KBN The Norwegian Agency for Local Governments

2022 Annual Report

Contents

Cover: Grieghallen
Photo: Eilif Stene

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

The project is partly funded with a green loan from KBN.

KBN The Norwegian Agency for Local Governments

Photo: Jo Straube

A year of war in Europe

As the annual report for 2022 is published, we have just marked the one-year anniversary of Russia's invasion of Ukraine. What was supposed to be a quick "special operation" to overthrow the democratically elected government has become the most destructive conflict on European soil since the Second World War.

JANNICKE TRUMPY GRANQUIST
CEO

Economic sanctions from the West have been followed up by arms aid from around fifty countries, led by the USA. Ukraine's president has addressed a joint session of US Congress and the US president recently visited Kyiv "*to meet with Zelensky and reaffirm our unwavering commitment to Ukraine's democracy, sovereignty and territorial integrity*". There is little indication that the conflict will be resolved in the near future. A broad majority in the Norwegian Storting recently decided to give 75 billion kroner to Ukraine over a five-year period for military, civil and humanitarian aid.

The municipal sector in Norway, which made an impressive effort during the corona pandemic in 2020 and 2021, has shown the same spirit of service in 2022 as the war in Ukraine drove hundreds of thousands of people to flee. Norway took in more than 30,000 refugees, more than in the previous four years combined, and all were settled in a municipality. There is no doubt that the international events have also had financial consequences for the municipalities, and significant amounts have been allocated to compensate for this. For the time being, the influx of refugees appears to have a limited effect on investment and borrowing in the sector.

Before the invasion of Ukraine, Russia was the most important supplier of natural gas to the EU with a share of over 40 per cent. To put pressure on the EU, which supported Ukraine, Russia cut its gas supplies, with the price of natural gas in Europe surging to record highs as a result. In combination with the normalisation after the corona pandemic, this has led to inflation levels around the world that we haven't seen in decades. It has also contributed to the EU stating that it will become independent of Russian gas within a few years and is now increasing its investment in energy efficiency measures and a massive development of renewable energy production. The high energy prices contributed to the Norwegian state receiving more than NOK 1,000 billion in extra income from oil and gas operations in 2022.

In addition to growth in energy prices and inflation, 2022 has been characterized by a sharp increase in interest rates to overcome inflation, and great volatility and turbulence in global interest and equity markets with increases in, among other things, credit spreads. This has also affected KBN. The bank's core earnings have improved and this is reflected in increased net interest income and a higher core result. But at the same time, the result for the financial year 2022 ended with a deficit of NOK 60 million, compared to a profit of NOK 1,208 million in 2021. The decrease in profit is due to large unrealised losses from changes in the value of financial instruments in 2022 due to the market turbulence. The bank's financial instruments are normally held to maturity and the effect of unrealised changes in value on the result is reversed by a reversal in market movements or as the instruments approach maturity.

2022 was another record year for KBN's green lending to investments that contribute to reduced greenhouse gas emissions, energy efficiency and/or climate adaptation. The green lending portfolio increased by 24 per cent, equivalent to NOK 8.4 billion. At the end of 2022, 134 municipalities, five county councils and a total of 70 other customers had green loans in KBN, and outstanding loans amounts total NOK 43.5 billion. The overall lending growth in 2022 was NOK 5.4 billion. KBN made a strategic decision to phase out the remaining portfolio of lending granted on certificate loan terms, partly because of low profitability, but also to support KBN's strategy of emphasizing long-term borrowing. This freed up NOK 8.4 billion in lending capacity in 2022, which has contributed to overall growth in more profitable, long-term loans with instalment payments of NOK 12.2 billion. KBN experienced a record high demand for long loans with instalments and standard variable rate loans and the volume of disbursements for this type of loan was higher than ever before.

New long-term borrowings in 2022 amounted to NOK 87 billion, as compared to NOK 97 billion in 2021. The reduction in the amount raised in NOK terms was primarily due to less debt maturing in 2022 than in 2021. KBN's funding program was not materially affected by the market turbulence seen in 2022, and KBN enjoyed good access to the capital markets throughout the year.

With rising energy prices and the resulting increased costs for the municipal sector, KBN and the Norwegian Climate Foundation joined forces to put local energy efficiency and production on the agenda in 2022 and further into 2023. Electrification of society and the development of power-intensive industry contribute to a likely power deficit in Norway by 2027. Municipalities and county councils are major consumers of electricity, as owners of buildings, treatment facilities and waste disposal facilities. The potential for cutting consumption, costs and emissions, and also making yourself less vulnerable to both price fluctuations and security of electricity supply, is significant. The work has resulted in a booklet with examples of municipalities that have implemented effective measures, with the aim of being able to inspire others to do the same, and which is sent to the country's mayors and municipal directors.

In the autumn of 2022, the government presented its new white paper on state ownership policy "A greener and more active state ownership". The white paper places particular emphasis on sustainable value creation and that the state must be an active and responsible owner with a long-term perspective. The state's purpose with its ownership in KBN is to offer stable, long-term and efficient financing to the municipal sector. KBN shall provide the highest possible return over time within sustainable limits and enable a sustainable transition and increased value creation. This is in line with KBN's input to the white paper and will be followed up in 2023 together with the other expectations.

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.

AAA
Standard & Poor's
Moody's

41.4 bn. NOK
lending to climate friendly projects in the municipal sector

99.4%
of Norwegian municipalities are KBN customers

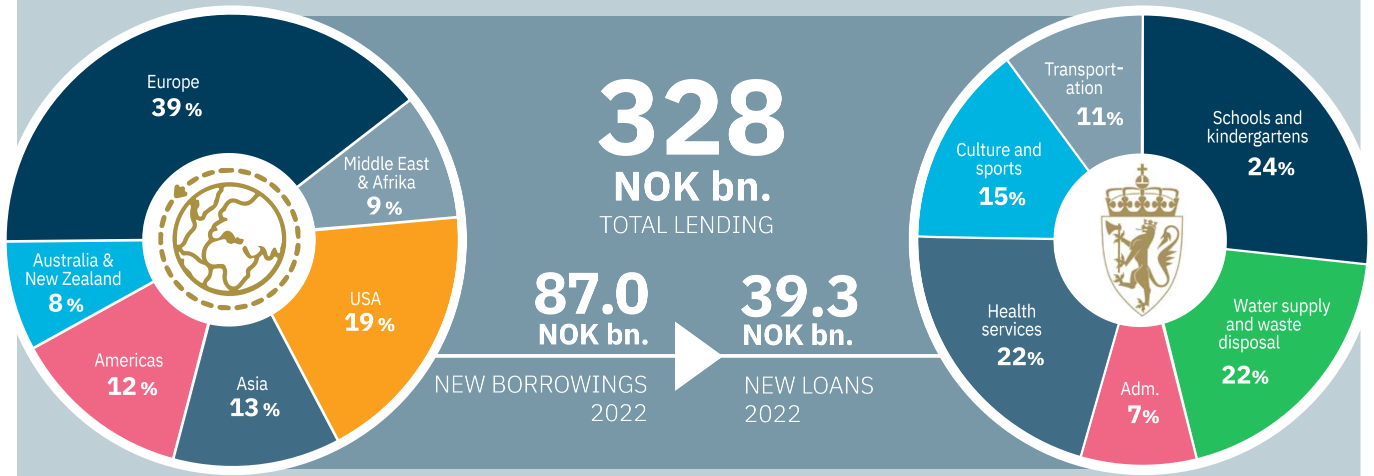
49.7%
of municipal debt is financed through KBN

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 300 billion.

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.

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 finances its green loans for the local government sector by issuing green bonds. 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.

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.



**Investment expenditures local/regional sector per service area, average last 10 years. Source: SSB, KBN*

KBN STRATEGY, 2023-2025:

Building a sustainable society

Our value creation will balance financial, social and environmental factors so that our return over time is generated within sustainable limits.

THE CUSTOMER FIRST
KBN will be the most important financing partner for Norwegian municipalities and county authorities.

We will:
- Add value to our customer relationships by being our customers' preferred and most knowledgeable partner for discussions about financing.
- Strengthen our customer relationships by being a leader for digital solutions that provide customers with insight and the ability to keep track of how they are managing their borrowing.
- Meet our customers' needs by means of agile, quick and structured business development and innovation with the aim of developing new, profitable products and services.

STRONG MARKET PARTICIPANT
Through a strong position in the capital markets, nationally and internationally, KBN will ensure Norwegian municipalities and county authorities have access to attractive financing.

We will:
- Further develop a diversified funding program to maintain our low borrowing costs in the context of the more uncertain international economic outlook.
- Hold liquidity reserves that are invested in highly creditworthy liquid securities in order to be ready to address situations such as another crisis in the financial markets or unforeseen needs to make disbursements.
- Strive to simplify our financing activities by reducing the complexity, costs and risk associated with funding, hedging and contingency planning.

OPEN | RESPONSIBLE | AHEAD

LEADER IN GREEN FINANCE
KBN will be among the leading financial institutions on climate risk, green financing solutions, sustainability reporting and insight that contributes to sustainable development.

We will:
- Continually develop our green loan products and undertake a pilot project in relation to the financing of projects adapted to the EU Taxonomy.
- Develop a framework for issuing bonds under the EU Green Bond Standard.
- Spread knowledge about climate risk and help our customers to succeed in meeting their climate objectives.
- Provide tools and knowledge that strengthen our customers' basis for making decisions in terms of investing in financially sustainable projects.
- Undertake a project to map our material direct and indirect emissions with the objective of setting a science-based target for KBN that is in line with the Paris Agreement.

A DIGITAL FIRST CHOICE
Our customers and employees will prefer using KBN's digital solutions because they provide insight, are efficient and provide a good basis for decisions.

We will:
- Transition to fully digital lending processes for the entire process from applying for a loan through to the money arriving in the account.
- Simplify and digitise the qualification process for green loans.
- Provide digital products and insight solutions to maintain our strong customer relationships.
- Systematically employ external and internal data when creating the basis for decisions and analysis and to generate new insight.
- Take future-oriented tech choices and exploit new digital solutions to simplify KBN's operations and enable a faster pace of change.
- Give our employees a high-quality user experience in relation to our tech choices and the system solutions they use.

A FUTURE-ORIENTED ORGANISATION
Our culture will be characterised by the fact that we refresh our expertise through learning and knowledge sharing in order to create value for our customers.

We will:
- Facilitate continual learning and knowledge sharing.
- Refresh our ways of working by automating, digitising and streamlining.
- Strengthen our capacity and expertise in analysis.
- Be an attractive employer by facilitating engagement and development.

VISION:

We finance the local communities of tomorrow

VALUES:

Open
Responsible
Ahead

		Target for 2022	Outcome for 2022
Financial targets	Return on equity	> 5.5%	-0.8%
	Return on equity (core earnings)	> 5.5%	6.6%
	Dividend capacity	> 4%	Not achieved
	Common Tier 1 capital adequacy ratio	> 16.8%	19.0%
	Leverage ratio	> 3,7%	3.9%
	Cost /income (operating expenses/core earnings)	< 18%	16%
Market targets	Market share of lending excluding Husbanken*	> 45%	49.7%
	Rating	AAA/Aaa	AAA/Aaa
	Customer satisfaction	> 5	8.7**
	Annual growth in green lending	> 15%	24%
Organisational targets	Employees completing Kompetanseløftet***	> 75%	87%
	Gender balance	> 40%	43%
	Sick leave	< 2.5%	3.6%
	Results from the employee survey:		
	Engagement	> 4.4	4.5
	Implementation capacity	> 4.1	4.2
Sustainability targets	Proportion of customers with green loans	> 35%	38%
	Ratings by rating agencies:		
	MSCI	AA	AA
	ISS ESG	B	C+
	Sustainalytics = Low	Low	Low
	KBN's CO_2 emissions compared to 2019-levels	Reduced by 30%	Reduced by 58%

CHART
KBN's targets for 2023-2025

* Norwegian State Housing Bank.

** The scale of KBN's customer satisfaction survey is changed from 1-6 to 0-10 from 2022. Score target of minimum 5 according to old scale, equals minimum 8.5 according to new scale.

*** Kompetanseløftet is a skill development programme which challenges all KBN's employees to learn something new over the course of the year. Employees are free to choose any topic that is relevant to KBN, with a training arrangement of at least two days.

The table shows that KBN achieved its target for most indicators in 2022. High levels of customer satisfaction and employee satisfaction and strengthened capital adequacy are among the target areas with a strong outcome, and this also applies to maintaining KBN's rating and market share. Growth in green lending and the completion rate for the skill development programme Kompetanseløftet both achieved record highs in 2022.
The following comments address the indicators for which 2022 targets were not achieved.

Return on equity
The return on equity for 2022 based on profit for the year was -0.8% as compared to a target of 5.5% (KBN's yield requirement). The war in Ukraine and market turbulence caused large unrealised losses in KBN's accounts, and this was the cause of the reported weaker return on equity. However 2022 saw an improvement in core earnings, which is a measure of KBN's underlying profitability, and the return on equity based on core earnings for 2022 was 6.6%, which is higher than the target for the year. Return on equity based on core earnings is considered to be the most relevant metric when comparing KBN's performance to the yield requirement.

Dividend capacity
The reported loss for the year means that KBN does not have the capacity to pay a dividend, and this is not in line with the owner's expectations.

Sick leave
The rate of sick leave varied between 4.5% and 2.5% over the course of 2022. For the year as a whole, the rate of sick leave was 3.6%. This is lower than in 2021, but is still over the target for the sick leave not to exceed 2.5%. KBN has a relatively small number of employees, and the rate of sick leave is therefore sensitive to small changes in the number of people who are absent on sick leave.

KBN history

Since 1927 KBN has ensured that Norwegian municipalities have been able to finance local welfare on favourable terms.

The 1920s was a period of crisis in Norway. Prices fell and investments plummeted. Norwegian municipalities had taken on sizeable borrowings, and struggled to repay this debt. In 1926 the Norwegian Parliament resolved to establish a specialised credit institution for municipalities. The intention was to create an institution that would be able to provide long-term financing to the local government sector.

Ever since KBN was first established, its objective has been to raise funding on the most reasonable terms possible in order to make loans to the local government sector on the best terms possible.

At no time in its 96 year history has KBN ever suffered a loss on its lending, and it has never reported an operating loss. At the end of 2022, KBN had loans outstanding to all of Norway's county authorities, 354 of Norway's 356 municipalities, and Longyearbyen Community Council.

1927 – **2022**

1927
KBN is established

In the year after the Norwegian Parliament's resolution, KBN's predecessor Norges Kommunalbank was established as a state institution. The most important objective in the beginning was to help heavily-indebted municipalities out of the difficult borrowing situation in which they found themselves by providing refinancing loans. As the debt crisis gradually subsided, regular lending to municipalities that were in a satisfactory financial situation became its main lending activity.

1945
Following the Second World War, Norges Kommunalbank took on a central position as a lender to municipalities to finance their social welfare responsibilities. In the first decades following the Second World War, lending to finance the construction of electric power plants was a particularly important role for Norges Kommunalbank.

1954
From 1954 Norges Kommunalbank was able to accept deposits from municipalities, electricity boards and municipality pension funds.

1960s
During the 1960s the focus for local government investment moved towards infrastructure and production of local welfare services.

1974
Norges Kommunalbank ceased to accept deposits in 1974, and since this time KBN has funded its lending activity entirely from the capital markets.

1986
From 1986 through to 1999 Norges Kommunalbank was only permitted to fund its activities by taking up loans denominated in Norwegian krone. During this time Norges Kommunalbank operated with an annual lending limit decided by the Norwegian parliament.

1999
Norges Kommunalbank was converted into the current legal form of Kommunalbanken AS (KBN) on 1 November 1999. Following the conversion, KBN's funding quotas and lending limits were removed, and it was again able to fund its activities by taking up loans denominated in foreign currencies.

2000
AAA

KBN achieved an AAA-rating. The rating is based on KBN's position as a wholly state-owned limited company with a sound capital base and a conservative risk profile that lends exclusively to Norwegian municipalities and county authorities of very high credit quality.

2008-2009
In response to the global financial crisis, the Norwegian state provided NOK 200 million of equity to KBN in order to increase its capacity for lending to the local government sector. This injection of equity was important to maintain economic activity, and demonstrated how KBN can function as an instrument of public policy.

2010
KBN issued its first green bond in 2010 in response to interest from Japanese investors.

2013
KBN became one of the first state-owned European banks to issue a green bond denominated in US dollars, with the proceeds earmarked for financing green projects.

2016
The Norwegian government resolved that KBN should be deemed to be one (of two) systemically important financial institutions in Norway, and KBN became subject to separate capital adequacy requirements.

2020
In response to turbulence in the capital markets in connection with the coronavirus pandemic, KBN was given a capital injection of NOK 750 million "In order to help the markets to function as well as possible and to prevent municipalities' refinancing of short-maturity securities from contributing to further stress in the markets".

2022
2022 was characterised by high levels of volatility in global fixed income and equity markets, as well as high inflation and increasing interest rates, caused by the war in Ukraine and the continuing aftermath of the coronavirus pandemic. KBN's green lending portfolio increased to over NOK 40 billion in 2022, with its green loans financing more than 400 projects throughout Norway.

Looking back on 2022

2022 was a year affected by the war in Ukraine, with great volatility and turbulence in the global interest and equity markets, high inflation and sharp increase in interest rates. At the same time, society has gradually opened up again after periods of lockdown due to the coronavirus pandemic, and KBN's annual conference could once again be held physically. It took place at the new Munch Museum in Oslo, and the ticket proceeds went to the Red Cross' work in Ukraine. 2022 was another record year for KBN's green lending to investments that contribute to reduced greenhouse gas emissions, energy efficiency and/or climate adaptation.

Total disbursed 2022
(Excluding short-term certificate loans)
NOK **39 261 317 583**

Green loans disbursed 2022
NOK **8 080 852 370**

JANUARY
Solid 5-year USD benchmark issue
KBN priced a new USD 1.25 billion 5-year benchmark. The transaction enjoyed a broad and global distribution with a final orderbook in excess of USD 1.75 billion.

STRAKSTILTAK

FEBRUARY
Launching initiative for climate adaptation
KBN, Fremtind and Skift – Business Climate Leaders launched strakstiltak.no, a new learning arena for the business sector and the public sector aiming to build expertise and collaborations on how best to adapt to a warmer, wetter and wilder climate.

MARCH
KBN hires a remote worker
Sigrid Ertresvåg Jakobsen became KBN's first "remote worker". She combined a bachelor's degree in Digital infrastructure and cyber security at NTNU in Trondheim with a student position in the IT department at KBN. - Norway needs more tech people and we need to even out the gender differences in the tech professions. KBN therefore offers student positions in the field where you can work together with highly qualified tech people from KBN and various consulting companies, says Ilse Bache, Chief of Technology & Operations at KBN.

APRIL
KBN annual conference
The annual conference could once again be held physically and took place at the new Munch Museum in Oslo. Demographics, innovation, sustainability and collaboration were central themes as we looked towards the years ahead. The ticket proceeds went to the Red Cross's work in Ukraine.

MAY
New functionality in the customer portal
KBN launched new functionality on the customer portal. Customers can now view reports for accrued interest rate and see the historical development of the interest rate.

JUNE
KBN presented the award for Norway's best social entrepreneur
The student company DillDall Design EB from Åmli secondary school in Agder was named Norway's best social entrepreneur. The contest is a collaboration between KBN and Ungt Entreprenørskap Norge, which through the student programme directs attention to social entrepreneurship and sustainability in secondary schools.

AUGUST
Arendalsuka
KBN's Chief Executive Officer Jannicke Trumpy Granquist and Chief Lending Officer Lars Strøm Prestvik participated in several events at the annual Arendalsuka conference, the largest political gathering in Norway. Taxonomy, service quality in the municipal sector and climate adaptation were among the topics on the agenda.

SEPTEMBER
New green milestone for KBN
KBN passed NOK 40 billion in green loans to the municipal sector. With that, we have already reached our goal for 2022 that at least 35 per cent of Norway's municipalities should have green loans from KBN.

OCTOBER
Leader for a day
Benjamin Sæther, a young entrepreneur from Sandnes, was one out of 25 management talents from all over the country, selected to participate in the programme *Leader for a day*. At KBN, he got the opportunity to spend the day with CFO Andrea Søfting. *Leader for a day* is an annual initiative by Ungt Entreprenørskap Norge, where young talents get to shadow Norwegian business leaders for one day.

NOVEMBER
KBN presented the award for local climate action of the year
With the world's first zero-emission fast ferry, Rogaland County Municipality won the Local Climate Initiative of the Year 2022. The contest is organised by KS, Miljøstiftelsen ZERO and KBN to create awareness of good climate initiatives in the municipalities and inspire further efforts. The award was presented by CEO Jannicke Trumpy Granquist.

DECEMBER
KBN published the booklet "Save and produce more energy"
How can municipalities and counties contribute to the energy transition by saving electricity and producing electricity? KBN, in collaboration with the Norwegian Climate Foundation, published the booklet "Save and produce more energy", which presents several good examples of energy efficiency and production in municipalities and counties around Norway.

	Green loans	Total
JANUARY	453,200,000	3,206,755,447
FEBRUARY	1,023,200,000	5,749,398,447
MARCH	1,113,896,000	7,953,012,987
APRIL	1,162,396,000	8,317,042,987
MAY	2,373,496,000	11,375,591,439
JUNE	2,525,736,000	14,194,301,297
JULY	3,904,881,000	16,096,933,965
AUGUST	5,364,415,000	19,648,937,356
SEPTEMBER	5,733,120,000	24,074,409,527
OCTOBER	6,338,903,370	27,214,477,489
NOVEMBER	6,555,476,370	31,876,630,312
DECEMBER	8,080,852,370	39,261,317,583

Key figures

(Amounts in NOK 1 000 000)	2022	2021	2020	2019	2018
RESULTS[1]					
Net interest income	1 866	1 585	1 672	1 875	1 885
Core earnings[2]	1 081	908	922	1 071	1 194
Profit before tax	(180)	1 620	1 537	1 771	1 996
Profit for the year	(60)	1 208	1 159	1 283	1 496
Return on equity after tax[3]	(0,8%)	7.1%	7.4%	9.5%	11.9%
Return on equity after tax (core earnings)[4]	6,6%	5.6%	6.3%	8.3%	9.8%
Return on assets after tax[5]	0,0%	0.3%	0.2%	0.3%	0.4%
Return on assets after tax (core earnings)[6]	0,2%	0.2%	0.2%	0.2%	0.3%
LOANS TO CUSTOMERS					
New disbursements	39 261	48 547	57 699	53 825	55 749
Aggregate loans to customers[7]	328 401	323 018	318 235	309 758	302 229
LIQUIDITY PORTFOLIO[7]	109 959	110 837	123 585	107 350	113 557
DEBT SECURITIES ISSUED					
New long-term debt securities issued	86 994	96 550	107 822	72 508	104 844
Buyback of debt securities issued	96	217	1 051	276	206
Redemptions	83 552	106 802	106 676	95 704	79 937
Aggregate debt securities issued[7]	429 206	395 385	405 451	400 489	414 603
TOTAL ASSETS	492 450	473 064	498 219	460 778	457 701
EQUITY					
Equity	18 903	19 081	18 538	16 401	15 421
Total capital ratio	24,5%	24.2%	23.3%	22.6%	22.9%
Tier 1 capital adequacy ratio	22,0%	21.7%	20.8%	20.1%	20.3%
Common equity Tier 1 capital adequacy ratio	19,0%	18.8%	17.9%	17.4%	17.4%
Leverage ratio	3,9%	3.9%	3.7%	3.7%	3.6%

(Amounts in NOK 1 000 000)	2022	2021	2020	2019	2018
Liquidity coverage ratio (LCR)[8]					
Total	261%	175%	191%	348%	349%
NOK	95%	71%	77%	73%	56%
EUR	441%	140%	200%	800%	625%
USD	242%	137%	188%	422%	248%
AUD	1 078%	1082%	1 239%	Infinite	489%
JPY	Insignificant	Insignificant	716%	533%	Infinite
GBP	1 958%	733%	97 768%	Infinite	Insignificant
OTHER KEY FIGURES					
Market share excl. Husbanken[9]	49,7%	51,4%	52,8%	52,9%	54,4%
Green loans to customers[10]	41 421	32 876	26 112	23 049	18 869
Share of green loans to customers of total loans to customers	13,3%	10.2%	8.2%	7.4%	6.2%
Green bonds[11]	34 907	25 796	15 976	16 615	12 800
CO_2 saved or reduced (tons of CO_2 equivalents)[12]	10 307	37 181	50 058	50 938	64 769
Emissions in tons CO_2 equivalents[13]	79,7	40	75	192	282
Percentage of women employed in KBN	43%	46%	41%	42%	44%
Percentage of women in KBN's management team	50%	50%	27%	36%	40%
Customer satisfaction[14]	8,70	5.27	5.31	5.32	5.17

1 The numbers are calculated based on accounting rules applied for the respective time period.

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

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 Core earnings as a percentage of average assets (annualized). Average assets are calculated based on monthly assets.

7 Principal amounts

8 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.

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

10 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 43.5 billion.

11 Aggregate green bonds, principal amounts.

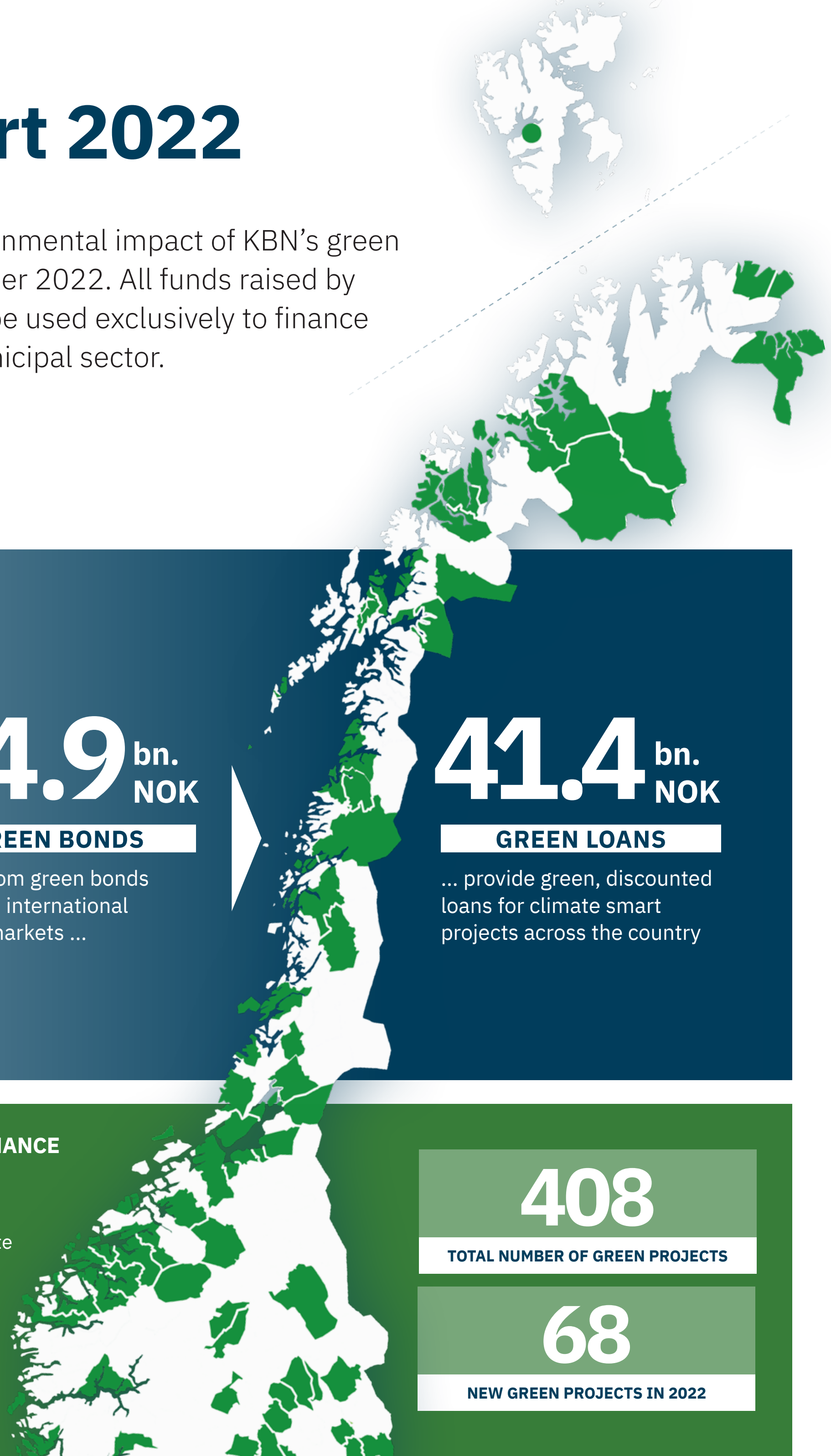
12 Based on an European emission factor of 380g CO_2 per kWh of electricity avoided or produced in an emission-free manner; the reduction relates to projects that are financed with green bonds. For CO_2 results with other emission factors, please see the KBN Green Bond Impact Report.

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

14 Scale from 1-6 for 2018 to 2021. Scale from 0-10 in 2022.

Impact report 2022

This summary presents the environmental impact of KBN's green loan programme as of 31 December 2022. All funds raised by KBN's green bond issuances will be used exclusively to finance green loans in the Norwegian municipal sector.



34.9 bn. NOK

GREEN BONDS

Funds from green bonds issued in international capital markets ...

41.4 bn. NOK

GREEN LOANS

... provide green, discounted loans for climate smart projects across the country

OUR GREEN LOAN PROGRAMME HELPS FINANCE

10 307 tonnes of CO_2e reduced and avoided annually[1]

145 808 tonnes increased waste management capacity

42 GWh energy reduced and avoided annually

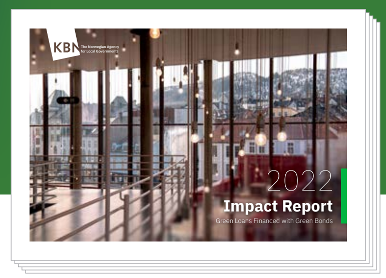
92 GWh renewable energy produced annually

516 142 Population equivalents increase in water and wastewater capacity[2]

12.6% Share of total lending[3]

408
TOTAL NUMBER OF GREEN PROJECTS

68
NEW GREEN PROJECTS IN 2022

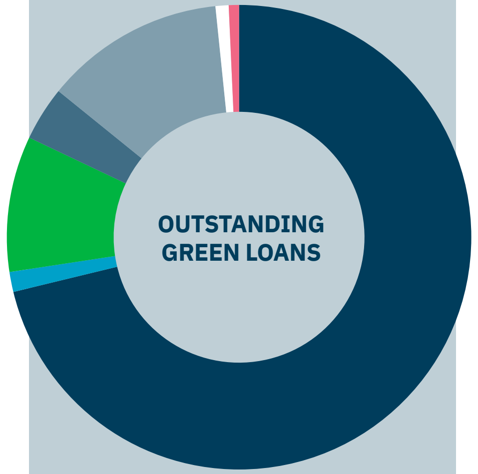


Read the full KBN IMPACT REPORT on www.kbn.com

[1] We do our best to ensure the quality of the information provided; however, the reader should be aware that there is uncertainty related to estimating climate and environmental impact from investments.
[2] Population equivalents is an expression that describes the load and capacity of water and wastewater supply.
[3] Share of KBN's total lending which is eligible for green bond financing.

Executive summary

As of 31 Dec 2022



Buildings	71%
Renewable energy	1%
Transportation	9%
Waste and circular economy	4%
Water and wastewater management	13%
Land use and area development projects	1%
Climate change adaptation	1%

BASIC INFORMATION

Current Green Bond Framework:
KBN Green Bond Framework, dated March 2021

Reporting period:
Calendar year 2022. The report summarises projects financed from the start of the green bond and green loan programmes.
A complete overview of all projects in the portfolio can be downloaded in spreadsheet format at kbn.com

Date of publication:
27 February 2023

Reporting frequency:
Annually

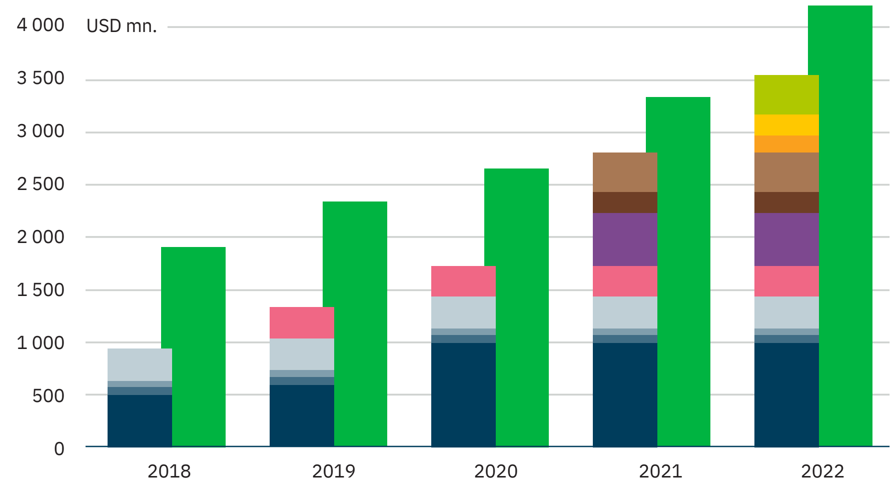
Next report scheduled:
February 2024

Reporting approach:
Portfolio-based and project-by-project reporting

Reporting framework:
Nordic Public Sector Issuers: Position Paper on Green Bonds Impact Reporting

Verification:
Internal audit of compliance of guidelines and routines related to green loans and bonds, as well as allocation. Conducted by KPMG.

GREEN BONDS ISSUANCE AND PORTFOLIO OF GREEN LENDING



Total outstanding green bonds divided by total outstanding disbursed to projects, as of 31 December 2022 (in NOK)				84% of which
Issue date	Volume	Maturity	ISIN	
11 Feb 2015	USD 1 billion[1]	11 Feb 2025	US50048MBX74 / XS1188118100	24%
29 Nov 2017	NOK 750 million	29 Nov 2027	NO0010811276	2%
29 Nov 2017	NOK 600 million	29 Nov 2032	NO0010811284	1%
05 Sep 2018	AUD 450 million	05 Sep 2023	AU3CB0256162	7%
28 Aug 2019	SEK 3 billion	28 Aug 2026	XS2047497289	7%
21 Apr 2021	USD 500 million	21 Oct 2024	US50048MDA53 / XS2333390164	12%
08 Oct 2021	AUD 300 million	08 Oct 2024	AU3CB0283596	5%
18 Oct 2021	CAD 500 million	18 Oct 2024	US50047JAJ79 / XS2398386776	9%
24 Feb 2022	SEK 1.75 billion	24 Feb 2025	XS2447758025	4%
17 Nov 2022	AUD 300 million	17 Feb 2026	AU3CB0294130	5%
07 Dec 2022	CAD 500 million	07 Dec 2027	XS2564075583 / US50047JAK43	9%
Outstanding green lending				

[1] Originally USD 500 mn., USD 100 mn. tap in 2019 and USD 400 mn. tap in 2020.

PROJECT CATEGORIES AND ENVIRONMENTAL IMPACT [1]

Project portfolio	Green loan outstanding (1000 NOK)	Reduced and avoided GHG (tonnes CO_2e annually)	Impact tonnes CO_2e per million NOK [2]
Buildings	29 497 522	577	0.02
Renewable energy	575 106	727	1.26
Transportation	3 913 795	8 978	2.29
Waste and circular economy	1 564 292	25	0.02
Water and wastewater management	5 196 680	n/a	n/a
Land use and area development projects	378 507	n/a	n/a
Climate change adaptation	294 958	n/a	n/a
Total	**41 420 859**	**10 307**	**3.59**
Renewable energy generated annually			**92 GWh**
Energy reduced/avoided annually			**42 GWh**

[1] The impact reported corresponds to the share of the project financed by us. A grid factor of 11g CO_2e per kWh electricity is applied throughout when converting electricity to emission.
[2] Tonnes CO_2e reduced or avoided per million NOK of green lending.

Photo: John Trygve Tollefsen

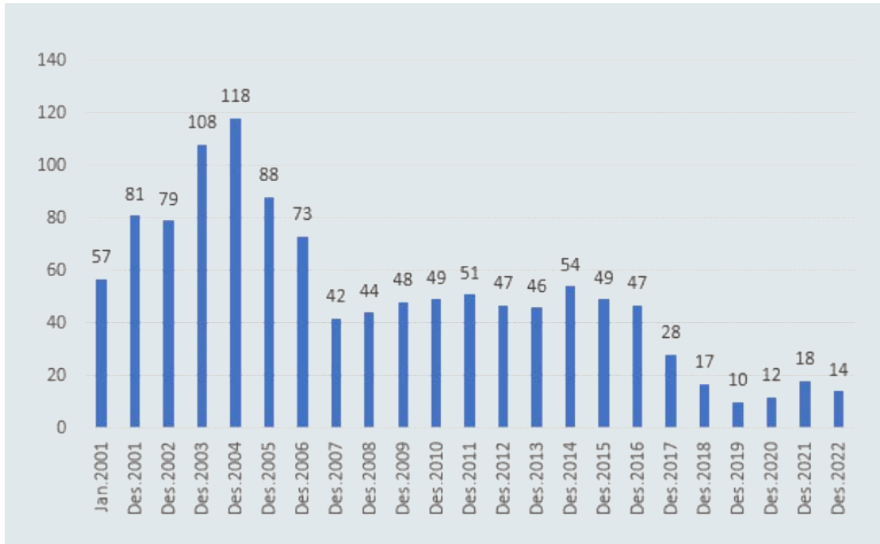
Interest rates are on the rise, what does this mean for the municipal sector?

A combination of sizable growth in borrowing and rising interest rates would suggest considerable challenges for Norwegian municipalities. However, it's a more complex picture than the figures suggest.

LARS LUDVIGSEN
Head of Lending, KBN

The local government sector's primary duty is to deliver high-quality services to residents. Its specific tasks are either defined by legislation or by political priorities decided centrally and locally. The new Local Government Act, which came into force on 1 January 2020, explicitly confirms municipalities' legal right of self-determination. The elected members of municipal councils have wide-ranging authority with regard to what to prioritise and decision making. The responsibilities for important areas of welfare provision such as nurseries, schools, health and care facilities, water supply, wastewater treatment and waste management are delegated to the country's 356 municipalities and 10 county municipalities. Every fifth employed person in the country is employed in the municipal sector. Sizeable financial resources are transferred to the sector, and at around NOK 580 billion its combined income is just under 20% of mainland Norway's GDP. (Source: Regjeringen.no) Recent years have seen the sector achieve strong financial results, and the number of municipalities on the Register for Governmental Approval of Financial Obligations (ROBEK) at the end of 2022 was at a very low level.

CHART 1
Number of municipalities on the ROBEK register from January 2001 to December 2022
Source: Regjeringen.no

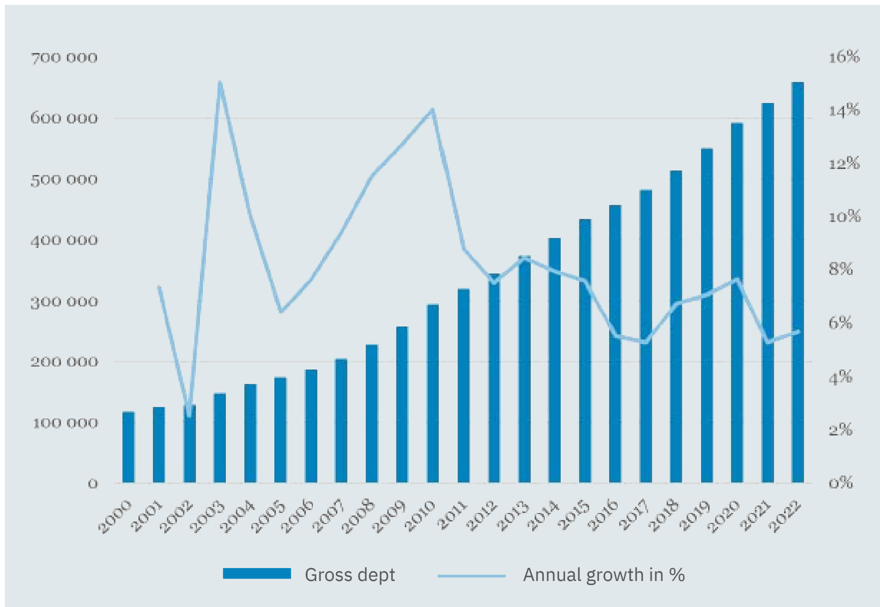


Sizeable growth in borrowing

In order to deliver welfare services, municipalities need appropriate and functional buildings and robust and reliable infrastructure. Investment in assets of this type is largely financed by borrowing, and the sector's total borrowing has grown significantly over recent years in pace with both population growth and the increasing number of tasks delegated to the sector. According to Statistics Norway, the total indebtedness of the local government sector at the close of 2017 was equivalent to 113% of the sector's combined income, representing a marked increase from 67% in 2000. (Source: Statistics Norway)

Municipalities' financial accounts are not available until June each year, but on the basis of Statistics Norway's credit indicator for the municipality sector, growth in outstanding borrowing in 2022 is likely to have been somewhat stronger than in 2021. The credit indicator as at the end of December 2022 shows annual growth in borrowing of 5.7% to NOK 659 billion. The growth is thus still somewhat lower than it has been in the last 10 years. Both the pandemic, price increases and interest rate increases could explain the somewhat lower growth.

CHART 2
Total domestic borrowing by the local government sector



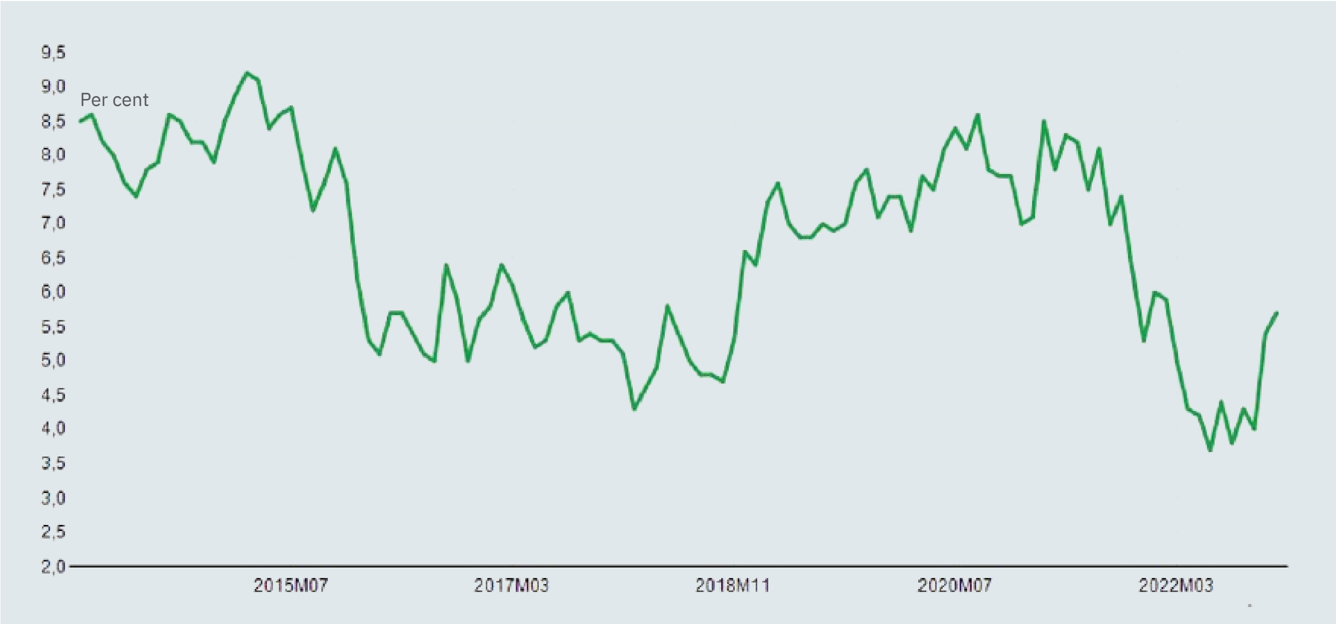


CHART 3
Growth in domestic borrowing by the local government sector, seasonally adjusted, over the preceding 12 months, in per cent. *Souce: Statistics Norway*

KBN's lending to the local government sector (total lending minus loans to companies backed by a municipality guarantee) has over the same period grown by approximately 5.6% annually, but the variations are somewhat larger than for the sector taken as a whole. In total, borrowing has grown by 72% since 2012.

CHART 4
KBN's lending to the local government sector and annual growth in per cent.

Sensitivity to higher interest rates

A significant proportion of the growth in the local government sector's total borrowing has taken place at a time of historically low interest rates. Norges Bank cut its key policy rate to 0% in May 2020, a level never before seen in Norway. This led to record-low floating interest rates for large parts of 2020 and 2021 for households, the private sector and Norwegian municipalities and county authorities. Norges Bank announced two increases in interest rates during the second half of 2021 and six times in 2022. This has brought the key policy rate to 2.75%. The 3-month NIBOR interest rate has increased from 0.2% in July 2021 to over 3% in February 2023. The fixed income market is pricing in further increase for three-month NIBOR over the course of 2023, while interest rates are expected to decrease from early 2024. However, the level of interest rates can still be considered low by historical comparison.

