

KBN

The Norwegian Agency
for Local Governments



2021
**Report for
second quarter**

About KBN

Kommunalbanken AS (KBN) is the Norwegian state agency for local government funding. KBN is 100 per cent owned by the Kingdom of Norway (AAA/Aaa) and is managed in accordance with the Central Government Maintenance Statement.



The new city center street in Lørenskog, Skårersletta, is financed with a green loan from KBN. Illustration: Norconsult / Baezeni.

KBN's sole purpose is to grant loans to local and regional governments or inter-municipal companies in line with KBN's explicit public policy mandate. As an instrument of the state, KBN recognizes its critical role in enabling the local and regional governments to improve living standards across the country. 100 percent of Norwegian municipalities are KBN customers.

Through its Green Bond program, KBN aim to finance the Norwegian local

sector's transition to a climate-resilient, low-carbon society. Proceeds from Green Bonds are disbursed as discounted Green Loans to climate and environmentally conscious investments in the local sector. This reflects KBN's traditional, long-term focus on environmental, ethical and social impact.

KBN is guided by prudent financial and risk management policies. All financial transactions are fully hedged and KBN maintains liquidity in excess

of policy requirements. KBN's focused, specialized monoline lending model has never suffered a loan loss.

Owing to full state ownership, the central public policy mission, a strong capital base, solid financial and operating performance and prudent financial and risk management policies, KBN is assigned Triple-A ratings by Standard & Poor's and Moody's.

Financial highlights

(Amounts in NOK 1 000 000)	January-June 2021	January-June 2020	2020
RESULTS			
Net interest income	748	856	1 672
Core earnings ¹	405	456	922
Profit before tax	692	495	1 537
Profit for the period	516	385	1 159
Return on equity after tax ²	6.0%	4.9%	7.4%
Return on equity after tax (core earnings) ³	5.0%	6.3%	6.3%
Return on assets after tax ⁴	0.2%	0.2%	0.2%
Return on assets after tax (core earnings) ⁵	0.2%	0.2%	0.2%
LENDING			
New disbursements	21 759	27 478	57 699
Outstanding loans ⁶	318 284	306 705	318 235
LIQUIDITY PORTFOLIO⁶	108 123	124 458	123 585
BORROWINGS			
New long-term borrowings	63 638	55 252	107 822
Repurchase of own debt	166	724	1 051
Redemptions	62 316	77 595	106 676
Total borrowings ⁶	403 169	413 961	405 451
TOTAL ASSETS	476 507	502 505	498 219
EQUITY			
Total capital adequacy ratio	23.5%	23.4%	23.3%
Tier 1 capital adequacy ratio	21.1%	20.9%	20.8%
Common equity Tier 1 capital adequacy ratio	18.1%	18.0%	17.9%
Leverage ratio	3.8%	3.7%	3.7%

	January-June 2021	January-June 2020	2020
LIQUIDITY COVERAGE RATIO (LCR)⁷			
Total	272%	222%	191%
NOK	58%	78%	77%
EUR	359%	195%	200%
USD	202%	215%	188%
AUD	1103%	1 045%	1 239%
JPY	2 661%	3 486%	716%
GBP	Infinite	Infinite	97 768%
OTHER KEY FIGURES			
Green loans ⁸	27 685	21 631	26 112
Emissions in CO ₂ e ⁹	22.1	40.4	74.5

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 Share of the Profit for the year allocated to shareholders as a percentage of average equity (annualized). Average equity is calculated based on monthly equity, not added to the Profit for the year, less dividends from the time the dividends are paid out as well as addition or reduction of the company's share capital during the year.

³ Core earnings as a percentage of average equity (annualized).

⁴ Share of Profit for the year allocated to shareholders as a percentage of average assets (annualized). Average assets are calculated based on monthly assets.

⁵ Core earnings as a percentage of average assets (annualized). Average assets are calculated based on monthly assets.

⁶ Principal amounts.

⁷ 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.

⁸ Outstanding green loans according to KBN's set of criteria for green loans. In addition, the bank has a small portfolio of green loans that were given before these criteria were established. These loans are no longer financed with green bonds.

⁹ KBN's calculated emissions.

Good lending growth and underlying operations in the second quarter

KBN's net interest income in the second quarter of 2021 was NOK 364 million as compared to NOK 412 million in the same period in 2020. It has been good growth in lending and the bank's loan portfolio grew by NOK 4.7 billion in second quarter. Profit for the period totalled NOK 119 million in the second quarter and NOK 516 million in the first six months of 2021.

Results for the quarter

KBN's core earnings¹ totalled NOK 195 million in the second quarter of 2021, compared to NOK 233 million in the second quarter of 2020. In the second quarter KBN received a decision from the Norwegian Tax Administration regarding a change to the tax treatment and periodisation of various types of financial instruments for the years 2015-2018. The decision resulted in a non-recurring interest expense on KBN's tax liability of NOK 59 million. After adjusting for the interest expense on KBN's tax liability, KBN's core earnings for the second quarter of 2021 were NOK 16.4 million higher than in the corresponding period in 2020.

KBN's net interest income in the second quarter of 2021 was NOK 364 million as compared to NOK 412 million in the second quarter of 2020. Net interest income from KBN's lending activities and its liquidity portfolio was higher than in the second quarter of 2020. The interest expense on KBN's tax liability explains the overall decrease from the second quarter of 2020. The fall in money market rates in the second quarter benefitted KBN's customers through reduction of lending rates applied from 2 June 2021.

KBN's profit for the period in the second quarter of 2021 totalled NOK 119 million as compared to NOK 614 million in the second quarter of 2020. The difference relative to the second quarter of 2020 was largely due to unrealised changes in the value of

¹ Core earnings equals profit for the period adjusted for net unrealised gain/(loss) on financial instruments after tax and portion allocated to owners of additional Tier 1 capital. The performance measurement is included to give relevant information on earnings from underlying operations.

financial instruments. In the second quarter of 2021 KBN recognised unrealised losses on financial instruments totalling NOK 121 million, while in the second quarter of 2020 it recognised unrealised gains totalling NOK 485 million. KBN's fixed rate loans, at fair value, contributed an unrealised loss totalling NOK 30 million in the second quarter of 2021, while in the second quarter of 2020 KBN recognised an unrealised gain on its fixed rate loans of NOK 340 million. Hedging instruments used to convert funding in US dollars to Norwegian kroner and KBN's liquidity management portfolio contributed an unrealised loss of NOK 92 million. KBN's unrealised gains and losses are expected to reverse, either as market conditions normalise or as the instruments approach maturity. Sold securities in the liquidity portfolio resulted in realised gains totalling NOK 4 million in the second quarter.

