

2022

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.



Grieghallen's facade consists of large windows fixed in steel frames and are original from the 1970s. Several of these are cracked or punctured. Both the windows and the steel frames have poor insulating properties. Now all 550 windows will be replaced, and the steel frames insulated. It is estimated that the total energy savings for the project is 1,000,000 kWh/year. Photo: NTB.

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 2022	January-September 2021	2021
RESULTS			
Net interest income	1 387	1 160	1 585
Core earnings ¹	840	637	908
Profit after tax	(283)	966	1 208
Cost/income ratio (per cent) ²	15.3 %	16.8%	16.4%
Return on equity after tax ³	(2.7%)	7.6%	7.1%
Return on equity after tax (core earnings) ⁴	6.8 %	5.3%	5.6%
Return on assets after tax ⁵	(0.1 %)	0.3%	0.3%
LENDING			
New disbursements	24 064	28 759	48 547
Outstanding loans ⁶	322 617	314 448	323 018
12 month lending growth in percent ⁷	2.6%	0.7%	1.5%
Green loans ⁸	39 112	29 707	32 876
Share of green loans in lending portfolio	12.1 %	9.4%	10.2%
Share of municipalities with green loans ⁹	36.9 %	34.7%	35.5%
LIQUIDITY PORTFOLIO⁶	111 749	103 443	110 837
BORROWINGS			
New long-term borrowings	53 544	71 614	96 550
Total borrowings ⁶	452 838	389 778	395 385
TOTAL ASSETS	528 522	469 629	473 064
EQUITY			
Equity	18 576	18 877	19 081
Common equity Tier 1 capital adequacy ratio	17.9%	18.8%	18.8%
Leverage ratio	3.7%	3.9%	3.9%

	January-September 2022	January-September 2021	2021
LIQUIDITY COVERAGE RATIO (LCR)¹⁰			
Total	545%	185%	175%
NOK	105%	74%	71%
EUR	901%	193%	140%
USD	410%	148%	137%
AUD	2024%	253%	1 082%
JPY	Insignificant	3 039%	Insignificant
GBP	Infinite	Infinite	733%
OTHER KEY FIGURES			
Market share ¹¹	42.7%	44.2%	44.9%
Percentage of women employed in KBN	43%	46%	46%
Emissions in CO ₂ e ¹²	52.5	36.6	40.3

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

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

³ Share of the Profit for the period 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 period, less dividends from the time the dividends are paid out as well as addition or reduction of the company's share capital during the period.

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

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

⁶ Principal amounts.

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

⁸ 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. Total outstanding green loans are NOK 41.3 billion.

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

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

¹¹ The market share is calculated based on lending to sector 6500 from KBN divided by total lending to the same sector based on Statistics Norway's K2 reporting.

¹² KBN's calculated emissions.

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

Board of Director's report

Good core earnings for the quarter, while ongoing turmoil in the global financial markets impacted KBN's unrealised profit and loss

KBN's net interest income in the third quarter of 2022 was NOK 473 million as compared to NOK 413 million in the same period in 2021. KBN's lending portfolio increased by NOK 5.9 billion in the third quarter of 2022 primarily as a result of good growth in standard variable rate and fixed rate lending. KBN's green lending grew by NOK 3.1 billion in the quarter. KBN's result for the period in the third quarter of 2022 was a profit of NOK 145 million as compared to a profit of NOK 450 million in the same period in 2021. Unrealised losses on financial instruments as a result of the market turmoil were the reason for the decrease in profit for the period.

Results for the quarter

KBN's core earnings¹ totalled NOK 249 million in the third quarter of 2022, compared to NOK 236 million in the third quarter of 2021. The main explanation for the increase in KBN's core earnings was higher net interest income.

KBN's net interest income in the third quarter of 2022 totalled NOK 473 million as compared to NOK 413 million in the same period in 2021. The main reason for the increase in net interest income was rising interest rates in combination with wider lending margins. Money market interest rates increased in the quarter as a result of recent and expected further increases in Norges Bank's key policy rate. Norges Bank raised its key policy rate by 0.50 percentage points at its monetary policy committee meeting on 17 August 2022 and by a further 0.50 percentage points at its meeting on 21 September 2022. The key policy rate now stands at 2.25%. KBN increased its standard variable rate in line with the increases in Norges Bank's key policy rate.

KBN's result for the period in the third quarter of 2022 was a profit of NOK 145 million as compared to a profit of NOK 450 million in the third quarter of 2021. The reason for the decrease in the result for the period is unrealised losses on financial instruments resulting from the turmoil in global financial markets. In the third quarter of 2022, KBN recognised unrealised losses on financial instruments totalling NOK 163 million, while in the third quarter of 2021 it recognised unrealised gains totalling NOK 271 million. The portion of KBN's fixed-rate lending that is carried at fair value contributed an unrealised loss of NOK 543 million in the third quarter of 2022 as a result of a widening of credit spreads for the local government

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

sector, which compares with an unrealised loss of NOK 1 million in the third quarter of 2021. KBN started to apply hedge accounting to all its new fixed-rate lending with effect from 1 January 2022. The application of hedge accounting to KBN's fixed-rate lending will over time reduce the size of the portfolio of fixed-rate loans carried at fair value, and this will reduce the unrealised gains and losses included in KBN's earnings. For the first nine months of 2022, hedge accounting was used for loans totalling NOK 11 billion, which is equivalent to 11% of KBN's portfolio of fixed-rate loans.

KBN's liquidity portfolio and associated hedging instruments contributed an unrealised gain of NOK 29 million for the third quarter of 2022, while KBN's own bonds and associated hedging instruments contributed an unrealised gain of NOK 351 million. KBN's unrealised gains and losses are expected to reverse, either as market conditions normalise or as the instruments approach maturity. Sales of securities from the liquidity portfolio resulted in realised losses totalling NOK 1 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 increased its provision for losses in the third quarter of 2022 by NOK 23 million as a result of the impact of the market turmoil on the macro indicators in its model.

