CREDIT OPINION

14 May 2025

Update

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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 periodic review

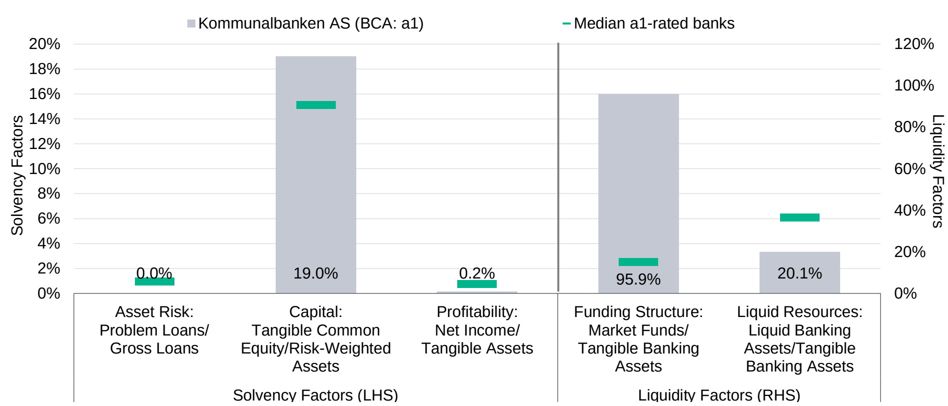
Summary

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 from the Government of Norway (Aaa stable) because of its full ownership of KBN and KBN's role as the principal financier of the Norwegian regional and local government (RLG) sector, resulting in a further two notches of rating uplift to Aaa.

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

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

Exhibit 1
Key financial ratios as of 31 December 2024



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

Credit strengths

- Largest lender to the Norwegian public sector, underpinning the stability of its operations
- Excellent asset quality, which rests on RLGs' predictable revenue streams and central government oversight
- Robust capital position relative to risks and substantially above regulatory requirements
- Strong operating efficiency

Credit challenges

- Some lending concentrations resulting from a limited customer base
- Modest profitability that is commensurate with the public policy mandate and low-risk profile
- Structural 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 BCA 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 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]

	12-24[2]	12-23[2]	12-22[2]	12-21[2]	12-20[2]	CAGR/Avg.[3]
Total Assets (NOK Billion)	567.6	522.2	453.9	449.2	461.8	5.3[4]
Tangible Common Equity (NOK Billion)	18.5	17.4	15.3	16.0	14.5	6.2[4]
Tangible Common Equity / Risk Weighted Assets (%)	19.0	18.3	19.0	19.7	17.8	18.8[6]
Net Interest Margin (%)	0.4	0.4	0.4	0.3	0.3	0.4[5]
PPI / Average RWA (%)	1.8	2.0	-0.3	1.9	1.9	1.5[6]
Net Income / Tangible Assets (%)	0.2	0.2	0.0	0.3	0.3	0.2[5]
Cost / Income Ratio (%)	18.0	15.8	627.5	13.9	14.1	137.9[5]
Market Funds / Tangible Banking Assets (%)	95.9	95.7	95.3	94.9	95.1	95.4[5]
Liquid Banking Assets / Tangible Banking Assets (%)	20.1	19.8	17.1	20.3	23.3	20.1[5]

[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 Ratings and company filings

Profile

Kommunalbanken AS (KBN) provides 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 Regional Development 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 activities from the government-owned Norges Kommunalbank (NKB). NKB was 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, which gives it 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.

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 through legislation, its public policy mandate and full government ownership. In addition, the company benefits from oversight by the Ministry of Local Government and Regional Development 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.

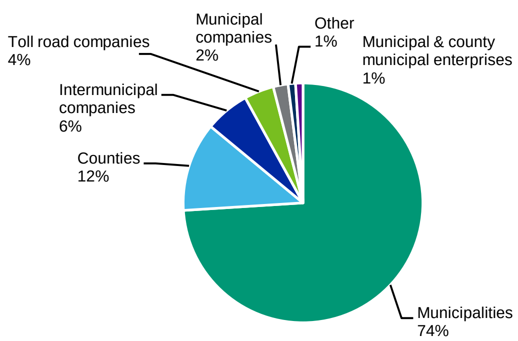
With a reported market share of 49% as of December 2024, KBN is the largest provider of funding to RLGs and companies owned by RLGs in Norway and therefore plays an important role in the Norwegian economy. KBN's customer base includes all Norwegian municipalities. Some RLGs also use their own funding 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.

