

Report for 3rd quarter  
2023

**KBN**

Kommunalbanken

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## About KBN

With total assets of about NOK 500 billion, Kommunalbanken AS (KBN) is one of the largest financial institutions in Norway. We provide loans to municipalities, county authorities and companies that carry out local government tasks, and our ambition is to contribute to the development of sustainable communities.

KBN is 100% owned by the Norwegian state. KBN was first established in 1927 and is today the largest lender to the local government sector.

**Our total lending to the sector is  
in excess of**

**NOK 341bn**

### Building sustainable communities

KBN has a strong market position and seeks to use this to promote communities that are sustainable, both economically, socially and environmentally. We are committed to ensuring municipalities make future oriented choices when investing, and we offer a slightly lower interest rate on loans for projects that are ambitious from a climate perspective. We also use some of our resources to improve knowledge of climate change and risk, and interest rates, economy and debt management for municipalities' elected representatives and administrative teams.

### One of the largest Norwegian borrower

KBN finances its lending to the local government sector by borrowing money directly in the capital markets. KBN is today one of the largest Norwegian borrowers in the international capital markets, and each year it needs to borrow around NOK 100 billion. KBN green bonds finance the transition to a low-carbon, climate resilient future in Norwegian local societies. KBN has more than ten years' history as an issuer of green bonds.

### AAA-rating

KBN has a conservative risk profile and is one of the few AAA-rated financial institutions in the world. KBN has never suffered any losses on its lending. As a state-owned company with a public mandate, strong capital base, robust operations and low risk appetite, KBN holds the highest possible credit rating from both Standard and Poor's and Moody's.

## Key figures

<i>(Amounts in NOK 1 000 000)</i>	January - September 2023	January - September 2022	2022
<b>RESULTS</b>			
Net interest income	1 572	1 387	1 866
Core earnings <sup>1</sup>	938	840	1 081
Profit after tax	866	(283)	(60)
Cost/income ratio (per cent) <sup>2</sup>	15.1%	15.3%	15.8%
Return on equity after tax <sup>3</sup>	6.3%	(2.7%)	(0.8%)
Return on equity after tax (core earnings) <sup>4</sup>	7.6%	6.8%	6.6%
Return on assets after tax <sup>5</sup>	0.2%	(0.1%)	0.0%
<b>LOANS TO CUSTOMERS</b>			
New disbursements	32 186	24 064	39 261
Aggregate loans to customers <sup>6</sup>	341 150	322 617	328 401
12 month lending growth in percent <sup>7</sup>	5.7%	2.6%	1.7%
Green loans to customers <sup>8</sup>	46 556	39 112	41 421
Share of green loans in lending portfolio	13.6%	12.1%	13.3%
Share of municipalities with green loans <sup>9</sup>	39.1%	36.9%	38.0%
<b>LIQUIDITY PORTFOLIO<sup>6</sup></b>	129 261	111 749	109 959
<b>DEBT SECURITIES ISSUED</b>			
New long-term debt securities issued	62 771	53 544	86 994
Aggregate debt securities issued <sup>6</sup>	467 286	452 838	429 206
<b>TOTAL ASSETS</b>	527 969	528 522	492 450
<b>EQUITY</b>			
Equity	20 671	18 576	18 903
Common equity Tier 1 capital adequacy ratio	18.2%	17.9%	19.0%
Leverage ratio	4.0%	3.7%	3.9%
<b>LIQUIDITY COVERAGE RATIO (LCR)<sup>10</sup></b>			
Total	283%	545%	261%
NOK	95%	105%	95%
EUR	121%	901%	441%
USD	175%	410%	242%
AUD	26 525%	2 024%	1 078%
GBP	Infinite	Infinite	1 958%
<b>OTHER KEY FIGURES</b>			
Market share excl. Husbanken <sup>11</sup>	50.4 %	42.7 %	49.7 %
Percentage of women employed in KBN	38%	43%	43%
Emissions in CO <sub>2</sub> tons equivalents <sup>12</sup>	71.93	52.5	79.7

## Footnotes

<sup>1</sup> Profit after tax adjusted for Net unrealised gain/(loss) on financial instruments adjusted for estimated tax at 25% tax rate, and adjusted for Portion allocated to owners of additional Tier 1 capital. This result measure is included to give relevant information about the company's underlying operations.

<sup>2</sup> Operating expenses as a percentage of sum Net interest income and Total other operating income adjusted for Net unrealised gain (loss) on financial instruments.

<sup>3</sup> 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 including 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.

<sup>4</sup> Core earnings as a percentage of average equity (annualized).

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

<sup>6</sup> Principal amounts.

<sup>7</sup> 12-month lending growth based on total lending (principal amounts).

<sup>8</sup> Aggregate green loans to customers financed by green bonds. In addition, the bank has a smaller portfolio of green loans to customers that were given before or that does not qualify after the criteria in Green bond framework published in 2016. These loans are no longer financed with green bonds. Total aggregate green loans to customers are NOK 48.5 billion.

<sup>9</sup> Percentage of municipalities in KBN's lending portfolio with green loans.

<sup>10</sup> 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.

<sup>11</sup> KBN's market share based on sector code 6500. Lending from Husbanken is not included as KBN does not compete for these loans.

<sup>12</sup> KBN's calculated emissions. See Greenhouse gas accounting.

See also the overview and description of alternative performance measures published on [kbn.com](https://kbn.com)

## The Board of Directors' Report

### Solid demand for new loans and stable development in profitability

KBN's net interest income in the third quarter of 2023 was NOK 556 million, as compared to NOK 473 million in the same period in 2022. A good level of growth in KBN's lending in the first nine months of the year, together with higher interest rates, contributed to the increase in KBN's income. KBN's lending portfolio increased by NOK 5.6 billion in the third quarter. KBN's green lending grew by NOK 2.4 billion in the third quarter. KBN's result for the accounting period in the third quarter of 2023 was a profit of NOK 197 million as compared to a profit of NOK 145 million in the same period in 2022.

### Results for the quarter

KBN's core earnings<sup>1</sup> totalled NOK 298 million in the third quarter of 2023, compared to NOK 249 million in the third quarter of 2022. The increase in net interest income was the reason for the strong increase in core earnings. The main reason for the increase in net interest income was rising interest rates.

KBN's net interest income totalled NOK 556 million in the third quarter of 2023, as compared to NOK 473 million in the corresponding period of 2022. Money-market interest rates increased further in the quarter as a result of Norges Bank increasing its key policy rate by 0.25 percentage points at its meeting on 16 August and by a further 0.25 percentage points at its meeting on 20 September. Norges Bank signalled that there would probably be a further increase at its December meeting, but this will depend on economic developments. Norway's key policy rate now stands at 4.25%. KBN increased its standard variable rate by 0.4 percentage points with effect from 5 September and by a further 0.1 percentage points with effect from 23 October.

KBN's result for the accounting period in the third quarter of 2023 was a profit of NOK 197 million, compared to a profit of NOK 145 million in the same period in 2022. In the third quarter of 2023, KBN recognised a net unrealised loss on financial instruments totalling NOK 187 million, compared to a net unrealised loss of NOK 163 million in the third quarter of 2022. KBN's fixed-rate lending and associated hedging instruments contributed a net unrealised gain of NOK 152 million in the third quarter of 2023, primarily as a result of a moderate decrease in credit spreads for the local government sector. There was an equivalent net unrealised loss on fixed-rate lending and associated hedging instruments of NOK 543 million in the third quarter of 2022. 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.

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<sup>1</sup> Profit after tax for the accounting period adjusted for net unrealised gains or losses on financial instruments after deducting estimated tax at the rate of 25% 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.

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KBN's liquidity portfolio and associated hedging instruments contributed a net unrealised loss of NOK 71 million for the third quarter of 2023, while KBN's own bonds and associated hedging instruments contributed a net unrealised loss of NOK 267 million to its result from ordinary activities, primarily as a result of an increase in basis spreads. 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 a realised loss totalling NOK 5 million in the third 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 decreased its provision for losses in the third quarter of 2023 by NOK 7 million. The reduction is due to model adjustments and an estimated decrease of default risk.

KBN's total operating costs for the third quarter of 2023 were NOK 87 million, compared to NOK 67 million in the same period in 2022. The increase in operating costs was due to a higher level of activity mainly related to development, wage growth and inflation.

## Results for the first nine months of 2023

KBN's core earnings<sup>2</sup> in the first nine months of 2023 totalled NOK 938 million, compared to NOK 840 million in the first nine months of 2022. KBN's net interest income in the first nine months of 2023 was NOK 1,572 million, as compared to NOK 1,387 million in the same period in 2022. The increase was primarily due to higher interest rates in combination with higher lending margins and good lending growth.

