

Report for 2nd quarter 2023

The logo consists of the letters 'KBN' in a bold, green, sans-serif font, centered on a white, tilted rectangular background.

KBN

Table of Contents

About KBN

- 3 Building sustainable communities
- 3 One of the largest Norwegian borrower
- 3 AAA-rating

Key figures

The Board of Directors' Report

- 6 Solid demand for new loans and stable development in profitability
- 6 Results for the quarter
- 7 Results for the first six months of 2023
- 8 Lending
- 10 Financial markets
- 10 Transition to a new reference rate
- 10 Funding
- 11 Liquidity management
- 12 Capital
- 13 Greenhouse gas accounting for the first six months of 2023
- 13 Future prospects
- 14 Statement by the Board of Directors

Financial statement

Statement of financial position

Statement of changes in equity

Statement of cash flows

Notes to the financial statement

- 19 Accounting policies
- 20 Note 1 Net interest income
- 20 Note 2 Net unrealised gain/(loss) on financial instruments
- 22 Note 3 Classification of financial instruments
- 23 Note 4 Financial instruments measured at fair value
- 25 Note 5 Loans to customers
- 25 Note 6 Expected credit loss
- 26 Note 7 Commercial paper and bonds
- 26 Note 8 Credit exposure in commercial paper and bonds
- 27 Note 9 Debt securities issued and Commercial paper issued
- 28 Note 10 Primary capital
- 29 Note 11 Capital adequacy

Contact information

About KBN

With total assets of about NOK 500 billion, Kommunalbanken AS (KBN) is one of the largest financial institutions in Norway. We provide loans to the local government sector, and our ambition is to contribute to the development of sustainable communities.

KBN is 100% owned by the Norwegian state. Our objective is to provide loans to municipalities, county authorities and companies that carry out local government tasks. KBN was first established in 1927 and is today the largest lender to the local government sector.

**Our total lending to the sector is
in excess of**

NOK 336bn

Building sustainable communities

KBN has a strong market position and seeks to use this to promote sustainable communities. We are committed to ensuring municipalities make environmentally and climate-conscious choices when investing, and we offer a slightly lower interest rate on loans for projects that are ambitious from a climate perspective. We also use some of our resources to help municipalities' elected representatives and administrative teams improve their knowledge of climate change.

One of the largest Norwegian borrower

KBN finances its lending to the local government sector by borrowing money directly in the capital markets. KBN is today one of the largest Norwegian borrowers in the international capital markets, and each year it needs to borrow around NOK 100 billion. KBN green bonds finance the transition to a low-carbon, climate resilient future in Norwegian local societies. KBN has more than ten years' history as an issuer of green bonds, which are a central pillar in our long-term work on corporate social responsibility and sustainability.

AAA-rating

KBN has a conservative risk profile and is one of the few AAA-rated financial institutions in the world. KBN has never suffered any losses on its lending. As a state-owned company with a public mandate, strong capital base, robust operations and low risk appetite, KBN holds the highest possible credit rating from both Standard and Poor's and Moody's.

Key figures

<i>(Amounts in NOK 1 000 000)</i>	January - June 2023	January - June 2022	2022
RESULTS			
Net interest income	1 015	913	1 866
Core earnings ¹	640	591	1 081
Profit after tax	669	(429)	(60)
Cost/income ratio (per cent) ²	14.4%	14.9%	15.8%
Return on equity after tax ³	7.5%	(5.6%)	(0.8%)
Return on equity after tax (core earnings) ⁴	7.8%	7.1%	6.6%
Return on assets after tax ⁵	0.3%	(0.2%)	0.0%
LOANS TO CUSTOMERS			
New disbursements	21 370	14 194	39 261
Aggregate loans to customers ⁶	335 516	316 708	328 401
12 month lending growth in percent ⁷	5.9%	(0.5%)	1.7%
Green loans to customers ⁸	44 127	36 003	41 421
Share of green loans in lending portfolio	13.2%	11.4%	13.3%
Share of municipalities with green loans ⁹	38.8%	36.9%	38.0%
LIQUIDITY PORTFOLIO⁶	123 558	107 642	109 959
DEBT SECURITIES ISSUED			
New long-term debt securities issued	32 894	47 474	86 994
Aggregate debt securities issued ⁶	460 430	430 562	429 206
TOTAL ASSETS	515 604	495 546	492 450
EQUITY			
Equity	20 557	18 100	18 903
Common equity Tier 1 capital adequacy ratio	18.6%	17.6%	19.0%
Leverage ratio	4.0%	3.7%	3.9%
LIQUIDITY COVERAGE RATIO (LCR)¹⁰			
Total	256%	318%	261%
NOK	106%	65%	95%
EUR	191%	198%	441%
USD	131%	266%	242%
AUD	721%	122%	1 078%
GBP	291%	Infinite	1 958%
OTHER KEY FIGURES			
Market share excl. Husbanken ¹¹	50.0 %	49.5 %	49.7 %
Percentage of women employed in KBN	41%	45%	43%
Emissions in CO ₂ tons equivalents ¹²	50.3	37.7	79.7

Footnotes

¹ Profit after tax adjusted for Net unrealised gain/(loss) on financial instruments adjusted for estimated tax at 25% tax rate, and adjusted for Portion allocated to owners of additional Tier 1 capital. 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 year allocated to shareholders as a percentage of average equity (annualized). Average equity is calculated based on monthly equity, not including Profit for the year, less dividends from the time the dividends are paid out, as well as addition or reduction of the company's share capital during the year.

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

⁵ Share of Profit for the year 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 Aggregate green loans to customers financed by green bonds. In addition, the bank has a smaller portfolio of green loans to customers that were given before or that does not qualify after the criteria in Green bond framework published in 2016. These loans are no longer financed with green bonds. Total aggregate green loans to customers are NOK 46.1 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.

¹¹ KBN's market share based on sector code 6500. Lending from Husbanken is not included as KBN does not compete for these loans.

¹² KBN's calculated emissions. See Greenhouse gas accounting.

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

The Board of Directors' Report

Solid demand for new loans and stable development in profitability

KBN's net interest income in the second quarter of 2023 was NOK 507 million, as compared to NOK 477 million in the same period in 2022. A good level of growth in KBN's lending in the first six months of the year, together with higher interest rates, contributed to the increase in KBN's income. KBN's lending portfolio increased by NOK 5.5 billion in the second quarter, primarily as a result of a good level of growth in fixed-rate loans. KBN's green lending grew by NOK 1.2 billion in the second quarter. KBN's result for the accounting period in the second quarter of 2023 was a profit of NOK 280 million as compared to a loss of NOK 77 million in the same period in 2022.

Results for the quarter

KBN's core earnings¹ totalled NOK 360 million in the second quarter of 2023, compared to NOK 342 million in the second quarter of 2022. KBN's core earnings in the second quarter were affected by a realised gain of NOK 101 million before tax resulting from KBN repurchasing subordinated debt capital, while its second-quarter 2022 core earnings were affected by the reversal of a tax expense of NOK 54 million. After adjusting for these non-recurring items, KBN's core earnings were approximately unchanged from the corresponding period in 2022. Higher operating costs and an increase in the portion allocated to owners of additional Tier 1 capital reduced core earnings, while the increase in net interest income increased core earnings.

KBN's net interest income totalled NOK 507 million in the second quarter of 2023, as compared to NOK 477 million in the corresponding period of 2022. The main reason for the increase in net interest income was rising interest rates. Money-market interest rates increased further in the quarter as a result of Norges Bank increasing its key policy rate by 0.25 percentage points at its meeting on 3 May 2023 and by 0.5 percentage points at its meeting on 22 June 2023. Norges Bank signalled that there would be further increases in the time ahead. Norway's key policy rate now stands at 3.75%. KBN increased its standard variable rate by 0.15 percentage points with effect from 30 May and by 0.5 percentage points with effect from 10 July.

