

2022

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.



Vikhammer lower secondary school. A new lower secondary school is being built for about 450 pupils. The building includes a cultural center, youth center and a cultural school. There will be a low energy demand and a solar panel of 1900 square meters. The construction site and transport will be fossil free. Environmentally friendly artificial grass will cover the sports field, and the building will be heated with a district heating system. The project has received a grant from Klimasats to early steps of project planning. Photo: iStock - Illustration: LINK Arkitektur.

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

<i>(Amounts in NOK 1 000 000)</i>	January-June 2022	January-June 2021	2021
RESULTS			
Net interest income	913	748	1 585
Core earnings ¹	591	405	908
Profit for the period	(429)	516	1 208
Cost/income ratio (per cent) ²	14.9%	17.5%	16.4%
Return on equity after tax ³	(5.6%)	6.0%	7.1%
Return on equity after tax (core earnings) ⁴	7.1%	5.0%	5.6%
Return on assets after tax ⁵	(0.2%)	0.2%	0.3%
LENDING			
New disbursements	14 194	21 759	48 547
Outstanding loans ⁶	316 708	318 284	323 018
12 month lending growth in percent ⁷	(0.5%)	3.8%	1.5%
Green loans ⁸	36 003	27 685	32 876
Share of green loans in lending portfolio	11.4%	8.7%	10.2%
Share of municipalities with green loans ⁹	36.9%	34.4%	35.5%
LIQUIDITY PORTFOLIO⁶	107 642	108 123	110 837
BORROWINGS			
New long-term borrowings	47 474	63 638	96 550
Total borrowings ⁶	430 562	403 169	395 385
TOTAL ASSETS	495 546	476 507	473 064
EQUITY			
Equity	18 100	18 583	19 081
Common equity Tier 1 capital adequacy ratio	17.6%	18.1%	18.8%
Leverage ratio	3.7%	3.8%	3.9%

	January-June 2022	January-June 2021	2021
LIQUIDITY COVERAGE RATIO (LCR)¹⁰			
Total	318%	272%	175%
NOK	65%	58%	71%
EUR	198%	359%	140%
USD	266%	202%	137%
AUD	122%	1 103%	1 082%
JPY	Insignificant	2 661%	Insignificant
GBP	Infinite	Infinite	733%
OTHER KEY FIGURES			
Market share ¹¹	42.4%	45.1%	44.9%
Percentage of women employed in KBN	45%	42%	46%
Emissions in CO ₂ e ¹²	37.7	22.1	40.3

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 Operating expenses as a percentage of sum Net interest income and Total other operating income adjusted for Net unrealised gain (loss) on financial instruments.

³ 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.

⁴ Core earnings as a percentage of average equity (annualized).

⁵ Share of Profit for the year allocated to shareholders as a percentage of average assets (annualized). Average assets are calculated based on monthly assets.

⁶ Principal amounts.

⁷ 12-month lending growth based on total lending (principal amounts).

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. Total outstanding green loans are NOK 38.2 billion.

⁹ Percentage of municipalities in KBN's lending portfolio with green loans as of 30.6.2022.

¹⁰ 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.

¹¹ The market share is calculated based on lending to sector 6500 from KBN divided by total lending to the same sector based on Statistics Norway's K2 reporting.

¹² KBN's calculated emissions.

See also the overview and description of alternative performance measures published on kbn.com

Board of Director's report

Good growth in KBN's core earnings – turmoil in the financial markets impacted KBN's unrealised profit and loss

KBN's net interest income in the second quarter of 2022 was NOK 477 million as compared to NOK 364 million in the same period in 2021. KBN's lending portfolio decreased by NOK 4.0 billion in the second quarter of 2022 primarily as a result of KBN's desire to reduce its provisions of loans with maturities of 12 months and under. KBN's green lending grew by NOK 1.5 billion in the second quarter of 2022. KBN's result for the period in the second quarter of 2022 was a loss of NOK 77 million as compared to a profit of NOK 119 million in the second quarter of 2021. The decrease in KBN's profit for the period was the result of unrealised losses on financial instruments caused by market turmoil.

Results for the quarter

KBN's core earnings¹ totalled NOK 342 million in the second quarter, compared to NOK 195 million in the second quarter of 2021. The main explanation for the increase in KBN's core earnings was higher net interest income.

KBN's net interest income in the second quarter of 2022 totalled NOK 477 million as compared to NOK 364 million in the same period in 2021. The main reason for the increase in net interest income was rising interest rates in combination with higher lending margins. Market interest rates increased in the quarter as a result of expected increases to Norges Bank's key policy rate. Norges Bank raised its key policy rate by 0.50 percentage points at its monetary policy committee meeting on 22 June 2022. KBN decided on an interest rate increase of 0.45 percentage points with effect from 14 July as a result of the increase to Norges Bank's key policy rate.

KBN's result for the period in the second quarter of 2022 was a loss of NOK 77 million as compared to a profit of NOK 119 million in the second quarter of 2021. The market turmoil and its impact on credit spreads in the second quarter of 2022 resulted in KBN recognising significant unrealised losses in connection with the measurement of the fair value of its financial instruments, and this is the reason for the decrease in the result for the period. In the second quarter of 2022, KBN recognised unrealised losses on financial instruments totalling NOK 583 million, while in the second quarter of 2021 it recognised unrealised losses totalling NOK 121 million. The portion of KBN's fixed-rate lending that is carried at fair value

1. Profit after tax for the quarter adjusted for unrealised gains or losses on financial instruments after tax and the portion allocated to owners of additional Tier 1 capital. This result measure is included to give relevant information about the company's underlying operations.

contributed an unrealised loss of NOK 508 million in the second quarter of 2022, as compared to an unrealised loss of NOK 30 million in the same period in 2021. KBN started to apply hedge accounting to all its new fixed-rate lending with effect from 1 January 2022. The application of hedge accounting to KBN's fixed-rate lending will over time reduce the size of the portfolio of fixed-rate loans carried at fair value, and this will reduce the unrealised gains and losses included in KBN's earnings. For the first six months of 2022, hedge accounting was used for loans totalling NOK 7.2 billion, which is equivalent to 7% of KBN's portfolio of fixed-rate loans.

