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January - June (unaudited)

# INTERIM FINANCIAL REPORT

## 2/2012

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Kommunalbanken Norway

**About KBN**

Established by an act of Parliament in 1926 as a state administrative body called Norges Kommunalbank, Kommunalbanken AS (KBN) gained its current status and structure through a conversion act dated 1 November 1999. KBN's primary objectives are to provide stable access to low cost funding to Norwegian municipalities, counties, intermunicipal companies and other companies with a municipal guarantee that carry out tasks at a municipal level. KBN's financial objectives are to secure a satisfactory return to its owners and further strengthen the capital base.

**FINANCIAL HIGHLIGHTS***(Amounts in NOK 1 000 000)*

	January-June 2012	January-June 2011	2011
<b>RESULTS</b>			
Net interest income	1 059	674	1 582
Core earnings <sup>1</sup>	740	474	1 138
Profit before tax	1 553	821	1 001
Profit for the period	1 118	591	724
Return on equity after tax <sup>2</sup>	48.68 %	29.31 %	18.33 %
Return on equity after tax (core earnings) <sup>2</sup>	32.21 %	23.49 %	28.80 %
Return on assets after tax <sup>2</sup>	0.62 %	0.37 %	0.22 %
Return on assets after tax (core earnings) <sup>2</sup>	0.41 %	0.30 %	0.34 %
<b>LENDING</b>			
New disbursements	20 716	18 982	46 921
Outstanding loans <sup>3</sup>	217 986	192 059	207 572
LIQUIDITY PORTFOLIO <sup>3</sup>	99 701	100 480	103 263
<b>BORROWINGS</b>			
New long-term borrowings	77 403	96 642	142 341
Repurchase of own debt	1 011	1 003	3 416
Redemptions	71 447	65 227	104 162
Total borrowings <sup>3</sup>	336 337	300 171	338 615
<b>TOTAL ASSETS</b>	366 197	328 141	366 901
<b>EQUITY</b>			
Equity	6 636	4 461	4 594
Core capital adequacy ratio	11.09 %	10.00 %	9.79 %
Total capital adequacy ratio	13.86 %	13.85 %	13.22 %

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

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

<sup>3</sup> Principal amounts

**FIRST HALF OF 2012—SOLID RESULTS IN TURBULENT TIMES**

KBN presents solid results for the first six months of 2012. Profit for the period was NOK 1 118 million compared to NOK 591 million in the same period of 2011. The result is favourably affected by changes in market prices on basis swaps and other hedging instruments, as well as market prices on own debt.

Annualised return on equity after tax was 48.7 per cent for the first six months of 2012 compared to 29.3 per cent for the same period of last year. Adjusted for unrealised fair value changes on financial instruments, return on equity was 32.2 per cent compared to 23.5 per cent during the first six months of 2011.

**LENDING**

For the first six months of 2012 demand for loans from local governments was strong. KBN has been able to meet most requests for loans so far. Future core capital requirements outlined in Basel III and CRD IV, could limit KBN's loan growth going forward .

KBN's loan volume increased by NOK 10.4 billion (5.0 %) to NOK 218.0 billion during the first six months of 2012 compared to NOK 8.2 billion (4.5 %) for the same period of last year.

KBN has reduced its volume of municipal short term lending by NOK 10.4 billion to NOK 1.4 billion during the first half year in accordance with KBN's strategy for long term financing of municipal investments.

In the second quarter KBN disbursed NOK 10.3 billion in new loans compared to NOK 7.7 billion for the same period of last year. A total of NOK 20.7 billion in new disbursements has been completed in the first half year up from NOK 19 billion during the first half of 2011. Two thirds of the loans granted in the first half year are financing of new municipal investments in 2012. A major part of new loan projects is related to building and rehabilitation of schools, kindergartens, water supply, drainage and waste disposal, infrastructure, care homes and IT.