KBN's result for the period in the second quarter of 2023 was a profit of NOK 280 million, compared to a loss of NOK 77 million in the same period in 2022. In the second quarter of 2023, KBN recognised a net unrealised loss on financial instruments totalling NOK 143 million, compared to a net unrealised loss of NOK 583 million in the second quarter of 2022. KBN's fixed-rate lending and associated hedging instruments contributed a net unrealised loss of NOK 128 million in the second quarter of 2023, primarily as a result of a widening of credit spreads for the local government sector. There was an equivalent net unrealised loss of NOK 508 million in the second quarter of 2022. 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

1. Profit after tax for the accounting period adjusted for unrealised gains or losses on financial instruments after deducting estimated tax at the rate of 25% 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.

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.

KBN's liquidity portfolio and associated hedging instruments contributed a net unrealised loss of NOK 3 million for the second quarter of 2023, while KBN's own bonds and associated hedging instruments contributed a net unrealised loss of NOK 12 million, which shows that the fair value of these items was relatively stable in the quarter. 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 a realised loss totalling NOK 7 million in the second 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 decreased its provision for losses in the second quarter of 2023 by NOK 7 million.

KBN's total operating costs for the second quarter of 2023 were NOK 75 million, compared to NOK 63 million in the same period in 2022. The increase in operating costs was due to a higher level of activity and inflation.

Results for the first six months of 2023

KBN's core earnings² in the first six months of 2023 totalled NOK 640 million as compared to NOK 591 million in the first six months of 2022. KBN's core earnings in the first six months of 2023 were affected by a realised gain of NOK 101 million before tax resulting from KBN repurchasing subordinated debt capital, while its core earnings in the first six months of 2022 were affected by the reversal of a tax expense of NOK 54 million.

KBN's net interest income in the first six months of 2023 was NOK 1,015 million, compared to NOK 913 million in the same period in 2022. The increase was primarily due to higher interest rates in combination with higher lending margins and good lending growth.

KBN's result for the period in the first six months of 2023 was a profit of NOK 669 million as compared to a loss of NOK 429 million in the same period in 2022. KBN recognised unrealised losses on financial instruments totalling NOK 29 million in the first six months of 2023, compared with unrealised losses totalling NOK 1,405 million in the same period in 2022. Net unrealised losses on the portion of KBN's fixed rate lending carried at fair value caused by an increase in credit spreads were the main reason for the unrealised losses in the first six months of 2022 and 2023.

KBN's total operating costs for the first six months of 2023 were NOK 151 million, compared to NOK 129 million in the first six months of 2022. The increase was due to a higher level of activity and inflation. The

2. Profit after tax for the accounting period adjusted for unrealised gains or losses on financial instruments after deducting estimated tax at the rate of 25% 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.

annual salary settlement comes into force with effect from 1 January, but is only disbursed and expensed starting in July. The impact on costs of the salary settlement process is therefore recognised in its entirety in the second six months of the year. KBN's cost-to-income ratio³ for the first six months of 2023 was 14.4%, compared to 14.9% in the same period in 2022. 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 six months of 2023 was 7.5%, compared to -5.6% in the same period in 2022. Based on its core earnings, KBN's annualised return on equity in the first six months of 2023 was 7.8%, compared to 7.1% in 2022.

KBN's total comprehensive income for the period in the first six months of 2023 was NOK 628 million, compared to a loss of NOK 282 million in the same period in 2022. KBN's total comprehensive income in the first six months of 2023 includes a gain of NOK 40 million after tax on KBN's bonds as a result of a change in KBN's own credit risk.

Table 1: Result for the period and total comprehensive income

<i>(Amounts in NOK 1 000 000)</i>	Q2 2023	Q2 2022	2022
Net interest income	507	477	1 866
Fees and commission expenses	36	37	133
Net unrealised gain/(loss) on financial instruments	(143)	(583)	(1 622)
Increased/(reduced) provision for expected credit loss	(7)	(7)	28
Net realised gain/(loss) on market transactions	95	6	6
Operating expenses	75	63	271
Income tax	75	(116)	(120)
Profit/(Loss) for the period	280	(77)	(60)
<i>(Amounts in NOK 1 000 000)</i>	Q2 2023	Q2 2022	2022
Profit/(loss) for the period	280	(77)	(60)
Change in fair value of liabilities due to changes in own credit risk	7	(40)	800
Actuarial gain/(loss) on pension liability	0	0	2
Tax	(2)	10	(200)
Total comprehensive income for the period	285	(107)	541

Lending

KBN's lending portfolio totalled NOK 336 billion⁴ at the end of the second quarter of 2023. The lending portfolio increased by NOK 5.5 billion in the second quarter, while it decreased by NOK 4.0 billion in the second quarter of 2022. In the second quarter, the relatively unattractive terms available to KBN's customers in the capital markets created better market conditions for KBN's long-term instalment-based loans. The favourable market conditions for fixed rate loans, with long-term fixed rates being lower than floating rates, resulted in many customers choosing to change from floating to fixed-rate loans.

3. Operating expenses as a percentage of the sum of net interest income and total other operating income adjusted for net unrealised gains/losses on financial instruments.

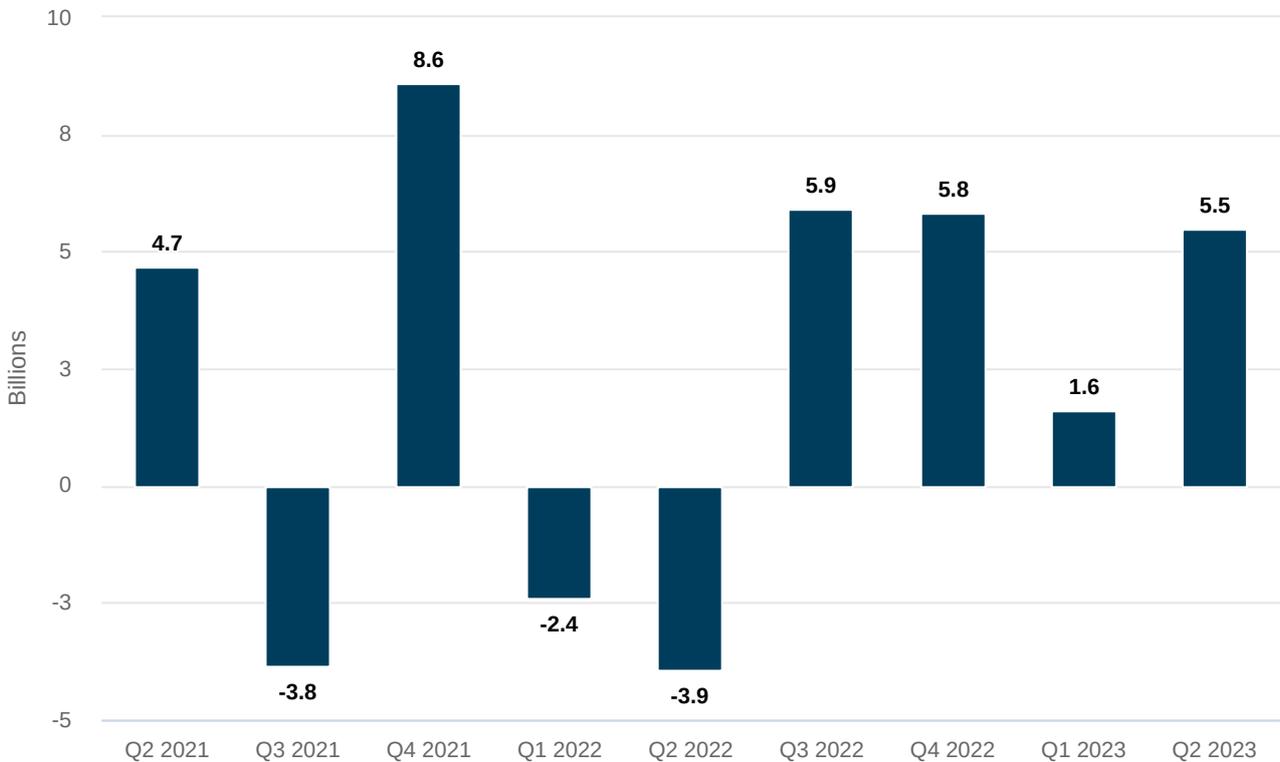
4. Principal amounts.

