

2021  
**Report for  
third quarter**

# About KBN

Kommunalbanken AS (KBN) is the Norwegian state agency for local government funding. KBN is 100 per cent owned by the Kingdom of Norway (AAA/Aaa) and is managed in accordance with the Central Government Maintenance Statement.



Region Nordhordland Health Center is being built to co-locate health services for the inhabitants. The health center will have a passive house standard, and will be heated using heat pumps, which covers 85% of the annual heat demand. The building is financed with a green loan from KBN. Photo: Altifilm AS

KBN's sole purpose is to grant loans to local and regional governments or inter-municipal companies in line with KBN's explicit public policy mandate. As an instrument of the state, KBN recognizes its critical role in enabling the local and regional governments to improve living standards across the country. 100 percent of Norwegian municipalities are KBN customers.

Through its Green Bond program, KBN aim to finance the Norwegian local

sector's transition to a climate-resilient, low-carbon society. Proceeds from Green Bonds are disbursed as discounted Green Loans to climate and environmentally conscious investments in the local sector. This reflects KBN's traditional, long-term focus on environmental, ethical and social impact.

KBN is guided by prudent financial and risk management policies. All financial transactions are fully hedged and KBN maintains liquidity in excess

of policy requirements. KBN's focused, specialized monoline lending model has never suffered a loan loss.

Owing to full state ownership, the central public policy mission, a strong capital base, solid financial and operating performance and prudent financial and risk management policies, KBN is assigned Triple-A ratings by Standard & Poor's and Moody's.

# Financial highlights

(Amounts in NOK 1 000 000)	January-September 2021	January-September 2020	2020
<b>RESULTS</b>			
Net interest income	1 160	1 292	1 672
Core earnings <sup>1</sup>	637	721	922
Profit before tax	1 290	1 183	1 537
Profit for the period	966	902	1 159
Return on equity after tax <sup>2</sup>	7.6%	7.8%	7.4%
Return on equity after tax (core earnings) <sup>3</sup>	5.3%	6.6%	6.3%
Return on assets after tax <sup>4</sup>	0.3%	0.2%	0.2%
Return on assets after tax (core earnings) <sup>5</sup>	0.2%	0.2%	0.2%
<b>LENDING</b>			
New disbursements	28 759	39 441	57 699
Outstanding loans <sup>6</sup>	314 448	312 395	318 235
<b>LIQUIDITY PORTFOLIO<sup>6</sup></b>	103 443	125 561	123 585
<b>BORROWINGS</b>			
New long-term borrowings	71 614	79 465	107 822
Repurchase of own debt	169	781	1 051
Redemptions	84 432	94 397	106 676
Total borrowings <sup>6</sup>	389 778	415 512	405 451
<b>TOTAL ASSETS</b>	469 629	502 281	498 219
<b>EQUITY</b>			
Total capital adequacy ratio	24.2%	23.6%	23.3%
Tier 1 capital adequacy ratio	21.7%	21.2%	20.8%
Common equity Tier 1 capital adequacy ratio	18.8%	18.3%	17.9%
Leverage ratio	3.9%	3.8%	3.7%

	January-September 2021	January-September 2020	2020
<b>LIQUIDITY COVERAGE RATIO (LCR)<sup>7</sup></b>			
Total	185%	208%	191%
NOK	74%	68%	77%
EUR	193%	424%	200%
USD	148%	179%	188%
AUD	253%	1 395%	1 239%
JPY	3 039%	6 181%	716%
GBP	Infinite	Infinite	97 768%
<b>OTHER KEY FIGURES</b>			
Green loans <sup>8</sup>	29 707	24 170	26 112
Emissions in CO <sub>2</sub> e <sup>9</sup>	36.6	58.7	74.5

<sup>1</sup> 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.

<sup>2</sup> Share of the Profit for the year allocated to shareholders as a percentage of average equity (annualized). Average equity is calculated based on monthly equity, not 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.

<sup>3</sup> Core earnings as a percentage of average equity (annualized).

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

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

<sup>6</sup> Principal amounts.

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

<sup>8</sup> 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.

<sup>9</sup> KBN's calculated emissions.

# Stable margins and continued growth in green lending

KBN's net interest income in the third quarter of 2021 was NOK 413 million as compared to NOK 437 million in the same period in 2020. The third quarter saw good growth in KBN's green lending, and its portfolio of green loans grew by NOK 2.1 billion in the quarter. Profit for the period totalled NOK 450 million in the third quarter.

## Results for the quarter

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KBN's core earnings<sup>1</sup> totalled NOK 232 million in the third quarter, compared to NOK 265 million in the third quarter of 2020. The main explanation for the decrease in KBN's core earnings was lower net interest income. KBN's operating costs in the third quarter of 2021 were NOK 1 million lower than in 2020.

KBN's net interest income in the third quarter of 2021 totalled NOK 413 million as compared to NOK 437 million in the same period in 2020. The main reason for the decrease in net interest income was the decrease in interest rates. The decrease in money market rates in the second quarter benefitted KBN's customers in the form of lower lending rates with effect from 2 June 2021. Money market rates increased in the third quarter in anticipation of the expected increase in rates by Norges Bank. KBN decided on an interest rate increase of 0.40 percentage points with effect from 12 October as a result of the increase in money market rates and Norges Bank having increased its key policy rate.

KBN's profit for the period in the third quarter of 2021 totalled NOK 450 million as compared to NOK 517 million in the third quarter of 2020. In the third quarter of 2021 KBN recognised unrealised gains on financial instruments totalling NOK 271 million, while in the third quarter of 2020 it recognised unrealised gains totalling

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<sup>1</sup> 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 results measure is included to give relevant information about the company's underlying operations.

NOK 317 million. KBN's fixed rate loans, which are carried at fair value, contributed an unrealised loss totalling NOK 1 million in the third quarter of 2021, as compared to an unrealised gain totalling NOK 159 million in the third quarter of 2020. KBN's liquidity management portfolio contributed an unrealised loss of NOK 9 million. Hedging instruments used to convert funding in US dollars into Norwegian kroner contributed an unrealised gain of NOK 280 million. KBN implemented a change to its approach to the valuation of hedging contracts in the third quarter whereby KBN has started to use overnight index swap (OIS) curves when valuing its hedging instruments, in line with market practice. This change contributed a gain of NOK 78 million and is part of the gain of NOK 280 million. KBN's unrealised gains and losses are expected to reverse, either as market conditions normalise or as the instruments approach maturity. The sale of securities from the liquidity portfolio resulted in realised gains totalling NOK 5 million in the third quarter.

