

Kommunalbanken AS

Interim Financial Statements 2014
January - June (unaudited)



The Knut Hamsun Centre, Hamarøy municipality

The Knut Hamsun Centre is a national center for documentation and dissemination of Hamsun's works and life. The center cost a total of 140 million and is partly funded by KBN.

Photo: Ernst Furuhatt/The Knut Hamsun Centre

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 2014	January-June 2013	2013
RESULTS			
Net interest income	731	832	1 634
Core earnings ¹	486	588	1 131
Profit before tax	319	869	1 496
Profit for the period	233	625	1 083
Return on equity after tax ²	5.72 %	17.01 %	14.94 %
Return on equity after tax (core earnings) ²	11.93 %	15.98 %	15.61 %
Return on assets after tax ²	0.12 %	0.35 %	0.30 %
Return on assets after tax (core earnings) ²	0.25 %	0.33 %	0.31 %
LENDING			
New disbursements	21 956	23 337	43 717
Outstanding loans ³	247 502	235 058	240 863
LIQUIDITY PORTFOLIO³	120 617	102 822	102 358
BORROWINGS			
New long-term borrowings	79 433	113 454	162 539
Repurchase of own debt	84	3 085	4 910
Redemptions	53 626	98 578	148 390
Total borrowings ³	359 743	332 192	326 470
TOTAL ASSETS	398 042	370 516	361 918
EQUITY	8 092	7 768	8 216
Core capital adequacy ratio	12.19 %	12.16 %	12.39 %
Total capital adequacy ratio	14.58 %	14.68 %	14.91 %

¹ Profit after tax adjusted for unrealised gains/losses on financial instruments

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

³ Principal amounts

SOLID OPERATIONS

Net interest income in the second quarter 2014 was NOK 352 million, down from NOK 398 million in the second quarter 2013. Lending activities contribute favourably to the overall result by maintaining stable good levels. The decrease compared to 2013 is mainly due to lower interest rate margins from securities held in the liquidity portfolio and an increase in funding costs in line with expected market development.

Profit after tax for the second quarter of 2014 was NOK 3 million compared to NOK 346 million for the same period of last year. Results are influenced by unrealised loss on financial instruments owing to price fluctuations in the market. The core earnings¹ for the second quarter of 2014 was NOK 234 million, down from NOK 276 million in the same period last year. The core earnings underlines solid operations in line with KBN's expectations.

Second quarter 2014 has been influenced by lower demand from the local government sector. KBN continues to offer competitive loan conditions and maintains its market share albeit lower growth rate than previously.

Lending

Loans to Norwegian municipalities and counties increased by NOK 2.5 billion during the second quarter 2014 compared to NOK 8.2 billion during the same period of 2013. KBN disbursed new loans amounting to NOK 11.0 billion in the second quarter of 2014, compared to NOK 12.3 billion during the same period of last year. A major share of new loans has been transferred to water supply and waste disposal, infrastructure, schools and nurseries.

In the first six months of 2014, KBN's lending portfolio has increased by NOK 6.6 billion (2.8 per cent) to NOK 247.5 bil-

lion as of 30 June 2014. By comparison lending growth for the same period of last year was NOK 15.8 billion (7.2 per cent). A total of NOK 22.0 billion was disbursed during the first six months of 2014, down from NOK 23.3 billion during the same period of last year. Particularly the infrastructure sector has seen a decrease in demand for financing compared to last year.

Funding

KBN finances its lending to the local government sector through funding in capital markets. KBN has seen favourable market developments for its bond issues in the second quarter of 2014, and raised NOK 29.4 billion in 10 different currencies.

In April KBN issued an inaugural EUR 1.0 billion five-year benchmark marking the opening of a new and important funding market for KBN.

In May KBN issued a new US\$ 1.0 billion five-year bond with the lowest spread to Libor since the bankruptcy of Lehman Brothers in September 2008.

