



2021
**Report for
first quarter**

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 the local government sector, and our ambition is to contribute to the development of sustainable communities.



Torvbråten primary school is the second school in Norway to be certified as Nordic Ecolabel. The school is built in solid wood and low-carbon concrete and has a passive house standard. In addition, the school is built on a fossil-free construction site. KBN offers green loans with lower interest rates for future-oriented investments in municipalities across the country. Torvbråten primary school is financed with a green loan from KBN. Photo: Hundven-Clements Photography.

KBN is 100% owned by the Norwegian state. Our objective is to provide loans to municipalities, county authorities and companies that carry out local government tasks. 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 300 billion.

KBN has a strong market position and seeks to use this to promote sustainable communities. We are committed to ensuring municipalities make environmentally and climate-conscious 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 help municipalities' elected representatives and administrative teams improve their knowledge of climate change.

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 finances its green loans for the local government sector

by issuing green bonds. KBN has more than ten years' history as an issuer of green bonds, which are a central pillar in our long-term work on corporate social responsibility and sustainability.

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.

Financial highlights

<i>(Amounts in NOK 1 000 000)</i>	January-March 2021	January-March 2020	2020
RESULTS			
Net interest income	384	443	1 672
Core earnings ¹	210	223	922
Profit before tax	528	(308)	1 537
Profit for the period	398	(229)	1 159
Return on equity after tax ²	9.5%	(6.9 %)	7.4%
Return on equity after tax (core earnings) ³	5.2%	6.3 %	6.3%
Return on assets after tax ⁴	0.3%	(0.2 %)	0.2%
Return on assets after tax (core earnings) ⁵	0.2%	0.2 %	0.2%
LENDING			
New disbursements	5 914	14 424	57 699
Outstanding loans ⁶	313 594	306 687	318 235
LIQUIDITY PORTFOLIO⁶	109 473	147 659	123 585
BORROWINGS			
New long-term borrowings	40 728	30 293	107 822
Repurchase of own debt	0	49	1 051
Redemptions	32 526	42 618	106 676
Total borrowings ⁶	407 300	451 816	405 451
TOTAL ASSETS	472 795	554 286	498 219
EQUITY			
Total capital adequacy ratio	24.1%	21.6%	23.3%
Tier 1 capital adequacy ratio	21.6%	19.2%	20.8%
Common equity Tier 1 capital adequacy ratio	18.6%	16.5%	17.9%
Leverage ratio	3.8%	3.2%	3.7%

	January-March 2021	January-March 2020	2020
LIQUIDITY COVERAGE RATIO (LCR)⁷			
Total	183%	417%	191%
NOK	63%	67%	77%
EUR	212%	351%	200%
USD	184%	411%	188%
AUD	149%	905%	1 239%
JPY	4299%	426%	716%
GBP	Infinite	426%	97 768%
OTHER KEY FIGURES			
Green loans ⁸	26 748	20 201	26 112
Emissions in CO ₂ e ⁹	12.5	30.4	75

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

² Share of the Profit for the year allocated to shareholders as a percentage of average equity (annualized). Average equity is calculated based on monthly equity, not added to the Profit for the year, less dividends from the time the dividends are paid out as well as addition or reduction of the company's share capital during the year.

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

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

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

⁶ Principal amounts.

⁷ Liquidity coverage ratio (LCR) is a measure for the regulatory liquidity reserve. LCR is defined as liquid assets as a percentage of net payments in a given stress period of 30 days ahead.

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

⁹ KBN's calculated emissions.

The Board of Directors' report

A good result in a challenging market

KBN's net interest income in the first quarter of 2021 was NOK 384 million as compared to NOK 443 million in the first quarter of 2020. KBN's profit for the period in the first quarter of 2021 was NOK 398 million as compared to a loss of NOK 229 million in the first quarter of 2020. A good level of liquidity in the capital markets caused significant competition in the market for loans to the Norwegian local government sector.

Results

KBN's net interest income in the first quarter of 2021 totalled NOK 384 million as compared to NOK 443 million in the same period in 2020. KBN achieved good margins on its lending and liquidity management activities in the quarter, while its return on equity was lower as a result of the fact that interest rates were cut to zero following the outbreak of coronavirus.

KBN's profit for the period in the first quarter of 2021 was NOK 398 million as compared to a loss of NOK 229 million in the first quarter of 2020. The main reason for the increase was that in the first quarter of 2021 KBN recognised unrealised gains of NOK 230 million on financial instruments and loans measured at fair value, in contrast to unrealised losses totalling NOK 626 million in the first quarter of 2020. Changes in the value of KBN's fixed rate loans, which are measured at fair value, contributed a gain of NOK 368 million to the overall net gain of NOK 230 million as a result of a decrease in credit spreads in the period. KBN's borrowings as well as its hedging instruments that convert borrowings in US dollars into Norwegian krone contributed an unrealised loss of NOK 209 million, primarily as a result of a widening of basis spreads. KBN's liquidity portfolio contributed an unrealised gain of NOK 71 million due to a decrease in credit spreads. KBN's unrealised gains and losses are expected to reverse, either as market conditions normalise or as the instruments approach maturity. KBN recognised no realised losses on financial instruments in the first quarter of 2021. Higher than expected provisions for credit losses on KBN's loans and bond investments of NOK 1.3 million were also recognised in the quarter. This was due to the higher level of uncertainty in the real economy relative to the end of the previous quarter. KBN's provision for losses is relatively limited due to the fact that Norwegian municipalities cannot be declared bankrupt, and no discernible

payment problems are being encountered in the local government sector.