KBN's result for the period in the first nine months of 2023 was a profit of NOK 866 million as compared to a loss of NOK 283 million in the same period in 2022. KBN recognised net unrealised losses on financial instruments totalling NOK 216 million in the first nine months of 2023, compared with net unrealised losses totalling NOK 1,567 million in the same period in 2022. Net unrealised losses on the portion of KBN's fixed rate lending carried at fair value caused by an increase in credit spreads were the main reason for the unrealised losses in the first nine months of 2022 and 2023.

KBN's total operating costs for the first nine months of 2023 were NOK 238 million, compared to NOK 197 million in the first nine months of 2022. The increase was due to a higher level of activity, wage growth and inflation. KBN's cost-to-income ratio<sup>3</sup> for the first nine months of 2023 was 15.1%, compared to 15.3% in the same period in 2022. The reason for the decrease in the cost-to-income ratio was the increase in KBN's income.

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<sup>2</sup> Profit after tax for the accounting period adjusted for unrealised gains or losses on financial instruments after deducting estimated tax at the rate of 25% 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.

<sup>3</sup> Operating expenses as a percentage of the sum of net interest income and total other operating income adjusted for net unrealised gains/losses on financial instruments.

Based on its result from ordinary activities, KBN's annualised return on equity in the first nine months of 2023 was 6.3%, compared to -2.7% in the same period in 2022. Based on its core earnings, KBN's annualised return on equity in the first nine months of 2023 was 7.6%, compared to 6.8% in 2022.

KBN's total comprehensive income for the period in the first nine months of 2023 was NOK 758 million, compared to NOK 202 million in the same period in 2022. KBN's total comprehensive income in the first nine months of 2023 includes a gain of NOK 107 million after tax on KBN's bonds as a result of a change in KBN's own credit risk.

**Table 1: Result for the period and total comprehensive income**

<i>(Amounts in NOK 1 000 000)</i>	Q3 2023	YTD 2023	Q3 2022	YTD 2022	2022
Net interest income	556	1 572	473	1 387	1 866
Fees and commission expenses	28	93	28	92	133
Net unrealised gain/(loss) on financial instruments	(187)	(216)	(163)	(1 567)	(1 622)
Increased/(reduced) provision for expected credit loss	(7)	(11)	23	22	28
Net realised gain/(loss) on market transactions	(5)	91	(1)	16	6
Operating expenses	87	238	67	197	271
Income tax	60	261	46	(191)	(120)
<b>Profit/(Loss) for the period</b>	<b>197</b>	<b>866</b>	<b>145</b>	<b>(283)</b>	<b>(60)</b>
<i>(Amounts in NOK 1 000 000)</i>	Q3 2023	YTD 2023	Q3 2022	YTD 2022	2022
Profit/(loss) for the period	197	866	145	(283)	(60)
Change in fair value of liabilities due to changes in own credit risk	(89)	(143)	452	648	800
Actuarial gain/(loss) on pension liability	0	0	0	0	2
Tax	22	36	(113)	(162)	(200)
<b>Total comprehensive income for the period</b>	<b>130</b>	<b>758</b>	<b>484</b>	<b>202</b>	<b>541</b>

## Lending

KBN's lending portfolio totalled NOK 341 billion<sup>4</sup> at the end of the third quarter of 2023. The lending portfolio increased by NOK 5.6 billion in the third quarter, while it increased by NOK 5.9 billion in the third quarter of 2022. In the third quarter of 2023 the relatively unattractive terms available to KBN's customers in the capital markets created better market conditions for KBN's long-term instalment-based loans.

Increasing demand for new loans is expected over the course of the rest of the year, in line with normal seasonal variation. The fact that credit spreads in the capital markets continue to be wide is making it less attractive for KBN's customers to obtain shorter maturity financing in the capital markets. KBN therefore expects there to continue to be a good level of demand for refinancing using long-term instalment-based loans. The figure below shows the changes in KBN's quarterly lending growth from the third quarter of 2021 until the present.

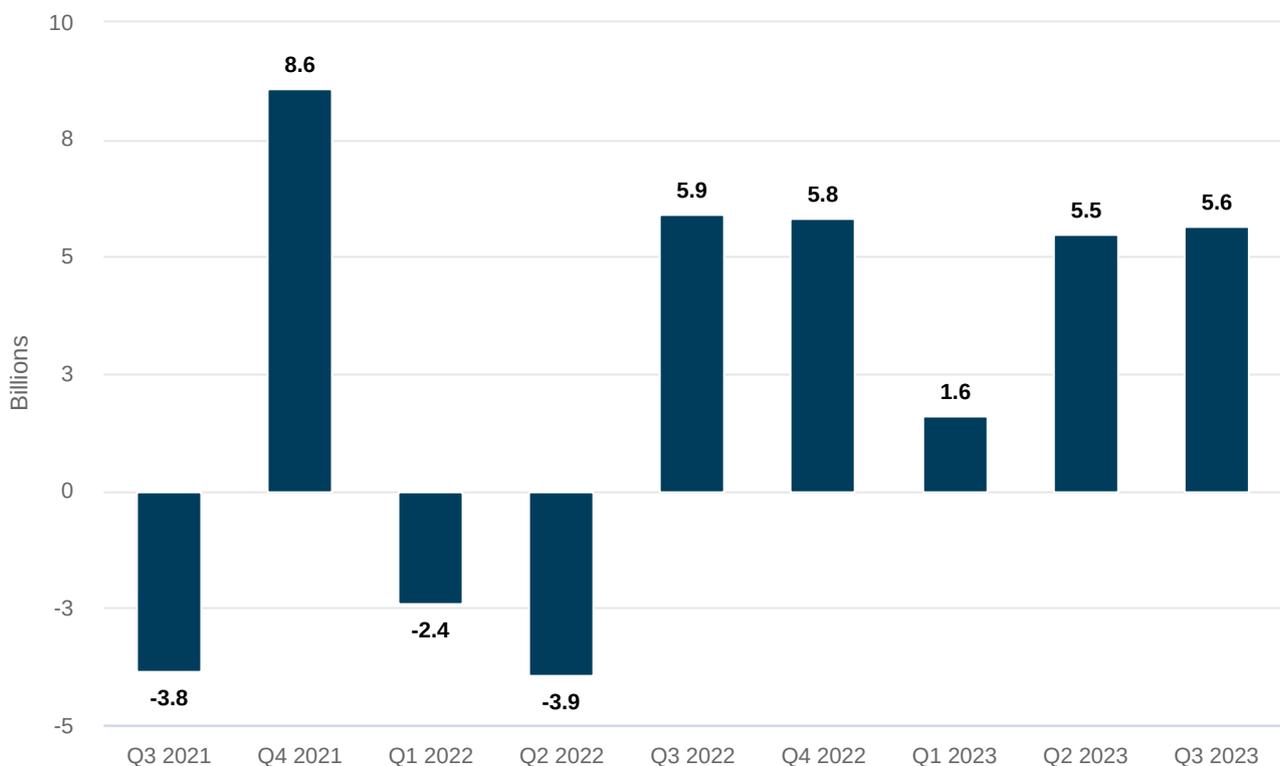
KBN continued to experience a good level of growth in its green lending, and its portfolio of green loans increased by NOK 2.4 billion in the third quarter of 2023, as compared to NOK 3.1 billion in the same period in 2022. KBN's green lending in the quarter included sizeable green loans to the City of Oslo for the

<sup>4</sup> Principal amounts

Tåsenhjemmet and Majorstuhjemmet nursing homes. At the end of the third quarter, KBN's green lending represented 14.2% of its overall lending portfolio. KBN's target is for 15% of its lending to be green lending by the end of 2023.

The annual rate of debt growth in the local government sector as at the end of August 2023 was calculated to be 7%. After adjusting for borrowing from the Norwegian State Housing Bank, the rate of debt growth was 6.1%. Strong growth in prices and higher interest rates mean that weaker investment growth and thus lower debt growth are expected in 2023 compared with previous years. After adjusting for borrowing from the Norwegian State Housing Bank, KBN's market share at the end of August was 50.4%.

