REPORT FOR THIRD QUARTER 2019

KBN Kommunalbanken Norway

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 managed in accordance with the Central Government Maintenance Statement.

Glommasvingen primary school in Sør Odal municipality is financed with KBN's green lending rate.
Photo: Julie Berg

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 2019**	**January-September 2018**	**2018**
RESULTS			
Net interest income	1 404	1 378	1 885
Core earnings[1]	844	864	1 194
Profit before tax	1 126	1 317	1 996
Profit for the period	860	988	1 496
Return on equity after tax[2]	8.41%	10.33%	11.9%
Return on equity after tax (core earnings)[2]	8.64%	9.38%	9.8%
Return on assets after tax[2]	0.25%	0.32%	0.4%
Return on assets after tax (core earnings)[2]	0.24%	0.28%	0.3%
LENDING			
New disbursements	34 368	31 343	55 749
Outstanding loans[3]	305 197	288 102	302 229
LIQUIDITY PORTFOLIO[3]	117 271	84 600	113 557
BORROWINGS			
New long-term borrowings	56 790	85 223	104 844
Repurchase of own debt	260	98	206
Redemptions	67 861	71 064	79 937
Total borrowings[3]	420 587	378 773	414 603
TOTAL ASSETS	473 521	414 033	457 701
EQUITY	16 040	14 925	15 421
Total capital adequacy ratio	23.0%	22.9%	22.9%
Tier 1 capital adequacy ratio	20.4%	20.2%	20.3%
Common equity Tier 1 capital adequacy ratio	17.6%	17.2%	17.4%
Leverage ratio	3.5%	3.9%	3.6%
LIQUIDITY COVERAGE RATIO (LCR)[4]			
Total	417%	281%	349%
NOK	67%	8%	56%
EUR	351%	356%	625%
USD	411%	382%	248%
AUD	905%	1 034%	489%
JPY	426%	1 078%	Infinite
OTHER KEY FIGURES			
Green loans[5]	21 295	14 193	18 800

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

[2] Annualised return on equity after tax: Profit after tax/Core earnings as percentage of average equity and average assets.

[3] Principal amounts

[4] Liquidity coverage ratio (LCR) is a measure for the regulatory liquidity reserve. LCR is defined as liquid assets as a percentage of net payments in a given stress period of 30 days ahead.The calculation method has been changed in the fourth quarter of 2018 and comparative figures for 2018 have been changed accordingly.

[5] 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.

PLEASING RESULTS FOR THE THIRD QUARTER

KBN's net interest income in the third quarter of 2019 was NOK 476 million. Its lending margins remained stable and generated satisfactory earnings. KBN's green loans are the fastest growing part of its lending portfolio.

RESULTS

KBN's net interest income in the third quarter of 2019 totalled NOK 476 million as compared to NOK 419 million in the same period in 2018. The increase in net interest income was primarily due to a higher lending volume and somewhat higher earnings from KBN's liquidity portfolio investments. A marginally higher lending margin in the quarter relative to the same period last year also contributed to the increase.

Profit for the quarter totalled NOK 373 million as compared to NOK 125 million in the same period in 2018. The increase was due to unrealised gains on financial instruments in the third quarter of 2019 compared with unrealised losses in the same quarter of 2018. The quarter's unrealised gains of NOK 113 million were due to increases in the value of loans carried at fair value as well as to unrealised gains on hedging contracts used to convert borrowings into Norwegian kroner.

TABLE 1
Profit for the period

	Q3 2019	Q3 2018	2018
Profit for the period	**373**	**125**	**1 496**
Net interest income	476	419	1 885
Fees and commission expenses	38	5	34
Net unrealised gain/(loss) on financial instruments	113	(198)	338
Expected credit loss	0	1	1
Net trading income	4	0	17
Total operating expenses	60	48	209
Income tax	122	42	499

Amounts in NOK 1 000 000

Net interest income in the first nine months of 2019 was NOK 1,404 million as compared to NOK 1,378 million in the same period in 2018. The increase was due to a higher lending volume in combination with stable lending margins. KBN's result for the first nine months of 2019 was a profit of NOK 860 million as compared to a profit of NOK 988 million in the same period in 2018. The decrease was due to unrealised losses in the first half of 2019 that were caused by changes in the value of hedging instruments used to hedge KBN's borrowings. In 2018 unrealised gains were recognised on these instruments.

KBN's core earnings totalled NOK 844 million in the first nine months of 2019 as compared to NOK 864 million in the same period in 2018. Core earnings consists of profit for the period minus unrealised gains/losses on financial instruments after tax. A provision totalling NOK 62 million has been recognised for KBN's estimated accrued contribution for 2019 to a resolution fund. The provision is based on information KBN received in October 2019 on what has been calculated to be KBN's contribution to the fund, which is based on the assumption that KBN's activities are especially low risk in relation to the resolution fund.

Based on profit for the period, KBN achieved a return on equity after tax of 8.4% (annualised) in the first nine months of 2019, compared to 10.3% in the first nine months of 2018. Based on its core earnings, KBN achieved a return on equity after tax of 8.6% in the first nine months of 2019, compared to 9.4% in the first nine months of 2018.

