

REPORT FOR SECOND QUARTER 2017

April–June (unaudited)



ABOUT KBN

Established by an act of Parliament in 1926 as a state administrative body, Kommunalbanken AS (KBN) gained its current organisational form by a conversion act in 1999. KBN's primary objective is to provide stable and low cost funding to Norwegian municipalities, counties, intermunicipal companies and other companies with a municipal guarantee for their primary municipal investments.

FINANCIAL HIGHLIGHTS

(Amounts in NOK 1 000 000)	January-June 2017	January-June 2016	2016
RESULTS			
Net interest income	1 099	970	2 087
Core earnings ¹	735	655	1 400
Profit before tax	599	73	919
Profit for the period	449	55	689
Return on equity after tax ²	7.87%	0.97%	6.27%
Return on equity after tax (core earnings) ²	12.91%	11.70%	12.74%
Return on assets after tax ²	0.21%	0.03%	0.16%
Return on assets after tax (core earnings) ²	0.34%	0.31%	0.33%
LENDING			
New disbursements	28 102	25 083	48 117
Outstanding loans ³	275 991	262 965	266 558
LIQUIDITY PORTFOLIO³	115 176	130 280	116 413
BORROWINGS			
New long-term borrowings	84 638	48 111	82 752
Repurchase of own debt	677	168	1 159
Redemptions	70 697	47 423	93 926
Total borrowings ³	387 821	391 664	376 785
TOTAL ASSETS	428 762	436 871	418 327
EQUITY	13 696	11 829	12 452
Total capital adequacy ratio	22.86%	19.88%	21.45%
Tier 1 capital adequacy ratio	19.99%	16.90%	18.39%
Common equity Tier 1 capital adequacy ratio	16.85%	15.42%	16.86%
Leverage ratio	3.28%	2.91%	2.65%
LIQUIDITY COVERAGE RATIO (LCR)⁴			
Total	680%	1 229%	1 116%
NOK	698%	334%	1 848%
EUR	702%	1 758%	558%
USD	233%	154%	471%
AUD	Infinite	2 387%	Infinite
JPY	301%	638%	852%

¹ Profit after tax adjusted for unrealised gain/(loss) on financial instruments after tax. This result measure is included to give relevant information about the company's underlying operations.

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

³ Principal amounts

⁴ Liquidity coverage ratio (LCR) is a measure for the regulatory liquidity reserve. LCR is defined as liquid assets as a percentage of net payments in a given stress period of 30 days ahead

On the cover is the brand new Holmen swimming pool in Asker municipality – financed 100% through KBN's Green loans. Photo: Torunn Brånå

STRONG UNDERLYING OPERATIONS

KBN's net interest income in the second quarter of 2017 was NOK 538 million as compared to NOK 467 million in the same period in 2016. KBN's profit for the second quarter was NOK 90 million, and was affected by unrealised losses on financial instruments.

RESULTS

KBN's result for the second quarter of 2017 was a profit of NOK 90 million as compared to a loss of NOK 203 million in the same period last year. The profit for the second quarter was affected by net unrealised losses on financial instruments of NOK 367 million, while net unrealised losses on financial instruments of NOK 697 million were recognised in the same period in 2016. The unrealised losses in the second quarter were due to changes in the credit spreads on KBN's borrowings as well as to changes in the pricing of hedging contracts used to convert borrowings in US dollars into Norwegian kroner. KBN's financial instruments are normally held to maturity and the effects of unrealised gains and losses on KBN's profits reverse either when fluctuations in the market reverse or the instruments reach maturity. Net interest income for the quarter was NOK 538 million, up from NOK 467 million in the same

period last year. The increase was due to strong underlying operations and continued good margins for KBN's core activities.