KBN's liquidity portfolio and associated hedging instruments contributed an unrealised loss of NOK 89 million for the second quarter, while KBN's own bonds and associated hedging instruments contributed an unrealised gain of NOK 13 million to its result from ordinary activities. KBN's unrealised gains and losses are expected to reverse, either as market conditions normalise or as the instruments approach maturity. Sales of securities from the liquidity portfolio resulted in realised gains totalling NOK 6 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. KBN reduced its provision for losses in the second quarter by NOK 7 million.

KBN's total operating costs for the second quarter were NOK 63 million, compared to NOK 60 million in the same period in 2021.

Results for the first six months of 2022

KBN's core earnings² in the first half of 2022 totalled NOK 591 million as compared to NOK 405 million in the same period in 2021.

KBN's net interest income in the first half of 2022 was NOK 913 million as compared to NOK 748 million in the same period of 2021. The increase was primarily due to higher interest rates in combination with higher lending margins.

KBN's result for the period in the first six months of 2022 was a loss of NOK 429 million as compared to a profit of NOK 516 million in the same period in 2021. The decrease was due to unrealised losses on financial instruments in 2022, which were caused by the turmoil in the global financial markets. KBN's total operating costs for the first six months of 2022 were NOK 129 million, compared to NOK 124 million in the first six months of 2021. The increase was due to an increase in KBN's staffing costs. KBN's headcount, including temporary employees, increased from 86 at the end of June 2021 to 88 at the end of June 2022. KBN's cost-to-income ratio for the first six months of 2022 was 14.9%, compared to 17.5% in the same period in 2021. The reason for the decrease in the cost-to-income ratio was the increase in KBN's income.

Based on its result from ordinary activities, KBN's annualised return on equity in the first six months of 2022 was -5.6%, compared to 6.0% in the same period in 2021. Based on its core earnings, KBN's annualised return on equity in the first six months of 2022 was 7.1%, compared to 5.0% in 2021.

The credit spreads on KBN's bonds have increased in 2022, with equivalent types of issuer in the international financial markets also seeing higher spreads. Higher

² Profit after tax for the year to date adjusted for unrealised gains or losses on financial instruments after tax and the portion allocated to owners of additional Tier 1 capital. This performance measure is included to give relevant information about the company's underlying operations.

Profit for the period
Amounts in NOK 1 million

	Q2 2022	Q2 2021	2021
Profit/(Loss) for the period	(77)	119	1 208
Net interest income	477	364	1 585
Fees and commission expenses	37	26	106
Net unrealised gain/(loss) on financial instruments	(583)	(121)	322
Expected credit loss	(7)	(2)	0
Net trading income	6	4	73
Total operating expenses	63	60	255
Income tax	(116)	44	411

Comprehensive income for the period
Amounts in NOK 1 million

	Q2 2022	Q2 2021	2021
Total comprehensive income for the period	(107)	148	602
Profit/(Loss) for the period	(77)	119	1 208
Unrealised change in fair value of liabilities (and related financial derivatives) after tax due to changes in own credit risk	(30)	29	(607)
Actuarial gain/(loss) on defined benefit plan	0	0	1
Tax effect on positions in Statement of comprehensive income	10	(10)	202

credit spreads cause the market value of KBN's debt to decrease. An unrealised gain totalling NOK 196 million was thus recognised in the first six months of 2022 as part of total comprehensive income from a change in the value of KBN's own liabilities. There was an equivalent unrealised loss in the same period in 2021 totalling NOK 562 million. KBN's total comprehensive income in the first six months of 2022 amounted to NOK -282 million, as compared to NOK 95 million in the same period in 2021.

Lending

KBN's lending portfolio totalled NOK 316.7 billion at the end of the second quarter of 2022. The lending portfolio decreased by NOK 4.0 billion in the second quarter, while it increased by NOK 4.7 billion in the same period last year.

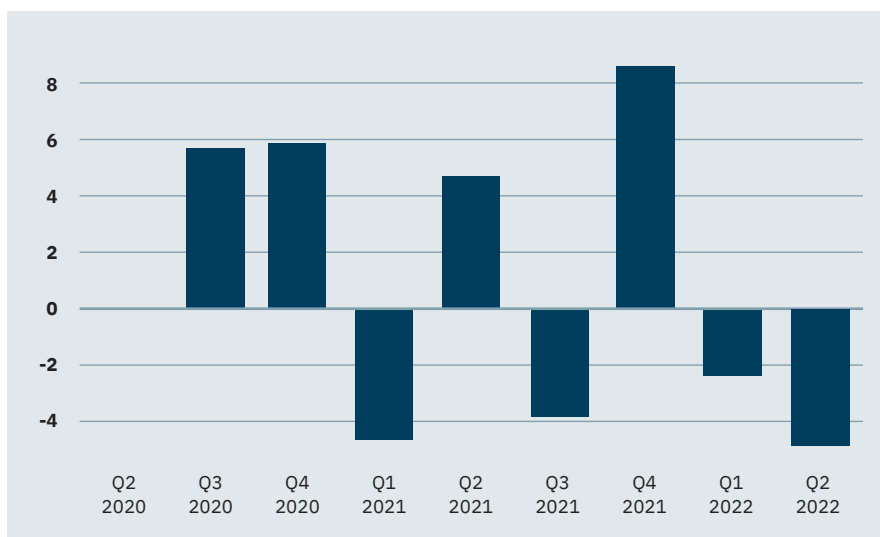
The second quarter was characterised by a generally low level of demand for new loans, but demand was not significantly different from the second quarter of 2021. The volume of extraordinary redemptions in the first six months of 2022 was overall lower than in the equivalent period in 2021. After adjusting for KBN's reduction in its provision of loans with maturities of 12 months and under and for extraordinary redemptions, KBN's lending grew, and the rate of growth was in line with that seen in 2021.

