MOODY'S
INVESTORS SERVICE

CREDIT OPINION
25 October 2021

Update

Rate this Research

**RATINGS**

**Kommunalbanken AS**

| | |
|---|---|
| Domicile | Oslo, Norway |
| Long Term CRR | Aaa |
| Type | LT Counterparty Risk Rating - Fgn Curr |
| Outlook | Not Assigned |
| Long Term Debt | Aaa |
| Type | Senior Unsecured - Fgn Curr |
| Outlook | Stable |
| Long Term Deposit | Not Assigned |

*Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.*


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# Kommunalbanken AS

## Update to credit analysis following rating affirmation

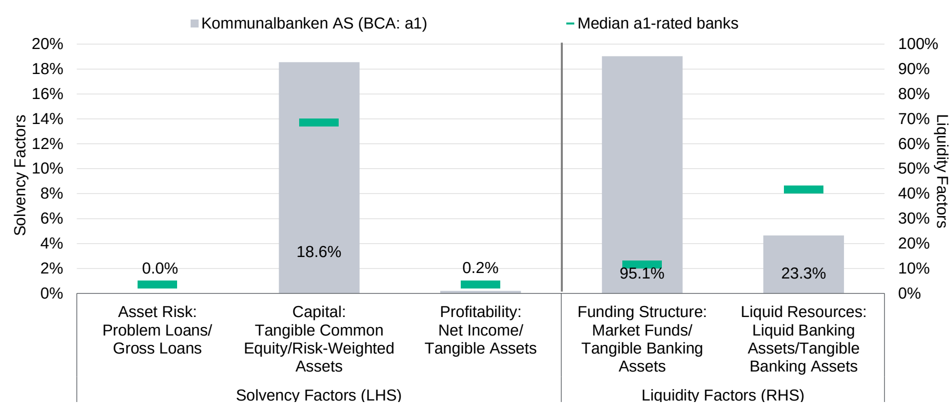
## Summary


Kommunalbanken AS' (KBN) Aaa senior unsecured debt rating reflects its a1 Baseline Credit Assessment (BCA); our Advanced Loss Given Failure (LGF) analysis that results in a two-notch rating uplift from the a1 BCA, given its significant volume of senior unsecured debt; and our view of a very high likelihood of support for KBN from the Government of Norway (Aaa stable) because of the entity's full public ownership and its role as the principal financier of the Norwegian regional and local government (RLG) sector, resulting in a further two notches of rating uplift. KBN's short-term senior unsecured rating is Prime-1.

We apply our Advanced LGF analysis on the institution's liabilities because they are not guaranteed by the Norwegian public sector and KBN is within the scope of the Norwegian implementation of the Bank Resolution and Recovery Directive (BRRD).

KBN's a1 standalone BCA reflects: 1) its position in Norway as the largest provider of funding to the RLG sector; 2) its strong asset quality that derives from the credit quality of the Norwegian RLGs that the agency serves; 3) its robust capital levels, relative to risks, that are well above regulatory requirements, and moderate leverage; 4) modest profitability, in line with its public policy mandate, and strong efficiency; and 5) a high reliance on market funding with some asset and liability maturity mismatches that are mitigated by a diverse funding profile and strong liquidity.


Exhibit 1
**Rating Scorecard - Key Financial Ratios as of 30 June 2021**




These are our Banks Methodology scorecard ratios. Asset risk and profitability reflect the weaker of either the three-year average and latest annual figure. Capital is the latest reported figure. Funding structure and liquid resources reflect the latest fiscal year-end figures
*Source: Moody's Investors Service*

## Credit strengths

» In line with its public policy mandate KBN is the largest lender to the Norwegian public sector, underpinning the stability of its operations

» Strong asset quality rests on RLGs predictable revenue streams and central government oversight

» Very strong capital position relative to risks and substantially above regulatory requirements

» Strong operating efficiency

» Probability of government support is “Very high” for senior creditors

## Credit challenges

» Some lending concentrations

» Modest profitability commensurate with public policy mandate and low-risk profile

» High reliance on market funding with some asset and liability mismatches

## Outlook

The outlook on KBN's senior unsecured debt ratings is stable, reflecting our expectation that its public policy role will be maintained along with an unchanged willingness to support from the Norwegian government.

## Factors that could lead to an upgrade

» The likelihood of an upgrade of KBN's BCA is limited because it is already at the higher end of peers' and banks' BCAs globally. Furthermore, an upgrade of the BCA will not translate into a higher senior unsecured rating, because it is already at Aaa.