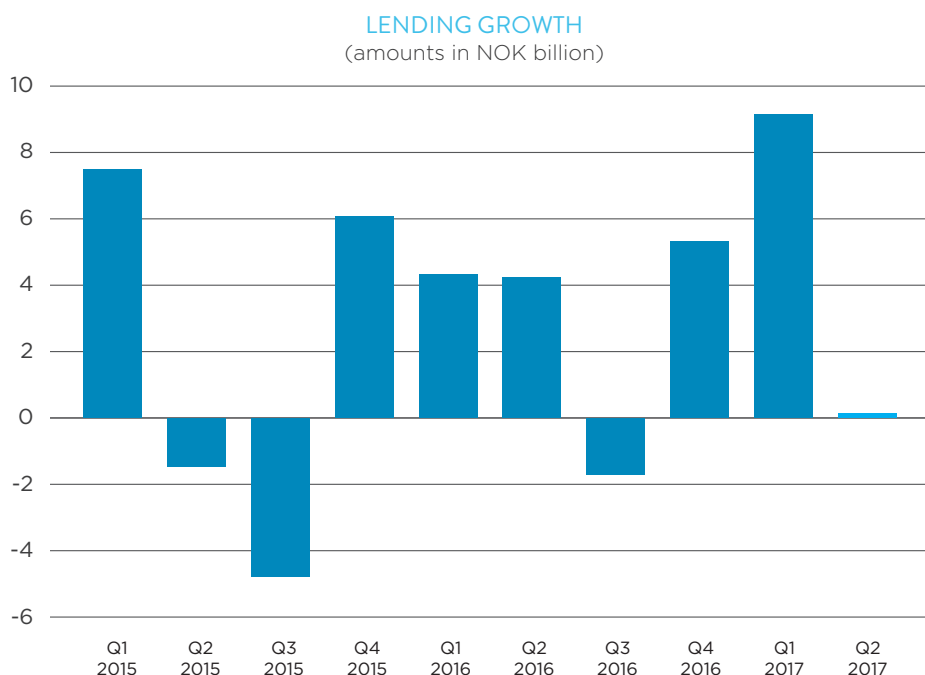
Profit for the first six months of 2017 amounted to NOK 449 million as compared to NOK 55 million in the same period in 2016. KBN's profit for the first six months of 2017 was influenced by net unrealised losses on financial instruments of NOK 396 million related to funding operations. During the same period of 2016 KBN recognised net unrealised losses on financial instruments of NOK 814 million. Net interest income for the first six months amounted to NOK 1 099 million, up from NOK 970 million in the same period last year. The increase reflects higher margins and increased lending volume compared to 2016. Core earnings for the first six months of 2017 totalled NOK 735 million as compared to NOK 655 million in the same period last year.

Total operating expenses for the first six months of 2017 were NOK 98 million as compared to NOK 79 million in the first six months of 2016. The increase was due to higher development costs, an increase in employee numbers and the new financial sector tax. Total operating expenses (annualised) represented 0.05% of total assets.

KBN generated a return on equity after tax for the first six months of 2017 of 7.87% (annualised). After adjusting for unrealised gain/(loss) on financial instruments, the return on equity after tax was 12.91%.

LENDING

At the end of the second quarter, KBN's lending to the local government sector totalled NOK 276.0 billion. The lending portfolio grew by NOK 0.3 billion or 0.1% during the second quarter, compared to 1.7% during the second quarter of 2016.



The demand for loans required to refinance existing loans with maturities of between three to five years was particularly high in the period.

KBN specialises in loans with long maturities. It also offers loans with maturities of less than 12 months, but these are regarded as part of KBN's liquidity and balance sheet management activities, with the amount of lending of this type fluctuating on the basis of both internal operational considerations and external conditions. There was a decrease in KBN's portfolio of loans with maturities of less than 12 months in the second quarter owing inter alia to changes in KBN's need for short-term liquidity investments.

KBN's lending portfolio grew by NOK 9.4 billion in the first six months of 2017, representing an increase of 3.5% from the end of 2016, compared to an increase of NOK 8.5 billion in the same period in 2016.

KBN saw demand for new loans of various maturities in the quarter and the lending portfolio grew across all loan categories. Demand for new loans with maturities of less than 12 months decreased throughout the first six months, with many customers choosing to refinance shorter maturity loans with longer maturity loans. Following a number of years of strong demand growth, the local government sector's use of short-term financing has decreased somewhat.

In the second quarter of 2017, new disbursements totalled NOK 11.0 billion, approximately in line with the second quarter of 2016. KBN's new disbursements in the first six months totalled NOK 28.1 billion, compared to NOK 25.1 billion in the same period in 2016. KBN's market share remained stable throughout the first six months and is approximately 45%.

FINANCIAL MARKETS

KBN was somewhat more active in carrying out funding activities in the second quarter of 2017 than in the corresponding period in 2016 due to an increase in funding requirements and the underlying market being more positive.

KBN issued bonds totalling NOK 38 billion through 50 issues during the second quarter, compared to approximately NOK 28 billion during the same period in 2016.