In line with its revised lending strategy, KBN's portfolio of loans with maturities of 12 months and under decreased by NOK 3.1 billion in the quarter. KBN is taking this step in order to adapt its available lending capacity in 2022 to the significantly higher level of demand for new loans that KBN expects in the third and fourth quarters.

KBN continued to experience a good level of growth in its green lending, and its portfolio of green loans increased by NOK 1.5 billion in the second quarter, as

Lending growth

Amounts in NOK 1 billion



compared to NOK 0.9 billion in the second quarter of 2021. The projects financed by a green loan from KBN in the second quarter of 2022 include a recycling centre in Molde, a new lower secondary school and nursery in Malvik, and electric cars and charging points in Ringsaker. KBN is continuing its strategic focus on green lending, and it has a target of green loans representing at least 12% of its lending portfolio by the end of 2022. At the end of June 2022, KBN's green lending represented 11.4% of its overall lending portfolio, compared to 8.7% at the end of June 2021.

The annual rate of debt growth in the local government sector as at the end of June 2022 was calculated to be 4.9%. After adjusting for borrowing from the Norwegian State Housing Bank, the rate of debt growth was 3.9%. The rate of debt growth is expected to be lower in 2022 relative to previous years in line with rising interest rates and to some extent significantly higher investment costs. KBN's market share at the end of June was 42.4%. After adjusting for borrowing from the Norwegian State Housing Bank, KBN's market share was almost 50%.

Financial markets

In the second quarter the financial markets and central banks were preoccupied by the increasing and persistent rate of inflation. A number of central banks raised their interest rates in the second quarter. In the USA, the benchmark rate was raised in May and June by a total of 1.25 percentage points. In the first six months of the year the annual rate of inflation in the USA was the highest we have seen in 40 years. In Norway, the key policy rate was raised by 0.5 percentage points in June. Central banks have signalled that there will be further rises this year and next. There is much uncertainty about how high rates will have to be set in order to bring down inflation to more normal levels.

The credit spreads on local government and covered bonds rose significantly in May and June, following a period in which they decreased at the start of the quarter. They are now at a higher level than at the start of the invasion of Ukraine.

Funding

KBN's funding activities in the second quarter of 2022 were less extensive than in the second quarter of 2021 due to KBN having a good level of liquidity in the period and less need for refinancing, as well as because of the weaker Norwegian krone. New borrowings in the second quarter of 2022 totalled NOK 11.9 billion through

twelve bond issues in six currencies, compared to approximately NOK 22.9 billion in the same period in 2021.

The market uncertainty in the period did not impact KBN's ability to access the international capital markets to a significant extent and it completed its funding transactions as planned.

KBN did not issue any particularly large individual bonds in the period but rather focused on smaller transactions in a range of currencies in addition to raising a total of USD 500 million with SOFR as the benchmark rate. KBN carried out its first debt issue denominated in Swiss francs for more than ten years.

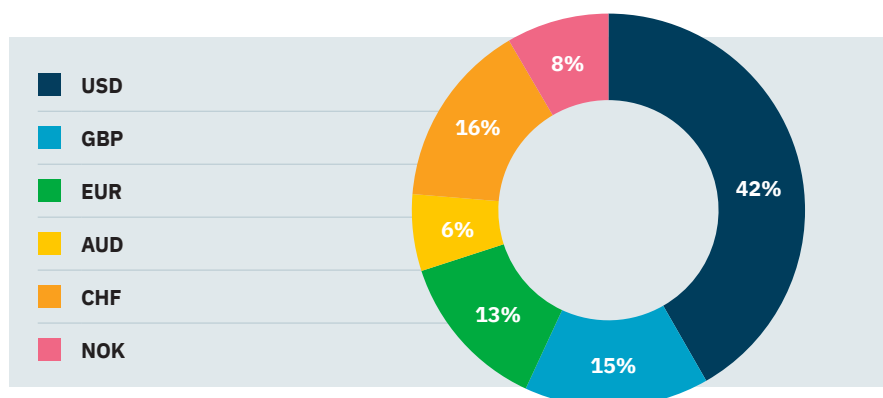
KBN achieved good currency diversification in the quarter.

In the first six months of 2022 KBN's new borrowings totalled NOK 47.5 billion as compared to NOK 63.6 billion in the first six months of 2021.

KBN continues to enjoy low borrowing costs and good market access thanks to its AAA/Aaa rating.

Funding 2022

Total borrowing by currency
second quarter 2022



Liquidity management

KBN's liquidity portfolio totalled NOK 108 billion at 30 June 2022 as compared to NOK 108 billion at 30 June 2021. KBN's liquidity portfolio is managed with the aim of matching its financing requirements, including lending growth, for the subsequent twelve months, 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 66% 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.

Capital

At the end of the second quarter of 2022, KBN's total common equity Tier 1 capital was NOK 14.3 billion, its total Tier 1 capital was NOK 16.7 billion, and its total primary capital was NOK 18.7 billion. KBN's total assets at the end of the second quarter of 2022 amounted to NOK 496 billion, up from NOK 473 billion at the end of 2021. KBN's total assets at the end of the second quarter of 2021 amounted to NOK 477 billion. The increase from the end of 2021 is due to liquidity inflows from cash collateral due to the weakening of the Norwegian krone.