Total comprehensive income in the first nine months of 2019 amounted to NOK 1,161 million, compared to NOK 721 million in the same period in 2018. The increase was due to gains on KBN-issued bonds totalling NOK 402 million, which were recognised as part of total comprehensive income and were caused by a reduction in the fair value of KBN's debt. Equivalent changes in the fair value of KBN's debt in the first nine months of 2018 led to unrealised losses of NOK 356 million, as the fair value of KBN's bonds increased.

TABLE 2
Comprehensive income for the period

	Q3 2019	Q3 2018	2018
Total comprehensive income for the period	**364**	**38**	**1 223**
Profit for the period	373	125	1 496
Unrealised change in fair value of liabilities (and related financial derivatives) after tax due to changes in own credit risk	(12)	(115)	(365)
Actuarial gain/(loss) on defined benefit plan	0	0	1
Tax effect on positions in Statement of comprehensive income	3	29	91

Amounts in NOK 1 000 000

Total operating expenses for the first nine months of 2019 were NOK 177 million, as compared to NOK 153 million in the same period in 2018. The increase was primarily due to expenses associated with the development of digital customer solutions and IT infrastructure, as well as to a higher provision for KBN's variable pay scheme and increased hiring-in of external expertise and capacity. Operating expenses (annualised) represented 0.05% of KBN's total assets.

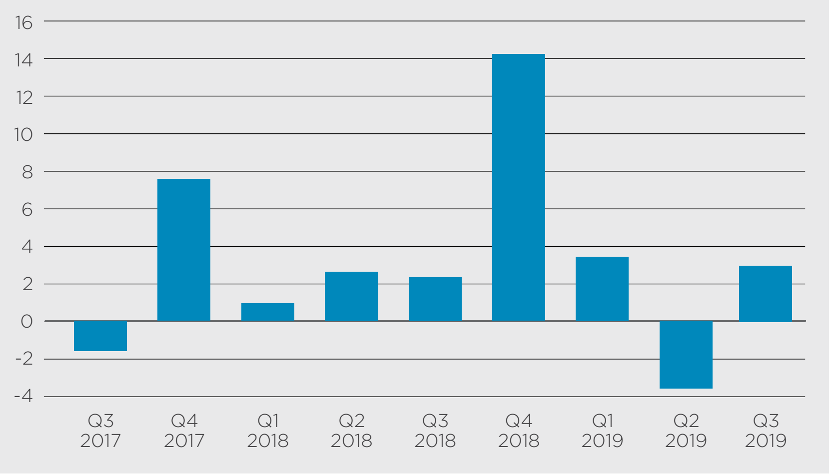
LENDING

KBN's lending portfolio totalled NOK 305.2 billion at the end of the third quarter of 2019. In the third quarter of 2019 KBN's lending portfolio increased by NOK 3.2 billion, equivalent to an increase of 1.0%. KBN's lending portfolio grew by NOK 2.5 billion in the third quarter of 2018.

KBN's lending portfolio grew overall by 1.0% in the first nine months of 2019. The third quarter and the first nine months of the year saw an increase in new loans without repayment instalments before maturity, but a decrease in long-term instalment-based lending products. KBN's portfolio of loans with maturities of twelve months or less gradually decreased in the first nine months of the year. KBN continues to provide loans of this type, which are to be seen in the context of KBN's liquidity and balance sheet management activities.

LENDING GROWTH

Amounts in NOK 1 000 000 000



KBN's portfolio of green loans grew by NOK 0.8 billion in the third quarter and grew in total by NOK 2.5 billion in the first nine months of the year. The equivalent figures for 2018 were NOK 1.0 billion and NOK 2.7 billion respectively.

KBN registered demand for financing for new investment in the third quarter of 2019 totalling NOK 8.9 billion. This is NOK 1.5 billion less than in the same period in 2018. The level of demand in the first nine months of 2019 was NOK 26.2 billion as compared to NOK 28.1 billion in the first nine months of 2018. The change was primarily due to a decrease in demand for financing for toll roads.

New loan disbursements totalled NOK 34.7 billion in the first nine months of 2019 as compared to NOK 31.4 billion in the same period in 2018. These figures include both loans disbursed as new financing and as refinancing for existing loans.

At the end of August 2019 the rate of debt growth in the local government sector (according to Statistics Norway's C2 credit indicator) over the first nine months of the year was 3.7%, which is virtually unchanged from the same period in 2018. As in 2018, the local government sector's borrowing in order to make loans from the Norwegian State Housing Bank represented a significant proportion of this growth. After adjusting for this, the rate of debt growth as at the end of August 2019 was 2.6%, approximately the same rate as in 2018. The rate of debt growth over the previous twelve months was 6.9% at the end of August, up from 6.8% in May. KBN's own twelve-month lending growth to the end of August was 5.4%. KBN's overall market share at the end of August was approximately 47%.

