Annual Report 2019

KLP BOLIGKREDITT AS

KLP

KLP BOLIGKREDITT AS IS OWNED BY KLP THROUGH ITS SUBSIDIARY KLP BANKEN AS.

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

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

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

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The company's profit before tax was NOK 4.2 million and the loan balance NOK 7.3 billion. The Company is financed mainly by the issue of covered bonds. These bonds have been given the highest possible rating (Aaa).

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

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

The collective operations of KLP Banken AS and its subsidiaries are divided into the retail market and public loans business areas. The business is nationwide and the companies' head office is in Trondheim.

KLP Banken shall be a direct bank for customers seeking a long-term and predictable partner. This is how the bank wants to be preferred by retail customers who are members of KLP's pension schemes and who find the bank's services and ethical principles attractive. The Bank shall provide products and services on competitive terms in order to help companies that have chosen KLP as their pension provider to be viewed as attractive employers.

INCOME STATEMENT

The Company's profit before tax was NOK 4.2 (8.5[1]) million and the total profit for the year was NOK 3.3 (6.5) million. This gave a return on equity of 1.0 (1.9) per cent before tax. The profit reduction compared to last year is mainly due to changes in the value of financial instruments.

Interest income from mortgages in 2019 was NOK 192.6 (148.8) million. In addition, interest income from bank deposits and securities amounted to NOK 9.0 (2.7) million.

Interest expenses in 2019 are divided between NOK 126.8 (86.4) million on covered bonds issued and NOK 11.8 (10.5) million on debt to KLP Banken AS.

Net interest income in 2019 amounted to NOK 63.0 (54.6) million. The main reason for the change is higher lending volume on average and better margins between loans and borrowings towards the end of the year.

During the term of its borrowing agreements, the Company makes regular adjustments to reduce its liquidity risk and meet regulatory requirements with respect to liquidity indicators and capital adequacy (Basel III and CRD IV). Refinancing of borrowing agreements then results in a need for buy-back of the Company's own issuance. In 2019 the effect on profits of borrowing buy-backs was NOK -11.5 (-0.5) million. See note 5 to the accounts.

The Company's lending is managed by KLP Banken AS, and a large part of the operating expenses are regulated in an agreement with the parent company. The management agreement provides

[1] Figures in parentheses below refer to last year's figures.

FINANCIAL PERFORMANCE IN 2019

PROFIT

NOK MILLIONS	2019	2018	Change
Profit before tax	4.2	8.5	-4.3
Net interest income	63.0	54.6	8.4
Operating expenses	-47.0	-45.2	-1.8
Changes in value financial instruments	-11.8	-0.9	-10.9
Losses on loans	-0.0	-0.0	-0.0

BALANCE SHEET

NOK BILLIONS	2019	2018	Change
Property mortgages	7.3	7.2	0.1
Total assets	7.9	7.7	0.3

that KLP Boligkreditt AS is charged for its share of the parent company's costs for the management of mortgages based on volume. Costs are settled monthly. Operating expenses in excess of this are mainly direct costs incurred by the Company in connection with external assistance, such as rating, auditing, etc. In 2019, the Company's operating expenses increased by 4 (37) per cent. Net interest income increased in the same period by 15 (18) per cent.

LENDING

During 2019, KLP Boligkreditt AS purchased mortgages worth NOK 2.9 (4.9) billion from KLP Banken AS. Outstanding mortgages on the Company's balance sheet totalled NOK 7.3 (7.2) billion at the end of the year.

The mortgage portfolio is secured with collateral within cautious valuations whereby all borrowers are assessed with respect to solvency and willingness to pay before the loan is approved. The average loan per customer came to NOK 1.3 (1.4) million. All lending was at floating interest rates.

At the end of 2019, the mortgage portfolio in the Company had an average loan-to-value ratio (debt as a percentage of the estimated housing value - LTV) of 50 (49) per cent.

No individual losses on mortgages were recognised in 2019, and there were no defaults over 90 days at the end of the year. Estimated loss provisions under IFRS 9 had an effect on profits of NOK -16 (-6) thousand. See note 15.

LIQUIDITY

KLP Boligkreditt AS is subject to strict rules with respect to the assets it may invest in. The portfolio of liquid investments comprises safe securities and deposits in other banks. The securities are extremely secure certificates and bonds, largely covered bonds with an Aaa rating. Holdings of cash and cash equivalents have been used to pay out new loans or for redemptions and buybacks of borrowings.

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

At the end of 2019, NOK 129 (148) million of the Company's liquidity was invested in bank deposits and NOK 460 (288) million in interest-bearing securities. Securities are recognised at market value. The Company's liquidity situation is considered satisfactory. In 2019, this produced a recognised loss of NOK -0.3 (-0.5) million.

BORROWING

KLP Boligkreditt is licensed to issue bonds covered by mortgage sureties.

At the end of 2019, the Company had outstanding covered bond debt of NOK 7.0 (6.1) billion. During the year, new covered bonds in the amount of NOK 2.0 (2.8) billion were issued. The remaining financing comprises equity and loans from the parent company.

At the end of 2019, debt, in the form of covered bonds, totalled NOK 7.2 (6.9) billion. This includes an own holding of NOK 0.2 (0.8) billion. The bonds are issued with security in the Company's mortgage portfolio. All issues have achieved Aaa rating.

The Company's debt to credit institutions at the end of the year comprised internal financing from KLP Banken AS in the amount of NOK 0.4 (1.0) billion.

BALANCE SHEET AND CAPITAL ADEQUACY

Total assets stood at NOK 7.9 (7.7) billion at the end of 2019.

The Company's equity and subordinated loan capital, based on the Board of Directors' proposal for the allocation of the year's profit, totalled NOK 508.8 (505.9) million at the end of the year. Core capital is identical with equity and subordinated loan capital. This gives a capital adequacy and tier 1 capital ratio of 18.5 (18.9) per cent.

The current capital requirement, including capital buffers, is 12.5 per cent tier 1 core capital ratio and 16.0 per cent capital adequacy. The unweighted tier 1 capital ratio was 6.4 (6.6) per cent, compared with the requirement of 3.0 per cent.

The risk-weighted balance came to NOK 2.6 (2.6) billion. Capital adequacy is considered good.

ALLOCATION OF THE PROFIT FOR THE YEAR

KLP Boligkreditt AS's financial statements for 2019 show a total profit of NOK 3.3 million. The Board of Directors proposes that a group contribution of NOK 5.2 million be paid to KLP. NOK 4.1 million will be received from KLP as a group contribution without any tax effect. Net profit and group contribution will be transferred to other equity. The group contribution first has an accounting effect at the time of the decision.

ABOUT THE FINANCIAL STATEMENTS

The Board of Directors believes that the financial statements provide a true and fair view of the Company's assets and liabilities, financial position and profit. The conditions for continued operations are present, and this is assumed in the annual financial statements.

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

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

RATING

The rating agencies' assessment of KLP Boligkreditt AS and the KLP Group have a bearing on the Company's borrowing terms. The Company has engaged Moody's to provide a credit rating of the Company's bonds. All issued covered bonds are rated Aaa.

RISK MANAGEMENT

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

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

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

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

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

CORPORATE GOVERNANCE AND MANAGEMENT

The Company's articles of association and applicable legislation provide guidelines for corporate governance, corporate management and define a clear division of roles between governing bodies and corporate management. The Board of Directors sets the policies for the Company's activities. The Board of Directors held seven board meetings in 2019. The Board comprised two women and two men at the end of the year.