KBN's total operating expenses for the first quarter of 2021 were NOK 64 million, compared to NOK 65 million in the first quarter of 2020. KBN operated more or less as normal in the quarter, albeit with the majority of its employees working from home, and its costs were little impacted by the situation associated with the outbreak of coronavirus. No employees have been furloughed. KBN's transaction costs totalled NOK 25 million in the first quarter as compared to NOK 35 million in the same period in 2020, with the decrease due to non-recurring costs in 2020.

Based on its result from ordinary activities, KBN's return on equity in the first quarter of 2021 was 9.5%, compared to -6.9% in the first quarter of 2020. This is due to KBN recognising unrealised gains on financial instruments in the first quarter of 2021 in contrast to unrealised losses on financial instruments in the first quarter of 2020.

KBN's core earnings totalled NOK 210 million in the first quarter of 2021 as compared to NOK 223 million in the same period in 2020. Based on its core earnings, KBN's return on equity in the first quarter of 2021 was 5.2%, compared to 6.3% in the same period in 2020. The decrease primarily relates to domestic interest rates having been cut to a very low level, reducing KBN's return on equity.

KBN's total comprehensive income in the first quarter of 2021 was NOK -54 million, compared to NOK 183 million in the same period in 2020. The credit spreads for bonds issued by KBN decreased in the period. This means that the market value of KBN's debt increased, and an unrealised loss has therefore been recognised through total comprehensive income as a result of a change in the fair value of KBN's liabilities of NOK 601 million. The equivalent figure for the first quarter of 2020 was a gain of NOK 550 million, as the market value of KBN's debt decreased.

TABLE 1
Profit for the period

	Q1 2021	Q1 2020	2020
Profit/(Loss) for the period	398	-229	1 159
Net interest income	384	443	1 672
Fees and commission expenses	25	35	115
Net unrealised gain/(loss) on financial instruments	230	-626	224
Expected credit loss	1	28	14
Net trading income	5	3	25
Total operating expenses	64	65	255
Income tax	131	-79	377

Amounts in NOK 1 000 000

TABLE 2
Comprehensive income for the period

	Q1 2021	Q1 2020	2020
Total comprehensive income for the period	-54	183	1 255
Profit/(Loss) for the period	398	-229	1 159
Unrealised change in fair value of liabilities (and related financial derivatives) after tax due to changes in own credit risk	-451	412	130
Actuarial gain/(loss) on defined benefit plan	-	-	-2
Tax effect on positions in Statement of comprehensive income	150	-137	-32

Amounts in NOK 1 000 000

Lending

KBN's lending portfolio totalled NOK 313.6 billion at the end of the first quarter of 2021. In the first quarter the lending portfolio decreased by NOK 4.66 billion, equivalent to 1.46%. In the first quarter of 2020 KBN's lending portfolio decreased by 1.0%.

The main reason for the decrease in the size of KBN's lending portfolio was the deliberate decrease in the size of KBN's portfolio of loans with maturities of twelve months or less that came about because KBN did not provide refinancing for these loans when they matured as a result of the low level of profitability on this lending. In general, the decrease in the size of the lending portfolio was due to the strong competition in the market for loans to the local government sector in the period, during which it was not sufficiently profitable for KBN to offer competitive terms on certain maturities. This was particularly the case where KBN was competing with its customers' direct use of the capital markets, where credit spreads were at record-low levels during the first quarter.

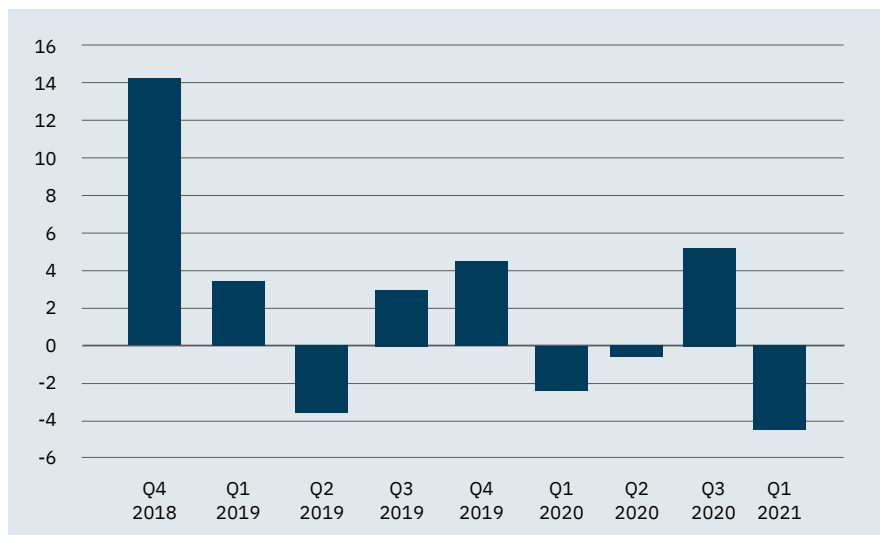
New loan disbursements totalled NOK 5.9 billion in the first quarter of 2021 as compared to NOK 14.4 billion in the first quarter of 2020. These figures include both loans disbursed as new financing and as refinancing for existing loans. The large decrease relative to the first quarter of 2020 was primarily due to a decrease in disbursements for loans in relation to which KBN competes with the capital markets, particularly smaller loans with durations of twelve months or less. In addition, there was less demand for long-term loans with instalment payments than in the first quarter of 2020.