KBN's provision for losses is relatively limited due to the fact that Norwegian municipalities cannot be declared insolvent. KBN's liquidity management portfolio is also of very high credit quality. KBN made an NOK 1 million change to its provision for losses in the third quarter. KBN's total operating costs for the third quarter were NOK 59 million, compared to NOK 60 million in the same period in 2020. KBN operated virtually as normal in the third quarter of 2021 and its costs were little impacted by the coronavirus situation.

## Results for the first nine months of 2021

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KBN's core earnings<sup>2</sup> in the first nine months of 2021 totalled NOK 637 million as compared to NOK 721 million in the same period in 2020.

KBN's net interest income in the first nine months of 2021 was NOK 1,160 million as compared to NOK 1,292 million in the same period in 2020. The decrease was primarily due to a decrease in interest income from the liquidity management portfolio as a result of lower money market rates, as well as to the interest expense due on the tax liability resulting from changes to tax assessments for 2015-2018.

KBN's profit for the period in the first nine months of 2021 was NOK 966 million as compared to NOK 902 million in the same period in 2020. The increase was due to unrealised gains on financial instruments in 2021 totalling NOK 380 million, as compared to unrealised gains in the equivalent period of 2020 totalling NOK 176 million. KBN's operating costs for the first nine months of 2021 totalled NOK 183 million, compared to NOK 180 million in the first nine months of 2020.

KBN's annualised return on equity in the first nine months of 2021 was 7.6%, compared to 7.8% in the same period in 2020. Based on its core earnings, KBN's annualised return on equity in the first nine months of 2021 was 5.3%, compared to 6.6% in the equivalent period in 2020.

KBN's total comprehensive income in the first nine months of 2021 amounted to

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<sup>2</sup> Profit after tax for the first nine months adjusted for unrealised gains or losses on financial instruments after tax and the portion allocated to owners of additional Tier 1 capital. This results measure is included to give relevant information about the company's underlying operations.

**Profit for the period**  
Amounts in NOK 1 billion

	Q3 2021	Q3 2020	2020
<b>Profit/(Loss) for the period</b>	<b>450</b>	<b>517</b>	<b>1 159</b>
Net interest income	413	437	1 672
Fees and commission expenses	30	28	115
Net unrealised gain/(loss) on financial instruments	271	317	224
Expected credit loss	1	(8)	14
Net trading income	5	13	25
Total operating expenses	59	60	255
Income tax	148	171	377

**Comprehensive income for the period**  
Amounts in NOK 1 billion

	Q3 2021	Q3 2020	2020
<b>Total comprehensive income for the period</b>	<b>298</b>	<b>484</b>	<b>1 255</b>
Profit/(Loss) for the period	450	517	1 159
Unrealised change in fair value of liabilities (and related financial derivatives) after tax due to changes in own credit risk	(151)	(33)	98
Actuarial gain/(loss) on defined benefit plan	-	-	(2)
Tax effect on positions in Statement of comprehensive income	50	11	(32)

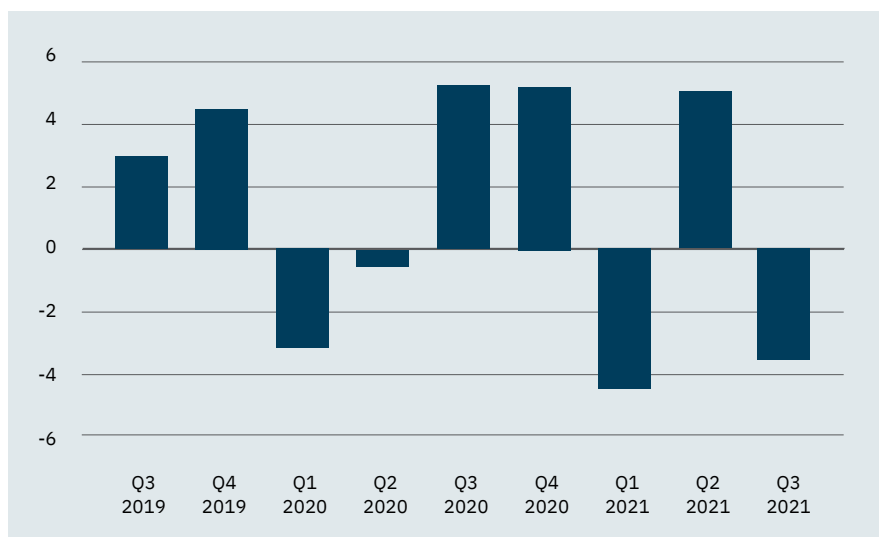
NOK 393 million, compared to NOK 1,085 million in the same period in 2020. The credit spreads for KBN-issued bonds decreased in the first nine months of 2021 as did the spreads for similar types of issuers in the international financial markets. A decrease in credit spreads causes the market value of KBN's debt to increase. An unrealised loss totalling NOK 764 million was thus recognised in the first nine months as part of total comprehensive income from a change in the value of KBN's own liabilities. There was an equivalent unrealised gain in the same period in 2020 totalling NOK 243 million.

## Lending

KBN's lending portfolio totalled NOK 314.4 billion at the end of the third quarter of 2021. In the third quarter of 2021 the lending portfolio decreased by NOK 3.8 billion. In the first nine months of 2021 the lending portfolio also decreased by NOK 3.8 billion. These changes are significant relative to 2020, as the portfolio grew by NOK 6.1 billion in the third quarter of 2020 and by NOK 2.7 billion in the first nine months of 2020. The decrease in the size of KBN's lending portfolio in the first nine months of 2021 and the difference compared with 2020 are due to KBN reducing its lending with maturities of 12 months and under. This is because new loans of this type are not sufficiently profitable for KBN. As before, there continues to be a increased demand for loans with no instalment payments prior to maturity.

New loan disbursements totalled NOK 7 billion in the third quarter, as compared to NOK 12 billion in the third quarter of 2020. These figures include both loans disbur-

**Lending growth**  
Amounts in NOK 1 billion



sed as new financing and as refinancing for existing loans. The sizeable difference was primarily due to the decrease in loans with maturities of 12 months and under, as mentioned above.