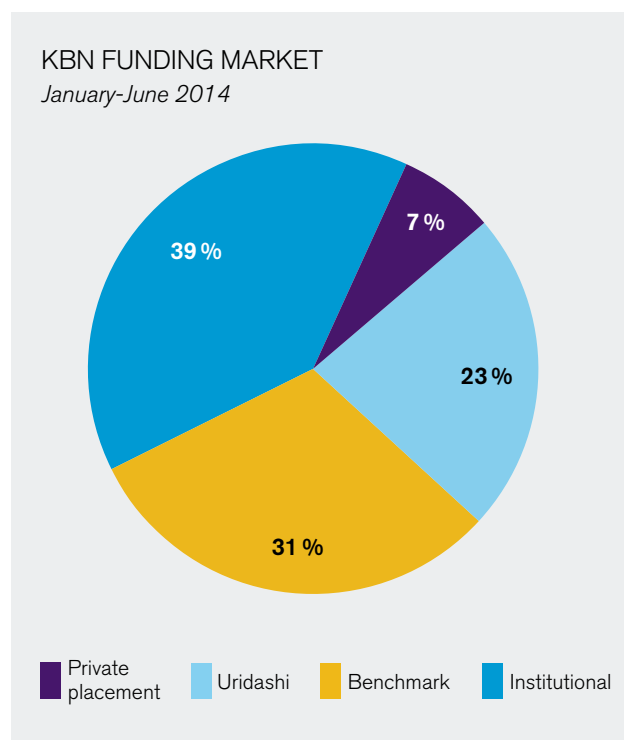
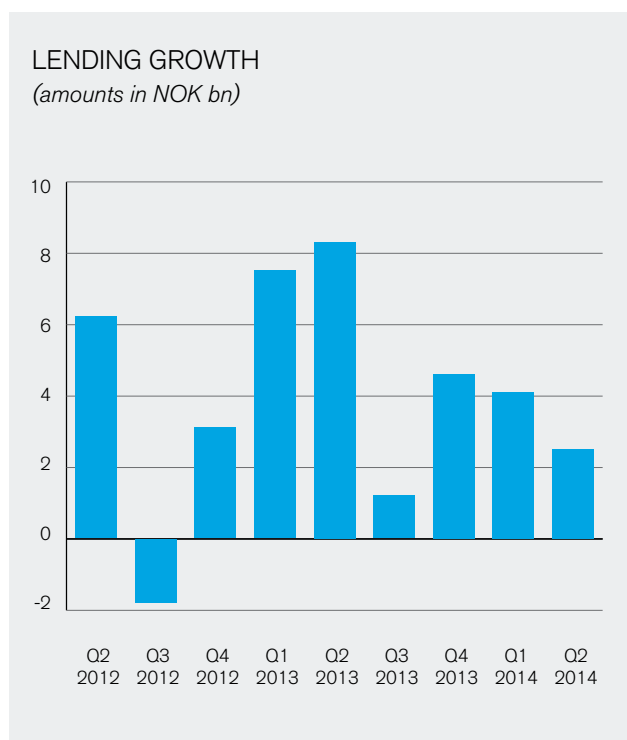
In the first half of 2014 KBN has raised NOK 79.4 billion in 14 different currencies, compared to NOK 113.5 billion in the same period of last year.

KBN maintains the highest credit rating, AAA/Aaa with a stable outlook, from Standard & Poor's and Moody's.

Liquidity management

KBN targets a liquidity reserve equivalent to net debt service of minimum of 12 months, which implies a liquidity buffer that covers all KBN's obligations for the next 12 months. By the end of June 2014 KBN maintained a liquidity portfolio of NOK 120.6 billion, compared to NOK 102.8 billion by the end of June

¹ Profit after tax adjusted for unrealised gains/losses on financial instruments.



last year. The liquidity portfolio is managed in line with KBN's low risk financial policies and is invested in securities issued by highly creditworthy states, regional authorities, supranationals and financial institutions.