## Factors that could lead to a downgrade

» Downward pressure on KBN's rating could arise as a result of weaker asset quality; a dilution of KBN's public policy mandate and lower importance for the RLG sector; a weaker position in the debt capital markets or reduced liquidity; and sustained weaker financial performance.

» KBN's senior and subordinated ratings could also be under pressure if the likelihood of government support for either of these debt classes diminishes or if the sovereign rating is downgraded.

## Key indicators

Exhibit 2

**Kommunalbanken AS (Consolidated Financials) [1]**

| | 06-21[2] | 12-20[2] | 12-19[2] | 12-18[2] | 12-17[2] | CAGR/Avg.[3] |
|---|---|---|---|---|---|---|
| Total Assets (NOK Billion) | 454.1 | 461.8 | 449.2 | 420.7 | 390.5 | 4.4[4] |
| Tangible Common Equity (NOK Billion) | 15.1 | 14.5 | 13.3 | 13.1 | 12.7 | 5.0[4] |
| Tangible Common Equity / Risk Weighted Assets (%) | 18.6 | 17.8 | 16.7 | 17.3 | 18.8 | 17.8[6] |
| Net Interest Margin (%) | 0.3 | 0.3 | 0.4 | 0.5 | 0.5 | 0.4[5] |
| PPI / Average RWA (%) | 1.6 | 1.9 | 2.4 | 2.3 | 3.7 | 2.4[6] |
| Net Income / Tangible Assets (%) | 0.2 | 0.3 | 0.3 | 0.3 | 0.5 | 0.3[5] |
| Cost / Income Ratio (%) | 15.6 | 14.1 | 11.9 | 11.1 | 6.9 | 11.9[5] |
| Market Funds / Tangible Banking Assets (%) | 95.1 | 95.1 | 95.1 | 95.6 | 95.4 | 95.3[5] |
| Liquid Banking Assets / Tangible Banking Assets (%) | 21.7 | 23.3 | 24.1 | 23.4 | 27.9 | 24.1[5] |

[-] Further to the publication of our revised methodology in July 2021, for issuers that have "high trigger" additional Tier 1 instruments outstanding, not all ratios included in this report reflect the change in treatment of these instruments. [1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

*Sources: Moody's Investors Service and company filings*

## Profile

Kommunalbanken AS' (KBN) purpose is to provide loans to Norwegian counties and municipalities, as well as intermunicipal companies and other companies that carry out tasks at a municipal level. The loans are granted against either a municipal or government guarantee. KBN's lending is funded by issuing securities in the international capital markets.

KBN is fully owned by the Norwegian state, with the Ministry of Local Government and Modernisation acting as KBN's owner. The ministry appoints KBN's board of directors, Supervisory Board and the external auditor.

KBN was established in November 1999 by special law as a limited company, taking over all the activities from the government-owned Norges Kommunalbank (NKB). NKB had been established as a state institution in 1926 with the sole purpose of lending to Norwegian local governments by issuing bonds, all of which were covered by state guarantees. However, NKB's lending was kept within government fixed lending limits. KBN does not have to obey such limits, thus giving the agency greater freedom in its borrowing and lending operations; however, its funding is not explicitly guaranteed.

KBN strives to be a leader in green finance in Norway and to contribute to the transition to a low-carbon society. In 2013, KBN was the first financial institution in the Nordics to issue a public green bond.

### Recent developments

On October 19, 2021 Moody's affirmed all of KBN's ratings.

On 23 September Norges bank increased its policy rate to 0.25%, from 0% previously. Norges bank expects to continue hiking the rate both in 2021 and 2022.

On 17 June, the Ministry of Finance announced that the countercyclical buffer will be increased to 1.5% on 30 June 2022, from the current level of 1%.

On 1 April 2021, we changed our outlook for the Norwegian banking system to stable from negative. The change reflects our expectation that the Norwegian economy will recover strongly in 2021 after a coronavirus-induced downturn last year, exacerbated by a fall in oil prices. Norwegian banks will maintain good asset quality, as well as strong capitalisation and solid profitability. Their dependence on market funding will remain high, although offset by ample liquidity.

## Detailed credit considerations

### KBN is the largest lender to the Norwegian public sector, underpinning the stability of its operations

KBN benefits from operating in a wealthy and developed country with very high economic, institutional and government financial strength, as well as very low susceptibility to adverse events. KBN's Macro Profile is aligned with that of Norway at 'Very Strong -'.

