



# REPORT FOR THIRD QUARTER 2017

July-September (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>	<b>January-September 2017</b>	<b>January-September 2016</b>	<b>2016</b>
<b>RESULTS</b>			
Net interest income	1 611	1 542	2 087
Core earnings <sup>1</sup>	1 066	1 041	1 400
Profit before tax	962	337	919
Profit for the period	721	253	689
Return on equity after tax <sup>2</sup>	8.52 %	3.05 %	6.27%
Return on equity after tax (core earnings) <sup>2</sup>	12.60 %	12.54 %	12.74%
Return on assets after tax <sup>2</sup>	0.23 %	0.08 %	0.16%
Return on assets after tax (core earnings) <sup>2</sup>	0.33 %	0.32 %	0.33%
<b>LENDING</b>			
New disbursements	35 874	33 132	48 117
Outstanding loans <sup>3</sup>	274 064	261 251	266 558
<b>LIQUIDITY PORTFOLIO<sup>3</sup></b>	<b>108 175</b>	<b>119 453</b>	<b>116 413</b>
<b>BORROWINGS</b>			
New long-term borrowings	111 190	64 103	82 752
Repurchase of own debt	739	1 137	1 159
Redemptions	89 502	60 099	93 926
Total borrowings <sup>3</sup>	378 853	378 437	376 785
<b>TOTAL ASSETS</b>	<b>415 005</b>	<b>421 652</b>	<b>418 327</b>
<b>EQUITY</b>			
Total capital adequacy ratio	13 964	12 022	12 452
Tier 1 capital adequacy ratio	23.67 %	20.43 %	21.45%
Common equity Tier 1 capital adequacy ratio	20.76 %	17.44 %	18.39%
Leverage ratio	17.58 %	15.96 %	16.86%
	3.57 %	2.81 %	2.65%
<b>LIQUIDITY COVERAGE RATIO (LCR)<sup>4</sup></b>			
Total	1 292%	1 234%	1 116%
NOK	807%	2 308%	1 848%
EUR	992%	1 249%	558%
USD	333%	104%	471%
AUD	Infinite	Infinite	Infinite
JPY	854%	2 814%	852%

<sup>1</sup> Profit after tax adjusted for unrealised gain/(loss) on financial instruments after tax. This result measure is included to give relevant information about the company's underlying operations.

<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

# STABLE OPERATIONS AND STRONG EARNINGS

KBN's net interest income in the third quarter of 2017 was NOK 513 million as compared to NOK 572 million in the same period in 2016. There continued to be steady demand for long-term loans in the third quarter, while demand for loans with maturities of less than twelve months fell. KBN's result for the third quarter was a profit of NOK 272 million, and was reduced by net unrealised losses on financial instruments.

### RESULTS

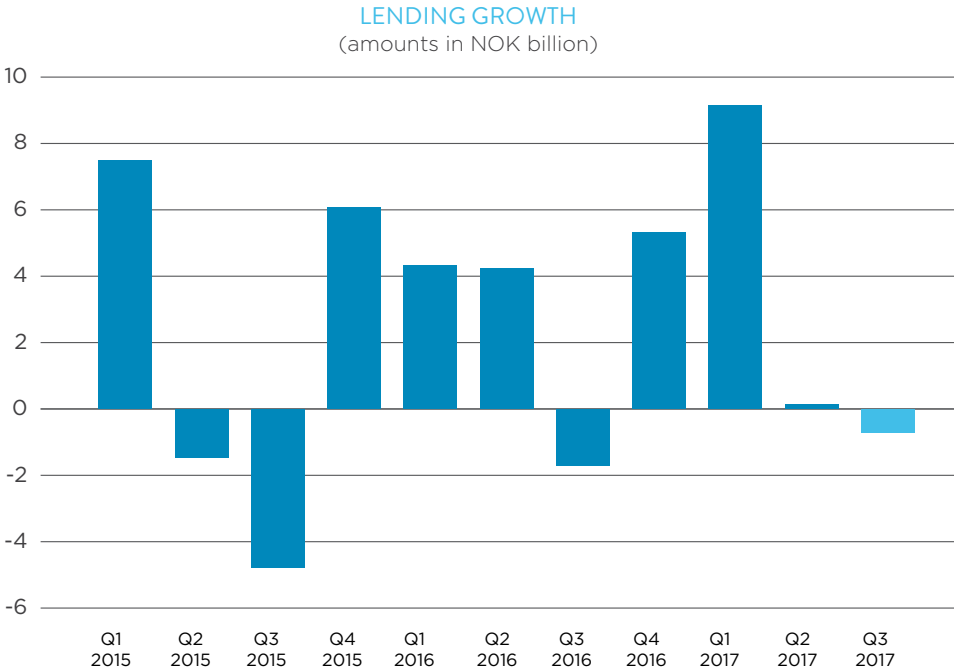
Net interest income totalled NOK 513 million in the third quarter of 2017 as compared to NOK 572 million in the same period in 2016. The decrease was due to lower lending margins and a lower return from the liquidity portfolio relative to a particularly strong performance in the third quarter of last year.