Results

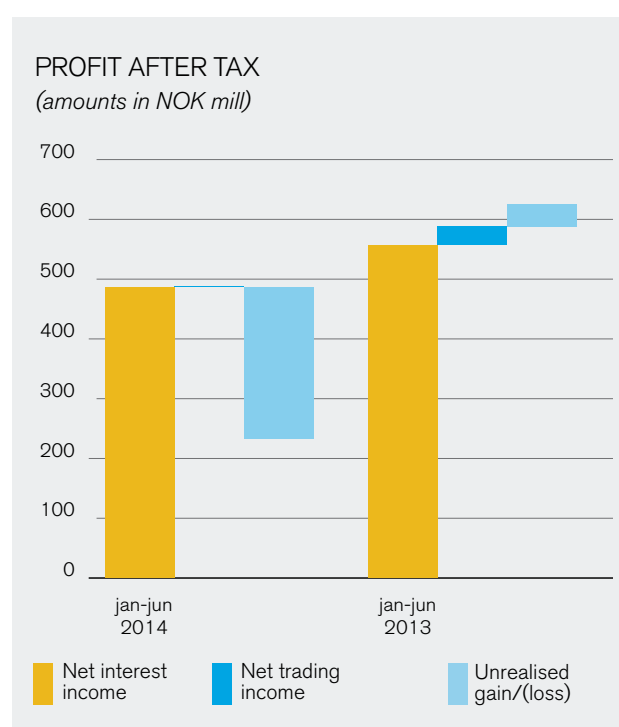
Net interest income in the second quarter 2014 was NOK 352 million, down from NOK 398 million in the second quarter 2013. Lending activities contribute to the overall result by maintaining stable good levels. The decrease is due to lower margins on the liquidity portfolio and somewhat higher average funding cost in the period even though these have been reduced toward the end of the quarter.

Accumulated net interest income for the first six months of 2014 amounted to NOK 731 million, compared to NOK 832 million for the same period of last year.

Net trading income from repurchase of own debt amounted to NOK 1.3 million for the second quarter of 2014. In total these market transactions contributed NOK 1.5 million during the first six months of the year, compared to NOK 44 million during the first six months of 2013. The decrease is due to fewer repurchases of own debt as a result of good market liquidity.

Unrealised loss on financial instruments in second quarter was NOK 317 million, compared to a gain of NOK 97 million in the same period of last year. The net unrealised loss is mainly influenced by reduced credit spread on KBN's own bonds towards the end of the period and price developments for hedging derivatives. Since these instruments are normally held to maturity, any changes in value in income will be reversed when the contracts mature, or when the market trend turns.

Unrealised loss on financial instruments after first half of 2014 is NOK 347 million, compared to a gain of NOK 53 million in the same period of last year.



Profit after tax for the second quarter 2014 was NOK 3 million, compared to NOK 346 million in the second quarter of 2013. Profit after tax for the first six months of 2014 amounted to NOK 233 million, compared to NOK 625 million for the same period of last year. Core earnings for the first two quarters amounted to NOK 486 million, down from NOK 588 million in the same period last year.

Capital

As of 30 June 2014 KBN's total eligible capital amounted to NOK 9.6 billion with a core capital of NOK 8.0 billion. Total assets have increased by NOK 36.1 billion since year-end.

KBN's total capital adequacy ratio was 14.58 per cent, and core capital adequacy ratio at the end of second quarter 2014 was 12.19 per cent.

Future prospects

The debt growth in the local government sector has been greater than income growth in recent years. In a long term perspective it is expected that these will grow more in line. According to the credit indicator C2 figures from Statistics Norway, growth for the municipal sector gross domestic debt was 3.8 per cent from December 2013 to end of May 2014, down from 5 per cent in the same period of last year. Historically the demand for loans from the local government sector has been as good in the second half of the year, and based on signals from the sector KBN expects a continued good demand towards year-end.

Credit spreads have generally been significantly reduced in international financial markets over the last few years on the back of improved economic outlook backed by significant liquidity measures and an expansionary monetary policy from a number of central banks. Such a market environment will give KBN a good foundation to continue to provide attractive financing to the local government sector while also obtaining a satisfactory interest rate margin in the second half of the year.

The Ministry of Finance has designated KBN as a systemically important financial institution. Operating conditions for financial institutions have been changed through the Basel III regulations and a gradual EU/EEA implementation is planned till 2019. The increased capital requirements in the years ahead lead KBN in cooperation with the Government to gradually adapt to the new requirements.

