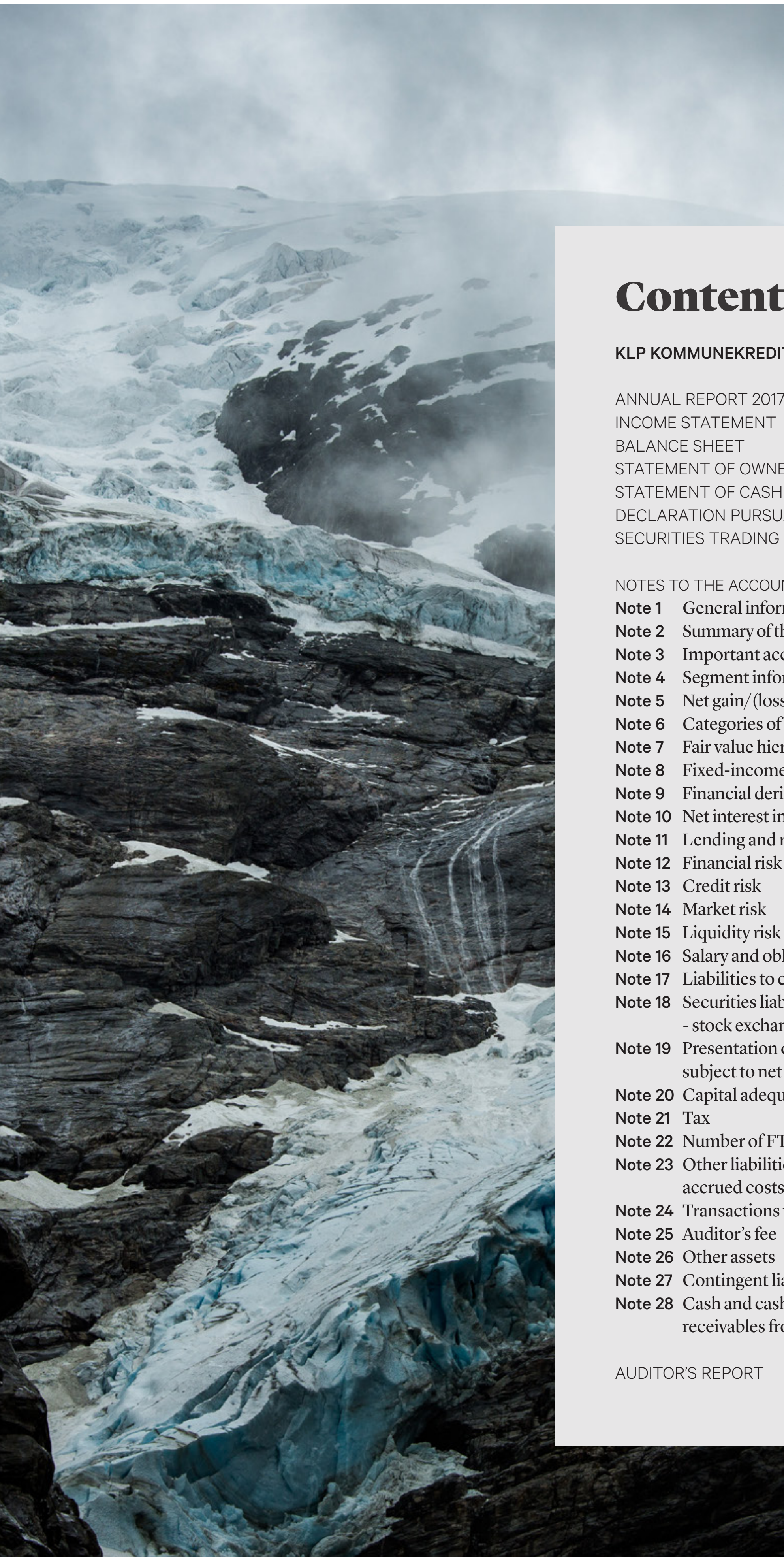


KLP Kommunekreditt AS is owned by KLP through its subsidiary KLP Banken AS.

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

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

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



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KLP KOMMUNEKREDITT AS

Picture: Anne Westad, employed in HR

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

Anne Therese Sande
Employed in Economy and Finance

Vidar Stenseth
Employed in IT

Torun Wahl
Employed in KLP Bedriftspensjon

KLP KOMMUNEKREDITT AS

Annual Report 2017

KLP Kommunekreditt AS reported a profit of NOK 59.9 million before tax. Net lending stood at NOK 16.3 billion. The Company is financed largely through the issue of covered bonds. These bonds have received the highest possible rating (Aaa).

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

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

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

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

INCOME STATEMENT

Figures in brackets below refer to last year's figures. The Company made a profit before tax of NOK 59.9 (53.2) million, and NOK 45.6 (39.9) million after tax. This gave a return on equity of 8.2 (8.1) per cent before tax.

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

The annual result shows that net interest income has increased compared with 2016, but outstanding loans showed a decline. Day-to-day margins between lending and deposits have increased on average compared with the previous year. This is mainly due to lower funding costs.

Net interest income from the lending and investment portfolios came to NOK 82.1 (68.0) million in 2017, an increase of 21 per cent. Gross interest income from lending activities and liquid investments decreased by 8 per cent compared with the year before, mainly as a result of falling interest rates.

Borrowing costs decreased by 13 per cent compared with 2016. In addition to falling interest rates, credit margins in the securities market also declined in 2017, but significantly less than the previous year. As well as the funding costs this also affects the value of the Company's securities investments. In 2017 realised and unrealised gains on securities totalled NOK 4.2 million for the year as a whole. At the end of 2016 the income statement showed a corresponding gain of NOK 15.3 million.

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).

FINANCIAL PERFORMANCE IN 2017

EARNINGS

NOK MILLIONS	2017	2016	Change
Profit/loss before tax	59.9	53.2	6.7
Net interest income	82.1	68.0	14.1
Operating expenses	-17.3	-18.9	1.7

BALANCE-SHEET

NOK BILLIONS	2017	2016	Change
New loan payments	0.8	3.3	-2.5
Net lending	16.3	17.2	-0.9
Liquidity	1.9	2.1	-0.2

Restructuring of borrowings then results in a need to buy back own issues. In 2017 the effect on profits of loan buybacks was NOK -9.2 (-13.1) million.

The net accounting effect of changes in value of financial instruments was negative overall, at NOK -5.0 million in 2017. The corresponding figure for 2016 was positive, at NOK 4.1 million. See note 5.

