

# REPORT FOR SECOND QUARTER 2016

April - June (unaudited)



# ABOUT KBN

Established by an act of Parliament in 1926 as a state administrative body, Kommunalbanken AS (KBN) gained its current organisational form by a conversion act in 1999. KBN's primary objective is to provide stable and low cost funding to Norwegian municipalities, counties, intermunicipal companies and other companies with a municipal guarantee for their primary municipal investments.

## FINANCIAL HIGHLIGHTS

<i>(Amounts in NOK 1 000 000)</i>	January-June 2016	January-June 2015	2015
<b>RESULTS</b>			
Net interest income	970	803	1 642
Core earnings <sup>1</sup>	655	528	1 043
Profit before tax	73	712	2 583
Profit for the period	55	520	1 870
Return on equity after tax <sup>2</sup>	0.97%	12.20%	20.84%
Return on equity after tax (core earnings) <sup>2</sup>	11.70%	12.42%	11.70%
Return on assets after tax <sup>2</sup>	0.03%	0.24%	0.42%
Return on assets after tax (core earnings) <sup>2</sup>	0.31%	0.24%	0.23%
<b>LENDING</b>			
New disbursements	25 083	24 725	46 757
Outstanding loans <sup>3</sup>	262 965	253 146	254 421
<b>LIQUIDITY PORTFOLIO<sup>3</sup></b>	130 280	131 533	146 611
<b>BORROWINGS</b>			
New long-term borrowings	48 111	52 666	68 644
Repurchase of own debt	168	800	2 979
Redemptions	47 423	84 344	110 604
Total borrowings <sup>3</sup>	391 664	376 619	400 894
<b>TOTAL ASSETS</b>	436 871	429 023	449 361
<b>EQUITY</b>			
Total capital adequacy ratio	11 829	10 850	12 202
Tier 1 capital adequacy ratio	19.88%	17.76%	18.81%
Common equity Tier 1 capital adequacy ratio	16.90%	15.48%	16.53%
	15.42%	14.04%	15.09%
<b>LIQUIDITY COVERAGE RATIO (LCR)<sup>4</sup></b>			
Total	1 229%	459%	1 418%
NOK	334%	335%	3 855%
EUR	1 758%	477% <sup>5</sup>	530% <sup>5</sup>
USD	154%	52%	54%
AUD	2 387%	Infinite	Infinite
JPY	638%	60%	525%

<sup>1</sup> Profit after tax adjusted for unrealised gain/(loss) on financial instruments after tax

<sup>2</sup> Annualised return on equity and return on assets as percentage of average equity and average assets

<sup>3</sup> Principal amounts

<sup>4</sup> Liquidity coverage ratio (LCR) is a measure for the regulatory liquidity reserve. LCR is defined as liquid assets as a percentage of net payments in a given stress period of 30 days ahead

<sup>5</sup> EUR was not a significant currency at this time

# GOOD OPERATIONAL PERFORMANCE

KBN's net interest income in the second quarter was NOK 467 million, up from NOK 404 million in the second quarter of 2015 owing to good lending growth and stable margins.

## RESULTS

Profit for the second quarter 2016 was minus NOK 203 million, down from NOK 480 million in the same period last year. The negative result in the second quarter is owing to net unrealised losses on financial instruments of NOK 697 million as compared to a gain of NOK 295 million in the same period last year. The unrealised losses in the second quarter are related to funding operations and hedging derivatives, as well as fixed-rate loans to customers. KBN's net interest income in the second quarter of 2016 was NOK 467 million, up from NOK 404 million in the same period last year. KBN's operational performance is solid. The increase in net interest income is owing to good margins within KBN's main areas of operation, as well as satisfactory growth in lending.

Unrealised value changes contributed to the profit of NOK 55 million during the first six months compared to NOK 520 million in the same period last year. The low profit reflects that NOK 814 million was allocated to net unrealised losses on financial instruments, against a loss of NOK 13 million for the corresponding period last year. As the financial instruments are normally held to maturity, the effect of the unrealised value changes on the profit is reversed when the market movements are reversed or when the financial instruments matures. Net interest income was NOK 970 million during the first six months against NOK 803 million in the same period in 2015, and reflects good margins in the operations during the first half year as well as good growth in lending. Core earnings for the first half year amounted to NOK 655 million compared to NOK 528 million in the same period last year. The increase is NOK 127 million owing to KBN's good operational performance.

Second quarter operating expenses are somewhat lower than the previous quarter and in line with the same period last year, owing to a reallocation of variable salary payments. Operating expenses for

the first six months of 2016 amounted to NOK 79 million, compared to NOK 69 million in the same period last year. The increase is related to the hiring of additional resources within the fields of governance and compliance and an increase in non-recurring costs associated with the new finance system going live in the fourth quarter of 2015. Operating expenses (annualised) constitute 0.04% of total assets.

KBN achieved a return on equity after tax of 0.97% (annualised) in the first six months of 2016. Return on equity after tax adjusted for unrealised gain/(loss) on financial instruments was 11.70%.