We confirm that the half year report for the period 1 January 2014 to 30 June 2014 is, to the best of our knowledge, prepared in line with IAS 34 Interim Financial Reporting and that the information in the accounts provides a fair overview of the company's assets, liabilities, its financial position and results

To the best of our knowledge, the interim report provides a fair overview of important events during the accounting period and their effects on the half year accounts and also the material risk and uncertainties facing the company during the next accounting period.

Oslo, 28 July 2014

The Board of Directors, Kommunalbanken

INCOME STATEMENT

<i>(Amounts in NOK 1 000 000)</i>	Note	April-June 2014	January- June 2014	April-June 2013	January- June 2013	2013
Interest income		1 520	2 974	1 433	2 856	5 776
Interest expense		1 168	2 243	1 035	2 024	4 142
NET INTEREST INCOME	1	352	731	398	832	1 634
Fees and commission expenses		6	11	4	8	22
Net unrealised gain/(loss) on financial instruments	2	(317)	(347)	97	53	(68)
Net trading income		1	2	15	44	58
TOTAL OTHER OPERATING INCOME		(322)	(357)	108	89	(32)
Salaries and administrative expenses		22	46	20	41	82
Depreciation on fixed assets		1	1	1	2	4
Other expenses		4	8	4	8	20
TOTAL OPERATING EXPENSES		27	55	25	52	106
PROFIT BEFORE TAX		4	319	481	869	1 496
Income tax		1	86	135	243	414
PROFIT FOR THE PERIOD		3	233	346	625	1 083

STATEMENT OF COMPREHENSIVE INCOME

<i>(Amounts in NOK 1 000 000)</i>	Note	April-June 2014	January- June 2014	April-June 2013	January- June 2013	2013
Profit for the period		3	233	346	625	1 083
Other comprehensive income						
<i>Items which will not be reclassified in profit or loss</i>						
Actuarial gain/(loss) on defined benefit plan		0	0	0	0	(13)
Of which is tax		0	0	0	0	(3)
Total other comprehensive income		0	0	0	0	(10)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		3	233	346	625	1 073

STATEMENT OF FINANCIAL POSITION*(Amounts in NOK 1 000 000)*

	Note	30-Jun-14	30-Jun-13	31-Dec-13
ASSETS				
Deposits with credit institutions	3,4	10 279	15 459	5 257
Instalment loans	3,4,5	249 996	237 676	243 114
Notes, bonds and other interest-bearing securities	3,4,7,8	120 342	97 536	101 696
Financial derivatives	3,4	17 353	19 831	11 806
Other assets		73	14	44
TOTAL ASSETS		398 042	370 516	361 918
LIABILITIES AND EQUITY				
Loans from credit institutions	3,4	9 398	9 083	3 656
Commercial paper	3	0	0	0
Senior securities issued	3,4,6	365 801	335 224	329 139
Financial derivatives	3,4	12 393	16 248	18 559
Other liabilities		379	19	36
Current tax liabilities		84	243	440
Deferred tax liabilities		141	168	139
Pension liabilities		48	32	48
Subordinated debt	3,4	1 708	1 729	1 687
TOTAL LIABILITIES		389 951	362 747	353 702
Share capital		2 145	2 145	2 145
Retained earnings		5 714	4 998	6 071
Total comprehensive income for the period		233	625	
TOTAL EQUITY	9	8 092	7 768	8 216
TOTAL LIABILITIES AND EQUITY		398 042	370 516	361 918

STATEMENT OF CHANGES IN EQUITY*(Amounts in NOK 1 000 000)***1 January — 30 June 2014**

	Share capital	Retained earnings	Total equity
Equity as of 1 January 2014	2 145	6 071	8 216
Profit for the period	0	233	233
Total other comprehensive income	0	0	0
Issue of share capital	0	0	0
Dividends	0	(357)	(357)
Equity as of 30 June 2014	2 145	5 947	8 092

1 January — 30 June 2013

	Share capital	Retained earnings	Total equity
Equity as of 1 January 2013	2 145	5 251	7 395
Profit for the period	0	625	625
Total other comprehensive income	0	0	0
Issue of share capital	0	0	0
Dividends	0	(253)	(253)
Equity as of 30 June 2013	2 145	5 624	7 768