**FUNDING**

KBN has experienced good access to funding during the first half of 2012. New borrowings in the first two quarters of 2012 amounted to NOK 77.4 billion through 288 transactions in 11 currencies. Demand for KBN bonds in public markets has been solid and KBN has issued two USD benchmark loans of USD 1.25 billion and USD 1.5 billion respectively, in addition to a number of other public transactions in USD, AUD, GBP, NZD and NOK.

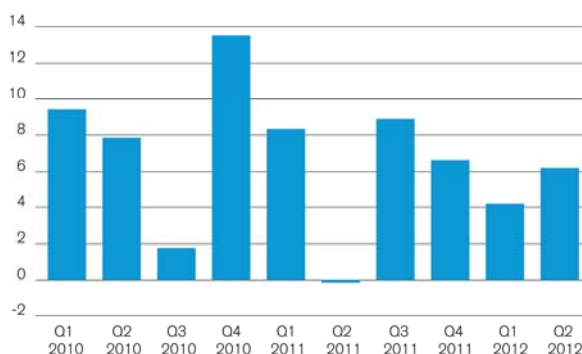
Japan has traditionally been KBN's most important funding market, and 39 per cent of new funding in the first six months of 2012 originated in the Uridashi market. This is approximately 7 percentage points down compared to the same period of 2011, but is compensated by greater demand for bonds with a somewhat longer maturity in other markets. Favourable USD-NOK swaps (basis swaps) has resulted in favourable NOK funding throughout the period. KBN has not issued certificates and by 30 June had completed approximately two thirds of the planned borrowing of 2012.

**LIQUIDITY MANAGEMENT**

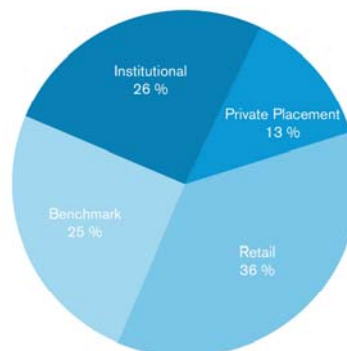
KBN's liquidity reserve over time is equivalent to net debt service for a minimum of 12 months, so that in a given situation KBN can cover all its obligations for the next 12 months without additional funding. During the first six months of 2012, the liquidity reserve is down by NOK 3.6 billion to NOK 99.7 billion by the end of June 2012. The liquidity portfolio is managed using a low risk investment policy and is placed in notes issued by highly creditworthy sovereigns, regional authorities, supranationals and financial institutions.

**Lending growth**

(amounts in NOK bill)



**KBN Funding Market - H1 2012**



## RESULTS

Net interest income in the second quarter of 2012 was NOK 491 million, up from NOK 335 million in the same period of last year. Net interest income during the first six months was NOK 1 059 million compared to NOK 674 million for the same period of last year. Increase in net interest income is a result of favourable prices on conversion of USD to NOK in the derivatives market. This has reduced KBN's funding costs and increased profitability on lending and placements of surplus liquidity. 55 per cent of net interest income during the first half year of 2012 originates from the lending portfolio.

Income from the repurchase of own bonds and sale of bonds and notes amounted to NOK 8 million in the second quarter of 2012, down from NOK 41 million in the second quarter of 2011. Total income from market activities during the first six months of 2012 amounted to NOK 33 million as against NOK 37 million during the first six months of 2011.

Net unrealised gains on financial instruments is mainly influenced by price developments in the derivatives market and prices on KBN's own bonds. Net unrealised gains on financial instruments in the first half of 2012 was NOK 526 million and is due to reversal of previously recognised unrealised losses on financial derivatives (basis swaps).

Profit for the second quarter of 2012 was NOK 173 million, down from NOK 273 million during the same period of last year. The reduction is a result of negative value changes on financial instruments (basis swaps) during the second quarter of 2012. Total result for the first six months of 2012 was NOK 1 118 million, against NOK 591 million during the same period of last year. Core earnings was NOK 740 million, up from NOK 474 million for the first six months of 2011. The increase in the results are mainly a consequence of continuously low prices on USD-NOK basis swaps, reducing KBN's funding costs in Norwegian krone.

