Annual Report 2019

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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Financial results before tax were NOK 25.1 million and loan balance NOK 16.5 billion. The enterprise's financing consists primarily of covered bonds. The bonds have the highest possible rating (AAA).

KLP Kommunekreditt AS is a mortgage company wholly owned by KLP Banken AS.

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

The joint activity of KLP Banken AS and subsidiaries is divided into the business segments retail market and public loans. The activity is nationwide, and the enterprise's headquarters are located in Trondheim.

KLP Kommunekreditt AS is the only financial institution in Norway that issues covered bonds in loans to municipalities, county municipalities or enterprises with public guarantees. Its presence in the market for public loans encourages competition and ensures that the public sector has access to favourable long-term financing.

PROFIT AND LOSS ACCOUNTS

The enterprise's profits before tax were NOK 25.1 (37.3 [1]) million, and the annual comprehensive income NOK 19.6 (29.0) million. This resulted in a return on equity of 3.4 (5.2) percent before tax. The reduction in profit compared to last year is mainly due to a reduction in lending margins and a somewhat reduced lending volume on average. Changes in the value of financial instruments have also to a great extent contributed to reduced profit. The operating expenses are also greater than last year.

Net interest income was somewhat lower than last year. The background for this was the continued rise in money market rates through great parts of 2019. This entails that the costs of the enterprise's borrowings during such periods grow faster than the interest on loans. The lending margins are therefore negatively affected. Average lending volumes have furthermore been somewhat lower throughout 2019 than the year before.

Net interest income from the loan and investment portfolios was NOK 62.9 (65.5) million in 2019. Gross interest income on loan and liquidity investments show a somewhat higher income than last year, primarily as a consequence of a higher interest rate level.

The credit premiums in the securities market have fallen also in 2019, but the profit effect of the reduction in value of the enterprise's securities investments were realised and unrealised losses of NOK -1.8 (-0.8) million.

[1] Number in parantheses below refer to last year´s numbers.

FINANCIAL PERFORMANCE IN 2019

PROFIT

NOK MILLIONS	2019	2018	Change
Profits before tax	25.1	37.3	-12.2
Net interest income	62.9	65.5	-2.7
Operating costs	-19.6	-15.7	-3.9
Profit/loss financial instr.	-18.2	-12.5	-5.7

BALANCE

NOK BILLIONS	2019	2018	Change
New loan payments	1.6	1.8	-0.2
Loan balance	16.5	16.8	-0.3
Liquidity	2.0	1.4	0.6

The enterprise constantly adjusts the loan periods of borrowings to reduce liquidity risk and meet regulatory requirements for liquidity indicators and capital adequacy (Basel III and CRD IV). Refinancing of the borrowing side will then necessitate share buybacks. In 2019, the profit effect of buyback borrowings was NOK -16.3 (-11.7) million.

The total effect on the accounts of changes in the value of financial instruments was also in 2019 negative for the year, by NOK -18.2 (-12.5) million. See note 5.

The enterprise's operating expenses increased in 2019 to NOK 19.6 (15.7) million. The cost increases are primarily associated with payments to the Norwegian Banks' Crisis Management Fund. This was introduced in 2019 and KLP Kommunekreditt AS was charged with a share of NOK 2.5 million. The enterprise's remaining costs have mostly been divided internally by the parent company.

LENDING

KLP Kommunekreditt AS's lending operations is primarily based on sale of new loans directly from the enterprise. Refinancing of loans in KLP has in recent years been without great significance for the development of loans.

Total loans amounted to NOK 16.5 (16.8) billion at the end of 2019. The average loan volume was somewhat lower than the year before. 83 percent of the loan volume is at floating interest rate conditions. The share of loans at a fixed interest rate has been reduced from 20 percent in 2018 to 17 percent in 2019.

In 2019, new loans amounting to NOK 1.6 (1.8) billion were paid out. The loan portfolio consists of loans to Norwegian municipalities and county municipalities directly, or to enterprises performing public work and receiving unconditional guarantees from municipalities or county municipalities. The risk of the loan portfolio is considered very low.

The credit risk associated with loans to municipalities and county municipalities is in Norway limited to deferment of payment, and not a lapse in the obligation to pay. This is pursuant to the Local Government Act and secures the lender against loss if a municipality cannot perform its obligation to pay. In case of deferment of payment, the lender is also secured against loss of accrued interest, interest on overdue payment and costs associated with collection. KLP Kommunekreditt AS has not had any credit loss on loans to Norwegian municipalities or county municipalities.

The enterprise has no non-performing loans of more than 90 days at the end of 2019. Neither have any individual losses been recorded during the accounting year. Limited loan loss provisions pursuant to IFRS 9 have for the accounting year given a profit effect of NOK 2 (-5) thousand. See note 16.

LENDING OPERATIONS AND THE BANK'S ROLE

Loans to the public sector are made by the enterprises KLP and KLP Kommunekreditt AS and are managed by KLP Banken.

Total loans for KLP Banken and KLP together (public market) made up NOK 73.4 (67.7) billion at the end of 2019, an increase of NOK 5.7 (5.6) billion from 2018, or 9 (9) percent. Total pay-outs for new loans throughout the year add up to NOK 12.2 (13.5) billion.

In 2019, requests for new loans and refinancing amounting to NOK 83 (74) billion were received from municipalities, county municipalities and enterprises performing public work. New payments make up about 15 percent of the application volume. Based on this, KLP Banken is a significant long-term lender for public economic growth and welfare.

LIQUIDITY

KLP Kommunekreditt AS is subject to strict rules for which assets the enterprise may invest in. The portfolio of liquidity investments consists of securities and deposits in other banks. The securities are certificates and bonds with a high level of security, primarily covered bonds and AAA rating.
The holding of liquid assets is used for paying out new loans or redeeming and buying back borrowings.

Since borrowing occurs when the terms are considered favourable, it will from time to time be necessary to invest free liquidity. This liquidity contributes to earnings and provides flexibility to handle demand for new loans.

At the end of 2019, outstanding liquidity investments in the form of interest-bearing securities were NOK 1.4 (0.7) billion. Securities are entered at market value. At the same time, deposits in other banks were NOK 0.6 (0.6) billion. The enterprise's liquidity situation is considered satisfactory.

BORROWING

KLP Kommunekreditt AS has established a programme for issuing covered bonds. At the end of 2019, loan-backed covered bonds issued in the Norwegian market amounted to NOK 18.6 (17.7) billion. New issues in 2019 was NOK 6.0 (3.3) billion. Buybacks were made of previous issues for NOK 5.5 (3.5) billion. There are currently no issues in other countries.

The bonds are issued backed by the enterprise's loans to municipalities, county municipalities or enterprises performing work on behalf of the public sector and qualifying for public guarantees. Loans to companies must be guaranteed by municipalities or county municipalities within provisions of the Local Government Act, by the Norwegian government or a bank. Guarantees must be in the form of unconditional guarantees and cover both instalments and interest. The enterprise has achieved the highest possible rating on its covered bonds issues.

The enterprise's liabilities to credit institutions at the end of the year consisted of internal financing from KLP Banken AS of NOK 0.3 (0.4) billion.