KBN continued to experience a good level of growth in its green lending, and its portfolio of green loans increased by NOK 2.1 billion in the quarter. KBN's portfolio of green loans increased by NOK 4.5 billion equal to 15.6% in the first nine months of the year. The projects financed by a green loan from KBN in the third quarter include new trams procured by the City of Oslo, Rana municipality's construction of a new school building, and Trondheim municipality's construction of Nidarvoll school.

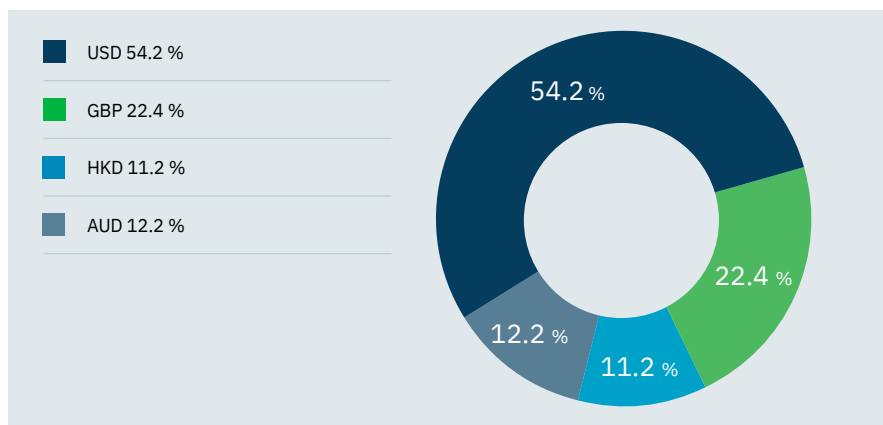
The annual rate of debt growth in the local government sector as at the end of August 2021 was 8.1% (according to Statistics Norway's C2 indicator). This strong rate of growth was due inter alia to loans made by the Norwegian State Housing Bank. These loans are in turn used to make loans to residents as part of Norway's start-up loan scheme, and are thus outside KBN's market area. After adjusting for loans of this type, the annual rate of debt growth in the sector was 7.4%. After adjusting for growth in loans from the Norwegian State Housing Bank, the majority of the increase in borrowing by the sector in the first nine months was from the capital markets. KBN's market share at the end of August was just below 45%. Greater demand for new financing is expected in the fourth quarter, particularly for long-term, instalment-based loans, which is the area of the market in which KBN is the most important provider.

## Financial markets

Central banks and other authorities launched extensive economic support measures following the outbreak of the coronavirus. The markets responded to this positively, and both equities and long-term interest rates have climbed significantly since the start of the pandemic in the first quarter of 2020. The Oslo stock market is up about 40% over the last year, while the ten-year interest rate in Norway has climbed 0.65



**Funding**  
Total borrowing by currency  
second quarter 2021



percentage points over the same period.

The credit margins on both local government sector bonds and covered bonds have fallen markedly over the last year. For example, the five-year credit margin for covered bonds at the end of the third quarter of 2021 was 0.10 percentage points lower than at the end of the third quarter of 2020.

**Funding** KBN's funding activities in the third quarter of 2021 were less extensive than in the third quarter of 2020 due to KBN having a good level of liquidity and less need for refinancing, as well as to the Norwegian krone being somewhat weaker. New borrowings in the third quarter of 2021 totalled approximately NOK 8.0 billion through five bond issues in four currencies, as compared to NOK 24 billion in the same period in 2020.

Despite the modest volume of funding in the third quarter, KBN achieved a good level of diversification in terms of markets and currencies, and issued bonds in US dollars, British pounds, Hong Kong dollars and Australian dollars.

In the first nine months of 2021 KBN's new borrowings totalled NOK 72 billion as compared to NOK 79 billion in the first nine months of 2020.

**Liquidity management** KBN's liquidity portfolio totalled NOK 103 billion at 30 September 2021 as compared to NOK 126 billion at 30 September 2020. KBN seeks to ensure its liquidity portfolio matches its funding needs, 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 that are particularly liquid. Investments denominated in foreign currencies represent approximately 65% of the portfolio. Fluctuations in the value of the Norwegian krone relative to other currencies will therefore result in fluctuations in the size of the liquidity portfolio in NOK terms. The reported decrease in the size of the liquidity portfolio in the third quarter of 2021 relative to the same period in 2020 was primarily due to the greater strength of the krone and to a reduction in maturities in KBN's funding portfolio over the coming 12 month period. When less of the funding portfolio matures over the course of the subsequent 12 months, the need for liquidity buffers through the liquidity management portfolio is correspondingly smaller.

## Capital

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At the end of the third quarter of 2021, KBN's total common equity Tier 1 capital was NOK 15.2 billion, its total Tier 1 capital was NOK 17.5 billion, and its total primary capital was NOK 19.5 billion. KBN's total assets at the end of the third quarter amounted to NOK 470 billion, compared to NOK 498 billion at the end of 2020 and NOK 502 billion at the end of the third quarter of 2020. The decrease from the end of 2020 is to a large extent due to the decrease in the size of KBN's liquidity portfolio.

At the end of the third quarter of 2021, KBN had a common equity Tier 1 capital adequacy ratio of 18.8%, a Tier 1 capital adequacy ratio of 21.7%, and a total capital adequacy ratio of 24.2%. The capital adequacy ratio requirements imposed by the authorities at the end of the second quarter were 15.1% (common equity Tier 1 capital), 16.6% (Tier 1 capital) and 18.6% (total capital). On 29 June KBN was assigned an updated Pillar 2 requirement of 2.2% by the Financial Supervisory Authority of Norway, which represented a decrease of 0.1 percentage points. The Norwegian Ministry of Finance has decided that the counter-cyclical buffer requirement, to which KBN is subject, will increase by 0.5 percentage points with effect from 30 June 2022.

KBN's leverage ratio at the end of the third quarter was 3.9%, as compared to the requirement of 3.0%.

## Tax

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In May 2021 KBN received a decision on changes to its tax assessments for the years 2015-2018. The changes relate to the tax treatment and periodisation of the accrual of financial instruments. Following notification in December 2020 of the change in treatment, KBN prepared its accounts for 2020 in compliance with the treatment expected by the tax authorities.

The changes to the assessments for the period 2015 to 2018 resulted in KBN paying tax in the second quarter of 2021 in respect of previous periods. In the event of such a decision by the tax authorities, the taxpayer is also required to pay interest to compensate for the liquidity benefit to the taxpayer of the delay in payment. This interest expense was recognised in the second quarter of 2021 and amounted in total to NOK 59 million.