KBN's result for the third quarter of 2017 was a profit of NOK 272 million, compared to a profit of NOK 198 million in the same period in 2016. This increase was due to lower net unrealised losses on financial instruments in the third quarter of 2017 than in the same

period in 2016. Net unrealised losses on financial instruments in the third quarter of 2017 totalled NOK 94 million. KBN's result for the first nine months of 2017 was a profit of NOK 721 million as compared to a profit of NOK 253 million in the first nine months of 2016. Net unrealised losses on financial instruments totalled NOK 490 million in the first nine months of 2017 as compared to NOK 1,070 million in the same period in 2016. The 2017 unrealised losses are principally due to changes in the value of KBN's debt due to lower credit spreads on KBN's outstanding bonds.

Net interest income in the first nine months of 2017 totalled NOK 1,611 million as compared to NOK 1,542 million in the same period in 2016. This increase was due to KBN achieving strong earnings at the start of 2017, and also to strong lending growth early in 2017.

Total operating expenses for the first nine months of 2017 were NOK 143 million as compared to NOK 127 million in the same period in 2016. The increase was due to an increase in employee numbers, a higher level of activity in relation to security, new functionality offered by digital solutions, and



the new financial sector tax. Total operating expenses (annualised) represented 0.04% of total assets.

KBN generated a return on equity after tax for the first nine months of 2017 of 8.52% (annualised). After adjusting for unrealised gain/(loss) on financial instruments, the return on equity after tax was 12.60%.

## LENDING

At the end of the third quarter, KBN's lending to the local government sector totalled NOK 274.0 billion. The lending portfolio decreased by NOK 1.9 billion in the quarter, representing a decrease of 0.7%. This decrease was in line with the decrease in the same quarter of 2016.

KBN specialises in loans with long maturities and as a result of strong growth in the first six months of 2017 KBN's portfolio of loans with maturities of less than twelve months decreased by NOK 4.0 billion in the third quarter. Long-term instalment loans and loans with maturities of between one and two years grew 0.9% in the quarter, equivalent to NOK 2.9 billion.

KBN's lending portfolio grew NOK 7.5 billion or 2.8% in the first nine months of 2017, as compared to NOK 6.8 billion (2.7%) in the first nine months of 2016. There is steady demand for long-term instalment loans. One trend in the pattern of demand is that less use is being made of certificate loans and more use is being made of loans with maturities of between one and two years.

In the third quarter, new disbursements totalled NOK 7.8 billion, a marginal decrease from the third quarter of 2016. New disbursements in the first nine months of 2017 totalled NOK 35.9 billion as compared to NOK 33.1 billion in the same period in 2016. These figures include loans issued as new financing as well as refinancing external loans.

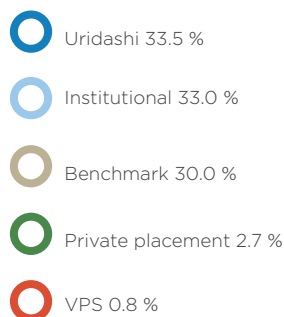
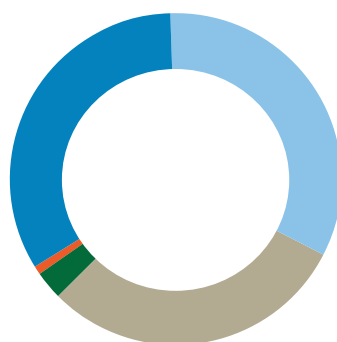
Local government sector debt growth continued to accelerate in the third quarter, with the annualised rate of growth according to Statistics Norway's C2 credit indicator standing at 6.4% at the end of the August, as compared to 5.6% for 2016 as a whole.