BALANCE SHEET AND FINANCIAL STRENGTH

Total assets were NOK 18.5 (18.2) billion at the end of 2019. Of this, loans to public borrowers make up NOK 16.5 (16.8) billion and NOK 2.0 (1.4) billion are liquidity placements.

The enterprise's capital, based on the board's recommendations for allocation of profit, was NOK 768.0 (749.0) million at the end of 2019. The core capital is identical to the capital. This makes for a capital adequacy and core capital adequacy of 20.7 (20.3) percent.

The current capital requirements including capital buffers is 12.5 percent core capital adequacy and 16.0 percent capital adequacy. Unweighted core capital coverage was 4.1 (4.0) percent against the requirement of 3.0 percent.

Risk-weighted balance was NOK 3.6 (3.6) billion. The financial strength is considered good.

ALLOCATION OF ANNUAL PROFIT

KLP Kommunekreditt AS's annual accounts show a comprehensive income for 2019 of NOK 19.6 million. The board recommends that a group contribution of NOK 60.7 million is paid to KLP. Group contribution paid is charged to other equity. The group contribution will only affect the accounts at the moment of decision.

ABOUT THE ANNUAL ACCOUNTS

The board believes that the annual accounts present a correct image of the enterprise's assets and liabilities, financial position and profits. The going concern assumption is present, and the annual accounts are based on this.

KLP Kommunekreditt AS presents its accounts in accordance with the international accounting standards IFRS, which are approved by EU with associated interpretations. See note 2 for more information.

To ensure high-quality financial reporting, detailed plans are prepared for each account presentation, where the allocation of responsibilities and tasks is clearly stated. The assessment made of the enterprise's assets and liabilities is documented in writing.

RATING

The rating agencies' assessment of KLP Kommunekreditt AS and the KLP Group is important for the enterprise's borrowing terms. The enterprise has engaged Moody's to give a credit rating of the enterprise's bonds. All covered bonds issued have been rated AAA.

RISK MANAGEMENT

KLP Kommunekreditt AS is subject to KLP Banken's framework for risk management. This has as its purpose to ensure that risks are identified, analysed and subject to management through guidelines, frameworks, routines and directives.

Separate guidelines have been established for the most central separate risks (liquidity/credit/market/operation and compliance risk) and superior guidelines for risk management including principles, organisation, frameworks etc. for the bank's total risk. The guidelines are adopted by the board and revised at least once a year. The guidelines are of a superior nature and are complemented by routines, rules and instructions stipulated at an administrative level.

The goal is that the enterprise shall have low operational risk and maintain high professional expertise, good routines and efficient management.

The enterprise is part of KLP Banken Group's process for assessing and quantifying significant risks and calculating capital requirements (ICAAP). The capital requirement assessment is future-oriented, and in addition to assessing the requirements based on current exposure (or frameworks), requirements in light of planned growth, strategic changes decided on etc. are also assessed. The enterprise's board actively participates in these assessments, and the board decides on a desired level of total capital (capital goal) in association with the capital requirements assessment.

The boards of KLP Banken, KLP Bankholding, KLP Kommunekreditt and KLP Boligkreditt have appointed a joint risk committee. Based on the size of the total assets, this is not legally required. The risk committee deals with cases particularly associated with risk in the group companies and has an advisory function with regard to the board of KLP Kommunekreditt AS.

CORPORATE GOVERNANCE

The enterprise's articles of association and law in force guide corporate governance, and clearly delineates the respective roles of governing bodies and general management.

The board establishes the guidelines for the enterprise's operation. The board has held eight meetings in 2019. At the end of 2019, the board consists of two women and two men.

The Chief Executive Officer manages the enterprise on a daily basis in accordance with the instructions stipulated by the board.

A statement on KLP Banken's corporate governance is available on KLP's web pages (https://www.klp.no/om-klp).

WORK ENVIRONMENT AND ORGANISATION

No-one is directly employed by KLP Kommunekreditt AS. The enterprise's governance and management are maintained by people who have employment relationships with KLP Banken AS.

An administrative arrangement has been made with KLP Banken AS, covering administration, IT operations, financial and risk management, as well as borrowing and liquidity management.

As a part of the KLP Group, KLP Kommunekreditt AS follow the Group's guidelines for equal rights and diversity, where our goals, measures and activities take into considerations the various bases for discrimination described by legislation. Separate goals on equal rights and diversity have been adopted by the central working committee.

SOCIAL RESPONSIBILITY AND SUSTAINABILITY

KLP has in its social responsibility strategy committed to good routines for measuring and reducing the enterprise's environmental impact. Like the KLP Group in general, KLP Kommunekreditt AS takes its environmental impact seriously. As an office enterprise, it is primarily through energy consumption, transportation, waste and purchases that a difference can be made. The parent company KLP Banken AS has an environmental certification.

As a part of the KLP Group, KLP Kommunekreditt AS shall contribute to sustainable investments and responsible business management. Social responsibility is of strategic significance for KLP. This is realised through actions related to the group's operations. KLP has signed the UN's Global Compact, and is thereby committed to working for human rights, workers' rights, the environment and anti-corruption. Further description of goals, measures and results is available on KLP's web pages (https://www.klp.no/om-klp/samfunnsansvar).

Photo: Cato Werner Gustavsen/KLP

The Board of Directors of KLP Kommunekreditt AS. From the left: Karianne Oldernes Tung, Kjell Fosse, Aud Norunn Røsok Strand, Aage Elmenhorst Schaanning.

In 2019, KLP Banken signed UN's principles for sustainable banking, and is committed to implementing these principles in its operations. The principles of sustainable banking entail that banks are transparent about how their products and services create value for customers and investors, as well as for society in general. The principles shall guide the banks in their work towards sustainability, and support society's overriding goals in accordance with the UN's Sustainable Development Goals and the Paris Agreement.

FUTURE PROSPECTS

KLP Kommunekreditt AS is the country's only credit enterprise issuing loan-backed bonds to the public sector. The presence of KLP Kommunekreditt AS together with KLP in the market for public loans contributes to competition and thereby that the public sector has access to long-term financing at favourable terms. Total growth over the last few years shows that the market position has been strengthened. High credit quality in the loan portfolio will help KLP Kommunekreditt AS achieve as favourable borrowing terms as possible. Government regulations of banks and financial institutions entail that a number of regulatory requirements on capital and liquidity are met. This necessitates constant earnings that enable the satisfaction of these requirements.

The market for loans to the municipal sector is still growing, and a great part of the loans are financed through the securities market rather than financial institutions. KLP Kommunekreditt AS is well-capitalised and has an advantage as a stable and long-term lender in a market characterised by low risk. It will be the general development in the financial markets that will decide to which extent KLP Kommunekreditt AS will be able to finance lending operations at terms that will be sufficiently profitable for continued growth.

Norwegian municipalities have developed a good and extensive system of public services. Higher life expectancy, demography, income growth and climate risks justify an expectation of continued high investment levels in the public sector over the next few years. The demand for loans for projects contributing to climate change adaptation is expected to increase.

The board expects that there will also in the future be a need for significant long-term and stable financing beyond what the securities market can offer public borrowers. The bank's expertise on municipal financing shall be available for KLP's stewardship commission, regardless of the size of its own financial position. KLP Kommunekreditt AS and KLP in general will be a central operator offering loans for investment purposes under public direction.

