

Research Update:

Norwegian Funding Agency KBN Kommunalbanken Affirmed At 'AAA/A-1+'; Outlook Stable

November 11, 2025

Overview

- The Norwegian local government sector exhibits key structural features that support high credit quality, although a high and rising debt burden points to a weakening trend.
- Kommunalbanken (KBN) maintains a significant market share in the low-risk Norwegian local and regional (LRG) sector, while upholding high levels of capitalization and a strong liquidity position.
- We think KBN has a very important role and integral link with Norway's central government, resulting in an extremely high likelihood of receiving extraordinary support in the unlikely event of financial distress.
- We affirmed our 'AAA/A-1+' long- and short-term issuer credit ratings on KBN. The outlook is stable.

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Rating Action

On Nov. 11, 2025, S&P Global Ratings affirmed its 'AAA/A-1+' long- and short-term issuer credit ratings on Norwegian public sector funding agency KBN. The outlook is stable.

At the same time, we affirmed our 'AA+' issue rating on KBN's subordinated bond issue and our 'A+' issue rating on its two rated hybrid bonds.

Outlook

The stable outlook reflects our view that KBN will uphold its robust market position and that the LRG sector's exposure will continue to be to low-risk lending, despite the weakening trend related to the sector's debt burden. At the same time, we expect KBN's experienced management will continue to mitigate risks by maintaining high levels of capital and robust liquidity, supported by reliable and diversified funding channels.

Downside scenario

We could lower our ratings in the unlikely event that KBN's stand-alone credit profile deteriorated markedly, and its public policy role subsided, or if there were a change to its ownership, resulting in a lower likelihood of extraordinary support from the Norwegian government.

Rationale

Sector risk profile: The high and growing debt burden is pressuring the Norwegian LRG sector, although positive structural features continue to support the sector's robust credit quality

KBN's public-sector mandate is to provide long-term funding to, or guaranteed by, Norwegian LRGs. Consequently, the sector risk profile is based on the credit quality of the LRG sector, which is reflected in our institutional framework assessment. We see a weakening trend for the Norwegian institutional framework, triggered by a persistent mismatch between revenue and total expenditure, particularly within capital accounts. Consequently, LRG sector debt has been increasing for more than a decade as capital projects often require recourse to debt, and we project continued debt uptake in the next few years. Investment needs remain sizable, most notably within water and wastewater management, infrastructure, and the transition to green energy sources.

Despite this weakening trend, we continue to regard the institutional framework as extremely predictable and supportive, with key responsibilities supported by automatic revenue stabilizers in the central government grant framework, and a far-reaching equalization system. We view the balanced budget requirement as a strength, as it promotes financial sustainability, at least when it comes to operating performance. We also view positively the central government's extensive monitoring framework and its intervention mechanisms to proactively support financially ailing LRGs.

Individual credit profile: Competent and experienced management, robust market position, and strong financial metrics support KBN's credit quality

KBN has a long track record of fulfilling its public policy role of providing affordable financing to Norwegian local governments. The bank was established in 1926 by an act of parliament and assumed its current organizational structure in 1999 via a conversion act. KBN was 80% owned by the Norwegian government and 20% owned by Kommunal Landspensjonskasse (KLP) until 2009, when the Norwegian government bought KLP's shares and became the sole owner.

KBN's business position remains strong. The bank positions itself as a complement to other financiers in the sector and therefore aims to uphold a market share of about 50%. In recent years, we have observed a slight drop in KBN's market share--it stood at about 49% in June 2025--as the share of lending from capital markets has increased. That said, we don't see this as a major cause for concern in the context of the bank's business position assessment, and we expect KBN will maintain a market share of about 50% going forward.

KBN remains committed to innovative product offerings to respond to changing customer demands. The bank strives to be a leading financial institution for sustainable financing solutions. Throughout 2025, growth in the green loans segment has remained strong, and now accounts for more than 20% of KBN's lending portfolio. In April 2024, S&P Global Ratings published a second

party opinion on KBN's green bond framework (see "[Kommunalbanken Green Bond Framework](#)," published April 15, 2024 on RatingsDirect).