At the end of the second quarter of 2022, KBN had a common equity Tier 1 capital adequacy ratio of 17.6%, a Tier 1 capital adequacy ratio of 20.5%, and a total capital adequacy ratio of 23.0%. The capital adequacy ratio requirements imposed by the authorities at the end of the second quarter were 15.5% (common equity Tier 1 capital), 17.0% (Tier 1 capital) and 19.0% (total capital). Norges Bank and the relevant authorities in some other countries have approved increases to their counter-cyclical buffer requirements in 2022 and 2023. This will impact KBN's institution-specific countercyclical buffer.

The EU Commission's reform package that is intended to further strengthen the resilience of banks in the EU (the 'Banking Package') entered into force in Norwegian law with effect from 1 June 2022. The package's implementation reduced the Tier 1 capital adequacy requirement by 0.4 percentage points, mainly due to an increase in the capital requirements for counterparty risk.

KBN's leverage ratio at the end of the second quarter was 3.7%, as compared to the requirement of 3.0%.

Capital adequacy figures on a daily basis are sensitive to large fluctuations in exchange rates, particularly the USD-NOK rate, because these impact the size of KBN's balance sheet both through the conversion into NOK and because changes in the value of KBN's outstanding hedging contracts cause fluctuations in cash collateral. When the krone weakens (the exchange rate increases) KBN receives collateral, the size of KBN's balance sheet increases and KBN's capital adequacy decreases. When the krone strengthens, KBN's capital adequacy increases. The figures for weighted capital adequacy are also temporarily affected by changes in the value of KBN's hedging contracts until the cash collateral is received the following day and the additional effect is offset. KBN has internal buffers that are intended to ensure its capital adequacy does not fall below the regulatory requirements as a result of such exchange rate fluctuations.

Tax

In June 2022 KBN received a decision on changes to its tax assessments for the years 2019 and 2020. KBN has previously 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. The Norwegian Tax Administration's decision implies a change to the timing of taxable income and expense, but no change in total taxable income and expense over the lifetime of the instruments.

KBN has prepared its accounts in compliance with the treatment expected by the tax authorities. These decisions move taxable income from a year in which KBN's tax rate was 27% to a year in which it was 25%, and this resulted in a decrease in tax expense of NOK 54 million for the second quarter of 2022.

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. KBN has submitted an appeal against aspects of the decisions.

Future prospects

Norges Bank raised its key policy rate from 0.75% to 1.25% at its monetary policy committee meeting in June 2022. The reason for the increase was the need to stabilise inflation around the target of 2%. The underlying rate of inflation has picked up more quickly than anticipated. With rising wage growth and higher growth in the prices of the goods Norway imports, there is the prospect of inflation remaining above the target for a good while. Forecasts for Norges Bank's key policy rate imply it will reach around 3.0% by summer 2023. Norges Bank is expected to raise its key policy rate at its August meeting.

The war in Ukraine has caused a widening in credit spreads for local government sector issuers in the capital markets, as it has for other fixed income securities. It is still uncertain whether credit spreads will fall this autumn or whether they will stabilise at a higher level. This, in combination with the increase in money market rates, has made it more expensive for our customers to finance their activities. Seen in isolation, these factors may result in a decrease in demand for financing going forward.

The level of demand for KBN-issued bonds continues to be good, and the increase in the credit spreads on KBN's bonds has been relatively moderate. This means that KBN is in a good position to improve its profitability and to further strengthen its long-term capitalisation and lending capacity. KBN has good access to liquidity and will continue to provide its customers with attractive financing for local government sector projects right across Norway.

Statement by the Board of Directors

We confirm that the half-year financial statements for the period 1 January 2022 to 30 June 2022 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, 11 August 2022
The Board of Directors of Kommunalbanken AS

Interim condensed financial information

INCOME STATEMENT

(Amounts in NOK 1 000 000)	Note	April-June 2022	January-June 2022	April-June 2021	January-June 2021	2021
Interest income from assets measured at amortised cost		1 107	1 959	512	1 046	2 148
Interest income from assets measured at fair value		624	1 093	339	690	1 381
Total interest income		1 731	3 052	852	1 736	3 529
Total interest expense		1 254	2 139	488	989	1 943
Net interest income	1	477	913	364	748	1 585
Fees and commission expenses		37	64	26	51	106
Net unrealized gain/(loss) on financial instruments	2	(583)	(1 405)	(121)	109	322
Expected credit loss	6	(7)	(1)	(2)	(1)	0
Net trading income		6	17	4	8	73
Total other operating income		(607)	(1 450)	(142)	68	289
Salaries and administrative expenses		42	88	34	76	160
Depreciation on fixed assets		9	18	8	14	29
Other expenses		12	23	18	33	66
Total operating expenses		63	129	60	124	255
Profit before tax		(193)	(666)	163	692	1 620
Income tax	12	(116)	(237)	44	175	411
Profit for the period		(77)	(429)	119	516	1 208
Portion allocated to shareholder		(95)	(463)	104	487	1 149
Portion allocated to owners of additional Tier 1 capital		18	34	15	29	59

STATEMENT OF COMPREHENSIVE INCOME

(Amounts in NOK 1 000 000)	Note	April-June 2022	January-June 2022	April-June 2021	January-June 2021	2021
Profit for the period		(77)	(429)	119	516	1 208
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	(40)	196	39	(562)	(809)
Actuarial gain/(loss) on defined benefit plan		0	0	0	0	1
Tax effect		10	(49)	(10)	141	202
Total other comprehensive income		(30)	147	29	(422)	(606)
Total comprehensive income for the period		(107)	(282)	148	95	602