## CAPITAL

As of 30 June 2012, The Financial Supervisory Authority of Norway implemented a minimum 9 per cent core capital requirement for financial institutions. As a result of new capital requirements, the Norwegian Parliament strengthened KBN's share capital by NOK 924 million in the revised National Budget for 2012. The capital base was further strengthened by retaining dividend of NOK 194 million for the fiscal year 2011. NOK 502 million of increase in capital was used for repurchase of Hybrid Tier 1 capital instruments. KBN has no Hybrid Tier 1 capital instruments outstanding as of 30 June 2012.

Following the increase in capital, total capital amounted to NOK 7.9 billion, and core capital amounted to NOK 6.3 billion. Total assets were NOK 366.2 billion as of the end of the first half, down from NOK 366.9 billion as of the end of 2011.

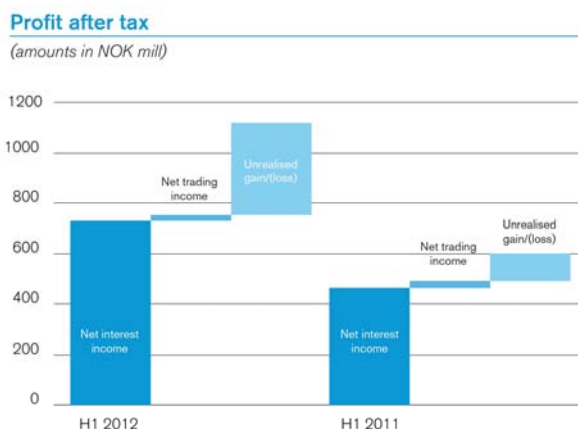
Core capital adequacy ratio as per 30 June 2012 was 11.09 per cent. KBN thus satisfies the requirement of a minimum 9 per cent core capital adequacy ratio as of 30 June 2012. Total capital adequacy ratio was 13.86 per cent compared with 13.85 per cent in the same period of last year.

## FUTURE PROSPECTS

High government debt levels and low economic growth have led to turmoil in the global financial markets. These challenges will take time to resolve. At the same time Norway experiences strong growth and high employment. This has benefited Norwegian local governments and resulted in years of increased activity.

KBN expects lower growth in the local government sector in the immediate future. This is reflected among other things in K2 figures from Statistics Norway. 12 months' growth in local government debt (municipal companies excluded) was 8.3 per cent by the end of June, down from 12.4 per cent during the same period of 2011. For 2012 KBN's loan volume is calculated to grow up to 6 per cent.

The framework for financial institutions proposed through Basel III is expected to be gradually implemented in EEC/EEA towards 2019. Requirements for increased core capital facing financial institutions in the years to come, mean that KBN will gradually build its capital base and actively manage its balance sheet growth going forward.



**Statement from the Board of Directors**

We confirm that the half year report for the period 1 January 2012 to 30 June 2012 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, 10 August 2012