## FINANCIAL MARKETS

KBN's new borrowings totalled

## KBN FUNDING MARKET

July-September 2017



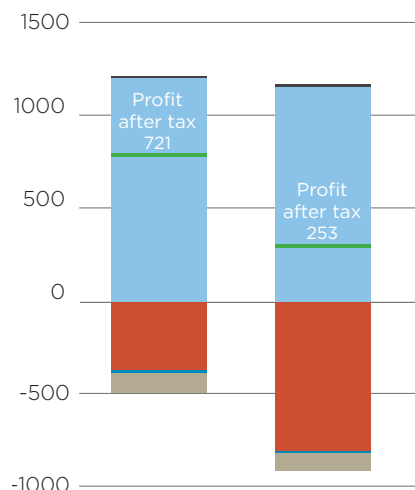
USD 3.4 billion in the third quarter as compared to USD 4.5 billion in the second quarter. KBN's total outstanding bond debt increased slightly in US dollar terms in the third quarter from the second quarter, but decreased slightly in NOK terms due to the Norwegian krone strengthening. KBN issued one new benchmark bond in the third quarter. At the turn of August/September KBN issued its first two-year benchmark bond in US dollars. The bond was well received and was significantly over-subscribed. Central banks and public sector institutions comprised a record high of 75% of investors.

In addition, KBN also placed two sizeable USD-denominated bonds with institutional investors. Following the moderate level of demand seen in the second quarter, the level of activity in the Japanese Uridashi market increased somewhat through the third quarter, with KBN issuing Uridashi bonds totalling NOK 9 billion in the period, bringing the total for the first nine months of 2017 to NOK 30 billion.

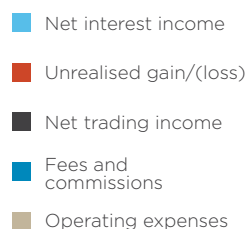
KBN's liquidity portfolio totalled NOK 108.2 billion at 30 September 2017 as compared to NOK 119.5 billion at

## PROFIT AFTER TAX

(amounts in NOK million)



Q3 2017      Q3 2016



the same point in 2016. The liquidity portfolio is principally held in zero-risk-weighted assets and primarily in foreign currencies. Fluctuations in the value of the Norwegian krone will therefore cause KBN's liquidity reserve to fluctuate in value.

Credit spreads for European states and state-guaranteed financial institutions were relatively stable throughout the third quarter. There was significant demand for short-term bonds, which led to lower credit spreads on short-term investments and reduced the return from the liquidity portfolio.

## CAPITAL

At the end of the third quarter, KBN's total primary capital was NOK 16.3 billion, its total Tier 1 capital was NOK 14.3 billion, and its total common equity Tier 1 capital was NOK 12.1 billion. KBN's capital structure was unchanged in the quarter. At the end of the third quarter, KBN's total assets were NOK 3.3 billion lower than at 31 December 2016.

At the end of the third quarter, KBN had a common equity Tier 1 capital adequacy ratio of 17.58%, a Tier 1 capital adequacy ratio of 20.76%, and a

total capital adequacy ratio of 23.67%. At 30 September 2017, the capital requirements imposed by the authorities required KBN to have a common equity Tier 1 capital adequacy ratio of 15.0%, a Tier 1 capital adequacy ratio of 16.5%, and a total capital adequacy ratio of 18.5%. KBN is also subject to a requirement to have a leverage ratio of 3%. KBN's leverage ratio at 30 September 2017 was 3.57%.

KBN manages its operations to ensure it complies with the regulatory requirements in force at any time and operates internal margins as buffers in respect of the authorities' requirements. With effect from 31 December 2017, the requirements to which KBN is subject will increase to 15.4% for the common equity Tier 1 capital adequacy ratio, 16.9% for the Tier 1 capital adequacy ratio and 18.9% for the total capital ratio.