KBN's provision for losses is relatively limited due to the fact that Norwegian municipalities cannot be declared insolvent. KBN's liquidity management portfolio is also of very high credit quality. A change to KBN's provision for losses resulted in NOK 2 million being recognised to income in the second quarter due to the reversal of a previous loss provision. KBN's total operating costs for the second quarter were NOK 60 million, compared to NOK 56 million in the same period in 2020. The increase was in line with expectations. The increase was due to KBN reversing a provision for profit sharing in 2020. KBN operated virtually as normal in the second quarter of 2021 and its costs were little impacted by the coronavirus situation.

Results for the first six months of 2021

KBN's core earnings² in the first half of 2021 totalled NOK 405 million as compared to NOK 456 million in the same period in 2020.

KBN's net interest income in the first half of 2021 was NOK 748 million as compared to NOK 856 million in the same period of 2020. The decrease was primarily due to a decrease in interest income from the liquidity management portfolio as a result of lower money market rates, as well as to the interest expense on KBN's tax liability.

KBN's profit for the period in the first six months of 2021 was NOK 516 million as compared to NOK 385 million in the same period in 2020. The increase was due to unrealised gains on financial instruments in 2021 totalling NOK 109 million as compared to unrealised losses in the corresponding period in 2020 totalling NOK 141 million, the latter resulting from the market turmoil seen in 2020. KBN's total operating costs for the first six months of 2021 were NOK 124 million, compared to NOK 120 million in the first six months of 2020. The increase was due to KBN reversing a provision for profit sharing in 2020.

Based on its result from ordinary activities, KBN's annualised return on equity in the first six months of 2021 was 6.0%, compared to 4.9% in the same period in 2020. Based on its core earnings, KBN's annualised return on equity in the first six months of 2021 was 5.0%, compared to 6.3% in 2020.

² Core earnings equals profit for the period adjusted for net unrealised gain/(loss) on financial instruments after tax and portion allocated to owners of additional Tier 1 capital. The performance measurement is included to give relevant information on earnings from underlying operations.

Table 1
Profit for the period

	Q2 2021	Q2 2020	2020
Profit/(Loss) for the period	119	614	1 159
Net interest income	364	412	1 672
Fees and commission expenses	26	24	115
Net unrealised gain/(loss) on financial instruments	(121)	485	224
Expected credit loss	(2)	(4)	14
Net trading income	4	(19)	25
Total operating expenses	60	56	255
Income tax	44	189	377

Amounts in NOK 1 000 000

Table 2
Comprehensive income
for the period

	Q2 2021	Q2 2020	2020
Total comprehensive income for the period	148	417	1 255
Profit/(Loss) for the period	119	614	1 159
Unrealised change in fair value of liabilities (and related financial derivatives) after tax due to changes in own credit risk	29	(197)	98
Actuarial gain/(loss) on defined benefit plan	-	-	(2)
Tax effect on positions in Statement of comprehensive income	(10)	66	(32)

Amounts in NOK 1 000 000

KBN's total comprehensive income in the first six months of 2021 amounted to NOK 95 million, compared to NOK 601 million in the same period in 2020. The credit spreads for KBN-issued bonds decreased in 2021, as did the spreads for similar types of issuers in the international financial markets. This decrease caused the market value of KBN's debt to increase. An unrealised loss totalling NOK 562 million was thus recognised in the first six months as part of total comprehensive income from a change in the value of KBN's own liabilities. There was an equivalent unrealised gain in the same period in 2020 totalling NOK 287 million.

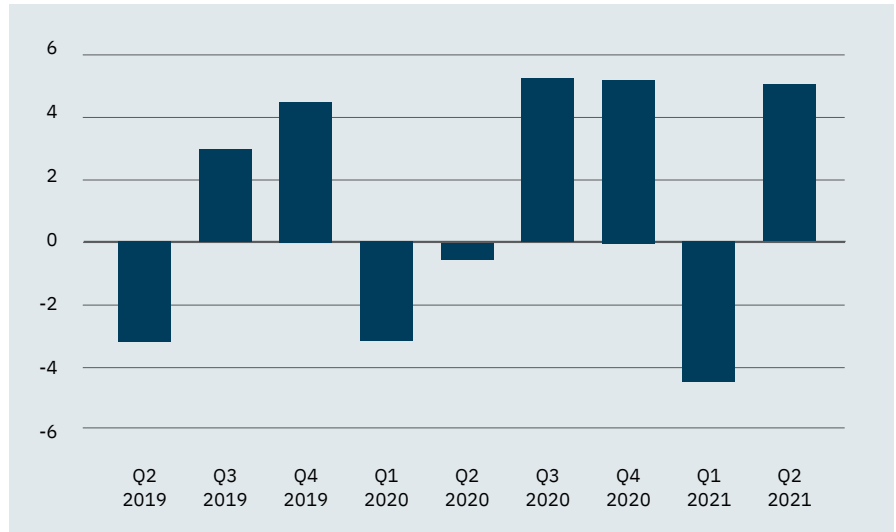
Lending

KBN's lending portfolio totalled NOK 318.2 billion at the end of the second quarter of 2021. In the second quarter of 2021 the lending portfolio grew by NOK 4.7 billion, meaning that it was approximately unchanged from the end of 2020. The rate of growth in KBN's lending portfolio in the first six months of 2021 was significantly stronger than in the first six months of 2020. The second quarter of 2020 was significantly impacted by the uncertainty surrounding the consequences of the coronavirus pandemic.

The growth in the lending portfolio in the second quarter of 2021 was in loans without instalments offered in competition with the capital markets. There continued to be strong competition in the market for local government loans, but KBN's competitive position was somewhat stronger than in the first quarter of 2021. Long-term instalment-based lending decreased by NOK 3.6 billion in the second quarter of 2021 as a result of lower demand for new loans, as well as somewhat larger redemptions of existing loans.