Increasing demand for new loans is expected over the course of the rest of the year. The fact that credit spreads in the capital markets continue to be wide is making it less attractive for KBN's customers to obtain shorter maturity financing in the capital markets. KBN therefore expects there to continue to be a good level of demand for refinancing using long-term instalment-based loans. The figure below shows the changes in KBN's quarterly lending growth from 2021 until the present.

KBN continued to experience a good level of growth in its green lending, and its portfolio of green loans increased by NOK 1.2 billion in the second quarter of 2023, as compared to NOK 1.5 billion in the same period in 2022. KBN granted green loans in the quarter to municipalities and county authorities including Møre og Romsdal county authority and Bergen municipality. At the end of the second quarter, KBN's green lending represented 13.2% of its overall lending portfolio. KBN's target is for 15% of its lending to be green lending by the end of 2023.

The annual rate of debt growth in the local government sector as at the end of June 2023 was calculated to be 5.9%. After adjusting for borrowing from the Norwegian State Housing Bank, the rate of debt growth was 5.1%. Strong growth in prices and higher interest rates mean that weaker investment growth and thus lower debt growth are expected in 2023 compared with previous years. After adjusting for borrowing from the Norwegian State Housing Bank, KBN's market share at the end of June was 50%.

Chart 1: Quarterly lending growth in billion kroner



Financial markets

The rate of inflation fell in the first six months of 2023, but it remains materially above the targets set by the central banks of many countries across the world. A number of central banks consequently raised their key policy rates. Norway's central bank raised its key policy rate by a total of one percentage point over the course of the first six months of the year. Despite this, the rate of inflation in Norway remained high, and was running at 5.4% at the most recent assessment in July. The US dollar and Euro strengthened against the majority of currencies in the first six months of the year, including the Norwegian krone. The Norwegian krone strengthened somewhat in connection with Norges Bank's interest rate decision in June, but nonetheless remains at a historically low level. The market expects further interest rate rises in Norway in 2023, but there is much uncertainty about how high interest rates will go. The uncertainty is leading to a high level of volatility in the fixed income market and the equity market, and for the Norwegian krone.

The credit spreads on local government and covered bonds fell at the start of the year but rose again over the following months. At the end of the second quarter spreads were higher than at the start of 2023. The outlook for future changes in the spreads on local government and covered bonds is uncertain, both in Norway and internationally.

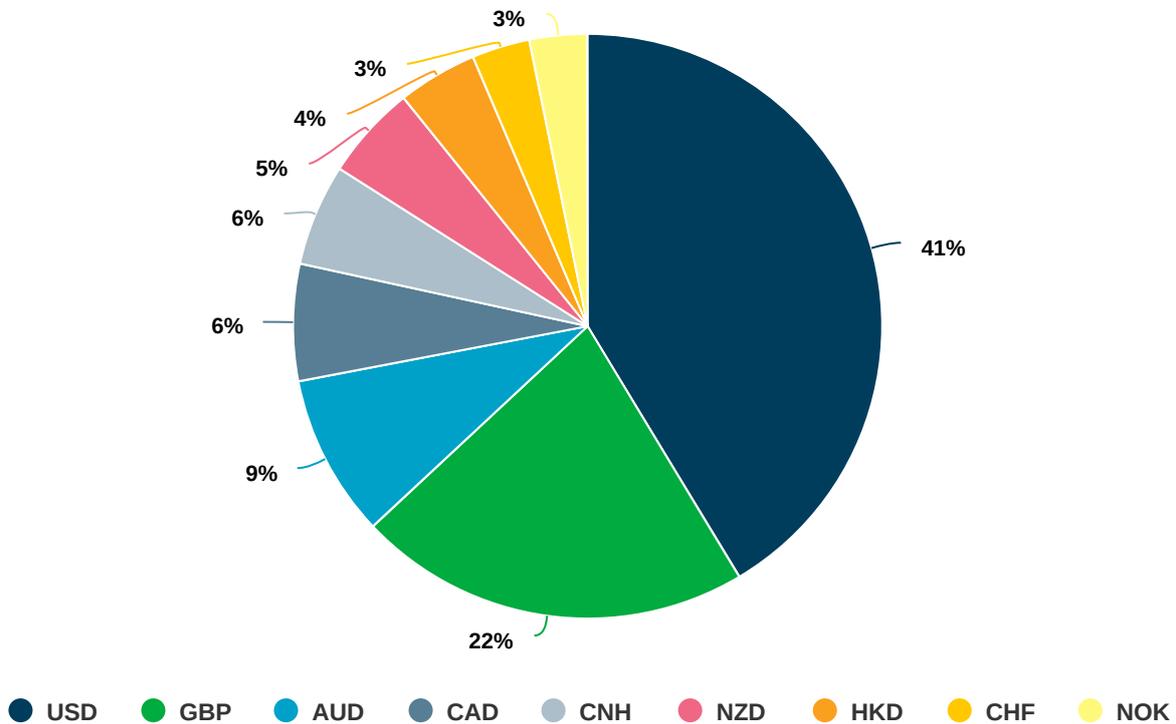
Transition to a new reference rate

In 2020 the UK's Financial Conduct Authority (FCA) decided that LIBOR would be discontinued and would cease to be quoted with effect from 1 July 2023. The reference rate therefore had to be replaced by a new, risk-free reference rate for current contracts and activities. For the USD, LIBOR was replaced by the Secured Overnight Financing Rate (SOFR) reference rate. KBN did not have any bonds with a floating LIBOR rate at the time of the transition, but it holds a significant portfolio of financial derivatives with USD LIBOR as their reference rate. The transition is regulated by a transition clause in the ISDA agreement for financial derivatives, which means a change in the reference rate from three-month USD LIBOR to USD SOFR with a spread premium of 26.16 basis points. In line with this, KBN converted all its ongoing derivative contracts to USD SOFR in the second quarter. The conversion did not have a material impact on KBN's earnings in the quarter.

Funding

KBN's funding activities in the second quarter of 2023 were at a relatively normal level. The uncertainty in the markets during the period did not impact KBN's access to the international capital markets to any significant extent, and KBN completed its funding transactions as planned. The weakness of the Norwegian krone relative to the US dollar increased KBN's liquidity as a result of liquidity inflows from cash collateral from currency hedging instruments over the second quarter, and KBN's funding activities were therefore somewhat less extensive during the quarter. In the first six months of 2023 KBN's new borrowings totalled approximately NOK 32.9 billion through 26 bond issues in nine currencies, as compared to NOK 47.5 billion in the first six months of 2022. The figure below shows the breakdown of new borrowings by currency.

Chart 2: New borrowings by currency in the first six months of 2023



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

Liquidity management

KBN’s liquidity portfolio totalled NOK 124 billion⁵ at the end of the second quarter of 2023 as compared to NOK 108 billion at the same point in 2022. 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 50% 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. The weakness of the krone in the first six months of 2023, including in the second quarter, therefore explains the increase in the size of the portfolio relative to the same time last year and the start of 2023.