EVENTS AFTER YEAR END

Spreading of COVID-19 has gone globally, and several countries including Norway has imposed strict measures to limit further spread (of the virus). KLP and the KLP Banken Group follows the advice given by the Norwegian Institute of Public Health and the authorities. The majority of KLP staff are working from home to avoid spread of the virus. Emergency measures are also enforced to secure operations over time, in case of reduced available workforce.

The financial markets are also impacted by the spread of the virus. Large movements in the interest rate markets generates uncertainty for the capital adequacy and liquidity situation in all banks. As of today the companies in the KLP Banken Group satisfies the current regulatory requirements for capital adequacy and liquidity. The authorities' introduction of for example reduced counter-cyclic capital buffer by 1.5 per cent, as well as easier access to loans in the central bank (F-loans in Norges Bank), contributes to increased possibility of continued ability to meet the statutory requirements for capital adequacy and liquidity. Even if the crisis persists the KLP Banken Group expects that available funding from KLP will contribute to maintain our financial capacity towards municipalities and members.

Oslo, 18 March 2020
The Board of Directors of KLP Kommunekreditt AS

AAGE SCHAANNING
Chair

KJELL FOSSE

KARIANNE OLDERNES TUNG

AUD NORUNN STRAND

CARL STEINAR LOUS
Managing Director

Income Statement

KLP KOMMUNEKREDITT AS

NOTES	NOK THOUSANDS	01.01.2019 -31.12.2019	01.01.2018 -31.12.2018
	Interest income, amortized cost	390 583	351 048
	Interest income at fair value	135 127	155 446
10	**Total interest income**	**525 710**	**506 494**
	Interest expense, amortized cost	-343 159	-269 163
	Interest expense at fair value	-119 667	-171 790
10	**Total interest costs**	**-462 826**	**-440 953**
10	**Net interest income**	**62 884**	**65 541**
5	Net gain/(loss) on financial instruments	-18 167	-12 484
	Total net value change and gain/loss on currency and securities held for trading	**-18 167**	**-12 484**
27	Other operating expenses	-19 593	-15 737
16	Net loan losses	2	-5
	Total operating expenses	**-19 591**	**-15 742**
	Operating profit/loss before tax	**25 126**	**37 315**
23	Tax on ordinary income	-5 528	-8 364
	Income for the year	**19 598**	**28 951**
	Other comprehensive income	0	0
	Other comprehensive income for the year after tax	**0**	**0**
	COMPREHENSIVE INCOME FOR THE YEAR	**19 598**	**28 951**
	ALLOCATION OF INCOME		
	Allocated to/from retained earnings	-19 598	-28 951
	TOTAL ALLOCATION OF INCOME	**-19 598**	**-28 951**
	Total profit in% of total assets	0.11 %	0.16 %

Balance Sheet

KLP KOMMUNEKREDITT AS

NOTES	NOK THOUSANDS	31.12.2019	31.12.2018
	ASSETS		
6,11,30	Loans to and receivables from credit institutions	594 461	649 795
6,11	Loans to and receivables from customers	16 547 394	16 758 620
6,7,8	Fixed-income securities	1 365 769	727 246
6,7,9	Financial derivatives	40 785	62 461
28	Other assets	1 010	8 122
	TOTAL ASSETS	**18 549 418**	**18 206 245**
	LIABILITIES AND OWNERS' EQUITY		
	LIABILITIES		
6,18	Liabilities to credit institutions	320 169	430 208
6,19	Liabilities created on issuance of securities	17 387 458	16 909 271
6,7,9	Financial derivatives	60 674	105 403
23	Deferred tax	1 385	4 810
25	Other liabilities	10 286	6 784
25	Provisions for accrued costs and liabilities	78	0
	TOTAL LIABILITIES	**17 780 052**	**17 456 476**
	OWNERS' EQUITY		
	Share capital	362 500	362 500
	Share premium	312 500	312 500
	Other owners' equity	94 367	74 769
	TOTAL OWNERS' EQUITY	**769 367**	**749 769**
	TOTAL LIABILITIES AND OWNERS' EQUITY	**18 549 418**	**18 206 245**

Oslo, 18 March 2020
The Board of Directors of KLP Kommunekreditt AS

AAGE SCHAANNING
Chair

KJELL FOSSE

KARIANNE OLDERNES TUNG

AUD NORUNN STRAND

CARL STEINAR LOUS
Managing Director

Statement of Owners' Equity

KLP KOMMUNEKREDITT AS

2019 NOK THOUSANDS	Share capital	Share premium	Other equity	Total owners' equity
Owners' equity 1 January 2019	362 500	312 500	74 769	749 769
Income for the year	0	0	19 598	19 598
Other comprehensive income	0	0	0	0
Comprehensive income for the year	**0**	**0**	**19 598**	**19 598**
Group contribution received	0	0	17 009	17 009
Group contribution paid after tax	0	0	-17 009	-17 009
Total transactions with the owners	**0**	**0**	**0**	**0**
Owners' equity 31 December 2019	**362 500**	**312 500**	**94 367**	**769 367**

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

NOK THOUSANDS	Number of shares	Par value	Share capital	Share premium	Other equity	Total
Equity at 1 January 2019	3 625 000	0,1	362 500	312 500	74 769	749 769
Changes in the period 1 January - 31 December	-	-	0	0	19 598	19 598
Equity at 31 December 2019	**3 625 000**	**0,1**	**362 500**	**312 500**	**94 367**	**769 367**

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

Statement of Cash Flows

KLP KOMMUNEKREDITT AS

NOTES	NOK THOUSANDS	01.01.2019 -31.12.2019	01.01.2018 -31.12.2018
	OPERATIONAL ACTIVITIES		
	Payments received from customers – interest, commission & charges	376 913	354 411
	Disbursements on loans customers & credit institutions	-1 603 652	-1 818 593
	Receipts on loans customers & credit institutions	1 748 981	1 231 153
	Disbursements on operations	-19 859	-16 005
	Net receipts/disbursements from operating activities	11 584	-7 568
	Net interest from investment accounts	5 603	5 020
	Income tax paid	0	0
	Net cash flow from operating activities	**519 570**	**-251 582**
	INVESTMENT ACTIVITIES		
	Payments on purchase of securities	-2 035 775	-1 079 547
	Receipts on sales of securities	1 396 679	1 780 991
	Interest received from securities	29 868	20 726
	Net cash flow from investment activities	**-609 228**	**722 170**
	FINANCING ACTIVITIES		
19	Receipts on loans from credit institutions	6 000 000	3 300 000
19	Disbursements on loans from credit institutions	-5 139 000	-3 503 000
19	Change of interest of loans	-378 000	-22 000
	Net payment of interest on loans credit institutions	-318 269	-228 928
18	Receipts in internal funding	2 420 000	1 875 000
18	Disbursements in internal funding	-2 530 000	-1 720 000
	Net payment of interest on internal funding	-3 742	-4 832
	Payment on group contribution	-5 081	-14 086
	Net cash flow from financing activities	**45 908**	**-317 846**
	Net cash flow during the period	**-43 750**	**152 742**
	Cash and cash equivalents at start of period	631 394	478 652
30	Cash and cash equivalents at end of period	587 644	631 394
	Net receipts/disbursements (-) of cash	**-43 750**	**152 742**