STATEMENT OF FINANCIAL POSITION

<i>(Amounts in NOK 1 000 000)</i>	Note	30 June 2022	30 June 2021	31 December 2021
Assets				
Deposits with credit institutions	3,4	42 661	21 223	17 317
Other money market deposits	3	741	0	0
Instalment loans	3,4,5,6	311 834	320 393	323 672
Notes, bonds and other interest-bearing securities	3,4,6,7,8	107 789	110 878	112 839
Financial derivatives	3,4	29 198	20 649	16 047
Deferred tax asset		3 148	3 195	3 021
Other assets		175	169	169
Total assets		495 546	476 507	473 064
Liabilities and equity				
Loans from credit institutions	3,4	25 973	11 261	5 891
Commercial paper	3,4	1 035	18 745	31 567
Senior securities issued	3,4,9	409 859	407 701	393 663
Financial derivatives	3,4	38 138	17 494	20 072
Other liabilities		542	80	85
Current tax liabilities		0	581	581
Pension liabilities		32	37	32
Subordinated debt	3,4	1 868	2 024	2 092
Total liabilities		477 445	457 923	453 983
Share capital		3 895	3 895	3 895
Additional Tier 1 capital		2 392	2 392	2 392
Retained earnings		12 243	11 781	12 795
Profit for the period		(429)	516	1 208
Total equity	10	18 100	18 583	19 081
Total liabilities and equity		495 546	476 507	473 064

STATEMENT OF CHANGES IN EQUITY

(Amounts in NOK 1 000 000)

	1 January - 30 June 2022				
	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 2021	3 895	2 392	(904)	13 698	19 081
Profit for the period	0	0	0	(429)	(429)
Other comprehensive income—value change on liabilities due to changes in own credit risk (after tax)	0	0	147	0	147
Other comprehensive income—actuarial gain/loss (after tax)	0	0	0	0	0
Interest paid on Tier 1 capital	0	0	0	(53)	(53)
Dividends for 2021	0	0	0	(646)	(646)
Equity as of 30 June 2022	3 895	2 392	(757)	12 569	18 100

	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 (after tax)	0	0	(422)	0	(422)
Other comprehensive income—actuarial gain/loss (after tax)	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 - 31 December 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	1 208	1 208
Other comprehensive income—value change on liabilities due to changes in own credit risk (after tax)	0	0	(607)	0	(607)
Other comprehensive income—actuarial gain/loss (after tax)	0	0	0	1	1
Interest paid on Tier 1 capital	0	0	0	(59)	(59)
Dividends for 2020	0	0	0	0	0
Equity as of 31 December 2021	3 895	2 392	(904)	13 698	19 081

STATEMENT OF CASH FLOWS

<i>(Amounts in NOK 1 000 000)</i>	January-June 2022	January-June 2021	2021
Cash flows from operating activities			
Interest received	2 742	1 782	3 410
Interest paid	(1 830)	(986)	(1 894)
Fees and commissions paid	(102)	(15)	(73)
Receipts from repurchase of issued securities	17	8	73
Cash payments to employees and suppliers	(111)	(106)	(220)
Income taxes paid	0	(920)	(920)
Net disbursement of loans to customers	6 330	(29)	(4 783)
Net (increase)/decrease in deposits with credit institutions	(5 557)	(2 959)	(4 733)
Net (increase)/decrease in notes, bonds and other interest-bearing securities	7 926	14 230	12 301
Net (increase)/decrease in other assets	33	(5)	(9)
Net increase/(decrease) in other liabilities	(64)	(42)	(30)
Net (increase)/decrease in financial derivatives	18 807	(10 264)	(4 239)
Net cash flows from operating activities	28 193	694	(1 117)
Cash flows from investing activities			
Net (purchase)/sales of property and equipment	(20)	(10)	(21)
Net cash flows from investing activities	(20)	(10)	(21)
Cash flows from financing activities			
Proceeds from issuance of commercial paper	53 591	176 596	273 232
Repayment of commercial paper	(84 215)	(178 305)	(262 037)
Repayment on lease obligation	(1)	(3)	(6)
Proceeds from issuance of debt securities	47 474	63 638	96 551
Repayment of debt securities	(44 557)	(62 276)	(106 476)
Interest paid on Tier 1 capital	(53)	(49)	(60)
Dividends paid	(646)	0	0
Net cash flows from financing activities	(28 407)	(399)	1 205
Net cash flows	(233)	285	67
Effects of foreign exchange differences	(23)	3	51
Net cash flows after foreign exchange differences	(257)	288	118
Cash and cash equivalents at 1 January	308	190	190
Net change in cash and cash equivalents	(257)	288	118
Cash and cash equivalents at end of period	51	478	308
Whereof			
<i>Deposits with credit institutions without agreed time to maturity</i>	<i>51</i>	<i>478</i>	<i>308</i>
<i>Loans from credit institutions without agreed time to maturity</i>	<i>0</i>	<i>0</i>	<i>0</i>

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 2022 are prepared in accordance with IAS 34 *Interim Financial Reporting*, and follow the same accounting policies as presented in the annual financial statements for 2021, 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 market conditions on the reporting date, they may increase the uncertainty related to carrying amounts.

NOTE 1

NET INTEREST INCOME

(Amounts in NOK 1 000 000)

April-June 2022	Total	At fair value			Amortised cost	
		Fair value option	Mandatory at fair value	Fair value hedge		Total at fair value
Deposits with credit institutions ¹	(9)	0	0	0	0	(9)
Other money market deposits ¹	(1)	0	0	0	0	(1)
Instalment loans	1 527	510	0	0	510	1 017
Notes, bonds and other interest-bearing securities	315	217	0	0	217	99
Financial derivatives	(102)	0	(89)	(13)	(102)	0
Total interest income	1 731	726	(89)	(13)	624	1 107
Loans from credit institutions	8	0	0	0	0	8
Commercial paper ²	(8)	0	0	0	0	(8)
Senior securities issued	1 738	882	0	0	882	856
Financial derivatives	(487)	0	(253)	(234)	(487)	0
Subordinated debt	15	15	0	0	15	0
Other interest expenses ³	(12)	0	0	0	0	(12)
Total interest expenses	1 254	897	(253)	(234)	410	844
Net interest income	477	(171)	164	221	215	262