The Board of Directors, Kommunalbanken AS

**INCOME STATEMENT**

<i>(Amounts in NOK 1 000 000)</i>	Note	April-June 2012	January-June 2012	April-June 2011	January-June 2011	2011
Interest income		1 711	3 652	1 580	3 057	6 730
Interest expense		1 220	2 593	1 245	2 383	5 148
<b>NET INTEREST INCOME</b>	<b>1</b>	<b>491</b>	<b>1 059</b>	<b>335</b>	<b>674</b>	<b>1 582</b>
Fees and commission expenses		6	11	5	9	19
Net unrealised gain/(loss) on financial instruments	<b>2</b>	(224)	526	28	163	(575)
Net trading income		8	33	41	37	109
<b>TOTAL OTHER OPERATING INCOME</b>		<b>(223)</b>	<b>549</b>	<b>64</b>	<b>191</b>	<b>(485)</b>
Salaries and administrative expenses		22	43	17	35	77
Depreciation on fixed assets		1	2	1	2	4
Other expenses		5	10	3	7	15
<b>TOTAL OPERATING EXPENSES</b>		<b>27</b>	<b>55</b>	<b>20</b>	<b>44</b>	<b>96</b>
<b>PROFIT BEFORE TAX</b>		<b>240</b>	<b>1 553</b>	<b>379</b>	<b>821</b>	<b>1 001</b>
Income tax		67	435	106	230	276
<b>PROFIT FOR THE PERIOD</b>		<b>173</b>	<b>1 118</b>	<b>273</b>	<b>591</b>	<b>724</b>

**STATEMENT OF COMPREHENSIVE INCOME**

<i>(Amounts in NOK 1 000 000)</i>	Note	April-June 2012	January-June 2012	April-June 2011	January-June 2011	2011
Profit for the period		173	1 118	273	591	724
Other comprehensive income		0	0	0	0	0
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>173</b>	<b>1 118</b>	<b>273</b>	<b>591</b>	<b>724</b>

## STATEMENT OF FINANCIAL POSITION

<i>(Amounts in NOK 1 000 000)</i>	Note	30 June 2012	30 June 2011	31 December 2011
<b>ASSETS</b>				
Deposits with credit institutions	3	7 351	5 262	3 151
Instalment loans	3,4	220 726	193 701	210 189
Notes, bonds and other interest-bearing securities	3,6,7	109 603	106 220	116 657
Financial derivatives	3	28 502	22 941	36 889
Other assets		15	16	15
<b>TOTAL ASSETS</b>		<b>366 197</b>	<b>328 141</b>	<b>366 901</b>
<b>LIABILITIES AND EQUITY</b>				
Loans from credit institutions	3	8 901	7 734	11 915
Commercial paper	3	0	155	0
Senior securities issued	3,5	336 776	297 479	336 942
Financial derivatives	3	11 629	15 215	10 165
Other liabilities		26	189	53
Current tax liabilities		437	199	445
Deferred tax liabilities		14	182	14
Pension liabilities		30	25	30
Subordinated debt		1 749	1 835	2 080
Hybrid Tier 1 capital instruments		0	666	663
<b>TOTAL LIABILITIES</b>		<b>359 561</b>	<b>323 680</b>	<b>362 307</b>
Share capital		2 145	1 221	1 221
Retained earnings		3 373	2 649	3 373
Total comprehensive income for the period		1 118	591	
<b>TOTAL EQUITY</b>	<b>8,9</b>	<b>6 636</b>	<b>4 461</b>	<b>4 594</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>366 197</b>	<b>328 141</b>	<b>366 901</b>

## STATEMENT OF CHANGES IN EQUITY

*(Amounts in NOK 1 000 000)*

1 January — 30 June 2012

	Share capital	Retained earnings	Total equity
Equity as of 1 January 2012	1 221	3 373	4 594
Issue of share capital	924	0	924
Total comprehensive income for the period	0	1 118	1 118
Dividends	0	0	0
<b>Equity as of 30 June 2012</b>	<b>2 145</b>	<b>4 491</b>	<b>6 636</b>

1 January — 30 June 2011

	Share capital	Retained earnings	Total equity
Equity as of 1 January 2011	1 221	2 814	4 034
Issue of share capital	0	0	0
Total comprehensive income for the period	0	591	591
Dividends	0	(165)	(165)
<b>Equity as of 30 June 2011</b>	<b>1 221</b>	<b>3 240</b>	<b>4 461</b>

1 January — 31 December 2011

	Share capital	Retained earnings	Total equity
Equity as of 1 January 2011	1 221	2 814	4 034
Issue of share capital	0	0	0
Total comprehensive income for the period	0	724	724
Dividends	0	(165)	(165)
<b>Equity as of 31 December 2011</b>	<b>1 221</b>	<b>3 373</b>	<b>4 594</b>



