REPORT FOR SECOND QUARTER 2018

KBN Kommunalbanken Norway

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 2018**	**January-June 2017**	**2017**
RESULTS			
Net interest income	960	1 099	2 162
Core earnings[1]	602	735	1 517
Profit before tax	1 150	599	1 783
Profit for the period	863	449	1 429
Return on equity after tax[2]	13.52%	7.87%	12.72%
Return on equity after tax (core earnings)[2]	9.71%	12.91%	13.51%
Return on assets after tax[2]	0.42%	0.21%	0.34%
Return on assets after tax (core earnings)[2]	0.29%	0.34%	0.36%
LENDING			
New disbursements	19 988	28 102	55 021
Outstanding loans[3]	285 629	275 991	281 706
LIQUIDITY PORTFOLIO[3]	79 424	115 176	107 484
BORROWINGS			
New long-term borrowings	65 917	84 638	118 509
Repurchase of own debt	98	677	837
Redemptions	67 508	70 697	112 555
Total borrowings[3]	367 199	387 821	373 816
TOTAL ASSETS	400 440	428 762	412 854
EQUITY	14 891	13 696	14 667
Total capital adequacy ratio	23.7%	22.9%	24.6%
Tier 1 capital adequacy ratio	21.0%	20.0%	21.7%
Common equity Tier 1 capital adequacy ratio	17.9%	16.9%	18.4%
Leverage ratio	4.0%	3.3%	3.7%
LIQUIDITY COVERAGE RATIO (LCR)[4]			
Total	491%	680%	570%
NOK	1 968%	698%	2 052%
EUR	192%	702%	233%
USD	437%	233%	308%
AUD	Infinite	Infinite	Infinite
JPY	307%	301%	185%

[1] *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.*

[2] *Annualised return on equity after tax: Profit after tax/Core earnings as percentage of average equity and average assets.*

[3] *Principal amounts*

[4] *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.*

On the cover is a photo of the new Holmen swimming pool. Photo: Torunn Brånå

SOLID UNDERLYING OPERATIONS, AND SATISFYING MARGINS

KBN's net interest income in the second quarter of 2018 was NOK 465 million as compared to NOK 538 million in the same period in 2017. KBN's margins have decreased in 2018 in line with our target of providing financing on favourable terms and reflect developments in the market generally. KBN's return on equity based on its core earnings was 9.71%. Profit for the second quarter was NOK 389 million, up from NOK 90 million in the same period in 2017.

RESULTS

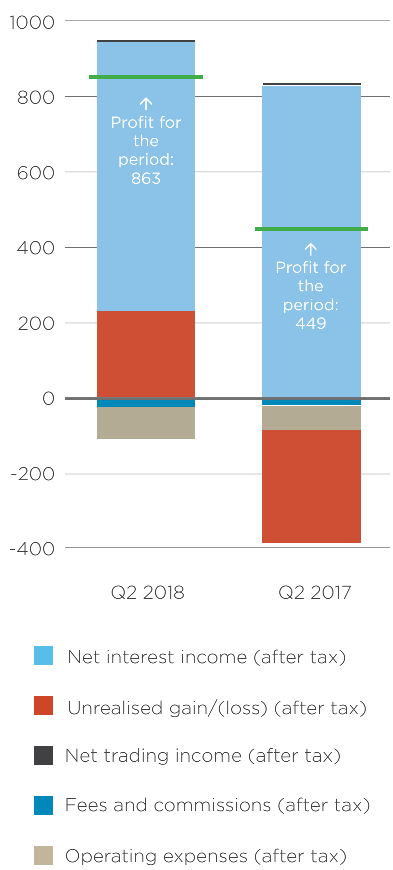
Net interest income totalled NOK 465 million in the second quarter of 2018 as compared to NOK 538 million in the same period in 2017. This decrease was expected and was the result of particularly favourable conditions that contributed to a strong performance in 2017. Net interest income in the second quarter was affected by less favourable terms for converting borrowings in foreign currencies into Norwegian krone, as well as by slower lending growth and a reduction in the liquidity portfolio. KBN's result for the second quarter was a profit of NOK 389 million as compared to a profit of NOK 90 million in the same period in 2017. The increase was due to unrealised gains on financial instruments in the second quarter totalling NOK 110 million, which contrasts with unrealised losses totalling NOK 367 million in the same period in 2017. The gains stem from changes in the value of KBN's borrowings as a result of changes in the prices of derivatives contracts used to convert US dollars into Norwegian krone.

Net interest income totalled NOK 960 million in the first six months of 2018 as compared to NOK 1,099 million in the same period in 2017. The decrease was due to lower margins in 2018 than in 2017. KBN's result for the first six months of 2018 was a profit of NOK 863 million as compared to a profit of NOK 449 million in the first six months of 2017. The increase was due to unrealised gains on KBN's borrowings in 2018 in contrast to unrealised losses on its borrowings in 2017.

In addition, KBN recognised a loss of NOK 180 million in other comprehensive income in the first six months of 2018. This was due to changes in the value of KBN's borrowings caused by changes in KBN's own credit risk which, following the introduction of IFRS 9 in 2018, are classified as part of other comprehensive income rather than being included in ordinary profit for the period. Total comprehensive income was NOK 682 million in the first six months of 2018 as compared to NOK 449 million in the first six months of 2017.