Operating costs for KLP Kommunekreditt AS were NOK 17.3 (18.9) million in 2017, a decrease of 9 per cent from 2016. The reduction is partly due to lower costs for rating, funding assistance and personnel.

LENDING

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

Total lending stood at NOK 16.3 (17.2) billion at the end of 2017. This gives a net reduction in lending volume of NOK 0.9 billion. 74 per cent of the lending volume is at floating interest rates. The proportion of loans at fixed interest rates decreased from 29 per cent in 2016 to 26 per cent through 2017.

New loans of NOK 0.8 (3.3) billion were paid out in 2017. The lending portfolio comprises direct loans to Norwegian municipal and county authorities, or loans to companies performing public services with guarantees from municipal or county authorities. The risk associated with the lending portfolio is considered very low.

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

At the end of 2017 the Company had no loans in default.

BORROWING

KLP Kommunekreditt AS has established a programme for the issue of covered bonds (OMF). In 2017 covered bonds equivalent to NOK 4.5 (7.1) billion were issued in the Norwegian market. There was a buyback of earlier issues worth NOK 1.9 billion.

At the end of 2017, NOK 17.1 (17.3) billion in bonds covered by loans to the municipal sector had been issued in Norway. No bonds have been issued outside Norway.

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

BALANCE SHEET AND CAPITAL ADEQUACY

Total assets stood at NOK 18.4 (19.5) billion at the close of 2017. Of this amount, loans to public borrowers total NOK 16.3 billion and NOK 1.9 billion are liquidity investments.

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 719.5 million at the close of 2017. An extraordinary dividend of NOK 66.5 million was paid to the parent company in the third quarter of 2017. Core capital is identical with equity and subordinated loan capital. This gives a capital adequacy and core capital adequacy of 19.7 per cent. The corresponding figures for 2016 were NOK 741.9 million and 19.1 per cent.

The current capital requirement, including capital buffers, is 12,0 per cent core

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KLP Kommunekreditt AS has not incurred any credit losses on loans to Norwegian municipal or county authorities.

Earnings before tax

59.9

NOK MILLION

capital adequacy and 15.5 per cent capital adequacy. The risk-weighted balance came to NOK 3.5 (3.8) billion. Capital adequacy is considered good.

LIQUIDITY

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

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

At the end of 2017 the Company had outstanding liquid investments in the form of interest-bearing securities amounting to NOK 1.4 (1.7) billion. Securities are recognised at market value. Deposits in other banks totalled NOK 0.5 (0.4) billion at the same point in time.

APPLICATION OF THE YEAR'S PROFIT

KLP Kommunekreditt AS's financial statements for 2017 show a total net profit of NOK 45.6 million. The Board of Directors proposes that a group contribution of NOK 58.5 million be paid to KLP. NOK 44.5 million will be received from KLP in return as a group contribution without any tax effect. Net profit and group contribution will be transferred to other owners' equity.

ABOUT THE FINANCIAL STATEMENTS

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

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

To provide for good quality 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 Kommunekreditt 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.

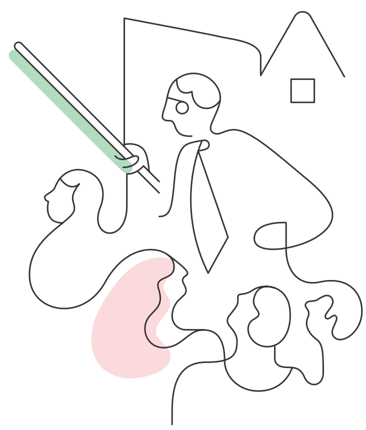
RISK MANAGEMENT

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

It has established its own guidelines for the most important individual risks (liquidity, credit, market, operational and compliance risk) and an overall policy for risk management, which includes principles, organisation, limits, etc. for the Bank's overall risk. The 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 assess-



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KLP and KLP Kommunekreditt AS have a total of NOK 62.1 billion in loans to the public sector in Norway. The year's growth in 2017 was NOK 4.6 billion, or 8 per cent.

ments 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 Kommunekreditt AS.

LENDING ACTIVITIES AND THE BANK'S ROLE

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

Total lending for KLP Banken (Public Market) was NOK 62.1 (57.4) billion at the end of 2017, an increase of NOK 4.6 (4.7) billion, or 8 per cent, from 2016. Total payouts on new loans through the year came to NOK 9.3 (10.1) billion.

During 2017 requests for new loans and refinancing amounting to NOK 74 (63) billion were received from municipal and county authorities and municipal companies. New payments amount to 12 per cent of the volume of applications. This makes KLP Banken a significant long-term lender to public welfare and value creation.

THE WORK OF THE BOARD OF DIRECTORS

The Board of Directors held seven board meetings in 2017. For an overview of the remuneration paid to members of the Company's Board and management, see Note 16 to the year-end financial statements. The Board comprised two women and two men in 2017.

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

The Board of Directors considers the working environment to be good.

EXTERNAL ENVIRONMENT

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

Foto: Roar Grønstad

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

procurement. The parent company, KLP Banken AS, is environmentally certified.

CORPORATE SOCIAL RESPONSIBILITY

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

FUTURE PROSPECTS

Together with KLP, KLP Kommunekreditt has a good position in the market for public lending. Its presence in the market contributes to competition and access to long-term, low-cost financing. Total growth through 2017 shows that the market position has been maintained.

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

The market for loans to the municipal sector is still growing and a large portion of the loans taken are financed in the securities market rather than in the financial institutions. KLP Kommunekreditt AS is well capitalised and has an advantage as a stable and long-term lender in the market. In the future too, the Company will be dependent on the general development of the financial markets in order to be able to obtain financing on terms that make it possible to achieve sufficient profitability.

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

A large proportion of the municipal authorities' funding will probably derive from the securities market in the future too. The Board of Directors nevertheless assumes that there will still be a need for a significant element of long-term financing over and above what the securities market can offer to public-sector borrowers.

KLP Kommunekreditt AS will continue to offer loans for investment purposes in the public sector and to maintain a low risk profile. The further growth and development of the Company is largely dependent on obtaining sufficiently good borrowing terms in the market to compete for public sector loans.