KBN's total operating costs for the third quarter of 2022 were NOK 67 million, compared to NOK 59 million in the same period in 2021.

Results year to date 2022

KBN's core earnings² for the first nine months of 2022 totalled NOK 840 million as compared to NOK 637 million in the same period in 2021.

KBN's net interest income in the first nine months of 2022 was NOK 1 387 million as compared to NOK 1 160 million in the same period of 2021. The increase was due to higher interest rates in combination with higher lending margins. KBN's underlying earnings were thus positively affected by rising interest rates.

KBN's result for the period in the first nine months of 2022 was a loss of NOK 283 million as compared to a profit of NOK 966 million in the same period in 2021. The decrease was due to unrealised losses on financial instruments in 2022, which were caused by the turmoil in global financial markets. KBN's total operating costs for the first nine months of 2022 were NOK 197 million, compared to NOK 183 million in the first nine months of 2021. This increase in costs was due to an increase in KBN's staffing costs and to a faster pace of investment, which results in higher depreciation. KBN's cost-to-income ratio for the first nine months of 2022 was 15.3%, compared to 16.8% in the same period in 2021. The reason for the decrease in the cost-to-income ratio was the increase in KBN's income.

Based on its result from ordinary activities, KBN's annualised return on equity in the first nine months of 2022 was -2.7%, compared to 7.6% in the same period in 2021. Based on its core earnings, KBN's annualised return on equity in the first nine months of 2022 was 6.8%, compared to 5.3% in 2021.

² Profit after tax for the year to date adjusted for unrealised gains or losses on financial instruments after tax and the portion allocated to owners of additional Tier 1 capital. This performance measure is included to give relevant information about the company's underlying operations.

Profit for the period
Amounts in NOK 1 million

	Q3 2022	Q3 2021	2021
Profit/(Loss) for the period	145	450	1 208
Net interest income	473	413	1 585
Fees and commission expenses	28	30	106
Net unrealised gain/(loss) on financial instruments	(163)	271	322
Expected credit loss	23	1	0
Net trading income	(1)	5	73
Total operating expenses	67	59	255
Income tax	46	148	411

Comprehensive income for the period
Amounts in NOK 1 million

	Q3 2022	Q3 2021	2021
Total comprehensive income for the period	484	298	602
Profit/(Loss) for the period	145	450	1 208
Unrealised change in fair value of liabilities (and related financial derivatives) after tax due to changes in own credit risk	339	(151)	(607)
Actuarial gain/(loss) on defined benefit plan	0	0	1
Tax effect on positions in Statement of comprehensive income	(113)	50	202

The credit spreads on KBN's bonds have increased in 2022, with equivalent types of issuer in the international financial markets also seeing higher spreads. Higher credit spreads cause the market value of KBN's debt to decrease. An unrealised gain totalling NOK 648 million was thus recognised in the first nine months of 2022 as part of total comprehensive income from a change in the value of KBN's own liabilities. There was an equivalent unrealised loss in the same period in 2021 totalling NOK 764 million. KBN's total comprehensive income in the first nine months of 2022 amounted to NOK 202 million, as compared to NOK 393 million in the same period in 2021.

Lending

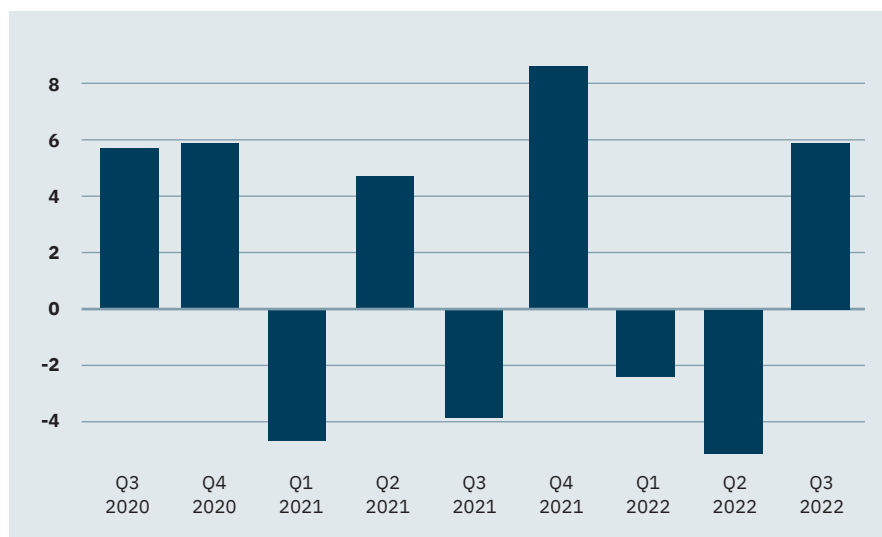
KBN's lending portfolio totalled NOK 323 billion at the end of the third quarter of 2022. The lending portfolio increased by NOK 5.9 billion within the quarter, while it decreased by NOK 3.8 billion in the same period last year. The third quarter of 2022 was characterised by increasing demand for new loans. The relatively unattractive terms available to KBN's customers in the capital markets resulted in a large influx of loans with short and medium-term maturities being refinanced using long-term, instalment-based loans. The volume of extraordinary redemptions in the first nine months of 2022 was materially lower than in the equivalent period in 2021. Overall, this resulted in very strong lending growth in the quarter.

In line with its revised lending strategy, KBN's portfolio of loans with maturities of 12 months and under further decreased in the quarter, with KBN taking this step in order to free up capacity for long-term instalment loans in the fourth quarter. Greater demand for new loans is expected in the fourth quarter. With the capital markets continuing to be relatively unattractive for KBN's customers, KBN expects strong demand for long-term, instalment-based loans to refinance maturing loans.