In May KBN issued a 10-year benchmark bond totalling EUR 1.0 billion, and in June KBN issued its second benchmark bond in US dollars of the year, namely a 3-year benchmark bond totalling USD 1.0 billion. Both these issues were significantly oversubscribed.

Following strong demand in the Uridashi or Japanese retail market during the first quarter, more moderate demand was seen in the second quarter. KBN issued Uridashi bonds totalling NOK 5.0 billion in the period, bringing the total for the first six months of 2017 to approximately NOK 21 billion. KBN issued bonds totalling NOK 84.6 billion in the first six months of 2017 as compared to NOK 48.1 billion in the same period last year. KBN maintains low funding costs and access to attractive funding sources through its AAA/Aaa credit rating.

In June, KBN was elected to the Executive Committee of the Green Bond Principles (GBP), the leading international standard for green bonds. The Committee brings together a representative group of issuers, investors and intermediaries in the Green Bond market. KBN's participation is recognition of its status as an early issuer of green bonds and a statement of belief in KBN possessing the expertise needed to help make

green bonds more widespread. Green bonds may contribute to bringing about the green shift. KBN's goal is to adapt Green bonds to environmental projects in the local government sector.

KBN's liquidity portfolio totalled NOK 115.2 billion at 30 June 2017 as compared to NOK 130.3 billion at the same point in 2016. KBN's liquidity portfolio is primarily held in zero-risk-weighted assets, and primarily in foreign currencies. Variations in the value of the Norwegian krone will therefore lead to short-term variations in KBN's liquidity reserves. The value of the Norwegian krone fluctuated significantly in the second quarter, with the krone strengthening in overall terms, particularly against the US dollar.

The first six months were characterised by strong currency fluctuations. This does not lead to increased currency risk, although it does influence the size of the liquidity portfolio and the amount of liquidity available for short-term lending.

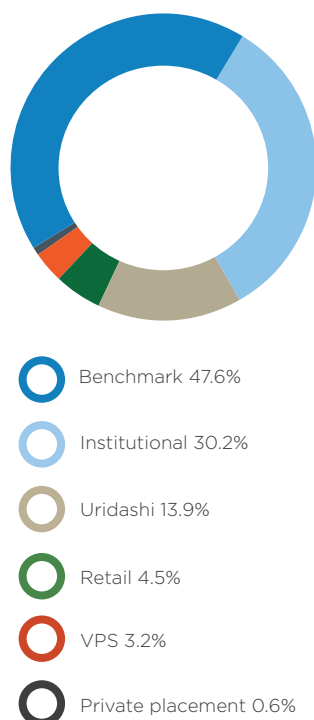
Credit spreads for both financial institutions and European states decreased during the second quarter, while interest rates increased in June owing to a number of central banks signalling that they might raise interest rates. The lower credit spreads seen in the first six months reduced the return from the liquidity portfolio, although the reduction in net interest income from KBN's liquidity management activities was lower than expected.

CAPITAL

KBN's total primary capital at 30 June 2017 was NOK 15.9 billion, its total Tier 1 capital was NOK 13.9 billion, and its total common equity Tier 1 capital was NOK 11.7 billion. A new Tier 1 capital instrument totalling NOK 1.2 billion was issued during the quarter. This instrument counts as core capital and is included in KBN's book equity. KBN's total assets have increased by NOK 10.4 billion since year-end.

At the end of the second quarter of 2017, KBN had a common equity Tier 1 capital adequacy ratio of 16.85%, a Tier 1 capital adequacy ratio of 19.99%, and a total capital adequacy ratio of 22.86%. At 30 June 2017, the capital requirements imposed by the authorities required KBN to have a common equity Tier 1 capital adequacy ratio of 15.0%, a Tier 1 capital adequacy ratio of 16.5%, and a total capital ratio of 18.5%. In addition, a requirement for KBN to have a leverage

KBN FUNDING MARKET
April-June 2017



ratio of 3% came into force with effect from 30 June 2017. The additional buffer requirements of 2% and 1% for banks and systemically important banks do not apply to KBN as it is a credit undertaking. KBN's leverage ratio was 3.28% at 30 June 2017.

KBN manages its operations to ensure it complies with all regulatory requirements in force at any time. With effect from 31 December 2017, the requirements to which KBN is subject will increase to 15.5% for the common equity Tier 1 capital adequacy ratio, 17.0% for the Tier 1 capital adequacy ratio and 19.0% for the total capital ratio.