## LENDING

KBN's total lending to the local government sector at the end of the second quarter was NOK 263.0 billion, representing an increase of NOK 8.5 billion or 3.4% since year-end. The first half of 2015 growth was NOK 6.0 billion or 2.4%. The lending portfolio grew by NOK 4.2 billion in the second quarter, in line with lending growth in the previous quarter.

The first half of 2016 saw the portfolio with local government certificate loans reduced by NOK 2.0 billion,

primarily lending with maturity between six and 12 months.

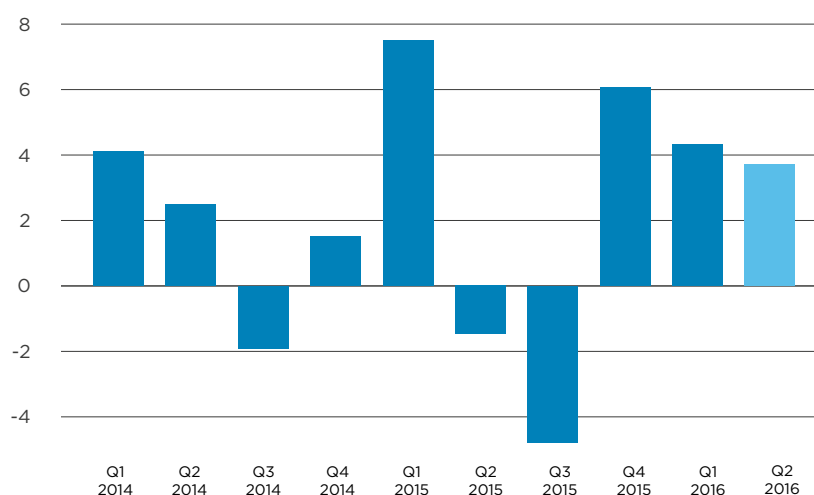
All interest rate products except for certificate loans increased during the first half year. Regular fixed rate loans, both with and without instalments, increased by NOK 6.6 billion through the first six months compared to NOK 5.9 billion during the first quarter. Floating rate loans, one of the most common interest rate products, have changed only marginally through the first six months of the year.

For the first six months of 2016 new disbursements totalled NOK 25.1 billion, as against NOK 24.7 billion during the same period of 2015. For the second quarter the payments amounted to NOK 11.0 billion, down from NOK 14.0 billion in the previous quarter. KBN's market share for the local government sector of approximately 49% has remained stable throughout the first two quarters of the year.

## FUNDING AND LIQUIDITY MANAGEMENT

KBN finances its lending to the local government sector through borrowing in the capital markets. Its funding activity in the second quarter of 2016 has been satisfactory and a total

LENDING GROWTH  
(amounts in NOK billion)





of NOK 28.4 billion has been issued in bonds through 60 issues in ten currencies.

KBN issued its second EUR benchmark in April with a maturity of ten years. The bond gives KBN access to new investors in the long end of the euro yield curve. The transaction was significantly oversubscribed and priced in the lower end of the indicated price range. In June KBN carried out its largest floating rate bond issue so far of USD 800 million. The bond had a four year maturity and was solidly oversubscribed on good terms.

In the first six months of 2016 KBN issued bonds totalling NOK 48.1 billion in ten currencies, as compared to NOK 52.7 billion in the same period last year. KBN maintains the highest possible ratings from the leading rating agencies Standard & Poor's and Moody's Investors Service.

KBN holds cash and liquid assets equal at all times to its net liquidity requirements for the subsequent 12 months with lending growth taken into account. This means that KBN is able in any situation to meet all its obligations over the next 12 months without having to raise additional funds. The liquidity portfolio is principally held in foreign currencies. The weakening of the Norwegian krone related to the Brexit market turmoil resulted in a liquidity portfolio amounting to NOK 130.3 billion as of 30 June 2016, approximately in line with the same period in 2015 (NOK 131.5 billion). This is the equivalent of 17 months' liquidity.

The liquidity portfolio is invested in fixed income securities issued by governments, regional authorities, multilateral development banks, covered bonds and short-term bonds against financial institutions with high credit ratings.

## CAPITAL

Total primary capital at 30 June 2016 was NOK 13.3 billion, total Tier 1 capital NOK 11.3 billion and total common equity Tier 1 capital NOK 10.3 billion. During the second quarter subordinated debt in Canadian dollars were repaid and an issue of subordinated debt amounting to NOK 2 billion was transacted during the same period allocated as supplementary capital. Total assets are down NOK 12.5 billion since year-end.

At the end of the second quarter of 2016 KBN's common equity Tier 1 capital adequacy ratio was 15.42%, the Tier 1 capital adequacy ratio was 16.90%, and the total capital adequacy ratio was 19.88%. Regulatory minimum requirements and buffer requirements for common equity Tier 1 capital adequacy ratio increased from 1 July 2016 to 13.5%, Tier 1 capital adequacy ratio to

15.0% and total capital ratio to 17.0%.