**Chart 1: Quarterly lending growth in billion kroner**



## Financial markets

Inflation was reduced in the first nine months of 2023, but it remains materially above the targets set by the central banks of many countries across the world. A number of central banks consequently raised their key policy rates. Norway's central bank raised its key policy rate by a total of 1.5 percentage points over the course of the first nine months of the year. The rate of inflation in Norway was running at 3.3% at the most recent assessment in September, which is a marked decrease from previous months. Core inflation was 5,7 %. This is, however, still higher than Norway's target rate, and it is not clear how long it will take for it to reach the target. The goal of monetary policy is for the annual rate of growth in the consumer price index to be as close as possible to 2% annual growth. The US dollar and Euro strengthened against the majority of currencies in the first nine months of the year, including the Norwegian krone. The Norwegian krone is at a historically low level. The market is pricing in a 50% probability of a further interest rate rise in Norway, but

largely considers the policy rate to have peaked. The uncertainty is leading to a high level of volatility in the fixed income market and the equity market, and for the Norwegian krone.

The credit spreads on local government and covered bonds fell at the start of the year but rose again over the following months. At the end of the third quarter spreads were still higher than at the start of 2023. The outlook for future changes in the spreads on local government and covered bonds is uncertain, both in Norway and internationally.

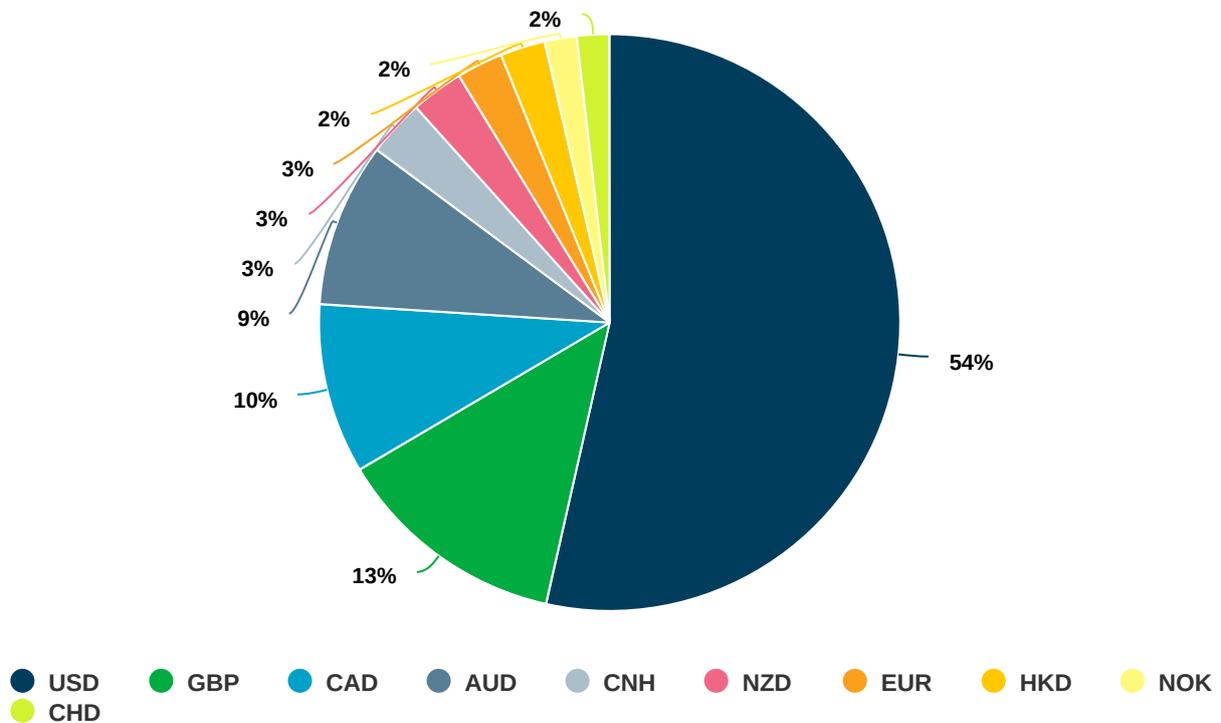
## Transition to a new reference rate

In 2020 the UK's Financial Conduct Authority (FCA) decided that LIBOR would be discontinued and would cease to be quoted with effect from 1 July 2023. The reference rate therefore had to be replaced by a new, risk-free reference rate for current contracts and activities. For the USD, LIBOR was replaced by the Secured Overnight Financing Rate (SOFR) reference rate. KBN did not have any bonds with a floating LIBOR rate at the time of the transition, but it did have a significant portfolio of financial derivatives with USD LIBOR as their reference rate. The transition was regulated by a transition clause in the ISDA agreement for financial derivatives, which meant that the reference rate changed from three-month USD LIBOR to USD SOFR with a spread premium of 26.16 basis points. In line with this, KBN converted all its ongoing derivative contracts to USD SOFR in the second quarter. The conversion did not have a material impact on KBN's earnings for the first nine months of the year.

## Funding

KBN's funding activities in the third quarter of 2023 were at a relatively normal level. The uncertainty in the markets during the period did not impact KBN's access to the international capital markets to any significant extent, and KBN completed its funding transactions as planned. The weakness of the Norwegian krone relative to the US dollar increased KBN's liquidity as a result of liquidity inflows from cash collateral from currency hedging instruments over the third quarter, and KBN's funding activities were therefore somewhat less extensive during the quarter. In the first nine months of 2023 KBN's new borrowings totalled approximately NOK 63 billion through 43 bond issues in ten currencies, as compared to NOK 54 billion in the first nine months of 2022. The figure below shows the breakdown of new borrowings by currency.

**Chart 2: New borrowings by currency in the first six months of 2023**



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

### Liquidity management

KBN's liquidity portfolio totalled NOK 129 billion<sup>5</sup> at the end of the third quarter of 2023 as compared to NOK 112 billion at the same point in 2022. 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 57% 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. The weakness of the krone in the first nine months of 2023, including in the third quarter, therefore explains the increase in the size of the portfolio relative to the same time last year and the start of 2023.

<sup>5</sup> Principal amounts

## Capital

At the end of the third quarter of 2023 the capital adequacy in KBN was sufficient, with a buffer to regulatory requirements.

**Table 2: Capital adequacy key figures**

As at 30 September 2023	Volume in NOK billion	Capital adequacy	Requirements
Common equity Tier 1 capital adequacy ratio	15.8	18.2 %	15.0 %
Tier 1 capital adequacy ratio	19.3	22.2 %	16.9 %
Total capital ratio	20.1	23.1 %	19.4 %

KBN's total assets at the end of the third quarter of 2023 amounted to NOK 528 billion, up from NOK 492 billion at the end of 2022. KBN's total assets at the end of the third quarter of 2022 amounted to NOK 529 billion. The increase from the end of 2022 is primarily due to liquidity inflows from cash collateral from currency hedging instruments caused by the weakening of the Norwegian krone, growth in KBN's lending, and an increase in the NOK value of balance sheet assets as a result of currency conversion.

At the end of the third quarter, KBN had a Pillar 2 capital requirement consisting of 2.1% of the basis for calculation under Pillar 1. The Pillar 2 requirement is intended to address risks that the undertaking is exposed to and that are not, or are only partially, covered by the general capital requirements in Pillar 1. The requirement has to be satisfied with at least 56.25% common equity Tier 1 capital and with at least 75% Tier 1 capital.

KBN's leverage ratio at the end of the third quarter was 4.0%, as compared to the requirement of 3.0%.

Capital adequacy figures 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 currency hedging contracts cause fluctuations in cash collateral. When the krone weakens, 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.

## Greenhouse gas accounting for the first nine months of 2023

In 2022, KBN increased its long-term target for reducing its own emissions to a reduction of at least 55% by 2030, compared to the 2019 level. This emissions trajectory implies that KBN's CO<sub>2</sub> emissions in 2023 should be a maximum of 70% of the 2019 level, which corresponds to approximately 130 tonnes of CO<sub>2</sub>e for the year. KBN's calculated CO<sub>2</sub> emissions increased in 2023 relative to 2022, mainly due to more

normalized travel activities in 2023. Nonetheless, KBN is in a good position with regard to reaching its target for its desired reduction in its own emissions<sup>6</sup>.

## Future prospects

Norges Bank raised its key policy rate to 4.25% by means of its August and September 2023 monetary policy committee meetings, and it has communicated that there is a high degree of probability that it will increase the rate further at its December meeting, but that this will depend on economic developments. Norges Bank has stated that the reason for the increases is the need to reduce inflation. The goal of monetary policy is for the annual rate of growth in the consumer price index to be as close as possible to 2% annual growth. Norges Bank's forecast for its key policy rate indicates that it will peak in 2023. The future path of the policy rate thereafter will depend on economic developments.