FINANCIAL MARKETS

FUNDING

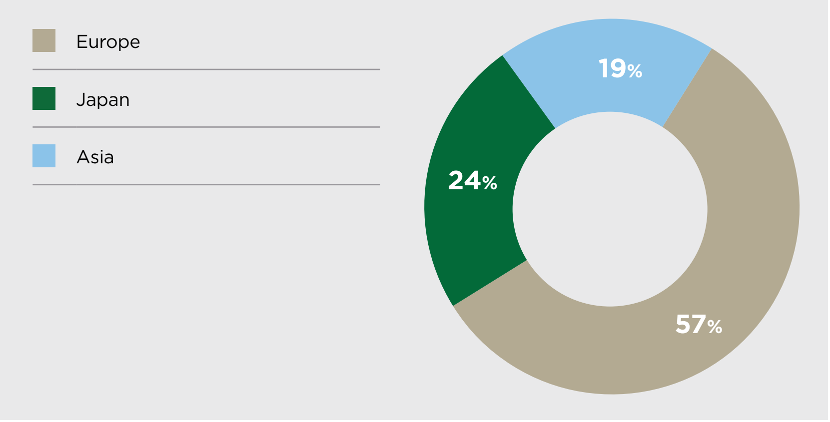
KBN's funding activities were significantly less extensive in the third quarter of 2019 than in the third quarter of 2018 due to KBN having strong liquidity and the weakness of the Norwegian krone during the period. New borrowings totalled NOK 3.6 billion through 13 bond issues, as compared to approximately NOK 19 billion in the same period in 2018.

The largest single bond issued by KBN in the third quarter of 2019 was a seven-year SEK 2 billion green bond. The bond was well received by the market and the investors were primarily Nordic. A number of smaller transactions were also completed in the period in other currencies.

New borrowings in the first nine months of the year totalled NOK 56.8 billion as compared to NOK 87 billion in the same period in 2018. The decrease in volume was primarily due to the weakness of the Norwegian krone against other currencies in 2019 in comparison to 2018.

FUNDING

Investor geography third quarter 2019.



LIQUIDITY MANAGEMENT

KBN's liquidity portfolio totalled NOK 117.3 billion at 30 September 2019 as compared to NOK 84.6 billion at the end of the third quarter of 2018. The change was primarily due to the weaker Norwegian krone.

The liquidity portfolio is principally held in zero-risk-weighted assets, and holdings in foreign currencies represent approximately 75% of the portfolio. Fluctuations in the value of the Norwegian krone will therefore cause KBN's liquidity reserve to fluctuate in value.

The credit margins for European countries, state guaranteed financial institutions and covered bonds were little changed during the third quarter.

The Norwegian krone weakened somewhat through the third quarter, from NOK 8.50 per US dollar to 9.10. This was the case in spite of Norges Bank raising the key policy rate and the Federal Reserve cutting its interest rate. Norges Bank pointed to the fact that Norway's economy is continuing to grow well, but it also emphasised that uncertainty had increased globally recently.

CAPITAL

KBN's total primary capital at the end of the third quarter was NOK 17.9 billion, its total Tier 1 capital was NOK 15.9 billion, and its total common equity Tier 1 capital was NOK 13.7 billion. KBN's capital structure was unchanged in the quarter. KBN's total assets have increased by NOK 15.8 billion since the start of the year, primarily due to the Norwegian krone having weakened.

At the end of the third quarter, KBN had a common equity Tier 1 capital adequacy ratio of 17.6%, a Tier 1 capital adequacy ratio of 20.4%, and a total capital adequacy ratio of 23.0%. The capital requirements imposed by the authorities at 30 September 2019, including the pillar 2 requirement, required KBN to have a common equity Tier 1 capital adequacy ratio of 15.4%, a Tier 1 capital adequacy ratio of 16.9%, and a total capital adequacy ratio of 18.9%. KBN is also required to have a leverage ratio of at least 3.0%. KBN's leverage ratio at 30 September 2019 was 3.5%.

KBN manages its operations to ensure it complies with the regulatory requirements in force at any time. With effect from 31 December 2019, the risk-weighted capital adequacy requirement will increase by 0.5% as the result of Norway's countercyclical capital buffer requirement rising to 2.5%.

INTERIM CONDENSED FINANCIAL INFORMATION

INCOME STATEMENT

(Amounts in NOK 1 000 000)	Note	July-September 2019	January-September 2019	July-September 2018	January-September 2018	2018
Interest income from assets measured at amortised cost		*1 316*	*3 627*	*963*	*2 706*	*3 738*
Interest income from assets measured at fair value		*992*	*2 824*	*711*	*2 131*	*3 017*
Total interest income		2 308	6 451	1 675	4 837	6 755
Total interest expense		1 833	5 047	1 256	3 458	4 871
Net interest income	**1**	**476**	**1 404**	**419**	**1 378**	**1 885**
Fees and commission expenses		38	85	5	28	34
Net unrealised gain/(loss) on financial instruments	**2**	113	(30)	(198)	116	338
Expected credit loss	**6**	0	0	1	0	1
Net trading income		4	15	0	4	17
Total other operating income		**78**	**(100)**	**(204)**	**92**	**320**
Salaries and administrative expenses		39	116	34	107	142
Depreciation on fixed assets		5	16	6	16	22
Other expenses		16	45	9	30	46
Total operating expenses		**60**	**177**	**48**	**153**	**209**
Profit before tax		**495**	**1 126**	**167**	**1 317**	1 996
Income tax		122	266	42	329	499
Profit for the period		**373**	**860**	**125**	**988**	**1 496**
Portion allocated to shareholder		360	821	113	951	1 448
Portion allocated to owners of additional Tier 1 capital		13	39	12	36	48

STATEMENT OF COMPREHENSIVE INCOME

(Amounts in NOK 1 000 000)	Note	July-September 2019	January-September 2019	July-September 2018	January-September 2018	2018
Profit for the period		373	860	125	988	1 496
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	**9**	(12)	402	(115)	(356)	(365)
Actuarial gain/(loss) on defined benefit plan		0	0	0	0	1
Tax effect		3	(100)	29	89	*91*
Total other comprehensive income		**(9)**	**301**	**(86)**	**(267)**	**(273)**
Total comprehensive income for the period		**364**	**1 161**	**38**	**721**	**1 223**