Lending growth

Amounts in
NOK 1 billion



New loan disbursements totalled NOK 15.8 billion in the second quarter of 2021 as compared to NOK 13.1 billion in the second quarter of 2020. These figures include both loans disbursed as new financing and as refinancing for existing loans.

KBN experienced a good level of demand for green loans in the second quarter, with its portfolio of green loans growing by NOK 937 million or 3.5%. The rate of growth in green lending was 6.0% in the first half of 2021. The projects financed by green loans in the quarter included the first phase of a new school in Fjellhamar in Lørenskog, new schools in Holmestrand, and a new quay for Båtsfjord port.

The rate of debt growth in the local government sector was high in 2020, with annual growth according to Statistics Norway's C2 indicator standing at 7.7%. This rate of growth has continued in 2021, with the rate of growth as at the end of May standing at 8.3%. This growth has been driven by large loan disbursements from the Norwegian State Housing Bank, and this was also the case in the first quarter of 2021. The loans in question are start-up loans that finance loans to private individuals, meaning they are outside KBN's market area. After adjusting for such loans, the rate of debt growth was relatively modest in the first six months of 2021.

The growth in KBN's loan portfolio originates mainly from KBN winning a larger share of refinances in competition with the capital markets. There was relatively little demand from the municipal sector for new borrowing in the second quarter. Based on a survey of its customers, KBN expects increasing demand for new loans in the third and fourth quarters. The expected increase in demand applies particularly to long-term instalment-based loans, of which KBN is the most important provider. KBN's market share at the end of the second quarter of 2021 was just over 45%.

Financial markets

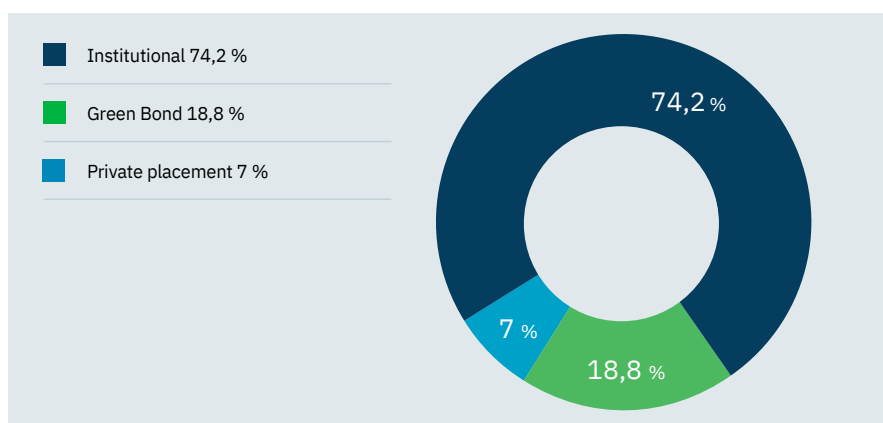
Central banks and other authorities launched extensive economic support measures following the outbreak of coronavirus. The markets responded to this positively, and both equities and long-term interest rates have climbed significantly since the start of the pandemic in the first quarter of 2020. The Oslo stock market is up about 40% over the last year, while the ten-year interest rate in Norway has climbed 0.65 percentage points over the same period.

The credit margins on both local government sector bonds and covered bonds have fallen markedly over the last year. For example, the five-year credit margin for covered bonds at the end of the second quarter of 2021 was 0.10 percentage points lower than at the end of the second quarter of 2020.

Funding KBN's funding activities in the second quarter of 2021 were somewhat less extensive than in the second quarter of 2020 due to a decrease in its need for refinancing. New borrowings in the second quarter of 2021 totalled NOK 22.9 billion through eleven bond issues in four currencies, compared to approximately NOK 24.9 billion in the same period in 2020.

In the second quarter of 2021 KBN became the first Norwegian financial institution to issue a US-dollar bond with SOFR (Secured Overnight Financing Rate) as the benchmark rate. The bond was well received by the market and was significantly

Funding
Investor markets second
quarter 2021



oversubscribed. KBN also issued its first bond in Chinese offshore Yuan (CNH), as well as a new green bond totalling USD 500 million. KBN experienced record demand from investors active in New Zealand dollars, and this resulted in KBN issuing a bond totalling NZD 1 billion, with most investors based locally in New Zealand. KBN also completed additional funding transactions in US dollars, and it also issued two smaller bonds in British pounds. KBN enjoyed good access to a diverse range of markets and currencies in the quarter.

In the first six months of 2021 KBN's new borrowings totalled NOK 63.6 billion as compared to NOK 55.3 billion in the first six months of 2020.

Liquidity management

KBN's liquidity portfolio totalled NOK 108.1 billion at 30 June 2021 as compared to NOK 124.5 billion at 30 June 2020. 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 that are particularly liquid. Investments denominated in foreign currencies represent approximately 70% of the portfolio. Fluctuations in the value of the Norwegian krone relative to other currencies will therefore result in fluctuations in the size of the liquidity portfolio in NOK terms. Some of the reported decrease in the value of the liquidity portfolio in the second quarter of 2021 can be ascribed to the greater strength of the Norwegian krone at the end of June 2021 compared with the end of June 2020.

Capital

At the end of the second quarter of 2021, KBN's total common equity Tier 1 capital was NOK 14.7 billion, its total Tier 1 capital was NOK 17.1 billion, and its total primary capital was NOK 19.1 billion. KBN's total assets at the end of the second quarter amounted to NOK 477 billion, compared to NOK 498 billion at the end of 2020 and NOK 503 billion at the end of the second quarter of 2020. The decrease from the end of 2020 is to a large extent due to the decrease in the size of KBN's liquidity portfolio.

At the end of the second quarter of 2021, KBN had a common equity Tier 1 capital adequacy ratio of 18.1%, a Tier 1 capital adequacy ratio of 21.1%, and a total capital adequacy ratio of 23.5%. The capital adequacy ratio requirements imposed by the authorities at the end of the second quarter were 15.2% (common equity Tier 1 capital), 16.7% (Tier 1 capital) and 18.7% (total capital). On 29 June KBN was informed by the Financial Supervisory Authority of Norway that its Pillar 2 requirement had been updated to 2.2 percentage points, a decrease of 0.1 percentage points. The Norwegian Ministry of Finance has decided that the counter-cyclical buffer requirement to which KBN is subject will increase by 0.5 percentage points with effect from 30 June 2022.

