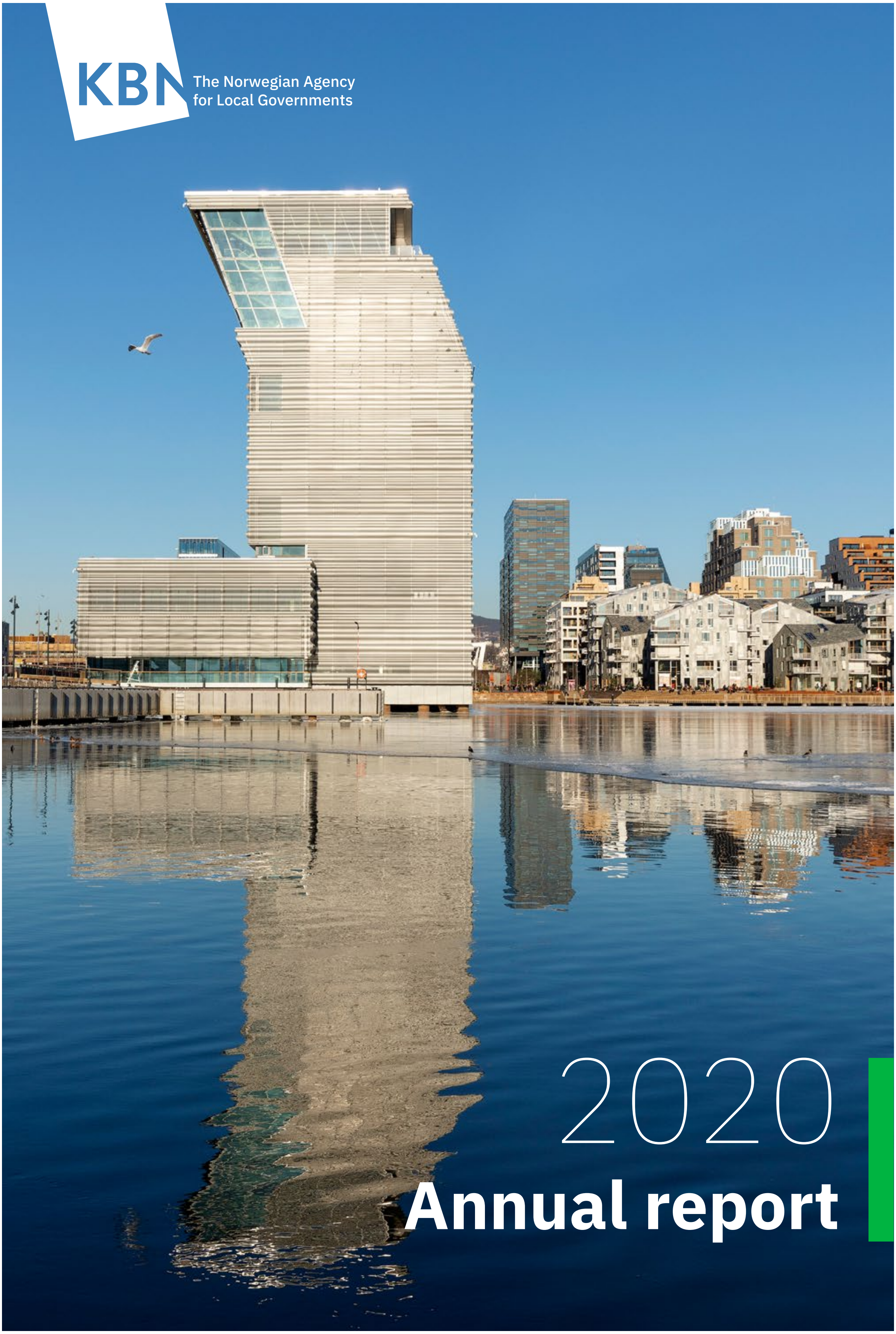
KBN The Norwegian Agency for Local Governments



2020 Annual report

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Cover: Munch Museum in Oslo

The museum of Edvard Munch's world-renowned art opens in summer 2021. The building has a distinct climate profile and is funded with a with green loan of NOK 2 billion in KBN

Cover photo: Jo Straube

About KBN

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

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

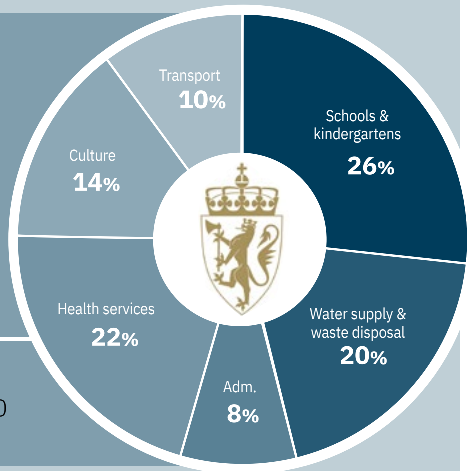
KBN finances its lending to the local government sector by borrowing money directly in the capital markets. KBN is today one of the largest Norwegian borrowers in the international capital markets, and each year it needs to borrow around NOK 100 billion. KBN finances its green loans for the local government 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.

318.2
NOK bn.
TOTAL LENDING

107.8 **NOK bn.** FUNDING 2020

58.0 **NOK bn.** LENDING 2020



AAA
Standard & Poor's
Moody's

26 NOK bn.
lending to climatefriendly municipal projects

99,7 %
of Norwegian municipalities are KBN customers

46.5 %
of municipal debt is financed through KBN

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

The challenges will outlast the pandemic

2020 has shown us that we can achieve a lot when we stand together. If we manage to unite the same forces to meet the challenges that lie ahead of us in the years to come, then there is reason to be optimistic. Going forward, it will be about tough priorities but also smart choices.

Photo: Jo Straube

JANNICKE TRUMPY GRANQUIST
CEO, KBN

2020 will stand as one of the most demanding years in recent times. The outbreak of coronavirus led to a pandemic the full consequences of which the world has not yet seen. More than 100 million people have been infected, 2.5 million have lost their lives, and many more have lived almost in isolation for long periods of time since the outbreak began. The world economy suffered the biggest setback since the Great Depression of the 1930s, business and industry have struggled, companies have gone under and many people have lost their jobs.

Norway has thus far made it through the crisis in relatively good shape. Fewer people have been infected and the death toll has been lower than in other similar countries. The oil fund has meant Norway has had the financial muscle needed to limit the negative financial effects of the pandemic on businesses, employees and municipalities.

The coronavirus pandemic put our customers, Norway's municipalities, on the front line in terms of testing and tracing cases and reducing infection. The lockdown had major consequences for municipal services, and since March Norway's municipalities have been more or less continually in crisis management mode. The fact that the level of investment was approximately in line with expectations for 2020 illustrates, however, that Norway's municipalities and county authorities were largely able to carry out the investment projects for which they had budgeted as planned in parallel with their extraordinary tasks and the demanding circumstances.

The outbreak of coronavirus caused significant fluctuations in the world's financial markets in the first six months of 2020, but only impacted KBN's activities overall to a limited extent. KBN was identified as discharging a function that is critical to society, along with other financial institutions, and continued to operate as normal throughout the year. We were there for our customers and for the municipal sector even when the capital market ceased functioning in March 2020.

KBN's employees did a remarkable job and displayed a high level of flexibility in demanding circumstances. We succeeded in carrying out a great deal of what we had set a target of achieving over the year, albeit differently from how we had originally intended. Our day-to-day work was largely carried out from home, also for us in KBN. The majority of events and customer meetings we organised were digital rather than physical. Although digital meetings cannot fully replace physical meetings, the digitalisation of society as a result of the pandemic will be of major significance to how we work in what becomes the new normal.

Other problems do not simply disappear, however, simply because a new one emerges. Coronavirus overshadowed much in 2020, and much likely part of 2021 as well, but the challenges society was facing before March 2020 are just as big now – bigger even – than then.

The challenge of Norway's ageing population, which is to say the challenge associated with the growing number of elderly people per working age adult, will be of great significance to public sector budgets. When a relatively small number of people are paying for welfare services for a relatively large number, it is even more important to get more people into work and to increase productivity. The demographic changes will be experienced very differently from one municipality to another, but they will necessitate new investment across the country. Delivering more welfare services for every krone spent through the use of new technology and new solutions will be a shared challenge. We want to be involved in raising the level of awareness of this demographic challenge both in relation to municipal management teams and the population in general. KBN will therefore develop and launch a tool for financial forecasting and simulating investments into the future. We hope that this will help our customers to make good, future-oriented investment decisions.

The challenge of climate change is one of the areas that will impact Norway's economy and the local government sector over the next decade. Norway is seeking to cut its greenhouse gas emissions by at least 50% by 2030. A formidable restructuring of society and major investment will be needed if Norway is to achieve its goals. The local government sector has an important role to play, and KBN will contribute knowledge, tools and loan products that will help the sector to achieve its climate goals and to manage its own climate risk.

The challenge posed by the outlook for the petroleum industry will affect Norway's national economy, due to the decrease in revenue from oil and gas and the relatively smaller contributions that will be made to public sector budgets from the oil fund. It will also affect the oil services industry, small and large companies across the country, that will see decreasing levels of investment on the Norwegian continental shelf. By sharing our expertise, entering into dialogue with our customers and providing digital tools such as KBN Finans, we are seeking to help raise awareness of financial issues and to provide our customers with the best possible basis for their decisions.

These three challenges are some of those challenges that we know we are going to face, and they are challenges that we can prepare for and try to mitigate the impact of. With KBN's new strategy – Building a sustainable society – we have set ourselves clear ambitions for how we will help our customers to have the best possible basis for decisions when investing for the future. Our strategy is supported by the objectives and activities set out in the sustainability section of this report.

Regardless of the challenges the next decade brings, Norway will be one of the best equipped countries in the world to deal with them. We have a highly educated and skilled workforce, relatively low levels of financial and social inequality, adaptable businesses and industries, strong institutions, a stable political system and money in the bank. Come what may, KBN will remain the most important financing partner to the local government sector for the demanding decade ahead.

KBN strategy 2021-2023

We provide financing on attractive terms, and we seek to promote sustainable local communities and to contribute to the green shift.

Read the full strategy: KBN.COM/EN/STRATEGY

CUSTOMER FIRST

KBN shall be the most important financing partner for Norwegian municipalities and county authorities and we will be driven by putting the customer first.

We will:

- simplify and adapt our lending products based on customer requirements and their expectations for added value, with a target of developing new products for customers that provide a good level of profitability
- be an active disseminator of best practice in the financing of welfare services and play the role of discussion partner for customers to add value to our customer relationships.
- develop digital leadership that provides a competitive advantage and contributes to the local government sector making high-quality, sustainable choices in relation to debt management
- work in an active and dedicated manner on business development and innovation.

STRONG MARKET PARTICIPANT

Through a strong position in the capital markets nationally and internationally, KBN shall ensure Norwegian municipalities have access to attractive financing.

We will:

- further develop a diversified funding program to maintain our low borrowing costs in the context of the

KBN VISION

Long-term partner for local welfare services

KBN VALUES

Open
Responsible
Engaging

more uncertain international economic outlook
- in order to address situations such as another crisis in the financial markets or unforeseen needs to make disbursements, hold sufficient liquidity reserves that are invested in highly creditworthy liquid securities
- strive to simplify our financing activities by reducing the complexity, costs and risk associated with funding, hedging and contingency planning

A LEADER IN GREEN FINANCE
KBN shall help its customers to succeed in achieving their climate objectives.

We will:
- have the market's best green loan products and be one of the leading players in the area of green finance
- further develop one of the market's best programs for issuing green bonds and be a driver for the development of this market
- put climate risk on the agenda to our customers and contribute to this being included in their decision-making processes and investment plans
- have deep knowledge on how our customers climate risk affects us, also in our credit management system.

A DIGITAL FIRST CHOICE
Our digital solutions shall ensure our customers have the best possible customer experience and shall contribute to simplification and quality improvements at KBN.

We will:
- based on customer requirements further develop digital channels that simplify processes and enable simple, effective and regular dialogue with customers
- make use of the opportunities created by analysing customer data to improve our products and positioning in relation to customers and the market
- create customer satisfaction, customer loyalty and added value by providing insight, both independently and in collaboration with external parties
- use new technology to improve and simplify our own operations, with a particular emphasis on frequently producing quality-assured data
- based on customer requirements and our own quality targets, modernise our internal work processes and system support in relation to our lending activities

FUTURE-ORIENTED ORGANISATION
KBN shall be recognised as a knowledge business in financing and in the development of future-oriented financing solutions for Norwegian municipalities.

We will:
- work together to build our customer insight and collaborate in an interdisciplinary way to develop and make use of our combined expertise
- refresh our expertise and ways of working to stay ahead
- use service provider agreements in areas of expertise where KBN does not have a permanent requirement for in-house expertise
- purchase such expertise in a professional, soundly justified and cost-efficient manner and the use of external expertise shall contribute to developing in-house knowledge building and adaptation. Our suppliers will be required to support our objective of being an efficient and scalable organisation
- using digital solutions and high digital competence to increase the quality and reduce time spent on production of information and insight about our customers decision-making processes
- use suppliers in areas where there is a need for temporary capacity increase or cutting-edge expertise, as well as in areas far from KBN's core business.

SUSTAINABLE VALUE CREATION
Our activities shall balance financial, social and environmental considerations in a way that contributes to long-term value creation.

We willl:
- contribute to a sustainable economic outlook for customer and provide the best possible basis for decision-making for investments and choice of financing solutions
- set high expectations in relation to ethical conduct and sustainability for ourselves and for our customers, suppliers and collaboration partners
- strengthen our work on social responsibility
- have an active stakeholder dialogue with politicians, authorities and organizations

JANUARY – DECEMBER 2020

Looking back on 2020

2020 was an eventful year for KBN. In a year in which the financial markets were affected by the coronavirus pandemic, the American presidential election and the UK's departure from the European Union, KBN enjoyed stable operations and good access to financing. Good market access is absolutely central to KBN's ability to provide the local government sector with stable and low-cost financing.

Our lending in 2020 was again characterised by Norwegian municipalities having significant ambitions in respect of the climate. A significant proportion of KBN's lending growth in 2020 came from green loans.

KBN seeks to contribute to the sharing of expertise in the local government sector. The closing down of Norwegian society as a consequence of the pandemic meant that KBN had to quickly change course and run digital versions of the events it had planned to hold physically. In many cases, this meant that the range of potential attendees increased in scope and more people signed up than normal.

JANUARY

Green finance summit

KBN organised a summit in collaboration with the British Embassy Oslo, the UN Global Compact and the Norwegian Forum for Sustainable and Responsible Investment (Norsif). The event was attended by 200 decision-makers from business and industry and the public sector.

MARCH

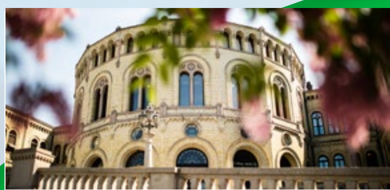
KBN holds its first webinar

Coronavirus prevented KBN's staff from travelling to visit customers. Because of this, KBN in March held the first of many webinars. Important webinar topics included the capital markets, interest rates, exchange rates and climate risk.

JANUARY

2020 Annual Conference

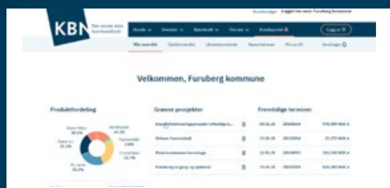
KBN's annual conference was held on 30 January and attracted around 150 politicians and senior officers from the local government sector. The topic for this year's conference was 'Sustainable Municipalities'.



APRIL

Capital injection

In April the Norwegian parliament approved a capital injection of NOK 750 million for KBN. This increased KBN's lending capacity by NOK 20-25 billion and functioned as an additional source of capacity in case municipalities could not access refinancing in the capital markets.



MAY

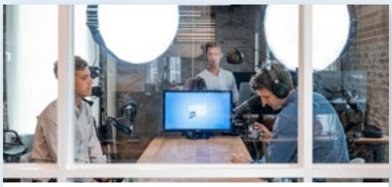
Customer portal launched

KBN launched a new portal for its customers. Its features include a page that summarises the customer's relationship with KBN as well as online services such as the option to submit a loan application and to make changes to existing loans.

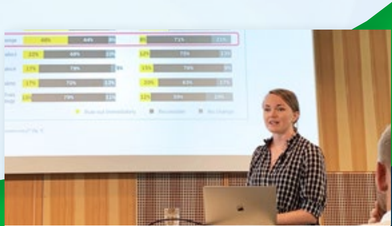
	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE
Green loans	325 500 000	839 800 000	1 054 000 000	1 280 000 000	1 577 125 000	1 662 931 232
Total	2 702 671 186	6 196 980 946	10 705 248 072	12 750 349 072	15 323 225 222	19 191 174 142

Total value of loans agreed in 2020
(Excluding short-term certificate loans)
NOK **42 775 438 925**

New green loans agreed in 2020
NOK **6 303 801 232**

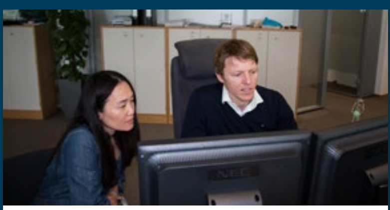


SEPTEMBER
KOMØK webinar
In replacement for the annual Municipality Finance Conference (KOMØK) a series of webinars on local government finance was arranged for the autumn. The topics included balancing budgets, internal control and the macroeconomic situation. Over 1,200 people signed up for the webinars.



AUGUST
Digital Arendalsuka conference
At the green, digital version of the annual Arendalsuka conference, KBN's Head of Green Finance, Torunn Brånå, spoke about KBN's work on climate risk and offered advice to business and industry.

NOVEMBER
Climate award for Drammen
Drammen Municipality won the 2020 award 'Local Climate Measure of the Year' for its project for storing solar energy for use in winter. 2020 was the tenth year of the award, which is organised by the Norwegian Association of Local and Regional Authorities (KS), the Zero Emission Resource Organisation (ZERO) and KBN.



JUNE
Milestone issuance for KBN
KBN issued a ten-year bond. The bond was significantly oversubscribed, resulting in KBN raising USD 1.5 billion in what became one of the largest bond issues ever completed by KBN in the dollar market.

OCTOBER
New President & CEO
Jannicke Trumpy Granquist, who had been the acting President & CEO of KBN since March 2020, was appointed to the role on a permanent basis. Before becoming CEO, Jannicke Granquist was the CFO of KBN.

DECEMBER
KBN relaunches its climate risk tool
KBN's web-based tool on climate risk in municipalities was expanded through new functionality and design.
Visit the page: **www.klimarisiko.kbn.com/en**

JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER
1 790 931 232	3 942 474 232	4 312 474 232	4 551 699 232	5 237 698 232	6 303 801 232
20 325 520 232	23 571 635 772	28 003 858 719	32 415 692 719	36 852 436 382	42 775 438 925

Key figures

(Amounts in NOK 1 000 000)	2020	2019	2018	2017	2016
RESULTS[1]					
Net interest income	1,672	1,875	1,885	2,162	2,087
Core earnings[2]	922	1,071	1,194	1,517	1,400
Profit before tax	1,537	1,771	1,996	1,783	919
Profit for the year	1,159	1,283	1,496	1,429	689
Return on equity after tax[3]	7.4%	9.5%	11.9%	12.7%	6.3%
Return on equity after tax (core earnings)[4]	6.3%	8.3%	9.8%	13.5%	12.7%
Return on assets after tax[5]	0.2%	0.3%	0.4%	0.3%	0.2%
Return on assets after tax (core earnings)[6]	0.2%	0.2%	0.3%	0.4%	0.3%
LENDING					
New disbursements	57,699	53,825	55,749	55,021	48,117
Outstanding loans[7]	318,235	309,758	302,229	281,706	266,558
LIQUIDITY PORTFOLIO[7]	123,585	107,350	113,557	107,484	116,413
BORROWINGS					
New long-term borrowings	107,822	72,508	104,844	118,509	82,752
Repurchase of own debt	1,051	276	206	837	1,159
Redemptions	106,676	95,704	79,937	112,555	93,926
Total borrowings[7]	405,451	400,489	414,603	373,816	376,785
TOTAL ASSETS	498,219	460,778	457,701	412,854	418,327
EQUITY					
Equity	18,538	16,401	15,421	14,667	12,452
Total capital ratio	23.3%	22.6%	22.9%	24.6%	21.5%
Tier 1 capital adequacy ratio	20.8%	20.1%	20.3%	21.7%	18.4%
Common equity Tier 1 capital adequacy ratio	17.9%	17.4%	17.4%	18.4%	16.9%
Leverage ratio	3.7%	3.7%	3.6%	3.7%	2.7%

LIQUIDITY COVERAGE RATIO (LCR)[8]	2020	2019	2018	2017	2016
Total	191%	348%	349%	570%	1,116%
NOK	77%	73%	56%	2,052%	1,848%
EUR	200%	800%	625%	233%	558%
USD	188%	422%	248%	308%	471%
AUD	1,239%	Infinite	489%	Infinite	Infinite
JPY	716%	533%	Uendelig	185%	852%
GBP	97,768%	Infinite	Insignificant	Insignificant	Insignificant

OTHER KEY FIGURES					
Green loans[9]	26,112	23,049	18,869	11,500	9,712
Green bonds[10]	15,976	16,615	12,800	9,600	8,620
CO_2 saved or reduced (tonnes of CO_2 equivalents)[11]	50,058	50,938	64,769	40,803	23,375
Emissions in tonnes CO_2 equivalents [12]	74.5	191.8	281.8	323.1	266.2
Percentage of women employed in KBN	41%	42%	44%	43%	44%
Customer satisfaction (score of 6)	5.31	5.32	5.17	5.24	5.14

[1] *The numbers are calculated on the basis of accounting rules that 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 added to the 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 percentage of net payments in a given stress period of 30 days ahead.*

[9] *Share of total lending which qualifies for green loans according to KBNs Criteria Document for green loans and is eligible for Green Bond financing. In addition KBN has a small amount of green loans outstanding which were granted prior to the establishment of the Criteria Document. These are no longer financed with green bonds. The total amount of KBN green loans outstanding as of 31.12.2020 is 28,5 billion NOK, equivalent to 9 percent of total lending.*

[10] *Outstanding green bonds*

[11] *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 obligations. For CO2 results with other emission factors, please see the KBN Green Bond Impact Report.*

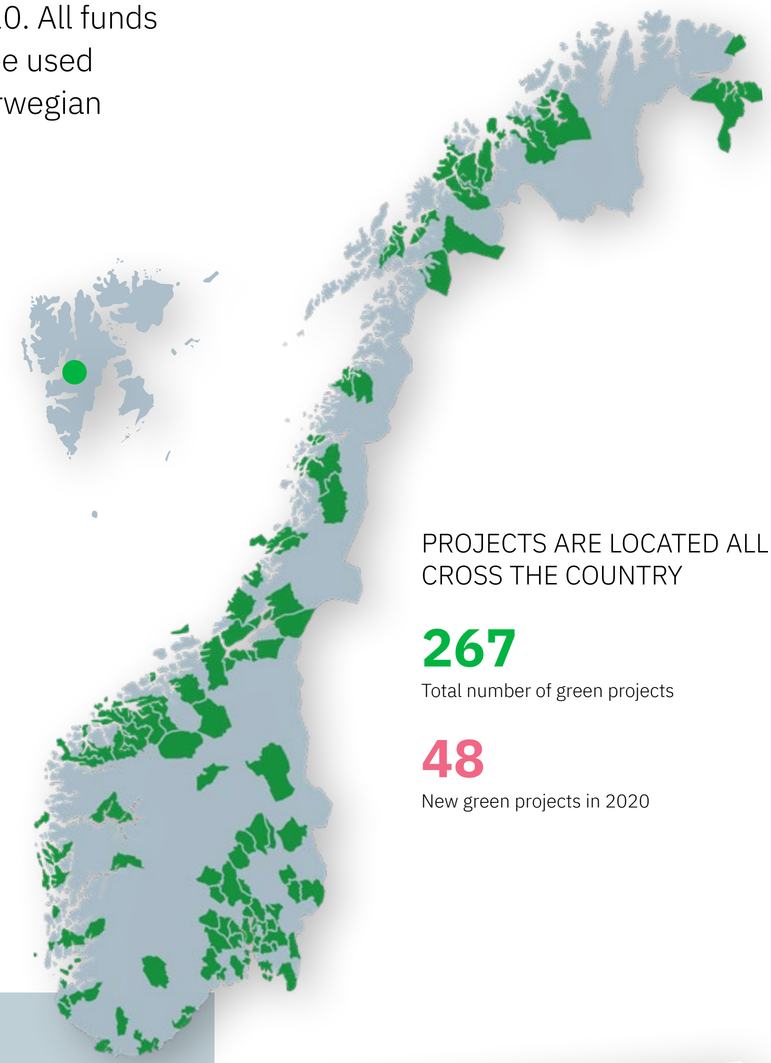
[12] *KBN's calculated emissions.* *See Greenhouse gas accounting.*

Impact report 2020

This report presents the environmental impact of KBN's green loan program as of 31 December 2020. All funds raised by KBN's green bond issuances will be used exclusively to finance green loans in the Norwegian municipal sector.

16 NOK bn.
GREEN BONDS

26 NOK bn.
GREEN LOANS



PROJECTS ARE LOCATED ALL CROSS THE COUNTRY

267
Total number of green projects

48
New green projects in 2020

OUR GREEN LOAN PROGRAM HELPS FINANCE:

50,058
tonnes of CO2e redused and avoided annually[1]

117
GWh renewable energy produced annually

131,593
tonnes increased waste management capacity

457,741
Water and wastewater capacity increased population equivalents[2]

36
GWh energy reduced and avoided annually

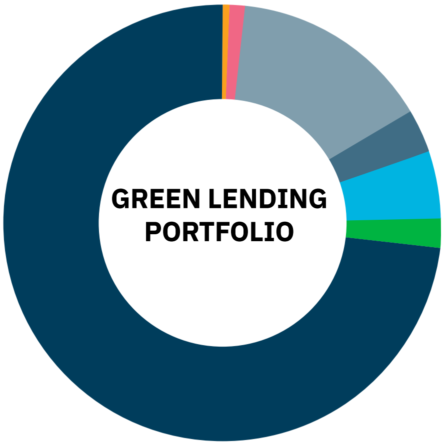
9.2%
of the portfolio is found to be in compliance with the EU Taxonomy's Technical Screening Criteria[2]

! Read the full KBN IMPACT REPORT

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
3Preliminary assessment carried out by KBN. The assessment only evaluates the taxonomy's technical screening criteria and has not analyzed the «Do no significant harm» criteria.

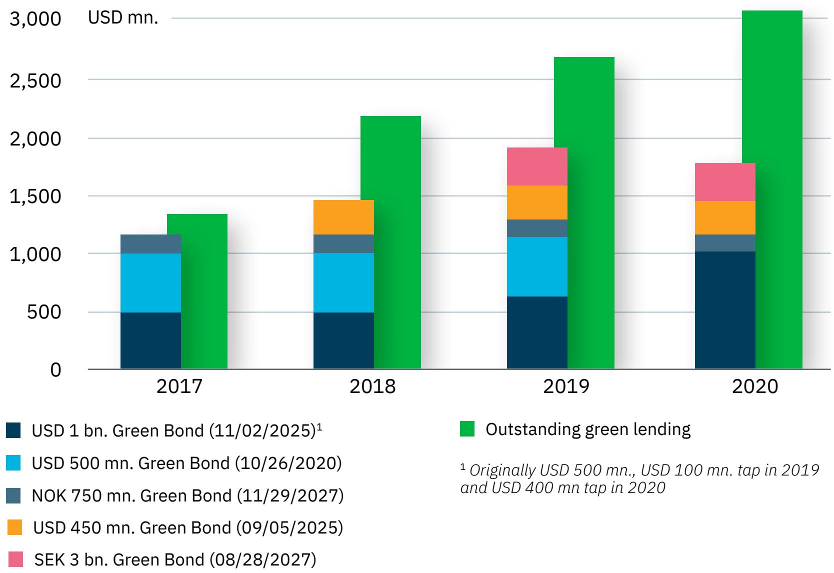
Executive summary

As of 31 december 2020



■	Buildings	73%
■	Renewable energy	2%
■	Transportation	5%
■	Waste and circular economy	3%
■	Water and wastewater management	15%
■	Land use and area development projects	1%
■	Climate change adaptation	1%

GREEN BONDS ISSUANCE AND GREEN PROJECTS PORTFOLIO



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

BASIC INFORMATION

Current Green Bond Framework	KBN's Green Bond Framework, dated June 2016
Reporting period	Calendar year 2020. The report summarizes projects financed from the start of the green bond and green loan program. The project list in this report describes the new projects added in 2020. See separate spreadsheet on kbn.com for a complete overview of all projects.
Date of publication	February 25, 2021
Reporting frequency	Annual
Next report scheduled	February 2022
Reporting appropach	Portfolio-based and project-by-project reporting
Reporting Framework	Nordic Public Sector Issuers: Position Paper on Green Bonds Impact Reporting

PROJECT PORTFOLIO AND ENVIRONMENTAL IMPACT[2]

Project category	Outstanding amounts to projects (1000 NOK)	CO_2e reduced and avoided (tonnes annually)	Impact tonnes CO_2e per million NOK
Buildings	19,125,937	13,356	0.7
Renewable energi	521,568	34,718	62.1
Transportation	1,460,057	1,764	1.3
Waste and circular economy	799,512	220	0.3
Water and wastewater management	3,874,045	n/a	n/a
Land use and area development projects	186,100	n/a	n/a
Climate change adaptation	145,004	n/a	n/a
Total	**26,112,224**	**50,058**	**64.4**

Renewable energy generated annually	**117 GWh**
Energy reduced/avoided annually	**36 GWh**

[2] *Denne tabellen presenterer beregnet CO_2e unngått og redusert årlig. Vi rapporterer kun miljøeffekten av den andelen av prosjektene som er finansiert av oss. Det er lagt til grunn en europeisk energimiks 315g CO_2/kWh. For klimagassberegning med andre utslippsfaktorer, se eget excel-ark som legges ut på kbn.com i mars 2021.*

IMPACT ATTRIBUTABLE TO GREEN BONDS INVESTORS

Total outstanding green bonds divided by total outstanding disbursed amounts to projects, as of 31 Dec 2020 (in NOK)				61% of which
ISIN	**Issue date**	**Amount**	**Maturaty date**	
XS1188118100 / USD50048MBX74	02/11/2015	USD 1 bn.	02/11/2025	33%
NO0010811276	11/29/2017	NOK 750 mn.	11/29/2027	3%
NO0010811284	11/29/2017	NOK 600 mn.	11/29/2032	2%
AU3CB0256162	09/052018	AUD 450 mn.	09/05/2023	11%
XS2047497289	08/28/2019	SEK 3 bn.	08/28/2026	12%

Photo: John Trygve Tollefsen

Growth in municipalities' borrowing – looking behind the figures

The local government sector's outstanding borrowing has grown significantly in recent years, but growth in borrowing alone does not tell the whole story.

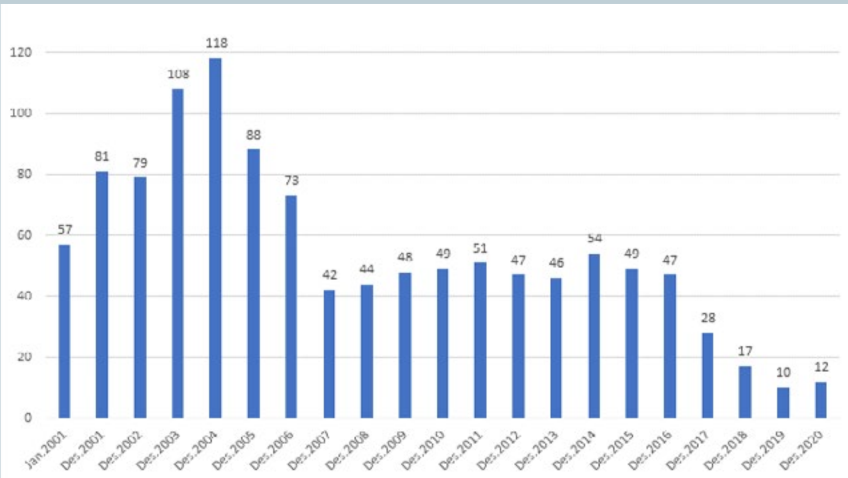
BY LARS LUDVIGSEN
Head of lending, KBN

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. Sizeable financial resources are transferred to the sector, and at around NOK 580 billion its combined income is approximately 19% of mainland Norway's GDP. 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) is currently at an historic low.