The extent to which municipalities are sensitive to higher interest rates depends on a number of factors. The first factor is that a large proportion of municipalities' borrowing is not directly exposed to changes in market interest rates. The proportion of a municipality's borrowing that is exposed to interest rate changes is termed net interest-bearing debt, and this can be calculated by deducting the following elements from its total outstanding borrowing:

- Lending
- Proceeds of borrowing that have not yet been used
- Borrowing related to full-cost recovery areas such as water, wastewater and refuse collection
- Borrowing that is subject to interest rate compensation (loans for schools, churches, residential care and nursing homes)
- Liquidity not financed by borrowing

Carrying out this calculation often results in a figure which is less than half of total indebtedness, and therefore represents a significant reduction in interest rate risk. It is important to note that there are major differences between municipalities in terms of both total indebtedness and net interest-bearing debt. The second important factor is the proportion of borrowing with a fixed rate or interest rate swap. In order to secure greater predictability, most municipalities choose fixed interest rates for some of their borrowings. Municipalities' internal financial regulations typically state that municipalities should have at least a third of their borrowings on a fixed rate basis at any time. No figures for the total value of fixed interest rate borrowing or interest rate swaps are available for the municipality sector as a whole, but a study of municipalities' financial reports carried out by KBN concluded that many municipalities have a significant proportion of their borrowings on fixed rate terms. The proportion of the sector's total borrowings that is on a fixed rate basis is estimated to be up to 40%. This degree of interest rate hedging, taking into account the proportion of total debt that is net interest- bearing debt, indicates that many municipalities have prioritised having predictable interest rate costs and are therefore relatively well equipped to deal with rising interest rates while continuing to meet their responsibilities. Comparing the financial reports from March 2021 and August 2022 confirms a high degree of hedging as the average interest rate has increased by a little over one percentage point at the same time as the NIBOR interest rate has increased by more than two percentage points.

The local government sector's sound financial performance over recent years has also generated significant growth in municipalities' available reserves. These have more than tripled from 2015 to 2021 and currently amount to NOK 72 billion, equivalent to 13% of operating revenue. This provides a significant buffer for municipalities and county authorities in terms of their ability to cope with unexpected or rapid increases in interest rates. The survey of municipality budgets for 2023 carried out by the Norwegian Association of Local and Regional Authorities (KS) estimates that municipalities are planning a marginally lower level of investment in 2023 than in 2022, while county municipalities are planning to invest somewhat more than in 2022. The survey concludes with an estimate that investment volume for 2023 will be in the order of NOK 113 billion, representing an increase of 2% from the previous year's survey.

Pandemic and refugees

In 2020 and 2021, the local government sector made an impressive contribution during the coronavirus pandemic. The sector's employees were on the front line of the fight against the virus, and at the same time had to maintain important, high-quality societal functions such as schools, nurseries, elderly care and public transport. The same spirit of service also manifested itself in 2022 when the war in Ukraine drove thousands of people to flee. Norway accepted over 30,000 refugees in 2022 and all were settled in a municipality. There is no doubt that international events have had financial consequences for municipalities and county authorities, and the sector has been granted significant amounts in compensation for this. So far this seems to have had limited effect on the sector's investment plans or borrowing. Current projects and planned projects are being implemented despite the demanding day-to-day circumstances, and the underlying factors driving the need for investment, such as population changes and municipalities' tasks, remain unchanged.

Well-equipped for the future

Norwegian municipalities and county authorities make an important contribution to the Norwegian welfare model, and they carry out a range of important tasks on behalf of society as a whole. Population growth and the addition of new services to their responsibilities have resulted in growth in borrowing, but at the overall level it does seem that the sector has the capacity to adjust to changes to its operating framework such as higher interest rates. The sector is characterised to a very large degree by prudence and a commitment to providing residents with good services well into the future. KBN is committed to playing its role in helping municipalities and county authorities to achieve these objectives.

Photo: Anastasiia Krutota, Unsplash

THE CAPITAL MARKETS IN 2022:

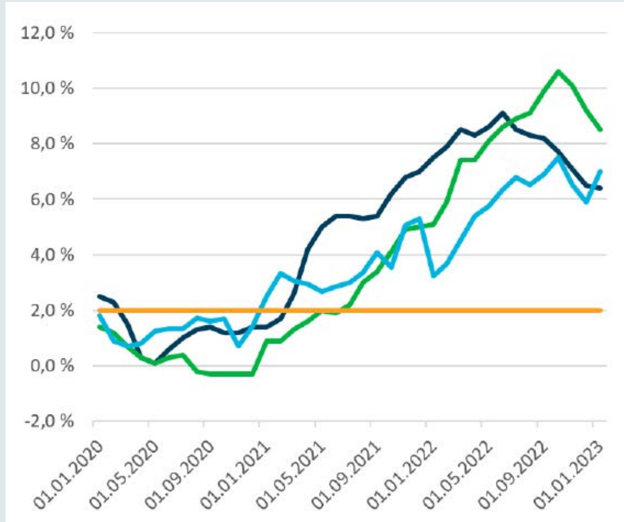
War, inflation and repricing

2022 will go down in the history books for several reasons. The most important event was the awful and tragic war in Ukraine. Inflation was also at its highest level for 40 years, which affected people across the world.

NILS GUNNAR BAUMANN
Senior Portfolio Manager

Inflation started to pick up right back in early 2021, but the world was still facing the pandemic, and the American central bank, the Fed, along with many other experts, thought the inflation would be temporary. Their view was that inflation would come down again as soon as the pandemic and its associated production and logistical challenges were over. During 2021, we saw the pandemic come to an end but inflation continue to climb, and towards the end of 2021 it became clear that inflation would not be temporary. At the start of 2022, inflation was running significantly higher than the targeted rate of 2%, both in the USA and Europe, at the same time as central banks' policy rates were set at extremely stimulative levels.

OVERALL INFLATION
From 2020 to the end of 2022.



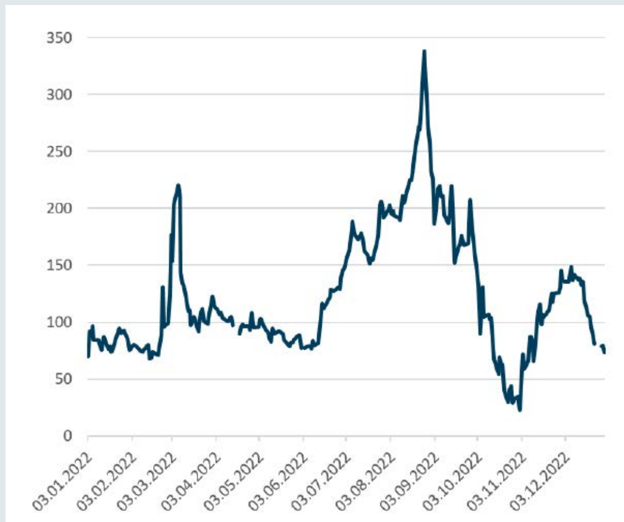
CORE INFLATION
From 2020 to the end of 2022.

USA Eurozone Norway Inflation target

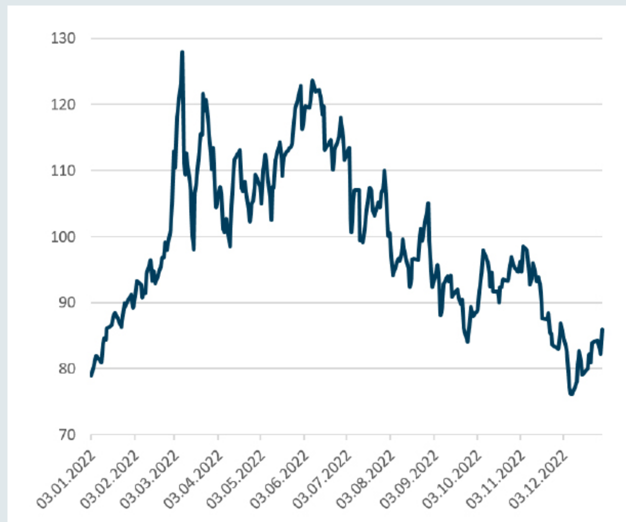
Higher energy prices
On 24 February 2022, Russia invaded Ukraine. The Western world was united in its condemnation of the invasion and launched economic sanctions against Russia. Due to the war and Russia's position as a major exporter of oil and gas, energy prices climbed significantly. In the period between the start of the war and the end of August, the price of oil exceeded USD 120 per barrel on several occasions, with prices then decreasing over the autumn.

At the start of 2022, Russia was the most important supplier of natural gas to the EU with a market share in excess of 40%. Gas supplies from Russia decreased quickly and the price of natural gas in Europe shot up. The highest price reached came at the end of August with an intraday high of EUR 340 per megawatt hour, which is equivalent to an oil price of USD 570 per barrel. In 2022, the average price for natural gas delivered to the Netherlands was ultimately EUR 125 per megawatt hour, which is nearly eight times higher than the average price in the four years before the increase in prices. The high prices for oil and particularly gas caused the cost of other energy to increase as well. Most economic activity uses energy and the high energy prices have contributed to a higher rate of inflation across the world.

NATURAL GAS PRICES
Natural gas prices in 2022, in Euros per megawatt.



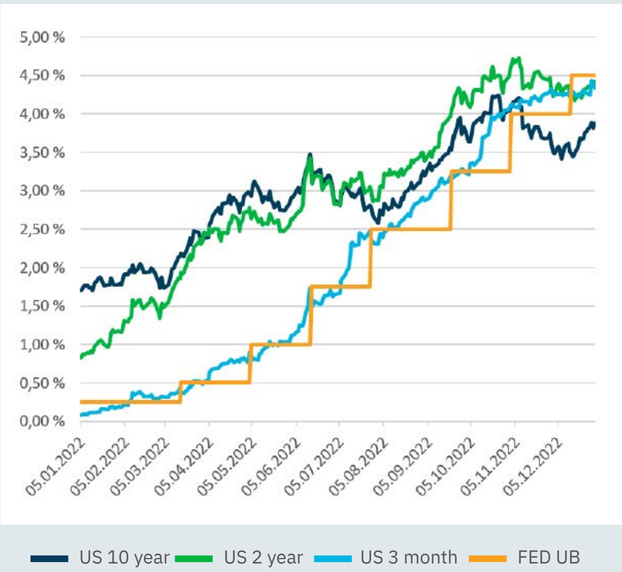
OIL PRICES
Oil prices in 2022, Brent spot USD per barrel.



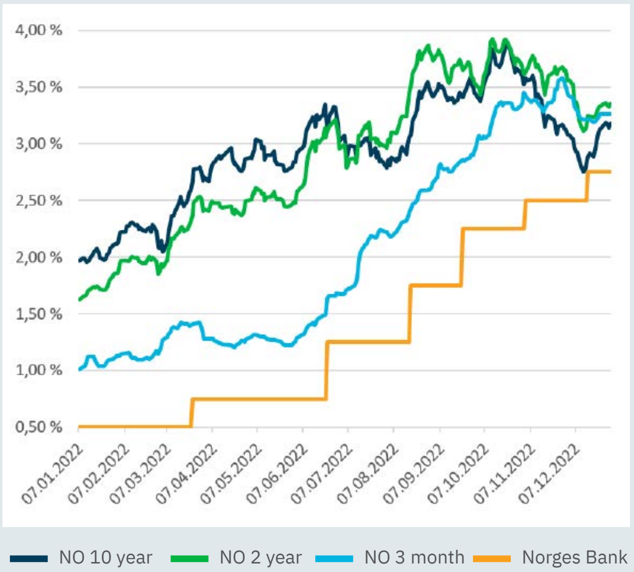
Higher interest rates
The American central bank, the Fed, first started to raise interest rates when it approved a 0.25 percentage point increase on 15 March 2022. It then quickly realized that it had been slow to act and so stepped up the pace of its rate hikes significantly by increasing interest rates at every meeting, with rises of 0.5 and 0.75 percentage points at a time. At the end of 2022, the Fed's policy rate was in the 4.25%-4.50% range. Norges Bank's key policy rate was 0.5% at the start of 2022, and ended the year at 2.75%. Such significant nominal increases have not been seen in the course of one year for several decades. In relative terms, the increases seen in 2022 were even more dramatic, as the starting point in the majority of cases was virtually zero. In parallel with increasing interest rates, the Fed continued to reduce its bond holdings. This put upward pressure on long-term interest rates, while also reducing excess liquidity in the market.

Higher interest rates cause the discounted present value of future cash flows to fall, which in turn means decreases in or downward pressure on the value of assets such as fixed rate bonds, equities and real estate.

USA GOVERNMENT BOND YIELDS AND POLICY RATE
US interest rates for various maturities in 2022.



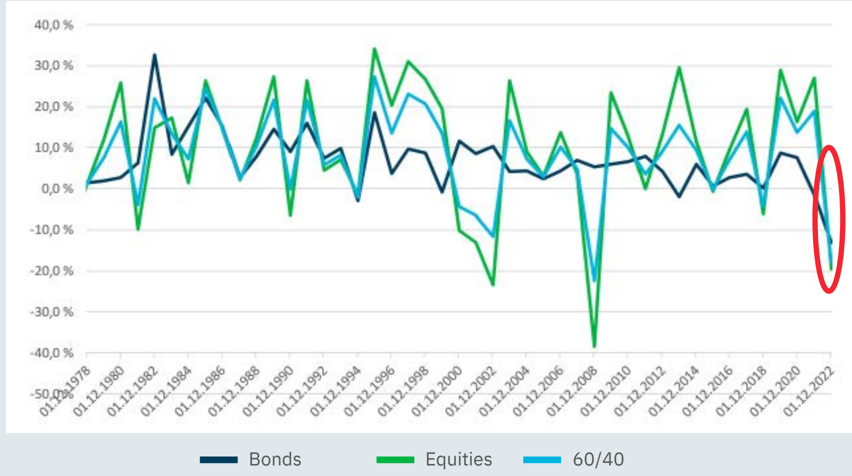
NORWAY SWAP, NIBOR, KEY POLICY RATE
Interest rates in Norway for various maturities in 2022.



From the summer of 2022, the yield curve both in the USA and Norway has been inverted. An inverted yield curve means that long-term rates are lower than short-term rates. Throughout the last 50 years an inverted yield curve has been an indicator that the economy will enter a recession within 12-24 months.

Unusual correlation
At the start of 2022, the value of a US portfolio of 60% equities and 40% bonds was at a record high. Developments in 2022 with significant interest rate rises and indicators of a forthcoming recession gave rise to a positive correlation between financial assets that are usually negatively correlated. Both elements of a 60-40 portfolio accordingly fell in value in parallel and on a scale that has rarely, if ever, been seen previously.

ANNUALISED RETURN ON BONDS AND EQUITIES
Returns from equities and bonds are normally negatively correlated, but not in 2022.



Long-term interest rates are to a large extent positively correlated across geographies and currencies. As a result, bond markets are also largely positively correlated. The fluctuations seen in the US market are thus found to a large extent in turn in Europe, Norway and other locations.

The bond market can in general terms be divided into government bonds and corporate bonds. The corporate bond market is positively correlated with the stock market, as both involve company-specific risks. Corporate bonds therefore also fell in value as a result of the expectations of a recession.

CREDIT MARGINS
Five-year NOK and EUR credit spreads.

An unusual year
2022 was an unusual year in many ways. A war on European soil that continues to rage unabated. Record-high energy prices and the highest rate of inflation for over 40 years have followed the strongest increase in interest rates over the same period. On the positive side, a number of seemingly overheated financial markets have seen adjustments without this leading to a total collapse, which will be good for financial stability and future growth.


Photo: Hundven-Clements Photography / Link Arkitektur

Can action at the local level solve the energy crisis?

HARALD JACOBSEN
Head of Communications and Sustainability, KBN

VENIL SÆLEBAKKE
Climate and Green Finance Adviser, KBN

In November 2021, KBN and the Norwegian Climate Foundation launched a joint initiative to put energy efficiency and energy production firmly on the agenda. At the time, energy prices had just begun to rise, and the prospect of higher prices suggested that an increasing range of energy efficiency measures would become profitable to implement.

Since then, energy and carbon prices have only gone upwards. Russia's strategic cuts in its supply of gas to Europe as part of its war on Ukraine have, combined with developments in European power trading and operational outages at a number of nuclear power plants, help push Norwegian electricity prices to all time high levels. High electricity prices at a time of increasing interest rates and the highest inflation in decades, as well as rapid growth in wages, have caused significant increases in costs for the Norwegian local government sector.

In addition, Norway is facing a power deficit as early as 2027 due to the impact of decarbonisation efforts and the establishment of new electricity-intensive industries. Norwegian municipalities and county authorities are themselves major consumers of electricity as the owners and operators of properties, water treatment plants and waste processing facilities. Municipalities and county authorities are also involved in significant construction activity, with annual investment in new buildings and refurbishment of existing buildings and facilities totalling tens of billions of Norwegian kroner.

Inspirational booklet for the local government sector
There is clearly a potential to reduce power consumption, costs and emissions, while at the same time reducing vulnerability to both price fluctuations and supply uncertainty. KBN and the Norwegian Climate Foundation have worked to identify examples of municipalities and county authorities that have implemented successful measures in this area in order to inspire other authorities to do the same. This work has resulted in a booklet that was launched just before Christmas 2022 together with a series of webinars that started in 2022 and will continue in 2023.

We found that Bodø municipality, with 53,000 residents, has recruited an energy adviser to help improve the efficiency of the municipality's energy consumption and achieved savings in electricity consumption representing NOK 6.4 million in three years. After installing a centralised operational control system, the municipality discovered various faults and shortcomings that had caused considerable unnecessary costs over the years. One example was the discovery of a fault in the ventilation system at a nursery school. A fire damper had been left open since the building was constructed, and this meant that the ventilation system's heat recovery was inoperative. Once the fault had been identified and rectified, the building's energy consumption fell by 27%, equivalent to around 39,000 kWh annually. The direct financial loss incurred over the 10 years between the construction of the building and discovery of the fault amounted to around NOK 350,000.

Tvedestrand upper secondary school in the county of Agder received an electricity bill for June and July 2022 of *minus* NOK 138,000 thanks in part to the building's 4,400 m² of solar cells and recycled Nissan Leaf storage batteries. The county authority had decided to use this building project to test the use of energy storage in combination with solar PV, and therefore incorporated a battery storage system. 40% of the battery system comprises recycled batteries from Nissan Leaf cars that are no longer suitable for electric vehicle use since they have lost around 20% of capacity. The balance of the system's capacity is provided by new batteries. The solar power stored in the batteries can be used at times when electricity is expensive due to particularly high demand. This also means that the school avoids making demands on the electricity distribution network in Agder at times when demand for electricity is at its peak.

In 2020 Våler municipality in the county of Viken invested around NOK 35 million in a total of 88 small and large power-saving measures, including the use of energy performance contracts (EPC). An EPC is a type of contract where the property owner purchases energy-saving services and improvements from an external supplier. The supplier works to achieve a specified level of energy saving. If the energy savings are not achieved, the supplier refunds the owner. If the energy savings exceed the agreed level, the supplier shares the benefit of the savings with the owner. Våler municipality benefited from more rapid growth in savings than was expected. When the project was first implemented, the payback period for the investment costs was expected to be 17 years. This calculation was based on an electricity price of NOK 0.60/kWh. The much higher electricity prices caused by the energy crisis in Europe have served to shorten the payback period.

The new Holen school at Laksevåg in Bergen opened in January 2022, and is a combination of old and new buildings. The tendering process for the school imposed strict restrictions on energy consumption, limiting the use of externally purchased electricity to 30% of its total requirement. The school uses 11 geothermal wells and two separate heat pump systems. One system is used for space heating and cooling, while the other is a high-temperature system that produces hot water. Solar panels covering a roof area of 900 m² are expected to produce around 100,000 kWh annually, equivalent to 25% of the building's total electricity requirement. The municipality decided to retain and renovate parts of the existing school buildings in the development of the new school, and this avoided 70% of the CO_2 emissions that demolition and new construction would have produced, while the renovation reduced the energy requirement of the retained space by 60%.

Green loans can make a contribution

The shared feature for all of these municipalities is they have obtained green loans from KBN. We offer green loans to finance municipality and county authority investments that contribute to reduced climate gas emissions, improved energy efficiency, or climate adaptation. Investments that improve energy efficiency and use renewable energy production are among the areas that qualify for green loans. Municipalities and county authorities can also apply for Enova grants and Klimasats subsidies for investments in these areas.

As an example of this, we estimate that the Holen school will achieve an annual energy saving of around 200,000 kWh. Based on a loan amount of NOK 412.5 million, we can also calculate the discounted present value of the discount in the interest rate charged on a green loan, as shown in the table below. The table also shows the potential for savings in electricity costs at varying levels of electricity prices.

Energy efficiency measures and own production of electricity		Green loan from KBN	
Reduction in energy requirement	200,000 kWh/year	Loan amount	MNOK 412.5
Reduction in cost of energy with electricity price 1.50	NOK 300,000/year	Repayment term	30 years
Reduction in cost of energy with electricity price 2.50	NOK 500,000/year	Discount rate	4.5%
Reduction in cost of energy with electricity price 3.50	NOK 700,000/year	Green discount rate	0.1%
		Present value of discounted interest rate	**MNOK 4.4**

GREEN LOANS

Calculated present value of the interest discount from a green loan.

Increasing costs mean that many municipalities are experiencing pressure on their finances and need to strictly prioritise their investment decisions. Green solutions can be more expensive at the outset than conventional solutions. However, an evaluation of the lifetime costs of the alternatives in terms of operational costs, maintenance and repayment of borrowing required often show a different picture. Many municipalities and county authorities throughout Norway have invested in a number of different measures to reduce power consumption and save money on their electricity bills. Some have also invested in solar panels and other types of energy generation. It is impressive and inspiring to see the degree of responsibility that many municipalities and county authorities have taken on in order to invest in line with the major energy transition - investments that can also contribute to reducing electricity costs and helping to address the energy crisis.

Corporate governance

The Board of Directors of KBN

The Board of Directors of KBN is the company's highest governing body and is responsible, through the CEO, for ensuring that the company's activities are soundly organised. The Board of Directors has three committees: the Risk Committee, the Audit Committee and the Remuneration Committee.

BRIT KRISTIN RUGLAND
Chair since June 2018,
board member since 2016.

Bachelor of Business Administration, Master of Management. Chair, KBN Remuneration Committee. Member, KBN Risk Committee. Chair, Figgjo AS. Member of the Board, Norfund. Former member of The central bank of Norway´s Executive Board.

Participated in 11 board meetings in 2022.

RUNE MIDTGAARD
Vice Chair since 2019,
board member since 2014.

Master of Science in Business and Economics and Certified Financial Analyst (AFA NHH). Chair, KBN Audit Committee. Group CFO & COO in Scandza.

Participated in 11 board meetings in 2022.

EYVIND AVEN
Board member since 2019.

MBA and two year extension program in Finance at Norwegian School of Economics NHH. Sr. Risk Advisor within Group Risk function in Equinor. Chair, KBN Risk Committee. Member of Equinor Insurance AS board and chair of its Risk Committee. Deputy member of Equinor Asset Management ASA board and chair of its Risk Committee.

Participated in 11 board meetings in 2022.

ANNE JENNY DVERGSDAL
Employee representative since 2020.

MSc in Economics and Business Administration, CEMS MIM. Senior Relationship Manager, KBN. Member, KBN Audit Committee. Personal alternate is Marit Urmo Harstad.

Participated in 11 board meetings in 2022.

TORIL HOVDENAK
Board member since 2020.

MSc Economics and Business Administration. Chief county executive, Møre og Romsdal county. Member, KBN Audit Committee.

Participated in 11 board meetings in 2022.

HARALD JACOBSEN
Employee representative since 2019.

MSc Economics and Business Administration. Head of Communications and Sustainability, KBN. Member, KBN Remuneration Committee. Personal alternate is Nils Baumann.

Participated in 11 board meetings in 2022.

IDA ESPOLIN JOHNSON
Board member since 2018.

Lawyer, partner in law firm Haavind AS. Member, KBN Audit Committee.

Participated in 10 board meetings in 2022.

IDA TEXMO PRYTZ
Board member since June 2022.

MSc Economics and Business Administration. Investment Director Nordkraft AS. Member, KBN Audit Committee. Member of the Board, Distriktsenergi and SKS Handel. Deputy member of the board, NHO Arktis and Energi Norge.

Participated in 3 board meetings in 2022.

PETTER STEEN JR.
Board member since 2015.

Teacher. Former Mayor, City of Haugesund. Advisor to Sveio Municipality. Member, KBN Remuneration Committee. Chair, Haugaland Kraft AS. Chair, Helse Fonna HF. Member of the board, Moster 2024 AS.

Participated in 11 board meetings in 2022.

The management team

The management team at KBN forms the CEO's collegiate group for the day-to-day management of KBN. All material decisions are taken following discussion by the management team.

JANNICKE TRUMPY GRANQUIST
CEO, employed since 2014.

Granquist previously held the position as CFO at KBN and was hired as the new President & CEO in 2020. She came to KBN from the position as head of valuation and accounting at NBIM (the Norwegian oil fund), Previously worked in banking and finance in EY and Simcorp. Has an MSc in accounting and finance from the London School of Economics and Political Science.

ILSE BACHE
Chief Technology & Operations Officer, employed since 2014.

Previously CTO and Head of Risk & Performance at NBIM (The Norwegian Oil Fund), Administrations Director at the department of Monetary Policy at the Central Bank of Norway. Bache holds an MBA from the Norwegian Business School (BI) and studies in selective courses (Executive Education) from Harvard Business School.

SIGBJØRN BIRKELAND
Deputy CEO and Chief Capital Markets Officer, employed since 2017.

Birkeland heads both Treasury and Funding & IR. Previously, he held the position as Finance Director with the insurer Storebrand. He has also worked as a researcher at the Norwegian School of Economics (NHH). Birkeland also received his Ph.D. in Economics.

LARS STRØM PRESTVIK
Chief Lending Officer, employed since 2014.

Previously Senior Relationship Manager in Nordea, responsible for public sector customers. Prestvik has held the position as head of treasury in several Corporates. He holds a Master's degree from Norwegian School of Management and has leadership development from Harvard Business School.

TOR OLE STEINSLAND
Chief of Staff, employed since 2012.

Previously worked as partner and advisor in PR agency Kreab Gavin Anderson. Steinsland has been employed as a financial journalist in various print and broadcast media. Steinsland has a finance degree from Norwegian School of Economics (NHH).

ANDREA SØFTING
CFO, employed since 2021.

Søfting is former CFO of SpareBank 1 Ringerike Hadeland. Previously worked in audit and consulting at Deloitte. Andrea Søfting holds a MSc in Audit and Accounting (state-authorised auditor) and a MBA in Management Controls, both from Norwegian Business School.

HÅVARD THORSTAD
Chief Risk and Compliance Officer, employed since 2015.

Former Deputy Head Risk Management at SIX Securities Services and Head of Risk Management at Oslo Clearing ASA, Norsk Hydro and Eksportfinans ASA and experience from Ministry of Finance and Norges Bank. He holds a Masters degree in Economics from Université de Fribourg, Switzerland.

KJERSTI ULSET
Chief Risk Officer, employed since 2021.

Ulset joined KBN from a position as Head of Clearing Risk in Nasdaq Clearing. Prior to KBN she worked as a manager and analyst within market analysis and modelling of commodity markets. Ulset holds a Master of Science in applied mathematics from Norwegian University of Science and Technology.

Business model and operating model

KBN is organised as a limited liability company that is 100% owned by the Norwegian state. The Ministry of Local Government and Regional Development manages the state's ownership of KBN. KBN has no subsidiaries.

Regarding the objective and purpose of the state's ownership of KBN, the Norwegian government's white paper "A greener and more active state ownership" (Report to Storting No. 6 (2022-2023)) states that:

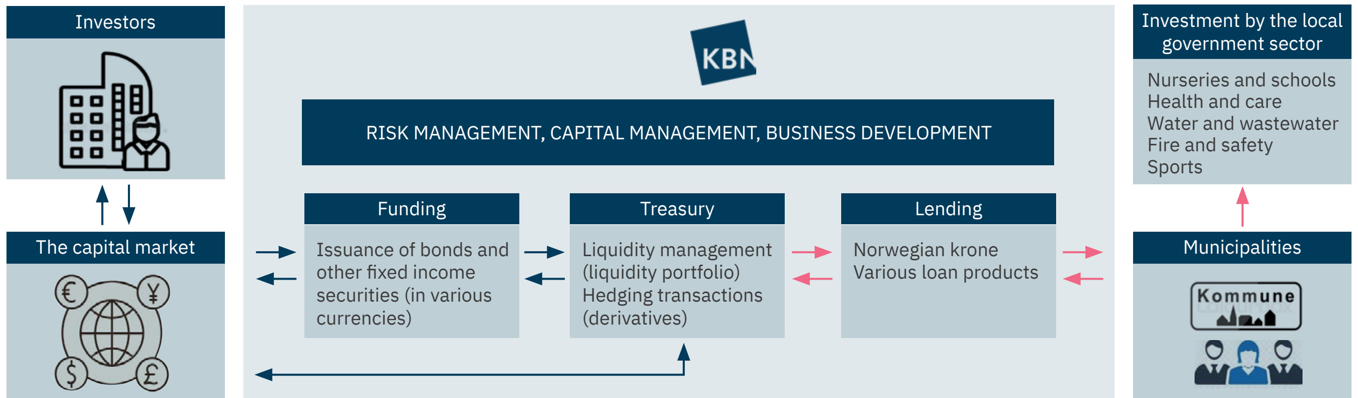
«The state is the owner of Kommunalbanken in order to offer stable long-term and efficient financing of the local government sector. The state's aim as owner is to achieve the highest possible return over time subject to the limits of sustainability.»

KBN's Articles of Association state that its objective is "to provide loans to local governments, counties, intermunicipal companies and other companies that carry out local government tasks against either a municipal guarantee, a government guarantee, or other satisfactory security. The Company can also undertake other tasks appropriate to the Company's business."

KBN finances its lending activities by efficiently accessing the world's capital markets. Its business model and strategy are based on KBN operating with a low level of risk while also having the ability to provide loans regardless of economic conditions. The local government sector's high creditworthiness should be reflected in the cost of the loans KBN provides. KBN will operate with a target of having a credit rating that is in line with the rating of Norway (AAA). For it to be able to fulfil this role, KBN has a target of being a market leader.

KBN is required to meet its owner's target return without infringing the restrictions on its activities laid down in its Articles of Association. In order to achieve this, KBN works systematically on optimising the structure of its balance sheet and on increasing the efficiency of its use of capital. KBN's operating model/business model is illustrated below.

CHART 1
KBNs operating model

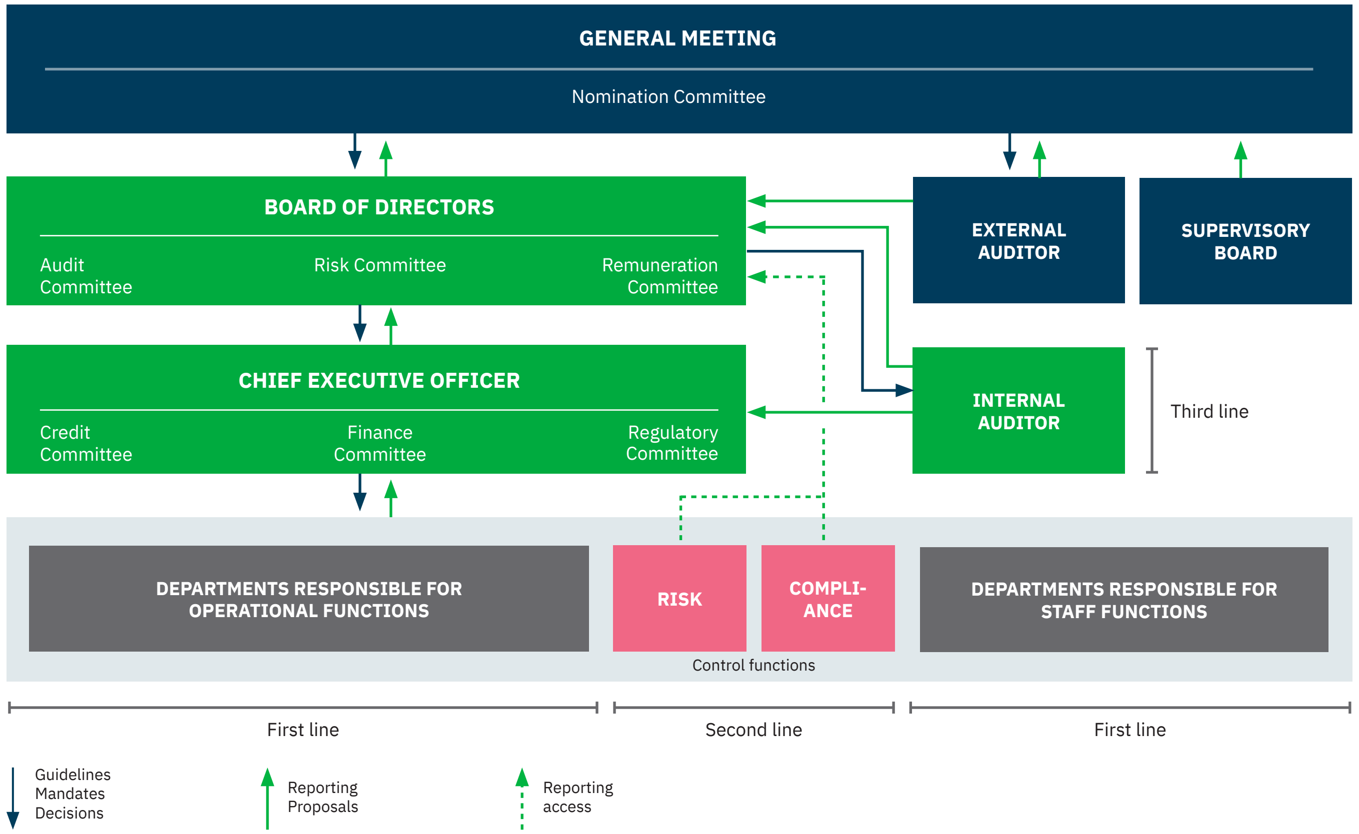


Organisational structure and governing bodies

KBN's organisational structure is intended to ensure it adapts effectively to changes in customers' expectations, to contribute to robust decision-making, and to be characterised by the existence of clear responsibilities within the framework of its owner's expectations and regulatory requirements.

In 2020 Jannicke Trumpy Granquist was appointed as the new CEO of KBN. The organisational changes that were initiated in 2021 had their first full year of effect in 2022. The organisational changes have strengthened the capacity of KBN's operational functions and established a management team that better reflects the size of KBN's organisation.

CHART 2
Governing bodies in KBN



The General Meeting (the Norwegian state acting through the Ministry of Local Government and Regional Development) elects the Board of Directors as well as the members and deputy members of the Nomination Committee and Supervisory Board and the company's auditor. The General Meeting approves the annual accounts and annual report, including the allocation of profit and coverage of losses, and the payment of dividends. The General Meeting also sets the remuneration of the members of the Board of Directors, the company's auditor and the members of the Supervisory Board, and it considers the Board of Directors' statement on and determination of the salaries and remuneration of senior executives.

The Supervisory Board's role is set out in KBN's Articles of Association. It is tasked with ensuring that the company's objectives are promoted in accordance with the law, its Articles of Association and the resolutions passed by the General Meeting. The Supervisory Board is also required to provide a statement to the General Meeting on the annual accounts and the allocation of profit and coverage of losses proposed by the Board of Directors, as well as to give its opinion on matters that concern the company, and in this regard it shall have a particular focus on the company's role in society and corporate social responsibility. The Supervisory Board shall be composed of as broad a range of members as possible.

The Board of Directors has both managerial and supervisory responsibility for KBN and is required to ensure that its activities are soundly organised and, to the extent required, to draw up plans and budgets and overall guidelines for its activities. The Board of Directors must also keep itself informed of KBN's financial position and ensure that its activities and asset management are subject to adequate control. The Board of Directors is required to supervise the day-to-day management of KBN and its activities in general, to monitor and manage KBN's overall risk exposure and capital needs, and to assess whether its governance and control arrangements are adapted to KBN's level of risk and the scope of its activities. The Board committees that advise on and prepare issues for the Board's consideration are elected by and from amongst the Board's own members.

The Risk Committee carries out preparatory work to facilitate the Board of Directors' consideration of risk, the company's risk appetite, ICAAP, ILAAP and the recovery plan, and in connection with this it assesses the outcomes of scenarios and stress tests as well as assessing whether the pricing proposed for any new products and services is sound from the perspective of KBN's risk appetite. The Committee also reviews internal audit's annual plan and reports that relate to the risk management area, as well as risk reports produced for the Board of Directors, and conducts preparatory work to facilitate the Board's monitoring of whether its risk management guidelines are being followed.

The Audit Committee's main focus relates to financial and sustainability-related reporting and control. The Committee is tasked with helping the Board to ensure that there is proper control of the reporting and the reporting process, and carrying out preparatory work to facilitate the Board's monitoring. The committee assesses the effectiveness of KBN's internal control and risk management systems in relation to financial and sustainability-related reporting, assesses the effectiveness of the company's internal audit in relation to financial and sustainability-related reporting, and assesses and monitors the external auditor's independence, particularly the extent to which services other than auditing are provided in accordance with the regulations. The Committee is also required to monitor matters that the Financial Supervision Authority of Norway has drawn attention to in its routine supervision of KBN or in letters to the Board, and which are relevant to financial and sustainability-related reporting. The Committee is also responsible for carrying out preparatory work for the company's election of its external auditor.

The Remuneration Committee prepares all matters related to the company's remuneration scheme that are to be considered by the Board of Directors, including the company's arrangements for variable salary, guidelines for the benefits received by senior executives, and evaluates the remuneration of the CEO. The Committee also considers the salary report and guidelines for the remuneration of senior executives, which is submitted to the Supervisory Board.

The Chief Executive Officer (CEO) of KBN has the authority to take decisions on all matters relating to the operation of KBN that are not required by any act of law or official regulation or the Board of Directors' guidelines to be considered by the Board. The CEO can make decisions regarding any such matters if mandated to do so by the Board of Directors. The CEO can delegate his/her decision-making authority to KBN's department heads subject to the delegated authority arrangements and guidelines issued by the Board. The CEO is responsible for ensuring that KBN's activities are operated in accordance with the strategy, plans, budgets and risk appetite framework produced by the Board. The CEO shall ensure that there is proper internal control through effective operational and control routines. The CEO determines the responsibilities and areas of authority of the department heads in the form of job specifications and delegated authority arrangements.

The Management Team comprises the senior executives of KBN, and is made up of the department heads and assists the CEO with the day-to-day management of KBN. There are committees and special fora with their own internal regulations that function as advisory bodies for the CEO, with whom the authority to make decisions lies.

The Credit Committee's overall function is to carry out the mandate issued by the Board of Directors in its guidelines, including the lending framework, and to assist the CEO in managing KBN's credit risk.

The Finance Committee is tasked with providing advice and opinions on decisions that relate to matters of principle and to matters of material significance related to the capital markets area, including financial risk management. The Finance Committee also provides recommendations regarding new products (NPAP).

The Regulatory Committee's overall function is to provide advice to ensure that KBN identifies at an early stage regulatory matters that will affect its achievement of its objectives.

The department heads report to the CEO and are responsible for assisting the CEO with the day-to-day management of KBN, as well as for the organisation and day-to-day operation of their own departments. Their job specifications define their specific responsibilities and the authority delegated to their position. Their general responsibilities include executing KBN's strategies and plans in accordance with the law and official regulations and KBN's guidelines, as well as for carrying out internal control. Their special responsibilities relate to their departments' tasks. Department heads can set procedures within their area of responsibility. Department heads who are responsible for staff functions can, if mandated by the CEO, produce procedures in their specialist field that apply across KBN's departments following consideration of such procedures by the management team.

Internal control

Internal control is organised into three lines of defence. KBN's operational and staff functions represent the first line of defence, its control functions are the second line of defence, and the internal auditor is the third line of defence. The third line of defence is intended to ensure that KBN's different levels of management each have their own control functions to assist them with their responsibility to ensure that KBN's activities are operated in a reliable, robust and efficient manner, as well as in accordance with the applicable regulations. KBN's control functions are independent of the functions and areas subject to their controls.

The department heads (first line) of the operational and staff functions are responsible for governance and internal control for their own area of responsibility, including for processes and activities designed to achieve set targets, and for managing risk and compliance with external and internal regulations.

The Chief Risk Officer (second line) leads the risk management function, is the CEO's control function, and is provided with instructions for his/ her work by, and reports to, the CEO. The risk management function independently assesses risks to which KBN is exposed, is responsible for the aggregated risk reporting to the Board of Directors, maintains and develops KBN's risk management framework, including proposals for its risk appetite framework, and checks that risk management, including first-line models and processes, are in accordance with KBN's framework. The Chief Risk Officer independently assesses the level of operational risk. The Chief Risk Officer has direct access to the Board of Directors if required.

The Chief Compliance Officer (second line) leads the compliance function, is the CEO's control function, and is provided with instructions for his/her work by, and reports to, the CEO. The Chief Compliance Officer independently assesses the risk of shortcomings in compliance with external and internal regulations and produces an annual plan for compliance activities on the basis of this risk assessment. The Chief Compliance Officer is responsible for checking that KBN's guidelines meet the requirements to which they are subject pursuant to the law and official regulations, and the Chief Compliance Officer regularly assesses whether KBN's guidelines and measures are sufficiently effective. The Chief Compliance Officer is also responsible for carrying out KBN's processes related to the management of operational risk, and provides assessments of operational risk to the Chief Risk Officer. The Chief Compliance Officer co-ordinates and monitors KBN's internal audit. The Chief Compliance Officer reports independently of the operational and staff functions for compliance risk, and provides regular compliance reports to the Board of Directors. The Chief Compliance Officer has direct access to the Board of Directors if required.

Internal Audit (third line) is the Board of Director's control function and is provided with instructions for its work and with audit plans by the Board. The internal auditor assists the Board and management team with exercising good corporate governance by providing independent and neutral assessments of whether KBN is organised and operated in a sound manner and in accordance with the requirements that apply to its activities. The internal audit function is outsourced to KPMG.

Governing bodies

Per 31.12.2022

The Board of Directors
- Brit Kristin Rugland, chair
- Rune Midtgaard, Vice chair
- Eyvind Aven
- Anne Jenny Dvergsdal, employee representative
- Toril Hovdenak
- Harald Jacobsen, employee representative
- Ida Espolin Johnson
- Ida Texmo Prytz
- Petter Steen jr.

Alternates to the employee representatives
- Marit Urmo Harstad
- Nils Baumann

Board preparatory committees

Audit Committee
- Rune Midtgaard, chair
- Anne Jenny Dvergsdal
- Toril Hovdenak
- Ida Texmo Prytz

Risk Committee
- Eyvind Aven, chair
- Ida Espolin Johnson
- Brit Kristin Rugland

Remuneration Committee
- Brit Kristin Rugland, chair
- Harald Jacobsen
- Petter Steen jr.

Auditor

Ernst & Young AS
- Einar Hersvik, state authorised public accountant

Internal auditor

Deloitte AS
- Eivind Skaug, state authorised public accountant

Nomination Committee
- Cathrin Sætre, director general, Ministry of local government and regional development
- Otto Leirbukt, deputy director general, Ministry of local government and regional development
- Einar Bye, senior adviser, Ministry of local government and regional development

Alternates
- Arild Kormeseth, senior adviser, Ministry of local government and regional development

Supervisory board
- Ida Stuberg, chair, mayor, Inderøy municipality
- Hege Mørk, vice chair, chief municipal executive, Gol municipality
- Ane Mari Braut Nese, county leader, Conservative party, Rogaland County
- Leidulf Gloppestad, mayor, Gloppen municipality
- Aase Refsnes, mayor, Steigen municipality
- Bjørn Ropstad, vice county mayor, Agder county
- Gunn Marit Helgesen, president of the board, The Norwegian Association of Local and Regional Authorities (KS)
- Leif Harald Walle, former chief municipal executive, Stor-Elvdal municipality
- Rigmor Brøste, governor, Møre & Romsdal county
- Terje Dalby, senior relationship manager, employee representative KBN
- Tron Bamrud, chief county executive, Innlandet county
- Tore Isaksen, chief municipal executive, Ringerike municipality

Alternates
- Bente Rudrud Herdlevær, assistant chief executive, Bærum municipality
- Nina Bordi Øvergaard, chief municipal executive, Sør-Varanger municipality
- Terje Fronth-Pedersen, senior relationship manager, KBN
- Tommy Stensvik, chief municipal executive, Vågan municipality
- Toril Eeg, former chief municipal executive, Færder municipality

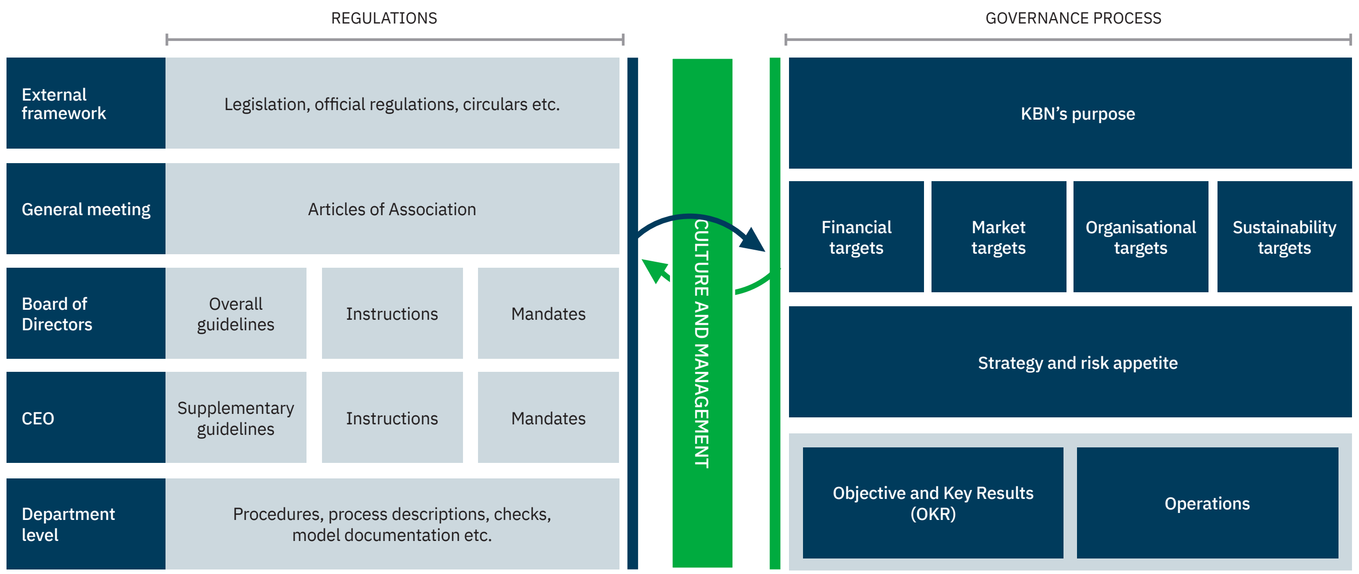
Corporate governance

Corporate governance at KBN is an interaction between the processes and structures that are used to manage KBN, including its organisation, internal regulations and controls. KBN is managed through its defined overall objectives, its strategy, the assessment and determination of its risk appetite framework, and annual assessments and plans such as long-term financial forecasts, capital plans, operating plans and budgets.