KBN's leverage ratio at the end of the quarter was 3.8%, which compares with the requirement of 3.0%.

Tax

In May 2021 KBN received a decision on changes to its tax assessments for the years 2015-2018. The changes relate to the tax treatment and periodisation of the accrual of financial instruments. Following notification in December 2020 of the change in treatment, KBN prepared its accounts for 2020 in compliance with the treatment expected by the tax authorities.

The changes to the assessments for the period 2015 to 2018 resulted in KBN paying tax in the second quarter of 2021 in respect of previous periods. In the event of such a decision by the tax authorities, the taxpayer is also required to pay interest to compensate for the liquidity benefit to the taxpayer of the delay in payment. This interest expense was recognised in the second quarter of 2021 and amounted in total to NOK 59 million.

The Norwegian Tax Administration's decision implies a change to the timing of taxable income and expense over time, but no change in total taxable income and expense over the lifetime of the instruments. It is KBN's view that the Tax Administration's decision will result in larger and more volatile temporary differences and tax payments but will not have a material effect on KBN's tax expense over time, unless there is a change in the tax rate.

KBN is still in disagreement with the Norwegian Tax Administration on certain matters relating to the tax treatment of the accrual of financial instruments in the accounts and tax assessment. KBN has submitted an appeal against the decision to the Tax Appeals Board.

Future prospects

Norges Bank's Monetary Policy and Financial Stability Committee wrote in connection with its interest rate meeting of 17 June 2021 that "There is still uncertainty regarding the evolution of the pandemic, but economic activity now seems to be rebounding sharply and somewhat faster than projected earlier". On the basis of both economic key figures and the progress being made in overcoming the pandemic, the market is currently pricing in the expectation that there will be one increase in Norwegian interest rates in September and another in December. If these increases happen, three-month Nibor could be in the region of 0.8-0.9% by the end of the year, as compared to the current rate of around 0.25%. A range of countries are now seeing an uptick in inflation, which normally requires interest rates to be raised. Several central banks have stated that they are seeing an uptick in inflation but that they are of the view that this is temporary and the result of short-lived bottlenecks in the economy caused by the pandemic. With the growth in cases of the new delta variant of coronavirus, we are seeing fresh uncertainty in the markets. If we see another global lockdown, the most probable outcome of this will be that there will be lower expectations of interest rate rises going forward.

Credit spreads in the market are at historical lows and were unchanged through the second quarter. The tight spreads can largely be ascribed to the quantitative easing undertaken by the world's major central banks in the form of large purchase programs for bonds and other debt securities. In line with the re-opening in Norway and internationally, such measures are expected to be successively wound down by the central banks. This process is expected to start as early as the second half of 2021 and will continue in the years ahead. As a result of the decrease in demand for bonds and debt securities from central banks, credit spreads are expected to increase somewhat from today's low levels.

In the second quarter of 2021 KBN carried out a survey of its customers regarding their need for borrowing in the time ahead. Based on the responses it received, KBN

expects increasing demand for new loans in the third and fourth quarters of 2021. The expected increase in demand applies particularly to long-term instalment-based loans. KBN is the largest and most important provider of loans in this market.

In 2021 KBN started a collaboration with “Ungt Entreprenørskap” (directly translated: young entrepreneurship). The collaboration is a result of KBN increasing its commitment to social sustainability. The project’s focus is on social entrepreneurship and sustainability at the lower secondary school level in the form of a program that involves pupils starting their own businesses. In the first phase, the project will involve the counties of Møre og Romsdal, Nordland, Viken and Rogaland, with others joining over time. KBN is looking forward to developing this collaboration further in the time ahead.

Statement by the Board of Directors

We confirm that the half-year financial statements for the period 1 January 2021 to 30 June 2021 have, to the best of our knowledge, been prepared in accordance with IAS 34 Interim Financial Reporting, and that the information contained in the financial statements gives 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 half-year report provides a true and fair overview of important events during the accounting period and their effects on the half-year financial statements, and also of the material risks and uncertainties facing the company during the next accounting period.

Oslo, 30 July 2021

The Board of Directors of Kommunalbanken AS

Interim condensed financial information

INCOME STATEMENT

<i>(Amounts in NOK 1 000 000)</i>	Note	April-June 2021	January-June 2021	April-June 2020	January-June 2020	2020
<i>Interest income from assets measured at amortised cost</i>		512	1 046	888	2 272	3 258
<i>Interest income from assets measured at fair value</i>		339	690	732	1 781	2 442
Total interest income		852	1 736	1 620	4 053	5 700
Total interest expense		488	989	1 208	3 198	4 028
Net interest income	1	364	748	412	856	1 672
Fees and commission expenses		26	51	24	59	115
Net unrealized gain/(loss) on financial instruments	2	(121)	109	485	(141)	224
Expected credit loss	6	(2)	(1)	(4)	25	14
Net trading income		4	8	(19)	(16)	25
Total other operating income		(142)	68	446	(239)	120
Salaries and administrative expenses		34	76	30	70	147
Depreciation on fixed assets		8	14	6	12	25
Other expenses		18	33	19	39	84
Total operating expenses		60	124	56	120	255
Profit before tax		163	692	804	495	1 537
Income tax		44	175	189	110	377
Profit for the period		119	516	614	385	1 159
Portion allocated to shareholder		104	487	602	357	1 095
Portion allocated to owners of additional Tier 1 capital		15	29	13	28	64

STATEMENT OF COMPREHENSIVE INCOME

<i>(Amounts in NOK 1 000 000)</i>	Note	April-June 2021	January-June 2021	April-June 2020	January-June 2020	2020
Profit for the period		119	516	614	385	1 159
Other comprehensive income						
<i>Items which will not be reclassified to profit or loss</i>						
Change in fair value of liabilities due to changes in own credit risk	9	39	(562)	(262)	287	130
Actuarial gain/(loss) on defined benefit plan		0	0	0	0	(2)
<i>Tax effect</i>		(10)	141	66	(72)	(32)
Total other comprehensive income		29	(422)	(197)	215	96
Total comprehensive income for the period		148	95	417	601	1 255