KBN's government-related footprint is substantial, reflecting its establishment though legislation, its public policy mandate and full government ownership. In addition, the company benefits from oversight by the Ministry of Local Government and Modernisation and supervision by the Norwegian Financial Supervisory Authority (FSA or Finanstilsynet). KBN benefits from a maintenance obligation, according to which the Norwegian central government ensures that KBN can fulfill its mandate to provide low-cost financing to the Norwegian RLG sector.

With a reported market share of 45%, as of June 2021, KBN is the largest provider of funding to RLGs and companies owned by RLG in Norway and therefore plays an important role in the Norwegian economy. KBN's customer base includes all Norwegian municipalities. Some RLGs also use their own funding programmes to raise funds; this is particularly applicable for the larger RLGs because they have a stronger capacity to make direct use of capital markets.

KBN's public policy mandate and the above factors underpin the stability of KBN's operations and our positive adjustment for Business Diversification.

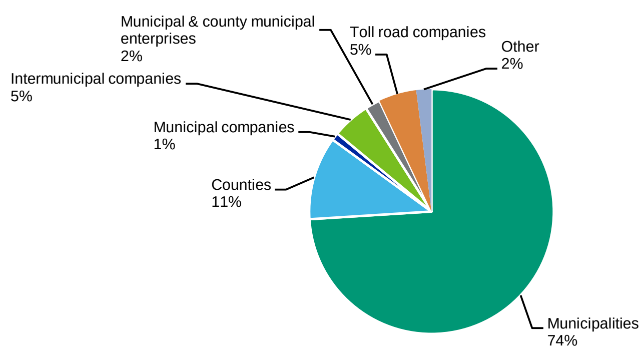
### Very strong asset quality rests on RLGs predictable revenue streams and central government oversight

We expect KBN's asset quality to remain resilient also during more challenging economic times because its creditworthiness is based on the high credit quality of the Norwegian RLG sector that the agency serves (see Exhibit 3). This is also demonstrated by KBN's problem loan ratio of 0% and the fact that the institution (and its predecessor NKB) has never recorded a loss on its loan book, which is reflected in our aa1 Asset Risk score.

Exhibit 3

**KBN lends to the Norwegian RLG sector**

**Outstanding lending by customer category as of year-end 2020**




*Source: Company annual report*

We consider the Norwegian RLG sector financially strong because of the supportive and closely supervised system that underpins the sector. Much of Norwegian RLGs' revenue comes from government grants, and the equalisation principle ensures that all RLGs have the financial means to deliver consistent service delivery throughout the country. Furthermore, all budgets are supervised by the central government and RLGs are not allowed to budget for an operating deficit, while RLGs can only borrow for certain purposes. If an RLG experiences a deficit, it is placed under close government oversight until the deficit is eliminated.

Importantly, RLGs cannot be declared insolvent and payments cannot be cancelled, only deferred and interest would accrue normally. Given this background, KBN has not recorded a loss from lending during over 90 years of operations. Although KBN never incurred a credit loss, in line with IFRS 9 accounting standards the lender made provisions for theoretical losses on loans and bond investments of NOK25 million as of June 2021, slightly lower than as of year-end 2020 and considerably lower compared to NOK37 million as of June 2020. The amount remained small against relevant exposures of NOK238 billion, all of which continue to be considered Stage 1.

Notwithstanding, indebtedness of the Norwegian RLG sector has increased in recent years, along with an increasing standard of public services, and a portion of these borrowings would be sensitive to higher interest rates. Further, similar to its peers, KBN's customer base is small in number, which inherently leads to single-borrower concentrations in its loan book. Nonetheless, KBN complies with all regulations, including those on large exposures.

KBN's risk policy allows for minimal exposure to interest rate and currency risk, which are managed through matching of assets and liabilities, and hedging through derivatives. Counterparty risk is mitigated through standard international swap and derivative association (ISDA) agreements and Collateral Support Annexes (CSAs) with all counterparties.