## STATEMENT OF CASH FLOWS

<i>(Amounts in NOK 1 000 000)</i>	January-June 2012	January-June 2011	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest received	3 657	3 026	6 396
Interest paid	(2 649)	(2 324)	(5 091)
Fees and commissions paid	(11)	(9)	(21)
Receipts from repurchase of issued securities	21	37	111
Cash payments to employees and suppliers	(53)	(41)	(92)
Income taxes paid	(442)	(290)	(260)
	<b>523</b>	<b>400</b>	<b>1 044</b>
Net disbursement of loans to customers	(10 516)	(8 278)	(23 734)
Net (increase)/decrease in deposits with credit institutions	(7 479)	2 179	8 835
Net (increase)/decrease in notes, bonds and other interest-bearing securities	5 234	(13 283)	(21 489)
Net (increase)/decrease in other assets	(1)	0	0
Net increase/(decrease) in other liabilities	(27)	(13)	21
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>(12 266)</b>	<b>(18 995)</b>	<b>(35 324)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property and equipment	(2)	(2)	(2)
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>(2)</b>	<b>(2)</b>	<b>(2)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issuance of commercial paper	0	14 417	14 417
Repayment of commercial paper	0	(14 229)	(14 385)
Proceeds from issuance of debt securities	76 765	96 730	142 374
Repayment of debt securities	(72 245)	(66 445)	(107 659)
Proceeds from other borrowed funds	0	0	0
Repayment of other borrowed funds	0	(487)	(487)
Proceeds from issuance of subordinated debt	0	1 571	1 565
Repayment of subordinated debt	(955)	0	0
Dividends paid	0	0	(165)
Paid in share capital	924	0	0
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>4 490</b>	<b>31 558</b>	<b>35 661</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(7 778)</b>	<b>12 561</b>	<b>335</b>
Effects of foreign exchange differences	7 618	(12 771)	(264)
Cash and cash equivalents at 1 January	150	78	78
Net change in cash and cash equivalents	(160)	(210)	72
<b>Cash and cash equivalents at end of period</b>	<b>(10)</b>	<b>(132)</b>	<b>150</b>
<i>Deposits with credit institutions without agreed period of notice</i>	<i>(10)</i>	<i>(132)</i>	<i>150</i>

## ACCOUNTING POLICIES

KBN prepares its financial statements in accordance with International Financial Reporting Standards (IFRS), as adopted by EU. Interim financial statements for the first half year 2012 are prepared in accordance with IAS 34 Interim Financial Reporting, and follow the same accounting policies as annual financial statements for 2011.

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 Balance Sheet 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 Balance Sheet date, actual results may differ from accounting estimates.

### NOTE 1

#### NET INTEREST INCOME

(Amounts in NOK 1 000 000)

	April-June 2012	January-June 2012	April-June 2011	January-June 2011	2011
Deposits with credit institutions	8	24	10	15	45
Instalment loans	1 556	3 254	1 474	2 890	6 271
Notes, bonds and other interest-bearing securities	641	1 293	622	1 365	2 588
Financial derivatives	(495)	(919)	(527)	(1 213)	(2 173)
<b>Total interest income</b>	<b>1 711</b>	<b>3 652</b>	<b>1 580</b>	<b>3 057</b>	<b>6 730</b>
Loans from credit institutions	1	3	3	6	12
Senior securities issued	2 467	5 011	2 547	4 960	10 049
Financial derivatives	(1 261)	(2 448)	(1 306)	(2 601)	(4 960)
Subordinated debt and Hybrid Tier 1 capital instruments	13	27	1	18	48
<b>Total interest expenses</b>	<b>1 220</b>	<b>2 593</b>	<b>1 245</b>	<b>2 383</b>	<b>5 148</b>
<b>Net interest income</b>	<b>491</b>	<b>1 059</b>	<b>335</b>	<b>674</b>	<b>1 582</b>