## FUTURE PROSPECTS

The outlook for the world economy affects Norway as a small, open economy. Following Brexit an already extremely low interest rate level has fallen even further. There is a high probability of interest rates remaining low for the foreseeable future. Owing to the upturn of the money market interest rates KBN's lending rates are also up.

The Norwegian government's municipal reform shall result in fewer and stronger municipalities. KBN's market share is strong also among the larger Norwegian municipalities. Owing to the population growth, demographic changes and maintenance backlog the level of investment by the local government sector is expected to remain high going forward. According to Statistics Norway's credit indicator C2 (K2) debt growth in the sector has decreased somewhat during the last year and stood at 5.5% annual growth towards the end of June.

The proportion of municipalities choosing to finance some of their investments through the capital markets remains stable with time to maturity moving even shorter. Municipalities expose themselves to refinancing risk by choosing to raise short-term financing in the capital markets. KBN plays a central role in ensuring that stable and long-term financing on attractive terms is available regardless of sudden market fluctuations and economic cycles.

KBN is currently well capitalised according to the requirements set by the authorities. The Norwegian Ministry of Finance has decided that the countercyclical capital buffer requirement will increase from 1% to 1.5% from July 2016. KBN works to adapt its operations to ensure that it satisfies all regulatory requirements related to capitalisation by a satisfactory margin.

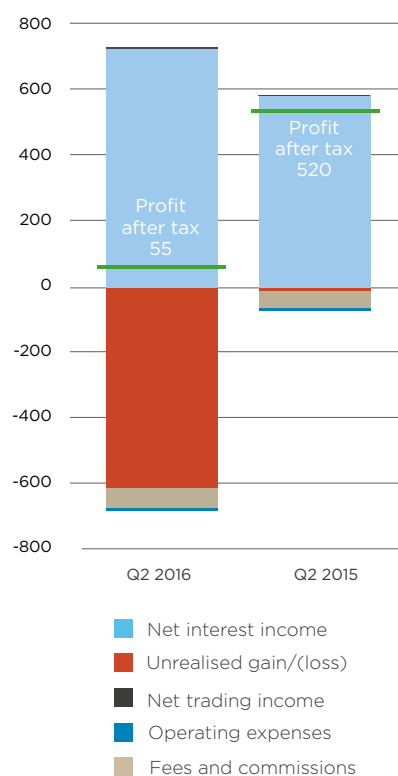
We hereby confirm that the half-yearly report for the period 1 January 2016 to 30 June 2016 has, to the best of our knowledge, been prepared in accordance with IAS 34 *Interim Financial Reporting*, and that the information contained in the accounts provides a true and fair view of the company's assets, liabilities, financial position and results as a whole.

We also confirm that, to the best of our knowledge, the interim report provides a true and fair overview of important events during the accounting period and their effects on the half-yearly accounts, and also of the material risks and uncertainties facing the company during the next accounting period.

Oslo, 12 August 2016  
The Board of Directors  
for Kommunalbanken AS

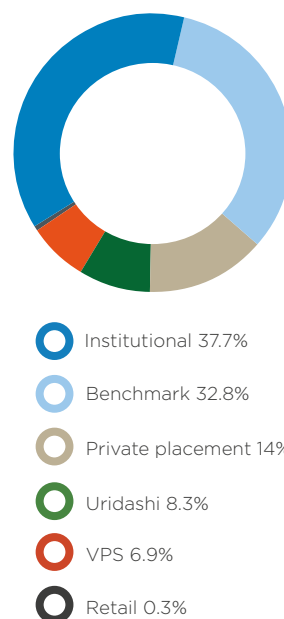
## PROFIT AFTER TAX

(amounts in NOK mill)



## KBN FUNDING MARKET

April-June 2016



# INTERIM CONDENSED FINANCIAL INFORMATION

## INCOME STATEMENT

(Amounts in NOK 1 000 000)

	Note	April-June 2016	January- June 2016	April-June 2015	January- June 2015	2015
Interest income		1 335	2 713	1 394	2 813	5 496
Interest expense		868	1 743	990	2 010	3 854
<b>Net interest income</b>	<b>1</b>	<b>467</b>	<b>970</b>	<b>404</b>	<b>803</b>	<b>1 642</b>
Fees and commission expenses		6	11	7	12	30
Net unrealised gain/(loss) on financial instruments	<b>2</b>	(697)	(814)	295	(13)	1 116
Net trading income		1	7	1	3	6
<b>Total other operating income</b>		<b>(702)</b>	<b>(818)</b>	<b>289</b>	<b>(22)</b>	<b>1 092</b>
Salaries and administrative expenses		25	57	27	53	115
Depreciation on fixed assets		5	9	1	1	5
Other expenses		6	13	7	15	30
<b>Total operating expenses</b>		<b>36</b>	<b>79</b>	<b>35</b>	<b>69</b>	<b>151</b>
<b>Profit before tax</b>		<b>(271)</b>	<b>73</b>	<b>658</b>	<b>712</b>	<b>2 583</b>
Income tax		(68)	18	178	192	713
<b>Profit for the period</b>		<b>(203)</b>	<b>55</b>	<b>480</b>	<b>520</b>	<b>1 870</b>
Portion allocated to shareholder		(209)	44	479	519	1 859
Portion allocated to owners of additional Tier 1 capital		6	11	1	1	11