Sizeable growth in borrowing
In order to deliver welfare services,

CHART 1
Number of municipalities on the ROBEK register. Source: regjeringen.no

CHART 2
Growth in domestic borrowing by the local government sector, seasonally adjusted, over the preceding 12 months, in percent. Source: SSB.no



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. 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 2020 is likely to have been somewhat higher than in 2019. The credit indicator as at the end of November 2020 shows annual growth in borrowing of 7.7% to NOK 586 billion. The rate of growth was somewhat lower in the 2016-2018 period, but has now returned to levels approaching 8%.

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 5.2% annually, but the variations are somewhat larger than for the sector taken as a whole.

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 has led to record-low floating interest rates for large parts of 2020 for households, the private sector and Norwegian municipalities and county authorities. The fixed income market is pricing in a moderate increase in interest rates starting in 2022, but expects historically low rates for the next five to ten years. 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

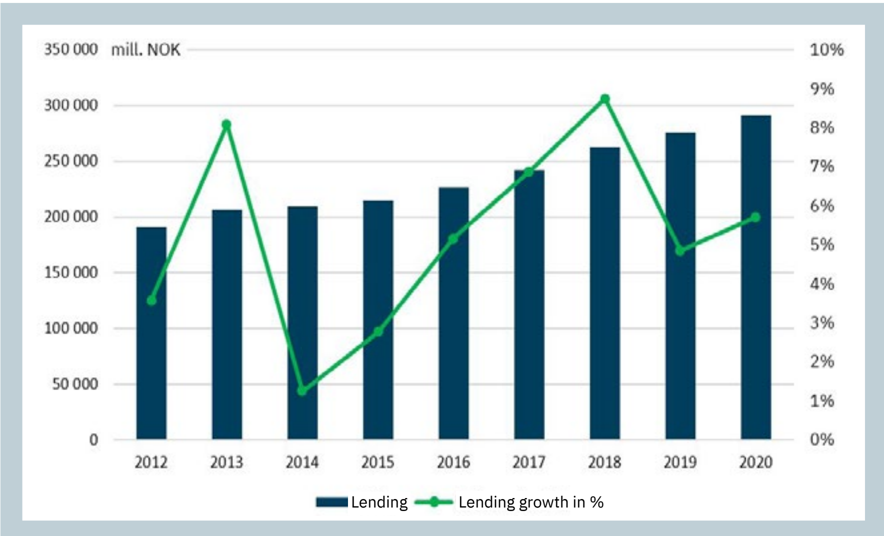
Carrying out this calculation often results in a figure which is less than half of total indebtedness, and therefore represents a significant reduction in interest rate risk. It is important to note that there are major differences between municipalities in terms of both total indebtedness and net interest-bearing 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

There is no doubt that the pandemic will have financial consequences for municipalities and county authorities, and the sector was granted an additional NOK 17.7 billion in 2020 and will receive an additional NOK 8.6 billion in 2021.

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 for the first four months of 2020 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 in excess of 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. Although this means that many municipalities have only benefited from record-low floating interest rates to a limited extent, a survey of 2021 budgets carried out by the Norwegian Association of Local and Regional Authorities (KS) indicates that interest rate costs in 2021 will nonetheless be around 25% lower than budgeted interest rate costs for 2020. The local government sector's sound financial performance over recent years has also generated significant growth in municipalities' available reserves, which grew by NOK 23.5 billion between 2015 and 2018. This growth flattened off in 2019, and municipalities' total available reserves now amount to NOK 50.5 billion (county authorities not included). This provides a significant buffer for municipalities in terms of their ability to cope with unexpected or rapid increases in interest rates.

CHART 3

KBN's lending to the sector and annual lending growth in percent.



2020 – A different year

In 2020 the local government sector made an impressive contribution in relation to 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. There is no doubt that the pandemic will have financial consequences for municipalities and county authorities, and the sector was granted an additional NOK 17.7 billion in 2020 and will receive an additional NOK 8.6 billion in 2021. The pandemic does not thus far seem to have impacted 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 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 municipalities' 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 to achieve these objectives.

Photo: Gorm Kallestad / NTB

What happened when the pandemic hit Norway?

There is no doubt that 2020 will always be remembered as the year of coronavirus. However, what implications did the pandemic have for the financial markets and KBN?

BY KRISTINE HENRIKSEN LIEN
Portfolio manager, KBN
ØYVIND REIERSEN
Senior portfolio manager, KBN

During the winter of 2019-20 it became clear that coronavirus was going to hit the western world hard. However, it was some time before the financial markets took this on board. Stock markets and interest rates started to fall markedly in February 2020. Over the course of a single month, Oslo Børs fell over 30% and two-year Norwegian interest rates fell from 1.8% to 0.8%. At the same time Norges Bank cut its key policy rate from 1.5% to a record-low of zero.

It was, however, only in March 2020 that the Norwegian krone started to weaken markedly. Friday 6 March 2020 was the start of nearly two weeks of historic fluctuations in the value of the krone. At this point, many countries were in lock-down mode due to the virus, and it was difficult to foresee what the long-term consequences would be. Extreme uncertainty caused the Norwegian krone to become a casualty when all investors turned to 'safe haven' currencies.

Norges Bank and the Norwegian government found it necessary to implement wide-ranging measures in order to calm the markets during this

GRAPH 1

Long-term interest rates illustrated by the 10-year bond rate, and short-term interest rates illustrated by the three-month Nibor money-market rate and Norges Bank's key policy rate. Data for the last five years

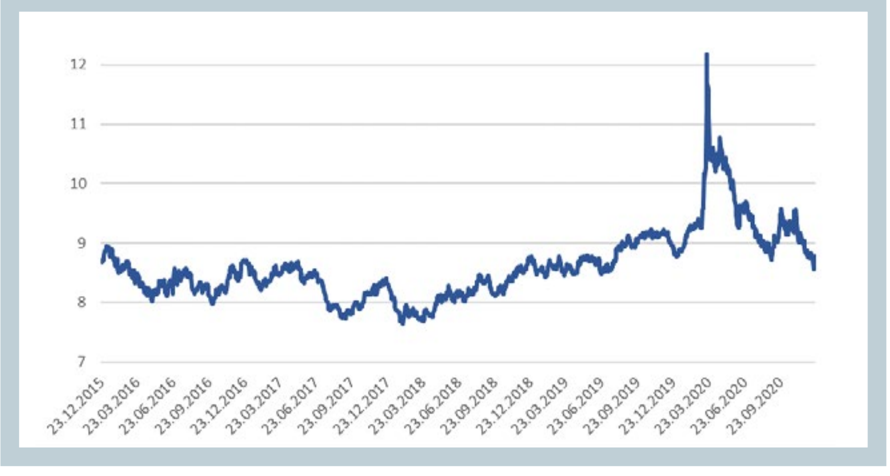
period. As well as cutting its key policy rate to zero, Norges Bank made fully allotted short-term F-loans to banks, and established USD swap lines with the USA's Federal Reserve. For its part, the Norwegian government re-established the Government Bond Fund with capital of NOK 50 billion to help increase liquidity and access to capital in the bond market, and it also reduced the countercyclical capital buffer requirement for banks from 2.5% to 1%. All these measures culminated in Norges Bank declaring on 19 March 2020 that it would intervene in the currency market, i.e. that it would support Norway's currency by buying kroner. This turned out to have a marked impact and helped to reverse the krone's weakness over the course of the spring months. Norges Bank has subsequently released figures that reveal it bought NOK 3.5 billion over this period.

KBN was affected by the market turmoil through several channels. Firstly, KBN funds its activities primarily by borrowing in currencies other than the Norwegian krone, and the US dollar dominates in this regard. However KBN only lends in Norwegian krone. The price at which KBN is able to obtain currency swaps, e.g. swapping US dollar borrowing for Norwegian kroner, is thus important. Due to the uncertainty and the turmoil in the markets, banks were very reticent about offering such swaps, i.e. about providing Norwegian kroner. KBN therefore had to enter into such contracts at prices that were far less favourable than normal. Secondly, the market turmoil also caused credit spreads to increase in general. This caused KBN's liquidity portfolio to decrease in value. Wider credit spreads also made it more expensive for KBN to borrow.

The biggest impact on KBN proved to be that associated with the conversion of foreign currencies into Norwegian krone. KBN always has a continual need to carry out these swaps, and consequently needed to be active in the market despite the less favourable prices.

GRAPH 2

The Norwegian krone against the US dollar over the past five years



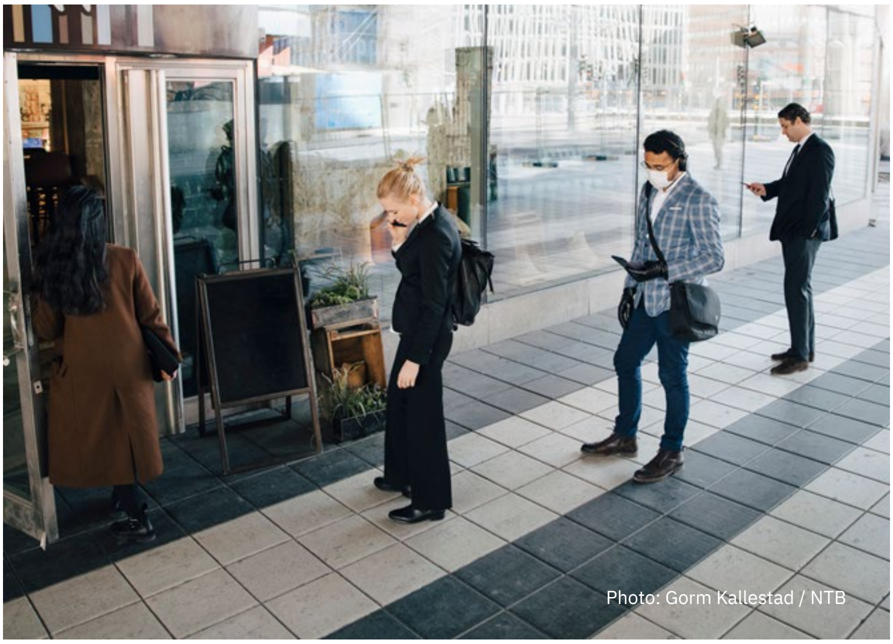


Photo: Gorm Kallestad / NTB

KBN holds a well-diversified liquidity portfolio consisting of bonds with exposure to a range of industries, geographies and maturities. The effect of wider credit spreads was therefore smaller than it could have been if the portfolio had been structured differently. In addition, sales from the liquidity portfolio were very limited during this period, and the negative impact of the increase in credit spreads thus proved transient as the markets normalised relatively quickly.

Furthermore, KBN's funding activities were extremely limited in the period of greatest turmoil in the markets, and it thus avoided locking in abnormally high borrowing costs.

KBN, as one of the most important financing partners for municipalities, seeks to provide stable and cost-efficient financing, including during periods of market turmoil. Despite a period of crisis in the financial markets and significant uncertainty, KBN stood firm through the challenges that arose. With powerful measures and expansive monetary policy implemented by the Norwegian government and Norges Bank, calm returned and we saw a successive improvement over the course of the spring months towards more normal conditions in the financial markets.

The outlook for Norway

The critical factor in driving new, younger residents to Norway's rural areas is therefore not jobs but the desire to live there: we need to see young people with roots in urban areas wanting to live somewhere with a smaller scale.

BY VICTOR D. NORMAN

Victor D. Norman is professor emeritus in Economics at Norwegan School of Economics. He led a government-appointed committee analyzing the demographic challenges for Norway that presented their report in 2020. Norman served as a Minister of Labour and Government Administration for the Conservative Party from 2001 to 2004.

As a society, Norway is ageing. It has actually been ageing for a long time. Initially, in the 1800s, when Norway first became an independent nation, more than four in ten Norwegians were under 20 and well over 80% were under 50. Today, the corresponding figures are 23% and 63% respectively. At the other end of the scale, the proportion of the population aged over 80 has climbed from under 1% when the Constitution of Norway was written to over 4% today. Norway's population is going to be even older in the years ahead: if one believes the base case in Statistics Norway's population projections, the proportion of Norway's population aged over 80 will double over the next 20 years.

The increasing age of the population will make Norway a less carefree society. It will mean that more people will need to work in the health, nursing and care sectors, public sector budgets will to an ever increasing extent be spent on paying the salaries of healthcare workers and the pensions of their patients, and it will almost certainly mean that working age people will have to forget any dreams of future tax cuts.

At the national level, the change will be a challenge, but not an insurmountable challenge – and Norway will probably overcome it, just so long as its major political parties continue to display financial responsibility.

At the local level, the picture is worse. The demographic changes that will be seen in Norway's rural regions in the years ahead will in general be similar to the changes nationally, but they will take place on top of a local ageing process that has already been underway for many decades. Paradoxically enough, the consequence of this will be that population levels will stabilise in rural municipalities: the elderly move less than young people, so rural areas see fewer people moving away as their population ages. When this is taken into account, the modest flow of people who move in the opposite direction will mean

Photo: Jo Straube

> *If Norway's rural areas are to survive, the increasing age of the people who live in them will need to be offset by young people moving in. This will require an entirely new approach to Norway's policy for its rural areas.*

that the population of rural Norway in 20-30 years' time is unlikely to be much below today's level.

On the other hand, the composition of the rural population will see dramatic changes. Statistics Norway forecasts that by 2040 rural Norway will have almost 90,000 fewer people under 55 than today and almost 90,000 more over this age – and half of this latter increase will be people over the age of 80.

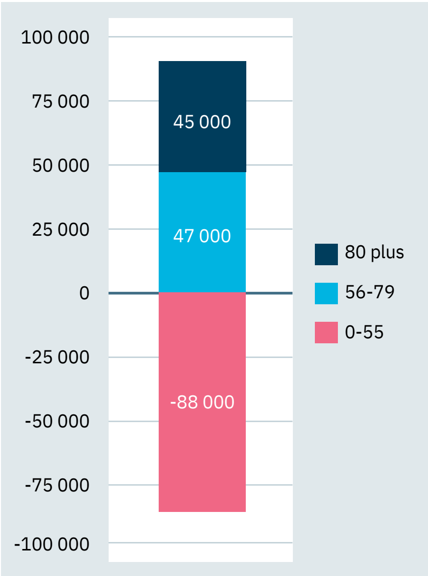
This future age profile will put to the test the ability of Norwegian municipalities to organise, scale up and find manpower (or more correctly 'woman power') for health and care services. It will be a question of money but also of technology, as well as of municipalities' ability to mobilise the local voluntary sector and to incentivise intelligent collaboration between municipalities and specialist healthcare services.

However, money and successful organisational measures will be of little benefit if the people needed are simply not there. If Norway's rural areas are to survive, the increasing age of the people who live in them will need to be offset by young people moving in. This will require an entirely new approach to Norway's policy for its rural areas.

For as long as Norway has had a policy for its rural areas, its aim has been to limit the flow of young people moving from the countryside to towns, from the north to the south, from inland areas to coastal areas, and from small towns to big towns and cities. The solution has had two parts: create more jobs in rural areas and capture some of the exodus by building larger centres in rural areas – such as Lyngdal, Knarvik, Førde and Alta.

Now that the population in Norway's rural areas is scarcely in a position to reproduce, there is no exodus of people to stop. The only hope is to encourage some increase in the flow of young people choosing to move in the opposite direction. There are jobs for them

CHART
Change in the population of municipalities in centrality tiers 4, 5 and 6, 2020-2040



and there will be more as the need for nursing and care services grows, and there will be even more jobs if population movement away from cities gathers momentum. The majority of jobs in a modern society are in private and public service provision, as well as in building and construction, and the more people move out of the cities, the more of these jobs there will be in rural areas.

The critical factor in driving new, younger residents to Norway's rural areas is therefore not jobs but the desire to live there: we need to see young people with roots in urban areas wanting to live somewhere with a smaller scale. If they are to do so, Norway's rural areas will have to be able to provide schools, homes and services locally that are as good as those available in cities; but they will also need to offer something that cannot be found in Oslo, Bergen or Trondheim. Growth centres that seem just to be poor copies of cities will not achieve this. If rural areas are to be attractive, smaller municipalities will need to cultivate their distinctiveness and particular format. They will need to adopt the approach taken by Stad municipality, which seeks to be the "Best small place in the word".

The Norwegian state cannot itself create the diversity of exciting small places that are needed if young people are to be tempted to try an alternative to the attractions of Grünerløkka, Skanselien or Ila. Central authorities can, however, facilitate their creation in a number of ways: by ensuring there is the infrastructure required for the diversity of towns and small places in a given area to function as a common arena for work and development; by requiring universities and secondary schools to offer continuing and further education to clusters of small locations; by creating a better home rental market in rural areas; by maintaining a clear rural profile for the revenue system for municipalities; and possibly also by encouraging people to live in smaller places through the geographic organisation of state agencies – in the digital age there is nothing to prevent a directorate from consisting of a network of units spread across the country.

With the right diagnosis, the right treatment can be found to rejuvenate rural Norway.

Risks and opportunities for Norway's municipalities and KBN in different climate scenarios

BY TORUNN BRÅNÅ
Head of green finance, KBN

This article is based on a report that KBN commissioned the CICERO Center for International Climate Research to write in 2020. The report sets out three climate scenarios, the assumptions on which they are based, and their impact on Norway's economy in general and the local government sector in particular. The descriptions provided of the significance of the scenarios for KBN's activities are KBN's own work and are based on preliminary assessment work carried out by KBN. The infographic in this article is taken from KBN's preliminary work to develop climate risk indicators at the municipality level.

What is a climate scenario?
A scenario is an image of the future, a description of how the future might develop. In a scenario, the assumptions used in the various areas have to be linked, e.g. there should be a realistic relationship between the global policies that are adopted and the trajectory of emissions. Scenarios are not forecasts: a set of scenarios should rather cover the range of possible future outcomes. Scenarios can, for example, be used by planners and decision-makers to analyse situations with uncertain outcomes and to assess how a decision would look in a range of possible futures.

The CICERO Center for International Climate Research has produced a set of climate scenarios for Norwegian municipalities for KBN. The set comprises three scenarios that describe possible social trends and the associated scale of physical climate change for the period between now and 2100.

The scenarios in this analysis
The scenarios that CICERO has developed are based on combinations of representative concentration pathways (RCPs), which describe the level of global warming at the end of this century resulting from different atmospheric greenhouse gas concentrations, and shared socio-economic pathways (SSPs), which describe different social trends that both determine greenhouse gas emission trends and result from them. There are five different SSPs and many different RCPs. The sets of RCPs and SSPs are internationally recognised points of reference that have been produced for use by the IPCC.

The analysis is based on the following scenarios:

Sustainability – the green road (based on SSP1 and RCP2.6)
In this green scenario, strong climate policies are implemented starting in early 2020, emissions fall, and the world achieves the goal of the Paris Agreement of limiting global warming to 2°C. This scenario assumes strict restrictions on emissions are imposed without any particular political friction, combined with several ground-breaking technological breakthroughs.

The middle road – we carry on as before (based on SSP2 and RCP4.5)
In this scenario in which we carry on as before, more time passes before global climate agreements are put in place and

CLIMATE RISK

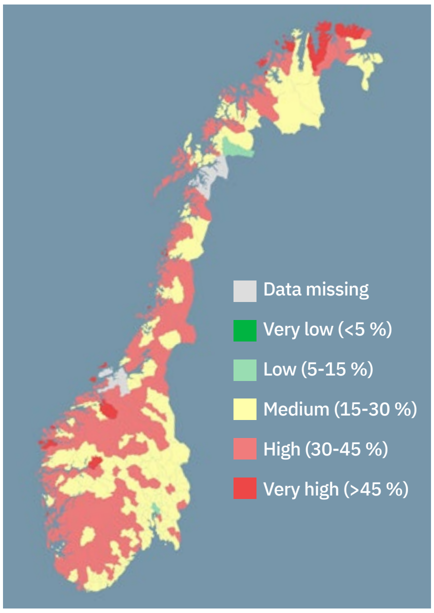
Climate risk is a collective term for the different types of risk resulting from the fact that we do not have complete knowledge of the various consequences of climate change, climate policy and climate-related technological developments1. Climate risk is usually divided into two main types, namely physical risk and transition risk. These may apply to the local government sector as follows:

Physical risk is the risk associated with the effects and consequences of climate change. These may take the form of acute events, such as extreme precipitation, flooding, storm surges, and various types of landslide, or long-term trends such as rising sea levels and a greater risk of decay. These factors may cause significant direct and indirect costs for municipalities, residents and local business and industry.

Physical risk is the basis for liability risk, which is the risk of being held liable for losses or damage suffered by others as a result of climate change. For municipalities, this may take the form of claims for redress from insurance companies.

Transition risk relates to the regulatory and societal changes that will be a part of the transition to a low-carbon economy. For municipalities, this could mean lost tax revenues, higher social costs or people moving away due to changes to an area's industrial structure, as well as municipalities' investments having a shorter lifetime than anticipated or unforeseen additional expenditure required due to regulatory changes.

ILLUSTRATION 1
In a low-emission scenario such as scenario 1, many municipalities will be vulnerable to transition risk affecting industry, business and commerce. The map shows the share of the workforce within a municipality employed in sectors exposed to transition risk.[1]



their policies take effect and measures are implemented. The world does not manage to achieve the goal of the Paris Agreement of limiting global warming to 2°C. Of the three scenarios, this is the scenario that to the greatest extent represents a projection forwards from current trends, although the representative concentration pathway (RCP4.5) on which it is based requires some decrease in emissions from today's levels.

Regional rivalry – the bumpy road (based on SSP3 and RCP7.0)
In this worst case scenario, the world is on course for an increase in the global average temperature of approximately 4°C and the physical consequences of climate change prove to be extensive even in Norway. This is a pessimistic version of the future that, in order to become reality, would require a breakdown in international climate negotiations, e.g. numerous high-emissions countries leaving the Paris Agreement.

The levels of physical risk and transition risk that would be seen in the three scenarios differ, as do the points in time at which they would present themselves over the course of this century. For example, the green road involves a high level of transition risk over the short term as it involves the transition to a low-carbon society progressing rapidly, and the payback for this is a decrease in physical risk over the long term compared with the other scenarios. The middle road involves a lower level of transition risk over the short term, but a strong dose of both transition and physical risk towards the end of the century.

SCENARIO 1:
Sustainability – the green road
In this scenario, strong climate policies are implemented starting in 2020, emissions fall, and the world achieves the goal of the Paris Agreement of limiting global warming to 2°C.

In scenario 1, we succeed in limiting the increase in the global temperature to 1.5°C by 2030, with this increase levelling off at 1.8°C around 2050. In Norway the temperature increase is higher than the global average, and the country experiences 2.6°C of warming towards the end of this century. Although the level of physical risk this causes is relatively low compared to the other scenarios, it is nonetheless higher than at present. For comparison, the temperature increase so far is around 1°C.

Norway's weather will become wetter and there will be more extreme precipitation, there will be more flooding, more landslides and more droughts in the summer, but significantly less so than in the other scenarios. There will also be some benefits to the increase in temperature, including a longer growing season for agriculture. Some outer coastal areas running north from Nord-Vestlandet to Finnmark will see the growing season increase by around one month towards the end of the century. The increase in other areas will be somewhat smaller.

The Norwegian Environment Agency's Klimakur 2030 (2030 Climate Cure) publication provides examples of the climate

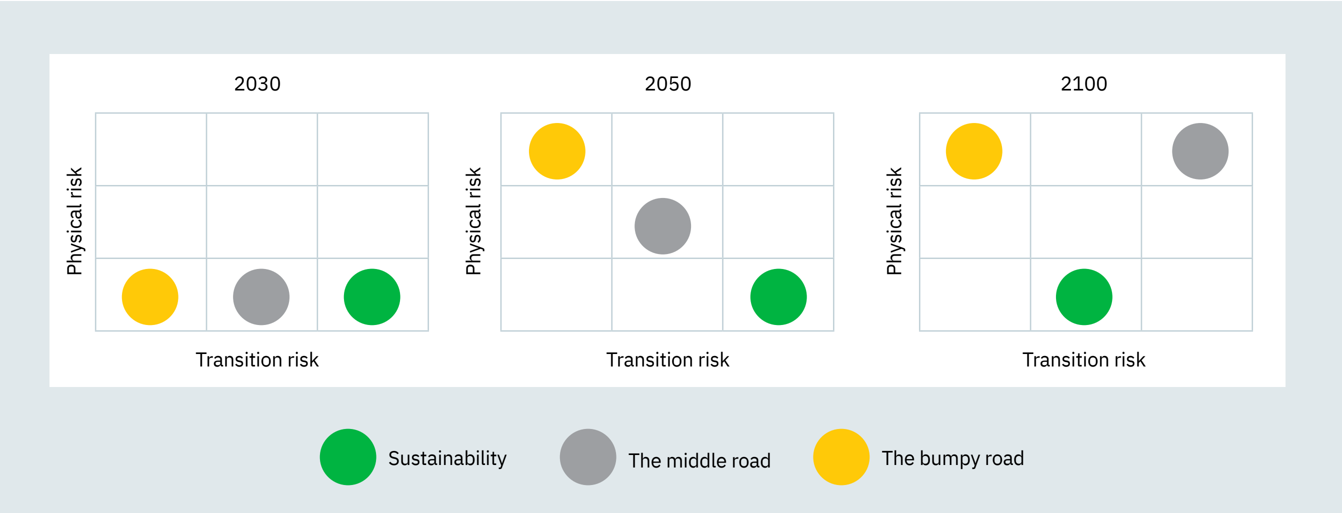


ILLUSTRATION 2
The three scenarios cover different levels of physical and transition risk at different stages towards year 2100. For instance, in "the green road" the level of transition risk will be high in the short term as transition is undertaken quicky. The reward is a reduced level of physical risk in the long term compared to the other scenarios.

change measures that are implemented in Norway in this scenario. The scenario assumes a combination of behavioural changes in the country's population, technological developments and the rapid introduction of policy instruments such as prohibitions and restrictions. The measures in this scenario are also implemented with a relatively limited amount of friction. There is investment in climate change adaptation to protect Norway's existing buildings and infrastructure, and existing public and private sector buildings are made more energy efficient. There is regular investment in upgrades to water and wastewater systems so that, despite the increase in precipitation, the increase in surface runoff does not lead to disproportionally large problems.

Norway's national authorities, municipalities, transmission system operators and private sector organisations work together to build charging infrastructure to facilitate the transition to electric solutions, while at the same time cities and urban spaces are planned so as to minimise the need for transportation. Norway's municipalities stop building in areas susceptible to flooding and landslides.

In this scenario, there is assumed to be a good level of growth in Norway's GDP and purchasing power throughout the century, despite the oil and gas sector playing a smaller role. A high level of innovation and new, green industries generate economic growth, but not necessarily with the same geographic distribution as in the oil age. This may mean there is a high level of transition risk for those municipalities in which a significant proportion of the jobs are currently in industries directly or indirectly connected with oil and gas production and other carbon-intensive activities, unless they manage to attract new industries. However, at the overall level, in this scenario Norway's economy grows more strongly than in the other two scenarios.

Risks and opportunities for KBN
This is the scenario with the strongest economic growth, but it also assumes significant investment by both the public and private sectors. The economic picture continues to be sufficiently positive (relative to the other scenarios) for municipalities to be generally 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 within the water and wastewater sector. Nonetheless, there are costs following extreme weather events, but the resulting need to make repairs is used as an opportunity to protect against future events. The high level of investment is maintained over the short, medium and long term, although investment in climate change adaptation can be expected to decrease somewhat (from a high level) towards the end of the century as the rate of increase in the temperature decreases. This means the local government sector will need to have a good level of access to debt capital throughout the entire century.

This scenario involves a high level of transition risk for those municipalities that derive a large proportion of their current tax revenues from those employed in oil and gas and other industries for which the

ILLUSTRATION 3

Map from the Norwegian Centre for Climate Services showing the increase in precipitation in an RCP 4.5 scenario. Source: Norsk Klimaservicesenter

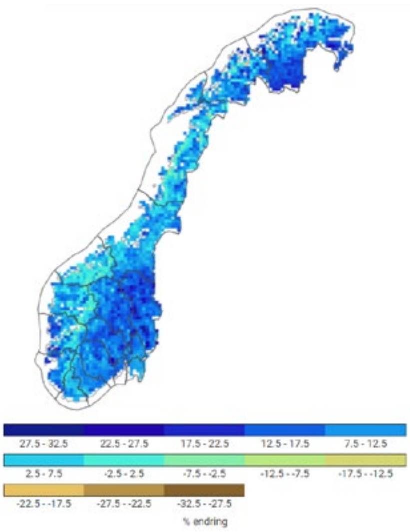
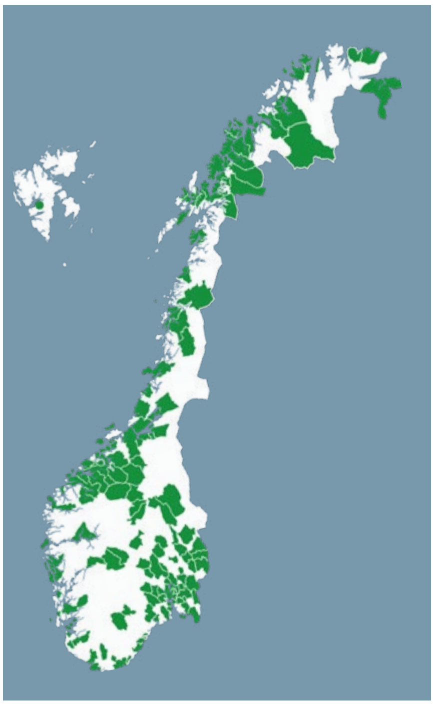


ILLUSTRATION 4

Investment projects that already qualify for a green loan from KBN may be a possible indicator of a municipality's ability to transition away from fossil fuels. The map shows which municipalities had one or more green loans from KBN at the end of 2020



strong restrictions contained in climate policy will have major consequences. Particularly municipalities that saw their populations grow rapidly and enjoyed strong tax receipts in the first decade of the century and have recently invested in major projects with a long time horizon may face risks in connection with excessive indebtedness and high operating costs in a situation in which their key industries struggle. For some municipalities, this picture may be made worse by people moving away as a result of the loss of major employers. Municipalities in this type of situation will have less need and will be less able to invest in major new projects throughout the century. However, from KBN's perspective, the overall picture would probably consist of a high level of demand and customers very capable of servicing their borrowing.

KBN's strategy of helping to build a sustainable society and contributing green financing solutions while also providing a good basis for decision-making to enable municipalities to be in as strong a financial situation as possible is a good fit with this scenario. There is reason to believe that KBN's aggressive focus on sustainability and green finance would be rewarded in this scenario, as financial regulation would increasingly pull in the same direction as other climate policies.

SCENARIO 2

The middle road – we carry on as before

In this scenario, more time passes before a global climate policy takes effect and its measures are implemented. In the second half of the century emissions fall, but not quickly enough for the world to achieve the goal of the Paris Agreement of limiting global warming to 2°C.

While in this scenario there is also 1.5°C of warming by 2030, by as early as 2050 the global average temperature has increased by 2°C relative to the pre-industrial period. By 2100 the world is 2.6°C warmer. Norway's share of the increase is larger than that of other parts of the world, and by the end of the century Norway will be on average 3.7°C warmer.