Total operating expenses for the first six months of 2018 were NOK 105 million as compared to NOK 98 million in the same period in 2017. The increase was was primarily due to higher salary costs on the basis of KBN having strengthened its organisation in connection with development activities and some support functions, and the comparison is also affected by a number of job vacancies in the first six months of 2017. Operating expenses (annualised) represent 0.05% of total assets.

PROFIT AFTER TAX
(amounts in NOK billion)



KBN achieved a return on equity after tax of 13.52% (annualised) in the first six months of 2018. After adjusting for the unrealised gains on financial instruments, the return on equity after tax was 9.71%.

LENDING

KBN's lending portfolio totalled NOK 285.6 billion at the end of the second quarter of 2018. KBN's lending portfolio grew by NOK 2.7 billion or 1% in the quarter, as compared to growth of 0.1% in the same period in 2017.

KBN's lending portfolio grew by NOK 3.9 billion or 1.4% in the first six months of 2018, as compared to growth of 3.5% in the first six months of 2017. Green loans, which are used to finance climate-friendly projects undertaken by the local government sector, continued to grow strongly. In the first six months of 2018 disbursements of green loans totalled over NOK 1 billion, with KBN's total green lending surpassing the NOK 15 billion mark. KBN is seeing an increase in demand for loans with no repayment instalments prior to maturity, and some increase in demand for loans with maturities of twelve months or less, which are offered as part of KBN's own liquidity management activities. The amount of outstanding short-term local government sector borrowing has decreased in 2018.

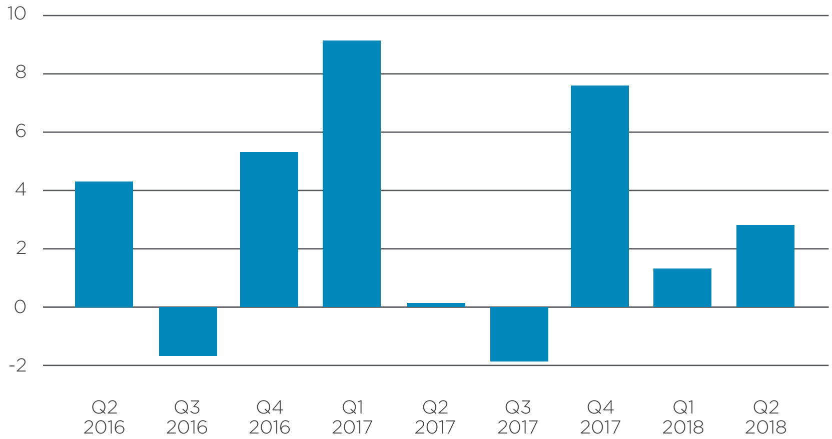
KBN registered demand for new financing in the first six months of 2018 totalling NOK 15.7 billion. This is NOK 2.3 billion less than in the same period in 2017. In addition, the level of demand from the local government sector for refinancing was lower in the first six months of 2018, with loans totalling NOK 60 billion refinanced this year as compared to loans totalling NOK 75 billion in 2017. KBN expects the sector's borrowing requirements to increase in the second half of the year.

New loan disbursements totalled NOK 10.9 billion in the second quarter of 2018, which is approximately in line with the same period in 2017. These figures include both loans disbursed as new financing and as refinancing for existing loans.

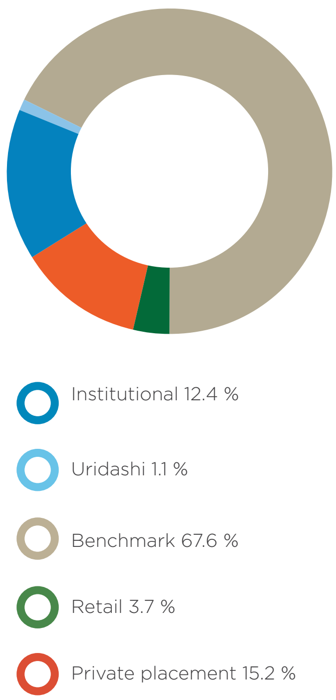
KBN's overall market share remained stable in the first six months of 2018 at approximately 45%.

The new Local Government Act passed by the Norwegian Parliament was sanctioned by the King in the Council of State on 22 June 2018. An important feature of the new act is that it emphasises the responsibility of municipalities to manage their own finances and their ability to act over the long term, including by stipulating that all municipalities have to have rules governing their finances and to use financial performance targets as part of their financial governance. In our discussions with municipalities, we see that those municipalities that are successful in their use of financial performance targets are those that have completed a high-quality process before choosing what targets to adopt.

LENDING GROWTH
(amounts in NOK billion)



FUNDING MARKET
April-June 2018



FINANCIAL MARKETS

Funding

KBN's funding activities were somewhat less extensive in the second quarter of 2018 than in the same period in 2017 due to a reduced need for financing. New borrowings totalled NOK 12 billion through 15 bond issues, as compared to approximately NOK 38 billion in the same period in 2017.