## STATEMENT OF COMPREHENSIVE INCOME

(Amounts in NOK 1 000 000)

	Note	April- June 2016	January- June 2016	April-June 2015	January- June 2015	2015
Profit for the period		(203)	55	480	520	1 870
<b>Other comprehensive income</b>						
<i>Items which will not be reclassified in profit or loss</i>						
Actuarial gain/(loss) on defined benefit plan		0	0	0	0	16
Of which is tax		0	0	0	0	4
<b>Total other comprehensive income</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>12</b>
<b>Total comprehensive income for the period</b>		<b>(203)</b>	<b>55</b>	<b>480</b>	<b>520</b>	<b>1 882</b>

## STATEMENT OF FINANCIAL POSITION

<i>(Amounts in NOK 1 000 000)</i>	Note	30 June 2016	30 June 2015	31 December 2015
<b>Assets</b>				
Deposits with credit institutions	3,4	16 224	18 549	19 428
Instalment loans	3,4,5	265 326	255 101	256 815
Notes, bonds and other interest-bearing securities	3,4,7,8	134 873	134 795	149 944
Financial derivatives	3,4	20 090	20 368	22 831
Deferred tax asset		201	86	201
Other assets		157	124	142
<b>Total assets</b>		<b>436 871</b>	<b>429 023</b>	<b>449 361</b>
<b>Liabilities and equity</b>				
Loans from credit institutions	3,4	12 187	7 638	7 167
Commercial paper	3	0	2 362	0
Senior securities issued	3,4,6	383 584	378 738	390 107
Financial derivatives	3,4	26 717	27 312	37 207
Other liabilities		439	27	36
Current tax liabilities		15	175	829
Pension liabilities		49	61	49
Subordinated debt	3,4	2 051	1 860	1 764
<b>Total liabilities</b>		<b>425 042</b>	<b>418 173</b>	<b>437 159</b>
Share capital		3 145	3 145	3 145
Additional Tier 1 capital		994	994	994
Retained earnings		7 635	6 191	8 063
Total comprehensive income for the period		55	520	
<b>Total equity</b>	<b>9</b>	<b>11 829</b>	<b>10 850</b>	<b>12 202</b>
<b>Total liabilities and equity</b>		<b>436 871</b>	<b>429 023</b>	<b>449 361</b>

## STATEMENT OF CHANGES IN EQUITY

(Amounts in NOK 1 000 000)

	1 January - 30 June 2016			
	Share capital	Additional Tier 1 capital	Retained earnings	Total equity
Equity as of 1 January 2016	3 145	994	8 063	12 202
Profit for the period	0	0	55	55
Total other comprehensive income	0	0	0	0
Interest paid on Tier 1 capital	0	0	(10)	(10)
Issued additional Tier 1 capital	0	0	0	0
Dividends for 2015	0	0	(417)	(417)
<b>Equity as of 30 June 2016</b>	<b>3 145</b>	<b>994</b>	<b>7 690</b>	<b>11 829</b>

	1 January - 30 June 2015			
	Share capital	Additional Tier 1 capital	Retained earnings	Total equity
Equity as of 1 January 2015	2 145	0	6 191	8 336
Profit for the period	0	0	520	520
Total other comprehensive income	0	0	0	0
Issued additional Tier 1 capital	0	994	0	994
Issue of share capital	1 000	0	0	1 000
Dividends for 2014	0	0	0	0
<b>Equity as of 30 June 2015</b>	<b>3 145</b>	<b>994</b>	<b>6 711</b>	<b>10 850</b>

	1 January—31 December 2015			
	Share capital	Additional Tier 1 capital	Retained earnings	Total equity
Equity as of 1 January 2015	2 145	0	6 191	8 336
Profit for the period	0	0	1 870	1 870
Total other comprehensive income	0	0	12	12
Interest paid on Tier 1 capital	0	0	(10)	(10)
Issued additional Tier 1 capital	0	994	0	994
Issue of share capital	1 000	0	0	1 000
Dividends for 2014	0	0	0	0
<b>Equity as of 31 December 2015</b>	<b>3 145</b>	<b>994</b>	<b>8 063</b>	<b>12 202</b>

## STATEMENT OF CASH FLOWS

(Amounts in NOK 1 000 000)