The war in Ukraine and in the Middle-East, uncertainty about the economic outlook, and the turmoil in the banking sector earlier in 2023 have caused long-lasting uncertainty in the fixed income market. The widening in credit spreads for local government sector issuers in the capital markets has continued in 2023, and at the end of the third quarter spreads for five-year financing were approximately 4 basis points higher than at the end of 2022. Viewed in isolation, the third quarter saw spreads decrease somewhat, with the widening in spreads having taken place in the first six months of the year. The fact that spreads remain wide in 2023 reveals the continuing nervousness in financial markets. It is still uncertain whether credit spreads will fall through the autumn and winter, or whether they will stabilise at a higher level. This, in combination with the increases in money market rates, has made it more expensive for our customers to finance their investment spending.

The level of demand for KBN-issued bonds is 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.

Oslo, 26 October 2023

The Board of Directors and Chief Executive Officer of Kommunalbanken AS

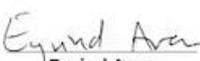
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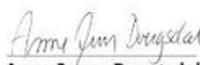
<sup>6</sup> KBN's greenhouse gas accounting is based on the Greenhouse Gas Protocol Corporate Standard. For the purposes of this greenhouse gas accounting, KBN's own emissions consist of calculations regarding its Scope 1 and Scope 2 emissions.

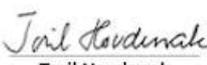
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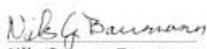
  
**Brit Kristin Sæbø Rugland**  
CHAIR

  
**Rune Midtgaard**  
VICE CHAIR

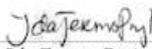
  
**Eyvind Aven**  
BOARD MEMBER

  
**Anne Jenny Dvergsdal**  
EMPLOYEE REPRESENTATIVE

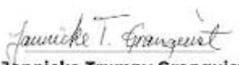
  
**Toril Hovdenak**  
BOARD MEMBER

  
**Nils Gunnar Baumann**  
EMPLOYEE REPRESENTATIVE

  
**Ida Espolin Johnson**  
BOARD MEMBER

  
**Ida Texmo Prytz**  
BOARD MEMBER

  
**Petter Steen Jr.**  
BOARD MEMBER

  
**Jannicke Trumpy Granquist**  
CEO

## Financial statement

### INCOME STATEMENT

(Amounts in NOK 1 000 000)	Note	3rd quarter 2023	January - September 2023	3rd quarter 2022	January - September 2022	2022
<i>Interest income from assets measured at amortised cost</i>		4 269	10 789	1 586	3 543	6 155
<i>Interest income from assets measured at fair value</i>		1 857	4 860	851	1 946	3 026
Total interest income		6 127	15 649	2 473	5 532	9 180
Interest expense		5 570	14 077	2 000	4 146	7 315
<b>Net interest income</b>	<b>1</b>	<b>556</b>	<b>1 572</b>	<b>473</b>	<b>1 387</b>	<b>1 866</b>
Fees and commission expenses		28	93	28	92	133
Net unrealised gain/(loss) on financial instruments	<b>2</b>	(187)	(216)	(163)	(1 567)	(1 622)
Increased/(reduced) provision for expected credit loss	<b>6</b>	(7)	(11)	23	22	28
Net realised gain/(loss) on market transactions		(5)	91	(1)	16	6
<b>Total other operating income</b>		<b>(212)</b>	<b>(207)</b>	<b>(215)</b>	<b>(1 665)</b>	<b>(1 775)</b>
Salaries and administrative expenses		53	144	45	133	166
Depreciation of fixed and intangible assets		11	31	10	28	38
Other operating expenses		23	62	12	36	67
<b>Total operating expenses</b>		<b>87</b>	<b>238</b>	<b>67</b>	<b>197</b>	<b>271</b>
<b>Profit before tax</b>		<b>258</b>	<b>1 127</b>	<b>191</b>	<b>(475)</b>	<b>(180)</b>
Income tax		60	261	46	(191)	(120)
<b>Profit for the period</b>		<b>197</b>	<b>866</b>	<b>145</b>	<b>(283)</b>	<b>(60)</b>
Portion allocated to shareholder		158	776	127	(336)	(135)
Portion allocated to owners of additional Tier 1 capital		39	90	18	52	75

### STATEMENT OF COMPREHENSIVE INCOME

(Amounts in NOK 1 000 000)	Note	3rd quarter 2023	January - September 2023	3rd quarter 2022	January - September 2022	2022
Profit for the period		197	866	145	(283)	(60)
<b>Other comprehensive income</b>						
<i>Items which will not be reclassified to profit or loss</i>						
<i>Change in fair value of liabilities due to changes in own credit risk</i>	<b>9</b>	(89)	(143)	452	648	800
Actuarial gain/(loss) on pension liability		0	0	0	0	2
Tax		22	36	(113)	(162)	(200)
<b>Total other comprehensive income</b>		<b>(67)</b>	<b>(107)</b>	<b>339</b>	<b>486</b>	<b>601</b>
<b>Total comprehensive income for the period</b>		<b>130</b>	<b>758</b>	<b>484</b>	<b>202</b>	<b>541</b>
Portion allocated to shareholder		91	669	466	150	467
Portion allocated to owners of additional Tier 1 capital		39	90	18	52	75

## Statement of financial position

<i>(Amounts in NOK 1 000 000)</i>	Note	30 September 2023	30 September 2022	31 December 2022
<b>Assets</b>				
Deposits with credit institutions	<u>3,4</u>	40 695	49 401	39 512
Other money market deposits	<u>3</u>	0	1 828	0
Loans to customers	<u>3,4,5,6</u>	335 777	316 912	324 532
Commercial paper and bonds	<u>3,4,6,7,8</u>	128 119	110 766	109 235
Financial derivatives	<u>3,4</u>	20 500	46 453	16 119
Deferred tax asset		2 671	2 990	2 885
Other assets		207	172	166
<b>Total assets</b>		<b>527 969</b>	<b>528 522</b>	<b>492 450</b>
<b>Liabilities and equity</b>				
Due to credit institutions	<u>3,4</u>	13 167	36 725	6 567
Commercial paper issued	<u>3,4,9</u>	9 707	1 066	23 377
Debt securities issued	<u>3,4,9</u>	441 059	422 907	402 553
Financial derivatives	<u>3,4</u>	42 560	47 345	39 070
Other liabilities		49	38	56
Payable taxes		0	0	0
Pension commitments		27	32	27
Subordinated loan capital	<u>3,4,9</u>	728	1 834	1 897
<b>Total liabilities</b>		<b>507 297</b>	<b>509 946</b>	<b>473 547</b>
Share capital		3 895	3 895	3 895
Additional Tier 1 capital		3 484	2 392	2 392
Retained earnings		13 292	12 290	12 617
<b>Total equity</b>	<u>10</u>	<b>20 671</b>	<b>18 576</b>	<b>18 903</b>
<b>Total liabilities and equity</b>		<b>527 969</b>	<b>528 522</b>	<b>492 450</b>

## Statement of changes in equity

(Amounts in NOK 1 000 000)

	1 January - 30 September 2023				
	Share capital	Additional Tier 1 capital	Financial liabilities, changes in credit risk	Other equity	Total equity
<b>Equity as of 31 December 2022</b>	<b>3 895</b>	<b>2 392</b>	<b>(304)</b>	<b>12 920</b>	<b>18 903</b>
Profit for the period	0	0	0	866	866
Other comprehensive income after tax - financial liabilities, changes in credit risk	0	0	(107)	0	(107)
Other comprehensive income after tax - actuarial gain/loss	0	0	0	0	0
Interest paid on additional Tier 1 capital	0	0	0	(83)	(83)
Issuance of Tier 1 capital	0	1 093	0	0	1 093
Dividends for 2022	0	0	0	0	0
<b>Equity as of 30 September 2023</b>	<b>3 895</b>	<b>3 484</b>	<b>(411)</b>	<b>13 703</b>	<b>20 671</b>

	1 January - 30 September 2022				
	Share capital	Additional Tier 1 capital	Financial liabilities, changes in credit risk	Other equity	Total equity
<b>Equity as of 31 December 2021</b>	<b>3 895</b>	<b>2 392</b>	<b>(904)</b>	<b>13 698</b>	<b>19 081</b>
Profit for the period	0	0	0	(283)	(283)
Other comprehensive income after tax - financial liabilities, changes in credit risk	0	0	486	0	486
Other comprehensive income after tax - actuarial gain/loss	0	0	0	0	0
Interest paid on additional Tier 1 capital	0	0	0	(62)	(62)
Dividends for 2021	0	0	0	(646)	(646)
<b>Equity as of 30 September 2022</b>	<b>3 895</b>	<b>2 392</b>	<b>(418)</b>	<b>12 707</b>	<b>18 576</b>