FUTURE PROSPECTS

2017 has so far been characterised by positive sentiment in the capital markets and good access to funding. Going forward, neutral to positive developments are expected in major economies such as the United States, Europe and Asia. KBN's funding activities were strong during the first half of 2017, with the major part of its funding already having been raised.

KBN plays a central role in ensuring stable and long-term loan financing on attractive terms is available to Norwegian municipalities. KBN's lending margins have been high so far in 2017. This has been necessary in order to ensure KBN will satisfy the new capital requirements that will enter into force on 31 December 2017 and that it meets the requirement for it to have a leverage ratio of 3% with effect from 30 June 2017.

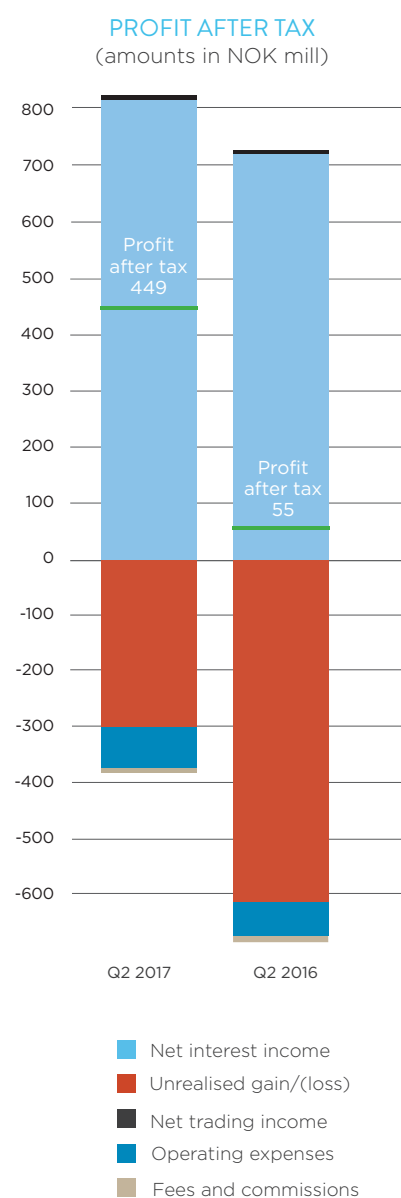
According to figures from Statistics Norway, local government debt grew 5.2% year on year to the end of May 2017, representing the lowest rate of debt growth for many years. KBN expects the local government sector to continue to have significant investment needs in the future, with this driven by demographic changes, urbanisation and the expected greater level of investment in the climate area. KBN's ability to meet the local government sector's financing requirements in the years ahead will be influenced by future developments in the regulatory framework. As a low-risk instrument of the state, KBN has a different business model. In designing its regulations, the EU has to some extent made provision for low-risk financial institutions such as KBN, and a number of countries have issued suitably adapted regulations for financial institutions that lend to

the public sector. Such adaptations have been regarded as important to the ability of these institutions to fulfil their role in society. There is an ongoing process to adjust Norwegian legislation to EU's regulations. It is expected that the Storting will have discussed the bill in a proposal to the Storting by the end of June 2018.

We hereby confirm that the half-yearly report for the period 1 January 2017 to 30 June 2017 has, to the best of our knowledge, been prepared in accordance with IAS 34 Interim Financial Reporting, and that the information contained in the accounts provides a true and fair view of the company's assets, liabilities, financial position and results as a whole.

We also confirm that, to the best of our knowledge, the interim report provides a true and fair overview of important events during the accounting period and their effects on the half-yearly accounts, and also of the material risks and uncertainties facing the company during the next accounting period.

Oslo, 31 July 2017
The Board of Directors
for Kommunalbanken AS



INTERIM CONDENSED FINANCIAL INFORMATION

INCOME STATEMENT

(Amounts in NOK 1 000 000)

	Note	April-June 2017	January- June 2017	April-June 2016	January- June 2016	2016
Interest income		1 484	3 020	1 335	2 713	5 617
Interest expense		946	1 921	868	1 743	3 530
Net interest income	1	538	1 099	467	970	2 087
Fees and commission expenses		7	16	6	11	32
Net unrealised gain/(loss) on financial instruments	2	(367)	(396)	(697)	(814)	(974)
Net trading income		2	10	1	7	15
Total other operating income		(372)	(402)	(702)	(818)	(991)
Salaries and administrative expenses		31	68	25	57	125
Depreciation on fixed assets		5	11	5	9	20
Other expenses		9	18	6	13	32
Total operating expenses		46	98	36	79	177
Profit before tax		120	599	(271)	73	919
Income tax		30	150	(68)	18	230
Profit for the period		90	449	(203)	55	689
Portion allocated to shareholder		85	439	(209)	44	670
Portion allocated to owners of additional Tier 1 capital		5	10	6	11	19