Oslo, 31 October 2017  
The Board of Directors  
for Kommunalbanken AS

# INTERIM CONDENSED FINANCIAL INFORMATION

## INCOME STATEMENT

(Amounts in NOK 1 000 000)

	Note	July- September 2017	January- September 2017	July- September 2016	January- September 2016	2016
Interest income		1 400	4 420	1 404	4 117	5 617
Interest expense		888	2 809	832	2 575	3 530
<b>Net interest income</b>	<b>1</b>	<b>513</b>	<b>1 611</b>	<b>572</b>	<b>1 542</b>	<b>2 087</b>
Fees and commission expenses		8	24	10	22	32
Net unrealised gain/(loss) on financial instruments	<b>2</b>	(94)	(490)	(256)	(1 070)	(974)
Net trading income		(2)	8	6	13	15
<b>Total other operating income</b>		<b>(105)</b>	<b>(507)</b>	<b>(260)</b>	<b>(1 078)</b>	<b>(991)</b>
Salaries and administrative expenses		33	102	34	92	125
Depreciation on fixed assets		5	16	5	14	20
Other expenses		6	25	9	21	32
<b>Total operating expenses</b>		<b>45</b>	<b>143</b>	<b>48</b>	<b>127</b>	<b>177</b>
<b>Profit before tax</b>		<b>363</b>	<b>962</b>	<b>263</b>	<b>337</b>	<b>919</b>
Income tax		91	241	66	84	230
<b>Profit for the period</b>		<b>272</b>	<b>721</b>	<b>198</b>	<b>253</b>	<b>689</b>
Portion allocated to shareholder		260	698	193	238	670
Portion allocated to owners of additional Tier 1 capital		12	22	5	15	19

## STATEMENT OF COMPREHENSIVE INCOME

(Amounts in NOK 1 000 000)

	Note	July- September 2017	January- September 2017	July- September 2016	January- September 2016	2016
Profit for the period		272	721	198	253	689
<b>Other comprehensive income</b>						
<i>Items which will not be reclassified to profit or loss</i>						
Actuarial gain/(loss) on defined benefit plan		0	0	0	0	(1)
Of which is tax		0	0	0	0	0
<b>Total other comprehensive income</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(1)</b>
<b>Total comprehensive income for the period</b>		<b>272</b>	<b>721</b>	<b>198</b>	<b>253</b>	<b>688</b>

## STATEMENT OF FINANCIAL POSITION

<i>(Amounts in NOK 1 000 000)</i>	Note	30 September 2017	30 September 2016	31 December 2016
<b>Assets</b>				
Deposits with credit institutions	3,4	19 383	22 332	16 182
Instalment loans	3,4,5	275 843	263 103	267 521
Notes, bonds and other interest-bearing securities	3,4,7,8	108 198	122 059	118 550
Financial derivatives	3,4	10 900	13 801	15 921
Deferred tax asset		0	201	0
Other assets		681	156	153
<b>Total assets</b>		<b>415 005</b>	<b>421 652</b>	<b>418 327</b>
<b>Liabilities and equity</b>				
Loans from credit institutions	3,4	2 393	3 869	7 584
Senior securities issued	3,4,6	376 878	369 895	369 933
Financial derivatives	3,4	19 687	33 657	26 275
Other liabilities		37	33	45
Current tax liabilities		0	79	0
Deferred tax liabilities		12	0	12
Pension liabilities		52	49	52
Subordinated debt	3,4	1 981	2 048	1 974
<b>Total liabilities</b>		<b>401 041</b>	<b>409 630</b>	<b>405 875</b>
Share capital		3 145	3 145	3 145
Additional Tier 1 capital		2 189	994	994
Retained earnings		7 909	7 630	8 314
Total comprehensive income for the period		721	253	
<b>Total equity</b>	<b>9</b>	<b>13 964</b>	<b>12 022</b>	<b>12 452</b>
<b>Total liabilities and equity</b>		<b>415 005</b>	<b>421 652</b>	<b>418 327</b>

## STATEMENT OF CHANGES IN EQUITY

(Amounts in NOK 1 000 000)

	1 January - 30 September 2017			
	Share capital	Additional Tier 1 capital	Retained earnings	Total equity
Equity as of 1 January 2017	3 145	994	8 314	12 452
Profit for the period	0	0	721	721
Total other comprehensive income	0	0	0	0
Interest paid on Tier 1 capital	0	0	(14)	(14)
Issued additional Tier 1 capital (see Note 9)	0	1 195	0	1 195
Dividends for 2016	0	0	(390)	(390)
<b>Equity as of 30 September 2017</b>	<b>3 145</b>	<b>2 189</b>	<b>8 630</b>	<b>13 964</b>

	1 January - 30 September 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	253	253
Total other comprehensive income	0	0	0	0
Interest paid on Tier 1 capital	0	0	(15)	(15)
Dividends for 2015	0	0	(417)	(417)
<b>Equity as of 30 September 2016</b>	<b>3 145</b>	<b>994</b>	<b>7 883</b>	<b>12 022</b>