5. Principal amounts.

Capital

At the end of the second quarter of 2023, KBN's total common equity Tier 1 capital was NOK 15.8 billion, its total Tier 1 capital was NOK 19.3 billion, and its total primary capital was NOK 20.1 billion. KBN's total assets at the end of the second quarter of 2023 amounted to NOK 516 billion, up from NOK 492 billion at the end of 2022. KBN's total assets at the end of the second quarter of 2022 amounted to NOK 496 billion. The increase from the end of 2022 is primarily due to liquidity inflows from cash collateral from currency hedging instruments caused by the weakening of the Norwegian krone, growth in KBN's lending, and an increase in the NOK value of balance sheet assets as a result of currency conversion.

In the second quarter, KBN repurchased NOK 1.2 billion of subordinated debt capital and in connection with this issued an additional Tier 1 capital instrument with an equivalent initial redemption date as the subordinated debt capital. The repurchasing of the subordinated debt capital resulted in a realised gain of NOK 101 million before tax, which was recognised to income in the quarter. The transaction strengthened KBN's Tier 1 capital adequacy ratio and its leverage ratio.

At the end of the second quarter of 2023, KBN had a common equity Tier 1 capital adequacy ratio of 18.6%, a Tier 1 capital adequacy ratio of 22.7%, and a total capital adequacy ratio of 23.6%. The capital adequacy ratio requirements imposed by the authorities at the end of the second quarter were 15.3% (common equity Tier 1 capital), 16.8% (Tier 1 capital) and 18.8% (total capital).

KBN received the Financial Supervisory Authority of Norway's (Finanstilsynet's) decision regarding its Pillar 2 requirement (SREP) on 11 April 2023. The Financial Supervisory Authority of Norway has determined that KBN must have a Pillar 2 capital requirement that represents 2.1% of the basis for calculation under Pillar 1. KBN's Pillar 2 capital requirement has thus been reduced by 0.1 percentage points. The Pillar 2 requirement is intended to address risks that the undertaking is exposed to and that are not, or are only partially, covered by the general capital requirements in Pillar 1. The requirement must be satisfied with at least 56.25% common equity Tier 1 capital and at least 75% Tier 1 capital, whereas previously it has to be satisfied 100% with common equity Tier 1 capital. The requirement came into effect on 30 April 2023.

KBN's leverage ratio at the end of the second quarter was 4.0%, 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 currency hedging contracts cause fluctuations in cash collateral. When the krone weakens, 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.

Greenhouse gas accounting for the first six months of 2023

In 2022, KBN increased its long-term climate target for reductions of own emissions to at least a 55 per cent reduction by 2030, compared to the 2019 level. The emissions trajectory implies a CO₂ emission of a maximum of 70 per cent of the 2019 level in 2023, corresponding to approximately 130 CO₂e for the year. There has been an increase in calculated emissions from 2022 to 2023, mainly due to more normalized travel activity in 2023. KBN is equally well placed to reach the target of the desired reduction in own emissions⁶.

Future prospects

Norges Bank raised its key policy rate to 3.75% by means of its May and June 2023 monetary policy committee meetings, and it has communicated that it will probably increase the rate further at its 17 August meeting. Norges Bank has stated that the reason for the increase is the need to reduce inflation. The goal of monetary policy is for the annual rate of growth in the consumer price index to be as close as possible to 2% annual growth. Norges Bank's forecast for its key policy rate indicates that it will reach 4.25% this autumn. The future path of the policy rate thereafter will depend on economic developments.

The war in Ukraine, uncertainty about the economic outlook, and the turmoil in the banking sector earlier in 2023 have caused long-lasting uncertainty in the fixed income market. The widening in credit spreads for local government sector issuers in the capital markets has continued in 2023, and at the end of the second quarter spreads for five-year financing were approximately 8 basis points higher than at the end of 2022. It is still uncertain whether credit spreads will fall through late summer and the autumn, 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 spending. Seen in isolation, these factors may result in a decrease in demand for financing going forward, and KBN also expects to see a lower rate of growth in borrowing by the local government sector in 2023 relative to previous years.

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.

6. KBN's calculated emissions is based on Greenhouse Gas Protocol Corporate Standard. Own emissions consist of calculations within scope 1 and scope 2 in the greenhouse gas accounting.

Statement by the Board of Directors

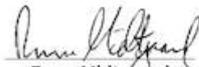
We confirm that the half-year financial statements for the period 1 January 2023 to 30 June 2023 have, to the best of our knowledge, been prepared in accordance with IAS 34 Interim Financial Reporting, and that the information contained in the financial statements gives a true and fair view of the company's assets, liabilities, financial position and results as a whole.

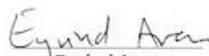
We also confirm that, to the best of our knowledge, the half-year report provides a true and fair overview of important events during the accounting period and their effects on the half-year financial statements, and also of the material risks and uncertainties facing the company during the next accounting period.

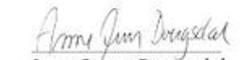
Oslo, 10 August 2023

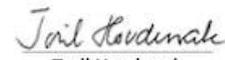
The Board of Directors and Chief Executive Officer of Kommunalbanken AS

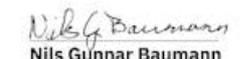

Brit Kristin Sæbe Rugland
CHAIR

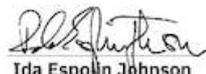

Rune Midtgaard
VICE CHAIR

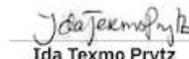

Eyvind Aven
BOARD MEMBER


Anne Jenny Dvergsdal
EMPLOYEE REPRESENTATIVE

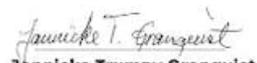

Toril Hovdenak
BOARD MEMBER


Nils Gunnar Baumann
EMPLOYEE REPRESENTATIVE


Ida Espolin Johnson
BOARD MEMBER


Ida Texmo Prytz
BOARD MEMBER


Petter Steen Jr.
BOARD MEMBER


Jannicke Trumpy Granquist
CEO

Financial statement

INCOME STATEMENT

<i>(Amounts in NOK 1 000 000)</i>	Note	2nd quarter 2023	January - June 2023	2nd quarter 2022	January - June 2022	2022
Interest income from assets measured at amortised cost		3 303	6 519	1 094	1 939	6 155
Interest income from assets measured at fair value		1 752	3 003	637	1 113	3 026
Total interest income		5 055	9 522	1 731	3 052	9 180
Interest expense		4 548	8 507	1 254	2 139	7 315
Net interest income	<u>1</u>	507	1 015	477	913	1 866
Fees and commission expenses		36	65	37	64	133
Net unrealised gain/(loss) on financial instruments	<u>2</u>	(143)	(29)	(583)	(1 405)	(1 622)
Increased/(reduced) provision for expected credit loss	<u>6</u>	(7)	(4)	(7)	(1)	28
Net realised gain/(loss) on market transactions		95	95	6	17	6
Total other operating income		(77)	5	(607)	(1 450)	(1 775)
Salaries and administrative expenses		42	91	42	88	166
Depreciation of fixed and intangible assets		10	21	9	18	38
Other operating expenses		23	40	12	23	67
Total operating expenses		75	151	63	129	271
Profit before tax		355	869	(193)	(666)	(180)
Income tax		75	201	(116)	(237)	(120)
Profit for the period		280	669	(77)	(429)	(60)
Portion allocated to shareholder		253	618	(95)	(463)	(135)
Portion allocated to owners of additional Tier 1 capital		27	50	18	34	75

STATEMENT OF COMPREHENSIVE INCOME

<i>(Amounts in NOK 1 000 000)</i>	Note	2nd quarter 2023	January - June 2023	2nd quarter 2022	January - June 2022	2022
Profit for the period		280	669	(77)	(429)	(60)
Other comprehensive income						
<i>Items which will not be reclassified to profit or loss</i>						
Change in fair value of liabilities due to changes in own credit risk	<u>9</u>	7	(54)	(40)	196	800
Actuarial gain/(loss) on pension liability		0	0	0	0	2
Tax		(2)	13	10	(49)	(200)
Total other comprehensive income		5	(40)	(30)	147	601
Total comprehensive income for the period		285	628	(107)	(282)	541