In May, KBN issued a three-year USD 1 billion benchmark bond, which was significantly oversubscribed. KBN is continuing to engage in dialogue with NOK-based investors, and issued NOK-denominated bonds totalling NOK 1.5 billion in the second quarter.

In line with KBN's funding strategy of increasing its activities in open and transparent markets, KBN's funding activities in the Japanese retail or Uridashi market were less extensive in the second quarter of 2018, with KBN issuing one bond in this market totalling NOK 128 billion. In total, KBN issued bonds totalling approximately NOK 7 billion in the Japanese Uridashi market in the first six months of 2018 as compared to bonds totalling NOK 21 billion in same period in 2017. In the first six months of 2018, KBN issued bonds totalling NOK 65.9 billion as compared to NOK 84.6 billion in the same period in 2017.

Liquidity management

KBN's liquidity portfolio totalled NOK 79.4 billon at 30 June 2018, compared to NOK 115.2 billion at the same point in 2017. KBN had lower liquidity requirements as a result of lower lending growth and longer maturities on its borrowings. A number of larger holdings in the portfolio that matured in the first six months were therefore not reinvested. The strengthening of the Norwegian krone relative to other important currencies over the past year also contributed to the reduction in the liquidity portfolio.

KBN seeks to ensure its liquidity portfolio matches its capital requirements, including lending growth, for the subsequent twelve months at all times, and it is managed on the basis of a low-risk investment strategy. 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. Furthermore, the majority of the portfolio is invested in assets with short maturities in order to meet the need to repay borrowings that mature and to ensure that KBN has sufficient liquidity for lending growth, as well as to provide for fluctuations in the requirements for collateral pledged with financial counterparties in the capital markets.

The second half of 2018 was characterised by a higher level of market volatility, which was to a significant extent related to turbulence in the Italian financial markets and concerns about a trade war between the USA and a range of other countries. The Norwegian krone was volatile through the period, but overall weakened by almost 4% against the US dollar. Money market interest rates, which by the end of the first quarter had increased markedly for both Norway and the USA, fell back somewhat.

On 22 May 2018, S&P announced that it had introduced a new methodology for rating lending institutions set up to finance the public sector. KBN has been assessed under this new framework, and on 28 June 2018 S&P reaffirmed KBN's AAA/A-1+ rating with stable outlook. KBN is one of very few organisations with an AAA rating in the world today. Its high rating ensures it has good access to important funding markets and low borrowing costs, and this helps enable KBN to offer the local government sector financing on favourable terms.

CAPITAL

At the end of the second quarter, KBN's total primary capital was NOK 17.0 billion, its total Tier 1 capital was NOK 15.0 billion, and its total common equity Tier 1 capital was NOK 12.9 billion. KBN's capital structure was unchanged in the quarter. At the end of the second quarter, KBN's total assets were NOK 12.4 billion lower than at 31 December 2017, principally due to the stronger Norwegian krone, which reduces the NOK value of KBN's balance sheet items that are denominated in foreign currencies.

At the end of the second quarter, KBN had a common equity Tier 1 capital adequacy ratio of 17.9%, a Tier 1 capital adequacy ratio of 21.0%, and a total capital adequacy ratio of 23.7%. At 30 June 2018, the capital requirements imposed by the authorities required KBN to have a common equity Tier 1 capital adequacy ratio of 15.4%, a Tier 1 capital adequacy ratio of 16.9%, and a total capital adequacy ratio of 18.9%. KBN is also subject to a requirement to have a leverage ratio in excess of 3.0%. KBN's leverage ratio at 30 June 2018 was 4.0%.

KBN manages its operations to ensure it complies with the regulatory requirements in force at any time. With effect from 31 December 2017, the requirements to which KBN is subject increased by 0.4% for the common equity Tier 1 capital adequacy ratio through a 0.5% increase in the countercyclical capital buffer, while KBN's Pillar 2 capital requirement reduced by 0.1%.

MARKET OUTLOOK

Over the last few years, a range of new financial, organisational and systemic regulatory requirements have been introduced for financial institutions. Complying with regulatory requirements will continue to place significant demands on KBN as an organisation.

The Norwegian Parliament approved new statutory rules regarding the recovery and resolution of financial institutions in March of this year. Supplementary regulations to this new piece of legislation are expected towards the end of the year. A new regulation transposing the remaining parts of the EU's current Capital Requirements Directive into Norwegian law is also expected. Furthermore, the EU is already preparing another new Capital Requirements Directive and a new directive on the recovery and resolution of financial institutions, which will mean that KBN will have to implement more changes.

The Norwegian Parliament has also tasked the Norwegian Government with designing a new model for the financial sector tax. KBN will follow up and review the consequenses for our customers in the local government sector.

KBN expects the investment needs of the local government sector to be driven in future by demographic changes, urbanisation, and greater investment in climate-related projects. Developments in the regulatory framework will affect KBN's ability to fulfil its role in society and to deliver stable, cost-effective financing to the local government sector. In designing the regulations, the EU has to some extent taken low-risk financial institutions such as KBN into account. Several countries have issued suitably adapted regulations for financial institutions that lend to the public sector. These adaptations has been seen as as important so that these institutions are in a position to meet the role they play in society. When the Recovery and Resolution Directive was implemented in Norway, it was indicated that there would be some national flexibility applied in Norway as well and that account would be taken of the low risk of KBN's activities in that KBN would be treated as a promotional bank pursuant to the Directive.