The Board of Directors sets KBN's overall objectives, strategy and risk appetite framework and approves its annual plans and budgets. KBN's risk appetite framework is operationalised through the setting of limits on the types and scope of the risk to which it can be exposed. The Board of Directors sets general guidelines and the CEO sets supplementary guidelines. There are also instructions, delegated authority arrangements, mandates, process descriptions, procedures etc. These governance documents guide how KBN's activities are to be organised in order for it to fulfil its owner's purpose in owning KBN.

CHART

Corporate governance at KBN



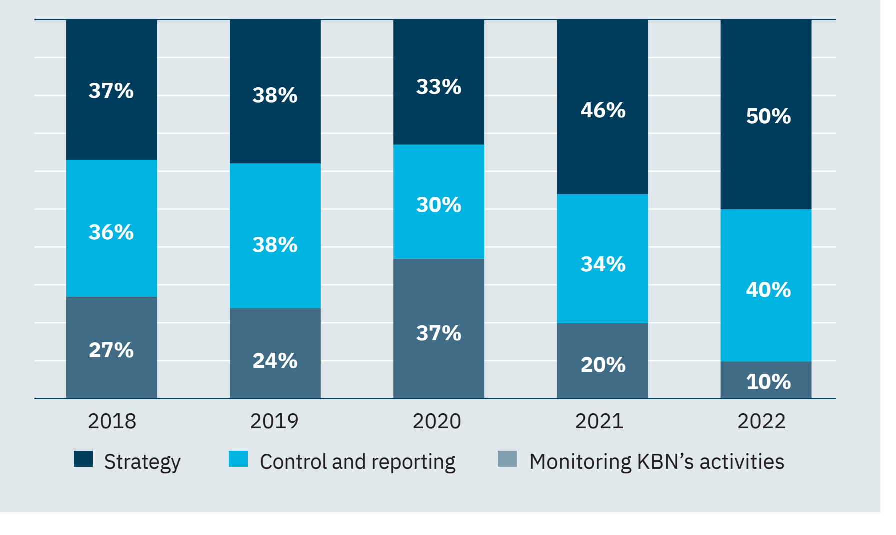
The Board of Director's main priorities in 2022

- Consultation on the Norwegian government's white paper on ownership (Report to Storting No. (2022-2023))
- Approving in October changes to KBN's strategy and the relevant business objectives and key results (OKR)
- Consideration and approval of a number of strategic topics, including issues relating to corporate vision and values, customer differentiation strategy, regulatory developments and the investment universe for the liquidity portfolio, as well as the renewal of core processes and systems for lending activities
- Monitoring work to combat money laundering and cyber threats
- Decisions on KBN's sustainability targets and reporting and consideration of a new materiality analysis for KBN
- Dialogue with KBN's owner through quarterly meetings with the Ministry of Local Government and Regional Development
- Correspondence with the Financial Supervisory Authority (Finanstilsynet) and the Ministry of Finance on the LCR status for KBN.
- Approving a mandate for an issue of Tier 1 subordinated debt and approving changes to KBN's Articles of Association for consideration by the General Meeting in June 2022
- Decision on adjustments to KBN's risk appetite, lending credit strategy and financial risk strategy
- Decisions on capital and liquidity requirements
- Decision on adjustments to the mandates for the Board of Directors and for the three Board committees
- Considering the guidance on salary adjustment for executive personnel included in the new government white paper on state ownership
- Implementation of the requirements of the Transparency Act

The Board of Directors balances its time between three main areas of work:
(i) Strategic matters and expertise development
(ii) Control and supervisory tasks
(iii) Monitoring and receiving information on KBN's activities

In 2022, the Board of Directors spent half of its time in Board meetings considering strategic matters and continuing expertise development, 40% of its time on monitoring and considering information on KBN's activities and the remainder of its time on control and supervisory tasks. The proportion of time the Board of Directors spends on strategic duties has increased over recent years, while the time spent on receiving information on KBN's activities has reduced, due in part to the greater availability of information on a continual basis.

CHART
Allocation of the Board of Directors' time to (i) strategy, (ii) control and reporting and (iii) monitoring KBN's activities.



KBN's response to its owner's expectations

The description below sets out how KBN responds to the Norwegian state's expectations of state-owned companies.

Topic	How KBN strives to fulfil the state's expectations
1 Ambitions, targets and strategies	KBN is a 'category 1' company with an objective of delivering the highest possible return over time subject to the limits of sustainability. With the exception of 2020, KBN has achieved the target returns based on its core earnings that have been set over the last ten years. KBN has identified the UN's Sustainable Development Goals to which KBN has the greatest ability to make a positive contribution, and KBN has mapped its green lending portfolio to identify the connections between our financing of green lending and the Sustainable Development Goals. The Board of Directors considers and approves KBN's annual strategy, operating plan, capital plan, risk appetite framework and risk limits, as well as KBN's objectives and ambitions in relation to sustainability. In 2022 the Board updated KBN's current strategy, "Building a Sustainable Society" to take into account developments at KBN and in the society around us. The foundation of the strategy is that KBN's activities should balance financial, social and environmental considerations in a way that contributes to long-term value creation. With effect from 2023, KBN uses OKR (Objectives, Key Results) as its goal management framework in order to operationalise its strategy in its daily activities.
2 Responsible organisation	KBN has carried out risk-based due diligence of its own activities and of its supplier chain pursuant to the Transparency Act. This is embedded in KBN's general guidelines for sustainability as approved by the Board of Directors. For further information, see the Transparency Act report for 2022.
3 Human rights and decent working conditions	Work on equality and preventing discrimination is an integral part of KBN's Human Resources policy, and is followed up in all areas of KBN's activities. KBN is committed to having an inclusive culture in which all employees have the same rights and opportunities and are treated with respect. These requirements are stipulated in KBN's general guidelines for sustainability as approved by the Board of Directors. KBN encourages its employees to be trade union members. Information on the trade unions represented at KBN is provided as part of the training arrangements for new employees. Information on the trade unions is provided on KBN's intranet, and the employee representatives are permitted to carry out the trade union work during their working hours.
4 Climate	KBN reports on its climate risk in accordance with the TCFD framework, and has developed indicators for its customers' climate risk exposure that are included in its credit approval model, i.e. for the purpose of credit appraisal of customers. KBN has set clear targets to reduce its own climate gas emissions, and will continue to work in 2023 to identify all material direct and indirect emissions.
5 Natural diversity and ecosystems	KBN offers green loans with discounted interest rates to finance investments in areas such as encouraging improvements in waste recovery and recycling, as well as measures to prevent pollution both on land and in water and for the restoration of natural areas. KBN carried out a materiality analysis in 2022 which identified "impact on water" and "use of materials and the circular economy" as two important topics that KBN will work with in future to reduce its own negative impact as well as having a positive influence on others. This work commenced in 2023, and KBN will report on progress in its future sustainability reporting.
6 Taxation and prevention of financial criminality	KBN operates in Norway and complies with the tax rules as in force from time to time, and has approved a policy for its tax compliance that is published on the KBN website. KBN operates its activities with the aim of preventing financial crime. KBN is open about its objectives and the measures it adopts for its work on being a responsible organisation.
7 Capital structure and dividend	KBN's owner's target return and dividend expectations guide KBN's financial plans. KBN reports on its financial goals and results by publishing annual and quarterly reports. The Board of Directors produces annual capital plans (ICAAP report to the Financial Supervisory Authority of Norway), financial budgets, operating plans and operating budgets in line with its long-term objectives and strategies.

8	Organisational structure and corporate culture	KBN's organisational decision-making structure is designed to facilitate the achievement of KBN's objectives and risk management policy, and complies with the Norwegian Code of Practice for Corporate Governance and the legislation and regulations that apply to financial institutions. Corporate culture and organisational development play central roles in KBN's updated strategy. A key theme for KBN's corporate culture is continuous renewal of expertise through training and sharing expertise in order to create value for KBN's customers. Measures to digitalise and improve the efficiency of work processes play a central role in KBN's strategy and strategic objectives. Specific targets have been introduced for employee involvement and achievement, which will be monitored through regular employee surveys.
9	Employees and diversity	KBN is committed to active, targeted and planned work on sustainability, which includes equality and prevention of discrimination. KBN's ambition is to be a leading player in its area. Work on equality and preventing discrimination is an integral part of KBN's Human Resources policy, and is followed up in all areas of KBN's activities. KBN is committed to having an inclusive culture in which all employees have the same rights and opportunities and are treated with respect. The general objectives for diversity and equality are embedded in KBN's guidelines for sustainability, as revised in 2022. KBN has established a program to enhance employee expertise, with a personal budget for every employee that can be used for competence development subject to specified criteria. Employees are assessed on their completion of the development they undertake. In 2022, 87% of KBN's employees completed this program. KBN has established a student experience program which offers students in relevant disciplines the opportunity to apply for 40% part-time employment at KBN for up to 2 years. Many of the students that have participated in this program have subsequently become full-time permanent employees at KBN.
10	Salaries and other remuneration	KBN's remuneration policy for senior executives is anchored in the company's value proposition and its personnel policy, and is in line with the state's guidelines for the remuneration of senior executives. The remuneration of executive personnel is reported in note 6 to the accounts, and the annual salary report will be submitted to the Annual General Meeting in 2023 and published on KBN's website. KBN's guidelines stipulate that overall remuneration should be competitive but not market-leading. Fixed salary is the main element of remuneration. KBN also has a variable salary arrangement. This arrangement can award additional salary payments of up to 1.5 times one month's salary for all employees, based on quantitative criteria determined by the Board of Directors. Variable salary is conditional on KBN being in a position to pay a dividend to its owner.
11	Risk management	KBN's Board has issued risk management and internal control guidelines, and has set KBN's risk appetite framework. Important guidelines and limits for KBN's risk appetite are reviewed periodically at Board meetings.
12	Corporate governance	KBN complies with the recommendations of the Norwegian Code of Practice for Corporate Governance published by the Norwegian Corporate Governance Board except where it is subject to other requirements pursuant to the special provisions for government owned limited liability companies contained in the Norwegian Limited Liability Companies Act. The Board of Directors observes practices for high-quality board work adapted to the company's activities.
13	Transparency and reporting	KBN has an objective of being a leading financial institution on climate risk, green financing solutions, sustainability reporting and insight that contributes to sustainable development. KBN is in dialogue with its stakeholders and follows leading-edge practice for sustainability work and sustainability reporting. KBN complies with the GRI Standards and the TCFD recommendations, and reports to CDP and Eco-Lighthouse. KBN is open and reports on material matters related to its activities. KBN reports accordingly on www.kbn.com and in its published Pillar 3, quarterly and annual reports.

The Norwegian Code of Practice for Corporate Governance

The Norwegian Corporate Governance Board (NCGB) published a new edition of the Norwegian Code of Practice for Corporate Governance in 2021. The change that is particularly relevant for KBN is the recommendation that companies should create value for shareholders in a sustainable manner (Section 2). The table below details KBN's compliance with the recommendations of the Norwegian Code of Practice for Corporate Governance. KBN's deviations from the Code of Practice are the consequence of the special provisions for government-owned limited liability companies contained in the Norwegian Limited Liability Companies Act.

1. Implementation and reporting on corporate governance
Some deviation from the Code of Practice.

KBN complies with the Code of Practice's recommendations to the extent permitted by the legislation that applies to government-owned limited liability companies and the regulations that result from authorisation to operate as a credit institution. The areas in which KBN deviates from the Code of Practice's recommendations primarily relate to the fact that some provisions are not suited to KBN due to its state ownership. See also Business model and operating model and www.kbn.com/en/about-us

2. Business
No deviation from the Code of Practice.

KBN's objective is set out in its Articles of Association and is to provide loans to the local government sector. KBN's Articles of Association are publicly available. The Board of Directors considers and approves each year KBN's strategy, operating plan, capital plan, risk appetite and risk limits, as well as KBN's objectives and ambitions in relation to sustainability. The Board also has adopted guidelines on ethical conduct, anti-money laundering and corruption, a document that defines KBN's expectations of its suppliers, and guidelines on sustainability, which include guidelines for diversity and equality.

KBN's Guidelines for Sustainability are intended to ensure that KBN creates value in a manner that takes into account financial, social and environmental sustainability and that we have clear ambitions for work on diversity and equality.

See also section Sustainability and www.kbn.com/en/about-us also www.kbn.com/en/sustainability

3. Equity and dividends
Some deviation from the Code of Practice.

The Board of Directors assesses KBN's capital situation on a continual basis in the light of the purpose behind the state's ownership and the company's objectives, strategy and risk profile, as well as in relation to the requirements and expectations of the Financial Supervisory Authority (Finanstilsynet) and other supervisory authorities. KBN seeks to meet its owner's target for it to achieve the highest possible return over time subject to the limits on its activities contained in its Articles of Association. The target return for KBN is set in the National Budget for three years at a time and is 5.5% for the 2022-2024 period, during which time the payment of dividends equivalent to 73% of the target return was budgeted for.

Consent from the Norwegian Parliament must be obtained for changes to be made to the state's ownership interest in KBN (purchases and sales of shares) and for decisions regarding capital injections that involve the state paying out funds.

4. Equal treatment of shareholders
No deviation from the Code of Practic.

The Norwegian state owns 100% of KBN, and KBN follows the Code of Practice within the framework of its state ownership.

5. Shares and negotiability
Deviation from the Code of Practice.

I henhold til KBNs vedtekter kan statens aksjer overdras til kommuner, fylkeskommuner, interkommunale selskaper og kommunale pensjonskasser. Dette vil skje i samsvar med selskapets målsetting om høyest mulig kredittverdighet.

6. General meetings
Some deviation from the Code of Practice.

KBN has only one shareholder. The Norwegian state, acting through the Ministry of Local Government and Regional Development, calls General Meetings, to which the Chair of the Board of Directors, the CEO, the company's auditor, and the Office of the Auditor General are invited.

7. Nomination Committee
Some deviation from the Code of Practice.

KBN's Articles of Association require it to have a Nomination Committee and the Committee consists of up to three members and one deputy member, all of whom are elected by the General Meeting for a term of office of two years. All members and the deputy member are independent of the Board of Directors and senior executives. No fees are paid to members of the Nomination Committee.

8. Board of directors: composition and independence
No deviation from the Code of Practice.

The members of the Board of Directors represent a diverse group of individuals and the Board has the necessary experience and expertise to understand KBN's activities. The suitability of individual members of the Board is assessed at the time the individual is first elected to the Board, and there is a requirement for routine confirmation of suitability thereafter. The Board's collective suitability is assessed at least annually in accordance with the regulatory requirements for financial institutions.

The General Meeting elects the Board's members as well as the chair and deputy chair. The term of office for board members is two years. All board members are independent of material business contacts of KBN.

9. The work of the Board of Directors
No deviation from the Code of Practice.

The Board of Directors has issued instructions for its own work and for the CEO. The Board has three committees: the Audit Committee, the Risk Committee and the Remuneration Committee.

The Board elects at least three members to its committees each year from among its members, and it appoints the chairs of these committees.

The Board evaluates its performance and expertise annually and shares its evaluation with the Ministry of Local Government and Regional Development in its dialogue meetings.

10. Risk management and internal control
No deviation from the Code of Practice.

The Board of Directors ensures that KBN has sound internal control and systems for risk management that are appropriate in relation to the nature of KBN's activities, and this includes ensuring that internal control and risk management are in line with the regulatory requirements for financial institutions and the specific requirements set for KBN by the authorities. The Board regularly reviews KBN's most important areas of exposure to risk, ensures its risk management is developed continuously, and sets KBN's risk appetite for different types of risk. .

See also KBN's Pillar 3 Report at www.kbn.com/en/about-us/publications

11. Remuneration of the Board of Directors
No deviation from the Code of Practice.

The remuneration of the Board of Directors reflects its responsibilities, expertise, time commitment and KBN's complexity. The remuneration of the Board is not linked to KBN's performance and share options are not granted to Board members.

12. Salaries and other remuneration of executive personnel
No deviation from the Code of Practice.

The Board of Directors prepares guidelines for the remuneration of KBN's senior executives that are submitted to the General Meeting of KBN. KBN has a variable salary scheme of which all employees are members. The maximum amount any employee can receive under the scheme in any year is 1.5 times the employee's monthly salary. The amount awarded is based on quantitative criteria defined by the Board.

KBN does not have any exchange-listed equity instruments and does not operate option schemes for its employees. The Board's statement on the remuneration of senior executives is submitted to the General Meeting.

Information on the salaries and other remuneration paid to senior executives is published as a note to KBN's annual accounts.

The remuneration report that provides information on the salaries and other remuneration received by executive personnel in 2022 will be submitted to the Annual General Meeting in 2023 for an advisory vote. The report will be published following consideration by the Board.

13. Information and communications
No deviation from the Code of Practice.

The Board of Directors has produced guidelines for the company's external reporting, as well as guidelines for information management and market conduct. KBN is committed to giving market participants accurate, clear, relevant and up-to-date information. In its activities in the markets for financial instruments, KBN is committed to operating in a manner that does not represent market manipulation.

The Board has decided which individuals shall act as spokespersons on behalf of KBN. KBN has a disaster recovery plan that also includes a separate plan for crisis communication. Information about KBN is published in Norwegian and English.

14. Take-overs
Deviation from the Code of Practice.

Consent from the Norwegian parliament must be obtained in the event of changes to the state's ownership interest in KBN (purchases and sales of shares).

15. Auditor
No deviation from the Code of Practice.

The company's auditor is appointed by the General Meeting. The auditor issues an audit report in connection with KBN's annual accounts. The auditor attends the meetings of the Audit Committee, as well as those Board meetings at which KBN's annual and quarterly reports are considered.

The Audit Committee assesses the auditor's independence annually.

The auditor's fees are set by the General Meeting.

Sustainability

KBN's approach to sustainability

The Norwegian government's white paper on state ownership policy 'Greener and more active state ownership' both clarifies and strengthens the expectations of the state as an owner in respect to sustainability. The White Paper includes a number of clear expectations for work on sustainability by state-owned companies, particularly in the areas of climate, biodiversity and ecosystems, risk management, transparency and reporting, working conditions and wages and other remuneration. The state expects its objectives to be achieved both sustainably and as efficiently as possible: 'Sustainable presupposes that the companies balance economic, social and environmental conditions in a manner that contributes to long-term goal attainment without reducing the ability of future generations to meet their own needs'.

KBN's strategy for 2023-2025, Building a sustainable society, states that 'Our value creation will balance financial, social and environmental factors so that our return over time is generated within sustainable limits'. KBN's General Guidelines for Sustainability state that 'KBN shall work in an active, targeted and systematic way on sustainability', and that 'KBN's defined ambition is to be a leader in its area of activity'.

KBN is committed to follow leading practice ifor our work with and reporting on sustainability, and have since 2018 reported in accordance with the GRI standards, see chapter GRI index. KBN also reports in accordance with the frameworks of the TCFD[1] (see Disclosure of climate-related risks and opportunities) and CDP[2]. KBN also reports in accordance with the requirements in the Norwegian Accounting Act § 3-3c i.e. the current EU's Non-Financial Reporting Directive (NFRD).

Embedding sustainability

The Board of Directors has the overall responsibility for the organisation's sustainability work, determines the overall guidelines for sustainability and decides on KBN's yearly objectives and measures. The Board is responsible for ensuring that KBN complies with the duty to make active equality efforts and with the duty to report in this respect in accordance with the Norwegian Equality and Anti-Discrimination Act.

The CEO is responsible for the implementation of KBN's work on sustainability, and sets supplementary guidelines for sustainability, the work of the organisation and the allocation of responsibility.

Sustainability is an integral part of KBN's activities and organisation, and the Head of Communications and Sustainability has a coordinating role in this respect. The Lending department has a dedicated 'Green team' that works with green lending, climate risk and environmental impact reporting. The Capital Markets department works with issuing green bonds and managing ESG for the liquidity portfolio. The Risk Management department works to ensure that material sustainability risk is identified, quantified and controlled. The Business Support department is responsible for producing sustainability reporting, including reporting pursuant to the activity duty and the duty to issue a statement in respect of diversity and equality, and to the Transparency Act.

1 The Task Force on Climate-Related Financial Disclosures has established a position as the leading authority on the analysis and reporting of climate risk.

2 CDP, previously known as the Carbon Disclosure Project, maintains the world's largest database of corporate information on climate change. KBN submits a climate change report annually. KBN's report for 2022 is available here.

Stakeholders
KBN bases our sustainability work on engaging in extensive dialogue with stakeholders who are either significantly affected by KBN's activities, or who themselves can influence our activities in a material way. This includes KBN's customers, employees, owner, Board of Directors, the authorities, investors, rating agencies and society in general. KBN continually maps any new signals and expectations from our owner, changes in national and international laws and standards that affects best practice, and the development of norms and attitudes of significance to our stakeholders, with the objective of being at the forefront within prioritised areas of sustainability.

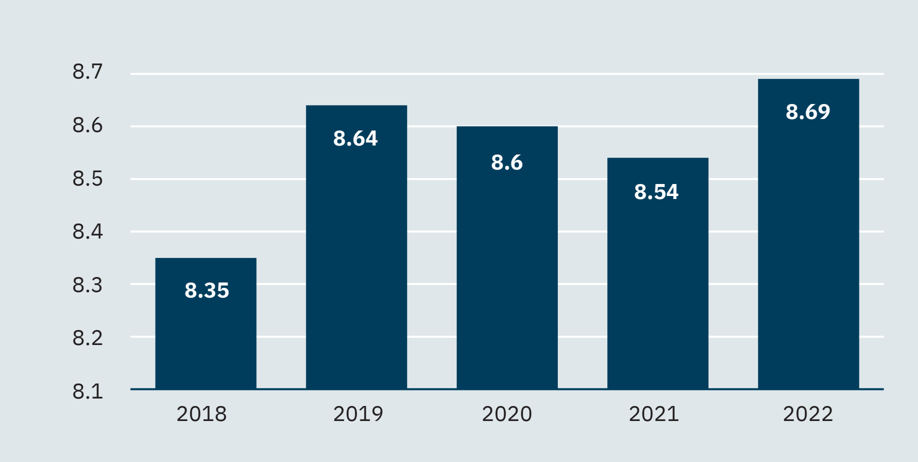
Openness is one of KBN's core values. As a knowledge-based organisation, we wish to share information with our stakeholders and to exchange views with them.

KBN strives to contribute to best practice for financial management in the local government sector, including by sharing our knowledge of debt management in the local government sector with local and national decision makers.

The input provided by regular contact with stakeholders forms the basis for KBN's overall strategy and communications work as well as for our sustainability work. We regularly review our priorities with our most important stakeholders.

2022 Customer Survey
KBN carries out a customer satisfaction survey each year. A number of the survey's questions have been identical for many years, and we therefore have good data on changes to customers' satisfaction with KBN and what impression customers have of KBN in various areas. The survey is also used to provide input for deciding on future priorities and for better understanding what customers consider to be particularly important in their relationship with KBN. The results from 2022 show that KBN's customers are generally very satisfied with KBN, with a marginal improvement from 2021 to give a score which is the best ever recorded to this question. Around 50% of KBN's customers responded to the survey.

RESULT CUSTOMER SURVEY
Average score given by respondents to the customer satisfaction survey in response to the assertion 'I am satisfied with KBN' on a scale of 1 to 10, recalculated from a scale of 1 to 6 for the years 2018-2021.



List of stakeholders

Our stakeholders are parties that can influence our operations and parties that can be affected by our operations to a significant extent. The sections below provide a description of KBN's most important stakeholders and of KBN's activities with these stakeholders in 2022.

Customers
KBN's customers are municipalities and county authorities, in addition to a range of municipal and inter-municipal companies and companies with a municipal or county authority guarantee. KBN held approximately 320 customer meetings in 2022, of which around half were digital meetings and the remainder principally visits by KBN to the customer. KBN also organised 11 webinars on topics such as interest rates, the macroeconomic situation, local energy production and improving energy efficiency (in collaboration with the Norwegian Climate Foundation), as well as eight physical seminars across Norway. The aim of KBN's seminars and webinars is to increase the local government sector's insight into relevant macroeconomic developments and the outlook for interest rates, as well as promoting better understanding of financial risk management and debt management (financial sustainability). KBN carried out two events for our specially designed course KBN Skolen (Parts I and II). The KBN Skolen events are designed to offer both a foundation and a more advanced understanding of loan administration for municipalities and county authorities.

KBN's climate risk tool for the local government sector was updated with new functionality over the course of 2022. This included a new module providing climate scenarios for Norwegian municipalities and county authorities, which was produced by the CICERO Centre for International Climate Research. The module provides macroeconomic indicators (such as estimates of oil production, carbon prices and urbanisation) as well as presentations of three scenarios for environmental, social and economic outlook that also take into account industries and sectors of particular importance for the local government sector. Additional data sources will be added to the climate risk tool in 2023.

KBN held our annual conference in 2022 in a hybrid form, with around 100 physical participants and an equal number taking part digitally. The theme for the 2022 conference was 'Smart local society' where we looked more closely at smart solutions for the areas of technology, the circular economy and healthcare. The speakers included the Minister of Trade, Industry and Fisheries, senior politicians and managers from the local government sector and representatives from the Norwegian Communications Authority. All the ticket revenue from the conference was donated to the Norwegian Red Cross for its work in Ukraine.

The annual Municipality Finance Conference, which is Norway's largest event of its type, was held in September 2022 with around 450 attendees. In addition to this, KBN and the event's other organisers, namely the Norwegian Association of Local and Regional Authorities (KS), the Norwegian Association of Local Government Treasurers and Finance Managers (Norges Kemner- og Kommuneøkonomers Forbund), and the Norwegian Association of Local Government Auditors (Norges Kommunerevisorforbund), organised seven webinars over the course of the year on various topics relevant to local government finances. On average 300 people signed up for each webinar.

KBN collaborated with KS and the Zero Emission Resource Organisation to award the 'Local Climate Measure of the Year' award, a climate competition for the local government sector, at the Zero Conference in November. Rogaland county authority swept the board with the world's first zero emissions fast ferry vessel.

KBN sent out 24 newsletters to our customers.

KBN's Supervisory Board is appointed by KBN's owner and consists of representatives from KBN's various customer groups. The Supervisory Board is tasked with focusing on KBN's social role and social responsibility, and accordingly on our sustainability work. The Supervisory Board held two physical meetings in 2022, one in Oslo and one in Sør-Varanger.

Employees
KBN's premises in Oslo are the place of work for all our employees. At the start of 2022, only the minimum number of employees who were needed to attend to tasks that cannot be completed remotely worked at the KBN offices, while all other employees worked from home during the period that this was recommended by the authorities in response to the coronavirus pandemic. As society gradually opened up again, employees have returned to working in KBN's offices but have continued to work at home for two days a week, initially as a trial period and now as a standard arrangement.

KBN organised a number of digital 'Lunch & Learn' talks for our employees in 2022, with topics such as the coronavirus pandemic, macroeconomic developments, Pride, mental health, money laundering prevention, key rules on ethical conduct and IT security. Summaries of the week's most important climate and environment news stories are regularly published on KBN's intranet. Five all-company meetings were held in 2022.

The employee stakeholder group also includes potential employees. KBN has chosen to market ourselves as an organisation that is helping to build a sustainable society, including in the context of recruitment. We want to attract employees who are committed to delivering on our mandate and strategy, and we are finding that job applicants are increasingly committed to sustainability.

Owner
KBN is a limited liability company 100%-owned by the Norwegian state, with the Ministry of Local Government and Regional Development acting as KBN's owner. KBN held quarterly meetings with our owner in 2022 and corporate social responsibility/sustainability was one of the topics discussed. All the members of KBN's Board have annual discussions with our owner.

The authorities
KBN is subject to legislation, regulations and supervision in the same way as other financial institutions. KBN is one of the three financial institutions in Norway that have been designated as systemically important institutions. KBN held meetings in 2021 with inter alia the Financial Supervisory Authority of Norway, the Ministry of Finance, the Ministry of Climate and Environment, the Ministry of Trade, Industry and Fisheries, the Norwegian Environment Agency and Norges Bank. Climate and sustainability were topics at a number of these meetings.

Investors
KBN's investors are the buyers of the bonds it issues, including capital markets participants such as commercial banks, central banks/official institutions and pension funds from around the world. As in previous years, KBN held a range of meetings with investors in 2022, both in the form of physical meetings, digital one-to-one meetings and telephone conference calls. In addition, KBN distributed quarterly updates to investors around the world.

Rating agencies
KBN is rated annually by both of the traditional credit rating agencies, and is in addition rated by ESG rating agencies on an increasing scale. Rating agencies such as Moody's and S&P have developed methodologies for ESG rating, and Moody's carried out its first ESG ratings in 2022 of issuers including KBN. ESG is always on the agenda for KBN's annual meetings with credit rating agencies. KBN has established separate targets for the ESG risk ratings issued by Sustainalytics, ISS ESG and MSCI.

Suppliers
KBN's expectations for our suppliers are published on our website. We hold annual review meetings with our major suppliers, and KBN's expectations of the supplier and the supplier's work on sustainability are agenda topics for these meetings. KBN's dialogue with suppliers has produced concrete results, including a decision by an IT consulting company to achieve Eco-Lighthouse certification and another supplier in the tech industry that decided to work to increase the number of female employees.

Society in general
KBN's activities affect Norwegian society, and we are therefore in close dialogue with a number of stakeholders. Slightly fewer of such meetings than before were held in 2022 due to the coronavirus pandemic. KBN organised open webinars on local energy production and local energy efficiency measures (in collaboration with the Norwegian Climate Foundation). In December 2022 KBN and the Climate Foundation published a booklet on this topic, which presented a number of examples from the local government sector in Norway. KBN has a collaboration agreement with Ungt Entreprenørskap (Young Enterprises Norway) to help increase awareness of social entrepreneurship and sustainability in Norwegian lower secondary schools through the 'Student company' program. In June 2022 KBN awarded the prize for Norway's best social entrepreneur to the student company DillDall Design EB from Åmli lower secondary school in the county of Agder. KBN has signed the Women in Finance Charter and was a contributor to the Charter's 2021 report.

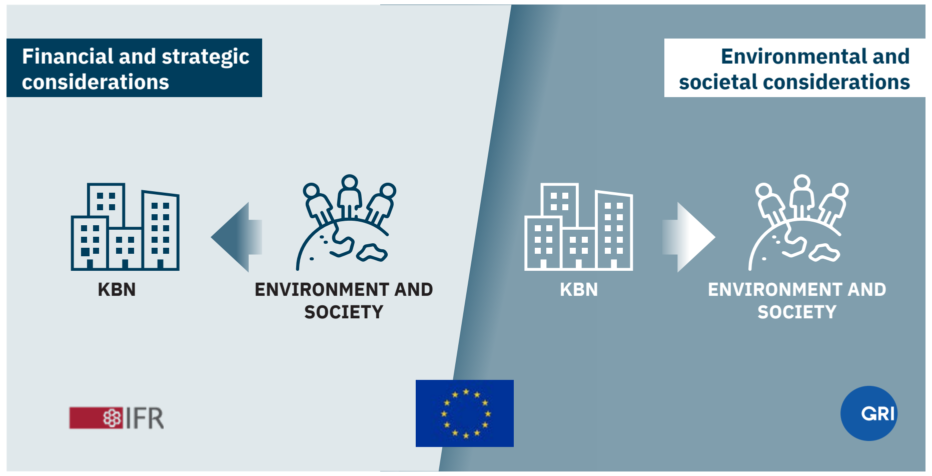
Materiality analysis

A materiality analysis identifies an organisation's relevant sustainability-related issues and determines boundaries for its activities and reporting. KBN carried out a materiality analysis in the autumn of 2022, as part of which key stakeholders provided input on KBN's priorities for our sustainability work going forward. With regard to internal stakeholders, all KBN's employees as well as our management team, Board of Directors and Supervisory Board were involved. With regard to external stakeholders, KBN conducted interviews with the Norwegian Association of Local and Regional Authorities (KS, local government sector interest group), Samfunnsbedriftene (an interest group for enterprises in the municipal sector, i.e. companies that are partly or wholly in public ownership), the Norwegian Climate Foundation (a climate interest group) and Citi (an investor).

The objective of the materiality analysis was to define KBN's most significant influence in respect of sustainability, and on the basis of this to ensure sound risk management, precise and reliable strategy and resource allocation, sound and relevant reporting and satisfactory compliance with rules and regulations. In addition, the materiality analysis facilitates anchoring and integrating sustainability into KBN's activities. The analysis was carried out using the concept of double materiality, which means that the analysis considered both how KBN affects, and is affected by, society and the environment. This is consistent with best practice in sustainability reporting, and is consistent with the new EU directive on sustainability reporting, the Corporate Sustainability Reporting Directive (CSRD), which will come into effect in 2024. CSRD will replace the current Non-Financial Reporting Directive (NFRD).

Environment	Social	Governance
▪ Greenhouse gas emissions ▪ Water and sanitation ▪ Responsible consumption of materials and the circular economy	▪ Contribute to socio-economic development in municipalities and county authorities ▪ Impact on local communities as a result of municipality and county authority activities ▪ Decent working conditions in the building and construction industry	▪ Improve financial expertise and access to financing ▪ Sustainability in the financial sector ▪ Involvement in political processes to strengthen work on sustainability in the local government sector

The materiality analysis addressed 16 topics in the areas of environmental matters, social matters and governance. The topics that were identified as being most relevant to KBN will form the basis for setting priorities for KBN's work on sustainability going forward.



The UN's Sustainable Development Goals

The UN's Sustainable Development Goals are the world's shared blueprint for eradicating poverty, fighting inequality and stopping climate change by 2030. The 17 Sustainable Development Goals are closely inter-connected and need to be achieved together. However, businesses and organisations will typically be more able to contribute to some of these goals rather than others depending on the nature of their activities. KBN ran a workshop for all employees in the autumn of 2019 at which it identified the Sustainable Development Goals to which KBN has the greatest ability to make a positive contribution. In addition, we have mapped our green lending portfolio to identify the connections between our financing of green lending and the Sustainable Development Goals. See the 2022 KBN Impact Report. The new white paper on state ownership policy includes an expectation for state-owned companies that they will '*include work with the United Nations Sustainable Development Goals in the company's strategies and actively work to follow this up in day-to-day operations*'. KBN complies with our owner's expectations.

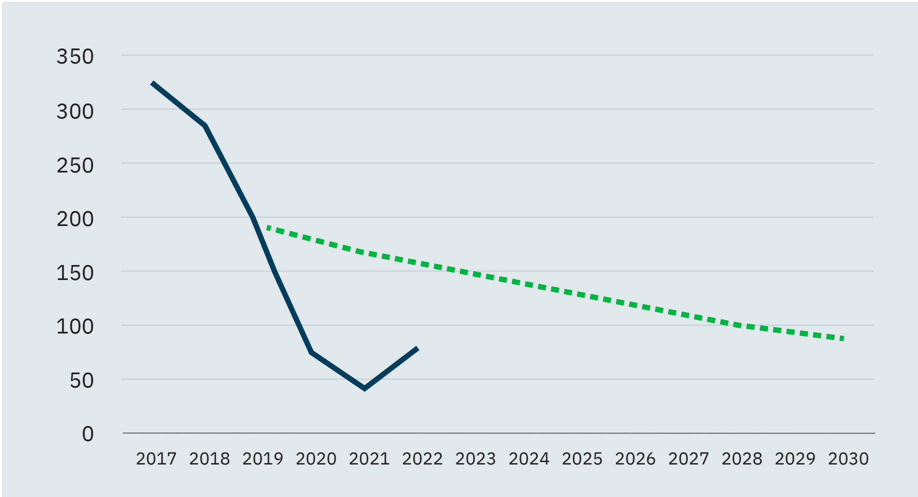
UN's SUSTAINABLE DEVELOPMENT GOALS
The Sustainable Development Goals that KBN has identified as particularly relevant to our activities.

For 2023 we have selected activities for our sustainability work where each activity will contribute to one or more of the targets under the Sustainable Development Goals identified by KBN, see the section Objectives for 2023 below.

Greenhouse gas accounting

Despite being somewhat indirect, the most important contribution made by KBN to Norway achieving its climate goals is our discounted green loans for projects/investments undertaken by the local government sector. These reduce energy consumption, cut greenhouse gas emissions or contribute to local climate change adaptation. KBN is of the view that this is an important and impactful part of how we fulfil our societal duty to the sector that we serve. In 2020 KBN also adopted a long-term climate target to reduce our own emissions by at least 50% compared with the 2019 level before 2030. As part of KBN's targets setting for 2022, the 2030 target was increased to at least 55%.

EMISSIONS TARGET
KBN's emissions between 2017 and 2022 and an emissions trajectory (dotted line) that would enable KBN to achieve its target of reducing our emissions by at least 55% by 2030 compared with the 2019 level.



This climate target means that we will need to do things differently in the future. Prior to the coronavirus pandemic, flights were responsible for about two-thirds of KBN's total calculated CO_2 emissions. With all of Norway's municipalities as customers, KBN employees attend meetings across the country. In addition, we meet with investors in numerous different locations across the world in order to ensure we are able to offer the local government sector the best possible borrowing terms on loans from KBN. There will continue to be some need for KBN employees to travel by plane in the future, but a number of these journeys can be replaced by other solutions. An internal survey carried out before the coronavirus pandemic revealed that a large proportion of the flights taken by KBN employees were for journeys which could be made by train. KBN has therefore increased the incentives it offers for alternatives such as taking the train instead of flying. Although digital meetings cannot fully replace physical meetings, it has been natural for digital meetings to continue to account for a significant proportion of our meetings even after the pandemic came to an end, not least because experience suggested that the time saved by using digital meetings is a significant benefit. As part of KBN's customer survey for 2022, 45% of customers replied that they can envisage their next customer meeting with KBN being held digitally.

GREENHOUSE GAS ACCOUNTING

Emissions in tonnes CO_2-eq

Scope 1 covers direct emissions from controlled sources. For KBN's part this consists of emissions when employees use their own petrol or diesel cars for business travel. The emissions factor for scope 1 is sourced from Eco-lighthouse.

Scope 2 is indirect emissions from electricity purchased and used. For KBN this includes district heating, district cooling and electricity in our premises. The emissions factor for scope 2 is sourced from Eco-lighthouse.

Scope 3 is all other indirect emissions. For KBN this covers residual waste and flight travel. The emissions factor for residual waste is sourced from Eco-lighthouse. The emissions factor for flight travel is sourced from ICAO from 2019 onwards.

	2022	2021	2020	2019	2018
Scope 1	0.80	0.53	0.77	2.80	3.88
Scope 2	35.72	30.60	50.61	57.79	57.21
Scope 3	43.21	9.13	23.08	131.25	220.73
Total	79.73	40.26	74.46	191.84	281.82

KBN's greenhouse gas accounts are based on the Greenhouse Gas Protocol's Corporate Standard and are produced annually as part of the annual climate and environment report that we produce for the Eco-Lighthouse Foundation. KBN has been Eco-Lighthouse certified since 2009 and was re-certified in 2021 in accordance with the new bank and finance criteria. KBN is of the view that our greenhouse gas accounts include the most material emissions within Scope 1 (direct emissions from sources that are controlled or owned by KBN) and Scope 2 (indirect emissions related to the purchase of energy or cooling). In respect of Scope 3 (indirect emissions from sources that are not owned or controlled by the enterprise, but which the enterprise indirectly affects through its value chain), KBN's reported greenhouse gas accounts at the moment only include the emissions from flights and residual waste. However, Scope 3 emissions cover all emissions from assets/activities that are affected by KBN's activities but are emitted from sources that are not owned or controlled by KBN. This includes KBN's suppliers, as well as emissions financed by KBN's lending and liquidity portfolio. Accordingly KBN's greenhouse gas accounting are not currently fully comprehensive in respect of Scope 3, but do include material emissions that the bank is able to affect directly. KBN intends to start work in 2023 on identifying material emissions arising from, for example, lending, suppliers and holdings of bonds with the objective of including as much as possible of the outstanding Scope 3 emissions in the greenhouse gas accounts. At the moment it is difficult to collect data of sufficient quality for KBN's largest source of emissions in Scope 3, which comprises emissions financed through the lending portfolio. This is the case partly because the local government sector is not required to report emissions from the assets that have been financed, and partly because KBN's loan portfolio only includes a limited proportion of project financing. Reference is made here to the statements in the white paper on state ownership policy that the state expects to see the use of science-based climate targets where these are available. It is not clear whether such targets can be judged to be available for lending in a situation where the specific assets financed cannot be clearly identified, and KBN has started work on investigating solutions to this question. Companies that are subject to the new reporting directive and sustainability requirements of CSRD will be required to report their entire climate gas emissions in respect of all three Scopes[1], as well as direct and indirect climate risk, and this will apply to financial institutions such as KBN.

KBN seeks to contribute to transparency regarding greenhouse gas emissions and in 2022 reported relevant data to CDP, the leading international organisation for environmental and climate disclosures. CDP's assessment of the entities that report to it includes guidelines, greenhouse gas and energy accounting, and the measures and improvements that it has implemented. The accounting firm EY, which is also KBN's external auditor, carries out an annual external audit of KBN's greenhouse gas accounting, and issues an limited assurance report.

As a company KBN compensates for its emissions. This means that we buy carbon offsets for those emissions that we currently cannot avoid. We purchase the carbon offsets once we have the emissions figures for the year in question, meaning we will compensate for our 2022 emissions in 2023 and will thus include this information in our annual report for 2023. KBN uses the EU's carbon price for the year concerned as the basis for our purchases of carbon offsets since this represents a more realistic level for the price of a tonne of CO_2 than the price indicated by carbon credits. KBN's residual emissions for 2020 were approximately 40 tonnes of CO_2e and the EU's allowance price was EUR 40/tonne. KBN therefore bought carbon offsets, known as verified carbon units, equivalent to this amount to compensate for our emissions in 2021. The project we selected was prevention of deforestation in Pacajai in Brazil. The project helps to reduce greenhouse gas emissions and to share expertise with the local population on protecting forests and biodiversity. The project supports a range of the UN Sustainable Development Goals and is Verra certified.

1 To the extent possible.

Performance in 2022

The targets for 2022 were based on the assumption that life could be expected to become more normal following the coronavirus pandemic in 2020. The results achieved for the year were generally good, but we did not fully achieve all the targets. The prevailing geopolitical uncertainty that was heightened by the Russian invasion of Ukraine in February 2022, and the market turbulence that this caused, resulted in some changes to KBN's priorities over the course of 2022.

2022 Objectives	Status	Outcome
Green finance		
At least 12% of KBN's lending portfolio to be green loans	●	13.3% of the lending portfolio was green loans at 31 December
At least 35% of Norway's municipalities to have a green loan	●	38% of all municipalities had a green loan at 31 December
KBN's green lending encourages municipalities to prioritise green investments rather than conventional investments	●	On a scale of 1 to 10, customers' average response was 5.75
Green funding to account for at least 5% of KBN's total funding	●	Green funding accounted for around 8% of total funding in 2022
Climate risk		
Develop a model for climate risk of a sufficiently high quality that it can be communicated externally	●	Work continued in 2022 to expand and improve the model, and a number of additional data sources have been incorporated. Work is now continuing to digitalise the model.
Achieve an increase of at least 20% in visits to the climate risk pages on KBN's website and increase the average reading time per session relative to 2021	●	Reading time has increased, but website traffic has fallen
Map KBN's green lending portfolio in relation to the technical criteria in the EU Taxonomy	●	The assessment was carried out and published in KBN's 2022 Impact Report. In addition assessment was carried out of 'Do no significant harm' criteria
Identify the opportunities to use the EU Taxonomy in connection with local government sector investment spending	●	KBN has worked consistently throughout 2022 to increase awareness of the EU Taxonomy in the local government sector, through messaging and participation in relevant technical gatherings and conferences. A pilot project for financing of projects that are compliant with the EU Taxonomy will be launched in 2023.
Carry out quarterly ESG screening of KBN's liquidity portfolio	●	The first ESG screening was carried out in August, followed by regular screenings and quarterly reports
Sustainable municipality finances and debt management		
Develop and launch the first version of a tool for financial forecasting and investment simulation	●	The original plan has been discontinued due to the complexity of the task and scale of resources required, but work is underway to investigate opportunities for collaboration

Expertise sharing		
Continue work on the development of KBN Skolen Digital	🔴	The concept of KBN Skolen Digital is temporarily paused due to other priorities. Other digital formats (webinars) have been prioritised
Run the KBN Skolen I & II programs for 60 participants from 50 new municipalities	🟠	One event was held including both KBN Skolen I and KBN Skolen II, with a total of 25 participants
Continue development of the KBN customer portal with the addition of technical content available to customers	🟢	The customer portal has been continuously developed with the addition of new tools
Financial inclusion, accessibility and macroeconomic expertise development		
Maintain KBN's AAA rating	🟢	AAA rating continues with stable outlook
Maintain a score of at least 5 out of 6 on the customer survey (equivalent to 8.33 on the new 1 - 10 scale)	🟢	In response to the customer survey question 'I am satisfied with KBN' the average score was 8.69 out of 10
KBN's reputation in relation to sustainability		
Cut KBN's own emissions by at least 30% compared to 2019	🟢	Emissions were approximately 58% lower than in 2022 than in 2019
Achieve a score of at least 5 out of 6 in a survey of our most important stakeholders	🟠	The survey was not carried out since on further consideration it did not seem appropriate for the purpose intended, but in its customer survey KBN's score on the question of whether respondents recognise KBN as a sustainable entity was 8.47 out of 10
Through collaboration with Young Enterprise Norway help students at lower secondary schools to start student companies with social objectives	🟢	KBN was represented on the jury for the 'Best social entrepreneur' and awarded the prize
Sustainalytics: Low risk	🟢	Low risk
MSCI: AA	🟢	AA
ISS ESG: B	🟠	C+ (no new rating of KBN in 2022)
Suppliers		
Consider introducing stricter expectations for suppliers	🟠	KBN discusses individual suppliers' sustainability work and results in annual review meetings, and this has not identified any specific need for stricter requirements. A thorough review of KBN's expectations remains on the agenda.
Consider introducing ESG screening of suppliers	🟢	In the case of large/significant suppliers that have an ESG rating, screening is carried out in the same way as for issuers in the liquidity portfolio and counterparties. Smaller suppliers do not have ESG ratings.
Employee development		
At least 75% of employees to have completed KBN's Kompetanseløftet in the course of the year	🟢	87% of employees completed KBN's Kompetanseløftet in 2022
Employees to be fully aware and trained in respect of KBN's policy and work on sustainability	🟢	All employees have the opportunity to participate in the materiality analysis. KBN provided training in climate issues on a voluntary basis that attracted 90% participation. KBN keeps employees regularly informed of its work on green lending and green bond funding.
Employee engagement		
A score of at least 4.1 (on a scale of 1-5) for employee engagement in the employee survey	🟢	Employee engagement was scored at 4.5 in the 2022 employee survey

Objectives for 2023 (and 2025)

Environmental objectives (E)

■■ To take an example, the reduction in the interest rate on a green loan of NOK 100 million borrowed over thirty years has a present value of NOK 1.1 million using a discount rate of 3.5%. KBN's green loans are a supplement to other forms of state assistance, e.g. Enova grants and Klimasats subsidies, which can further reduce the costs of investing in climate friendly projects.