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

SVERRE THORNES
Chair

AAGE E. SCHAANNING
Deputy Chair

INGRID AUNE

AUD NORUNN STRAND

CARL STEINAR LOUS
Director

Marianne Wright Pedersen
Employed in Non-life insurance

Anders Eidsnes
Employed in Life

Anne Therese Sande
Employed in Economy and Finance

Anders Eidsnes
Employed in Life

Income Statement

KLP KOMMUNEKREDITT AS

NOTE	NOK THOUSANDS	01.01.2017 -31.12.2017	01.01.2016 -31.12.2016
	Interest income and similar income	403 726	437 565
	Cost of interest and similar costs	-321 591	-369 530
10	**Net interest income**	**82 135**	**68 035**
5	Net gain/(loss) on financial instruments	-5 006	4 070
	Total net gain/(loss) on financial instruments	**-5 006**	**4 070**
25	Other operating expenses	-17 251	-18 906
	Total other operating expenses	**-17 251**	**-18 906**
	Operating profit/loss before tax	**59 878**	**53 198**
21	Tax on ordinary income	-14 303	-13 245
	Income for the year	**45 575**	**39 953**
	Other comprehensive income	0	0
	Other comprehensive income for the year after tax	**0**	**0**
	COMPREHENSIVE INCOME FOR THE YEAR	45 575	39 953
	ALLOCATION OF INCOME		
	Allocated to/from retained earnings	-45 575	-39 953
	TOTAL ALLOCATION OF INCOME	-45 575	-39 953
	Total profit in% of total assets	0,25 %	0,20 %

Balance Sheet

KLP KOMMUNEKREDITT AS

NOTE	NOK THOUSANDS	31.12.2017	31.12.2016
	ASSETS		
11,28	Loans to and receivables from credit institutions	489 485	414 803
11	Loans to and receivables from customers	16 321 451	17 245 853
8	Fixed-income securities	1 436 406	1 723 589
9	Financial derivatives	87 847	107 927
26	Other assets	3 503	24 060
	TOTAL ASSETS	**18 338 692**	**19 516 233**
	LIABILITIES AND OWNERS' EQUITY		
	LIABILITIES		
17	Liabilities to credit institutions	275 170	1 170 823
18	Liabilities created on issuance of securities	17 148 732	17 342 542
9	Financial derivatives	176 243	240 602
21	Deferred tax	1 563	1 310
23	Other liabilities	15 712	14 697
23	Provisions for accrued costs and liabilities	332	4 395
	TOTAL LIABILITIES	**17 617 753**	**18 774 369**
	OWNERS' EQUITY		
	Share capital	362 500	362 500
	Share premium	312 500	312 500
	Other owners' equity	45 939	66 864
	TOTAL OWNERS' EQUITY	**720 939**	**741 864**
	TOTAL LIABILITIES AND OWNERS' EQUITY	**18 338 692**	**19 516 233**

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

SVERRE THORNES
Chair

AAGE E. SCHAANNING
Deputy Chair

INGRID AUNE

AUD NORUNN STRAND

CARL STEINAR LOUS
Director

Statement of Owners' Equity

KLP KOMMUNEKREDITT AS

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

2016 NOK THOUSANDS	Share capital	Share premium	Other equity	Total owners' equity
Owners' equity 1 January 2016	362 500	312 500	14 216	689 216
Income for the year	0	0	39 953	39 953
Other comprehensive income	0	0	0	0
Comprehensive income for the year	**0**	**0**	**39 953**	**39 953**
Dividends paid	0	0	47 018	47 018
Group contribution received	0	0	-34 323	-34 323
Group contribution paid after tax	**0**	**0**	**12 695**	**12 695**
Owners' equity 31 December 2016	**362 500**	**312 500**	**66 864**	**741 864**

NOK THOUSANDS	Number of shares	Par value	Share capital	Share premium	Other equity	Total
Equity at 1 January 2017	3 625 000	0.1	362 500	312 500	66 864	741 864
Changes in the period 1 January - 31 December	-	-	0	0	-20 925	-20 925
Equity at 31 December 2017	**3 625 000**	**0.1**	**362 500**	**312 500**	**45 939**	**720 939**

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

Statement of Cash Flows

KLP KOMMUNEKREDITT AS

NOTE	NOK THOUSANDS	01.01.2017 -31.12.2017	01.01.2016 -31.12.2016
	OPERATIONAL ACTIVITIES		
	Payments received from customers – interest, commission & charges	383 175	386 298
	Receipts on loans to customers	-788 790	-3 273 017
	Payment for the credit card portfolio	1 598 555	1 431 963
	Disbursements on operations	-24 131	-14 295
	Net receipts/payments on other operating activities	1 160	4 214
	Net interest from investment accounts	4 282	572
	Income tax paid	0	0
	Net cash flow from operating activities	**1 174 251**	**-1 464 265**
	INVESTMENT ACTIVITIES		
	Payments on purchase of securities	-943 836	-1 754 141
	Receipts on sales of securities	1 228 843	3 170 907
	Interest received from securities	23 698	48 395
	Net cash flow from investment activities	**308 705**	**1 465 162**
	FINANCING ACTIVITIES		
	Receipts on loans	3 517 000	6 865 000
	Repayment and redemption of loans	-1 039 193	-1 724 669
	Payment for loan buybacks	-3 525 000	-4 859 000
	Net payment of interest on loans	-283 233	-310 334
	Dividends paid	-66 500	0
	Group contribution payment made	-10 188	0
	Net cash flow from financing activities	**-1 407 114**	**-29 003**
	Net cash flow during the period	**75 842**	**-28 106**
	Cash and cash equivalents at start of period	402 810	430 916
28	Cash and cash equivalents at end of period	478 652	402 810
	Net receipts/disbursements (-) of cash	**75 842**	**-28 106**

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

KLP KOMMUNEKREDITT AS

We hereby declare that, to the best of our knowledge, the annual financial statements for the period from 1 January to 31 December 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 Kommunekreditt AS

SVERRE THORNES
Chair

AAGE E. SCHAANNING
Deputy Chair

INGRID AUNE

AUD NORUNN STRAND

CARL STEINAR LOUS
Director

Anne Westad
Employed in HR

Notes to the Accounts

KLP KOMMUNEKREDITT AS

NOTE 1 General information

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

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

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

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

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

NOTE 2 Summary of the most important accounting principles

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

2.1 FUNDAMENTAL PRINCIPLES

The financial statements for KLP Kommunekreditt AS have been prepared in accordance with 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.