STATEMENT OF COMPREHENSIVE INCOME

(Amounts in NOK 1 000 000)

	Note	April-June 2017	January- June 2017	April-June 2016	January- June 2016	2016
Profit for the period		90	449	(203)	55	689
Other comprehensive income						
<i>Items which will not be reclassified to profit or loss</i>						
Actuarial gain/(loss) on defined benefit plan		0	0	0	0	(1)
Of which is tax		0	0	0	0	0
Total other comprehensive income		0	0	0	0	(1)
Total comprehensive income for the period		90	449	(203)	55	688

STATEMENT OF FINANCIAL POSITION

<i>(Amounts in NOK 1 000 000)</i>	Note	30 June 2017	30 June 2016	31 December 2016
Assets				
Deposits with credit institutions	3,4	22 370	16 224	16 182
Instalment loans	3,4,5	277 590	265 326	267 521
Notes, bonds and other interest-bearing securities	3,4,7,8	117 133	134 873	118 550
Financial derivatives	3,4	10 895	20 090	15 921
Deferred tax asset		0	201	0
Other assets		775	157	153
Total assets		428 762	436 871	418 327
Liabilities and equity				
Loans from credit institutions	3,4	2 753	12 187	7 584
Senior securities issued	3,4,6	382 925	383 584	369 933
Financial derivatives	3,4	27 332	26 717	26 275
Other liabilities		26	439	45
Current tax liabilities		0	15	0
Deferred tax liabilities		12	0	12
Pension liabilities		52	49	52
Subordinated debt	3,4	1 966	2 051	1 974
Total liabilities		415 066	425 042	405 875
Share capital		3 145	3 145	3 145
Additional Tier 1 capital		2 189	994	994
Retained earnings		7 914	7 635	8 314
Total comprehensive income for the period		449	55	
Total equity	9	13 696	11 829	12 452
Total liabilities and equity		428 762	436 871	418 327

STATEMENT OF CHANGES IN EQUITY

(Amounts in NOK 1 000 000)

1 January - 30 June 2017

	Share capital	Additional Tier 1 capital	Retained earnings	Total equity
Equity as of 1 January 2017	3 145	994	8 314	12 452
Profit for the period	0	0	449	449
Total other comprehensive income	0	0	0	0
Interest paid on Tier 1 capital	0	0	(10)	(10)
Issued additional Tier 1 capital (see Note 9)	0	1 195	0	1 195
Dividends for 2016	0	0	(390)	(390)
Equity as of 30 June 2017	3 145	2 189	8 363	13 696

1 January - 30 June 2016

	Share capital	Additional Tier 1 capital	Retained earnings	Total equity
Equity as of 1 January 2016	3 145	994	8 063	12 202
Profit for the period	0	0	55	55
Total other comprehensive income	0	0	0	0
Interest paid on Tier 1 capital	0	0	(10)	(10)
Dividends for 2015	0	0	(417)	(417)
Equity as of 30 June 2016	3 145	994	7 690	11 829

1 January—31 December 2016

	Share capital	Additional Tier 1 capital	Retained earnings	Total equity
Equity as of 1 January 2016	3 145	994	8 063	12 202
Profit for the period	0	0	689	689
Total other comprehensive income	0	0	(1)	(1)
Interest paid on Tier 1 capital	0	0	(20)	(20)
Dividends for 2015	0	0	(417)	(417)
Equity as of 31 December 2016	3 145	994	8 314	12 452

STATEMENT OF CASH FLOWS

(Amounts in NOK 1 000 000)