One consequence of this increase in temperature is to make the growing season longer in Norway – by one to two months depending on location. But a warmer climate also means more precipitation. The number of days with heavy precipitation is expected to be 50% higher towards the end of the century, and the heaviest rainfall would become even heavier. The entire country would be affected by this, but short-duration extreme precipitation events might be the most challenging for the cities and urban areas around the Oslo fjord. Too much water, including in the form of surface runoff, flash flooding due to rainfall and storm surges, would become a major challenge in this scenario.

At the same time, municipalities and other organisations have not managed to adapt to climate change as well in this scenario. There is relatively little investment in upgrading water and wastewater infrastructure in the first half of the century. Municipalities meet with more resistance to their measures, and investment is therefore less directed towards protective measures and more towards repairs. Particularly toward the end of the century, significant resources are spent on responding to natural crises and on the repairs and rebuilding that follow. The insurance industry goes to court to get municipalities to pay a larger share of repair costs than before.

In addition, measures to reduce emissions prove more conflictual than in scenario 1. We see conflicts between the state and municipalities, rivalries between urban and rural areas, and between Oslo and the surrounding area. Municipalities have not secured access to new resources to promote innovation or the transition to a low-carbon society locally, and they collaborate to a lesser extent with business and industry in relation to the transition to a low-carbon society.

Towards the end of the century, strong emission reduction measures are introduced as a response to the increasing challenges associated with climate change. The more time elapses before such measures are put into effect, the more expensive they are when first implemented. Climate change adaptation is more expensive than emissions reductions, and in this scenario both climate change adaptation and the transition to a low-carbon society end up costing more than necessary.

Norway has continued to invest in the oil and gas sector, at the same time as investing to some extent in new technology. Global oil production increases until 2040 but then decreases drastically from 2050, towards a low level comparable with that

> *Municipalities encounter major problems adapting to climate change throughout the century, both because the costs are large and economic growth is weak, and because there is opposition to spending money on doing so.*

seen in scenario 1 towards the end of the century. Natural gas production in contrast increases sharply until 2080 but then decreases somewhat. Carbon capture and storage are widespread and gradually become an important industry for Norway. Norway's GDP and purchasing power are somewhat lower in this scenario than in the first scenario from around 2030 until the end of the century.

Risks and opportunities for KBN
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 begin to decline after 2050, but natural gas revenues are high for a few more decades before they in turn decrease. The level of investment undertaken by municipalities as well as their willingness to invest can be expected to be approximately similar to today until the final couple of decades of the century. However, in this scenario, the projects in which municipalities invest are not particularly targeted at delivering emissions reductions or adapting to Norway's increasingly warm and wet climate, and this creates a risk that some large, long-term investments will in time turn out to have been unwise.

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 and repairs in the wake of natural disasters is increasing, the local government sector will have a relatively significant need to invest that will coincide with a period in which the revenues it receives from key industries are decreasing. Many municipalities may as a consequence find themselves in a challenging situation, and it will be crucial to the sector maintaining the same level of service provision that the state's framework compensates for this situation.

KBN considers that such developments would mean 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. At the same time, some municipalities' credit scores from KBN could decrease as the century progresses as their costs climb and their revenues fall. This particularly applies to municipalities hit to a significant extent by both a loss of revenue and by physical climate change.

In a scenario such as this, it would be important for KBN to ensure its risk models captured challenging trends as early as possible so that it could adapt its lending to vulnerable municipalities. There would also be significant value in KBN assisting the local government sector with insight, financial expertise and digital tools to help municipalities make more informed choices and assess their risk profile over the long-term.

SCENARIO 3
Regional rivalry – the bumpy road
Scenario 3 is a worst-case scenario in which in effect no climate policies other than those already in force are implemented. The world misses the goal of the Paris Agreement of limiting global warming to 2°C by a sizeable margin, and the physical consequences of climate change are significant even in Norway. This scenario involves major upheavals that it is difficult to model within the framework of today's society.

There is dramatic climate change as the global average temperature increases by 2.2°C by 2050 and by 4.1°C by the end of the century. By 2100 Norway is on average 4.6°C warmer, with some areas experiencing even greater temperature increases.

The marked increase in the average temperature makes Norway very different climactically from the situation we are familiar with today. The growing season is significantly longer than it is today across the country. Precipitation levels increase dramatically as well. Western Norway and Central Norway, which are already wet areas, experience a major increase in absolute terms, while dryer areas in the north of the country experience major percentage increases in annual rainfall – increases of up to 50% from today's levels. The number of days with heavy precipitation is expected to be nearly 75% higher towards the end of the century. The increase in precipitation results in significantly more debris slides, rockslides and mudslides, but it is not consistently wet throughout the year. Norway's sunny areas in particular experience droughts in summer more frequently.

Sea levels rise, and in this scenario the isostatic rebound effect is not sufficient to compensate for this. The probable rise in sea levels for many coastal municipalities is between 10cm and 50cm, and in the worst cases is between 30cm and 75cm.

ILLUSTRATION 5

Sea level rise is a risk factor in several coastal municipalities in scenario 3. The map shows risk of sea level rise based on the buildings, kilometres of roads and square kilometres of land – relative to inhabitants – flooded in 2090 in a high emissions scenario.

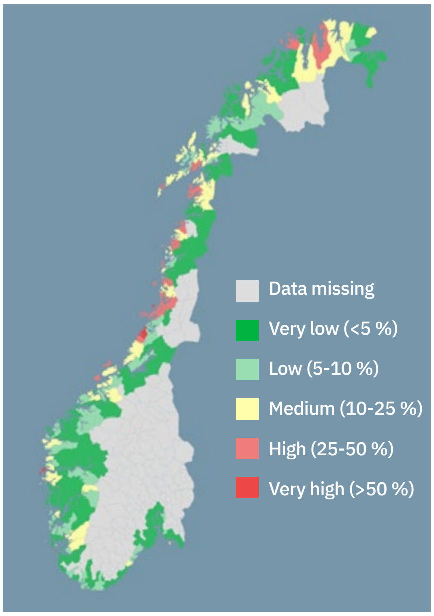
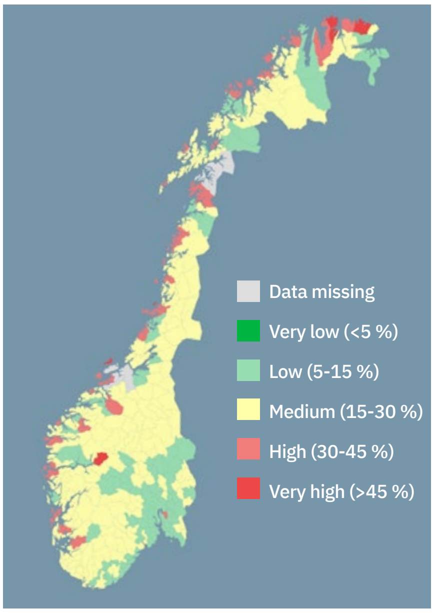


ILLUSTRATION 6

In a high emissions scenario like scenario 3, many municipalities will be vulnerable for physical climate risk affecting industry, business and commerce. The map shows the share of the workforce within a municipality employed in sectors exposed to physical climate risk[1].



Municipalities encounter major problems adapting to climate change throughout the century, both because the costs are large and economic growth is weak, and because there is opposition to spending money on doing so. In this scenario, it is assumed that today's framework of significant transfers being made both from the state to the local government sector and between municipalities cannot be maintained, and this would have a self-reinforcing effect on those municipalities that are hit the hardest and cannot afford protective measures against the impacts of climate change. Insurance companies have also started to pull out of some vulnerable areas. The low level of investment in protection measures means that throughout the century municipalities have to spend all their available resources on repairs in the wake of extreme weather events, which become more frequent and more powerful.

The major consequences of climate change in Norway, however, pale in comparison with what is seen internationally. This scenario involves major challenges for societies in other parts of the world. This affects supply chains, and this leads to both supply problems and failing markets for Norwegian companies. Norwegian communities are affected by an increase in immigration in the form of climate refugees.

Global oil production increases until 2040 and then flattens off and declines some time after, while natural gas production increases steadily throughout the century. The level of activity in Norway's petroleum industry is assumed to follow the global trend. The continuing level of demand for fossil energy means that Norway sees slow economic growth even in this scenario. Norway's gross domestic product is, however, clearly lower in this scenario than in the other two (at the end of the century only about 40% of what it is assumed to be in the first scenario) because technological progress is slow, Norway's reserves eventually run out, and trade barriers and weak economic growth in other parts of the world mean that the petroleum industry, as well as our other industries, struggle.

Risks and opportunities for KBN

Scenario 3 is the scenario in which Norway's gross national product is calculated to be the lowest, and this will in turn have an effect on local government sector finances. Even though the oil and gas industry does well in the first half of the century and is also active in the second half of the century, other important industries will be threatened by both the physical climate risk caused by the effects of climate change in Norway and because of failing supply chains and export markets globally. In addition, Norway's municipalities will face major challenges in relation to adapting to climate change and carrying out repairs after extreme weather – particularly where insurance companies have ceased to offer cover.

In this scenario, however, the Norwegian state and municipalities are expected over time to have significantly less to money to spend than today, which means that municipalities will probably cease to be responsible for some of the duties they are currently expected to carry out. This will mean municipalities are less able and less willing to invest, which in turn means a smaller market for KBN. At the same time, many municipalities' ability to service their debt will weaken over the course of the century. This will particularly apply to municipalities that are especially exposed to extreme weather and significant precipitation levels combined with declining revenues as a result of important industries also being vulnerable to physical climate risk. Those municipalities which in addition have invested extensively in the years prior to the situation escalating will be in a particularly difficult position, as this will mean they have higher capital and operating costs for several decades.

It is conceivable that the weaker financial situation of both the Norwegian state and the country's municipalities would impact KBN's credit rating and funding costs. This would in turn increase the cost of its loans for municipalities and thereby further reduce the sector's ability to invest in new projects.

It should be emphasised that the assumptions made in this third scenario deviate from key aspects of the Norwegian social model, and that the consequences of this are difficult to model in a meaningful way. The third scenario is therefore in no way a complete analysis of what impact such a scenario would have on the local government sector.

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[1] *CICERO Center for International Climate Research has identified industries exposed to transitional risk and physical risk at the industry level. See which industries are covered and how the selection is made in the method note available through KBN's climate risk portal*

Corporate governance

1
The Board of Directors of KBN

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

BRIT KRISTIN SÆBØ RUGLAND
Chair since 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. Member of Council on Ethics for the Norwegian Government Pension Fund Global.

Participated in 15 board meetings in 2020.

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

MBA and Authorised Financial Analyst (AFA). Chair, KBN Risk Committee.

Participated in 15 board meetings in 2020.

EYVIND AVEN
Board member since 2019.

MBA and two year extension program in Finance. Sr. Risk Advisor within Group Risk function in Equinor. Member, KBN Risk Committee. Deputy member of Equinor Asset management ASA board and chair of its Risk Committee. Chair, Diakonisenteret Stavanger.

Participated in 15 board meetings in 2020.

ANNE JENNY DVERGSDAL
Employee representative since June 2020.

MSc in Economics and Business Administration, CEMS MIM. Senior Relationship Manager, KBN.

Participated in 7 board meetings in 2020.

TORIL HOVDENAK
Board member since June 2020.

MSc Economics and Business Administration. CEO Rauma municipality. Member, KBN Audit Committee.

Participated in 5 board meetings in 2020.

HARALD JACOBSEN
Employee representative since 2019.

MSc Economics and Business Administration. Head of Sustainability, KBN. Member, KBN Remuneration Committee. Member of the Board, Utøya AS. Personal alternate is Lars Ludvigsen.

Participated in 15 board meetings in 2020.

IDA ESPOLIN JOHNSON
Member of the Board since 2018.

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

Participated in 14 board meetings in 2020.

PETTER STEEN JR.
Board member since 2015.

Teacher. Former Mayor, City of Haugesund. Consultant/advisor to Sveio Municipality. Member, KBN Remuneration Committee. Chair, Haugaland Kraft AS.

Participated in 14 board meetings in 2020.

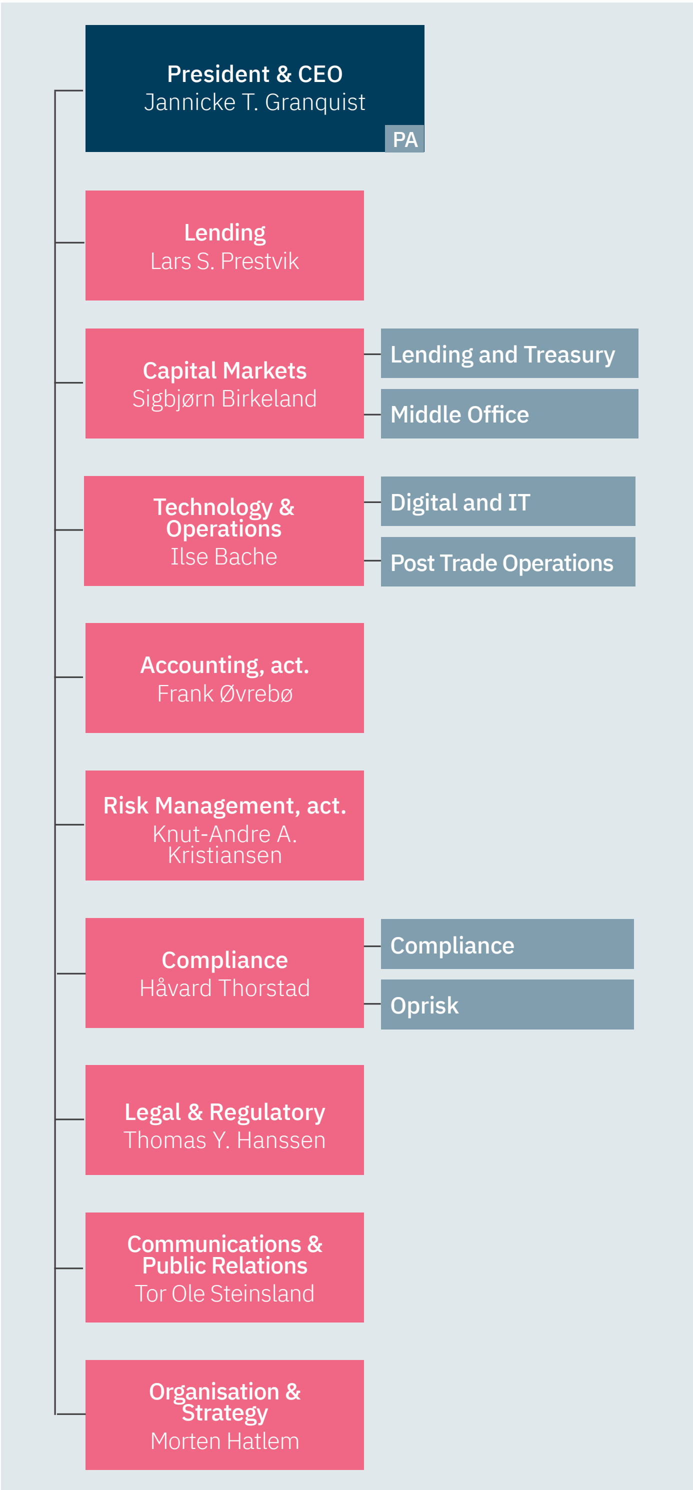
MARTHA TAKVAM
Board member since 2005.

Master of Business and MBA in Finance. Former Director Group Internal Audit and Group Treasurer, Telenor ASA. Chair, KBN Audit Committee. Vice Chair of the Board of Fontenehuset Asker.

Participated in 14 board meetings in 2020.

2 The management team

The management team at KBN forms the President and 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

President & 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.

MORTEN HATLEM
Chief People and Strategy Officer, employed since 2017.

Previously held the position as Chief of Staff and HR at The National Security Authority (NMS). He has experience as Chief of HR and Organizational Development in media companies such as Egmont and Schibsted, along with positions as Sales and Marketing Director. Holds a Master's degree from Norwegian Business School (BI).

TOR OLE STEINSLAND
Chief Communications Officer, 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).

SIGBJØRN BIRKELAND
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.

KNUT-ANDRÉ ASK KRISTIANSEN
Chief Risk Officer (acting), employed since 2017.

Previously he worked with financial risk management at DNB, Storebrand Asset Management and Norges Bank Investment Management. Has a degree within business administration (Siviløkonom) and an MSc in Financial Economics from Norwegian Business School (BI).

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.

THOMAS YUL HANSSEN
Chief Legal Officer, employed since 2015.

Previously worked as a legal officer in the Financial Markets Department at the Norwegian Ministry of Finance. He has a law degree from the University of Oslo, an economics degree from the London School of Economics and an MBA in finance from the Norwegian School of Economics (NHH).

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.

FRANK ØVREBØ
Chief Financial Officer (acting), employed since 2005.

Previously worked with financial risk management in KBN in various positions. Frank Øvrebø has a finance degree from Norwegian School of Economics (NHH) as well as being a CFA charterholder.

3 business model and operating model

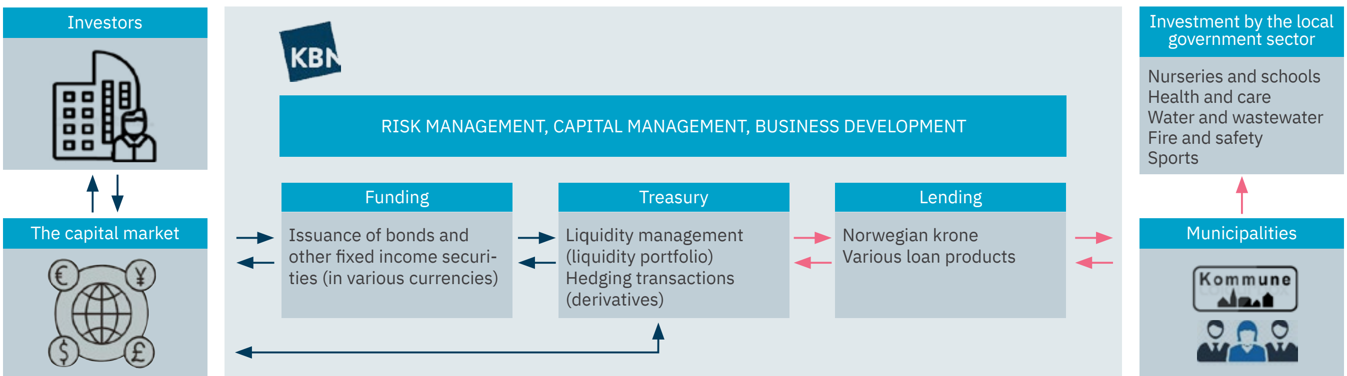
KBN is organised as a limited liability company that is 100%-owned by the Norwegian state. The Ministry of Local Government and Modernisation manages the state's ownership of KBN. KBN has no subsidiaries.

Regarding the objective and purpose of the state's ownership of KBN, the government's white paper on ownership policy (Report to Storting No. 8 2019-2020) states that *"The purpose of the state's ownership of Kommunalbanken is to facilitate the financing of the local government sector. The state's aim as owner is to achieve the highest possible return over time."*

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). In order 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.



4 Organisational structure and governing bodies

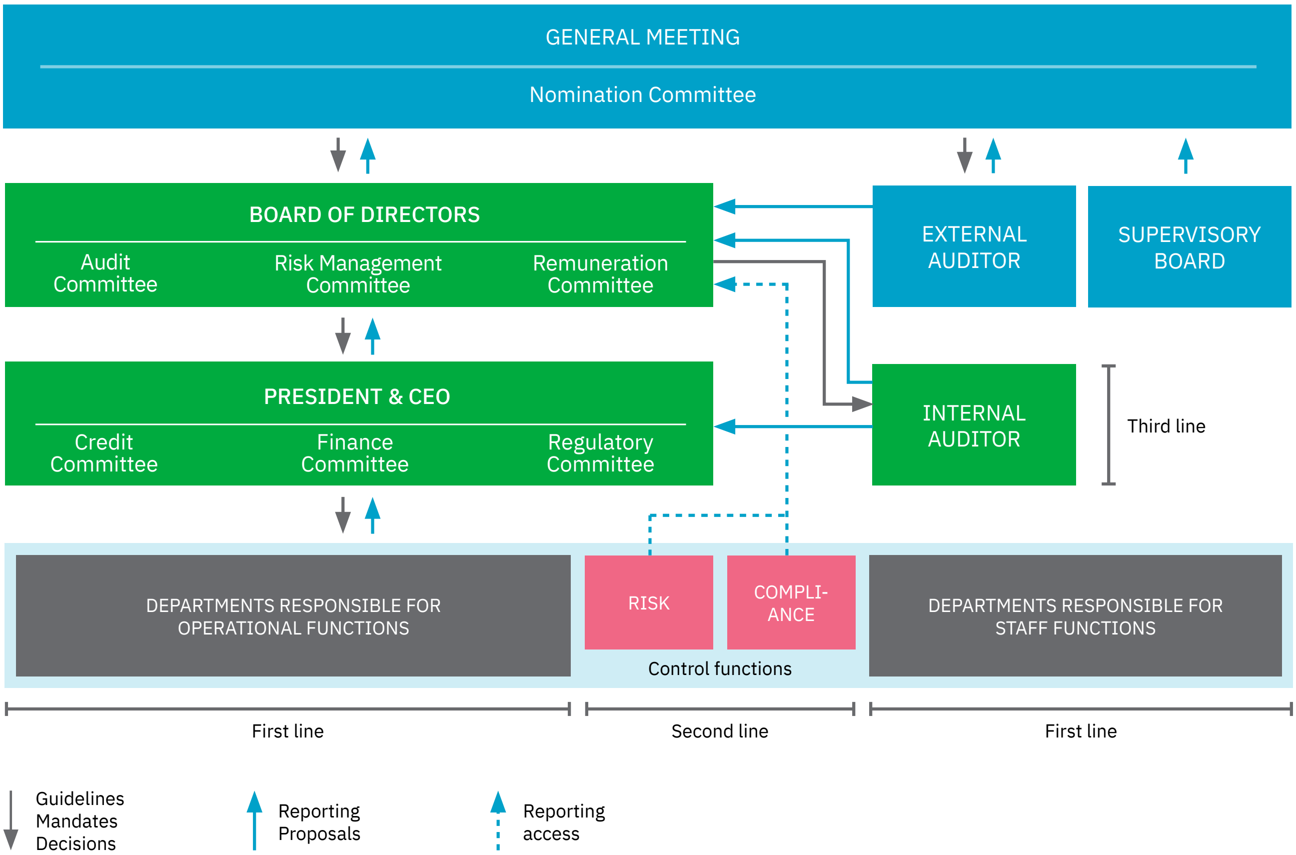
KBN's organisational structure is intended to ensure it adapts effectively to changes in customers' expectations, to contribute to robust decision-making, and to be characterised by the existence of clear responsibilities within the framework of its owner's expectations and regulatory requirements.

In 2020 Jannicke Trumpy Granquist was appointed as the new President and CEO of KBN. We also made further organisational changes to create a clearer distinction between operational functions and control functions with the aim of increasing the robustness of KBN's risk management and compliance activities and strengthening the capacity of KBN's operational functions in this specialist area.

The General Meeting (the Norwegian state acting through the Ministry of Local Government and Modernisation) 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 Management Committee carries out preparatory work to facilitate the Board of Directors' consideration of the company's risk appetite, ICAAP and recovery plan, and in connection with this it assesses the outcomes of scenarios and stress tests as well as assessing whether the pricing models proposed for new products and services are sound from the perspective of KBN's risk appetite. The Committee also reviews 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 reporting and control. The Committee is tasked with helping the Board to ensure that there is proper control of financial reporting and the reporting process, and also with carrying out preparatory work to facilitate the Board's monitoring of the reporting process, assessing KBN's internal control and risk management systems, assessing the effectiveness of the company's internal auditing, and assessing and monitoring the (external) auditor's independence.

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 benefits received by senior executives, and it produces a recommendation for the Board regarding the remuneration of the President and CEO, and prepares the Board's statement on the remuneration of senior executives.

The President & 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 President and

CEO can make decisions regarding any such matters if mandated to do so by the Board of Directors. The President and 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 President and 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 President and CEO shall ensure that there is proper internal control through effective operational and control routines. The President and 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 is made up of the department heads and assists the President and CEO of KBN 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 President and 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 President and 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 President and 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 President and 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 President and CEO's control function, and is provided with instructions for his/her work by, and reports to, the President and CEO. The risk management function independently assesses risks to which KBN is exposed, is responsible for the aggregated risk reports produced for the President and CEO, produces draft risk reports for 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 risk appetite framework and regulations. The Chief Risk Officer independently assesses the level of operational risk. The Chief Risk Officer is able to report directly to the Board of Directors.

The Chief Compliance Officer (second line) leads the compliance function, is the President and CEO's control function, and is provided with instructions for his/her work by, and reports to, the President and CEO. The compliance function independently assesses the risk of breaches of compliance with external and internal regulations and produces an annual plan for checking the first line of defence's compliance on the basis of this risk assessment. The compliance function is responsible for checking that KBN's guidelines meet the requirements to which they are subject pursuant to the law and official regulations, and it 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 internal control, and the Chief Compliance Officer co-ordinates and monitors KBN's internal audit. The Chief Compliance Officer is able to report directly to the Board of Directors.

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 Deloitte.

4.1 Governing bodies

The Board of Directors

- Brit Kristin Rugland, chair
- Rune Midtgaard, vice chair
- Eyvind Aven
- Anne Jenny Dvergsdal, employee representative
- Nanna Egidius
- Harald Jacobsen, employee representative
- Ida Espolin Johnson
- Petter Steen jr.
- Martha Takvam

Alternates to the employee representatives

- Marit Urmo Harstad
- Lars Ludvigsen

Board preparatory committees

Audit Committee

- Martha Takvam, chair
- Nanna Egidius
- Ida Espolin Johnson

Risk Committee

- Rune Midtgaard, chair
- Eyvin Aven
- 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

Supervisory board

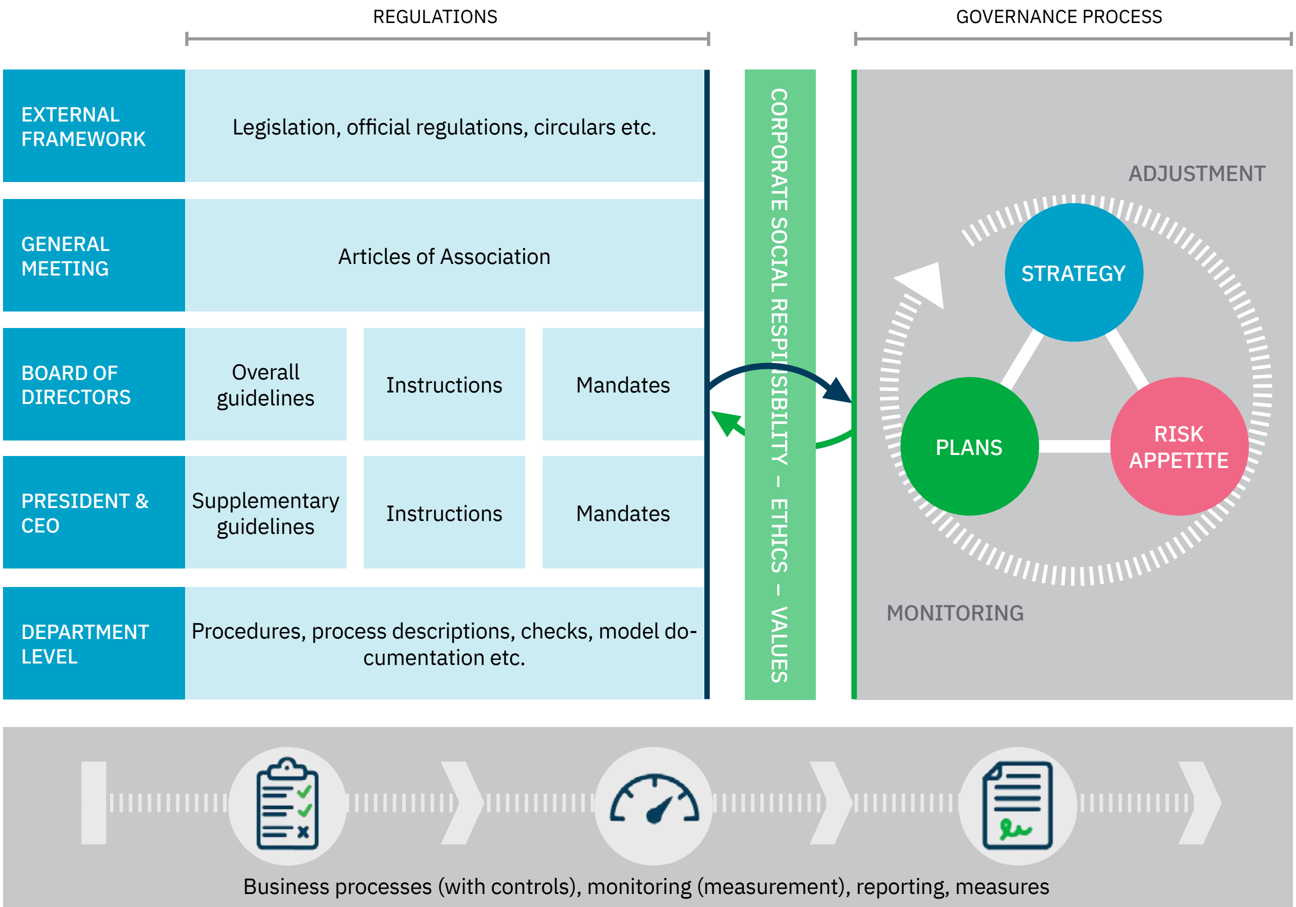
- Alfred Bjørlo, chair. Mayor, Stad municipality
- Berit Flåmo, vice chair. Mayor, Frøya municipality
- Tron Bamrud, fylkesrådmann i Akershus fylkeskommune
- Rigmor Brøste, ass. fylkesmann i Møre og Romsdal
- Tore Isaksen, rådmann, Ringerike municipality
- Hege Mørk, rådmann, Gol municipality
- Terje Dalby, senior kundeansvarlig, ansattes representant
- Ane Mari Braut Nese, ordfører i Klepp municipality
- Bjørn Ropstad, ordfører i Evje og Hornnes municipality
- Ida Stuberg, ordfører i Inderøy municipality
- Kjetil Århus, direktør for digitalisering i Bergen municipality

Alternates

- Toril Eeg, rådmann i Færder municipality
- Terje Fronth-Pedersen, senior kundeansvarlig, vara ansattes vararepresentant
- Hans Seierstad, tidl. ordfører i Østre Toten municipality
- Tommy Steinsvik, rådmann i Vågan municipality
- Nina Bordi Øvergaard, rådmann i Sør-Varanger municipality

5 Corporate governance – report

Corporate governance at KBN is an interaction between the processes and structures that are used to manage KBN, including its organisational structure, regulations and controls. KBN is managed through 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 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 overall guidelines and the President & 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.

5.1 The Board of Directors' main priorities in 2020

- The appointment of Jannicke Trumpy Granquist as the new President & CEO with effect from 19 October 2020. The Board carried out wide-ranging mapping exercise as part of which a number of internal and external candidates were assessed. Jannicke Trumpy Granquist has worked at KBN since 2016 and was CFO prior to her new role.
- Adopting targets and ambitions in the area of sustainability and decisions on how sustainability will be integrated into KBN's activities.
- Determining KBN's expectations of its suppliers as well as adopting an updated Code of Conduct for KBN.
- Considering and making decisions regarding various strategic topics, including in relation to KBN's lending strategy and the roadmap for digital customer solutions.
- Managing the consequences of the coronavirus pandemic, including adapting to the major market fluctuations seen in March and ensuring KBN was able to operate with employees working from home.
- Considering and approving KBN's capital plan.
- Monitoring work to combat money laundering and cyber threats.
- Considering and approving risk limits, as well as monitoring the organisational changes and further developing risk measurement and governance.
- Approving a change to KBN's strategy in September.
- Dialogue with KBN's owner through quarterly meetings with the Ministry of Local Government and Modernisation.