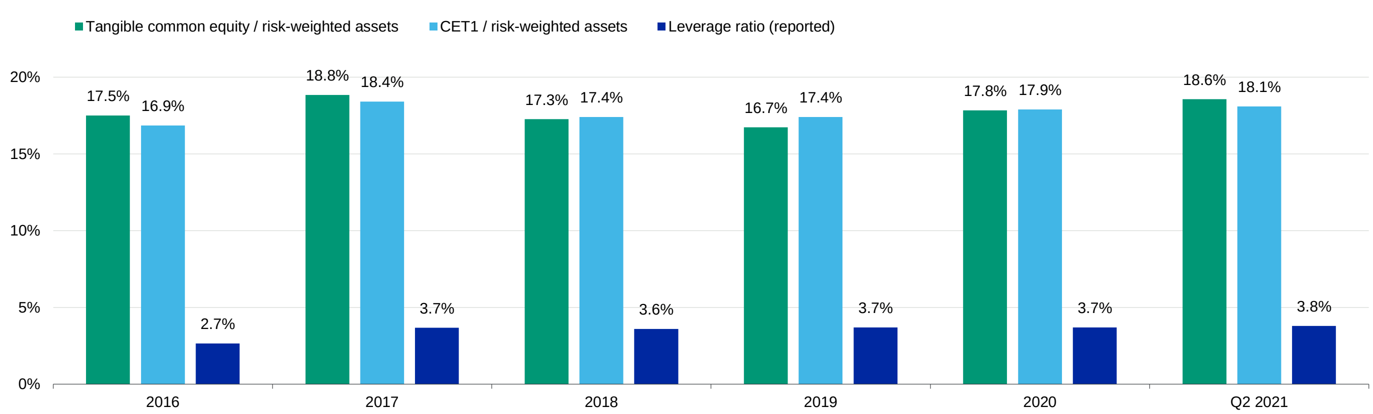
### Capital position is robust relative to risks and substantially above regulatory requirements; leverage is moderate

We consider KBN's capitalisation commensurate with its low-risk assets, which drives our aa2 Capital score. As of June 2021, the institution's ratio of tangible common equity to risk-weighted assets was 18.6% (see Exhibit 4). In April 2020, the Norwegian government executed an equity injection of NOK750 million into KBN to support its role in financing the RLG sector in light of the market turmoil. In addition to the equity injection in April 2020, the bank has managed to continue to strengthen its capital through retained earnings.

As of June 2021, KBN reported an 18.1% Common Equity Tier 1 (CET1) capital ratio and a 23.5% total capital ratio. These metrics remain well above a minimum current CET1 requirement of 15.2% and a total capital requirement of 18.7% for that period, which include a pillar 2 add-on of 2.2% specific to KBN that is set by the Norwegian FSA. The requirements are in line with year-end 2020 but 40 basis points higher than that as of year-end 2019, despite the partial release of the countercyclical buffer to 1.0% from 2.5%. KBN's pillar 2 requirement increased to 2.3% from 1.4% as of year-end 2019 and the introduction of an institution-specific systemic risk buffer of 1%. On 17 June, the ministry of finance announced that the countercyclical buffer will be increased to 1.5% on 30 June 2022 from the current level of 1%. Given KBN's high capital ratios, they will maintain strong capitalisation following the increase in countercyclical buffer requirements.

Exhibit 4

**KBN's capital is solid with substantial headroom above capital requirements**
**Capital metrics evolution**




*Source: Moody's Financial Metrics, company reports*

KBN is required to apply a 20% risk-weight on lending to RLGs, whereas its Nordic peers typically assign a zero risk weight to this type of lending. As a consequence KBN's risk-weighted capital metrics are below those of its Nordic peers that are government related issuers. Ss of June 2021 KBN reported a Basel leverage ratio of 3.8% compared to 3.7% as of year-end 2020 and 2019. Although moderate, this level is above the 3% minimum leverage ratio requirement for KBN.

### Modest profitability proportionate with public policy mandate and low-risk profile; operating efficiency is strong

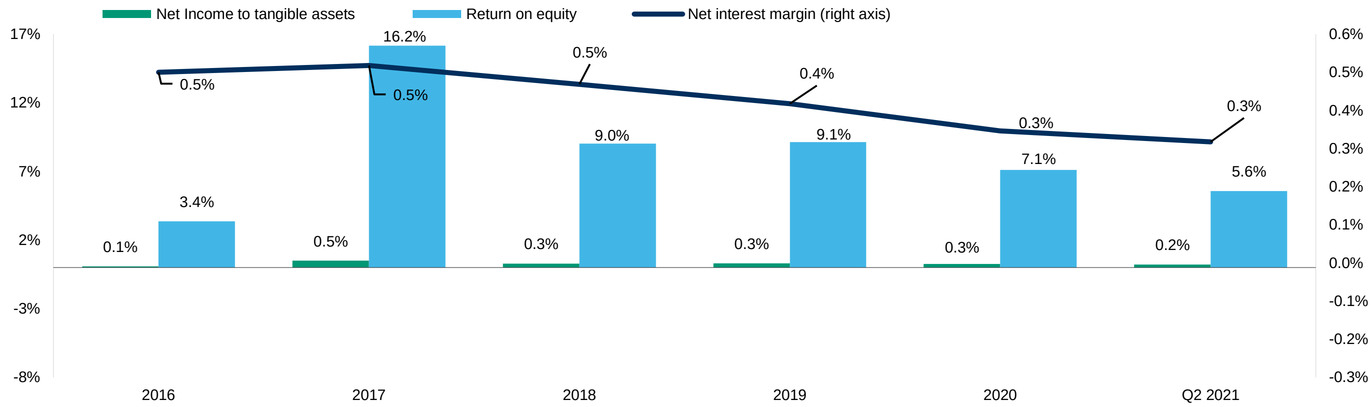
Like other lenders with a public policy mandate, KBN's profitability is modest because it aims to offer cost-effective lending to its customers rather than to maximise its profit. Net income to tangible assets was 0.2% in H1 2021 compared to 0.3% in 2020 (see Exhibit 5).