Statement of financial position

<i>(Amounts in NOK 1 000 000)</i>	Note	30 June 2023	30 June 2022	31 December 2022
Assets				
Deposits with credit institutions	<u>3,4</u>	41 357	42 661	39 512
Other money market deposits	<u>3</u>	0	741	0
Loans to customers	<u>3,4,5,6</u>	329 229	311 834	324 532
Commercial paper and bonds	<u>3,4,6,7,8</u>	122 350	107 789	109 235
Financial derivatives	<u>3,4</u>	19 735	29 198	16 119
Deferred tax asset		2 697	3 148	2 885
Other assets		235	175	166
Total assets		515 604	495 546	492 450
Liabilities and equity				
Due to credit institutions	<u>3,4</u>	13 023	25 973	6 567
Commercial paper issued	<u>3,4,9</u>	8 066	1 035	23 377
Debt securities issued	<u>3,4,9</u>	434 086	409 859	402 553
Financial derivatives	<u>3,4</u>	39 085	38 138	39 070
Other liabilities		48	542	56
Payable taxes		0	0	0
Pension commitments		27	32	27
Subordinated loan capital	<u>3,4,9</u>	714	1 868	1 897
Total liabilities		495 047	477 445	473 547
Share capital		3 895	3 895	3 895
Additional Tier 1 capital		3 484	2 392	2 392
Retained earnings		13 178	11 814	12 617
Total equity	<u>10</u>	20 557	18 100	18 903
Total liabilities and equity		515 604	495 546	492 450

Statement of changes in equity

(Amounts in NOK 1 000 000)

	1 January - 30 June 2023				
	Share capital	Additional Tier 1 capital	Financial liabilities, changes in credit risk	Other equity	Total equity
Equity as of 31 December 2022	3 895	2 392	(304)	12 920	18 903
Profit for the period	0	0	0	669	669
Other comprehensive income after tax - financial liabilities, changes in credit risk	0	0	(40)	0	(40)
Other comprehensive income after tax - actuarial gain/loss	0	0	0	0	0
Interest paid on additional Tier 1 capital	0	0	0	(67)	(67)
Issuance of Tier 1 capital	0	1 093	0	0	1 093
Dividends for 2022	0	0	0	0	0
Equity as of 30 June 2023	3 895	3 484	(344)	13 522	20 557

	1 January - 30 June 2022				
	Share capital	Additional Tier 1 capital	Financial liabilities, changes in credit risk	Other equity	Total equity
Equity as of 31 December 2021	3 895	2 392	(904)	13 698	19 081
Profit for the period	0	0	0	(429)	(429)
Other comprehensive income after tax - financial liabilities, changes in credit risk	0	0	147	0	147
Other comprehensive income after tax - actuarial gain/loss	0	0	0	0	0
Interest paid on additional Tier 1 capital	0	0	0	(53)	(53)
Dividends for 2021	0	0	0	(646)	(646)
Equity as of 30 June 2022	3 895	2 392	(757)	12 569	18 100

	1 January - 31 December 2022				
	Share capital	Additional Tier 1 capital	Financial liabilities, changes in credit risk	Other equity	Total equity
Equity as of 31 December 2021	3 895	2 392	(904)	13 698	19 081
Profit for the period	0	0	0	(60)	(60)
Other comprehensive income after tax - financial liabilities, changes in credit risk	0	0	600	0	600
Other comprehensive income after tax - actuarial gain/loss	0	0	0	2	2
Interest paid on additional Tier 1 capital	0	0	0	(74)	(74)
Dividends for 2021	0	0	0	(646)	(646)
Equity as of 31 December 2022	3 895	2 392	(304)	12 920	18 903

Statement of cash flows

<i>(Amounts in NOK 1 000 000)</i>	January - June 2023	January - June 2022	2022
Cash flows from operating activities			
Interest received	9 082	2 742	7 680
Interest paid	(6 997)	(1 830)	(5 568)
Fees and commissions paid	(122)	(102)	(131)
Net realised gains on financial assets	(8)	17	6
Cash payments to employees and suppliers	(131)	(111)	(233)
Income taxes paid	0	0	(525)
Net disbursement of loans to customers	(7 606)	6 330	(5 385)
Net (increase)/decrease in deposits with credit institutions	4 873	(5 557)	(21 209)
Net (increase)/decrease in commercial paper and bonds	(4 763)	7 926	5 944
Net (increase)/decrease in other assets	(16)	33	(5)
Net increase/(decrease) in other liabilities	(4)	(64)	(27)
Net (increase)/decrease in financial derivatives	28 568	18 807	25 528
Net cash flows from operating activities	22 876	28 193	6 079
Cash flows from investing activities			
Net (purchase)/sales of property and equipment	(16)	(20)	(32)
Net cash flows from investing activities	(16)	(20)	(32)
Cash flows from financing activities			
Receipts on issued commercial paper	46 003	53 591	148 633
Payments on redeemed commercial paper	(61 866)	(84 215)	(156 685)
Lease payments	(4)	(1)	(8)
Receipts on issued debt securities	32 894	47 474	86 995
Payments on redeemed debt securities	(39 930)	(44 557)	(84 295)
Interest Paid on additional Tier 1 capital	(67)	(53)	(74)
Dividends paid	0	(646)	(646)
Net cash flows from financing activities	(22 969)	(28 407)	(6 080)
Net cash flows	(110)	(233)	(33)
Effects of exchange rate changes on cash and cash equivalents	51	(23)	(24)
Net cash flows after effects of exchange rate changes	(59)	(257)	(57)
Cash and cash equivalents at 1 January	251	308	308
Net receipts of cash	(59)	(257)	(57)
Cash and cash equivalents at end of period	192	51	251
Whereof			
<i>Deposits with credit institutions without agreed time to maturity</i>	192	51	251
<i>Due to credit institutions without agreed time to maturity</i>	0	0	0

Notes to the financial statement

Accounting policies

Kommunalbanken AS (KBN) prepares its financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The condensed interim financial statements as of 30 June 2023 are prepared in accordance with IAS 34 Interim Financial Reporting and follow the same accounting policies and methods of computation as presented in the annual financial statements for 2022. The interim financial statement does not include all the information required in a full annual financial statement and should be read in conjunction with the annual financial statement for 2022. The Company has one operating segment: lending to the Norwegian municipalities and municipal companies. The Company does not provide separate segment reporting other than disclosures on the lending portfolio and the business as a whole.

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 will 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

<i>(Amounts in NOK 1 000 000)</i>	2nd quarter 2023	January - June 2023	2nd quarter 2022	January - June 2022	2022
Deposits with credit institutions	86	171	(9)	(19)	0
Other money market deposits	10	11	(1)	(1)	0
Loans to customers	2 563	5 133	1 017	1 814	5 274
Financial derivatives, hedge accounting loans to customers	32	46	(13)	(20)	(30)
Commercial paper and bonds	612	1 158	99	165	911
<i>Interest income from assets measured at amortised cost</i>	<i>3 303</i>	<i>6 519</i>	<i>1 094</i>	<i>1 939</i>	<i>6 155</i>
Loans to customers	426	589	510	1 018	1 977
Commercial paper and bonds	317	588	217	271	628
Financial derivatives	1 009	1 826	(89)	(176)	421
<i>Interest income from assets measured at fair value</i>	<i>1 752</i>	<i>3 003</i>	<i>637</i>	<i>1 113</i>	<i>3 026</i>
Total interest income	5 055	9 522	1 731	3 052	9 180
Due to credit institutions	0	0	8	9	18
Commercial paper issued	17	101	(8)	(21)	98
Debt securities issued	1 538	2 968	856	1 489	3 592
Financial derivatives, hedge accounting debt securities issued	2 171	3 945	(234)	(670)	953
Other interest expense	0	0	(12)	(12)	(12)
<i>Interest expenses from debt measured at amortised cost</i>	<i>3 726</i>	<i>7 014</i>	<i>610</i>	<i>796</i>	<i>4 649</i>
Debt securities issued	965	1 875	882	1 701	3 365
Financial derivatives	(156)	(411)	(253)	(388)	(761)
Subordinated loan capital	13	28	15	31	61
<i>Interest expenses from debt measured at fair value</i>	<i>822</i>	<i>1 492</i>	<i>644</i>	<i>1 343</i>	<i>2 666</i>
Total interest expenses	4 548	8 507	1 254	2 139	7 315
Net interest income	507	1 015	477	913	1 866

From 2023, KBN has changed the presentation of interest from financial instruments in hedge accounting. This means that interest that has previously been below fair value has been moved to amortised cost. The change only affects the presentation of interest on financial derivatives. Historical data has been adjusted accordingly.