The Board of Directors spends approximately equal amounts of its time on (i) strategic matters and expertise development, (ii) monitoring and receiving information on KBN's activities and (iii) control and supervisory tasks.

5.2 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.

TABLE
The state's expectations of its companies

	Topic	How KBN strives to fulfil the state's expectations
1	Overall objective of the state's ownership	KBN is a 'category 2' company with an objective of delivering the highest possible return over time. A target return of 8% of value-adjusted equity has been set for KBN for the 2019-2021 period, and over this period the state expects to receive dividends equivalent to half the target return. With the exception of 2020, KBN has achieved the target return set for it over the last ten years.
2	Sustainable value creation, clear objectives and strategies	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 2020 the Board updated KBN's current strategy, "Building a Sustainable Society". 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.
	Factors of significance to KBN's achievement of its objectives and its execution of its strategy:	
3	Resources and organisation	KBN's resources are managed efficiently. KBN's organisation and decision-making structure are designed so as to promote the achievement of the company's objectives and risk management, and are aligned with the Norwegian Code of Practice for Corporate Governance and the regulations that apply to credit institutions.
4	Incentives	KBN's remuneration policy is based on its value platform and personnel policy, and is in line with the Guidelines for Remuneration of Senior Executives in Companies with State Ownership. The statement on the remuneration of senior executives is contained in note 6 and in the Board of Directors' report for 2020.
5	Responsible organisation	KBN has an objective of being a leading financial institution in relation to climate risk, sustainability and green finance. KBN is in dialogue with its stakeholders and follows leading-edge practice for sustainability work and sustainability reporting. KBN has reported in accordance with the GRI Standards since 2018. KBN operates in Norway and complies with the tax rules as in force from time to time. KBN operates its activities with the aim of preventing financial criminality. KBN is open about its objectives and the measures it adopts for its work on being a responsible organisation.
6	Performance and risk management	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. Performance management was a topic of KBN's discussion meetings with its owner in 2020. 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.
7	The Norwegian Code of Practice for Corporate Governance	KBN complies with the recommendations of the Norwegian Code of Practice for Corporate Governance 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. See section 5.3 for further information.
8	The Board's work	The Board of Directors observes practices for high-quality board work, adapted to the company's activities.
9	Transparency and reporting	KBN is open with regard to and reports on material matters related to its activities on www.kbn.com and in its published quarterly and annual reports.

5.3 The Norwegian code of practice for corporate governance

The table below details KBN's compliance with the recommendations of the Norwegian Code of Practice for Corporate Governance (the "Code of Practice"). 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
No 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 apply to KBN as an authorised 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.

Read more:
Sections 3 – 5.1
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 diversity and equality.

KBN's Overall Guidelines for Sustainability are intended to ensure that value creation by KBN is based on environmental, social and governance sustainability.

Read more:
www.kbn.com/en/about-us/
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 of Norway 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 8% for the 2019-2021 period, during which time the payment of dividends equivalent to half 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 and transactions with close associates
No deviation from the Code of Practice.

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

Under KBN's Articles of Association, the state's shares can be assigned to municipalities, county authorities, intermunicipal companies and municipal pension funds. Any such assignment shall be carried out in accordance with the company's aim of maintaining the highest possible creditworthiness.

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 Modernisation, calls general meetings, to which the Board of Directors, the President and 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 in terms of their experience and expertise, and an assessment of their collective suitability is made in connection with the election of members and otherwise 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 President and CEO. The Board has three committees: the Audit Committee, the Risk Management 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 Modernisation 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.

See also:
Pillar 3 report:
www.kbn.com/en/about-us/publications

The Board of Directors 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.

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 of Directors is not linked to KBN's performance and share options are not granted to Board members.

12. 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. KBN has a profit-sharing 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.

The remuneration paid to senior executives is published as a note to KBN's annual accounts.

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

The Board of Directors has produced guidelines for the company's reporting to the market and the authorities. These guidelines also address KBN's contact with investors.

All reporting by KBN is based on openness and is subject to the requirement for equal treatment of all participants in the securities market and the rules on good stock exchange practice.

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.

6 Working conditions

KBN seeks to create good working conditions that balance the needs and expectations of KBN and its employees. To achieve its objectives, KBN is dependent on having a team of skilled and committed employees who are given opportunities and motivated to develop their expertise and responsibilities.

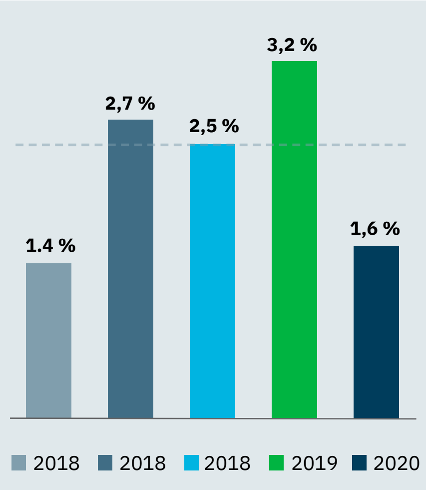
Changing patterns of customer behaviour, advances in technology and the continuous changes made to regulatory requirements make it essential that we develop ourselves as individuals and as a team that functions well together. Working across specialist areas and new working methods and tools will strengthen our development. A high-quality working environment with good development opportunities and training for individuals, strong collaboration across areas and motivation to play an active role in the further development of KBN will help us to succeed in developing, retaining and attracting employees with the requisite expertise. This also means that systematic work is required to ensure that the management team and KBN's other teams are balanced in terms of gender and to facilitate diversity when recruiting and developing employees.

6.1 The working environment and sick leave

KBN's employees displayed a high level of flexibility and adaptability in dealing with the consequences of the coronavirus pandemic. Their management of the market turmoil seen in March 2020 and their immediate adjustment to their new working routine of digital collaboration demonstrated that all KBN's teams have developed robust change processes and a strong change culture. KBN's employees have been working at home since March 2020 in line with national and local (Oslo) guidelines and recommendations. A modest number of spaces in KBN's offices has been available for employees whose tasks have to be completed on-site and for those with a particular personal need to work on-site. Management has followed developments on a continual basis and regularly updates employees on changes. KBN has ensured employees were reimbursed for their expenditure on office equipment and internet access, and also that employees had sufficient technical equipment. KBN's working hours arrangements have been temporarily adapted to take into account the situation at nurseries and schools as well as around any other care obligations of employees. An internal survey conducted during the acute phase of the pandemic revealed that more than 90% of employees felt that KBN had facilitated their ability to achieve a balance in their day-to-day work during the lockdown.

Regular health-promoting and social activities, including organised and individual

TABLE
Sick leave rates at KBN in recent years.



exercise activities, were offered for all employees in collaboration with KBN's various activity groups.

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 and carried out risk assessments in relation to health, safety and environmental issues, as well as related inspections. The inspections carried out in the fourth quarter 2020 did not uncover any material breaches in relation to either the physical or psychosocial working environment. An identified need for equipment for employees who were working from home was resolved through a range of measures. 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.

The sickness rate was 1.6% in 2020 as compared to 3.2% in 2019. KBN's target is for the sickness rate to be below 2.5%. KBN works actively on health, safety and the working environment, on preventing and following up sick leave, and on facilitating a swift return to work for employees following leave of absence and sickness. KBN is of the view that the home-working arrangements introduced in connection with the coronavirus pandemic, as well as society's general infection control policies, contributed to the decrease in the sick leave rate in 2020 relative to 2019.

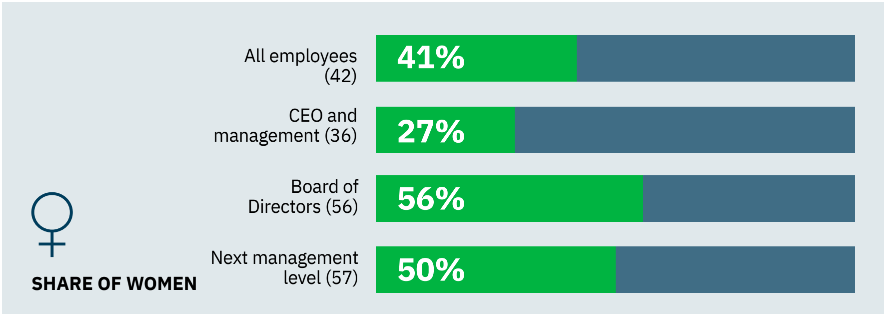
6.2 Diversity and equality

The Board of Directors has issued separate guidelines on diversity and equality at KBN. These state that at KBN equality and diversity are a fundamental part of recruitment, the development of managers and employees, and succession planning. Both when recruiting new employees and when making changes to the composition of management groups and organisational units, KBN pays particular attention to the gender balance. Recruitment processes have to be carried out in such a way that the best-qualified female and male candidates are identified and assessed before any decision is taken. All employees have to be treated equally and to have access to the same opportunities with regard to personal and professional development and promotion. KBN expects any external recruitment agencies it uses to attend to diversity and equality in their work. Employees who do not speak Norwegian are provided with training in Norwegian. Flexible working hours are offered to facilitate arrangements for employees who have care responsibilities at home. The target for succession planning for management positions and other critical roles is for internal candidates of both genders to be identified and developed in order to reduce vulnerability and to develop internal expertise.

KBN's objective is to achieve a good gender balance with each gender representing at least 40% of employees at all levels and within all teams. At the end of 2020 the overall proportion of KBN employees who were women was 41%, a small decrease from 2019 that was mainly due to two management positions that were filled on a temporary basis in anticipation of the recruitment of permanent employees. Staff turnover in 2020 was 8% as compared to 9% in 2019.

TABLES

The tables show the proportion of employees who are women at the end of 2019 and 2020 in general and in the senior management team, as well as information on women's salaries as a percentage of men's.



The Board of Directors' Annual Report

Kommunalbanken AS (hereinafter KBN) is the most important lender to the local government sector in Norway. KBN's role is to provide attractive and long-term debt financing regardless of market conditions. In 2020 KBN granted 547 new loans totalling NOK 58 billion. These loans financed investment in projects such as schools, health and care facilities, water and wastewater systems, and adaptations to climate change. KBN's robust financial results, the good growth in its lending for projects with a clear climate ambition, its efficient operations and its high level of customer satisfaction demonstrate that KBN is fulfilling its role in society successfully.

KBN's activities in 2020

KBN's lending grew by 2.7% in 2020 as compared to growth of 2.5% in 2019. Much of the growth in 2020 was seen in the final two months of the year. KBN's green lending for projects with a clear climate ambition grew by NOK 2.9 billion, equivalent to growth of 11.2% relative to 2019.

Profit for the year was NOK 1,159 million in 2020 as compared to NOK 1,283 million in 2019.

Net interest income for 2020 was somewhat lower than in 2019. KBN's revenue is primarily generated from its lending activities. KBN's 2020 earnings were somewhat weaker than was expected at the start of the year, and this was due to the fact KBN quickly cut its lending rate in line with the interest rate cuts made by Norges Bank during the coronavirus pandemic. KBN took this action to ensure that the cuts to Norway's key policy rate benefitted the local government sector. KBN's liquidity management activities yielded low margins and therefore weak earnings, as was expected. KBN's profit for the year for 2020 was positively affected by unrealised gains from changes in the value of financial instruments in the year. KBN's return on equity after tax for 2020 was 7.4%, and in 2020 its equity increased by NOK 2,137 million. This increase was due to an equity injection, the fact that the full amount of KBN's profit for the year for 2019 was transferred to equity, and KBN's issuance of a new Tier 1 capital instrument as a replacement for a former, smaller issue.

Strategy and objectives

In November 2019 the Government of Norway published a new white paper on its ownership policy, *"The State's Direct Ownership of Companies – Sustainable Value Creation"* (Report to the Storting (White Paper) No. 8 – 2019-2020). This new white paper places particular emphasis on sustainable value creation, and it also clarifies the Government's expectation that companies in which the state holds an ownership interest will be transparent and accountable.

In the white paper it is stated that *"the purpose of the state's ownership of Kommunalbanken is to facilitate the financing of the local government sector"* and also that *"the state's aim as owner is to achieve the highest possible return over time"*. 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. KBN's current business model is based on its credit rating being the highest possible rating, AAA.

In 2020 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.

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

- **Customer first:** KBN shall be the most important financing partner for Norwegian municipalities and county authorities and we will be driven by putting the customer first.
- **Strong market participant:** Through a strong position in the capital markets nationally and internationally, KBN shall ensure Norwegian municipalities have access to attractive financing.
- **A leader in green finance:** KBN shall help its customers to succeed in achieving their climate objectives.
- **A digital first choice:** Our digital solutions shall ensure our customers have the best possible customer experience and shall contribute to simplification and quality improvements at KBN.
- **Future-oriented organisation:** KBN shall be recognised as a knowledge business in financing and in the development of future-oriented financing solutions for Norwegian municipalities.
- **Sustainable value creation:** Our activities shall balance financial, social and environmental considerations in a way that contributes to long-term value creation.

Read more:
KBN strategy

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 2020) 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 2020 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 profit for the year was NOK 1,159 million in 2020 as compared to NOK 1,283 million in 2019.

TABLE 1
Profit for the year

	2020	2019
Profit for the year	**1,159**	**1,283**
Net interest income	1,672	1,875
Fees and commission expenses	115	87
Net unrealised gain/(loss) on financial instruments	224	213
Expected credit loss	14	(1)
Net trading income	25	23
Total operating expenses	255	252
Income tax	377	488

Amounts in NOK 1 000 000

Net interest income totalled NOK 1,672 million in 2020 as compared to NOK 1,875 million in 2019. In 2020 KBN's net interest income from its lending activities was positively affected by an increase in lending volumes, but lower interest rates as well as narrower credit spreads led to net interest income decreasing in overall terms. The net interest income from KBN's liquidity management portfolio generated a smaller contribution to KBN's earnings in 2020, in line with expectations. Fees and commission expenses increased from NOK 87 million in 2019 to NOK 115 million in 2020, in part as a result of KBN's contribution to the Resolution Fund run by the Norwegian Banks' Guarantee Fund. KBN's contribution to the fund in 2020 was around NOK 70 million.

Net trading income from market transactions in the form of KBN repurchasing its own bonds, selling securities held in its liquidity portfolio and the concluding of financial derivative contracts contributed NOK 25 million to profit for the year in 2020 as compared to NOK 23 million in 2019.

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

	2020	2019
Net unrealised gain/(loss) on financial instruments	**224**	**213**
Notes, bonds and other interest-bearing securities and related financial derivatives	72	138
Instalment loans and related financial derivatives	159	153
Senior securities issued and related financial derivatives	(7)	(78)
Change in fair value of liabilities and related financial derivatives due to changes in own credit risk	**130**	**319**

Amounts in NOK 1 000 000

KBN's net unrealised post-tax gains of NOK 224 million in 2020 relate to both loans and bond investments that are measured at fair value. The gains were due to credit spreads narrowing. KBN recognised unrealised post-tax gains of NOK 213 million in 2019, which also related to loans and bond investments measured at fair value. 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 7 million.

TABLE 3
Total comprehensive income

	2020	2019
Total comprehensive income for the year	**1,255**	**1,515**
Profit for the year	1,159	1,283
Change in fair value of liabilities and related financial derivatives due to changes in own credit risk	130	319
Actuarial gain/(loss) on defined benefit plan	(2)	(10)
Tax effect	(32)	(77)

Amounts in NOK 1 000 000

Total comprehensive income amounted to NOK 1,255 million in 2020 as compared to NOK 1,515 million in 2019.

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 the instruments reach maturity.

TABLE 4
Operating expenses

	2020	2019
Operating expenses	**255**	**252**
Salaries	83	92
Pension costs	11	13
Administrative expenses, employer contributions and other personnel benefits	54	54
Other expenses	84	71
Depreciation on fixed assets	25	22

Amounts in NOK 1 000 000

KBN's total operating expenses of NOK 255 million in 2020 were approximately in line with 2019 but were somewhat lower than expected. A decrease in personnel expenses was primarily due to the fact that no payments under KBN's profit-sharing scheme were achieved in 2020, but also to some recruitment having been postponed, in part due to the coronavirus pandemic. The increase in other operating expenses related to KBN's digital customer initiative as well as to internal quality improvement and efficiency projects. Upgrades to provide further protection against cyber security threats were also carried out.

At 31 December 2020 KBN had total assets of NOK 498.2 billion as compared to NOK 460.8 billion at the end of 2019. KBN's total assets fluctuated significantly over the course of 2020 as a result of the temporary fall in the value of the Norwegian krone. Market turmoil in the month of March 2020 caused the Norwegian krone to weaken significantly and KBN's total assets to increase to over NOK 550 billion at the end of the first quarter of 2020. The Norwegian krone strengthened towards the end of 2020, and KBN's total assets in NOK terms therefore fell in December. KBN's holdings of cash and cash-equivalents were higher than at the end of 2019 and, together with the increase in KBN's lending activities, caused KBN's total assets to increase.

KBN's total primary capital at 31 December 2020 was NOK 18,966 million. Of this amount, NOK 14,574 million is common equity Tier 1 capital. The common equity Tier 1 capital adequacy ratio at 31 December 2020 was 17.9%, the Tier 1 capital adequacy ratio was 20.8%, and the total capital adequacy ratio was 23.3%. The leverage ratio at 31 December 2020 was 3.7%. KBN's common equity Tier 1 capital ratio at the end of 2020 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. KBN has an ongoing discussion with the tax authorities relating to the calculation of temporary differences. Over time temporary differences will net to zero, although, in certain circumstances, such as substantial fluctations in FX rates just before year end, 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 2020 the capital requirements to which KBN was subject, including the pillar 2 requirement, required KBN to have a common equity Tier 1 capital adequacy ratio of 15.2%, a Tier 1 capital adequacy ratio of 16.7% and a total capital adequacy ratio of 18.7%. KBN is also subject to a requirement to have a leverage ratio in excess of 3.0%.

KBN manages its operations to ensure it complies with the regulatory requirements in force at any time. The risk-weighted capital adequacy requirement to which KBN is subject was 0.4 percentage points higher at 31 December 2020 than at 31 December 2019. The increase was due to a combination of the countercyclical capital buffer requirement having decreased by 1.5 percentage points, the pillar 2 requirement having increased from 1.6% to 2.3%, and institution-specific systemic risk buffers having been introduced with the associated increase in the buffer rate increasing the rate applicable to KBN by 1.1 percentage points. The first of these changes was made in the first half of 2020, while the final change mentioned came into effect from 31 December 2020.

Lending

2020 was a very challenging year for KBN's customers. In the coronavirus pandemic Norway's municipalities were on the front line in terms of testing and tracing cases and reducing infection. The lockdown had major consequences on municipal services, and from March 2020 Norway's municipalities were more or less continually in crisis management mode. The fact that the level of investment was approximately in line with expectations for 2020 illustrates, however, that Norway's municipalities and county authorities were largely able to carry out the investment projects for which they had budgeted as planned in parallel with their extraordinary tasks and the demanding circumstances.

KBN experienced a good level of demand for new loans throughout 2020. When compared with previous years, the level of demand for new loans was somewhat lower in the fourth quarter, but in overall terms the level of demand for new financing was approximately the same as in 2019. The rate of growth in local government sector borrowing reached 8.1% in 2020, equivalent to a net increase of NOK 46.7 billion. This rate of growth is 0.3 percentage points higher than that seen in 2019 and represents a historically high level. However, this strong level of growth also includes particularly strong growth in municipalities' borrowing from the Norwegian State Housing Bank, loans from which are used to make loans to residents under the municipal start-up loans scheme. Nonetheless, the growth in borrowing seen in 2020 reflects the continued high level of investment activity taking place, particularly in relation to schools, water and wastewater, and health and care. The growth in borrowing is taking place across various types of municipalities, but larger municipalities in particular tend to have higher levels of investment and therefore need to finance part of this by borrowing.

In March 2020 the effects of the coronavirus pandemic on the financial markets both globally and in Norway had a major impact on the ability of the country's municipalities and county authorities to access financing in the capital market. Investor demand was significantly lower and margin spreads on new loans were markedly higher. The easing in March 2020 of the capital adequacy requirements to which KBN was subject, as well as a new equity injection in April 2020, increased KBN's lending capacity and it was therefore better able to meet customers' expectation that it would be able to step in with new loans to refinance their maturing loans from the capital markets. The measures taken by Norges Bank to improve liquidity in the capital market resulted in the market becoming fully competitive once again over the course of spring 2020. Competition to provide new loans was periodically very strong in 2020. KBN focused on achieving profitable growth when competing to provide new loans in 2020 in order to protect its future lending capacity and presence in the market. This to some extent limited KBN's lending growth in 2020.

The overall growth in KBN's lending of 2.7% was lower than expected, and this was due to larger redemptions of loans related to toll-road financed investments. KBN's overall lending to municipalities and county authorities increased by 5.7% in 2020, which is approximately one percentage point higher than in 2019. KBN has a target of being a market leader in its sector. Over 2020 KBN's market share was stable and was estimated to be 46.5% at 31 December 2020, which constitutes a marginal decrease from 2019.

At the end of 2020, all of Norway's county authorities, 355 of Norway's 356 municipalities, and Longyearbyen Community Council had outstanding loans to KBN. In addition, a range of municipal and intermunicipal companies and companies with a municipal or county-authority guarantee are loan customers of KBN. Many of the companies with a guarantee are relatively small organisations whose revenue either entirely or partially disappeared during the lockdown in spring 2020. On the basis of dialogue with these customers and their guarantors, their 2020 instalment payments were in many cases deferred either entirely or in part. KBN experienced no defaults on payments or loans as a result of the coronavirus pandemic in 2020.

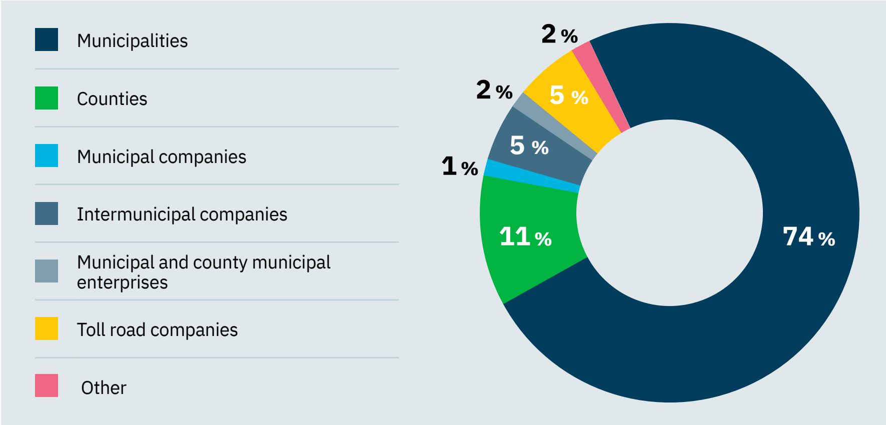
KBN's green lending for investment in climate and environment friendly projects increased by NOK 2.9 billion or 11.2% in 2020. This is a slower rate of growth than in either 2019 or 2018, and this was caused by a sizeable redemption of a loan for an infrastructure project. KBN disbursed a total of NOK 6.3 billion in new green loans to 48 different projects in 2020. While this is a smaller number of projects, the projects were typically somewhat larger in size than in 2019. This relates to the fact that in 2020 borrowing by a number of Norway's largest municipalities qualified for green loans. At the end of 2020, KBN's outstanding green lending totalled NOK 28.5 billion, NOK 26.1 billion of which qualifies as green lending in line with KBN's most recently approved Green Bond Framework and is included in KBN's separate Impact Report. At 31 December 2020, 118 municipalities and five county authorities had a green loan from KBN.

KBN's green loans are granted to projects that satisfy KBN's Criteria Document for Green Loans. KBN's Criteria Document has been rated as 'Dark Green' by the CICERO Center for International Climate Research, indicating that the loans (investments) are compatible with a low-emission society by 2050. KBN produces a separate report on the impact of its green loans each year. KBN has worked actively on ensuring its customers are familiar with its green loans, and the scope of the projects that are qualifying is increasing, e.g. more and more municipalities are investing in buildings that meet stricter requirements in respect of their greenhouse gas emissions than required by the current regulations. KBN expects to see continued growth in its green lending in 2021.

KBN granted a total of 547 new loans totalling NOK 58 billion in 2020. Its total lending at the end of 2020 was NOK 318.2 billion, representing growth of NOK 8.5 billion or 2.7% from the end of 2019.

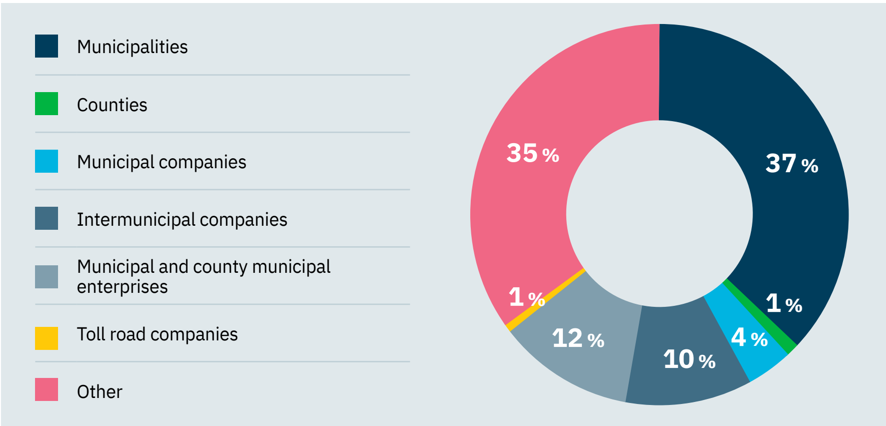
Around 86% of KBN's lending is directly to municipalities (including municipal companies) and county authorities, as shown by the breakdown provided in chart 1. A further 9% or NOK 27 billion of KBN's lending is to companies and various other types of association and foundation that have a municipal or county-authority guarantee. At the end of 2020, NOK 17.2 billion of this lending was to toll road companies.

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



A total of 961 customers have outstanding loans from KBN. Chart 2 below shows that 42% of KBN's customers are either municipalities, county authorities or municipal companies, 10% are intermunicipal companies, and 48% are customers with a municipal or county authority guarantee.

CHART 2
Analysis of the number of customers by customer category



The lending market

In 2020 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 long-term, instalment-based loans. KBN's lending also supplements its customers' use of loans with no instalment payments from the capital market. From time to time there was strong competition between the organisations active in the local government lending market, while in other periods KBN was the only provider offering the lending products that customers wanted. There were few organisations other than KBN active in the local government lending market in March 2020 and April 2020 in particular. This highlights KBN's important role in this segment.

The coronavirus pandemic caused demanding conditions in the capital market in the second half of March 2020 and into April 2020. All the municipalities and county authorities that had loans maturing during this period that needed to be refinanced were able to achieve this, but only using new, short-term financing with maturities of up to six months and significantly higher spreads. Thanks to various measures implemented by the Norwegian authorities, including an equity injection for KBN, loan defaults were avoided and the situation normalised rapidly. In the second half of 2020 the capital market functioned as normal and with generally falling credit spreads. However, the situation illustrated the risk inherent in needing to refinance maturing loans, particularly when this has to be done at a time when the market is not functioning. Municipalities and county authorities have varying levels of available liquidity to repay loans reaching maturity, and as a result many depend on the capital market to be fully operational at all times if they are to avoid defaulting on a loan falling due for repayment.

In recent years, municipalities and county authorities' borrowing patterns have changed from primarily being based on long-term loans with instalment payments in favour of greater use of shorter maturity loans without instalment payments, with a particular emphasis on maturities of around five years. The use of loans with maturities of 12 months or less has stabilised, but in the second half of 2020 in particular there was a distinct shift by borrowers seeking loans with no instalment payments towards loans with maturities of two to three years. In overall terms, this means that the local government sector's collective exposure to refinancing risk is increasing. A common feature of the new loans being taken out, whether or not they have instalment payments prior to maturity, is the trend seen over a number of years for increasing use of loans with fixed rates. Growth in fixed rate loans continued in 2020, which was a year in which municipalities and county authorities were able to enter into fixed-rate loans with historically low interest rates.

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 107.8 billion in 2020, which is NOK 35.3 billion more than in 2019. The increase in new borrowings was primarily due to more debt maturing in 2020. KBN's funding program was not appreciably affected by the coronavirus pandemic, and KBN enjoyed good access to the capital markets throughout 2020. KBN avoided borrowing around the most volatile period in spring 2020 and achieved overall financing costs for its senior debt at an equivalent level to 2019 for the same maturities.

Europe, the USA and Asia were KBN's most important markets for funding in 2020. KBN 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 2020. KBN issued bonds in six currencies in 2020, a decrease from 2019 when KBN issued bonds in eleven different currencies. The proportion of new borrowing that was denominated in US dollars increased from 51% in 2019 to 83% in 2020. In 2020 KBN issued four USD benchmark bonds totalling USD 5.75 billion. KBN attracted a high level of interest from investors, and all its benchmark bonds were significantly oversubscribed.

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 is a member of the governing body of the ICMA's Green Bond Principles, which is the leading international industry standard for green bonds, and in 2020 it also organised and participated in a number of virtual events designed to promote green finance solutions. KBN's green bonds finance its loans to customers for their green projects. KBN will update its Green Bond framework at the start of 2021.

KBN's total borrowings increased in 2020 from NOK 400.5 billion to NOK 405.5 billion.

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. KBN's liquidity portfolio investments are primarily 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 2020 was NOK 123.6 billion as compared to NOK 107.4 billion at the end of 2019. The proportion of the liquidity portfolio invested in Norwegian krone assets has been increasing over recent years. Internationally credit spreads have been pushed lower, due in part to the European Central Bank's bond-buying program. The extremely expansive monetary policies adopted across the world in response to the coronavirus pandemic have caused credit spreads to decrease further. At the end of 2020 KBN's overall liquidity coverage ratio (LCR) and its LCR for NOK were 191% and 77% respectively.

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. For more information, see KBN's corporate governance report on p. 29.

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

Each year the Board of Directors approves guidelines on the remuneration of senior executives in the following financial year. The Board submits its statement on the remuneration of senior executives to the Annual General Meeting each year. The statement and information on the remuneration paid to senior executives are provided in Note 6 of KBN's financial statements in this annual report.

Risk management and internal control

KBN's Board of Directors has approved guidelines on risk management and internal control. The Board of Directors 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 of Directors 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 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 planning process, recovery planning, and the commercial strategy design process.

The Board of Directors is regularly informed of KBN's activities, financial position and earnings situation. The Board considers management's assessment of risk exposure and risk events, with this forming an integral part of KBN's routine activity reporting processes.

In 2020 the level of risk management in the operational first line function was strengthened through the creation of a Middle Office. 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 models, and develops KBN's risk reporting. KBN's financial control function, together with the risk management function and compliance function, comprise the second line of defence. Compliance risk represents an operational risk and forms part of KBN's overall risk management. The third line of defence is provided by the internal auditor (Deloitte) and functions as the Board's independent supervisory and control function.

Capital
The Board of Directors discusses the capital level and assesses all the risks at least annually to ensure that the Company's capital level is sufficient based on the actual and expected risk exposure. The Board pays special attention to the risk of changes in regulatory framework. The changes to European Capital Requirement Regulation and to the national capital requirements have increased KBN's capital requirements. 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, liquidity risk, market risk, operational risk and other non-financial risk.

Credit risk
KBN has a very limited risk appetite with regard to credit risk in relation to its lending customers. KBN exclusively has customers connected to the local government sector, and this means it has a very low risk of incurring financial losses. This is because the Norwegian Local Government Act stipulates that municipalities cannot be declared insolvent and that 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 low appetite for credit risk in relation to its liquidity counterparties.