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 2019 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, 18 March 2020
The Board of Directors of KLP Kommunekreditt AS

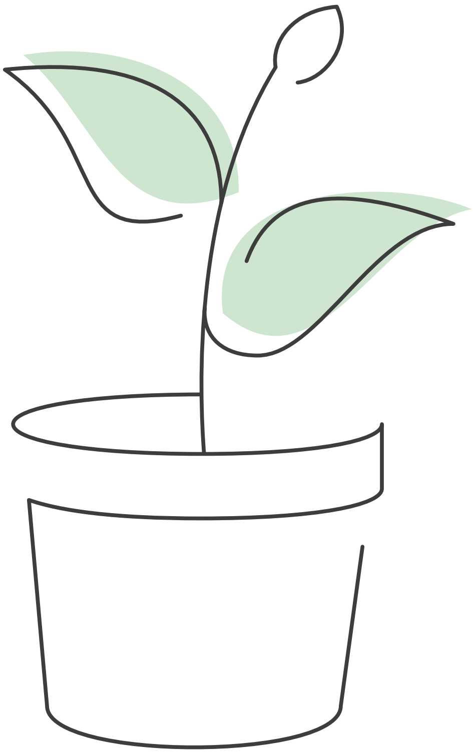
AAGE SCHAANNING
Chair

KJELL FOSSE

KARIANNE OLDERNES TUNG

AUD NORUNN STRAND

CARL STEINAR LOUS
Managing Director



Notes to the Accounts

KLP KOMMUNEKREDITT AS

NOTE 1 General information

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

The business is mainly financed by issuing covered bonds with collateral in government guaranteed loans. Some of these are listed on Oslo Børs (The Norwegian 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 2019:

IFRS 16 Leases, the standard has resulted in more leases than before being capitalised, as the distinction between operational and financial leasing has been removed. According to this standard, the right to use a leased object must be recognised as an asset, and an obligation to pay a lease as a liability. The exceptions are short-term and low-value leases. The accounting requirements for lessors will not be significantly altered. The Company has implemented the standard with effect from 2019. The implementation of IFRS 16 has had no material effect on the Company's accounts since it has no material leases which falls under the new standard.

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

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

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

2.2 FOREIGN CURRENCY

2.2.1 Functional currency and presentation currency

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

2.3 FINANCIAL INSTRUMENTS

The most important accounting policies relating to financial instruments are described below.

2.3.1 Recognition and derecognition

Financial assets and liabilities on the balance sheet on the date when the 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 the KLP Kommunekreditt AS has essentially transferred the risk and the potential gain from ownership. Financial liabilities are derecognised when the rights to the contractual conditions have been fulfilled or cancelled or have expired.

2.3.2. Classification and subsequent measurement

2.3.2.1 Financial assets

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

- Amortized cost
- Fair value through profit or loss

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

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

The business model criterion

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

- Explicit guidelines and goals for the portfolio and operation of these guidelines in practice. In particular, if the management's strategy and goal is to keep the asset in order to collect the contractual cash flows, maintain a specific interest profile, and match duration between financial assets and the corresponding financial liabilities used to finance these assets, or realise cash flows through the sale of the assets;
- How the return on the portfolio is assessed and reported to management;
- The risks that affect the performance of the business model (and the financial assets held within this business model) and how these risks are managed;
- How the managers are compensated, e.g. whether the compensation is based on the fair value of the managed assets or the total contractual cash flows; and
- Frequency, volume and date of sale in previous periods, the reasons for such sales and expectations of future sales activity. Information about the sales activities is not however assessed in isolation, but as part of an overall assessment of how the company's stated goals for managing the financial assets are achieved and how the cash flows are realised.

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

Cash flow criterion

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

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

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

All other financial assets are measured at fair value with changes in value through profit/loss, so:

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

- 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 amortized cost to be reported at fair value through profit or loss if this eliminates or significantly reduces inconsistencies in measurement ('accounting mismatches').

Impairment model

The impairment model for losses on loans and receivables is based on expected credit losses. The impairment model defines default as "a payment that is more than 90 days overdue, or an account that is continuously overdrawn for a minimum of 90 days (by at least NOK 1000)". How the impairment loss is to be measured is determined for each individual stage and the model uses the effective interest rate method. A simplified approach is allowed for financial assets that do not have a significant financial component (e.g. trade receivables). Upon initial recognition, and in cases where the credit risk has not increased significantly after initial recognition, provision has to be made for credit losses that are expected to occur over the next 12 months (Stage 1). If the credit risk has increased significantly, the provisions should correspond to the expected credit losses over the expected useful life (Stage 2). If there is a loss event, impairments are raised equal to the expected loss on the commitment throughout its life (Stage 3).

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

For the products where the company has not developed its own PD and LGD (loss given default) models, the loss ratio method is used.

The company has only public loans, and here the loss ratio method is used, with the exception for low credit risk such as all loan are in stage 1

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

Financial derivatives and hedging

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

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

For derivatives included in the accounting hedges, gains and losses are recognised as net changes in value of certificates, bonds and other securities, and are presented in the financial statements under 'Net profit/(loss) on financial Instruments'.

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

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

2.3.2.2 Financial liabilities

The Company has classified all financial liabilities measured at amortized cost, except for:
- Financial liabilities at fair value through profit or loss: This classification applies to derivatives and financial liabilities designated as such upon initial recognition. The company has designated certain liabilities at fair value through the income statement, because this reduces or eliminates inconsistencies in measurement ('accounting mismatches')
- Financial guarantees and loan commitments

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

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

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

Based on the descriptions above, the presentation, classification and measurement of financial instruments can be summarized in the following table:

FINANCIAL INSTRUMENTS	CLASSIFICATION
Loans to and receivables from credit institutions	Amortized cost
Loans to and receivables from customers	Amortized cost
	Amortized cost (hedging)
Fixed-income securities	Fair value through profit or loss
Financial derivatives (assets)	Fair value through profit or loss
Liabilities created on issuance of securities	Amortized cost
	Amortized cost (hedging)
Financial derivatives (liabilities)	Fair value through profit or loss
Liabilities to credit institutions	Amortized cost

2.3.3 Netting

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

2.3.4 Modification

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

2.4 CASH AND CASH EQUIVALENTS

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

2.5 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 cost, amortized cost" 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 cost, amortized cost" in the income statement. Bonds with fixed interest are recognized in accordance with the rules on fair value hedging in as much 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.

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

2.7 PRESENTATION OF INCOME IN THE ACCOUNTS

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 (internal rate of return).

Internal interest rates are determined by discounting contractual cash flows within the expected maturity. The cash flows include setup fees and direct transaction costs that are not paid by the customer. Amortized cost is the present value of these cash flows discounted by the internal rate of return.

Interest income for financial assets in stage 1 and stage 2 is calculated using the effective interest method on the gross asset value of the financial asset, while interest income for financial assets in stage 3 is calculated based on the financial asset's amortized cost.

