



Report for 1st 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 the local government sector, and our ambition is to contribute to the development of sustainable communities.

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 330bn

Building sustainable communities

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.

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 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.

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

(Amounts in NOK 1 000 000)	1st quarter 2023	1st quarter 2022	2022
RESULTS			
Net interest income	508	436	1 866
Core earnings ¹	280	248	1 081
Profit after tax	389	(352)	(60)
Cost/income ratio (per cent) ²	16.1 %	15.9 %	15.8 %
Return on equity after tax ³	8.9%	(8.8%)	(0.8%)
Return on equity after tax (core earnings) ⁴	6.8%	6.0%	6.6%
Return on assets after tax ⁵	0.3%	(0.3%)	0.0%
LOANS TO CUSTOMERS			
New disbursements	9 264	7 953	39 261
Aggregate loans to customers ⁶	330 036	320 650	328 401
12 month lending growth in percent ⁷	2.9%	2.3%	1.7%
Green loans to customers ⁸	42 759	34 480	41 421
Share of green loans in lending portfolio	13.0 %	10.8 %	13.3 %
Share of municipalities with green loans ⁹	38.8 %	36.3 %	38.0 %
LIQUIDITY PORTFOLIO⁶	110 249	86 978	109 959
DEBT SECURITIES ISSUED			
New long-term debt securities issued	24 459	35 629	86 994
Aggregate debt securities issued ⁶	461 785	391 521	429 206
TOTAL ASSETS	505 485	455 099	492 450
EQUITY			
Equity	19 233	18 900	18 903
Common equity Tier 1 capital adequacy ratio	18.8%	18.1%	19.0%
Leverage ratio	3.8%	4.1%	3.9%
LIQUIDITY COVERAGE RATIO (LCR)¹⁰			
Total	258%	240%	261%
NOK	94%	60%	95%
EUR	246%	148%	441%
USD	163%	210%	242%
AUD	124%	1 980%	1 078%
GBP	Infinite	378%	1 958%
OTHER KEY FIGURES			
Market share excl. Husbanken ¹¹	49.1%	50.2%	49.7%
Percentage of women employed in KBN	43%	45%	43%
Emissions in CO ₂ tons equivalents ¹²	21.9	18.3	79.7

Footnotes

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

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

³ Share of the Profit for the year allocated to shareholders as a percentage of average equity (annualized). Average equity is calculated based on monthly equity, not 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.

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

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

⁶ Principal amounts.

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

⁸ 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 44.9 billion.

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

¹⁰ Liquidity coverage ratio (LCR) is a measure for the regulatory liquidity reserve. LCR is defined as liquid assets as a percentage of net payments in a given stress period of 30 days.

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

¹² KBN's calculated emissions. See Greenhouse gas accounting.

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

The Board of Directors' Report

Higher interest rates had a positive effect on KBN's core earnings. The quarter was characterised by continuing market turmoil.

KBN's net interest income in the first quarter of 2023 was NOK 508 million as compared to NOK 436 million in the same period in 2022. KBN's lending portfolio increased by NOK 1.6 billion in the first quarter of 2023 primarily as a result of good growth in fixed rate lending. KBN's green lending grew by NOK 1.3 billion in the quarter. KBN's result for the period in the first quarter of 2023 was a profit of NOK 389 million as compared to a loss of NOK 352 million in the same period in 2022. In the first quarter of 2023 KBN recognised unrealised gains on financial instruments totalling NOK 114 million. Unrealised losses on financial instruments were the main reason for the loss in the first quarter of 2022.

Turmoil in the banking market

The final part of the quarter was characterised by a high level of uncertainty in the banking market, which was triggered by the insolvency of two American banks and the subsequent forced acquisition of a Swiss bank. The common denominator of these events was lack of trust in the banks' operations, with this leading to many customers withdrawing their deposits in a short period of time. The banks did not have sufficient liquidity to handle the large withdrawals and were therefore forced to dispose of assets with significant losses to procure the liquidity they needed, and this reduced their equity capital. KBN has no exposure to these banks and has therefore not been directly impacted by the bank turmoil. Indirectly KBN is impacted by associated currency fluctuations and changes in other market parameters. The Norwegian krone weakened over the first quarter. This led to an inflow of liquidity from currency hedging instruments for KBN, which in turn led to an increase in KBN's liquidity holdings and balance sheet assets.

Results for the quarter

KBN's core earnings¹ totalled NOK 280 million for the first quarter of 2023, compared to NOK 248 million in the first quarter of 2022. The main reason for the increase in KBN's core earnings was an increase in net interest income.

KBN's net interest income totalled NOK 508 million in the first quarter of 2023, compared to NOK 436 million in the first quarter of 2022. The main reason for the improvement in net interest income was rising interest rates. 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 policy meeting on 23 March and signalling further increases in the time ahead. The key policy rate now stands at 3.0%. KBN increased its standard variable rate by 0.4 percentage points with effect from 11 April.