The Norwegian Tax Administration's decision implies a change to the timing of taxable income and expense over time, but no change in total taxable income and expense over the lifetime of the instruments. It is KBN's view that the Tax Administration's decision will result in larger and more volatile temporary differences and tax payments but will not have a material effect on KBN's tax expense over time, unless there is a change in the tax rate.

KBN is still in disagreement with the Norwegian Tax Administration on certain matters relating to the tax treatment of the accrual of financial instruments in the accounts and tax assessment. KBN has submitted an appeal against the decision to the Tax Appeals Board.

## Future prospects

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Norges Bank raised its key policy rate as expected from 0% to 0.25% at its September meeting. The background to the increase was that Norway's economy has recovered following the sharp fall experienced during the coronavirus pandemic. The prospects for inflation are moderate, and Norges Bank expects inflation to be below its target of 2% per year for its entire forecast period. Norway's unemployment rate has fallen sharply, and registered unemployment is projected to stand at 2.2% in 2023. Interest rates will rise gradually and will return to the level they were at before the coronavirus pandemic in 2024, according to Norges Bank's forecasts.

Credit spreads continue to be at historical lows, but they started to marginally creep up towards the end of September and the start of October. Norges Bank has reduced the scale of the measures it temporarily introduced to support the supply of liquidity, and this may contribute to a further increase in credit spreads over the course of the autumn.

On 14 October Norway elected a new government that is made up of the Labour Party and the Centre Party. The government is a minority government that will initially seek the support of the Socialist Left Party to get its budget through parliament. In their manifestos and election campaigns, the Labour Party, the Centre Party and the Socialist Left Party all signalled that they want to strengthen the local government sector's finances, and the governance platform published by the two parties in the government on 13 October states that it will "strengthen municipalities' available income". Seen in isolation, this may indicate greater investment, particularly given the significant maintenance backlog in the local government sector. The platform also states that the government wants to "contribute solutions to municipalities' work to close the backlog in relation to the renovation and construction of water and wastewater solutions". Strengthening municipalities' finances may increase KBN's customers' ability to borrow, which in turn would stimulate lending growth at KBN.

Oslo, 29 October 2021

The Board of Directors of Kommunalbanken AS

# Interim condensed financial information

## INCOME STATEMENT

(Amounts in NOK 1 000 000)	Note	July-September 2021	January-September 2021	July-September 2020	January-September 2020	2020
Interest income from assets measured at amortised cost		460	1 506	518	2 790	3 258
Interest income from assets measured at fair value		305	996	356	2 138	2 442
Total interest income		765	2 442	875	4 928	5 700
Total interest expense		352	1 282	438	3 636	4 028
<b>Net interest income</b>	<b>1</b>	<b>413</b>	<b>1 160</b>	<b>437</b>	<b>1 292</b>	<b>1 672</b>
Fees and commission expenses		30	81	28	89	115
Net unrealized gain/(loss) on financial instruments	<b>2</b>	271	380	317	176	224
Expected credit loss	<b>6</b>	1	0	(8)	14	14
Net trading income		5	13	13	(2)	25
<b>Total other operating income</b>		<b>245</b>	<b>312</b>	<b>310</b>	<b>76</b>	<b>120</b>
Salaries and administrative expenses		39	116	38	108	147
Depreciation on fixed assets		7	22	7	18	25
Other expenses		13	46	15	54	84
<b>Total operating expenses</b>		<b>59</b>	<b>183</b>	<b>60</b>	<b>180</b>	<b>255</b>
<b>Profit before tax</b>		<b>598</b>	<b>1 290</b>	<b>688</b>	<b>1 183</b>	<b>1 537</b>
Income tax		148	324	171	281	377
<b>Profit for the period</b>		<b>450</b>	<b>966</b>	<b>517</b>	<b>902</b>	<b>1 159</b>
Portion allocated to shareholder		435	922	506	863	1 095
Portion allocated to owners of additional Tier 1 capital		14	44	11	39	64

## STATEMENT OF COMPREHENSIVE INCOME

(Amounts in NOK 1 000 000)	Note	July-September 2021	January-September 2021	July-September 2020	January-September 2020	2020
Profit for the period		450	966	517	902	1 159
<b>Other comprehensive income</b>						
<i>Items which will not be reclassified to profit or loss</i>						
Change in fair value of liabilities due to changes in own credit risk	<b>9</b>	(202)	(764)	(44)	243	130
Actuarial gain/(loss) on defined benefit plan		0	0	0	0	(2)
Tax effect		50	191	11	(61)	(32)
<b>Total other comprehensive income</b>		<b>(151)</b>	<b>(573)</b>	<b>(33)</b>	<b>182</b>	<b>96</b>
<b>Total comprehensive income for the period</b>		<b>298</b>	<b>393</b>	<b>484</b>	<b>1 085</b>	<b>1 255</b>

## STATEMENT OF FINANCIAL POSITION

<i>(Amounts in NOK 1 000 000)</i>	Note	30 September 2021	30 September 2020	31 December 2020
<b>Assets</b>				
Deposits with credit institutions	3,4	28 062	20 013	18 950
Other money market deposits	3	4 048	2 606	1 712
Instalment loans	3,4,5,6	315 694	317 561	321 874
Notes, bonds and other interest-bearing securities	3,4,6,7,8	105 729	129 724	127 108
Financial derivatives	3,4	12 830	30 410	25 176
Deferred tax asset		3 097	1 794	3 230
Other assets		169	173	169
<b>Total assets</b>		<b>469 629</b>	<b>502 281</b>	<b>498 219</b>
<b>Liabilities and equity</b>				
Loans from credit institutions	3,4	4 427	24 113	13 871
Commercial paper	3,4	31 923	6 270	20 045
Senior securities issued	3,4,9	391 544	424 001	413 717
Financial derivatives	3,4	20 095	23 436	28 341
Other liabilities		40	39	63
Current tax liabilities		581	3 868	1 501
Deferred tax liabilities		0	0	0
Pension liabilities		37	36	37
Subordinated debt	3,4	2 104	2 144	2 106
<b>Total liabilities</b>		<b>450 752</b>	<b>483 907</b>	<b>479 681</b>
Share capital		3 895	3 895	3 895
Additional Tier 1 capital		2 392	2 392	2 392
Retained earnings		11 625	11 185	12 251
Profit for the period		966	902	
<b>Total equity</b>	<b>10</b>	<b>18 877</b>	<b>18 374</b>	<b>18 538</b>
<b>Total liabilities and equity</b>		<b>469 629</b>	<b>502 281</b>	<b>498 219</b>