STATEMENT OF FINANCIAL POSITION

<i>(Amounts in NOK 1 000 000)</i>	Note	30 June 2021	30 June 2020	31 December 2020
Assets				
Deposits with credit institutions	3,4	21 223	32 249	18 950
Other money market deposits	3	0	488	1 712
Instalment loans	3,4,5,6	320 393	311 729	321 874
Notes, bonds and other interest-bearing securities	3,4,6,7,8	110 878	128 973	127 108
Financial derivatives	3,4	20 649	26 941	25 176
Deferred tax asset		3 195	1 954	3 230
Other assets		169	171	169
Total assets		476 507	502 505	498 219
Liabilities and equity				
Loans from credit institutions	3,4	11 261	14 658	13 871
Commercial paper	3,4	18 745	4 580	20 045
Senior securities issued	3,4,9	407 701	423 699	413 717
Financial derivatives	3,4	17 494	35 571	28 341
Other liabilities		80	73	63
Current tax liabilities		581	3 868	1 501
Deferred tax liabilities		0	0	0
Pension liabilities		37	36	37
Subordinated debt	3,4	2 024	2 125	2 106
Total liabilities		457 923	484 610	479 681
Share capital		3 895	3 895	3 895
Additional Tier 1 capital		2 392	2 392	2 392
Retained earnings		11 781	11 223	12 251
Profit for the period		516	385	
Total equity	10	18 583	17 894	18 538
Total liabilities and equity		476 507	502 505	498 219

STATEMENT OF CHANGES IN EQUITY

(Amounts in NOK 1 000 000)

	1 January - 30 June 2021				
	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 2020	3 895	2 392	(297)	12 547	18 538
Profit for the period	0	0	0	516	516
Other comprehensive income—value change on liabilities due to changes in own credit risk	0	0	(422)	0	(422)
Other comprehensive income—actuarial gain/loss	0	0	0	0	0
Interest paid on Tier 1 capital	0	0	0	(49)	(49)
Dividends for 2020	0	0	0	0	0
Equity as of 30 June 2021	3 895	2 392	(719)	13 014	18 583

	1 January - 30 June 2020				
	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 2019	3 145	2 189	(395)	11 460	16 401
Profit for the period	0	0	0	385	385
Other comprehensive income—value change on liabilities due to changes in own credit risk	0	0	215	0	215
Other comprehensive income—actuarial gain/loss	0	0	0	0	0
Interest paid on Tier 1 capital	0	0	0	(60)	(60)
Call of Tier 1 capital	0	(994)	0	0	(994)
Issuance of Tier 1 capital	0	1 197	0	0	1 197
Issue of share capital	750	0	0	0	750
Dividends for 2019	0	0	0	0	0
Equity as of 30 June 2020	3 895	2 392	(179)	11 786	17 894

	1 January - 31 December 2020				
	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 2019	3 145	2 189	(395)	11 460	16 401
Profit for the period	0	0	0	1 159	1 159
Other comprehensive income—value change on liabilities due to changes in own credit risk	0	0	97	0	97
Other comprehensive income—actuarial gain/loss	0	0	0	(2)	(2)
Interest paid on Tier 1 capital	0	0	0	(64)	(64)
Call of Tier 1 capital	0	(994)	0	0	(994)
Issuance of Tier 1 capital	0	1 197	0	(5)	1 192
Issue of share capital	750	0	0	0	750
Dividends for 2019	0	0	0	0	0
Equity as of 31 December 2020	3 895	2 392	(297)	12 547	18 538

STATEMENT OF CASH FLOWS

<i>(Amounts in NOK 1 000 000)</i>	January-June 2021	January-June 2020	2020
Cash flows from operating activities			
Interest received	1 782	4 577	6 371
Interest paid	(986)	(3 175)	(4 653)
Fees and commissions paid	(15)	(50)	(115)
Receipts from repurchase of issued securities	8	(16)	25
Cash payments to employees and suppliers	(106)	(105)	(224)
Income taxes paid	(920)	0	(3 872)
Net disbursement of loans to customers	(29)	3 084	(8 466)
Net (increase)/decrease in deposits with credit institutions	(2 959)	1 509	10 132
Net (increase)/decrease in notes, bonds and other interest-bearing securities	14 230	(10 600)	(12 801)
Net (increase)/decrease in other assets	(5)	7	(4)
Net increase/(decrease) in other liabilities	(42)	1	4
Net (increase)/decrease in financial derivatives	(10 264)	24 904	(7 021)
Net cash flows from operating activities	694	20 137	(20 624)
Cash flows from investing activities			
Net (purchase)/sales of property and equipment	(10)	(16)	(16)
Net cash flows from investing activities	(10)	(16)	(16)
Cash flows from financing activities			
Proceeds from issuance of commercial paper	176 596	30 142	198 006
Repayment of commercial paper	(178 305)	(28 816)	(180 621)
Repayment on lease obligation	(3)	(3)	(7)
Proceeds from issuance of debt securities	63 638	55 252	107 823
Repayment of debt securities	(62 276)	(77 619)	(106 301)
Proceeds from issuance of additional Tier 1 capital	0	1 196	1 196
Repayment of Tier 1 capital	0	(1 000)	(1 000)
Interest paid on Tier 1 capital	(49)	(55)	(68)
Dividends paid	0	0	0
Paid in share capital	0	750	750
Net cash flows from financing activities	(399)	(20 152)	19 778
Net cash flows	285	(31)	(862)
Effects of foreign exchange differences	3	329	539
Net cash flows after foreign exchange differences	288	297	(268)
Cash and cash equivalents at 1 January	190	459	459
Net change in cash and cash equivalents	288	297	(268)
Cash and cash equivalents at end of period	478	756	190
Whereof			
<i>Deposits with credit institutions without agreed time to maturity</i>	478	756	190
<i>Loans from credit institutions without agreed time to maturity</i>	0	0	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 2021 are prepared in accordance with IAS 34 *Interim Financial Reporting*, and follow the same accounting policies as presented in the annual financial statements for 2020, with following clarifications:

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 mar-

ket conditions on the reporting date, they may increase the uncertainty related to carrying amounts.

Work on reforming the current benchmark interest rate is ongoing as planned and some of the IBOR interest rates will be replaced at the end of 2021. KBN has a number of contracts with terms related to such benchmark interest rates and will be affected by the changes. The bank follows developments both in connection with changes in accounting standards and otherwise. In August 2020, the IASB published the results of phase 2 of its work in this area. The changes is implemented from 1 January 2021, which resulted in some adjustments in IFRS9. There hasn't been any major changes in KBNs accounting principle related to these adjustments.