¹ Deposits in EUR carrying negative interest rates

² Short term funding in EUR carrying negative interest rates

³ Returned interest expense on tax as a result of changes in tax return for previous years

January-June 2022	Total	At fair value			Amortised cost	
		Fair value option	Mandatory at fair value	Fair value hedge		Total at fair value
Deposits with credit institutions ¹	(19)	0	0	0	(19)	
Other money market deposits ¹	(1)	0	0	0	(1)	
Instalment loans	2 832	1 018	0	0	1 018	1 814
Notes, bonds and other interest-bearing securities	435	271	0	0	271	165
Financial derivatives	(195)	0	(176)	(20)	(195)	0
Total interest income	3 052	1 288	(176)	(20)	1 093	1 959
Loans from credit institutions	9	0	0	0	0	9
Commercial paper ²	(21)	0	0	0	0	(21)
Senior securities issued	3 190	1 701	0	0	1 701	1 489
Financial derivatives	(1 058)	0	(388)	(670)	(1 058)	0
Subordinated debt	31	31	0	0	31	0
Other interest expenses ³	(12)	0	0	0	0	(12)
Total interest expenses	2 139	1 731	(388)	(670)	673	1 465
Net interest income	913	(443)	213	650	420	494

¹ Deposits in EUR carrying negative interest rates

² Short term funding in EUR carrying negative interest rates

³ Returned interest expense on tax as a result of changes in tax return for previous years

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 ¹	(10)	0	0	0	(10)	
Other money market deposits ¹	(1)	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 ²	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 Deposits in EUR carrying negative interest rates

² Interest expense on tax as a result of changes in tax return for previous years

January-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 ¹	(20)	0	0	0	(20)	
Other money market deposits ¹	(4)	0	0	0	(4)	
Instalment loans	1 981	989	0	0	989	992
Notes, bonds and other interest-bearing securities	236	158	0	0	158	77
Financial derivatives	(457)	0	(457)	0	(457)	0
Total interest income	1 736	1 147	(457)	0	690	1 046

Loans from credit institutions	0	0	0	0	0	0
Commercial paper	25	0	0	0	0	25
Senior securities issued	3 509	1 990	0	0	1 990	1 519
Financial derivatives	(2 635)	0	(1 498)	(1 137)	(2 635)	0
Subordinated debt	30	30	0	0	30	0
Other interest expenses ²	59	0	0	0	0	59
Total interest expenses	989	2 021	(1 498)	(1 137)	(614)	1 603
Net interest income	748	(874)	1 041	1 137	1 304	(557)

¹ Deposits in EUR carrying negative interest rates

² Interest expense on tax as a result of changes in tax return for previous years

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 ¹	(48)	0	0	0	(48)	
Other money market deposits ¹	(3)	0	0	0	(3)	
Instalment loans	4 028	1 990	0	0	1 990	2 037
Notes, bonds and other interest-bearing securities	491	330	0	0	330	161
Financial derivatives	(939)	0	(939)	0	(939)	0
Total interest income	3 529	2 320	(939)	0	1 381	2 148
Loans from credit institutions	0	0	0	0	0	0
Commercial paper ²	(65)	0	0	0	0	(65)
Senior securities issued	6 723	3 810	0	0	3 810	2 914
Financial derivatives	(4 859)	0	(2 634)	(2 225)	(4 859)	0
Subordinated debt	61	61	0	0	61	0
Other interest expenses ³	84	0	0	0	0	84
Total interest expenses	1 943	3 871	(2 634)	(2 225)	(988)	2 932
Net interest income	1 585	(1 551)	1 695	2 225	2 369	(784)

¹ Deposits in EUR carrying negative interest rates

² Short term funding in EUR carrying negative interest rates

³ Interest expense on tax as a result of changes in tax return for previous years

NOTE 2

Net unrealized gain/(loss) on financial instruments

<i>(Amounts in NOK 1 000 000)</i>	April-June 2022	January-June 2022	April-June 2021	January-June 2021	2021
Instalment loans	(1 963)	(5 684)	69	(1 404)	(3 048)
Notes, bonds and other interest-bearing securities	(633)	(1 559)	(95)	(365)	(784)
Financial derivatives	(6 916)	(13 141)	1 709	(2 039)	(6 204)
Senior securities issued	8 880	18 786	(1 791)	3 865	10 344
Subordinated debt	49	194	(12)	52	14
Net unrealized gain/(loss) on financial instrments	(583)	(1 405)	(121)	109	322

Specification of total value changes including hedging instruments	April-June 2022	January-June 2022	April-June 2021	January-June 2021	2021
Notes, bonds, and other interest-bearing securities, including hedging instruments	(89)	(177)	(33)	38	54
Instalment loans, including hedging instruments	(508)	(970)	(30)	338	99
Senior securities issued and subordinated debt, including hedging instruments	13	(258)	(58)	(267)	169
Net unrealized gain/(loss) on financial instrments	(583)	(1 405)	(121)	109	322

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 own credit risk.

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 583 million in the second quarter of 2022, Instalment loans and associated hedging contracts contribute with a loss of 508 million kroner, mainly due to a widening of credit spreads. Notes, bonds and other interest-bearing securities and their associated hedging contracts contribute with a loss of NOK 89 million, also mainly due to a widening of credit spreads. Senior securities issued and related hedging derivatives contribute with a gain of NOK 13 million.

Recognised value changes on financial instruments in fair value hedges of Senior securities issued and associated hedging instruments amount to NOK 46 million in the second quarter of 2022. This amount is included in the above table as net unrealised changes in value. The carrying amount of the Senior securities issued included in fair value hedges amounts to NOK 205 billion.

