

# REPORT FOR SECOND QUARTER 2015

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

(Amounts in NOK 1 000 000)

	January-June 2015	January-June 2014	2014
<b>RESULTS</b>			
Net interest income	803	731	1 515
Core earnings <sup>1</sup>	528	486	1 026
Profit before tax	712	319	673
Profit for the period	520	233	491
Return on equity after tax <sup>2</sup>	12.20 %	5.72 %	6.13 %
Return on equity after tax (core earnings) <sup>2</sup>	12.42 %	11.93 %	12.82 %
Return on assets after tax <sup>2</sup>	0.24 %	0.12 %	0.12 %
Return on assets after tax (core earnings) <sup>2</sup>	0.24 %	0.25 %	0.26 %
<b>LENDING</b>			
New disbursements	24 725	21 956	42 680
Outstanding loans <sup>3</sup>	253 146	247 502	247 116
LIQUIDITY PORTFOLIO <sup>3</sup>	131 533	120 617	155 305
<b>BORROWINGS</b>			
New long-term borrowings	52 666	79 433	116 739
Repurchase of own debt	800	84	1 753
Redemptions	84 344	53 626	108 080
Total borrowings <sup>3</sup>	376 619	359 743	391 285
TOTAL ASSETS	429 023	398 042	455 466
<b>EQUITY</b>			
Total capital adequacy ratio	17.76 %	14.58 %	14.53 %
Tier 1 capital adequacy ratio	15.48 %	12.19 %	12.26 %
Common equity Tier 1 capital adequacy ratio	14.04 %	12.19 %	12.26 %

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

2 Annualised return on equity and return on assets as percentage of average equity and average assets

3 Principal amounts

# MORE LONG-TERM LOANS

KBN's net interest income in the second quarter of 2015 was NOK 404 million. Profit for the period was NOK 480 million, as compared to NOK 3 million in the same period last year. The increase in profit for the period was due to net unrealised gains on financial instruments. KBN's return on equity after tax for the first six months of 2015 was 12.20%.

KBN's lending portfolio decreased slightly in the second quarter in line with a lower level of demand for loans and a decrease in the portfolio of short maturity loans. This development underpins KBN's efforts to adapt to the higher capital requirements it will have to meet next year. There was an increase in the proportion of loans with maturities of over one year.

## LENDING

KBN's lending portfolio recorded a decrease of NOK 1.5 billion in the second quarter of 2015 compared to an increase of NOK 2.5 billion in the same period last year. The decrease in the lending portfolio was due to a reduction in the proportion of loans with maturities of under one year. New disbursements totalling NOK 8.0 billion were made in the second quarter, as compared to NOK 11.0 billion in the same period last year.

At 30 June 2015 KBN's total lending amounted to NOK 253.1 billion. The lending portfolio has grown by NOK 6.0 billion since year-end 2014 (2.4%). For comparison, during the same period last year KBN's total lending grew by NOK 6.6 billion (2.8%). New disbursements totalling NOK 24.7 billion were made during the first six months of 2015, as compared to NOK 22.0 billion in the same period in 2014.

## FUNDING

KBN finances its lending to the municipal sector by borrowing in the capital markets. Its funding activities in the second quarter of 2015 proceeded well, with KBN issuing bonds totalling NOK 20.4 billion through 77 issues in 8 currencies.

In April 2015 KBN issued its first ever benchmark bond in US dollars to have a maturity of ten years. The bond, which is the result of much focused work over a long period, means KBN now has a complete yield curve of outstanding benchmark bonds. The transaction was significantly oversubscribed and was priced at the lower end of the indicated price range. The investors were divided between Europe, USA/South America and Asia.