STATEMENT OF FINANCIAL POSITION

(Amounts in NOK 1 000 000)	Note	30 September 2019	30 September 2018	31 December 2018
Assets				
Deposits with credit institutions	3,4	22 631	33 329	22 987
Instalment loans	3,4,5,6	307 228	289 129	303 571
Notes, bonds and other interest-bearing securities	3,4,6,7,8	121 485	85 333	116 519
Financial derivatives	3,4	22 013	6 114	14 497
Other assets		165	128	127
Total assets		**473 521**	**414 033**	**457 701**
Liabilities and equity				
Loans from credit institutions	3,4	12 970	921	12 085
Senior securities issued	3,4,9	421 808	363 438	402 916
Financial derivatives	3,4	18 973	31 723	24 051
Other liabilities		131	36	34
Current tax liabilities		266	529	0
Deferred tax liabilities		1 265	469	1 164
Pension liabilities		47	50	47
Subordinated debt	3,4	2 022	1 942	1 982
Total liabilities		**457 481**	**399 108**	**442 279**
Share capital		3 145	3 145	3 145
Additional Tier 1 capital		2 189	2 189	2 189
Retained earnings		9 847	8 604	10 088
Profit for the period		860	988	
Total equity	**10**	**16 040**	**14 925**	**15 421**
Total liabilities and equity		**473 521**	**414 033**	**457 701**

STATEMENT OF CHANGES IN EQUITY

(Amounts in NOK 1 000 000)	1 January - 30 September 2019				
	Share capital	Additional Tier 1 capital	Value changes on liabilities due to changes in own credit risk	Retained earnings	Total equity
Equity as of 31 December 2018	**3 145**	**2 189**	**(634)**	**10 720**	**15 421**
Profit for the period	0	0	0	860	860
Other comprehensive income—value change on liabilities due to changes in own credit risk	0	0	301	0	301
Other comprehensive income—actuarial gain/ loss	0	0	0	0	0
Interest paid on Tier 1 capital	0	0	0	(61)	(61)
Dividends for 2018	0	0	0	(481)	(481)
Equity as of 30 June 2019	**3 145**	**2 189**	**(333)**	**11 038**	**16 040**

	1 January - 30 September 2018				
	Share capital	Additional Tier 1 capital	Value changes on liabilities due to changes in own credit risk	Retained earnings	Total equity
Equity as of 31 December 2017	3 145	2 189	0	9 333	14 667
Effects 1 January 2018 due to transition to IFRS 9*	0	0	(360)	383	23
Equity as of 1 January 2018	**3 145**	**2 189**	**(360)**	**9 716**	**14 691**
Profit for the period	0	0	0	988	988
Other comprehensive income—value change on liabilities due to changes in own credit risk	0	0	(267)	0	(267)
Other comprehensive income—actuarial gain/ loss	0	0	0	0	0
Interest paid on Tier 1 capital	0	0	0	(43)	(43)
Dividends for 2017	0	0	0	(443)	(443)
Equity as of 30 June 2018	**3 145**	**2 189**	**(627)**	**10 217**	**14 925**

	1 January - 31 December 2018				
	Share capital	Additional Tier 1 capital	Value changes on liabilities due to changes in own credit risk	Retained earnings	Total equity
Equity as of 31 December 2017	3 145	2 189	0	9 333	14 667
Effects 1 January 2018 due to transition to IFRS 9*	0	0	(360)	383	23
Equity as of 1 January 2018	**3 145**	**2 189**	**(360)**	**9 716**	**14 691**
Profit for the period	0	0	0	1 496	1 496
Other comprehensive income—value change on liabilities due to changes in own credit risk	0	0	(274)	0	(274)
Other comprehensive income—actuarial gain/ loss	0	0	0	(1)	(1)
Interest paid on Tier 1 capital	0	0	0	(48)	(48)
Dividends for 2017	0	0	0	(443)	(443)
Equity as of 31 December 2018	**3 145**	**2 189**	**(634)**	**10 720**	**15 421**

*See further information and specification of the transition effects in equity on 1 January 2018 relating to the implementation of IFRS 9 under Accounting Policies in the report for first quarter 2018.