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

KBN's result for the period in the first quarter of 2023 was a profit of NOK 389 million as compared to a loss of NOK 352 million in the first quarter of 2022. In the first quarter of 2023, KBN recognised unrealised gains on financial instruments totalling NOK 114 million, while in the first quarter of 2022 it recognised unrealised losses totalling NOK 821 million. The portion of KBN's fixed-rate lending that is carried at fair value contributed an unrealised loss of NOK 116 million in the first quarter of 2023 as a result of a widening of credit spreads for the local government sector in connection with the banking turmoil seen in March, which compares with an unrealised loss of NOK 462 million in the first 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. At 31 March 2023, hedge accounting has been used for approximately 20% of KBN's portfolio of fixed rate loans.

KBN's liquidity portfolio and associated hedging instruments contributed an unrealised gain of NOK 22 million for the first quarter of 2023, while KBN's own bonds and associated hedging instruments contributed an unrealised gain of NOK 207 million. KBN's unrealised gains and losses are expected to reverse, either as market conditions normalise or as the instruments approach maturity. Sales of securities from the liquidity portfolio resulted in realised gains totalling NOK 1 million in the first 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 first quarter of 2023 by NOK 3 million.

KBN's total operating costs for the first quarter of 2023 were NOK 77 million, compared to NOK 66 million in the same period in 2022. The increase in operating costs was due to a higher level of activity and the high rate of inflation.

Table 1: Profit after tax and other comprehensive income

<i>(Amounts in NOK 1 000 000)</i>	Q1 2023	Q1 2022	2022
Net interest income	508	436	1 866
Fees and commission expenses	29	27	133
Net unrealised gain/(loss) on financial instruments	114	(821)	(1 622)
Increased/(reduced) provision for expected credit loss	3	6	28
Net realised gain/(loss) on financial instruments	1	11	6
Operating expenses	77	66	271
Income tax	125	(121)	(120)
Profit/(Loss) for the period	389	(352)	(60)
<i>(Amounts in NOK 1 000 000)</i>	Q1 2023	Q1 2022	2022
Profit/(loss) for the period	389	(352)	(60)
Change in fair value of liabilities due to changes in own credit risk	(61)	236	800
Actuarial gain/(loss) on pension liability	0	0	2
Tax	15	(59)	(200)
Total comprehensive income for the period	343	(175)	541

Lending

KBN's lending portfolio totalled NOK 330 billion at the end of the first quarter of 2023. The lending portfolio increased by NOK 1.6 billion in the quarter, while it decreased by NOK 2.4 billion in the same period last

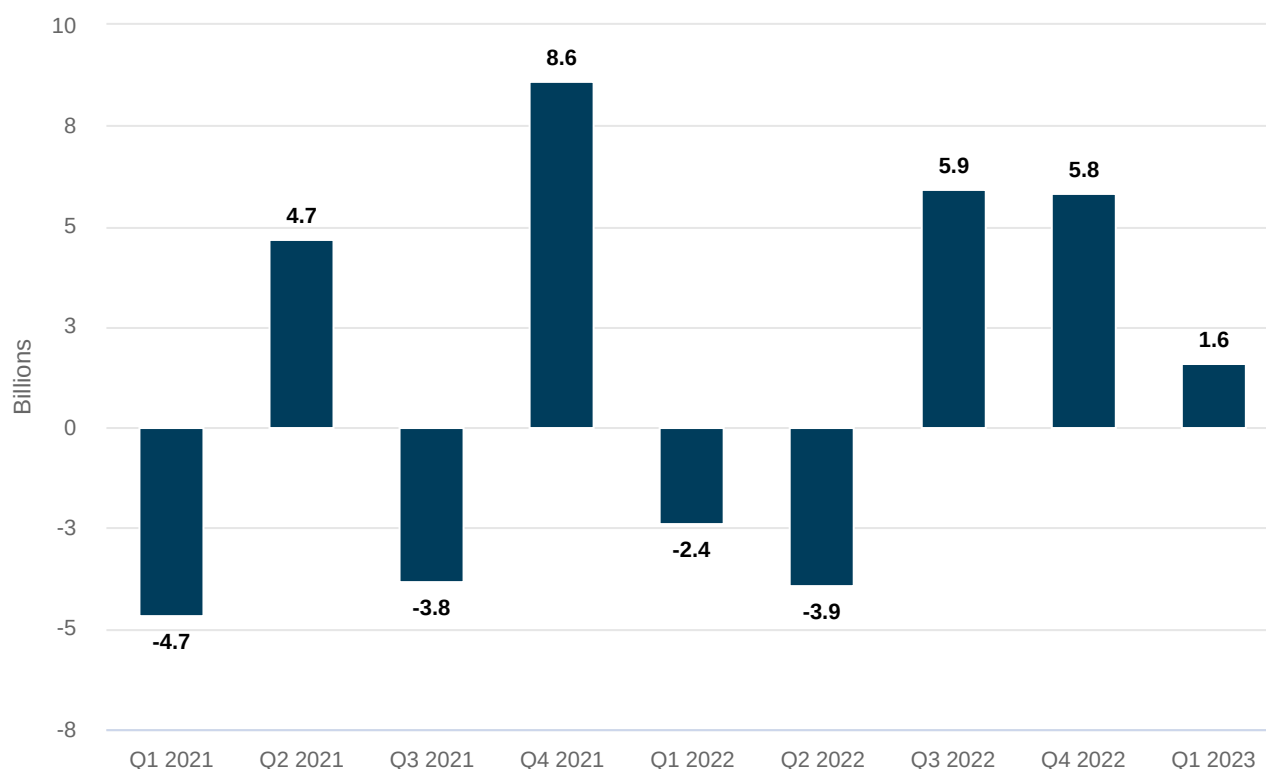
year. The relatively unattractive terms available to KBN's customers in the capital markets created better market conditions for KBN's long-term instalment-based loans. The favourable market conditions for fixed rate loans, with lower pricing for long-term interest rates than for short-term rates, resulted in many customers choosing to change from floating to fixed-rate loans.