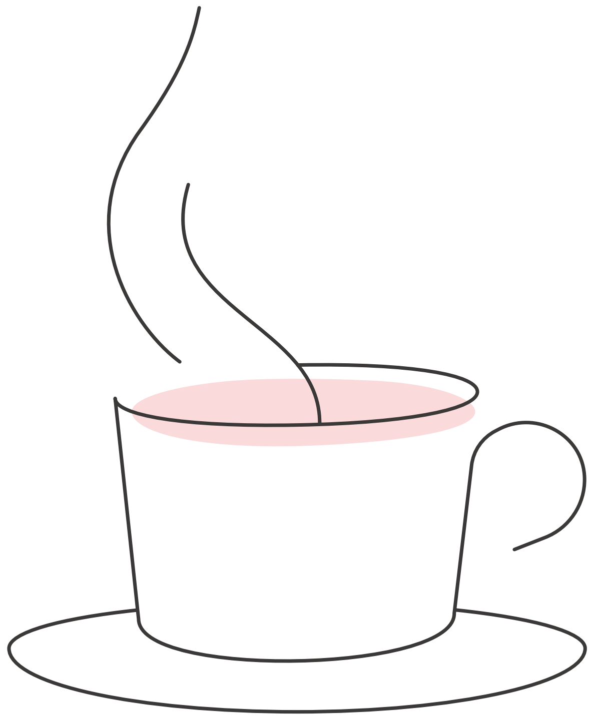
For interest-bearing financial investments and derivatives measured at fair value through the income statement, interest income is classified as "'Interest income and similar income, fair value', while other value changes are classified as 'Net gain or loss on financial investments'.

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

The company pays no benefits to employees and is not covered by the rules on financial activity tax. The company's nominal income tax rate in 2019 is 22 per cent.



NOTE 3 Important accounting estimates and valuations

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

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

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

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

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

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	01.01.2019 -31.12.2019	01.01.2018 -31.12.2018
Net gain/(loss) on fixed-income securities	-1 824	-787
Net gain/(loss) financial derivatives and realized amortization linked to lending	0	-13
Net gain/(loss) financial derivatives and realized repurchase of own debt	-16 343	-11 684
Total net gain/(loss) on financial instruments	**-18 167**	**-12 484**

NOTE 6 Categories of financial instruments

NOK THOUSANDS	31.12.2019	
	Capitalized value	Fair value
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS		
Fixed-income securities	1 365 769	1 365 769
Financial derivatives	40 785	40 785
Total financial assets at fair value through profit and loss	**1 406 554**	**1 406 554**
FINANCIAL ASSETS FAIR VALUE HEDGING		
Lending to Norwegian municipalities	2 796 387	2 835 237
Total financial assets fair value hedging	**2 796 387**	**2 835 237**
FINANCIAL ASSETS AT AMORTIZED COST		
Loans to and receivables from credit institutions	594 461	594 461
Lending to Norwegian municipalities	13 751 007	13 744 458
Total financial assets at amortized cost	**14 345 468**	**14 338 919**
TOTAL FINANCIAL ASSETS	**18 548 409**	**18 580 710**
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS		
Financial derivatives	60 674	60 674
Total financial liabilities at fair value through profit and loss	**60 674**	**60 674**
FINANCIAL LIABILITIES FAIR VALUE HEDGING		
Covered bonds issued	1 793 121	1 809 391
Total financial liabilities fair value hedging	**1 793 121**	**1 809 391**
FINANCIAL LIABILITIES AT AMORTIZED COST		
Liabilities to credit institutions	320 169	320 169
Covered bonds issued	15 594 337	15 662 495
Total financial liabilities at amortized cost	**15 914 506**	**15 982 665**
TOTAL FINANCIAL LIABILITIES	**17 768 302**	**17 852 729**

NOK THOUSANDS	31.12.2018	
	Capitalized value	Fair value
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS		
Fixed-income securities	727 246	727 246
Financial derivatives	62 461	62 461
Total financial assets at fair value through profit and loss	**789 708**	**789 708**
FINANCIAL ASSETS FAIR VALUE HEDGING		
Lending to Norwegian municipalities	3 429 602	3 464 954
Total financial assets fair value hedging	**3 429 602**	**3 464 954**

NOTE 6 Categories of financial instruments - cont.

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

	31.12.2019	31.12.2018
GAIN/LOSS FAIR VALUE HEDGING		
On the hedging object	-20 663	-38 957
On the hedged item attributable to hedged risk	20 663	38 957
GAIN AND LOSS IN FAIR VALUE HEDGING	**0**	**0**

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

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

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

NOTE 6 Categories of financial instruments - cont.

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. If a bond lacks an appropriate spread curve, spread from a comparable bond from the same issuer is used.

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

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

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

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

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

NOTE 7 Fair value hierarchy

31.12.2019 NOK THOUSANDS	Level 1	Level 2	Level 3	Total
ASSETS BOOKED AT FAIR VALUE				
Fixed-income securities	59 879	1 305 890	0	1 365 769
Financial derivatives	0	40 785	0	40 785
Total assets at fair value	**59 879**	**1 346 675**	**0**	**1 406 554**
LIABILITIES BOOKED AT FAIR VALUE				
Financial derivatives (liabilities)	0	60 674	0	60 674
Total financial liabilities at fair value	**0**	**60 674**	**0**	**60 674**

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

NOTE 7 Fair value hierarchy - cont.

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

LEVEL 1

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

LEVEL 2

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

LEVEL 3

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

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

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

NOTE 8 Fixed-income securities

NOK THOUSANDS				31.12.2019
Debtor categories	**Acquisition cost**	**Unreal. gain/loss**	**Accr. int. not due**	**Market value**
Government/social security administration	59 832	47	0	59 879
Credit enterprises	1 306 280	-2 724	2 333	1 305 890
Total fixed-income securities	**1 366 112**	**-2 677**	**2 333**	**1 365 769**

Effective interest rate: 2.03%

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

Effective interest rate: 1.52%

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

NOTE 9 Financial derivatives

NOK THOUSANDS	31.12.2019		31.12.2018	
	Nominal amount	Fair value	Nominal amount	Fair value
Derivatives related to borrowing	1 180 000	16 996	1 250 000	40 221
Derivatives related to lending	1 167 732	23 789	1 429 842	22 240
Total assets	**2 347 732**	**40 785**	**2 679 842**	**62 461**
Derivatives related to borrowing	600 000	-9 211	600 000	-7 367
Derivatives related to lending	1 788 982	-51 463	2 117 799	-98 036
Total liabilities	**2 388 982**	**-60 674**	**2 717 799**	**-105 403**

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	01.01.2019 -31.12.2019	01.01.2018 -31.12.2018
Interest income on loans to customers, amortized cost	384 962	346 027
Interest income on loans to credit institutions, amortized cost	5 622	5 020
Total interest income, amortized cost	**390 583**	**351 048**
Interest income on bonds and certificates, fair value	31 144	19 349
Other interest income, fair value	103 983	136 097
Total interest income, fair value	**135 127**	**155 446**
Total interest income	**525 710**	**506 494**
Interest expenses on debt to KLP Banken AS, amortized cost	-3 703	-4 871
Interest expenses on issued securities, amortized cost	-339 456	-264 292
Total interest costs, amortized cost	**-343 159**	**-269 163**
Other interest expenses, fair value	-119 667	-171 790
Total interest costs, fair value	**-119 667**	**-171 790**
Total interest costs	**-462 826**	**-440 953**
Net interest income	**62 884**	**65 541**

NOTE 11 Lending and receivables

NOK THOUSANDS	31.12.2019	31.12.2018
LOANS TO AND RECEIVABLES FROM CREDIT INSTITUTIONS		
Bank deposits	594 461	649 795
Loans to and receivables from credit institutions	**594 461**	**649 795**
LOANS TO AND RECEIVABLES FROM CUSTOMERS		
Principal on lending	16 468 493	16 646 683
Write-downs steps 1 and 2	-161	-163
Fair value hedging	21 397	65 732
Premium/discount	-7 701	-10 949
Accrued interest	65 366	57 317
Loans to and receivables from customers	**16 547 394**	**16 758 620**

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

NOTE 13 Credit risk - cont.