## STATEMENT OF CHANGES IN EQUITY

(Amounts in NOK 1 000 000)

	1 January - 30 September 2021				
	Share capital	Additional Tier 1 capital	Value changes on liabilities due to changes in own credit risk	Retained earnings	Total equity
<b>Equity as of 31 December 2020</b>	<b>3 895</b>	<b>2 392</b>	<b>(297)</b>	<b>12 547</b>	<b>18 538</b>
Profit for the period	0	0	0	966	966
Other comprehensive income—value change on liabilities due to changes in own credit risk	0	0	(573)	0	(573)
Other comprehensive income—actuarial gain/loss	0	0	0	0	0
Interest paid on Tier 1 capital	0	0	0	(54)	(54)
Dividends for 2020	0	0	0	0	0
<b>Equity as of 30 September 2021</b>	<b>3 895</b>	<b>2 392</b>	<b>(870)</b>	<b>13 460</b>	<b>18 877</b>

	1 January - 30 September 2020				
	Share capital	Additional Tier 1 capital	Value changes on liabilities due to changes in own credit risk	Retained earnings	Total equity
<b>Equity as of 31 December 2019</b>	<b>3 145</b>	<b>2 189</b>	<b>(395)</b>	<b>11 460</b>	<b>16 401</b>
Profit for the period	0	0	0	902	902
Other comprehensive income—value change on liabilities due to changes in own credit risk	0	0	182	0	182
Other comprehensive income—actuarial gain/loss	0	0	0	0	0
Interest paid on Tier 1 capital	0	0	0	(65)	(65)
Call of Tier 1 capital	0	(994)	0	0	(994)
Issuance of Tier 1 capital	0	1 197	0	0	1 197
Issue of share capital	750	0	0	0	750
Dividends for 2019	0	0	0	0	0
<b>Equity as of 30 September 2020</b>	<b>3 895</b>	<b>2 392</b>	<b>(212)</b>	<b>12 298</b>	<b>18 374</b>

	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
<b>Equity as of 31 December 2019</b>	<b>3 145</b>	<b>2 189</b>	<b>(395)</b>	<b>11 460</b>	<b>16 401</b>
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
<b>Equity as of 31 December 2020</b>	<b>3 895</b>	<b>2 392</b>	<b>(297)</b>	<b>12 547</b>	<b>18 538</b>

## STATEMENT OF CASH FLOWS

<i>(Amounts in NOK 1 000 000)</i>	January-September 2021	January-September 2020	2020
<b>Cash flows from operating activities</b>			
Interest received	2 496	5 535	6 371
Interest paid	(1 467)	(3 840)	(4 653)
Fees and commissions paid	(98)	(105)	(115)
Receipts from repurchase of issued securities	13	(2)	25
Cash payments to employees and suppliers	(157)	(157)	(224)
Income taxes paid	(920)	0	(3 872)
Net disbursement of loans to customers	3 807	(2 606)	(8 466)
Net (increase)/decrease in deposits with credit institutions	(20 599)	19 518	10 132
Net (increase)/decrease in notes, bonds and other interest-bearing securities	19 482	(10 678)	(12 801)
Net (increase)/decrease in other assets	(6)	1	(4)
Net increase/(decrease) in other liabilities	23	0	4
Net (increase)/decrease in financial derivatives	139	3 336	(7 021)
<b>Net cash flows from operating activities</b>	<b>2 666</b>	<b>11 003</b>	<b>(20 624)</b>
<b>Cash flows from investing activities</b>			
Net (purchase)/sales of property and equipment	(15)	(19)	(16)
<b>Net cash flows from investing activities</b>	<b>(15)</b>	<b>(19)</b>	<b>(16)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of commercial paper	222 830	99 259	198 006
Repayment of commercial paper	(211 398)	(96 783)	(180 621)
Repayment on lease obligation	(5)	(5)	(7)
Proceeds from issuance of debt securities	70 568	79 465	107 823
Repayment of debt securities	(84 258)	(94 230)	(106 301)
Proceeds from issuance of additional Tier 1 capital	0	1 196	1 196
Repayment of Tier 1 capital	0	(1 000)	(1 000)
Interest paid on Tier 1 capital	(54)	(60)	(68)
Dividends paid	0	0	0
Paid in share capital	0	750	750
<b>Net cash flows from financing activities</b>	<b>(2 317)</b>	<b>(11 407)</b>	<b>19 778</b>
<b>Net cash flows</b>	<b>333</b>	<b>(423)</b>	<b>(862)</b>
Effects of foreign exchange differences	19	487	539
<b>Net cash flows after foreign exchange differences</b>	<b>353</b>	<b>64</b>	<b>(268)</b>
Cash and cash equivalents at 1 January	190	459	459
Net change in cash and cash equivalents	353	64	(268)
<b>Cash and cash equivalents at end of period</b>	<b>543</b>	<b>522</b>	<b>190</b>
Whereof			
<i>Deposits with credit institutions without agreed time to maturity</i>	<i>543</i>	<i>522</i>	<i>190</i>
<i>Loans from credit institutions without agreed time to maturity</i>	<i>0</i>	<i>0</i>	<i>0</i>

## ACCOUNTING POLICIES

KBN prepares its financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The interim financial statements as of 30 September 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 2020, the IASB published the results of phase 2 of its work in this area. The changes is implemented from 1 January 2021, which resulted in some adjustments in IFRS9. There hasn't been any major changes in KBNs accounting principle related to these adjustments.

Interest on tax liabilities is treated similarly as other interest items of financial liabilities in the bank, and is recorded in net interest income.