	1 January—31 December 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	689	689
Total other comprehensive income	0	0	(1)	(1)
Interest paid on Tier 1 capital	0	0	(20)	(20)
Dividends for 2015	0	0	(417)	(417)
<b>Equity as of 31 December 2016</b>	<b>3 145</b>	<b>994</b>	<b>8 314</b>	<b>12 452</b>



## STATEMENT OF CASH FLOWS

(Amounts in NOK 1 000 000)

	January-September 2017	January-September 2016	2016
<b>Cash flows from operating activities</b>			
Interest received	4 401	3 751	5 433
Interest paid	(2 557)	(3 815)	(3 752)
Fees and commissions paid	(24)	(22)	(32)
Receipts from repurchase of issued securities	8	13	15
Cash payments to employees and suppliers	(127)	(113)	(157)
Income taxes paid	(726)	(829)	(838)
Net disbursement of loans to customers	(7 506)	(6 829)	(12 137)
Net (increase)/decrease in deposits with credit institutions	(8 011)	(7 136)	3 212
Net (increase)/decrease in notes, bonds and other interest-bearing securities	10 260	19 924	25 204
Net (increase)/decrease in other assets	(530)	(17)	(12)
Net increase/(decrease) in other liabilities	481	(4)	11
<b>Net cash flows from operating activities</b>	<b>(4 330)</b>	<b>4 925</b>	<b>16 947</b>
<b>Cash flows from investing activities</b>			
Net (purchase)/sales of property and equipment	(13)	(13)	(20)
<b>Net cash flows from investing activities</b>	<b>(13)</b>	<b>(13)</b>	<b>(20)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of debt securities	111 191	64 104	82 752
Repayment of debt securities	(89 983)	(63 807)	(96 675)
Proceeds from issuance of additional Tier 1 capital	1 195	0	0
Interest paid on Tier 1 capital	(19)	(20)	(26)
Proceeds from issuance of subordinated debt	0	1 991	1 991
Repayment of subordinated debt	0	(1 758)	(1 758)
Dividends paid	(390)	(417)	(417)
<b>Net cash flows from financing activities</b>	<b>21 994</b>	<b>93</b>	<b>(14 134)</b>
<b>Net cash flows</b>	<b>17 651</b>	<b>5 005</b>	<b>2 793</b>
Effects of foreign exchange differences	(17 769)	(5 336)	(2 751)
<b>Net cash flows after foreign exchange differences</b>	<b>(118)</b>	<b>(331)</b>	<b>42</b>
Cash and cash equivalents at 1 January	76	34	34
Net change in cash and cash equivalents	(118)	(331)	42
<b>Cash and cash equivalents at end of period</b>	<b>(42)</b>	<b>(297)</b>	<b>76</b>
Whereof			
<i>Deposits with credit institutions without agreed time to maturity</i>	0	0	76
<i>Loans from credit institutions without agreed time to maturity</i>	(42)	(297)	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 September 2017 are prepared in accordance with IAS 34 *Interim Financial Reporting*, and follow the same accounting policies as presented in the annual financial statements for 2016.

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.

The new standard IFRS 9 *Financial Instruments*, has effective date 1 January 2018. Assessments made in the implementation project related to both expected credit loss and classification and measurement indicate no material effects in the statement of financial position as a result of the implementation. This will be quality assured in the period up to the presentation of the annual financial statements for 2017.

## NOTE 1

### Net interest income

(Amounts in NOK 1 000 000)

	July- September 2017	January- September 2017	July- September 2016	January- September 2016	2016
Deposits with credit institutions	(1)	0	(4)	(13)	(20)
Instalment loans	1 177	3 705	1 244	3 658	4 933
Notes, bonds and other interest-bearing securities	6	262	13	332	562
Financial derivatives	219	452	151	140	142
<b>Total interest income</b>	<b>1 400</b>	<b>4 420</b>	<b>1 404</b>	<b>4 117</b>	<b>5 617</b>
Loans from credit institutions	0	1	0	1	1
Senior securities issued	2 872	6 233	2 445	6 074	10 563
Financial derivatives	(2 001)	(3 473)	(1 630)	(3 550)	(7 098)
Subordinated debt	15	46	15	49	64
<b>Total interest expenses</b>	<b>888</b>	<b>2 809</b>	<b>832</b>	<b>2 575</b>	<b>3 530</b>
<b>Net interest income</b>	<b>513</b>	<b>1 611</b>	<b>572</b>	<b>1 542</b>	<b>2 087</b>