We hereby confirm that the half-yearly report for the period 1 January 2018 to 30 June 2018 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, 31 July 2018
The Board of Directors of Kommunalbanken AS

INTERIM CONDENSED FINANCIAL INFORMATION

INCOME STATEMENT

(Amounts in NOK 1 000 000)	Note	April-June 2018	January-June 2018	April-June 2017	January-June 2017	2017
Interest income from assets measured at amortised cost		*935*	*1 743*	*455*	*915*	*1 754*
Interest income from assets measured at fair value		*771*	*1 419*	*1 029*	*2 105*	*4 089*
Total interest income		1 706	3 162	1 484	3 020	5 843
Interest expense		1 241	2 202	946	1 921	3 681
Net interest income	**1**	**465**	**960**	**538**	**1 099**	**2 162**
Fees and commission expenses		9	23	7	16	32
Net unrealised gain/(loss) on financial instruments	**2**	110	315	(367)	(396)	(163)
Expected credit loss	**6**	0	0	-	-	-
Net trading income		2	4	2	10	9
Total other operating income		**104**	**296**	**(372)**	**(402)**	**(186)**
Salaries and administrative expenses		34	74	31	68	132
Depreciation on fixed assets		5	11	5	11	21
Other expenses		12	21	9	18	40
Total operating expenses		**51**	**105**	**46**	**98**	**193**
Profit before tax		**518**	**1 150**	**120**	**599**	**1 783**
Income tax		130	288	30	150	354
Profit for the period		**389**	**863**	**90**	**449**	**1 429**
Portion allocated to shareholder		376	839	85	439	1 395
Portion allocated to owners of additional Tier 1 capital		12	24	5	10	34

STATEMENT OF COMPREHENSIVE INCOME

(Amounts in NOK 1 000 000)	Note	April-June 2018	January-June 2018	April-June 2017	January-June 2017	2017
Profit for the period		389	863	90	449	1 429
Other comprehensive income						
Items which will not be reclassified to profit or loss						
Change in fair value of liabilities due to changes in own credit risk		(6)	(240)	-	-	-
Actuarial gain/(loss) on defined benefit plan		0	0	0	0	(1)
Tax effect		*1*	*60*	0	0	*0*
Total other comprehensive income		**(4)**	**(180)**	**0**	**0**	**(1)**
Total comprehensive income for the period		**384**	**682**	**90**	**449**	**1 428**

STATEMENT OF FINANCIAL POSITION

(Amounts in NOK 1 000 000)	Note	30 June 2018	30 June 2017	31 December 2017
Assets				
Deposits with credit institutions	**3,4**	22 737	22 370	10 400
Instalment loans	**3,4,5,6**	286 772	277 590	283 396
Notes, bonds and other interest-bearing securities	**3,4,6,7,8**	80 183	117 133	107 445
Financial derivatives	**3,4**	10 618	10 895	11 476
Deferred tax asset		0	0	0
Other assets		129	775	137
Total assets		**400 440**	**428 762**	**412 854**
Liabilities and equity				
Loans from credit institutions	**3,4**	4 966	2 753	4 714
Senior securities issued	**3,4,9**	353 405	382 925	369 482
Financial derivatives	**3,4**	24 092	27 332	21 082
Other liabilities		101	26	86
Current tax liabilities		489	0	214
Deferred tax liabilities		498	12	551
Pension liabilities		50	52	50
Subordinated debt	**3,4**	1 948	1 966	2 008
Total liabilities		**385 549**	**415 066**	**398 187**
Share capital		3 145	3 145	3 145
Additional Tier 1 capital		2 189	2 189	2 189
Retained earnings		8 695	7 914	9 333
Profit for the period		863	449	
Total equity	**10**	**14 891**	**13 696**	**14 667**
Total liabilities and equity		**400 440**	**428 762**	**412 854**

STATEMENT OF CHANGES IN EQUITY

(Amounts in NOK 1 000 000)

1 January - 30 June 2018	Share capital	Additional Tier 1 capital	Value changes on liabilities due to changes in own credit risk	Retained earnings	Total equity
Equity as of 31 December 2017	3 145	2 189	0	9 333	14 667
Effects 1 January 2018 due to transition to IFRS 9*	0	0	(360)	383	23
Equity as of 1 January 2018	3 145	2 189	(360)	9 716	14 691
Profit for the period	0	0	0	863	863
Other comprehensive income—value change on liabilities due to changes in own credit risk	0	0	(180)	0	(180)
Other comprehensive income—actuarial gain/loss	0	0	0	0	0
Interest paid on Tier 1 capital	0	0	0	(39)	(39)
Dividends for 2017	0	0	0	(443)	(443)
Equity as of 30 June 2018	**3 145**	**2 189**	**(540)**	**10 097**	**14 891**

1 January - 30 June 2017	Share capital	Additional Tier 1 capital	Value changes on liabilities due to changes in own credit risk	Retained earnings	Total equity
Equity as of 1 January 2017	3 145	994	0	8 314	12 452
Profit for the period	0	0	0	449	449
Total other comprehensive income	0	0	0	0	0
Interest paid on Tier 1 capital	0	0	0	(10)	(10)
Issued additional Tier 1 capital	0	1 195	0	0	1 195
Dividends for 2016	0	0	0	(390)	(390)
Equity as of 30 June 2017	**3 145**	**2 189**	**0**	**8 363**	**13 696**