KBN continued to experience a good level of growth in its green lending, and its portfolio of green loans increased by NOK 3.1 billion in the third quarter of 2022,

Lending growth

Amounts in NOK 1 billion



as compared to NOK 2.1 billion in the same period in 2021. Examples of green loans granted by KBN in the quarter include green loans for the City of Oslo to finance the purchase of new trams, the new Tøyenbadet swimming facility in Oslo and Voldsløkka school. Other examples and projects financed by green loans include Fosslia care centre in the municipality of Stjørdal, a new elementary and middle school in the municipality of Flakstad and an upper secondary school in the county of Møre og Romsdal. At the end of September 2022, KBN's green lending represented 12.1% of its overall lending portfolio. KBN's target is for 12% of its lending to be green lending by the end of 2022.

The annual rate of debt growth in the local government sector as at the end of August 2022 was calculated to be 4.7%. After adjusting for borrowing from the Norwegian State Housing Bank, the rate of debt growth was 3.8%. Although the rate of debt growth is expected to be high in the fourth quarter, the overall rate of growth in 2022 is expected to be lower than in previous years. KBN's market share at the end of August 2022 was 42.7%. After adjusting for borrowing from the Norwegian State Housing Bank, KBN's market share was almost 50%.

Financial markets

In the third quarter of 2022 inflation was well above the targets set by central banks in very many countries. A number of central banks consequently raised their key policy rate further in the quarter. In the USA, the FED raised its benchmark rate by a total of 1.50 percentage points over the course of August and September 2022. In the USA the rate of inflation has been falling somewhat, but it remains above 8%, and it has fallen more slowly than anticipated. As mentioned above, in Norges Bank raised its key policy rate by a total of one percentage point over the course of August and September 2022. At the most recent assessment inflation in Norway was running at 6.9%, which is the highest rate since the end of the 1980s. The USD also strengthened against most currencies in the quarter, including against the Norwegian krone. The market expects and is pricing in further rises in the fourth quarter, but there is much uncertainty about how high rates will have to be set in order to achieve the desired reduction in inflation. In various markets the high level of uncertainty is leading to a high level of volatility, and wider spreads between bid and offer prices.

The credit spreads on local government and covered bonds rose significantly in the third quarter of 2022, and they are now at levels not seen since the start of 2020 and prior to that in the autumn of 2015.

Funding

KBN's funding activities in the third quarter of 2022 were somewhat less extensive than in the third quarter of 2021 due to KBN having a good level of liquidity in the period and a low level of need for refinancing, as well as because of the weakness of the Norwegian krone against the US dollar. New borrowings in the third quarter of 2022 totalled NOK 6 billion through five bond issues in three currencies, compared to approximately NOK 8.0 billion in the same period in 2021.

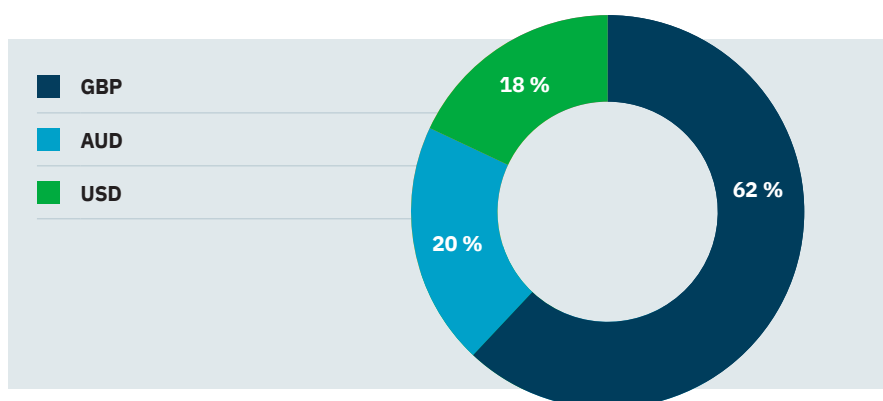
The market uncertainty in the period did not impact KBN's ability to access the international capital markets to any significant extent, and it completed its funding transactions as planned. KBN did not issue any particularly large individual bonds in the period but rather focused on smaller transactions in GBP, AUD and USD. KBN achieved good currency diversification in the quarter.

In the first nine months of 2022 KBN's new borrowings totalled NOK 54 billion as compared to NOK 72 billion in the first nine months of 2021.

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

Funding 2022

Total borrowing by currency
third quarter 2022



Liquidity management

KBN's liquidity portfolio totalled NOK 112 billion at 30 September 2022 as compared to NOK 103 billion at 30 September 2021. KBN's liquidity portfolio is managed with the aim of matching its financing requirements, including lending growth, for the subsequent twelve months, and it is managed on the basis of a low-risk investment strategy.

The liquidity portfolio is principally held in zero-risk-weighted assets that are particularly liquid. Investments denominated in foreign currencies represent approximately 61% of the portfolio. Fluctuations in the value of the Norwegian krone relative to other currencies will therefore result in fluctuations in the size of the liquidity portfolio in NOK terms.

Capital

At the end of the third quarter of 2022, KBN's total common equity Tier 1 capital was NOK 15.0 billion, its total Tier 1 capital was NOK 17.4 billion, and its total primary capital was NOK 19.4 billion. KBN's total assets at the end of the third quarter of 2022 amounted to NOK 529 billion, up from NOK 473 billion at the end of 2021. KBN's total assets at the end of the third quarter of 2021 amounted to NOK

470 billion. The increase from the end of 2021 is primarily due to liquidity inflows from cash collateral caused by the weakening of the Norwegian krone and an increase in the NOK value of balance sheet assets as a result of currency conversion.