STATEMENT OF CASH FLOWS

(Amounts in NOK 1 000 000)	January-September 2019	January-September 2018	2018
Cash flows from operating activities			
Interest received	6 207	4 712	6 529
Interest paid	(4 746)	(2 771)	(3 899)
Fees and commissions paid	(85)	(28)	(34)
Receipts from repurchase of issued securities	15	4	17
Cash payments to employees and suppliers	(158)	(153)	(209)
Income taxes paid	0	0	0
Net disbursement of loans to customers	(2 965)	(6 399)	(20 525)
Net (increase)/decrease in deposits with credit institutions	1 372	(26 617)	(4 492)
Net (increase)/decrease in notes, bonds and other interest-bearing securities	(2 123)	18 354	(6 370)
Net (increase)/decrease in other assets	(1)	7	8
Net increase/(decrease) in other liabilities	54	(50)	(55)
Net (increase)/decrease in financial derivatives	13 043	(1 816)	3 489
Net cash flows from operating activities	**10 611**	**(14 757)**	**(25 542)**
Cash flows from investing activities			
Net (purchase)/sales of property and equipment	(10)	2	2
Net cash flows from investing activities	**(10)**	**2**	**2**
Cash flows from financing activities			
Down payment on leasing obligation	(3)		0
Proceeds from issuance of commercial paper	17 647	0	0
Repayment of commercial paper	(17 671)	0	0
Proceeds from issuance of debt securities	56 791	85 224	104 845
Repayment of debt securities	(67 064)	(69 906)	(79 004)
Proceeds from issuance of additional Tier 1 capital	0	0	0
Interest paid on Tier 1 capital	(61)	(58)	(65)
Proceeds from issuance of subordinated debt	0	0	0
Repayment of subordinated debt	0	0	0
Dividends paid	(481)	(443)	(443)
Net cash flows from financing activities	**(10 842)**	**14 817**	**25 333**
Net cash flows	**(241)**	**61**	**(208)**
Effects of foreign exchange differences	335	(28)	396
Net cash flows after foreign exchange differences	**94**	**33**	**189**
Cash and cash equivalents at 1 January	276	87	87
Net change in cash and cash equivalents	94	33	189
Cash and cash equivalents at end of period	**370**	**120**	**276**
Whereof			
Deposits with credit institutions without agreed time to maturity	*370*	*120*	*276*
Loans from credit institutions without agreed time to maturity	*0*	*0*	*0*

ACCOUNTING POLICIES

KBN prepares its financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The interim financial statements as of 30 September 2019 are prepared in accordance with IAS 34 *Interim Financial Reporting*, and follow the same accounting policies as presented in the annual financial statements for 2018, except for the following:

The EU's Bank Recovery and Resolution Directive (BRRD) has been implemented in Norwegian law with effect from 1 January 2019. The transition is regulated by the provisions in the Financial Undertakings Act implementing BRRD in Norway, amongst others. KBN falls under the Directive and was informed in October that the amount of the bank's contribution to the resolution fund for 2019 is NOK 83 million. Year to date, NOK 62 million have been recognised as an expense on the line Commission costs and costs for banking services.

IFRS 16 *Leases* came into force on 1 January 2019. As a result of the new standard, an asset relating to the bank's office rental agreement, that conveys the right to control the use, of NOK 43 million has been recognised on the line Other assets. A corresponding lease liability amounting to NOK 43 million has been recognised on the line Other liabilities. When implemented, the modified retrospective method has been chosen, and therefore comparative figures for 2018 have not been restated. The implementation had no effect on equity.

IAS 12 *Income Taxes* has been amended with effect from 1 January 2019. The change means that tax deductions on interest expenses from Additional Tier 1 capital, that is classified as equity, are presented as a reduction of the Income tax in the Income statement. Prior to the change, that tax deduction was recognized directly in equity. The change entails a reduced Income tax in the Income statement of NOK 15.3 million compared to the previous accounting principle. Comparative figures have not been restated.

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

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

NOTE 1

NET INTEREST INCOME

(Amounts in NOK 1 000 000)

		At fair value				
July-September 2019	**Total**	**Fair value option**	**Mandatory at fair value**	**Fair value hedge**	**Total at fair value**	**Amortised cost**
Deposits with credit institutions	**(1)**	0	0	0	0	(1)
Instalment loans	**1 618**	473	0	0	473	1 145
Notes, bonds and other interest-bearing securities	**442**	271	0	0	271	172
Financial derivatives	**249**	0	249	0	249	0
Total interest income	**2 308**	**744**	**248**	**0**	**992**	**1 316**
Loans from credit institutions	**0**	0	0	0	0	0
Senior securities issued	**2 555**	1 192	0	0	1 192	1 363
Financial derivatives	**(737)**	0	(782)	45	(737)	0
Subordinated debt	**15**	15	0	0	15	0
Total interest expenses	**1 833**	**1 207**	**(782)**	**45**	**470**	**1 363**
Net interest income	**476**	**(463)**	**1 030**	**(45)**	**522**	**(47)**

		At fair value				
January-September 2019	**Total**	**Fair value option**	**Mandatory at fair value**	**Fair value hedge**	**Total at fair value**	**Amortised cost**
Deposits with credit institutions	**2**	0	0	0	0	2
Instalment loans	**4 600**	1 385	0	0	1 385	3 216
Notes, bonds and other interest-bearing securities	**996**	586	0	0	586	410
Financial derivatives	**854**	0	854	0	854	0
Total interest income	**6 451**	**1 971**	**853**	**0**	**2 824**	**3 627**
Loans from credit institutions	**0**	0	0	0	0	0
Senior securities issued	**8 187**	4 207	0	0	4 207	3 980
Financial derivatives	**(3 185)**	0	(3 452)	267	(3 185)	0
Subordinated debt	**46**	46	0	0	46	0
Total interest expenses	**5 047**	**4 253**	**(3 452)**	**267**	**1 067**	**3 980**
Net interest income	**1 404**	**(2 282)**	**4 306**	**(267)**	**1 757**	**(352)**