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.

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

NOK THOUSANDS	31.12.2019	31.12.2018
Lending to municipalities and county administrations	15 141 619	14 482 457
Lending with municipal/county administration guarantee	1 326 874	2 164 226
Total	**16 468 493**	**16 646 683**
Sums falling due more than 12 months after the end of the reporting period	15 656 673	15 795 643

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	31.12.2019	31.12.2018
AAA	1 365 769	727 246
Total	**1 365 769**	**727 246**

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

NOK THOUSANDS	31.12.2019	31.12.2018
Aa1-Aa3	442 917	352 440
A1-A3	151 544	297 355
Total	**594 461**	**649 795**

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	31.12.2019	31.12.2018
Loans to and receivables from credit institutions	594 461	649 795
Loans to and receivables from customers	16 533 860	16 704 000
Fixed-income securities	1 365 769	727 246
Financial derivatives	40 785	62 461
Loss write-downs stage 1	161	163
TOTAL	**18 535 035**	**18 143 665**

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	31.12.2019	31.12.2018
Principal on loans with payments overdue by 7-30 days	7 792	0
Principal on loans with payments overdue by 31-90 days	16 555	0
Principal on non-performing loans	0	0
Total loans fallen due	**24 347**	**0**
Relevant security or guarantees	24 347	0
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 2019 was about 4.5 per cent of the Company's total lending.

NOTE 14 Market risk

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

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

14.1 MEASUREMENT OF MARKET RISK

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

14.2 INTEREST RATE RISK

The market risk policy is the Company's overarching guidelines, requirements and limits associated with market risk. The policy dictates that the market risk should be minimized so that the total market risk is low. It further states that the Company should not actively take positions that expose the Company to market risk. The policy also sets limits for interest rate risk both for the total interest rate risk for the infinite future and for rolling 12-month periods. The risk limits are set to ensure that the low market risk profile policy is complied with.

The operational responsibility for managing the Company's market risk lies with the Finance Department. The Risk Analysis and Control Department reports the Company's actual exposure in relation to limits in accordance with guidelines set by the Board.

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

INTEREST-RATE RISK KLP KOMMUNEKREDITT AS
Repricing dates for interest-bearing assets and liabilities as at 31 December 2019

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	16 468 493	11 213 459	2 099 784	748 494	1 939 746	467 010
Securities	1 350 000	134 000	1 216 000	0	0	0
Cash and receivables from credit institutions	594 461	594 461	0	0	0	0
Total	**18 412 954**	**11 941 920**	**3 315 784**	**748 494**	**1 939 746**	**467 010**
Liabilities created on issuance of securities	17 304 000	4 000 000	11 300 000	904 000	600 000	500 000
Liabilities to financial institutions	320 000	320 000	0	0	0	0
Total	**17 624 000**	**4 320 000**	**11 300 000**	**904 000**	**600 000**	**500 000**
Gap	**788 954**	**7 621 920**	**-7 984 216**	**-155 506**	**1 339 746**	**-32 990**
Financial derivatives	0	-169 658	1 241 785	358 391	-1 229 709	-200 809
Net gap	**788 954**	**7 452 262**	**-6 742 431**	**202 885**	**110 037**	**-233 799**

NOTE 14 Market risk - cont.

Repricing dates for interest-bearing assets and liabilities as at 31 December 2018

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

The Company's interest rate sensitivity as at 31 December 2019 (2018), measured as value change in the event of one percentage point change in all interest rates, was NOK 5.2 (0.7) million.

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 2019

NOK THOUSANDS	Total	Undefined	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
Loans to and receivables from customers	21 846 292	0	54 420	185 169	992 753	6 283 398	14 330 552
Fixed-income securities	1 431 738	0	775	67 139	78 501	1 285 323	0
Loans to and receivables from credit institutions	594 461	0	594 461	0	0	0	0
Total	**23 872 491**	**0**	**649 655**	**252 308**	**1 071 254**	**7 568 721**	**14 330 552**
Liabilities created on issuance of securities	18 721 806	0	25 179	64 393	1 221 937	16 886 297	524 000
Financial derivatives	-20 065	0	-2 098	-5 847	-321	-16 450	4 650
Liabilities to credit institutions	327 574	0	328	635	2 909	323 702	0
Total	**19 029 315**	**0**	**23 409**	**59 181**	**1 224 525**	**17 193 550**	**528 650**
Net cash flow	**4 843 176**	**0**	**626 247**	**193 127**	**-153 271**	**-9 624 828**	**13 801 902**

Maturity analysis for assets and liabilities as at 31 December 2018

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

A 24-month internal loan of NOK 320 Million has been provided from KLP Banken AS to KLP Kommunekreditt AS, which is defined as "Liabilities to credit institutions". This loan is rolled over currently every third month and the interest rate is set each month.

NOTE 16 Loan loss provision

The new accounting standard IFRS 9 was introduced 01.01.2018, and changed the methodology for provisions for losses on financial instruments in the accounts. For KLP Kommunekreditt, the exception in the rules for very low credit risk in public-sector lending has been used, and there will be no estimated future losses on the basis of substantially increased credit risk since initial recognition. All loans are classed in stage 1, which corresponds to unchanged credit risk since initial recognition. For KLP Kommunekreditt, a simplified loss rate method has been chosen to calculate the expected credit loss (ECL), where the bank uses a very low loss rate to calculate its losses, corresponding to 0.001 per cent of total lending.

A part of the assessment of future losses is the assessment of how the future will look with regard to the future in terms of macroeconomic conditions affecting the bank's credit losses, e.g. interest rates, house prices, unemployment, etc. The expected credit loss (ECL) should be probability-weighted based on several scenarios defined by the bank. The scenarios used by the bank are one expected outcome, one pessimistic outcome, and one optimistic outcome for expected credit loss, where the three scenarios have a factor for outcome and a probability that the scenario occurs. The sum of the weighted scenarios constitutes the expected credit loss, and the probability that each scenario will occur will thus affect the expected credit loss For the Bank's products, a positive scenario is considered at least as likely as a negative scenario. The expected scenario is considered to have the highest probability at the end of 2019. The connection between the probability of each scenario is also based on how strong the projected negative and positive outcomes are. KLP Banken's risk forum reviews the three scenarios and their weightings each quarter in light of changes in macroeconomic conditions or other factors that could affect the impairments in the Bank.