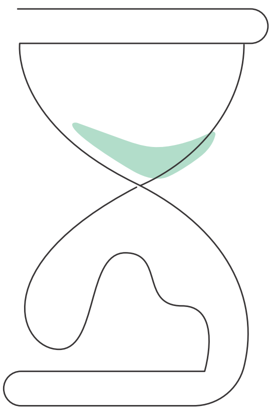
2.1.1. CHANGES IN ACCOUNTING PRINCIPLES AND INFORMATION

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 Kommunekreditt 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 Kommunekreditt 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 Kommunekreditt 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 Kommunekreditt has developed a new loss provision model that complies with the rules in IFRS 9. In KLP Kommunekreditt AS, the likelihood of credit losses in the loan portfolio is considered to be extremely low. This is based on history and experience of lending to the public sector, as well as the strong legislation that is attached to municipal borrowing and payment problems. The company's assessment is therefore that all public lending in KLP Kommunekreditt AS has low credit risk and is thus placed in step 1. For this portfolio, a simplified loss ratio method is used. The loss is set to 1 per cent of the outstanding balance, and the expected loss is calculated for the next 12 months based on this discounted by the loan interest rate

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 with a simplified loss ratio means an increase of NOK 0.2 million for loan lending in KLP Kommunekreditt AS on implementation 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 2.9.1 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 2.9.2 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.

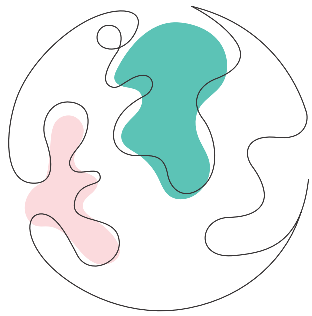
2.2 TRANSLATION OF TRANSACTIONS IN FOREIGN CURRENCY

2.2.1 Functional currency and presentation currency

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

2.3 FINANCIAL ASSETS

The Company's financial assets are divided into the following categories: financial assets measured at fair value



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

2.3.1 Financial assets at fair value through profit or loss

This category is divided into two 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".

2.3.2 Loans and receivables at amortized cost

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

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

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

2.3.3 Derivatives and hedging

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

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

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

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

2.3.4 Accounting treatment of financial assets

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

2.3.5 Write down of financial assets valued at amortized cost

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

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

2.3.6 Netting

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

2.4 CASH AND CASH EQUIVALENTS

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

2.5 FINANCIAL LIABILITIES

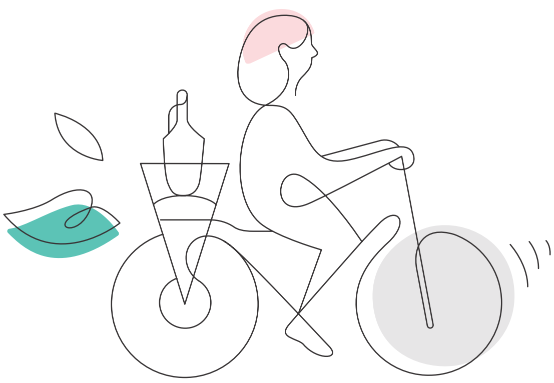
The Company's financial liabilities comprise liabilities to credit institutions and covered bonds issued.

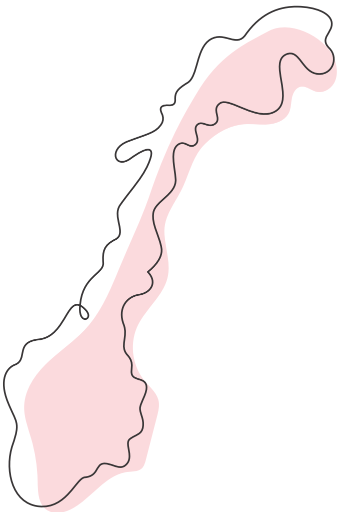
2.5.1 Liabilities to credit institutions

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

2.5.2 Covered bonds issued

In the first instance covered bonds issued are recognized at fair value on take-up adjusted for purchase costs, i.e. nominal adjusted for any premium/discount on issue. On subsequent valuation the bonds are valued at amortized cost by the effective interest method. The interest costs are shown in the line "Interest costs and similar costs" in the





income statement. Bonds with fixed interest are recognized in accordance with the rules on fair value hedging inasmuch as they are hedged against change in interest rate level.

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

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

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

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

2.7.1 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".

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

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.

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

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

As permitted in the transitional provisions in IFRS 9, KLP Kommunekreditt AS 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.

2.9.1.1 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.

2.9.1.2 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 2.9.1.3 to 2.9.1.7 below. Note 2.9.2, 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).

2.9.1.3 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	489	Amortised cost	489
Loans to and receivables from customers	Loans and receivables	11 966	Amortised cost	11 966
	Fair value through profit or loss (hedging)	4 356	Fair value through profit or loss (hedging)	4 356
Fixed-income securities	Fair value through profit or loss (FVO)	1 436	Fair value through profit or loss	1 436
Financial derivatives (assets)	Fair value through profit or loss	88	Fair value through profit or loss	88
Liabilities created on issuance of securities	(Amortised cost)	-15 503	Amortised cost	-15 503
	Fair value through profit or loss (hedging)	-1 921	Fair value through profit or loss (hedging)	-1 921
Financial derivatives (liabilities)	Fair value through profit or loss	-176	Fair value through profit or loss	-176

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

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

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

Please see note 2.9.2 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 ASSETS (FIGURES IN MNOK)	Carrying amount according to IAS 39 31 December 2017	Change as a result of reclassification	Change as a result of revaluation	Carrying amount according to IFRS 9 1 January 2018
	AMORTISED COST				
	Loans to and receivables from credit institutions	489	0	0	489
	Loans to and receivables from customers	11 966	0	0	11 966
	Total effect at amortised cost	**12 455**	**0**	**0**	**12 455**
	FAIR VALUE WITH VALUE CHANGES THROUGH PROFIT OR LOSS				
	Loans to and receivables from customers	4 356	0	0	4 356
A	Fixed-income securities	1 436	0	0	1 436
	Financial derivatives	88	0	0	88
	Total effect on fair value through profit or loss	**5 880**	**0**	**0**	**5 880**
	Total financial assets	**18 335**	**0**	**0**	**18 335**
	FINANCIAL LIABILITIES				
	AMORTISED COST				
	Liabilities created on issuance of securities	15 503	0	0	15 503
	Total effect at amortised cost	**15 503**	**0**	**0**	**15 503**
	FAIR VALUE WITH VALUE CHANGES THROUGH PROFIT OR LOSS				
	Liabilities created on issuance of securities	1 921	0	0	1 921
	Financial derivatives	176	0	0	176
	Total effect on fair value through profit or loss	**2 097**	**0**	**0**	**2 097**
	Total financial liabilities	**17 600**	**0**	**0**	**17 600**

NOTE A

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

2.9.1.5 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**

2.9.1.6 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**

2.9.1.7 Effect of the transition to IFRS 9 on equity

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

2.9.2 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.