1 January - 31 December 2017	Share capital	Additional Tier 1 capital	Value changes on liabilities due to changes in own credit risk	Retained earnings	Total equity
Equity as of 1 January 2017	3 145	994	0	8 314	12 452
Profit for the period	0	0	0	1 429	1 429
Total other comprehensive income	0	0	0	(1)	(1)
Interest paid on Tier 1 capital	0	0	0	(18)	(18)
Issued additional Tier 1 capital	0	1 195	0	0	1 195
Dividends for 2016	0	0	0	(390)	(390)
Equity as of 31 December 2017	**3 145**	**2 189**	**0**	**9 333**	**14 667**

*See further information and specification of the transition effects in equity on 1 January 2018 relating to the implementation of IFRS 9 in the Accounting Policies of the quarterly report for the first quarter of 2018.

STATEMENT OF CASH FLOWS

(Amounts in NOK 1 000 000)	**January-June 2018**	**January-June 2017**	**2017**
Cash flows from operating activities			
Interest received	3 097	2 997	5 830
Interest paid	(1 529)	(1 620)	(3 310)
Fees and commissions paid	(23)	(16)	(32)
Receipts from repurchase of issued securities	4	10	9
Cash payments to employees and suppliers	(105)	(87)	(172)
Income taxes paid	0	(726)	404
Net disbursement of loans to customers	(3 926)	(9 432)	(15 148)
Net (increase)/decrease in deposits with credit institutions	(11 719)	(10 679)	3 527
Net (increase)/decrease in notes, bonds and other interest-bearing securities	24 232	4 962	14 406
Net (increase)/decrease in other assets	6	(624)	13
Net increase/(decrease) in other liabilities	15	559	36
Net (increase)/decrease in financial derivatives	(8 075)	0	(12 094)
Net cash flows from operating activities	**1 977**	**(14 656)**	**(6 531)**
Cash flows from investing activities			
Net (purchase)/sales of property and equipment	1	(9)	(18)
Net cash flows from investing activities	**1**	**(9)**	**(18)**
Cash flows from financing activities			
Proceeds from issuance of debt securities	65 917	84 638	118 509
Repayment of debt securities	(67 009)	(71 902)	(112 676)
Proceeds from issuance of additional Tier 1 capital	0	1 195	1 195
Interest paid on Tier 1 capital	(52)	(13)	(25)
Proceeds from issuance of subordinated debt	0	0	0
Repayment of subordinated debt	0	0	0
Dividends paid	(443)	(390)	(390)
Net cash flows from financing activities	**(1 587)**	**13 529**	**6 614**
Net cash flows	**392**	**(1 136)**	**65**
Effects of foreign exchange differences	(24)	1 004	(54)
Net cash flows after foreign exchange differences	**368**	**(132)**	**11**
Cash and cash equivalents at 1 January	87	76	76
Net change in cash and cash equivalents	368	(132)	11
Cash and cash equivalents at end of period	**455**	**(56)**	**87**
Whereof			
Deposits with credit institutions without agreed time to maturity	*455*	*0*	*87*
Loans from credit institutions without agreed time to maturity	*0*	*(56)*	*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 2018 are prepared in accordance with IAS 34 *Interim Financial Reporting*, and follow the same accounting policies as presented in the annual financial statements for 2017 except for new accounting policies for financial instruments under IFRS 9 as presented in the financial statements for the first quarter of 2018.

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)

		At fair value				
April-June 2018 (IFRS 9)	**Total**	**Fair value option**	**Mandatory at fair value**	**Fair value hedge**	**Total at fair value**	**Amortised cost**
Deposits with credit institutions	**4**	0	0	0	0	4
Instalment loans	**1 259**	400	0	0	400	859
Notes, bonds and other interest-bearing securities	**208**	136	0	0	136	71
Financial derivatives	**235**	0	235	0	235	0
Total interest income	**1 706**	**536**	**235**	**0**	**771**	**935**
Loans from credit institutions	**2**	1	0	0	1	0
Senior securities issued	**2 799**	1 430	0	0	1 430	1 368
Financial derivatives	**(1 575)**	0	(1 598)	24	(1 575)	0
Subordinated debt	**16**	16	0	0	16	0
Total interest expenses	**1 241**	**1 447**	**(1 598)**	**24**	**(128)**	**1 369**
Net interest income	**465**	**(911)**	**1 833**	**(24)**	**898**	**(433)**

		At fair value				
January-June 2018 (IFRS 9)	**Total**	**Fair value option**	**Mandatory at fair value**	**Fair value hedge**	**Total at fair value**	**Amortised cost**
Deposits with credit institutions	**13**	0	0	0	0	13
Instalment loans	**2 399**	793	0	0	793	1 606
Notes, bonds and other interest-bearing securities	**322**	199	0	0	199	123
Financial derivatives	**427**	0	427	0	427	0
Total interest income	**3 162**	992	427	0	**1 419**	1 743
Loans from credit institutions	**3**	1	0	0	1	1
Senior securities issued	**5 390**	3 127	0	0	3 127	2 263
Financial derivatives	**(3 220)**	0	(3 189)	(31)	(3 220)	0
Subordinated debt	**31**	31	0	0	31	0
Total interest expenses	**2 202**	**3 158**	**(3 189)**	**(31)**	**(62)**	**2 264**
Net interest income	**960**	**(2 167)**	**3 617**	**31**	**1 481**	**(522)**