Interest on tax liabilities is treated similarly as other interest items of financial liabilities in the bank, and is recorded in net interest income.

NOTE 1

NET INTEREST INCOME

(Amounts in NOK 1 000 000)

April-June 2021	Total	At fair value				Amortised cost
		Fair value option	Mandatory at fair value	Fair value hedge	Total at fair value	
Deposits with credit institutions	(10)	0	0	0	0	(10)
Other money market deposits	(1)	0	0	0	0	(1)
Instalment loans	982	493	0	0	493	489
Notes, bonds and other interest-bearing securities	146	112	0	0	112	34
Financial derivatives	(265)	0	(265)	0	(265)	0
Total interest income	852	605	(265)	0	339	512
Loans from credit institutions	0	0	0	0	0	0
Commercial paper	11	0	0	0	0	11
Senior securities issued	1 660	935	0	0	935	725
Financial derivatives	(1 257)	0	(670)	(586)	(1 257)	0
Subordinated debt	15	15	0	0	15	0
Other interest expenses ¹⁾	59	0	0	0	0	59
Total interest expenses	488	950	(670)	(586)	(307)	795
Net interest income	364	(345)	405	586	647	(283)

¹⁾Interest expense on taxes due to changed tax assessment for previous years

January-June 2021	Total	At fair value			Amortised cost
		Fair value option	Mandatory at fair value	Fair value hedge	
Deposits with credit institutions	(20)	0	0	0	(20)
Other money market deposits	(4)	0	0	0	(4)
Instalment loans	1 981	989	0	0	989
Notes, bonds and other interest-bearing securities	236	158	0	0	158
Financial derivatives	(457)	0	(457)	0	(457)
Total interest income	1 736	1 147	(457)	0	690
Loans from credit institutions	0	0	0	0	0
Commercial paper	25	0	0	0	25
Senior securities issued	3 509	1 990	0	0	1 990
Financial derivatives	(2 635)	0	(1 498)	(1 137)	(2 635)
Subordinated debt	30	30	0	0	30
Other interest expenses ¹⁾	59	0	0	0	59
Total interest expenses	989	2 021	(1 498)	(1 137)	(614)
Net interest income	748	(874)	1 041	1 137	(557)

¹⁾Interest expense on taxes due to changed tax assessment for previous years

April-June 2020	Total	At fair value			Amortised cost
		Fair value option	Mandatory at fair value	Fair value hedge	
Deposits with credit institutions	(2)	0	0	0	(2)
Other money market deposits	(2)	0	0	0	(2)
Instalment loans	1 347	539	0	0	539
Notes, bonds and other interest-bearing securities	571	486	0	0	486
Financial derivatives	(293)	0	(293)	0	(293)
Total interest income	1 620	1 026	(293)	0	732
Loans from credit institutions	(1)	0	0	0	(1)
Commercial paper	0	0	0	0	0
Senior securities issued	2 555	1 553	0	0	1 553
Financial derivatives	(1 362)	0	(977)	(385)	(1 362)
Subordinated debt	15	15	0	0	15
Total interest expenses	1 208	1 568	(977)	(385)	206
Net interest income	412	(542)	683	385	(114)

January-June 2020	Total	At fair value			Amortised cost
		Fair value option	Mandatory at fair value	Fair value hedge	
Deposits with credit institutions	(2)	0	0	0	(2)
Other money market deposits	(8)	0	0	0	(8)
Instalment loans	3 133	1 074	0	0	2 059
Notes, bonds and other interest-bearing securities	1 560	1 337	0	0	223
Financial derivatives	(630)	0	(630)	0	0
Total interest income	4 053	2 412	(630)	0	2 272
Loans from credit institutions	(1)	0	0	0	(1)
Commercial paper	39	0	0	0	39
Senior securities issued	5 191	2 725	0	0	2 466
Financial derivatives	(2 061)	0	(1 422)	(639)	0
Subordinated debt	30	30	0	0	0
Total interest expenses	3 198	2 754	(1 422)	(639)	2 505
Net interest income	856	(343)	792	639	(232)

2020	Total	At fair value			Amortised cost
		Fair value option	Mandatory at fair value	Fair value hedge	
Deposits with credit institutions	(18)	0	0	0	(18)
Other money market deposits	(13)	0	0	0	(13)
Instalment loans	5 125	2 111	0	0	3 013
Notes, bonds and other interest-bearing securities	1 780	1 504	0	0	276
Financial derivatives	(1 173)	0	(1 173)	0	0
Total interest income	5 700	3 615	(1 173)	0	3 258
Loans from credit institutions	(1)	0	0	0	(1)
Commercial paper	6	0	0	0	6
Senior securities issued	9 371	5 198	0	0	4 174
Financial derivatives	(5 409)	0	(3 559)	(1 851)	0
Subordinated debt	61	61	0	0	0
Total interest expenses	4 028	5 259	(3 559)	(1 851)	4 179
Net interest income	1 672	(1 644)	2 386	1 851	(921)

NOTE 2

Net unrealised gain/(loss) on financial instruments

<i>(Amounts in NOK 1 000 000)</i>	April-June 2021	January-June 2021	April-June 2020	January-June 2020	2020
Instalment loans	69	(1 404)	844	4 163	2 842
Notes, bonds and other interest-bearing securities	(95)	(365)	(438)	855	443
Financial derivatives	1 709	(2 039)	3 183	1 233	2 103
Senior securities issued	(1 791)	3 865	(3 091)	(6 224)	(5 047)
Subordinated debt	(12)	52	(13)	(167)	(118)
Net unrealised gain/(loss) on financial instruments	(121)	109	485	(141)	224

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 table above. Such fair value changes are recognised in Other comprehensive income in the Statement of comprehensive income. 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.

Changes in fair value are the result of changes in market prices, mainly prices on bonds, interest rates, credit spreads, basis swap spreads and FX rates, and are reflected in carrying amounts in the Statement of financial position and in the Income statement. As KBN takes very limited currency and interest rate risk, the changes in relevant parameters will mostly be symmetric on the asset and liabilities sides of the Statement of financial position and therefore to a small extent give rise to net effects in the income statement. Changes in credit spreads for investments in the liquidity portfolio, fixed rate instalment loans and issued bonds may on the other hand lead to significant income statement effects, as may changes in basis swap spreads.