KBN posted a profit of NOK516 million for the first half of 2021, compared with profit of NOK385 million in the first half of 2020. The main reason for this increase was unrealised gains on financial instruments and loans measured at fair value, totaling NOK109 million in 2021 compared to loss of NOK141 million in 2020.

Despite fluctuations in the fair value of financial instruments, we consider KBN's underlying profitability stable and predictable because the institution is a market leader and the composition of its RLG customer base is likely to remain stable. Moreover, KBN's customers are low risk for the reasons explained in the above section. These drivers are reflected in our ba3 Profitability score.

Exhibit 5

**KBN's profitability is modest in light of its public policy mandate**
**Evolution of profitability metrics**



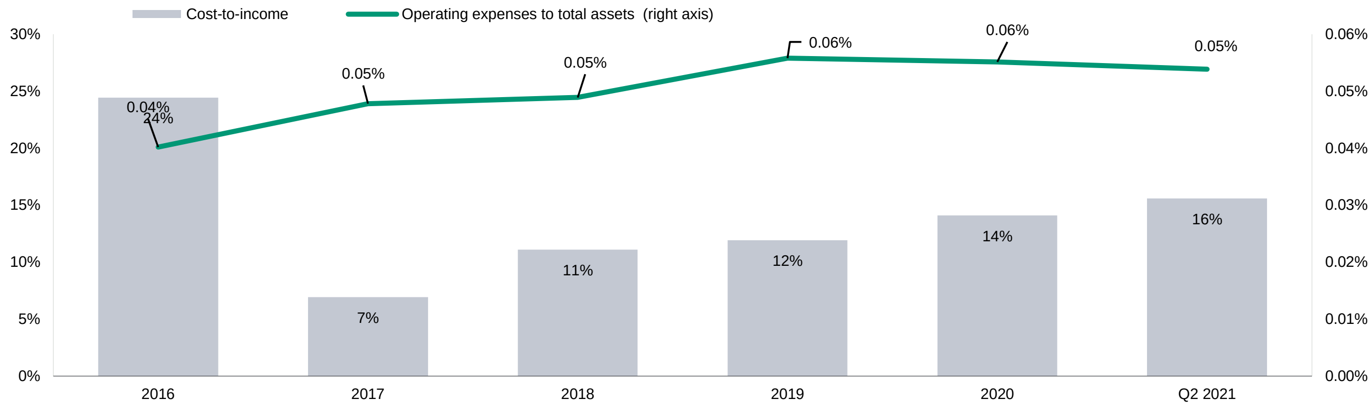

*Source: Moody's Investors Service*

Over the next 12-18 months, we expect KBN's profitability to improve slightly but to remain below the levels posted in 2019 and 2018. The negative pressure from lower returns on its liquidity portfolio will ease due to the interest rate hike in September, and with another raise planned for December 2021. However, we expect continued competition from capital markets to limit the expansion in net interest margin.

Further, KBN's green loans that are financed from the proceeds of green bond issuances are offered to borrowers at a discount of 10 basis points, which could put some pressure on its margins if not fully matched by cheaper funding. Outstanding green loans amounted to 9% of gross loans as of June 2021, and the institution expects this share to increase.

KBN's financial flexibility is helped by strong operating efficiency with a cost to income ratio of 16%, up from 14% in 2020, and with operating expenses maintained at a low 0.05% of total assets in Q2 2021 (see Exhibit 6). KBN's low costs are consistent with its peers, and we think that expenses will remain low because of KBN's unchanged business model and efficient distribution. The increase in expenses in recent years were associated with IT development costs and increased hiring of staff for the compliance function.