### NOTE 2

#### NET UNREALISED GAIN/(LOSS) ON FINANCIAL INSTRUMENTS

(Amounts in NOK 1 000 000)

	April-June 2012	January-June 2012	April-June 2011	January-June 2011	2011
Instalment loans	196	106	190	(355)	525
Notes, bonds and other interest-bearing securities	129	237	78	(646)	(168)
Financial derivatives	(753)	2 837	111	881	(252)
Loans from credit institutions	0	4	(1)	(1)	(3)
Senior securities issued	167	(2 669)	(336)	294	(544)
Subordinated debt and Hybrid Tier 1 capital instruments	36	11	(14)	(10)	(132)
<b>Net unrealised gain/(loss) on financial instruments</b>	<b>(224)</b>	<b>526</b>	<b>28</b>	<b>163</b>	<b>(575)</b>

## NOTE 3

## CLASSIFICATION OF FINANCIAL INSTRUMENTS

(Amounts in NOK 1 000 000)

At 30 June 2012	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	7 351	6 212	0	0	0	1 138	0
Instalment loans	220 726	126 787	1 011	0	0	92 928	0
Notes, bonds and other interest-bearing securities	109 603	80 592	8 110	0	4 403	16 499	0
Financial derivatives	28 502	0	25 614	2 888	0	0	0
<b>Total financial assets</b>	<b>366 182</b>	<b>213 591</b>	<b>34 735</b>	<b>2 888</b>	<b>4 403</b>	<b>110 565</b>	<b>0</b>
Loans from credit institutions	8 901	491	0	0	0	0	8 409
Commercial paper	0	0	0	0	0	0	0
Senior securities issued	336 776	276 988	0	0	0	0	59 788
Financial derivatives	11 629	0	10 302	1 327	0	0	0
Subordinated debt	1 749	1 749	0	0	0	0	0
Hybrid Tier 1 capital instruments	0	0	0	0	0	0	0
<b>Total financial liabilities</b>	<b>359 054</b>	<b>279 228</b>	<b>10 302</b>	<b>1 327</b>	<b>0</b>	<b>0</b>	<b>68 197</b>

At 30 June 2011	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	5 262	2 240	0	0	0	3 022	0
Instalment loans	193 701	105 571	9 564	0	0	78 566	0
Notes, bonds and other interest-bearing securities	106 220	63 154	20 479	0	4 611	17 977	0
Financial derivatives	22 941	0	21 496	1 445	0	0	0
<b>Total financial assets</b>	<b>328 125</b>	<b>170 965</b>	<b>51 539</b>	<b>1 445</b>	<b>4 611</b>	<b>99 563</b>	<b>0</b>
Loans from credit institutions	7 734	518	0	0	0	0	7 216
Commercial paper	155	155	0	0	0	0	0
Senior securities issued	297 479	251 439	0	0	0	0	46 040
Financial derivatives	15 215	0	13 603	1 612	0	0	0
Subordinated debt	1 835	1 835	0	0	0	0	0
Hybrid Tier 1 capital instruments	666	666	0	0	0	0	0
<b>Total financial liabilities</b>	<b>323 083</b>	<b>254 613</b>	<b>13 603</b>	<b>1 612</b>	<b>0</b>	<b>0</b>	<b>53 255</b>