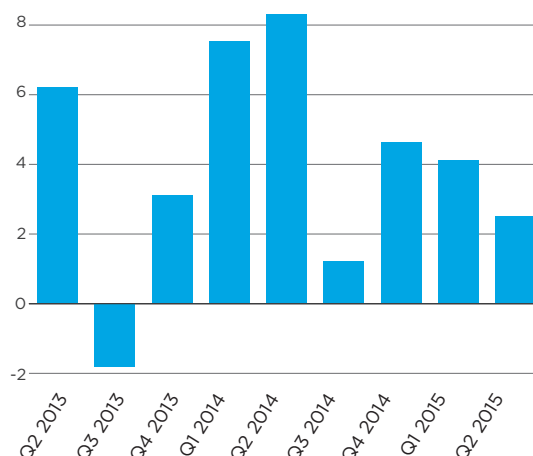
In the first six months of 2015 KBN issued bonds totalling NOK 52.7 billion in 11 currencies, as compared to NOK 79.4 billion in the same period last year.

KBN has the highest possible credit ratings of AAA/Aaa from Standard & Poor's and Moody's.

## LIQUIDITY MANAGEMENT

KBN's liquidity reserves are equal to its net capital requirements for one year, and it is able 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 and the size of the portfolio in Norwegian krone terms varies with fluctuations in the

LENDING GROWTH  
(amounts in NOK billion)



KBN FUNDING MARKET  
January-June 2015



- Institutional 39 %
- Benchmark 31 %
- Uridashi 23 %
- Private Placement 7 %

1 Profit after tax adjusted for unrealised gain/(loss) on financial instruments after tax.

value of the krone. KBN's liquidity portfolio at 30 June 2015 was NOK 131.5 billion, up from NOK 120.6 billion at the same point in 2014.

Liquidity management at KBN is conducted in accordance with conservative policies. In line with the current strategy, the portfolio in the second quarter was invested in fixed income securities issued by governments, federated states, regional authorities, multilateral development banks and financial institutions that have high credit ratings.

## RESULTS

Profit for the period was NOK 480 million, up from NOK 3 million in the same period in 2014. The increase in profit for the period is due to net unrealised gains on financial instruments in the quarter, as compared to net unrealised losses in the same period in 2014.

KBN's net interest income in the second quarter of 2015 was NOK 404 million, up from NOK 352 million in the same period in 2014. KBN's lending activities and liquidity management both contributed to this thanks to good margins. Net unrealised gains on financial instruments of NOK 295 million were recognised in the second quarter, as compared to net unrealised losses of NOK 317 million in the second quarter of 2014. The gains were principally a result of changes in the second quarter to the prices of hedging derivatives related to KBN's borrowings.

Profit for the period January-June 2015 was NOK 520 million, as compared to NOK 233 million for the same period in 2014. KBN's net interest income in the first six months was NOK 803 million compared to NOK 731 million in the same period in 2014. Core earnings<sup>1</sup> in the first six months were NOK 528 million compared to NOK 486 million in the same period in 2014. Net unrealised losses on financial instruments of NOK 13 million were recognised in the first six months of 2015, as compared to net unrealised losses of NOK 347 million in the same period last year.

KBN's repurchases of its own bonds

generated net trading income in the second quarter of 2015 of NOK 1 million, in line with the same period in 2014. There was little activity in this area due to the high level of liquidity in the market.

KBN generated a return on equity after tax for the first six months of 2015 of 12.20%, as compared to 5.72% for the same period last year. Return on equity after tax adjusted for unrealised gain/(loss) on financial instruments was 12.42%, as compared to 11.93% in the first six months of 2014.

## CAPITAL

KBN's total primary capital at 30 June 2015 was NOK 12.2 billion, and its total common equity Tier 1 capital was NOK 9.7 billion. KBN received an increase in share capital of NOK 1 billion in the second quarter of 2015. Total Tier 1 capital was NOK 10.7 billion on the basis of a Tier 1 perpetual bond issued in the second quarter. KBN's total assets were NOK 26.4 billion lower than at the year-end 2014.