Kommunalbanken has implemented hedge accounting for fixed-rate lending in 2022. For fixed-rate lending, interest rate risk is hedged financially through the use of interest rate swaps, and fair value hedging has been introduced for accounting purposes. This only applies for new fixed-rate lending from 2022 on. For fixed-rate lending with associated hedging instruments that are included in hedge accounting, recognized value changes amount to NOK –21 million in the second quarter of 2022, which are included as net unrealized changes in value in the table above. The carrying amount of hedged fixed-rate loans amounts to NOK 7 billion.

NOTE 3

Classification of financial instruments

(Amounts in NOK 1 000 000)

At 30 June 2022	Total	At fair value			Amortised cost
		Fair value option	Mandatory at fair value	Fair value hedge	
Deposits with credit institutions	42 661	0	0	0	42 661
Other money market deposits	741	0	0	0	741
Instalment loans	311 834	89 058	0	0	222 776
Notes, bonds and other interest-bearing securities	107 789	68 216	0	0	39 573
Financial derivatives	29 198	0	28 804	394	0
Total financial assets	492 223	157 274	28 804	394	305 751
Loans from credit institutions	25 973	0	0	0	25 973
Commercial paper	1 035	0	0	0	1 035
Senior securities issued	409 859	179 365	0	0	230 494
Financial derivatives	38 138	0	24 727	13 411	0
Subordinated debt	1 868	1 868	0	0	0
Total financial liabilities	476 872	181 234	24 727	13 411	257 501

(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

(Amounts in NOK 1 000 000)

At 31 December 2021	Total	At fair value			Amortised cost
		Fair value option	Mandatory at fair value	Fair value hedge	
Deposits with credit institutions	17 317	0	0	0	17 317
Other money market deposits	0	0	0	0	0
Instalment loans	323 672	107 283	0	0	216 389
Notes, bonds and other interest-bearing securities	112 839	83 820	0	0	29 019
Financial derivatives	16 047	0	13 590	2 457	0
Total financial assets	469 874	191 103	13 590	2 457	262 725
Loans from credit institutions	5 891	0	0	0	5 891
Commercial paper	31 567	0	0	0	31 567
Senior securities issued	393 663	174 868	0	0	218 795
Financial derivatives	20 072	0	17 363	2 708	0
Subordinated debt	2 092	2 092	0	0	0
Total financial liabilities	453 285	176 961	17 363	2 708	256 253

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 2021 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 2022 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
Instalment loans	0	1 198	87 860	89 058
Notes, bonds and other interest-bearing securities	54 724	7 246	6 246	68 216
Financial derivatives	0	29 158	40	29 198
Total financial assets measured at fair value	54 724	37 602	94 146	186 472
Senior securities issued	9 188	144 895	25 282	179 365
Financial derivatives	0	28 916	9 221	38 138
Subordinated debt	0	0	1 868	1 868
Total financial liabilities measured at fair value	9 188	173 812	36 372	219 371

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 2021	98 853	6 599	30 522	2 092	(8 674)
Purchase	0	1 515	(113)	0	0
Sale	0	0	0	0	0
Issue	0	0	270	0	(27)
Settlement	(9 665)	(1 939)	(7 131)	0	(2 092)
Transfer into Level 3	0	175	0	0	0
Transfer out of Level 3	(1 790)	0	0	0	0
Gain/(loss) recognised in the period	462	(105)	1 734	(223)	1 612
Carrying amount at 30 June 2022	87 860	6 246	25 282	1 869	(9 181)

Net holdings amounting to NOK 0.2 billion have been transferred from Level 2 to Level 1 in 2022. There have been net transfers of NOK 1.6 billion out of Level 3 and to Level 1 during 2022. 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 2022:

<i>(Amounts in NOK 1 000 000)</i>	30 June 2022
Instalment loans	(321)
Notes, bonds and other interest-bearing securities	(21)
Financial derivatives	26
Senior securities issued	10
Subordinated debt	(1)
Total	(307)

Financial instruments measured at amortised cost

Financial instruments measured at amortised cost include Senior securities issued and fixed-rate lending that are subject to fair value hedge accounting. In addition, all other lending, except for fixed-rate lending with contract start before 2022 and lending with certificate terms, are measured at amortised cost as well. Further, floating rate notes and commercial papers are measured at amortised cost, if they are not hedged 1:1 with interest rate swaps. For these financial assets and liabilities it is assumed that amortised cost is a reasonable approach to fair value.

NOTE 5

Instalment loans

<i>(Amounts in NOK 1 000 000)</i>	30 June 2022	30 June 2021	31 December 2021
Principal amount	316 708	318 284	323 018
Accrued interest	1 224	877	1 048
Fair value adjustment	(6 074)	1 255	(390)
Expected credit loss	(23)	(23)	(24)
Total instalment loans	311 834	320 393	323 672

NOTE 6

Expected credit loss

Changes in expected credit losses on instalment loans and bond investments of NOK 7 million (reduction) were recorded in the second quarter of 2022, 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.

(Amounts in NOK 1 000 000)	30 June 2022		31 December 2021
	Carrying amount	Expected credit loss	Expected credit loss
Instalment loans	222 776	(23)	(24)
Notes, bonds and other interest-bearing securities	39 573	(2)	(2)
Total	262 349	(25)	(26)

The below table shows a specification of the period's change in expected credit loss that is recognised in the income statement. Positive numbers here indicate a reduction in expected credit loss, while negative numbers indicate an increase in expected credit loss.

(Amounts in NOK 1 000 000)	April-June 2022	January-June 2022	2021
Instalment loans	7.8	(1.3)	0.3
Notes, bonds and other interest-bearing securities	(0.7)	0.0	(0.5)
Total	7.1	(1.3)	(0.1)

The following table shows an allocation of KBN's expected credit losses as at 30 June 2022 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 the time of recognition. 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.