January-June 2017 January-June 2016

2016

Cash flows from operating activities			
Interest received	2 997	2 518	5 433
Interest paid	(1 620)	(1 446)	(3 752)
Fees and commissions paid	(16)	(12)	(32)
Receipts from repurchase of issued securities	10	7	15
Cash payments to employees and suppliers	(87)	(70)	(157)
Income taxes paid	(726)	(829)	(838)
Net disbursement of loans to customers	(9 432)	(8 600)	(12 137)
Net (increase)/decrease in deposits with credit institutions	(10 679)	7 233	3 212
Net (increase)/decrease in notes, bonds and other interest-bearing securities	4 962	11 736	25 204
Net (increase)/decrease in other assets	(624)	(17)	(12)
Net increase/(decrease) in other liabilities	559	(13)	11
Net cash flows from operating activities	(14 656)	10 508	16 947
Cash flows from investing activities			
Net (purchase)/sales of property and equipment	(9)	(8)	(20)
Net cash flows from investing activities	(9)	(8)	(20)
Cash flows from financing activities			
Proceeds from issuance of debt securities	84 638	48 112	82 752
Repayment of debt securities	(71 902)	(50 196)	(96 675)
Proceeds from issuance of additional Tier 1 capital	1 195	0	0
Interest paid on Tier 1 capital	(13)	(13)	(26)
Proceeds from issuance of subordinated debt	0	1 991	1 991
Repayment of subordinated debt	0	(1 758)	(1 758)
Dividends paid	(390)	0	(417)
Net cash flows from financing activities	13 529	(1 864)	(14 134)
Net cash flows	(1 136)	8 635	2 793
Effects of foreign exchange differences	1 004	(9 316)	(2 751)
Net cash flows after foreign exchange differences	(132)	(681)	42
Cash and cash equivalents at 1 January	76	34	34
Net change in cash and cash equivalents	(132)	(681)	42
Cash and cash equivalents at end of period	(56)	(647)	76
Whereof			
Deposits with credit institutions without agreed time to maturity	0	0	76
Loans from credit institutions without agreed time to maturity	(56)	(647)	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 2017 are prepared in accordance with IAS 34 *Interim Financial Reporting*, and follow the same accounting policies as presented in the annual financial statements for 2016.

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 2017	January- June 2017	April-June 2016	January- June 2016	2016
Deposits with credit institutions	0	2	(5)	(9)	(20)
Instalment loans	1 240	2 529	1 210	2 415	4 933
Notes, bonds and other interest-bearing securities	122	256	165	319	562
Financial derivatives	122	233	(35)	(12)	142
Total interest income	1 484	3 020	1 335	2 713	5 617
Loans from credit institutions	1	1	0	1	1
Senior securities issued	2 499	3 361	1 630	3 628	10 563
Financial derivatives	(1 570)	(1 472)	(779)	(1 920)	(7 098)
Subordinated debt	15	31	17	34	64
Total interest expenses	946	1 921	868	1 743	3 530
Net interest income	538	1 099	467	970	2 087

NOTE 2

Net unrealised gain/(loss) on financial instruments

(Amounts in NOK 1 000 000)

	April-June 2017	January- June 2017	April-June 2016	January- June 2016	2016
Instalment loans	332	610	(310)	(149)	(1 542)
Notes, bonds and other interest-bearing securities	58	171	101	277	(185)
Financial derivatives	317	1 848	(462)	2 136	3 247
Loans from credit institutions	0	0	0	0	0
Senior securities issued	(1 055)	(3 003)	22	(3 039)	(2 564)
Subordinated debt	(19)	(22)	(48)	(38)	70
Net unrealised gain/(loss) on financial instruments	(367)	(396)	(697)	(814)	(974)

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

Net unrealised losses amounting to NOK 367 million in the second quarter result mainly from a tightening of credit spreads for Senior securities issued and a widening of USD-NOK basis swap spreads related to derivatives used to convert USD funding to NOK.

NOTE 3

Categorisation of financial instruments

(Amounts in NOK 1 000 000)

At 30 June 2017

	Total	At fair value through profit or loss			Held to maturity	Loans and receivables	Other liabilities
		Fair value option	Held for trading	Fair value hedge			
Deposits with credit institutions	22 370	8 310	0	0	0	14 060	0
Instalment loans	277 590	168 973	0	0	0	108 617	0
Notes, bonds and other interest-bearing securities	117 133	116 804	0	0	11	318	0
Financial derivatives	10 895	0	9 940	955	0	0	0
Total financial assets	427 988	294 087	9 940	955	11	122 995	0
Loans from credit institutions	2 753	0	0	0	0	0	2 753
Senior securities issued	382 925	221 359	0	0	0	0	161 566
Financial derivatives	27 332	0	26 272	1 060	0	0	0
Subordinated debt	1 966	1 966	0	0	0	0	0
Total financial liabilities	414 977	223 326	26 272	1 060	0	0	164 318