	January-June 2016	January-June 2015	2015
<b>Cash flows from operating activities</b>			
Interest received	2 518	2 876	5 616
Interest paid	(1 446)	(1 980)	(3 175)
Fees and commissions paid	(12)	(12)	(30)
Receipts from repurchase of issued securities	7	3	6
Cash payments to employees and suppliers	(70)	(67)	(146)
Income taxes paid	(829)	(422)	(404)
Net disbursement of loans to customers	(8 600)	(6 091)	(7 298)
Net (increase)/decrease in deposits with credit institutions	7 233	(20 135)	(20 789)
Net (increase)/decrease in notes, bonds and other interest-bearing securities	11 736	24 965	19 049
Net (increase)/decrease in other assets	(17)	(1)	(123)
Net increase/(decrease) in other liabilities	(13)	(21)	(7)
<b>Net cash flows from operating activities</b>	<b>10 508</b>	<b>(885)</b>	<b>(7 302)</b>
<b>Cash flows from investing activities</b>			
Net (purchase)/sales of property and equipment	(8)	(32)	69
<b>Net cash flows from investing activities</b>	<b>(8)</b>	<b>(32)</b>	<b>69</b>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of commercial paper	0	2 306	3 758
Repayment of commercial paper	0	0	(3 855)
Proceeds from issuance of debt securities	48 112	52 218	68 644
Repayment of debt securities	(50 196)	(84 801)	(116 443)
Proceeds from issuance of additional Tier 1 capital	0	994	994
Interest paid on Tier 1 capital	(13)	0	(14)
Proceeds from issuance of subordinated debt	1 991	0	0
Repayment of subordinated debt	(1 758)	0	0
Dividends paid	0	0	0
Proceeds from issuance of share capital	0	1 000	1 000
<b>Net cash flows from financing activities</b>	<b>(1 864)</b>	<b>(28 284)</b>	<b>(45 917)</b>
<b>Net cash flows</b>	<b>8 635</b>	<b>(29 201)</b>	<b>(53 149)</b>
Effects of foreign exchange differences	(9 316)	29 201	53 163
<b>Net cash flows after foreign exchange differences</b>	<b>(681)</b>	<b>0</b>	<b>13</b>
Cash and cash equivalents at 1 January	34	21	21
Net change in cash and cash equivalents	(681)	0	13
<b>Cash and cash equivalents at end of period</b>	<b>(647)</b>	<b>21</b>	<b>34</b>
<i>Deposits with credit institutions without agreed time to maturity</i>	<i>0</i>	<i>21</i>	<i>34</i>
<i>Loans from credit institutions without agreed time to maturity</i>	<i>(647)</i>	<i>0</i>	<i>0</i>



## ACCOUNTING POLICIES

KBN prepares its financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The interim financial statements as of 30 June 2016 are prepared in accordance with IAS 34 *Interim Financial Reporting*, and follow the same accounting policies as presented in the annual financial statements for 2015.

The preparation of financial statements in accordance with IFRS requires that management uses estimates and judgments that may affect the carrying amounts of assets and liabilities, and revenues and costs. Estimates and judgments are based on historical experience and expectations regarding future developments, and actual outcomes may deviate from the estimates.

Fair value of financial instruments that are not traded in an active market or where quoted prices are not readily available on the reporting date is determined using valuation techniques. The measurement of fair value requires management to make judgments and assumptions related to credit and liquidity risk related to the financial instruments. Even though the judgments and assumptions are based to the largest extent possible on actual market conditions on the reporting date, they may increase the uncertainty related to carrying amounts.

## NOTE 1

### Net interest income

(Amounts in NOK 1 000 000)

	April-June 2016	January- June 2016	April-June 2015	January- June 2015	2015
Deposits with credit institutions	(5)	(9)	0	3	5
Instalment loans	1 210	2 415	1 324	2 677	5 117
Notes, bonds and other interest-bearing securities	165	319	454	997	1 884
Financial derivatives	(35)	(12)	(384)	(864)	(1 509)
<b>Total interest income</b>	<b>1 335</b>	<b>2 713</b>	<b>1 394</b>	<b>2 813</b>	<b>5 496</b>
Loans from credit institutions	0	1	3	5	7
Senior securities issued	1 630	3 628	2 034	4 768	9 415
Financial derivatives	(779)	(1 920)	(1 054)	(2 777)	(5 595)
Subordinated debt	17	34	7	14	27
<b>Total interest expenses</b>	<b>868</b>	<b>1 743</b>	<b>990</b>	<b>2 010</b>	<b>3 854</b>
<b>Net interest income</b>	<b>467</b>	<b>970</b>	<b>404</b>	<b>803</b>	<b>1 642</b>

## NOTE 2

### Net unrealised gain/(loss) on financial instruments

(Amounts in NOK 1 000 000)

	April-June 2016	January- June 2016	April-June 2015	January- June 2015	2015
Instalment loans	(310)	(149)	(651)	(948)	(271)
Notes, bonds and other interest-bearing securities	101	277	(163)	47	(331)
Financial derivatives	(462)	2 136	(268)	(4 501)	(17 172)
Loans from credit institutions	0	0	0	0	0
Senior securities issued	22	(3 039)	1 361	5 377	18 775
Subordinated debt	(48)	(38)	16	12	115
<b>Net unrealised gain/(loss) on financial instruments</b>	<b>(697)</b>	<b>(814)</b>	<b>295</b>	<b>(13)</b>	<b>1 116</b>

Changes in fair value are the result of changes in market parameters and risk factors, mainly prices on bonds, market interest rates, credit spreads, basis swap spreads and FX rates, and are reflected in carrying amounts in the Statement of financial position and in the income statement. As KBN takes very limited currency and interest rate risk, the changes in relevant parameters will mostly be symmetric on the asset and liabilities sides of the Statement of financial position and therefore to a small extent give rise to net effects in the income statement. Changes in credit spreads for investments in the liquidity portfolio, fixed rate instalment loans and issued bonds may on the other hand lead to significant income statement effects, as may changes in basis swap spreads.