Green finance

KBN raised our first green funding in 2010, and in 2013 it became the first financial institution in the Nordic region to issue a public green bond. KBN's green bonds finance parts of KBN's portfolio of discounted green loans. KBN's green loans are intended to be a tool for promoting the transition to a low-carbon society (reduced greenhouse gas emissions) and the local government sector's adaptation to climate change, and by providing lower interest rates KBN helps reduce the additional cost of investing in climate-friendly projects (see the box). KBN's Criteria for green loans sets out the type of projects/investments that can qualify for a green loan. KBN revises our criteria annually in collaboration with our Green Expert Committee, which is composed of representatives from environmental organisations, authorities, and the local government sector.

KBN currently has two different types of holdings of green loans, which are termed dark green and light green. The value of outstanding dark green loans at the close of 2022 was NOK 41.4 million, of which NOK 39.6 million comprise projects that satisfy the current and most recently updated Green Bond Framework and the minimum criteria set for green lending (March 2021). The Green Bond Framework was updated in March 2021 with a requirement that new issues of green bonds must be linked to projects that at a minimum satisfy the most recent Criteria Document for green lending. It is expected that future annual updates of the Criteria Document will impose stricter requirements. The light green loans comprise loans and projects that were granted before KBN introduced our first Criteria Document for green loans in 2016, and that cannot sufficiently document compliance with the relevant criteria. These loans therefore do not satisfy the requirements of the 2016 Green Bond Framework, and are excluded from the calculation of the holdings that are funded by the issue of green bonds. The value of outstanding light green loans at the close of 2022 was NOK 2.1 billion. This will reduce over time as the loans are repaid and no new light green loans are granted.

An overview of the projects financed by a green loan from KBN is available on the KBN website. At the end of 2022, KBN's outstanding green loans represented approximately 13% of our total lending. KBN has a target of increasing this proportion going forward. KBN's target for 2023 is for green loans to represent at least 15% of our lending portfolio by the end of the year, and KBN also has a target of growing this proportion to at least 20% by the end of 2025. As a consequence of these targets, KBN also sets a target for the greatest possible number of municipalities to prioritise green investments rather than conventional investments. The target for 2023 is for at least 40% of municipalities to have at least one green loan from KBN, with the target increasing to reach at least 50% in 2025.

As part of our strategy to be a leading player in green finance, KBN will launch a pilot project in 2023 for the financing of projects adapted to the EU Taxonomy. Norwegian county authorities and municipalities are not subject to the EU Taxonomy, and at the moment the corporate customers for KBN's lending are similarly not included. This means that KBN cannot require our customers to report their Green Asset Ratio, but must instead carry out its own assessments.

KBN's green bonds are issued in the international capital markets. In 2022 KBN issued three green bonds in three different currencies equivalent in total to approximately NOK 7.5 billion. At the end of 2022, KBN had outstanding green bonds in five currencies, namely the US dollar, the Australian dollar, the Canadian dollar, the Swedish krona and the Norwegian krone. At the end of 2022 the total outstanding volume of KBN's green bonds was, in NOK terms, around NOK 35 billion. This represents approximately 8% of KBN's total borrowings.

Climate risk

KBN expects that our investors will increasingly attach weight to climate risk and in a broader sense to ESG risk when making investment decisions, and has therefore worked since 2018 on identifying and managing climate risk both within our own organisation and at our customers. See the section Reporting on climate-related risks and opportunities for more detailed reporting on climate risk.

KBN's customers, the local government sector, face *physical risks* associated with climate change and global warming, such as surface runoff, floods, landslides, rising sea levels etc, which damage or destroy property; *liability risk*, which is the risk of being held liable for losses suffered by others as a result of climate change; and the *transition risk* associated with the transition to a low-carbon society, which can impact municipalities as a result of changes to political and regulatory framework conditions, developments in technology and changes to consumer behaviour. Norway announced at the UN climate change conference in Egypt in November 2022 that it had submitted an enhanced climate target under the Paris Agreement. The new target is to reduce emissions by at least 55% by 2030 compared to 1990 levels. The local government sector will play an important role in achieving this target. Local government sector projects undertaken today have an expected economic life of more than 40 years and will therefore still be in place when society has to face a less hospitable climate and what are likely to be far stricter requirements in terms of greenhouse gas emissions and resource usage.

On this basis, KBN has been clear that climate risk should be an important part of the evaluation criteria applied when investment decisions are made in the local government sector. KBN was part of the reference group for the Norwegian Environment Agency's mapping of knowledge about the local government sector's exposure to climate risk. In 2022, KBN made further improvements to our web-based, freely accessible climate risk tool for the local government sector. We will continue to further develop our climate risk tool in order to provide municipalities with even better and more relevant information on their climate risk and help to promote the inclusion of climate risk into municipalities' decision-making processes and investment plans. A first version of a model to classify individual municipalities' climate risk was developed in 2021, and this was further developed in 2022 and is now used in connection with KBN's credit assessments. In the future, KBN will work on expanding the climate risk model to include other types of ESG risk. This work is consistent with the expectations of the regulatory authorities both nationally and internationally.

In 2022, KBN implemented a sustainability strategy for our liquidity management as part of a process for identifying and reducing KBN's overall exposure to sustainability risk. The objectives for this project are to give us better insight into how we invest KBN's liquidity, to communicate what we do and do not find acceptable when placing liquidity, to help to increase transparency and to influence our investment universe in the form of issuers. With effect from August 2022 KBN carries out continual ESG screening of our liquidity portfolio with quarterly reporting. KBN will ensure that the proportion of sustainable investments in the liquidity portfolio is at least equal to the proportion of green lending in KBN's total lending portfolio.

Climate change and sustainability are increasingly cited as important motivational factors for job applicants, and a strong reputation for sustainability can be a competitive advantage in a recruitment context. KBN has highlighted our sustainability work on our website, in the media, on social media, in our recruitment campaigns and in other marketing contexts. KBN's credibility in the area of sustainability depends in part on it keeping our own house in order. KBN has set ourselves clear targets relating to our greenhouse gas emissions, and will continue to work in 2023 on mapping all our material indirect emissions.

GREEN FINANCE

Objectives for 2023	Objectives for 2025
Increase green loans as a proportion of the total lending portfolio to at least 15%	At least 20%
Increase the proportion of municipalities with a green loan from KBN to 40%	At least 50%
Identify three investment projects in the local government sector that seem likely to qualify pursuant to the EU Taxonomy	Approve at least five EU Taxonomy green loans
Increase the number of projects for water and wastewater treatment in the green lending portfolio by 10 new projects	At least 105 projects in total
Increase the number of projects for waste and the circular economy in the green lending portfolio by 10 new projects	At least 80 projects in total
Increase the proportion of green funding to 8% of total funding	At least 10%
The proportion of sustainable investments in the liquidity portfolio to be at least equivalent to the proportion of green funding relative to total funding	

GREENHOUSE GAS EMISSIONS

Objectives for 2023	Objectives for 2025
Through green lending contribute to at least 12,000 tonnes CO_2e of reduced and avoided emissions	18,000 tonnes CO_2e
Reduce calculated emissions by at least 35% from the 2019 level	At least 40%
Identify emissions resulting from KBN's lending (Scope 3)	Introduce approved science-based targets
Identify material emissions from KBN's suppliers and identify suppliers' own targets for emissions reduction (Scope 3)	Introduce approved science-based targets

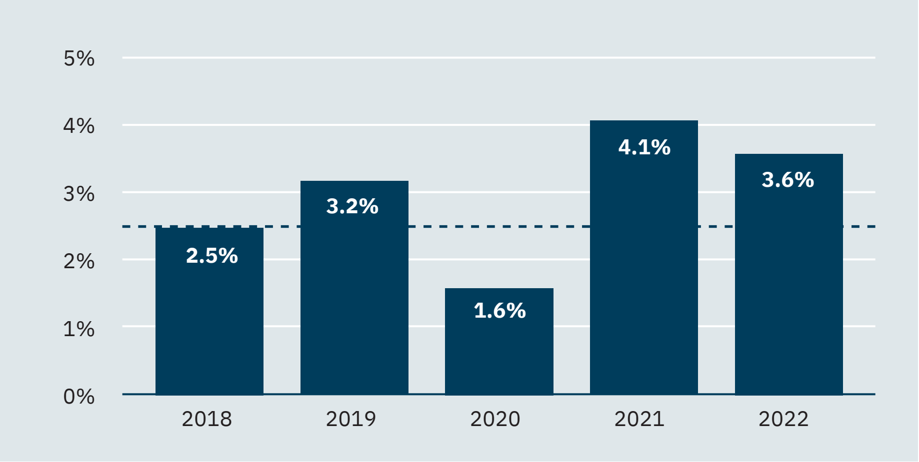
Social objectives (S)

KBN strives to be recognised as a knowledge-based company in financing and in the development of future-oriented financing solutions for Norwegian county authorities and municipalities. We are committed to ensuring all employees have good working conditions, are treated equally, and have access to the same opportunities with regard to personal and professional development and promotion. A central part of our strategy is that we continually renew our expertise in order for KBN to be relevant and create value for our customers both now and in the future. As part of this, in 2021 KBN launched a campaign entitled 'KBN Kompetanseløftet', which challenges all KBN's employees to learn something new over the course of the year. Employees are free to choose any topic that is relevant to KBN, with a training arrangement of at least two days. Following the successful experience for this campaign in 2021, this arrangement was offered as a permanent arrangement in 2022, with as many as 87% of employees completing the challenge.

Employee engagement and wellbeing at work can affect motivation, productivity and the quality of employees' work. KBN carries out regular employee interviews and surveys to map employees' perception of their day-to-day work and opportunities for improvement. KBN is committed to ensuring all employees have good working conditions. In 2022, development discussions were conducted with all permanent employees. When analysed by employee category, development discussions were conducted with 100% of female staff and 100% of male staff in the senior management team and with 100% of female staff and 100% of male staff at other levels of the organisation. The Working Environment Committee's aim is to actively contribute to the creation of a good working environment and the promotion of good physical health by building a culture characterised by well-being and collaboration. The Committee held regular meetings in 2022 and carried out risk assessments in relation to health, safety and environmental issues, as well as related inspections. The sick leave rate was 3.6% in 2022 as compared to 4.1% in 2021. KBN's target is for the sick leave rate to be below 2.5%.

Regular health-promoting and social activities, including organised and individual exercise activities, were offered for all employees in collaboration with KBN's various activity groups, with some taking place digitally and others physically. No accidents or serious injuries were recorded as having occurred during working hours or in connection with journeys for work purposes or to or from work. No accidents or injuries were reported to the Norwegian Labour Inspection Authority.

SICK LEAVE
Sick leave rates at KBN over the last five years



The surplus from KBN's activities largely returns to the Norwegian community as a whole through the dividends paid to the owner, and is also used to meet the capital adequacy requirements to which KBN is subject. The state's particular objective for its ownership of KBN is 'to offer stable, long-term and effective financing to the municipal sector'. KBN was available for our customers throughout the entire period when the global economy was hit by the pandemic and the capital markets ceased to function from time to time, and KBN operates with a liquidity portfolio that over time is equivalent to 12 months' financing requirement, including growth in lending.

KBN is the only financial institution in Norway that offers loans with maturities of up to 50 years, giving customers access to financing appropriate to the lifetime of the investment to be financed. KBN ensures that the high creditworthiness of the government sector is reflected in our borrowing costs, and that this includes the small and medium-sized municipalities that do not have their own rating and only have limited opportunities to directly access the capital market in an efficient way. While KBN is more important for the small and medium-sized municipalities, it aims to contribute to sustainable economic development throughout the local government sector. KBN's objective for 2023 is to serve all local government authorities, and to have a lending relationship with at least 97% of the country's municipalities and county authorities.

KBN's lending is used by our customers to finance investments in school buildings, healthcare buildings, nurseries, water and waste processing facilities, cultural venues and sports halls throughout Norway. KBN is committed to ensuring that the loans facilitate efficient welfare production to the benefit of residents, and that there should be good working conditions for the building and construction industry for both urban and rural projects. Looking forward, questions about customers' own internal control and monitoring of suppliers in connection with procurement will be given more attention in KBN's follow-up of our customers. KBN has asked all the municipalities whether they use 'proper conduct' clauses in relation to HSE, working conditions etc. in their building and construction contracts, and intends to work to encourage more municipalities to use such clauses.

KBN procures goods and services worth in excess of NOK 100 million each year. Through our direct role as a purchaser and our collaboration with others in the business community, we can set requirements that drive suppliers and their sub-suppliers to adopt more sustainable and responsible conduct. KBN's procurement processes are designed so that they help promote KBN's environmental, social and governance objectives, e.g. procurement must promote climate-friendly solutions where relevant, either through specific requirements for tenderers or by using environmental parameters as criteria when selecting suppliers. Having sustainability as a guiding principle also imposes restrictions on the suppliers with which KBN can associate.

We will not use suppliers that are involved in corruption or money laundering, or suppliers who do not respect basic human rights and labour rights, equality and diversity, or requirements relating to ethical conduct and social issues. The principle also requires KBN to ensure that we have a reasonable overview of our supply chains in order for us to be able to ensure that we can take into account ethical and corporate social responsibility considerations at our suppliers' sub-suppliers. KBN's expectations of our suppliers will also form part of its regular follow-up discussions with our biggest suppliers.

The Transparency Act entered into force on 1 July 2022. The purpose of the Act is to promote enterprises' respect for fundamental human rights and decent working conditions, and to ensure public access to information in this respect. The Act imposes a duty on enterprises to disclose information and to carry out due diligence, and publish a report in respect of these requirements.

KBN has a collaboration agreement with Ungt Entreprenørskap (Junior Achievement Norway) to help increase awareness of social entrepreneurship and sustainability in Norwegian lower secondary schools through the 'Student company' program. KBN has signed the Women in Finance Charter.

Objectives for 2023	Objectives for 2025
At least 75% of employees to have completed KBN's Kompetanseløftet in the course of the year	At least 80% of employees to have completed KBN's Kompetanseløftet in the course of the year
A score of at least 4.1 (on a scale of 1-5) for employee engagement in the employee survey.	A score of at least 4.2 (on a scale of 1-5) for employee engagement in the employee survey
Be available for new loan applications from all municipalities, and maintain a lending relationship with at least 97% of all Norwegian municipalities and county authorities	Be available for new loan applications from all municipalities, and maintain a lending relationship with at least 97% of all Norwegian municipalities and county authorities
Measure the number of customers that have in place internal control procedures including conflicts of interest, business ethics, whistle-blowing and evaluating the risk of financial criminality	20% improvement in the number of customers who have internal control procedures in place
Include questions on customers' requirements for follow-up of their suppliers in relation to procurement of materials and operation of building and construction projects through dialogue with customers and follow-up	20% improvement in the number of customers who have procedures in place to follow up their suppliers

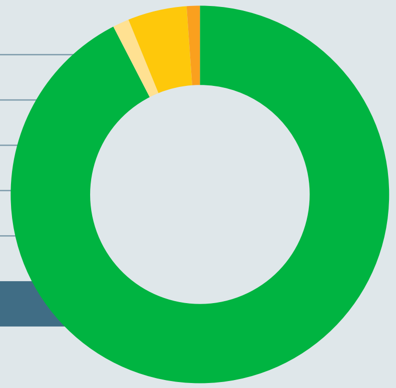
Governance objectives (G)

As the largest lender to the local government sector, with our most important task being to provide the sector with low-cost and stable financing, KBN has a particular responsibility to support long-term and sustainable debt management. Through insight, financial expertise and digital tools we seek to help our customers make informed decisions, evaluate financial risk and select the financing solutions that are best matched to their requirements. As a systemically important financial institution, we also strive to contribute to financial stability. KBN has developed our own credit assessment model that is at the heart of our lending processes.

Customers who are classified in the orange category according to the model have to undergo a separate assessment by KBN's internal Credit Committee before a loan can be approved. In the case of customers that are classified in the red category, any application for a new loan must be decided by KBN's Board of Directors. KBN wants our credit assessment methodology to be open and accessible in order to increase the transparency of our assessments and to provide customers with valuable insight into their own financial situation. As part of this, KBN published details of our credit assessment model in 2021. KBN first developed a climate risk model for Norwegian municipalities in 2021, and this was updated in 2022 with a number of additional data sources. The model applies 10 microeconomic indicators to arrive at a climate risk score for each municipality on a scale of 'Low', 'Medium', and 'High'. This risk score is then incorporated into the normal credit assessment model, and is therefore taken into account in the credit appraisal of municipalities. Work will continue in 2023 to digitalise the model and make the climate risk score available to customers.

CREDIT ASSESSMENT MODEL
Analysis of municipalities and county authorities by category in KBN's credit assessment model.

Green	330
Light yellow	5
Yellow	18
Orange	4
Red	0
Total	**357**
Not green	*27*



KBN Finans, which is KBN's debt management system, is a web-based tool that helps customers with their transaction history and analysis and reporting relating to their loans and interest rate fixings, and it allows customers to evaluate their municipality's borrowing position and exposure to financial risk. KBN's customer portal, which was launched in 2020, is subject to continual development with new functionality and new tools to deliver greater value added for KBN's customers.

KBN contributes to the sharing of expertise, including by offering regional finance seminars and through the KBN Skolen I/KBN Skolen II programs for customers. KBN's aim is to increase customer knowledge in the areas of financial risk management, the fixed income market, and debt management so they can make informed decisions. With our climate risk tool, KBN aims to help customers to also evaluate and manage their exposure to climate-related risk. KBN's new booklet on local measures to improve energy efficiency and energy production draws on the experience of municipalities that have carried out measures to reduce costs, energy consumption and emissions to inspire other municipalities to follow their example.

KBN complies with the International Capital Market Association's (ICMA) Green Bond Principles (GBP) and contributed to their development as a member of the ICMA GBP Executive Committee over the period 2018-2021. KBN also led the technical working group responsible for the Nordic Public Sector Issuers' 2020 update of the Position Paper on Green Bonds Impact Reporting, which is now used by issuers in a number of locations across Europe. KBN published our updated Green Bond Framework in 2021, representing the third issue of the framework. KBN has published impact reports with information on the projects that have been financed by our green loans since 2016. As one of the most active Norwegian issuers of green bonds over the past 10 years, KBN has contributed to the promotion of greater interest in green finance in the financial sector.

KBN is finding that rating agencies, issue managers and investors are increasingly including and emphasising ESG data in their evaluations. Poor ESG scores can result in companies being excluded from investment universes and can push up their financing costs. KBN is therefore committed to making available the information on our sustainability activities that ESG rating agencies need for their analyses. KBN is rated among the best in our class by the leading ESG rating companies MSCI, Sustainalytics and ISS ESG.

Objectives for 2023	Objectives for 2025
Carry out KBN Skolen I & II events	Further development of the KBN Skolen concept with a new module III as well as a digital learning platform for the entire concept
Continue the development of KBN's customer portal with relevant content	
Through arranging events and initiatives, contribute to greater commitment to sustainability in the finance sector and making the finance industry a driver in the green transition, including through its role as a source of capital	
Contribute expertise that can help to strengthen the local government sector's work on sustainability	
Give municipalities and county authorities access to their climate risk scoring by KBN	ESG evaluation to be an integral part of the credit assessment model and a tool that can also be used by customers
Targets for ESG-ratings: MSCI: AA ISS ESG: B Sustainalytics: Low risk	Targets for ESG-ratings: MSCI: AA ISS ESG: B Sustainalytics: Negligible risk

Statement on equality

Current status of gender equality

KBN has over time implemented a number of initiatives and measures for work on gender balance. Our objective is to have a gender balance of at least 40% at all levels of the organisation, and an ambition for equal gender representation in all departments. The table below shows the proportion of women and men by organisational level at the end of 2021 and 2022. We can report good results at the end of 2022 for the gender balance at the CEO and management team level, and for employees of KBN in total. The gender balance for all employees has been stable over time. The reduction in the proportion of female employees at the middle management level is mainly due to reorganisation and staff turnover, with several female managers leaving KBN. The recruitment of female employees for certain technical areas represents a challenge, both within finance and technology.

CHART 1
Gender balance in % analysed by organisational level at year end.

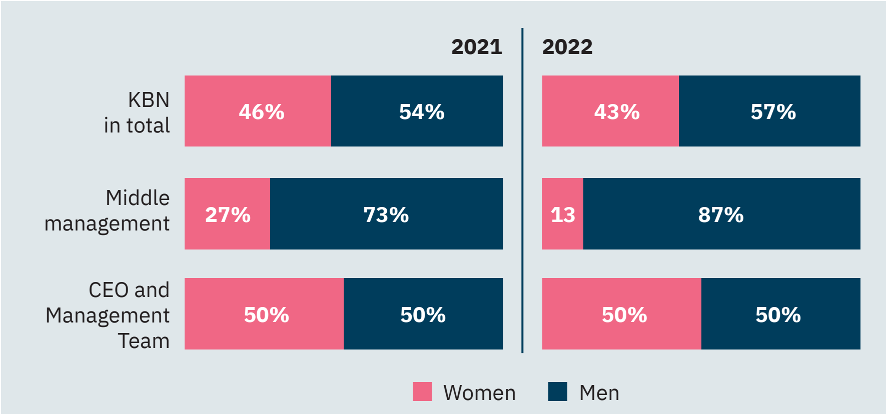


CHART 2
The figures in the table are for the 2022 accounting year and as of 31.12.2022.

We currently have one (1) temporary female employee working on a contract for KBN.

Temporary employees *(Temporary employees are to a large extent students in part-time employment)*		Absence on parental leave *(No. of employees)*		Part-time working *(principally students)*			
				Actual part-time work		Involuntary part-time work	
Women	Men	Women	Men	Women	Men	Women	Men
7	2	2	2	6	2	0	0

KBN in general offers only full-time employment, but there are some opportunities for part-time work when employees reach the age of 62 and for employees who need the opportunity to work part-time for health, social or other substantial welfare reasons. KBN also offers part-time employment opportunities for students. All the employees working in part-time positions at the close of 2022 were students, and no-one at KBN is required to work on a part-time basis against their wishes (involuntary part-time working). We use the services of temporary staff only to a small extent. The general exceptions are temporary staff substituting for employees on leave of absence and temporary project staff[1], as well as students, who account for the major part of the temporary staff reported.

1 Can also include temporary staff to substitute for permanent employees who are transferred from operational duties to project tasks either full time or part time.

CHART 3
Parental leave (weeks).

Women	Men
23.4	15.8

Female employees absent on parental leave in 2022 were on average on leave for 23.4 weeks in the calendar year. Male employees absent on parental leave in 2022 were on average on leave for 15.8 weeks.

Information on salaries
The table below shows the salaries of female employees as a percentage of the salaries of male employees at six organisational levels. For the purpose of calculating salary differences, we have identified fixed salary and various additions, bonuses and benefits for the 2021 accounting year. We considered the question of the same work and work of equal value when determining the employment levels in accordance with the working methods recommended by the public authorities. This means that all roles are evaluated and given weight in accordance with the requirements for expertise, responsibility, and effort. The employee representatives have participated in planning, carrying out and evaluating the information on salaries. KBN decided with the agreement of the employee representatives to not carry out a new evaluation for 2022, and the table below therefore presents figures and analysis for 2021[1].

CHART 4
Women's salaries as % of men's salaries per employment group.

Employment group	No. of women	No. of men	Women's salary as % of men	Examples of roles in the employment group
Group 1	1	0		CEO
Group 2	3	4	92%	Managers in the management team
Group 3	4	17	82%	Middle managers, technical specialists
Group 4	25	27	86%	Technical employees
Group 5	4	0		Administration employees
Group 6	6	3	100%	Students

Work to promote equality and prevent discrimination

KBN works in an active, targeted and planned manner on sustainability, and this includes its work on equality and preventing discrimination. Our work on equality includes all grounds of discrimination that may affect the personnel-related areas of recruitment, pay and working conditions, promotion, development opportunities, disability adaptations and opportunities for combining work and family life, other relevant matters, as well as work to prevent harassment, sexual harassment and gender-based violence.

Principles, procedures and standards for equality and prevention of discrimination
Work on equality and preventing discrimination is an integral part of KBN's Human Resources policy and is followed up in all areas of KBN's activities. KBN is committed to having an inclusive culture in which all employees have the same rights and opportunities and are treated with respect. Our overall work on diversity and equality is anchored in the guidelines for sustainability, as most recently revised in 2022. KBN's ethical guidelines (Code of Practice) include rules on conduct. KBN does not accept harassment, sexual harassment, or discrimination. Our guidelines for whistle blowing and whistle blowing procedures ensure the availability of secure channels and opportunities for individuals to whistle blow. Annual salary adjustments take place in accordance with a standard process using gender-equal and transparent criteria and are assessed to identify any inequalities. KBN also imposes requirements for its suppliers' work on diversity and equality.

1 This assessment and calculation is carried out every two years.

Our work to promote equality and prevent discrimination in practice
Work to promote equality and prevent discrimination has been a priority area for KBN for a long time and is an integral part of how we work. Ambitions, objectives, and measures to ensure equality and prevent discrimination are firmly anchored with KBN's management. Our guidelines set the direction for our work in this area, together with our ambitions and strategic objectives. Reports on the current status of diversity and equality, including work on the activity duty and the duty to issue a statement, are required to be provided regularly. Equality and discrimination are topics in management and employee development. Meetings of the Workplace Environment Committee (Arbeidsmiljøutvalget) are held regularly, and the measures adopted are followed up in collaboration with the employee representativesand the Committee. A number of appropriate measures have been adopted and implemented on the basis of the risk assessments that have been carried out. We signed the Women in Finance Charter in 2021, which commits us to setting internal targets for gender balance at the management level, to nominate one person at the management level to have dedicated responsibility for monitoring this work, to publicly disclose the status and development of this work and to link management remuneration to the achievement of the targets. Our involvement with Women in Finance continued in 2022. We have signed up to the membership principles, assigned the responsibility internally and participated in the launch of the first report for the Women in Finance Charter.

We have set the following ambitions for our work on diversity and equality:

- KBN shall have a corporate culture and management that promotes inclusion and diversity.
- KBN shall be a diverse organisation. There shall be a gender balance of at least 40% at all levels and the ambition of equal gender representation in all departments. The Chief Executive Officer shall monitor the gender balance in KBN.
- In relation to recruitment and internal mobility, KBN shall place emphasis on maintaining and improving diversity. The best qualified woman and the best qualified man shall be identified in all recruitment processes.
- Employees shall be given equal opportunities in respect of competence building and career advancement, salary, and employment flexibility.
- Succession planning for key positions shall focus on diversity.
- We have set a target for a number of our managers and employees to complete a certification course in diversity in 2023.
- An Action Plan based on risk assessments will be produced and disclosed throughout the KBN organisation.

How we work to identify the risk of discrimination and other obstacles to equality
Human Resources (HR) has the overall responsibility, and collaborates closely with the employee representatives and the Workplace Environment Committee in its work on the activity duty and the duty to publish annual statements using a four-step working method, which is embedded in the company's management.

A number of meetings were held in collaboration with the employee representatives to investigate the risk of discrimination and barriers to equalityby reviewing KBN's guidelines, policies and working procedures in all areas of human resources with a focus on all sources of discrimination. An exercise to map gender equality is also carried out in collaboration with the employee representatives every second year, most recently in 2021.

The annual employee survey carried out in 2022 combined with systematic follow-up mapped the working environment, including equality and discrimination. Employee development interviews at which these topics are a required agenda item are carried out annually. The annual preventative workplace inspection maps the physical and psychosocial working environment and helps to identify whether employees believe that they have been exposed to, or observed, any kind of discrimination, harassment, or sexual harassment.

Gender balance is measured continuously by quarterly reporting and at the start of recruitment processes. The annual salary review process is reviewed to identify any inequalities before the final decisions on salary increases are approved.

Risks of discrimination and obstacles to equality, possible causes, and the measures implemented and planned
The risks of discrimination and obstacles to equality that are identified relate particularly to diversity, including gender balance and recruitment, and for some departments the balance between work and family life. Enhanced awareness and knowledge are crucial for preventing discrimination, promoting equality, and preventing various forms of harassment. A number of measures were therefore implemented over the course of last year that was aimed at creating a corporate culture and management for inclusivity and diversity. It continues to be our objective that management and employee development shall include diversity management and unconscious discrimination. We celebrated both the World Mental Health Day and Pride at KBN with a number of activities for employees, with high attendance. Our objective of carrying out training in appropriate behaviour related to harassment, sexual harassment and whistle blowing will be continued. KBN has well-established whistle blowing procedures. The employee survey includes indicators for diversity and inclusivity.

KBN has over time pursued a number of initiatives and measures for work on gender balance. The overall gender balance for employees in total has been relatively stable over time and is in line with our ambitions. The gender balance at the senior management level was 50% at the close of 2022, unchanged from the previous year. However, KBN did have an adverse imbalance in gender representation at the middle management level as of 31 December 2022 due to reorganisation.

KBN strives to ensure a good gender balance and attract a diverse range of candidates with differing expertise, background, and experience. In our work on promoting diversity, we believe that placing emphasis on diversity in recruitment processes is an important tool for achieving our ambitions. This represents a challenge for certain areas of expertise where we experience a much higher proportion of male rather than female applicants. This reflects the situation in the finance industry where there is still a relatively large preponderance of male employees, although the situation is moving in the right direction with increasing numbers of women taking up employment in the sector. In 2022 we reviewed and continued to work on improving our routines and templates for the recruitment process to ensure that candidates are treated equally to a large extent. Unconscious discrimination can affect the assessment of candidates.

We have implemented a number of measures over time that have had positive effects and that we continue to use, including:

- Preparing an overview of the gender balance for KBN as a whole and for the recruiting department.
- Identifying the best qualified female candidate and the best qualified male candidate in all recruitment processes.
- Including KBN's gender balance for its activities in the performance evaluation of the CEO.
- Structured recruitment processes and training in diversity recruitment, including training in avoiding unconscious bias. Appropriate training for managers involved in recruitment will continue in 2023.
- Requirements for diversity and non-discriminatory processes for the recruitment agencies with which we collaborate.
- Publicising the objective of diversity through the content of recruitment advertisements, profiling, and communication, as well as applying greater awareness of who is the target audience and using gender-neutral words and expressions.
- Working in a focused way to succeed in recruiting female students to student jobs at KBN. A number of these female students have since taken up permanent employment once they have completed their studies.

The following table shows a gender analysis of new employees over the past four years:

Year	Women	Men
2019	6	7
2020	4	9
2021	10	5
2022	6	4

It is also important that we have a long-term perspective of the outlook for diversity and gender balance in our middle management roles. It is KBN's policy to give existing employees equal opportunities in terms of competence building and career advancement, and we are also committed to focussing on ensuring diversity in the succession planning for key positions. Employee development interviews are held on a regular basis, together with the preparation of individual personal development plans.

We have worked proactively to reduce the observed differences in how employees take advantage of the competence building opportunities that KBN offers. We launched the skill development programme 'Kompetanseløftet' in 2021 with the intention of challenging all employees to develop their expertise. Managers are appraised on the basis of the take-up for this programme in their departments. This also serves to ensure that everyone is given equal opportunities for personal development. The programme (Kompetanseløftet) continued in 2022 with an 87% completion rate and will continue in 2023. In addition to this, KBN offers language courses for employees who do not speak Norwegian. A new management training programme for middle management has been adopted and was carried out for the first time in 2022. A number of our managers intend to participate in training courses for certification in diversity management in 2023.

The employee survey shows that the score for balance between work and free time has improved since the previous survey, which indicates a positive effect from greater workplace flexibility made necessary by the Covid epidemic. All employees now have hybrid working agreements. There is a risk that some key employees may experience that KBN is particularly dependent on their contribution, and this can cause stress. We have therefore continued and expanded a number of measures to ensure a good balance between work and free time. We would mention in particular:

- Flexible working hours, extra holiday leave and time off in lieu.
- Arrangements that continue after core hours or normal working hours are planned well in advance. As a general rule the work-related element is scheduled during normal working hours.
- Standard arrangements for hybrid working to allow flexibility in where employees choose to work.
- Continuing work on KBN's meeting culture.
- Self-management is a topic in KBN's employee development, and delegation and autonomy are topics in management development.
- Employee development interviews include the topic of whether the employee needs any workplace adaptations.

Results of the work carried out

The employee survey carried out in 2022 shows that KBN has an inclusive working environment. A preventative workplace inspection was carried out in December 2022 with particular focus on matters including the working environment, discrimination, harassment and sexual harassment. The inspection reported good results.

At the close of 2022 we can report good results for gender balance both at the senior management level and for KBN's employees as a whole. Gender balance for employees in total has been relatively stable over time. We are working to improve the gender balance at the middle management level and in certain departments. A number of the measures in place for recruitment, competence building and the balance between work and family life are considered to be important in order to ensure equality and prevent discrimination. These measures will be continued. Our guidelines on diversity and equality have been revised and incorporated into KBN's guidelines for sustainability.

After a pilot period for hybrid working (working in part from a home office) it was decided in collaboration with the employee representatives and the Working Environment Committee that hybrid working should become a standard arrangement. The objective is to continue to provide a flexible arrangement that allows a better balance for employees between work and free time while working to improve social interaction and the working environment at the office. KBN has formalised the hybrid working day in the form of a home office agreement for all employees.

Work on the activity duty and the duty to issue a statement was systemised to a greater extent in 2022, and this generated valuable experience that is being applied to the continuing work. The activities were carried out in accordance with the planned annual schedule for 2022, and will therefore be scheduled again for 2023. The Action Plan for 2023 set out below details the plans and priorities for further action:

Action plan for 2023

The types of basis for discrimination that we address are gender, pregnancy, leave in connection with childbirth or adoption, care responsibilities, ethnicity, religion, belief, disability, sexual orientation, gender identity and gender expression, as well as combinations of these types of basis.

HR area	Background for measures/status/risk	Description of measures	Objectives for the measures
Recruitment	▪ There may be inequalities in diversity, including gender balance for certain levels/departments ▪ Maintain a focus on diversity recruitment in all our processes	▪ Equal treatment shall be applied whereby expertise and personal qualifications are evaluated regardless of gender, disability, age cultural and geographic background ▪ Stipulate requirements for diversity and non-discriminatory processes when using external recruitment services ▪ Identify the best qualified woman and the best qualified man in all recruitment processes ▪ Training in diversity recruitment and non-discriminatory recruitment processes	▪ Ensure a good gender balance and that we attract a diversity of candidates with a range of different expertise, backgrounds and experience ▪ KBN is committed to diversity. Our objective is a gender balance of at least 40% at all levels and our ambition is for equal gender representation in all departments ▪ Reduce the possibility of unconscious discrimination
Promotion and personal development opportunities	▪ Employees shall be given equal opportunities in respect of competence building and career advancement, salaries, and flexible working ▪ Focus on diversity in succession planning for key positions	▪ Continue the skill development programme (Kompetanseløftet) ▪ Employee interviews with individual development plans ▪ Language training for employees who do not speak Norwegian	▪ Equal opportunities for competence building and career advancement
Pay and working conditions	▪ Salary discrimination is considered to always be a risk ▪ Risk of age-related salary discrimination	▪ Individual annual salary adjustments to take place in accordance with a standard process and with equal treatment using disclosed criteria ▪ Salary adjustments to be assessed in respect of any inequalities before the changes are finally decided ▪ Full-time employment to continue to be the general rule, with some opportunities for part-time employment	▪ Objective for salary analysis to demonstrate equal salaries for the same work or for work of equal value ▪ Avoid age-related discrimination for annual salary adjustments
Adaptations	▪ No need for specific measures	▪ Topic to be given more attention as a possible topic for employee development interviews ▪ Preventative workplace inspections to be carried out twice each year	▪ Employees with temporary or permanent disabilities shall be provided with adaptations appropriate to their individual requirements through discussion with their manager
Work and family life balance	▪ Meeting culture ▪ Long working days can have an adverse effect on family life ▪ Key person risk and high level of dependence on individual employees can create time pressure	▪ Include the topic of managing meetings in workshops on corporate values ▪ Managers and employees take joint responsibility. Plan for equal sharing of duties and time allocation.	▪ Improve the efficiency of meetings, ensuring breaks between successive meetings ▪ All employees to have equal opportunities to combine work with family life
Harassment, sexual harassment, and gender-based violence	▪ KBN has zero tolerance for discrimination, harassment and sexual harassment ▪ Unconscious discrimination may be encountered through the comments and conduct of customers and colleagues	▪ Ensure all employees are fully aware of the current guidelines ▪ Breaches of the guidelines may result in sanctions ▪ Training in appropriate behaviour for all employees	▪ Ensure a safe working environment. Monitoring by preventative workplace inspections/employee surveys ▪ Corporate culture and management to promote inclusivity and diversity
Other relevant areas (e.g., working environment) Preconceptions/ attitude/ culture/	▪ Attitudes and preconceptions can affect the perception of corporate culture and interactions with colleagues, customers, and collaboration partners. ▪ Managers at all levels should have expertise in diversity and equality. It is considered significant to address these topics in management training in order that work on diversity and equality is not solely dependent on individuals but is embedded in management	▪ Relevant training in diversity and equality ▪ Celebrate Pride ▪ Celebrate World Mental Health Day	▪ Corporate culture and management to promote inclusivity and diversity ▪ Prevent unconscious discrimination

Report on due diligence pursuant to the Transparency Act 2022

The Transparency Act is new legislation which was approved by the Norwegian Parliament and entered into force on 1 July 2022. The purpose of the Act is to promote enterprises' respect for fundamental human rights and decent working conditions, and to ensure public access to information in this respect. KBN is subject to this Act, and its provisions impose a duty to report and a duty to carry out due diligence in accordance with the OECD guidelines for multinational companies. Below is KBN's report on the work it carried out in 2022, as required by Section 5 of the Act.

Embedding and organisation

During the year, the duties imposed by the Transparency Act to carry out due diligence and to report on this work, were incorporated into KBN's general guidelines for sustainability. The guidelines were approved by the Board of Directors of KBN.

The Chief Executive Officer of KBN is responsible for the conduct of KBN's work on sustainability. The CEO determines the detailed guidelines for sustainability, the organisation of the work and the allocation of responsibility within the management structure.

Work carried out in 2022

Over the course of 2022, appropriate procedures were developed for the practical implementation of the due diligence requirements, including how the due diligence will be carried out, what information will be required, the need for routine monitoring, the need for channels/procedures for receiving and processing enquiries, and procedures for carrying out remedial measures.

KBN has carried out due diligence assessments of its suppliers and business connections. This work has identified that KBN, as a financial institution serving customers in the Norwegian local government sector, is exposed to only a small extent to suppliers of products and services that might represent material risk of breaches of employment rights and human rights in general.

KBN has in any case implemented a number of measures to ensure compliance with employment rights and human rights by participants in its supply chains. KBN's General guidelines for procurement include a stipulation that "Procurement processes must be arranged so that they contribute to promoting KBN's goal of sustainable business operations in accordance with the general guidelines for sustainability. This means that procurement must contribute to reducing damaging environmental impacts and to promoting climate-friendly solutions where relevant. Procurement must promote respect for fundamental human rights and employment rights, equality and diversity, ethical conduct and social responsibility. KBN will not use suppliers that are involved in corruption or money laundering. Procurement must be carried out in such a way as to ensure that KBN has reasonable oversight into the use of subcontractors by suppliers and their subcontractors, and that KBN's sustainability objectives are promoted throughout the supplier chain".

KBN's standard terms and conditions for its contracts with suppliers incorporate a number of requirements relating to employment rights and human rights. These contracts impose duties on our suppliers which include:

- Recognising their social responsibility, including their responsibility in respect of the climate and environment, diversity and equality and social responsibility, not only for their own company but also for their subcontractors and business partners.
- Respecting fundamental human rights and ensuring decent working conditions.
- Undertaking, whether in the supplier's own right or through a middleman, not to offer any person an improper advantage or service in order to achieve an advantage or influence a public sector employee or any other third party in carrying out their duties.
- Working actively to reduce their climate footprint.
- Being transparent about paying taxes and other payments to the authorities in every jurisdiction in which the supplier carries out business.
- Reporting annually on their work on social responsibility

In addition, KBN has produced a separate statement setting out its expectations of suppliers which stipulates that KBN expects all suppliers of goods or services to KBN to work systematically with sustainability, and contribute to solving society's social, economic and environmental challenges.

KBN has established an internal procedure to receive and process any requests for information it may receive in order to comply with its duty to provide information. The "Contact us" section of KBN's website provides information on the email address to be used for any enquiries pursuant to the Transparency Act. KBN received two enquiries in 2022, and it replied to both of these in accordance with the stipulated timetable.

Disclosure of climate-related risks and opportunities

Description of KBN's governance around climate-related risks and opportunities

Governance

a) Describe the Board's oversight of climate-related risks and opportunities

Each year the Board sets KBN's risk appetite, which is an expression of the amount of risk that KBN is willing to assume in order to achieve its strategic objectives. Climate-related risk is included in KBN's assessment of its overall capital requirements through the Internal Capital Adequacy Assessment Process (ICAAP), which is approved by the Board of Directors and evaluated by the Financial Supervisory Authority of Norway.

KBN's Risk Management Committee ensures that KBN operates within the stipulated risk appetite, and that the guidelines for risk management are followed. The Board's Audit Committee carries out independent monitoring of the company's sustainability-related reporting, including climate-related risk.

The Board receives reports on KBN's green lending, greenhouse gas emissions and ESG screening of the liquidity portfolio at least quarterly.

The Board receives an annual internal audit opinion for KBN's Green Bond Framework.

b) Describe management's role in assessing and managing climate-related risks and opportunities

Climate-related risk involves several departments at KBN:

Chief Lending Officer: Responsible for mapping customers' exposure to climate-related risks, including the climate risk methodology that is integrated into KBN's model for credit assessment of lending customers (see the presentation of the model in the Risk management section.)

Chief Capital Markets Officer: Responsible for the management of climate-related risk in the liquidity portfolio and in respect of counterparties. Responsible for the management and development of KBN's sustainability-related funding and Green Bond Framework.

Chief Risk Officer: Responsible for ensuring that all areas of risk, including climate-related risk, are identified, measured and managed. The Chief Risk Officer is responsible for risk reporting to the Board.

Chief Compliance Officer: Responsible for ensuring compliance with the regulatory framework and guidelines related to sustainability and climate-related risk.

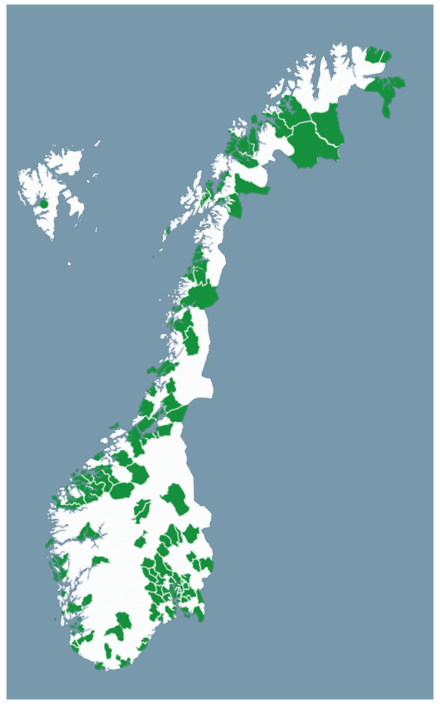
Head of Legal Operations: Responsible for monitoring and reporting to the Board on regulatory changes that may affect KBN, including changes that relate to climate-related risk.

Head of Sustainability and Communications: Responsible for communicating KBN's work on climate-related risk to KBN's stakeholders, including the Board of Directors, on a continual basis.

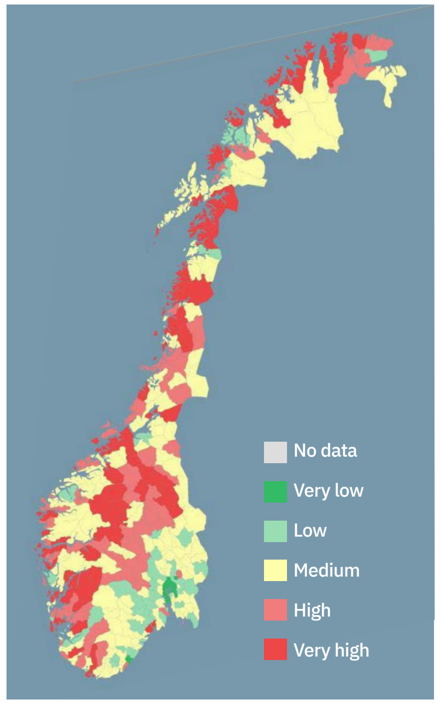
See the section Organisational structure and governing bodies.

KBN launched a climate risk model for Norwegian municipalities in 2019. The model is based on material from the CICERO Centre for International Climate Research, as well as data sources from third parties such as the Norwegian Centre for Climate Services, the Norwegian Environment Agency and Statistics Norway. KBN carried out further work in 2022 to develop the climate risk model for municipalities.