At 30 June 2016

	Total	At fair value through profit or loss			Held to maturity	Loans and receivables	Other liabilities
		Fair value option	Held for trading	Fair value hedge			
Deposits with credit institutions	16 224	6 591	0	0	0	9 633	0
Instalment loans	265 326	165 725	0	0	0	99 601	0
Notes, bonds and other interest-bearing securities	134 873	132 882	0	0	32	1 960	0
Financial derivatives	20 090	0	16 872	3 218	0	0	0
Total financial assets	436 513	305 198	16 872	3 218	32	111 194	0
Loans from credit institutions	12 187	0	0	0	0	0	12 187
Senior securities issued	383 584	229 203	0	0	0	0	154 380
Financial derivatives	26 717	0	26 635	82	0	0	0
Subordinated debt	2 051	2 051	0	0	0	0	0
Total financial liabilities	424 539	231 254	26 635	82	0	0	166 567

At 31 December 2016

	Total	At fair value through profit or loss			Held to maturity	Loans and receivables	Other liabilities
		Fair value option	Held for trading	Fair value hedge			
Deposits with credit institutions	16 182	5 208	0	0	0	10 974	0
Instalment loans	267 521	164 748	0	0	0	102 773	0
Notes, bonds and other interest-bearing securities	118 550	117 414	0	0	21	1 115	0
Financial derivatives	15 921	0	14 955	966	0	0	0
Total financial assets	418 174	287 370	14 955	966	21	114 864	0
Loans from credit institutions	7 584	0	0	0	0	0	7 584
Senior securities issued	369 933	223 710	0	0	0	0	146 223
Financial derivatives	26 275	0	25 246	1 029	0	0	0
Subordinated debt	1 974	1 974	0	0	0	0	0
Total financial liabilities	405 765	225 684	25 246	1 029	0	0	153 807

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 2016 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 2017 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	8 310	0	8 310
Instalment loans	0	101 006	67 967	168 973
Notes, bonds and other interest-bearing securities	90 923	23 904	1 977	116 804
Financial derivatives	0	8 035	2 860	10 895
Total financial assets measured at fair value	90 923	141 254	72 804	304 982
Loans from credit institutions	0	0	0	0
Senior securities issued	8 244	124 305	88 810	221 359
Financial derivatives	0	12 491	14 841	27 332
Subordinated debt	0	0	1 966	1 966
Total financial liabilities measured at fair value	8 244	136 796	105 617	250 657

Reconciliation of movements in Level 3

	Instalment loans	Notes, bonds and other interest-bearing securities	Senior securities issued	Subordinated debt	Financial derivatives
Carrying amount at 31 December 2016	65 728	2 511	76 857	1 974	(17 952)
Purchase	0	2	(654)	0	(1 097)
Sale	0	0	0	0	0
Issue	15 280	0	26 683	0	0
Settlement	(10 086)	(369)	(16 603)	0	(4 223)
Transfer into Level 3	710	786	0	0	0
Transfer out of Level 3	(1 591)	(1 712)	0	0	0
Gain/(loss) recognised in the period	(2 074)	758	2 528	(8)	11 292
Carrying amount at 30 June 2017	67 967	1 977	88 810	1 966	(11 980)

Holdings amounting to approximately NOK 5.6 billion have been transferred from Level 2 or 3 to Level 1 in the second quarter of 2017. There are net transfers of NOK 1.6 billion out of Level 3 in the quarter. 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".

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 2017:

	30 June 2017
Instalment loans	(275)
Notes, bonds and other interest-bearing securities	(3)
Financial derivatives	23
Senior securities issued	357
Subordinated debt	21
Total	123

NOTE 5

Instalment loans

<i>(Amounts in NOK 1 000 000)</i>	30 June 2017	30 June 2016	31 December 2016
Principal amount	275 991	262 965	266 558
Accrued interest	1 083	1 062	1 056
Fair value adjustment	517	1 300	(93)
Total instalment loans	277 590	265 326	267 521