At the end of the second quarter of 2015 KBN had a common equity Tier 1 capital adequacy ratio of 14.04%, a Tier 1 capital adequacy ratio of 15.48%, and a total capital adequacy ratio of 17.76%.

## FUTURE PROSPECTS

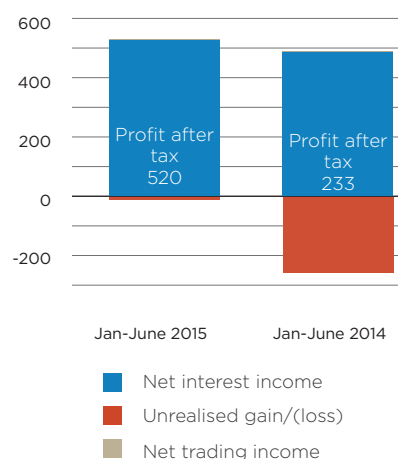
KBN expects the municipal sector's sizeable investment in welfare projects will create strong demand for loans going forward. This investment is due to municipalities having to adapt to large societal changes, such as demographic growth.

The market for providing financing to the municipal sector is characterised by a high degree of competition. A significant proportion of financing comes directly from the capital markets and this proportion is expected to continue to increase in line with the growth seen in recent years.

The capital markets are characterised by their willingness to provide loans with maturities shorter than the loans arranged by credit institutions such as KBN, which may lead to increased refinancing risk. KBN plays a central

## PROFIT AFTER TAX

(amounts in NOK mill)



role in ensuring Norwegian municipalities also have access to long-term financing for welfare projects that have long-term investment horizons, regardless of the access to liquidity in the capital markets.

KBN is currently adequately 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.

We hereby confirm that the half-yearly report for the period 1 January 2015 to 30 June 2015 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, 28 August 2015

The Board of Directors of Kommunalbanken AS

## INCOME STATEMENT

(Amounts in NOK 1 000 000)	Note	April-June 2015	January- June 2015	April-June 2014	January- June 2014	2014
Interest income		1 394	2 813	1 520	2 974	6 011
Interest expense		990	2 010	1 168	2 243	4 496
<b>Net interest income</b>	<b>1</b>	<b>404</b>	<b>803</b>	<b>352</b>	<b>731</b>	<b>1 515</b>
Fees and commission expenses		7	12	6	11	24
Net unrealised gain/(loss) on financial instruments	<b>2</b>	295	(13)	(317)	(347)	(734)
Net trading income		1	3	1	2	39
<b>Total other operating income</b>		<b>289</b>	<b>(22)</b>	<b>(322)</b>	<b>(357)</b>	<b>(719)</b>
Salaries and administrative expenses		27	53	22	46	93
Depreciation on fixed assets		1	1	1	1	3
Other expenses		7	15	4	8	27
<b>Total operating expenses</b>		<b>35</b>	<b>69</b>	<b>27</b>	<b>55</b>	<b>123</b>
<b>Profit before tax</b>		<b>658</b>	<b>712</b>	<b>4</b>	<b>319</b>	<b>673</b>
Income tax		178	192	1	86	182
<b>Profit for the period</b>		<b>480</b>	<b>520</b>	<b>3</b>	<b>233</b>	<b>491</b>
Portion allocated to shareholder		479	519	3	233	491
Portion allocated to owners of additional Tier 1 capital		1	1	0	0	0

## STATEMENT OF COMPREHENSIVE INCOME

(Amounts in NOK 1 000 000)	Note	April-June 2015	January- June 2015	April-June 2014	January- June 2014	2014
Profit for the period		480	520	3	233	491
<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	(18)
Of which is tax		0	0	0	0	(5)
<b>Total other comprehensive income</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(13)</b>
<b>Total comprehensive income for the period</b>		<b>480</b>	<b>520</b>	<b>3</b>	<b>233</b>	<b>478</b>