At the end of the third quarter of 2022, KBN had a common equity Tier 1 capital adequacy ratio of 17.9%, a Tier 1 capital adequacy ratio of 20.7%, and a total capital adequacy ratio of 23.1%. The capital adequacy ratio requirements imposed by the authorities at the end of the third quarter were 15.7% (common equity Tier 1 capital), 17.2% (Tier 1 capital) and 19.2% (total capital). Norges Bank and the relevant authorities in some other countries have approved increases to their counter-cyclical buffer requirements in 2022 and 2023. This will impact KBN's institution-specific countercyclical buffer.

The EU Commission's reform package that is intended to further strengthen the resilience of banks in the EU (the 'Banking Package') entered into force in Norwegian law with effect from 1 June 2022. The package's implementation reduced the Tier 1 capital adequacy by 0.4 percentage points, mainly due to an increase in the capital requirements for counterparty risk in relation to financial derivatives.

KBN's leverage ratio at the end of the third quarter was 3.7%, as compared to the requirement of 3.0%.

Capital adequacy figures are sensitive to large fluctuations in exchange rates, particularly the USD-NOK rate, because these impact the size of KBN's balance sheet both through the conversion into NOK and because changes in the value of KBN's outstanding hedging contracts cause fluctuations in cash collateral. When the krone weakens (the exchange rate increases) KBN receives collateral, the size of KBN's balance sheet increases and KBN's capital adequacy decreases. When the krone strengthens, KBN's capital adequacy increases. The figures for weighted capital adequacy are also temporarily affected by changes in the value of KBN's hedging contracts until the cash collateral is received the following day and the additional effect is offset. KBN has internal buffers that are intended to ensure its capital adequacy does not fall below the regulatory requirements as a result of such exchange rate fluctuations.

Tax

In June 2022 KBN received a decision on changes to its tax assessments for the years 2019 and 2020. KBN has previously 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. The Norwegian Tax Administration's decision implies a change to the timing of taxable income and expense, but no change in total taxable income and expense over the lifetime of the instruments.

KBN has prepared its accounts in compliance with the treatment expected by the tax authorities. These decisions move taxable income from a year in which KBN's tax rate was 27% to a year in which it was 25%, and this resulted in a decrease in tax expense of NOK 54 million that was recognised in the second quarter of 2022.

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. KBN has submitted an appeal against aspects of the decisions.

Future prospects

Norges Bank has raised its key policy rate to 2.25% so far this year, and it is expected to raise its key policy rate again at its November meeting. The reason for the increase is the need to stabilise inflation around the target of 2%. The underlying rate of inflation has picked up quickly and been higher than anticipated. With rising wage growth and higher growth in the prices of the goods Norway imports, there is the prospect of inflation remaining above the target for a good while. Norges Bank's forecasts for key policy rate imply it will reach around 3.0% this winter.

The war in Ukraine has caused a widening in credit spreads for local government sector issuers in the capital markets, as it has for other fixed income securities. It is still uncertain whether credit spreads will fall this autumn and winter or whether they will stabilise at a higher level. This, in combination with the increases in money market rates, has made it more expensive for our customers to finance their investment activities. Seen in isolation, these factors may result in a decrease in demand for financing going forward.

The level of demand for KBN-issued bonds continues to be good, and the increase in the credit spreads on KBN's bonds has been relatively moderate. This means that KBN is in a good position to improve its profitability and to further strengthen its long-term capitalisation and lending capacity. KBN has good access to liquidity and will continue to provide its customers with attractive financing for local government sector projects right across Norway.

The Norwegian Government's white paper on ownership (Report to the Storting No. 6) was published on Friday 21 October. In it, the government sets requirements for state-owned companies that are clearer than ever before and emphasises more than previously considerations relating to sustainability, the climate and nature. The white paper states that the aim of the state's ownership of KBN is to achieve the highest possible return over time subject to the limits of sustainability. It also states that the purpose of the state's ownership of KBN is to facilitate a sustainable transition and greater value creation.

Oslo, 27 October 2022

The Board of Directors of Kommunalbanken AS

Interim condensed financial information

INCOME STATEMENT

(Amounts in NOK 1 000 000)	Note	July- September 2022	January- September 2022	July- September 2021	January- September 2021	2021
Interest income from assets measured at amortised cost		1 601	3 578	460	1 506	2 148
Interest income from assets measured at fair value		836	1 911	305	996	1 381
Total interest income		2 437	5 489	765	2 442	3 529
Total interest expense		1 964	4 103	352	1 282	1 943
Net interest income	1	473	1 387	413	1 160	1 585
Fees and commission expenses		28	92	30	81	106
Net unrealized gain/(loss) on financial instruments	2	(163)	(1 567)	271	380	322
Expected credit loss	6	23	22	1	0	0
Net trading income		(1)	16	5	13	73
Total other operating income		(215)	(1 665)	245	312	289
Salaries and administrative expenses		45	133	39	116	160
Depreciation on fixed assets		10	28	7	22	29
Other expenses		12	36	13	46	66
Total operating expenses		67	197	59	183	255
Profit before tax		191	(475)	598	1 290	1 620
Income tax	12	46	(191)	148	324	411
Profit for the period		145	(283)	450	966	1 208
Portion allocated to shareholder		127	(336)	435	922	1 149
Portion allocated to owners of additional Tier 1 capital		18	52	14	44	59

STATEMENT OF COMPREHENSIVE INCOME

(Amounts in NOK 1 000 000)	Note	July- September 2022	January- September 2022	July- September 2021	January- September 2021	2021
Profit for the period		145	(283)	450	966	1 208
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	452	648	(202)	(764)	(809)
Actuarial gain/(loss) on defined benefit plan		0	0	0	0	1
Tax effect		(113)	(162)	50	191	202
Total other comprehensive income		339	486	(151)	(573)	(606)
Total comprehensive income for the period		484	202	298	393	602