	1 January - 31 December 2022				
	Share capital	Additional Tier 1 capital	Financial liabilities, changes in credit risk	Other equity	Total equity
<b>Equity as of 31 December 2021</b>	<b>3 895</b>	<b>2 392</b>	<b>(904)</b>	<b>13 698</b>	<b>19 081</b>
Profit for the period	0	0	0	(60)	(60)
Other comprehensive income after tax - financial liabilities, changes in credit risk	0	0	600	0	600
Other comprehensive income after tax - actuarial gain/loss	0	0	0	2	2
Interest paid on additional Tier 1 capital	0	0	0	(74)	(74)
Dividends for 2021	0	0	0	(646)	(646)
<b>Equity as of 31 December 2022</b>	<b>3 895</b>	<b>2 392</b>	<b>(304)</b>	<b>12 920</b>	<b>18 903</b>

## Statement of cash flows

<i>(Amounts in NOK 1 000 000)</i>	January - September 2023	January - September 2022	2022
<b>Cash flows from operating activities</b>			
Interest received	14 258	4 473	7 680
Interest paid	(12 561)	(2 914)	(5 568)
Fees and commissions paid	(120)	(105)	(131)
Net realised gains on financial assets	(13)	16	6
Cash payments to employees and suppliers	(207)	(168)	(233)
Income taxes paid	0	0	(525)
Net disbursement of loans to customers	(12 727)	421	(5 385)
Net (increase)/decrease in deposits with credit institutions	5 902	(2 208)	(21 209)
Net (increase)/decrease in commercial paper and bonds	(11 441)	8 566	5 944
Net (increase)/decrease in other assets	(19)	11	(5)
Net increase/(decrease) in other liabilities	(10)	(568)	(27)
Net (increase)/decrease in financial derivatives	22 882	27 457	25 528
<b>Net cash flows from operating activities</b>	<b>5 943</b>	<b>34 982</b>	<b>6 079</b>
<b>Cash flows from investing activities</b>			
Net (purchase)/sales of property and equipment	(25)	(29)	(32)
<b>Net cash flows from investing activities</b>	<b>(25)</b>	<b>(29)</b>	<b>(32)</b>
<b>Cash flows from financing activities</b>			
Receipts on issued commercial paper	91 447	53 776	148 633
Payments on redeemed commercial paper	(106 261)	(84 401)	(156 685)
Lease payments	(8)	(1)	(8)
Receipts on issued debt securities	61 969	53 544	86 995
Payments on redeemed debt securities	(53 021)	(57 001)	(84 295)
Interest Paid on additional Tier 1 capital	(83)	(62)	(74)
Dividends paid	(0)	(646)	(646)
<b>Net cash flows from financing activities</b>	<b>(5 958)</b>	<b>(34 790)</b>	<b>(6 080)</b>
<b>Net cash flows</b>	<b>(40)</b>	<b>163</b>	<b>(33)</b>
Effects of exchange rate changes on cash and cash equivalents	93	(19)	(24)
<b>Net cash flows after effects of exchange rate changes</b>	<b>54</b>	<b>144</b>	<b>(57)</b>
Cash and cash equivalents at 1 January	251	308	308
Net receipts of cash	54	144	(57)
<b>Cash and cash equivalents at end of period</b>	<b>304</b>	<b>452</b>	<b>251</b>
Whereof			
<i>Deposits with credit institutions without agreed time to maturity</i>	304	452	251
<i>Due to credit institutions without agreed time to maturity</i>	0	0	0

## Notes to the financial statement

### Accounting policies

Kommunalbanken AS (KBN) prepares its financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The condensed interim financial statements as of 30 September 2023 are prepared in accordance with IAS 34 Interim Financial Reporting and follow the same accounting policies and methods of computation as presented in the annual financial statements for 2022. The interim financial statement does not include all the information required in a full annual financial statement and should be read in conjunction with the annual financial statement for 2022. The Company has one operating segment: lending to the Norwegian municipalities and municipal companies. The Company does not provide separate segment reporting other than disclosures on the lending portfolio and the business as a whole.

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.

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 entail uncertainty related to carrying amounts.

## Note 1 Net interest income

<i>(Amounts in NOK 1 000 000)</i>	3rd quarter 2023	January - September 2023	3rd quarter 2022	January - September 2022	2022
Deposits with credit institutions	115	286	1	(18)	0
Other money market deposits	0	11	0	(1)	0
Loans to customers	3 106	8 239	1 353	3 185	5 274
Financial derivatives, hedge accounting loans to customers	78	124	(15)	(35)	(30)
Commercial paper and bonds	971	2 129	247	412	911
<i>Interest income from assets measured at amortised cost</i>	<i>4 269</i>	<i>10 789</i>	<i>1 586</i>	<i>3 543</i>	<i>6 155</i>
Loans to customers	413	1 002	505	1 505	1 977
Commercial paper and bonds	334	999	192	462	628
Financial derivatives	1 110	2 859	154	(21)	421
<i>Interest income from assets measured at fair value</i>	<i>1 857</i>	<i>4 860</i>	<i>851</i>	<i>1 946</i>	<i>3 026</i>
<b>Total interest income</b>	<b>6 127</b>	<b>15 649</b>	<b>2 437</b>	<b>5 489</b>	<b>9 180</b>
Due to credit institutions	0	0	8	18	18
Commercial paper issued	185	286	(1)	(22)	98
Debt securities issued	1 522	4 490	997	2 486	3 592
Financial derivatives, hedge accounting debt securities issued	2 383	6 329	436	(233)	953
Other interest expense	0	0	0	(12)	(12)
<i>Interest expenses from debt measured at amortised cost</i>	<i>4 091</i>	<i>11 105</i>	<i>1 440</i>	<i>2 236</i>	<i>4 649</i>
Debt securities issued	1 059	2 933	846	2 547	3 365
Financial derivatives	415	4	(338)	(726)	(761)
Subordinated loan capital	6	35	15	46	61
<i>Interest expenses from debt measured at fair value</i>	<i>1 480</i>	<i>2 972</i>	<i>523</i>	<i>1 867</i>	<i>2 666</i>
<b>Total interest expenses</b>	<b>5 570</b>	<b>14 077</b>	<b>1 964</b>	<b>4 103</b>	<b>7 315</b>
<b>Net interest income</b>	<b>556</b>	<b>1 572</b>	<b>473</b>	<b>1 386</b>	<b>1 866</b>

From 2023, KBN has modified the presentation of interest from financial instruments in hedge accounting. This entails that interest that has previously been categorized as at fair value have been transferred to amortised cost. The change affects only the presentation of interest on financial derivatives. Historical data has been adjusted accordingly.

## Note 2 Net unrealised gain/(loss) on financial instruments

*(Amounts in NOK 1 000 000)*

Net unrealised gain/(loss) on financial instruments	3rd quarter 2023	January - September 2023	3rd quarter 2022	January - September 2022	2022
Loans to customers	73	(2 611)	(1 320)	(7 005)	(5 377)
Commercial paper and bonds	346	238	(858)	(2 417)	(2 177)
Financial derivatives	(665)	1 456	(7 003)	(20 144)	(18 748)
Debt securities issued	67	758	8 969	27 755	24 485
Subordinated loan capital	(8)	(56)	50	244	196
<b>Net unrealised gain/(loss) on financial instruments</b>	<b>(187)</b>	<b>(216)</b>	<b>(163)</b>	<b>(1 567)</b>	<b>(1 622)</b>

Specification of total value changes including hedging instruments	3rd quarter 2023	January - September 2023	3rd quarter 2022	January - September 2022	2022
Loans to customers, including hedging instruments	152	(92)	(543)	(1 512)	(1 129)
Commercial paper and bonds, including hedging instrument	(71)	(51)	29	(148)	(138)
Debt securities issued and subordinated loan capital, including hedging instruments	(267)	(72)	351	93	(354)
<b>Net unrealised gain/(loss) on financial instruments</b>	<b>(187)</b>	<b>(216)</b>	<b>(163)</b>	<b>(1 567)</b>	<b>(1 622)</b>

Recognised value changes on financial instruments in fair value hedges	3rd quarter 2023	January - September 2023	3rd quarter 2022	January - September 2022	2022
Loan to customers	(160)	(1 129)	(138)	(488)	(261)
Financial derivatives, in hedge accounting loans to customers	145	1 052	109	438	245
Debt securities issued	(565)	125	7 052	19 838	18 247
Financial derivatives, in hedge accounting debt securities issued	566	(85)	(7 061)	(19 821)	(18 262)
<b>Net unrealised gain/(loss) on financial instruments</b>	<b>(14)</b>	<b>(37)</b>	<b>(38)</b>	<b>(33)</b>	<b>(31)</b>

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. The change in fair value arising from Debt securities issued presented in the above table is due to changes in parameters other than credit.