2.9.2.1 Recognition and derecognition

Financial assets and liabilities on the balance sheet on the date when KLP Kommunekreditt 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 Kommunekreditt 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.

2.9.2.2 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 Kommunekreditt 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 Kommunekreditt 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 Kommunekreditt 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 Kommunekreditt'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
	Fair value through profit or loss (hedging)	Fair value through profit or loss
Fixed-income securities	Fair value through profit or loss (FVO)	Fair value through profit or loss
Financial derivatives (assets)	Fair value through profit or loss	Fair value through profit or loss
Liabilities created on issuance of securities	Amortised cost	Amortised cost
	Fair value through profit or loss (hedging)	Fair value through profit or loss
Financial derivatives (liabilities)	Fair value through profit or loss	Fair value through profit or loss

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

NOTE 3 Important accounting estimates and valuations

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

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

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

NOTE 4 Segment information

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

NOTE 5 Net gain/(loss) on financial instruments

NOK THOUSANDS	01.01.2017 -31.12.2017	01.01.2016 -31.12.2016
Net gain/(loss) on fixed-income securities	4 230	15 320
Net gain/(loss) financial derivatives and realized amortization linked to lending	0	1 867
Net gain/(loss) financial derivatives and realized repurchase of own debt	-9 236	-13 118
Total	**-5 006**	**4 070**

NOTE 6 Categories of financial instruments

	31.12.2017		31.12.2016	
NOK THOUSANDS	Book value	Fair value	Book value	Fair value
FINANCIAL ASSETS AT FAIR VALUE HELD FOR TRADING				
Fixed-income securities	1 436 406	1 436 406	1 723 589	1 723 589
Total financial assets at fair value held for trading	**1 436 406**	**1 436 406**	**1 723 589**	**1 723 589**
FINANCIAL ASSETS AT FAIR VALUE USED FOR HEDGING				
Financial derivatives	87 847	87 847	107 927	107 927
Lending to Norwegian municipalities	4 355 849	4 396 440	5 164 845	5 186 458
Total financial assets at fair value used for hedging	**4 443 696**	**4 484 287**	**5 272 772**	**5 294 385**
FINANCIAL ASSETS AT AMORTIZED COST				
Loans to and receivables from credit institutions	489 485	489 485	414 803	414 803
Lending to Norwegian municipalities	11 965 602	11 961 754	12 081 008	12 071 700
Total financial assets at amortized cost	**12 455 087**	**12 451 239**	**12 495 811**	**12 486 503**
TOTAL FINANCIAL ASSETS	**18 335 189**	**18 371 932**	**19 492 172**	**19 504 477**
FINANCIAL LIABILITIES AT FAIR VALUE USED FOR HEDGING				
Covered bonds issued	1 921 041	1 945 028	1 744 658	1 748 349
Financial derivatives	176 243	176 243	240 602	240 602
Total financial liabilities at fair value used for hedging	**2 097 284**	**2 121 271**	**1 985 260**	**1 988 951**
FINANCIAL LIABILITIES AT AMORTIZED COST				
Liabilities to credit institutions	275 170	275 170	1 170 823	1 170 823
Covered bonds issued	15 227 691	15 314 224	15 597 884	15 980 849
Total financial liabilities at amortized cost	**15 502 861**	**15 589 394**	**16 768 707**	**17 151 672**
TOTAL FINANCIAL LIABILITIES	**17 600 145**	**17 710 665**	**18 753 967**	**19 140 623**

NOK THOUSANDS	31.12.2017	31.12.2016
GAIN/LOSS FAIR VALUE HEDGING		
On the hedging object	-35 916	-84 649
On the hedged item attributable to hedged risk	35 916	84 649
GAIN AND LOSS IN FAIR VALUE HEDGING	**0**	**0**

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

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

Fixed-income securities - government
Bloomberg is used as a source for pricing Norwegian government bonds.

NOTE 6 Categories of financial instruments - cont.

It is Oslo Børs (Oslo Stock Exchange) that provides the price (via Bloomberg). The prices are compared with the prices from Reuters to revaeal any errors.

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

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

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

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

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 securities
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	19 985	1 416 421	0	1 436 406
Financial derivatives	0	87 847	0	87 847
Total assets at fair value	**19 985**	**1 504 268**	**0**	**1 524 253**
LIABILITIES BOOKED AT FAIR VALUE				
Financial derivatives (liabilities)	0	176 243	0	176 243
Total financial liabilities at fair value	**0**	**176 243**	**0**	**176 243**

31.12.2016 NOK THOUSANDS	Level 1	Level 2	Level 3	Total
ASSETS BOOKED AT FAIR VALUE				
Fixed-income securities	49 884	1 673 705	0	1 723 589
Financial derivatives	0	107 927	0	107 927
Total assets at fair value	**49 884**	**1 781 632**	**0**	**1 831 516**
LIABILITIES BOOKED AT FAIR VALUE				
Financial derivatives (liabilities)	0	240 602	0	240 602
Total financial liabilities at fair value	**0**	**240 602**	**0**	**240 602**

NOTE 7 Fair value hierarchy - cont.

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

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

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

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

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**	**Unreal. gain/loss**	**Market value**
Government/social security administration	19 992	-7	0	19 985
Credit enterprises	1 305 275	5 733	2 005	1 313 013
Local government administration	98 050	4 929	429	103 408
Total	**1 423 317**	**10 655**	**2 434**	**1 436 406**

Effective interest rate: 0.98%

NOK THOUSANDS				31.12.2016
Debtor categories	**Acquisition cost**	**Unreal. gain/loss**	**Unreal. gain/loss**	**Market value**
Government/social security administration	49 883	1	0	49 884
Credit enterprises	1 561 494	3 285	3 020	1 567 799
Local government administration	98 050	7 427	429	105 906
Total	**1 709 427**	**10 713**	**3 449**	**1 723 589**

Effective interest rate: 1.45%

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

NOTE 9 Financial derivatives

	31.12.2017		31.12.2016	
NOK THOUSANDS	Nominal amount	Fair value	Nominal amount	Fair value
Derivatives related to borrowing	1 250 000	71 648	1 065 000	84 670
Derivatives related to lending	827 109	16 199	1 292 583	23 257
Total assets	**2 077 109**	**87 847**	**2 357 583**	**107 927**
Derivatives related to borrowing	600 000	-3 899	600 000	-7 930
Derivatives related to lending	3 560 430	-169 392	3 901 602	-227 265
Derivatives related to investments	100 000	-2 952	100 000	-5 408
Total liabilities	**4 260 430**	**-176 243**	**4 601 602**	**-240 602**