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

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

WORKING ENVIRONMENT AND ORGANISATION

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

A management agreement has been entered into with KLP Banken AS with respect to administration, IT support,

Photo: Cato Werner Gustavsen/KLP

The Board of Directors in KLP Boligkreditt AS. From the left: Marit Barosen, Karianne Oldernes Tung, Kjell Fosse, Aage Elmenhorst Schaanning.

finance and risk management, as well as borrowing and liquidity management.

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

CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABILITY

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

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

KLP Banken signed the UN Principles for Sustainable Banking in the autumn of 2019 and has committed to implementing these principles in its operations. The principles for sustainable banking mean that banks are transparent about how their products and services create value for customers and investors, as well as for society as a whole. The principles are intended to guide banks in their work on sustainability, and support society's overall goals in line with the UN Sustainable Development Goals and the Paris Agreement.

OUTLOOK

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

Moving forward, mortgage loans will be purchased from KLP Banken AS or KLP, and will be included in the sureties used to secure existing and new borrowing issues. The Board of Directors believes that a firm foundation has been laid to further develop the Company and that KLP Boligkreditt AS will be able to finance a growing share of KLP Banken's mortgage loans. This will help to reduce the bank group's borrowing costs.

KLP Boligkreditt AS aims to be a major contributor to the financing of mortgages to employees of KLP's owners. Favourable financing conditions will contribute to KLP Banken Group's ambitions to offer particularly favourable terms to members who wish to establish themselves in the housing market.

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 countercyclic 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. The KLP Banken Group expects the loan loss provisions in the retail markets to increase as a result of layoffs, and thus increased possibility of a negative scenario in the stresstesting of the bank. The KLP Banken Group expects the loan loss provisions in the retail markets to increase as a result of layoffs, and thus increased possibility of a negative scenario in the stresstesting of the bank. As a result of most loan customers and members are employed by public sector enterprises a significant increase in losses and loan loss provisions is not expected.

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

AAGE SCHAANNING
Chair

KJELL FOSSE

KARIANNE OLDERNES TUNG

MARIT E. BAROSEN

CHRISTOPHER A. N. STEEN
Managing Director

Income Statement

KLP BOLIGKREDITT AS

NOTES	NOK THOUSANDS	01.01.2019 -31.12.2019	01.01.2018 -31.12.2018
	Interest income, amortised cost	194 889	150 342
	Interest income at fair value	6 712	1 168
9	**Total interest income**	**201 602**	**151 510**
	Interest expense, amortised cost	-138 568	-96 885
9	**Total interest costs**	**-138 568**	**-96 885**
9	**Net interest income**	**63 033**	**54 625**
5	Net gain/(loss) on financial instruments	-11 837	-937
	Total net gain/(loss) on financial instruments	**-11 837**	**-937**
25	Other operating expenses	-46 966	-45 168
15	Net loan losses	-16	-6
	Total other operating expenses	**-46 982**	**-45 175**
	Operating profit/loss before tax	**4 215**	**8 513**
21	Tax on ordinary income	-927	-2 043
	Income for the year	**3 288**	**6 470**
	Other comprehensive income	0	0
	Other comprehensive income for the year after tax	**0**	**0**
	COMPREHENSIVE INCOME FOR THE YEAR	**3 288**	**6 470**
	ALLOCATION OF INCOME		
	Allocated to/from retained earnings	-3 288	-6 470
	TOTAL ALLOCATION OF INCOME	**-3 288**	**-6 470**
	Total profit in% of total assets	0.04 %	0.08 %

Balance Sheet

KLP BOLIGKREDITT AS

NOTES	NOK THOUSANDS	31.12.2019	31.12.2018
	ASSETS		
6,10,27	Loans to and receivables from credit institutions	128 596	148 414
6,10	Loans to and receivables from customers	7 337 524	7 227 991
6,7,8	Fixed-income securities	460 344	288 357
21	Deferred tax assets	2 101	1 874
26	Other assets	1 891	2 391
	TOTAL ASSETS	**7 930 456**	**7 669 027**
	LIABILITIES AND OWNERS' EQUITY		
	LIABILITIES		
6,17	Liabilities to credit institutions	387 157	1 036 913
6,18	Liabilities created on issuance of securities	7 027 380	6 116 113
22	Other liabilities	4 600	7 971
	TOTAL LIABILITIES	**7 419 137**	**7 160 997**
	OWNERS' EQUITY		
	Share capital	220 000	220 000
	Share premium	270 463	270 463
	Other owners' equity	20 855	17 567
	TOTAL OWNERS' EQUITY	**511 318**	**508 030**
	TOTAL LIABILITIES AND OWNERS' EQUITY	**7 930 456**	**7 669 027**

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

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CHRISTOPHER A. N. STEEN
Managing Director

Statement of Owners' Equity

KLP BOLIGKREDITT AS

2019 NOK THOUSANDS	Share capital	Share premium	Other equity	Total owners' equity
Owners' equity 1 January 2019	220 000	270 463	17 567	508 030
Income for the year	0	0	3 288	3 288
Other comprehensive income	0	0	0	0
Total comprehensive income	**0**	**0**	**3 288**	**3 288**
Group contribution received	0	0	9 551	9 551
Group contribution paid after tax	0	0	-9 551	-9 551
Total transactions with the owners	**0**	**0**	**0**	**0**
Owners' equity 31 December 2019	**220 000**	**270 463**	**20 855**	**511 318**

2018 NOK THOUSANDS	Share capital	Share premium	Other equity	Total owners' equity
Owners' equity 31 December 2017	160 000	210 463	11 097	381 560
Changes in accounting principles (IFRS 9)	0	0	0	0
Owners' equity 1 January 2018	**160 000**	**210 463**	**11 097**	**381 560**
Income for the year	0	0	6 470	6 470
Other comprehensive income	0	0	0	0
Total comprehensive income	**0**	**0**	**6 470**	**6 470**
Group contribution received	0	0	12 249	12 249
Group contribution paid after tax	0	0	-12 249	-12 249
Paid-up equity in the period	60 000	60 000	0	120 000
Total transactions with the owners	60 000	60 000	0	120 000
Owners' equity 31 December 2018	**220 000**	**270 463**	**17 567**	**508 030**

NOK THOUSANDS	Number of shares	Par value	Share capital	Share premium	Other equity	Total
Equity at 1 January 2019	1 000	220	220 000	270 463	17 567	508 030
Changes in the period 1 January - 31 December	-	0	0	0	3 288	3 288
Equity at 31 December 2019	**1 000**	**220**	**220 000**	**270 463**	**20 855**	**511 318**

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

Statement of Cash Flows

KLP BOLIGKREDITT 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	191 298	146 856
	Disbursements on loans customers & credit institutions	-2 915 755	-4 871 955
	Receipts on loans customers & credit institutions	2 809 417	2 701 522
	Disbursements on operations	-50 028	-43 369
	Net receipts/payments on other operating activities	2 636	-410
	Net interest from investment accounts	2 305	1 504
	Income tax paid	0	0
	Net cash flow from operating activities	**39 873**	**-2 065 852**
	INVESTMENT ACTIVITIES		
	Payments on purchase of securities	-666 677	-291 018
	Receipts on sales of securities	494 442	7 985
	Interest received from securities	6 616	395
	Net cash flow from investment activities	**-165 619**	**-282 638**
	FINANCING ACTIVITIES		
18	Receipts on loans	2 000 000	2 800 000
18	Repayment and redemption of loans	-1 744 000	-192 000
18	Payment for loan buybacks	650 000	-800 000
	Net payment of interest on loans	-133 022	-76 934
17	Receipts in internal funding	3 472 072	6 934 973
17	Repayment in internal funding	-4 121 474	-6 398 694
	Net payment of interest on internal funding	-12 160	-10 472
	Change in owners' equity	0	120 000
	Group contribution paid	-2 853	-3 868
	Net cash flow from investment activities	**108 563**	**2 373 005**
	Net cash flow during the period	**-17 183**	**24 515**
	Cash and cash equivalents at start of period	140 521	116 006
27	Cash and cash equivalents at end of period	123 338	140 521
	Net receipts/disbursements (-) of cash	**-17 183**	**24 515**