Changes in fair value are the result of changes in market parameters, 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 has 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 only to a small extent cause net effects in the income statement. Investments in the liquidity portfolio, fixed interest-rate loans to customers and issued debt securities measured at fair value, may lead to significant effect in income statement and other comprehensive income due to changes in credit spreads. Similarly, changes in basis swap spreads may lead to significant net effects in the income statement.

KBN hedges currency risk. The bank's guidelines require hedging of all currency risks related to holdings in foreign currency. However, short-term net exposure linked to income and balance sheet items in USD and EUR may arise. KBN's limit for currency risk in these currencies is 1.6 per cent of primary capital. This means that net profit effects from short-term exchange rate changes are limited. Effects from the currency conversion of principal from non-derivative interest instruments in foreign currency, including among other commercial paper and bonds and debt securities issued, and from interest and fees/discounts are presented net in the income statement. Corresponding changes in value from foreign exchange derivatives used as a hedging instrument in financial hedging of the mentioned currency exposure, are presented net with currency conversion effects from the hedging object. In the tables above, only effects from exchange rate changes on fair value changes are presented.

## Note 3 Classification of financial instruments

(Amounts in NOK 1 000 000)

At 30 September 2023	Total	At fair value			At amortised cost	
		Fair value option	Mandatory at fair value	Fair value hedge	Hedge accounting	Hold to collect
Deposits with credit institutions	40 695	0	0	0	0	40 695
Other money market deposits	0	0	0	0	0	0
Loans to customers	335 777	73 206	0	0	30 776	231 794
Commercial paper and bonds	128 119	73 660	(0)	0	0	54 459
Financial derivatives	20 500	0	19 190	1 310	0	0
<b>Total financial assets</b>	<b>525 091</b>	<b>146 866</b>	<b>19 190</b>	<b>1 310</b>	<b>30 776</b>	<b>326 948</b>
Due to credit institutions	13 167	0	0	0	0	13 167
Commercial paper issued	9 707	0	0	0	0	9 707
Debt securities issued	441 059	160 687	0	0	247 403	32 970
Financial derivatives	42 560	0	23 526	19 034	0	0
Subordinated loan capital	728	728	0	0	0	0
<b>Total financial liabilities</b>	<b>507 222</b>	<b>161 414</b>	<b>23 526</b>	<b>19 034</b>	<b>247 403</b>	<b>55 844</b>

At 30 September 2022	Total	At fair value			At amortised cost	
		Fair value option	Mandatory at fair value	Fair value hedge	Hedge accounting	Hold to collect
Deposits with credit institutions	49 401	0	0	0	0	49 401
Other money market deposits	1 828	0	0	0	0	1 828
Loans to customers	316 912	86 776	0	0	11 379	218 757
Commercial paper and bonds	110 766	66 795	0	0	0	43 971
Financial derivatives	46 453	0	46 071	382	0	0
<b>Total financial assets</b>	<b>525 360</b>	<b>153 571</b>	<b>46 071</b>	<b>382</b>	<b>11 379</b>	<b>313 957</b>
Due to credit institutions	36 725	0	0	0	0	36 725
Commercial paper issued	1 066	0	0	0	0	1 066
Debt securities issued	422 907	176 485	0	0	216 555	29 866
Financial derivatives	47 345	0	26 443	20 902	0	0
Subordinated loan capital	1 834	1 834	0	0	0	0
<b>Total financial liabilities</b>	<b>509 876</b>	<b>178 319</b>	<b>26 443</b>	<b>20 902</b>	<b>216 555</b>	<b>67 657</b>

At 31 December 2022	Total	At fair value			At amortised cost	
		Fair value option	Mandatory at fair value	Fair value hedge	Hedge accounting	Hold to collect
Deposits with credit institutions	39 512	0	0	0	0	39 512
Other money market deposits	0	0	0	0	0	0
Loans to customers	324 532	83 650	0	0	15 577	225 305
Commercial paper and bonds	109 235	60 324	0	0	0	48 911
Financial derivatives	16 119	0	15 837	283	0	0
<b>Total financial assets</b>	<b>489 399</b>	<b>143 974</b>	<b>15 837</b>	<b>283</b>	<b>15 577</b>	<b>313 728</b>
Due to credit institutions	6 567	0	0	0	0	6 567
Commercial paper issued	23 377	0	0	0	0	23 377
Debt securities issued	402 553	154 458	0	0	219 532	28 563
Financial derivatives	39 070	0	19 417	19 653	0	0
Subordinated loan capital	1 897	1 897	0	0	0	0
<b>Total financial liabilities</b>	<b>473 465</b>	<b>156 355</b>	<b>19 417</b>	<b>19 653</b>	<b>219 532</b>	<b>58 507</b>

## Note 4 Financial instruments measured at fair value

Methods used for the determination of fair value fall within three levels, 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 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 are distributed in the following levels:

*(Amounts in NOK 1 000 000)*

At 30 September 2023	Level 1	Level 2	Level 3	Total
Loans to customers	0	0	73 206	73 206
Commercial paper and bonds	62 057	4 114	7 489	73 660
Financial derivatives	0	20 316	184	20 500
<b>Total financial assets measured at fair value</b>	<b>62 057</b>	<b>24 430</b>	<b>80 878</b>	<b>167 366</b>
Debt securities issued	9 701	126 351	24 634	160 687
Financial derivatives	0	37 871	4 689	42 560
Subordinated loan capital	0	0	728	728
<b>Total financial liabilities measured at fair value</b>	<b>9 701</b>	<b>164 222</b>	<b>30 051</b>	<b>203 975</b>

At 30 September 2022	Level 1	Level 2	Level 3	Total
Loans to customers	0	753	86 023	86 776
Commercial paper and bonds	53 314	1 637	11 844	66 795
Financial derivatives	0	46 449	4	46 453
<b>Total financial assets measured at fair value</b>	<b>53 314</b>	<b>48 839</b>	<b>97 870</b>	<b>200 023</b>
Debt securities issued	9 270	145 497	21 718	176 485
Financial derivatives	0	40 637	6 708	47 345
Subordinated loan capital	0	0	1 834	1 834
<b>Total financial liabilities measured at fair value</b>	<b>9 270</b>	<b>186 134</b>	<b>30 260</b>	<b>225 664</b>

At 31 December 2022	Level 1	Level 2	Level 3	Total
Loans to customers	0	0	83 650	83 650
Commercial paper and bonds	49 861	4 039	6 424	60 324
Financial derivatives	0	15 967	152	16 119
<b>Total financial assets measured at fair value</b>	<b>49 861</b>	<b>20 006</b>	<b>90 226</b>	<b>160 094</b>
Debt securities issued	12 284	122 595	19 580	154 458
Financial derivatives	0	34 780	4 290	39 070
Subordinated loan capital	0	0	1 897	1 897
<b>Total financial liabilities measured at fair value</b>	<b>12 284</b>	<b>157 374</b>	<b>25 767</b>	<b>195 425</b>

### Reconciliation of movements in Level 3

	Loans to customers	Commercial paper and bonds	Debt securities issued	Subordinated loan capital	Financial derivatives
<b>Carrying amount at 31 December 2022</b>	<b>83 650</b>	<b>6 424</b>	<b>19 580</b>	<b>1 897</b>	<b>(4 138)</b>
Purchase	0	6 605	0	(1 099)	(15)
Sale	0	(1 396)	0	0	0
Issue	0	0	6 528	0	0
Settlement	(6 212)	(2 601)	(1 559)	0	1 204
Transfer into Level 3	0	1 581	0	0	0
Transfer out of Level 3	(2 750)	(3 152)	0	0	0
Net unrealised gain/(loss) recognised in the period	(1 482)	29	85	(70)	(1 557)
<b>Carrying amount at 30 September 2023</b>	<b>73 206</b>	<b>7 489</b>	<b>24 634</b>	<b>728</b>	<b>(4 506)</b>

	Loans to customers	Commercial paper and bonds	Debt securities issued	Subordinated loan capital	Financial derivatives
<b>Carrying amount at 31 December 2021</b>	<b>98 853</b>	<b>6 599</b>	<b>30 522</b>	<b>2 092</b>	<b>(8 674)</b>
Purchase	0	7 625	(113)	0	0
Sale	0	0	0	0	0
Issue	0	0	270	0	(27)
Settlement	(10 545)	(2 457)	(11 379)	0	2 263
Transfer into Level 3	0	175	0	0	0
Transfer out of Level 3	(1 948)	0	0	0	0
Net unrealised gain/(loss) recognised in the period	(338)	(98)	2 418	(258)	(267)
<b>Carrying amount at 30 September 2022</b>	<b>86 023</b>	<b>11 844</b>	<b>21 718</b>	<b>1 834</b>	<b>(6 704)</b>

	Loans to customers	Commercial paper and bonds	Debt securities issued	Subordinated loan capital	Financial derivatives
<b>Carrying amount at 31 December 2021</b>	<b>98 853</b>	<b>6 599</b>	<b>30 522</b>	<b>2 092</b>	<b>(8 674)</b>
Purchase	0	9 711	(208)	0	0
Sale	0	0	0	0	(30)
Issue	0	0	766	0	(28)
Settlement	(7 136)	(7 374)	(12 311)	0	3 153
Transfer into Level 3	0	175	0	0	0
Transfer out of Level 3	(2 943)	(2 580)	0	0	0
Net unrealised gain/(loss) recognised in the period	(5 124)	(108)	811	(195)	1 441
<b>Carrying amount at 31 December 2022</b>	<b>83 650</b>	<b>6 424</b>	<b>19 580</b>	<b>1 897</b>	<b>(4 138)</b>

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 of change of loan product for loans to customers. Year to date 2023, net holdings amounting to NOK 210 million have been transferred from Level 2 to Level 1, and NOK 587 million from Level 1 to Level 2.