## NOTE 2

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

(Amounts in NOK 1 000 000)

	July- September 2017	January- September 2017	July- September 2016	January- September 2016	2016
Instalment loans	78	688	(681)	(830)	(1 542)
Notes, bonds and other interest-bearing securities	58	229	92	369	(185)
Financial derivatives	2 853	4 701	36	2 171	3 247
Loans from credit institutions	0	0	0	0	0
Senior securities issued	(3 083)	(6 086)	279	(2 760)	(2 564)
Subordinated debt	0	(22)	18	(20)	70
<b>Net unrealised gain/(loss) on financial instruments</b>	<b>(94)</b>	<b>(490)</b>	<b>(256)</b>	<b>(1 070)</b>	<b>(974)</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.

Net unrealised losses amounting to NOK 94 million in the third quarter result mainly from a tightening of credit spreads for Senior securities issued and a widening of USD-NOK basis swap spreads related to derivatives used to convert USD funding to NOK.

## NOTE 3

### Categorisation of financial instruments

(Amounts in NOK 1 000 000)

At 30 September 2017

	Total	At fair value through profit or loss			Held to maturity	Loans and receivables	Other liabilities
		Fair value option	Held for trading	Fair value hedge			
Deposits with credit institutions	19 383	9 300	0	0	0	10 083	0
Instalment loans	275 843	165 461	0	0	0	110 382	0
Notes, bonds and other interest-bearing securities	108 198	107 939	0	0	10	248	0
Financial derivatives	10 900	0	10 139	761	0	0	0
<b>Total financial assets</b>	<b>414 325</b>	<b>282 701</b>	<b>10 139</b>	<b>761</b>	<b>10</b>	<b>120 713</b>	<b>0</b>
Loans from credit institutions	2 393	0	0	0	0	0	2 393
Senior securities issued	376 878	224 387	0	0	0	0	152 492
Financial derivatives	19 687	0	18 398	1 288	0	0	0
Subordinated debt	1 981	1 981	0	0	0	0	0
<b>Total financial liabilities</b>	<b>400 939</b>	<b>226 368</b>	<b>18 398</b>	<b>1 288</b>	<b>0</b>	<b>0</b>	<b>154 885</b>

At 30 September 2016

	Total	At fair value through profit or loss			Held to maturity	Loans and receivables	Other liabilities
		Fair value option	Held for trading	Fair value hedge			
Deposits with credit institutions	22 332	5 560	0	0	0	16 772	0
Instalment loans	263 103	164 137	0	0	0	98 966	0
Notes, bonds and other interest-bearing securities	122 059	120 314	0	0	29	1 716	0
Financial derivatives	13 801	0	11 174	2 627	0	0	0
<b>Total financial assets</b>	<b>421 295</b>	<b>290 011</b>	<b>11 174</b>	<b>2 627</b>	<b>29</b>	<b>117 454</b>	<b>0</b>
Loans from credit institutions	3 869	0	0	0	0	0	3 869
Senior securities issued	369 895	222 660	0	0	0	0	147 235
Financial derivatives	33 657	0	33 492	165	0	0	0
Subordinated debt	2 048	2 048	0	0	0	0	0
<b>Total financial liabilities</b>	<b>409 469</b>	<b>224 708</b>	<b>33 492</b>	<b>165</b>	<b>0</b>	<b>0</b>	<b>151 104</b>

At 31 December 2016

	Total	At fair value through profit or loss			Held to maturity	Loans and receivables	Other liabilities
		Fair value option	Held for trading	Fair value hedge			
Deposits with credit institutions	16 182	5 208	0	0	0	10 974	0
Instalment loans	267 521	164 748	0	0	0	102 773	0
Notes, bonds and other interest-bearing securities	118 550	117 414	0	0	21	1 115	0
Financial derivatives	15 921	0	14 955	966	0	0	0
<b>Total financial assets</b>	<b>418 174</b>	<b>287 370</b>	<b>14 955</b>	<b>966</b>	<b>21</b>	<b>114 864</b>	<b>0</b>
Loans from credit institutions	7 584	0	0	0	0	0	7 584
Senior securities issued	369 933	223 710	0	0	0	0	146 223
Financial derivatives	26 275	0	25 246	1 029	0	0	0
Subordinated debt	1 974	1 974	0	0	0	0	0
<b>Total financial liabilities</b>	<b>405 765</b>	<b>225 684</b>	<b>25 246</b>	<b>1 029</b>	<b>0</b>	<b>0</b>	<b>153 807</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