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

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

NOTE 10 Net interest income

NOK THOUSANDS	01.01.2017 -31.12.2017	01.01.2016 -31.12.2016
Interest on loans to and receivables from credit institutions	4 282	4 214
Interest on lending to customers	376 761	387 482
Interest on securities	22 683	45 869
Total interest income	**403 726**	**437 565**
Interest on debt to KLP Banken AS	-7 303	-37 215
Interest on debt to credit institutions	-316 910	-332 186
Amortization of premium/discount on covered bonds	2 622	-129
Total interest costs	**-321 591**	**-369 530**
NET INTEREST INCOME	82 135	68 035

NOTE 11 Lending and receivables

NOK THOUSANDS	31.12.2017	31.12.2016
LOANS TO AND RECEIVABLES FROM CREDIT INSTITUTIONS		
Bank deposits	489 485	414 803
Loans to and receivables from credit institutions	**489 485**	**414 803**
LOANS TO AND RECEIVABLES FROM CUSTOMERS		
Principal on lending	16 131 498	17 006 131
Fair value hedging	138 756	186 640
Premium/discount	-14 503	-19 032
Accrued interest	65 700	72 115
Loans to and receivables from customers	**16 321 451**	**17 245 853**

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

NOTE 12 Financial risk management

ORGANISATION OF RISK MANAGEMENT

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

NOTE 13 Credit risk

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

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

13.1 CONTROL AND LIMITATION OF CREDIT RISK

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

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

NOTE 13 Credit risk - cont.

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

NOK THOUSANDS	31.12.2017	31.12.2016
Lending to municipalities and county administrations	13 939 096	14 637 875
Lending with municipal/county administration guarantee	2 192 402	2 368 255
Total	**16 131 498**	**17 006 131**
Sums falling due more than 12 months after the end of the reporting period	15 363 352	16 092 557

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	**1 423 000**	**1 709 000**

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

NOK THOUSANDS	31.12.2017	31.12.2016
Aa1-Aa3	195 856	197 762
A1-A3	293 629	217 041
Baa1	-	-
Total	**489 485**	**414 803**

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

NOTE 13 Credit risk - cont.

13.3 MAXIMUM EXPOSURE TO CREDIT RISK

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

Maximum exposure to credit risk

NOK THOUSANDS	31.12.2017	31.12.2016
Loans to and receivables from credit institutions	489 485	414 803
Loans to and receivables from customers	16 197 199	17 078 246
Fixed-income securities	1 436 406	1 723 589
Financial derivatives	87 847	107 927
TOTAL	**18 210 937**	**19 324 565**

13.4 LOANS FALLEN DUE OR WRITTEN DOWN

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

Loans fallen due or written down

NOK THOUSANDS	31.12.2017	31.12.2016
Principal on loans with payments with 7-30 days' default	17 764	28 331
Principal on loans with payments with 31-90 days' default	0	49 391
Principal on loans with payments with more than 90 days' default	0	0
Total loans fallen due	**17 764**	**77 722**
Relevant security or guarantees	17 764	77 722
Lending that has been written down	-	-

13.5 CONCENTRATION OF CREDIT RISK

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

The concentration against individual borrowers is limited by individual Board-set limits. KLP Kommunekreditt AS's largest exposure as at 31 December 2017 was about 3.6 per cent of the Company's total lending.

NOTE 14 Market risk

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

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

NOTE 14.1 MEASUREMENT OF MARKET RISK

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

NOTE 14.2 INTEREST RATE RISK

The market risk policy is the Company's overarching guidelines, requirements and limits associated with market risk. The policy dictates that the market risk should be minimized so that the total market risk is low. It further states that the Company should not actively take positions that expose the Company to market risk. The policy also sets limits for interest rate risk both for the total interest rate risk for the infinite future and for rolling 12-month periods. The limits are set in relation to the Company's Tier 1 and 2 capital and the level of the limits should ensure that the low market risk profile policy is complied with. The operational responsibility for managing the Company's market risk lies with the Finance Department. The Risk Analysis and Control Department reports the Company's actual exposure in relation to limits in accordance with guidelines set by the Board.

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

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

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

NOTE 14 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 mth to 3 mths	From 3 mths to 12 mths	From 1 year to 5 years	Over 5 years
Lending	17 006 131	12 201 466	75 847	704 917	3 071 540	952 361
Securities	1 709 000	394 000	1 165 000	50 000	100 000	0
Cash and receivables from credit institutions	414 803	414 803	0	0	0	0
Total	**19 129 934**	**13 010 269**	**1 240 847**	**754 917**	**3 171 540**	**952 361**
Liabilities created on issuance of securities	17 230 000	4 000 000	11 565 000	315 000	1 350 000	0
Liabilities to financial institutions	1 170 000	1 170 000	0	0	0	0
Total	**18 400 000**	**5 170 000**	**11 565 000**	**315 000**	**1 350 000**	**0**
Gap	**729 934**	**7 840 269**	**-10 324 153**	**439 917**	**1 821 540**	**952 361**
Financial derivatives	0	191 365	3 227 053	-439 770	-1 748 843	-1 229 806
Net gap	**729 934**	**8 031 635**	**-7 097 100**	**147**	**72 697**	**-277 445**

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 8.3 million (6.3).

14.3 EXCHANGE RATE RISK

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

NOTE 15 Liquidity risk

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

15.1 MANAGEMENT OF LIQUIDITY RISK

«The management of KLP Kommunekreditt's liquidity risk must be viewed in the context of the management of the liquidity risk in the KLP Banken Group. A liquidity policy is established for the Group containing principles, guidelines, requirements and limits that apply to the management of the liquidity risk. The policy states that the Group is to have a moderate liquidity risk profile and various requirements and limits have been set to achieve this, including targets for deposit cover, limits for refinancing requirements for various time periods and requirements for liquidity buffers.

The Board has further adopted an emergency plan for liquidity crises as part of the liquidity policy. In addition to the requirements at Group level, separate specific requirements have been established for KLP Kommunekreditt AS, including requirements for continually positive cash flows, limits for refinancing requirements and requirements for liquidity reserves and drawing rights. The operational responsibility for managing the Company's liquidity risk lies with the Finance Department.

The Risk Analysis and Control Department reports the Company's actual exposure in relation to limits in accordance with guidelines set by the Board.»

NOTE 15 Liquidity risk - cont.