Realised gains/(losses) on financial instruments in Level 3 are recognised in the Income statement under “Net realised gain/(loss) on market transactions”, while unrealised gains/(losses) are recognised under “Net unrealised gain/(loss) on financial instruments” and in the Statement of other comprehensive income (for changes in fair value due to changes in own credit risk). Effects from the currency conversion of principal from non-derivative interest instruments in foreign currency and from interest and fees/discounts are presented net in the income statement. Corresponding changes in value from foreign exchange derivatives

used as a hedging instrument in financial hedging of the mentioned currency exposure, are presented net with currency conversion effects from the hedging object.

### Sensitivity analysis, level 3

The table below shows the impact of a 10 bp increase in the credit spread for financial assets and liabilities in Level 3.

(Amounts in NOK 1 000 000)	30 September 2023		30 September 2022		31 December 2022	
	Carrying amount	Sensitivity	Carrying amount	Sensitivity	Carrying amount	Sensitivity
Loans to customers	73 206	(227)	86 023	(311)	83 650	(293)
Commercial paper and bonds	7 489	(13)	11 844	(17)	6 424	(17)
Financial derivatives	(4 506)	(32)	(6 704)	(20)	(4 138)	(22)
Debt securities issued	(24 634)	16	(21 718)	24	(19 580)	25
Subordinated loan capital	(728)	0	(1 834)	10	(1 897)	9
<b>Total</b>		<b>(257)</b>		<b>(314)</b>		<b>(297)</b>

### Note 5 Loans to customers

(Amounts in NOK 1 000 000)	30 September 2023	30 September 2022	31 December 2022
Principal amount	341 150	322 617	328 423
Accrued interest	3 042	1 736	1 928
Value adjustment of loans to customers at fair value	(6 988)	(6 906)	(5 506)
Value adjustment of loans to customers at hedge accounting	(1 389)	(488)	(261)
Expected credit loss	(38)	(46)	(52)
<b>Total loans to customers</b>	<b>335 777</b>	<b>316 912</b>	<b>324 532</b>

### Note 6 Expected credit loss

The below table shows expected credit loss as part of the carrying amount of Loans to customers and Commercial paper and bonds at the end of the period.

(Amounts in NOK 1 000 000)	30 September 2023		30 September 2022		31 December 2022	
	Carrying amount	Expected credit loss	Carrying amount	Expected credit loss	Carrying amount	Expected credit loss
Loans to customers	262 571	38	230 136	46	240 882	52
Commercial paper and bonds	54 459	5	43 971	1	48 911	2
<b>Total</b>	<b>317 030</b>	<b>43</b>	<b>274 107</b>	<b>48</b>	<b>289 793</b>	<b>54</b>

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 an increase in expected credit loss, while negative numbers indicate a reduction in expected credit loss.

(Amounts in NOK 1 000 000)	3rd quarter 2023	January - September 2023	3rd quarter 2022	January - September 2022	2022
Loans to customers	(8.4)	(13.8)	23.2	21.8	27.4
Commercial paper and bonds	1.4	2.7	(0.3)	(0.2)	0.1
<b>Total</b>	<b>(6.9)</b>	<b>(11.0)</b>	<b>22.9</b>	<b>21.6</b>	<b>27.5</b>

KBN's expected credit losses are allocated into stage 1, 2 and 3. According to the impairment principles described in IFRS 9 *Financial Instruments*, Stage 1 implies no significant increase in credit risk since recognition of the asset. Stage 2 implies such a significant increase, while stage 3 implies that the asset is credit-impaired.

All exposures are estimated to be in Stage 1, both as of 30 September 2023, 30 September 2022 and 31 December 2022.

## Note 7 Commercial paper and bonds

(Amounts in NOK 1 000 000)

Commercial paper and bonds by type of issuer	30 September 2023	30 September 2022	31 December 2022
Domestic			
Issued by public bodies <sup>1</sup>	0	0	0
Issued by other borrowers	29 514	21 081	20 257
Foreign			
Issued by public bodies <sup>1</sup>	75 415	78 904	77 918
Issued by other borrowers	23 190	10 781	11 061
<b>Total Commercial paper and bonds</b>	<b>128 119</b>	<b>110 766</b>	<b>109 235</b>

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

Commercial paper and bonds by time to maturity	30 September 2023	30 September 2022	31 December 2022
Under 1 year	42 670	45 555	42 635
1-5 years	84 637	62 535	64 789
> 5 years	812	2 676	1 811
<b>Total Commercial paper and bonds</b>	<b>128 119</b>	<b>110 766</b>	<b>109 235</b>
Average time to maturity (years)*	2.0	2.0	2.0

\*Average time to maturity shown in the table above applies to Commercial paper and bonds, 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 2.0 years as of September 30, 2023.

## Note 8 Credit exposure in commercial paper and bonds

Amounts in the tables below represent actual credit exposure.

Time to maturity Risk class	Exposure as at 30 September 2023									Total
	< 1 year				> 1 year					
	A-1	A-2	A-3	Not rated	BBB	A	AA	AAA	Not rated	
Sovereigns and central banks	12 687	0	0	0	0	926	7 647	1 736	0	<b>22 996</b>
Multilateral development banks	1 374	0	0	0	0	0	1 769	7 029	0	<b>10 172</b>
Regional authorities	19 394	0	0	3 655	0	202	14 052	5 795	2 386	<b>45 484</b>
Financial institutions	146	0	0	0	0	0	281	0	0	<b>427</b>
Corporates	2 006	0	0	0	0	1 896	0	1 606	0	<b>5 509</b>
Covered Bonds	3 408	0	0	0	0	0	0	40 124	0	<b>43 532</b>
<b>Total</b>	<b>39 015</b>	<b>0</b>	<b>0</b>	<b>3 655</b>	<b>0</b>	<b>3 025</b>	<b>23 748</b>	<b>56 290</b>	<b>2 386</b>	<b>128 119</b>

(Amounts in NOK 1 000 000)	Exposure as at 30 September 2022										
Time to maturity	< 1 year				> 1 year						Total
Risk class	A-1	A-2	A-3	Not rated	BBB	A	AA	AAA	Not rated		
Sovereigns and central banks	26 295	0	0	535	0	4 287	15 200	0	0	46 317	
Multilateral development banks	1 949	0	0	0	0	0	197	4 321	0	6 467	
Regional authorities	9 324	0	0	3 948	0	0	8 221	4 231	2 104	27 828	
Financial institutions	0	0	0	0	0	0	0	0	0	0	
Corporates	0	0	0	0	0	0	0	0	0	0	
Covered Bonds	2 084	0	0	1 421	0	0	2 779	23 870	0	30 154	
<b>Total</b>	<b>39 651</b>	<b>0</b>	<b>0</b>	<b>5 903</b>	<b>0</b>	<b>4 287</b>	<b>26 398</b>	<b>32 422</b>	<b>2 104</b>	<b>110 766</b>	