## STATEMENT OF FINANCIAL POSITION

<i>(Amounts in NOK 1 000 000)</i>	Note	30 June 2015	30 June 2014	31 December 2014
<b>Assets</b>				
Deposits with credit institutions	3,4	18 549	10 279	16 219
Instalment loans	3,4,5	255 101	249 996	249 928
Notes, bonds and other interest-bearing securities	3,4,7,8	134 795	120 342	157 364
Financial derivatives	3,4	20 368	17 353	31 776
Deferred tax asset		86	0	86
Other assets		124	73	93
<b>Total assets</b>		<b>429 023</b>	<b>398 042</b>	<b>455 466</b>
<b>Liabilities and equity</b>				
Loans from credit institutions	3,4	7 638	9 398	25 135
Commercial paper	3	2 362	0	0
Senior securities issued	3,4,6	378 738	365 801	398 669
Financial derivatives	3,4	27 312	12 393	20 919
Other liabilities		27	379	47
Current tax liabilities		175	84	404
Deferred tax liabilities		0	141	0
Pension liabilities		61	48	61
Subordinated debt	3,4	1 860	1 708	1 895
<b>Total liabilities</b>		<b>418 173</b>	<b>389 951</b>	<b>447 130</b>
Share capital		3 145	2 145	2 145
Additional Tier 1 capital	9	994	0	0
Retained earnings		6 191	5 714	6 191
Total comprehensive income for the period		520	233	
<b>Total equity</b>	<b>10</b>	<b>10 850</b>	<b>8 092</b>	<b>8 336</b>
<b>Total liabilities and equity</b>		<b>429 023</b>	<b>398 042</b>	<b>455 466</b>

## STATEMENT OF CHANGES IN EQUITY

(Amounts in NOK 1 000 000)

	1 January - 30 June 2015			
	Share capital and other paid in equity 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	1	519	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>6 710</b>	<b>10 850</b>

	1 January - 30 June 2014			
	Share capital and other paid in equity capital	Additional Tier 1 capital	Retained earnings	Total equity
Equity as of 1 January 2014	2 145	0	6 071	8 216
Profit for the period	0	0	233	233
Total other comprehensive income	0	0	0	0
Dividends for 2013	0	0	(357)	(357)
<b>Equity as of 30 June 2014</b>	<b>2 145</b>	<b>0</b>	<b>5 947</b>	<b>8 092</b>

	1 January - 31 December 2014			
	Share capital and other paid in equity capital	Additional Tier 1 capital	Retained earnings	Total equity
Equity as of 1 January 2014	2 145	0	6 071	8 216
Profit for the period	0	0	491	491
Total other comprehensive income	0	0	(13)	(13)
Dividends for 2013	0	0	(357)	(357)
<b>Equity as of 31 December 2014</b>	<b>2 145</b>	<b>0</b>	<b>6 191</b>	<b>8 336</b>

\*The capital increase of NOK 1 billion had been paid in by the end of the second quarter of 2015, while registration in the Register of Business Enterprises was completed in early July 2015.

## STATEMENT OF CASH FLOWS

(Amounts in NOK 1 000 000)