15.2 MATURITY ANALYSIS

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

LIQUIDITY RISK KLP KOMMUNEKREDITT AS

Maturity analysis for assets and liabilities as at 31 December 2017

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

Maturity analysis for assets and liabilities as at 31 December 2016

NOK THOUSANDS	Total	Un-defined	Up to 1 mth	From 1 mth to 3 mths	From 3 mths to 12 mths	From 1 year to 5 years	Over 5 years
Lending	21 648 076	0	55 400	282 615	878 208	4 661 789	15 770 064
Securities	1 772 455	0	1 465	4 815	402 821	1 363 355	0
Receivables from credit institutions	414 803	0	414 803	0	0	0	0
Total	**23 835 334**	**0**	**471 668**	**287 430**	**1 281 029**	**6 025 144**	**15 770 064**
Liabilities created on issuance of securities	18 152 471	0	26 847	31 800	1 138 949	16 954 875	0
Financial derivatives	171 265	0	3 363	11 630	33 554	109 040	13 677
Liabilities to credit institutions	1 205 980	0	1 598	2 809	14 673	1 186 900	0
Total	**19 529 716**	**0**	**31 808**	**46 239**	**1 187 176**	**18 250 816**	**13 677**
Net cash flow	**4 305 618**	**0**	**439 860**	**241 191**	**93 853**	**-12 225 672**	**15 756 387**

A 15-month internal loan of NOK 275 Million has been provided from KLP Banken AS to KLP Kommunekreditt AS, which is defined as "Liabilities to credit institutions". This loan is rolled over currently every third month and the interest rate is set each month.

NOTE 16 Salary and obligations to senior management

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

2016 NOK THOUSANDS	Paid from KLP Kommunekreditt AS				Paid from another company in the same group					
	Salaries, fees etc.	Other benefits	Annual pension accumulation	Loans	Salaries, fees etc.	Other benefits	Annual pension accumulation	Loans	Interest rate as at 31.12.2016	Repayment plan[1]
SENIOR EMPLOYEES										
Christopher A. Steen, Managing Director to November 24th[2,4]	-	-	-	-	886	17	159	2 899	1.95-2.20	A31/42
Carl Steinar Lous, Managing Director from November 24th[4]	-	-	-	-	354	103	90	2 535	1.95	A31
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
Toril Lahnstein	72	-	-	-	-	-	-	-	-	-
Eva M. Salvesen	22	-	-	-	130	-	-	-	-	-
EMPLOYEES										
Total loans to employees of KLP Kommunekreditt								5 434	-	-

1) S= Serial loan, A= Annuity loan, last payment, HC=Home Credit. 2) The individual has stepped down from the appointment during the year. 3) Benefits are shown for the period in which each person held the position of Managing Director of KLP Kommunekreditt. 4) Benefits are shown for the period in which Mr Carl Steinar Lous was employed as Department Manager public market in the KLP Banken, from 1 October.

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 sub-committee of the Board.

The committee reports on and carries out checks that the remuneration schemes in the Group are in line with the Board's principles and guidelines.

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

NOTE 17 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	275 000	170	275 170
Total liabilities to credit institutions				**275 000**	**170**	**275 170**
Interest rate on debt to credit institutions at the reporting date						**1.31 %**

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

31.12.2016 NOK THOUSANDS	Currency	Interest	Due date	Nominal	Accrued interest	Book value
Debt to KLP Banken AS	NOK	Fixed	15.03.2018	1 170 000	824	1 170 823
Total liabilities to credit institutions				**1 170 000**	**824**	**1 170 823**
Interest rate on debt to credit institutions at the reporting date						**1.49 %**

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

NOTE 18 Securities liabilities - stock exchange listed covered bonds

NOK THOUSANDS	31.12.2017	31.12.2016
Bonds, nominal value	17 946 000	19 985 000
Revaluations	61 593	67 646
Accrued interest	41 139	44 896
Own funds, nominal value	-900 000	-2 755 000
Total liabilities created on issuance of securities	**17 148 732**	**17 342 542**
Interest rate on borrowings through the issuance of securities at the reporting date.	**1.24 %**	**1.52 %**

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

NOK THOUSANDS	Balance 31.12.2016	Issued	Fallen due/ redeemed Repurchased	Others changes	Balance 31.12.2017
CHANGE IN LIABILITIES CREATED ON ISSUANCE OF SECURITIES					
Bonds, nominal value	19 985 000	4 500 000	-6 539 000	0	17 946 000
Revaluations	67 646	0	0	-6 053	61 593
Accrued interest	44 896	0	0	-3 757	41 139
Own funds, nominal value	-2 755 000	0	1 855 000	0	-900 000
Total liabilities created on issuance of securities	**17 342 542**	**4 500 000**	**-4 684 000**	**-9 810**	**17 148 732**

NOTE 19 Presentation of assets and liabilities subject to net settlement

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

31.12.2016 NOK THOUSANDS				Related sums that are not presented net		
	Gross financial assets/liabilities	Gross assets/liabilities presented net	Book value	Financial instruments	Security in cash	Net value
ASSETS						
Financial derivatives	107 927	0	107 927	-107 927	0	0
Total	**107 927**	**0**	**107 927**	**-107 927**	**0**	**0**
LIABILITIES						
Financial derivatives	240 602	0	240 602	-107 927	0	132 675
Total	**240 602**	**0**	**240 602**	**-107 927**	**0**	**132 675**

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

NOTE 20 Capital adequacy

NOK THOUSANDS	31.12.2017	31.12.2016
Share capital and share premium fund	675 000	675 000
Other owners' equity	45 939	66 864
Total owners' equity	**720 939**	**741 864**
Adjustments due to requirements for proper valuation	-1 436	0
Core capital/Tier 1 capital	**719 503**	**741 864**
Supplementary capital/Tier 2 capital	0	0
Supplementary capital/Tier 2 capital	**0**	**0**
Total own funds (eligible Tier 1 and Tier 2 capital)	719 503	741 864
Capital requirement	292 090	310 430
Surplus of own funds (eligible Tier 1 and Tier 2 capital)	**427 413**	**431 434**
CALCULATION BASIS CREDIT RISK		
Institutions	116 167	117 712
Local and regional authorities	3 296 369	3 491 045
Covered bonds	131 301	156 780
Calculation basis credit risk	**3 543 837**	**3 765 537**
Credit risk	283 507	301 243
Operational risk	8 433	9 045
Credit valuation adjustment	150	142
Total capital requirement assets	**292 090**	**310 430**
Core capital adequacy ratio	19.7 %	19.1 %
Supplementary capital ratio	0.0 %	0.0 %
Capital adequacy ratio	**19.7 %**	**19.1 %**
Unweighted capital adequacy	**3.9 %**	**3.8 %**