STATEMENT OF FINANCIAL POSITION

<i>(Amounts in NOK 1 000 000)</i>	Note	30 September 2022	30 September 2021	31 December 2021
Assets				
Deposits with credit institutions	3,4	49 401	28 062	17 317
Other money market deposits	3	1 828	4 048	0
Instalment loans	3,4,5,6	316 912	315 694	323 672
Notes, bonds and other interest-bearing securities	3,4,6,7,8	110 766	105 729	112 839
Financial derivatives	3,4	46 453	12 830	16 047
Deferred tax asset		2 990	3 097	3 021
Other assets		172	169	169
Total assets		528 522	469 629	473 064
Liabilities and equity				
Loans from credit institutions	3,4	36 725	4 427	5 891
Commercial paper	3,4	1 066	31 923	31 567
Senior securities issued	3,4,9	422 907	391 544	393 663
Financial derivatives	3,4	47 345	20 095	20 072
Other liabilities		38	40	85
Current tax liabilities		0	581	581
Pension liabilities		32	37	32
Subordinated debt	3,4	1 834	2 104	2 092
Total liabilities		509 946	450 752	453 983
Share capital		3 895	3 895	3 895
Additional Tier 1 capital		2 392	2 392	2 392
Retained earnings		12 573	11 625	12 795
Profit for the period		(283)	966	1 208
Total equity	10	18 576	18 877	19 081
Total liabilities and equity		528 522	469 629	473 064

STATEMENT OF CHANGES IN EQUITY

(Amounts in NOK 1 000 000)

	1 January - 30 September 2022				
	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 2021	3 895	2 392	(904)	13 698	19 081
Profit for the period	0	0	0	(283)	(283)
Other comprehensive income—value change on liabilities due to changes in own credit risk (after tax)	0	0	486	0	486
Other comprehensive income—actuarial gain/loss (after tax)	0	0	0	0	0
Interest paid on Tier 1 capital	0	0	0	(62)	(62)
Dividends for 2021	0	0	0	(646)	(646)
Equity as of 30 September 2022	3 895	2 392	(418)	12 707	18 576

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

	1 January - 31 December 2021				
	Share capital	Additional Tier 1 capital	Value changes on liabilities due to changes in own credit risk	Retained earnings	Total equity
Equity as of 31 December 2020	3 895	2 392	(297)	12 547	18 538
Profit for the period	0	0	0	1 208	1 208
Other comprehensive income—value change on liabilities due to changes in own credit risk (after tax)	0	0	(607)	0	(607)
Other comprehensive income—actuarial gain/loss (after tax)	0	0	0	1	1
Interest paid on Tier 1 capital	0	0	0	(59)	(59)
Dividends for 2020	0	0	0	0	0
Equity as of 31 December 2021	3 895	2 392	(904)	13 698	19 081

STATEMENT OF CASH FLOWS

(Amounts in NOK 1 000 000)

	January-September 2022	January-September 2021	2021
Cash flows from operating activities			
Interest received	4 473	2 496	3 410
Interest paid	(2 914)	(1 467)	(1 894)
Fees and commissions paid	(105)	(98)	(73)
Receipts from repurchase of issued securities	16	13	73
Cash payments to employees and suppliers	(168)	(157)	(220)
Income taxes paid	0	(920)	(920)
Net disbursement of loans to customers	421	3 807	(4 783)
Net (increase)/decrease in deposits with credit institutions	(2 208)	(20 599)	(4 733)
Net (increase)/decrease in notes, bonds and other interest-bearing securities	8 566	19 482	12 301
Net (increase)/decrease in other assets	11	(6)	(9)
Net increase/(decrease) in other liabilities	(568)	23	(30)
Net (increase)/decrease in financial derivatives	27 457	139	(4 239)
Net cash flows from operating activities	34 982	2 666	(1 117)
Cash flows from investing activities			
Net (purchase)/sales of property and equipment	(29)	(15)	(21)
Net cash flows from investing activities	(29)	(15)	(21)
Cash flows from financing activities			
Proceeds from issuance of commercial paper	53 776	222 830	273 232
Repayment of commercial paper	(84 401)	(211 398)	(262 037)
Repayment on lease obligation	(1)	(5)	(6)
Proceeds from issuance of debt securities	53 544	70 568	96 551
Repayment of debt securities	(57 001)	(84 258)	(106 476)
Interest paid on Tier 1 capital	(62)	(54)	(60)
Dividends paid	(646)	0	0
Net cash flows from financing activities	(34 790)	(2 317)	1 205
Net cash flows	163	333	67
Effects of foreign exchange differences	(19)	19	51
Net cash flows after foreign exchange differences	144	353	118
Cash and cash equivalents at 1 January	308	190	190
Net change in cash and cash equivalents	144	353	118
Cash and cash equivalents at end of period	452	543	308
Whereof			
Deposits with credit institutions without agreed time to maturity	452	543	308
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 2022 are prepared in accordance with IAS 34 *Interim Financial Reporting*, and follow the same accounting policies as presented in the annual financial statements for 2021, with following clarifications:

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

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

NOTE 1

Net interest income

(Amounts in NOK 1 000 000)