Of Total unrealised losses of NOK 121 million in the second quarter of 2021, Instalment loans and associated hedging contracts contribute with a loss of 30 million krone. Notes, bonds and other interest-bearing securities and their associated hedging contracts contribute with a loss of NOK 33 million, mainly due to a widening of credit spreads. Senior securities issued and related hedging derivatives contribute with a loss of NOK 58 million, mainly due to a widening of the basis spreads.

Recognised value changes on financial instruments in fair value hedges amount to NOK 9 million in the second quarter of 2021. This amount is included in the above table as net unrealized changes in value. The carrying amount of financial instruments included in fair value hedges amounts to NOK 187 billion.

NOTE 3

Classification of financial instruments

(Amounts in NOK 1 000 000)

At 30 June 2021	Total	At fair value			Amortised cost
		Fair value option	Mandatory at fair value	Fair value hedge	
Deposits with credit institutions	21 223	0	0	0	21 223
Other money market deposits	0	0	0	0	0
Instalment loans	320 393	109 794	0	0	210 599
Notes, bonds and other interest-bearing securities	110 878	83 790	0	0	27 088
Financial derivatives	20 649	0	16 660	3 988	0
Total financial assets	473 143	193 584	16 660	3 988	258 909

Loans from credit institutions	11 261	0	0	0	11 261
Commercial paper	18 745	0	0	0	18 745
Senior securities issued	407 701	187 842	0	0	219 859
Financial derivatives	17 494	0	15 981	1 514	0
Subordinated debt	2 024	2 024	0	0	0
Total financial liabilities	457 226	189 866	15 981	1 514	249 865

At 30 June 2020	Total	At fair value			Amortised cost
		Fair value option	Mandatory at fair value	Fair value hedge	
Deposits with credit institutions	32 249	0	0	0	32 249
Other money market deposits	488	0	0	0	488
Instalment loans	311 729	105 428	0	0	206 301
Notes, bonds and other interest-bearing securities	128 973	99 317	0	0	29 656
Financial derivatives	26 941	0	18 814	8 127	0
Total financial assets	500 380	204 744	18 814	8 127	268 694

Loans from credit institutions	14 658	0	0	0	14 658
Commercial paper	4 580	0	0	0	4 580
Senior securities issued	423 699	174 834	0	0	248 865
Financial derivatives	35 571	0	35 571	0	0
Subordinated debt	2 125	2 125	0	0	0
Total financial liabilities	480 632	176 959	35 571	0	268 103

At 31 December 2020	Total	At fair value			Amortised cost
		Fair value option	Mandatory at fair value	Fair value hedge	
Deposits with credit institutions	18 950	0	0	0	18 950
Other money market deposits	1 712	0	0	0	1 712
Instalment loans	321 874	110 423	0	0	211 452
Notes, bonds and other interest-bearing securities	127 108	101 225	0	0	25 883
Financial derivatives	25 176	0	18 589	6 587	0
Total financial assets	494 820	211 647	18 589	6 587	257 997

Loans from credit institutions	13 871	0	0	0	13 871
Commercial paper	20 045	0	0	0	20 045
Senior securities issued	413 717	175 317	0	0	238 400
Financial derivatives	28 341	0	28 033	309	0
Subordinated debt	2 106	2 106	0	0	0
Total financial liabilities	478 080	177 423	28 033	309	272 316

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 2020 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 2021 are distributed in the following way in the fair value hierarchy:

<i>(Amounts in NOK 1 000 000)</i>	Level 1	Level 2	Level 3	Total
Deposits with credit institutions	0	0	0	0
Other money market deposits	0	0	0	0
Instalment loans	0	13 610	96 185	109 794
Notes, bonds and other interest-bearing securities	75 920	1 183	6 687	83 790
Financial derivatives	0	19 367	1 281	20 649
Total financial assets measured at fair value	75 920	34 160	104 153	214 233
Loans from credit institutions	0	0	0	0
Commercial paper	0	0	0	0
Senior securities issued	14 724	134 579	38 538	187 842
Financial derivatives	0	9 385	8 110	17 494
Subordinated debt	0	0	2 024	2 024
Total financial liabilities measured at fair value	14 724	143 964	48 672	207 360

Reconciliation of movements in Level 3

<i>(Amounts in NOK 1 000 000)</i>	Instalment loans	Notes, bonds and other interest-bearing securities	Senior securities issued	Subordinated debt	Financial derivatives
Carrying amount at 31 December 2020	95 879	7 768	48 687	2 106	(6 302)
Purchase	0	2 398	0	0	253
Sale	0	0	0	0	0
Issue	9 860	0	2 981	0	0
Settlement	(9 102)	(1 436)	(12 418)	0	(884)
Transfer into Level 3	794	351	0	0	0
Transfer out of Level 3	(975)	(1 734)	0	0	0
Gain/(loss) recognised in the period	(271)	(661)	(713)	(82)	104
Carrying amount at 30 June 2021	96 185	6 687	38 537	2 024	(6 828)

Net holdings amounting to NOK 0.8 billion have been transferred from Level 2 to Level 1 in 2021. There are net transfers of NOK 1.6 billion out of Level 3 during 2021. 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 2021:

<i>(Amounts in NOK 1 000 000)</i>	30 June 2021
Instalment loans	(376)
Notes, bonds and other interest-bearing securities	(15)
Financial derivatives	(88)
Senior securities issued	87
Subordinated debt	13
Total	(379)

NOTE 5

Instalment loans

<i>(Amounts in NOK 1 000 000)</i>	30 June 2021	30 June 2020	31 December 2020
Principal amount	318 284	306 705	318 230
Accrued interest	877	1 080	985
Fair value adjustment	1 255	3 979	2 659
Expected credit loss	(23)	(35)	(25)
Total instalment loans	320 393	311 729	321 849

NOTE 6

Expected credit loss

Changes in expected credit losses on instalment loans and bond investments of NOK 2 million (reduction) were recorded in the second quarter of 2021, mainly based on lower probability of default (PD).

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.