KBN uses 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 controlled by the use of central counterparties or other counterparties with a high credit rating, and by exchanging cash collateral in order to reduce KBN's risk.

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 shall ensure that it can at all times 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 basis risk, which is the risk of a change in basis spreads between two currencies that affects the value of hedging contracts. KBN's exposure to basis risk relates to currency hedging, credit spread risk in the liquidity portfolio and residual interest rate risk.

Operational risk
KBN has a limited risk appetite with regard to operational risk. In operational risk management a uniform and systematic approach to identifying risk is used, 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, which is the risk of a breach of compliance with regula-

tions or guidelines, is a sub-type of KBN's operational risk. KBN has a very limited risk appetite with regard to compliance risk. In order to address the growing threat posed by cyber criminals, further measures were implemented in 2020.

Climate risk

KBN is exposed to direct climate risk through its own activities to a limited extent, however different types of climate risk may impact municipalities' financial situation and therefore their ability and willingness to invest in new projects, as well as ultimately their capacity to service their existing liabilities. The Norwegian Local Government Act states at Section 29-1 that municipalities and county authorities cannot be declared insolvent, and consequently KBN's exposure to default risk is very low. KBN is of the view that its efforts to share its expertise in climate risk are an important part of its social function and an important aspect of its strategic work on sustainable value creation in the local government sector.

In 2020 climate risk was discussed in KBN's capital plan (ICAAP). KBN's climate risk tool for the local government sector was updated in 2020. The tool is based on specialist content from the CICERO Center for International Climate Research, as well as on data from third-party sources such as the Norwegian Centre for Climate Services, the Norwegian Environment Agency and Statistics Norway.

In 2021 KBN will further develop its climate risk tool for the local government sector by including more data sources. Narrative scenarios are a useful tool for addressing a future involving uncertain outcomes, such as is the case when assessing climate risk. In 2020 KBN commissioned CICERO to develop narrative climate scenarios for Norwegian municipalities. These scenarios will in future be used in a number of areas. They will be incorporated into KBN's current work to assess its own climate risk, and in 2021 KBN will use this as a foundation to develop a tool that municipalities can use in their planning activities. In 2021 KBN will also work to integrate climate risk indicators into its model for assessing and classifying its lending customers' credit risk. These steps are important to putting climate risk on the agenda of KBN's customers.

Read more:
TCFD report

In future, KBN will work to ensure that as many municipalities as possible choose to invest in projects that qualify for a green loan from KBN, and it will seek to make green loans an ever larger proportion of its lending portfolio. KBN has set a target for at least 20% of its loans to be green or sustainability-related loans by 2025. KBN has a target of halving its own greenhouse gas emissions by 2030.

Corporate communications and public relations

The Board of Directors regards engagement by KBN in active, 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.

In 2020 KBN launched a new customer portal, an important step on its journey to providing customers with a fully digital and seamless offering. 250 of KBN's customers have started using the portal. An updated version of KBN's climate risk tool for municipalities was launched before Christmas, with a new design and new functionality. The climate risk tool is intended to help municipalities to make a start on mapping and managing their climate risk together with their most important stakeholders.

KBN's external communication activities are intended inter alia to help highlight issues that affect its customers, e.g. through changes to their or KBN's framework conditions. The macroeconomic situation, green finance, climate risk in the local government sector and the finance industry, and municipalities' long-term sustainability were central topics in KBN's external communication activities in 2020.

Due to the coronavirus pandemic and the subsequent lockdown of parts of society, KBN quickly replaced its physical meetings and seminars with digital events, and it organized a range of webinars on the macroeconomic picture, municipality finances and local climate risk. The importance of a sustainable approach to borrowing by the local government sector was emphasised in the communication activities KBN conducted directly with its customers, including its finance seminars, KBN Finans (KBN's debt management tool) and newsletters.

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 has separate guidelines on sustainability. KBN carried out a materiality analysis in autumn 2019 as part of which its most important stakeholders provided input on KBN's priorities for its sustainability work going forward. Based on this analysis, KBN will prioritise green finance, climate risk, expertise sharing, employee development and responsible lending as the main themes for its sustainability work in 2021.

KBN's 2021-2023 strategy, "Building a sustainable society", states that "KBN must balance financial, social and environmental factors in a way that contributes to long-term value creation." 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 in its reporting of climate risk.

KBN expects all its employees and managers to act in line with KBN's Code of Conduct, which was last revised in 2020. Training sessions on ethical conduct and dilemma training were provided for all new employees in 2020.

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. At the same time, the coronavirus pandemic has changed our working methods and influenced our work on organizational development. Internal surveys indicate that employees have felt taken care of during a difficult time.

The Board of Directors appointed Jannicke Trumpy Granquist as the new President and CEO of KBN with effect from 19 October 2020. The Board carried out a wide-ranging mapping exercise as part of which a number of internal and external candidates were assessed. Trumpy Granquist has been CFO in KBN since 2014.

The sickness rate was 1.6% in 2020 as compared to 3.2% in 2019. KBN's target is for the sickness rate to be below 2.5% over time.

Read more:
Sustainability
Corporate governance

Read more about our work on diversity and equality and our employees' working conditions in the section on sustainability, as well as in the section on corporate governance.

Allocation of profit

The Board of Directors of KBN proposes the following allocation of the profit for the 2020 financial year: NOK 1,159 million is to be transferred to retained earnings. The Board is of the view that this is required in order to continue to build up KBN's equity capital and thus its common equity Tier 1 capital, and the Board proposes as it submits KBN's accounts for 2020 that no allocation for a dividend should be made from the profit for the year for 2020. The need to build up KBN's common equity Tier 1 capital is the result of expected future changes to the capital adequacy calculation methods and requirements, and of special deductions from KBN's Tier 1 capital as a result of deferred tax assets in 2020. Building up KBN's equity capital will help KBN to meet the capital requirements to which it will be subject in the years ahead. The Board notes in this regard the requirements contained in Section 10-6, first paragraph, of the Norwegian Financial Undertakings Act, where it is stated that dividends shall not be higher than is prudent, and that 'prudent' involves the Board taking into account its obligation to consider the financial institution's need to build up its equity capital. See too the Norwegian Ministry of Finance's recommendation in its press release of 20 January 2021 that financial institutions need to apply more caution (due to the coronavirus pandemic) in their distribution of dividends when they need to strengthen their Tier 1 capital.

Future prospects

At the start of 2020, the general expectation was that the year would see more economic growth and a moderate increase in interest rates after a number of rounds of increases in 2019. This changed significantly when the coronavirus pandemic caused the introduction of a lockdown in mid-March. The consequences of this for Norway's economy were significant, and GDP fell by 2.5% in 2020. Norges Bank cut its key policy rate to zero and flooded the market with liquidity. KBN received a new equity injection and helped the local government sector to obtain refinancing for loans taken out in the capital markets that fell due for repayment.

The powerful measures implemented by the Norwegian authorities, low interest rates and the high savings rates by those with secure jobs mean that Norway's economy is expected to normalise rapidly as soon as the virus is brought under control. Approximately 90% of Norwegian businesses have managed to remain active during the pandemic. The worst affected industries are those that depend on bringing people together and providing enjoyable experiences.

The strong growth in borrowing by the Norwegian local government sector seen once again in 2020 is expected to decrease gradually. Many municipalities already have a very high level of indebtedness and will have only limited ability to invest in major projects by borrowing going forward. Interest rates will increase from the current record-low level and, although no-one is expecting rates to rise quickly and sharply, many municipalities may face a significant increase in their interest costs in the years ahead.

At the same time, KBN's customers continue to have a major need to invest. Norway's society needs to be converted from fossil fuels to renewables. A maintenance backlog and the challenges that climate change is creating in the water and wastewater area will contribute to a higher level of investment. Demographic changes, population decline and changes to the school structure will contribute to the expected continuing high level of investment in elementary schools. In the next few years, the impact of the ever-increasing number of elderly people will hit the local government sector as the proportion of people aged over 80 will rise very quickly. This will generate a need for a continuously high level of investment at the same time as the increasing proportion of elderly people with care needs will pose a challenge to municipalities' finances and staffing needs.

KBN's ability to provide loans is closely related to its own profitability. Decreasing willingness to pay to ensure long-term, predictable financing is putting pressure on KBN's profitability and may cause KBN's market position and its significance to municipalities and county authorities' access to financing to decrease.

The European Commission's ambitious work on sustainable finance is continuing with renewed vigour under the leadership of Ursula Von der Leyen. The EU's taxonomy for sustainable economic activities and the proposed EU Green Bond Standard have already set the agenda in the market for sustainable finance. The taxonomy provides a common European definition of what constitutes a sustainable economic activity, and financial institutions and large companies alike will have to report on the extent to which their activities are sustainable according to this definition.

We are seeing that the response to climate as a financial risk for business and industry is moving away from voluntary reporting regimes towards obligatory reporting and monitoring by supervisory authorities. KBN will continue to look at its lending activities, including its green lending program, in the light of the signals from the EU. At the same time, we can see that the interaction between detailed EU regulations and the reality of the Norwegian local government sector will cause some practical challenges, particularly with regard to the level of documentation and reporting that will be required to meet the expected requirements.

On 23 November 2016, the European Commission presented a comprehensive package of reforms to further strengthen the resilience of EU banks (the "EU Banking Reform Package"). The changes are expected to enter into force in Norway in 2021. The banking reform package may affect KBN both operationally and financially through new reporting requirements, a need for new system solutions and higher capital requirements, as well as in other ways that may increase the cost of doing business for KBN.

The initiative to replace the major international interest rate benchmarks (LIBOR) is progressing. KBN is in the process of adapting those of its contracts that are affected by this to what is expected to be the new market standard in accordance with standards developed by ISDA, and internal work is ongoing to map and analyse the risks that transitioning to and using the new benchmarks may entail.

KBN is a relatively small organisation, and the ever increasing scope of new regulations and the growing reporting requirements imposed by the authorities are thus resulting in a need for it to have more resources, financial as well as operational. In addition, KBN has a specialised business model that differentiates it from other Norwegian financial institutions. Regulatory requirements are often designed with normal retail banks in mind and do not often take into account the significance of public ownership, extremely low-risk lending business models, internationally oriented wholesale funding models etc. 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 thus to its role in the creation of a sustainable society.

The Board of Directors would like to thank KBN’s employees for a job well done.

Oslo, 31 December 2020

25 February 2021

The Board of Directors of Kommunalbanken AS

Brit Kristin Sæbø Rugland
CHAIR

Rune Midtgaard
VICE CHAIR

Eyvind Aven
MEMBER OF THE BOARD

Anne Jenny Dvergsdal
EMPLOYEE REPRESENTATIVE

Toril Hovdenak
MEMBER OF THE BOARD

Harald Jacobsen
EMPLOYEE REPRESENTATIVE

Ida Espolin Johnson
MEMBER OF THE BOARD

Petter Steen Jr.
MEMBER OF THE BOARD

Martha Takvam
MEMBER OF THE BOARD

Jannicke Trumpy Granquist
PRESIDENT&CEO

Our sustainability work

KBN's approach to sustainability

The Norwegian Government's white paper on state ownership, Sustainable Value Creation (Report to the Storting No. 8 (2019-2020)), highlights KBN's owner's expectation that companies in which it has an ownership stake will have an overall plan for sustainable value creation: *"A sustainable company balances financial, social and environmental considerations in a way that contributes to long-term value creation and such that the needs of today are met without damaging the ability of coming generations to meet their needs. (...) A company that helps develop its surroundings and understands its role in society and the concerns of its stakeholders can better understand what affects value creation opportunities"*.

Read more:
Norwegian Government's white paper on state ownership
KBN strategy 2021-2023
KBN guidelines for sustainability

Sustainable value creation is the foundation of KBN's strategy for 2021-2023, *"Building a sustainable society"*. KBN's Overall Guidelines for Sustainability state that *"KBN will work systematically on sustainability and will have the ambition to be a leader in its area"*.

Roles and responsibilities

The Board of Directors is responsible for the organisation's sustainability work. The Board determines the overall guidelines for sustainability and KBN's yearly objectives and measures.

The President and CEO is responsible for implementing KBN's work on sustainability and sets supplementary guidelines for the administration's work.

The Chief Communications Officer has the coordinating responsibility for the sustainability work. The Chief Communications Officer nominates a Head of Sustainability, who has a particular responsibility for actively following developments in the area, proposing targets and indicators for their achievement and ensuring relevant processes are in place. The Head of Sustainability assists the organisation in this area and prepares external reporting of the bank's sustainability work.

KBN bases its sustainability work on engaging in extensive dialogue with its stakeholders, including both stakeholders who are affected by KBN's activities and those who can influence our activities in a material way. These stakeholders include KBN's customers, employees, owner, Board of Directors, the authorities, investors and society in general. As part of KBN's objective to be a leader in its selected areas of sustainability, it continually maps any new signals and expectations from its owner, changes to national and international laws and standards that affect best practice, and developments in respect of norms and attitudes of significance to its stakeholders.

KBN is committed to following leading practice in its sustainability work and in its reporting of this work, and it has reported in accordance with the GRI Standards since 2018. KBN also reports in accordance with the frameworks of the TCFD and CDP.

Stakeholders

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 the borrowing situation in the local government sector with local and national decision makers.

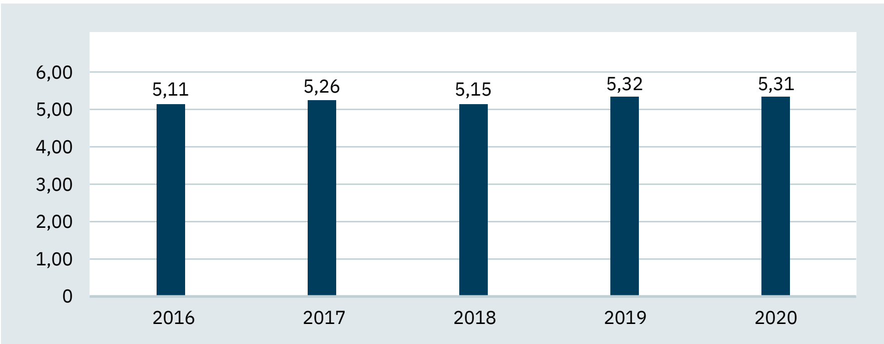
The input provided by regular contact with stakeholders forms the basis for KBN's overall strategy and communications work as well as for its sustainability work. We regularly review our priorities in relation to the expectations of our most important stakeholders.

2020 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 customer satisfaction levels in various areas. The results from 2020 show that KBN's customers are generally very satisfied with KBN, approximately to the same extent as in 2019, which is the year in which KBN achieved its highest-ever score for customer satisfaction on the survey.

RESULTS CUSTOMER SURVEYS

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 6.



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. KBN's most important stakeholders are described below.

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 200 customer meetings in 2020, most of which were held digitally following the start of the coronavirus pandemic. KBN also organised ten webinars on topics such as interest rates, the macroeconomic situation and climate risk, as well as ten physical seminars for customers with 98 participants across Norway. The aim of KBN's seminars and webinars is to increase the local government sector's insight into and understanding of financial risk management and debt management. The outlook for interest rates, internal financial regulations, financial reporting, the new interest rate benchmarks and how to make effective use of KBN's debt management system, KBN Finans, are some of the topics our customers brought up in meetings. The three planned events at which KBN was to deliver its own specially designed course, KBN Skolen, had to be cancelled.

Read more:
Climate risk:
www.klimarisiko.kbn.com/en

In April KBN launched a new, digital customer portal, an important step on its journey to providing customers with a fully digital and seamless offering. Approximately 250 customers have started using the portal. In November KBN launched a new version of its climate risk tool for the local government sector with a new design and new functionality. The tool will be developed further in 2021.

KBN's annual conference - "Sustainable municipalities?" – took place in January 2020. The conference addressed financial, environmental and social sustainability, and was attended by around 150 people. The annual Municipality Finance Conference, which with around 400 attendees is Norway's largest event of its type, had to be cancelled because of the coronavirus pandemic. 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), instead organised four webinars on various topics relevant to local government finances. On average over 300 people signed up for each webinar.

KBN also worked 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. In 2020 the conference was held digitally, and the winner of the award was Drammen municipality for a solar energy storage project.

KBN sent out 28 newsletters to its customers.

KBN's Supervisory Board is appointed by KBN's owner and consists of representatives from KBN's various customer groups. It is tasked with focusing on KBN's sustainability work. The Board held two digital meetings in 2020.

Employees
KBN's premises in Oslo are the place of work for all its employees. During the pandemic, the proportion of employees working at KBN's premises has varied from the minimum needed to attend to tasks that cannot be completed remotely to up to half of KBN's employees. KBN's employees have otherwise been working from home. All employees have the option to work from the office during periods when the infection rate is low as part of a rotation scheme that involves a maximum of half of KBN's workforce working in its office premises at the same time.

KBN organised digital "Lunch & Learn" talks for its employees on topics such as the American presidential election, sustainable eating, and IT security. Summaries of the week's most important climate and environment news stories were regularly published on KBN's intranet. Six all-company meetings were held.

The employee stakeholder group also includes potential employees. KBN has chosen to market itself as an organisation that is helping to build a sustainable society, including in the context of recruitment. We also 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 Modernisation acting as KBN's owner. KBN held quarterly meetings with its owner in 2020 and corporate social responsibility/sustainability was one of the topics. All the members of KBN's Board have annual discussions with its owner.

The authorities
KBN is subject to legislation, regulations and supervision in the same way as other financial institutions. KBN has been designated as a systemically important institution, along with one other bank in Norway. KBN held meetings in 2020 with inter alia the Financial Supervisory Authority of Norway, the Ministry of Trade, Industry

and Fisheries, the Ministry of Climate and Environment, the Norwegian Environment Agency, the Norwegian Directorate for Civil Protection (DSB), and the Norwegian Government Agency for Financial Management. The 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 and pension funds from around the world. As in previous years, KBN in 2020 held a range of meetings with investors, both in the form of digital one-to-one meetings and conference calls. In addition, KBN distributed quarterly updates to over 600 investors.

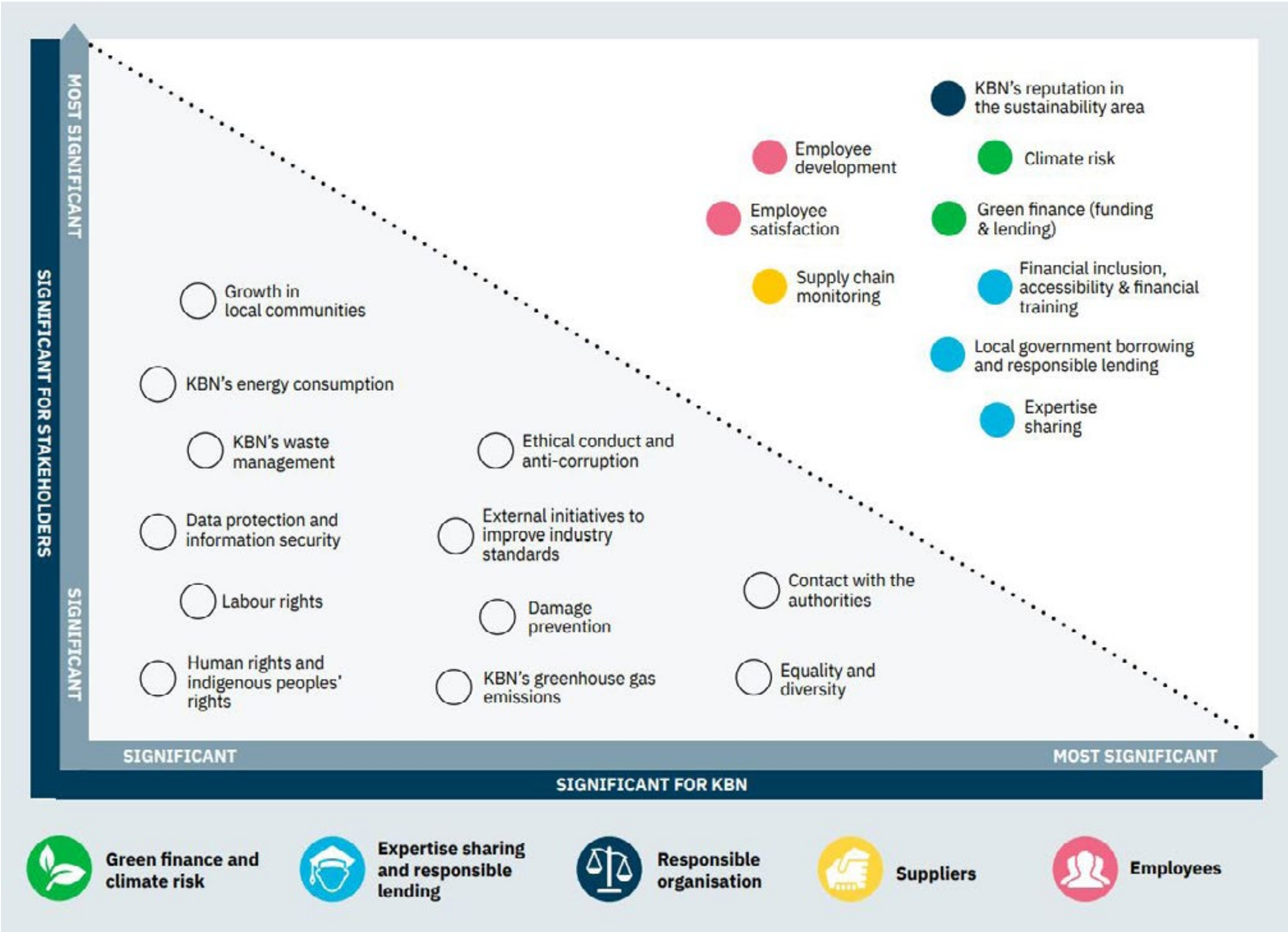
Society in general
KBN's activities affect Norwegian society and we are therefore in close dialogue with a number of interest groups. Slightly fewer such meetings were held in 2020 due to the coronavirus pandemic. We had a number of meetings with the British Embassy Oslo, the UN Global Compact and the Norwegian Forum for Sustainable and Responsible Investment (Norsif) in connection with the planning of the UK-Norway Green Finance Summit. We also had a range of meetings with the Norwegian Councillors' Forum (Norsk Rådmannsforum), the Norwegian Association of Regional and Local 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), including in connection with the planning of the Municipal Finance Conference (Komøk). KBN also held meetings with the Zero Emission Resource Organisation (ZERO), the Norwegian Climate Foundation, Norwegian Water, ENOVA, Skift – Business and Industry's Climate Leaders, and the CICERO Center for International Climate Research.

KBN organised three open webinars on climate risk. KBN's publication "Klimakunnskap – globalt og lokalt" (Climate Knowledge – globally and locally) is also provided free for teaching purposes to elementary and secondary schools. The booklet discusses topics related to environmental challenges and climate change. In 2020 KBN produced a new version of the booklet, and printed and distributed 10,000 copies in response to orders from schools across the country.

Materiality analysis

A materiality analysis identifies an organisation's most material sustainability-related issues and determines boundaries for both its activities and reporting. KBN carried out a materiality analysis in the autumn of 2019, as part of which key stakeholders provided input on KBN's priorities for its sustainability work going forward. With regard to internal stakeholders, all KBN's employees as well as its management team, Board of Directors and Supervisory Board were involved. With regard to external stakeholders, KBN conducted interviews with its owner (the Ministry of Local Government and Modernisation), the Norwegian Association of Local and Regional Authorities (KS, local government sector interest group), CICERO (climate/research interest group) and Citi (investor). The topics that were identified as material were divided into five categories, which represent KBN's priorities for its sustainability work.

MATERIALITY ANALYSIS 2019
Through the materiality analysis, five categories were prioritised.



Performance in 2020

2020 objective	Status	Outcome
Contribute to the achievement of national targets for the transition to a low carbon society by increasing the proportion of KBN's lending that is green lending for projects with a clear climate ambition.		▪ The growth in KBN's green lending represented 34% of the growth in its overall lending. Green loan disbursements in 2020 were in line with 2019, but net green lending growth decreased from approximately 50% (which was the obje-ctive) to 34% due to one sizeable redemption totalling NOK 2.7 billion.
Contribute to the development of the green financing market by issuing green bonds and influencing the development of international standards.		▪ KBN organised a UK-Norway summit on green finance and climate risk for the finance industry, politicians and the authorities. ▪ KBN's existing green loan program was strengthened as a tool for promoting investment in the creation of a sustainable water and wastewater sector. ▪ KBN is a co-coordinator for the Impact Reporting Working Group and is leading a work stream that is developing guidelines for databases of sustainability bonds. ▪ KBN issued a green bond. ▪ KBN's dialogue with Sustainalytics led to a better ESG rating.
Identify and manage KBN's own climate risk and help our customers to develop their expertise in mapping and managing their own climate risk.		▪ KBN launched an updated version of its climate risk tool, with a new design and functionality. ▪ The CICERO Center for International Climate Research produced a foundation for scenario analyses of climate risk in the local government sector. Work has begun on a model for assessing individual municipalities' climate risk. ▪ The European Association of Public Banks (EAPB) has taken an active role in the work on the EU's Sustainable Finance Action Plan, in part thanks to KBN's encouragement and specialist contribution. ▪ KBN has planned a collaboration involving the organisation of an event on cli-mate change adaptation for Skift members, which will be held in 2021. ▪ KBN organised three webinars on climate risk targeted at the local government sector. ▪ KBN organised a UK-Norway summit on green finance and climate risk for the finance industry, politicians and the authorities. ▪ KBN held meetings with a range of organisations about collaborating to produce data relevant to climate risk for the local government sector, and it will continue this work in 2021.
Support our customers in managing their borrowings in a long-term, sustainable way.		▪ KBN started work to define indicators and to identify data to use to measure cli-mate risk at the municipality level. A first version of the model will be produced in 2021. ▪ As part of KBN's work on its new website, significant improvements were made to the information on its loan products. ▪ KBN's customer portal was launched in April and is being developed further on a continual basis. Work to integrate the customer portal and KBN Finans is underway.

Contribute to greater insight into financial risk management and debt management in the local government sector by actively disseminating information.		▪ 10 of 12 planned customer seminars were held as planned in autumn 2020. The main topics included what represents best practice in relation to customers' internal financial regulations and financial reporting. ▪ The KBN Skolen (KBN School) program was due to be run three times but had to be cancelled due to the pandemic. Work was started to develop a digital version of KBN Skolen. ▪ KBN organised four webinars with its Municipality Finance Conference partners in lieu of the 2020 conference. KBN also organised its own webinars, which addressed topics including interest rates and the macroeconomic situation. ▪ KBN entered into an agreement for Stamdata to distribute data on local government securities to KBN's customers via KBN Finans, in addition to the information on loans from KBN.
Ensure that municipalities have access to useful and low-cost financial products and services that meet their needs, with KBN providing them in a responsible and sustainable manner.		▪ KBN achieved its lowest ever funding costs. KBN was available to serve its customers throughout 2020, including the period in March when the capital markets ceased functioning. ▪ An overview of KBN's various products together with their advantages and disadvantages was made available on its website. KBN started work on evaluating its current lending products.
Meet our stakeholders' expectations for our sustainability work.		▪ KBN approved a strategy for 2021-2023 that is based on sustainable value creation. ▪ The topic of KBN's annual conference was financial, environmental and social sustainability. KBN organised a UK-Norway summit on green finance and climate risk, as well as three webinars on climate risk. ▪ KBN launched new webpages on sustainability and highlighted its sustainability work on social media and in its recruitment campaigns, as well as in adverts and articles. ▪ KBN produced and published its expectations of its suppliers.
Cut our emissions by at least 50% by 2030 compared to 2019.		▪ KBN's emissions were 61.2% lower in 2020 than in 2019 (see the greenhouse gas accounts section).
Select suppliers that respect human rights and employee rights, and whose conduct prevents corruption and is ethical and environmentally friendly.		▪ KBN produced and published its expectations of its suppliers. A new procurement framework was produced, which came into force on 1 January 2021.
Facilitate employees' personal and professional development to meet KBN's needs and equip employees for their current and future roles.		▪ KBN actively encouraged its employees to take online courses in connection with the lockdown due to coronavirus. Professional and personal development are discussed in KBN's annual employee interviews. ▪ KBN organised "Lunch & Learn" talks with external speakers in connection with the American presidential election and the 2020 NRK Telethon, as well as other specialist talks with internal speakers. ▪ KBN's Green Team published articles on climate change, the environment and sustainability each week on the intranet.
Regularly map engagement, well-being and the perceived framework for doing a good job, and facilitate greater employee satisfaction.		▪ KBN carried out a number of employee satisfaction surveys in 2020, as there was a need to regularly map employees' well-being and experience of working from home. ▪ KBN organised weekly group exercise activities when permitted, and digital group exercise activities when employees were working from home. A range of social events - physical or digital depending on the infection rate - were also organised.

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 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 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.

For 2021 we have selected activities for our sustainability work that will contribute to one or more of the targets under the Sustainable Development Goals identified by KBN.

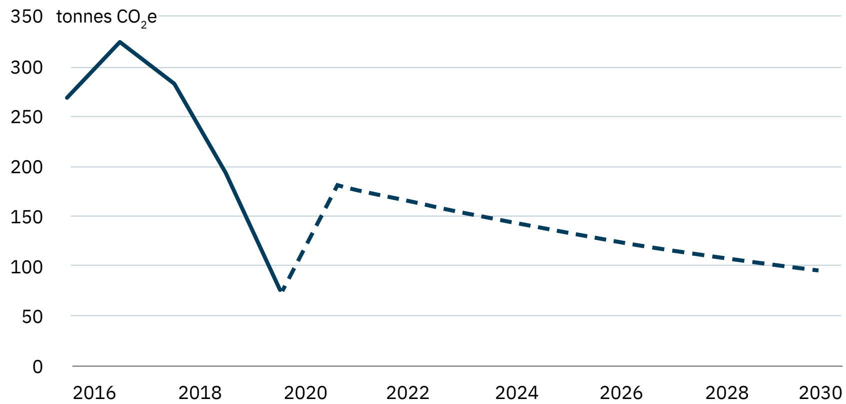
Read more:
KBN Impact Report 2020

THE UN’S SUSTAINABLE DEVELOPMENT GOALS
The Sustainable Development Goals that KBN has identified as particularly relevant to its activities

Greenhouse gas accounting

Despite being somewhat indirect, the most important contribution made by KBN to the achievement of climate change goals is our discounted green loans for projects undertaken by the local government sector that 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 it fulfils its societal duty to the sector that it serves. In 2020 KBN also adopted a long-term climate target for its own activities, which is that we will reduce our emissions by at least 50% compared with the 2019 level by 2030.

EMISSIONS REDUCTION TARGET
KBN’s emissions between 2016 and 2020 and an emissions trajectory (dotted line) that would enable KBN to achieve its target of halving its emissions by 2030 compared with the 2019 level.



This target means that we will need to do things differently in future. In 2019 flights were responsible for about two thirds of our calculated carbon footprint. 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. However, we can take some steps to reduce this, particularly after the end of the coronavirus pandemic. An internal survey revealed that a large proportion of the flights taken by KBN employees in 2019 were for journeys which could be made by train. KBN has therefore increased the incentives it offers for taking the train over flying. KBN has also reduced the number of its employees who travel to its various meetings. In 2019 KBN introduced Microsoft Teams as a tool, and we have for several years now been streaming our events for customers who cannot attend them physically with the aim of being able to replace some of our travel activities with digital meetings. With the lockdown imposed due to the coronavirus pandemic, the need to hold meetings digitally increased very significantly in a short space of time. Society is digitalising more quickly than anyone had anticipated, and the barriers to holding meetings digitally decreased significantly in 2020. Although digital meetings cannot fully replace physical meetings, it will be natural for digital meetings to continue to account for a significant proportion of our meetings even after the pandemic comes to an end. KBN's long-term work on its strategic objectives of putting the customer first and being the digital first choice helped ensure it was well-equipped to respond to the pandemic. KBN's 2020 customer satisfaction survey revealed that its customers are very satisfied with KBN's digital offering and want more meetings to be held digitally. Like other organisations, KBN finds that digital meetings save time and resources that can instead be used to improve the customer experience.