July-September 2022	Total	At fair value				Amortised cost
		Fair value option	Mandatory at fair value	Fair value hedge	Total at fair value	
Deposits with credit institutions	1	0	0	0	0	1
Other money market deposits	0	0	0	0	0	0
Instalment loans	1 858	505	0	0	505	1 353
Notes, bonds and other interest-bearing securities	439	192	0	0	192	247
Financial derivatives	139	0	154	(15)	139	0
Total interest income	2 437	697	154	(15)	836	1 601
Loans from credit institutions	8	0	0	0	0	8
Commercial paper ¹	(1)	0	0	0	0	(1)
Senior securities issued	1 843	846	0	0	846	997
Financial derivatives	98	0	(338)	436	98	0
Subordinated debt	15	15	0	0	15	0
Other interest expenses	0	0	0	0	0	0
Total interest expenses	1 964	861	(338)	436	959	1 004
Net interest income	473	(165)	492	(451)	(124)	597

¹ Short term funding in EUR carrying negative interest rates

January-September 2022	Total	At fair value				Amortised cost
		Fair value option	Mandatory at fair value	Fair value hedge	Total at fair value	
Deposits with credit institutions ¹	(18)	0	0	0	0	(18)
Other money market deposits ¹	(1)	0	0	0	0	(1)
Instalment loans	4 690	1 505	0	0	1 505	3 185
Notes, bonds and other interest-bearing securities	874	462	0	0	462	412
Financial derivatives	(56)	0	(21)	(35)	(56)	0
Total interest income	5 489	1 968	(21)	(35)	1 911	3 578
Loans from credit institutions	18	0	0	0	0	18
Commercial paper ²	(22)	0	0	0	0	(22)
Senior securities issued	5 033	2 547	0	0	2 547	2 486
Financial derivatives	(960)	0	(726)	(233)	(960)	0
Subordinated debt	46	46	0	0	46	0
Other interest expenses ³	(12)	0	0	0	0	(12)
Total interest expenses	4 103	2 593	(726)	(233)	1 633	2 470
Net interest income	1 387	(625)	705	199	278	1 108

¹ Deposits in EUR carrying negative interest rates

² Short term funding in EUR carrying negative interest rates

³ Reversed interest expense on tax as a result of changes in tax return for previous years

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 ¹	(13)	0	0	0	0	(13)
Other money market deposits ¹	(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
Total interest income	765	578	(273)	0	305	460
Loans from credit institutions	0	0	0	0	0	0
Commercial paper ²	(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
Other interest expenses	0	0	0	0	0	0
Total interest expenses	352	899	(681)	(582)	(364)	717
Net interest income	413	(321)	408	582	670	(257)

¹ Deposits in EUR carrying negative interest rates

² Short term funding in EUR carrying negative interest rates

January-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 ¹	(33)	0	0	0	0	(33)
Other money market deposits ¹	(6)	0	0	0	0	(6)
Instalment loans	2 909	1 482	0	0	1 482	1 427
Notes, bonds and other interest-bearing securities	361	243	0	0	243	118
Financial derivatives	(730)	0	(730)	0	(730)	0
Total interest income	2 501	1 725	(730)	0	996	1 506
Loans from credit institutions	0	0	0	0	0	0
Commercial paper ²	(44)	0	0	0	0	(44)
Senior securities issued	5 179	2 874	0	0	2 874	2 305
Financial derivatives	(3 898)	0	(2 179)	(1 719)	(3 898)	0
Subordinated debt	46	46	0	0	46	0
Other interest expenses ³	59	0	0	0	0	59
Total interest expenses	1 341	2 920	(2 179)	(1 719)	(978)	2 319
Net interest income	1 160	(1 194)	1 449	1 719	1 974	(814)

¹ Deposits in EUR carrying negative interest rates

² Short term funding in EUR carrying negative interest rates

³ Interest expense on tax as a result of changes in tax return for previous years

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 ¹	(48)	0	0	0	0	(48)
Other money market deposits ¹	(3)	0	0	0	0	(3)
Instalment loans	4 028	1 990	0	0	1 990	2 037
Notes, bonds and other interest-bearing securities	491	330	0	0	330	161
Financial derivatives	(939)	0	(939)	0	(939)	0
Total interest income	3 529	2 320	(939)	0	1 381	2 148
Loans from credit institutions	0	0	0	0	0	0
Commercial paper ²	(65)	0	0	0	0	(65)
Senior securities issued	6 723	3 810	0	0	3 810	2 914
Financial derivatives	(4 859)	0	(2 634)	(2 225)	(4 859)	0
Subordinated debt	61	61	0	0	61	0
Other interest expenses ³	84	0	0	0	0	84
Total interest expenses	1 943	3 871	(2 634)	(2 225)	(988)	2 932
Net interest income	1 585	(1 551)	1 695	2 225	2 369	(784)

¹ Deposits in EUR carrying negative interest rates

² Short term funding in EUR carrying negative interest rates

³ Interest expense on tax as a result of changes in tax return for previous years

NOTE 2

Net unrealised gain/(loss) on financial instruments

(Amounts in NOK 1 000 000)

	July- September 2022	January- September 2022	July- September 2021	January- September 2021	2021
Instalment loans	(1 320)	(7 005)	(1 015)	(2 419)	(3 048)
Notes, bonds and other interest-bearing securities	(858)	(2 417)	(170)	(535)	(784)
Financial derivatives	(7 003)	(20 144)	(1 301)	(3 340)	(6 204)
Senior securities issued	8 969	27 755	2 823	6 688	10 344
Subordinated debt	50	244	(65)	(13)	14
Net unrealised gain/(loss) on financial instruments	(163)	(1 567)	271	380	322

Specification of total value changes including hedging instruments	July- September 2022	January- September 2022	July- September 2021	January- September 2021	2021
Notes, bonds, and other interest-bearing securities, including hedging instruments	29	(148)	(9)	30	54
Instalment loans, including hedging instruments	(543)	(1 512)	(1)	337	99
Senior securities issued and subordinated debt, including hedging instruments	351	93	280	13	169
Net unrealized gain/(loss) on financial instruments	(163)	(1 567)	271	380	322

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 losses of NOK 163 million in the third quarter of 2022, Instalment loans and associated hedging contracts contribute with a loss of NOK 543 million, mainly due to widening of credit

spreads. Notes, bonds and other interest-bearing securities and their associated hedging contracts contribute with a gain of NOK 29 million. Senior securities issued and related hedging derivatives contribute with a gain of NOK 351 million.