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

KLP BOLIGKREDITT AS

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

AAGE SCHAANNING
Chair

KJELL FOSSE

KARIANNE OLDERNES TUNG

MARIT BAROSEN

CHRISTOPHER A. N. STEEN
Managing Director

Notes to the Accounts

KLP BOLIGKREDITT AS

NOTE 1 General information

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

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

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

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

NOTE 2 Summary of the most important accounting principles

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

2.1 FUNDAMENTAL PRINCIPLES

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

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

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

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

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

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

2.1.1 Changes in accounting principles and information

a) New and changed standards adopted by the Company in 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 Boligkreditt AS becomes party to the instrument's contractual terms and conditions. Regular purchases and sales of investments are recognised on the date of the agreement. Financial assets are removed from the balance sheet when the rights to receive cash flows from the investment expire or when these rights have been transferred and the KLP Boligkreditt 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

The classification and measurement of financial assets, other than equity instruments and derivatives, are assessed on the basis of a combination of the entity's business model criteria for asset management and the instrument's contractual cashflow characteristics.

Financial assets are classified on initial recognition in one of the following categories:
- Amortised cost
- Fair value through profit or loss

A financial asset is measured at amortised cost if both of the following criteria are met and the financial asset has not been reported at fair value through profit or loss (the 'fair value option'):
- The financial asset is held in a business model whose purpose is to keep financial assets in order to receive the contractual cash flows (the 'business model criterion'), and
- At certain times, the contractual terms of the financial asset lead to cash flows that only include repayments and interest on the outstanding principal amount (the 'cash flow criterion').

The business model criterion

KLP Boligkreditt 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
- 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

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

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

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

KLP Boligkreditt AS may designate a debt instrument that meets the criteria to be measured at amortised cost to be reported at fair value through profit or loss if this eliminates or significantly reduces inconsistencies in measurement ('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 more information regarding loan loss provisions, please see note 15.

2.3.2.2 Financial liabilities
The Company has classified all financial liabilities measured at amortised cost, except for:
- Financial guarantees and loan commitments

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	Amortised cost
Loans to and receivables from customers	Amortised cost
Fixed-income securities	Fair value through profit or loss
Covered bonds issued	Amortised cost
Liabilities to credit institutions	Amortised cost

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

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 termination date. The amount does not include receivables from credit institutions that are linked to purchase and sale of securities in the management of the securities portfolios.
The statement of cash flows has been prepared in accordance with the direct method.

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

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

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

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

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

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

2.7 PRESENTATION OF INCOME
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 capital activity tax. The company's nominal income tax rate in 2019 is 22 per cent.

NOTE 3 Important accounting estimates and valuations

The company 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 and the areas where there is significant risk of substantial change in capitalised values in future periods are discussed below.

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

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 (stage 1). If the credit risk has increased significantly since initial recognition, but there is no objective evidence of impairment, write-downs are based on expected loss over the lifetime (stage 2). 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 (stage 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 more information about the company's calculation of losses, refer to Note 15.

NOTE 4 Segment information

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

NOTE 5 Net gain/(loss) on financial instruments

NOK THOUSANDS	01.01.2019 -31.12.2019	01.01.2018 -31.12.2018
Net gain/(loss) on fixed-income securities	-325	-466
Net gain/loss on realized repurchase of own debt	-11 512	-471
Total net gain/(loss) on financial instruments	**-11 837**	**-937**

NOTE 6 Categories of financial assets

NOK THOUSANDS	31.12.2019	
	Book value	Fair value
FINANCIAL ASSETS AT FAIR VALUE		
Fixed-income securities	460 344	460 344
Total financial assets at fair value	**460 344**	**460 344**
FINANCIAL ASSETS AT AMORTIZED COST		
Loans to and receivables from credit institutions	128 596	128 596
Lending to the retail market	7 337 524	7 337 524
Total financial assets at amortized cost	**7 466 119**	**7 466 119**
TOTAL FINANCIAL ASSETS	**7 926 463**	**7 926 463**
FINANCIAL LIABILITIES AT AMORTIZED COST		
Liabilities to credit institutions	387 157	387 157
Covered bonds issued	7 027 380	7 048 842
Total financial liabilities at amortized cost	**7 414 537**	**7 435 999**
TOTAL FINANCIAL LIABILITIES	**7 414 537**	**7 435 999**

NOK THOUSANDS	31.12.2018	
	Book value	Fair value
FFINANCIAL ASSETS AT FAIR VALUE		
Fixed-income securities	288 357	288 357
Total financial assets at fair value	**288 357**	**288 357**
FINANCIAL ASSETS AT AMORTIZED COST		
Loans to and receivables from credit institutions	148 414	148 414
Lending to the retail market	7 227 991	7 227 991
Total financial assets at amortized cost	**7 376 405**	**7 376 405**
TOTAL FINANCIAL ASSETS	**7 664 762**	**7 664 762**
FINANCIAL LIABILITIES AT AMORTIZED COST		
Liabilities to credit institutions	1 036 913	1 036 913
Covered bonds issued	6 116 113	6 141 701
Total financial liabilities at amortized cost	**7 153 026**	**7 178 614**
TOTAL FINANCIAL LIABILITIES	**7 153 026**	**7 178 614**

NOTE 6 Categories of financial assets - cont.

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

THE DIFFERENT FINANCIAL INSTRUMENTS ARE THUS PRICED IN THE FOLLOWING WAY

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

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

Fair value of loans to retail customers
Fair value of lending without fixed interest rates is considered virtually the same as book value since the contract terms are continuously changed in step with market interest rates. Fair value of fixe-drate loans is calculated by discounting contractual 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 change in 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 covered bonds
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	3 992	456 352	0	460 344
Total assets at fair value	**3 992**	**456 352**	**0**	**460 344**

31.12.2018 NOK THOUSANDS	Level 1	Level 2	Level 3	Total
ASSETS BOOKED AT FAIR VALUE				
Fixed-income securities	1 997	286 360	0	288 357
Total assets at fair value	**1 997**	**286 360**	**0**	**288 357**

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	3 989	3	0	3 992
Credit enterprises	456 195	-716	873	456 352
Total fixed-insome securities	**460 184**	**-713**	**873**	**460 344**

Effective interest rate: 2.07%

NOK THOUSANDS				31.12.2018
Debtor categories	Acquisition cost	Unreal. gain/loss	Accr. int. not due	Market value
Government/social security administration	1 997	-1	0	1 997
Credit enterprises	286 058	-475	777	286 360
Total fixed-insome securities	**288 055**	**-475**	**777**	**288 357**