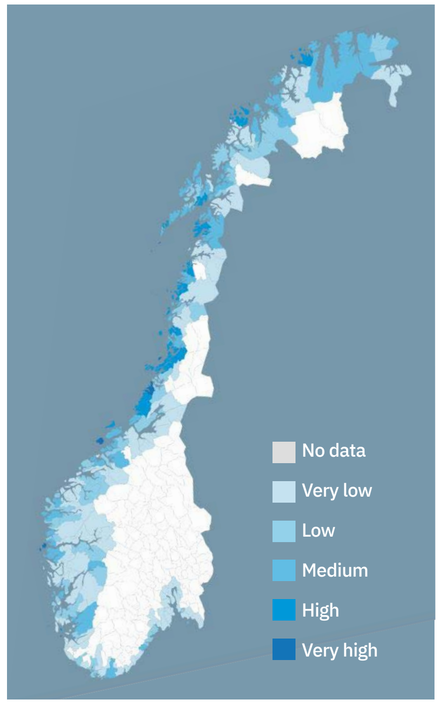
KBN'S GREEN LENDING
Investment projects that currently qualify for a green loan from KBN may be seen as a possible indicator of the readiness for change in the local government sector. The map shows the municipalities that had one or more green loans from KBN at the end of 2022.



CLIMATE GAS EMISSIONS
Emissions per citizen in each municipality as a percentage of the country average.



STORM SURGES
Risk for buildings and infrastructure of an estimated increase in sea levels by 2090, assuming a scenario of high emissions (RCP 8.5). Score from 1-100.



Description of the actual and potential impacts of climate-related risks and opportunities on KBN's businesses, strategy, and financial planning where such information is material

Strategy

a) Describe the climate-related risks and opportunities that KBN has identified over the short, medium, and long term

Risks in the short, medium and long-term
The Norwegian Local Government Act stipulates at Section 29-1 that municipalities and county authorities cannot be declared insolvent, meaning that KBN's exposure to default risk is very low.

KBN's customers are exposed to various forms of climate-related risk, including physical risk, transition risk and liability risk. In the short term, individual incidents have immediate financial consequences, and in the medium term impacts may over time affect the customers' economic leeway, including their ability to access new debt financing. In the long term, this may have an impact on KBN's lending activity. Evaluation of each customer's climate-related risk exposure has been included in the annual customer risk assessment since 2022.

Opportunities in the short, medium and long-term

There is growing demand for green funding products from investors with ESG mandates, and this also represents an opportunity for KBN in that it makes it possible for KBN to achieve somewhat better demand and prices for the green bonds it issues. This advantage is expected to increase over the medium term.

Green loans account for approximately 13.3% of KBN's lending portfolio. Investments financed by green loans must comply with strict criteria and be deemed to be part of the road to a low emissions society.

In 2022, KBN mapped its criteria for green loans against the technical criteria for 'significantly contributing' (SC) and 'do no significant harm' (DNSH) in the EU taxonomy. The mapping showed that approximately 18% of KBN's green loans were aligned with the technical criteria, while approximately 59% were evaluated as being partly aligned. The Ministry of Finance has expressed the view that it is natural to expect that companies that carry out activities that satisfy the criteria in the EU taxonomy will have better access to capital in the future. An increase in the proportion of investments by KBN's customers that qualify as green investments will over time help to reduce climate-related risks, for example investments in zero emissions technology are expected to reduce transition risk, and climate adaption measures reduce physical risk.

b) Describe the actual and potential impacts of climate-related risks and opportunities on KBN's businesses, strategy, and financial planning

Climate-related risks and opportunities form part of the Board's annual strategy process and the annual assessment of capital adequacy.

With regard to its funding, KBN is well positioned to meet the increasing international demand for green bonds. International developments, including the EU's Sustainable Finance Action Plan and Taxonomy Regulation, may enable favourable borrowing terms to be achieved on future sustainability-related bond issues by high quality issuers. KBN will launch a pilot project in 2023 for financing of projects that are adapted to the EU Taxonomy. This is a strategic measure approved by the Board of Directors.

c) Describe the resilience of KBN's operations, strategy and financial planning, taking into consideration different climate-related scenarios

CICERO (the Center for International Climate Research) has developed three climate scenarios for the Norwegian local government sector on behalf of KBN. KBN has used these scenarios as the basis for evaluating the risks and opportunities that may affect KBN through its involvement with the local government sector. A brief description of these scenarios is provided here, with a more thorough description and their expected significance to KBN here (only in Norwegian).

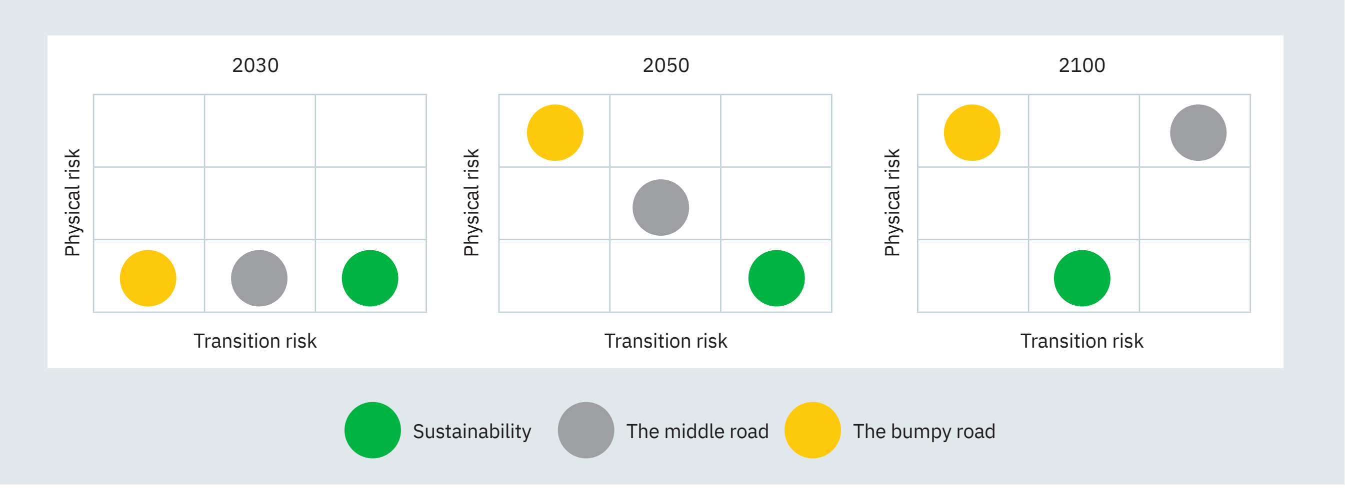
Scenario 1: Sustainability – the green road (SSP1-2.6): Strong climate policies are implemented starting in 2020, emissions fall, and the world achieves the goal of the Paris Agreement. This is the scenario with the strongest economic growth, but it assumes significant investment by both the public and private sectors. The economic picture continues to be sufficiently positive (relative to the other scenarios) for the local government sector in general to be able to invest significantly in the transition to low carbon solutions in terms of buildings, transportation and infrastructure, as well as in climate change adaptation measures in areas such as the water and wastewater sector. This means the local government sector will need to have greater access to debt capital throughout the entire century.

Scenario 2: The middle road – we carry on as before (SSP2-4.5): More time passes before global climate agreements are put in place and their policies take effect and measures are implemented. The world does not manage to achieve the goal of the Paris Agreement. In this scenario, the Norwegian economy still grows well over the century, driven primarily by continued investment in the petroleum industry. Norway's oil revenues decline after 2050, but natural gas revenues are high for a few more decades before they in turn decrease. Once emissions reduction measures are rolled out on a large scale in the second half of the century at the same time as the need to invest in climate change adaptation increases significantly, the local government sector will have a significant need to invest that will coincide with a reduction in the revenues it receives from key industries. KBN considers that in scenario 2 the level of demand for debt capital would remain steady in the first half of the century but then increase in the second half.

Scenario 3: Regional rivalry – the bumpy road (SSP3-7.0): The world does not achieve the goal of the Paris Agreement by a sizeable margin and the physical consequences of climate change are significant, even in Norway. Norway's gross national product is lower than in scenario 1 and scenario 2, and this will have an effect on local government sector finances. The oil and gas industry performs well in the first half of the century, but other important industries will be threatened by physical climate-related risk caused by the effects of climate change. Norway's local government sector will face major challenges in relation to adapting to climate change and carrying out repairs after extreme weather. In this scenario, the Norwegian state and local government are expected over time to have significantly less financial room for manoeuvre, which in turn means a smaller market for KBN. The weaker financial situation of both the Norwegian state and local government authorities could impact KBN's credit rating and funding costs.

CHART

The three scenarios represent different levels of physical climate risk and transition risks respectively between 2030 and 2100. For example, will the "Green transition" result in a high level of transition risk in the short-term because the transition needs to happen quickly, with the result that the benefit comes in the form of lower physical risk in the long term relative to the other scenarios?



Description of how KBN identifies, assesses and manages climate-related risks

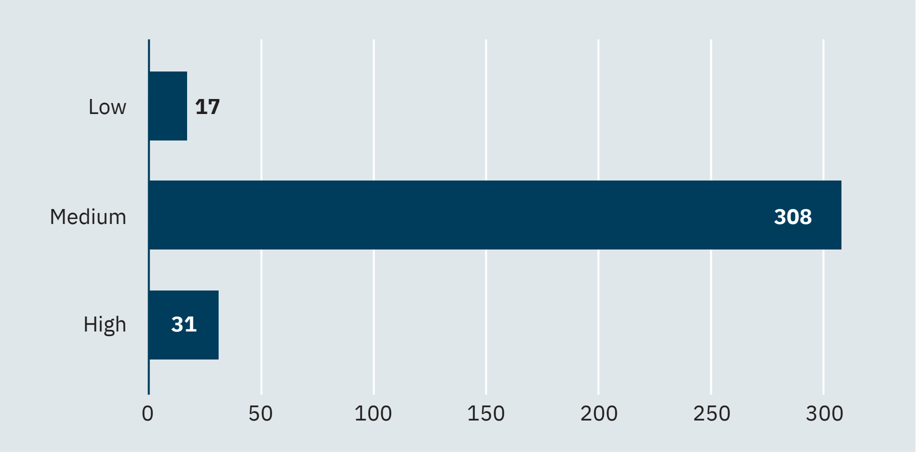
Risk management

a) Describe KBN's processes for identifying and assessing climate-related risks

As The Norwegian Local Government Act stipulates that KBN's customers cannot be declared insolvent, KBN's exposure to default risk is very low. KBN is indirectly exposed to climate-related risks - in the extreme case climate-related risks that impact the long-term financial sustainability of municipalities and county authorities would also impact the state and KBN.

KBN continued its work in 2022 on improving the level of expertise on climate risk within its own organisation. In accordance with KBN's business plans for 2022, a module for climate risk assessment was developed and integrated into the credit assessment model for customer lending. The model applies 10 microeconomic indicators, e.g. changes in GHG emissions, storm surge vulnerability at sea level rise and how updated the municipality's risk-and vulnerability analysis is, to give a climate risk score for each municipality on a scale of 'Low', 'Medium', and 'High'. Most of the municipalities have been given a "medium risk" score in the model. Municipalities that score high in the model tend to have large point emissions from industrial companies that employ relatively many people, have very old wastewater networks and relatively high emissions per inhabitant. Municipalities that do well have low emissions per inhabitant, are not exposed to storm surges, have up-to-date risks- and vulnerability analyses and a significant proportion of green loans. KBN aims to publish a methodology note don the model in 2023.

CHART
Categorisation of KBN's customers on a scale of Low, Medium and High climate risk.



b) Describe KBN's processes for managing climate-related risks

KBN has developed a climate risk model for use in the credit assessment of lending customers, as described above.

Climate is integrated into a number of the categories in KBN's risk management framework:

Capital risk: KBN expects that changes to the regulatory framework are likely to favour qualifying green/sustainable investments. KBN has a well-established green lending program that is growing more quickly than its other lending activities. The Board's risk appetite in relation to capital risk is 'low'.

Liquidity risk: KBN developed a strategy for its liquidity portfolio in 2022 that takes into account ESG factors and has carried out routine ESG screenings of the holdings in its liquidity portfolio. KBN has a well-developed green funding program that will support its access to capital when capital flows are being directed toward sustainable investments. The Board's risk appetite in relation to liquidity risk is 'very low'.

Credit risk: Norwegian municipalities and county authorities, which represent the most important credit counterparties for KBN, cannot be declared insolvent, meaning that KBN's exposure to default risk is very low. Despite this, KBN assesses the creditworthiness of municipalities and county authorities regardless of the insolvency protection, and also works to analyse the climate risks to which municipalities and county authorities are exposed. The Board's risk appetite in relation to overall credit risk is 'low'.

Market risk: KBN has developed a sustainability strategy for its liquidity portfolio investments. The Board's risk appetite in relation to market risk is 'low'.

Operational risk: KBN has a long-term objective of operating with the lowest possible level of ESG risk, and has established separate targets for ESG risk scores for KBN from MSCI, Sustainalytics and ISS ESG. The Board's risk appetite in relation to operational risk is 'low', and is 'very low' in relation to money laundering and compliance.

Climate-related risk is described in KBN's 'Documentation of risk profile and assessment of capital requirements' (ICAAP).

c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into KBN's overall risk management

KBN carries out annual reviews of risk exposure to ensure that all material risk is identified and satisfactorily managed. This review includes climate-related risk.

KBN carried out further work in 2022 on a model for climate risk scoring of Norwegian municipalities and county authorities, which involved expanding the model with a number of additional sources of data and improving its methodology. KBN also initiated ESG and NBS screening of its liquidity portfolio in 2022. The results of this screening will be reported on a quarterly basis.

Description of the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material

Metrics and methods

a) Describe the methods used by KBN to assess climate-related risks and opportunities in line with its strategy and risk management processes

Method:	Strengths:	Weaknesses:
Green lending as a proportion of the total lending portfolio	Gives information on the extent to which KBN's lending portfolio has a better climate profile than comparable institutions	Provides little information on the concentration of green loans and the extent to which they are in line with the EU Taxonomy requirements
Proportion of municipalities and county authorities with a green loan from KBN	Indicates the spread and diversity of green lending	Provides no information on the extent to which these loans are in line with the EU Taxonomy requirements
Proportion of KBN customers who state that they are working to map and identify their climate-related risk exposure	Shows what proportion of customers are actively aware of their climate-related risk exposure and are addressing this issue	Based on voluntary reporting, so it is possible that only municipalities and county authorities that already have a high level of awareness will reply to the question
KBN's own greenhouse gas emissions	Gives information on KBN's own emissions and facilitates comparison with other institutions and industry standards	Scope 3 estimates are limited to air travel and residual waste
Identify investment projects in the local government sector that can be expected to satisfy the requirements of the EU Taxonomy	In line with the EU Taxonomy requirements	
Green funding as a proportion of total funding	Gives information on the extent to which KBN's funding has a better climate profile than comparable institutions	Provides no information on the extent to which green funding is in line with the EU's Green Bond Standard
Proportion of sustainable investments in the liquidity portfolio.	Gives information on the extent to which KBN's liquidity portfolio has a better climate profile than comparable institutions	
Categorisation in the climate risk model	Gives information on the climate risk profile of KBN's customers	Continuing need to further develop the model

b) Describe KBN's Scope 1, Scope 2 and Scope 3 greenhouse gas emissions and the related risks

See the Greenhouse gas accounting section for an overview of KBN's estimated greenhouse gas emissions over time and its plan and the measures it is implementing to reduce its emissions. KBN is currently working to develop methodology for calculating a greater proportion of its Scope 3 emissions, and plans to set science-based targets for reductions in emissions where this is possible.

Greenhouse gas emissions from KBN's own activities are limited and the risk is assessed to relate primarily to its reputation.

c) Describe the targets KBN uses to manage climate-related risks and opportunities and performance against targets

- Increase the share of green loans to at least 15% as a share of the total lending portfolio
- Increase the proportion of municipalities with green loans from KBN to 40%
- Have identified three investment projects in the municipal sector that are likely to qualify under the EU taxonomy
- Increase the proportion of green funding to 8% of total funding
- The proportion of sustainability investments in the liquidity portfolio must at least correspond to the proportion of green funding of total funding
- Through green loans, contribute to at least 12,000 tonnes of CO_2e in reduced and avoided emissions
- Reduce calculated emissions by at least 35 per cent compared to 2019 levels
- KBN has an objective to cut its own calculated emissions by at least 55% relative to the 2019 level by 2030. This target is monitored by an action plan, and progress is reported in KBN's quarterly reports.

The Board of Directors' Report 2022

Photo: Robert Bye, Unsplash

The Board of Directors’ Report

KBN’s activities in 2022

Kommunalbanken AS (hereinafter KBN) is the largest and most important lender to the local government sector in Norway. KBN’s role is to provide stable, long-term and efficient debt financing for the local government sector. In 2022 KBN granted new loans totalling NOK 39 billion. These loans financed investment in projects such as schools, health and care facilities, and water and wastewater systems. Good growth in lending for projects with a climate ambition, efficient operations and a high level of customer satisfaction demonstrate that KBN is fulfilling its role in society successfully.

KBN’s lending grew by 1.7% in 2022 as compared to growth of 1.5% in 2021. KBN’s green lending for projects with a climate ambition increased by NOK 8.4 billion, equivalent to growth of 24% relative to 2021. Green lending accounted for 13.3% of KBN’s total lending portfolio at year-end of 2022.

KBN’s core earnings increased from NOK 908 million in 2021 to NOK 1,081 million in 2022. Net interest income increased by NOK 280 million from 2021 to 2022. The increase was principally due to rising money market interest rates, which increased in pace with increases in the key policy rate by Norges Bank. 2022 was characterised by high levels of volatility in global fixed income and equity markets, as well as high inflation and increasing interest rates, caused by the war in Ukraine and the continuing aftermath of the coronavirus pandemic. The result for the year was a loss of NOK 60 million in 2022 as compared to a profit of NOK 1,208 million in 2021. The fall in profit was largely due to unrealised losses from changes in the value of financial instruments in 2022, very largely relating to changes in the value of fixed rate loans, but also in part from hedging contracts and the liquidity portfolio.

The return on equity for 2022 was -0.8% as compared to 7.1% in 2021. The return on equity based on core earnings was 6.6% as compared to 5.6% in 2021. The owner’s return on equity requirement for KBN in 2022 was 5.5%.

Strategy, objectives and strategic activities

In October 2022 the Norwegian government issued a white paper on state ownership “The State’s direct ownership of companies - Greener and more active state ownership” (Report to Storting No. 6 (2022-2023)). The white paper places significant importance on sustainable value creation, and on the state being an active and responsible owner with a long-term perspective.

The white paper stipulates that “*The state is the owner of Kommunalbanken in order to offer stable long-term and efficient financing of the local government sector” and that “The state’s aim as owner is to achieve the highest possible return over time subject to the limits of sustainability*”. KBN’s owner’s return target and dividend expectations, as well as the need for KBN to be able to provide loans regardless of market conditions, guide KBN’s financial plans.

In 2022 the Board of Directors of KBN updated KBN’s current strategy, entitled ’Building a sustainable society’. KBN seeks to achieve its role in society by carrying out responsible lending activities. KBN’s objective is for its activities to balance financial, social and environmental considerations in order that its return over time is achieved within the limits of sustainability.

In order to ensure KBN meets its objective, the Board has prioritised the following areas for the strategy period:

- **CUSTOMER FIRST:** KBN will be the most important financing partner for Norwegian municipalities and county authorities.
- **STRONG MARKET PARTICIPANT:** Through a strong position in the capital markets, nationally and internationally, KBN will ensure Norwegian municipalities and county authorities have access to attractive financing.
- **A LEADER IN GREEN FINANCE:** KBN will be among the leading financial institutions on climate risk, green financing solutions, sustainability reporting and insight that contributes to sustainable development.
- **A DIGITAL FIRST CHOICE:** Our customers and employees will prefer using KBN’s digital solutions because they provide insight, are efficient and provide a good basis for decisions.
- **FUTURE-ORIENTED ORGANISATION:** Our culture will be characterised by the fact that we refresh our expertise through learning and knowledge sharing in order to create value for our customers.

The Board of Directors, working on the basis of KBN’s strategy, approves an annual operating plan for each coming year. The objectives of the operating plan for 2022 were achieved to a good extent. In 2022 KBN implemented OKR (Objectives and Key Results) as a new goal management tool for the KBN organisation.

Work on establishing new lending processes and a new lending system were among the main activities carried out in 2022. This project will be completed in the second half of 2023. Completion of this project is important in order to ensure greater efficiency in the lending process. Extensive work was carried out in 2022 to further develop a data warehouse as a source for KBN’s reports and analysis. Activities were carried out in respect of sustainability reporting, mapping the EU Taxonomy and implementing ESG screening of the liquidity portfolio. Work also continued in 2022 on an initiative to improve the operating framework for KBN, and also on the introduction of new reference interest rates.

KBN refreshed its vision and values in 2022, and the entire organisation was involved in this work.

The war in Ukraine led to additional working time on IT security assessment and measures, monitoring of sanctions and customer-related measures. The impact that the outbreak of war caused on financial markets created greater volatility than normal in KBN’s results and capital adequacy, and this also required additional analysis and necessary adaptations. KBN worked well to identify and implement appropriate measures in order to maintain satisfactory capital adequacy despite the market turbulence.

Statement on the annual accounts

The Board of Directors confirms, in accordance with Section 3-3a of the Norwegian Accounting Act, that KBN’s ability to continue as a going concern remains unchanged, and that the financial statements for 2022 have been prepared on a going concern basis. The Board of Directors considers that the financial statements and accompanying notes for the year ending 31 December 2022 provide an adequate description of KBN’s financial position at year-end. The annual accounts have been prepared in accordance with International Financial Reporting Standards (IFRS).

The result for the year was a loss of NOK 60 million in 2022 as compared to a profit of NOK 1,208 million in 2021.

TABLE 1
Profit for the year.
Amounts in NOK million.

	2022	2021
Net interest income	1 866	1 585
Fees and commission expenses	133	106
Net unrealised gain/(loss) on financial instruments	- 1 622	322
Increased/(reduced) provision for expected credit loss	28	0
Net realised gain/(loss) on financial instruments	6	73
Operating expenses	271	255
Income tax	- 120	411
Profit for the year	**- 60**	**1 208**

Net interest income totalled NOK 1,866 million in 2022 as compared to NOK 1,585 million in 2021. In 2022 KBN's net interest income from its lending activities was positively affected by higher lending volumes and rising money market interest rates. The net interest income from KBN's liquidity management portfolio generated a modest contribution to KBN's earnings in 2022, in line with expectations. Fees and commission expenses totalled NOK 133 million in 2022 compared to NOK 106 million in 2021, KBN's contribution to the Resolution Fund run by the Norwegian Banks' Guarantee Fund was the largest single cost item in this category, amounting to NOK 87 million in 2022 as compared to NOK 73 million in 2021.

Net realised gain/(loss) from market transactions, in the form of buyback of own bonds, selling securities held in KBN's liquidity portfolio and the concluding of financial derivative contracts, contributed NOK 6 million to profit for the year in 2022 as compared to NOK 73 million in 2021.

TABLE 2
Net unrealised gain/(loss) on financial instruments. Amounts in NOK million.

	2022	2021
Commercial paper and bonds, and related financial derivatives	- 138	54
Loans to customers, and related financial derivatives	- 1 129	99
Senior debt securities issued, and related financial derivatives	- 354	169
Net unrealised gain/(lloss) on financial instruments - in income statement	**- 1 622**	**322**
Change in fair value of liabilities due to changes in own credit risk - in comprehensice income	**800**	**- 809**

Unrealised losses for 2022 amounted to NOK 1,622 million as compared to unrealised gains of NOK 322 million in 2021 and are the result of market turbulence in 2022 and the impact this had on credit spreads and basis spreads which affect the value of KBN's assets, liabilities and hedging contracts that are measured at fair value. Unrealised losses on fixed rate lending recognised at fair value amounted to NOK 1,129 million. In the same way as for other fixed rate instruments, credit spreads for Norwegian municipalities widened in connection with market turbulence in 2022 and this was the main reason for the unrealised losses. KBN has introduced hedge accounting for all new fixed rate loans with effect from 1 January 2022. The introduction of hedge accounting for fixed rate lending will, over time, reduce the portfolio of fixed rate loans measured at fair value and accordingly reduce the extent of unrealised gains or losses in the accounts. Hedge accounting has so far been applied to NOK 15.5 billion of lending in 2022, equivalent to 15% of KBN's total fixed rate lending portfolio.

The changes in the value of KBN's borrowings, not taking into account any changes to KBN's own credit risk, led to an unrealised loss of NOK 354 million. This was largely attributable to the valuation of hedging contracts at the close of the year, and as a result of changes in basis spreads. KBN's liquidity investments also showed an unrealised loss of NOK 138 million, which is attributable to the general increase in credit spreads in the fixed income markets.

TABLE 3
Total comprehensive income.
Amounts in NOK million.

	2022	2021
Profit for the period	- 60	1 208
Change in fair value of liabilities due to changes in own credit risk	800	-809
Actuarial gain/(loss) on pension liability	2	1
Tax	- 200	202
Total comprehensive income for the period	**541**	**602**

Total comprehensive income amounted to NOK 541 million in 2022 as compared to NOK 602 million in 2021. Unrealised gains of NOK 800 million are attributable to wider credit spreads on bond debt issued by KBN. In a similar way KBN recognised unrealised losses in relation to bond debt in 2021, hence this year's unrealised gain is largely a reversal of previous unrealised losses.

KBN's financial instruments are normally held to maturity and the effects of unrealised gains and losses on KBN's profits reverse either when fluctuations in the market reverse or as instruments approach maturity.

TABLE 4
Operating expenses.
Amounts in NOK million.

	2022	2021
Salaries	113	116
Pension costs	12	11
Administrative expenses and other expenses	108	99
Depreciation	38	29
Operating expenses	**271**	**255**

KBN's operating expenses totalled NOK 271 million in 2022 as compared to NOK 255 million in 2021. As a result of the financial results reported by KBN for 2022, no variable salary payments were accrued for the year. This is reflected in the reduction in personnel expenses. Administrative expenses and other operating expenses increased by NOK 9 million from 2021, due in part to an increase in expenditure on the use of external support and expertise.

At 31 December 2022 KBN had total assets of NOK 492.5 billion as compared to NOK 473.1 billion at the end of 2021. The increase in total assets is principally due to the weakness of the Norwegian krone. KBN's lending portfolio (outstanding principal) increased by NOK 5.4 billion in the course of 2022.

KBN's total primary capital at 31 December 2022 was NOK 19,691 million. Of this amount, NOK 15,299 million is common equity Tier 1 capital. The common equity Tier 1 capital adequacy ratio at 31 December 2022 was 19.0%, the Tier 1 capital adequacy ratio was 22.0%, and the total capital adequacy ratio was 24.5%. The leverage ratio at 31 December 2022 was 3.9%. KBN's common equity Tier 1 capital ratio was particularly affected by deductions from common equity Tier 1 capital related to deferred tax assets. These tax assets are due to temporary differences between accounting net profit and taxable income. Over time temporary differences will net to zero, although they may have a material impact on tax payable and deferred tax in the accounts for a period, and hence can affect KBN's capital adequacy negatively.

At 31 December 2022 the capital requirements to which KBN was subject, including the pillar 2 capital requirement, required KBN to have a common equity Tier 1 capital adequacy ratio of 16.1%, a Tier 1 capital adequacy ratio of 17.6% and a total capital adequacy ratio of 19.6%. KBN is also subject to a requirement to have a leverage ratio in excess of 3%.

Legislation to implement the EU Commission's Banking Package to further strengthen the capital adequacy of banks in the EU came into effect in Norwegian law from 2022. This caused a reduction in KBN's common equity Tier 1 capital adequacy ratio by 0.7 percentage points. The counter cyclical buffer is also in the process of increasing back to a normal level, with the final increase taking effect from 31 March 2023.

KBN's capital adequacy is sensitive to major fluctuations in exchange rates, particularly the USD-NOK exchange rate, both because such fluctuations affect the size of the balance sheet which is denominated in Norwegian kroner and because changes to the value of outstanding hedging contracts cause fluctuations in cash collateral. When the Norwegian krone weakens (exchange rate increases) KBN receives cash collateral, the balance sheet increases and the leverage ratio reduces. When the Norwegian krone strengthens, the leverage ratio increases. The key ratios for capital adequacy are also affected by changes in the daily value of hedging contracts until cash collateral is received on the following day to offset the change. KBN maintains internal buffers with the objective of ensuring that capital adequacy does not fall below the regulatory requirements as the consequence of such currency fluctuations.

Lending

In 2022 the local government lending market was, as in previous years, dominated by KBN, KLP, and municipalities and county authorities borrowing directly from the capital market. KBN is the biggest provider of loans overall, and is the biggest provider of long-term, instalment-based loans. From time to time there was strong competition between the lenders active in the local government market, but for other periods the capital market in particular was not a very attractive source of financing for municipalities and county authorities due to high prices and low demand. KBN's market share fell during 2022 because its lending capacity did not increase at the same pace as growth in the market. At 31 December 2022 KBN's market share was 49.7%, down by 1.7 percentage points from 2021. KBN's objective is to maintain over time a stable share of the market for lending to municipalities and county authorities. At the end of 2022, KBN had loans outstanding to all of Norway's county authorities, 354 of Norway's 356 municipalities, and Longyearbyen Community Council. In addition, a range of municipal and intermunicipal companies and companies with a municipal or county-authority guarantee are loan customers of KBN.

There was continuing demand for new loans throughout 2022, but demand was particularly high in the fourth quarter. A clear trend has been established over recent years for many municipalities and county authorities to wait as late in the year as possible when arranging loans to meet their planned external financing requirement for the year's investment spending. Around 40% of the total lending paid out for the entire year in 2022 took place in the fourth quarter, and as expected the entire growth in lending for the year was seen in the fourth quarter. This creates the need for KBN to manage its total lending growth over the course of the year in a way that ensures sufficient capacity for the expected high level of demand in the fourth quarter, particularly for long-term instalment loans.

Total demand for new loan financing in 2022 was little changed from 2021. The rate of growth in normal local government sector borrowing was 5.7% in 2022, marginally higher than in 2021. Municipalities also increased their borrowing in 2022 from the Norwegian State Housing Bank, and these loans are used to make loans to residents under the municipal start-up loans scheme. After correcting for growth in loans from the Norwegian State Housing Bank, the increase in borrowing was 4.8%, which was unchanged from 2021.

As in previous years the main areas of investment for which loan financing was used were schools, health and care, and water and wastewater. Demand for borrowing varied between different types of municipality. The largest municipalities borrowed less in 2022 than in 2021. However demand for borrowing from other types of municipality showed only minor changes.

KBN's lending increased in total by NOK 5.4 billion in 2022, equivalent to 1.7%. KBN took a strategic decision in winter 2022 to phase out its remaining portfolio of lending granted on certificate loan terms, partly because of unacceptably weak profitability but also to support KBN's strategy of focusing on long-term loans. This released NOK 8.4 billion of lending capacity in 2022, which helped to support overall growth in long-term repayment loans of NOK 12.2 billion.

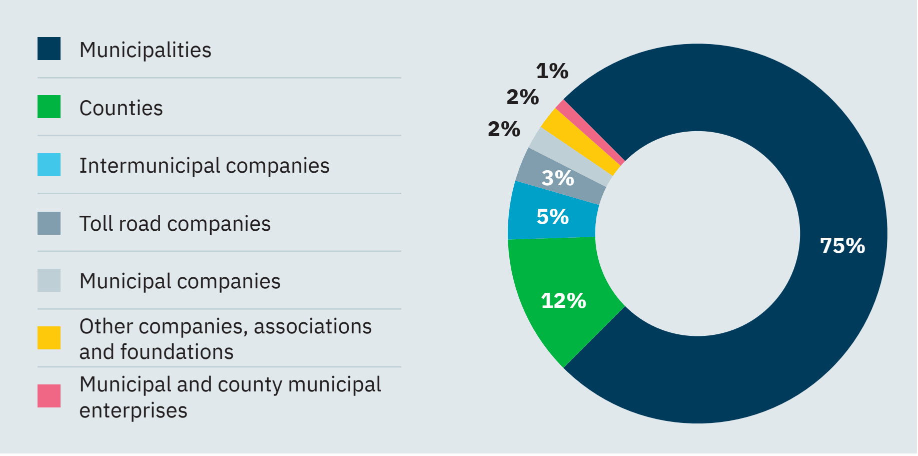
The overall growth in lending to municipalities and county authorities which is included in the calculation of KBN's market share in 2022 was NOK 8.1 billion, equivalent to 2.7%. After adjusting for the reduction in lending on certificate loan terms, the total increase in lending to this customer group was NOK 16.5 billion, which is the fastest rate of growth over the last five years.

KBN saw a record level of demand in 2022 for long-term loans with instalment payments on KBN's standard variable interest rate terms, and the volume of disbursements for this type of loan was higher than ever before. The strong demand is thought to reflect the instability in the capital market and less than attractive terms on offer for much of 2022, leading to many customers to instead decide on a standard rate loan from KBN that is a predictable and simple loan product. Demand for loans on fixed rate terms was lower than in recent years, and this is assumed to reflect the sharp increase in fixed interest rates over the course of 2022.

KBN's total portfolio of green lending for investment in climate and environment friendly projects increased by 24%, equivalent to NOK 8.4 billion, in 2022. KBN disbursed over NOK 8 billion in green loans to 68 projects in 2022. At the end of 2022, 134 municipalities, five county authorities and a total of 70 other customers had green loans from KBN, and outstanding green lending totalled NOK 43.5 billion. The environmental impact of these loans is reported annually in KBN's separate Impact Report. KBN's Criteria Document for green lending is updated annually in pace with developments in the market.

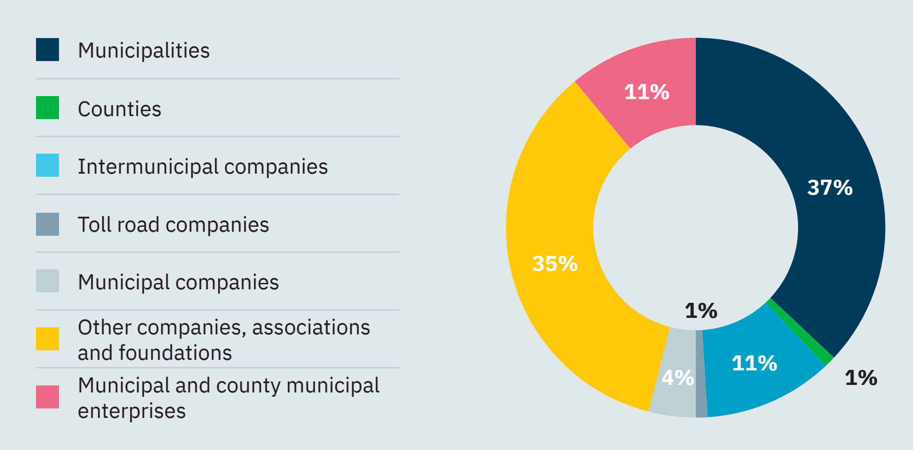
88% of KBN's lending is directly to municipalities (including municipal companies) and county authorities, as shown by the breakdown provided in chart 1. A further 5% of KBN's lending is to inter-municipal companies.

CHART 1
Analysis of KBN's outstanding lending in NOK by customer category.



A total of 971 customers have outstanding loans from KBN. Chart 2 below shows that 42% of KBN's customers are municipalities, county authorities or municipal companies, 11% are intermunicipal companies, and 47.5% are customers with a municipal or county authority guarantee.

CHART 2
Analysis of the number of customers by customer category.



KBN did not experience any default or payment problems with customers in 2022.

Funding

KBN's AAA/Aaa credit ratings ensure it has stable access to funding on favourable terms, which benefits the local government sector. KBN pursues a diversified funding strategy that ensures it has a broad investor base and low refinancing risk. New long-term borrowings amounted to NOK 87 billion in 2022, as compared to NOK 97 billion in 2021. The reduction in the amount raised in NOK terms was primarily due to less debt maturing in 2022 than in 2021. KBN's funding program was not materially affected by the market turbulence seen in 2022, and KBN enjoyed good access to the capital markets throughout the year.

Europe, the USA and Asia are KBN's most important markets for funding. KBN has continued the approach it has followed in recent years of focusing more on simple, non-structured bonds with fixed or floating rates. Bonds of this type represented over 99% of issues completed by KBN in 2022. KBN issued bonds in 10 currencies in 2022, an increase from 2021 when KBN issued bonds in 9 different currencies. KBN increased the currency diversification of its funding portfolio over the course of 2022, and the proportion of new borrowing that was denominated in US dollars decre-ased from 60% in 2021 to 50% in 2022. In 2022 KBN issued three USD benchmark bonds totalling USD 3.5 billion. KBN attracted a high level of interest from investors, and all its benchmark bonds were significantly oversubscribed. KBN also issued its first euro-denominated benchmark transaction since 2019 and two bond issues denominated in Swiss franc in 2022. These were KBN's first funding transactions in Swiss franc since 2011. In addition, KBN experienced good interest from investors in British pounds, Australian dollars and New Zealand dollars.

As a result of the reference interest rate reform and the phasing out of LIBOR as a reference interest rate, all current hedging contracts that refer to USD LIBOR will be converted to SOFR from 1 July 2023. SOFR is a secured interbank overnight USD financing rate that has been established as an alternative to LIBOR. Work is underway internally on making the adaptations these changes will require and on mapping and minimising the risks that may result from the transition to and use of new reference rates.

KBN is one of the most active Norwegian issuers of green bonds and is one of the leading participants in the development of green finance in the Nordic region. KBN's green bonds finance its loans to customers for their green projects. KBN's Green Bond Framework was updated in spring 2021, and develops further the earlier 2016 framework which it replaces. The updated framework has been subjected to an independent third-party assessment by CICERO, and received an overall rating of 'Medium Green' and a rating of 'Excellent' for governance. KBN issued three green bonds in 2022 with a total nominal value equivalent to NOK 7.5 billion and denominated in Australian dollars, Canadian dollars and Swedish krona respectively.

KBN's total outstanding bonds and other borrowings increased in 2022 from NOK 395.4 billion to NOK 429.2 billion. The increase in total borrowing measured in Norwegian kroner, is largely due to the weakening of the krone through 2022.

Liquidity management

KBN's policy is to operate with cash and cash equivalents that match its capital requirements, including growth in lending to the local government sector, for the subsequent 12 months at all times. KBN's liquidity portfolio is held primarily in securities issued by states, multinational institutions and regions. KBN also invests in covered bonds. KBN's liquidity portfolio is managed according to an investment strategy that is low risk in terms of both credit risk and market risk. A large proportion of KBN's liquidity portfolio investments are denominated in foreign currencies, meaning that fluctuations in the NOK exchange rate lead to fluctuations in KBN's liquidity reserves when translated into NOK terms. The value of the liquidity portfolio at the end of 2022 was NOK 110.0 billion as compared to NOK 110.8 billion at the end of 2021. Credit spreads in both the Norwegian market and in international markets widened in 2022 through to the autumn due to turbulence in the markets but narrowed somewhat towards the end of the year. At the end of 2022 KBN's overall liquidity coverage ratio (LCR) and its LCR for NOK were 261% and 95% respectively. LCR is a measure of liquid assets relative to net payments in a situation of stress in the bond and capital markets for a period of 30 days ahead.

Corporate governance

The corporate governance of KBN is based inter alia on the Norwegian Accounting Act, the Norwegian Government's white paper on state ownership, and the Norwegian Code of Practice for Corporate Governance issued by the Norwegian Corporate Governance Board (NCGB). For more information, see KBN's corporate governance report.

The Board of Directors' statement on the remuneration of senior executives

The Board of Directors produces guidelines on the remuneration of senior executives. These guidelines are approved by the Board, and are submitted to the Annual General Meeting for approval whenever there has been a change to the guidelines, and in any case at least every fourth year. The guidelines were submitted to the Annual General Meeting in 2022 and were approved. The remuneration report that details the salaries and other remuneration received by executive personnel in 2022 will be submitted to the Annual General Meeting in 2023 for an advisory vote. The report will be published after it has been considered by the Annual General Meeting.

Risk management and internal control

KBN's Board of Directors has established guidelines on risk management and internal control. The Board determines KBN's risk appetite framework and ensures that this is within KBN's risk capacity. The threshold levels for KBN's risk appetite framework and the need for any adjustments are assessed annually. The Board considers the CEO's assessment of internal control on a yearly basis.

The purpose of risk management is to ensure that KBN's management of its assets and liabilities is in accordance with the Board's guidelines for risk management and internal control and its defined risk appetite framework. Risk assessments are carried out in relation to material risks for all KBN's business areas at least annually. Stress tests and scenario analysis are used to assess the vulnerability of KBN's key risk areas. The results of these stress tests are evaluated and considered when determining KBN's risk appetite and as part of the capital adequacy plan, recovery planning, and the commercial strategy design process.

The Board is regularly informed of KBN's activities, financial position and earnings situation. The Board routinely considers management's assessment of risk exposure, compliance and risk events.

Risk management and internal control are organised into three lines of defence at KBN. The first line of defence carries out operational tasks and is responsible for managing and checking whether KBN's activities are carried out within the approved limits and in accordance with internal and external regulations. The second line of defence carries out independent risk assessments, checks and validates risk models. The second line of defence is also responsible for developing and preparing KBN's risk and compliance reporting. KBN's financial control function, together with the risk management function and compliance functions, comprise the second line of defence. KBN's third line of defence is provided by the internal auditor and represents the Board's independent supervisory and control function. Internal audit at KBN is outsourced to KPMG.

KBN has arranged directors' and officers' liability insurance for the members of the Board of Directors and for the CEO in respect of their potential liability to KBN and third parties. The insurance cover is subject to a limit of NOK 500 million. The lead insurer is Tryg Forsikring NUF.

Capital risk
KBN has a limited risk appetite with regard to capital risk. KBN's regulatory capital risk is the result of KBN's commercial direction and the composition of its balance sheet, as well as external matters that affect its capital adequacy requirements. KBN's financial capital risk is made up of the aggregated risk to which its equity is exposed (risk of loss associated with market risk, credit risk, liquidity risk and operational risk).

KBN has in place a structured process to calculate its capital requirements including the necessary capital buffers to ensure that it maintains a sufficient level of capital in relation to its risk profile.

Credit risk
KBN has a limited risk appetite with regard to its overall exposure to credit risk.

KBN exclusively has customers connected to the local government sector, and this means it has a very limited risk of incurring financial losses from its lending activities. This is because the Norwegian Local Government Act stipulates that municipalities cannot be declared insolvent. In the event that any municipality runs into financial difficulties or comes under pressure financially, it will be monitored by the state by means of the Register for State Review and Approval of Financial Obligations (ROBEK) system. These factors in practice protect KBN from any losses in relation to accumulated debt and accrued interest.

KBN manages its liquidity through investments in securities with a low credit risk, and it has a limited appetite for credit risk in relation to its liquidity counterparties.

KBN uses financial derivatives to manage the interest rate risk and exchange rate risk associated with its lending and funding activities and its liquidity portfolio investments. The counterparty risk associated with entering into derivative contracts is reduced by the use of central counterparties or other counterparties with a high credit rating, and by exchanging cash collateral on a daily basis.

Liquidity risk
KBN has a very limited risk appetite with regard to liquidity risk. Liquidity risk is managed by means of KBN's internal liquidity management framework. KBN's policy is to ensure that it is in a position at all times to meet its liabilities when they fall due without incurring any significant extra costs.

Market risk, including interest rate risk and foreign exchange risk
KBN has a limited risk appetite with regard to market risk, and financial derivatives are used to hedge all significant exposure to interest rate risk and foreign exchange risk. The remaining source of market risk for KBN is principally basis risk, which is the risk of a change in basis spreads between two currencies that affects the value of hedging contracts. Credit spread risk is the risk of changes in the credit spreads on assets.

Operational risk
KBN has a limited risk appetite with regard to operational risk. A uniform and systematic approach to identifying risk is used for managing operational risk, and regular risk assessments are carried out for all material functions. This work forms the basis for decisions regarding how KBN's resources for risk-reduction activities should be prioritised. Operational risk is subject to continual monitoring and reporting. Compliance risk, i.e. the risk of a breach of compliance with external or internal regulations or guidelines, cyber risk and the risk of money laundering and terror financing, represent three sub-types of operational risk that are subject to special reporting. KBN has a very limited risk appetite with regard to compliance risk and the risk of money laundering and terror financing and limited risk appetite for cyber risk.

Climate-related risk
KBN is exposed to direct climate-related risk through its own activities to a limited extent, but is indirectly exposed through the local government sector's exposure to climate-related risk. As mentioned above, the Norwegian Local Government Act states at Section 29-1 that municipalities and county authorities cannot be declared insolvent, and consequently the potential risk of lending losses as a consequence of KBN's indirect exposure to climate-related risk is very limited. KBN's direct and indirect exposure to climate-related risk is discussed in more detail in the TCFD report that is included in the Annual Report.

ESG-related risk in the liquidity portfolio
KBN developed in 2022 a strategy for its liquidity portfolio that also takes into account ESG-related risk, and guidelines and systems for regular screening of the liquidity portfolio.

Corporate communications and public relations

The Board of Directors regards engagement by KBN in continuous dialogue with its major stakeholders as an important means of ensuring that there is a good understanding of its model and the framework in which it operates. High-quality, open communication is important for maintaining the trust of KBN's owner, customers, investors and employees, as well as the trust of rating agencies, regulatory authorities and wider society.

KBN's external communication activities are intended inter alia to help highlight issues that affect its customers, e.g. changes to their own or to KBN's framework conditions. Market turbulence, inflationand rising interest rates, green finance and the local government sector's long-term sustainability in a broad sense were central topics in KBN's external communication activities in 2022. KBN organized a range of webinars on these topics, among others. The importance of a sustainable approach to debt management by the local government sector was emphasised in the communication activities KBN conducted directly with its customers, including its finance seminars, its digital portfolio management tool (KBN Finans) and its newsletters.

KBN participated in constructive dialogue with the Ministry of Local Government and Regional Development and the Ministry of Trade, Industry and Fisheries in advance of the new government white paper on state ownership that was announced in autumn 2022, and participated in Ministry of Climate and Environment consultation meetings on a new climate adaptation white paper. KBN has also submitted written consultation responses on various matters relevant to its activities.