1 January — 31 December 2013

	Share capital	Retained earnings	Total equity
Equity as of 1 January 2013	2 145	5 251	7 395
Profit for the period	0	1 083	1 083
Total other comprehensive income	0	(10)	(10)
Issue of share capital	0	0	0
Dividends	0	(253)	(253)
Equity as of 31 December 2013	2 145	6 071	8 216

STATEMENT OF CASH FLOWS

<i>(Amounts in NOK 1 000 000)</i>	January-June 2014	January-June 2013	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received	2 972	2 887	5 844
Interest paid	(1 984)	(1 987)	(4 036)
Fees and commissions paid	(11)	(8)	(23)
Receipts from repurchase of issued securities	2	44	58
Cash payments to employees and suppliers	(54)	(50)	(102)
Income taxes paid	(440)	(576)	(576)
Net disbursement of loans to customers	(6 727)	(15 827)	(21 641)
Net (increase)/decrease in deposits with credit institutions	176	(6 423)	(1 840)
Net (increase)/decrease in notes, bonds and other interest-bearing securities	(17 548)	8 373	6 530
Net (increase)/decrease in other assets	(29)	1	(1)
Net increase/(decrease) in other liabilities	(14)	(14)	6
NET CASH FLOWS FROM OPERATING ACTIVITIES	(23 658)	(13 579)	(15 781)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net (purchase) / sales of property and equipment	(1)	(2)	(33)
NET CASH FLOWS FROM INVESTING ACTIVITIES	(1)	(2)	(33)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of commercial paper	0	(362)	(359)
Proceeds from issuance of debt securities	79 407	113 455	162 514
Repayment of debt securities	(53 756)	(101 626)	(153 387)
Repayment of subordinated debt	0	(8)	(7)
Dividends paid	0	(253)	(253)
NET CASH FLOWS FROM FINANCING ACTIVITIES	25 651	11 206	8 508
NET CHANGE IN CASH AND CASH EQUIVALENTS	1 992	(2 375)	(7 306)
Effects of foreign exchange differences	(2 403)	2 315	7 342
Cash and cash equivalents at 1 January	29	(6)	(6)
Net change in cash and cash equivalents	(412)	(60)	35
CASH AND CASH EQUIVALENTS AT END OF PERIOD	(382)	(66)	29
<i>Deposits with credit institutions without agreed period of notice</i>	<i>0</i>	<i>0</i>	<i>29</i>
<i>Loans from credit institutions without agreed period of notice</i>	<i>(382)</i>	<i>(66)</i>	<i>0</i>

ACCOUNTING POLICIES

KBN prepares its financial statements in accordance with International Financial Reporting Standards (IFRS), as adopted by EU. Interim financial statements as of 30 June 2014 are prepared in accordance with IAS 34 *Interim Financial Reporting*, and follow the same accounting policies as annual financial statements for 2013.

As of 1 January 2014, IAS 32 *Financial Instruments: Presentation* is amended and clarifies the meaning of "currently has a legally enforceable right to set-off", and that some gross settlement systems may be considered equivalent to net settlement. KBN does not offset any financial assets and liabilities in the Statement of Financial Position. The amended standard has therefore no effect on the presentation of the financial statements or disclosures.

Preparation of financial statements in accordance with IFRS requires the management to make use of estimates and make assumptions which can affect carrying values of assets and liabilities, and revenues and costs. Estimates and assumptions are based on historical experience and expectations of future trends, and actual results may deviate from the estimates.

The fair value of financial instruments that are not traded in an active market, or do not have available quoted prices at the reporting date, is determined using valuation techniques. The valuation requires the management to make assumptions and use estimates when considering credit risk and liquidity risk. Even if the assumptions and estimates are based to the greatest extent on actual market conditions prevailing at the reporting date, actual results may differ from accounting estimates.