NOTE 6

Senior securities issued

<i>(Amounts in NOK 1 000 000)</i>	30 June 2017	30 June 2016	31 December 2016
Senior securities issued (nominal amounts) as at 1 January	376 785	400 894	400 894
New issuance	84 638	48 111	82 752
Redemptions	(71 374)	(47 591)	(93 926)
Amortisation	(527)	(2 605)	(2 749)
Translation differences	(1 700)	(7 145)	(10 185)
Senior securities issued (nominal amounts) as at end of period	387 821	391 664	376 785
Accrued interest	3 000	2 685	4 390
Fair value adjustment	(7 897)	(10 766)	(11 242)
Total senior securities issued	382 925	383 584	369 933

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 2017	30 June 2016	31 December 2016
Domestic			
Issued by other borrowers	3 836	9 292	2 281
Foreign			
Issued by public bodies ¹	102 396	106 400	107 028
Issued by other borrowers	10 902	19 181	9 241
Total notes, bonds and other interest-bearing securities	117 133	134 873	118 550

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 2017	30 June 2016	31 December 2016
Under 1 year	67 467	67 767	52 497
1-5 years	43 655	66 959	59 965
Over 5 years	6 012	147	6 087
Total notes, bonds and other interest-bearing securities	117 133	134 873	118 550

NOTE 8

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

Amounts in the table below represent actual credit exposure

(Amounts in NOK 1 000 000)

Exposure as at 30 June 2017

Time to maturity	< 1 year				> 1 year				
Risk class	A-1	A-2	A-3	Not rated	A	AA	AAA	Not rated	Total
Sovereigns and central banks	11 434	0	0	0	0	13 497	4 025	0	28 956
Multilateral development banks	4 756	0	0	0	0	681	6 807	0	12 244
Regional authorities	36 452	0	0	4 154	544	8 920	8 070	3 054	61 196
Financial institutions	4 610	0	0	0	0	0	0	0	4 610
Securitisation	10	0	0	0	0	0	0	0	10
Covered bonds	6 050	0	0	0	0	0	4 067	0	10 118
Total	63 312	0	0	4 154	544	23 098	22 970	3 054	117 133

NOTE 9

Primary capital

(Amounts in NOK 1 000 000)

30 June 2017 30 June 2016 31 December 2016

<i>Common equity Tier 1 capital</i>			
Share capital	3 145	3 145	3 145
Retained earnings	7 914	7 640	7 624
Profit for the period included in Tier 1 capital	449	55	689
Pension funds above pension commitments	0	0	0
Deferred tax asset*	0	0	0
Intangible assets	(130)	(141)	(138)
Dividends payable	(224)	(205)	(390)
Other additions/deductions in common equity Tier 1 capital	588	(163)	65
Share of nulled unamortised estimate differences	0	0	0
Total common equity Tier 1 capital	11 741	10 331	10 996
Other approved Tier 1 capital	2 189	994	994
Total Tier 1 capital	13 930	11 324	11 989
<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	15 930	13 324	13 989

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

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

KBN issued a second subordinated bond with notional NOK 1.2 bn in June 2017, forming part of additional Tier 1 capital (Other approved Tier 1 capital in the table above). The bond is classified as equity in KBN's Statement of Financial Position, presented on a separate line as Additional Tier 1 capital.

NOTE 10

Capital adequacy

(Amounts in NOK 1 000 000)

	30 June 2017			30 June 2016	31 December 2016
	Carrying amount	Risk-weighted assets	Minimum capital requirements	Minimum capital requirements	Minimum capital requirements
Credit risk					
Sovereigns and central banks	28 956	0	0	0	0
Regional governments and local authorities	336 778	56 211	4 497	4 322	4 348
<i>Of which are Norwegian municipalities</i>	277 551	56 210	4 497	4 310	4 340
Public sector entities	6 021	0	0	0	0
Multilateral development banks	14 958	0	0	0	0
Financial institutions	31 651	6 695	536	428	400
<i>Of which counterparty exposure on derivatives</i>	7 375	1 840	147	148	137
Claims secured by residential property	39	39	3	4	3
Covered bonds	9 904	990	79	217	91
Other assets	16	16	1	1	1
Securitisation	10	10	1	1	1
Credit Valuation Adjustment	225	2 813	225	161	140
Total credit risk	428 558	66 775	5 342	5 134	4 984
Market risk	0	0	0	0	0
Operational risk—Basic Indicator Approach		2 909	233	225	233
Minimum capital requirements		69 684	5 575	5 359	5 217
Total capital ratio			22.86%	19.88%	21.45%
Tier 1 capital adequacy ratio			19.99%	16.90%	18.39%
Common equity Tier 1 capital adequacy ratio			16.85%	15.42%	16.86%