At 31 December 2011	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	3 151	2 350	0	0	0	801	0
Instalment loans	210 189	115 635	11 910	0	0	82 643	0
Notes, bonds and other interest-bearing securities	116 657	84 801	13 679	0	4 532	13 645	0
Financial derivatives	36 889	0	34 283	2 606	0	0	0
<b>Total financial assets</b>	<b>366 885</b>	<b>202 786</b>	<b>59 872</b>	<b>2 606</b>	<b>4 532</b>	<b>97 089</b>	<b>0</b>
Loans from credit institutions	11 915	510	0	0	0	0	11 405
Commercial paper	0	0	0	0	0	0	0
Senior securities issued	336 942	278 251	0	0	0	0	58 692
Financial derivatives	10 165	0	9 047	1 118	0	0	0
Subordinated debt	2 080	2 080	0	0	0	0	0
Hybrid Tier 1 capital instruments	663	663	0	0	0	0	0
<b>Total financial liabilities</b>	<b>361 766</b>	<b>281 504</b>	<b>9 047</b>	<b>1 118</b>	<b>0</b>	<b>0</b>	<b>70 097</b>

**NOTE 4****INSTALMENT LOANS***(Amounts in NOK 1 000 000)*

	30 June 2012	30 June 2011	31 December 2011
Principal amount	217 986	192 059	207 615
Accrued interest	1 388	1 276	1 327
Adjustment for fair value	1 352	367	1 247
<b>Total instalment loans</b>	<b>220 726</b>	<b>193 701</b>	<b>210 189</b>

**NOTE 5****SENIOR SECURITIES ISSUED***(Amounts in NOK 1 000 000)*

	30 June 2012	30 June 2011	31 December 2011
<b>Senior securities issued (nominal amounts) at 1 January</b>	<b>338 615</b>	<b>290 231</b>	<b>290 231</b>
New issuance	77 403	96 642	142 341
Redemptions	(72 458)	(66 230)	(107 578)
Amortisation	214	(215)	(81)
Translation differences	(7 436)	(20 257)	13 702
<b>Senior securities issued (nominal amounts) at end of period</b>	<b>336 337</b>	<b>300 171</b>	<b>338 615</b>
Accrued interest	2 109	2 487	2 667
Adjustment for fair value	(1 671)	(5 178)	(4 340)
<b>Total senior securities issued</b>	<b>336 776</b>	<b>297 479</b>	<b>336 942</b>

**NOTE 6****NOTES, BONDS AND OTHER INTEREST-BEARING SECURITIES***(Amounts in NOK 1 000 000)*

<b>Assets by issuer</b>	30 June 2012	30 June 2011	31 December 2011
Domestic			
Issued by public bodies <sup>1</sup>	0	0	0
Issued by other borrowers	1 654	1 634	2 080
Non-domestic			
Issued by public bodies <sup>1</sup>	82 385	73 762	85 035
Issued by other borrowers	25 564	30 823	29 542
<b>Total notes, bonds and other interest-bearing securities</b>	<b>109 603</b>	<b>106 220</b>	<b>116 657</b>

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

<b>Assets by maturity</b>	30 June 2012	30 June 2011	31 December 2011
Under 1 year	61 154	45 075	53 818
1-5 year	48 114	58 694	60 911
Over 5 year	335	2 450	1 927
<b>Total notes, bonds and other interest-bearing securities</b>	<b>109 603</b>	<b>106 220</b>	<b>116 657</b>

## NOTE 7

## CREDIT EXPOSURE IN NOTES, BONDS AND OTHER INTEREST-BEARING SECURITIES

(Amounts in NOK 1 000 000)

Exposure as at 30 June 2012									
Maturity	< 1 year			> 1 year					Total
Risk class	A-2	A-1/A-1+	Not rated	BBB+	A/A+	AA	AAA	Not rated	
Sovereigns and central banks	681*	3 991	0	393*	0	6 729	2 362	0	14 156
Multilateral development banks	0	10 331	0	0	0	211	10 569	0	21 112
Regional authorities	0	22 012	173	0	0	17 361	6 744	827	47 117
Financial institutions	0	11 975	0	0	46	0	0	0	12 020
Securitisation	0	231	0	0	0	0	0	0	231
Covered bond	0	11 760	0	0	0	0	3 207	0	14 966
<b>Total</b>	<b>681</b>	<b>60 300</b>	<b>173</b>	<b>393</b>	<b>46</b>	<b>24 301</b>	<b>22 882</b>	<b>827</b>	<b>109 603</b>

\*KBN has exposure to two sovereign-guaranteed issuers in Spain – Instituto de Credito Oficial and Fondo de Reestructuración Ordenada Bancaria. As of 30.06.2012 KBN's exposure to Spain was NOK 1.1 billion. KBN has no exposure to Greece, Italy, Ireland or Portugal.