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

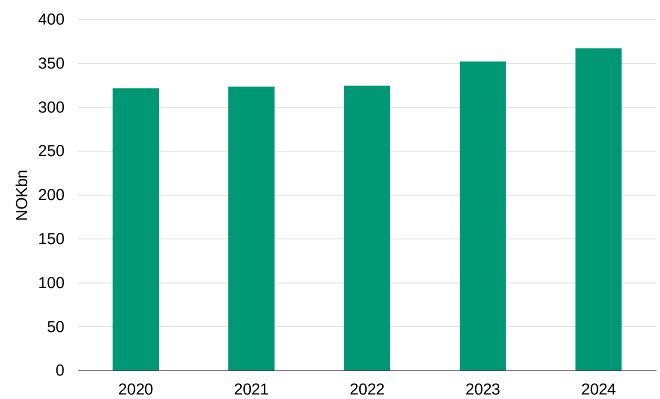
We expect KBN's asset quality to remain excellent even during more challenging economic times, as its creditworthiness is based on the high credit quality of the Norwegian RLG sector that the agency serves (see Exhibit 3). This is also demonstrated by KBN's problem loan ratio of 0% and the fact that 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 widely across the RLG sector
Outstanding lending by customer category as of year-end 2024



Source: Moody's Ratings

Exhibit 4
KBN's lending is all categorised as Stage 1, demonstrating its strong asset quality
Gross lending formation



Source: Moody's Ratings

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 canceled; payments can only be deferred and interest would accrue normally. Given this background, KBN has not recorded a loss from lending during more than 90 years of operations. Although KBN has never incurred a credit loss, in line with IFRS 9 accounting standards, the lender had made provisions for theoretical losses on loans and bond investments of NOK35 million as of December 2024, slightly reduced from year-end 2023. The amount remained small against relevant exposures of NOK373 billion, all of which continue to be considered Stage 1.

However, 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.

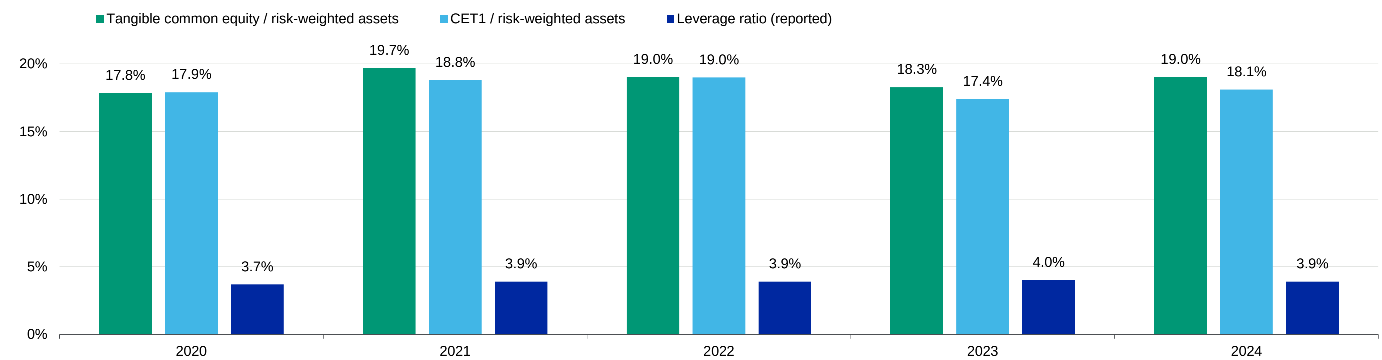
KBN's risk policy allows for minimal exposure to interest rate and currency risk, which are managed through the matching of assets and liabilities, and hedging through derivatives. Counterparty risk is mitigated through standard international swap and derivative association agreements and collateral support annexes with all counterparties.

Capital position is robust relative to risks and substantially above regulatory requirements

We consider KBN's capitalisation commensurate with its low-risk assets, which drives our aa2 Capital score. As of December 2024, the institution's tangible common equity/risk-weighted assets was 19.0% (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 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 December 2024, KBN reported an 18.1% Common Equity Tier 1 (CET1) capital ratio and a 22.5% total capital ratio. These metrics are equal to a minimum current CET1 requirement of 14.7% and a total capital requirement of 18.9% for that period, which include a pillar 2 add-on of 1.7% specific to KBN that is set by the Norwegian FSA.

Exhibit 5
KBN's capital is solid with substantial buffer above capital requirements
Capital metrics evolution



Sources: Moody's Ratings

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. As of December 2024, KBN reported a Basel leverage ratio of 3.9%, compared with 4.0% as of year-end 2023. Although moderate, this level is above the 3% minimum leverage ratio requirement for KBN.