Of net unrealised losses amounting to NOK 697 million in the second quarter just above NOK 500 million come from Senior securities issued and related financial derivatives, while just above NOK 150 million come from fixed rate loans to customers and related financial derivatives. For Senior securities issued the losses are primarily caused by a tightening of credit spreads, while USD-NOK basis swaps contribute with some further losses this quarter. For fixed rate loans to customers the losses are caused by a widening of credit spreads in these markets.

## NOTE 3

### Categorisation of financial instruments

(Amounts in NOK 1 000 000)

	At fair value through profit or loss						
	Total	Fair value option	Held for trading	Fair value hedge	Held to maturity	Loans and receivables	Other liabilities
Deposits with credit institutions	16 224	6 591	0	0	0	9 633	0
Instalment loans	265 326	165 725	0	0	0	99 601	0
Notes, bonds and other interest-bearing securities	134 873	132 882	0	0	32	1 960	0
Financial derivatives	20 090	0	16 872	3 218	0	0	0
<b>Total financial assets</b>	<b>436 513</b>	<b>305 198</b>	<b>16 872</b>	<b>3 218</b>	<b>32</b>	<b>111 194</b>	<b>0</b>
Loans from credit institutions	12 187	0	0	0	0	0	12 187
Senior securities issued	383 584	229 203	0	0	0	0	154 380
Financial derivatives	26 717	0	26 635	82	0	0	0
Subordinated debt	2 051	2 051	0	0	0	0	0
<b>Total financial liabilities</b>	<b>424 539</b>	<b>231 254</b>	<b>26 635</b>	<b>82</b>	<b>0</b>	<b>0</b>	<b>166 567</b>

	At fair value through profit or loss						
	Total	Fair value option	Held for trading	Fair value hedge	Held to maturity	Loans and receivables	Other liabilities
Deposits with credit institutions	18 549	6 911	0	0	0	11 638	0
Instalment loans	255 101	156 910	0	0	0	98 191	0
Notes, bonds and other interest-bearing securities	134 795	125 352	0	0	94	9 349	0
Financial derivatives	20 368	0	18 353	2 015	0	0	0
<b>Total financial assets</b>	<b>428 813</b>	<b>289 173</b>	<b>18 353</b>	<b>2 015</b>	<b>94</b>	<b>119 178</b>	<b>0</b>
Loans from credit institutions	7 638	0	0	0	0	0	7 638
Commercial paper	2 362	2 362	0	0	0	0	0
Senior securities issued	378 738	228 352	0	0	0	0	150 386
Financial derivatives	27 312	0	26 398	914	0	0	0
Subordinated debt	1 860	1 860	0	0	0	0	0
<b>Total financial liabilities</b>	<b>417 910</b>	<b>232 574</b>	<b>26 398</b>	<b>914</b>	<b>0</b>	<b>0</b>	<b>158 024</b>

	At fair value through profit or loss						
	Total	Fair value option	Held for trading	Fair value hedge	Held to maturity	Loans and receivables	Other liabilities
Deposits with credit institutions	19 428	2 190	0	0	0	17 238	0
Instalment loans	256 815	159 525	0	0	0	97 289	0
Notes, bonds and other interest-bearing securities	149 944	146 687	0	0	69	3 188	0
Financial derivatives	22 831	0	21 016	1 815	0	0	0
<b>Total financial assets</b>	<b>449 018</b>	<b>308 402</b>	<b>21 016</b>	<b>1 815</b>	<b>69</b>	<b>117 716</b>	<b>0</b>
Loans from credit institutions	7 167	0	0	0	0	0	7 167
Senior securities issued	390 107	231 332	0	0	0	0	158 775
Financial derivatives	37 207	0	36 435	772	0	0	0
Subordinated debt	1 764	1 764	0	0	0	0	0
<b>Total financial liabilities</b>	<b>436 245</b>	<b>233 096</b>	<b>36 435</b>	<b>772</b>	<b>0</b>	<b>0</b>	<b>165 942</b>

## NOTE 4

### Financial instruments measured at fair value

Methods used for the determination of fair value fall within three categories, which reflect different degrees of valuation uncertainty:

Level 1 - Quoted prices in active markets for identical assets and liabilities

Level 2 - Valuation techniques with observable inputs

Level 3 - Valuation techniques where inputs are to a significant degree unobservable

Financial instruments measured at fair value in KBN's Statement of financial position as of 30 June 2016 are distributed in the following way in the fair value hierarchy:

<i>(Amounts in NOK 1 000 000)</i>	Level 1	Level 2	Level 3	Total
Deposits with credit institutions	0	6 591	0	6 591
Instalment loans	0	100 048	65 677	165 725
Notes, bonds and other interest-bearing securities	81 809	41 527	9 546	132 882
Financial derivatives	0	15 278	4 812	20 090
<b>Total financial assets measured at fair value</b>	<b>81 809</b>	<b>163 444</b>	<b>80 035</b>	<b>325 288</b>
Loans from credit institutions	0	0	0	0
Senior securities issued	0	143 934	85 269	229 203
Financial derivatives	0	6 584	20 133	26 717
Subordinated debt	0	0	2 051	2 051
<b>Total financial liabilities measured at fair value</b>	<b>0</b>	<b>150 518</b>	<b>107 453</b>	<b>257 971</b>

### Reconciliation of movements in Level 3

	Instalment loans	Notes, bonds and other interest-bearing securities	Senior securities issued	Subordinated debt	Financial derivatives
<b>Carrying amount at 31 December 2015</b>	<b>58 830</b>	<b>5 967</b>	<b>72 702</b>	<b>1 764</b>	<b>(27 421)</b>
Purchase	0	6 230	(168)	0	566
Sale	0	0	0	0	0
Issue	16 354	0	16 959	2 051	0
Settlement	(11 404)	(2 324)	(10 483)	(1 787)	2 716
Transfer into Level 3	520	5 084	0	0	0
Transfer out of Level 3	(1 034)	(4 288)	0	0	0
Gain/(loss) recognised in the period	2 411	(1 123)	6 259	23	8 818
<b>Carrying amount at 30 June 2016</b>	<b>65 677</b>	<b>9 546</b>	<b>85 269</b>	<b>2 051</b>	<b>(15 321)</b>

Holdings amounting to approximately NOK 9 billion have been transferred from Level 2 to Level 1 in the second quarter of 2016.

There are net transfers of NOK 0.3 billion into Level 3 in the quarter. The transfers into and out of Level 3 are mainly due to changes in market conditions that affect the assessment of inputs to the valuation techniques during the reporting period, and refinancing/change of loan product for Instalment loans.

All gains/(losses) on financial instruments in Level 3 are recognised in the income statement under "Net interest income", "Net unrealised gain/(loss) on financial instruments" or "Net trading income".

### Information on valuation techniques:

The methods used for determining the fair value of financial instruments are defined based on the instruments' features and structure. Fair value of financial instruments without embedded derivatives is determined using the discounted cash flows method, where discount rates are derived from the relevant observable money market interest rates and other significant risk factors that may affect the fair value of the instruments. When such factors cannot be reliably observed at a reporting date, management may make assumptions and use estimates when determining fair value. Fair value of financial instruments with embedded derivatives is determined using option pricing models with observable market data and estimates as inputs.

The most significant unobservable inputs used in the valuation in Level 3 are credit spreads for financial instruments not traded in an active market. The table below shows the impact of a 10 bp change in the credit spread for financial assets and liabilities in Level 3 at 30 June 2016:

	30 June 2016
Instalment loans	(261)
Notes, bonds and other interest-bearing securities	(8)
Financial derivatives	(1)
Senior securities issued	(285)
Subordinated debt	(24)
<b>Total</b>	<b>(579)</b>

## NOTE 5

### Instalment loans

<i>(Amounts in NOK 1 000 000)</i>	<b>30 June 2016</b>	<b>30 June 2015</b>	<b>31 December 2015</b>
Principal amount	262 965	253 146	254 422
Accrued interest	1 062	1 183	945
Fair value adjustment	1 300	772	1 448
<b>Total instalment loans</b>	<b>265 326</b>	<b>255 101</b>	<b>256 815</b>

## NOTE 6

### Senior securities issued

<i>(Amounts in NOK 1 000 000)</i>	<b>30 June 2016</b>	<b>30 June 2015</b>	<b>31 December 2015</b>
<b>Senior securities issued (nominal amounts) as at 1 January</b>	<b>400 894</b>	<b>391 285</b>	<b>391 285</b>
New issuance	48 111	52 666	68 644
Redemptions	(47 591)	(85 144)	(113 583)
Amortisation	(2 605)	342	(2 860)
Translation differences	(7 145)	17 470	57 408
<b>Senior securities issued (nominal amounts) as at end of period</b>	<b>391 664</b>	<b>376 619</b>	<b>400 894</b>
Accrued interest	2 685	2 530	3 017
Fair value adjustment	(10 766)	(411)	(13 805)
<b>Total senior securities issued</b>	<b>383 584</b>	<b>378 738</b>	<b>390 107</b>

## NOTE 7

### Notes, bonds and other interest-bearing securities

*(Amounts in NOK 1 000 000)*

<b>Notes, bonds and other interest-bearing securities by type of issuer</b>	<b>30 June 2016</b>	<b>30 June 2015</b>	<b>31 December 2015</b>
Domestic			
Issued by other borrowers	9 292	1 928	14 754
Foreign			
Issued by public bodies <sup>1</sup>	106 400	93 698	87 978
Issued by other borrowers	19 181	39 169	47 212
<b>Total notes, bonds and other interest-bearing securities</b>	<b>134 873</b>	<b>134 795</b>	<b>149 944</b>

<sup>1</sup>Issued by or guaranteed by sovereigns, central banks, regional authorities and multilateral development banks.