Note 2 Net unrealised gain/(loss) on financial instruments

(Amounts in NOK 1 000 000)

Net unrealised gain/(loss) on financial instruments	2nd quarter 2023	January - June 2023	2nd quarter 2022	January - June 2022	2022
Loans to customers	(3 022)	(2 684)	(1 963)	(5 684)	(5 377)
Commercial paper and bonds	(369)	(109)	(633)	(1 559)	(2 177)
Financial derivatives	(1 589)	2 121	(6 916)	(13 141)	(18 748)
Debt securities issued	4 888	691	8 880	18 786	24 485
Subordinated loan capital	(51)	(48)	49	194	196
Net unrealised gain/(loss) on financial instruments	(143)	(29)	(583)	(1 405)	(1 622)

Specification of total value changes including hedging instruments	2nd quarter 2023	January - June 2023	2nd quarter 2022	January - June 2022	2022
Commercial paper and bonds, including hedging instrument	(3)	20	(89)	(177)	(138)
Loans to customers, including hedging instruments	(128)	(244)	(508)	(970)	(1 129)
Debt securities issued and subordinated loan capital, including hedging instruments	(12)	195	13	(258)	(354)
Net unrealised gain/(loss) on financial instruments	(143)	(29)	(583)	(1 405)	(1 622)

Recognised value changes on financial instruments in fair value hedges	2nd quarter 2023	January - June 2023	2nd quarter 2022	January - June 2022	2022
Loan to customers	(1 029)	(969)	(154)	(350)	(261)
Financial derivatives, in hedge accounting loans to customers	963	907	143	329	245
Debt securities issued	2 060	690	5 144	12 786	18 247
Financial derivatives, in hedge accounting debt securities issued	(2 041)	(651)	(5 098)	(12 760)	(18 262)
Net unrealised gain/(loss) on financial instruments	(47)	(23)	36	5	(31)

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. The change in fair value arising from Debt 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 parameters, mainly prices on bonds, market 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 has 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 only to a small extent cause net effects in the income statement. Investments in the liquidity portfolio, fixed interest-rate loans to customers and issued debt securities measured at fair value, may lead to significant effect in income statement and other comprehensive income due to changes in credit spreads. Similarly, changes in basis swap spreads may lead to significant net effects in the income statement.

KBN hedges currency risk. The bank's guidelines require hedging of all currency risks related to holdings in foreign currency. However, short-term net exposure linked to income and balance sheet items in USD and EUR may arise. KBN's limit for currency risk in these currencies is 1.6 per cent of primary capital. This means that net profit effects from short-term exchange rate changes are limited. Effects from the currency conversion of principal from non-derivative interest instruments in foreign currency, including among other commercial paper and bonds and debt securities issued, and from interest and fees/discounts are presented net in the income statement. Corresponding changes in value from foreign exchange derivatives used as a hedging instrument in financial hedging of the mentioned currency exposure, are presented net with currency conversion effects from the hedging object. In the tables above, only effects from exchange rate changes on fair value changes are presented.

Note 3 Classification of financial instruments

(Amounts in NOK 1 000 000)

At 30 June 2023	Total	At fair value			At amortised cost	
		Fair value option	Mandatory at fair value	Fair value hedge	Hedge accounting	Hold to collect
Deposits with credit institutions	41 357	0	0	0	0	41 357
Other money market deposits	0	0	0	0	0	0
Loans to customers	329 229	75 156	0	0	26 871	227 203
Commercial paper and bonds	122 350	67 904	0	0	0	54 447
Financial derivatives	19 735	0	18 582	1 153	0	0
Total financial assets	512 672	143 060	18 582	1 153	26 871	323 006
Due to credit institutions	13 023	0	0	0	0	13 023
Commercial paper issued	8 066	0	0	0	0	8 066
Debt securities issued	434 086	166 559	0	0	235 394	32 132
Financial derivatives	39 085	0	19 497	19 588	0	0
Subordinated loan capital	714	714	0	0	0	0
Total financial liabilities	494 972	167 273	19 497	19 588	235 394	53 221

At 30 June 2022	Total	At fair value			At amortised cost	
		Fair value option	Mandatory at fair value	Fair value hedge	Hedge accounting	Hold to collect
Deposits with credit institutions	42 661	0	0	0	0	42 661
Other money market deposits	741	0	0	0	0	741
Loans to customers	311 834	89 058	0	0	6 936	215 840
Commercial paper and bonds	107 789	68 216	0	0	0	39 573
Financial derivatives	29 198	0	28 804	394	0	0
Total financial assets	492 223	157 274	28 804	394	6 936	298 815
Due to credit institutions	25 973	0	0	0	0	25 973
Commercial paper issued	1 035	0	0	0	0	1 035
Debt securities issued	409 859	179 365	0	0	204 400	26 094
Financial derivatives	38 138	0	24 727	13 411	0	0
Subordinated loan capital	1 868	1 868	0	0	0	0
Total financial liabilities	476 872	181 234	24 727	13 411	204 400	53 101

At 31 December 2022	Total	At fair value			At amortised cost	
		Fair value option	Mandatory at fair value	Fair value hedge	Hedge accounting	Hold to collect
Deposits with credit institutions	39 512	0	0	0	0	39 512
Other money market deposits	0	0	0	0	0	0
Loans to customers	324 532	83 650	0	0	15 577	225 305
Commercial paper and bonds	109 235	60 324	0	0	0	48 911
Financial derivatives	16 119	0	15 837	283	0	0
Total financial assets	489 399	143 974	15 837	283	15 577	313 728
Due to credit institutions	6 567	0	0	0	0	6 567
Commercial paper issued	23 377	0	0	0	0	23 377
Debt securities issued	402 553	154 458	0	0	219 532	28 563
Financial derivatives	39 070	0	19 417	19 653	0	0
Subordinated loan capital	1 897	1 897	0	0	0	0
Total financial liabilities	473 465	156 355	19 417	19 653	219 532	58 507

Note 4 Financial instruments measured at fair value

Methods used for the determination of fair value fall within three levels, 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 are distributed in the following levels:

(Amounts in NOK 1 000 000)

At 30 June 2023	Level 1	Level 2	Level 3	Total
Loans to customers	0	0	75 156	75 156
Commercial paper and bonds	59 452	3 292	5 159	67 904
Financial derivatives	0	19 510	225	19 735
Total financial assets measured at fair value	59 452	22 802	80 541	162 795
Debt securities issued	13 140	130 907	22 512	166 559
Financial derivatives	0	35 868	3 217	39 085
Subordinated loan capital	0	0	714	714
Total financial liabilities measured at fair value	13 140	166 775	26 443	206 358

At 30 June 2022	Level 1	Level 2	Level 3	Total
Loans to customers	0	1 198	87 860	89 058
Commercial paper and bonds	54 724	7 246	6 246	68 216
Financial derivatives	0	29 158	40	29 198
Total financial assets measured at fair value	54 724	37 602	94 146	186 472
Debt securities issued	9 188	144 895	25 282	179 365
Financial derivatives	0	28 916	9 221	38 138
Subordinated loan capital	0	0	1 868	1 868
Total financial liabilities measured at fair value	9 188	173 812	36 372	219 371