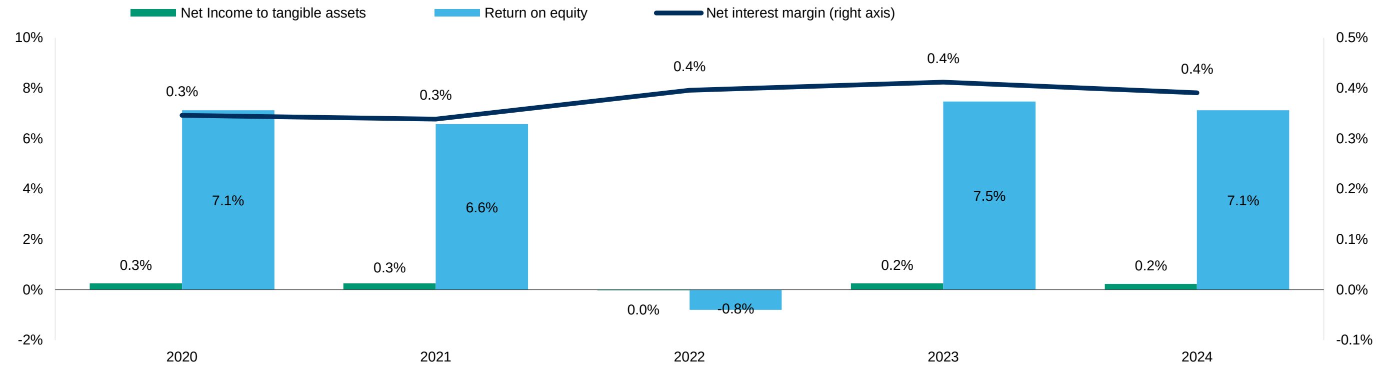
Modest profitability in line with public policy mandate and low-risk profile; operating efficiency is strong

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 profit. Net income/tangible assets dropped to 0.23% as of December 2024 from 0.25% in December 2023 (see Exhibit 5).

In 2024, KBN posted a profit of NOK1,474 million, compared with NOK1,432 million in 2023. Net interest income rose by NOK148 million or 7% to NOK2,253 million in 2024 from NOK2,105 million in 2023. Since KBN has a high portion of financial instruments and loans measured at fair value, it is sensitive to market movements. In 2024, KBN reported unrealised gains on financial instruments totaling NOK157 million, which is comparable to the NOK212 million reported in 2023. This marks a significant improvement from the substantial unrealised losses of NOK1.6 billion in 2022, which had resulted in a negative statutory outcome for that year.

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 section above. These drivers are already captured in our ba3 Profitability score for the issuer.

Exhibit 6
KBN's profitability is modest in light of its public policy mandate
Evolution of profitability metrics



Source: Moody's Ratings

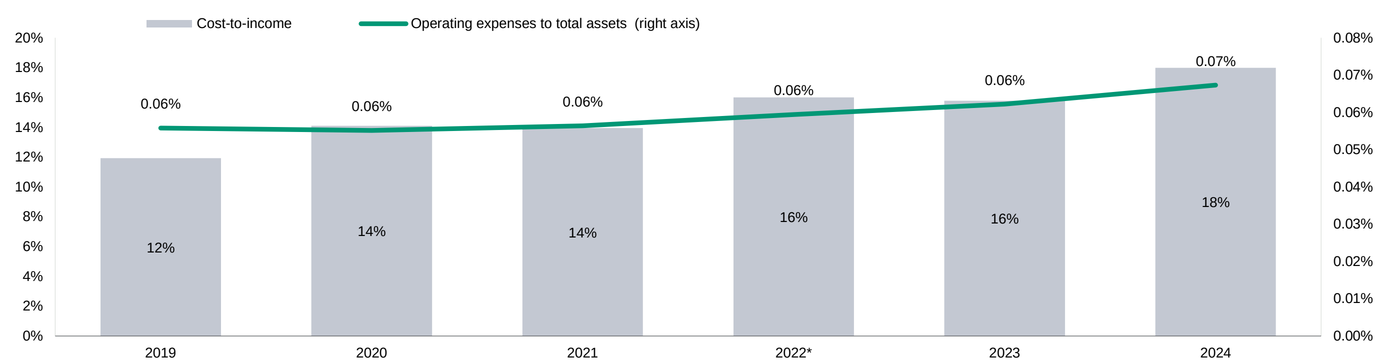
Over the next 12-18 months, we expect KBN's profitability to remain stable. However, the return on KBN's liquidity portfolio is anticipated to decline somewhat due to the planned interest rate reductions in 2025 and 2026. Despite KBN's position as the leading RLG lender in Norway, ongoing competition from capital markets, coupled with its public policy mandate to provide low-cost funding, will limit the expansion of net interest margins.