## NOTE 1

### NET INTEREST INCOME

(Amounts in NOK 1 000 000)

July-September 2021	Total	At fair value				Amortised cost
		Fair value option	Mandatory at fair value	Fair value hedge	Total at fair value	
Deposits with credit institutions	(13)	0	0	0	0	(13)
Other money market deposits	(2)	0	0	0	0	(2)
Instalment loans	928	493	0	0	493	434
Notes, bonds and other interest-bearing securities	125	85	0	0	85	40
Financial derivatives	(273)	0	(273)	0	(273)	0
<b>Total interest income</b>	<b>765</b>	<b>578</b>	<b>(273)</b>	<b>0</b>	<b>305</b>	<b>460</b>
Loans from credit institutions	0	0	0	0	0	0
Commercial paper	(20)	0	0	0	0	(20)
Senior securities issued	1 620	883	0	0	883	736
Financial derivatives	(1 263)	0	(681)	(582)	(1 263)	0
Subordinated debt	15	15	0	0	15	0
<b>Total interest expenses</b>	<b>352</b>	<b>899</b>	<b>(681)</b>	<b>(582)</b>	<b>(364)</b>	<b>717</b>
<b>Net interest income</b>	<b>413</b>	<b>(321)</b>	<b>408</b>	<b>582</b>	<b>670</b>	<b>(257)</b>



January-September 2021	Total	At fair value			Amortised cost
		Fair value option	Mandatory at fair value	Fair value hedge	
Deposits with credit institutions	(33)	0	0	0	(33)
Other money market deposits	(6)	0	0	0	(6)
Instalment loans	2 909	1 482	0	0	1 427
Notes, bonds and other interest-bearing securities	361	243	0	0	118
Financial derivatives	(730)	0	(730)	0	0
<b>Total interest income</b>	<b>2 501</b>	<b>1 725</b>	<b>(730)</b>	<b>0</b>	<b>1 506</b>
Loans from credit institutions	(0)	0	0	0	(0)
Commercial paper	(44)	0	0	0	(44)
Senior securities issued	5 179	2 874	0	0	2 305
Financial derivatives	(3 898)	0	(2 179)	(1 719)	0
Subordinated debt	46	46	0	0	0
Other interest expenses <sup>1)</sup>	59	0	0	0	59
<b>Total interest expenses</b>	<b>1 341</b>	<b>2 920</b>	<b>(2 179)</b>	<b>(1 719)</b>	<b>2 319</b>
<b>Net interest income</b>	<b>1 160</b>	<b>(1 194)</b>	<b>1 449</b>	<b>1 719</b>	<b>(814)</b>

<sup>1)</sup>Interest expense on taxes due to changed tax assessment for 2015-2018.

July-September 2020	Total	At fair value			Amortised cost
		Fair value option	Mandatory at fair value	Fair value hedge	
Deposits with credit institutions	(8)	0	0	0	(8)
Other money market deposits	(1)	0	0	0	(1)
Instalment loans	1 017	527	0	0	489
Notes, bonds and other interest-bearing securities	132	95	0	0	37
Financial derivatives	(266)	0	(266)	0	0
<b>Total interest income</b>	<b>875</b>	<b>622</b>	<b>(266)</b>	<b>0</b>	<b>518</b>
Loans from credit institutions	0	0	0	0	0
Commercial paper	1	0	0	0	1
Senior securities issued	2 180	1 301	0	0	879
Financial derivatives	(1 759)	0	(1 144)	(615)	0
Subordinated debt	15	15	0	0	0
<b>Total interest expenses</b>	<b>438</b>	<b>1 317</b>	<b>(1 144)</b>	<b>(615)</b>	<b>880</b>
<b>Net interest income</b>	<b>437</b>	<b>(694)</b>	<b>878</b>	<b>615</b>	<b>(362)</b>

January-September 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	(9)	0	0	0	(9)	
Other money market deposits	(8)	0	0	0	(8)	
Instalment loans	4 149	1 601	0	0	2 548	
Notes, bonds and other interest-bearing securities	1 693	1 432	0	0	260	
Financial derivatives	(896)	0	(896)	0	0	
<b>Total interest income</b>	<b>4 928</b>	<b>3 034</b>	<b>(896)</b>	<b>0</b>	<b>2 138</b>	<b>2 790</b>
Loans from credit institutions	(1)	0	0	0	(1)	
Commercial paper	40	0	0	0	40	
Senior securities issued	7 371	4 026	0	0	3 345	
Financial derivatives	(3 820)	0	(2 566)	(1 254)	0	
Subordinated debt	46	46	0	0	0	
<b>Total interest expenses</b>	<b>3 636</b>	<b>4 072</b>	<b>(2 566)</b>	<b>(1 254)</b>	<b>252</b>	<b>3 384</b>
<b>Net interest income</b>	<b>1 292</b>	<b>(1 038)</b>	<b>1 670</b>	<b>1 254</b>	<b>1 885</b>	<b>(593)</b>

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	
<b>Total interest income</b>	<b>5 700</b>	<b>3 615</b>	<b>(1 173)</b>	<b>0</b>	<b>2 442</b>	<b>3 258</b>
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	
<b>Total interest expenses</b>	<b>4 028</b>	<b>5 259</b>	<b>(3 559)</b>	<b>(1 851)</b>	<b>(151)</b>	<b>4 179</b>
<b>Net interest income</b>	<b>1 672</b>	<b>(1 644)</b>	<b>2 386</b>	<b>1 851</b>	<b>2 592</b>	<b>(921)</b>

## NOTE 2

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

<i>(Amounts in NOK 1 000 000)</i>	July- September 2021	January- September 2021	July- September 2020	January- September 2020	2020
Instalment loans	(1 015)	(2 419)	45	4 207	2 842
Notes, bonds and other interest-bearing securities	(170)	(535)	(85)	770	443
Financial derivatives	(1 301)	(3 340)	(1 002)	230	2 103
Senior securities issued	2 823	6 688	1 364	(4 860)	(5 047)
Subordinated debt	(65)	(13)	(4)	(171)	(118)
<b>Net unrealised gain/(loss) on financial instruments</b>	<b>271</b>	<b>380</b>	<b>317</b>	<b>176</b>	<b>224</b>

Changes in fair value of liabilities due to changes in own credit risk are not included in the line Net unrealised gain/(loss) on financial instruments in the table above. Such fair value changes are recognised in Other comprehensive income in the Statement of comprehensive income. 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 271 million in the third quarter of 2021, Notes, bonds and other interest-bearing securities and their associated hedging contracts contribute with a loss of NOK 9 million, while the unrealised value of Instalment loans and associated hedging contracts remains about unchanged. Senior securities issued and related hedging derivatives contribute with a gain of NOK 280 million, mainly due to a tightening of the basis spreads. During the third quarter of 2021, a change of estimate has been performed in regards to the hedging contracts, where KBN has implemented the use of OIS curves for valuation of hedging instruments. This change contributed to a gain of NOK 78 million and is included in the gain for Senior securities issued and related hedging derivatives.

Recognised value changes on financial instruments in fair value hedges amount to NOK 9 million in the third 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 192 billion.