In our view, KBN's management is competent and highly experienced, as key personnel generally have long tenures there. Robust risk-management policies and practices mitigate the main risks to the bank's operations. Management's policies and practices are prudent and oversight from the Financial Supervisory Authority of Norway (FSA) ensures continuity of managerial practices-- a distinctive feature when compared with most of its global peers. KBN's organizational structure allows it to respond swiftly and adequately to stakeholder needs and requirements. Additionally, the Ministry of Local Government and Regional Development's participation in supervisory board meetings strengthens oversight.

KBN's risk-adjusted capital (RAC) remains very strong; at about 60% before adjustments. When factoring in our adjustment for single-name concentration in underlying borrowers, KBN's RAC ratio remains a very strong 37%. As with its Nordic peers, concentration in the loan book is relatively high, with the top 20 largest borrowers representing about 32% of total lending. The largest single exposure, the City of Oslo, represents about 4.5% of the portfolio, a share that could increase due to sizable investment needs in the capital.

In June 2023, the bank replaced part of its subordinated loan with additional tier 1 instruments to ensure a buffer against regulatory leverage ratio requirements. We assess the hybrid instruments as having intermediate equity content and we therefore include it in our total adjusted capital calculation. The instruments are perpetual and have a call date of at least five years from issuance. In addition, they do not contain a coupon step-up and have loss-absorption features on a going-concern basis.

As of June 2025, KBN's common equity tier 1 (CET1) capital adequacy ratio of 17.6% was well above the minimum regulatory requirement. The risk weights applied in the Norwegian FSA framework are significantly higher than those used under our RAC methodology. Therefore, KBN's adjusted RAC ratio is higher than its CET1 ratio. Moreover, KBN's leverage ratio stood at 3.9%, above the required 3.0%.

KBN has never experienced losses and has no past due or impaired exposures. Risk management remains robust and the bank uses internal models for capital requirements for market, liquidity, and operational risks. KBN also maintains strong credit risk monitoring of all its customers and processes for granting loans, and is gradually incorporating environmental, social, and governance considerations.

KBN's funding ratio remains very solid at about 1.8x and is still very strong after including its undrawn lending commitments. KBN benefits from strong funding access through a set of reliable and diversified channels, underpinned by excellent name recognition. The primary funding currencies remain the U.S. dollar and euro, which are complemented by more strategic funding in, for instance, U.K. pound sterling, Chinese yuan, and Swedish krona. The majority of its funding instruments are plain vanilla and it has reduced its exposure to callable funding, including legacy Japanese Uridashi trades, all of which have now matured.

KBN remains proactive in its liquidity management and has very strong liquidity buffers. Its policy is to hold minimum liquidity equal to its projected payment obligations over the coming 12 months without access to funding. In line with our expectations, all KBN's derivative counterparties have now moved to bilateral credit support annexes with a daily exchange of collateral.

Our 12-month liquidity ratio was 2.3x as of June 2025 after including undrawn loan commitments. This indicates that KBN, with a comfortable margin, would be able to cover all committed lending

and debt repayments for at least one year, even under extremely stressed market conditions and without access to the capital markets.

Extraordinary support: Extremely high likelihood of support from the Norwegian government

Our 'AAA' rating on KBN is supported by its very important role and integral link with the Norwegian government. Therefore, we foresee an extremely high likelihood that the central government would provide timely and sufficient extraordinary support to KBN. The government has shown willingness to support KBN several times over the years, although KBN has not experienced financial distress because the government has made capital injections--in 2008, 2012, and 2015. Most recently, in 2020, KBN's mandate was reinforced by a capital injection from the government to support its capacity to respond to municipalities' funding needs during the pandemic.

Our assessment is based on our view of KBN's:

- Very important role for the Norwegian government as a vehicle to limit the cost of debt for Norway's LRG sector. Acting largely as a state instrument, KBN performs an important public policy function in providing low-cost funding to the Norwegian LRG sector and in promoting competition in the municipal loan market; and
- Integral link with the Norwegian government, its sole owner since 2009. Through a letter of support, the central government has formalized its relationship with KBN and expressed its clear intention of extending timely support should the company find itself in financial distress. The central government confirmed its supportive stance toward KBN in November 2011 and ratified it in 2017 to avoid negative reputational effects associated with Eksportfinans losing its government mandate to provide state-subsidized export credit.