KBN's own emissions were approximately 61.2% lower in 2020 than in 2019. In addition to a decrease in travel, particularly flights, the decrease was due to a reduction in the electricity consumption included in KBN's scope 2 emissions as a result of the migration of its data servers to a data centre at the end of 2019.

CLIMATE GAS ACCOUNTING

KBN's emission from 2016 to 2020 by scope. In tonnes CO_2 equivalent.

	2020	2019	2018	2017	2016
Scope 1	0.77	2.80	3.88	4.52	3.14
Scope 2	50.61	57.79	57.21	58.02	56.09
Scope 3	23.08	131.25	220.73	260.60	206.94
Total	74.46	191.84	281.82	323.14	266.17

Scope 1 covers direct emissions from controlled sources. For KBN's part this consists of emissions when employees uses their own car on business travel. Emission factor for scope 1 is sourced from Eco-lighthouse.
Scope 2 is indirect emissions from electricity purchased and used. For KBN this include district heating, district cooling and electricity in our premises. Emission 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 emission factor for residual waste is sorced from Eco-lighthouse. The emission factor for flight travel is from 2019 sourced from ICAO

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. At present KBN only includes the greenhouse gas emissions associated with flights taken by employees and the residual waste it produces in its Scope 3 emissions figures. However, Scope 3 can contain all the emissions generated by our activities that are emitted from sources that we do not control, e.g. by our suppliers, lending portfolio and liquidity portfolio. Over the long term KBN wants to measure and report its Scope 3 emissions to the greatest extent possible.

KBN seeks to contribute to transparency regarding greenhouse gas emissions and in 2020 reported to CDP, which runs the leading international system for environmental and climate disclosures. CDP's assessment takes into account KBN's guidelines, greenhouse gas and energy accounts, and the measures and improvements that it has implemented. Ernst & Young has for 2020 done an attestation on KBN's emission figures.

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 2020 emissions in 2021 and will thus include this information in our annual report for 2021. KBN uses the EU's carbon price for the year concerned as the basis for its purchases of carbon offsets. KBN's residual emissions for 2019 were approximately 200 tonnes of CO2e and the EU's allowance price was EUR 25/tonne. KBN therefore bought carbon offsets, known as verified carbon units, equivalent to this amount to compensate for its emissions in 2019. The project we selected was clean-burning cookstoves in Malawi. The project helps to reduce greenhouse gas emissions and indoor air pollution and to protect forests and biodiversity. The project supports a range of the UN Sustainable Development Goals and is VCS certified and CCB certified at the gold level.

2021 objectives

GREEN FINANCE AND CLIMATE RISK

The activities support the following SDGs:

KBN is committed to being one of the leading financial institutions in Norway in the area of climate risk, sustainability and green financing solutions. We seek to ensure that climate risk is on the agenda and work to ensure that climate concerns are treated as a risk area for KBN's own activities and to help our customers to do the same.

Green finance

KBN raised its 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 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 Document for Green Loans sets out the type of projects/investments that can qualify for a green loan. KBN revises its criteria annually in collaboration with its Green Expert Committee, which is composed of representatives from environmental organisations, authorities, and the local government sector.

At the end of 2020 KBN's green lending for projects that meet its criteria totalled NOK 26.1 billion. An overview of the projects financed by a green loan from KBN is available on our website. At the end of 2020, KBN's outstanding green loans represented approximately 9% of its total lending. KBN has a target of increasing this proportion going forward. In 2020 new green loans represented one third of net lending growth. KBN's target for 2021 is for green loans to represent at least 10% of its 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.

EXAMPLE

To take an example, the reduction in the interest rate on a green loan of NOK 100 million borrowed over thirty years har a present value of NOK 1.4 million using a discount rate of 1%. 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 firendly projects.

KBN follows the International Capital Market Association's (ICMA) Green Bond Principles (GBP) and has contributed to their development as a member of the ICMA GBP Executive Committee, to which we were re-elected for a further two years in 2019. KBN is also a co-coordinator for the Green Bond Principles' Impact Reporting Working Group. 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 has published impact reports with information on the projects that have been financed by its green loans since 2016. In 2020 KBN's 2018 impact report was awarded the title of Impact Report of the Year by the international industry news service Environmental Finance.

KBN's green bonds are issued in the international capital markets. At the end of 2020, KBN had outstanding green bonds in four currencies, namely the US dollar, the Australian dollar, the Swedish krona and the Norwegian krone. At the end of 2020 the total outstanding volume of KBN's green bonds was, in NOK terms, just below NOK 16 billion. This represents approximately 4% of KBN's total borrowings.

At the start of 2021 KBN will update its Green Bond Framework.

2030 ambitions	2021 objectives	2025 objectives
Help municipalities and county authorities to achieve their climate goals.	▪ At least 10% of KBN's lending portfolio to be green loans. ▪ At least 30% of Norway's municipalities to have a green loan.	▪ At least 20% of KBN's lending portfolio to be sustainability-related loans. ▪ At least 50% of Norway's municipalities to have a sustainability-related loan from KBN.
Contribute to the existence of an efficient green bond market.	▪ Develop and publish a new framework for KBN's green bonds. ▪ Issue a green bond.	▪ Develop a funding program for sustainability-related bonds that matches our lending ambitions.

Climate risk

Climate risk dominated the World Economic Forum's Global Risks Report 2020. The Bank of England has announced that in 2021 it will be extensively stress-testing the UK financial industry's resilience to the physical and transition risks associated with different possible climate scenarios. Norway's government-appointed Climate Risk Committee has recommended that the "State should stress-test the public finances for climate risk and ensure that its financial policies are robust with respect to climate-related shocks and disturbances". The Norwegian Government has recently set up an expert group to examine the implications of climate risk for the Government Pension Fund Global (the oil fund). In 2020 the Financial Supervisory Authority of Norway carried out on-site inspections that addressed topics that included climate risk.

As one of Norway's two systemically important financial institutions and an undertaking that raises capital internationally and lends to the local government sector, KBN is exposed to different types of climate-related risk that it needs to manage. We expect Norway's finance industry will be stress-tested as well. We also expect that our investors will increasingly attach weight to climate risk and in a broader sense to ESG risk when making investment decisions. KBN has therefore worked since 2018 on identifying and managing climate risk both within its own organisation and at its customers.

The local government sector faces physical risks, 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. In February 2020 the Norwegian Government announced a stricter climate goal for 2030, which is for Norway to cut its greenhouse gas emissions by 2030 by at least 50% compared with 1990 levels. The local government sector will have to contribute to this goal. Local government sector projects undertaken today have an expected economic life of up to 40 years and will therefore still be in place when society has to face a less hospitable climate and probably far stricter requirements in terms of greenhouse gas emissions and resource usage.

Read more:
TCFD report

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. In 2020 we organised a range of activities to increase the expertise of our customers and society in general regarding municipalities' exposure to climate risk. KBN was on the reference group for the Norwegian Environment Agency's mapping of knowledge about the local government sector's exposure to climate risk. In December 2020, KBN published a new and improved version of its web-based, freely accessible climate risk tool on the basis of input from representatives from municipalities. In 2021 we will further develop our climate risk tool in order to provide municipalities with even better and more relevant information on their climate risk and to drive the incorporation of climate risk into municipalities' decision-making processes and investment plans. We will also incorporate the first indicators of climate risk into our credit assessment processes.

KBN has reported in accordance with the Task Force on Climate-related Financial Disclosures framework since 2019.

2030 ambitions	2021 objectives	2025 objectives
Map and manage KBN's own climate risk.	▪ Incorporate the first indicators of climate risk into KBN's credit assessment processes. ▪ Initiate a project to assess KBN's lending portfolio in relation to the EU's Taxonomy Regulation.	▪ Develop a set of indicators of sufficient quality to be included in an externally communicated credit model and in completed climate risk assessments of all customers.
Help our customers to map and manage their climate risk.	▪ At least 30% of customers to state that they are working to map and manage their climate risk.	▪ More than 90% of customers to state that they are working to map and manage their climate risk.

EXPERTISE SHARING AND RESPONSIBLE LENDING

The activities support the following SDGs:

11 SUSTAINABLE CITIES AND COMMUNITIES

17 PARTNERSHIPS FOR THE GOALS

As the largest lender to the local government sector, with the very important task of providing it with low-cost and stable financing, KBN has a particular responsibility to support long-term and sustainable debt management. Through expertise sharing, dialogue with customers and digital tools such as KBN Finans, we seek to raise awareness about financial issues and to contribute to the sector having the best possible basis for decisions. As a systemically important financial institution, we also seek to contribute to financial stability. KBN was available to its customers even during the period in March when the capital market ceased functioning. The Norwegian Parliament subsequently approved a capital injection for KBN on the basis of a proposal from the government. The rationale for this stated that *"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, it is proposed that KBN's equity capital should be increased"*.

Sustainable local government finances and borrowing growth
KBN has developed its own credit assessment model that is at the heart of its lending processes. Customers who are classified red or orange according to the model have to undergo a separate assessment by KBN's internal Credit Committee when they apply for a loan. KBN wants its 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.

KBN'S CREDIT ASSESSMENT MODEL

Number of customers in the red, green, light yellow, yellow and orange categories of KBN's credit assessment model

Year	Red	Orange	Yellow	Light yellow	Green	Number of customers	No. of custmers on the ROBEK* register
2015	0	7	57	32	332	428	49
2016	0	5	25	11	387	428	47
2017	1	2	17	10	396	426	28
2018	0	3	18	2	400	423	18
2019	0	2	20	4	331	357	10

**) Register for Governmental Approval of Financial Obligations*

KBN's debt management system KBN Finans 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. In 2019 the tool was further developed to automatically include any loans that a municipality has from the Norwegian State Housing Bank in its overview on KBN Finans. This has provided our customers with a more complete debt management tool. In 2020 KBN launched the first version of its customer portal, which provides information on customers' existing loans and allows them to request a new loan and to make changes to existing loans. In 2020 the portal will be developed on a continual basis with new functionality and new tools that add value for customers. In 2020 KBN will start work on developing an operational analysis and investment planning tool for municipalities.

2030 ambitions:	2021 objectives:	2025 objectives:
Contribute to the long-term financial sustainability of our customers and provide the best possible basis for decision-making in relation to investment spending and the selection of financing solutions.	▪ Develop and launch a financial forecasting and investment simulation tool ▪ Publish KBN's credit assessment model.	▪ Offer customers the tools and information they need to take future-oriented investment decisions.

Expertise sharing

KBN contributes to the sharing of expertise, including by offering regional finance seminars and through the KBN Skolen/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 take informed decisions. In 2021 we will further develop these services and will launch a digital version of KBN Skolen so that this program can be made available to more customers across the entirety of Norway in a climate-friendly manner. Our climate risk tool will be further developed to provide municipalities with even better and more relevant information on their climate risk so that this can be integrated into and taken into account by them when making decisions and investment plans.

2030 ambitions:	2021 objectives:	2025 objectives:
Contribute to greater insight into financial risk management and debt management in the local government sector.	▪ Run the KBN Skolen I & II programs with 60 attendees from 50 new municipalities. ▪ Launch a digital version of KBN Skolen.	▪ Run the KBN Skolen I & II programs with 300 participants. ▪ 75% of municipalities to have completed the KBN Skolen program. ▪ The digital version of KBN Skolen Digital will be an important training tool for customers.

Financial inclusion, accessibility and financial training

KBN’s AAA/Aaa rating and its solid reputation in the capital markets are the two most important requirements for it to have access to the markets and to enjoy favourable borrowing terms. KBN’s policy is to operate with holdings of cash and cash equivalents that match its capital requirements, including lending growth to the local government sector, for the subsequent 12 months at all times, with the aim of ensuring that its customers always have access to funding when they need it. KBN strives to be available to its customers even in periods when the capital market is not functioning, as we were in March 2020 and during the 2008 financial crisis. In 2021 we will seek to be even more readily available by providing even more digital services and using the capacity digitalisation frees up to be even more assiduous in our customer follow up work.

2030 ambitions:	2021 objectives:	2025 objectives:
Ensure that municipalities have access to useful and low-cost financial products and services that meet their needs, with KBN providing them in a responsible and sustainable manner.	▪ Maintain KBN’s AAA-rating. ▪ Be available to customers regardless of market con-ditions. ▪ Achieve a score of at least 5.2/6 on our customer satisfaction survey	▪ Maintain KBN’s AAA-rating. ▪ Be available to customers regardless of market con-ditions. ▪ Achieve a score of at least 5.4/6 on our customer satisfaction survey.

RESPONSIBLE ORGANISATION

The activities support the following SDGs:

KBN’s strategy – Building a sustainable society – is based on KBN balancing financial, social and environmental sustainability in a way that contributes to long-term value creation. This creates obligations for KBN, and at the same time it provides a clear framework for our work. Our stakeholders and wider society expect us to be a sustainable organisation with a good reputation for sustainability.

The Norwegian Government’s white paper on state ownership states inter alia that there is an expectation that companies in which the government has an ownership interest “will have an overall plan for sustainable value creation, will produce, implement and report on clear objectives and strategies, and will be a leader in their work to operate responsibly”, and “will be open about material areas, objectives and measures within their work to operate responsibly”. In 2021 KBN will strive to ensure that it complies with the recommendations contained in the white paper at all times.

KBN’s reputation in the context of sustainability

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 taken care to highlight its sustainability work on its website, in the media, on social media, in its recruitment campaigns and in other marketing contexts.

KBN’s credibility in the area of sustainability depends in part on it keeping its own house in order. KBN has set itself clear targets relating to its greenhouse gas emissions, more information on which can be found in the section of this report on KBN’s greenhouse gas accounts. The most important step required in order for KBN to meet its target of cutting its emissions by 50% by 2030 is for KBN to achieve a permanent reduction in the emissions associated with business travel by KBN employees, which will include replacing flights with train journeys and physical meetings with digital meetings to a significant extent. KBN will compensate for its residual emissions, which is to say the emissions we are unable to avoid.

KBN is finding that rating agencies, issue managers and investors are increasingly including ESG data in their evaluations. Poor ESG scores can result in companies being excluded from investment universes and can push up their financing costs. In

2020 KBN entered into dialogue with one of the leading ESG ratings agencies and provided the company with documentation that resulted in a clear improvement in its ESG risk score for KBN. KBN also reported to CDP, the leading disclosure system for climate and environmental impacts, in order to contribute to transparency in respect of greenhouse gas emissions. In 2021 KBN will work to maintain and improve the strong ESG ratings it has received from high-profile rating agencies.

As a responsible organisation, work on ethical conduct is an important part of KBN's business. We expect all employees and managers to act in line with KBN's Code of conduct, which was last revised in 2020. Training sessions on ethical conduct and dilemma training shall be provided for employees annually. KBN's Code of conduct must be made known to all employees, communicated to suppliers and customers and be available on KBN's website in English and Norwegian. KBN works to ensure corruption and money laundering have no place in its business activities. KBN's zero-tolerance approach to corruption and money laundering is communicated through its Code of Conduct, as well as in internal guidelines against corruption and money laundering. KBN's Code of Conduct is communicated to all KBN's employees and forms an integral part of its induction program. In addition, the Board, management and employees with direct customer contact receive training in measures against terrorism financing and money laundering. Starting in 2020 training in these measures also formed part of the induction program for new employees. KBN has procedures in place for anyone who is concerned about unacceptable conduct or circumstances to report this (whistle-blowing), and has rules and procedures in place for processing such reports. To reduce the threshold for whistle-blowing, KBN has set up an external whistle-blowing channel. This arrangement makes it easier for external parties to whistle-blow, and also makes it possible for both external parties and employees to whistle-blow anonymously if they consider this to be preferable or essential.

2030 ambitions:	2021 objectives:	2025 objectives:
Cut our emissions by at least 50%*	▪ Cut our emissions by at least 12%*	▪ Cut our emissions by at least 31% *
Be recognised as helping to build a sustainable society.	▪ Achieve a score of at least 5/6 on a survey of our most important stakeholders. ▪ Identify and initiate a project within social sustainability	▪ Achieve a score of at least 5.5/6 on a survey of our most important stakeholders.
Have the lowest possible calculated ESG risk score.	▪ Sustainalytics: Low risk ▪ MSCI: AA ▪ ISS ESG: B	▪ Sustainalytics: Negligible risk ▪ MSCI: AA ▪ ISS ESG: A

** compared with KBN's 2019 emissions*

SUPPLIERS

The activities support the following SDGs:

KBN procures goods and services worth approximately 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. In 2019 KBN adopted new procurement guidelines that contain a range of guiding principles that KBN must apply in its procurement activities. In 2020 supplementary guidelines and KBN's expectations of suppliers were approved and entered into force with effect from 2021.

KBN's procurement processes must be designed so that they help promote KBN's environmental, social and governance (ESG) 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. All of KBN's new suppliers in 2020 were Eco-Lighthouse- or ISO14001-certified.

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 it has a reasonable overview of its supply chains in order for it to be able to ensure that it can take into account ethical and corporate social responsibility considerations at its suppliers' sub-suppliers. KBN's expectations of its suppliers will also form part of its regular follow-up discussions with its biggest suppliers.

Read more:
Procurement guidelines
Expectations of suppliers

2030 ambitions:	2021 objectives:	2025 objectives:
Select suppliers that are helping to solve society's social, financial and environmental challenges.	▪ All new agreements in 2021 to be entered into in accordance with KBN's new procurement guidelines.	▪ All agreements to comply with KBN's procurement guidelines. ▪ KBN's procurement guidelines to be updated and their requirements made stricter.

EMPLOYEES

The activities support the following SDGs:

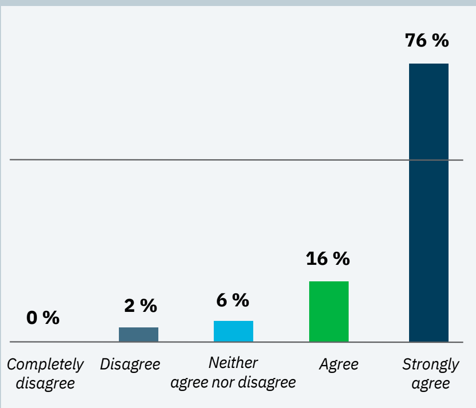
KBN is a knowledge business, and its employees are its most important resource. We are committed to ensuring all employees have good working conditions, are treated equally, and have access to the same opportunities with regard to personal and professional development and promotion.

KBN's HR policy and guidelines on matters including diversity, equality, and whistle-blowing are designed to promote equality and to prevent discrimination. As an employer, KBN does not tolerate bullying or discrimination, and it works to prevent all forms of harassment. Its continual work on such matters is supported by the Board of Directors and management, and is carried out in collaboration with managers, HR, employee representatives and the Working Environment Committee. KBN's internal guidelines and procedures ensure its work is active and systematic.

Employee development
KBN actively encourages employees to make use of its skills development offering, which includes courses, conferences and seminars, as well as the opportunity to undertake further training. Employees who do not speak Norwegian are provided with training in Norwegian. KBN offers employees specialist talks featuring external and internal speakers approximately once a month. KBN's climate and environment group regularly organises knowledge and awareness-raising activities in relation to the climate, the environment and sustainability.

A central part of our strategy is to develop and update our expertise and to create a culture of learning. As part of this, in 2021 KBN has launched a campaign entitled "KBN Kompetanseløftet", with funds allocated for its implementation. The campaign is a way of encouraging all KBN's employees to learn something new over the course of the year. Employees choose their own topic, the only criteria being that it must be relevant to KBN and under a set cost. The campaign is being marketed using internal channels, and employees' achievement of milestones will be recognised. The aim is to foster in KBN's employees a continuing desire to learn, to create more space for learning in employees' day-to-day activities, and to increase and modernise the expertise of the entirety of KBN.

2030 ambitions:	2021 objectives:	2025 objectives:
Facilitate employees' personal and professional development.	▪ At least 60% of employees to have completed or started KBN's Kompetanseløftet scheme.	▪ At least 60% of employees to have completed skills development activities over the course of the calendar year.



My manager is understanding in terms of me adapting my working day to my current situation at home

KBN'S EMPLOYEES IN 2020
In 2020 various adjustments were made over the course of the year in response to the coronavirus pandemic in order to ensure employees had a proper working environment and to contribute to society's need to control the infection rate and the company's need for operational stability. When the first lockdown was introduced and schools and nurseries were closed, KBN introduced a temporary scheme that meant all employees were deemed to have worked a full day even if they had to spend some of their day on home schooling or other family activities. When the restrictions were eased in the early summer, KBN opened its offices so that up to 50% of employees not in any risk group could work in its offices at any one time, with the other 50% working from home. During the second wave KBN once again shut its offices, with the exception of ten desks that employees could use if they preferred not to work at home for health or other special reasons. KBN decided to pay all employees a cash benefit to enable them to procure any equipment other than IT equipment they needed when working from home, e.g. a desk or chair. Positive feedback was received in response to surveys conducted during the pandemic about how well employees felt KBN was managing its responsibilities as an employer.

FIGURES
Staffing in KBN

80
PERMANENT EMPLOYEES
(78)

7
TEMPORARY EMPLOYEES
(7)

5 students
2 project/cover for absence

84
FULL-TIME EQUIVALENT EMPLOYEES
(81,8)

AGE

42,8	41,1	15	24
Average age men (41,8)	Average age womae (41,4)	No. employees 30 or below (15)	No. employees over 50 (21)

	WOMEN	MEN
TEMPORARY EMPLOYEES 5 students, 2 project/cover for absence	3	4
PARENTAL LEAVE Average no. weeks in 2020	19,9	15
ELECTIVE PART-TIME No. of employees. Only students hold part-time positions.	2	3
UFRIVILLIG DELTID Only students hold part-time positions	0	0

Employee engagement
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 2020, development discussion were conducted with 97 per cent of the female employees and 93 per cent of the male employees. Divided by employee category, development discussion were conducted with 100 per cent of the women and 75 per cent of the men in the management group and 97 per cent of the women and 95 per cent of the men among the other employees.

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 2020 and carried out risk assessments in relation to health, safety and environmental issues, as well as related inspections. In 2020 KBN entered into a collective agreement with the Finance Sector Union of Norway, the second such agreement alongside KBN's agreement with the Federation of Norwegian Professional Associations. These agreements were renegotiated as part of the central settlement negotiations.

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.

2030 ambitions:	2021 objectives:	2025 objectives:
Facilitate the highest possible level of employee satisfaction.	▪ A score of at least 4.0 (on a scale of 1-5) for employee engagement on the employee satisfaction survey.	▪ A score of at least 4.2 (on a scale of 1-5) for employee engagement on the employee satisfaction survey.

TCFD report

KBN is exposed to direct climate risk through its own activities to a limited extent, however different types of climate risk may impact municipalities' financial situation and therefore their ability and willingness to invest in new projects, as well as ultimately their capacity to service their existing liabilities.

Governance

Disclose KBN's governance around climate-related risks and opportunities

a) Describe the Board's oversight of climate-related risks and opportunities	Measures for 2021
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. KBN's customers' climate risk is indirectly addressed by KBN's risk appetite framework for credit risk. KBN is working to develop a climate risk model for its own credit assessments. KBN's Risk Management Committee carries out preparatory work to facilitate the Board's assessment of the company's risk appetite and monitoring of whether its risk management guidelines are being followed. In 2020 KBN's updated risk management tool for municipalities was presented to the Board. There is a separate sub-section on climate risk in KBN's Internal Capital Adequacy Assessment Process (ICAAP), which is evaluated by the Financial Supervisory Authority of Norway. Climate risk was one of the topics during the Financial Supervisory Authority of Norway's onsite inspection of market and liquidity risk at KBN in 2020. KBN discloses the growth in its green lending and details of its greenhouse gas emissions in its external quarterly reports.	Climate risk will form part of management's regular risk reports for the Board. Management will produce and present scenario analyses to the Board. In 2021 KBN will produce a resource page for the Board that will, among others, include topical matters regarding climate risk. In 2021 KBN will further develop its climate risk tool with additional data sources and present it to the Board.

b) Describe management's role in assessing and managing climate-related risks and opportunities	Measures for 2021
Tasks related to climate-related risk form part of the responsibilities of a number of KBN's departments: The Chief Lending Officer is responsible for work related to mapping customers' climate risk and highlighting KBN's expectations of its customers, as well as for creating the circumstances required for customers to choose to invest in climate-smart projects using a green loan. The Chief Capital Markets Officer is responsible for including requirements related to climate risk in KBN's liquidity framework, as well as for the green funding that finances KBN's green loans. The Chief Risk Officer is responsible for reporting to the Board on a continual basis in relation to risk, and also for extending this reporting to include climate risk. The Chief Legal Officer is responsible for reporting to the Board on a continual basis on regulatory changes that may affect KBN, including in relation to climate risk. The Chief Communications Officer is responsible for communicating KBN's work on climate risk to KBN's stakeholders on a continual basis, as well as for producing weekly media reports for the Board, for which climate risk is one of the search words. See the section on Corporate governance KBN's climate risk tool was a priority area of work at the company level in KBN's 2020 operating plan. This tool is important to KBN and requires the involvement of a number of departments. The work involved inter alia dialogue with third parties regarding data sources for use in analysis work and in the tool, starting work on climate risk indicators for use in KBN's credit assessments of its customers, and technical and graphic solutions. The tool is based on specialist content from the CICERO Center for International Climate Research, as well as on data from third-party sources such as the Norwegian Centre for Climate Services, the Norwegian Environment Agency and Statistics Norway, and has been an important step in KBN's work to contribute to putting climate risk on the agenda at its customers (municipalities and county authorities). KBN followed up on this work with a number of webinars targeted at Norwegian municipalities and it was also a topic addressed in KBN's meetings with customers.	KBN will develop the first version of a climate risk model for use in its own credit assessments of customers. KBN will further develop its climate risk tool for the local government sector by including more data sources. KBN will be a driver for municipalities' incorporation of climate risk into their decision-making processes and investment plans.

Strategy

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

a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term	Measures for 2021
KBN's customers' climate risk will primarily impact the credit risk to which KBN is exposed in connection with its lending. 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 climate risk. Climate risk related incidents may have immediate financial consequences or gradual impacts that over time weaken their financial freedom to act, including their ability to access new debt financing. CICERO has developed three narrative climate scenarios for KBN. A brief description of these scenarios is provided here, with a more thorough description and their expected significance to KBN available in the In-depth Review: Risks and opportunities for KBN in different climate scenarios 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. In this scenario (scenario 1), the level of physical climate risk is low over the short (2030), medium (2050) and long (2100) term, while the level of transition risk is high over the short and medium term and medium over the long term. For our preliminary assessment of the risks and opportunities facing KBN in this scenario, see page 23. 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 (scenario 2), the level of physical climate risk is low over the short term, medium over the medium term, and high over the long term, while the level of transition risk is medium over the short and medium term and high over the long term. 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. In this scenario (scenario 3), the level of physical climate risk is low over the short term and high over the medium and long term, while the level of transition risk is low across all three time horizons.	KBN will develop and offer the specialist information that municipalities need to be able to run their own scenario analyses relating to climate risk in connection with their investment decisions and planning. This will be integrated into KBN's digital climate risk tool.

b) Describe the impact of climate-related risks and opportunities on KBN's businesses, strategy, and financial planning	Measures for 2021
Climate risk forms part of KBN's expectations of its suppliers, which were published in 2020. With regard to its funding, KBN is well positioned to meet 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 green bond issues of the high level of quality that KBN offers. KBN is finding that rating agencies, issue managers and investors are increasingly including ESG data in their evaluations. Low ESG scores can push up financing costs. In 2020 Sustainalytics' ESG analysis of KBN was updated, with KBN achieving a significantly better score than in its last analysis (from "medium risk" to "low risk") .	KBN will start work on mapping its green lending portfolio in relation to the EU's provisional taxonomy for sustainable activities. KBN will produce a sustainable and responsible investment strategy for its liquidity portfolio. In 2021 KBN will work to ensure that relevant rating agencies have access to up-to-date and correct information for their ESG evaluations of KBN.

c) Describe the resilience of KBN's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	Measures for 2021
See the description of the three climate scenarios that KBN commissioned and their expected significance for KBN in In-depth Review: Risks and opportunities for KBN in different climate scenarios.	KBN will adapt the scenarios developed by CICERO for further use in work to analyse their implications for local government sector finances.

Risk Management

Disclose how KBN identifies, assesses, and manages climate-related risks.

a) Describe KBN's processes for identifying and assessing climate-related risks	Measures for 2021
In 2020 KBN worked further on increasing its own level of expertise in climate risk. In 2020 KBN collaborated with the CICERO Center for International Climate Research in order for CICERO to produce a set of three climate scenarios for KBN to use to assess both its own and municipalities' exposure to climate risk in various possible futures, see the In-depth Review: Risks and opportunities for KBN in different climate scenarios KBN started work on producing a climate-risk-related data set at the municipal level with the aim of developing indicators that will be included in its climate risk model for its credit assessments of its customers. This work is continuing in 2021. KBN further developed its climate risk tool for municipalities in 2020.	KBN is planning to build a risk metric for climate risk into its lending to customers in 2021.

b) Describe KBN's processes for managing climate-related risks	Measures for 2021
KBN's customers' climate risk will primarily impact the credit risk to which KBN is exposed in connection with its lending. 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. The climate in the context of some of the general risk categories covered by KBN's risk appetite framework: Capital risk: It is expected that changes could be made to the rules on capital adequacy requirements and to other regulatory frameworks that will favour qualifying green/sustainable investments. KBN has a well-established green lending program that is growing more quickly than its other lending activities. It has started work to integrate climate risk into its model for its credit assessments of customers, and this work is continuing in 2021. The Board's risk appetite in relation to capital risk is 'very low'. Liquidity risk: KBN has a well-developed green funding program that will protect its access to capital now that capital flows are being directed toward sustainable investments. The Board's risk appetite in relation to liquidity risk is 'very low'. Credit risk: With its green lending program and climate risk tool for municipalities, KBN is seeking to help steer the sector in the direction of investing in sustainable projects. Projects that qualify for a green loan from KBN help reduce municipalities and county authorities' exposure to transition risk and thereby indirectly reduce KBN's exposure to credit risk. The transition to a low-carbon economy in Norway's municipalities involves the need for significant investment. The Board's risk appetite in relation to credit risk is 'very low'. Market and liquidity risk: In 2020 KBN started a project to develop a sustainability strategy for its liquidity portfolio investments. The Board's risk appetite in relation to market and liquidity risk is 'low'. Operational risk: KBN is an Eco-Lighthouse certified company and produces annual greenhouse gas accounts, and it also reports to CDP. KBN has an emissions target and it reports on its progress on this target in its quarterly reports, and it compensates for its residual emissions by purchasing high-quality carbon allowances. In 2020 KBN developed and published its expectations of its suppliers as well as new procurement guidelines. The Board's risk appetite in relation to operational risk is 'low' and is 'very low' in relation to money laundering and compliance. In 2020 climate risk was discussed in KBN's capital plan (ICAAP). In 2020 KBN attached weight to increasing its customers' understanding of the climate as a financial risk by launching an updated version of its climate risk tool, organising a number of climate risk webinars for the local government sector and discussing climate risk in its meetings with customers.	KBN's target for 2021 is for its green loans to represent approximately 10% of KBN's lending portfolio and for at least 30% of municipalities to have at least one green loan from KBN.

c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into KBN's overall risk management	Measures for 2021
Climate-related risk is at present not explicitly built into KBN's risk management system.	An update to KBN's risk appetite framework is planned for 2021. The update will include the overall categorisation of risk appetite, which will also include climate risk.