KBN experienced a good level of demand for green loans in the first quarter, with its portfolio of green loans increasing by NOK 0.6 billion and total disbursements of NOK 0.9 billion. The projects financed by green loans in the quarter included care centres with significant environmental ambitions in Gjøvik and Stjørdal, an environmentally friendly street in Lørenskog, a shore-side power supply in Harstad port, and a biofuel plant at Øvre Romerike Avfallsanlegg IKS.

The rate of debt growth in the local government sector was high in 2020, with annual growth according to Statistics Norway's C2 indicator standing at 7.7%. This rate of growth continued in January and February this year, with the rate of growth over the twelve months to the end of February standing at 7.8%. In the first quarter this growth was primarily serviced by capital markets products, due to the very low rates available.

The decrease in the size of KBN's lending portfolio resulted in a small decrease in KBN's overall market share in the first quarter of 2021.

Lending growth
Amounts in
NOK 1 000 000 000

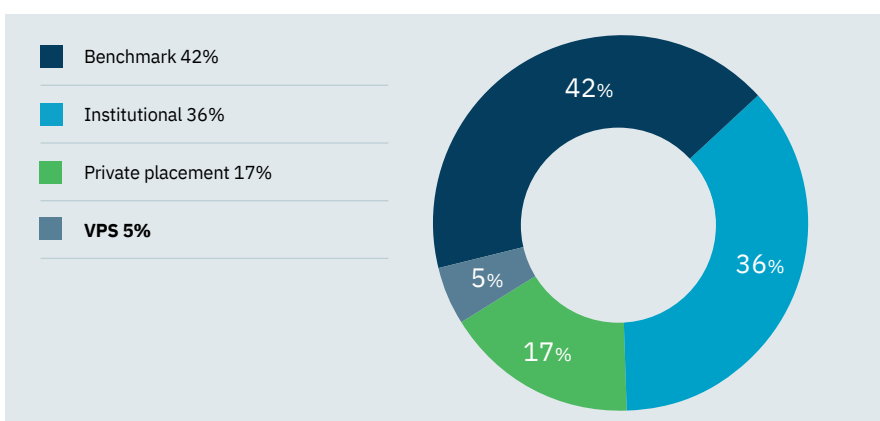


Financial markets

Funding KBN's funding activities in the first quarter of 2021 were more extensive than in the same period in 2020 due to a greater need for refinancing and the greater strength of the Norwegian krone. There was a positive underlying tone in the capital markets, with a significant level of activity throughout the quarter. KBN's new borrowings totalled approximately NOK 40 billion across seven currencies, as compared to NOK 30 billion across four currencies in the first quarter of 2020.

The largest bond issued by KBN in the first quarter was a five-year US dollar benchmark bond totalling NOK 2 billion, which KBN issued in January. This was the biggest single bond issued by KBN since 2013, and it was well received by the market and significantly oversubscribed at launch. KBN experienced a good level of interest from institutional investors in the first quarter, particularly from institutional investors operating in British pounds and Australian dollars. KBN also completed

Funding 2021
Investor markets
first quarter 2021



funding transactions in Norwegian krone, euros, New Zealand dollars and Hong Kong dollars.

KBN's continued low borrowing costs and good market access are ensured by its AAA/Aaa rating.

Liquidity management KBN's liquidity portfolio totalled NOK 109.5 billion at 31 March 2021, as compared to NOK 123.6 billion at the end of the fourth quarter of 2020. KBN seeks to ensure its liquidity portfolio matches its capital requirements, including lending growth, for the subsequent twelve months at all times, and it is managed on the basis of a low-risk investment strategy. The liquidity portfolio is principally held in zero-risk-weighted assets and primarily in foreign currencies.

The first quarter of 2021 was characterised by positive market sentiment. The majority of stock markets have risen since the start of 2021, and long-term interest rates have climbed significantly. For example, the ten-year interest rate in Norway was 0.50 percentage points higher at the end of the first quarter than at the start of the year. The relatively good news regarding vaccines in combination with the prospect of low interest rates for a while longer have been highlighted as important to the positive sentiment. At its March meeting, Norges Bank signalled that it expects the next change in its key policy rate to be an increase in the autumn of 2021.

The liquidity impact associated with KBN's cash collateral holdings was somewhat smaller than normal in the first quarter of 2021.

Capital

KBN's capital adequacy was somewhat higher at the end of the first quarter of 2021 than at the end of 2020, due in part to a decrease in the size of its balance sheet.

At the end of the first quarter of 2021, KBN's total common equity Tier 1 capital was NOK 14.8 billion, its total Tier 1 capital was NOK 17.2 billion, and its total primary capital was NOK 19.2 billion. KBN's capital structure was unchanged in the quarter. KBN's total assets at the end of the first quarter amounted to NOK 473 billion, compared to NOK 498 billion at the end of 2020 and NOK 554 billion at the end of the first quarter of 2020. The decrease from the end of 2020 is due in part to the decrease in the volume of KBN's lending, the decrease in the size of its liquidity portfolio, and lower cash collateral deposits.