Exposure at 30 June 2011									
Maturity	< 1 year			> 1 year					Total
Risk class	A-2	A-1/A-1+	Not rated	BBB+	A/A+	AA	AAA	Not rated	
Sovereigns and central banks	0	5 241	0	0	0	1 470	3 494	0	10 205
Multilateral development banks	0	5 823	0	0	0	0	11 390	0	17 214
Regional authorities	0	14 616	0	0	596	18 563	11 640	929	46 343
Financial institutions	38	15 302	0	0	2 261	438	79	567	18 685
Securitisation	0	235	0	0	0	0	126	0	361
Covered bond	0	3 620	239	0	0	0	9 551	0	13 411
<b>Total</b>	<b>38</b>	<b>44 836</b>	<b>239</b>	<b>0</b>	<b>2 856</b>	<b>20 471</b>	<b>36 282</b>	<b>1 496</b>	<b>106 220</b>

## NOTE 8

## EQUITY AND SUBORDINATED LOAN CAPITAL

(Amounts in NOK 1 000 000)

	30 June 2012	30 June 2011
<b>Core capital</b>		
Share capital	2 145	1 221
Retained earnings	3 373	2 649
<b>Total equity</b>	<b>5 518</b>	<b>3 870</b>
Hybrid Tier 1 capital instruments	0	666
Pre-tax profit for the period (reduced by 50 %)	776	411
Deferred tax asset	0	0
Goodwill	(1)	(1)
Allocated to dividend	0	0
Unrealised (gain)/loss on liabilities attributable to changes in own credit risk	47	(172)
<b>Total Tier 1 capital</b>	<b>6 341</b>	<b>4 774</b>
<b>Supplementary capital</b>		
Ordinary subordinated debt	1 571	1 755
Perpetual subordinated debt	8	80
<b>Total supplementary capital</b>	<b>1 579</b>	<b>1 835</b>
<b>Total capital</b>	<b>7 920</b>	<b>6 609</b>

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 9****CAPITAL ADEQUACY***(Amounts in NOK 1 000 000)*

	<b>30 June 2012</b>		
	Book value	Risk-weighted assets	Minimum capital requirements
<b>Credit risk</b>			
Sovereigns and central banks	6 137	537	43
Regional governments and local authorities	273 493	47 317	3 785
<i>Of which are Norwegian municipalities</i>	220 682	47 239	3 779
Public sector entities	10 458	0	0
Multilateral development banks	21 112	0	0
Financial institutions	31 542	4 848	388
<i>Of which counterparty exposure on derivatives</i>	19 387	2 412	193
Corporates	93	19	1
Claims secured by residential property	44	44	4
Covered bonds	14 767	1 477	118
Other assets	15	15	1
Securitisation	231	59	5
<b>Total credit risk</b>	<b>357 893</b>	<b>54 315</b>	<b>4 345</b>
<b>Market risk</b>	<b>8 123</b>	<b>465</b>	<b>37</b>
<b>Operational risk (Basic Indicator Approach)</b>		<b>2 372</b>	<b>190</b>
<b>Minimum capital requirements</b>		<b>57 153</b>	<b>4 572</b>
<b>Capital adequacy ratio</b>		<b>13.86 %</b>	
<b>Core capital adequacy ratio</b>		<b>11.09 %</b>	

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**Kommunalbanken Norway**

PO box 1210 Vika  
N-0110 Oslo Norway

Telephone +47 2150 2000  
post@kbn.org  
www.kbn.org

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