Metrics and targets

Disclose the metrics and targets used to assess an d manage relevant climate-related risks and opportunities where such information is material.

a) Disclose the metrics used by KBN to assess climate-related risks and opportunities in line with its strategy and risk management process	Measures for 2021
KBN Uses the Eco-Lighthouse environmental management system as a tool, and our environmental certification is externally verified. Green loans as a proportion of our total lending portfolio: 9% Proportion of municipalities that have a green loan: 43% Proportion of customers who state they work to map and manage their own risk: N/A KBN's score from high-profile ESG rating agencies: MSCI (AA), Sustainalytics (Low risk), ISS ESG (C). KBN calculates and reports on its own emissions and has set an objective of cutting its own emissions by at least 50% by 2030. As a company, KBN compensates for the residual emissions from its activities and uses the EU's carbon allowance price as the basis for its purchases of carbon credits.	In 2021 KBN intends to be certified in accordance with the Eco-Lighthouse Foundation's criteria for banking and finance. KBN will arrange for its greenhouse gas accounts for 2020 to be externally audited. See the section on Green finance and climate risk for KBN's objectives and measures for 2021 and 2025.
b) Disclose KBN's Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks	**Measures for 2021**
See the Greenhouse gas accounts section for an overview of KBN's estimated greenhouse gas emissions (Scopes 1,2 and 3) over time and its plan and the measures it is implementing to reduce its emissions. The greenhouse gas emissions from KBN's own activities are limited and the risk is assessed to relate primarily to its reputation.	See the Greenhouse gas accounting section for KBN's plan for reducing its emissions and the measures it is implementing.
c) Describe the targets used by KBN to manage climate-related risks and opportunities and performance against targets	**Measures for 2021**
See the Greenhouse gas accounts and Green financing and climate risk sections for an overview of KBN's key objectives in the climate area and its timelines for achieving its objectives.	See the Greenhouse gas accounting and Green finance and climate risk sections for an overview of KBN's key objectives in the climate area and its timelines for achieving its objectives.

Financial statement 2020

INCOME STATEMENT

(Amounts in NOK 1 000 000)	Note	2020	2019
Interest income from assets measured at amortised cost		*3 258*	*5 039*
Interest income from assets measured at fair value		*2 442*	*3 777*
Total interest income		5 700	8 817
Interest expense		4 028	6 942
Net interest income	**1**	**1 672**	**1 875**
Fees and commission expenses	**2**	115	87
Net unrealised gain/(loss) on financial instruments	**3**	224	213
Expected credit loss	**16**	14	1
Net trading income	**4**	25	23
Total other operating income		**120**	**148**
Salaries and administrative expenses	**5,6,7**	147	159
Depreciation on fixed assets		25	22
Other expenses	**9**	84	71
Total operating expenses		**255**	**252**
Profit before tax		**1 537**	**1 771**
Income tax	**8**	377	488
Profit for the year		**1 159**	**1 283**
Portion allocated to shareholder		1 095	1 231
Portion allocated to owners of additional Tier 1 capital		64	52

STATEMENT OF COMPREHENSIVE INCOME

(Amounts in NOK 1 000 000)	Note	2020	2019
Profit for the year		1 159	1 283
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**	130	319
Actuarial gain/(loss) on defined benefit plan		(2)	(10)
Tax effect		(32)	(77)
Total other comprehensive income		**96**	**232**
Total comprehensive income for the year		**1 255**	**1 515**

**Change in fair value of liabilities due to changes in own credit risk shall be presented in the Statement of comprehensive income.*

STATEMENT OF FINANCIAL POSITION

(Amounts in NOK 1 000 000)	Note	2020	2019
Assets			
Deposits with credit institutions	**10,11,12,14,22**	18 950	18 181
Other money market deposits	**10,11,12,14**	1 712	3 244
Instalment loans	**10,11,12,15**	321 874	310 912
Notes, bonds and other interest-bearing securities	**10,11,12,13,17**	127 108	111 111
Financial derivatives	**10,12,13,21,22**	25 176	15 025
Deferred tax asset	**8**	3 230	2 134
Other assets	**18**	169	172
Total assets		**498 219**	**460 778**
Liabilities and equity			
Loans from credit institutions	**10,12,19,22**	13 871	4 462
Commercial paper	**10,12,20**	20 045	2 631
Senior securities issued	**10,11,12,13,20**	413 717	403 913
Financial derivatives	**10,12,13,21,22**	28 341	27 425
Other liabilities	**18**	63	55
Current tax liabilities	**8**	1 501	3 868
Deferred tax liabilities	**8**	0	0
Pension liabilities	**7**	37	36
Subordinated debt	**10,12,23**	2 106	1 987
Total liabilities		**479 681**	**444 377**
Share capital	**24**	3 895	3 145
Additional Tier 1 capital	**25**	2 392	2 189
Retained earnings		12 251	11 067
Total equity		**18 538**	**16 401**
Total liabilities and equity		**498 219**	**460 778**

STATEMENT OF CHANGES IN EQUITY

(Amounts in NOK 1 000 000)

2020

	Note	Share capital	Additional Tier 1 capital	Value changes on liabilities due to changes in own credit risk	Retained earnings	Total equity
Equity as of 31 December 2019		**3 145**	**2 189**	**(395)**	**11 460**	**16 401**
Profit for the year		0	0	0	1 159	1 159
Other comprehensive income—value change on liabilities due to changes in own credit risk		0	0	97	0	97
Other comprehensive income—actuarial gain/loss		0	0	0	(2)	(2)
Interest paid on Tier 1 capital	**25**	0	0	0	(64)	(64)
Call of Tier 1 capital	**25**	0	(994)	0	0	(994)
Issuance of Tier 1 capital	**25**	0	1 197	0	(5)	1 192
Issue of share capital	**24**	750	0	0	0	750
Dividends for 2019		0	0	0	0	0
Equity as of 31 December 2020	**24**	**3 895**	**2 392**	**(297)**	**12 547**	**18 538**

Allocation of the Profit for the period to retained earnings has been proposed, along with the decision not to pay out a dividend to the owner due to expected changes in capital adequacy regulation and requirements for the years ahead, especially deductions in Common equity Tier 1 capital based on deferred tax assets in 2020, as well as expectations of prudence from regulatory authorities (connected to the Covid-19 pandemic) regarding companies' distribution of dividends.

2019

	Note	Share capital	Additional Tier 1 capital	Value changes on liabilities due to changes in own credit risk	Retained earnings	Total equity
Equity as of 1 January 2019		3 145	2 189	(634)	10 720	15 421
Profit for the year		0	0	0	1 283	1 283
Other comprehensive income - value change on liabilities due to changes in own credit risk		0	0	239	0	239
Other comprehensive income - actuarial gain/ loss		0	0	0	7	7
Interest paid on Tier 1 capital	**25**	0	0	0	(69)	(69)
Dividends for 2018		0	0	0	(481)	(481)
Equity as of 31 December 2019	**24**	**3 145**	**2 189**	**(395)**	**11 460**	**16 401**

STATEMENT OF CASH FLOWS

(Amounts in NOK 1 000 000)

	2020	2019
Cash flows from operating activities		
Interest received	6 371	8 666
Interest paid	(4 653)	(6 514)
Fees and commissions paid	(115)	(87)
Receipts from repurchase of issued securities	25	21
Cash payments to employees and suppliers	(224)	(246)
Income taxes paid	(3 872)	0
Net disbursement of loans to customers	(8 466)	(7 557)
Net (increase)/decrease in deposits with credit institutions	10 132	(5 758)
Net (increase)/decrease in notes, bonds and other interest-bearing securities	(12 801)	6 812
Net (increase)/decrease in other assets	(4)	(9)
Net increase/(decrease) in other liabilities	4	(23)
Net (increase)/decrease in financial derivatives	(7 021)	24 528
Net cash flows from operating activities	**(20 624)**	**19 832**
Cash flows from investing activities		
Net (purchase)/sales of property and equipment	(16)	7
Net cash flows from investing activities	**(16)**	**7**
Cash flows from financing activities		
Proceeds from issuance of commercial paper	198 006	20 337
Repayment of commercial paper	(180 621)	(17 678)
Repayment on lease obligation	(7)	(6)
Proceeds from issuance of debt securities	107 823	72 508
Repayment of debt securities	(106 301)	(94 564)
Proceeds from issuance of additional Tier 1 capital	1 196	0
Repayment of Tier 1 capital	(1 000)	-
Interest paid on Tier 1 capital	(68)	(69)
Dividends paid	0	(481)
Paid in share capital	750	-
Net cash flows from financing activities	**19 778**	**(19 952)**
Net cash flows	**(862)**	**(113)**
Effects of foreign exchange differences	539	296
Net cash flows after foreign exchange differences	**(268)**	**183**
Cash and cash equivalents at 1 January	459	276
Net change in cash and cash equivalents	(268)	183
Cash and cash equivalents at 31 December	**190**	**459**
Whereof		
Deposits with credit institutions without agreed time to maturity	*190*	*459*
Loans from 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 Senior securities issued and Subordinated debt.

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 in Haakon VIIs gate 5B, Oslo. The financial statements for the year ended 31 December 2020 were approved by the Board of Directors on 25 February 2021.

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

The financial statements are presented in NOK and rounded to the nearest million kroner, except for Notes 6 and 7 that are presented in NOK thousand.

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

SIGNIFICANT ESTIMATES AND ACCOUNTING JUDGEMENTS
The preparation of financial statements in accordance with IFRS requires management to make judgements and use estimates that will affect the use of accounting policies. The estimates and accounting judgements affect carrying amounts of assets and liabilities, and revenues and expenses. Assumptions made about future development may change due to market changes, and actual results may deviate from the estimates.

The most significant judgements 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 techniques. When inputs are to a significant extent not observable, management makes assumptions and uses estimates when considering credit risk and liquidity risk related to financial instruments. Even if the assumptions and estimates are, to the greatest possible extent, based on actual market conditions prevailing at the reporting date, they involve judgement and may add to the degree of uncertainty in valuations. Assumptions and judgements 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 categorised as at fair value through profit or loss, the value at initial recognition includes transaction costs that are directly attributable to acquisition. Recognition and derecognition of financial instruments take place on the settlement date. For a regular way purchase or sale of a financial asset, 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 most 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 amortized 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 under the current market conditions, regardless of whether the price is directly observable or estimated using a valuation method.

Financial instruments are categorised 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 master netting agreements do not qualify for offsetting and net presentation. Therefore, the related assets and liabilities are presented gross 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 on a gross basis in the Statement of financial position.

For issued liabilities that are designated as measured at Fair Value Option (FVO) will the part of changes in fair value that is attributable to changes in KBN'S own credit risk be recognised in other comprehensive income, while the remaining part of the value changes is recognised in the Income statement.

EXPECTED CREDIT LOSS
A provision for expected credit losses is recognised for all financial assets that are measured at amortised cost.

Expected credit loss is calculated per instrument / loan at each reporting date and 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 whose credit risk has not increased significantly since initial recognition is reflected by calculating a loss based on the probability of default within the next 12 months. For instruments whose credit risk has increased significantly since initial recognition, the expected credit loss is reflected by calculating a loss based on a probability of default during the full life 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 between a bond and a swap fulfils the criteria for hedge accounting and is designated as such, it is accounted for as a fair value hedge. The hedged items in the portfolio of Senior securities issued, 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, demand deposits and short-term deposits with credit institutions without agreed time to maturity.

RECOGNITION OF REVENUES
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. 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. 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 cost with the deduction of accumulated depreciation and write-downs. Ordinary depreciation, based on cost price, is calculated by using a straight-line method over the estimated useful life, and the disposal value of the assets is assumed to be zero.

INTANGIBLE ASSETS
Intangible assets are measured at cost and consist of IT systems whose acquisition cost is amortised over their useful life. If there is an indication 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* which is based on recognition of depreciation for leased assets ("right-to-use-assets") in the Income statement, at the same time as interest costs also are recognized on the lease obligation. Repayment of the lease obligation's principal is classified as financing activities. The interest portion is classified as financing activities in the cash flow statement.

As a result of the new standard, "right-to-use-assets" of NOK 43 million have been recognized from the bank's leases, with a corresponding lease-related obligation of NOK 43 million.

TAXES
Taxes are recognised in the income statement as they accrue, i.e. the income tax is based on profit before tax and on interest expense on Tier 1 capital that is recognised in the Statement of changes in equity. Temporary and permanent differences are adjusted for before the year's tax base for current taxes is calculated. Deferred tax liabilities and deferred tax assets are calculated on the basis of temporary differences between the accounting and tax values at the financial year end. The nominal tax rate is used for this 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 in respect of previous years.

The company is subject to financial tax. The tax rate is 25% and is unchanged from 2019.

EQUITY

The Company's equity consists of share capital, additional Tier 1 capital that fulfils the requirements of equity and 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 retained earnings in the same way as dividends.

SEGMENT INFORMATION

The Company has one operating segment: lending to the Norwegian municipalities and municipal companies. The Company does not provide separate segment reporting other than disclosures on the lending portfolio and the business as a whole.

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

KBN has not implemented new standards in 2020.

On 26 September 2019 the International Accounting Standard Board (IASB) published "Interest Rate Benchmark Reform, Amendments to IFRS 9, IAS 39 and IFRS 7". This concludes phase one of the IASB's work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting.

The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate.

The effective date of the amendments is for annual periods beginning on or after 1 January 2020.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1

NET INTEREST INCOME

(Amounts in NOK 1 000 000)

2020	Total	At fair value through profit and loss				Amortised cost
		Fair value option	Mandatory at fair value	Fair value hedge	Total at fair value	
Deposits with credit institutions	**(18)**	0	0	0	0	(18)
Other money market deposits	**(13)**	0	0	0	0	(13)
Instalment loans	**5 125**	2 111	0	0	2 111	3 013
Notes, bonds and other interest-bearing securities	**1 780**	1 504	0	0	1 504	276
Financial derivatives	**(1 173)**	0	(1 173)	0	(1 173)	0
Total interest income	**5 700**	**3 615**	**(1 173)**	**0**	**2 442**	**3 258**
Loans from credit institutions	**(1)**	0	0	0	0	(1)
Commercial paper	**6**	0	0	0	0	6
Senior securities issued	**9 371**	5 198	0	0	5 198	4 174
Financial derivatives	**(5 409)**	0	(3 559)	(1 851)	(5 409)	0
Subordinated debt	**61**	61	0	0	61	0
Total interest expenses	**4 028**	**5 259**	**(3 559)**	**(1 851)**	**(151)**	**4 179**
Net interest income	**1 672**	**(1 644)**	**2 386**	**1 851**	**2 592**	**(921)**

2019	Total	At fair value through profit and loss				Amortised cost
		Fair value option	Mandatory at fair value	Fair value hedge	Total at fair value	
Deposits with credit institutions	**0**	0	0	0	0	(0)
Instalment loans	**6 350**	1 878	0	0	1 878	4 472
Notes, bonds and other interest-bearing securities	**1 200**	632	0	0	632	568
Financial derivatives	**1 267**	0	1 267	0	1 267	0
Total interest income	**8 817**	**2 511**	**1 267**	**0**	**3 777**	**5 039**
Loans from credit institutions	**(0)**	(0)	0	0	(0)	0
Senior securities issued	**10 897**	5 689	0	0	5 689	5 207
Financial derivatives	**(4 016)**	0	(4 202)	186	(4 016)	0
Subordinated debt	**61**	61	0	0	61	0
Total interest expenses	**6 942**	**5 751**	**(4 202)**	**186**	**1 735**	**5 207**
Net interest income	**1 875**	**(3 240)**	**5 468**	**(186)**	**2 043**	**(168)**

NOTE 2

FEES AND COMMISSION EXPENSES

(Amounts in NOK 1 000 000)

	2020	2019
Expenses of banking services	27	17
Contribution to resolution fund	70	57
Other transaction costs	19	13
Total fees and commission expenses	**115**	**87**

NOTE 3

NET UNREALISED GAIN/(LOSS) ON FINANCIAL INSTRUMENTS

(Amounts in NOK 1 000 000)

2020	Total	At fair value through profit or loss			Amortised cost
		Fair value option	Mandatory at fair value	Fair value hedge	
Instalment loans	**2 842**	2 842	0	0	0
Notes, bonds and other interest-bearing securities	**443**	443	0	0	0
Financial derivatives	**2 103**	0	(1 211)	3 315	0
Loans from credit institutions	**0**	0	0	0	0
Senior securities issued	**(5 047)**	(1 578)	0	0	(3 469)
Subordinated debt	**(118)**	(118)	0	0	0
Net unrealised gain/(loss) on financial instruments	**224**	**1 589**	**(1 211)**	**3 315**	**(3 469)**

2019	Total	At fair value through profit or loss			Amortised cost
		Fair value option	Mandatory at fair value	Fair value hedge	
Instalment loans	**(412)**	(412)	0	0	0
Notes, bonds and other interest-bearing securities	**750**	750	0	0	0
Financial derivatives	**15 380**	0	11 980	3 400	0
Loans from credit institutions	**0**	0	0	0	0
Senior securities issued	**(15 501)**	(12 029)	0	0	(3 472)
Subordinated debt	**(4)**	(4)	0	0	0
Net unrealised gain/(loss) on financial instruments	**213**	**(11 695)**	**11 980**	**3 400**	**(3 472)**

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 Senior securities issued for information on calculation of such value changes. The change in fair value arising from Senior securities issued presented in the above table is due to changes in parameters other than credit, such as interest rates.

Changes in fair value are the result of changes in market parameters and risk factors, 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 takes very limited currency and interest rate risk, the changes in relevant parameters will mostly be symmetric on the asset and liabilities sides of the Statement of financial position and therefore to a small extent give rise to net effects in the income statement. Changes in credit spreads for investments in the liquidity portfolio, fixed interest-rate Instalment loans measured at fair value and issued bonds may on the other hand lead to significant income statement effects, as may changes in basis swap spreads.

Of net unrealised gains in 2020 amounting to NOK 224 million, Notes, bonds and other interest-bearing securities and related financial derivatives contribute with a gain of NOK 72 million. The gain is primarily due to the fall in USD interest rates and credit spreads which affect the value of bond prices. Instalment loans and related financial derivatives contribute further with a gain of NOK 159 million, due to reduced credit spreads. Senior securities issued and related financial derivatives reduce the overall unrealised gain with NOK 7 million. Net unrealised gains amounting to NOK 213 million in 2019 came primarily from Notes, bonds and other interest-bearing securities, Instalment loans and related financial derivatives. 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 trading income" 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 191.4 billion in "Senior securities issued", that are classified as measured at amortised cost. Changes in fair value for the hedged item that is attributable to the hedged risk adjust the carrying amount of the item, and are recognized and presented in the income statement as "Net unrealised gain/(loss) on financial instruments".

NOTE 4

NET TRADING INCOME

(Amounts in NOK 1 000 000)

To some extent, KBN does transactions that entail realisations and derecognition before maturity of either assets or liabilities. These transactions comprise sales of securities from the liquidity portfolio or repurchases of bond debt. Realised gain/(loss) is presented as Net trading income.

	2020	2019
Gain/(loss) from repurchase of securities issued	21	4
Gain/(loss) from sales of bond investments and derivatives terminations	2	17
Gain/(loss) from earlly repayment of loans and termination of financial derivatives	2	1
Net trading income	**25**	**23**

NOTE 5

SALARIES AND ADMINISTRATIVE EXPENSES

(Amounts in NOK 1 000 000)

	2020	2019
Salaries	83	92
Employer contributions	19	18
Pension costs	11	13
Other personnel benefits	1	4
Administrative expenses	33	32
Total salaries and administrative expenses	**147**	**159**
Average number of man-years	*84*	*80*

NOTE 6

REMUNERATION

(Amounts in NOK 1 000)

The Board of Directors will submit the following statement on the salary and other remuneration of senior executives to the Annual General Meeting:

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 owner's 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[1], the Financial Undertakings Regulation[2], the circular on this Regulation issued by the Financial Supervisory Authority of Norway[3], and the Norwegian Government's Guidelines for remuneration of senior executives in companies with state ownership[4].

Remuneration for all employees, including senior executives, consists of a fixed salary, variable salary payments, pensions and other benefits, including personnel insurance, newspapers, mobile telephone and a residential mortgage scheme. KBN does not operate share-based remuneration programs or options. Fixed salary is the main element of remuneration received. The Board of Directors sets quantitative criteria each year 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 month's 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 bank's values, with leadership skills also forming part of the assessment for managers with reporting staff.

Senior executives are defined as the President & Chief Executive Officer (the "CEO") and the CEO's 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 2020, the Committee’s members are Brit Rugland (Chair), Petter Steen jr. and Harald Jacobsen (employee representative).

The Board approves guidelines each year for the remuneration of senior executives and for variable salary payments. 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 Board's guidelines and takes into account the Board's views when making final decisions on such remuneration. The CEO's decisions on the remuneration of senior executives are subsequently submitted to the Board for information.

REMUNERATION OF KBN’s SENIOR EXECUTIVES IN 2020

Fixed salary
Fixed salary payable in 2020 included the normal annual salary increase.

Variable salary
In line with the guidelines for variable salary and achieved results in 2019, all employees were granted a variable salary corresponding to 1.04 monthly salaries, paid out in 2020.

Other benefits
Other benefits include insurance arrangements, mobile phone, newspaper subscription etc. on the same terms and conditions as apply to other employees. In connection with the corona pandemic, all employees, including senior executives, received extraordinary grants for broadband and equipment to ensure a sound working environment from home office.

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 / death benefit. 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 life pensions and contractual early retirement.

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[1] *The Financial Undertakings Act*
[2] *The Financial Undertakings Regulation*
[3] *The Financial Supervisory Authority of Norway: Circular 15/2014*
[4] *Guidelines for remuneration of senior executives in companies with state ownership, adopted by the Ministry of Trade, Industry and Fisheries with effect from 13. February 2015.*

2020

Remuneration to senior executives	Agreed fixed salary	Paid fixed salary*	Seve-rance pay	Variable salary ac-crued in the period**	Other benefits	Pension costs	Total
Kristine Falkgård (President & CEO) until 09.03.20[1]	3 133	1 800	1 566	-	113	138	3 617
Jannicke Trumpy Granquist (President & CEO) from 19.10.20[2]	3 100	2 733	-	-	32	174	2 938
Sigbjørn Birkeland (Chief Capital Markets Officer)	2 128	2 165	-	-	26	147	2 338
Tor Ole Steinsland (Chief Communications Officer)	1 347	1 371	-	-	25	179	1 575
Ilse Margarete Bache (Chief of IT and Operations)	1 543	1 596	-	-	24	222	1 842
Håvard Thorstad (Chief Compliance Officer)	1 812	1 875	-	-	24	163	2 062
Lars Strøm Prestvik (Chief Lending Officer)	1 671	1 701	-	-	102	162	1 965
Morten Hatlem (Chief People, Strategy and Digital Development Officer)	1 516	1 567	-	-	14	153	1 734
Thomas Yul Hanssen (Chief Legal & Regulatory Affairs Officer)	1 427	1 477	-	-	39	165	1 680
Knut Andre Ask Kristiansen (acting CRO) from 01.12.19	1 650	1 581	-	-	16	148	1 744
Frank Øvrebø (acting CFO) from 01.11.20	1 650	275	-	-	3	32	310
Total remuneration to senior executives	**20 977**	**18 140**	**1 566**	**-**	**417**	**1 683**	**21 807**
Total remuneration to employees whose profes-sional activities affect the risk position of the in-stitution		**21 061**		**-**	**463**	**2 401**	**23 925**
Total remuneration to the employees in the inde-pendent control functions		**17 928**		**-**	**402**	**2 086**	**20 416**

**11 months fixed salary and holiday pay based on last year's salary* ***Paid out in the following year*

1) President and CEO until 09.03.20. Salary in notice period up to and including 30.06.20. Severance pay in period 01.07.20 -30.03.21.

2) CFO until 09.03.20. Acting President & CEO from 09.03.20 to 19.10.20. President & CEO from 19.10.20.

2019

Remuneration to senior executives	Agreed fixed salary	Paid fixed salary*	Seve-rance pay	Variable salary ac-crued in the period**	Other benefits	Pension costs	Total
Kristine Falkgård (President & CEO)	3 133	3 287	-	347	194	234	4 062
Sigbjørn Birkeland (Chief Capital Markets Of-ficer)	2 088	2 265	-	231	25	137	2 658
Jannicke Trumpy Granquist (CFO)	1 943	2 195	-	215	30	165	2 605
Tor Ole Steinsland (Chief Communications Officer)	1 325	1 483	-	147	29	184	1 844
Håvard Thorstad (Chief Compliance Officer)[1]	1 787	2 054	-	198	23	155	2 430
Ilse Margarete Bache (Chief of IT and Opera-tions)	1 511	1 569	-	168	24	212	1 974
Lars Strøm Prestvik (Chief Lending Officer)	1 643	1 833	-	182	102	161	2 277
Morten Hatlem (Chief People, Strategy and Digital Development Officer)	1 493	1 522	-	165	14	137	1 838
Thomas Yul Hanssen (Chief Legal & Regulato-ry Affairs Officer)	1 403	1 658	-	155	39	162	2 014
Knut Andre Ask Kristiansen (acting CRO) from 01.12.19	1 400	117	-	13	1	11	142
Total remuneration to senior executives	**17 726**	**17 983**	**-**	**1 821**	**480**	**1 560**	**21 844**
Total remuneration to employees whose profes-sional activities affect the risk position of the in-stitution		**17 870**	**-**	**1 908**	**427**	**1 991**	**22 196**
Total remuneration to the employees in the inde-pendent control functions		**19 905**	**-**	**2 146**	**436**	**2 560**	**25 047**

**11 months fixed salary and holiday pay based on last year's salary* ***Paid out in the following year*

1) CRO and Chief Compliance Officer until 31.01.19. CRO from 01.02.19 until 30.11.19.

Remuneration to Board of Directors	2020	2019
Chairman Brit K. S. Rugland (from 4 June 2018) [1) 3)]	445	439
Vice-chairman Martin Skancke (until 01.06.19) [3)]	-	117
Vice-chairman Rune Midtgaard (from 01.06.19) [3)]	290	274
Board member Nanna Egidius (until 05.06.20) [2)]	108	214
Board member Martha Takvam [2)]	279	305
Board member Petter Steen jr [1)]	200	198
Board member Ida Espolin Johnson [2)]	217	214
Board member Eyvind Aven (from 01.06.19) [3)]	217	121
Board member Toril Hovdenak (from 05.06.20) [2)]	127	-
Board member employees' representative Jarle Byre (until 01.06.19) Alternate Board member employee's representative (from 01.06.19) [1)]	-	87
Board member employees' representative Harald Jacobsen (from 01.06.19) [1)]	200	113
Board member employees' representative Marit Urmo Harstad (until 05.06.20)	78	154
Board member employees' representative Anne Jenny Dvergsdal (from 05.06.20)	91	-
Total remuneration to Board of Directors	**2 252**	**2 236**

[1)] *Member of remuneration committee*

[2)] *Member of audit committee*

[3)] *Member of risk committee*

Remuneration to Supervisory Board	2020	2019
Chairman Alfred Bjørlo (from 4 June 2018)	25	25
Board members	92	57
Total remuneration to Supervisory Board	**117**	**82**

Fees to the statutory auditor	2020	2019
Statutory audit fees	930	978
Other financial audit and attestation services	1 364	1 129
Tax services	702	485
Other services not related to audit	121	187
Total fees excl. VAT	**3 117**	**2 779**

NOTE 7

PENSIONS

(Amounts in NOK 1 000)

Kommunalbanken'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 / death compensation. 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.

Employees who were estimated to receive a lower expected retirement pension at the age of 67 according to the new scheme compared to the defined benefit plan, have been granted a partial compensation (30%) that has been paid out monthly over the course of two years (2018 and 2019), provided that the employee still worked at KBN during the payout period. The compensation has been paid out as salary and is included on the line Salaries in Note 5 Salaries and administrative expenses. It is therefore not included in the pension costs below.

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 balace sheet date. For the earlier closed defined benefit plans (including defined benefit plan covering salaries over 12 times Base amount (G)), pension liabilities are measured at the present value of future pension obligations accrued on the balance sheet date. Pension liabilities are calculated on a straight-line 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 period's accrual, interest expense on the calculated liability and administrative expenses. Changes in previous periods' pension accruals (plan change) 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 liabilities and plan assets under 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 as Other comprehensive income.

For the defined contribution scheme, employer contributions are presented as this in note 5 Salaries and adminitrative expenses and are thus not included in the pension costs below.

Economic estimates used in calculation of pension costs and defined benefit obligation	31.12.2020	31.12.2019
Discount rate	1.70%	2.30%
Estimated wage growth	2.25%	2.25%
Estimated growth in Base amount	2.00%	2.00%
Expected growth in benefit levels	1.24%	1.24%

KBN has used Norwegian covered bonds as input when determining the discount rate for 2020 and 2019. 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	
	2020	2019	2020	2019
Defined benefit pension scheme				
Net periodic pension cost	1 446	1 469	0	0
Net interest	560	870	401	462
Service cost	103	104	0	0
Employer contributions	297	345	56	65
Plan change at transition to defined contribution scheme	0	2 420	0	0
Total pension cost defined benefit scheme	**2 407**	**5 208**	**457**	**527**
Defined contribution pension scheme				
Pension cost for the year	**6 519**	6 200	**-**	**-**
Total pension costs (both benefit and contribution scheme)	**8 926**	**11 408**	**457**	**527**
Actuarial gain/(loss) recognised in other comprehensive income	1 004	(9 054)	1 477	(620)
Net pension costs	**9 930**	**2 354**	**1 934**	**(93)**

Pension liabilities	Funded plan		Unfunded plan	
	2020	2019	2020	2019
Defined benefit obligation	128 653	118 860	18 974	17 557
Plan assets	(115 516)	(104 647)	0	0
Employer contributions	1 852	2 004	2 675	2 475
Net pension liabilities	**14 990**	**16 217**	**21 650**	**20 032**

Movement in pension liabilities	Funded plan		Unfunded plan	
	2020	2019	2020	2019
Net pension liabilities as of 1 January	16 217	26 161	20 032	20 398
Net pension costs	3 410	(3 847)	1 934	(93)
Contribution to the pension scheme	(4 638)	(6 097)	(316)	(273)
Net pension liabilities as of 31 December	**14 990**	**16 217**	**21 650**	**20 032**

Movement in the fair value of plan assets	Funded plan		Unfunded plan	
	2020	2019	2020	2019
Fair value of plan assets as of 1 January	104 647	98 041	0	0
Net interest	2 180	2 334	0	0
Actuarial gain/(loss)	7 076	1 731	0	0
Service cost	(103)	(104)	0	0
Contribution to the pension scheme	4 065	5 343	277	240
Benefits paid	(2 348)	(2 699)	(277)	(240)
Fair value of plan assets as of 31 December	**115 516**	**104 647**	**0**	**0**

NOTE 8

TAX

(Amounts in NOK 1 000 000)

	2020	2019
Payable taxes on income for the period	0	3 868
Change in deferred tax	(1 096)	(3 298)
Change in deferred tax as a result of changes in timing of taxable income for previous years	1 501	(5)
Effect of reduced tax rate as a result of changes in tax return for previous years	3	0
Items recognised in Other Comprehensive Income	(32)	(77)
Total income tax	**377**	**488**

Reconciliation of effective income tax rate	2020	2019
Profit before tax	1 537	1 771
Calculated tax expense	384	443
Tax on Tier 1 Capital	(18)	(17)
Effect of reduced tax rate as a result of changes in tax return for previous years	3	63
Effect of change in tax rate	7	0
Tax expense	**377**	**488**
Effective income tax rate	25%	28%

Deferred tax liability/(asset)	2020	2019
Deferred tax liability/(asset) as at 1 January	(2 134)	1 164
Change in deferred tax	374	(3 376)
Changes in deferred tax on items recognised in other comprehensive income	32	77
Change in deferred tax as a result of changes in timing of taxable income for previous years	(1 501)	-
Deferred tax liability/(asset) as at 31 December (25%)	**(3 230)**	**(2 134)**

Temporary differences	2020	2019
Fixed assets	(5)	(5)
Leases	(1)	-
Pension liabilities	(37)	(36)
Provisions	(5)	(11)
Bonds (assets and liabilities)	(8 150)	(5 433)
Financial derivatives	(1 414)	(3 051)
Losses carried forward for tax purposes	(3 308)	-
Total temporary differences	**(12 919)**	**(8 537)**
Deferred tax liability/(asset)	**(3 230)**	**(2 134)**

IAS 12 *Income Tax* has been amended with effect from 1 January 2019. The change means that tax deductions on interest from Tier 1 capital that is classified as equity, are presented as a reduction in the tax expense in the Income statement.