Effective interest rate: 1.35%

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

NOTE 9 Net interest income

NOK THOUSANDS	01.01.2019 -31.12.2019	01.01.2018 -31.12.2018
Interest income on loans to customers, amortised cost	192 584	148 839
Interest income on loans to credit institutions, amortised cost	2 305	1 504
Total interest income, amortised cost	**194 889**	**150 342**
Interest income on bonds and certificates, fair value	6 712	1 168
Total interest, fair valute	**6 712**	**1 168**
Total interest income	**201 602**	**151 510**
Interest expenses on debt to KLP Banken AS, amortised cost	-11 806	-10 471
Interest expenses on issued securities, amortised cost	-126 762	-86 414
Total interest costs, amortised cost	**-138 568**	**-96 885**
Total interest costs	**-138 568**	**-96 885**
NET INTEREST INCOME	63 033	54 625

NOTE 10 Lending and receivables

NOK THOUSANDS	31.12.2019	31.12.2018
LOANS TO AND RECEIVABLES FROM CREDIT INSTITUTIONS		
Bank deposits	128 596	148 414
Loans to and receivables from credit institutions	**128 596**	**148 414**
LOANS TO AND RECEIVABLES FROM CUSTOMERS		
Principal on loans to customers	7 328 032	7 219 291
Write-downs steps 1 and 2	-23	-7
Premium/discount	499	979
Accrued interest	9 015	7 729
Loans to and receivables from customers	**7 337 524**	**7 227 991**

NOTE 11 Financial risk management

ORGANISATION OF RISK MANAGEMENT

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

NOTE 12 Credit risk

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

KLP Boligkreditt AS provides property mortgage loans to retail customers. The principal customer group is made up of members of KLP, who represent about 77 % of the lending volume.

12.1 CONTROL AND LIMITATION OF CREDIT RISK

The Board has determined a credit policy that contains overarching guidelines, requirements and limits associated with credit risk. The policy lays down that the bank is to have a low credit risk profile and includes limits on types of lending and principles for organisation and operation of the Company's lending activity. The policy also includes an overall mandate structure for lending and other counterparty exposure.

KLP Boligkreditt has only loans mortgaged in residential property within 75% of the market value of the mortgaged object in the portfolio. In processing loan applications the borrower's servicing ability and the value of the mortgage object is assessed and loans are provided only within set limits and authorizations.

The market value of the mortage assets is updated quarterly against Eiendomsverdis of market value of housing in Norway.

NOTE 12 Credit risk - cont.

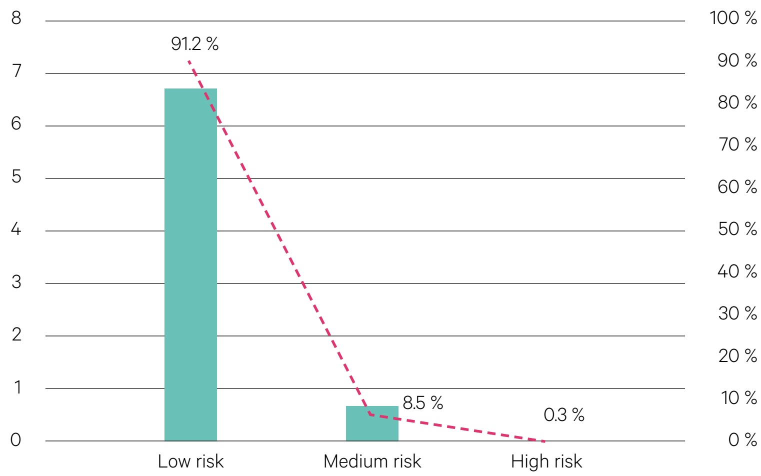
12.2 LOANS ACCORDING TO TYPE OF SECURITY/EXPOSURE (PRINCIPAL)

NOK THOUSANDS	31.12.2019	31.12.2018
LOANS ACCORDING TO TYPE OF SECURITY/EXPOSURE (PRINCIPAL)		
Retail mortgage loans	7 328 032	7 219 291
Total	**7 328 032**	**7 219 291**
Sums falling due more than 12 months after the end of the reporting period	7 045 612	6 933 533

NOK THOUSANDS	31.12.2019	31.12.2018
ALLOCATION OF LOAN TO VALUE (PRINCIPAL) FOR RETAIL MORTGAGE LOANS		
Loan to value ratio up to 50 per cent	3 289 153	3 472 326
Loan to value ratio from 51 to 60 per cent	1 816 916	1 734 889
Loan to value ratio from 61 to 75 per cent	2 003 669	1 929 046
Loan to value ratio above 75 per cent	218 294	83 030
Total	**7 328 032**	**7 219 291**
Average loan-to-value ratio (volume weighted)	49.6 %	48.6 %

KLP Boligkreditt uses a risk classification system to classify retail customers with loans or credits. Customers are classified from A to K, where A indicates very low risk, whereas K is for customers who have incurred losses on the bank. Below is a distribution table where the volume of loans is divided into low, medium and high risk, where low risk is defined as lending to customers with A or B classification, medium risk is defined as lending to customers with C or D classification, and high risk is defined as lending to customers with E to K lassification.

HOME LOANS IN KLP BOLIGKREDITT AS
NOK BILLIONS



NOTE 12 Credit risk - cont.

The table below shows the total book value of the various risk classes and per stage in the impairment model. Stage 1 is all healthy loans, which must be written down with estimated losses for 12 months. Stage 2 indicates that the engagement has a substantially increased credit risk since the initial recognition on the balance sheet, and means that the loan must be written down with estimated losses throughout the entire term. Stage 3 is all loans with individual loss write-downs, and must be written down with estimated losses throughout the entire term.

2019				
LOANS BY RISK CLASS AND STAGE IN IFRS 9	**Stage 1**	**Stage 2**	**Stage 3**	**Total CB book value**
Low risk - risk class A	3 567 684	-	-	3 567 684
Low risk - risk class B	3 124 164	-	-	3 124 164
Medium risk - risk class C	438 335	-	-	438 335
Medium risk - risk class D	177 776	8 402	-	186 179
High risk - risk class E	17 715	2 970	-	20 685
High risk - risk class F	-	-	-	-
High risk - risk class K	-	-	-	-
Engagements without risk class (new customers)	-	-	-	-
Total CB book value	**7 325 675**	**11 372**	**-**	**7 337 047**

2018				
LOANS BY RISK CLASS AND STAGE IN IFRS 9	**Stage1**	**Stage 2**	**Stage 3**	**Total CB Book value**
Low risk - risk class A	6 892 510	1 844	-	6 894 354
Low risk - risk class B	283 830	5 427	-	289 257
Medium risk - risk class C	34 440	2 207	-	36 647
Medium risk - risk class D	352	2 560	-	2 912
High risk - risk class E	-	3 849	-	3 849
High risk - risk class F	-	-	-	-
High risk - risk class K	-	-	-	-
Engagements without risk class (new customers)	-	-	-	-
Total CB book value	**7 211 133**	**15 887**	**-**	**7 227 020**

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.

NOK THOUSANDS	31.12.2019	31.12.2018
SECURITIES WITH EXTERNAL CREDIT RATING (MOODY'S)		
Credit quality of securities, bank deposits and derivatives		
Aaa	460 344	288 357
Total	**460 344**	**288 357**

NOTE 12 Credit risk - cont.

NOK THOUSANDS	31.12.2019	31.12.2018
DEPOSITS IN BANKS GROUPED BY EXTERNAL CREDIT ASSESSMENT (MOODY'S)		
Aa1-Aa3	114 776	45 185
A1-A3	13 819	103 229
Total	128 596	148 414

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. As of 31 December 2018, KLP Boligkreditt AS had no derivative agreements with any counterparties.