Exhibit 6
**KBN demonstrates strong operating efficiency with a low level of operating expenses**



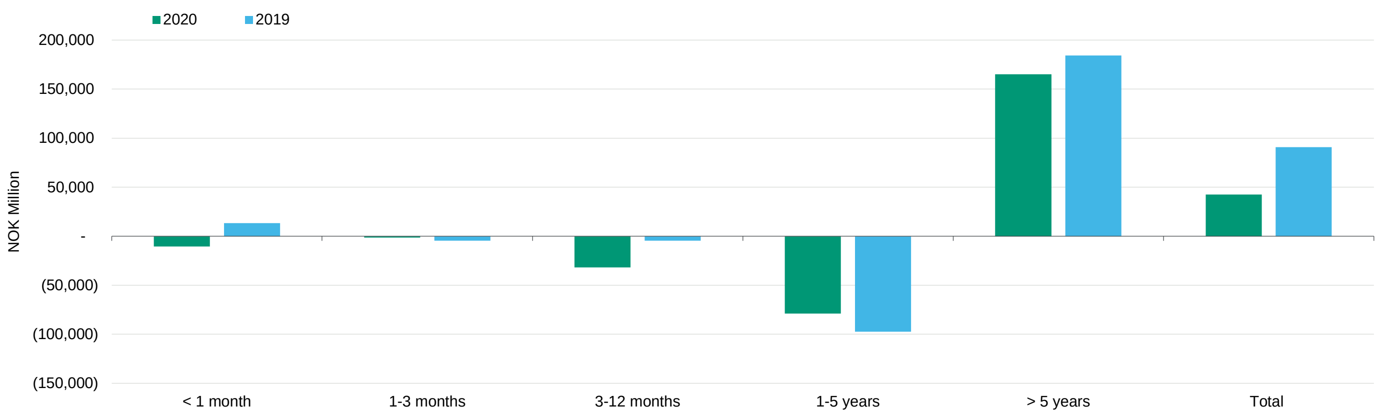

*Source: Moody's Investors Service*

## Diverse funding and adequate liquidity, but with some asset and liability mismatches

Similar to most peers in the Nordics and Europe, KBN is entirely wholesale funded. Also in line with peers, KBN employs a diversified funding strategy, whereby it issues debt in several markets and currencies, subscribed to by a wide variety of investors.

KBN has some contractual mismatches between assets and liabilities (see Exhibit 7), but is match-funded based on an anticipated average maturity on the assets according to historical data. Similar to peers, KBN issues debt with option-like features, and such structured funding could suddenly shorten KBN's liability profile. However, refinancing risk is mitigated by KBN's liquidity portfolio, which in size was around 34% of its lending book as of June 2021. In addition, for liquidity management purposes, KBN assumes its structured funding will be called on the first possible call date. All these elements are taken into account in our baa2 Funding Structure score.

Exhibit 7
**KBN has some asset and liabilities maturity mismatches**
**Net liquidity exposure by contractual time to maturity**




*Source: Company annual reports*

KBN's liquidity portfolio totaled NOK108 billion as of June 2021 and was principally made up of assets of strong credit quality. Our liquid assets to total assets ratio was 21.8% at the end of the period. KBN's aim is to maintain liquid assets that would allow it to sustain operations for the next 12 months if funding markets become unavailable. However, KBN does not have access to regular central bank liquidity facilities, unlike some of its peers. KBN's overall liquidity coverage ratio was 272% in Q2 2021 (year-end 2020: 191% and 2019: 348%).

### Source of facts and figures cited in this report

Issuer-specific figures originate from its financial reports. All figures are based on our own chart of accounts and may be adjusted for analytical purposes. Please refer to the document Financial Statement Adjustments in the Analysis of Financial Institutions, published on 9 August 2018.

## ESG considerations

We view KBN's environmental risks as low, in line with our view on the banking sector. However, municipalities, KBN's principal borrowers, are exposed to climate risk, such as severe weather phenomena, although KBN's green bond programme aims to finance the sector's transition to be more climate resilient. See our Environmental risks heat map for further information.

Because of KBN's role as one of Norway's largest institutions specialising in the financing of Norwegian municipalities, it is susceptible to politically and socially motivated decisions that could affect its financial profile. Its borrowers are exposed to the challenges of providing services to an ageing population leading to increasing dependency on these services. Over time, these challenges can add pressure on municipalities' finances, although the institutional framework overlying KBN's clients, which is explained earlier in the report, could help them manage these risks.