April-June 2017 (IAS 39)	**Total**	**At fair value**	**Amortised cost**
Total interest income	**1 484**	1 029	455
Total interest expense	**946**	319	627
Net interest income	**538**	**710**	**(172)**

January-June 2017 (IAS 39)	Total	At fair value	Amortised cost
Total interest income	**3 020**	2 105	915
Total interest expense	**1 921**	673	1 248
Net interest income	**1 099**	**1 432**	**(333)**

2017 (IAS 39)	Total	At fair value	Amortised cost
Total interest income	**5 843**	4 089	1 754
Total interest expense	**3 681**	1 188	2 492
Net interest income	**2 162**	**2 901**	**(738)**

NOTE 2

Net unrealised gain/(loss) on financial instruments

(Amounts in NOK 1 000 000)	April-June 2018	January-June 2018	April-June 2017	January-June 2017	2017
Instalment loans	187	(555)	332	610	760
Notes, bonds and other interest-bearing securities	(78)	(219)	58	171	71
Financial derivatives	(4 865)	(8 895)	317	1 848	2 271
Loans from credit institutions	0	0	0	0	0
Senior securities issued	4 882	9 953	(1 055)	(3 003)	(3 231)
Subordinated debt	(16)	30	(19)	(22)	(34)
Net unrealised gain/(loss) on financial instruments	**110**	**315**	**(367)**	**(396)**	**(163)**

As from Q1 2018, changes in fair value of liabilities due to changes in own credit risk are not included in the line Net unrealised gain/(loss) on financial instruments in the Income statement. From 2018, such fair value changes are recognised in Other comprehensive income in the Statement of comprehensive income on the line Change in fair value of liabilities due to changes in own credit risk. The change is due to the transition to IFRS 9 Financial Instruments. See Note 9 Senior securities issued for information on calculating such value changes. The change in fair value arising from Senior securities issued presented in the above table is due to changes in parameters other than credit, such as interest rates or exchange rates.

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, and fixed rate instalment loans may on the other hand lead to significant Income statement effects, as may changes in basis swap spreads.

Net unrealised gains in the second quarter of 2018 amounting to NOK 110 million come from Senior securities issued and related derivatives contracts due to a tightening of USD-NOK basis swap spreads.

NOTE 3

Classification of financial instruments

(Amounts in NOK 1 000 000)

At 30 June 2018 (IFRS 9)		**At fair value**			
	Total	**Fair value option**	**Mandatory at fair value**	**Fair value hedge**	**Amortised cost**
Deposits with credit institutions	**22 737**	0	0	0	22 737
Instalment loans	**286 772**	82 129	0	0	204 643
Notes, bonds and other interest-bearing securities	**80 183**	59 214	0	0	20 969
Financial derivatives	**10 618**	0	10 618	0	0
Total financial assets	**400 310**	**141 343**	**10 618**	**0**	**248 349**
Loans from credit institutions	**4 966**	0	0	0	4 966
Senior securities issued	**353 405**	149 950	0	0	203 455
Financial derivatives	**24 092**	0	21 797	2 295	0
Subordinated debt	**1 948**	1 948	0	0	0
Total financial liabilities	**384 411**	**151 898**	**21 797**	**2 295**	**208 421**

At 30 June 2017 (IAS 39)		**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	**22 370**	8 310	0	0	0	14 060	0
Instalment loans	**277 590**	168 973	0	0	0	108 617	0
Notes, bonds and other interest-bearing securities	**117 133**	116 804	0	0	11	318	0
Financial derivatives	**10 895**	0	9 940	955	0	0	0
Total financial assets	**427 988**	**294 087**	**9 940**	**955**	**11**	**122 995**	**0**
Loans from credit institutions	**2 753**	0	0	0	0	0	2 753
Senior securities issued	**382 925**	221 359	0	0	0	0	161 566
Financial derivatives	**27 332**	0	26 272	1 060	0	0	0
Subordinated debt	**1 966**	1 966	0	0	0	0	0
Total financial liabilities	**414 977**	**223 326**	**26 272**	**1 060**	**0**	**0**	**164 318**

At 31 December 2017 (IAS 39)		**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	**10 400**	1 228	0	0	0	9 172	0
Instalment loans	**283 396**	168 777	0	0	0	114 619	0
Notes, bonds and other interest-bearing securities	**107 445**	107 435	0	0	10	0	0
Financial derivatives	**11 476**	0	10 805	671	0	0	0
Total financial assets	**412 717**	**277 440**	**10 805**	**671**	**10**	**123 791**	**0**
Loans from credit institutions	**4 714**	0	0	0	0	0	4 714
Senior securities issued	**369 482**	**211 390**	**0**	**0**	**0**	**0**	**158 092**
Financial derivatives	**21 082**	**0**	**19 720**	**1 362**	**0**	**0**	**0**
Subordinated debt	**2 008**	**2 008**	**0**	**0**	**0**	**0**	**0**
Total financial liabilities	**397 286**	**213 398**	**19 720**	**1 362**	**0**	**0**	**162 806**