Increasing demand for new loans is expected over the course of the rest of the year. With the capital markets continuing to be relatively unattractive for KBN's customers, KBN expects strong demand for long-term, instalment-based loans to refinance maturing loans.

KBN continued to experience a good level of growth in its green lending, and its portfolio of green loans increased by NOK 1.3 billion in the first quarter of 2023, as compared to NOK 1.6 billion in the same period in 2022. Examples of projects granted green loans in the quarter include new school buildings in Trondheim municipality, Klepp municipality and Narvik municipality. At the end of the first quarter, KBN's green lending represented 13.0% 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 February 2023 was calculated to be 5.5%. After adjusting for borrowing from the Norwegian State Housing Bank, the rate of debt growth was 4.7%. The 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 February was 49.1%. Development in quarterly lending growth is showed in below chart.

Chart 1: Quarterly lending growth in billion kroner



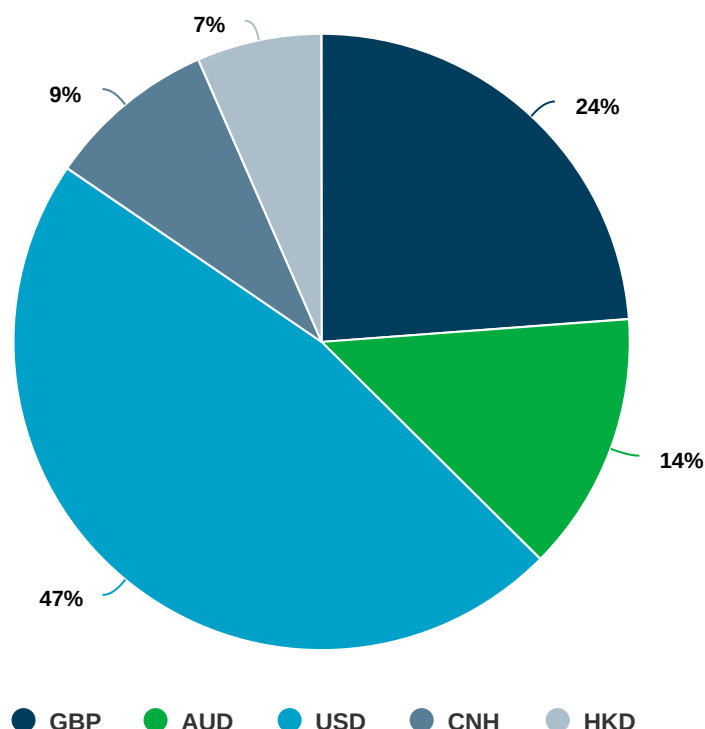
Financial markets

The rate of inflation fell somewhat in the first quarter of 2023, but it remains well above the targets set by central banks in many countries across the world. A number of central banks consequently raised their key policy rate further in the quarter. The central banks of the USA and Norway raised their key policy rates by 0.25 percentage points in March. At the most recent assessment, inflation in Norway was running at 6.5%. The US dollar and Euro strengthened against the majority of currencies in the first quarter, including the Norwegian krone. The market expects further interest rate rises in 2023, but there is much uncertainty about how high rates will become. The uncertainty is leading to a high level of volatility in the fixed income market, the equity market and for the Norwegian krone, which at present is weak.

The credit spreads on local government and covered bonds fell at the start of the year but rose again in March as a result of the market turmoil. At the end of the first quarter spreads were higher than at the start of 2023. There is some uncertainty about future changes in the spreads on local government and covered bonds both in Norway and internationally.

Funding

KBN's funding activities in the first quarter of 2023 were at a relatively normal level. The market turmoil in 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. KBN issued a five-year USD 1 billion benchmark bond in January, which attracted a good level of interest. The weakness of the Norwegian krone relative to the US dollar increased KBN's liquidity as a result of inflow of liquidity from currency hedging instruments in March, and its funding activities were therefore somewhat less extensive during the month. New borrowings in the first quarter of 2023 totalled approximately NOK 24.5 billion through 15 bond issues in five currencies, compared to NOK 35.6 billion in the same period in 2022. Below chart shows the total borrowing by currency.

Chart 2: Total borrowing by currency in first quarter 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 110 billion at the end of the first quarter of 2023 as compared to NOK 87 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 61% of the portfolio. Fluctuations in the value of the Norwegian krone relative to other currencies will therefore result in fluctuations in the size of the liquidity portfolio in NOK terms.

Capital

At the end of the first quarter of 2023, KBN's total common equity Tier 1 capital was NOK 15.6 billion, its total Tier 1 capital was NOK 18.0 billion, and its total primary capital was NOK 20.0 billion. KBN's total assets at the end of the first quarter of 2023 amounted to NOK 505 billion, up from NOK 492 billion at the end of 2022. KBN's total assets at the end of the first quarter of 2022 amounted to NOK 455 billion. The increase from the end of 2022 is primarily due to liquidity inflows from cash collateral from currency

hedging instrument caused by the weakening of the Norwegian krone, and an increase in the NOK value of balance sheet assets as a result of currency conversion.