NOTE 1

NET INTEREST INCOME

(Amounts in NOK 1 000 000)

	April-June 2014	January-June 2014	April-June 2013	January-June 2013	2013
Deposits with credit institutions	10	14	6	13	27
Instalment loans	1 486	2 938	1 445	2 856	5 792
Notes, bonds and other interest-bearing securities	552	1 064	532	1 030	2 153
Financial derivatives	(528)	(1 041)	(550)	(1 044)	(2 196)
Total interest income	1 520	2 974	1 433	2 856	5 776
Loans from credit institutions	0	3	0	1	2
Senior securities issued	1 942	4 098	2 334	4 848	8 874
Financial derivatives	(780)	(1 870)	(1 305)	(2 835)	(4 756)
Subordinated debt and Hybrid Tier 1 capital instruments	5	10	5	11	22
Total interest expenses	1 168	2 243	1 035	2 024	4 142
Net interest income	352	731	398	832	1 634

NOTE 2

NET UNREALISED GAIN/(LOSS) ON FINANCIAL INSTRUMENTS

(Amounts in NOK 1 000 000)

	April-June 2014	January-June 2014	April-June 2013	January-June 2013	2013
Instalment loans	183	96	(214)	(293)	(529)
Notes, bonds and other interest-bearing securities	340	120	(457)	(655)	(862)
Financial derivatives	1 082	2 344	(3 077)	(338)	(327)
Loans from credit institutions	0	1	0	0	0
Senior securities issued	(1 916)	(2 898)	3 850	1 356	1 645
Subordinated debt and Hybrid Tier 1 capital instruments	(7)	(10)	(5)	(17)	6
Net unrealised gain/(loss) on financial instruments	(317)	(347)	97	53	(68)

NOTE 3**DESIGNATION OF FINANCIAL INSTRUMENTS***(Amounts in NOK 1 000 000)*

At 30 June 2014	Total	At fair value through profit or loss			Held to maturity	Loans and receivables	Other liabilities
		FVO	Held for trading	Fair value hedge			
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
Total financial assets	397 969	262 694	15 323	2 029	115	117 807	0
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
Total financial liabilities	389 299	251 975	11 211	1 182	0	0	124 931

At 30 June 2013	Total	At fair value through profit or loss			Held to maturity	Loans and receivables	Other liabilities
		FVO	Held for trading	Fair value hedge			
Deposits with credit institutions	15 459	12 021	0	0	0	3 438	0
Instalment loans	237 676	134 196	0	0	0	103 480	0
Notes, bonds and other interest-bearing securities	97 536	81 804	0	0	943	14 789	0
Financial derivatives	19 831	0	17 860	1 971	0	0	0
Total financial assets	370 501	228 021	17 860	1 971	943	121 707	0
Loans from credit institutions	9 083	0	0	0	0	0	9 083
Commercial paper	0	0	0	0	0	0	0
Senior securities issued	335 224	240 738	0	0	0	0	94 486
Financial derivatives	16 248	0	14 605	1 643	0	0	0
Subordinated debt	1 729	1 729	0	0	0	0	0
Total financial liabilities	362 285	242 467	14 605	1 643	0	0	103 569

At 31 December 2013	Total	At fair value through profit or loss			Held to maturity	Loans and receivables	Other liabilities
		FVO	Held for trading	Fair value hedge			
Deposits with credit institutions	5 257	704	0	0	0	4 553	0
Instalment loans	243 114	141 341	0	0	0	101 773	0
Notes, bonds and other interest-bearing securities	101 696	85 773	0	0	931	14 992	0
Financial derivatives	11 806	0	9 999	1 807	0	0	0
Total financial assets	361 873	227 818	9 999	1 807	931	121 318	0
Loans from credit institutions	3 656	0	0	0	0	0	3 656
Commercial paper	0	0	0	0	0	0	0
Senior securities issued	329 139	225 790	0	0	0	0	103 349
Financial derivatives	18 559	0	16 999	1 559	0	0	0
Subordinated debt	1 687	1 687	0	0	0	0	0
Total financial liabilities	353 040	227 477	16 999	1 559	0	0	107 005

NOTE 4**FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE***(Amounts in NOK 1 000 000)*

All financial instruments measured at fair value are categorised into three levels based on the nature of inputs to the valuation methods:

- Level 1-input—Quoted market prices in an active market for identical instruments, observable at the reporting date.
- Level 2-input—Inputs other than quoted prices, that are observable for an instrument directly or indirectly.
- Level 3-input—Unobservable inputs for the asset or liability.