July-September 2018	Total	At fair value Fair value option	Mandatory at fair value	Fair value hedge	Total at fair value	Amortised cost
Deposits with credit institutions	**13**	0	0	0	0	13
Instalment loans	**1 260**	405	0	0	405	855
Notes, bonds and other interest-bearing securities	**198**	102	0	0	102	95
Financial derivatives	**204**	0	204	0	204	0
Total interest income	**1 675**	**507**	**204**	**0**	**711**	**963**
Loans from credit institutions	**0**	0	0	0	0	0
Senior securities issued	**2 856**	1 790	0	0	1 790	1 067
Financial derivatives	**(1 616)**	0	(1 685)	69	(1 616)	0
Subordinated debt	**15**	15	0	0	15	0
Total interest expenses	**1 256**	**1 805**	**(1 685)**	**69**	**189**	**1 067**
Net interest income	**419**	**(1 298)**	**1 889**	**(69)**	**522**	**(103)**

January-September 2018	Total	At fair value Fair value option	Mandatory at fair value	Fair value hedge	Total at fair value	Amortised cost
Deposits with credit institutions	**27**	0	0	0	0	27
Instalment loans	**3 658**	1 198	0	0	1 198	2 461
Notes, bonds and other interest-bearing securities	**520**	301	0	0	301	218
Financial derivatives	**632**	0	632	0	632	0
Total interest income	**4 837**	**1 499**	**632**	**0**	**2 131**	**2 706**
Loans from credit institutions	**3**	1	0	0	1	1
Senior securities issued	**8 246**	4 917	0	0	4 917	3 330
Financial derivatives	**(4 836)**	0	(4 874)	38	(4 836)	0
Subordinated debt	**46**	46	0	0	46	0
Total interest expenses	**3 458**	**4 964**	**(4 874)**	**38**	**127**	**3 331**
Net interest income	**1 378**	**(3 465)**	**5 506**	**(38)**	**2 003**	**(625)**

2018	Total	At fair value Fair value option	Mandatory at fair value	Fair value hedge	Total at fair value	Amortised cost
Deposits with credit institutions	**37**	0	0	0	0	37
Instalment loans	**5 000**	1 616	0	0	1 616	3 384
Notes, bonds and other interest-bearing securities	**755**	437	0	0	437	317
Financial derivatives	**964**	0	964	0	964	0
Total interest income	**6 755**	**2 053**	**964**	**0**	**3 017**	**3 738**
Loans from credit institutions	**3**	1	0	0	1	1
Senior securities issued	**10 707**	6 124	0	0	6 124	4 583
Financial derivatives	**(5 900)**	0	(6 017)	117	(5 900)	0
Subordinated debt	**61**	61	0	0	61	0
Total interest expenses	**4 871**	**6 186**	**(6 017)**	**117**	**286**	**4 584**
Net interest income	**1 885**	**(4 133)**	**6 981**	**(117)**	**2 731**	**(846)**

NOTE 2

Net unrealised gain/(loss) on financial instruments

(Amounts in NOK 1 000 000)	**July-September 2019**	**July-September 2019**	**July-September 2018**	**July-September 2018**	**2018**
Instalment loans	105	366	(266)	(821)	(420)
Notes, bonds and other interest-bearing securities	188	1 012	(70)	(289)	44
Financial derivatives	3 490	11 976	(1 545)	(10 440)	(8 084)
Loans from credit institutions	0	0	0	0	0
Senior securities issued	(3 651)	(13 331)	1 661	11 614	8 771
Subordinated debt	(19)	(54)	21	52	27
Net unrealised gain/(loss) on financial instruments	**113**	**(30)**	**(198)**	**116**	**338**

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.

Net unrealised gains in the third quarter of 2019 amounting to NOK 113 million come from Instalment loans and Senior securities issued and related derivatives due to a tightening of credit spreads and tightening of basis spread USD-NOK, respectively.

KBN has expanded its methods for calculation of interest rate sensitivity. KBN calculates sensitivity using the EVE and the NII methods. The EVE method provides a sensitivity-estimate for a change in market value related to a change in market interest rates of 1 percentage point. The bank's sensitivity to unrealised value changes (EVE method) related to a change in market interest rates of 1 percentage point is estimated at NOK 142 million as of 30 September 2019. In the calculation different currencies are not netted. The calculations do not affect the period's income statement and Statement of Financial Position. The bank's sensitivity to net interest income (NII method) based on a change in the market interest rate of 1 percentage point over a horizon of 3 months is estimated at NOK 32 million as of 30 September 2019. In the calculation different currencies are not netted. The NII method estimates possible changes to the period's profit and loss, while the EVE method estimates the possible effect on market value on all of the bank's balance sheet items.

NOTE 3

Classification of financial instruments

(Amounts in NOK 1 000 000)

At 30 September 2019		**At fair value**			
	Total	**Fair value option**	**Mandatory at fair value**	**Fair value hedge**	**Amortised cost**
Deposits with credit institutions	**22 631**	0	0	0	22 631
Instalment loans	**307 228**	91 063	0	0	216 165
Notes, bonds and other interest-bearing securities	**121 485**	89 260	0	0	32 223
Financial derivatives	**22 013**	0	18 115	3 899	0
Total financial assets	**473 356**	**180 324**	**18 115**	**3 899**	**271 019**
Loans from credit institutions	**12 970**	0	0	0	12 970
Senior securities issued	**421 808**	182 344	0	0	239 464
Financial derivatives	**18 973**	0	18 789	184	0
Subordinated debt	**2 022**	2 022	0	0	0
Total financial liabilities	**455 772**	**184 366**	**18 789**	**184**	**252 434**