Recognised value changes on financial instruments in fair value hedges of Senior securities issued and associated hedging instruments amount to NOK 9 million in the third quarter of 2022. This amount is included in the above table as net unrealised changes in value. The carrying amount of the Senior securities issued included in fair value hedges amounts to NOK 217 billion.

KBN has implemented hedge accounting for fixed-rate lending in 2022. For fixed-rate lending, interest rate risk is hedged financially through the use of interest rate swaps, and fair value hedging has been introduced for accounting purposes. This only applies for new fixed-rate lending from 2022 on. For fixed-rate lending with associated hedging instruments that are included in hedge accounting, recognized value changes amount to NOK -28 million in the third quarter of 2022, which are included as net unrealized changes in value in the table above. The carrying amount of hedged fixed-rate loans amounts to NOK 11 billion.

NOTE 3

Classification of financial instruments

(Amounts in NOK 1 000 000)

At 30 September 2022	Total	At fair value			Amortised cost
		Fair value option	Mandatory at fair value	Fair value hedge	
Deposits with credit institutions	49 401	0	0	0	49 401
Other money market deposits	1 828	0	0	0	1 828
Instalment loans	316 912	86 776	0	0	230 136
Notes, bonds and other interest-bearing securities	110 766	66 795	0	0	43 971
Financial derivatives	46 453	0	46 071	382	0
Total financial assets	525 360	153 571	46 071	382	325 336
Loans from credit institutions	36 725	0	0	0	36 725
Commercial paper	1 066	0	0	0	1 066
Senior securities issued	422 907	176 485	0	0	246 422
Financial derivatives	47 345	0	26 443	20 902	0
Subordinated debt	1 834	1 834	0	0	0
Total financial liabilities	509 876	178 319	26 443	20 902	284 212

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
Total financial assets	466 363	184 720	9 353	3 476	268 813
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
Total financial liabilities	450 094	178 702	18 308	1 787	251 297

At 31 December 2021	Total	At fair value			Amortised cost
		Fair value option	Mandatory at fair value	Fair value hedge	
Deposits with credit institutions	17 317	0	0	0	17 317
Other money market deposits	0	0	0	0	0
Instalment loans	323 672	107 283	0	0	216 389
Notes, bonds and other interest-bearing securities	112 839	83 820	0	0	29 019
Financial derivatives	16 047	0	13 590	2 457	0
Total financial assets	469 874	191 103	13 590	2 457	262 725
Loans from credit institutions	5 891	0	0	0	5 891
Commercial paper	31 567	0	0	0	31 567
Senior securities issued	393 663	174 868	0	0	218 795
Financial derivatives	20 072	0	17 363	2 708	0
Subordinated debt	2 092	2 092	0	0	0
Total financial liabilities	453 285	176 961	17 363	2 708	256 253

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 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 2022 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
Instalment loans	0	753	86 023	86 776
Notes, bonds and other interest-bearing securities	53 314	1 637	11 844	66 795
Financial derivatives	0	46 449	4	46 453
Total financial assets measured at fair value	53 314	48 839	97 870	200 023
Senior securities issued	9 270	145 497	21 718	176 485
Financial derivatives	0	40 637	6 708	47 345
Subordinated debt	0	0	1 834	1 834
Total financial liabilities measured at fair value	9 270	186 134	30 260	225 664

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
Carrying amount at 31 December 2021	98 853	6 599	30 522	2 092	(8 674)
Purchase	0	7 625	(113)	0	0
Sale	0	0	0	0	0
Issue	0	0	270	0	(27)
Settlement	(10 545)	(2 457)	(11 379)	0	2 263
Transfer into Level 3	0	175	0	0	0
Transfer out of Level 3	(1 948)	0	0	0	0
Gain/(loss) recognised in the period	(338)	(98)	2 418	(258)	(267)
Carrying amount at 30 September 2022	86 023	11 844	21 718	1 834	(6 704)

Net holdings amounting to NOK 0.2 billion have been transferred from Level 2 to Level 1 in 2022. There have been net transfers of NOK 1.9 billion out of Level 3 during 2022. 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 2022.

(Amounts in NOK 1 000 000)		30 September 2022
Instalment loans		(311)
Notes, bonds and other interest-bearing securities		(17)
Financial derivatives		(20)
Senior securities issued		24
Subordinated debt		10
Total		(314)

Financial instruments measured at amortised cost

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

NOTE 5**Instalment loans**

(Amounts in NOK 1 000 000)	30 September 2022	30 September 2021	31 December 2021
Principal amount	322 617	314 448	323 018
Accrued interest	1 736	1 031	1 048
Fair value adjustment	(7 394)	240	(390)
Expected credit loss	(46)	(24)	(24)
Total instalment loans	316 912	315 694	323 672

NOTE 6

Expected credit loss

Changes in expected credit losses on instalment loans and bond investments of NOK 23 million were recorded in the third quarter of 2022, mainly based on the impact of market turmoil on macro indicators in the model.

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.

(Amounts in NOK 1 000 000)	30 September 2022		31 December 2021
	Carrying amount	Expected credit loss	Expected credit loss
Instalment loans	230 136	(46)	(24)
Notes, bonds and other interest-bearing securities	43 971	(1)	(2)
Total	274 107	(48)	(26)

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

(Amounts in NOK 1 000 000)	July-September 2022	January-September 2022	2021
Instalment loans	(23.2)	(21.8)	0.3
Notes, bonds and other interest-bearing securities	0.3	0.2	(0.5)
Total	(22.9)	(21.6)	(0.1)

The following table shows an allocation of KBN's expected credit losses as at 30 September 2022 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.