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 2017 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 June 2018 are distributed in the following way in the fair value hierarchy:

(Amounts in NOK 1 000 000)	Level 1	Level 2	Level 3	Total
Deposits with credit institutions	0	0	0	**0**
Instalment loans	0	14 922	67 208	**82 129**
Notes, bonds and other interest-bearing securities	59 024	115	75	**59 214**
Financial derivatives	0	9 485	1 133	**10 618**
Total financial assets measured at fair value	**59 024**	**24 522**	**68 416**	**151 961**
Loans from credit institutions	0	0	0	**0**
Senior securities issued	7 847	67 959	74 144	**149 950**
Financial derivatives	0	6 241	17 851	**24 092**
Subordinated debt	0	0	1 948	**1 948**
Total financial liabilities measured at fair value	**7 847**	**74 200**	**93 943**	**175 990**

Reconciliation of movements in Level 3

	Instalment loans	Notes, bonds and other interest-bearing securities	Senior securities issued	Subordinated debt	Financial derivatives
Carrying amount at 31 December 2017	**69 313**	**574**	**80 159**	**2 008**	**(10 183)**
Purchase	0	0	0	0	(765)
Sale	0	0	(33)	0	0
Issue	11 394	0	12 747	0	0
Settlement	(8 151)	(153)	(10 858)	0	3 383
Transfer into Level 3	831	79	0	0	0
Transfer out of Level 3	(1 484)	(248)	0	0	0
Gain/(loss) recognised in the period	(4 695)	(177)	(7 870)	(60)	(9 153)
Carrying amount at 30 June 2018	**67 208**	**75**	**74 144**	**1 948**	**(16 718)**

Out of assets still in the portfolio on 30 June 2018 NOK 7.4 billion were transferred from Level 2 to Level 1 during the first half year of 2018. There were net transfers out of Level 3 of NOK 822 million during the first half year. 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", or in Other comprehensive 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 June 2018:

	30 June 2018
Instalment loans	(258)
Notes, bonds and other interest-bearing securities	0
Financial derivatives	73
Senior securities issued	386
Subordinated debt	19
Total	**221**

NOTE 5

Instalment loans

(Amounts in NOK 1 000 000)	30 June 2018 (IFRS 9)	30 June 2017 (IAS 39)	31 December 2017 (IAS 39)
Principal amount	285 632	275 991	281 706
Accrued interest	1 057	1 083	1 023
Fair value adjustment	94	517	667
Expected credit loss	(10)	-	-
Total instalment loans	**286 772**	**277 590**	**283 396**
Transition effect Expected credit loss on 1 January 2018			(10)
Transition effect reclassification on 1 January 2018			(18)
Carrying amount on 1 January 2018 (IFRS 9)			**283 367**

NOTE 6

Expected credit loss

The below table shows expected credit loss as part of the carrying amount of Instalment loans and Notes, bonds and other interest-bearing securities at the end of the period, as well as a specification of the period's change in expected credit loss that is recognised in the Income statement.

	30 June 2018		1 January 2018	April-June 2018	January-June 2018
(Amounts in NOK 1 000 000)	Carrying amount	Expected credit loss	Expected credit loss	Expected credit loss	Expected credit loss
Instalment loans	204 643	(11)	(10)	0.1	(0.2)
Notes, bonds and other interest-bearing securities	20 969	0	(1)	0.3	0.4
Total	**225 612**	**(11)**	**(11)**	**0.4**	0.2

The following table shows an allocation of KBN's expected credit losses as at 30 June 2018 to stage 1, 2 and 3. Stage 1 implies no significant increase in credit risk since recognition of the asset. Stage 2 implies such a significant increase, while stage 3 implies that the asset is credit-impaired. See the Accounting Policies for a description of the allocation to stages and the model for calculation of expected credit loss.

	Stage 1	Stage 2	Stage 3
Instalment loans	(11)	0	0
Notes, bonds and other interest-bearing securities	0	0	0
Total expected credit loss	**(11)**	**0**	**0**

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 June 2018 (IFRS 9)	30 June 2017 (IAS 39)	31 December 2017 (IAS 39)
Domestic			
Issued by public bodies[1]	0	0	0
Issued by other borrowers	8 206	3 836	5 938
Foreign			
Issued by public bodies[1]	68 690	102 396	96 696
Issued by other borrowers	3 288	10 902	4 809
Total notes, bonds and other interest-bearing securities	**80 183**	**117 133**	**107 445**
Transition effect Expected credit loss on 1 January 2018			(1)
Transition effect reclassification on 1 January 2018			(23)
Carrying amount on 1 January 2018 (IFRS 9)			**107 421**

[1]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 June 2018 (IFRS 9)	30 June 2017 (IAS 39)	31 December 2017 (IAS 39)
Under 1 year	51 889	67 467	68 980
1-5 years	23 076	43 655	33 073
Over 5 years	5 219	6 012	5 391
Total notes, bonds and other interest-bearing securities	**80 183**	**117 133**	**107 445**