Further, KBN's green loans that are financed from the proceeds of green bond issuances are offered to borrowers at a discount of up to 10 basis points, which could put some pressure on the bank's margins if not fully matched by cheaper funding. Outstanding green loans amounted to 19% of gross loans as of December 2024, 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 only 18% as of December 2024, up from 15.8% in 2023. Due to the high unrealized losses amounting to NOK1.6 billion in 2022, the bank's cost to income ratio temporarily increased to 627%. Excluding these unrealized losses, the cost to income ratio is in line with previous periods at around 18%.

KBN's low costs are consistent with its peers, and expenses will remain low because of KBN's unchanged business model and efficient distribution. The increase in expenses in recent years was associated with IT development costs and the increased hiring of staff for the compliance function.

Exhibit 7
KBN demonstrates strong operating efficiency with a low level of operating expenses



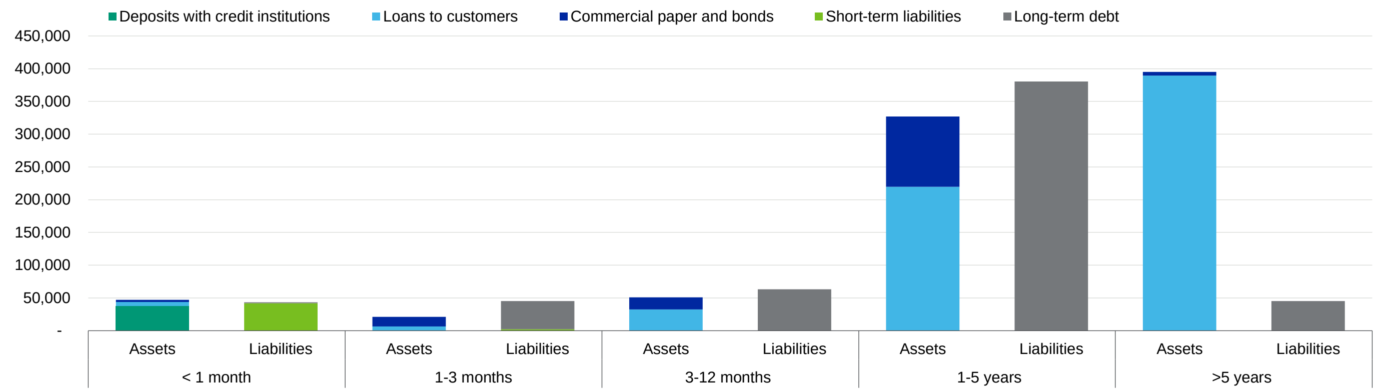
KBN recorded unusually high unrealized losses on its financial instruments in 2022. Cost to income ratio for 2022 is adjusted to improve comparability across periods.
Source: Moody's Ratings

Structural reliance on market funding, with some asset and liability mismatches

Similar to most peers in the Nordics and across 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, for funding and 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 score.

Exhibit 8
KBN has some asset and liabilities maturity mismatches mitigated by a strong liquidity position
Exposure by contractual time to maturity and exposure type



Reflects net maturities including interest payments
Source: Moody's Ratings

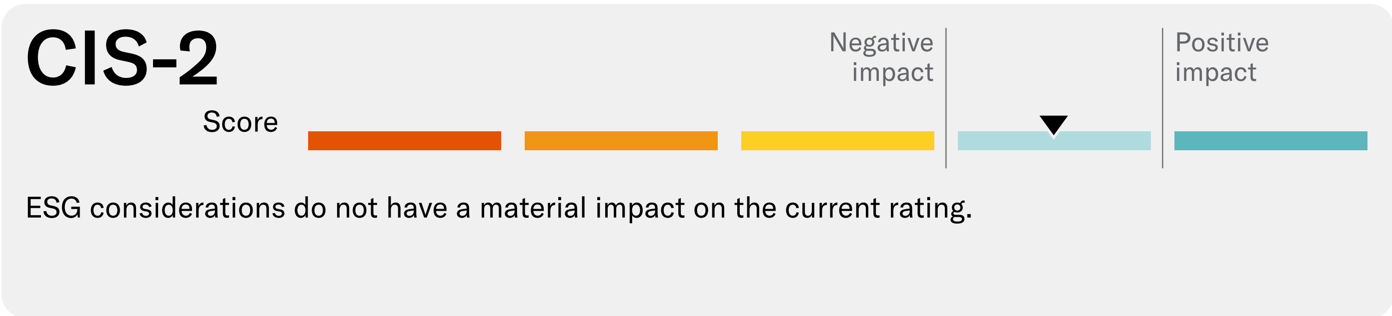
KBN's liquidity portfolio totaled NOK140 billion as of December 2024 (2023: NOK115 billion) and was principally made up of assets of strong credit quality. Our liquid assets to total assets ratio was 20.0% at the end of the period. This is equivalent to 38% of total loans as of March 2024.