At the end of the first quarter of 2021, KBN had a common equity Tier 1 capital adequacy ratio of 18.6%, a Tier 1 capital adequacy ratio of 21.6%, and a total capital adequacy ratio of 24.1%. The capital adequacy ratio requirements imposed by the authorities at the end of the first quarter were 15.2% (common equity Tier 1 capital), 16.7% (Tier 1 capital) and 18.7% (total capital), which are unchanged from the end of 2020. KBN's leverage ratio at the end of the quarter was 3.8%, which compares with the requirement of 3.0%.

No allocation for a dividend was proposed for the 2020 financial year. This was due to the changes that are expected to be made to capital requirements and the capital adequacy rules (the "EU Banking Reform Package") in the years ahead, special deductions from common equity Tier 1 capital related to deferred tax assets in 2020, and the regulatory authorities' expectation that institutions will be prudent (because of the coronavirus pandemic) with regard to the distribution of dividends. There is uncertainty around the timing and impact of the changes to the capital adequacy rules and requirements.

Interim condensed financial information

INCOME STATEMENT

<i>(Amounts in NOK 1 000 000)</i>	Note	January-March 2021	January-March 2020	2020
Interest income from assets measured at amortised cost		534	1 384	3 258
Interest income from assets measured at fair value		351	1 049	2 442
Total interest income		885	2 433	5 700
Total interest expense		500	1 990	4 028
Net interest income	1	384	443	1 672
Fees and commission expenses		25	35	115
Net unrealised gain/(loss) on financial instruments	2	230	(626)	224
Expected credit loss	6	1	28	14
Net trading income		5	3	25
Total other operating income		208	(686)	120
Salaries and administrative expenses		42	40	147
Depreciation on fixed assets		7	6	25
Other expenses		15	19	84
Total operating expenses		64	65	255
Profit before tax		528	(308)	1 537
Income tax		131	(79)	377
Profit for the period		398	(229)	1 159
Portion allocated to shareholder		383	(244)	1 095
Portion allocated to owners of additional Tier 1 capital		15	15	64

	64	Note	January-March 2021	January-March 2020	2020
Profit for the period			398	(229)	1 159
Other comprehensive income					
<i>Items which will not be reclassified to profit or loss</i>					
Change in fair value of liabilities due to changes in own		9	(601)	550	130
Actuarial gain/(loss) on defined benefit plan			0	0	(2)
Tax effect			150	(137)	(32)
Total other comprehensive income			(451)	412	96
Total comprehensive income for the period			(54)	183	1 255

STATEMENT OF FINANCIAL POSITION

<i>(Amounts in NOK 1 000 000)</i>	Note	31 March 2021	31 March 2020	31 December 2020
Assets				
Deposits with credit institutions	3,4	22 307	18 517	18 950
Other money market deposits		3 273	12 490	1 712
Instalment loans	3,4,5,6	315 755	311 262	321 874
Notes, bonds and other interest-bearing securities	3,4,6,7,8	112 555	153 265	127 108
Financial derivatives	3,4	15 477	56 499	25 176
Deferred tax asset		3 249	2 076	3 230
Other assets		178	178	169
Total assets		472 794	554 286	498 219
Liabilities and equity				
Loans from credit institutions	3,4	7 075	45 336	13 871
Commercial paper	3,4	12 539	2 648	20 045
Senior securities issued	3,4,9	410 110	458 435	413 717
Financial derivatives	3,4	20 914	25 138	28 341
Other liabilities		82	92	63
Current tax liabilities		1 501	3 868	1 501
Deferred tax liabilities		0	0	0
Pension liabilities		37	36	37
Subordinated debt	3,4	2 057	2 157	2 106
Total liabilities		454 315	537 711	479 681
Share capital		3 895	3 145	3 895
Additional Tier 1 capital		2 392	2 189	2 392
Retained earnings		11 796	11 471	12 251
Profit for the period		398	(229)	
Total equity	10	18 479	16 575	18 538
Total liabilities and equity		472 794	554 286	498 219

STATEMENT OF CHANGES IN EQUITY

(Amounts in NOK 1 000 000)

	1 January - 31 March 2021				
	Share capital	Additional Tier 1 capital	Value changes on liabilities due to changes in own credit risk	Retained earnings	Total equity
Equity as of 31 December 2020	3 895	2 392	(297)	12 547	18 538
Profit for the period	0	0	0	398	398
Other comprehensive income—value change on liabilities due to changes in own credit risk	0	0	(451)	0	(451)
Other comprehensive income—actuarial gain/ loss	0	0	0	0	0
Interest paid on Tier 1 capital	0	0	0	(5)	(5)
Dividends for 2020	0	0	0	0	0
Equity as of 31 March 2021	3 895	2 392	(748)	12 940	18 479

	1 January - 31 March 2020				
	Share capital	Additional Tier 1 capital	Value changes on liabilities due to changes in own credit risk	Retained earnings	Total equity
Equity as of 31 December 2019	3 145	2 189	(395)	11 460	16 401
Profit for the period	0	0	0	(229)	(229)
Other comprehensive income—value change on liabilities due to changes in own credit risk	0	0	412	0	412
Other comprehensive income—actuarial gain/ loss	0	0	0	0	0
Interest paid on Tier 1 capital	0	0	0	(9)	(9)
Dividends for 2019	0	0	0	0	0
Equity as of 31 March 2020	3 145	2 189	17	11 223	16 575