Social risks in terms of customer relations or changes in consumer preferences, which are generally relevant for the banking industry, are less important for KBN, given that the institution does not engage in retail activities. Overall, we view the issuer's exposure to social risks as moderate. See our Social risks heat map for further information.

Governance is highly relevant to KBN's creditworthiness. Corporate governance weaknesses can lead to a deterioration in a company's credit quality, while governance strengths can benefit its credit profile. Governance risks are largely internal rather than externally driven. We do not have specific concerns around KBN's corporate governance at the moment, which is regulated by law and influenced by its public ownership structure.

## Support and structural considerations

### Loss Given Failure (LGF) analysis

Norway has transposed the EU BRRD into local legislation effective from January 2019, and, therefore, we consider the country an operational resolution regime. Despite its ownership and public mandate, KBN is not excluded from the scope of Norway's BRRD implementation. Therefore, in accordance with our methodology we apply our Advanced LGF analysis, considering the risks faced by different debt classes across the liability structure in the unlikely event that KBN would enter resolution.

In our Advanced LGF analysis, we use our standard assumptions and assume residual tangible common equity of 3% and losses post-failure of 8% of tangible banking assets.

Under these assumptions, for KBN's senior unsecured debt, our LGF analysis indicates a very low loss given failure because of the loss absorption provided by the significant amount of senior unsecured debt outstanding. This leads to two notches of rating uplift for senior unsecured debt from KBN's a1 Adjusted BCA.

Our Advanced LGF analysis also shows that KBN's subordinated debt would absorb losses in a currently unlikely failure scenario, resulting in Preliminary Rating Assessment before government support of a2, one notch below the Adjusted BCA.

### Government support considerations

The Aaa rating on KBN's senior unsecured debt reflects our assessment of a very high probability of government support, resulting in two notches of government support uplift. Our views on government support derive from the following factors: KBN's full state ownership and control; its role as the government's tool to enact policies related to local governments; and its public policy mandate to provide low-cost financing to the Norwegian local government sector where its market share is close to 50%. We also believe that the government's willingness and ability to provide support to KBN to cover any capital shortfall is likely to be maintained following the adoption of the BRRD.

We also apply a two-notch rating uplift to KBN's subordinated debt based on our assumption of a high probability of government support, resulting in a (P)Aa3 rating.

### Counterparty Risk Ratings

Counterparty Risk Ratings (CRRs) are opinions of the ability of entities to honour the uncollateralised portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honored. CRRs are distinct from ratings assigned to senior unsecured debt instruments and from issuer ratings because they reflect that, in a resolution, CRR liabilities might benefit from preferential treatment compared with senior unsecured debt. Examples of CRR liabilities include the uncollateralised portion of payables arising from derivatives transactions and the uncollateralised portion of liabilities under sale and repurchase agreements.

#### KBN's CRRs are positioned at Aaa/Prime-1

The CRR, before government support, is positioned three notches above the a1 Adjusted BCA, reflecting the extremely low loss given failure from the high volume of instruments that are subordinated to CRR liabilities. Further, KBN's CRR also benefits from one notch of rating uplift from our assumption of a very high likelihood of government support, in line with our support assumption for senior debt.

### Counterparty Risk Assessment

Counterparty Risk (CR) Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than both the likelihood of default and the expected financial loss suffered in the event of default, and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (for example, swaps), letters of credit, guarantees and liquidity facilities.

#### KBN's CR Assessment is positioned at Aaa(cr)/Prime-1(cr)

For KBN, our Advanced LGF analysis indicates an extremely low loss given failure for the CR Assessment, leading to three notches of uplift from the issuer's a1 Adjusted BCA. Finally, KBN's CR Assessment also benefits from one notch of government support uplift from our very high support assumption.