At the end of the first quarter of 2023, KBN had a common equity Tier 1 capital adequacy ratio of 18.8%, a Tier 1 capital adequacy ratio of 21.6%, and a total capital adequacy ratio of 24.0%. The capital adequacy ratio requirements imposed by the authorities at the end of the first quarter were 16.5% (common equity Tier 1 capital), 18.0% (Tier 1 capital) and 20.0% (total capital).

KBN's leverage ratio at the end of the first quarter was 3.8%, 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.

Future prospects

Norges Bank raised its key policy rate to 3% at its monetary policy committee meeting in March 2023, and communicated that it will increase the rate further at its meeting in May. Norges Bank utters that the reason for the increase is the need to reduce inflation. The goal for monetary policy is an inflation that over time is close to the target of 2% annual growth. The forecast for the key policy rate indicates that it will reach 3.5% this summer. The future path of the policy rate will depend on economic developments.

The war in Ukraine, uncertainty about the economic outlook, and the bank turmoil 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 first quarter spreads for five-year financing were approximately 5 basis points higher than at the end of 2022. It is still uncertain whether credit spreads will fall this spring 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. Seen in isolation, these factors may result in a decrease in demand for financing going forward, and KBN also expects to see a lower rate of growth in borrowing by the local government sector in 2023 relative to previous years.

The level of demand for KBN-issued bonds continues to be good, and the increase in the credit spreads on KBN's bonds has been relatively moderate. This means that KBN is in a good position to improve its profitability and to further strengthen its long-term capitalisation and lending capacity.

KBN has good access to liquidity and will continue to provide its customers with attractive financing for local government sector projects right across Norway.

KBN received the Financial Supervisory Authority of Norway's decision on its capital requirements on 11 April 2023. The Financial Supervisory Authority of Norway has determined that KBN will have a Pillar 2 capital requirement that represents 2.1% of the basis for calculation under Pillar 1. The Pillar 2 capital requirement is hence reduced by 0.1 %-point. 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 must be satisfied with at least 56.25% common equity Tier 1 capital and at least 75% Tier 1 capital. The decision will enter into force on 30 April 2023.

Oslo, 27 April 2023

The Board of Directors of Kommunalbanken AS

Financial statement

INCOME STATEMENT

(Amounts in NOK 1 000 000)	Note	1st quarter 2023	1st quarter 2022	2022
Interest income from assets measured at amortised cost		2 858	838	6 185
Interest income from assets measured at fair value		1 406	483	2 995
Total interest income		4 265	1 321	9 180
Interest expense		3 757	885	7 315
Net interest income	<u>1</u>	508	436	1 866
Fees and commission expenses		29	27	133
Net unrealised gain/(loss) on financial instruments	<u>2</u>	114	(821)	(1 622)
Increased/(reduced) provision for expected credit loss	<u>6</u>	3	6	28
Net realised gain/(loss) on financial instruments		1	11	6
Total other operating income		82	(843)	(1 775)
Salaries and administrative expenses		49	46	166
Depreciation of fixed and intangible assets		10	9	38
Other operating expenses		17	11	67
Total operating expenses		77	66	271
Profit before tax		514	(473)	(180)
Income tax		125	(121)	(120)
Profit for the period		389	(352)	(60)
Portion allocated to shareholder		366	(368)	(135)
Portion allocated to owners of additional Tier 1 capital		23	16	75

STATEMENT OF COMPREHENSIVE INCOME

(Amounts in NOK 1 000 000)	Note	1st quarter 2023	1st quarter 2022	2022
Profit for the period		389	(352)	(60)
Other comprehensive income				
Items which will not be reclassified to profit or loss				
Change in fair value of liabilities due to changes in own credit risk	<u>9</u>	(61)	236	800
Actuarial gain/(loss) on pension liability		0	0	2
Tax		15	(59)	(200)
Total other comprehensive income		(46)	177	601
Total comprehensive income for the period		343	(175)	541

Statement of financial position

(Amounts in NOK 1 000 000)	Note	31 March 2023	31 March 2022	31 December 2022
Assets				
Deposits with credit institutions	<u>3,4</u>	45 347	34 505	39 512
Other money market deposits	<u>3</u>	570	0	0
Loans to customers	<u>3,4,5,6</u>	326 832	317 766	324 532
Commercial paper and bonds	<u>3,4,6,7,8</u>	109 674	87 842	109 235
Financial derivatives	<u>3,4</u>	20 056	11 722	16 119
Deferred tax asset		2 774	3 083	2 885
Other assets		232	182	166
Total assets		505 485	455 099	492 450
Liabilities and equity				
Due to credit institutions	<u>3,4</u>	10 292	7 565	6 567
Commercial paper issued	<u>3,4</u>	0	19 240	23 377
Debt securities issued	<u>3,4,9</u>	439 779	379 206	402 553
Financial derivatives	<u>3,4</u>	34 198	27 489	39 070
Other liabilities		46	123	56
Payable taxes		0	581	0
Pension commitments		27	32	27
Subordinated loan capital	<u>3,4</u>	1 909	1 963	1 897
Total liabilities		486 252	436 198	473 547
Share capital		3 895	3 895	3 895
Additional Tier 1 capital		2 392	2 392	2 392
Retained earnings		12 947	12 614	12 617
Total equity	<u>10</u>	19 233	18 900	18 903
Total liabilities and equity		505 485	455 099	492 450