<b>Notes, bonds and other interest-bearing securities by time to maturity</b>	<b>30 June 2016</b>	<b>30 June 2015</b>	<b>31 December 2015</b>
Under 1 year	67 767	72 221	81 576
1-5 years	66 959	62 339	68 368
Over 5 years	147	235	0
<b>Total notes, bonds and other interest-bearing securities</b>	<b>134 873</b>	<b>134 795</b>	<b>149 944</b>

## NOTE 8

### Credit exposure in notes, bonds and other interest-bearing securities

Amounts in the table below represent actual credit exposure

(Amounts in NOK 1 000 000)

Exposure as at 30 June 2016

Time to maturity	< 1 year				> 1 year				Total
	A-1	A-2	A-3	Not rated	A	AA	AAA	Not rated	
Sovereigns and central banks	15 697	0	0	0	0	1 278	8 914	0	25 888
Multilateral development banks	9 743	0	0	0	0	1 915	7 888	0	19 546
Regional authorities	16 808	0	0	4 179	845	15 060	14 099	9 975	60 966
Financial institutions	1 260	0	0	0	0	0	0	0	1 260
Securitisation	0	0	0	0	0	14	18	0	32
Covered bonds	20 080	0	0	0	0	476	6 623	0	27 181
<b>Total</b>	<b>63 588</b>	<b>0</b>	<b>0</b>	<b>4 179</b>	<b>845</b>	<b>18 743</b>	<b>37 542</b>	<b>9 975</b>	<b>134 873</b>

## NOTE 9

### Primary capital

(Amounts in NOK 1 000 000)

30 June 2016 30 June 2015 31 December 2015

	30 June 2016	30 June 2015	31 December 2015
<b>Common equity Tier 1 capital</b>			
Share capital	3 145	3 145	3 145
Retained earnings	7 640	6 191	6 193
Profit for the period included in Tier 1 capital	55	520	1 870
Pension funds above pension commitments	0	0	0
Deferred tax asset*	0	0	0
Intangible assets	(141)	(108)	(124)
Dividends payable	(205)	(219)	(417)
Adjustments in common equity Tier 1 capital based on regulatory filters	(163)	151	(281)
Share of nulled unamortised estimate differences	0	0	0
<b>Total common equity Tier 1 capital</b>	<b>10 331</b>	<b>9 680</b>	<b>10 385</b>
Other approved Tier 1 capital	994	994	994
<b>Total Tier 1 capital</b>	<b>11 324</b>	<b>10 673</b>	<b>11 379</b>
<i>Supplementary capital</i>			
Ordinary subordinated debt	2 000	1 571	1 571
<b>Total supplementary capital</b>	<b>2 000</b>	<b>1 571</b>	<b>1 571</b>
<b>Total primary capital</b>	<b>13 324</b>	<b>12 244</b>	<b>12 950</b>

\*Only non reversing deferred tax asset to be deducted here.

Primary capital has been calculated under the Regulation on the calculation of primary capital for financial institutions. Unrealised gain/(loss) on liabilities that is due to changes in own credit risk include both non-derivative and derivative liabilities.

## NOTE 10

### Capital adequacy

(Amounts in NOK 1 000 000)

	30 June 2016		30 June 2015		31 December 2015
	Carrying amount	Risk-weighted assets	Minimum capital requirements	Minimum capital requirements	Minimum capital requirements
<b>Credit risk</b>					
Sovereigns and central banks	25 893	0	0	0	0
Regional governments and local authorities	321 445	54 020	4 322	4 175	4 195
<i>Of which are Norwegian municipalities</i>	265 280	53 880	4 310	4 164	4 184
Public sector entities	8 782	0	0	0	0
Multilateral development banks	19 552	0	0	0	0
Financial institutions	32 935	5 349	428	603	561
<i>Of which counterparty exposure on derivatives</i>	15 451	1 852	148	190	203
Claims secured by residential property	46	46	4	4	4
Covered bonds	27 153	2 715	217	292	343
Other assets	17	17	1	1	1
Securitisation	32	18	1	3	2
Credit Valuation Adjustment	161	2 010	161	184	175
<b>Total credit risk</b>	<b>436 016</b>	<b>64 175</b>	<b>5 134</b>	<b>5 261</b>	<b>5 282</b>
<b>Market risk</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Operational risk—Basic Indicator Approach</b>		<b>2 814</b>	<b>225</b>	<b>255</b>	<b>225</b>
<b>Minimum capital requirements</b>		<b>66 989</b>	<b>5 359</b>	<b>5 516</b>	<b>5 507</b>
<b>Total capital ratio</b>			<b>19.88 %</b>	<b>17.76 %</b>	<b>18.81 %</b>
<b>Tier 1 capital adequacy ratio</b>			<b>16.90 %</b>	<b>15.48 %</b>	<b>16.53 %</b>
<b>Common equity Tier 1 capital adequacy ratio</b>			<b>15.42 %</b>	<b>14.04 %</b>	<b>15.09 %</b>