FOLLOW-UP ON NON-PERFORMING COMMITMENTS

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

2019

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

NOK THOUSANDS	12 months ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
	Stage 1	Stage 2	Stage 3	Total
Opening balance ECL 01.01.2019	163	0	0	163
Transfer to Stage 1	0	0	0	0
Transfer to Stage 2	0	0	0	0
Transfer to Stage 3	0	0	0	0
Net changes	-6	0	0	-6
New losses	14	0	0	14
Write-offs	-10	0	0	-10
Closing balance ECL 31.12.2019	**161**	**0**	**0**	**161**
Changes (01.01.2019 - 31.12.2019)	-2	0	0	-2

NOTE 16 Loan loss provision - cont.

2019
Value of lending and receivables for customers recognised in the balance sheet - amortized cost

NOK THOUSANDS	12 months ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
	Stage 1	Stage 2	Stage 3	Total
Gross lending 01.01.2019	16 704 000	0	0	16 704 000
Transfer to Stage 1	0	0	0	0
Transfer to Stage 2	0	0	0	0
Transfer to Stage 3	0	0	0	0
Net change	-550 989	0	0	-550 989
New lending	1 467 607	0	0	1 467 607
Write-offs	-1 086 759	0	0	-1 086 759
Gross lending 31.12.2019	**16 533 859**	**0**	**0**	**16 533 859**

2018
Expected credit loss (ECL) - loans to customers, amortized cost

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

2018
Value of lending and receivables for customers recognised in the balance sheet - amortized cost

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

NOTE 17 Salary and obligations to senior management

2019 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 31.12.2019	Repayment plan [1]
SENIOR EMPLOYEES										
Carl Steinar Lous, Department manager Public Market/Managing Director	-	-	-	-	1 342	27	384	2 002	2.00	A20/A32
BOARD OF DIRECTORS										
Sverre Thornes, Chair up to 19 March	-	-	-	-	4 155	221	1 530	11 550	2.00	A45
Aage E. Schaanning, Chair from 19 March	-	-	-	-	3 599	168	1 282	5 397	2.00	HC
Ingrid Aune [2]	15	-	-	-	91	-	-	-	-	-
Aud Norunn Strand	78	-	-	-	-	-	-	1 388	3.00	HC
Karianne Oldernes Tung	4	-	-	-	24	-	-	-	-	-
Kjell Fosse	12	-	-	-	142	-	-	-	-	-
EMPLOYEES										
Total loans to employees of KLP Kommunekreditt			-	-	-	-	-	2 002	-	-

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

[1] A= Annuity loan, last payment, HC=Home Credit.
[2] Deceased

NOTE 17 Salary and obligations to senior management - cont.

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

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

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

Directors' fees are set by the General Assembly. Board members employed in the KLP Group, not having been elected by and from the employees, do not receive a fee for the Board appointment. Benefits in addition to Directors' fees for Board members employed in the KLP Group are stated only if they are included in the senior management group employed in the KLP Group. This also applies to any loans they may have with the Group.

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

The KLP Group offers loans for various pruposes. There are separate loan terms for employees, and no senior employees have loan terms that deviate from these.

Loans to external directors are only granted under ordinary loan terms. The interest rebate that accrues to employees is refunded to the lending company.

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

NOTE 18 Liabilities to credit institutions

31.12.2019 NOK THOUSANDS	Currency	Interest	Due date	Nominal	Accrued interest	Book value
Debt to KLP Banken AS	NOK	Fixed	15.12.2021	220 000	116	220 116
Debt to KLP Banken AS	NOK	Fixed	15.12.2021	100 000	53	100 053
Total liabilities to credit institutions				**320 000**	**169**	**320 169**
Interest rate on debt to credit institutions at the reporting date						**1.19 %**

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

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

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

NOK THOUSANDS	Book value 31.12.2018	Receipts internal funding	Disbursements internal funding	Changes accrued interest	Book value 31.12.2019
Debt to KLP Banken AS	430 208	2 420 000	-2 530 000	-39	320 169

NOTE 19 Securities liabilities - stock exchange listed covered bonds

NOK THOUSANDS	31.12.2019	31.12.2018
Bonds, nominal value	18 604 000	17 743 000
Revaluations	19 695	35 990
Accrued interest	63 764	52 281
Own funds, nominal value	-1 300 000	-922 000
Total liabilities created on issuance of securities	**17 387 458**	**16 909 271**
Interest rate on borrowings through the issuance of securities at the reporting date.	**2.22%**	**1.58 %**

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 31.12.2018	Issued	Fallen due/ redeemed Repurchased	Other changes	Balance 31.12.2019
CHANGE IN LIABILITIES CREATED ON ISSUANCE OF SECURITIES					
Bonds, nominal value	17 743 000	6 000 000	-5 139 000	0	18 604 000
Revaluations	35 990	0	0	-16 295	19 695
Accrued interest	52 281	0	0	11 483	63 764
Own funds, nominal value	-922 000	0	-378 000	0	-1 300 000
Total liabilities created on issuance of securities	**16 909 271**	**6 000 000**	**-5 517 000**	**-4 813**	**17 387 458**

NOTE 20 Over-collateralisation

NOK THOUSANDS	Fair value	
	31.12.2019	31.12.2018
SECURITY POOL		
Loans to customers	16 587 551	16 792 892
Financial derivatives (net)	-20 236	-42 930
Additional collateral 1)	2 790 615	1 898 505
Total security pool	**19 357 930**	**18 648 467**
Outstanding covered bonds incl. own funds and premium/discount	18 710 618	17 862 666
Coverage of the security pool	**103.5 %**	**104.4 %**

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

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

NOTE 21 Presentation of assets and liabilities subject to net settlement

31.12.2019 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	40 785	0	40 785	-40 785	0	0
Total	**40 785**	**0**	**40 785**	**-40 785**	**0**	**0**
LIABILITIES						
Financial derivatives	60 674	0	60 674	-40 785	0	19 889
Total	**60 674**	**0**	**60 674**	**-40 785**	**0**	**19 889**

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

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

NOTE 22 Capital adequacy

NOK THOUSANDS	31.12.2019	31.12.2018
Share capital and share premium fund	675 000	675 000
Other owners' equity	94 367	74 769
Total owners' equity	**769 367**	**749 769**
Adjustments due to requirements for proper valuation	-1 366	-727
Core capital/Tier 1 capital	**768 001**	**749 042**
Supplementary capital/Tier 2 capital	0	0
Supplementary capital/Tier 2 capital	**0**	**0**
Total own funds (eligible Tier 1 and Tier 2 capital)	768 001	749 042
Capital requirement	297 257	295 879
Surplus of own funds (eligible Tier 1 and Tier 2 capital)	**470 744**	**453 163**
CALCULATION BASIS CREDIT RISK		
Institutions	127 049	144 076
Local and regional authorities	3 346 561	3 380 301
Covered bonds	130 589	66 734
Other items	1 010	0
Calculation basis credit risk	**3 605 209**	**3 591 111**
Credit risk	288 417	287 289
Operational risk	8 745	8 467
Credit valuation adjustment	96	123
Total capital requirement assets	**297 257**	**295 879**
Core capital adequacy ratio	20.7 %	20.3 %
Supplementary capital ratio	0.0 %	0.0 %
Capital adequacy ratio	**20.7 %**	**20.3 %**
Leverage ratio	**4.1 %**	**4.0 %**