At 30 September 2018		**At fair value**			
	Total	**Fair value option**	**Mandatory at fair value**	**Fair value hedge**	**Amortised cost**
Deposits with credit institutions	**33 329**	0	0	0	33 329
Instalment loans	**289 129**	81 162	0	0	207 967
Notes, bonds and other interest-bearing securities	**85 333**	61 258	0	0	24 075
Financial derivatives	**6 114**	0	6 114	0	0
Total financial assets	**413 905**	**142 420**	**6 114**	**0**	**265 371**
Loans from credit institutions	**921**	0	0	0	921
Senior securities issued	**363 438**	156 350	0	0	207 088
Financial derivatives	**31 723**	0	28 852	2 871	0
Subordinated debt	**1 942**	1 942	0	0	0
Total financial liabilities	**398 024**	**158 292**	**28 852**	**2 871**	**208 009**

At 31 December 2018		**At fair value**			
	Total	**Fair value option**	**Mandatory at fair value**	**Fair value hedge**	**Amortised cost**
Deposits with credit institutions	**22 987**	0	0	0	22 987
Instalment loans	**303 571**	87 296	0	0	216 275
Notes, bonds and other interest-bearing securities	**116 519**	87 670	0	0	28 849
Financial derivatives	**14 497**	0	13 838	659	0
Total financial assets	**457 574**	**174 966**	**13 838**	**659**	**268 111**
Loans from credit institutions	12 085	0	0	0	12 085
Senior securities issued	402 916	167 949	0	0	234 967
Financial derivatives	24 051	0	22 322	1 730	0
Subordinated debt	1 982	1 982	0	0	0
Total financial liabilities	**441 035**	**169 931**	**22 322**	**1 730**	**247 052**

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 2018 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 2019 are distributed in the following way in the fair value hierarchy:

(Amounts in NOK 1 000 000)	**Level 1**	**Level 2**	**Level 3**	**Total**
Deposits with credit institutions	0	0	0	**0**
Instalment loans	0	14 192	76 871	**91 063**
Notes, bonds and other interest-bearing securities	72 668	8 908	8 081	**89 656**
Financial derivatives		19 898	2 115	**22 013**
Total financial assets measured at fair value	**72 668**	**42 998**	**87 066**	**202 732**
Loans from credit institutions	0	0	0	**0**
Senior securities issued	11 967	95 190	75 187	**182 344**
Financial derivatives		5 375	13 598	**18 973**
Subordinated debt			2 022	**2 022**
Total financial liabilities measured at fair value	**11 967**	**100 565**	**90 807**	**203 338**

Reconciliation of movements in Level 3

	Instalment loans	**Notes, bonds and other interest-bearing securities**	**Senior securities issued**	**Subordinated debt**	**Financial derivatives**
Carrying amount at 31 December 2018	**71 496**	**3 616**	**75 822**	**1 982**	**(17 106)**
Purchase	0	11 629	0	0	4 089
Sale	0	0	(260)	0	0
Issue	23 396	0	2 690	0	0
Settlement	(19 096)	(5 167)	(11 133)	0	(2 985)
Transfer into Level 3	1 392	35	0	0	0
Transfer out of Level 3	(1 372)	(3 111)	0	0	0
Gain/(loss) recognised in the period	1 055	1 078	8 068	40	4 518
Carrying amount at 30 September 2019	**76 871**	**8 081**	**75 187**	**2 022**	**(11 484)**

Net holdings amounting to NOK 14 million have been transferred from Level 1 to Level 2 in 2019. There are net transfers of NOK 3.1 billion out of Level 3 during 2019. 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 2019:

	30 September 2019
Instalment loans	(277)
Notes, bonds and other interest-bearing securities	(12)
Financial derivatives	(342)
Senior securities issued	344
Subordinated debt	16
Total	**(271)**

NOTE 5

Instalment loans

(Amounts in NOK 1 000 000)	30 September 2019	30 September 2018	31 December 2018
Principal amount	305 197	288 102	302 232
Accrued interest	1 447	1 208	1 121
Fair value adjustment	595	(171)	229
Expected credit loss	(11)	(11)	(11)
Total instalment loans	**307 228**	**289 129**	**303 571**

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.

	30 September 2019		31 December 2018
(Amounts in NOK 1 000 000)	Carrying amount	Expected credit loss	Expected credit loss
Instalment loans	216 165	(11)	(11)
Notes, bonds and other interest-bearing securities	31 827	(1)	(1)
Total	**247 992**	**(12)**	**(12)**

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

(Amounts in NOK 1 000)	July-September 2019	January-September
Instalment loans	(180)	(210)
Notes, bonds and other interest-bearing securities	(8)	(150)
Total	**(188)**	**(360)**

The following table shows an allocation of KBN's expected credit losses as at 30 September 2019 to stage 1, 2 and 3. According to the impairment principles described in IFRS 9 *Financial Instruments*, Stage 1 implies no significant increase in credit risk since recognition of the asset. Stage 2 implies such a significant increase, while stage 3 implies that the asset is credit-impaired. See the Accounting Policies in the 2018 annual report for a description of the allocation to stages and the model for calculation of expected credit loss.