12.3 MAXIMUM EXPOSURE TO CREDIT RISK

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

NOK THOUSANDS	31.12.2019	31.12.2018
MAXIMUM EXPOSURE TO CREDIT RISK		
Loans to and receivables from credit institutions	128 596	148 414
Loans to and receivables from customers	7 337 047	7 227 020
Fixed-income securities	460 344	288 357
Financial derivatives	0	0
Loss write-downs stage 1 and 2	23	7
Total	**7 926 009**	**7 663 797**

12.4 LOANS FALLEN DUE OR WRITTEN DOWN

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

NOK THOUSANDS	31.12.2019	31.12.2018
LOANS FALLEN DUE OR WRITTEN DOWN		
Principal on loans with payments overdue by 7-30 days	98 238	68 181
Principal on loans with payments overdue by 31-90 days	192	0
Principal on non-performing loans	0	0
Total loans fallen due	**98 429**	**68 181**
Relevant security or guarantees	98 429	68 181
Lending that has been written down	0	0

12.5 CONCENTRATION OF CREDIT RISK

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

The concentration against individual borrowers is limited by individual Board-set limits. KLP Boligkreditt AS's largest exposure as at 31 December 2019 was about 0.1 per cent of the Company's total lending.

NOTE 13 Market risk

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

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

13.1 MEASUREMENT OF MARKET RISK

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

13.2 INTEREST RATE RISK

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

Interest rate risk arises because the fixed interest periods for the bank's assets and liabilities are not the same. The table below shows repricing dates for the Company's interest-bearing assets and liabilities, and the gap shows the difference between assets and liabilities that can be interest-adjusted within the given time intervals. Lending at variable rates, and cash and receivables with credit institutions, are assumed to be able to be repriced within a 0-3 months horizon. The debt falls into the time interval for which interest adjustment has been agreed.

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

NOK THOUSANDS	Total Principal	Up to 1 mth	From 1 mths to 3 mths	From 3 mths to 12 mths	From 1 year to 5 years	Over 5 years
Loans to and receivables from customers	7 328 032	6 734	7 321 298	0	0	0
Fixed-income securities	455 000	51 000	404 000	0	0	0
Loans to and receivables from credit institutions	128 596	128 596	0	0	0	0
Total	**7 911 628**	**186 330**	**7 725 298**	**0**	**0**	**0**
Liabilities created on issuance of securities	7 014 000	1 014 000	6 000 000	0	0	0
Liabilities to credit institutions	386 877	386 877	0	0	0	0
Total	**7 400 877**	**1 400 877**	**6 000 000**	**0**	**0**	**0**
Net gap	**510 751**	**-1 214 547**	**1 725 298**	**0**	**0**	**0**

NOTE 13 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 mths to 3 mths	From 3 mths to 12 mths	From 1 year to 5 years	Over 5 years
Loans to and receivables from customers	7 219 291	0	7 219 291	0	0	0
Fixed-income securities	288 381	182 688	105 693	0	0	0
Loans to and receivables from credit institutions	148 414	148 414	0	0	0	0
Total	**7 656 086**	**331 102**	**7 324 984**	**0**	**0**	**0**
Liabilities created on issuance of securities	6 108 000	2 500 000	3 608 000	0	0	0
Liabilities to credit institutions	1 036 279	1 036 279	0	0	0	0
Total	**7 144 279**	**3 536 279**	**3 608 000**	**0**	**0**	**0**
Net gap	**511 807**	**-3 205 177**	**3 716 984**	**0**	**0**	**0**

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 2.2 million (1.2 million).

NOTE 14 Liquidity risk

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

14.1 MANAGEMENT OF LIQUIDITY RISK

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

NOTE 14 Liquidity risk - cont.

14.2 MATURITY ANALYSIS

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

LIQUIDITY RISK KLP BOLIGKREDITT AS

Maturity analysis for assets and liabilities as at 31 December 2019

NOK THOUSANDS	Total	Undefined	Up to 1 mth	From 1 mths to 3 mths	From 3 mths to 12 mths	From 1 year to 5 years	Over 5 years
Loans to and receivables from customers	9 898 424	0	40 020	81 090	368 473	2 473 564	6 935 277
Fixed-income securities	486 032	0	309	6 500	8 388	470 835	0
Loans to and receivables from credit institutions	128 596	0	128 596	0	0	0	0
Total	**10 513 053**	**0**	**168 924**	**87 590**	**376 861**	**2 944 400**	**6 935 277**
Liabilities created on issuance of securities	7 897 363	0	6 420	34 385	636 576	7 219 983	0
Liabilities to credit institutions	399 419	0	543	1 051	4 817	393 008	0
Total	**8 296 782**	**0**	**6 963**	**35 436**	**641 393**	**7 612 991**	**0**
NET CASH FLOW	**2 216 270**	**0**	**161 962**	**52 154**	**-264 532**	**-4 668 591**	**6 935 277**

Maturity analysis for assets and liabilities as at 31 December 2018

NOK THOUSANDS	Total	Undefined	Up to 1 mth	From 1 mths to 3 mths	From 3 mths to 12 mths	From 1 year to 5 years	Over 5 years
Loans to and receivables from customers	9 198 443	0	37 508	76 065	346 690	1 867 733	6 870 446
Fixed-income securities	298 179	0	694	2 422	6 563	288 501	0
Loans to and receivables from credit institutions	148 414	0	148 414	0	0	0	0
Total	**9 645 036**	**0**	**186 615**	**78 487**	**353 253**	**2 156 234**	**6 870 446**
Liabilities created on issuance of securities	6 380 013	0	10 657	14 052	480 317	5 874 987	0
Liabilities to credit institutions	1 066 692	0	1 273	2 514	11 716	1 051 190	0
Total	**7 446 705**	**0**	**11 929**	**16 565**	**492 033**	**6 926 177**	**0**
NET CASH FLOW	**2 198 331**	**0**	**174 685**	**61 922**	**-138 780**	**-4 769 943**	**6 870 446**

A 24-month internal loan of NOK 387 mill has been provided from KLP Banken AS to KLP Boligkreditt AS, which is defined as Liabilities to credit institutions. This loan is rolled over currently every third month and the interest rate is set each month.

NOTE 15 Loan loss provision

FRAMEWORK FOR LOAN LOSS PROVISIONS

The new accounting standard IFRS 9 was introduced on 1 January 2018 and changed the methodology for provisions for losses on financial instruments in the accounts. The measurement of the provision for expected credit losses on financial assets depends on whether the credit risk has increased significantly since initial recognition. At initial recognition and if the credit risk has not increased significantly, the provision should equal 12-month expected credit losses (stage 1). If the credit risk has increased significantly from the initial recognition (stage 2) or if the asset is classified as impaired (stage 3), the provision should equal lifetime expected credit losses.

CALCULATION OF EXPECTED CREDIT LOSS

Expected credit loss (ECL) is calculated as the exposure at default (EAD) multiplied by the probability of default (PD) multiplied by the loss given default (LGD).

Probability of Default (PD) is a calculated probability based on statistical models to estimate the probability of an exposure going into default during the following 12-month period (12-month PD). In addition to calculating 12 months PD, the bank has developed PD graphs used for calculating marginal PD for the exposure's remaining lifetime (Lifetime PD).

Loss given default (LGD) is what the bank expects to lose given that an exposure goes into default. The calculation is based on how probable it is that a defaulted exposure is cured and expected credit loss if the exposure is not cured.