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

STATEMENT OF CASH FLOWS

<i>(Amounts in NOK 1 000 000)</i>	January-March 2021	January-March 2020	2020
Cash flows from operating activities			
Interest received	887	2 347	6 371
Interest paid	(573)	(1 449)	(4 653)
Fees and commissions paid	(25)	(27)	(115)
Receipts from repurchase of issued securities	5	3	25
Cash payments to employees and suppliers	(56)	(63)	(224)
Income taxes paid	0	0	(3 872)
Net disbursement of loans to customers	4 661	3 102	(8 466)
Net (increase)/decrease in deposits with credit institutions	(11 609)	32 088	10 132
Net (increase)/decrease in notes, bonds and other interest-bearing securities	11 608	(27 382)	(12 801)
Net (increase)/decrease in other assets	(12)	2	(4)
Net increase/(decrease) in other liabilities	1	29	4
Net (increase)/decrease in financial derivatives	(5 589)	3 261	(7 021)
Net cash flows from operating activities	(703)	11 911	(20 624)
Cash flows from investing activities			
Net (purchase)/sales of property and equipment	(4)	(8)	(16)
Net cash flows from investing activities	(4)	(8)	(16)
Cash flows from financing activities			
Proceeds from issuance of commercial paper	63 709	9 764	198 006
Repayment of commercial paper	(70 918)	(10 192)	(180 621)
Repayment on lease obligation	(2)	(2)	(7)
Proceeds from issuance of debt securities	40 728	30 293	107 823
Repayment of debt securities	(32 455)	(42 468)	(106 301)
Proceeds from issuance of additional Tier 1 capital	0	0	1 196
Repayment of Tier 1 capital	0	0	(1 000)
Interest paid on Tier 1 capital	(5)	(9)	(68)
Dividends paid	0	0	0
Paid in share capital	0	0	750
Net cash flows from financing activities	1 057	(12 612)	19 778
Net cash flows	350	(709)	(862)
Effects of foreign exchange differences	0	495	539
Net cash flows after foreign exchange differences	350	(214)	(268)
Cash and cash equivalents at 1 January	190	459	459
Net change in cash and cash equivalents	350	(214)	(268)
Cash and cash equivalents at end of period	540	245	190
Whereof			
<i>Deposits with credit institutions without agreed time to maturity</i>	540	245	190
<i>Loans from credit institutions without agreed time to maturity</i>	0	0	0

ACCOUNTING POLICIES

KBN prepares its financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The interim financial statements as of 31 March 2021 are prepared in accordance with IAS 34 *Interim Financial Reporting*, and follow the same accounting policies as presented in the annual financial statements for 2020, with following clarifications:

The preparation of financial statements in accordance with IFRS requires that management uses estimates and judgments that may affect the carrying amounts of assets and liabilities, and revenues and costs. Estimates and judgments are based on historical experience and expectations regarding future developments, and actual outcomes may deviate from the estimates.

Fair value of financial instruments that are not traded in an active market or where quoted prices are not readily available on the reporting date is determined using valuation techniques. The measurement of fair value requires management to make judgments and assumptions related to credit and liquidity risk related to the financial instruments. Even though the judgments and assumptions are based to the largest extent possible on actual mar-

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

Work on reforming the current benchmark interest rate is ongoing as planned and some of the IBOR interest rates will be replaced at the end of 2021. KBN has a number of contracts with terms related to such benchmark interest rates and will be affected by the changes. The bank follows developments both in connection with changes in accounting standards and otherwise. In August 2021, the IASB published changes for phase 2 of its work in this area, which shall be implemented from 1 January 2021.

NOTE 1

NET INTEREST INCOME

(Amounts in NOK 1 000 000)

January-March 2021	Total	At fair value			Total at fair value	Amortised cost
		Fair value option	Mandatory at fair value	Fair value hedge		
Deposits with credit institutions	(9)	0	0	0	0	(9)
Other money market deposits	(3)	0	0	0	0	(3)
Instalment loans	999	496	0	0	496	503
Notes, bonds and other interest-bearing securities	90	47	0	0	47	43
Financial derivatives	(192)	0	(192)	0	(192)	0
Total interest income	885	542	(192)	0	351	534
Loans from credit institutions	0	0	0	0	0	0
Commercial paper	16	0	0	0	0	16
Senior securities issued	1 847	1 056	0	0	1 056	791
Financial derivatives	(1 378)	0	(827)	(551)	(1 378)	0
Subordinated debt	15	15	0	0	15	0
Total interest expenses	500	1 071	(827)	(551)	(307)	807
Net interest income	384	(529)	636	551	658	(274)

January-March 2020	Total	At fair value			Amortised cost	
		Fair value option	Mandatory at fair value	Fair value hedge		Total at fair value
Deposits with credit institutions	0	0	0	0	0	
Other money market deposits	(6)	0	0	0	(6)	
Instalment loans	1 786	535	0	0	1 251	
Notes, bonds and other interest-bearing securities	990	851	0	0	138	
Financial derivatives	(337)	0	(337)	0	0	
Total interest income	2 433	1 386	(337)	0	1 049	1 384
Loans from credit institutions	0	0	0	0	0	
Commercial paper	39	0	0	0	39	
Senior securities issued	2 635	1 172	0	0	1 464	
Financial derivatives	(699)	0	(446)	(254)	0	
Subordinated debt	15	15	0	0	0	
Total interest expenses	1 990	1 187	(446)	(254)	487	1 503
Net interest income	443	199	109	254	562	(119)