## NOTE 3

### Classification of financial instruments

(Amounts in NOK 1 000 000)

At 30 September 2021	Total	At fair value			Amortised cost
		Fair value option	Mandatory at fair value	Fair value hedge	
Deposits with credit institutions	28 062	0	0	0	28 062
Other money market deposits	4 048	0	0	0	4 048
Instalment loans	315 694	106 176	0	0	209 518
Notes, bonds and other interest-bearing securities	105 729	78 543	0	0	27 185
Financial derivatives	12 830	0	9 353	3 476	0
<b>Total financial assets</b>	<b>466 363</b>	<b>184 720</b>	<b>9 353</b>	<b>3 476</b>	<b>268 813</b>
Loans from credit institutions	4 427	0	0	0	4 427
Commercial paper	31 923	0	0	0	31 923
Senior securities issued	391 544	176 597	0	0	214 947
Financial derivatives	20 095	0	18 308	1 787	0
Subordinated debt	2 104	2 104	0	0	0
<b>Total financial liabilities</b>	<b>450 094</b>	<b>178 702</b>	<b>18 308</b>	<b>1 787</b>	<b>251 297</b>

At 30 September 2020	Total	At fair value			Amortised cost
		Fair value option	Mandatory at fair value	Fair value hedge	
Deposits with credit institutions	20 013	0	0	0	20 013
Other money market deposits	2 606	0	0	0	2 606
Instalment loans	317 561	109 112	0	0	208 449
Notes, bonds and other interest-bearing securities	129 724	99 993	0	0	29 730
Financial derivatives	30 410	0	23 010	7400	0
<b>Total financial assets</b>	<b>500 314</b>	<b>209 106</b>	<b>23 010</b>	<b>7400</b>	<b>260 798</b>
Loans from credit institutions	24 113	0	0	0	24 113
Commercial paper	6 270	0	0	0	6 270
Senior securities issued	424 001	176 790	0	0	247 211
Financial derivatives	23 436	0	23 337	99	0
Subordinated debt	2 144	2 144	0	0	0
<b>Total financial liabilities</b>	<b>479 964</b>	<b>178 934</b>	<b>23 337</b>	<b>99</b>	<b>277 594</b>

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
<b>Total financial assets</b>	<b>494 820</b>	<b>211 647</b>	<b>18 589</b>	<b>6 587</b>	<b>257 997</b>
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
<b>Total financial liabilities</b>	<b>478 080</b>	<b>177 423</b>	<b>28 033</b>	<b>309</b>	<b>272 316</b>

## 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 30 September 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	<b>0</b>
Other money market deposits	0	0	0	<b>0</b>
Instalment loans	0	8 940	97 236	<b>106 176</b>
Notes, bonds and other interest-bearing securities	70 811	2 639	5 094	<b>78 543</b>
Financial derivatives		11 758	1 072	<b>12 830</b>
<b>Total financial assets measured at fair value</b>	<b>70 811</b>	<b>23 337</b>	<b>103 402</b>	<b>197 550</b>
Loans from credit institutions	0	0	0	<b>0</b>
Commercial paper	0	0	0	<b>0</b>
Senior securities issued	5 917	136 146	34 535	<b>176 597</b>
Financial derivatives		11 242	8 853	<b>20 095</b>
Subordinated debt			2 104	<b>2 104</b>
<b>Total financial liabilities measured at fair value</b>	<b>5 917</b>	<b>147 388</b>	<b>45 492</b>	<b>198 796</b>

### Reconciliation of movements in Level 3

<i>(Amounts in NOK 1 000 000)</i>	Instalment loans	Notes, bonds and other interest-bearing securities	Senior securities issued	Subordinated debt	Financial derivatives
<b>Carrying amount at 31 December 2020</b>	<b>95 878</b>	<b>7 769</b>	<b>48 687</b>	<b>2 106</b>	<b>(6 302)</b>
Purchase	0	2 398	(53)	0	253
Sale	0	0	0	0	0
Issue	13 044	0	2 981	0	0
Settlement	(15 419)	(2 834)	(16 054)	0	(1 192)
Transfer into Level 3	1 373	1 471	0	0	0
Transfer out of Level 3	(2 051)	(3 011)	0	0	0
Gain/(loss) recognised in the period	4 411	(699)	(1 027)	(2)	(541)
<b>Carrying amount at 30 September 2021</b>	<b>97 236</b>	<b>5 094</b>	<b>34 535</b>	<b>2 104</b>	<b>(7 781)</b>

Net holdings amounting to NOK 0.4 billion have been transferred from Level 2 to Level 1 in 2021. There are net transfers of NOK 2.2 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 30 September 2021:

<i>(Amounts in NOK 1 000 000)</i>	<b>30 September 2021</b>
Instalment loans	(384)
Notes, bonds and other interest-bearing securities	(13)
Financial derivatives	(86)
Senior securities issued	82
Subordinated debt	12
<b>Total</b>	<b>(389)</b>

## NOTE 5

### Instalment loans

<i>(Amounts in NOK 1 000 000)</i>	<b>30 September 2021</b>	<b>30 September 2020</b>	<b>31 December 2020</b>
Principal amount	314 448	312 395	318 255
Accrued interest	1 031	1 168	985
Fair value adjustment	240	4 024	2 659
Expected credit loss	(24)	(25)	(25)
<b>Total instalment loans</b>	<b>315 694</b>	<b>317 561</b>	<b>321 874</b>

## NOTE 6

### Expected credit loss

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>	30 September 2021		31 December 2020
	Carrying amount	Expected credit loss	Expected credit loss
Instalment loans	209 518	(24)	(25)
Notes, bonds and other interest-bearing securities	27 185	(2)	(1)
<b>Total</b>	<b>236 703</b>	<b>(26)</b>	<b>(26)</b>

Changes in expected credit losses on instalment loans and bond investments of NOK 1 million (increase) were recognised in the third quarter of 2021, mainly due to an increase in instalment loans measured at amortised cost.

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>	July-September 2021	January-September 2021	2020
Instalment loans	(1 257)	395	(13 273)
Notes, bonds and other interest-bearing securities	(70)	(630)	(259)
<b>Total</b>	<b>(1 328)</b>	<b>(235)</b>	<b>(13 532)</b>

The following table shows an allocation of KBN's expected credit losses as at 30 September 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.