Ethics and corporate social responsibility

KBN has based its priorities in the area of sustainability on its extensive dialogue with its most important stakeholders, and it carried out a new materiality analysis in 2022. KBN updated its guidelines on sustainability in 2022, including changes in response to the Norwegian Transparency Act which came into force on 1 July 2022. See KBN's Report on due diligence pursuant to the Transparency Act.

KBN follows the Global Reporting Initiative (GRI) standard in its reporting of its sustainability work and the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) in its reporting of climate risk. In addition, KBN reports on sustainability/ESG to CDP (the Carbon Disclosure Project).

KBN expects all its employees and managers to act in line with KBN's Code of Conduct, which was most recently revised in 2022. All employees have confirmed that they have paid proper attention to KBN's rules and guidelines on ethical conduct, including the Code of Conduct, for 2022.

Organisation and employees

As a knowledge business, KBN needs to recruit, develop and retain skilled employees across a range of specialist areas in order to fulfil its objectives. KBN needs to adapt continuously to the changes that are being driven by factors such as technology, regulatory requirements and changing customer behaviours, in addition to the requirements and expectations of our owner, other stakeholders and KBN's employees themselves. This requires a corporate culture which encourages a desire to learn and generates a continuous supply of new expertise throughout the organisation. The Kompetanseløftet program, which encourages all employees to learn something new, saw a high completion rate in 2022. At the same time, the coronavirus pandemic has changed our way of working and has influenced our work on KBN's organisation and management. The employee survey carried out in 2022 showed that we have engaged employees who are very effective in their work, and who are proud to work at KBN.

The sickness rate was 3.6% in 2022 as compared to 4.1% in 2021. KBN's target is for the sickness rate to be below 2.5% over time.

Read more about our working conditions and our work on diversity and equality in the section Sustainability.

Coverage of deficit

The Board of Directors of KBN proposes that the deficit for the year is to be transferred to other equity.

Future prospects

2022 was characterised by high volatility in the bond and equity markets due to factors such as the war in Ukraine and high inflation. High energy prices, combined with continuing strong demand in the economy and supply-side shortages in the wake of the coronavirus pandemic, caused high inflation both in Norway and internationally. Central banks acted with record speed to increase interest rates in order to control inflation. In Norway, the key policy rate increased from 0.5% at the start of 2022 to 2.75% at the close of the year. The most recent announcement by Norges Bank in January 2023 on the future policy rate path indicated that a further increase could be expected in March 2023 followed by a levelling off in the policy rate. However the most recent inflation figures as at the end of January 2023, which were published after the Norges Bank announcement, showed that the rate of inflation had increased from December 2022 and was higher than the central bank had assumed. In the US new inflation reporting as of January, also shows expected increase of inflation. Market expectations are that the future policy rate path in Norway will be adjusted upwards at the next monetary policy committee meeting, and that the policy interest rate peak will be around 3.5%. Labour market conditions in Norway are tight, although unemployment is expected to increase somewhat over the course of 2023. The rate of wage growth is expected to remain high throughout 2023. Volatile markets are expected also in 2023.

2022 saw growth in the local government sector's debt in line with the previous year, whereas KBN had forecast a slightly lower growth rate. KBN expects a slowdown in the rate of growth for the local government sector's debt in 2023 and subsequent years. At a time of rapid growth in costs, higher interest rates will result in a more challenging financial situation for many of KBN's customers. At the same time many municipalities will face a continuing need for sizeable investment spending. The overhang of overdue maintenance requirements and essential improvements in standards will continue to contribute to growth in investment spending, especially in the areas of health and care, water and wastewater, public transport and schools.

A report prepared by Vista Analyse in 2022 on assignment for KBN not surprisingly projects an increasing need for investment in the health and care area. According to Statistics Norway's population forecasts, the number of people over 80 will double within 15 years. Increased use of welfare technology will make it possible for more people to remain independent and live at home longer, and we note the Health Personnel Commission's report published on 2 February 2023 in this respect. However the growth in the older population will be so rapid that it will force a radical change in how essential care can be provided. Greater investment spending in the health and care area will contribute to keeping the aggregate level of investment that KBN's customers will need to carry out at high levels for the years ahead. The Vista Analyse report also projects a decline in the level of investment for schools and nurseries in line with the expected continuing low birth rate.

Climate change and the transition to a (climate adapted) low carbon society will place demands on investment decisions through its effect on the location of new buildings, the content and implementation of construction contracts, energy solutions, resource use and choice of materials. Climate changes will in themselves create a need for greater investment spending, particularly to address the impact of physical climate risk. Wastewater networks will need to be upgraded and adapted to cope with increases in precipitation. Dealing with the problem of surface runoff is one example of an area where there is uncertainty over questions of liability and financing. The need to protect against more extreme weather events will require sizeable investment in measures such as flood prevention and avalanche prevention in the future. A sustainable approach to land use will become increasingly necessary over the years ahead, and will be an ever more important factor in investment decisions by municipalities and county authorities.

Regulatory pressure on the finance sector is expected to continue at a persistently high level over the years ahead. The EU Commission's action plan for sustainable finance, including new reporting requirements, will have an increasing impact. An increasing range of new regulatory requirements and reporting to the authorities will require greater resources. KBN has a specialised business model with extremely low risk lending, an internationally oriented wholesale funding model and public sector ownership, all of which differentiate it from other Norwegian financial institutions. Regulatory requirements are often designed with normal commercial banks in mind and are not sufficiently adjusted to KBN's business model. KBN is, through the European Association of Public Banks and in dialogue with Norway's regulatory authorities, seeking to highlight the challenges that insufficient regulatory differentiation can cause. A predictable environment and framework conditions that are adapted to KBN's function in society are important to KBN's ability to provide municipalities with low-cost debt financing and to its role in the creation of a sustainable society.

The Board of Directors thanks KBN's employees for a job well done.

Oslo

27 February 2023

The Board of Directors and Chief Executive Officer of Kommunalbanken AS

Brit Kristin Sæbø Rugland
CHAIR

Rune Midtgaard
VICE CHAIR

Eyvind Aven
BOARD MEMBER

Anne Jenny Dvergsdal
BOARD MEMBER
EMPLOYEE REPRESENTATIVE

Toril Hovdenak
BOARD MEMBER

Harald Jacobsen
BOARD MEMBER
EMPLOYEE REPRESENTATIVE

Ida Espolin Johnson
BOARD MEMBER

Ida Texmo Prytz
BOARD MEMBER

Petter Steen Jr.
BOARD MEMBER

Jannicke Trumpy Granquist
CEO

Financial statement 2022

INCOME STATEMENT

(Amounts in NOK 1 000 000)	Note	2022	2021
Interest income from assets measured at amortised cost		*6 185*	*2 148*
Interest income from assets measured at fair value		*2 995*	*1 381*
Total interest income		9 180	3 529
Interest expense		7 315	1 943
Net interest income	**1**	**1 866**	**1 585**
Fees and commission expenses	**2**	133	106
Net unrealised gain/(loss) on financial instruments	**3**	(1 622)	322
Increased/(reduced) provision for expected credit loss	**16**	28	0
Net realised gain/(loss) on financial instruments	**4**	6	73
Total other operating income		**(1 775)**	**289**
Salaries and administrative expenses	**5,6,7**	166	160
Depreciation of fixed and intangible assets		38	29
Other operating expenses	**9**	67	66
Total operating expenses		**271**	**255**
Profit before tax		**(180)**	**1 620**
Income tax	**8**	(120)	411
Profit for the year		**(60)**	**1 208**
Portion allocated to shareholder		(135)	1 149
Portion allocated to owners of additional Tier 1 capital		75	59

STATEMENT OF COMPREHENSIVE INCOME

(Amounts in NOK 1 000 000)	Note	2022	2021
Profit for the year		(60)	1 208
Other comprehensive income			
Items which will not be reclassified to profit or loss			
Change in fair value of liabilities due to changes in own credit risk	**20**	800	(809)
Actuarial gain/(loss) on pension liability		2	1
Tax		(200)	202
Total other comprehensive income		601	(606)
Total comprehensive income for the year		**541**	**602**

STATEMENT OF FINANCIAL POSITION

(Amounts in NOK 1 000 000)	Note	2022	2021
Assets			
Deposits with credit institutions	**10,11,12,14,22**	39 512	17 317
Loans to customers	**10,11,12,15**	324 532	323 672
Commercial paper and bonds	**10,11,12,13,17**	109 235	112 839
Financial derivatives	**10,12,13,21,22**	16 119	16 047
Deferred tax asset	**8**	2 885	3 021
Other assets	**18**	166	169
Total assets		**492 450**	**473 064**
Liabilities and equity			
Due to credit institutions	**10,12,19,22**	6 567	5 891
Commercial paper issued	**10,12,20**	23 377	31 567
Debt securities issued	**10,11,12,13,20**	402 553	393 663
Financial derivatives	**10,12,13,21,22**	39 070	20 072
Other liabilities	**18**	56	85
Payable taxes	**8**	0	581
Pension commitments	**7**	27	32
Subordinated loan capital	**10,12,23**	1 897	2 092
Total liabilities		**473 547**	**453 983**
Share capital	**24**	3 895	3 895
Additional Tier 1 capital	**25**	2 392	2 392
Other equity		12 617	12 795
Total equity		**18 903**	**19 081**
Total liabilities and equity		**492 450**	**473 064**

STATEMENT OF CHANGES IN EQUITY

(Amounts in NOK 1 000 000)

2022

	Note	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 year		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	**25**	0	0	0	(74)	(74)
Dividends for 2021		0	0	0	(646)	(646)
Equity as of 31 December 2022	**24**	**3 895**	**2 392**	**(304)**	**12 920**	**18 903**

Allocation of the profit for the year 2022 has been proposed as follows: NOK (60) million will be covered by other equity.

2021

	Note	Share capital	Additional Tier 1 capital	Financial liabilities, changes in credit risk	Other equity	Total equity
Equity as of 31 December 2020		**3 895**	**2 392**	**(297)**	**12 547**	**18 538**
Profit for the year		0	0	0	1 208	1 208
Other comprehensive income after tax - financial liabilities, changes in credit risk		0	0	(607)	0	(607)
Other comprehensive income after tax - actuarial gain/loss		0	0	0	1	1
Interest paid on additional Tier 1 capital	**25**	0	0	0	(59)	(59)
Dividends for 2020		0	0	0	0	0
Equity as of 31 December 2021	**24**	**3 895**	**2 392**	**(904)**	**13 698**	**19 081**

STATEMENT OF CASH FLOWS

(Amounts in NOK 1 000 000)

	2022	2021
Cash flows from operating activities		
Interest received	7 680	3 410
Interest paid	(5 568)	(1 894)
Fees and commissions paid	(131)	(73)
Net realised gains on financial assets	6	73
Cash payments to employees and suppliers	(233)	(220)
Income taxes paid	(525)	(920)
Net disbursement of loans to customers	(5 385)	(4 783)
Net (increase)/decrease in deposits with credit institutions	(21 209)	(4 733)
Net (increase)/decrease in commercial paper and bonds	5 944	12 301
Net (increase)/decrease in other assets	(5)	(9)
Net increase/(decrease) in other liabilities	(27)	(30)
Net (increase)/decrease in financial derivatives	25 528	(4 239)
Net cash flows from operating activities	**6 079**	**(1 117)**
Cash flows from investing activities		
Net (purchase)/sales of property and equipment	(32)	(21)
Net cash flows from investing activities	**(32)**	**(21)**
Cash flows from financing activities		
Receipts on issued commercial paper	148 633	273 232
Payments on redeemed commercial paper	(156 685)	(262 037)
Lease payments	(8)	(6)
Receipts on issued debt securities	86 995	96 551
Payments on redeemed debt securities	(84 295)	(106 476)
Interest paid on additional Tier 1 capital	(74)	(60)
Dividends paid	(646)	0
Net cash flows from financing activities	**(6 080)**	**1 205**
Net cash flows	**(33)**	**67**
Effects of exchange rate changes on cash and cash equivalents	(24)	51
Net cash flows after effects of exchange rate changes	**(57)**	**118**
Cash and cash equivalents at 1 January	308	190
Net receipts of cash	(57)	118
Cash and cash equivalents at 31 December	**251**	**308**
Whereof		
Deposits with credit institutions without agreed time to maturity	*251*	*308*
Due to credit institutions without agreed time to maturity	*0*	*0*

See note 20 for a reconciliation of changes in the carrying amount of liabilities that are part of financing activities. Such liabilities are commercial paper, debt securities issued and subordinated loan capital.

ACCOUNTING POLICIES

REPORTING ENTITY
KBN is a limited company providing loans to counties, municipalities, intermunicipal companies and other companies that carry out tasks at a municipal level. KBN's registered office is located in Haakon VIIs gate 5B, Oslo.

BASIS OF PREPARATION
The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

FOREIGN CURRENCY TRANSLATION
The Company's functional and presentation currency is Norwegian kroner (NOK). Assets and liabilities denominated in a foreign currency are converted to NOK by using the exchange rate at the reporting date.

SIGNIFICANT ESTIMATES AND ACCOUNTING JUDGEMENTS
The preparation of financial statements in accordance with IFRS, requires management to make assumptions and use estimates that will affect the use of accounting policies. The estimates and assumptions affect carrying amounts of assets and liabilities, and revenues and expenses, and may lead to adjustments in accounting values due to changes in assumptions or expected future development. The most significant assumptions and estimates used in the preparation of the financial accounts are:

Fair value measurement
The fair value of financial instruments, that are not traded in an active market or do not have available quoted prices at the reporting date, is determined using valuation models. When inputs to a significant extent are not observable, management makes assumptions and uses estimates related to credit risk and liquidity risk for financial instruments. Even though assumptions and estimates are, to the greatest possible extent, based on actual market conditions at the reporting date, it still may add to the degree of uncertainty in valuations. Assumptions and estimates may also apply to the allocation of financial instruments measured at fair value in the IFRS 13 hierarchy (Level 1, 2 or 3).

FINANCIAL INSTRUMENTS
Accounting principles for financial instruments within IFRS 9 *Financial Instruments are as follows:*

RECOGNITION AND DERECOGNITION
Financial assets and liabilities are recognised in the Statement of financial position when KBN becomes a party to the contractual provisions of the instrument. At initial recognition, all financial assets and liabilities are measured at fair value. For financial assets that are not categorized at fair value through profit or loss, the value at initial recognition includes transaction costs that are directly attributable to the acquisition. Recognition and derecognition of financial instruments take place on the settlement date. For a regular purchase or sale of a financial asset at fair value, the value changes of the asset are recognised from the trade date.

Financial assets are derecognised when the contractual rights to the cash flows expire or are transferred, and majority of the risk and profit-potential has been transferred. Financial liabilities are derecognised when the contractual obligation has been discharged, cancelled or has expired. When issued debt securities are repurchased, the liability is derecognised. Any difference between the settlement amount and the carrying amount is recognised in the income statement as gain or loss at the transaction date.

CLASSIFICATION AND MEASUREMENT
Classification of financial instruments takes place at initial recognition and determines the subsequent measurement of the carrying amount. Classification of financial instruments is determined by the characteristics of the financial instrument and by the business model for the management of financial assets.

Detailed principles of classification and measurement are presented in note 10 together with tabular statements of the instruments.

FAIR VALUE OF FINANCIAL INSTRUMENTS
All assets and liabilities, which are not measured at amortised cost, are measured at fair value through profit or loss. Fair value, as defined in IFRS 13 *Fair Value Measurement,* is the market-based price that would have been obtained selling an asset or paying to transfer a liability in a well-arranged transaction between market participants at the time of measurement. Fair value is the achieved price under the current market conditions, regardless of whether the price is directly observable or estimated using a valuation method.

Financial instruments are categorized into the fair value hierarchy, where the level of classification (levels 1, 2 or 3) is based on the observability of the input that is significant to the fair value measurement. See note 11 for accounting principles on fair value measurement.

PRESENTATION OF FINANCIAL ASSETS AND LIABILITIES
KBN does not offset any financial assets and liabilities in the Statement of financial position. Standard netting agreements do not qualify for offsetting and net presentation. Therefore, the related assets and liabilities are presented at gross value in the Statement of financial position. Some currency-related derivatives have, in addition to their ordinary function as a hedging instrument, a subset of transactions that have a built-in financing element with ongoing predefined payments during the term and repayment at maturity. Cash collateral received or pledged as additional security for derivative exposure is subject to ISDA-agreements that give right to offsetting of assets and liabilities in the event of default, but do not qualify for offsetting in the Statement of financial position under IAS 32. Cash collateral is presented at gross value in the Statement of financial position.

For issued liabilities that are designated as measured at Fair Value Option (FVO), the part of changes in fair value that is attributable to changes in KBN's own credit risk will be recognised in other comprehensive income. The remaining part of the value changes is recognised in the Income statement. Bonds issued in a foreign currency other than USD with an associated swap to USD, are collectively considered to constitute a synthetic USD borrowing. Value changes due to changes in own credit risk for these bonds are calculated from changes in the credit curve measured in USD on the synthetic borrowing, and may therefore contain effects that are not due to direct changes in own credit risk.

EXPECTED CREDIT LOSS
Provision for expected credit loss is recognised for all financial assets that are measured at amortised cost. Expected credit loss is based on the instrument's / loan's exposure at default, probability of default and loss at default, all estimated at the reporting date. Expected credit loss for instruments where credit risk has not increased significantly since initial recognition, is calculated based on the probability of default within the next 12 months. For instruments where credit risk has increased significantly since initial recognition, the expected credit loss is calculated based on a probability of default during the full lifetime of the asset.

See note 16 Expected credit loss for accounting principles on measuring expected credit loss.

HEDGE ACCOUNTING
Interest rate and cross currency swaps are used to hedge interest rate and currency risk in assets and liabilities. KBN applies IFRS 9 for hedge accounting. When a hedge relationship fulfils the criteria for hedge accounting and is designated as such, it is accounted for as a fair value hedge. The hedged items are classified as measured at amortised cost.

The accounting principles for hedge accounting are described in detail in note 13 together with the financial information.

STATEMENT OF CASH FLOWS
The Statement of Cash Flows is prepared using the direct method and presents cash flows classified by activity. Cash and cash equivalents include cash on hand and short-term deposits with credit institutions without agreed time to maturity.

RECOGNITION OF REVENUES
Interest income for assets and liabilities measured at amortised cost, is recognised in the income statement using the effective interest method. For items measured at fair value, including interest rate derivatives, interest is recognised as it accrues, either as income or expense. Interest and commissions are recognised in the income statement as they are earned or accrued, and interest is presented as interest income or interest expense independent of underlying assets and liabilities.

Unrealised gains and losses on financial instruments at fair value and value changes attributable to the hedged risk on hedged items under hedge accounting, are recognised in the income statement as "Net unrealised gain/(loss) on financial instruments". Other commission expenses and charges are recognised as expenses in the period when the service is provided.

FIXED ASSETS
Fixed assets are measured at acquisition cost with the deduction of accumulated depreciation and write-downs. Depreciation is calculated by using a linear method over the estimated useful life, where the disposal value of the assets is assumed to be zero.

INTANGIBLE ASSETS
Intangible assets are measured at acquisition cost and consist of IT systems. Acquisition cost is depreciated over its useful life. If the annual impairment test indicates that assets are impaired, the value of the assets is written down, and the difference between the carrying amount and the recoverable amount is recognised in profit or loss.

PENSIONS
The bank's pension scheme is a defined contribution pension scheme. This means that the bank is paying a fixed percentage deposit as savings to each employee's pension account, depending on the size of the employee's salary. Employees who were 55 or older at the time of transition to the defined contribution pension scheme on 1 January 2018, remain in the former defined benefit pension scheme.

The defined contribution pension scheme is expensed on an ongoing basis.

LEASES
Leases are being accounted for according to IFRS 16 *Leases.* Depreciation for leased assets ("right-to-use-assets") are recognised in the Income statement, at the same time as interest costs on the lease obligation. Repayment of the lease obligation's principal and interest portion, are classified as financing activities in the cash flow statement.

TAXES
Taxes are recognised in the income statement as they accrue. The income tax is based on profit before tax and on interest expense on additional Tier 1 capital that is recognised in the Statement of changes in equity. Temporary and permanent differences are adjusted for in the year's tax base when current taxes are calculated. Deferred tax liabilities and deferred tax assets are calculated on the basis of temporary differences between the accounting and tax values at year end. The nominal tax rate is used for calculation. Tax-increasing and tax-reducing differences within the same period are offset. Income tax consists of current taxes (tax on the taxable profit or loss for the year), changes in net deferred tax and adjustment to taxes payable for previous years.

The company is subject to financial tax. The tax rate is 25%.

EQUITY
The Company's equity consists of share capital, additional Tier 1 capital that fulfils the requirements of equity, and other retained earnings. Dividends are classified as equity until approved by the Annual General Meeting. The additional Tier 1 capital is measured at cost and paid interest is subtracted from other equity.

SEGMENT INFORMATION
The Company has one operating segment: lending to the Nor-

wegian 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.

IMPLEMENTATION OF NEW ACCOUNTING STANDARDS AS WELL AS AMENDED STANDARDS AND INTERPRETATIONS

KBN has not implemented new standards in 2022.

In August 2020, the IASB published "Interest Rate Benchmark Reform—Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (IBOR reform Phase 2)". Phase 2 comprises all financial instruments that are affected by changes in IBOR and came into force on 1 January 2021.

Note 21 provides information on KBN's management of the risk arising from the transition to new referance interest rates and which financial instruments are affected by those changes.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1

NET INTEREST INCOME

(Amounts in NOK 1 000 000)

2022	Total	At fair value through profit and loss				Amortised cost
		Fair value option	Mandatorily at fair value	Fair value hedge	Total at fair value	
Deposits with credit institutions	**0**	0	0	0	0	0
Other money market deposits	**0**	0	0	0	0	0
Loans to customers	**7 251**	1 977	0	0	1 977	5 274
Commercial paper and bonds	**1 539**	628	0	0	628	911
Financial derivatives	**391**	0	422	(30)	391	0
Total interest income	**9 180**	**2 604**	**422**	**(30)**	**2 995**	**6 185**
Due to credit institutions	**18**	0	0	0	0	18
Commercial paper	**98**	0	0	0	0	98
Debt securities issued	**6 957**	3 365	0	0	3 365	3 592
Financial derivatives	**192**	0	(761)	953	192	0
Subordinated loan capital	**61**	61	0	0	61	0
Other interest expense [1]	**(12)**	0	0	0	0	(12)
Total interest expenses	**7 315**	**3 427**	**(761)**	**953**	**3 619**	**3 696**
Net interest income	**1 866**	**(822)**	**1 182**	**(984)**	**(624)**	**2 489**

[1] interest expense on tax as a result of changes in tax return for previous years

2021	Total	At fair value through profit and loss				Amortised cost
		Fair value option	Mandatorily at fair value	Fair value hedge	Total at fair value	
Deposits with credit institutions [1]	**(48)**	0	0	0	0	(48)
Other money market deposits [1]	**(3)**	0	0	0	0	(3)
Loans to customers	**4 028**	1 990	0	0	1 990	2 037
Commercial paper and bonds	**491**	330	0	0	330	161
Financial derivatives	**(939)**	0	(939)	0	(939)	0
Total interest income	**3 529**	**2 320**	**(939)**	**0**	**1 381**	**2 148**
Due to credit institutions	**0**	0	0	0	0	0
Commercial paper [2]	**(65)**	0	0	0	0	(65)
Debt securities issued	**6 723**	3 810	0	0	3 810	2 914
Financial derivatives	**(4 859)**	0	(2 634)	(2 225)	(4 859)	0
Subordinated loan capital	**61**	61	0	0	61	0
Other interest expense [3]	**84**	0	0	0	0	84
Total interest expenses	**1 943**	**3 871**	**(2 634)**	**(2 225)**	**(988)**	**2 932**
Net interest income	**1 585**	**(1 551)**	**1 695**	**2 225**	**2 369**	**(784)**

[1] Deposits in EUR carrying negative interest rates.

[2] Short term funding in EUR carrying negative interest rates.

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

NOTE 2

FEES AND COMMISSION EXPENSES

(Amounts in NOK 1 000 000)

	2022	2021
Expenses of banking services	28	18
Contribution to resolution fund	87	73
Other transaction costs	17	15
Total fees and commission expenses	**133**	**106**

NOTE 3

NET UNREALISED GAIN/(LOSS) ON FINANCIAL INSTRUMENTS

(Amounts in NOK 1 000 000)

2022	Total	At fair value through profit or loss			Amortised cost
		Fair value option	Mandatorily at fair value	Fair value hedge	
Loans to customers	**(5 377)**	(5 116)	0	0	(261)
Commercial paper and bonds	**(2 177)**	(2 177)	0	0	0
Financial derivatives	**(18 748)**	0	(732)	(18 017)	0
Due to credit institutions	**0**	0	0	0	0
Debt securities issued	**24 485**	5 497	0	0	18 989
Subordinated loan capital	**196**	196	0	0	0
Net unrealised gain/(loss) on financial instruments	**(1 622)**	**(1 601)**	**(732)**	**(18 017)**	**18 728**

2021	Total	At fair value through profit or loss			Amortised cost
		Fair value option	Mandatorily at fair value	Fair value hedge	
Loans to customers	**(3 048)**	(3 048)	0	0	0
Commercial paper and bonds	**(784)**	(784)	0	0	0
Financial derivatives	**(6 204)**	0	(131)	(6 072)	0
Due to credit institutions	**0**	0	0	0	0
Debt securities issued	**10 344**	4 044	0	0	6 300
Subordinated loan capital	**14**	14	0	0	0
Net unrealised gain/(loss) on financial instruments	**322**	**226**	**(131)**	**(6 072)**	**6 300**

Specification of net value change including hedging instruments (Amounts in NOK 1 000 000)	2022	2021
Commercial paper and bonds, including hedging instruments	(138)	54
Loans to customers, including hedging instruments	(1 129)	99
Debt securities issued and subordinated loan capital, including hedging instruments	(354)	169
Net unrealised gain/(loss) on financial instruments	**(1 622)**	**322**

Changes in fair value of liabilities due to changes in own credit risk are not included in the line Net unrealised gain/(loss) on financial instruments in the Income statement. Such fair value changes are recognised in Other comprehensive income in the Statement of comprehensive income on the line *Change in fair value of liabilities due to changes in own credit risk*. See Note 20 Debt securities issued for information on calculation of such value changes. The change in fair value arising from debt securities issued presented in the above table is due to changes in parameters other than own credit risk.

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 will therefore only to a small extent cause net effects in the income statement. Changes in credit-spreads for investments in the liquidity portfolio, fixed interest-rate loans to customers measured at fair value and issued debt securities, as well as changes in basis swap spreads, may on the other hand lead to significant effect in income statement and other comprehensive income.

Of net unrealised losses in 2022 amounting to NOK 1 622 million, commercial paper and bonds and related financial derivatives contribute with a net loss of NOK 138 million. The loss is primarily due to the fall in credit spreads which affect the value of bond prices. Loans to customers and related financial derivatives contribute further with a net loss of NOK 1 129 million, due to increased credit spreads. Debt securities issued and related financial derivatives contribute to with a net loss of NOK 354 million mainly due to a tightening of USD-NOK basis spreads. Net unrealised gains amounting to NOK 322 million in 2021 was primarily from debt securities issued. In cases where the changes in fair value are realised on sale, repurchase or termination before maturity, the resulting gain or loss is presented as "Net realised gain/(loss) on financial instruments" in the income statement.

Financial derivatives in fair value hedges are measured at fair value through profit or loss (see note 13 Hedge accounting). The related hedged items comprise NOK 221 billion in "Debt securities issued" and NOK 15 billion in "Loans to customers" , that are classified as measured at amortised cost. Changes in fair value for the hedged items, that is attributable to the hedged risk, adjust the carrying amount of the item and are recognised and presented in the income statement as "Net unrealised gain/(loss) on financial instruments".

NOTE 4

NET REALISED GAIN/(LOSS) ON FINANCIAL INSTRUMENTS

(Amounts in NOK 1 000 000)

To some extent, KBN performs trades that entail realisations and derecognition before maturity of either assets or liabilities. These trades comprise of sales of commercial paper and bonds, or repurchases of debt securities issued.

	2022	2021
Gain/(loss) from repurchase of securities issued	6	3
Gain/(loss) from sales of bond investments and derivatives terminations	0	70
Gain/(loss) from early repayment of loans and termination of financial derivatives	0	0
Net realised gain/(loss) on financial instruments	**6**	**73**

NOTE 5

SALARIES AND ADMINISTRATIVE EXPENSES

(Amounts in NOK 1 000 000)

	2022	2021
Salaries	89	95
Employer contributions	20	20
Pension costs	12	11
Other personnel benefits	4	2
Administrative expenses	41	32
Total salaries and administrative expenses	**166**	**160**
Average number of full-time positions	*84*	*84*

NOTE 6

REMUNERATION

The Board's statement on the determination of salaries and other remuneration to senior executives

The Board of Directors will submit the following statement on the salary and other remuneration of senior executives to the Annual General Meeting in 2023.[1]

THE REMUNERATION SCHEME FOR SENIOR EXECUTIVES

KBN's remuneration policy for senior executives is anchored in the company's value proposition and its personnel policy, and is in line with its owners expectations of the company and its guidelines for the remuneration of senior executives. The central principles observed when determining the salaries of senior executives, are that overall remuneration should be competitive but not market-leading when compared with equivalent companies in the banking and finance sector.

KBN's remuneration scheme for senior executives, complies with the provisions of the Financial Undertakings Act, with regulation[2], the circular on this regulation issued by the Financial Supervisory Authority of Norway[3], the Norwegian Governments Guidelines for remuneration of senior executives[4], and the Public Limited Liability Companies Act , with regulations[5], on salaries and remuneration to senior executives.

Remuneration for all employees, including senior executives, consists of a fixed salary, variable salary payments, pensions and other benefits, including personnel insurance, newspapers and mobile telephone. KBN does not operate a share-based remuneration program or option. Fixed salary is the main element of remuneration received. Each year the Board of Directors sets quantitative criteria for variable salary payments for the next financial year, and can award payments in the following financial year of up to 1.5 times one months salary for all employees.

All employees' fixed salaries are adjusted each year with effect from 1 January based on a combined assessment of KBN's results, their contribution to the attainment of shared targets and their adherence to the banks values, with leadership skills also forming part of the assessment for managers with reporting staff.

Senior executives are defined as the Chief Executive Officer (the "CEO") and members of the CEOs management team, as shown in the table below.

MANAGEMENT SYSTEM AND DECISION-MAKING PROCESS

The Board of Directors has appointed an advisory committee - the Remuneration Committee - which carries out preparatory work on the principles applicable to remuneration, guidelines for variable salary, and guidelines for the remuneration of senior executives. The Board has issued a mandate for the work of the Remuneration Committee.

Minutes of the meetings of the Remuneration Committee are circulated to the Board. The Remuneration Committee has three members, who are appointed annually by and among the members of the Board. At year end 2022, the Committee's members are Brit Rugland (Chair), Petter Steen jr. and Harald Jacobsen (employee representative).

Each year the Board approves guidelines for variable salary payments. Guidelines for remuneration to senior executives are adopted by the Board and submitted to the Annual General Meeting for approval in the event of change, or minimum every four years. KBN carries out an annual review of the practical implementation of the variable element of remuneration in the form of a written report, that is reviewed by the internal auditor in accordance with the Financial Undertakings Regulation.

The Board determines the remuneration of the CEO. The CEO determines the remuneration of the other senior executives within the limits set by the Boards guidelines, and takes into account the Boards views when making final decisions on such remuneration. The CEOs decisions on the remuneration of senior executives are subsequently submitted to the Board for information.

REMUNERATION OF KBN's SENIOR EXECUTIVES IN 2022

Fixed salary
Fixed salary payable in 2022 included the normal annual salary increase.

Variable salary
In line with the guidelines for variable salary and achieved results in 2022, no variable salary was earned in 2022. Correspondingly, in 2021 all employees were granted a variable salary corresponding to 0.88 monthly salaries, paid out in 2022.

Other benefits
Other benefits include insurance arrangements, mobile phone, internet, newspaper subscription etc. on the same terms and conditions as apply to other employees.

The insurance arrangements relate to various forms of personnel insurance including health insurance and travel insurance, as well as disability insurance and life insurance up to the current level of fixed salary.

The Chief Lending Officer is entitled to a fixed annual car benefit of NOK 50,000.

The CEO has a contractual entitlement, subject to certain conditions, to severance pay equivalent to one year's fixed salary.

Pension benefits
KBN's pension scheme has since 2018 been a defined contribution scheme for salaries under 12x Base amount (G) administered by Storebrand Livsforsikring AS. The defined contribution pension scheme has a deposit rate of 7% for salaries between zero and 7.1G and 18% for salaries between 7.1 and 12G. A contractual pension plan (AFP) in the private sector associated with the joint scheme, is entered into as part of the collective agreement. Related insurance coverings are included in the scheme and include disability pension scheme with child allowance without the right to paid-up policies, child pension and group life insurance / life level term insurance. The defined contribution scheme applies to all employees, except for those who were 55 years or older as of 1 January 2018 and employees who were partially or fully disabled with the right to sickness benefits as of 1 January 2018. These are covered by the previous scheme administered by KLP, which entitles its members to a life expectancy adjusted retirement pension upon the completion of 30 years of service equivalent to 66% of base salary at the time of leaving KBN. This scheme also includes disability and survivors pensions, as well as contractual early retirement.

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[1] *From 2023 onwards, this declaration will be replaced by a salary report submitted to the general meeting*
[2] *The Financial Undertakings Regulation*
[3] *The Financial Supervisory Authority of Norway: Circular 02/2020*
[4] *Guidelines for remuneration of senior executives in companies with state ownership*
[5] *Regulations on guidelines and report on remuneration for senior executives*

(Amounts in NOK 1 000)

2022

Remuneration to senior executives	Agreed fixed salary	Paid fixed salary*	Sever-ance pay	Variable salary accrued in the period**	Other benefits	Pension costs	Total
Jannicke Trumpy Granquist (Chief Executive Officer)	3 307	3 406	-	-	67	203	3 676
Sigbjørn Birkeland (Chief Capital Markets Officer, Deputy CEO)	2 276	2 299	-	-	32	154	2 485
Tor Ole Steinsland (Chief of Staff)	1 570	1 601	-	-	20	225	1 846
Håvard Thorstad (Chief Compliance Officer)	1 891	1 942	-	-	28	181	2 151
Ilse Margarete Bache (Chief of Technology and Operations)	1 671	1 706	-	-	28	284	2 017
Lars Strøm Prestvik (Chief Lending Officer)	1 788	1 829	-	-	72	191	2 092
Andrea Søfting (Chief Financial Officer)	1 769	1 695	-	-	18	154	1 867
Kjersti Ulset (Chief Risk Officer)	1 822	1 710	-	-	18	154	1 881
Total remuneration to senior executives	**16 095**	**16 189**	**-**	**-**	**282**	**1 545**	**18 015**

**11 months fixed salary and holiday pay based on last year's salary **Earned at the end of the year and paid out in the following year*

2021

Remuneration to senior executives	Agreed fixed salary	Paid fixed salary*	Sever-ance pay	Variable salary accrued in the period**	Other benefits	Pension costs	Total
Jannicke Trumpy Granquist (Chief Executive Officer)	3 189	3 121	-	204	59	191	3 371
Sigbjørn Birkeland (Chief Capital Markets Officer, Deputy CEO) [1]	2 193	2 265	-	144	28	146	2 440
Tor Ole Steinsland (Chief of Staff) [2]	1 570	1 475	-	99	16	225	1 716
Håvard Thorstad (Chief Compliance Officer)	1 600	1 635	-	103	27	296	1 958
Ilse Margarete Bache (Chief of Technology and Operations)	1 854	1 920	-	122	26	178	2 123
Lars Strøm Prestvik (Chief Lending Officer)	1 723	1 754	-	113	77	187	2 018
Andrea Søfting (Chief Financial Officer from June 1 2021)	1 700	802	-	65	9	86	897
Kjersti Ulset (Chief Risk Officer from September 1 2021)	1 750	583	-	38	5	49	637
Frank Øvrebø (Acting CFO until May 31 2021)	1 650	713	-	-	7	110	830
Knut Andre Ask Kristiansen (Acting CRO until August 31 2021)	1 650	1 171	-	-	13	98	1 282
Morten Hatlem (Chief of Organisation and Strategy until May 31 2021) [3]	1 516	655	-	-	7	61	723
Thomas Yul Hansen (Chief of Legal and Regulatory Affairs until May 31 2021) [3]	1 427	616	-	-	11	79	707
Total remuneration to senior executives	**21 823**	**16 711**	**-**	**889**	**285**	**1 705**	**18 702**

**11 months fixed salary and holiday pay based on last year's salary* ***Earned at the end of the year and paid out in the following year*

[1] Deputy CEO from 15 September 2021

[2] Chief Communications Officer until 31 May 2021. Acting Chief of Staff from 1 June 2021 and appointed Chief of Staff from 15 November 2021.

[3] An adjustment to the organisational structure was carried out in 2021 with effect from 1 June. The responsibility for strategy and corporate governance was transferred to the CFO, while the responsibility for communication, organisation, legal/regulatory and administration was gathered within the bank's management team with the new Chief of Staff.

Remuneration to Board of Directors	2022	2021
Chairman Brit K. S. Rugland [1] [3]	457	451
Vice-chairman Rune Midtgaard [2]	298	294
Board member Martha Takvam [2] (until June 2022)	143	283
Board member Eyvind Aven [3]	255	220
Board member Ida Espolin Johnson [3]	223	220
Board member Toril Hovdenak [2]	223	220
Board member Petter Steen jr. [1]	206	203
Board member Ida Texmo Prytz [2] (from June 2022)	111	0
Board member employees' representative Harald Jacobsen [1]	206	203
Board member employees' representative Anne Jenny Dvergsdal [2]	191	158
Total remuneration to Board of Directors	**2 313**	**2 252**

[1] Member of remuneration committee

[2] Member of audit committee

[3] Member of risk committee

Remuneration to Supervisory Board	2022	2021
Chairman Alfred Bjørlo (until 27.09.21)	0	13
Chairman Ida Stuberg (from 27.09.21)	4	7
Board members	111	85
Total remuneration to Supervisory Board	**114**	**104**

Fees to the statutory auditor	2022	2021
Statutory audit fees	1 581	1 360
Other financial audit and attestation services	1 575	1 147
Total fees excl. VAT	**3 156**	**2 507**

NOTE 7

PENSIONS

(Amounts in NOK 1 000)

KBN's pension scheme is a defined contribution plan with Storebrand Livsforsikring AS.

The defined contribution pension scheme has been established with deposit rates of 7% for salaries 0-7.1 G and 18% for salaries between 7.1 G and 12 G. A collective agreement is entered into, and AFP is offered in the private sector related to the joint scheme. Insurance coverage is included in the pension scheme and includes disability pension with child supplement without paid-up policy, child pension and group life insurance / life level term insurance. The scheme applies to all employees, except for those who were 55 years or older on 1 January 2018, as well as employees who were partially or fully disabled and were entitled to sickness benefit at the time of transition. These remain in the closed benefit plan that gives, with a service period of 30 years, the right to retirement pension of 66 per cent of base salary at the time of retirement. The scheme also includes disability pension and pensions for spouses and dependent children as well as contractual early retirement. The assets in this benefit pension scheme are placed in a collective portfolio and cannot be specified for asset classes.

The defined benefit plan covering salaries over 12x Base amount (G) has been closed as of 1 April 2011, and was terminated in 2015 for current employees that were part of the plan.

Pension costs and pension obligations for the defined benefit scheme include employer contributions and are measured at the present value of future pension obligations accrued on the balance sheet date. Pension commitments are calculated on a linear basis, based on assumptions about discount rates, future salary adjustment, pensions and benefits from the National Insurance, as well as assumptions on mortality and voluntary retirement. The pension cost for the period consists of the sum of the periods accrual, interest expense on the calculated liability and administrative expenses. Changes in previous periods' pension accruals are recognised in the income statement when the pension plan change occurs. The net pension cost for the period is included in «Salaries and administrative expenses». Changes in pension commitments and pension funds under the defined benefit plans that result from changes and deviations in the calculation assumptions, (changes in financial and actuarial assumptions) are presented in the Statement of comprehensive income. For the defined contribution scheme, employer contributions are presented as this in note 5 Salaries and administrative expenses and are thus not included in the pension costs below.

Economic estimates used in calculation of pension costs and defined benefit obligation	31.12.2022	31.12.2021
Discount rate	3.00%	1.90%
Estimated wage growth	3.50%	2.75%
Estimated growth in Base amount	3.25%	2.50%
Expected growth in benefit levels	2.63%	1.73%

KBN has used Norwegian covered bonds as input when determining the discount rate for 2022 and 2021. The actuarial assumptions are based on standard assumptions related to demographic factors recommended by the Norwegian Accounting Standards Board.

Pension costs	Funded plan		Unfunded plan	
	2022	2021	2022	2021
Defined benefit pension scheme				
Net periodic pension cost	1 270	1 843	0	0
Net interest	256	325	376	320
Service cost	92	99	0	0
Employer contributions	228	320	53	45
Total pension cost defined benefit scheme	**1 847**	**2 586**	**429**	**365**
Defined contribution pension scheme				
Pension cost for the year	7 950	7 274	0	0
Total pension costs (both benefit and contribution scheme)	**9 797**	**9 860**	**429**	**365**
Actuarial gain/(loss) recognised in other comprehensive income	(2 287)	(2 280)	(47)	1 092
Net pension costs	**7 510**	**7 581**	**382**	**1 457**

Pension liabilities	Funded plan		Unfunded plan	
	2022	2021	2022	2021
Defined benefit obligation	135 052	135 808	19 926	19 972
Pension funds	(131 736)	(127 798)	0	0
Employer contributions	468	1 129	2 810	2 816
Net pension commitments	**3 784**	**9 139**	**22 736**	**22 788**

Changes in pension commitments	Funded plan		Unfunded plan	
	2022	2021	2022	2021
Net pension commitments as of 1 January	9 139	14 990	22 788	21 650
Net pension costs	(440)	306	382	1 457
Contribution to the pension scheme	(4 915)	(6 157)	(435)	(318)
Net pension commitments as of 31 December	**3 784**	**9 139**	**22 736**	**22 788**

Changes in the fair value of pension funds	Funded plan		Unfunded plan	
	2022	2021	2022	2021
Fair value of pension funds as of 1 January	127 798	115 516	0	0
Net interest	2 329	1 874	0	0
Actuarial gain/(loss)	(491)	7 406	0	0
Service cost	(92)	(99)	0	0
Contribution to the pension scheme	4 307	5 396	381	279
Benefits paid	(2 114)	(2 296)	(381)	(279)
Fair value of pension funds as of 31 December	**131 736**	**127 798**	**0**	**0**

NOTE 8

TAX

(Amounts in NOK 1 000 000)

	2022	2021
Payable taxes on income for the period	0	0
Change in deferred tax	134	209
Increased/(reduced) payable tax for previous years	(54)	0
Items recognised in Other Comprehensive Income	(200)	202
Total income tax	**(120)**	**411**

Reconciliation of effective income tax rate	2022	2021
Profit before tax	(180)	1 620
Calculated tax expense	(45)	405
Tax on additional Tier 1 Capital	(18)	-15
Effect of reduced tax rate as a result of changes in tax return for previous years	(54)	0
Permanent differences	(3)	21
Tax expense	**(120)**	**411**
Effective income tax rate	67 %	25 %

Deferred tax liability/(asset)	2022	2021
Deferred tax liability/(asset) as at 1 January	(3 021)	(3 230)
Change in deferred tax on items recognised in income statement	(134)	411
Changes in deferred tax on items recognised in other comprehensive income	200	(202)
Change in deferred tax as a result of changes in timing of taxable income for previous years	70	0
Deferred tax liability/(asset) as at 31 December (25%)	**(2 885)**	**(3 021)**

Temporary differences	2022	2021
Fixed assets	(4)	(5)
Leases	0	(1)
Pension commitments	(27)	(32)
Other differences	(16)	0
Provisions	(8)	(36)
Bonds (assets and liabilities)	21 135	(800)
Financial derivatives	(22 452)	(2 085)
Losses carried forward for tax purposes	(10 166)	(9 124)
Total temporary differences	**(11 539)**	**(12 083)**
Deferred tax liability/(asset)	**(2 885)**	**(3 021)**

In June 2022 KBN received a decision on changes to its tax assessments for the years 2019 and 2020. KBN has previously received a decision on changes to its tax assessments for the years 2015-2018. The changes relate to the tax treatment and periodisation of the accrual of financial instruments. The Norwegian Tax Administrations decision implies a change to the timing of taxable income and expense, but no change in total taxable income and expense over the lifetime of the instruments. KBN has prepared its accounts in compliance with the treatment expected by the tax authorities. These decisions move taxable income from a year in which KBN's tax rate was 27% to a year in which it was 25%, and this resulted in a decrease in tax expense of NOK 54 million for 2022. KBN is still in disagreement with the Norwegian Tax Administration on certain matters relating to the tax treatment of the accrual of financial instruments in the accounts. KBN has submitted an appeal against aspects of the decisions.

Tax accruals / timing of income and expenses may deviate significantly from accounting accruals over the instruments' lifetime. However, there will be no difference in total income / expense over the life of the instruments. This can lead to volatility in temporary differences and tax payments. This will not have a significant effect on the banks tax cost over time, except for changes in tax rate. Deferred tax assets arising from temporary differences affect capital adequacy adversely through deduction in common equity tier 1 capital.

Change in Current tax liabilities in KBN's Balance sheet during 2022 is due to the payment of tax in line with the change in fixed income for the years 2019 and 2020. The changes also include matters that have been appealed by KBN.

NOTE 9

LEASES

(Amounts in NOK 1 000 000)

KBN has one lease agreement that is covered by IFRS 16 *Leases.* The agreement applies to the lease of office space in Haakon VIIs gate in Oslo.

The right-of-use-asset is presented in the Statement of financial position on the line Other assets, while the lease obligation is presented on the line Other liabilities. See Note 18 for further information.