	January-June 2015	January-June 2014	2014
<b>Cash flows from operating activities</b>			
Interest received	2 876	2 972	5 977
Interest paid	(1 980)	(1 984)	(4 390)
Fees and commissions paid	(12)	(11)	(25)
Receipts from repurchase of issued securities	3	2	39
Cash payments to employees and suppliers	(67)	(54)	(120)
Income taxes paid	(422)	(440)	(437)
Net disbursement of loans to customers	(6 091)	(6 727)	(6 209)
Net (increase)/decrease in deposits with credit institutions	(20 135)	176	11 015
Net (increase)/decrease in notes, bonds and other interest-bearing securities	24 965	(17 548)	(45 046)
Net (increase)/decrease in other assets	(1)	(29)	0
Net increase/(decrease) in other liabilities	(21)	(14)	6
<b>Net cash flows from operating activities</b>	<b>(885)</b>	<b>(23 658)</b>	<b>(39 189)</b>
<b>Cash flows from investing activities</b>			
Net (purchase)/sales of property and equipment	(32)	(1)	(50)
<b>Net cash flows from investing activities</b>	<b>(32)</b>	<b>(1)</b>	<b>(50)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of commercial paper	2 306	0	0
Proceeds from issuance of debt securities	52 218	79 407	116 690
Repayment of debt securities	(84 801)	(53 756)	(109 570)
Proceeds from issuance of additional Tier 1 capital	994	0	0
Dividends paid	0	0	(357)
Proceeds from issuance of share capital	1 000	0	0
<b>Net cash flows from financing activities</b>	<b>(28 284)</b>	<b>25 651</b>	<b>6 763</b>
<b>Net cash flows</b>	<b>(29 201)</b>	<b>1 992</b>	<b>(32 476)</b>
Effects of foreign exchange differences	29 201	(2 403)	32 468
<b>Net cash flows after foreign exchange differences</b>	<b>0</b>	<b>(411)</b>	<b>(9)</b>
Cash and cash equivalents at 1 January	21	29	29
Net change in cash and cash equivalents	0	(412)	(9)
<b>Cash and cash equivalents at end of period</b>	<b>21</b>	<b>(382)</b>	<b>21</b>
<i>Deposits with credit institutions without agreed time to maturity</i>	21	0	21
<i>Loans from credit institutions without agreed time to maturity</i>	0	(382)	0



## 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 2015 are prepared in accordance with IAS 34 *Interim Financial Reporting*, and follow the same accounting policies as presented in the annual financial statements for 2014.

### Additional Tier 1 capital

Additional Tier 1 capital in the form of a subordinated bond has been issued in June 2015, with nominal amount NOK 1 billion. This bond has been classified as equity capital under IAS 32 *Financial instruments: Presentation*, based on the judgement that there are no contractual obligations to pay interest and notional amount. Interest costs are treated as dividends, and presented as a reduction of Retained earnings.

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 2015	January- June 2015	April-June 2014	January- June 2014	2014
Deposits with credit institutions	0	3	10	14	21
Instalment loans	1 324	2 677	1 486	2 938	5 912
Notes, bonds and other interest-bearing securities	454	997	552	1 064	2 214
Financial derivatives	(384)	(864)	(528)	(1 041)	(2 136)
<b>Total interest income</b>	<b>1 394</b>	<b>2 813</b>	<b>1 520</b>	<b>2 974</b>	<b>6 011</b>
Loans from credit institutions	3	5	0	3	5
Senior securities issued	2 034	4 768	1 942	4 098	8 625
Financial derivatives	(1 054)	(2 777)	(780)	(1 870)	(4 157)
Subordinated debt	7	14	5	10	23
<b>Total interest expenses</b>	<b>990</b>	<b>2 010</b>	<b>1 168</b>	<b>2 243</b>	<b>4 496</b>
<b>Net interest income</b>	<b>404</b>	<b>803</b>	<b>352</b>	<b>731</b>	<b>1 515</b>

## NOTE 2

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

(Amounts in NOK 1 000 000)

	April-June 2015	January- June 2015	April-June 2014	January- June 2014	2014
Instalment loans	(651)	(948)	183	96	607
Notes, bonds and other interest-bearing securities	(163)	47	340	120	125
Financial derivatives	(268)	(4 501)	1 082	2 344	2 804
Loans from credit institutions	0	0	0	1	1
Senior securities issued	1 361	5 377	(1 916)	(2 898)	(4 250)
Subordinated debt	16	12	(7)	(10)	(21)
<b>Net unrealised gain/(loss) on financial instruments</b>	<b>295</b>	<b>(13)</b>	<b>(317)</b>	<b>(347)</b>	<b>(734)</b>