<i>(Amounts in NOK 1 000 000)</i>	30 June 2021		31 December 2020
	Carrying amount	Expected credit loss	Expected credit loss
Instalment loans	210 599	(23)	(25)
Notes, bonds and other interest-bearing securities	27 088	(2)	(1)
Total	237 687	(25)	(26)

The below table shows a specification of the period's change in expected credit loss that is recognised in the income statement:

<i>(Amounts in NOK 1 000)</i>	April-June 2021	January-June 2021	2020
Instalment loans	2 291	1 652	(13 273)
Notes, bonds and other interest-bearing securities	58	(560)	(259)
Total	2 349	1 093	(13 532)

The following table shows an allocation of KBN's expected credit losses as at 30 June 2021 to stage 1, 2 and 3. According to the impairment principles described in IFRS 9 *Financial Instruments*, 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.

All exposures are estimated to be in Stage 1, which has remained unchanged since 2018.

<i>(Amounts in NOK 1 000 000)</i>	Stage 1	Stage 2	Stage 3
Instalment loans	(23)	0	0
Notes, bonds and other interest-bearing securities	(2)	0	0
Total expected credit loss	(25)	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 2021	30 June 2020	31 December 2020
Domestic			
Issued by other borrowers	17 688	18 866	17 415
Foreign			
Issued by public bodies ¹	76 462	87 962	61 557
Issued by other borrowers	16 729	22 146	48 137
Total notes, bonds and other interest-bearing securities	110 878	128 973	127 108

¹Issued 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 2021	30 June 2020	31 December 2020
Under 1 year	44 948	41 317	48 296
1-5 years	65 929	86 994	78 637
Over 5 years	1	662	175
Total notes, bonds and other interest-bearing securities	110 878	128 973	127 108
Average time to maturity (years)*	1.73	1.95	1.64

*Average time to maturity shown in the table above applies to Notes, bonds and other interest-bearing securities, but not to money market deposits. These are presented on the line Deposits with credit institutions. Including such deposits, the average time to maturity of liquid assets is 1.60 years as of June 30, 2021.

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)

Time to maturity	Exposure as at 30 June 2021									
	< 1 year				> 1 year					
Risk class	A-1	A-2	A-3	Not rated	BBB	A	AA	AAA	Not rated	
Sovereigns and central banks	17 924	0	0	0	0	2 354	17 497	800	0	38 574
Multilateral development banks	2 467	0	0	0	0	0	94	5 704	0	8 265
Regional authorities	8 752	0	0	2 508	0	1 658	11 866	2 329	2 510	29 623
Financial institutions	0	0	0	0	0	0	0	0	0	0
Securitisation	0	0	0	0	0	0	0	1	0	1
Covered bonds	7 426	0	0	5 871	0	0	2 919	18 199	0	34 415
Total	36 568	0	0	8 379	0	4 012	32 374	27 034	2 510	110 878

NOTE 9

Senior securities issued

(Amounts in NOK 1 000 000)	30 June 2021	30 June 2020	31 December 2020
Senior securities issued (nominal amounts) as at 1 January	405 451	400 489	400 489
New issuance	63 638	55 252	107 822
Redemptions	(62 482)	(78 319)	(107 727)
Amortisation	206	700	1 425
Translation differences	(3 643)	35 839	3 441
Senior securities issued (nominal amounts) as at end of period	403 169	413 961	405 451
Accrued interest	3 895	4 779	4 327
Fair value adjustment	636	4 959	3 939
<i>Of which value change that is due to change in own credit risk</i>	<i>959</i>	<i>239</i>	<i>397</i>
<i>Of which value change that is due to other reasons</i>	<i>(322)</i>	<i>4 719</i>	<i>3 542</i>
Total senior securities issued	407 701	423 699	413 717

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 2021	30 June 2020	31 December 2020
<i>Common equity Tier 1 capital</i>			
Share capital	3 895	3 895	3 895
Retained earnings	11 781	11 223	11 092
Profit for the period included in Tier 1 capital	516	385	1 159
Pension funds above pension commitments	0	0	0
Deferred tax asset*	(1 564)	(430)	(1 611)
Intangible assets	(135)	(118)	(131)
Dividends payable	(323)	(299)	0
Other additions/deductions in common equity Tier 1 capital	578	149	171
Share of nulled unamortised estimate differences	0	0	0
Total common equity Tier 1 capital	14 747	14 805	14 574
Other approved Tier 1 capital	2 392	2 392	2 392
Total Tier 1 capital	17 139	17 196	16 966
<i>Supplementary capital</i>			
Ordinary subordinated debt	2 000	2 000	2 000
Total supplementary capital	2 000	2 000	2 000
Total primary capital	19 139	19 196	18 966

*For deferred tax asset that rely on future profitability and is related to temporary differences, the share that exceeds 10 % of common equity Tier 1 capital is deducted from primary capital. The remainder is added to RWA with a risk weight of 250 %.

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 2021		30 June 2020	31 December 2020	
	Carrying amount	Risk-weighted assets	Minimum capital requirements	Minimum capital requirements	Minimum capital requirements
Credit risk					
Sovereigns and central banks	38 575	0	0	0	0
Regional governments and local authorities	345 064	64 387	5 151	5 015	5 176
<i>Of which are Norwegian municipalities</i>	320 373	64 387	5 151	5 015	5 176
Public sector entities	4 948	0	0	0	0
Multilateral development banks	8 266	0	0	0	0
Financial institutions	26 984	3 676	294	263	164
<i>Of which counterparty exposure on derivatives</i>	18 291	1 937	155	165	160
Claims secured by residential property	21	21	2	2	2
Covered bonds	34 473	3 447	276	326	292
Other assets	1 643	4 089	327	306	325
Securitisation	1	0		0	0
			0		
Credit Valuation Adjustment	153	1 914	153	353	260
Total credit risk	460 128	77 535	6 203	6 265	6 219
Market risk	0	0	0	0	0
Operational risk—Basic Indicator Approach		3 772	302	310	302
Minimum capital requirements		81 307	6 505	6 575	6 521
Total capital ratio			23.5%	23.4%	23.3%
Tier 1 capital adequacy ratio			21.1%	20.9%	20.8%
Common equity Tier 1 capital adequacy ratio			18.1%	18.0%	17.9%
Leverage ratio			3.8%	3.7%	3.7%



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