At 30 June 2014 KBN had following volumes in financial instruments measured at fair value on a recurring basis:

	Level 1	Level 2	Level 3	Total
Deposits with credit institutions	0	7 613	0	7 613
Instalment loans	0	104 285	44 540	148 826
Notes, bonds and other interest-bearing securities	56 253	45 609	4 394	106 256
Financial derivatives	2 009	10 008	5 335	17 353
Total financial assets measured at fair value	58 262	167 515	54 270	280 047
Loans from credit institutions	0	0	0	0
Senior securities issued	0	0	250 267	250 267
Financial derivatives	716	6 415	5 263	12 393
Subordinated debt	0	0	1 708	1 708
Total financial liabilities measured at fair value	716	6 415	257 238	264 368

Reconciliation of movements in Level 3

	Instalment loans	Notes, bonds and other interest-bearing securities	Senior securities issued	Subordinated debt	Financial derivatives
Fair value at 31 December 2013	46 524	3 989	225 790	1 687	(5 881)
Purchase	0	1 365	(84)	0	0
Sale	0	0	0	0	0
Issue	704	0	62 951	0	0
Settlement	(2 053)	(3 529)	(45 528)	0	160
Transfer into Level 3	27	2 851	0	0	0
Transfer out of Level 3	(1 048)	(279)	0	0	(8)
Gain/(loss) recognised in the period	385	(3)	7 138	21	5 801
Fair value at 30 June 2014	44 540	4 394	250 267	1 708	72

There were no significant transfers between Level 1 and Level 2 in the first half year 2014. The transfers in and out of Level 3 are mainly due to changes in market conditions that affect the assessment of inputs to the valuation methods during the reporting period.

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

Valuation techniques:

The attributes of the financial instruments affect the choice of the valuation techniques to determine the fair value of the instruments in Level 2 and 3 at the end of the reporting period. Fair value of the financial instruments without embedded derivatives is determined using discounted cash flows, where discount rate is derived from the relevant observable money market interest rates and other significant risk factors that might affect the fair value. When such risk factors cannot be observed at the reporting date, the management has to make assumptions and use estimates in the valuation. Fair value of financial instruments with embedded derivatives is determined using option pricing models with inputs from observable market data and unobservable inputs.

The most significant unobservable Level 2 and Level 3 inputs to the valuation techniques are related to the assumptions about credit risk and liquidity risk for the instruments not traded in an active market. The table below shows the impact of the 10 bp change in the credit spread for financial assets and liabilities in Level 3 at 30 June 2014:

	30 June 2014
Instalment loans	(124)
Notes, bonds and other interest-bearing securities	1
Financial derivatives	(417)
Senior securities issued	334
Subordinated debt	3
Total	(203)

NOTE 5**INSTALMENT LOANS***(Amounts in NOK 1 000 000)*

	30-Jun-14	30-Jun-13	31-Dec-13
Principal amount	247 502	235 058	240 863
Accrued interest	1 285	1 269	1 138
Adjustment for fair value	1 209	1 349	1 113
Total instalment loans	249 996	237 676	243 114

NOTE 6**SENIOR SECURITIES ISSUED***(Amounts in NOK 1 000 000)*

	30-Jun-14	30-Jun-13	31-Dec-13
Senior securities issued (nominal amounts) at 1 January	326 470	312 867	312 867
New issuance	79 433	113 454	162 539
Redemptions	(53 710)	(101 663)	(153 300)
Amortisation	(46)	38	(88)
Translation differences	7 597	7 496	4 451
Senior securities issued (nominal amounts) at end of period	359 743	332 192	326 470
Accrued interest	2 444	2 027	1 953
Adjustment for fair value	3 613	1 005	716
Total senior securities issued	365 801	335 224	329 139

NOTE 7**NOTES, BONDS AND OTHER INTEREST-BEARING SECURITIES***(Amounts in NOK 1 000 000)*

Assets by issuer	30-Jun-14	30-Jun-13	31-Dec-13
Domestic			
Issued by other borrowers	6 108	1 688	3 704
Non-domestic			
Issued by public bodies ¹	82 893	78 036	74 870
Issued by other borrowers	31 340	17 812	23 123
Total notes, bonds and other interest-bearing securities	120 342	97 536	101 696

¹Issued by or guaranteed by sovereigns, central banks, regional authorities and multilateral development banks.