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

<i>(Amounts in NOK 1 000 000)</i>	Stage 1	Stage 2	Stage 3
Instalment loans	(24)	0	0
Notes, bonds and other interest-bearing securities	(2)	0	0
<b>Total expected credit loss</b>	<b>(26)</b>	<b>0</b>	<b>0</b>

## NOTE 7

### Notes, bonds and other interest-bearing securities

*(Amounts in NOK 1 000 000)*

Notes, bonds and other interest-bearing securities by type of issuer	30 September 2021	30 September 2020	31 December 2020
Domestic			
Issued by other borrowers	17 929	20 296	17 415
Foreign			
Issued by public bodies <sup>1</sup>	72 868	57 592	61 557
Issued by other borrowers	14 933	51 836	48 137
<b>Total notes, bonds and other interest-bearing securities</b>	<b>105 729</b>	<b>129 724</b>	<b>127 108</b>

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

Notes, bonds and other interest-bearing securities by time to maturity	30 September 2021	30 September 2020	31 December 2020
Under 1 year	39 474	44 020	48 296
1-5 years	64 540	85 699	78 637
Over 5 years	1 714	5	175
<b>Total notes, bonds and other interest-bearing securities</b>	<b>105 729</b>	<b>129 724</b>	<b>127 108</b>
Average time to maturity (years)*	1,86	1,87	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 1.58 years as of September 30, 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 30 September 2021									
	< 1 year				> 1 year					
Risk class	A-1	A-2	A-3	Not rated	BBB	A	AA	AAA	Not rated	
Sovereigns and central banks	16 325	0	0	0	0	1 899	18 333	800	0	<b>37 357</b>
Multilateral development banks	2 837	0	0	0	0	0	94	5 151	0	<b>8 081</b>
Regional authorities	7 324	0	0	2 976	0	1 650	11 186	2 314	1 979	<b>27 429</b>
Financial institutions	0	0	0	0	0	0	0	0	0	<b>0</b>
Securitisation	0	0	0	0	0	0	0	1	0	<b>1</b>
Covered bonds	4 870	0	0	5 144	0	0	2 650	20 197	0	<b>32 861</b>
<b>Total</b>	<b>31 356</b>	<b>0</b>	<b>0</b>	<b>8 120</b>	<b>0</b>	<b>3 549</b>	<b>32 262</b>	<b>28 463</b>	<b>1 979</b>	<b>105 729</b>

## NOTE 9

### Senior securities issued

(Amounts in NOK 1 000 000)	30 September 2021	30 September 2020	31 December 2020
<b>Senior securities issued (nominal amounts) as at 1 January</b>	<b>405 451</b>	<b>400 489</b>	<b>400 489</b>
New issuance	71 614	79 465	107 822
Redemptions	(84 602)	(95 178)	(107 727)
Amortisation	344	948	1 425
Translation differences	(3 028)	29 787	3 441
<b>Senior securities issued (nominal amounts) as at end of period</b>	<b>389 778</b>	<b>415 512</b>	<b>405 451</b>
Accrued interest	3 749	4 851	4 327
Fair value adjustment	(1 983)	3 638	3 939
<i>Of which value change that is due to change in own credit risk</i>	1 161	283	397
<i>Of which value change that is due to other reasons</i>	(3 144)	3 355	3 542
<b>Total senior securities issued</b>	<b>391 544</b>	<b>424 001</b>	<b>413 717</b>

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



## NOTE 10

### Primary capital

<i>(Amounts in NOK 1 000 000)</i>	30 September 2021	30 September 2020	31 December 2020
<i>Common equity Tier 1 capital</i>			
Share capital	3 895	3 895	3 895
Retained earnings	11 625	11 185	11 092
Profit for the period included in Tier 1 capital	966	902	1 159
Pension funds above pension commitments	0	0	0
Deferred tax asset*	-1 438	(239)	(1 611)
Intangible assets	-137	(123)	(131)
Dividends payable	-485	(449)	0
Other additions/deductions in common equity Tier 1 capital	732	138	171
Share of nulled unamortised estimate differences	0	0	0
<b>Total common equity Tier 1 capital</b>	<b>15 158</b>	<b>15 308</b>	<b>14 574</b>
Other approved Tier 1 capital	2 392	2 392	2 392
<b>Total Tier 1 capital</b>	<b>17 549</b>	<b>17 700</b>	<b>16 966</b>
<i>Supplementary capital</i>			
Ordinary subordinated debt	2 000	2 000	2 000
<b>Total supplementary capital</b>	<b>2 000</b>	<b>2 000</b>	<b>2 000</b>
<b>Total primary capital</b>	<b>19 549</b>	<b>19 700</b>	<b>18 966</b>

\*For deferred tax asset that rely on future profitability and is related to temporary differences, the share that exceeds 10 % of common equity Tier 1 capital is deducted from primary capital. The remainder is added to RWA with a risk weight of 250 %.

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

<i>(Amounts in NOK 1 000 000)</i>	30 September 2021		30 September 2020	31 December 2020
	Carrying amount	Risk-weighted assets	Minimum capital requirements	Minimum capital requirements
<b>Credit risk</b>				
Sovereigns and central banks	36 668	0	0	0
Regional governments and local authorities	338 757	63 441	5 075	5 108
<i>Of which are Norwegian municipalities</i>	315 674	63 441	5 075	5 108
Public sector entities	4 638	0	0	0
Multilateral development banks	9 088	0	0	0
Financial institutions	27 990	4 368	349	225
<i>Of which counterparty exposure on derivatives</i>	10 178	1 301	104	159
Claims secured by residential property	20	20	2	2
Covered bonds	32 919	3 292	263	329
Other assets	1 669	4 158	333	312
Securitisation	1	0	0	0
Credit Valuation Adjustment	136	1 702	136	389
<b>Total credit risk</b>	<b>451 885</b>	<b>76 981</b>	<b>6 158</b>	<b>6 365</b>
<b>Market risk</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Operational risk—Basic Indicator Approach</b>		<b>3 772</b>	<b>302</b>	<b>310</b>
<b>Minimum capital requirements</b>		<b>80 753</b>	<b>6 460</b>	<b>6 676</b>
<b>Total capital ratio</b>			<b>24.2%</b>	<b>23.6%</b>
<b>Tier 1 capital adequacy ratio</b>			<b>21.7%</b>	<b>21.2%</b>
<b>Common equity Tier 1 capital adequacy ratio</b>			<b>18.8%</b>	<b>18.3%</b>
<b>Leverage ratio</b>			<b>3.9%</b>	<b>3.7%</b>



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