Statement of changes in equity

(Amounts in NOK 1 000 000)

	1 January - 31 March 2023				
	Share capital	Additional Tier 1 capital	Financial liabilities, changes in credit risk	Other equity	Total equity
Equity as of 31 December 2022	3 895	2 392	(304)	12 920	18 903
Profit for the period	0	0	0	389	389
Other comprehensive income after tax - financial liabilities, changes in credit risk	0	0	(46)	0	(46)
Other comprehensive income after tax - actuarial gain/loss	0	0	0	0	0
Interest paid on additional Tier 1 capital	0	0	0	(13)	(13)
Dividends for 2022	0	0	0	0	0
Equity as of 31 March 2023	3 895	2 392	(350)	13 296	19 233

	1 January - 31 March 2022				
	Share capital	Additional Tier 1 capital	Financial liabilities, changes in credit risk	Other equity	Total equity
Equity as of 31 December 2021	3 895	2 392	(904)	13 698	19 081
Profit for the period	0	0	0	(352)	(352)
Other comprehensive income after tax - financial liabilities, changes in credit risk	0	0	177	0	177
Other comprehensive income after tax - actuarial gain/loss	0	0	0	0	0
Interest paid on additional Tier 1 capital	0	0	0	(6)	(6)
Dividends for 2021	0	0	0	0	0
Equity as of 31 March 2022	3 895	2 392	(727)	13 340	18 900

	1 January - 31 December 2022				
	Share capital	Additional Tier 1 capital	Financial liabilities, changes in credit risk	Other equity	Total equity
Equity as of 31 December 2021	3 895	2 392	(904)	13 698	19 081
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)
Equity as of 31 December 2022	3 895	2 392	(304)	12 920	18 903

Statement of cash flows

(Amounts in NOK 1 000 000)	1st quarter 2023	1st quarter 2022	2022
Cash flows from operating activities			
Interest received	4 173	1 075	7 680
Interest paid	(3 249)	(869)	(5 568)
Fees and commissions paid	(92)	8	(131)
Net realised gains on financial assets	1	11	6
Cash payments to employees and suppliers	(67)	(57)	(233)
Income taxes paid	0	0	(525)
Net disbursement of loans to customers	(1 910)	2 388	(5 385)
Net (increase)/decrease in deposits with credit institutions	(2 155)	(15 485)	(21 209)
Net (increase)/decrease in commercial paper and bonds	6 270	22 420	5 944
Net (increase)/decrease in other assets	(4)	(10)	(5)
Net increase/(decrease) in other liabilities	(8)	(20)	(27)
Net (increase)/decrease in financial derivatives	16 121	3 811	25 528
Net cash flows from operating activities	19 079	13 270	6 079
Cash flows from investing activities			
Net (purchase)/sales of property and equipment	(8)	(10)	(32)
Net cash flows from investing activities	(8)	(10)	(32)
Cash flows from financing activities			
Receipts on issued commercial paper	21 765	39 902	148 633
Payments on redeemed commercial paper	(45 576)	(51 353)	(156 685)
Lease payments	(2)	0	(8)
Receipts on issued debt securities	24 459	35 629	86 995
Payments on redeemed debt securities	(19 667)	(37 109)	(84 295)
Interest Paid on additional Tier 1 capital	(13)	(6)	(74)
Dividends paid	0	0	(646)
Net cash flows from financing activities	(19 034)	(12 937)	(6 080)
Net cash flows	37	323	(33)
Effects of exchange rate changes on cash and cash equivalents	25	(13)	(24)
Net cash flows after effects of exchange rate changes	62	310	(57)
Cash and cash equivalents at 1 January	251	308	308
Net receipts of cash	62	310	(57)
Cash and cash equivalents at end of period	313	618	251
Whereof			
Deposits with credit institutions without agreed time to maturity	313	618	251
Due to credit institutions without agreed time to maturity	0	0	0

Notes to the financial statement

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 2023 are prepared in accordance with IAS 34 Interim Financial Reporting and follow the same accounting policies as presented in the annual financial statements for 2022, with following clarifications.

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

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

Note 1 Net interest income

(Amounts in NOK 1 000 000)

1st quarter 2023	Total	At fair value through profit and loss				Amortised cost
		Fair value option	Mandatory at fair value	Fair value hedge	Total at fair value	
Deposits with credit institutions	39	0	0	0	0	39
Other money market deposits	2	0	0	0	0	2
Loans to customers	2 778	506	0	0	506	2 272
Commercial paper and bonds	816	271	0	0	271	546
Financial derivatives	630	0	618	12	630	0
Total interest income	4 265	777	618	12	1 406	2 858
Due to credit institutions	0	0	0	0	0	0
Commercial paper issued	84	0	0	0	0	84
Debt securities issued	2 340	910	0	0	910	1 430
Financial derivatives	1 317	0	(455)	1 772	1 317	0
Subordinated loan capital	15	15	0	0	15	0
Other interest expense	0	0	0	0	0	0
Total interest expenses	3 757	925	(455)	1 772	2 243	1 514
Net interest income	508	(149)	1 072	(1 760)	(836)	1 345