2020	Total	At fair value			Amortised cost	
		Fair value option	Mandatory at fair value	Fair value hedge		Total at fair value
Deposits with credit institutions	(18)	0	0	0	(18)	
Other money market deposits	(13)	0	0	0	(13)	
Instalment loans	5 125	2 111	0	0	3 013	
Notes, bonds and other interest-bearing securities	1 780	1 504	0	0	276	
Financial derivatives	(1 173)	0	(1 173)	0	0	
Total interest income	5 700	3 615	(1 173)	0	2 442	3 258
Loans from credit institutions	(1)	0	0	0	(1)	
Commercial paper	6	0	0	0	6	
Senior securities issued	9 371	5 198	0	0	4 174	
Financial derivatives	(5 409)	0	(3 559)	(1 851)	0	
Subordinated debt	61	61	0	0	0	
Total interest expenses	4 028	5 259	(3 559)	(1 851)	(151)	4 179
Net interest income	1 672	(1 644)	2 386	1 851	2 592	(921)

NOTE 2

Net unrealised gain/(loss) on financial instruments

<i>(Amounts in NOK 1 000 000)</i>	January-March 2021	January-March 2020	2020
Instalment loans	(1 473)	3 319	2 842
Notes, bonds and other interest-bearing securities	(269)	1 294	443
Financial derivatives	(3 747)	(1 950)	2 103
Loans from credit institutions	0	0	0
Senior securities issued	5 656	(3 134)	(5 047)
Subordinated debt	64	(155)	(118)
Net unrealised gain/(loss) on financial instruments	230	(626)	224

Changes in fair value of liabilities due to changes in own credit risk are not included in the line Net unrealised gain/(loss) on financial instruments in the table above. Such fair value changes are recognised in Other comprehensive income in the Statement of comprehensive income. See Note 9 Senior securities issued for information on calculating such value changes. The change in fair value arising from Senior securities issued presented in the above table is due to changes in parameters other than credit.

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

Of Total unrealised gains of NOK 230 million in the first quarter of 2021, Instalment loans and associated hedging contracts as well as Notes, bonds and other interest-bearing securities and their associated hedging contracts contribute with a gain of NOK 368 million and NOK 71 million, respectively, mainly due to a tightening of credit spreads. Senior securities issued and related hedging derivatives contribute with a loss of NOK 209 million, mainly due to a widening of the basis spreads.

Recognised value changes on financial instruments in fair value hedges amount to NOK –4 million in the first quarter of 2021. This amount is included in the above table as net unrealized changes in value. The carrying amount of financial instruments included in fair value hedges amounts to NOK 196 billion.

NOTE 3

Classification of financial instruments

(Amounts in NOK 1 000 000)

At 31 March 2021	Total	At fair value			Amortised cost
		Fair value option	Mandatory at fair value	Fair value hedge	
Deposits with credit institutions	22 307	0	0	0	22 307
Other money market deposits	3 273	0	0	0	3 273
Instalment loans	315 755	105 568	0	0	210 188
Notes, bonds and other interest-bearing securities	112 555	85 289	0	0	27 265
Financial derivatives	15 477	0	10 934	4543	0
Total financial assets	469 367	190 857	10 934	4543	263 033

Loans from credit institutions	7 075	0	0	0	7 075
Commercial paper	12 539	0	0	0	12 539
Senior securities issued	410 110	180 476	0	0	229 633
Financial derivatives	20 914	0	18 888	2 026	0
Subordinated debt	2 057	2 057	0	0	0
Total financial liabilities	452 695	182 533	18 888	2 026	249 248

At 31 March 2020	Total	At fair value			Amortised cost
		Fair value option	Mandatory at fair value	Fair value hedge	
Deposits with credit institutions	18 517	0	0	0	18 517
Other money market deposits	12 490	0	0	0	12 490
Instalment loans	311 262	102 091	0	0	209 171
Notes, bonds and other interest-bearing securities	153 265	115 206	0	0	38 059
Financial derivatives	56 499	0	49 119	7 380	0
Total financial assets	552 032	217 297	49 119	7 380	278 237

Loans from credit institutions	45 336	0	0	0	45 336
Commercial paper	2 648	0	0	0	2 648
Senior securities issued	458 435	182 218	0	0	276 217
Financial derivatives	25 138	0	24 984	153	0
Subordinated debt	2 157	2 157	0	0	0
Total financial liabilities	533 714	184 375	24 984	153	324 201

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

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

NOTE 4

Financial instruments measured at fair value

Methods used for the determination of fair value fall within three categories, which reflect different degrees of valuation uncertainty:

Level 1 - Quoted prices in active markets for identical assets and liabilities

Level 2 - Valuation techniques with observable inputs

Level 3 - Valuation techniques where inputs are to a significant degree unobservable

See Note 11 in the Annual Report 2020 for further information about valuation techniques, inputs, value change analysis and sensitivities. Financial instruments measured at fair value in KBN's Statement of financial position as of 31 March 2021 are distributed in the following way in the fair value hierarchy:

<i>(Amounts in NOK 1 000 000)</i>	Level 1	Level 2	Level 3	Total
Deposits with credit institutions	0	0	0	0
Other money market deposits	0	0	0	0
Instalment loans	0	11 521	94 046	105 568
Notes, bonds and other interest-bearing securities	74 249	4 848	6 193	85 289
Financial derivatives	0	14 413	1 064	15 477
Total financial assets measured at fair value	74 249	30 783	101 303	206 334
Loans from credit institutions	0	0	0	0
Commercial paper	0	0	0	0
Senior securities issued	14 591	127 024	38 861	180 476
Financial derivatives	0	11 417	9 497	20 914
Subordinated debt	0	0	2 057	2 057
Total financial liabilities measured at fair value	14 591	138 441	50 415	203 446

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 2020	95 879	7 768	48 687	2 106	(6 302)
Purchase	0	1 000	0	0	0
Sale	0	0	0	0	0
Issue	1 650	0	2 551	0	10
Settlement	(4 686)	(1 436)	(10 066)	0	(467)
Transfer into Level 3	529	195	0	0	0
Transfer out of Level 3	(626)	(668)	0	0	0
Gain/(loss) recognised in the period	1 301	(667)	(2 311)	(49)	(1 674)
Carrying amount at 31 March 2021	94 047	6 193	38 861	2 057	(8 432)

Net holdings amounting to NOK 0.9 billion have been transferred from Level 2 to Level 1 in 2021. There are net transfers of NOK 0.6 billion out of Level 3 during 2021. The transfers into and out of Level 3 are mainly due to changes in market conditions that affect the assessment of inputs to the valuation techniques during the reporting period, and refinancing/change of loan product for Instalment loans. All gains/ (losses) on financial instruments in Level 3 are recognised in the Income statement under "Net interest income", "Net unrealised gain/ (loss) on financial instruments" or "Net trading income", or in Other comprehensive income.

Information on valuation techniques:

The methods used for determining the fair value of financial instruments are defined based on the instruments' features and structure. Fair value of financial instruments without embedded derivatives or option elements is determined using the discounted cash flows method, where discount rates are derived from the relevant observable money market interest rates and other significant risk factors that may affect the fair value of the instruments. When such factors cannot be reliably observed at a reporting date, management may make assumptions and use estimates when determining fair value. Fair value of financial instruments with embedded derivatives or option elements is determined using a combination of a discounted cash flow method and option pricing models with observable market data and estimates as inputs. The most significant unobservable inputs used in the valuation in Level 3 are credit spreads for financial instruments not traded in an active market. The table below shows the impact of a 10 bp increase in the credit spread for financial assets and liabilities in Level 3 at 31 March 2021:

	31 March 2021
Instalment loans	(374)
Notes, bonds and other interest-bearing securities	(18)
Financial derivatives	(211)
Senior securities issued	197
Subordinated debt	13
Total	(392)

NOTE 5

Instalment loans

<i>(Amounts in NOK 1 000 000)</i>	31 March 2021	31 March 2020	31 December 2020
Principal amount	313 594	306 687	318 230
Accrued interest	1 001	1 478	985
Fair value adjustment	1 186	3 135	2 659
Expected credit loss	(25)	(38)	(25)
Total instalment loans	315 755	311 262	321 849

NOTE 6

Expected credit loss

Changes in expected credit losses on instalment loans and bond investments of NOK 1 million were recorded in the first quarter of 2021 based on the continuous corona pandemic and the associated uncertainty in the real economy.

The below table shows expected credit loss as part of the carrying amount of Instalment loans and Notes, bonds and other interest-bearing securities at the end of the period.

<i>(Amounts in NOK 1 000 000)</i>	31 March 2021		31 December 2020
	Carrying amount	Expected credit loss	Expected credit loss
Instalment loans	210 188	(25)	(25)
Notes, bonds and other interest-bearing securities	27 265	(2)	(1)
Total	237 453	(27)	(26)

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

<i>(Amounts in NOK 1 000)</i>	January-March 2021	2020
Instalment loans	(639)	(13 273)
Notes, bonds and other interest-bearing securities	(618)	(259)
Total	(1 256)	(13 532)

The following table shows an allocation of KBN's expected credit losses as at 31 March 2021 to stage 1, 2 and 3. According to the impairment principles described in IFRS 9 *Financial Instruments*, Stage 1 implies no significant increase in credit risk since recognition of the asset. Stage 2 implies such a significant increase, while stage 3 implies that the asset is credit-impaired. See the Accounting Policies in the 2019 annual report for a description of the allocation to stages and the model for calculation of expected credit loss.

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

	Stage 1	Stage 2	Stage 3
Instalment loans	(25)	0	0
Notes, bonds and other interest-bearing securities	(2)	0	0
Total expected credit loss	(27)	0	0

NOTE 7

Notes, bonds and other interest-bearing securities

(Amounts in NOK 1 000 000)

Notes, bonds and other interest-bearing securities by type of issuer	31 March 2021	31 March 2020	31 December 2020
Domestic			
Issued by other borrowers	18 198	17 760	17 415
Foreign			
Issued by public bodies ¹	76 989	112 313	61 557
Issued by other borrowers	17 367	23 192	48 137
Total notes, bonds and other interest-bearing securities	112 555	153 265	127 108

¹Issued by or guaranteed by sovereigns, central banks, regional authorities and multilateral development banks.