(Amounts in NOK 1 000 000)	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 2022	30 June 2021	31 December 2021
Domestic			
Issued by other borrowers	20 520	17 688	19 279
Foreign			
Issued by public bodies ¹	76 308	76 462	76 498
Issued by other borrowers	10 961	16 729	17 061
Total notes, bonds and other interest-bearing securities	107 789	110 878	112 839

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 2022	30 June 2021	31 December 2021
Under 1 year	41 236	44 948	51 325
1-5 years	63 548	65 929	59 787
Over 5 years	3 005	1	1 726
Total notes, bonds and other interest-bearing securities	107 789	110 878	112 839
Average time to maturity (years)*	1.9	1.7	1.6

*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 1.8 years as of June 30, 2022.

NOTE 8

Credit exposure in notes, bonds and other interest-bearing securities

Amounts in the table below represent actual credit exposure

Time to maturity	Exposure as at 30 June 2022									
	< 1 year				> 1 year					
Risk class	A-1	A-2	A-3	Not rated	BBB	A	AA	AAA	Not rated	
Sovereigns and central banks	18 739	0	0	517	0	3 863	15 880	0	0	38 998
Multilateral development banks	1 828	0	0	0	0	0	197	4 873	0	6 899
Regional authorities	13 363	0	0	4 195	0	243	9 388	2 187	2 188	31 563
Financial institutions	0	0	0	0	0	0	0	0	0	0
Securitisation	0	0	0	0	0	0	0	0	0	0
Covered bonds	1 921	0	0	674	0	0	2 792	24 941	0	30 329
Total	35 850	0	0	5 386	0	4 105	28 258	32 002	2 188	107 789

NOTE 9

Senior securities issued

(Amounts in NOK 1 000 000)	30 June 2022	30 June 2021	31 December 2021
Senior securities issued (nominal amounts) as at 1 January	395 385	405 451	405 451
New issuance	47 474	63 638	96 550
Redemptions	(44 539)	(62 482)	(107 019)
Amortisation	(18)	206	544
Translation differences	32 261	(3 643)	(141)
Senior securities issued (nominal amounts) as at end of period	430 562	403 169	395 385
Accrued interest	3 875	3 895	3 875
Fair value adjustment	(24 578)	636	(5 596)
<i>Of which value change that is due to change in own credit risk</i>	<i>1 009</i>	<i>959</i>	<i>1 206</i>
<i>Of which value change that is due to other reasons</i>	<i>(25 587)</i>	<i>(322)</i>	<i>(6 802)</i>
Total senior securities issued	409 859	407 701	393 663

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

<i>(Amounts in NOK 1 000 000)</i>	30 June 2022	30 June 2021	31 December 2021
Equity	18 100	18 583	19 081
Ordinary subordinated debt included in equity	(2 392)	(2 392)	(2 392)
Equity included in Tier 1 capital	15 709	16 191	16 690
Deductions:			
Deferred tax asset*	(1 563)	(1 564)	(1 353)
Intangible assets	(142)	(135)	(140)
Dividends payable	(326)	(323)	(646)
Prudent valuation adjustments (AVA)	(139)	(141)	(135)
Adjustments unrealised loss (gains) due to changes in own credit risk	757	719	904
Total common equity Tier 1 capital	14 296	14 747	15 320
Other approved Tier 1 capital	2 392	2 392	2 392
Total Tier 1 capital	16 687	17 139	17 711
<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	18 687	19 139	19 711

*Only non reversing deferred tax asse to be deducted here.

Primary capital has been calculated under the Regulation on the calculation of primary capital for financial institutions. Unrealised gain/ (loss) on liabilities that is due to changes in own credit risk include both non-derivative and derivative liabilities.

NOTE 11

Capital adequacy

(Amounts in NOK 1 000 000)	30 June 2022		30 June 2021	31 December 2021
	Carrying amount	Risk-weighted assets	Minimum capital requirements	Minimum capital requirements
Credit risk				
Sovereigns and central banks	39 002	0	0	0
Regional governments and local authorities	338 188	63 015	5 041	5 151
<i>Of which are Norwegian municipalities</i>	311 813	62 785	5 023	5 151
Public sector entities	3 744	0	0	0
Multilateral development banks	6 898	0	0	0
Financial institutions	23 518	4 714	377	294
<i>Of which counterparty exposure on derivatives</i>	14 337	3 026	242	155
Claims secured by residential property	22	22	2	2
Covered bonds	30 231	3 023	242	276
Other assets	1 614	3 993	319	327
Securitisation	0	0	0	0
Credit Valuation Adjustment	243	3 038	243	153
Total credit risk	443 460	77 805	6 224	6 203
Market risk	0	0	0	0
Operational risk—Basic Indicator Approach		3 573	286	302
Minimum capital requirements		81 378	6 510	6 505
Total capital ratio			23.0%	23.5%
Tier 1 capital adequacy ratio			20.5%	21.7%
Common equity Tier 1 capital adequacy ratio			17.6%	18.8%
Leverage ratio			3.7%	3.9%

NOTE 12

Tax expense

In June 2022, KBN received a decision to change the tax return for the years 2019 and 2020. KBN has previously received a decision to change the tax return for the income years 2015 to 2018, and the change concerns the tax-related accrual of financial instruments. The tax authorities' decision refer to the tax treatment and periodisation of tax-related income and cost, but no change in what constitutes tax-related income and cost over the instruments' total lifetime.

KBN's accounts have been prepared in line with the tax authorities' views. The change decision moves taxable income from years with a 27 per cent tax rate to years with a 25 per cent tax rate. This has resulted in a reduction of the tax cost of NOK 54 million in the second quarter of 2022.

KBN still disagrees with the tax authorities on certain matters regarding tax-related accruals in the accounts, and parts of the change decisions have been appealed.

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