Assets by maturity	30-Jun-14	30-Jun-13	31-Dec-13
Under 1 year	71 353	52 501	54 140
1-5 years	48 989	45 035	47 556
Total notes, bonds and other interest-bearing securities	120 342	97 536	101 696

NOTE 8**CREDIT EXPOSURE IN NOTES, BONDS AND OTHER INTEREST-BEARING SECURITIES***(Amounts in NOK 1 000 000)***Exposure as at 30 June 2014**

Maturity	< 1 year		> 1 year				Total
	A-1/A-1+	Not rated	A/A+	AA	AAA	Not rated	
Sovereigns and central banks	11 116	0	0	111	2 700	0	13 928
Multilateral development banks	12 066	0	0	574	11 384	0	24 023
Regional authorities	13 871	1 181	145	11 526	14 506	3 715	44 943
Financial institutions	19 288	0	307	927	0	0	20 522
Securitisation	115	0	0	0	0	0	115
Covered bond	13 717	0	0	631	2 463	0	16 811
Total	70 172	1 181	451	13 769	31 053	3 715	120 342

Exposure as at 30 June 2013

Maturity	< 1 year		> 1 year				Total
	A-1/A-1+	Not rated	A/A+	AA	AAA	Not rated	
Sovereigns and central banks	9 470	0	0	3 658	2 589	0	15 717
Multilateral development banks	8 203	0	0	1 773	12 635	0	22 611
Regional authorities	16 298	429	0	11 513	10 312	1 156	39 709
Financial institutions	9 147	0	376	193	0	0	9 716
Securitisation	140	0	0	0	0	0	140
Covered bond	8 707	106	0	0	831	0	9 644
Total	51 965	536	376	17 137	26 366	1 156	97 536

NOTE 9**EQUITY AND SUBORDINATED LOAN CAPITAL***(Amounts in NOK 1 000 000)*

	30-Jun-14	30-Jun-13
Core capital		
Share capital	2 145	2 145
Retained earnings	5 714	4 998
Total equity	7 859	7 143
Pre-tax profit for the period (reduced by 50 %)	160	434
Deferred tax asset	0	0
Intangible assets	(61)	(1)
Allocated to dividend	0	0
Unrealised (gain)/loss on liabilities attributable to changes in own credit risk	72	(10)
Total Tier 1 capital	8 029	7 567
Supplementary capital		
Ordinary subordinated debt	1 571	1 571
Perpetual subordinated debt	0	0
Total supplementary capital	1 571	1 571
Total capital	9 601	9 138

Subordinated capital has been calculated pursuant to the Regulation governing calculation of subordinated capital for financial institutions. Unrealised gain/loss on liabilities that are due to changes in own credit risk include both non-derivative and derivative liabilities.

NOTE 10**CAPITAL ADEQUACY***(Amounts in NOK 1 000 000)*

	30-Jun-14		
	Book value	Risk-weighted assets	Minimum capital requirements
Credit risk			
Sovereigns and central banks	8 515	0	0
Regional governments and local authorities	300 124	53 498	4 815
<i>Of which are Norwegian municipalities</i>	249 944	53 411	4 807
Public sector entities	6 321	30	3
Multilateral development banks	24 024	0	0
Financial institutions	46 422	7 327	659
<i>Of which counterparty exposure on derivatives</i>	13 810	1 167	105
Corporates	0	0	0
Claims secured by residential property	52	52	5
Covered bonds	16 811	1 681	151
Other assets	12	12	1
Securitisation	115	43	4
Total credit risk	402 395	62 643	5 638
Market risk	0	0	0
Operational risk (Basic Indicator Approach)	0	3 205	289
Minimum capital requirements	0	65 849	5 927
Capital adequacy ratio		14.58%	
Core capital adequacy ratio		12.19%	