Issue Ratings – Subordination Risk Analysis

We rate two of KBN's additional tier 1 (AT1) capital notes 'A+' and its subordinated bond 'AA+'. The starting point for these issue ratings is our 'AAA' issuer credit rating on KBN, given our view of the extremely high likelihood of KBN receiving extraordinary support from its owner in case of financial distress. We also note that the above-mentioned letter of support--stating that the government will support KBN to fulfill its financial obligations--does not exclude hybrids. As such, we believe that the Norwegian government would provide financial support to prevent loss absorption and especially that it could step in early to prevent a conversion.

We derive the four-notch difference between the 'A+' issue ratings on the AT1 notes and the issuer credit rating on KBN as follows:

- One notch for subordination;
- Two notches for tier 1 regulatory capital status; and
- One notch because the instruments allow for a full or partial temporary write-down.

The 'AA+' issue rating on KBN's subordinated bond reflects the bond's subordination to KBN's senior unsubordinated debt. We do not apply further notching for a full or partial temporary write-down because we regard this as contradicting our view of government support for KBN.

Key Statistics

KBN Kommunalbanken Norway -- Selected Indicators

(Mil. NOK)	--Year ended Dec. 31--				
	2024	2023	2022	2021	2020
Business Position					
Total adjusted assets	567,644	522,041	492,307	472,924	498,088
Customer loans (gross)	367,495	352,267	324,584	323,696	321,900
Growth in loans (%)	4.3	9.0	0.3	0.6	4.0
Net interest revenue	2,253	2,105	1,866	1,585	1,672
Noninterest expenses	383	325	270	255	256
Capital & Risk Position					
Total liabilities	545,569	500,520	473,547	453,983	479,681
Total adjusted capital	21,874	20,470	17,832	16,484	16,577
Assets/capital	26	26	28	29	30
RAC ratio before diversification (%)	59.8§	70.4§	70.5	69.9	67.2
RAC ratio after diversification (%)	37.4§	41.8§	31.1	30.7	29.5
Gross nonperforming assets/gross loans	0	0	0	0	0
Funding and liquidity					
Liquidity ratio with loan disbursement (1 year)	1.8§	2.3§	2.3	2.2	2.0
Liquidity ratio without loan disbursement (1 year)	1.8§	2.4§	2.4	2.2	2.0
Funding ratio (1 year)	1.6§	2.1§	2.1	2.3	1.9

§As of June 2025. NOK--Norwegian krone. N.A.--Not available. RAC--Risk-adjusted capital.

Rating Component Scores

Kommunalbanken--Rating Component Scores

Sector risk profile	Very strong
Business position	Strong
Management and governance	Very strong
Capital adequacy	Very strong
Funding and liquidity	Very strong
Anchor	aaa
Modifiers and caps	0
Holistic analysis	0
SACP	aaa
Extraordinary support	0
Issuer credit rating	AAA

SACP--Stand-alone credit profile.

Related Criteria

- [General Criteria: Hybrid Capital: Methodology And Assumptions](#), Feb. 10, 2025
- [Criteria | Governments | International Public Finance: Methodology For Rating Non-U.S. Public-Sector Funding Agencies](#), July 26, 2024
- [Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology](#), April 30, 2024
- [General Criteria: Environmental, Social, And Governance Principles In Credit Ratings](#), Oct. 10, 2021
- [General Criteria: Methodology For Linking Long-Term And Short-Term Ratings](#), April 7, 2017
- [General Criteria: Rating Government-Related Entities: Methodology And Assumptions](#), March 25, 2015
- [General Criteria: Principles Of Credit Ratings](#), Feb. 16, 2011

Related Research

- [Rising Debt Points To A Weakening Trend For Norwegian LRGs](#), March 21, 2024
- [Norway](#), Sept. 8, 2025

Ratings List

Ratings List

Ratings Affirmed

KBN Kommunalbanken Norway

Issuer Credit Rating	AAA/Stable/A-1+
Senior Unsecured	AAA
Subordinated	AA+
Junior Subordinated	A+
Commercial Paper	A-1+

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