At 31 December 2022	Level 1	Level 2	Level 3	Total
Loans to customers	0	0	83 650	83 650
Commercial paper and bonds	49 861	4 039	6 424	60 324
Financial derivatives	0	15 967	152	16 119
Total financial assets measured at fair value	49 861	20 006	90 226	160 094
Debt securities issued	12 284	122 595	19 580	154 458
Financial derivatives	0	34 780	4 290	39 070
Subordinated loan capital	0	0	1 897	1 897
Total financial liabilities measured at fair value	12 284	157 374	25 767	195 425

Reconciliation of movements in Level 3

	Loans to customers	Commercial paper and bonds	Debt securities issued	Subordinated loan capital	Financial derivatives
Carrying amount at 31 December 2022	83 650	6 424	19 580	1 897	(4 138)
Purchase	0	2 284	0	(1 099)	(15)
Sale	0	(1 396)	0	0	0
Issue	0	0	2 217	0	0
Settlement	(5 151)	(1 504)	(1 102)	0	1 133
Transfer into Level 3	0	1 090	0	0	0
Transfer out of Level 3	(1 560)	(1 815)	0	0	0
Net unrealised gain/(loss) recognised in the period	(1 783)	76	1 817	(84)	27
Carrying amount at 30 June 2023	75 156	5 159	22 512	714	(2 992)

	Loans to customers	Commercial paper and bonds	Debt securities issued	Subordinated loan capital	Financial derivatives
Carrying amount at 31 December 2021	98 853	6 599	30 522	2 092	(8 674)
Purchase	0	1 515	(113)	0	0
Sale	0	0	0	0	0
Issue	0	0	270	0	(27)
Settlement	(9 665)	(1 939)	(7 131)	0	(2 092)
Transfer into Level 3	0	175	0	0	0
Transfer out of Level 3	(1 790)	0	0	0	0
Net unrealised gain/(loss) recognised in the period	462	(105)	1 734	(223)	1 612
Carrying amount at 30 June 2022	87 860	6 246	25 282	1 869	(9 181)

	Loans to customers	Commercial paper and bonds	Debt securities issued	Subordinated loan capital	Financial derivatives
Carrying amount at 31 December 2021	98 853	6 599	30 522	2 092	(8 674)
Purchase	0	9 711	(208)	0	0
Sale	0	0	0	0	(30)
Issue	0	0	766	0	(28)
Settlement	(7 136)	(7 374)	(12 311)	0	3 153
Transfer into Level 3	0	175	0	0	0
Transfer out of Level 3	(2 943)	(2 580)	0	0	0
Net unrealised gain/(loss) recognised in the period	(5 124)	(108)	811	(195)	1 441
Carrying amount at 31 December 2022	83 650	6 424	19 580	1 897	(4 138)

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 of change of loan product for loans to customers. In the first six months of 2023, net holdings amounting to NOK 210 million have been transferred from Level 2 to Level 1, and correspondingly no transfers from Level 1 to Level 2 have been made.

Realised gains/(losses) on financial instruments in Level 3 are recognised in the Income statement under “Net realised gain/(loss) on market transactions”, while unrealised gains/(losses) are recognised under “Net unrealised gain/(loss) on financial instruments” and in the Statement of other comprehensive income (for changes in fair value due to changes in own credit risk). Effects from the currency conversion of principal from non-derivative interest instruments in foreign currency and from interest and fees/discounts are presented net in the income statement. Corresponding changes in value from foreign exchange derivatives

used as a hedging instrument in financial hedging of the mentioned currency exposure, are presented net with currency conversion effects from the hedging object.

Sensitivity analysis, level 3

The table below shows the impact of a 10 bp increase in the credit spread for financial assets and liabilities in Level 3.

(Amounts in NOK 1 000 000)	30 June 2023		30 June 2022		31 December 2022	
	Carrying amount	Sensitivity	Carrying amount	Sensitivity	Carrying amount	Sensitivity
Loans to customers	75 156	(246)	87 860	(321)	83 650	(293)
Commercial paper and bonds	5 159	(13)	6 246	(21)	6 424	(17)
Financial derivatives	(2 992)	(16)	(9 181)	26	(4 138)	(22)
Debt securities issued	(22 512)	19	(25 282)	10	(19 580)	25
Subordinated loan capital	(714)	3	(1 868)	(1)	(1 897)	9
Total		(253)		(307)		(297)

Note 5 Loans to customers

(Amounts in NOK 1 000 000)	30 June 2023	30 June 2022	31 December 2022
Principal amount	335 516	316 708	328 423
Accrued interest	2 211	1 224	1 928
Value adjustment of loans to customers at fair value	(7 221)	(5 723)	(5 506)
Value adjustment of loans to customers at hedge accounting	(1 229)	(350)	(261)
Expected credit loss	(46)	(23)	(52)
Total loans to customers	329 229	311 834	324 532

Note 6 Expected credit loss

The below table shows expected credit loss as part of the carrying amount of Loans to customers and Commercial paper and bonds at the end of the period.

(Amounts in NOK 1 000 000)	30 June 2023		30 June 2022		31 December 2022	
	Carrying amount	Expected credit loss	Carrying amount	Expected credit loss	Carrying amount	Expected credit loss
Loans to customers	254 074	46	222 776	23	240 882	52
Commercial paper and bonds	54 447	3	39 573	2	48 911	2
Total	308 520	50	262 349	25	289 793	54

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 an increase in expected credit loss, while negative numbers indicate a reduction in expected credit loss.

(Amounts in NOK 1 000 000)	2nd quarter 2023	January - June 2023	2nd quarter 2022	January - June 2022	2022
Loans to customers	(8.2)	(5.4)	(7.8)	(1.3)	27.4
Commercial paper and bonds	1.2	1.3	0.7	0.0	0.1
Total	(7.0)	(4.1)	(7.1)	(1.3)	27.5

KBN's expected credit losses are allocated into 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, both as of 30 June 2023, 30 June 2022 and 31 December 2022.

Note 7 Commercial paper and bonds

(Amounts in NOK 1 000 000)

Commercial paper and bonds by type of issuer	30 June 2023	30 June 2022	31 December 2022
Domestic			
Issued by public bodies ¹	0	0	0
Issued by other borrowers	34 083	20 520	20 257
Foreign			
Issued by public bodies ¹	70 141	76 308	77 918
Issued by other borrowers	18 126	10 961	11 061
Total Commercial paper and bonds	122 350	107 789	109 235

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

Commercial paper and bonds by time to maturity	30 June 2023	30 June 2022	31 December 2022
Under 1 year	45 086	41 236	42 635
1-5 years	74 286	63 548	64 789
> 5 years	2 978	3 005	1 811
Total Commercial paper and bonds	122 350	107 789	109 235
Average time to maturity (years)*	2.1	1.9	2.0

*Average time to maturity shown in the table above applies to Commercial paper and bonds, 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 2.1 years as of June 30, 2023.

Note 8 Credit exposure in commercial paper and bonds

Amounts in the tables below represent actual credit exposure.