## 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	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	10 279	7 613	0	0	0	2 666	0
Instalment loans	249 996	148 826	0	0	0	101 170	0
Notes, bonds and other interest-bearing securities	120 342	106 256	0	0	115	13 970	0
Financial derivatives	17 353	0	15 323	2 029	0	0	0
<b>Total financial assets</b>	<b>397 969</b>	<b>262 694</b>	<b>15 323</b>	<b>2 029</b>	<b>115</b>	<b>117 807</b>	<b>0</b>
Loans from credit institutions	9 398	0	0	0	0	0	9 398
Commercial paper	0	0	0	0	0	0	0
Senior securities issued	365 801	250 267	0	0	0	0	115 533
Financial derivatives	12 393	0	11 211	1 182	0	0	0
Subordinated debt	1 708	1 708	0	0	0	0	0
<b>Total financial liabilities</b>	<b>389 299</b>	<b>251 975</b>	<b>11 211</b>	<b>1 182</b>	<b>0</b>	<b>0</b>	<b>124 931</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	16 219	9 619	0	0	0	6 600	0
Instalment loans	249 928	150 328	0	0	0	99 600	0
Notes, bonds and other interest-bearing securities	157 364	143 962	0	0	113	13 289	0
Financial derivatives	31 776	0	29 598	2 178	0	0	0
<b>Total financial assets</b>	<b>455 287</b>	<b>303 909</b>	<b>29 598</b>	<b>2 178</b>	<b>113</b>	<b>119 489</b>	<b>0</b>
Loans from credit institutions	25 135	0	0	0	0	0	25 135
Commercial paper	0	0	0	0	0	0	0
Senior securities issued	398 669	253 570	0	0	0	0	145 099
Financial derivatives	20 919	0	19 826	1 093	0	0	0
Subordinated debt	1 895	1 895	0	0	0	0	0
<b>Total financial liabilities</b>	<b>446 618</b>	<b>255 465</b>	<b>19 826</b>	<b>1 093</b>	<b>0</b>	<b>0</b>	<b>170 234</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 2015 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	6 911	0	<b>6 911</b>
Instalment loans	0	102 798	54 112	<b>156 910</b>
Notes, bonds and other interest-bearing securities	66 039	54 053	5 260	<b>125 352</b>
Financial derivatives	0	19 718	650	<b>20 368</b>
<b>Total financial assets measured at fair value</b>	<b>66 039</b>	<b>183 480</b>	<b>60 022</b>	<b>309 541</b>
Loans from credit institutions	0	0	0	<b>0</b>
Commercial paper	0	2 362	0	<b>2 362</b>
Senior securities issued	0	152 985	75 367	<b>228 352</b>
Financial derivatives	0	8 154	19 158	<b>27 312</b>
Subordinated debt	0	0	1 860	<b>1 860</b>
<b>Total financial liabilities measured at fair value</b>	<b>0</b>	<b>163 501</b>	<b>96 385</b>	<b>259 886</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 2014</b>	<b>46 456</b>	<b>4 193</b>	<b>89 562</b>	<b>1 895</b>	<b>(10 405)</b>
Purchase	0	1 241	(800)	0	(1 228)
Sale	0	0	0	0	0
Issue	16 490	0	19 065	0	0
Settlement	(11 411)	(1 009)	(34 032)	0	1 910
Transfer into Level 3	2 382	8 927	0	0	0
Transfer out of Level 3	(1 883)	(8 094)	0	0	0
Gain/(loss) recognised in the period	2 078	2	1 572	(35)	(8 785)
<b>Carrying amount at 30 June 2015</b>	<b>54 112</b>	<b>5 260</b>	<b>75 367</b>	<b>1 860</b>	<b>(18 508)</b>

Holdings amounting to approximately NOK 9 billion have been transferred from Level 1 to Level 2 in the second quarter of 2015. 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 is 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 2015:

	30 June 2015
Instalment loans	(219)
Notes, bonds and other interest-bearing securities	(8)
Financial derivatives	(48)
Senior securities issued	(230)
Subordinated debt	(2)
<b>Total</b>	<b>(507)</b>

## NOTE 5

### Instalment loans

<i>(Amounts in NOK 1 000 000)</i>	<b>30 June 2015</b>	<b>30 June 2014</b>	<b>31 December 2014</b>
Principal amount	253 146	247 502	247 116
Accrued interest	1 183	1 285	1 092
Fair value adjustment	772	1 209	1 720
<b>Total instalment loans</b>	<b>255 101</b>	<b>249 996</b>	<b>249 928</b>

## NOTE 6

### Senior securities issued

<i>(Amounts in NOK 1 000 000)</i>	<b>30 June 2015</b>	<b>30 June 2014</b>	<b>31 December 2014</b>
<b>Senior securities issued (nominal amounts) as at 1 January</b>	<b>391 285</b>	<b>326 470</b>	<b>326 470</b>
New issuance	52 666	79 433	116 739
Redemptions	(85 144)	(53 710)	(109 833)
Amortisation	342	(46)	264
Translation differences	17 470	7 597	57 646
<b>Senior securities issued (nominal amounts) as at end of period</b>	<b>376 619</b>	<b>359 743</b>	<b>391 285</b>
Accrued interest	2 530	2 444	2 419
Fair value adjustment	(411)	3 613	4 966
<b>Total senior securities issued</b>	<b>378 738</b>	<b>365 801</b>	<b>398 669</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 2015</b>	<b>30 June 2014</b>	<b>31 December 2014</b>
Domestic			
Issued by other borrowers	1 928	6 108	6 748
Foreign			
Issued by public bodies <sup>1</sup>	93 698	82 893	108 762
Issued by other borrowers	39 169	31 340	41 853
<b>Total notes, bonds and other interest-bearing securities</b>	<b>134 795</b>	<b>120 342</b>	<b>157 364</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 2015</b>	<b>30 June 2014</b>	<b>31 December 2014</b>
Under 1 year	72 221	71 353	107 399
1-5 years	62 339	48 989	49 965
Over 5 years	235	0	0
<b>Total notes, bonds and other interest-bearing securities</b>	<b>134 795</b>	<b>120 342</b>	<b>157 364</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 2015

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	10 961	0	0	0	7 257	1 861	0	0	20 079
Multilateral development banks	9 267	0	0	0	11 643	23	0	0	20 933
Regional authorities	30 138	0	0	299	4 902	12 352	2 092	2 903	52 686
Financial institutions	3 677	390	0	0	0	1 263	45	0	5 375
Securitisation	52	28	14	0	0	0	0	0	93
Covered bonds	17 395	0	0	0	16 139	2 095	0	0	35 629
<b>Total</b>	<b>71 489</b>	<b>419</b>	<b>14</b>	<b>299</b>	<b>39 941</b>	<b>17 595</b>	<b>2 136</b>	<b>2 903</b>	<b>134 795</b>

Exposure as at 30 June 2014

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	11 116	0	0	0	0	111	2 700	0	13 928
Multilateral development banks	12 066	0	0	0	0	574	11 384	0	24 023
Regional authorities	13 871	0	0	1 181	145	11 526	14 506	3 715	44 943
Financial institutions	19 288	0	0	0	307	927	0	0	20 522
Securitisation	115	0	0	0	0	0	0	0	115
Covered bonds	13 717	0	0	0	0	631	2 463	0	16 811
<b>Total</b>	<b>70 172</b>	<b>0</b>	<b>0</b>	<b>1 181</b>	<b>451</b>	<b>13 769</b>	<b>31 053</b>	<b>3 715</b>	<b>120 342</b>

## NOTE 9

### Additional Tier 1 capital

KBN has in June 2015 issued a hybrid capital instrument in the form of a subordinated bond, with nominal amount NOK 1 billion. It is a perpetual bond, however, KBN may pay back the capital at given times, the first call date being 5 years after issue. Quarterly floating interest is paid on the bond, with terms Nibor plus 1.5 percent.