	Stage 1	Stage 2	Stage 3
Instalment loans	(11)	0	0
Notes, bonds and other interest-bearing securities	(1)	0	0
Total expected credit loss	**(12)**	**0**	**0**

NOTE 7

Notes, bonds and other interest-bearing securities

(Amounts in NOK 1 000 000)			
Notes, bonds and other interest-bearing securities by type of issuer	**30 September 2019**	**30 September 2018**	**31 December 2018**
Domestic			
Issued by other borrowers	19 925	8 960	15 274
Foreign			
Issued by public bodies[1]	81 115	73 052	98 567
Issued by other borrowers	20 445	3 322	2 679
Total notes, bonds and other interest-bearing securities	**121 485**	**85 333**	**116 519**

[1]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 2019	30 September 2018	31 December 2018
Under 1 year	48 904	53 552	76 078
1-5 years	62 566	31 128	33 224
Over 5 years	10 015	654	7 217
Total notes, bonds and other interest-bearing securities	**121 485**	**85 333**	**116 519**
Average time to maturity (years)*	1.98	1.14	1.41

*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 1.81 years as of September 30, 2019.

NOTE 8

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

Amounts in the table below represent actual credit exposure

(Amounts in NOK 1 000 000)				Exposure as at 30 September 2019						
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	10 880	0	0	0	0	2 763	22 182	840	0	**36 665**
Multilateral development banks	1 777	0	0	0	0	0	603	4 798	0	**7 178**
Regional authorities	11 027	0	0	8 520	0	0	13 280	2 326	2 118	**37 272**
Financial institutions	507	0	0	0	0	0	193	198	0	**899**
Securitisation		0	0	0	0	0	0	6	0	**6**
Covered bonds	7 458	0	0	8 735	0	0	1 503	21 769	0	**39 465**
Total	**31 649**	**0**	**0**	**17 255**	**0**	**2 763**	**37 762**	**29 938**	**2 118**	**121 485**

NOTE 9

Senior securities issued

(Amounts in NOK 1 000 000)	30 September 2019	31 September 2018	31 December 2018
Senior securities issued (nominal amounts) as at 1 January	**414 603**	**373 816**	**373 816**
New issuance	56 790	85 223	104 844
Redemptions	(68 121)	(71 162)	(80 143)
Amortisation	1 056	1 256	1 138
Translation differences	16 259	(10 360)	14 947
Senior securities issued (nominal amounts) as at end of period	**420 587**	**378 773**	**414 603**
Accrued interest	4 452	3 677	4 474
Fair value adjustment	(3 231)	(19 012)	(16 160)
Of which value change that is due to change in own credit risk	444	*(836)*	*845*
Of which value change that is due to other reasons	(3 675)	*(18 176)*	*(17 005)*
Total senior securities issued	**421 808**	**363 438**	**402 916**

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

NOTE 10

Primary capital

(Amounts in NOK 1 000 000)	30 September 2019	30 September 2018	31 December 2018
Common equity Tier 1 capital			
Share capital	3 145	3 145	3 145
Retained earnings	9 847	8 604	8 591
Profit for the period included in Tier 1 capital	860	988	1 496
Pension funds above pension commitments	0	0	0
Deferred tax asset*	0	0	0
Intangible assets	(115)	(118)	(116)
Dividends payable	(383)	(361)	(481)
Other additions/deductions in common equity Tier 1 capital	308	601	609
Share of nulled unamortised estimate differences	0	0	0
Total common equity Tier 1 capital	**13 662**	**12 858**	**13 244**
Other approved Tier 1 capital	2 189	2 189	2 189
Total Tier 1 capital	**15 851**	**15 047**	**15 433**
Supplementary capital			
Ordinary subordinated debt	2 000	2 000	2 000
Total supplementary capital	**2 000**	**2 000**	**2 000**
Total primary capital	**17 851**	**17 047**	**17 433**

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

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

NOTE 11

Capital adequacy

(Amounts in NOK 1 000 000)	30 September 2019			30 September 2018	31 December 2018
	Carrying amount	Risk-weighted assets	Minimum capital requirements	Minimum capital requirements	Minimum capital requirements
Credit risk					
Sovereigns and central banks	36 665	0	0	0	0
Regional governments and local authorities	336 885	61 853	4 948	4 663	4 892
Of which are Norwegian municipalities	*307 200*	*61 853*	*4 948*	*4 662*	*4 892*
Public sector entities	7 587	0	0	0	0
Multilateral development banks	7 178	0	0	0	0
Financial institutions	39 022	5 378	430	685	522
Of which counterparty exposure on derivatives	*17 294*	*1 978*	*158*	*103*	*109*
Claims secured by residential property	28	28	2	3	3
Covered bonds	39 465	3 947	316	140	216
Other assets	11	11	1	1	1
Securitisation	6	6	0	1	1
Credit Valuation Adjustment	251	3 134	251	182	180
Total credit risk	**467 099**	**74 357**	**5 949**	**5 674**	**5 814**
Market risk	**0**	**0**	**0**	**0**	**0**
Operational risk—Basic Indicator Approach		**3 299**	**264**	**290**	**264**
Minimum capital requirements		**77 656**	**6 212**	**5 964**	**6 078**
Total capital ratio			**23.0%**	**22.9%**	**22.9%**
Tier 1 capital adequacy ratio			**20.4%**	**20.2%**	**20.3%**
Common equity Tier 1 capital adequacy ratio			**17.6%**	**17.2%**	**17.4%**
Leverage ratio			**3.5%**	**3.9%**	**3.6%**

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