Exposure at default (EAD) is expected exposure at the moment of a future default.

In KLP Boligkreditt AS, the assessment of what is considered to be a significant change in credit risk for home mortgage loans is based on a combination of quantitative and qualitative indicators and 'backstops'. The most important driver for a significant change in credit risk for home mortgage loan is a change in the probability of default (PD) from the initial recognition up to the reporting date. A relative change in 12 month PD of more than 2.5 is considered a significant change in credit risk. In addition, the change in 12 month PD must also be at least 0.6 percentage points for the change to be considered significant. Exposures that are more than 30 days past due will automatically be placed in Stage 2, and exposures more than 90 days past due will be placed in Stage 3. The loans go back to Stage 2 and Stage 1 when the criteria for significant change in credit risk and default are no longer fulfilled.

DEFINITION OF DEFAULT

Default is defined as "a claim that is over 90 days past due, or an account that has been continuously overdrawn for a minimum of 90 days (minimum amount NOK 1,000). Furthermore, a commitment is considered as default if for various reasons it has been written off, e.g. through debt negotiations, established debt settlement and/or bankruptcy.

FOLLOW-UP OF DEFAULTED AND DOUBTFUL COMMITMENTS

Mortgages in arrears are handled by a special commitments department in the bank. Banken Group currently uses its own collection process up to and including legally enforced recovery and execution of sale/compulsory sale. If a repayment agreement is not reached, any residual debt after realisation of the collateral is transferred to a collection agency for further follow-up.

Individual loss write-downs

Mortgages over 90 days past due are reviewed and followed up regularly. In addition, exposures are also reviewed when the bank receives information about debt negotiations or other conditions that would indicate increased risk A loss assessment is carried out for all such exposures. The collateral is assessed on the basis of previously determined value, in addition to new information about the bank's collateral in the case, for example from a broker if a sales/compulsory sale has already been initiated. If the realisation value proves to be lower than the residual debt of the commitment, a loss write-down of the exposure is carried out.

Exposures with individual loss write-downs are followed up with a view to the realisation of the collateral. This can be undertaken by agreement on an ordinary sale or legally by means of a compulsory sale. In some cases, a payment agreement to repay the full amount of residual debt is reached. In these cases, the loss write-down will be maintained for a minimum of 1 year after the loan has been satisfactorily served, before the commitment is considered cured.

Determination of loss

For mortgages, the determination of loss will only occur after the security has been realised and further legal proceedings have not succeeded, that is after an application for distraint has not yielded a result. The case is then monitored by a debt collection agency and followed up on a regular basis.

DESCRIPTION OF INPUTS, ASSUMPTIONS AND ESTIMATION TECHNIQUES IN THE MODEL FOR EXPECTED LOSSES (ECL MODEL)

In connection with the transition to IFRS 9 and new methods for loss calculation, KLP Banken has developed PD and LGD models for the bank's/group's mortgage loan portfolio. A PD model has been developed for new mortgage customers and a PD model for existing mortgage customers. The first model uses data that is available at the time of application and is valid for 3 months after the mortgage is granted. The second model begins after 3 months, and also uses data that depends on the customer's behaviour (for example the

NOTE 15 Loan loss provision - cont.

number of days in arrears). Explanatory variables are age, income, number of reminder sent in the last 12 months, total number of days in arrears in the last 12 months, loan-to-value ratio, co-borrower, default in the last 12 months and product type.

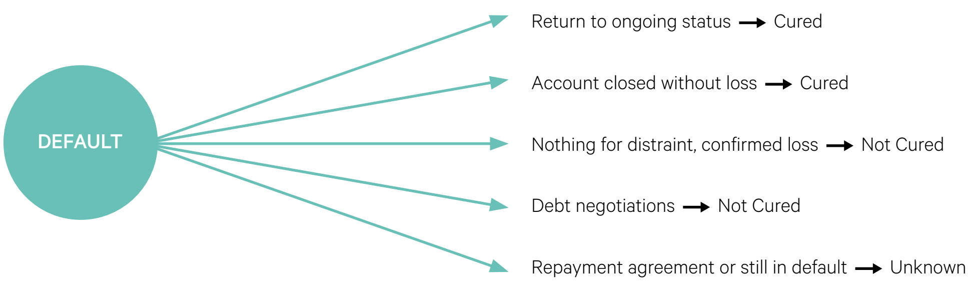
Logistical regression was used to create the PD model. This method is considered an industry standard for PD models, it is easy to interpret and analyse the output from the model and it can provide high coefficient of determination given that certain assumptions are met. The method also makes it possible to combine pure quantitative analyses with expert assessments, which was useful when the data base was somewhat limited. A thorough manual analysis of a relatively small sample of potential variables (due to limited data basis) was carried out to arrive at an optimal combination of variables.

The most important measure for a PD model is the model's ability to discriminate, i.e. the ability to distinguish bad customers from good customers. The ability to discriminate is measured using ROC (Receiver Operating Characteristic), which provides some information about the proportion of predictions that are correct. The model is recalibrated at least yearly and the coefficient values can then be updated and the updated prediction level adjusted.

The lifetime probability of default (Lifetime PD) is used for all mortgage loans in KLP Banken Groups excluding senior loans. The lifetime probability of default (LTPD) of an exposure is calculated based on aggregated figures for historically observed default rates for each year of all exposures and each exposure's probability of default 12 months after start. The results from model development show that the default rate increases slightly in year 2 before then decreasing, so that the PD in year 2 is higher than in year 1. This is in line with the expected result, since it is expected that it will take some time before a newly granted mortgage loan experiences problems. A customer will typically seek to avoid default on the mortgage loan, and will typically default on other debts before he goes into default on the mortgage loan. The reduction in PD after year 2 can be explained by a "survivalship effect", i.e. the contracts that have not defaulted in the first 2 years are typically of better credit quality, and as the loans are repaid the risk becomes lower. Experience from the industry is that contracts that have existed for a certain period of time converge towards a stable observed default rate. For KLP Banken/Group's mortgage loan portfolio, 3 years has been set as the parameter for when the default level converges towards a long-term PD level. The long-term PD level is set at 0.3 per cent, which corresponds to the average PD for the best contracts in the portfolio.

Exposure at default (EAD) is used for all mortgages in KLP Banken/Group excluding senior loans. The EAD model has the same data sample as the LTPD model. If an exposure is in default, the exposure's balance at the time will be the bank's/group's exposure exposure at default. EAD can be expressed for an exposure as a function of the likelihood that the contract will not be repaid within the time t. For repayment loans, EAD at time t is estimated as the exposure's balance at the time pursuant to the repayment schedule multiplied by the likelihood of the contract not being repaid within time t. The probability of a contract being terminated early within the year t is calculated as a percentage for each year in the future from 1 to 7 years.

Loss given default (LGD)
When estimating future credit loss it is important to look at the proportion of customers in default whose accounts become cured. The bank/group has examined at all historical defaults over 90 days and analysed the outcomes of these defaults. The results of the analysis show a very high level of defaults becoming cured. KLP Banken/Group has, since its inception, handled defaults and debt collection internally within the bank/group, and has one dedicated employee who handles exposures in default. The cases are followed closely, and there has been a limited number of defaults since the bank's inception. The analysis shows that the bank has had minimal losses, and most defaults have been reported as cured.



NOTE 15 Loan loss provision - cont.