(Amounts in NOK 1 000 000)	Stage 1	Stage 2	Stage 3
Instalment loans	(46)	0	0
Notes, bonds and other interest-bearing securities	(1)	0	0
Total expected credit loss	(48)	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 2022	30 September 2021	31 December 2021
Domestic			
Issued by public bodies ¹	0	0	0
Issued by other borrowers	21 081	17 929	19 279
Foreign			
Issued by public bodies ¹	78 904	72 868	76 498
Issued by other borrowers	10 781	14 933	17 061
Total notes, bonds and other interest-bearing securities	110 766	105 729	112 839

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

Notes, bonds and other interest-bearing securities by time to	30 September 2022	30 September 2021	31 December 2021
Under 1 year	45 555	39 474	51 325
1-5 years	62 535	64 540	59 787
Over 5 years	2 676	1 714	1 726
Total notes, bonds and other interest-bearing securities	110 766	105 729	112 839
Average time to maturity (years)*	2.0	1.9	1.6

*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 1.9 years as of September 30, 2022.

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

NOTE 9

Senior securities issued

(Amounts in NOK 1 000 000)	30 September 2022	30 September 2021	31 December 2021
Senior securities issued (nominal amounts) as at 1 January	395 385	405 451	405 451
New issuance	53 544	71 614	96 550
Redemptions	(56 772)	(84 602)	(107 019)
Amortisation	(229)	344	544
Translation differences	60 910	(3 028)	(141)
Senior securities issued (nominal amounts) as at end of period	452 838	389 778	395 385
Accrued interest	4 068	3 749	3 875
Fair value adjustment	(33 998)	(1 983)	(5 596)
<i>Of which value change that is due to change in own credit risk</i>	<i>558</i>	<i>1 161</i>	<i>1 206</i>
<i>Of which value change that is due to other reasons</i>	<i>(34 556)</i>	<i>(3 144)</i>	<i>(6 802)</i>
Total senior securities issued	422 907	391 544	393 663

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

<i>(Amounts in NOK 1 000 000)</i>	30 September 2022	30 September 2021	31 December 2021
Equity	18 576	18 877	19 081
Ordinary subordinated debt included in equity	(2 392)	(2 392)	(2 392)
Equity included in Tier 1 capital	16 185	16 485	16 690
Deductions:			
Deferred tax asset*	(1 358)	(1 438)	(1 353)
Intangible assets	(141)	(137)	(140)
Dividends payable	0	(485)	(646)
Prudent valuation adjustments (AVA)	(145)	(139)	(135)
Adjustments unrealised loss (gains) due to change in own credit risk	418	870	904
Total common equity Tier 1 capital	14 959	15 157	15 320
Other approved Tier 1 capital	2 392	2 392	2 392
Total Tier 1 capital	17 351	17 549	17 711
<i>Supplementary capital</i>			
Ordinary subordinated debt	2 000	2 000	2 000
Total supplementary capital	2 000	2 000	2 000
Total primary capital	19 351	19 549	19 711

* 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/

NOTE 11

Capital adequacy

(Amounts in NOK 1 000 000)

	30 September 2022			30 September 2021	31 December 2021
	Carrying amount	Risk-weighted assets	Minimum capital requirements	Minimum capital requirements	Minimum capital requirements
Credit risk					
Sovereigns and central banks	46 320	0	0	0	0
Regional governments and local authorities	339 021	63 998	5 120	5 075	5 202
<i>Of which are Norwegian municipalities</i>	316 912	63 656	5 093	5 075	5 202
Public sector entities	5 626	0	0	0	0
Multilateral development banks	6 465	0	0	0	0
Financial institutions	23 957	4 569	366	349	211
<i>Of which counterparty exposure on derivatives</i>	19 678	4 079	326	104	159
Claims secured by residential property	23	23	2	2	2
Covered bonds	30 025	3 003	240	263	291
Other assets	1 661	4 108	329	333	334
Securitisation	0	0	0	0	0
Credit Valuation Adjustment	351	4 387	351	136	194
Total credit risk	453 450	80 088	6 407	6 158	6 234
Market risk	0	0	0	0	0
Operational risk—Basic Indicator Approach		3 573	286	302	286
Minimum capital requirements		83 661	6 693	6 460	6 519
Total capital ratio			23.1%	24.2%	24.2%
Tier 1 capital adequacy ratio			20.7%	21.7%	21.7%
Common equity Tier 1 capital adequacy ratio			17.9%	18.8%	18.8%
Leverage ratio			3.7%	3.9%	3.9%

NOTE 12

Tax expense

In June 2022, KBN received a decision to change the tax return for the years 2019 and 2020. KBN has previously received a decision to change the tax return for the income years 2015 to 2018, and the change concerns the tax-related accrual of financial instruments. The tax authorities' decision refers to the tax treatment and periodisation of tax-related income and cost, but no change in what constitutes tax-related income and cost over the instruments' total lifetime.

KBN's accounts have been prepared in line with the tax authorities' views. The change decision moves taxable income from years with a 27 per cent tax rate to years with a 25 per cent tax rate. This has resulted in a reduction of the tax cost of NOK 54 million recorded in the second quarter of 2022.

KBN still disagrees with the tax authorities on certain matters regarding tax-related accruals in the accounts, and part of the change decisions have been appealed.

The logo for KBN, consisting of the letters 'KBN' in a bold, white, sans-serif font, positioned on a white rectangular background that is slightly tilted to the right.

The Norwegian Agency
for Local Governments

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

Phone: +47 21 50 20 00
E-mail: post@kbn.com
www.kbn.com