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 liquidity coverage ratio (LCR) was 236% as of December 2024 (year-end 2023: 266%, year-end 2022: 261%).

ESG considerations

Kommunalbanken AS' ESG credit impact score is CIS-2

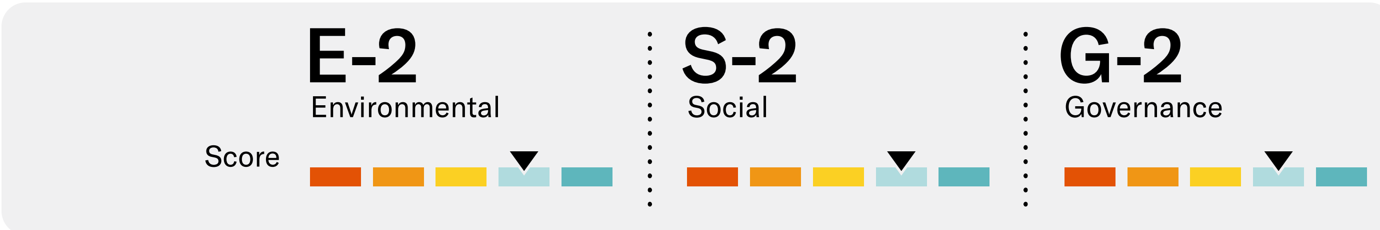
Exhibit 9
ESG credit impact score



Source: Moody's Ratings

KBN's **CIS-2** reflects the low credit impact of environmental and social risk factors on the rating, and low governance risks.

Exhibit 10
ESG issuer profile scores



Source: Moody's Ratings

Environmental

We view KBN's environmental risks as low, but 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.

Social

KBN's government-related footprint is substantial, reflecting its establishment though legislation, its public policy mandate and full government ownership. KBN's public policy mandate and the above factors underpin the stability of KBN's operations and our positive adjustment to the rating for Business Diversification.

Governance

KBN faces low governance risks and its risk management, policies and procedures are in line with industry best practices. Despite sectoral concentration, the bank benefits from strong underwriting standards which mitigate these concerns. The bank has a track record of sound capital and liquidity management and earnings stability while it has never recorded a credit loss.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Loss Given Failure (LGF) analysis

We apply our Advanced LGF analysis as KBN is based in Norway, which we consider an operational resolution regime. Despite its ownership and public mandate, KBN is not excluded from the scope of Norway's BRRD implementation.

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 Adjusted BCA.

Government support considerations

We assess a very high likelihood of support from the Norwegian government for all debt classes. This assessment is based on the Norwegian government's 100% ownership of Kommunalbanken, its public policy mandate to support RLGs, and its proven capacity to provide capital injections in stressed scenarios. Consequently, the senior unsecured debt rating receives a two-notch uplift from its preliminary rating assessment to Aaa.

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 significantly 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 11
Rating Factors

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)		19.0%	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		95.9%	caa3	↔	baa2	Market funding quality	
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets		20.1%	baa1	↔	a3	Quality of liquid assets	
Combined Liquidity Score			b1		baa1		
Financial Profile			baa1		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	64,562	11.4%	64,562	11.4%
Senior unsecured bank debt	481,504	84.8%	481,504	84.8%
Dated subordinated bank debt	800	0.1%	800	0.1%
Preference shares (bank)	3,600	0.6%	3,600	0.6%
Equity	17,025	3.0%	17,025	3.0%
Total Tangible Banking Assets	567,491	100.0%	567,491	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	88.6%	88.6%	88.6%	88.6%	3	3	3	3	0	aa1
Counterparty Risk Assessment	88.6%	88.6%	88.6%	88.6%	3	3	3	3	0	aa1 (cr)
Senior unsecured bank debt	88.6%	3.8%	88.6%	3.8%	2	2	2	2	0	aa2

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

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

Ratings

Exhibit 12

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
Commercial Paper	P-1
Other Short Term	(P)P-1

Source: Moody's Ratings

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CLIENT SERVICES

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