Cured default is defined as the account returning to ongoing status (no longer 90 days past due/90 days in arrears over the bank's significant amount), or that the account is terminated without loss (typically through voluntary sale of collateral or refinancing in another bank). Non-cured default is defined as where the recovery process has resulted in the account having an established loss, or that an application for distraint has been made against the customer (forced sale of the property or recovery of guarantee). Customers with status "nothing for distraint" also belong in this category). If the customer has entered into debt negotiations, this is also defined as non-cured default. One last possibility is that we do not know the final outcome of the default due to a short time horizon between the default date and modelling date. The figure below illustrates the various outcomes for a default.

The observed cure rate is calculated and validated at least yearly in the same way as it during model development. If the observed cure rate deviates by more than 10 percentage points from the estimate used in the IFRS 9 model, an assessment shall be made of whether measures are needed, e.g. a re-estimation of the model.

Forward-looking information

A part of the assessment of future losses is the assessment of how the future will look with regard to the macroeconomic conditions that affect the bank's credit losses, e.g. interest rates, housing prices, unemployment rates etc. To calculate the expected credit loss (ECL), the bank has assumed three different scenarios, which are weighted for probability based on an assessment of the probability of each of the three outlined scenarios occurring. 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. In the negative scenario, a house price fall of 10 per cent and an increase in average PD of 32 per cent are assumed KLP Banken's risk forum assesses these scenarios and their weighting on a quarterly basis, based on changes in macroeconomic factors or other factors that may affect expected credit loss in the bank.

EXPECTED CREDIT LOSS (ECL) 2019

NOK THOUSANDS	12 months ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
	Stage 1	Stage 2	Stage 3	Total
LOANS TO CUSTOMERS, AMORTIZED COST				
Opening balance ECL 01.01.2019	7	0	0	7
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	11	0	0	11
Write-offs	-1	0	0	-1
Closing balance ECL 31.12.2019	**23**	**0**	**0**	**23**
Changes (01.01.2019 - 31.12.2019)	16	0	0	16
LOSSES ON LENDING AND RECEIVABLES FROM CUSTOMERS RATED AT AMORTISED COST				
Gross lending 01.01.2019	7 211 133	15 887	0	7 227 020
Transfer to Stage 1	7 344	-7 344	0	0
Transfer to Stage 2	-10 154	10 154	0	0
Transfer to Stage 3	0	0	0	0
Net change	-253 603	-206	0	-253 809
New lending	2 411 006	1 424	0	2 412 430
Write-offs	-2 040 050	-8 543	0	-2 048 593
Gross lending 31.12.2019	**7 325 676**	**11 372**	**0**	**7 337 048**

NOTE 15 Loan loss provision - cont.

EXPECTED CREDIT LOSS (ECL) 2018

NOK THOUSANDS	12 months ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
	Stage 1	Stage 2	Stage 3	Total
LOANS TO CUSTOMERS, AMORTIZED COST				
Opening balance ECL 01.01.2018	0	0	0	0
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	1	0	0	1
New losses	6	0	0	6
Write-offs	0	0	0	0
Closing balance ECL 31.12.2018	**7**	**0**	**0**	**7**
Changes (01.01.2018 - 31.12.2018)	6	0	0	6
LOSSES ON LENDING AND RECEIVABLES FROM CUSTOMERS RATED AT AMORTISED COST				
Gross lending 01.01.2018	5 049 999	0	0	5 049 999
Transfer to Stage 1	0	0	0	0
Transfer to Stage 2	-8 494	8 494	0	0
Transfer to Stage 3	0	0	0	0
Net change	-202 341	-145	0	-202 486
New lending	3 750 450	7 538	0	3 757 988
Write-offs	-1 378 481	0	0	-1 378 481
Gross lending 31.12.2018	**7 211 133**	**15 887**	**0**	**7 227 020**

NOTE 16 Salary and obligations to senior management

2019 NOK THOUSANDS	Paid from KLP Boligkreditt AS						Paid from another company in the same group					
	Salaries, fees etc.	Other benefits	Annual pension accumula-tion	Loans	Interest rate as at 31.12.2019	Repament plan [1]	Salaries, fees etc.	Other benefits	Annual pension accumulation	Loans	Interest rate as at 31.12.2019	Repament plan [1]
SENIOR EMPLOYEES												
Christopher A. Steen, Managing Director	-	-	-	1 805	2,00	A36	1 326	39	250	-	-	-
BOARD OF DIRECTORS												
Sverre Thornes, Chair up til 19. march	-	-	-	11 550	2,00	A45	4 155	221	1 530	-	-	-
Aage E. Schaanning, Chair from 19. march	-	-	-	-	-	-	3 599	168	1 282	5 397	2.00	HC
Marit Barosen	78	-	-	-	-	-	12	-	-	-	-	-
Ingrid Aune [2]	15	-	-	-	-	-	91	-	-	-	-	-
Karianne Oldernes Tung	4	-	-	-	-	-	24	-	-	-	-	-
Kjell Fosse	12	-	-	-	-	-	142	-	-	-	-	-
EMPLOYEES												
Total salary for employees of KLP Boligkreditt	-	-	-	1 805	-	-	-	-	-	-	-	-

2018 NOK THOUSANDS	Paid from KLP Boligkreditt AS						Paid from another company in the same group					
	Salaries, fees etc.	Other benefits	Annual pension accumula-tion	Loans	Interest rate as at 31.12.2018	Repament plan [1]	Salaries, fees etc.	Other benefits	Annual pension accumulation	Loans	Interest rate as at 31.12.2018	Repament plan [1]
SENIOR EMPLOYEES												
Christopher A. Steen, Managing Director	-	-	-	2 002	2,30	A36	1 256	62	227	-	-	-
BOARD OF DIRECTORS												
Sverre Thornes, Chair	-	-	-	11 939	2.30-2.40	A45	4 016	201	1 496	-	-	-
Aage E. Schaanning	-	-	-	-	-	-	3 498	163	1 255	5 779	2.30	HC
Marit Barosen	87	-	-	-	-	-	-	-	-	-	-	-
Ingrid Aune	23	-	-	-	-	-	138	-	-	-	-	-
EMPLOYEES	-	-	-	-	-	-	-	-	-	-	-	-
Total salary for employees of KLP Boligkreditt	-	-	-	2 002	-	-	-	-	-	-	-	-

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

NOTE 16 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.

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

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

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

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

The KLP Group offers loans for various purposes. 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 loand terms. The interest rebate that accrues to employees is refunded to the lending company.

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

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

NOTE 17 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	143 259	104	143 363
Debt to KLP Banken AS	NOK	Fixed	15.12.2021	97 020	70	97 090
Debt to KLP Banken AS	NOK	Fixed	15.12.2021	146 598	106	146 704
Total liabilities to credit institutions				**386 877**	**280**	**387 157**
Interest rate on debt to credit institutions at the reporting date						**1.63 %**

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	600 000	370	600 370
Debt to KLP Banken AS	NOK	Fixed	15.12.2020	130 000	75	130 075
Debt to KLP Banken AS	NOK	Fixed	15.12.2020	203 117	125	203 242
Debt to KLP Banken AS	NOK	Fixed	15.12.2020	103 162	64	103 226
Total liabilities to credit institutions				**1 036 279**	**634**	**1 036 913**
Interest rate on debt to credit institutions at the reporting date						**1.40 %**

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

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	**1 036 913**	**3 472 072**	**-4 121 474**	**-353**	**387 157**