1st quarter 2022	Totalt	At fair value through profit and loss				Amortised cost
		Fair value option	Mandatory at fair value	Fair value hedge	Total at fair value	
Deposits with credit institutions ¹	(11)	0	0	0	0	(11)
Other money market deposits	0	0	0	0	0	0
Loans to customers	1 306	506	0	0	506	800
Commercial paper and bonds	120	54	0	0	54	66
Financial derivatives	(94)	0	(87)	(7)	(94)	0
Total interest income	1 321	560	(87)	(7)	467	855
Due to credit institutions	1	0	0	0	0	1
Commercial paper issued ²	(12)	0	0	0	0	(12)
Debt securities issued	1 452	819	0	0	819	632
Financial derivatives	(571)	0	(136)	(435)	(571)	0
Subordinated loan capital	15	15	0	0	15	0
Other interest expense	0	0	0	0	0	0
Total interest expenses	885	835	(136)	(435)	264	621
Net interest income	436	(274)	49	429	203	233

¹Deposits in EUR carrying negative interest rates.²Short term funding in EUR carrying negative interest rates.

2022	Totalt	At fair value through profit and loss				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	0
Other money market deposits	0	0	0	0	0	0
Loans to customers	7 251	1 977	0	0	1 977	5 274
Commercial paper and bonds	1 539	628	0	0	628	911
Financial derivatives	391	0	422	(30)	391	0
Total interest income	9 180	2 604	422	(30)	2 995	6 185
Due to credit institutions	18	0	0	0	0	18
Commercial paper issued	98	0	0	0	0	98
Debt securities issued	6 957	3 365	0	0	3 365	3 592
Financial derivatives	192	0	(761)	953	192	0
Subordinated loan capital	61	61	0	0	61	0
Other interest expense ¹	(12)	0	0	0	0	(12)
Total interest expenses	7 315	3 427	(761)	953	3 619	3 696
Net interest income	1 866	(822)	1 182	(984)	(624)	2 489

¹Interest expense on tax as a result of changes in tax return for previous years

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

(Amounts in NOK 1 000 000)

Net unrealised gain/(loss) on financial instruments	1st quarter 2023	1st quarter 2022	2022
Loans to customers	338	(3 722)	(5 377)
Commercial paper and bonds	260	(926)	(2 177)
Financial derivatives	3 710	(6 225)	(18 748)
Debt securities issued	(4 197)	9 906	24 485
Subordinated loan capital	3	145	196
Net unrealised gain/(loss) on financial instruments	114	(821)	(1 622)

Specification of total value changes including hedging instruments	1st quarter 2023	1st quarter 2022	2022
Commercial paper and bonds, including hedging instrument	22	(88)	(138)
Loans to customers, including hedging instruments	(116)	(462)	(1 129)
Debt securities issued and subordinated loan capital, including hedging instruments	207	(271)	(354)
Net unrealised gain/(loss) on financial instruments	114	(821)	(1 622)

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 Debt securities issued for information on calculating such value changes. 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. Changes in credit spreads for investments in the liquidity portfolio, fixed interest-rate loans to customers measured at fair value and issued debt securities, as well as changes in basis swap spreads, may on the other hand lead to significant effect in income statement and other comprehensive income.

Of Total unrealised gains of NOK 114 million in the first quarter of 2023, loans to customers at fair value and associated hedging contracts contribute with a loss of NOK 116 million, mainly due to widening of credit spreads. Commercial paper and bonds and their associated hedging contracts contribute with a gain of NOK 22 million. Debt securities issued and related hedging derivatives contribute with a gain of NOK 207 million, mainly due to gains on basis swaps.

Recognised value changes on financial instruments in fair value hedges of Debt securities issued and associated hedging instruments amount to NOK 20 million in the first quarter of 2023. This amount is included in the above table as net unrealised changes in value. The carrying amount of the Debt securities issued included in fair value hedges amounts to NOK 231 billion.

KBN has implemented hedge accounting for fixed-rate lending from 2022. For fixed-rate lending, interest rate risk is hedged financially through the use of interest rate swaps, and fair value hedging has been introduced for accounting purposes. This only applies for new fixed-rate lending from 2022 on. For fixed-rate lending with associated hedging instruments that are included in hedge accounting, recognized value changes amount to NOK -4 million in the first quarter of 2023, which are included as net unrealized changes in value in the table above. The carrying amount of hedged fixed-rate loans amounts to NOK 21 billion.