Time to maturity Risk class	Exposure as at 30 June 2023									
	< 1 year				> 1 year					Total
	A-1	A-2	A-3	Not rated	BBB	A	AA	AAA	Not rated	
Sovereigns and central banks	17 069	0	0	0	0	1 626	9 749	1 217	0	29 661
Multilateral development banks	1 698	0	0	0	0	0	1 771	6 257	0	9 726
Regional authorities	9 273	0	0	9 894	0	0	10 335	5 513	2 431	37 446
Financial institutions	0	0	0	0	0	0	0	0	0	0
Corporates	1 081	0	0	0	0	633	0	0	0	1 713
Covered Bonds	1 490	0	0	4 581	0	0	0	37 734	0	43 805
Total	30 611	0	0	14 475	0	2 259	21 854	50 721	2 431	122 350

(Amounts in NOK 1 000 000)	Exposure as at 30 June 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	18 739	0	0	517	0	3 863	15 880	0	0	38 998
Multilateral development banks	1 828	0	0	0	0	0	197	4 873	0	6 899
Regional authorities	13 363	0	0	4 195	0	243	9 388	2 187	2 188	31 563
Financial institutions	0	0	0	0	0	0	0	0	0	0
Corporates	0	0	0	0	0	0	0	0	0	0
Covered Bonds	1 921	0	0	674	0	0	2 792	24 941	0	30 329
Total	35 850	0	0	5 386	0	4 105	28 258	32 002	2 188	107 789

(Amounts in NOK 1 000 000)	Exposure as at 31 December 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	24 043	0	0	2 093	0	4 251	11 816	0	0	42 203
Multilateral development banks	1 962	0	0	0	0	0	1 688	5 012	0	8 661
Regional authorities	8 358	0	0	4 079	0	0	9 609	4 457	2 271	28 775
Financial institutions	0	0	0	0	0	0	0	0	0	0
Corporates	395	0	0	0	0	103	0	0	0	498
Covered Bonds	1 421	0	0	282	0	0	2 775	24 619	0	29 098
Total	36 179	0	0	6 455	0	4 354	25 888	34 089	2 271	109 235

Note 9 Debt securities issued and Commercial paper issued

(Amounts in NOK 1 000 000)	30 June 2023	30 June 2022	31 December 2022
Debt securities issued (nominal amounts) as at 1 January	429 206	395 385	395 385
New issuance	32 894	47 474	86 995
Redemptions	(39 697)	(44 539)	(83 648)
Amortisation	(233)	(18)	(647)
Effects of exchange rate changes	38 259	32 260	31 122
Debt securities issued (nominal amounts) as at end of period	460 430	430 562	429 206
Accrued interest	5 174	3 875	4 228
Fair value adjustment	(31 518)	(24 578)	(30 881)
<i>Of which value change that is due to change in own credit risk</i>	<i>460</i>	<i>1 009</i>	<i>406</i>
<i>Of which value change that is due to other reasons, fair value</i>	<i>(12 409)</i>	<i>(12 168)</i>	<i>(12 408)</i>
<i>Of which value change that is due to other reasons, hedge accounting</i>	<i>(19 569)</i>	<i>(13 419)</i>	<i>(18 879)</i>
Total Debt securities issued	434 086	409 859	402 553

(Amounts in NOK 1 000 000)	Commercial paper	Debt securities issued	Subordinated loan capital
Carrying amount 31 December 2022	23 377	402 553	1 897
<i>Cash flows</i>			
Proceeds from issuance of debt securities	46 003	32 894	0
Buyback of debt securities	(61 866)	(39 930)	0
<i>Changes that are not related to cash flows</i>			
Change due to accrued interest and amortisation	101	948	(31)
Changes in fair value	0	(637)	48
Repurchase, related to issue of Tier 1 capital ¹	0	0	(1 200)
Effects of exchange rate changes	450	38 258	0
Carrying amount 30 June 2023	8 066	434 086	714

¹In the quarter, KBN carried out a buy-back of subordinated loan capital of NOK 1.2 billion and a related issue of Tier 1 capital.

(Amounts in NOK 1 000 000)	Commercial paper	Debt securities issued	Subordinated loan capital
Carrying amount 31 December 2021	31 567	393 663	2 092
<i>Cash flows</i>			
Proceeds from issuance of debt securities	53 591	47 474	0
Buyback of debt securities	(84 215)	(44 557)	0
<i>Changes that are not related to cash flows</i>			
Change due to accrued interest and amortisation	(21)	(0)	(30)
Changes in fair value	0	(18 982)	(194)
Effects of exchange rate changes	112	32 261	(0)
Carrying amount 30 June 2022	1 035	409 859	1 868

(Amounts in NOK 1 000 000)	Commercial paper	Debt securities issued	Subordinated loan capital
Carrying amount 31 December 2021	31 567	393 663	2 092
<i>Cash flows</i>			
Proceeds from issuance of debt securities	148 633	86 995	0
Buyback of debt securities	(156 685)	(84 295)	0
<i>Changes that are not related to cash flows</i>			
Change due to accrued interest and amortisation	98	352	1
Changes in fair value	0	(25 285)	(196)
Effects of exchange rate changes	(236)	31 123	(0)
Carrying amount 31 December 2022	23 377	402 553	1 897

Note 10 Primary capital

(Amounts in NOK 1 000 000)	30 June 2023	30 June 2022	31 December 2022
Equity	20 557	18 100	18 903
Additional Tier 1 capital included in equity	(3 484)	(2 392)	(2 392)
Equity included in common equity Tier 1 capital	17 073	15 709	16 512
<i>Deductions:</i>			
Deferred tax asset*	(1 014)	(1 563)	(1 228)
Intangible assets	(152)	(142)	(143)
Dividends payable	(326)	(326)	0
Prudent valuation adjustments (AVA)	(141)	(139)	(147)
Adjustments unrealised loss (gains) due to changes in own credit risk	344	757	305
Total common equity Tier 1 capital	15 784	14 296	15 299
Other approved Tier 1 capital	3 484	2 392	2 392
Total Tier 1 capital	19 268	16 687	17 691
<i>Supplementary capital</i>			
Subordinated loan capital	800	2 000	2 000
Total supplementary capital	800	2 000	2 000
Total primary capital	20 068	18 687	19 691

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

Primary capital has been calculated under Capital Requirements Regulation (CRR). Unrealised gain/(loss) on liabilities that is due to changes in own credit risk is related to debt securities issued.

In the quarter, KBN carried out a buy-back of subordinated loan capital of NOK 1.2 billion and a related issue of Tier 1 capital with the same first repayment date as the subordinated loan. The buyback resulted in a

realised gain of NOK 101 mill. before tax, which has been recognised as income in the quarter. The transaction results in a strengthening of the bank's Tier 1 capital ratio and Leverage ratio.

Note 11 Capital adequacy

(Amounts in NOK 1 000 000)	30 June 2023			30 June 2022	31 December 2022
	Carrying amount	Risk weighted assets	Minimum capital requirements and capital adequacy	Minimum capital requirements and capital adequacy	Minimum capital requirements and capital adequacy
Credit risk					
Sovereigns and central banks	29 662	0	0	0	0
Regional governments and local authorities	359 785	67 404	5 392	5 041	5 240
<i>Of which are Norwegian municipalities</i>	329 229	66 066	5 285	5 023	5 212
Corporates	1 714	857	69	0	20
Public sector entities	6 866	0	0	0	0
Multilateral development banks	9 727	0	0	0	0
Financial institutions	15 252	2 954	236	377	224
<i>Of which counterparty exposure on derivatives</i>	11 728	2 341	187	242	171
Claims secured by residential property	21	21	2	2	2
Covered bonds	43 719	4 372	350	242	232
Other assets	1 697	4 221	338	319	333
Credit Valuation Adjustment	215	2 691	215	243	202
Total credit risk	468 658	82 520	6 602	6 224	6 253
Market risk	0	0	0	0	0
Operational risk - Basic Indicator Approach		2 374	190	286	190
Minimum capital requirements		84 894	6 791	6 510	6 443
Total capital ratio			23.6 %	23.0 %	24.5 %
Tier 1 capital adequacy ratio			22.7 %	20.5 %	22.0 %
Common equity Tier 1 capital adequacy ratio			18.6 %	17.6 %	19.0 %
Leverage ratio			4.0 %	3.7 %	3.9 %

Contact information

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

Address:
Haakon VIIIs gate 5b, 0161 Oslo

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

www.kbn.com