Lease liability	2022	2021
Current	8	7
Non-current	7	15
Total interest expense recognised	0	0

NOTE 10

CLASSIFICATION OF FINANCIAL INSTRUMENTS

(Amounts in NOK 1 000 000)

Accounting policies for classification and measurement
Classification of financial instruments takes place at initial recognition and determines the subsequent measurement of the carrying amount. Classification of financial instruments is determined by the characteristics of the financial instrument and by the business model for the management of financial assets.

Financial assets measured at amortised cost
KBN's business model for loans to customers and commercial paper and bonds is to "hold financial assets in order to collect contractual cash flows". When the assets' cash flows only consist of principal and interest payments, and instruments with mainly offsetting value changes are not present, the assets are measured at amortised cost. New loans to customers and commercial paper and bonds are subject to an assessment of whether the cash flows of the asset are only repayment, principal or interest payments. If this is not the case, the asset shall be classified as measured at fair value. KBN's PT and Nibor loans are measured at amortised cost. Commercial paper and bonds without related financial derivatives are also measured at amortised cost, as well as Deposits from credit institutions (cash deposits, money market deposits and cash collateral pledged) and Other money market deposits, if they are not hedged with a derivative contract. Other money market deposits are deposits to non-financial institutions. Measurement of amortised cost is performed using the effective interest rate method.

Hedge accounting may apply to assets classified as measured at amortised cost. When fair value hedge accounting is applied, the value change that is attributable to the hedged risk is recognised as part of the carrying amount under "Commercial paper and bonds" or "Loans to customers" and in the Income statement as "Net unrealised gain/(Loss) on financial instruments".

Financial assets designated at fair value through profit or loss (FVO)
If the risk in selected bonds and notes in the liquidity portfolio, loans to customers with fixed interest rate and money-market deposits (both to financial and non-financial institutions) is hedged with a derivative contract, then these financial assets can be designated as at fair value through profit or loss at initial recognition, in order to achieve similar treatment as related derivative contracts which are measured at fair value. This leads to a reduction in measurement inconsistency between bonds and notes and loans to customers on one hand, and financial derivatives on the other hand.

Financial liabilities measured at amortised cost
Public benchmark loans and some loans from institutional investors in public niche markets, are classified as financial liabilities measured at amortised cost using the effective interest method. The same applies to floating rate notes issued in USD or EUR, and Due to credit institutions (cash collateral received or money market loans). The majority of financial liabilities in this category is designated as hedged items and hedge accounting is applied. This implies that value changes that are attributable to the hedged risk are recognised as part of the carrying amount under "Debt securities issued" and in the income statement as "Net unrealised gain/(loss) on financial instruments".

Financial liabilities designated at fair value through profit or loss (FVO)
Selected bonds with fixed interest and that are not subject to hedge accounting, are designated as at fair value through profit or loss at initial recognition, in order to achieve similar treatment as related derivative contracts, which are measured at fair value. This leads to a reduction in measurement inconsistency between issued bonds on one hand and financial derivatives on the other hand. For bonds issued that are measured at fair value, the part of changes in fair value of liabilities that is attributable to changes in KBN's own credit risk is recognised in Other comprehensive income. The remaining part of the change in fair value of liabilities is recognised in the Income statement. Bonds issued in a foreign currency other than USD with an associated swap to USD, are collectively considered to constitute a synthetic USD borrowing. Value changes due to changes in own credit risk for these bonds are calculated from changes in the credit curve measured in USD on the synthetic borrowing, and may therefore contain effects that are not due to direct changes in own credit risk.

Financial derivatives
Financial derivatives are classified as at fair value through profit and loss, with the exception of contracts designated as hedging instruments in fair value hedges. All financial derivatives are measured at fair value through profit or loss and are presented as assets when the value is positive, and as liabilities when the value is negative.

KBN's financial instruments are classified as Financial assets measured at amortised cost, Financial assets designated at fair value through profit or loss, Financial liabilities measured at amortised cost, Financial liabilities designated at fair value through profit or loss (FVO), and Financial derivatives.

2022	Total	At fair value Fair value option	 Mandatorily at fair value	 Fair value hedge	Amortised cost
Deposits with credit institutions	**39 512**	0	0	0	39 512
Loans to customers	**324 532**	83 650	0	0	240 882
Commercial paper and bonds	**109 235**	60 324	0	0	48 911
Financial derivatives	**16 119**	0	15 837	283	0
Total financial assets	**489 399**	**143 974**	**15 837**	**283**	**329 305**
Due to credit institutions	**6 567**	0	0	0	6 567
Commercial paper issued	**23 377**	0	0	0	23 377
Debt securities issued	**402 553**	154 458	0	0	248 095
Financial derivatives	**39 070**	0	19 417	19 653	0
Subordinated loan capital	**1 897**	1 897	0	0	0
Total financial liabilities	**473 465**	**156 355**	**19 417**	**19 653**	**278 039**

2021	Total	At fair value Fair value option	 Mandatorily at fair value	 Fair value hedge	Amortised cost
Deposits with credit institutions	**17 317**	0	0	0	17 317
Loans to customers	**323 672**	107 283	0	0	216 389
Commercial paper and bonds	**112 839**	83 820	0	0	29 019
Financial derivatives	**16 047**	0	13 590	2 457	0
Total financial assets	**469 874**	**191 103**	**13 590**	**2 457**	**262 725**
Due to credit institutions	**5 891**	0	0	0	5 891
Commercial paper issued	**31 567**	0	0	0	31 567
Debt securities issued	**393 663**	174 868	0	0	218 795
Financial derivatives	**20 072**	0	17 363	2 708	0
Subordinated loan capital	**2 092**	2 092	0	0	0
Total financial liabilities	**453 285**	**176 961**	**17 363**	**2 708**	**256 253**

NOTE 11

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

(Amounts in NOK 1 000 000)

Accounting principles for measuring financial instruments at fair value

Financial instruments are categorised into the fair value hierarchy, where the level of categorisation (Levels 1, 2 or 3) is based on the observability of the input that is significant to the fair value measurement.

Level 1
For securities traded in an active market with frequent market observations, quoted prices on the reporting date are used in the measurement of fair value. Quoted prices are provided by international vendors (Reuters/Bloomberg), and are classified as Level 1-inputs when they represent actual market transactions.

Level 2
For financial instruments without available quoted prices in an active market, KBN will either use quoted prices of similar instruments in active markets, where possible, or valuation techniques where significant inputs are based on observable market data (provided by Reuters). Level 2-inputs might include:

- Observable interest rate yield curves, basis swap spreads, FX-rates, equity indices, commodity indices and volatilities
- Quoted prices and credit spreads at the reporting date for similar instruments issued by the same issuer but with a different tenor, so that an adjustment for maturity is necessary
- Quoted prices and credit spreads at the reporting date for similar instruments issued by the same issuer but denominated in a different currency, so that an adjustment for basis swap spread is necessary
- Actual market transactions in identical instruments before or after the reporting date, so that an adjustment for events between the date of transaction and the reporting date is necessary
- More liquid instruments issued by the same issuer with identical maturity, but an adjustment for liquidity risk is necessary
- Prices on potential new issues in similar instruments from the same issuer

Level 3
Level 3 is relevant for financial instruments that are not traded in an active market and fair value is determined using valuation techniques where significant input is based on unobservable data.

The same type of input might be used to determine the fair value of commercial paper and bonds classified as Level 2 and Level 3, however, the significance of adjustments of market data and to what extent the adjustment is done based on observable data are given weight when the instrument is categorized according to IFRS 13. Other inputs used in determination of fair value might include:

- Indicative prices and estimates for similar instruments provided by other market participants
- Market indices, both bond and credit default swap indices, for similar instruments
- Non-binding price quotes from different sources
- Historical or implied volatilities

Fair value disclosures
For financial instruments categorised in the fair value hierarchy at several period ends, a reconciliation of movements between the levels is done at the end of each reporting period. The valuation technique used to determine fair value of financial instruments categorised in Level 2 or Level 3 is determined based on the instruments' features. Fair value of financial instruments without embedded option-elements is determined using the discounted cash flows method, where discount rates are derived from the relevant observable money market interest rates and other risk factors that may significantly affect the fair value of the instruments. When such factors cannot be reliably observed at a reporting date, management may make assumptions and use estimates when determining the fair value. Fair value of financial instruments with embedded option-elements is determined using both discounting and option pricing models with observable market data and estimates as inputs. The most significant unobservable input used in the valuation in Level 2 and Level 3 comprises the credit premium for financial instruments that are not traded in an active market.

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**

Holdings of NOK 2 billion are transferred from Level 3 to Level 1 for Commercial paper and bonds per 31. December 2022

2021	Level 1	Level 2	Level 3	Total
Loans to customers	0	8 430	98 853	107 283
Commercial paper and bonds	68 744	8 477	6 599	83 820
Financial derivatives	0	15 054	993	16 047
Total financial assets measured at fair value	**68 744**	**31 961**	**106 445**	**207 150**
Debt securities issued	7 738	136 608	30 522	174 868
Financial derivatives	0	10 405	9 667	20 072
Subordinated loan capital	0	0	2 092	2 092
Total financial liabilities measured at fair value	**7 738**	**147 013**	**42 281**	**197 032**

Holdings of NOK 1.1 billion kroner are transferred from Level 2 to Level 1 for Commercial paper and bonds per 31. December 2021

Information about fair value

Methods used for the determination of fair value fall within three categories, as described in the accounting principles above.

All changes in fair value of financial instruments adjust the carrying amounts of assets and liabilities and are recognised in the income statement as "Net unrealised gain/(loss) on financial instruments".

KBN has established policies and guidelines for valuation that describe principles for fair value measurement of financial instruments. The main principles are that fair value should be measured at the value the asset may be sold for or the liability repurchased/transferred for, and that observable data shall be used to the extent possible in the valuation. Quality assurance should be undertaken against alternative sources. The guidelines also set out the frequency of valuation for different instrument types, and procedures for control of fair value.

Deposits with credit institutions

Deposits with credit institutions are measured at amortised cost.

Other money market deposits

Other money market deposits are measured at fair value if they are hedged with a derivative contract.

Loans to customers

Level 2 includes short-term debt certificates issued by municipalities. Within these loan products, the customers have more flexibility in refinancing the loans with other lenders when market conditions change. As a result, these types of loans are subject to greater competition and better liquidity in the market and allow the use of observable prices on new loans as inputs in the valuation of these loan products.

Level 3 includes fixed rate loans to customers that are not traded in an active market and do not have observable market prices after initial recognition. Fair value of such loans is estimated based on the credit spread for Norwegian municipalities at the reporting date. Fixed rate loans with an amortization schedule are valued adding a discretionary spread to cover liquidity premium.

Commercial paper and bonds

Determination of fair value based on quoted prices in an active market with many buyers and sellers gives a fair value estimate with the lowest degree of valuation uncertainty (Level 1). Level 1 inputs for Commercial paper and bonds include quoted prices provided by international vendors (Bloomberg), which represent actual transactions in an active market. Such third-party prices are also partially used within Level 2, where the price is not considered to reflect sufficient liquidity to allocate the position to level 1.

The fair value of Commercial paper and bonds where quoted prices are not sufficiently available on the reporting date, is determined using the discounted cash flow method, where discount rates are derived from observable money market interest rate yield curves (parts of Level 2 and Level 3). Discount rates are adjusted for the issuers credit and liquidity risk to as large a degree as possible, based on observable market data. When applying credit/liquidity adjustments to discount rates, the assets are grouped based on the issuer's credit rating, currency, time to maturity, underlying exposure and geographic location. Management allocates all investments to their respective levels on each reporting date. Unobservable credit spreads are used to some extent when there is little or no market activity for the security in concern, or equivalent securities. Where these are material for the valuation, the security is allocated to Level 3, which reflects significant valuation uncertainty.

Debt securities issued

The funding portfolio is split into four main groups, based on the funding product and loan documentation used. The four main categories are public (quoted) USD and EUR benchmark loans, loans in public niche markets, private placements and retail loans. The two first groups are characterised by listed syndicated loans in various currencies, where the size of the loan forms the primary difference between the two groups. For listed benchmark bonds quoted prices in an active market exist, such that these are assessed to belong to Level 1, with limited valuation uncertainty. Hedge accounting is mainly applied for these bonds, see Note 12 and 13. For Debt securities issued in public niche markets, quoted prices are also available to some extent, however, the market activity and liquidity is assessed as somewhat lower. The determination of fair value of these securities is mainly done by using valuation techniques and observable market data. For these bonds the discounted cash flows method is used with discount rates based on observable market data, such as market interest rates, quoted prices and prices on similar instruments adjusted for differences in time to maturity, size and currency (Level 2). Prices on new issues are used as an important indicator in the valuation, and in addition KBN collects non-binding price indications from brokers.

Group three is comprised of private placements where the loan terms are specially adapted for a single investor. The final main group is retail loans, i.e. loans sold to non-professional investors. Bonds in these two groups are not listed and normally not traded in the secondary market, and are to a large extent structured products with option elements that are linked to stock prices, equity indices, FX rates or commodity prices. Quoted prices are hence not available for the security, and unobservable inputs are used to a significant degree in the valuation. These loans are therefore allocated to Level 3 in the fair value hierarchy, and thus are characterised by significant valuation uncertainty. The choice of valuation techniques and inputs depends on the structure and terms of each loan. For all bonds in these groups, fair value is determined by using the discounted cash flow method. Inputs are current interest rate yield curves and credit spreads that are estimated from price indications to brokers via the Company's information channels. Credit spreads are for these groups regarded as an unobservable input, and hence an estimate. For structured bonds with option elements, option pricing models are used in addition to determine expected cashflows. These models use interest rates, FX-rates, stock prices, equity indices and implicit or historical volatilities as inputs.

Financial derivatives

All financial derivatives are OTC-contracts used only in economic hedges of interest rate and currency risk. For basis swaps (USD-NOK, USD-EUR and EUR-NOK), FRAs and interest rate swaps and cross currency swaps without option elements, fair value is determined by using the discounted cash flow method with discount rates derived from observable basis swap spreads and swap interest rates. Hence, these contracts are allocated to Level 2, with considerable market activity for new contracts and relevant market parameters. Cross-currency swaps and interest rate swaps which are economic hedges of structured bonds and that have option elements linked to for instance equity or FX rates, are valued using the same valuation models as corresponding issued bonds and are classified as Level 3, when unobservable inputs are used to a significant extent.

KBN analyses the fair values and the periods value changes at period ends, including the reason for the development in fair values.

Reconciliation of changes in Level 3

	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	-
Sale	0	0	-	0	(30)
Issue	0	0	766	0	(28)
Settlement	(7 136)	(7 374)	(12 311)	0	3 153
Transfer into Level 3	-	175	0	0	0
Transfer out of Level 3	(2 943)	(2 580)	0	0	0
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)**

	Loans to customers	Commercial paper and bonds	Debt securities issued	Subordinated loan capital	Financial derivatives
Carrying amount at 31 December 2020	**95 879**	**7 768**	**48 687**	**2 106**	**(6 302)**
Purchase	0	4 337	(138)	0	253
Sale	0	0	0	0	0
Issue	19 726	0	2 981	0	0
Settlement	(18 878)	(2 834)	(18 891)	0	(441)
Transfer into Level 3	1 459	1 976	0	0	0
Transfer out of Level 3	(3 508)	(3 920)	0	0	0
Gain/(loss) recognised in the period	4 175	(729)	(2 117)	(14)	(2 184)
Carrying amount at 31 December 2021	**98 853**	**6 599**	**30 522**	**2 092**	**(8 674)**

Significant unobservable inputs in fair value measurement, within Level 3

In cases of very little or no market activity for the relevant instrument, the valuation is to a significant extent based on estimates as inputs to the valuation technique. The most significant estimate is an add-on (spread) to swap interest rates. For Debt securities issued the spread reflects liquidity risk, own credit risk and market risk in the relevant currency market. For Commercial paper and bonds the spread reflects liquidity risk, credit risk of the issuer and market risk in the relevant currency market. Other significant unobservable inputs include volatilities within option pricing models. Other than this, inputs used in option pricing are mainly observable.

In 2022, Commercial paper and bonds amounting to NOK 2 billion were transferred to Level 3 from Level 1 or 2, based on somewhat lower liquidity for these securities. For Loans to customers, the transfer out of Level 3 is due to customers ending a period of fixed interest, i.e. a product change.

The total credit spread and yield curve is sensitive to changes in each underlying factor. The fair value of the instrument will thus be affected by changes in credit spreads, liquidity risk or market risk. The following table shows a sensitivity analysis for a change in discount rate of 10 basis points (up).

Impact of changes in key assumptions - yield curve	2022 Carrying amount	2022 Impact of changes in key assumptions	2021 Carrying amount	2021 Impact of changes in key assumptions
Loans to customers	83 650	(293)	98 853	(401)
Commercial paper and bonds	6 424	(17)	6 599	(11)
Financial derivatives	(4 138)	(22)	(8 674)	(33)
Debt securities issued	(19 580)	25	(30 522)	38
Subordinated loan capital	(1 897)	9	(2 092)	12
Total	**64 459**	**(297)**	**64 164**	**(394)**

The changes in key assumptions are defined as a 10 bp change in the discount rate.

The table above assumes the same change for all maturities in the yield curve. An increase in the discount rate used for measuring Loans to customers in Level 3 of 10 bp across all maturities will lead to a reduction in value of NOK 293 million for these loans. Such an increase in the discount rate could be caused by an increase in the credit spread across all maturities. Similarly, an increase in the discount rate of 10 bp for Commercial paper and bonds allocated to Level 3 would lead to a reduction in value of NOK 17 million. For Debt securities issued allocated to Level 3, an increase in the discount rate of 10 bp would lead to a reduction in value of NOK 25 million, which results in an unrealised gain. If the increase is attributed to an increased credit spread, the unrealised gain will be recognised in the Statement of comprehensive income. If the change is due to increased interest rates, the unrealised gain will be recognised in the income statement.

Level 3 unrealised gain/(loss) in the period	2022 Carrying amount	2022 Unrealised gain/(loss)	2021 Carrying amount	2021 Unrealised gain/(loss)
Loans to customers	83 650	(5 124)	98 853	3 056
Commercial paper and bonds	6 424	(182)	6 599	(83)
Debt securities issued	(19 580)	(2 149)	(30 522)	2 243
Financial derivatives	(4 138)	2 219	(8 674)	(2 230)
Subordinated loan capital	(1 897)	(195)	(2 092)	13
Total	**64 459**	**(5 431)**	**64 164**	**2 999**

Amounts in the column "Unrealised gain/(loss)" in the table above are included on the line "Net unrealised gain/(loss) on financial instruments" in the income statement.

NOTE 12

FINANCIAL INSTRUMENTS MEASURED AT AMORTISED COST

(Amounts in NOK 1 000 000)

	2022		2021	
	Carrying amount	Fair value	Carrying amount	Fair value
Deposits with credit institutions	39 512	39 512	17 317	17 317
Loans to customers	240 882	240 596	216 389	216 307
Commercial paper and bonds	48 911	48 836	29 019	29 060
Total financial assets measured at amortised cost	**329 305**	**328 944**	**262 725**	**262 683**
Due to credit institutions	6 567	6 567	5 891	5 891
Commercial paper issued	23 377	23 371	31 567	31 568
Debt securities issued	248 095	248 372	218 795	224 552
Total financial liabilities measured at amortised cost	**278 039**	**278 311**	**256 253**	**262 010**

Information about the level within the fair value hierarchy, for financial instruments measured at amortised cost, where fair value is disclosed

2022	Level 1	Level 2	Level 3	Total
Loans to customers	0	100 454	140 141	240 596
Commercial paper and bonds	42 755	1 024	5 057	48 836
Total fair value of financial assets, measured at amortised cost	**42 755**	**101 478**	**145 199**	**289 432**
Debt securities issued	217 683	30 689	0	248 372
Total fair value of financial liabilities, measured at amortised cost	**217 683**	**30 689**	**0**	**248 372**

2021	Level 1	Level 2	Level 3	Total
Loans to customers	0	158 274	58 033	216 307
Commercial paper and bonds	25 136	1 454	2 470	29 060
Total fair value of financial assets, measured at amortised cost	**25 136**	**159 728**	**60 503**	**245 366**
Debt securities issued	186 659	37 893	0	224 552
Total fair value of financial liabilities, measured at amortised cost	**186 659**	**37 893**	**0**	**224 552**

INFORMATION ABOUT FAIR VALUE

See Note 11 Financial instruments measured at fair value for information regarding fair value measurement.

For liabilities that are part of hedging relationships as hedged items (Debt securities issued classified as measured at amortised cost, see Note 13 Hedge accounting) value changes due to the hedged risk is calculated. This value change adjusts the carrying amount of the liability and is recognised in the income statement on the line “Net unrealised gain/(loss) on financial instruments”. Also for this purpose a discounted cash flow method is used, but where the discount rate reflects only the hedged risk (interest and currency element).

Deposits with and loans to credit institutions

Deposits with and loans to credit institutions include short-term money market deposits or loans with agreed maturities with other financial institutions, as well as pledged and held cash collateral, and deposits with banks without agreed maturity. The fair value of these positions is approximately equal to their principal amount due to their short-term nature.

Loans to customers

Level 2: P.t. loans and Nibor-loans with floating margin and Nibor-loans with fixed margin (time to maturity within 1 year) have time to maturity and/or interest rate terms that give the customer more flexibility to change the loan provider if market terms change. This leads to higher competition and better liquidity in the market and allows the use of observable prices on new loans to be used as inputs in the valuation of these loan products.

Level 3: Nibor-loans with fixed interest rate margin (time to maturity above 1 year) and fixed rate loans are granted bilaterally between KBN and a loan customer, and are not traded in an active market. Fixed rate loans are valued based on credit-spread for Norwegian municipalities at the reporting date. Fixed rate loans with an amortization schedule are valued adding a discretionary spread to cover liquidity premium.

Debt securities issued

Debt securities issued measured at amortised cost consist mainly of USD or Euro benchmark loans and loans in public niche markets as well as floating rate notes (FRN) without corresponding financial derivative contracts.

NOTE 13

HEDGE ACCOUNTING

(Amounts in NOK 1 000 000)

Accounting principles for hedge accounting

KBN uses fair value hedge accounting for selected economic hedges of interest rate risk according to IFRS 9. KBN has initiated hedge accounting for Loans to customers with fixed rate, for new loans starting from 1 January 2022. For these loans, the economic interest rate risk is hedged using interest rate swaps. Fair value hedging is applied when the economic hedging meets the requirements for the use of fair value hedge accounting. The hedge relationship is documented at designation, including the goals and strategy for the risk management of the hedge relationship. The documentation includes identification of the hedge relationship, description of hedged risk (interest rate risk) and a prospective effectiveness test. Hedge effectiveness is measured on an on-going basis. Any ineffective part of the hedge is recognised in the income statement. Inefficiency occur as a consequence of changes in market rates in the floating leg of the hedging instrument (swap), or where the hedge is not 1:1 .

Hedging instruments are measured at fair value through profit or loss, and carrying amounts are adjusted accordingly. The value change of the hedged items that is attributable to the hedged risk (interest rate risk), is recognised as part of the carrying amount of the item and in the income statement as “Net unrealised gain/(loss) on financial instruments”.

Carrying amount of financial instruments in fair value hedges	2022	2021
Commercial paper and bonds	0	0
Debt securities issued	220 629	188 593
Loans to customers	15 496	0
Financial derivatives, used to hedge senior securites issued	(19 495)	(252)
Financial derivatives, used to hedge Loans to customers lending	124	0
Total	**216 755**	**188 341**

Nominal values of hedging objects in fair value hedges	2022	2021
Commercial paper and bonds	0	0
Debt securities issued	237 813	188 124
Instalments loans	15 643	0
Total	**253 456**	**188 124**

Recognised value changes on financial instruments in fair value hedges	2022	2021
Commercial paper and bonds	0	0
Debt securities issued	18 989	6 300
Instalments loans	(261)	0
Financial derivatives	(18 017)	(6 072)
Total	**711**	**228**

Recognised value changes are a result of changes in underlying risk factors, hence the hedged risk. For the hedging instrument (the financial derivative), the full fair value change is recognised, as these are measured at fair value.

Maturity profile carrying amount of debt securities issued and loans to customers in fair value hedge

	0-1 years	1-3 years	3-5 years	> 5 years	Total
Carrying amount of Debt securities, measured at amortised cost	29 069	96 961	69 756	24 844	220 629
Value change (hedged risk)	(659)	(5 532)	(6 840)	(5 849)	(18 879)
Total carrying amount of debt securities issues	**28 410**	**91 428**	**62 916**	**18 995**	**201 750**
Carrying amount of Loans to customers, measured at amortised cost	57	1 451	7 117	7 183	15 808
Value change (hedged risk)	(1)	4	(77)	(180)	(253)
Total carrying amount of Loans to customers	**56**	**1 455**	**7 040**	**7 003**	**15 555**

NOTE 14

DEPOSITS WITH CREDIT INSTITUTIONS

(Amounts in NOK 1 000 000)

	2022	2021
Deposits with credit institutions without agreed time to maturity	251	308
Deposits with credit institutions with agreed time to maturity	9 755	3 223
Cash collateral pledged	29 506	13 785
Total deposits with credit institutions	**39 512**	**17 317**

NOTE 15

LOANS TO CUSTOMERS

(Amounts in NOK 1 000 000)

	2022	2021
Principal amount	328 401	323 018
Accrued interest	1 928	1 048
Fair value adjustment	(5 506)	(390)
Value changes in fair value hedges	(261)	0
Expected credit loss	(52)	(24)
Total loans to customers	**324 511**	**323 652**
Other loans	22	20
Total Loans to customers	**324 532**	**323 672**

Geographic distribution	2022	2021
Agder	20 240	21 117
Innlandet	25 292	24 514
Møre og Romsdal	21 026	19 580
Nordland	25 108	24 651
Oslo	16 611	14 989
Rogaland	22 825	22 305
Troms og Finnmark	22 738	22 688
Trøndelag	35 791	37 058
Vestfold og Telemark	20 243	18 768
Vestland	38 648	39 791
Viken	79 878	77 558
Loans to customers, principal amount	**328 401**	**323 018**

NOTE 16

EXPECTED CREDIT LOSS

Accounting policies on measuring of expected credit loss

At each reporting date, an allocation to stages 1, 2 or 3 is performed for all Loans to customers and Commercial paper and bonds that are measured at amortised cost.

All assets are allocated to stage 1 at initial recognition. On subsequent reporting dates, stage 1 allocation means that there has been no significant increase in credit risk since initial recognition for that particular asset. An allocation to stage 2 on a subsequent reporting date represents a significant increase in credit risk since initial recognition, while stage 3 implies that the asset is credit impaired. Stage 1 requires the calculation of a 12-month expected credit loss that is recognised in the Income statement and Statement of financial position. Assets allocated to stages 2 and 3 require the calculation of a lifetime expected credit loss, which also will be recognised in the Income statement and Statement of financial position. Actual credit losses have never taken place during KBN's history.

The recognition of interest income for assets allocated to stages 1 and 2 is based on the assets principal amount, while the recognition of interest income for assets allocated to stage 3 is based on the assets amortised cost, meaning after deduction of the provision for the expected credit loss. Expected credit loss is calculated per loan/instrument, based on exposure at default, probability of default and loss given default, all estimated at the reporting date.

KBN uses three different scenarios in its model for the calculation of expected credit loss. Furthermore, the normalized values for probability of default are adjusted for market cycles in line with current market conditions at reporting times. The periods change in total expected credit loss is recognised in the Income statement as "Expected credit loss". Within stage 1 a 12-month probability of default and lifetime losses based on default within the next 12 months are used, while stages 2 and 3 use lifetime probability of default and losses resulting from this.

Major changes in the issuers rating or a significant move under KBN's internal credit rating assessment are used as indicators of significant increase in credit risk since initial recognition. These will lead to an allocation of the asset to stage 2. For lending customers, consideration shall be given to whether such deterioration has taken place if a payment stop is decided under the Municipality Act. An assessment as credit impaired or allocation to stage 3 for loans to customers includes events that result in actual credit losses, or payment delays of at least 90 days over a certain threshold amount. For Commercial paper and bonds this will be triggered by events such as late payment, bankruptcy or restructuring due to financial problems.

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.

	31 December 2022		31 December 2021	
(Amounts in NOK 1 000 000)	Carrying amount	Expected credit loss	Carrying amount	Expected credit loss
Loans to customers	225 327	52	216 389	24
Commercial paper and bonds	33 994	2	29 019	2
Total	**259 321**	**54**	**245 408**	**26**

The below table shows a specification of the period's change in expected credit loss that is recognised in the income statement.

(Amounts in NOK 1 000)	31 December 2022
Loans to customers	27 430
Commercial paper and bonds	117
Total	**27 547**

The following table shows an allocation of KBN's expected credit losses as of 31 December 2022 to stage 1, 2 and 3. According to the impairment principles described in IFRS 9 *Financial Instruments*, Stage 1 implies no significant increase in credit risk since recognition of the asset. Stage 2 implies such a significant increase, while stage 3 implies that the asset is credit-impaired.

(Amounts in NOK 1 000 000)	Stage 1	Stage 2	Stage 3
Loans to customers	52	0	0
Commercial paper and bonds	2	0	0
Total expected credit loss	**54**	**0**	**0**

NOTE 17

COMMERCIAL PAPER AND BONDS

(Amounts in NOK 1 000 000)

Commercial paper and bonds by type of issuer	2022	2021
Domestic		
Issued by public bodies[1]	0	0
Issued by other borrowers	20 257	19 279
Foreign		
Issued by public bodies[1]	77 918	76 498
Issued by other borrowers	11 061	17 061
Total Commercial paper and bonds	**109 235**	**112 839**

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

Commercial paper and bonds by time to maturity	2022	2021
Under 1 year	42 635	51 325
1-5 years	64 789	59 787
> 5 years	1 811	1 726
Total Commercial paper and bonds	**109 235**	**112 839**

NOTE 18

OTHER ASSETS

(Amounts in NOK 1 000 000)	2022	2021
Intangible assets	143	140
Leases	14	21
Fixed assets	8	6
Other assets	2	2
Total other assets	**166**	**169**

Intangible assets comprise of two IT systems, website, new customer portal and data-warehouse. The portfolio system was brought into use in 2015, the lending portal in 2016, the new website in December 2019, while the new customer portal and the data-warehouse were brought into use in 2020. New assets in 2022 is related to improvement and development of existing systems. All are amortised over their expected lifetimes.

OTHER LIABILITIES

(Amounts in NOK 1 000 000)	2022	2021
Accounts payable	1	0
Public fees	9	9
Leases	14	22
Other short term liabilities	10	37
Accrued expenses and received, not yet accrued interest	22	17
Total other liabilities	**56**	**85**

NOTE 19

DUE TO CREDIT INSTITUTIONS

(Amounts in NOK 1 000 000)	2022	2021
Cash collateral received	6 567	5 891
Repurchase agreements	0	0
Commercial paper	23 377	31 567
Total Due to credit institutions	**29 944**	**37 458**

NOTE 20

DEBT SECURITIES ISSUED

(Amounts in NOK 1 000 000)	2022	2021
Debt securities issued (nominal amounts) as at 1 January	**395 385**	**405 451**
New issuance	86 994	96 550
Redemptions*	(83 648)	(107 019)
Amortisation**	(647)	544
Effects of exchange rate changes	31 123	(141)
Debt securities issued (nominal amounts) as at 31 December	**429 206**	**395 385**
Accrued interest	4 228	3 875
Fair value adjustment	(30 881)	(5 596)
Of which value change that is due to change in own credit risk	*406*	*1 206*
Of which value change that is due to other reasons	*(31 287)*	*(6 802)*
Total Debt securities issued	**402 553**	**393 663**

(Amounts in NOK 1 000 000)	2022	2021
Commercial paper issued (nominal amounts) as at 1 January	31 567	20 045
New issuance	148 633	273 232
Redemptions*	(156 685)	(262 037)
Amortisation**	98	(65)
Effects of exchange rate changes	(236)	392
Commercial paper issued (nominal amounts) as at 31 December	**23 377**	**31 567**

** Redemptions in 2022 include buybacks of NOK 96 million.*
*** Amortisation is shown in an own line in the table above, but is included in Buyback of debt securities in the table below*

As at 31 December 2022 there are no breaches of debt covenants.

Bonds issued in a foreign currency other than USD with an associated swap to USD, are collectively considered to constitute a synthetic USD borrowing. Value changes due to changes in own credit risk for these bonds are calculated from changes in the credit curve measured in USD on the synthetic borrowing, and may therefore contain effects that are not due to direct changes in own credit risk Value changes on liabilities that are due to changes in own credit risk are recognised in Total comprehensive income, while value changes on liabilities that are due to changes in other market parameters are recognised in the Income statement on the line Net unrealised gain/(loss) on financial instruments. Value changes in the table above are before tax.

RECONCILIATION OF CHANGES IN LIABILITIES THAT ARE PART OF FINANCING ACTIVITIES

(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**
Cash flows			
Proceeds from issuance of debt securities	148 633	86 995	0
Buyback of debt securities	(156 685)	(84 295)	0
Changes that are not related to cash flows			
Change due to accrued interest and amortisation	98	352	1
Changes in fair value		(25 285)	(196)
Effects of exchange rate changes	(236)	31 123	0
Carrying amount 31 December 2022	**23 377**	**402 553**	**1 897**

(Amounts in NOK 1 000 000)	Commercial paper	Debt securities issued	Subordinated loan capital
Carrying amount 31 December 2020	**20 045**	**413 717**	**2 106**
Cash flows			
Proceeds from issuance of debt securities	273 232	96 551	0
Buyback of debt securities	(262 037)	(106 476)	0
Changes that are not related to cash flows			
Change due to accrued interest and amortisation	(65)	(454)	1
Changes in fair value	0	(9 535)	(14)
Effects of exchange rate changes	392	(141)	0
Carrying amount 31 December 2021	**31 567**	**393 663**	**2 092**

NOTE 21

FINANCIAL DERIVATIVES

KBN uses financial derivatives to economically hedge exposures to interest rate and currency risk arising in the Companies business activities, and to economically hedge exposure to option elements in issued bonds. In addition to its ordinary function as a hedging instrument, a subset of currency-related derivatives has a built-in financing element, with ongoing predefined payments during the term and repayment at maturity. KBN enters into swap contracts with counterparties with an average credit rating of A+ and all derivative exposure is subject to risk limits approved by the Board. Bond debt denominated in foreign currency is cashflow-hedged with interest rate and currency swaps to reference rates in NOK, USD and EUR.

Borrowing in foreign currency is converted to Norwegian kroner through basis swaps, where KBN receives interest payments in foreign currency and pays interest in Norwegian kroner. Interest rate risk arising from loans to customers with fixed rate terms is hedged with interest rate swaps and FRA contracts. Interest rate and currency swaps are also used to hedge market risk in the liquidity portfolio. KBN has no credit derivatives in the portfolio.

See note 22 and note 26 for information on ISDA agreements, collateral transfers and clearing, that reduce counterparty risk. Counterparty risk is measured and monitored on an ongoing basis.

	2022			2021		
(Amounts in NOK 1 000 000)	Notional amount	Positive market values - assets	Negative market values - liabilities	Notional amount	Positive market values - assets	Negative market values - liabilities
Mandatorily at fair value:						
Interest rate derivatives	265 750	9 207	6 235	221 323	3 113	3 015
Currency derivatives	506 595	6 630	13 182	519 277	10 478	14 348
Of which principal amounts on transactions with financing element	2 497	52	314	5 090	0	0
	772 346	**15 837**	**19 417**	**740 600**	**13 590**	**17 363**
Fair value hedges:						
Interest rate derivatives	252 255	283	19 653	188 124	2 457	2 708
Currency derivatives	0	0	0	0	0	0
	252 255	**283**	**19 653**	**188 124**	**2 457**	**2 708**
Total financial derivatives	**1 024 600**	**16 119**	**39 070**	**928 724**	**16 047**	**20 072**

All financial derivatives are measured at fair value through profit and loss. Most contracts are categorised as mandatorily at fair value according to IFRS 9. The remaining contracts are designated as hedging instruments in fair value hedges. Standard netting agreements (ISDA) do not fulfil the requirements for offsetting in the Statement of financial position, even though they imply the right to offset in case of default. Financial derivatives are hence presented on a gross basis in the Statement of financial position, such that contracts with a positive fair value are presented as assets and contracts with a negative fair value are presented as liabilities.

KBN have financial instruments that will be effected by the IBOR reform. Of the reference rates subject to liquidation, KBN has a reference to USD Libor 3M for financial derivatives, all of which are covered by the provisions on fallback by ISDA. This provision states that the deriviatives will change the reference rate from USD Libor 3M to SOFR imposed fallback spread of 26.16 bp from 1 July 2023. KBN has started preparing for the new benchmark interest rates by using SOFR as the benchmark interest rate for relevant new financial instruments.

The table below indicates the nominal amounts of all financial instruments that will be affected by the IBOR reform, both phase 1 and phase 2. The amounts provide a close approximation of the extent of risk exposure to financial instruments that will be affected by the liquidation of the USD Libor.

(Amounts in NOK 1 000 000).

IBOR reform phase	Interest rate curve	Asset	Liability	Net amount
Phase 1 - Hedging instruments	USD Libor 3M	0	(128 060)	(128 060)
Phase 2 - Financial derivatives (except for hedging instruments)	USD Libor 3M	91 209	(105 354)	(14 145)
Total		**91 209**	**(233 415)**	**(142 206)**

NOTE 22

COLLATERAL AND OFFSETTING

KBN has entered into ISDA agreements with all derivatives counterparties. This implies that all exposures vs the counterparty may be offset in the event of default. The ISDA agreements contain agreements regarding the exchange of collateral in the form of Credit Support Annex (CSA) related to financial derivatives exposures. Cash collateral received and cash collateral pledged is presented in the Statement of financial position as Deposits with credit institutions or Due to credit institutions with a related payable to or receivable from credit institutions. Cash collateral received is included in KBN's cash management, and is placed either in commercial paper and bonds or in short term money market instruments. KBN has also pledged securities to derivative counterparties as collateral, 156 million at year-end 2022 (996 million as of year-end 2021). These assets are still recognised in the balance sheet as Commercial paper and bonds. Securities amounting to NOK 3,629 million have also been received as collateral in reverse repurchase agreements. This liability item is not recognised in the balance sheet.

(Amounts in NOK 1 000 000)	2022	2021
Cash collateral received	6 567	5 891
Cash collateral pledged	(29 506)	(13 785)
Net received cash collateral	**(22 939)**	**(7 894)**

Effect of offsetting and collateral

KBN only has offsetting rights for exposures in financial derivatives, and for these, legally binding agreements are used both for offsetting and for collateral. Financial derivatives are presented gross in the Statement of Financial Position because the netting agreements do not meet the conditions for offsetting in the Statement of Financial Position, and payments are normally not netted under normal market conditions. The table below shows the carrying amounts of financial derivatives. Since these are presented gross in the Statement of Financial Position, the financial significance of the offsetting right, that is agreed on in the netting agreements with the derivative counterparties as well as held or pledged cash collateral (variation margin), is quantified and highlighted in separate columns. In the event of default of a derivative counterparty it will be possible to enforce the offsetting right as well as make use of the cash security. The value after offsetting and cash security shows the effect of collateral (variation margin) on credit risk for the derivative positions.

(Amounts in NOK 1 000 000)				Amounts that may not be offset in the statement of financial position but that are subject to a netting agreement			
2022	Gross fair value	Amounts that are offset in the statement of financial position	Carrying amount	Offsetting effect for counterparties with both asset and liabilities items	Amount after offsetting	Cash collateral	Amounts after offsetting and collateral
Assets[1)]							
Financial derivatives	16 119	0	16 119	14 946	1 174	1 104[2]	69
Liabilities[3)]							
Financial derivatives	39 070	0	39 070	14 968	24 102	22 438[4]	1 664

[1)] KBN has credit exposure against counterparties
[2)] The difference between the amount in this table and carrying amount for received cash collateral as shown in the table above (NOK 6 567 million) is due to a combination of offsetting of cash collateral and that the bank has received cash collateral over the exposure amount
[3)] Counterparties have credit exposure against KBN
[4)] The difference between the amount in this table and carrying amount for pledged cash collateral as shown in the table above (NOK -29 506 million) is due to a combination of offsetting of cash collateral and that the bank has pledged cash collateral over the exposure amount

(Amounts in NOK 1 000 000)				Amounts that may not be offset in the statement of financial position but that are subject to a netting agreement			
2021	**Gross fair value**	**Amounts that are offset in the statement of financial position**	**Carrying amount**	**Offsetting effect for counterparties with both asset and liabilities items**	**Amount after offsetting**	**Cash collateral**	**Amounts after offsetting and collateral**
Assets[1]							
Financial derivatives	16 047	0	16 047	9 544	6 503	4 298[2]	2 205
Liabilities[3]							
Financial derivatives	20 072	0	20 072	9 556	10 516	10 053[4]	463

[1] KBN has credit exposure against counterparties
[2] The difference between the amount in this table and carrying amount for received cash collateral as shown in the table above (NOK 5 891 million) is due to a combination of offsetting of cash collateral and that the bank has received cash collateral over the exposure amount
[3] Counterparties have credit exposure against KBN
[4] The difference between the amount in this table and carrying amount for pledged cash collateral as shown in the table above (NOK 13 785 million) is due to a combination of offsetting of cash collateral and that the bank has pledged cash collateral over the exposure amount

NOTE 23

SUBORDINATED LOAN CAPITAL

(Amounts in NOK 1 000 000)	Currency	Nominal amount in CCY	Redemption right	Coupon	Nominal amount in NOK 2022	2021
Ordinary subordinated loan capital	NOK	2 000 mill	2028	3.02%	2 000	2 000
Total Subordinated loan capital					**2 000**	**2 000**

NOTE 24

SHARE CAPITAL

	2022		2021	
	Number of shares	**Share in %**	**Number of shares**	**Share in %**
The Kingdom of Norway	3 894 625	100	3 894 625	100

NOTE 25

ADDITIONAL TIER 1 CAPITAL

(Amounts in NOK 1 000 000)	Currency	Nominal amount in CCY	Redemption right	Coupon	Carrying amount 2022	2021
Additional Tier 1 capital	NOK	1 200 mill	2027	3.26%	1 195	1 195
Additional Tier 1 capital	NOK	1 200 mill	2025	3 mnd NIBOR +1,25%	1 196	1 196
Total additional Tier 1 capital					**2 392**	**2 392**

KBN issued additional Tier 1 capital in the form of a subordinated bond in June 2020 and one in June 2017. The bonds forms part of KBN's Tier 1 capital, see Note 31. Based on KBN having a one-sided right to not pay interest and notional amount to the investors, the bond does not qualify as a liability under IAS 32 and is therefore classified as equity in the Statement of Financial Position. The interest expenses are not presented on the line Interest expense in the income statement, but rather as a reduction of Other equity. The expenses are recognised when paid, see the Statement of changes in equity. In 2022 interest in the amount of NOK 55 million (after tax) has been paid (NOK 44 million in 2021). In addition, NOK 17 million (after tax) had accrued at year end 2022 (NOK 16 million in 2021). In total NOK 56 million of profit after tax is attributed to the additional Tier 1 capital holders in 2022 (NOK 44 million in 2021).

NOTE 26

RISK MANAGEMENT

KBN's state ownership, customer group and sector political role imply that KBN maintains a low to very low risk profile. The Board has determined KBN's overall risk appetite, which is divided into the following categories: market risk, liquidity risk, credit risk, capital risk and operational risk with associated risk appetite. Risk appetite is operationalised through defined limits for types and extent of risk exposure.

Risk management and internal control are integrated into the banks strategy and business processes, and are adapted to the nature, scope and complexity of the risk exposure. The CEO is responsible for the implementation of risk management and internal control, and follows up and assesses changes in the banks risk exposure.

Robust internal control is carried out as an integrated part of the business processes of the bank. Risk management is established in a structure based on three lines of defence that ensures systematic identification, assessment and monitoring of the risk in all parts of KBN's activities. The first line of defence carries out operational tasks and is responsible for managing and controlling that all the activities are carried out within the established limits, and in accordance with external and internal regulations. The second line of defence conducts independent risk assessments, controls and validates models and develops and prepares KBN's risk and compliance reporting. The second line of defence consists of financial controlling as well as the risk management and compliance functions. Internal audit (KPMG) constitutes KBN's third line of defence and is the Board's independent control and confirmation body.

RISK TYPES

The risk management and risk exposure in KBN are subject to strict internal guidelines to ensure the banks credit rating and access to the most attractive money markets. Credit and liquidity risk are generally low. Interest rate and currency risk is hedged on transaction level for all currencies except for NOK, USD and EUR. Interest rate risk for these currencies is hedged with interest rate swaps, such that the bank is only exposed to changes in three-month interest rates.

The following risk factors are identified as the most important for KBN:

Capital management

Credit risk and counterparty risk

- Loss on loans granted to customers
- Counterparty default—derivative transactions
- Issuer default—liquidity portfolio

Market risk

- Basis risk
- Interest rate risk
- Credit spread risk
- Currency risk

Liquidity risk

Operational risk

CAPITAL MANAGEMENT

KBN is subject to the Financial Undertakings Act and its capital requirements. In addition, KBN assesses its capital level taking into account all substantial risks the bank is exposed to. The Board of Directors discusses the capital level and assesses all the risks annually to ensure the Company's capital level based on the actual and expected risk exposure.

In the process of capital assessment, KBN estimates the capital level necessary to cover the total risk exposure. The following risks are assessed separately: credit risk, market risk, liquidity risk, operational risk and other non-financial risk.

The Board pays special attention to the risk of changes in regulatory framework. Implementation of European Capital Requirement Regulation to the national capital requirements have increased KBN's capital requirements.

KBN's Common equity Tier 1 capital adequacy ratio is 19.0 per cent as of 31 December 2022. KBN is compliant with all regulatory capital requirements, relating to regulatory minimum requirements and buffer requirements, and for all capital measures (common equity Tier 1 capital ratio, Tier 1 capital ratio, total capital ratio and leverage ratio).

CREDIT RISK

KBN's assets consist of loans to municipalities and similar, and a liquidity portfolio of commercial paper and bonds issued by or guaranteed by sovereigns, regional authorities, multilateral development banks, covered bonds and financial institutions with high credit rating.