Based on the contract terms the bond satisfies the requirements in the EU CRR Directive, and therefore forms part of KBN's Tier 1 capital for capital adequacy purposes. The terms imply that the bank has a one-sided right to not pay interest and notional amount to the investors. Hence the view is that there are no contractual obligations to pay interest and notional amount, such that the bond does not fulfil the requirements for classification as a liability in IAS 32 *Financial instruments: Presentation*. The subordinated bond is based on this classified as equity in KBN's Statement of financial position. The bond is presented as Additional Tier 1 capital under equity.

The interest costs are not presented as Interest expense, but rather as a reduction of Retained earnings, in the same way as dividends to the owner/shareholder. The benefit of the tax deduction for the interest in isolation increases Retained earnings, and is not presented as a reduction of Income tax, as it is the shareholder that benefits from this deduction. For the second quarter interest in the amount of NOK 1 million had accrued. Allocation of the period's profit to the shareholder and to the owners of the additional Tier 1 capital is presented in the Income Statement and in the Statement of Changes in Equity.

As part of equity the subordinated bond is measured at cost.

## NOTE 10

### Primary capital

<i>(Amounts in NOK 1 000 000)</i>	<b>30 June 2015</b>	<b>30 June 2014</b>
<i>Common equity Tier 1 capital</i>		
Share capital	3 145	2 145
Retained earnings	6 191	5 714
Profit for the period included in Tier 1 capital	520	160
Pension funds above pension commitments	0	0
Deferred tax asset*	0	0
Intangible assets	(108)	(61)
Dividends payable	(219)	0
Adjustments in common equity Tier 1 capital based on regulatory filters	151	72
Share of nulled unamortised estimate differences	0	0
<b>Total common equity Tier 1 capital</b>	<b>9 680</b>	<b>8 029</b>
Other approved Tier 1 capital	994	0
<b>Total Tier 1 capital</b>	<b>10 673</b>	<b>8 029</b>
<i>Supplementary capital</i>		
Ordinary subordinated debt	1 571	1 571
<b>Total supplementary capital</b>	<b>1 571</b>	<b>1 571</b>
<b>Total primary capital</b>	<b>12 244</b>	<b>9 601</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 11

### Capital adequacy

*(Amounts in NOK 1 000 000)*

	<b>30 June 2015</b>		
	Carrying amount	Risk-weighted assets	Minimum capital requirements
<b>Credit risk</b>			
Sovereigns and central banks	16 962	0	0
Regional governments and local authorities	306 072	52 182	4 175
<i>Of which are Norwegian municipalities</i>	<i>254 960</i>	<i>52 044</i>	<i>4 164</i>
Public sector entities	7 547	0	0
Multilateral development banks	20 933	0	0
Financial institutions	38 236	7 534	603
<i>Of which counterparty exposure on derivatives</i>	<i>14 004</i>	<i>2 379</i>	<i>190</i>
Claims secured by residential property	44	44	4
Covered bonds	36 506	3 651	292
Other assets	15	15	1
Securitisation	93	35	3
Credit Valuation Adjustment	184	2 304	184
<b>Total credit risk</b>	<b>426 592</b>	<b>65 766</b>	<b>5 261</b>
<b>Market risk</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Operational risk—Basic Indicator Approach</b>		<b>3 184</b>	<b>255</b>
<b>Minimum capital requirements</b>		<b>68 950</b>	<b>5 516</b>
<b>Total capital ratio</b>		<b>17.76 %</b>	
<b>Tier 1 capital adequacy ratio</b>		<b>15.48 %</b>	
<b>Common equity Tier 1 capital adequacy ratio</b>		<b>14.04 %</b>	