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 requirements including buffers	**12.0 %**	**3.5 %**	**15.5 %**
Leverage ratio	**3.0 %**	**0.0 %**	**3.0 %**

NOTE 21 Tax

NOK THOUSANDS	2017	2016
Accounting income before taxes	59 878	53 198
Differences between accounting and tax income:		
Reversal of value increase financial assets	-33 099	-13 645
Change in differences affecting relationship between book and taxable income	31 762	1 201
Taxable income	**58 541**	**40 754**
RECONCILIATION OF DEFERRED TAX/TAX ASSETS		
Deferred tax asset linked to:		
Financial instruments	-16 033	-24 688
Hedging of borrowing	-14 884	-18 923
Premium/discount on borrowing	-1 071	-720
Total deferred tax assets	**-31 987**	**- 44 331**
Deferred tax linked to:		
Securities	2 451	2 571
Lending to customers and credit enterprises	31 100	43 069
Total deferred tax	**33 550**	**45 641**
Net deferred tax/tax assets	**1 563**	**1 310**
Summary of tax expense for the year:		
Tax charged to the income statement for previous years	253	3 056
Change in deferred tax taken to income	14 050	10 188
Total tax costs	**14 303**	**13 245**
Effective tax rate	23.9 %	24.9 %
Reconciliation of tax rate:		
Accounting income before taxes	59 878	53 198
Income taxs expense, nominal tax rate	14 371	13 300
Income tax expense, effective tax rate	14 303	13 245
Difference between effective and nominal tax rate	**68**	**55**
Recognised tax relating to previous years	0	0
Tax effects of permanent differences	0	0
Effect of change in tax rate on deferred tax	68	55
Total	**68**	**55**

NOTE 22 Number of FTEs and employees

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

NOTE 23 Other liabilities and provision for accrued costs and liabilities

NOK THOUSANDS	31.12.2017	31.12.2016
Receivables between companies in the same Group	1 558	4 110
Creditors	102	394
Other liabilities	3	4
Payable taxes	14 050	10 189
Total other liabilities	**15 712**	**14 697**
Value-added tax	23	264
Provisioned costs	309	4 131
Total accrued costs and liabilities	**332**	**4 395**

NOTE 24 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	-7 303	-37 215
KLP Banken AS, administrative services (at cost)	-14 392	-12 830
KLP Kapitalforvaltning AS, fees for services provided	-211	-341
Total	**-21 905**	**-50 386**

NOK THOUSANDS	31.12.2017	31.12.2016
FINANCIAL POSITION STATEMENT ITEMS		
KLP Banken AS, debt to credit institutions	-275 170	-1 170 823
KLP Banken AS, loan settlement	3 503	24 060
Net outstanding accounts to:		
KLP Banken AS	-1 296	-4 018
KLP Eiendom AS	-223	0
KLP Kapitalforvaltning AS	-38	-92
Total	**-273 225**	**-1 150 873**

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

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

NOTE 25 Auditor's fee

NOK THOUSANDS	01.01.2017 -31.12.2017	01.01.2016 -31.12.2016
Ordinary audit	206	273
Certification services	86	182
Non-audit services	19	0
Total auditor's fee	**311**	**455**

The sums above include VAT.

NOTE 26 Other assets

NOK THOUSANDS	31.12.2017	31.12.2016
Receivables between Group companies	3 503	24 060
Total	**3 503**	**24 060**

NOTE 27 Contingent liabilities

NOK THOUSANDS	31.12.2017	31.12.2016
Promised loans	113 972	206 936
Total contingent liabilities	**113 972**	**206 936**

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

NOTE 28 Cash and cash equivalents and other loans and receivables from credit institutions

NOK THOUSANDS	31.12.2017	31.12.2016
Bank deposits operations	478 652	402 810
Cash	0	0
Total cash and cash equivalents (liquidity)	**478 652**	**402 810**
Bank accounts to be used for the purchase and sale of securities	10 833	11 993
Loans and receivables from credit institutions	**489 485**	**414 803**

Anne Tømmerdal Kristoffersen
Employed in Banking

To the General Meeting of KLP Kommunekreditt AS

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of KLP Kommunekreditt AS which comprise the balance sheet as at 31 December 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. "Risk of credit losses in loans to customers" and "IT systems supporting processes over financial reporting" are areas with the same characteristics and risks this year as last year, and these important areas of focus have been the same in 2017 as for 2016.

Key Audit Matter	How our audit addressed the Key Audit Matter
Risk of credit losses in loans to customers	
(We also refer to note 3)	
The mortgage company has NOK 16.3 bn in loans to municipalities and counties and companies with public guarantees. The Local Government Act ensures credit losses will not occur on such loans when	To ensure that the mortgage company's loans are protected against credit losses based on the regulations in the Local Government Act, the company had established processes directed at ensuring a detailed review of the applications for loans and associated

Independent Auditor's Report - KLP Kommunekreditt AS

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

Other information

Management is responsible for the other information. The other information comprises 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.

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.

Independent Auditor's Report - KLP Kommunekreditt AS

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

Independent Auditor's Report - KLP Kommunekreditt AS

- 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

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

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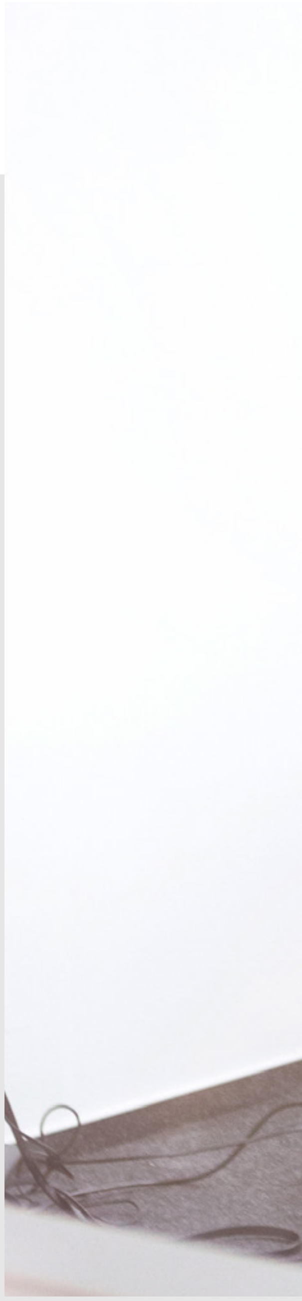

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