Credit risk arising from loans to customers is limited to payment deferrals as the payment obligation cannot be waived. The Local Government Act states that municipalities and similar cannot be declared bankrupt. In the Local Government Act, provisions have also been made on the procedures to be followed if payment deferral must be implemented. According to these provisions, the Ministry takes over the control of a municipality if the municipal council adopts payment deferrals. KBN does, however, perform credit assessment of all lending customers, based on a model for economic analysis of municipalities and similar. The model considers the municipalities' financial situation with both qualitative and quantitative key indicators for economic development and prospects of the customer.

KBN also grants loans to companies that perform tasks for municipalities and county municipalities. The prerequisite for such loans is that the municipalities, or county municipalities, provide guarantees that have been politically adopted and approved by the state through the chief county executive or the Ministry of Local Government and Regional Development.

Financial counterparties in the liquidity portfolio are subject to regular credit assessment and are allocated a credit limit. Credit limits are determined through an internal assessment of the counterparty's rating, the banks risk capital, the type of financial instrument and its maturity.

For investments in Commercial paper and bonds, as well as for financial derivatives, the minimum rating requirement is A3/A- from Moody's and Standard and Poor's.

KBN enters into derivative transactions in order to control interest rate and currency risk. Counterparties in derivative transactions are financial institutions or central counterparties. In addition to strict rating requirements, the risk inherent in derivative transactions is mitigated through the use of ISDA agreements (offsetting). Such agreements, that include the exchange of cash collateral, have been made with all derivative counterparties.

KBN uses clearing services at a central counterparty (London Clearing House—LCH) for financial derivaties related to interest rate risk. As a central counterparty, LCH are subject to capital and risk management and are considered to have lower counterparty risk than ordinary financial institutions.

KBN does not have a direct membership at LCH, and uses clearing brokers that act on behalf of KBN towards LCH. KBN has chosen to segregate its derivative positions and funds (collateral) in relation to any possible default of the clearing broker. Thus, the banks exposure is directly against LCH. KBN achieves a high degree of protection through such a solution.

Credit risk related to the liquidity portfolio is low. The average rating of the portfolio is AA+ (based on the lowest of S&P and Moody's) at 31 December 2022, and 68 per cent of the portfolio is invested in securities with a risk weight of zero per cent. Average time to maturity of the portfolio was 1.7 years as of 31 December 2022. The risk in the portfolio is managed at issuer level and is limited due to the portfolios short duration.

MARKET RISK

Market risk consists mainly of interest rate, basis spread, credit spread and currency risk. KBN's risk appetite and risk policy allows a limited degree of exposure to changes in interest rates, basis spreads and credit spreads, while it only allows a minimal degree of exposure towards FX rates because of operational reasons. Interest rate and currency risk are managed through matching of assets and liabilities at all times, as well as through economic hedges with derivative instruments.

LIQUIDITY RISK

Liquidity risk is managed by matching maturity profiles and interest rate reset periods for assets and liabilities. The policy requires that the liquidity portfolio must at any time cover a minimum of 10 months' obligations, without access to new borrowing. The maturity of the liquidity portfolio is kept short, so that liquidity needs are mainly managed through maturity of the asset side. The liquidity portfolio is invested in liquid securities of very high credit quality.

OPERATIONAL RISK

KBN has very low appetite for operational risk. Assessment of operational risk is performed at least on a yearly basis, and otherwise when conditions dictates it. Operational risk and incidents are reported to the Board on an ongoing basis. KBN's internal control facilitate targeted and efficient operations, reliable reporting, and compliance with external and internal regulations. Operational risk arises in all functions and is minimised through controls of work processes, high professional and competency level, focus on ethical behaviour internally and versus business relations, and robustness in critical functions, amongst others.

NOTE 27

CREDIT RISK
(Amounts in NOK 1 000 000)

KBN has credit exposures against the municipal sector in Norway, as well as against sovereigns, local authorities, multilateral development banks, financial institutions and issuers of covered bonds within the OECD. For the Norwegian municipal sector, the maximum maturity is determined by the Municipality Act and the credit framework is governed by regulations on large exposures. Credit exposures to financial institutions shall have a rating of A- or above.

KBN has no actual loan losses in 2022, and neither is there any evidence of actual default or payment problems with customers that would give reason to expect actual loan losses in 2023. KBN does not issue financial guarantees.

The table below includes exposures that are recognised as Deposits with credit institutions, Loans to customers and Commercial paper and bonds. Exposures on the line Regional authorities includes loans to companies guaranteed by municipalities and regional authorities.

Amounts in the table below represent actual credit exposure

2022

Time to maturity	< 1 year			> 1 year					
Risk class	**A-2**	**A-1/A-1+**	**Not rated**	**BBB**	**A**	**AA**	**AAA**	**Not rated**	**Total**
Sovereigns and central banks	0	24 043	2 094	0	4 251	11 817	0	0	**42 204**
Multilateral development banks	0	1 962	0	0	0	1 688	5 012	0	**8 662**
Regional authorities [1]	0	8 358	32 400	0	0	9 609	4 458	298 483	**353 308**
Financial institutions	371	36 677	2 463	0	0	0	0	0	**39 511**
Securitisation	0	395	0	0	103	0	0	0	**498**
Covered Bonds	0	1 421	282	0	0	2 775	24 618	0	**29 097**
Total	**371**	**72 857**	**37 238**	**0**	**4 354**	**25 889**	**34 088**	**298 483**	**473 280**

[1] Including loans to the municipal sector amounting to NOK 324.5 bn.

Undisbursed loan commitments amount to NOK 2,6 bn as at 31 December 2022.

Credit exposure by country

2022

Time to maturity	< 1 year			> 1 year					
Risk class	**A-2**	**A-1/A-1+**	**Not rated**	**BBB**	**A**	**AA**	**AAA**	**Not rated**	**Total**
Australia	0	289	0	0	0	0	0	0	**289**
Ireland	0	341	0	0	0	0	0	0	**341**
Belgium	0	558	0	0	0	0	0	0	**558**
Canada	0	1 472	2 463	0	0	0	0	0	**3 935**
Danmark	0	1 257	0	0	0	0	5 650	0	**6 907**
Finland	0	5 078	204	0	0	1 907	3 082	565	**10 837**
France	0	21 718	2 094	0	0	0	0	0	**23 811**
Japan	58	3 174	0	0	4 251	0	0	0	**7 483**
Netherlands	0	783	681	0	0	0	0	787	**2 251**
Norway	0	38	30 044	0	0	2 373	16 162	296 212	**344 829**
Austria	0	0	0	0	0	2 163	0	0	**2 163**
Spain	0	0	0	0	0	0	0	0	**0**
United Kingdom	310	1 105	0	0	0	0	0	0	**1 416**
Supranational	0	1 962	0	0	0	1 688	5 012	0	**8 662**
Switzerland	3	1 597	0	0	0	0	0	0	**1 600**
Sweden	0	2 801	1 226	0	0	3 628	3 470	919	**12 044**
Germany	0	19 806	526	0	0	4 476	711	0	**25 520**
USA	0	10 880	0	0	103	9 654	0	0	**20 636**
Total	**371**	**72 857**	**37 238**	**0**	**4 354**	**25 889**	**34 088**	**298 483**	**473 280**

Amounts in the table below represent actual credit exposure

2021

Time to maturity	< 1 year			> 1 year					
Risk class	**A-2**	**A-1/A-1+**	**Not rated**	**BBB**	**A**	**AA**	**AAA**	**Not rated**	**Total**
Sovereigns and central banks	0	20 543	1 001	0	1 482	16 189	0	0	**39 215**
Multilateral development banks	0	2 357	0	0	0	93	5 163	0	**7 613**
Regional authorities [1]	0	12 325	35 828	0	247	9 750	2 295	292 898	**353 343**
Financial institutions	1 360	14 235	1 719	0	0	0	0	0	**17 314**
Securitisation	0	0	0	0	0	0	0	0	**0**
Covered Bonds	0	7 346	4 663	0	0	2 853	21 480	0	**36 343**
Total	**1 360**	**56 807**	**43 212**	**0**	**1 729**	**28 885**	**28 938**	**292 898**	**453 828**

[1] Including loans to the municipal sector amounting to NOK 323.7 bn.

Undisbursed loan commitments amount to NOK 4.1 bn as at 31 December 2021.

Credit exposure by country

2021

Time to maturity	< 1 year			> 1 year					
Risk class	**A-2**	**A-1/A-1+**	**Not rated**	**BBB**	**A**	**AA**	**AAA**	**Not rated**	**Total**
Australia	0	510	0	0	0	0	0	0	**510**
Belgium	0	1 157	1 003	0	0	514	0	0	**2 674**
Canada	0	2 900	1 719	0	0	0	0	0	**4 619**
Danmark	0	3 009	1 552	0	0	0	6 737	0	**11 298**
Finland	0	251	400	0	0	1 663	231	784	**3 329**
France	0	6 034	503	0	0	677	481	0	**7 696**
Japan	1 360	5 902	498	0	1 482	0	0	0	**9 241**
Netherlands	0	207	504	0	0	0	296	668	**1 675**
Norway	0	622	34 597	0	0	2 732	14 334	290 934	**343 219**
Austria	0	1 899	0	0	0	2 185	0	0	**4 084**
Spain	0	0	0	0	0	0	0	0	**0**
United Kingdom	0	4 792	648	0	0	0	102	0	**5 543**
Supranational	0	2 357	0	0	0	93	5 163	0	**7 613**
Switzerland	0	6 942	0	0	0	0	0	0	**6 942**
Sweden	0	10 146	1 432	0	247	3 949	889	511	**17 175**
Germany	0	4 658	354	0	0	3 582	705	0	**9 299**
USA	0	5 419	0	0	0	13 490	0	0	**18 909**
Total	**1 360**	**56 807**	**43 212**	**0**	**1 729**	**28 885**	**28 938**	**292 898**	**453 828**

NOTE 28

INTEREST RATE RISK

(Amounts in NOK 1 000 000)

The interest rate sensitivity information illustrates how the value of the bank's assets and liabilities, profit and equity would be affected by a change in the respective market rate. KBN calculates interest rate sensitivity for the economic value of equity (EVE) and the net interest income (NII) on a 12 month horizon for changes in interest rates, basis spreads and credit spreads. EVE gives an estimate of the change in market value of all the bank's balance sheet items regardless of the measurement method in the financial statements, while NII gives an estimate of changes in net interest income for the period's result.

EVE is a cash flow calculation that deducts the present value of all known and expected cash flows stemming from debt positions from the present value of all known and expected cash flows stemming from assets. EVE sensitivity indicates how a basis point change in the yield curve will affect the total capital. NII is a cash flow calculation that deducts interest costs of all known and expected cash flows on debt from the interest income of all known and expected cash flows on assets. NII sensitivity indicates how a basispoint change in the yield curve will affect the net interest income in the Income Statement. EVE sensitivity and NII sensitivity are internationally recognised standards for estimating interest rate risk. The bank uses both models to manage its assets and liabilities.

Table 1: Interest rate sensitivity on the market value of balance sheet items (EVE)

The table below shows the sensitivity in market value for all balance sheet items, based on a parallel shift in the yield curve (market interest rate/swap rate) of 100 bp (up).

	0-3 months	3 months-1 year	1-5 years	>5 years	Net Total	Gross Total
AUD	0	1	(7)	(20)	**(27)**	**27**
EUR	9	2	1	(19)	**(7)**	**7**
JPY	0	0	0	1	**2**	**2**
NOK	36	(21)	4	4	**22**	**22**
USD	47	(65)	(16)	(3)	**(36)**	**36**
Other	0	5	(20)	(8)	**(24)**	**29**
Total	92	(78)	(38)	(44)	**(69)**	**122**

Table 2: Interest rate sensitivity for unrealised market value changes in the Income statement and the Statement of comprehensive income (EVE)

The table below shows the effect on the Income statement in the form of unrealised market value changes at a parallel shift of 100bp, as in EVE. Not all balance sheet items included in EVE have an accounting measurement method that impacts profit and loss, this only applies to assets and liabilities measured at fair value and assets and liabilities included in hedge accounting. The effect on the balance sheet items measured at fair value is NOK –188 million, while the effect on the hedge accounted balance sheet items is NOK 208 million. Net effect of these is NOK 20 million.

	0-3 months	3 months-1 year	1-5 years	>5 years	Net Total
AUD	0	1	(7)	(20)	**(27)**
EUR	20	2	1	(19)	**4**
JPY	0	0	0	1	**2**
NOK	343	(18)	(81)	(22)	**223**
USD	49	(69)	(23)	(2)	**(45)**
Other	0	5	(20)	(8)	**(24)**
Total	412	(78)	(130)	(70)	**134**

Table 3: Basis-spread sensitivity (EVE)

The table below shows sensitivity in market value for derivatives in form of a parallel shift of the basis curve by one basis point (up). The items included in the table have an effect on profit and loss.

	0-3 months	3months-1 year	1-5 years	>5 years	Net Total
AUD	0	(1)	(9)	(5)	**(16)**
EUR	0	0	(1)	(3)	**(4)**
JPY	0	0	0	(1)	**0**
NOK	3	5	20	4	**32**
Rest	0	(1)	(13)	(3)	**(17)**
Net exposure	3	3	(2)	(8)	**(5)**

Table 4: Credit-spread sensitivity (EVE)

The table below shows sensitivity in market value of balance sheet items (assets measured at fair value) by a parallel shift of the credit spread curve by one basis point (up). The items included in the table have an effect on profit and loss.

	0-3 months	3months-1 year	1-5 years	>5 years	Net Total
Loans to customers	0	(2)	(15)	(21)	**(38)**
Commercial paper and bonds	0	(2)	(8)	(1)	**(11)**
Net exposure	0	(3)	(23)	(21)	**(48)**

Table 5: Interest rate sensitivity for net interest income (NII)

The table below shows the sensitivity of the bank's net interest income on a 12-month horizon based on a 100bp parallel shift of the yield curve (up).

	0-3 months	3 months-1 year	Net Total
EUR	6	0	**6**
NOK	155	2	**157**
USD	(265)	192	**(72)**
Other	0	0	**0**
Total	(103)	194	**91**

Table 6: Sensitivity for change in basis spread for net interest income (NII)

The table below shows the sensitivity of the bank's net interest income on a 12-month horizon based on a 1bp parallel shift of the basis curve (up).

	0-3 months	3 months-1 year	Net Total
EUR	1	0	**1**
NOK	(16)	(3)	**(19)**
Other	(1)	1	**1**
Total	(16)	(2)	**(17)**

Table 7: Sensitivity for change in credit spread for net interest income (NII)

The table below shows the sensitivity of the bank's net interest income on a 12-month horizon based on a 1bp parallel shift of the credit spread curve (up).

	0-3 months	3 months-1 year	Net Total
Loans to customers	15	0	**16**
Commercial paper and bonds	3	1	**4**
Liabilities	(4)	(2)	**(6)**
Total	**15**	**(1)**	**14**

NOTE 29

CURRENCY RISK

(Amounts in NOK 1 000 000)

Currency risk is defined as the risk of loss due to changes in market values based on fluctuations in FX rates. Currency risk arises due to KBN's borrowing being mainly in foreign currency, while lending is in NOK. The banks guidelines require hedging of all currency risk related to assets and liabilities in foreign currency. However, short term net positions related to income statement items in USD and EUR, may occur. Currency risk is hedged at both transaction level and portfolio level. The limit for currency risk is set to gross currency position that can not exceed 1.6% of subordinated capital. KBN's balance sheet can also be affected by currency fluctuations without any effect on earnings.

	2022		2021	
Currency	**Net position**	**10% change in FX rate**	**Net position**	**10% change in FX rate**
USD	174	17	40.1	4.01
EUR	32	3	2.0	0.20
Other currencies	12	1	4.0	0.40
Total	**219**	**22**	**46.1**	**4.61**

The table above shows an absolute effect in the income statement of a 10 percent change in FX rates relative to NOK. The amount is calculated based on all net positions in foreign currency as at 31 December 2022 and 2021. The sensitivity analysis assumes zero correlation between FX rates and other market risk factors.

NOTE 30

LIQUIDITY RISK

(Amounts in NOK 1 000 000)

Liquidity risk is defined as the risk of KBN not being able to meet its commitments or finance lending demand without significant extra costs being incurred in the form of reduction in value of assets that need to be sold, or in the form of more expensive funding. Liquidity risk is monitored and managed through the bank's liquidity policy set by the Board of Directors.

The policy requires that the liquidity portfolio should generally cover 12 months' net redemptions, and at any time a minimum of 10 months' net redemptions. This implies that the bank has to be in the position to cover all its liabilities/payables, including that related to the lending activities, during at least 10 months without new borrowing.

KBN has a portfolio of highly liquid securities. These holdings shall be transferrable to cash without significant losses for KBN under severely stressed market conditions, either through direct sales or through the use of repurchase agreements in a recognised repurchase market.

The liquidity portfolio shall have low credit and market risk and is invested in notes and bonds issued by sovereigns, local authorities, multilateral development banks and highly rated financial institutions.

2022 Exposure by time to maturity	Total	< 1 month	1-3 months	3-12 months	1-5 years	>5 years	Without maturity
Deposits with credit institutions	**39 514**	39 514	0	0	0	0	0
Loans to customers	**515 648**	2 429	10 655	26 463	170 321	305 780	0
Commercial paper and bonds	**116 203**	4 859	27 630	12 532	71 034	148	0
Total assets	**671 365**	**46 802**	**38 286**	**38 994**	**241 355**	**305 928**	**0**
Due to credit institutions	**6 567**	6 567	0	0	0	0	0
Commercial paper	**23 453**	2 463	20 990	0	0	0	0
Debt securities issued	**452 558**	17 428	19 776	47 837	307 602	59 913	0
Other liabilities	**82**	11	22	15	7	0	28
Subordinated loan capital	**2 302**	0	0	60	2 242	0	0
Additional Tier 1 capital	**2 731**	0	13	81	2 636	0	0
Total liabilities	**487 693**	**26 469**	**40 801**	**47 994**	**312 487**	**59 913**	**28**
Financial derivatives	**(17 718)**	**(1 317)**	**535**	**(5 558)**	**(9 730)**	**(1 648)**	**0**
Net liquidity exposure	**165 955**	**19 016**	**(1 981)**	**(14 558)**	**(80 862)**	**244 367**	**(28)**

The table shows the sum of net maturities in that period, including interest payments. Additional Tier 1 capital is included in the table although it is not classified as liability in the Statement of financial position, because it is included in the bank's liquidity management. Financial derivatives are net cash flows (principal and interest) per time period.

2021 Exposure by time to maturity	Total	< 1 month	1-3 months	3-12 months	1-5 years	>5 years	Without maturity
Deposits with credit institutions	**17 317**	17 317	0	0	0	0	0
Loans to customers	**373 554**	2 736	7 760	27 080	120 440	215 537	0
Commercial paper and bonds	**114 772**	10 273	19 103	23 058	60 538	1 799	0
Total assets	**505 643**	**30 326**	**26 863**	**50 139**	**180 978**	**217 336**	**0**
Due to credit institutions	**5 891**	5 891	0	0	0	0	0
Commercial paper	**31 565**	11 028	9 875	10 662	0	0	0
Debt securities issued	**414 876**	14 979	22 774	47 578	266 037	63 508	0
Other liabilities	**698**	37	19	595	15	0	32
Subordinated loan capital	**2 000**	0	0	0	0	2 000	0
Additional Tier 1 capital	**2 400**	0	0	0	1 200	1 200	0
Total liabilities	**457 430**	**31 935**	**32 668**	**58 836**	**267 252**	**66 708**	**32**
Financial derivatives	**(5 067)**	**1 403**	**192**	**(2 465)**	**(4 342)**	**145**	**0**
Net liquidity exposure	**43 145**	**(207)**	**(5 612)**	**(11 162)**	**(90 615)**	**150 773**	**32**

The table shows the sum of net maturities in that period, including interest payments. Additional Tier 1 capital is included in the table although it is not classified as liability in the Statement of financial position, because it is included in the bank's liquidity management. Financial derivatives are net cash flows (principal and interest) per time period.

NOTE 31

CAPITAL ADEQUACY AND CAPITAL MANAGEMENT

(Amounts in NOK 1 000 000)

KBN's capital consists of share capital, Other equity, additional Tier 1 capital and supplementary capital/Subordinated loan capital. A satisfactory level of capital is seen as necessary for maintaining the AAA-rating and to ensure efficient market competition. The Board assesses the capital level on an ongoing basis and approves KBN's principles for capital management. The bank is subject to the capital adequacy regulations and must at all times ensure a capital level that is justifiable in relation to the risk profile and market conditions. The goal for capital management is operationalized through common Tier 1 capital adequacy, Tier 1 capital adequacy and total capital adequacy

KBN's capital status is assessed against risk in a 12-month perspective and using long-term stress tests. The minimum requirement including buffers and pillar 2 requirements is set at 16.1 percent for common equity tier 1 capital, 17.6 percent for tier 1 capital and 19.6 percent for total capital as at 31 December 2022. KBN's pillar 2 requirement is 2.2 percent on 31 December 2022.

The minimum requirement for leverage ratio is set at 3 percent as at 31 December 2022. KBN's capital adequacy exceeds government-determined and board-determined capital requirements as of 31 December 2022.

Changes in regulation that implement the European Commissions reform, to further strengthen the solidity to banks within the EU, was implemented in 2022. The implementation reduced common equity Tier 1 capital adequacy ratio in KBN with 0.7 percentage point.

The capital adequacy is affected by deduction items in common equity Tier 1 capital, primarily related to deferred tax assets, see note 8 Tax for further information.

Capital adequacy	2022			2021		
	Carrying amount	Risk-weighted assets	Minimum capital requirements and capital adequacy	Carrying amount	Risk-weighted assets	Minimum capital requirements and capital adequacy
Credit risk						
Sovereigns and central banks	42 196	0	0	39 215	0	0
Regional governments and local authorities	346 133	65 500	5 240	348 549	65 025	5 202
Of which are Norwegian municipalities	324 532	65 155	5 212	323 652	65 025	5 202
Corporates	499	249	20	0	0	0
Public sector entities	7 155	0	0	4 774	0	0
Multilateral development banks	8 661	0	0	7 614	0	0
Financial institutions	17 238	2 794	224	16 719	2 642	211
Of which counterparty exposure on derivatives	10 703	2 138	171	13 468	1 992	159
Claims secured by residential property	22	22	2	20	20	2
Covered bonds	29 046	2 905	232	36 374	3 637	291
Other assets	1 675	4 158	333	1 673	4 174	334
Securitisation	0	0	0	0	0	0
Credit Valuation Adjustment	202	2 530	202	194	2 420	194
Total credit risk	**452 827**	**78 158**	**6 253**	**455 132**	**77 919**	**6 234**
Market risk	**0**	**0**	**0**	**0**	**0**	**0**
Operational risk - Basic Indicator Approach[1]		**2 374**	**190**		**3 573**	**286**
Minimum capital requirements		**80 531**	**6 443**		**81 492**	**6 519**
Total capital ratio			**24,5%**			**24.2%**
Tier 1 capital adequacy ratio			**22,0%**			**21.7%**
Common equity Tier 1 capital adequacy ratio			**19,0%**			**18.8%**
Leverage ratio			**3,9%**			**3.9%**

[1]KBN uses basic indicator approach to calculate operational risk, where average of net income last three years are basis for the calculation. Net income include Net unrealised gain/(loss) on financial instruments. Reduction of capital requirement is due to low net income in 2022.

Supplementary capital cannot exceed 100 percent of Tier 1 capital. KBN's total capital satisfies the capital adequacy requirements. KBN's total primary capital comprises the following elements:

(Amounts in NOK 1 000 000)	**2022**	**2021**
Equity	18 903	19 081
Additional Tier 1 capital included in equity	(2 392)	(2 392)
Equity included in common equity Tier 1 capital	16 512	16 690
Deductions:		
Deferred tax asset*	(1 228)	(1 353)
Intangible assets	(143)	(140)
Dividends payable	0	(646)
Prudent valuation adjustments (AVA)	(147)	(135)
Adjustments unrealised loss (gains) due to changes in own credit risk	305	904
Total common equity Tier 1 capital	**15 299**	**15 320**
Other approved Tier 1 capital	2 392	2 392
Total Tier 1 capital	**17 691**	**17 711**
Supplementary capital		
Subordinated loan capital	2 000	2 000
Total supplementary capital	**2 000**	**2 000**
Total primary capital	**19 691**	**19 711**

***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.

Board statement

We confirm that the company's annual financial statements 2021 have been prepared in accordance with IFRS, and that the information in the financial statements gives a true and fair view of the company's assets, liabilities, financial position and results as a whole.

In our best belief, the annual report provides a true and fair view of important events during the accounting period and their influence on the annual accounts, and the most important risk and uncertainty factors the company faces in the next accounting period.

Oslo, 31 December 2022
27 February 2023
The Board of Kommunalbanken AS

Brit Kristin Rugland Chair	Rune Midtgaard Vice chair	Toril Hovdenak Board member	Ida Texmo Prytz Board member
Harald Jacobsen Board member	Petter Steen jr. Board member	Anne Jenny Dvergsdal Board member	Ida Espolin Johnson Board member
Eyvind Aven Board member			Jannicke T. Granquist President & CEO

Statsautoriserte revisorer
Ernst & Young AS

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Medlemmer av Den norske Revisorforening

INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Kommunalbanken AS

Opinion

We have audited the financial statements of Kommunalbanken AS (the Company), which comprise the statement of financial position as at 31 December 2022, income statement, statements of comprehensive income, cash flows and changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements comply with applicable legal requirements and give a true and fair view of the financial position of the Company as at 31 December 2022 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Our opinion is consistent with our additional report to the audit committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the requirements of the relevant laws and regulations in Norway and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

To the best of our knowledge and belief, no prohibited non-audit services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided.

We have been the auditor of Kommunalbanken AS continuously for 22 years from the fiscal year 2001.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

Valuation of Financial Instruments

Basis for the key audit matter
Unlisted or illiquid financial instruments measured at fair value are valued based on models that use assumptions that are not observable in the market place. The valuation of these instruments requires the use of judgement. Such instruments comprise assets of NOK 90 487 million and liabilities of NOK 25 767 million measured at fair value in the statement of financial position and classified as level 3 instruments within the fair value hierarchy. Due to the materiality of the unlisted or illiquid instruments, we considered the valuation of these instruments a key audit matter.

Level 3 instruments which are presented at fair value on the statement of financial position are disclosed in note 11 in the financial statements.

Our audit response
We assessed the design and tested the operating effectiveness of internal controls over the valuation process including management's determination and approval of assumptions and methodologies used in model-based calculations. Our assessment also included management's review of valuations performed by internal experts. We assessed pricing models against industry practice and valuation guidelines. We performed independent valuations for selected instruments and used external source data where available. We compared results of our valuations to the Company's valuations.

IT-systems supporting financial reporting

Basis for the key audit matter
Kommunalbanken AS uses complex IT systems in an automated IT environment and is highly dependent on its IT systems in supporting the reporting of financial information. To ensure complete and accurate presentation of financial information, it is important that controls over transaction processing and measurement are designed and operate effectively. Likewise, IT-general controls need to be designed and operate effectively to ensure appropriate access rights and system changes. The IT systems supporting financial reporting are considered a key audit matter as these systems are critical to ensure accurate, complete and reliable financial reporting.

Our audit response
We obtained an understanding of Kommunalbanken's IT systems and the IT environment relevant for financial reporting. We assessed and tested the automated controls within the financial system related to amongst others, effective interest rate and discounting. Furthermore, we involved IT specialists in assessing and testing the operating effectiveness of the IT general controls exercised by management throughout the reporting period

Other information

Other information consists of the information included in the annual report other than the financial statements and our auditor's report thereon. The Board of Directors and President & CEO (management) are responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the board of directors' report, the statement on corporate governance and the statement on corporate social responsibility contain the information required by applicable legal requirements and whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that the other information is materially inconsistent with the financial statement, there is a material misstatement if this other information or that the information required by applicable legal requirements is not included in the board of directors' report, the statement on corporate governance and the statement on corporate social responsibility, we are required to report that fact.

We have nothing to report in this regard, and in our opinion, the board of directors' report, the statement on corporate governance and the statement on corporate social responsibility are consistent with the financial statements and contain the information required by applicable legal requirements.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Oslo, 27 February 2023
ERNST & YOUNG AS

Anders Gøbel
State Authorised Public Accountant (Norway)

(This translation from Norwegian has been prepared for information purposes only.)

Articles of Association

These Articles of Association were last changed by the Annual General Meeting held on 1 June 2022.

These articles of association are issued in Norwegian and have been translated into English. In case of discrepancy between the two versions, the Norwegian version shall prevail.

Chapter I - Company, objectives, registered office

§ 1 The Company's name is Kommunalbanken AS.

§ 2 The Company is a direct continuation of the enterprise carried out by the government administrative body, Norges Kommunalbank.

The State's shares may be assigned to municipalities, county authorities, intermunicipal companies and municipal pension funds. Such assignment will be done in accordance with the Company's aim of maintaining the highest possible creditworthiness.

§ 3 The Company's objectives are to provide loans to municipalities, county authorities, intermunicipal companies and other companies that carry out local government tasks against either a municipal guarantee, a government guarantee, or other satisfactory security.

The Company can also undertake other tasks appropriate to the Company's business.

§ 4 The Company's registered office is in Oslo.

Chapter II - Equity and subordinated loan capital - shares

§ 5 The Company's share capital is NOK 3,894,625,000 (three billion, eight hundred and ninety-four million, six hundred and twenty five thousand Norwegian kroner) divided into 3,894,625 shares of NOK 1,000 (one thousand Norwegian kroner) each.

§ 6 The acquisition of shares is conditional on the consent of the Company's Board of Directors. Consent can only be withheld on grounds of fact.

§ 7 Pre-emption rights given to shareholders under section 4-19 of the Norwegian Companies Act can also be claimed for shares which have changed owner.

Chapter III - Board of Directors

§ 8 The Company's Board of Directors shall collectively exhibit diversity and breadth of qualifications, experience and background and consist of between five (5) and nine (9) members. If a majority of the employees should so decide, it can demand that a third and at least two (2) of the members of the Board shall be elected by and from amongst the Company's employees. For these members two (2) personal deputies shall be elected.

The other members shall be elected by the Annual General Meeting for two-year terms, so that at least two (2) shall be elected annually, but no more than four (4) of the elected members.

The Annual General Meeting shall elect the chairman and vice-chairman of the Board of Directors.

The Nomination Committee shall prepare the election of the chairman and the vice-chairman and the other non-employee members of the Board of Directors.

§ 9 The chairman of the Board shall ensure that the Board holds meetings as often as the Company's business necessitates, or when a member calls for a meeting to be held.

The Board constitutes a quorum if more than half the members are present. Valid resolutions are those for which the majority of the members present have voted, although a proposal which implies an alteration or amendment requires more than one-third of all board members. If the votes on each side are equal, the chairman of the meeting shall have the casting vote.

§ 10 The responsibility for the overall management of the Company belongs to the Board and it shall therefore inter alia:

1. Ensure that the Company's business operations/activities are soundly organised.
2. Draw up strategies and plans, budgets and guidelines for the Company's business operations/activities and check that they are followed:
3. Keep itself informed of the Company's financial position and ensure that its operations, accounts and fund management are subject to adequate control.
4. Make decisions and grant authority for new loans raised.
5. Grant special powers and authorisation to sign on behalf of the company per procurationem.
6. Present the annual accounts and directors' report to the Annual General Meeting.
7. Make recommendations to the Annual General Meeting with respect to alterations to the Articles of Association.
8. Appoint the managing director.
9. Fix the managing director's salary.
10. Prepare guidelines and remuneration report in accordance with § 26 of the Articles of Association.
11. Supervise the day-to-day management of the Company and its overall operations.

§ 11 The chairman of the Board, or the vice-chairman of the Board, shall jointly with one of the board members or the managing director sign for the Company.

§ 12 The managing director shall be responsible for the day-to-day management of the Company and its business operations/activities in accordance with the instructions laid down by the Board.

Chapter IV - Supervisory Board

§ 13 The Supervisory Board shall consist of twelve members and five deputy members. One member and one personal deputy member shall be elected by and from amongst the employees. The remainder of the members and deputy members shall be elected by the Annual General Meeting. The Supervisory Board should be composed of as broad a range of members as possible, so as to ensure that the various districts and interest groups affected by the Company's business are fairly represented. No member of the Board of Directors nor any of the Company's senior executives can be elected member of the Supervisory Board.

The members of the Supervisory Board shall be elected for two-year terms. One third of the members shall retire each year. At least one third of the members shall be elected annually. The Supervisory Board shall elect a chairman and vice-chairman from amongst its members to serve for a term of one year.

§ 14 The Supervisory Board shall be convened by the chairman and meet at least once a year or as often as the chairman finds necessary or when called for by the Board of Directors, or by a minimum of two members of the Supervisory Board. The notice of the meeting shall set out the business to be considered.

The Board of Directors and the Company's auditor shall be called to attend the meetings of the Supervisory Board. Unless otherwise determined by the Supervisory Board in individual instances, the members of the Board of Directors are entitled to be present at the meetings of the Supervisory Board with the right to speak and to make proposals. The Ministry of Local Government and Regional Development can participate in the Supervisory Board meeting with up to two observers.

The Supervisory Board constitutes a quorum when at least 2/3 of its members or deputy members are present. If the requisite number of members is not present, a new meeting of the Supervisory Board shall be called. The new meeting will constitute a quorum if more than half the members are present.

Valid resolutions of the Supervisory Board are those for which the majority of the members present have voted, although a resolution can only be passed if voted for by more than one third of all members. If the votes on each side are equal, the chairman of the meeting shall have the casting vote.

§ 15 The Supervisory Board shall endeavour to ensure that the Company's objectives are being promoted in accordance with law, regulations, memorandum and articles of association, and the resolutions of the General Meeting and the Supervisory Board by:

Provide a statement to the Annual General Meeting in respect of the Board of Directors' proposals for the income statement and balance sheet and the Board's proposals for the application of profit or covering of loss for the year.

Scrutinise the Board of Directors' report and the auditor's report.

Give an opinion on matters concerning the Company which are brought before the Supervisory Board by the Board of Directors or that the Supervisory Board considers necessary to address, with a particular focus on corporate governance.

Chapter V - The Nomination Committee

§ 16 The Nomination Committee shall consist of up to three members and one deputy member who shall be elected by the General Meeting for a two-year period.

§ 17 The Nomination Committee shall propose candidates for election to the following offices and functions:

Chairman and vice chairman of the Board of Directors

Other members of the Board, with the exception of those members who are elected by and from amongst the employees

Members and deputy member of the Nomination Committee

Chapter VI - Annual General Meeting

§ 18 The ordinary Annual General Meeting shall be held before the end of June.

The Ministry (The Ministry of Local Government and Modernisation) calls the Annual General Meeting to which the members of the Board of Directors, managing director and the Company's auditor are called.

An extraordinary General Meeting shall be held if called for by the Ministry of Local Government and Regional Development, the Board of Directors or the Company's auditor.

The ordinary Annual General Meeting shall:

1. Adopt the Company's annual report and accounts, including the application of profit or covering of loss for the year, and the declaration of dividend.
2. Elect members to the Board of Directors in accordance with § 8 of the Articles of Association.
3. Elect members and deputy member to the Supervisory Board in accordance with § 13 of the Articles of Association.
4. Elect members and deputy member to the Nomination Committee in accordance with § 16 of the Articles of Association.
5. Elect the Company's auditor.
6. Fix remuneration for members of the Supervisory Board and the Board of Directors, the board's subcommittees and the Company's auditor.
7. Adress guidelines and remuneration report in accordance with § 26 of the Articles of Association.
8. Address other business referred to in the notice of the meeting or which by law or Articles of Association falls under the Annual General Meeting.

Chapter VII

Auditor

§ 19 The Company's auditor shall be a state-authorised public accountant and shall be elected by the Annual General Meeting based on a recommendation from the Board of Directors.

The auditor's report shall be delivered at least two weeks prior to the meeting of the Supervisory Board which shall consider the accounts.

Chapter VIII

§ 20 The Company shall raise funds for lending by issuing bonds, certificates or other form of loan notes or by entering into loan agreements. The Company may raise primary capital and other foreign capital.

Raising primary capital and Tier 1 capital instruments is effected based on a majority Annual General Meeting resolution as in the case of alterations to the Articles of Association, or by the Board of Directors according to the authority adopted by such a majority. The authority shall be limited upward in amount and is not valid for longer than the next year's regular Annual General Meeting, or maximum of 18 months.

§ 21 Loans can only be granted to municipalities, county authorities, intermunicipal companies and other companies which carry out local government tasks against either a municipal guarantee, a government guarantee or other satisfactory security. The Company can also undertake other tasks appropriate to the Company's business.

§ 22 The Board of Directors shall determine the terms and conditions that shall apply to its loans at any time.

§ 23 The Company's capitalisation and financial administration shall be satisfactory in relation to the Company's business and consistent with the Company's aims of maintaining the highest possible creditworthiness.

Chapter IX - Annual Report and Accounts

§ 24 The Company's financial year shall follow the calendar year.

The Board of Directors shall deliver annual accounts and an annual report for each financial year.

The annual accounts shall be placed at the disposal of the auditor at least one month prior to the ordinary Annual General Meeting. The audited annual report and accounts shall be scrutinised by the Supervisory Board before being put before the Annual General Meeting.

The Annual General Meeting shall adopt the annual report and accounts no later than the end of June.

The Board of Directors shall publish the annual report and accounts no later than one week after they have been adopted by the Annual General Meeting.

Chapter X - Age of retirement

§ 25 The age of retirement for the Company's Managing Director is 70 years.

Chapter XI - Renumeration to senior executives

§ 26 The company shall apply the provisions of Sections 6-16 a and 6-16 b of the Public Limited Liability Companies Act and the implementing regulations to these provisions. Guidelines in accordance with Section 6-16 a of the Public Limited Liability Companies Act shall be presented for approval by the General Assembly from 2022 and a remuneration report in accordance with Section 6-16 b of the Public Limited Liability Companies Act shall be presented for the General Assembly from 2023.

Chapter XII - Alterations to the Articles of Association

§ 27 Alterations to the Articles of Association must be approved by the King if prevailing regulations so demand. If such approval is demanded, the Articles of Association will come into force on the date such approval is forthcoming.

GRI index

GRI indicator	Description	Location in report (page number)	Reporting 2022
Organisational profile			
2-1	Name of the organisation, ownership and legal form, location of headquarters, and location of operations	About KBN (6)	Haakon VIIs gate 5b, 0161 Oslo. KBN operates in Norway.
2-2	Entities included in the organisation's sustainability reporting		Kommunalbanken AS
2-3	Reprting period, frequency, dato of publishing, and contact person		01.01.2022 to 31.12.2022, annually, 27.02.2023. Harald Jacobsen Head of Communications and Sustainability Mobile: +47 995 38 005 haj@kbn.com
2-4	Restatements of information		None
2-5	External assurance		The annual report as a whole is not externally verified. Greenhouse gas accounting in the annual report is externally assured.
Activities and employees			
2-6	Activities, value chain, and other business relationships	About KBN (6) Objectives for 2023 (and 2025) (57) Performance in 2022 (55)	KBN borrows from around the world and offers low-cost loans to Norwegian municipalities and country authorities. The core of KBN's supply chain is its use of issue managers in connection with our funding activities. KBN also has agreements with and carries out financial transactions with a number of financial undertakings. Our financial agreements and transactions are subject to internal financial guidelines, which require, inter alia, that issue managers must be subject to anti-money laundering rules. KBN also purchases consulting services to a normal extent and goods and equipment for normal operations to a limited extent.
2-7	Employees	Statement of equality (64)	86 employees, 43% women, 57% men, Oslo. Data gathered by head counting at the end of the reporting period. No large variations in total number of employees.
2-8	Workers who are not employees		Throughout 2022, KBN had 25 temporary workers, mainly consultants in IT, HR, Compliance og administrative services. Data gathered by head counting at the end of the reporting period. No large variations in number of workers.

GRI indicator	Description	Location in report (page number)	Reporting 2022
Governance			
2-9	Governance structure and composition	The Board of Directors (30) Organisational structure and governing bodies (35) Performance in 2022 (55) The management team (32)	Minority backgrounds have not been mapped among the board members, but it is assumed that minority backgrounds are less represented on the board than in the general population. The board has spesific expertise in finance, risk management, legal matters, sustainability and municipalities and counties.
2-10	Nominating and selecting the highest governance body	Organisational structure and governing bodies (35) Corporate governance (39)	Meld.St.6 (2022-2023) Report to the Storting, Chapter 12.5: https://www.regjeringen.no/contentassets/b45b4a63e301435293bd1b10d1ede45b/en-gb/pdfs/stm202220230006000engpdfs.pdf
2-11	Chair of the highest governance body	The Board of Directors (30)	The Board of Directors and management team are independent.
2-12	Role of the highest governance body in overseeing the management of impacts	Performance in 2022 (55) Organisational structure and governing bodies (35)	General guidelines are approved by the Board of Directors, and is reported quarterly. https://www.kbn.com/en/sustainability/our-sustainability-work/requirements-for-suppliers/
2-13	Delegation of responsibility for managing impacts	Performance in 2022 (55)	The report is presented at each board meeting which occurs approx. monthly.
2-14	Role of the highest governance body in sustainability reporting		The CEO is responsible for the implementation of sustainability. The audit committee is the preparatory committee for sustainability reporting to the board. The board reviews and approves reported information.
2-15	Conflicts of interest		https://www.kbn.com/en/about-us/ethics/code-of-conduct/
2-16	Communicating critical concerns	Objectives for 2023 (and 2025) (57)	It is reported to the CEO monthly and quarterly to the Board of Directors. No critical concerns reported in 2022.
2-17	Collective knowledge of highest governance body	The Board of Directors' main priorities (40) The Norwegian Code of Practice for Corporate Governance (43)	A program is conducted for skills development among the directors with various topics, as well as a requirement for annual training in anti money laundring.
2-18	Evaluating the highest governance body's performance	Organisational structure and governing bodies (35)	An annual self-evaluation is carried out. It will be considered to implement measures if necessary. Examples are measures to increase competence, which has been done in the past in the fields of finance and IT. The administration helps to arrange this. Another measure is to change the area of responsibility for the individual on the board, and in more serious cases to replace board members. There has not been a need for this in the past. KBN is also subject to the EBA's guidelines for the suitability of members of the board and other key functions. In addition, a separate assessment form has been created for the sustainability work/ESG at the board.
2-19	Remuneration policies	Statement of financial positions (103) Statement of equality (64)	Guidelines for remuneration are measured by compliance with the bank's values.

GRI indicator	Description	Location in report (page number)	Reporting 2022
2-20	Process for determining remuneration	Organisational structure and governing bodies (35) The Norwegian Code of Practice for Corporate Governance (43) Statement of financial positions (103)	
2-21	Annual total compensation ratio		The CEO is compensated 3.52 times as much as the average annual compensation for all employees, with a 1% higher increase than the median percentage increase for all employees. Students are not included in the selection.
Strategy, policies and practices			
2-22	Statement on sustainable development strategy	Foreword (4) The Board's of Director's Report 2022 (79)	
2-23	Policy commitments		The guidelines are adopted by the board. KBN carries out regular risk-based vigilance assesments and maps and assesses acutal and potential negative consequences. Annual review of the ethical guidelines are assessed internally. For suppliers, surveys are carried out as further follow-up on a quarterly, half-yearly or annual basis, depending on the supplier's materiality. Ethical guidelines: https://www.kbn.com/en/about-us/ethics/code-of-conduct/ Our sustainability work: https://www.kbn.com/en/sustainability/our-sustainability-work/overall-guidelines-for-corporate-social-responsibility/ Code of conduct: https://www.kbn.com/en/about-us/ethics/code-of-conduct/
2-24	Embedding policy commitments		https://www.kbn.com/en/about-us/ethics/code-of-conduct/
2-25	Processes to remediate negative impacts		A complaint channel has been created for customers to identify and process complaints: https://www.kbn.com/en/customer/complaints/ As of today, there is no concrete process for handling the complaints. The emergy plan includes 8 different scenarios with a description of how the managment crisis is carries out. The recovery plan is covered by ICAAP, where the CEO presents to the board at least annually an overview of the capital requirement together with a long-term capital plan. The communication plan must ensure that KBN's reputation is secured in the event of critical incidents that could damage the bank's reputaiton.
2-26	Mechanisms for seeking advice and raising concerns	Objectives for 2023 (and 2025) (57) Statement of equality (64)	
2-27	Compliance with laws and regulations		KBN was not sanctioned or fined in 2022. What is defined as a significant case is included in the assessment system internally for operational risk management.

GRI indicator	Description	Location in report (page number)	Reporting 2022
2-28	Membership associations		https://www.kbn.com/en/sustainability/our-sustainability-work/
Stakeholder engagement			
2-29	Approach to stakeholder engagement	Performance in 2022 (55)	
2-30	Collective bargaining agreements		35% of KBN's employees are covered by collective agreements. Employees are covered by the bank's own collective agreements even if they are not organised.
Energy			
308	Management approach	Objectives for 2023 (and 2025) (57)	
308-1	New suppliers that were screened using environmental criteria	Performance in 2022 (55) Objectives for 2023 (and 2025) (57)	79% of new suppliers are assessed against environmental criteria.
Employment			
401	Management approach	Objectives for 2023 (and 2025) (57)	
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees		All employees (expect students) have life insurance, health insurance, disability and invalidity cover through KBN. All employees are covered by KBN's leave and pension scheme. Figures include KBN's headquarters in Oslo. All employees have access to parental leave through KBN.
Training and education			
404	Management approach	Objectives for 2023 (and 2025) (57)	
404-1	Average hours of training per year per employee		87% of employees completed the "Kompetanseløftet" program in 2021, with a requirement of at least 15 hours duration. In addition, training was carried out in self-management, ethics, and cyber security for all employees.
404-3	Percentage of employees receiving regular performance and career development reviews	Objectives for 2023 (and 2025) (57)	
Supplier social assessment			
414	Management approach	Objectives for 2023 (and 2025) (57)	
414-1	New suppliers that were screened using social criteria	Performance in 2022 (55) Objectives for 2023 (and 2025) (57)	79% of new suppliers are assessed against social criteria.
Socioeconomic compliance			
419	Management approach		
419-1	Non-complaince with laws and regulations in the social and economic area		KBN was not sactioned or fined in 2022.