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 2018**

Time to maturity	**< 1 year**				**> 1 year**					
Risk class	**A-1**	**A-2**	**A-3**	**Not rated**	**BBB**	**A**	**AA**	**AAA**	**Not rated**	**Total**
Sovereigns and central banks	14 982	0	0	1 387	0	17	4 674	6 648	0	**27 708**
Multilateral development banks	7 017	0	0	591	0	56	410	1 072	0	**9 146**
Regional authorities	23 108	0	0	471	0	157	2 338	3 447	35	**29 556**
Financial institutions	1 621	0	0	0	0	0	0	0	0	**1 621**
Securitisation	0	0	0	0	0	0	0	8	0	**8**
Covered bonds	1 789	0	0	922	0	197	2 663	6 574	0	**12 144**
Total	**48 517**	**0**	**0**	**3 371**	**0**	**428**	**10 084**	**17 748**	**35**	**80 183**

NOTE 9

Senior securities issued

(Amounts in NOK 1 000 000)	30 June 2018 (IFRS 9)	30 June 2017 (IAS 39)	31 December 2017 (IAS 39)
Senior securities issued (nominal amounts) as at 1 January	**373 816**	**376 785**	**376 785**
New issuance	65 917	84 638	118 509
Redemptions	(67 606)	(71 374)	(113 392)
Amortisation	597	(527)	716
Translation differences	(5 525)	(1 700)	(8 802)
Senior securities issued (nominal amounts) as at end of period	**367 199**	**387 821**	**373 816**
Accrued interest	3 672	3 000	3 336
Fair value adjustment	(17 466)	(7 897)	(7 670)
Of which value change that is due to change in own credit risk	*(721)*	-	-
Of which value change that is due to other reasons	*(16 745)*	-	-
Total senior securities issued	**353 405**	**382 925**	**369 482**
Transition effect on 1 January 2018 due to reclassification*			(84)
Carrying amount on 1 January 2018 (IFRS 9)			**369 399**

**See further information on the transition effect in the Accounting Policies in the financial*

The value change on liabilities that is due to changes in own credit risk is calculated as the change in the credit spread that KBN pays converted to 3M USD Libor, Euribor or Nibor interest rates, i.e. after adjustment for any conversion from other currencies to USD. Value changes on liabilities that are due to changes in own credit risk are recognised in Total comprehensive income, while value changes on liabilities that are due to changes in other market parameters are recognised in the Income statement on the line Net unrealised gain/(loss) on financial instruments.

NOTE 10

Primary capital

(Amounts in NOK 1 000 000)	30 June 2018	30 June 2017	31 December 2017
Common equity Tier 1 capital			
Share capital	3 145	3 145	3 145
Retained earnings	8 695	7 914	7 904
Profit for the period included in Tier 1 capital	863	449	1 429
Pension funds above pension commitments	0	0	0
Deferred tax asset*	0	0	0
Intangible assets	(121)	(130)	(125)
Dividends payable	(241)	(224)	(443)
Other additions/deductions in common equity Tier 1 capital	517	588	525
Share of nulled unamortised estimate differences	0	0	0
Total common equity Tier 1 capital	**12 857**	**11 741**	**12 436**
Other approved Tier 1 capital	2 189	2 189	2 189
Total Tier 1 capital	**15 046**	**13 930**	**14 625**
Supplementary capital			
Ordinary subordinated debt	2 000	2 000	2 000
Total supplementary capital	**2 000**	**2 000**	**2 000**
Total primary capital	**17 046**	**15 930**	**16 625**

*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)	30 June 2018			30 June 2017	31 December 2017
	Carrying amount	Risk-weighted assets	Minimum capital requirements	Minimum capital requirements	Minimum capital requirements
Credit risk					
Sovereigns and central banks	27 708	0	0	0	0
Regional governments and local authorities	309 309	57 972	4 638	4 497	4 587
Of which are Norwegian municipalities	*286 650*	*57 972*	*4 638*	*4 497*	*4 587*
Public sector entities	6 896	0	0	0	0
Multilateral development banks	9 146	0	0	0	0
Financial institutions	33 254	6 354	508	536	294
Of which counterparty exposure on derivatives	*9 136*	*1 530*	*122*	*147*	*120*
Claims secured by residential property	34	34	3	3	3
Covered bonds	12 144	1 214	97	79	79
Other assets	7	7	1	1	1
Securitisation	8	8	1	1	1
Credit Valuation Adjustment	205	2 565	205	225	184
Total credit risk	**398 713**	**68 155**	**5 452**	**5 342**	**5 150**
Market risk		**0**	**0**	**0**	**0**
Operational risk—Basic Indicator Approach		**3 629**	**290**	**233**	**254**
Minimum capital requirements		**71 784**	**5 743**	**5 575**	**5 404**
Total capital ratio			**23.7%**	**22.9%**	**24.6%**
Tier 1 capital adequacy ratio			**21.0%**	**20.0%**	**21.7%**
Common equity Tier 1 capital adequacy ratio			**17.9%**	**16.9%**	**18.4%**
Leverage ratio			**4.0%**	**3.3%**	**3.7%**

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