NOTE 18 Securities liabilities - stock exchange listed covered bonds

NOK THOUSANDS	31.12.2019	31.12.2018
Bonds, nominal value	7 164 000	6 908 000
Revaluations	-583	-5 897
Accrued interest	13 963	14 010
Own funds, nominal value	-150 000	-800 000
Total liabilities created on issuance of securities	**7 027 380**	**6 116 113**
Interest rate on borrowings through the issuance of securities at the reporting date	**2.22 %**	**1.66 %**

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

NOK THOUSANDS	Balance 31.12.2018	Issued	Fallen due/ redeemed repurchased	Others changes	Balance 31.12.2019
CHANGE IN LIABILITIES CREATED ON ISSUANCE OF SECURITIES					
Bonds, nominal value	6 908 000	2 000 000	-1 744 000	0	7 164 000
Revaluations	-5 897	0	0	5 314	-583
Accrued interest	14 010	0	0	-47	13 963
Own funds, nominal value	-800 000	0	650 000	0	-150 000
Total liabilities created on issuance of securities	**6 116 113**	**2 000 000**	**-1 094 000**	**5 267**	**7 027 380**

NOTE 19 Over-collateralisation

NOK THOUSANDS	Fair value 31.12.2019	Fair value 31.12.2018
SECURITY POOL		
Loans to customers [1]	7 100 277	7 141 124
Additional collateral [2]	583 587	1 178 939
Total security pool	**7 683 864**	**8 320 064**
Outstanding covered bonds incl. own funds and premium/discount	7 185 627	6 926 430
Coverage of the security pool	**106.9 %**	**120.1 %**

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.

[1] Excluding mortgage loans that do not qualify for security pool.
[2] 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.

NOTE 20 Capital adequacy

NOK THOUSANDS	31.12.2019	31.12.2018
Share capital and share premium	490 463	490 463
Other owners' equity	20 855	17 567
Total owners' equity	**511 318**	**508 030**
Adjustments due to requirements for proper valuation	-460	-288
Deferred tax assets	-2 101	-1 874
Core capital/Tier 1 capital	**508 756**	**505 868**
Supplementary capital/Tier 2 capital	0	0
Supplementary capital/Tier 2 capital	**0**	**0**
Total own funds (eligible Tier 1 and Tier 2 capital)	508 756	505 868
Capital requirement	220 068	213 593
Surplus of own funds (eligible Tier 1 and Tier 2 capital)	**288 688**	**292 275**
CALCULATION BASIS CREDIT RISK		
Institutions	25 719	30 162
Mortgage security in real estate	2 568 133	2 529 797
Covered bonds	45 635	28 636
Other holdings	1 890	0
Calculation basis credit risk	**2 641 378**	**2 588 595**
Credit risk	211 310	207 088
Operational risk	8 758	6 505
Total capital requirement assets	**220 068**	**213 593**
Core capital adequacy ratio	18.5 %	18.9 %
Supplementary capital ratio	0.0 %	0.0 %
Capital adequacy ratio	**18.5 %**	**18.9 %**
Leverage ratio	**6.4 %**	**6.6 %**

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 requirement incl. buffers	**12.5 %**	**3.5 %**	**16.0 %**
Capital requirement leverage ratio	**3.0 %**	**0.0 %**	**3.0 %**

NOTE 21 Tax

NOK THOUSANDS	01.01.2019 -31.12.2019	01.01.2018 -31.12.2018
Accounting income before taxes	4 215	8 513
Reversal of value increase financial assets	238	481
Change in differences between book and taxable income	795	3 410
Taxable income	**5 248**	**12 404**
DEFERRED TAX ASSET LINKED TO:		
Financial instruments	-158	-105
Amortization of premium fund, borrowing	-1 944	-1 770
Total tax-reducing temporary differences	**-2 102**	**-1 874**
DEFERRED TAX LINKED TO:		
Financial instruments	1	0
Net deferred tax assets	**1**	**0**
Net deferred tax/tax assets	**-2 101**	**-1 874**
SUMMARY OF TAX EXPENSE FOR THE YEAR:		
Change in deferred tax taken to income	-227	-810
Capitalized tax from Group contribution	1 155	2 853
Total tax costs	**927**	**2 043**
Effective tax rate	22.0 %	24.0 %
RECONCILIATION OF TAX RATE:		
Accounting income before taxes	4 215	8 513
Income tax expense, nominal tax rate	927	1 958
Income tax expense, effective tax rate	927	2 043
Difference between effective and nominal tax	**0**	**-85**
Effect of change in tax rate on deferred tax	0	-85
Total	**0**	**-85**

NOTE 22 Other liabilities and provision for accrued costs and liabilities

NOK THOUSANDS	31.12.2019	31.12.2018
Receivables between companies in the same Group	3 370	5 089
Creditors	75	29
Payable taxes	1 155	2 853
Total other liabilities	**4 600**	**7 971**

NOTE 23 Number of FTEs and employees

KLP Boligkreditt AS has 1 employee, who receive no salary or other form of remuneration from the Company.
KLP Boligkreditt AS buys personnel services from other companies in the KLP Group.

NOTE 24 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	-11 806	-10 471
KLP Banken AS, administrative services (at cost)	-43 837	-43 084
KLP Kapitalforvaltning AS, fees for services provided	-17	-40
KLP Group companies, subsidised interest on staff loans	4 616	1 413
Total	**-51 044**	**-52 182**

NOK THOUSANDS	31.12.2019	31.12.2018
FINANCIAL POSITION STATEMENT ITEMS		
KLP Banken AS, debt to credit institutions	-387 157	-1 036 913
KLP Banken AS, loan settlement	257	2 166
Net outstanding accounts to:		
KLP Banken AS	-3 370	-5 089
KLP Group companies, net other internal accounts	1 634	225
Purchase of loans from KLP Banken AS	2 915 755	4 871 955
Total	**2 527 118**	**3 832 345**

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

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

NOTE 25 Auditor's fee

NOK THOUSANDS	01.01.2019 -31.12.2019	01.01.2018 -31.12.2018
Ordinary audit	205	188
Certification services	29	159
Non-audit services	0	6
Total auditor's fee	**234**	**353**

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

NOTE 26 Other assets

NOK THOUSANDS	31.12.2019	31.12.2018
Receivables between Group companies	1 891	2 391
Total other assets	**1 891**	**2 391**

NOTE 27 Cash and cash equivalents and other loans and receivables from credit institutions

NOK THOUSANDS	31.12.2019	31.12.2018
Bank deposits operations	123 338	140 521
Cash	0	0
Total cash and cash equivalents (liquidity)	**123 338**	**140 521**
Bank accounts to be used for the purchase and sale of securities	5 258	7 893
Loans and receivables from credit institutions	**128 596**	**148 414**

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To the General Meeting of KLP Boligkreditt AS

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of KLP Boligkreditt AS, which comprise the balance sheet as at 31 December 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
Loan to customers	
The mortgage company has loans to private individuals amounting to NOK 7.3 bn that have collateral in real estate, and	In order to comply with the requirements in the regulations applicable to covered bonds when granting loans, the mortgage company had established a process

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

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

for reviewing the applications for loans and associated documentation. The process included formal controls and segregation of duties, which were directed at ensuring that the process had been carried out prior to granting or transfer of loans from other group companies to the mortgage company. Our audit was performed by obtaining documentation and examining whether the process was conducted appropriately and timely. This included assessing whether the underlying documentation collected by the mortgage company supported the conclusions drawn by the mortgage company that the requirements in legislation and regulations was met.

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

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 have 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.

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.

Independent Auditor's Report - KLP Boligkreditt AS

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

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

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

Opinion on Registration and Documentation

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

Oslo, 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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