(Amounts in NOK 1 000 000)	Exposure as at 31 December 2022										
Time to maturity	< 1 year				> 1 year						Total
Risk class	A-1	A-2	A-3	Not rated	BBB	A	AA	AAA	Not rated		
Sovereigns and central banks	24 043	0	0	2 093	0	4 251	11 816	0	0	42 203	
Multilateral development banks	1 962	0	0	0	0	0	1 688	5 012	0	8 661	
Regional authorities	8 358	0	0	4 079	0	0	9 609	4 457	2 271	28 775	
Financial institutions	0	0	0	0	0	0	0	0	0	0	
Corporates	395	0	0	0	0	103	0	0	0	498	
Covered Bonds	1 421	0	0	282	0	0	2 775	24 619	0	29 098	
<b>Total</b>	<b>36 179</b>	<b>0</b>	<b>0</b>	<b>6 455</b>	<b>0</b>	<b>4 354</b>	<b>25 888</b>	<b>34 089</b>	<b>2 271</b>	<b>109 235</b>	

## Note 9 Debt securities issued and Commercial paper issued

(Amounts in NOK 1 000 000)	30 September 2023	30 September 2022	31 December 2022
<b>Debt securities issued (nominal amounts incl. fees) as at 1 January</b>	<b>429 206</b>	<b>395 385</b>	<b>395 385</b>
New issuance	62 771	53 544	86 995
Redemptions	(53 021)	(56 772)	(83 648)
Amortisation (incl. fees)	(803)	(229)	(647)
Effects of exchange rate changes	29 132	60 910	31 122
<b>Debt securities issued (nominal amounts incl. fees) as at end of period</b>	<b>467 286</b>	<b>452 838</b>	<b>429 206</b>
Accrued interest	5 269	4 068	4 228
Fair value adjustment	(31 495)	(33 998)	(30 881)
<i>Of which value change that is due to change in own credit risk</i>	<i>549</i>	<i>558</i>	<i>406</i>
<i>Of which value change that is due to other reasons, fair value</i>	<i>(13 041)</i>	<i>(21 137)</i>	<i>(12 408)</i>
<i>Of which value change that is due to other reasons, hedge accounting</i>	<i>(19 004)</i>	<i>(20 472)</i>	<i>(18 879)</i>
<b>Total Debt securities issued</b>	<b>441 059</b>	<b>422 907</b>	<b>402 553</b>

(Amounts in NOK 1 000 000)	Commercial paper	Debt securities issued	Subordinated loan capital
<b>Carrying amount 31 December 2022</b>	<b>23 377</b>	<b>402 553</b>	<b>1 897</b>
<i>Cash flows</i>			
Proceeds from issuance of debt securities	91 447	61 969	0
Buyback of debt securities	(106 261)	(53 021)	0
<i>Changes that are not related to cash flows</i>			
Change due to accrued interest and amortisation	286	1 042	(25)
Changes in fair value	0	(614)	56
Repurchase, related to issue of Tier 1 capital <sup>1</sup>	0	0	(1 200)
Effects of exchange rate changes on nominal amounts incl. fees	858	29 131	0
<b>Carrying amount 30 September 2023</b>	<b>9 707</b>	<b>441 059</b>	<b>728</b>

<sup>1</sup>In the quarter, KBN carried out a buy-back of subordinated loan capital of NOK 1.2 billion and a related issue of Tier 1 capital.

(Amounts in NOK 1 000 000)	Commercial paper	Debt securities issued	Subordinated loan capital
<b>Carrying amount 31 December 2021</b>	<b>31 567</b>	<b>393 663</b>	<b>2 092</b>
<i>Cash flows</i>			
Proceeds from issuance of debt securities	53 776	53 544	0
Buyback of debt securities	(84 401)	(57 001)	0
<i>Changes that are not related to cash flows</i>			
Change due to accrued interest and amortisation	(22)	192	(15)
Changes in fair value	0	(28 402)	(244)
Effects of exchange rate changes	145	60 911	(0)
<b>Carrying amount 30 September 2022</b>	<b>1 066</b>	<b>422 907</b>	<b>1 834</b>

(Amounts in NOK 1 000 000)	Commercial paper	Debt securities issued	Subordinated loan capital
<b>Carrying amount 31 December 2021</b>	<b>31 567</b>	<b>393 663</b>	<b>2 092</b>
<i>Cash flows</i>			
Proceeds from issuance of debt securities	148 633	86 995	0
Buyback of debt securities	(156 685)	(84 295)	0
<i>Changes that are not related to cash flows</i>			
Change due to accrued interest and amortisation	98	352	1
Changes in fair value	0	(25 285)	(196)
Effects of exchange rate changes	(236)	31 123	(0)
<b>Carrying amount 31 December 2022</b>	<b>23 377</b>	<b>402 553</b>	<b>1 897</b>

## Note 10 Primary capital

(Amounts in NOK 1 000 000)	30 September 2023	30 September 2022	31 December 2022
Equity	20 671	18 576	18 903
Additional Tier 1 capital included in equity	(3 484)	(2 392)	(2 392)
<b>Equity included in common equity Tier 1 capital</b>	<b>17 187</b>	<b>16 185</b>	<b>16 512</b>
Deductions:			
Deferred tax asset*	(974)	(1 358)	(1 228)
<b>Intangible assets</b>	<b>(152)</b>	<b>(141)</b>	<b>(143)</b>
Dividends payable	(489)	0	0
<b>Prudent valuation adjustments (AVA)</b>	<b>(142)</b>	<b>(145)</b>	<b>(147)</b>
Adjustments unrealised loss (gains) due to changes in own credit risk	411	418	305
<b>Total common equity Tier 1 capital</b>	<b>15 841</b>	<b>14 959</b>	<b>15 299</b>
Other approved Tier 1 capital	3 484	2 392	2 392
<b>Total Tier 1 capital</b>	<b>19 325</b>	<b>17 351</b>	<b>17 691</b>
<i>Supplementary capital</i>			
Subordinated loan capital	800	2 000	2 000
<b>Total supplementary capital</b>	<b>800</b>	<b>2 000</b>	<b>2 000</b>
<b>Total primary capital</b>	<b>20 125</b>	<b>19 351</b>	<b>19 691</b>

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

Primary capital has been calculated under Capital Requirements Regulation (CRR). Unrealised gain/(loss) on liabilities that is due to changes in own credit risk is related to debt securities issued.

In 2023, KBN have carried out a buy-back of subordinated loan capital of NOK 1.2 billion and a related issue of Tier 1 capital. Both bonds have first repayment date in the second quarter of 2028. The buyback resulted

in a realised gain of NOK 101 mill. before tax, which has been recognised as income. The transaction results in a strengthening of the bank's Tier 1 capital ratio and Leverage ratio.

## Note 11 Capital adequacy

(Amounts in NOK 1 000 000)	30 September 2023			30 September 2022	31 December 2022
	Carrying amount	Risk weighted assets	Minimum capital requirements and capital adequacy	Minimum capital requirements and capital adequacy	Minimum capital requirements and capital adequacy
<b>Credit risk</b>					
Sovereigns and central banks	22 996	0	0	0	0
Regional governments and local authorities	371 734	68 020	5 442	5 120	5 240
<i>Of which are Norwegian municipalities</i>	335 777	67 372	5 390	5 093	5 212
Corporates	5 510	1 951	156	0	20
Public sector entities	9 523	0	0	0	0
Multilateral development banks	10 175	0	0	0	0
Financial institutions	16 004	3 120	250	366	224
<i>Of which counterparty exposure on derivatives</i>	12 635	2 443	195	326	171
Claims secured by residential property	21	21	2	2	2
Covered bonds	43 502	4 350	348	240	232
Other assets	1 699	4 236	339	329	333
Credit Valuation Adjustment	236	2 947	236	351	202
<b>Total credit risk</b>	<b>481 399</b>	<b>84 645</b>	<b>6 772</b>	<b>6 407</b>	<b>6 253</b>
<b>Market risk</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Operational risk - Basic Indicator Approach</b>		<b>2 374</b>	<b>190</b>	<b>286</b>	<b>190</b>
<b>Minimum capital requirements</b>		<b>87 019</b>	<b>6 962</b>	<b>6 693</b>	<b>6 443</b>
<b>Total capital ratio</b>			<b>23.1 %</b>	<b>23.1 %</b>	<b>24.5 %</b>
<b>Tier 1 capital adequacy ratio</b>			<b>22.2 %</b>	<b>20.7 %</b>	<b>22.0 %</b>
<b>Common equity Tier 1 capital adequacy ratio</b>			<b>18.2 %</b>	<b>17.9 %</b>	<b>19.0 %</b>
<b>Leverage ratio</b>			<b>4.0 %</b>	<b>3.7 %</b>	<b>3.9 %</b>

## Contact information

Kommunalbanken AS  
P.O.Box 1210 Vika, 0110 Oslo

Address:  
Haakon VIIIs gate 5b, 0161 Oslo

Phone: +47 21 50 20 00  
E-mail: [post@kbn.com](mailto:post@kbn.com)

[www.kbn.com](http://www.kbn.com)