Notes, bonds and other interest-bearing securities by time to maturity	31 March 2021	31 March 2020	31 December 2020
Under 1 year	38 749	61 175	48 296
1-5 years	72 697	87 436	78 637
Over 5 years	1 110	4 654	175
Total notes, bonds and other interest-bearing securities	112 555	153 265	127 108
Average time to maturity (years)*	1.92	1.56	1.64

*Average time to maturity shown in the table above applies to Notes, bonds and other interest-bearing securities, but not to money market deposits. These are presented on the line Deposits with credit institutions. Including such deposits, the average time to maturity of liquid assets is 1.78 years as of March 31, 2021.

NOTE 8

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

Amounts in the table below represent actual credit exposure

(Amounts in NOK 1 000 000)

Time to maturity	Exposure as at 31 March 2021									Total
	< 1 year				> 1 year					
Risk class	A-1	A-2	A-3	Not rated	BBB	A	AA	AAA	Not rated	
Sovereigns and central banks	14 297	0	0	0	0	3 830	18 049	800	0	36 976
Multilateral development banks	2 420	0	0	0	0	0	94	6 892	0	9 405
Regional authorities	8 125	0	0	2 759	0	1 968	12 446	2 831	2 480	30 608
Financial institutions	0	0	0	0	0	0	0	0	0	0
Securitisation	0	0	0	0	0	0	0	2	0	2
Covered bonds	6 912	0	0	4 237	0	0	2 915	21 500	0	35 564
Total	31 753	0	0	6 996	0	5 798	33 504	32 025	2 480	112 555

NOTE 9

Senior securities issued

(Amounts in NOK 1 000 000)	31 March 2021	31 March 2020	31 December 2020
Senior securities issued (nominal amounts) as at 1 January	405 451	400 489	400 489
New issuance	40 728	30 293	107 822
Redemptions	(32 526)	(42 667)	(107 727)
Amortisation	70	199	1 425
Translation differences	(6 423)	63 501	3 441
Senior securities issued (nominal amounts) as at end of period	407 300	451 816	405 451
Accrued interest	3 925	5 013	4 327
Fair value adjustment	(1 115)	1 606	3 939
<i>Of which value change that is due to change in own credit risk</i>	998	(23)	397
<i>Of which value change that is due to other reasons</i>	(2 113)	1 629	3 542
Total senior securities issued	410 110	458 435	413 717

The value change on liabilities that is due to changes in own credit risk is calculated as the change in the credit spread that KBN pays converted to 3M USD Libor, Euribor or Nibor interest rates, i.e. after adjustment for any conversion from other currencies to USD. Value changes on liabilities that are due to changes in own credit risk are recognised in Total comprehensive income, while value changes on liabilities that are due to changes in other market parameters are recognised in the Income statement on the line Net unrealised gain/(loss) on financial instruments.

NOTE 10

Primary capital

(Amounts in NOK 1 000 000)	31 March 2021	31 March 2020	31 December 2020
<i>Common equity Tier 1 capital</i>			
Share capital	3 895	3 145	3 895
Retained earnings	11 796	11 471	11 092
Profit for the period included in Tier 1 capital	398	(229)	1 159
Pension funds above pension commitments	0	0	0
Deferred tax asset*	(1 609)	(669)	(1 611)
Intangible assets	(133)	(118)	(131)
Dividends payable	(162)	(150)	0
Other additions/deductions in common equity Tier 1 capital	611	(47)	171
Share of nulled unamortised estimate differences	0	0	0
Total common equity Tier 1 capital	14 795	13 402	14 574
Other approved Tier 1 capital	2 392	2 189	2 392
Total Tier 1 capital	17 187	15 591	16 966
<i>Supplementary capital</i>			
Ordinary subordinated debt	2 000	2 000	2 000
Total supplementary capital	2 000	2 000	2 000
Total primary capital	19 187	17 591	18 966

*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.

NOTE 11

Capital adequacy

(Amounts in NOK 1 000 000)	31 March 2021		31 March 2020	31 December 2020	Minimum capital requirements
	Carrying amount	Risk-weighted assets	Minimum capital requirements	Minimum capital requirements	
Credit risk					
Sovereigns and central banks	36 977	0	0	0	0
Regional governments and local authorities	341 313	63 468	5 077	5 009	5 176
<i>Of which are Norwegian municipalities</i>	315 732	63 468	5 077	5 009	5 176
Public sector entities	5 046	0	0	0	0
Multilateral development banks	9 406	0	0	0	0
Financial institutions	22 713	2 954	236	247	164
<i>Of which counterparty exposure on derivatives</i>	12 045	1 475	118	242	160
Claims secured by residential property	24	24	2	2	2
Covered bonds	35 625	3 562	285	325	292
Other assets	1 664	4 124	330	283	325
Securitisation	1	0	0	0	0
Credit Valuation Adjustment	145	1 809	145	334	260
Total credit risk	452 913	75 942	6 075	6 201	6 219
Market risk	0	0	0	0	0
Operational risk—Basic Indicator Approach		3 772	302	310	302
Minimum capital requirements		79 714	6 377	6 511	6 521
Total capital ratio			24.1%	21.6%	23.3%
Tier 1 capital adequacy ratio			21.6%	19.2%	20.8%
Common equity Tier 1 capital adequacy ratio			18.6%	16.5%	17.9%
Leverage ratio			3.8%	3.2%	3.7%



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