See Note 11 in the Annual Report 2016 for further information about valuation techniques, inputs, value change analysis and sensitivities. Financial instruments measured at fair value in KBN's Statement of financial position as of 30 September 2017 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	9 300	0	<b>9 300</b>
Instalment loans	0	96 566	68 895	<b>165 461</b>
Notes, bonds and other interest-bearing securities	88 643	18 521	776	<b>107 940</b>
Financial derivatives	0	7 638	3 262	<b>10 900</b>
<b>Total financial assets measured at fair value</b>	<b>88 643</b>	<b>132 025</b>	<b>72 933</b>	<b>293 601</b>
Loans from credit institutions	0	0	0	<b>0</b>
Senior securities issued	7 812	128 118	88 456	<b>224 386</b>
Financial derivatives	0	8 472	11 214	<b>19 687</b>
Subordinated debt	0	0	1 981	<b>1 981</b>
<b>Total financial liabilities measured at fair value</b>	<b>7 812</b>	<b>136 590</b>	<b>101 651</b>	<b>246 054</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 2016</b>	<b>65 728</b>	<b>2 511</b>	<b>76 857</b>	<b>1 974</b>	<b>(17 952)</b>
Purchase	0	2	(1 025)	0	(1 509)
Sale	0	0	0	0	0
Issue	18 558	0	35 735	0	0
Settlement	(17 139)	(552)	(25 023)	0	(5 680)
Transfer into Level 3	741	871	0	0	0
Transfer out of Level 3	(1 695)	(2 058)	0	0	0
Gain/(loss) recognised in the period	2 702	2	1 913	7	17 189
<b>Carrying amount at 30 September 2017</b>	<b>68 895</b>	<b>776</b>	<b>88 456</b>	<b>1 981</b>	<b>(7 952)</b>

Holdings amounting to approximately NOK 11.3 billion have been transferred from Level 2 or 3 to Level 1 in the third quarter of 2017. There are net transfers of NOK 334 million out of Level 3 in the third 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 or option elements 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 or option elements is determined using a combination of a discounted cash flow method and 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 increase in the credit spread for financial assets and liabilities in Level 3 at 30 September 2017:

	30 September 2017
Instalment loans	(260)
Notes, bonds and other interest-bearing securities	(1)
Financial derivatives	12
Senior securities issued	331
Subordinated debt	21
<b>Total</b>	<b>103</b>

## NOTE 5

### Instalment loans

<i>(Amounts in NOK 1 000 000)</i>	30 September 2017	30 September 2016	31 December 2016
Principal amount	274 064	261 251	266 558
Accrued interest	1 184	1 234	1 056
Fair value adjustment	594	619	(93)
<b>Total instalment loans</b>	<b>275 843</b>	<b>263 103</b>	<b>267 521</b>

## NOTE 6

### Senior securities issued

<i>(Amounts in NOK 1 000 000)</i>	30 September 2017	30 September 2016	31 December 2016
<b>Senior securities issued (nominal amounts) as at 1 January</b>	<b>376 785</b>	<b>400 894</b>	<b>400 894</b>
New issuance	111 190	64 103	82 752
Redemptions	(90 241)	(61 236)	(93 926)
Amortisation	258	(2 571)	(2 749)
Translation differences	(19 140)	(22 754)	(10 185)
<b>Senior securities issued (nominal amounts) as at end of period</b>	<b>378 853</b>	<b>378 437</b>	<b>376 785</b>
Accrued interest	2 839	2 503	4 390
Fair value adjustment	(4 814)	(11 045)	(11 242)
<b>Total senior securities issued</b>	<b>376 878</b>	<b>369 895</b>	<b>369 933</b>

## NOTE 7

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

*(Amounts in NOK 1 000 000)*

Notes, bonds and other interest-bearing securities by type of issuer	30 September 2017	30 September 2016	31 December 2016
Domestic			
Issued by other borrowers	5 588	6 393	2 281
Foreign			
Issued by public bodies <sup>1</sup>	93 423	102 403	107 028
Issued by other borrowers	9 188	13 262	9 241
<b>Total notes, bonds and other interest-bearing securities</b>	<b>108 198</b>	<b>122 059</b>	<b>118 550</b>