CAPITAL REQUIREMENT AS AT 31.12.2019	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	2.5 %	0.0 %	2.5 %
Applicable capital requirements including buffers	**12.5 %**	**3.5 %**	**16.0 %**
Capital requirement leverage ratio	**3.0 %**	**0.0 %**	**3.0 %**

NOTE 23 Tax

NOK THOUSANDS	01.01.2019 -31.12.2019	01.01.2018 -31.12.2018
Accounting income before taxes	25 126	37 315
Differences between accounting and tax income:		
Reversal of value increase financial assets	8 585	-47 997
Other permanent differences	0	-158
Change in differences affecting relationship between book and taxable income	6 982	32 930
Taxable income	**40 693**	**22 089**
RECONCILIATION OF DEFERRED TAX/TAX ASSETS		
Deferred tax asset linked to:		
Hedging of borrowing	-808	-8 693
Securities	-4 331	-119
Premium/discount on borrowing	0	-505
Total deferred tax assets	**-5 139**	**-9 316**
Deferred tax linked to:		
Securities	10	0
Premium/discount on borrowing	1 897	0
Lending to customers and credit enterprises	4 617	14 126
Total deferred tax	**6 525**	**14 126**
Net deferred tax/tax assets	**1 385**	**4 810**
SUMMARY OF TAX EXPENSE FOR THE YEAR		
Tax charged to the income statement for previous years	-3 425	3 247
Changes to deferred tax recognised directly in equity	0	36
Change in deferred tax taken to income	8 952	5 081
Total tax costs	**5 528**	**8 364**
Effective tax rate	22.0 %	22.4 %
Reconciliation of tax rate:		
Accounting income before taxes	25 126	37 315
Income taxs expense, nominal tax rate	5 528	8 582
Income tax expense, effective tax rate	5 528	8 364
Difference between effective and nominal tax rate	**0**	**219**
Recognised tax relating to previous years	0	36
Tax effects of permanent differences	0	-36
Effect of change in tax rate on deferred tax	0	219
Total	**0**	**219**

NOTE 24 Number of FTEs and employees

KLP Kommunekreditt AS has two 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 25 Other liabilities and provision for accrued costs and liabilities

NOK THOUSANDS	31.12.2019	31.12.2018
Receivables between companies in the same Group	1 221	1 702
Creditors	113	0
Other liabilities	1	2
Payable taxes	8 952	5 081
Total other liabilities	**10 286**	**6 784**
Value-added tax	78	0
Total accrued costs and liabilities	**78**	**0**

NOTE 26 Transactions with related parties

NOK THOUSANDS	01.01.2019 -31.12.2019	01.01.2018 -31.12.2018
INCOME STATEMENT ITEMS		
KLP Banken AS, interest on borrowing	-3 703	-4 871
KLP Banken AS, administrative services (at cost)	-13 335	-12 823
KLP Kapitalforvaltning AS, fees for services provided	-103	-120
Total	**-17 140**	**-17 813**

NOK THOUSANDS	31.12.2019	31.12.2018
FINANCIAL POSITION STATEMENT ITEMS		
KLP Banken AS, debt to credit institutions	-320 169	-430 208
KLP Banken AS, loan settlement	1 010	8 122
Net outstanding accounts to:		
KLP Banken AS	-1 196	-1 672
KLP Kapitalforvaltning AS	-24	-29
Total	**-320 380**	**-423 788**

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

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

NOTE 27 Auditor's fee

NOK THOUSANDS	01.01.2019 -31.12.2019	01.01.2018 -31.12.2018
Ordinary audit	304	291
Certification services	35	119
Total auditor's fee	**339**	**410**

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

NOTE 28 Other assets

NOK THOUSANDS	31.12.2019	31.12.2018
Receivables between Group companies	1 010	8 122
Total other assets	**1 010**	**8 122**

NOTE 29 Contingent liabilities

NOK THOUSANDS	31.12.2019	31.12.2018
Loan commitment	370 820	500 394
Total contingent liabilities	**370 820**	**500 394**

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

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

NOK THOUSANDS	31.12.2019	31.12.2018
Bank deposits operations	587 644	631 394
Cash	0	0
Total cash and cash equivalents (liquidity)	**587 644**	**631 394**
Bank accounts to be used for the purchase and sale of securities	6 817	18 401
Loans and receivables from credit institutions	**594 461**	**649 795**

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 2019, the income statement, statement of owners' equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements are prepared in accordance with law and regulations and give a true and fair view of the financial position of the Company as at 31 December 2019, 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 2019 financial statements. *Loan to customers* has the same characteristics and risks this year as last year, and these important areas of focus have been the same in 2019 as for 2018.

Key Audit Matter	How our audit addressed the Key Audit Matter
Risk of credit losses in loans to customers	
The mortgage company has NOK 16.5 bn in loans to municipalities and counties and companies with public guarantees. The	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

PricewaterhouseCoopers AS, Dronning Eufemias gate 71, Postboks 748 Sentrum, NO-0106 Oslo
T: 02316, org. no.: 987 009 713 VAT, www.pwc.no
State authorised public accountants, members of The Norwegian Institute of Public Accountants, and authorised accounting firm

Local Government Act ensures credit losses will not occur on such loans when the Local Government Act's requirements for raising loans are fulfilled. We refer to the Board of Directors' report for further information.

We have focused on the mortgage company's controls directed at compliance with the requirements of the law at the time the loans are granted. This is a fundamental presumption for no loss potential in the portfolio, which may affect the result.

established processes directed at ensuring a detailed review of the applications for loans and associated documentation to ensure compliance with the requirements in the Local Government Act at the time of granting the loan. The process includes formal controls and segregation of duties which are directed at ensuring that the process has been carried out prior to granting or transfer of loans from group companies to the mortgage company.

Our work included tests of the mortgage company's financial reporting systems relevant to financial reporting. The mortgage company uses external service providers to operate some of the important IT systems. The auditor at the relevant service organization are used to evaluate the design and efficiency of the established control systems, and tests the controls designed to ensure the integrity of the IT system that are relevant to financial reporting. The auditor has issued a report that included testing of whether central calculations performed by core systems was performed according to expectations, hereunder interest calculations and mortifications. The testing included the integrity of data, changes of and access to the systems.

To assess whether we could rely on the work performed by other auditors, we satisfied ourselves regarding the auditors' competence, capacity and objectivity and examined the reports received and assessed potential weaknesses and remediation initiatives. We also performed our own testing of access controls related to the company's IT systems and segregation of duties where this was considered necessary to our audit.

Our assessments and testing showed that we could rely on the data handled and calculations performed within the IT systems that are relevant to financial reporting.

Other information

Management is responsible for the other information. The other information comprises information in the annual report, except the financial statements and our auditor's report thereon.

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

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.

(2)

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption and the proposed allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

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

Oslo, 18 March 2020
PricewaterhouseCoopers AS

Erik Andersen
State Authorised Public Accountant

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

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KLP KOMMUNEKREDITT AS
Beddingen 8
7042 Trondheim
VATIN: 994 526 944

VISITOR ADRESS, TRONDHEIM
Beddingen 8

VISITOR ADRESS, OSLO
Dronning Eufemias gate 10

klpbanken.no

Tel: 55 54 85 00
klpkommunekreditt@klp.no