## Methodology and scorecard

### About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

## Rating methodology and scorecard factors

Exhibit 8
**Kommunalbanken AS**

| **Macro Factors** | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Weighted Macro Profile** | **Very Strong -** | **100%** | | | | | |
| | | | | | | | |
| **Factor** | | **Historic Ratio** | **Initial Score** | **Expected Trend** | **Assigned Score** | **Key driver #1** | **Key driver #2** |
| Solvency | | | | | | | |
| Asset Risk | | | | | | | |
| Problem Loans / Gross Loans | | 0.0% | aa1 | ↔ | aa1 | Quality of assets | |
| Capital | | | | | | | |
| Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in) | | 18.6% | aa1 | ↔ | aa2 | Nominal leverage | |
| Profitability | | | | | | | |
| Net Income / Tangible Assets | | 0.2% | b1 | ↑ | ba3 | Earnings quality | |
| Combined Solvency Score | | | a1 | | a1 | | |
| Liquidity | | | | | | | |
| Funding Structure | | | | | | | |
| Market Funds / Tangible Banking Assets | | 95.1% | caa3 | ↔ | baa2 | Market funding quality | |
| Liquid Resources | | | | | | | |
| Liquid Banking Assets / Tangible Banking Assets | | 23.3% | baa1 | ↔ | a2 | Quality of liquid assets | |
| Combined Liquidity Score | | | b1 | | baa1 | | |
| Financial Profile | | | | | a2 | | |
| Qualitative Adjustments | | | | | Adjustment | | |
| Business Diversification | | | | | 1 | | |
| Opacity and Complexity | | | | | 0 | | |
| Corporate Behavior | | | | | 0 | | |
| Total Qualitative Adjustments | | | | | 1 | | |
| Sovereign or Affiliate constraint | | | | | Aaa | | |
| BCA Scorecard-indicated Outcome - Range | | | | | aa3 - a2 | | |
| Assigned BCA | | | | | a1 | | |
| Affiliate Support notching | | | | | 0 | | |
| Adjusted BCA | | | | | a1 | | |

| **Balance Sheet** | **in-scope (NOK Million)** | **% in-scope** | **at-failure (NOK Million)** | **% at-failure** |
|---|---|---|---|---|
| Other liabilities | 32,730 | 7.2% | 32,730 | 7.2% |
| Senior unsecured bank debt | 403,169 | 88.8% | 403,169 | 88.8% |
| Dated subordinated bank debt | 2,000 | 0.4% | 2,000 | 0.4% |
| Preference shares (bank) | 2,400 | 0.5% | 2,400 | 0.5% |
| Equity | 13,617 | 3.0% | 13,617 | 3.0% |
| Total Tangible Banking Assets | 453,916 | 100.0% | 453,916 | 100.0% |

| Debt Class | De Jure waterfall | | De Facto waterfall | | Notching | | LGF Notching Guidance vs. Adjusted BCA | Assigned LGF notching | Additional Notching | Preliminary Rating Assessment |
|---|---|---|---|---|---|---|---|---|---|---|
| | Instrument volume + subordination | Sub-ordination | Instrument volume + subordination | Sub-ordination | De Jure | De Facto | | | | |
| Counterparty Risk Rating | 92.8% | 92.8% | 92.8% | 92.8% | 3 | 3 | 3 | 3 | 0 | aa1 |
| Counterparty Risk Assessment | 92.8% | 92.8% | 92.8% | 92.8% | 3 | 3 | 3 | 3 | 0 | aa1 (cr) |
| Senior unsecured bank debt | 92.8% | 4.0% | 92.8% | 4.0% | 2 | 2 | 2 | 2 | 0 | aa2 |
| Dated subordinated bank debt | 4.0% | 3.5% | 4.0% | 3.5% | -1 | -1 | -1 | -1 | 0 | a2 |

| Instrument Class | Loss Given Failure notching | Additional notching | Preliminary Rating Assessment | Government Support notching | Local Currency Rating | Foreign Currency Rating |
|---|---|---|---|---|---|---|
| Counterparty Risk Rating | 3 | 0 | aa1 | 1 | Aaa | Aaa |
| Counterparty Risk Assessment | 3 | 0 | aa1 (cr) | 1 | Aaa(cr) | |
| Senior unsecured bank debt | 2 | 0 | aa2 | 2 | Aaa | Aaa |
| Dated subordinated bank debt | -1 | 0 | a2 | 2 | | (P)Aa3 |

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
*Source: Moody's Investors Service*

## Ratings

Exhibit 9

| Category | Moody's Rating |
|---|---|
| **KOMMUNALBANKEN AS** | |
| Outlook | Stable |
| Counterparty Risk Rating | Aaa/P-1 |
| Baseline Credit Assessment | a1 |
| Adjusted Baseline Credit Assessment | a1 |
| Counterparty Risk Assessment | Aaa(cr)/P-1(cr) |
| Issuer Rating | Aaa |
| Senior Unsecured | Aaa |
| Subordinate MTN | (P)Aa3 |
| Commercial Paper | P-1 |
| Other Short Term | (P)P-1 |

*Source: Moody's Investors Service*

REPORT NUMBER 1304659

## CLIENT SERVICES

| | |
|---|---|
| Americas | 1-212-553-1653 |
| Asia Pacific | 852-3551-3077 |
| Japan | 81-3-5408-4100 |
| EMEA | 44-20-7772-5454 |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