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

Notes, bonds and other interest-bearing securities by time to maturity	30 September 2017	30 September 2016	31 December 2016
Under 1 year	63 016	58 534	52 497
1-5 years	39 500	60 871	59 965
Over 5 years	5 682	2 654	6 087
<b>Total notes, bonds and other interest-bearing securities</b>	<b>108 198</b>	<b>122 059</b>	<b>118 550</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 September 2017

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	9 177	0	0	0	0	12 452	3 294	0	<b>24 923</b>
Multilateral development banks	6 276	0	0	0	0	662	6 087	0	<b>13 025</b>
Regional authorities	34 424	0	0	3 049	0	6 604	5 080	6 318	<b>55 475</b>
Financial institutions	3 767	0	0	0	0	0	0	0	<b>3 767</b>
Securitisation	0	0	0	0	0	9	0	0	<b>9</b>
Covered bonds	5 273	0	0	1 050	0	0	795	3 881	<b>10 999</b>
<b>Total</b>	<b>58 917</b>	<b>0</b>	<b>0</b>	<b>4 099</b>	<b>0</b>	<b>19 727</b>	<b>15 256</b>	<b>10 199</b>	<b>108 198</b>

## NOTE 9

### Primary capital

(Amounts in NOK 1 000 000)

	30 September 2017	30 September 2016	31 December 2016
<i>Common equity Tier 1 capital</i>			
Share capital	3 145	3 145	3 145
Retained earnings	7 909	7 630	7 624
Profit for the period included in Tier 1 capital	721	253	689
Pension funds above pension commitments	0	0	0
Deferred tax asset*	0	0	0
Intangible assets	(127)	(139)	(138)
Dividends payable	(335)	(308)	(390)
Other additions/deductions in common equity Tier 1 capital	761	95	65
Share of nulled unamortised estimate differences	0	0	0
<b>Total common equity Tier 1 capital</b>	<b>12 074</b>	<b>10 676</b>	<b>10 996</b>
Other approved Tier 1 capital	2 189	994	994
<b>Total Tier 1 capital</b>	<b>14 263</b>	<b>11 670</b>	<b>11 989</b>
<i>Supplementary capital</i>			
Ordinary subordinated debt	2 000	2 000	2 000
<b>Total supplementary capital</b>	<b>2 000</b>	<b>2 000</b>	<b>2 000</b>
<b>Total primary capital</b>	<b>16 263</b>	<b>13 670</b>	<b>13 989</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.

KBN issued a second subordinated bond with notional NOK 1.2 bn in June 2017, forming part of additional Tier 1 capital (Other approved Tier 1 capital in the table above). The bond is classified as equity in KBN's Statement of Financial Position, presented on a separate line as Additional Tier 1 capital.

## NOTE 10

### Capital adequacy

(Amounts in NOK 1 000 000)

	30 September 2017			30 September 2016	31 December 2016
	Carrying amount	Risk-weighted assets	Minimum capital requirements	Minimum capital requirements	Minimum capital requirements
<b>Credit risk</b>					
Sovereigns and central banks	25 463	0	0	0	0
Regional governments and local authorities	332 237	55 838	4 467	4 284	4 348
<i>Of which are Norwegian municipalities</i>	275 803	55 838	4 467	4 273	4 340
Public sector entities	7 436	0	0	0	0
Multilateral development banks	13 025	0	0	0	0
Financial institutions	29 964	6 294	504	512	400
<i>Of which counterparty exposure on derivatives</i>	6 758	1 653	132	151	137
Claims secured by residential property	40	40	3	3	3
Covered bonds	10 999	1 100	88	161	91
Other assets	14	14	1	1	1
Securitisation	9	9	1	1	1
Credit Valuation Adjustment	199	2 492	199	164	140
<b>Total credit risk</b>	<b>419 386</b>	<b>65 787</b>	<b>5 263</b>	<b>5 127</b>	<b>4 984</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>2 909</b>	<b>233</b>	<b>225</b>	<b>233</b>
<b>Minimum capital requirements</b>		<b>68 696</b>	<b>5 496</b>	<b>5 352</b>	<b>5 217</b>
<b>Total capital ratio</b>			<b>23.67 %</b>	<b>20.43 %</b>	<b>21.45%</b>
<b>Tier 1 capital adequacy ratio</b>			<b>20.76 %</b>	<b>17.44 %</b>	<b>18.39%</b>
<b>Common equity Tier 1 capital adequacy ratio</b>			<b>17.58 %</b>	<b>15.96 %</b>	<b>16.86%</b>