Note 3 Classification of financial instruments

(Amounts in NOK 1 000 000)

At 31 March 2023	Total	Fair value option	At fair value		Amortised cost
			Mandatory at fair value	Fair value hedge	
Deposits with credit institutions	45 347	0	0	0	45 347
Other money market deposits	570	0	0	0	570
Loans to customers	326 832	80 728	0	0	246 104
Commercial paper and bonds	109 674	71 798	0	0	37 877
Financial derivatives	20 056	0	19 589	468	0
Total financial assets	502 479	152 526	19 589	468	329 897
Due to credit institutions	10 292	0	0	0	10 292
Commercial paper issued	0	0	0	0	0
Debt securities issued	439 779	177 996	0	0	261 784
Financial derivatives	34 198	0	15 581	18 617	0
Subordinated loan capital	1 909	1 909	0	0	0
Total financial liabilities	486 179	179 905	15 581	18 617	272 076

At 31 March 2022	Total	Fair value option	At fair value		Amortised cost
			Mandatory at fair value	Fair value hedge	
Deposits with credit institutions	34 505	0	0	0	34 505
Other money market deposits	0	0	0	0	0
Loans to customers	317 766	97 192	0	0	220 574
Commercial paper and bonds	87 842	60 936	0	0	26 906
Financial derivatives	11 722	0	11 341	381	0
Total financial assets	451 834	158 127	11 341	381	281 986
Due to credit institutions	7 565	0	0	0	7 565
Commercial paper issued	19 240	0	0	0	19 240
Debt securities issued	379 206	173 759	0	0	205 447
Financial derivatives	27 489	0	19 136	8 353	0
Subordinated loan capital	1 963	1 963	0	0	0
Total financial liabilities	435 462	175 722	19 136	8 353	232 252

At 31 December 2022	Total	Fair value option	At fair value		Amortised cost
			Mandatory at fair value	Fair value hedge	
Deposits with credit institutions	39 512	0	0	0	39 512
Other money market deposits	0	0	0	0	0
Loans to customers	324 532	83 650	0	0	240 882
Commercial paper and bonds	109 235	60 324	0	0	48 911
Financial derivatives	16 119	0	15 837	283	0
Total financial assets	489 399	143 974	15 837	283	329 305
Due to credit institutions	6 567	0	0	0	6 567
Commercial paper issued	23 377	0	0	0	23 377
Debt securities issued	402 553	154 458	0	0	248 095
Financial derivatives	39 070	0	19 417	19 653	0
Subordinated loan capital	1 897	1 897	0	0	0
Total financial liabilities	473 465	156 355	19 417	19 653	278 039

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 as of 31 March 2023 are distributed in the following levels:

(Amounts in NOK 1 000 000)	Level 1	Level 2	Level 3	Total
Loans to customers	0	0	80 728	80 728
Commercial paper and bonds	66 540	377	4 881	71 798
Financial derivatives	0	19 829	227	20 056
Total financial assets measured at fair value	66 540	20 206	85 837	172 582
Debt securities issued	13 108	144 101	20 787	177 996
Financial derivatives	0	31 390	2 808	34 198
Subordinated loan capital	0	0	1 909	1 909
Total financial liabilities measured at fair value	13 108	175 491	25 505	214 103

Reconciliation of movements in Level 3

(Amounts in NOK 1 000 000)	Loans to customers	Commercial paper and bonds	Debt securities issued	Subordinated loan capital	Financial derivatives
Carrying amount at 31 December 2022	83 650	6 424	19 580	1 897	(4 138)
Purchase	0	1 475	0	0	0
Sale	0	(891)	0	0	0
Issue	0	0	614	0	0
Settlement	(3 133)	(931)	(893)	0	1 132
Transfer into Level 3	0	505	0	0	0
Transfer out of Level 3	(554)	(1 815)	0	0	0
Gain/(loss) recognised in the period	765	116	1 487	12	425
Carrying amount at 31 March 2023	80 728	4 881	20 787	1 909	(2 581)

Net holdings amounting to NOK 0.5 billion have been transferred from Level 1 and Level 2 to Level 3 in 2023. There have been net transfers of NOK 2.4 billion out of Level 3 during 2023. 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 loans to customers.

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 realised gain/(loss) on financial instruments", 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.

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 at 31 March 2023.

(Amounts in NOK 1 000 000)	1st quarter 2023	
	Carrying amount	Sensitivity
Loans to customers	80 728	(275)
Commercial paper and bonds	4 881	(13)
Financial derivatives	(2 581)	(22)
Debt securities issued	20 787	26
Subordinated loan capital	1 909	9
Total		(274)

Financial instruments measured at amortised cost

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

Note 5 Loans to customers

(Amounts in NOK 1 000 000)	31 March 2023	31 March 2022	31 December 2022
Principal amount	330 036	320 650	328 423
Accrued interest	2 280	1 258	1 928
Fair value adjustment	(5 429)	(4 111)	(5 766)
Expected credit loss	(55)	(31)	(52)
Total loans to customers	326 832	317 766	324 532

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)	31 March 2023		31 December 2022
	Carrying amount	Expected credit loss	Expected credit loss
Loans to customers	246 104	55	52
Commercial paper and bonds	37 877	2	2
Total	283 980	56	54

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

(Amounts in NOK 1 000 000)	1st quarter 2023	2022
Loans to customers	2.8	27.4
Commercial paper and bonds	0.0	0.1
Total	2.8	27.5

The following table shows an allocation of KBN's expected credit losses as of 31 March 2023 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 creditimpaired.

All exposures are estimated to be in Stage 1.

(Amounts in NOK 1 000 000)	Stage 1	Stage 2	Stage 3
Loans to customers	55	0	0
Commercial paper and bonds	2	0	0
Total expected credit loss	56	0	0

Note 7 Commercial paper and bonds

(Amounts in NOK 1 000 000)

Commercial paper and bonds by type of issuer	31 March 2023	31 March 2022	31 December 2022
Domestic			
Issued by public bodies ¹	0	0	0
Issued by other borrowers	22 616	19 742	20 257
Foreign			
Issued by public bodies ¹	74 992	56 042	77 918
Issued by other borrowers	12 066	12 058	11 061
Total Commercial paper and bonds	109 674	87 842	109 235

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

Commercial paper and bonds by time to maturity	31 March 2023	31 March 2022	31 December 2022
Under 1 year	35 555	25 166	42 635
1-5 years	71 405	60 920	64 789
> 5 years	2 714	1 756	1 811
Total Commercial paper and bonds	109 674	87 842	109 235
Average time to maturity (years)*	2.4	2.2	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 2.4 years as of March 31, 2023.

Note 8 Credit risk

Amounts in the table below represent actual credit exposure.

(Amounts in NOK 1 000 000)	Exposure as at 31 March 2023									
Time to maturity	< 1 year				> 1 year					
Risk class	A-1	A-2	A-3	Not rated	BBB	A	AA	AAA	Not rated	Total
Sovereigns and central banks	20 132	0	0	1 704	0	4 485	11 642	749	0	38 712
Multilateral development banks	2 924	0	0	0	0	0	1 790	5 724	0	10 438
Regional authorities	6 993	0	0	1 989	0	0	9 270	5 189	2 401	25 842
Financial institutions	0	0	0	0	0	0	0	0	0	0
Corporates	530	0	0	0	0	78	0	0	0	608
Covered Bonds	1 282	0	0	0	0	0	2 374	30 419	0	34 075
Total	31 861	0	0	3 694	0	4 563	25 075	42 081	2 401	109 674

Note 9 Debt securities issued

(Amounts in NOK 1 000 000)	31 March 2023	31 March 2022	31 December 2022
Debt securities issued (nominal amounts) as at 1 January	429 206	395 385	395 385
New issuance	24 459	35 629	86 994
Redemptions	(19 385)	(37 063)	(83 648)
Amortisation	(282)	(47)	(647)
Effects of exchange rate changes	27 788	(2 383)	31 123
Debt securities issued (nominal amounts) as at end of period	461 785	391 521	429 206
Accrued interest	4 617	3 422	4 228
Fair value adjustment	(26 623)	(15 737)	(30 881)
Of which value change that is due to change in own credit risk	467	970	406
Of which value change that is due to other reasons	(27 090)	(16 707)	(31 287)
Total Debt securities issued	439 779	379 206	402 553

Value changes in the table above are before tax.

Value changes due to changes in own credit risk for Bonds issued in a foreign currency other than USD are calculated from changes in the credit curve measured in USD, and may therefore contain effects that are not due to direct changes in own credit risk. 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 Capital management

(Amounts in NOK 1 000 000)	31 March 2023	31 March 2022	31 December 2022
Equity	19 233	18 900	18 903
Additional Tier 1 capital included in equity	(2 392)	(2 392)	(2 392)
Equity included in common equity Tier 1 capital	16 842	16 509	16 512
Deductions:			
Deferred tax asset*	(1 097)	(1 468)	(1 228)
Intangible assets	(142)	(140)	(143)
Dividends payable	(163)	(809)	0
Prudent valuation adjustments (AVA)	(151)	(140)	(147)
Adjustments unrealised loss (gains) due to changes in own credit risk	350	727	305
Total common equity Tier 1 capital	15 639	14 679	15 299
Other approved Tier 1 capital	2 392	2 392	2 392
Total Tier 1 capital	18 031	17 070	17 691
<i>Supplementary capital</i>			
Subordinated loan capital	2 000	2 000	2 000
Total supplementary capital	2 000	2 000	2 000
Total primary capital	20 031	19 070	19 691

*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.

Note 11 Capital adequacy

(Amounts in NOK 1 000 000)	31 March 2023			31 March 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
Credit risk					
Sovereigns and central banks	38 713	0	0	0	0
Regional governments and local authorities	349 374	65 595	5 248	5 119	5 240
<i>Of which are Norwegian municipalities</i>	326 832	65 595	5 248	5 119	5 212
Corporates	608	304	24	0	20
Public sector entities	3 285	0	0	0	0
Multilateral development banks	10 438	0	0	0	0
Financial institutions	22 602	4 048	324	325	224
<i>Of which counterparty exposure on derivatives</i>	15 374	3 333	267	242	171
Claims secured by residential property	21	21	2	2	2
Covered bonds	34 001	3 400	272	254	232
Other assets	1 693	4 208	337	324	333
Securitisation	0	0	0	0	0
Credit Valuation Adjustment	274	3 424	274	182	202
Total credit risk	461 010	81 001	6 480	6 207	6 253
Market risk	0	0	0	0	0
Operational risk - Basic Indicator Approach		2 374	190	286	190
Minimum capital requirements		83 375	6 670	6 492	6 443
Total capital ratio			24.0%	23.5%	24.5%
Tier 1 capital adequacy ratio			21.6%	21.0%	22.0%
Common equity Tier 1 capital adequacy ratio			18.8%	18.1%	19.0%
Leverage ratio			3.8%	4.1%	3.9%

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