KBN received a decision in November 2017 regarding changes in the tax return for the tax year 2014, and in continuation of this, KBN received in June 2018 a notification of change of tax return for the years 2015 and 2016. The amendment relates to the tax treatment and periodisation of financial instruments, principally regarding the use of the realisation principle on the currency element of financial instruments. KBN has appealed parts of the amendment decision and had significant communication with the tax authorities on this occasion, as a result of a professional disagreement with the tax authorities.

KBN has complied with the tax authorities' decision in the accounts for 2017 to 2019, and accounted for changes in outgoing balance of temporary differences for financial instruments in line with the decision. During 2020, further communication with the tax authorities has led to KBN also changing its tax revenue recognition related to previous accounting periods. KBN's accounts for 2020 have been prepared in line with all claims from the tax authorities. Effects in regards to changes in tax accounting related to previous accounting periods is presented as Current tax liabilities.There is still disagreement with the tax authorities on certain matters concerning temporary differences in the accounts.

The tax authorities' decision and claims imply a changed periodisation and timing of taxable income / expense over time, but no change in what is taxable income / expense over the lifetime of the instruments. It is the bank's view that the tax authorities' decision will result in larger and more volatile temporary differences and tax payments, but without a material effect on the bank's tax expense, with the exception of a tax rate change. However, deferred tax benefits arising from temporary differences affect capital adequacy negatively.

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 on 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	2020	2019
Current	7	7
Non-current	22	29
Total interest expense recognised	1	1

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 Instalment loans and Notes, bonds and other interest-bearing securities 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 Instalment loans and Notes, bonds and other interest-bearing securities 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 p.t. and Nibor loans are measured at amortised cost. Notes, bonds and other interest-bearing securities 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 "notes, bonds and other interest-bearing securities" or "Instalment loans" and in the Income statement as "Net unrealized 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, instalment loans 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 instalment loans 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 loans from 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 "Senior 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 Senior securities 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.

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.

2020	Total	At fair value			Amortised cost
		Fair value option	Mandatory at fair value	Fair value hedge	
Deposits with credit institutions	**18 950**	0	0	0	18 950
Other money market deposits	**1 712**	0	0	0	1 712
Instalment loans	**321 874**	110 423	0	0	211 452
Notes, bonds and other interest-bearing securities	**127 108**	101 225	0	0	25 883
Financial derivatives	**25 176**	0	18 589	6 587	0
Total financial assets	**494 820**	**211 647**	**18 589**	**6 587**	**257 997**
Loans from credit institutions	**13 871**	0	0	0	13 871
Commercial paper	**20 045**	0	0	0	20 045
Senior securities issued	**413 717**	175 317	0	0	238 400
Financial derivatives	**28 341**	0	28 033	309	0
Subordinated debt	**2 106**	2 106	0	0	0
Total financial liabilities	**478 080**	**177 423**	**28 033**	**309**	**272 316**

2019	Total	At fair value			Amortised cost
		Fair value option	Mandatory at fair value	Fair value hedge	
Deposits with credit institutions	**18 181**	0	0	0	18 181
Other money market deposits	**3 244**	394	0	0	2 850
Instalment loans	**310 912**	95 014	0	0	215 898
Notes, bonds and other interest-bearing securities	**111 111**	89 397	0	0	21 714
Financial derivatives	**15 025**	0	12 095	2 929	0
Total financial assets	**458 472**	**184 805**	**12 095**	**2 929**	**258 643**
Loans from credit institutions	**4 462**	0	0	0	4 462
Commercial paper	**2 631**	0	0	0	2 631
Senior securities issued	**403 913**	170 856	0	0	233 057
Financial derivatives	**27 425**	0	27 046	379	0
Subordinated debt	**1 987**	1 987	0	0	0
Total financial liabilities	**440 418**	**172 844**	**27 046**	**379**	**240 149**

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. Financial instruments classified as Level 3 include notes and bonds with low liquidity, fixed rate loans to customers, issued debt securities not traded in an active market and where inputs are to a large extent unobservable, and OTC-derivatives with option elements. The same type of input might be used to determine the fair value of notes 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.

2020	Level 1	Level 2	Level 3	Total
Deposits with credit institutions	0	0	0	0
Other money market deposits	0	0	0	0
Instalment loans	0	14 544	95 878	110 423
Notes, bonds and other interest-bearing securities	85 391	8 065	7 769	101 225
Financial derivatives	0	22 599	2 576	25 176
Total financial assets measured at fair value	**85 391**	**45 209**	**106 223**	**236 823**
Loans from credit institutions	0	0	0	0
Commercial paper	0	0	0	0
Senior securities issued	14 992	111 638	48 687	175 317
Financial derivatives	0	19 464	8 878	28 341
Subordinated debt	0	0	2 106	2 106
Total financial liabilities measured at fair value	**14 992**	**131 101**	**59 671**	**205 764**

Holdings of NOK 2.5 billion kroner are transferred from Level 2 to Level 1 for Notes, bonds and other interest-bearing securities per 31. December 2020

2019	Level 1	Level 2	Level 3	Total
Deposits with credit institutions	0	0	0	0
Other money market deposits	0	394	0	394
Instalment loans	0	13 576	81 437	95 014
Notes, bonds and other interest-bearing securities	67 818	14 172	7 407	89 397
Financial derivatives	0	12 925	2 099	15 025
Total financial assets measured at fair value	**67 818**	**41 067**	**90 943**	**199 829**
Loans from credit institutions	0	0	0	0
Commercial paper	0	0	0	0
Senior securities issued	14 460	90 240	66 156	170 856
Financial derivatives	0	17 948	9 475	27 425
Subordinated debt	0	0	1 987	1 987
Total financial liabilities measured at fair value	**14 460**	**108 187**	**77 618**	**200 268**

Holdings of NOK 4 billion kroner are transferred from Level 2 to Level 1 for Notes, bonds and other interest-bearing securities per 31. December 2019

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, and 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 deposits to non-financial institutions and are measured at fair value if they are hedged with a derivative contract.

Instalment loans

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. A significant input for such loans is the credit spread, which is estimated at each reporting date. Credit risk is considered to be the same for all municipalities. As observable credit spreads are not available, management makes assumptions and estimates relevant adjustments for credit risk for different maturities, based on prices for loans issued in a period closer to the balance sheet date. Loans from a limited time-period before the reporting date are used in determining the credit spread, in order to ensure sufficient data and representative estimates. In addition, an evaluation is carried out of whether conditions leading up to the balance sheet date suggest that the chosen time period does not to a sufficient extent reflect the market conditions on the balance sheet date.

Notes, bonds and other interest-bearing securities
Determination of fair value based on quoted prices in an active market with many willing buyers and sellers gives a fair value estimate with the lowest degree of valuation uncertainty (Level 1). Level 1 inputs for Notes, bonds and other interest-bearing securities 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 notes 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 issuer's 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. For more information about inputs used in fair value measurement, see the Accounting Policies.

Senior 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 Senior 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 where 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 cash-flows. 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 plain vanilla interest rate 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 period's value changes at period ends, including the reason for the development in fair values.

Reconciliation of movements in Level 3

	Instalment loans	Notes, bonds and other interest-bearing securities	Senior securities issued	Subordinated debt	Financial derivatives
Carrying amount at 31 December 2019	**81 437**	**7 406**	**66 156**	**1 987**	**(7 376)**
Purchase	0	4 430	0	0	0
Sale	0	0	(636)	0	17
Issue	31 433	0	(602)	0	0
Settlement	(20 250)	(2 358)	(13 068)	0	(2 543)
Transfer into Level 3	3 003	2 976	0	0	0
Transfer out of Level 3	(3 420)	(4 419)	0	0	0
Gain/(loss) recognised in the period	3 676	(267)	(3 164)	118	3 601
Carrying amount at 31 December 2020	**95 879**	**7 768**	**48 687**	**2 106**	**(6 302)**

	Instalment loans	Notes, bonds and other interest-bearing securities	Senior securities issued	Subordinated debt	Financial derivatives
Carrying amount at 31 December 2018	**71 496**	**3 616**	**75 822**	**1 982**	**(17 106)**
Purchase	0	12 765	0	0	4 089
Sale	0	(501)	(276)	0	0
Issue	34 747	0	7 599	0	0
Settlement	(25 233)	(5 167)	(22 103)	0	(5 991)
Transfer into Level 3	1 929	804	0	0	0
Transfer out of Level 3	(3 297)	(3 111)	0	0	0
Gain/(loss) recognised in the period	1 796	(1 000)	5 115	5	11 632
Carrying amount at 31 December 2019	**81 437**	**7 406**	**66 156**	**1 987**	**(7 376)**

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 Senior securities issued the spread reflects liquidity risk, own credit risk and market risk in the relevant currency market. Credit spreads measured against USD 3M Libor used in valuation at 31 December 2020 vary from –64 bp to +141 bp for debt issuances. For Notes, bonds and other interest-bearing securities the spread reflects liquidity risk, credit risk of the issuer and market risk in the relevant currency market. Measured against USD 3M Libor the spreads vary between –17 bp to +43 bp for notes and bonds. Other significant unobservable inputs include volatilities within option pricing models. Other than this, inputs used in option pricing are mainly observable.

In 2020, Notes, bonds and other interest-bearing securities amounting to NOK 5.3 billion were transferred to Level 3 from Level 1 or 2, based on somewhat lower liquidity for these securities. For Instalment loans, 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. For more information on sensitivity to unobservable inputs, see table “Impact of changes in key assumptions – yield curve” below. The table shows a sensitivity analysis for a change in discount rate of 10 basis points (up).

Impact of changes in key assumptions - yield curve	2020		2019	
	Carrying amount	Impact of changes in key assumptions	Carrying amount	Impact of changes in key assumptions
Instalment loans	95 878	(394)	81 437	(310)
Notes, bonds and other interest-bearing securities	7 769	(15)	7 407	(21)
Financial derivatives	(6 302)	(147)	(7 376)	(327)
Senior securities issued	(48 687)	147	(66 156)	322
Subordinated debt	(2 106)	14	(1 907)	15
Total	**46 552**	**(395)**	**13 324**	**(320)**

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

An increase in the discount rate used for measuring Instalment loans in Level 3 of 10 bp across all maturities will lead to a reduction in value of NOK 394 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 Notes, bonds and other interest-bearing securities allocated to Level 3 would lead to an insignificant reduction in value. For Senior securities issued allocated to Level 3, an increase in the discount rate of 10 bp would lead to a reduction in value of NOK 147 million, which results in an unrealised gain. Again, this could be caused by an increase in the credit spread, in this case for KBN. The table above assumes a parallel shift of the yield curve, different changes for different maturities may also be envisaged.

Change of fair value of an issued bond, that is based on the change of a parameter that is part of option pricing (observable or unobservable) will lead to an equivalent change in fair value with opposite sign for the associated hedging derivative. These effects (gains/losses) will cancel each other out and will have no income statement effect. Structured bonds with option elements linked to equities or equity indices are a type of issued bonds where the equity exposure is fully hedged using a derivative contract and where volatility is a significant unobservable input in the option pricing both for the bond and the associated derivative.

The table below shows the value sensitivity associated with a 10% increase in volatility, for such structured bonds with option elements linked to equities or equity indices and associated financial derivatives. The table also shows that the net income statement effect is zero. This is also the case for other types of structured funding with option elements.

Impact of changes in key assumptions - volatility	2020		2019	
	Carrying amount	Impact of changes in key assumptions	Carrying amount	Impact of changes in key assumptions
Senior securities issued - with option element linked to equities or equity indices	(713)	0.1	(4 685)	43
Financial derivatives - with option element linked to equities or equity indices	(65)	(0.1)	(152)	(43)
Total	**(778)**	**0**	**(4 837)**	**0**

The table below shows total unrealised gain/(loss) recognised in the income statement in 2020 and 2019 for assets and liabilities allocated to Level 3.

Level 3 unrealised gain/(loss) in the period	2020		2019	
	Carrying amount	Unrealised gain/ (loss)	Carrying amount	Unrealised gain/ (loss)
Instalment loans	95 878	2 837	81 437	(389)
Notes, bonds and other interest-bearing securities	7 769	90	7 407	(11)
Senior securities issued	(48 687)	1 065	(66 156)	(9 336)
Financial derivatives	(6 302)	(1 069)	(7 376)	9 518
Subordinated debt	(2 106)	(119)	(1 987)	(5)
Total	**46 552**	**2 805**	**13 325**	**(223)**

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)

	2020		2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Deposits with credit institutions	18 950	18 950	18 181	18 181
Other money market desposits	1 712	1 712	2 850	2 850
Instalment loans	211 452	214 436	215 898	216 016
Notes, bonds and other interest-bearing securities classified as amortised cost	25 883	25 937	21 715	21 733
Total financial assets measured at amortised cost	**257 997**	**261 035**	**258 644**	**258 780**
Loans from credit institutions	13 871	13 871	4 462	4 462
Commercial paper	20 045	20 045	2 631	2 631
Senior securities issued	238 400	236 455	233 057	232 967
Total financial liabilities measured at amortised cost	**272 316**	**270 371**	**240 149**	**240 060**

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

2020	Level 1	Level 2	Level 3	Total
Instalment loans	0	175 161	39 275	214 436
Notes, bonds and other interest-bearing securities	23 265	400	2 271	25 937
Total fair value of financial assets, measured at amortised cost	**23 265**	**175 561**	**41 546**	**240 373**
Senior securities issued	184 562	51 893	0	236 455
Total fair value of financial liabilities, measured at amortised cost	**184 562**	**51 893**	**0**	**236 455**

2019	Level 1	Level 2	Level 3	Total
Instalment loans	0	181 985	34 032	216 016
Notes, bonds and other interest-bearing securities	17 653	2 282	1 798	21 733
Total fair value of financial assets, measured at amortised cost	**17 653**	**184 267**	**35 830**	**237 750**
Senior securities issued	160 528	72 439	0	232 967
Total fair value of financial liabilities, measured at amortised cost	**160 528**	**72 439**	**0**	**232 967**

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 (Senior 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 recognized 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.

Other money market deposits
Other money market deposits include money market deposits to non-financial institutions and are measured at amortised cost if they are not hedged with a derivative contract.

Instalment loans
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) are granted bilaterally between KBN and a loan customer, and are not traded in an active market.

Senior securities issued
Senior 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 and cross-currency risk according to IFRS 9. Fair value hedging is applied at individual transaction level where the hedging instrument is explicitly linked to the hedged item (hedging ratio 1:1). The hedge relationship is documented at designation, including the hedging strategy, and hedge effectiveness is measured on an on-going basis using Dollar-offset method. Any ineffective part of the hedge is recognised in the income statement.

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	2020	2019
Notes, bonds and other interest-bearing securities	0	0
Senior securities issued	191 426	165 328
Financial derivatives	6 278	2 550
Total	**197 704**	**167 879**

Recognised value changes on financial instruments in fair value hedges	2020	2019
Notes, bonds and other interest-bearing securities	0	0
Senior securities issued	(3 469)	(3 472)
Financial derivatives	3 315	3 400
Total	**(154)**	**(72)**

Recognised value changes are a result of changes in underlying risk factors, such as interest rates and currency basis swap spreads, 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 Senior securities issued in fair value hedges

	0-1 years	1-3 years	3-5 years	> 5 years	Total
Carrying amount at amortised cost	(33 423)	(62 356)	(51 394)	(38 823)	(185 996)
Value change (hedged risk)	(457)	(2 301)	(1 581)	(1 091)	(5 430)
Total carrying amount	**(33 881)**	**(64 656)**	**(52 975)**	**(39 914)**	**(191 426)**

Accumulated ineffectivity amounts to NOK 32 million as of 31 December 2020.

As a result of interest rate benchmark reform, there may be uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. This may lead to uncertainty whether prospectively the hedging relationship is expected to be highly effective.

In 2019, KBN established a project group that prepares for and assesses the consequences of the changes in benchmark interest rates. The group is organized as an interdisciplinary project that is responsible for the operational adaptation, including system solutions for correct measurements and conversion of the portfolio as well as mapping and management of financial risks for KBN.

The table below indicates the nominal amounts of derivatives in hedging relationships that will be affected by the IBOR reform. The derivative hedging instruments provide a close approximiation to the extent of the risk exposure KBN manages through hedging relationships.

Interest rate curves	Hedged risk, nominal amounts
AUD Libor (3m)	2 312
CHF Libor (3m)	968
EUR :STD	35 086
NOK BASIS 3M6M	1 350
USD :STD	145 488
TOTAL	**185 204**

NOTE 14

DEPOSITS WITH CREDIT INSTITUTIONS

(Amounts in NOK 1 000 000)

	2020	2019
Deposits with credit institutions without agreed time to maturity	190	459
Deposits with credit institutions with agreed time to maturity	2	641
Cash collateral pledged	18 758	17 080
Total deposits with credit institutions	**18 950**	**18 181**

	2020	2019
Other money market deposits	1 712	3 244
Total other money market deposits	**1 712**	**3 244**

NOTE 15

INSTALMENT LOANS

(Amounts in NOK 1 000 000)

	2020	2019
Principal amount	318 230	309 758
Accrued interest	985	1 318
Fair value adjustment	2 659	(183)
Expected credit loss	(25)	(11)
Total loans to customers	**321 849**	**310 881**
Other loans	25	31
Total instalment loans	**321 874**	**310 912**

Geographic distribution	2020	2019
Agder	21 006	21 757
Innlandet	24 405	24 545
Møre og Romsdal	17 708	17 041
Nordland	24 108	22 254
Oslo	13 880	8 539
Rogaland	23 745	24 147
Troms og Finnmark	21 506	20 186
Trøndelag	35 551	31 793
Vestfold og Telemark	18 730	18 602
Vestland	38 439	42 269
Viken	79 153	78 625
Loans to customers, principal amount	**318 230**	**309 758**

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 Instalment loans and Notes, bonds and other interest-bearing securities 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.

The recognition of interest income for assets allocated to stages 1 and 2 is based on the asset’s principal amount, while the recognition of interest income for assets allocated to stage 3 is based on the asset’s 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 period’s 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 issuer’s 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. Actual credit losses have never taken place during KBN’s history. For Notes, bonds and other interest-bearing securities this will be triggered by events such as late payment, bankruptcy or restructuring due to financial problems.

Due to the corona pandemic, a change in expected credit losses on Instalment loans and Notes, bonds and other interest-bearing securities of NOK 14 million has been recognized in the Income statement in 2020. This is an increase in the bank's total loss provisions from NOK 12 million to NOK 26 million due to increased uncertainty in the real economy. However, the bank's loss provisions are still relatively small due to the fact that Norwegian municipalities can not go bankrupt. No significant payment problems were experienced in the municipal sector either, and the bank's liquidity portfolio is of very high credit quality.

The below table shows expected credit loss as part of the carrying amount of Instalment loans and Notes, bonds and other interest-bearing securities at the end of the period.

	31 December 2020		31 December 2019
(Amounts in NOK 1 000 000)	Carrying amount	Expected credit loss	Expected credit loss
Instalment loans	211 452	(25)	(11)
Notes, bonds and other interest-bearing securities	25 883	(1)	(1)
Total	**237 335**	**(26)**	**(12)**

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 2020
Instalment loans	(13 273)
Notes, bonds and other interest-bearing securities	(259)
Total	**(13 532)**

The following table shows an allocation of KBN's expected credit losses as at 31 December 2020 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
Instalment loans	(25)	0	0
Notes, bonds and other interest-bearing securities	(1)	0	0
Total expected credit loss	**(26)**	**0**	**0**

NOTE 17

NOTES, BONDS AND OTHER INTEREST-BEARING SECURITIES

(Amounts in NOK 1 000 000)

Notes, bonds and other interest-bearing securities by type of issuer	2020	2019
Domestic		
Issued by other borrowers	17 415	16 584
Foreign		
Issued by public bodies[1]	61 557	75 285
Issued by other borrowers	48 137	19 243
Total notes, bonds and other interest-bearing securities	**127 108**	**111 111**

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

Notes, bonds and other interest-bearing securities by time to maturity	2020	2019
Under 1 year	48 296	40 923
1-5 years	78 637	60 604
> 5 years	175	9 584
Total notes, bonds and other interest-bearing securities	**127 108**	**111 111**

NOTE 18

OTHER ASSETS

(Amounts in NOK 1 000 000)

	2020	2019
Intangible assets	131	126
Leases	28	43
Fixed assets	8	2
Other assets	2	2
Total other assets	**169**	**172**

Intangible assets comprise 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. All are amortised over their expected lifetimes.

OTHER LIABILITIES

(Amounts in NOK 1 000 000)

	2020	2019
Accounts payable	1	3
Public fees	10	8
Leases	30	37
Other short term liabilities	6	(5)
Accrued expenses and received, not yet accrued interest	15	12
Total other liabilities	**63**	**55**

NOTE 19

LOANS FROM CREDIT INSTITUTIONS

(Amounts in NOK 1 000 000)

	2020	2019
Cash collateral received	13 137	4 462
Repurchase agreements	733	-
Commercial paper	20 045	2 631
Total loans from credit institutions	**33 915**	**7 093**

NOTE 20

SENIOR SECURITIES ISSUED

(Amounts in NOK 1 000 000)	2020	2019
Senior securities issued (nominal amounts) as at 1 January	**400 489**	**414 603**
New issuance	107 822	72 508
Redemptions*	(107 727)	(95 981)
Amortisation**	1 425	1 417
Translation differences	3 441	7 943
Senior securities issued (nominal amounts) as at 31 December	**405 451**	**400 489**
Accrued interest	4 327	4 402
Fair value adjustment	3 939	(978)
Of which value change that is due to change in own credit risk	*397*	*527*
Of which value change that is due to other reasons	*3 542*	*(1 505)*
Total senior securities issued	**413 717**	**403 913**

	2020	2019
Commercial paper as at 1. January (nominal amounts)	2 631	0
New issuance	198 006	20 337
Redemptions*	(180 621)	(17 678)
Amortisation**	6	1
Translation differences	23	(30)
Commercial paper (nominal amounts) as at 31 December	**20 045**	**2 631**

* *Redemptions in 2020 include buybacks of NOK 1 051 million.*
** *Amortisation is shown in an own line in the table above, but is included in Repayment of debt securities in the table below*

As at 31 December 2020 there are no breaches of debt covenants.

The value change on liabilities that is due to changes in own credit risk is calculated as the change in the credit spread that KBN pays on issued bonds in the form of a spread above the floating USD interest rate. This includes value changes for swaps in funding packages based on the fact that the bank issues debt that is converted from other currencies to USD. 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

	Commercial paper	Senior securities issued	Subordinated debt
Carrying amount 31 December 2019	**2 631**	**403 913**	**1 987**
Cash flows			
Proceeds from issuance of debt securities	198 006	107 823	0
Repayment of debt securities	(180 621)	(106 301)	0
Changes that are not related to cash flows			
Change due to accrued interest and amortisation	6	(75)	1
Changes in fair value	0	4 917	118
Translation differences	23	3 441	0
Carrying amount 31 December 2020	**20 045**	**413 717**	**2 106**

	Commercial paper	Senior securities issued	Subordinated debt
Carrying amount 31 December 2018	**0**	**402 916**	**1 982**
Cash flows			
Proceeds from issuance of debt securities	20 337	72 508	0
Repayment of debt securities	(17 678)	(94 564)	0
Changes that are not related to cash flows			
Change due to accrued interest and amortisation	1	(73)	0
Changes in fair value	0	15 182	5
Translation differences	(30)	7 943	0
Carrying amount 31 December 2019	**2 631**	**403 913**	**1 987**

NOTE 21

FINANCIAL DERIVATIVES

(Amounts in NOK 1 000 000)

KBN uses financial derivatives to economically hedge exposures to interest rate and currency risk arising in the Company's 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 3 month money market interest 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.

Counterparty risk related to financial derivatives contracts is mitigated by using standard ISDA agreements that give the right to offset assets and liabilities in the event of default, and in addition collateral agreements are entered into with all swap counterparties. The derivatives exposure is monitored on an ongoing basis.

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.

(Amounts in NOK 1 000 000)	2020			2019		
	Notional amount	**Positive market values - assets**	**Negative market values - liabilities**	**Notional amount**	**Positive market values - assets**	**Negative market values - liabilities**
Mandatory at fair value:						
Interest rate derivatives	239 712	3 078	6 124	195 931	2 357	3 770
Currency derivatives	515 979	15 242	21 770	495 215	9 693	23 014
Of which principal amounts on transactions with financing element	*15 289*	*0*	*0*	*19 600*	*0*	*0*
Equity related derivatives	3 682	269	139	5 253	45	262
	759 372	**18 589**	**28 032**	**696 399**	**12 095**	**27 046**
Fair value hedges:						
Interest rate derivatives	181 924	6 243	309	166 263	2 591	379
Currency derivatives	3 280	344	0	3 102	339	0
	185 204	**6 587**	**309**	**169 364**	**2 929**	**379**
Total financial derivatives	**944 576**	**25 176**	**28 341**	**865 763**	**15 025**	**27 425**

All financial derivatives are measured at fair value through profit and loss. Most contracts are categorised as mandatory at fair value according to IFRS 9. The remaining contracts are designated as hedging instruments in fair value hedges. As standard master netting agreements (ISDA) do not fulfil the requirements for offsetting in the Statement of financial position even if they imply the right to offset in case of default, financial derivatives are 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.

NOTE 22

COLLATERAL AND OFFSETTING

(Amounts in NOK 1 000 000)

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. The collateral consists of cash in USD, EUR or NOK. Cash collateral received and cash collateral pledged is presented in the Statement of financial position as Deposits with credit institutions or Loans from 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 notes and bonds or in short term money market instruments. See Note 21 for additional information about financial derivatives.

(Amounts in NOK 1 000 000)	2020	2019
Cash collateral received	13 137	4 462
Cash collateral pledged	(18 758)	(17 073)
Total cash collateral	**(5 621)**	**(12 611)**

Effect of offsetting and collateral

KBN only has offsetting rights for exposures in financial derivatives, and for these, legally binding master 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 master netting agreements with the derivative counterparties, as well as held or pledged cash collateral, 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 remaining 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			
2020	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	25 176	0	25 176	13 589	11 587	10 199[2)]	1 388
Liabilities[3)]							
Financial derivatives	28 341	0	28 341	13 591	14 750	12 587[4)]	2 163

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 13 137 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 18 758 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			
2019	**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	15 025	0	15 025	11 587	3 438	2 944[2)]	494
Liabilities[3)]							
Financial derivatives	27 425	0	27 425	11 587	15 839	14 324[4)]	1 515

[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 4 462 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 17 073 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 DEBT

(Amounts in NOK 1 000 000)	Currency	Nominal amount in CCY	Redemption right	Coupon	Nominal amount in NOK 2020	2019
Ordinary subordinated loan capital	NOK	2 000	2028	3.02%	2 000	2 000
Total subordinated debt					**2 000**	**2 000**

NOTE 24

SHARE CAPITAL

	2020		2019	
	Number of shares	**Share in %**	**Number of shares**	**Share in %**
The Kingdom of Norway	3 894 625	100	3 144 625	100

NOTE 25

ADDITIONAL TIER 1 CAPITAL

(Amounts in NOK 1 000 000)	Currency	Nominal amount in CCY	Redemption right	Coupon	Carrying amount 2020	2019
Additional Tier 1 capital	NOK	1 000	2020	3 month NIBOR +1.5%	0	994
Additional Tier 1 capital	NOK	1 200	2027	3.26%	1 195	1 195
Additional Tier 1 capital	NOK	1 200	2025	3 month NIBOR + 1.25%	1 196	-
Total additional Tier 1 capital					**2 392**	**2 189**

KBN issued additional Tier 1 capital in the form of a subordinated bond in June 2020 and one in June 2017. The bonds form 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 Retained earnings. The expenses are recognised when paid, see the Statement of changes in equity. Interest amounting to NOK 48 million (after tax) has been paid in 2020 (NOK 52 million in 2019). In addition, NOK 17 million (after tax) had accrued at year end 2020 (NOK 16 million in 2019). In total NOK 48 million of profit after tax is attributed to the additional Tier 1 capital holders in 2020 (NOK 52 million in 2019).

NOTE 26

RISK MANAGEMENT

State ownership, customer group and sector political role imply that KBN maintains a very low risk profile.

Risk management and internal control are an integral part of KBN's strategy and business processes, and are adapted to the nature, scope and complexity of the risk exposure.

Robust internal control is carried out as an integral part of the business processes of the bank. Risk management is established in a structure based on three lines of defence that shall ensure systematic identification, assessment and monitoring of the risk in all parts of KBN's activities.

ORGANISATION OF RISK MANAGEMENT

Board of Directors. The Board of Directors has the overall responsibility for the risk management and sets the risk appetite of KBN in line with requirements from the owner and the authorities. The risk appetite reflects KBN's capacity to bear risk and the tolerance for fluctuations in profits and capital. The risk appetite is implemented through the determination of risk limits.

Risk committee of the Board. The risk committee is a preparatory and advisory body to the Board. Its three members are appointed annually from and by the members of the Board. The main function of the committee is to assist the Board in making decisions on risk capacity, including development of limits for risk tolerance. Furthermore, it shall assist the Board in the monitoring and management of KBN's total risk.

President & CEO. The President & CEO has an overall responsibility for risk management and internal control, and is following up changes in KBN's risk exposures on an ongoing basis.

Three lines of defence. KBN's first line of defense within risk management and internal control comprises the Lending department, the Financial Markets department that performs funding and liquidity management, Middle Office and the Post Trade Operation functions. The second line of defense comprises financial control, as well as the risk management and the compliance functions. The second line of defense monitors, guides and contributes to improving the first line controls, and performs comprehensive risk measurement. This responsibility includes also risk management and monitoring of compliance to external and internal regulations. The third line of defense is carried out by the internal auditor Deloitte, reporting directly to the Board.

RISK TYPES

The risk management and risk exposure in KBN are subject to strict internal guidelines to ensure the bank's credit rating and access to the interbank 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 adequacy level

Credit risk and counterparty risk

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

Market risk

- Interest rate risk
- Basis 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 at least annually to ensure that the Company's capital level is sufficient 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. The impending changes to European Capital Requirement Regulation and to the national capital requirements have increased KBN's capital requirements.

KBN's Common equity Tier 1 capital adequacy ratio is 17.9 per cent as of 31 December 2020. 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 bonds and notes issued by or guaranteed by sovereigns, regional authorities, multilateral development banks, covered bonds and financial institutions with high credit rating.

Credit risk arising from lending 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.

Financial counterparties are subject to regular credit assessment. Credit limits are determined through an internal assessment of the counterparty's rating, the bank's risk capital, the type of financial instrument and its maturity.

For investments in Notes, bonds and other interest-bearing securities, as well as for hedging instruments (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 hedging instruments related to interest rate risk. Central counterparties that are established in the EU/EEA area are subject to capital and risk management through an own EU regulation (EMIR) and are considered to have lower counterparty risk than ordinary financial institutions.

KBN does not have a direct membership at LCH and two clearing brokers 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 bank's 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), and 72 per cent of the portfolio is invested in securities with a BIS-weight of zero per cent. Average time to maturity of the portfolio was 1.64 years as of 31 December 2020. The price risk in the portfolio is managed at issuer level and is limited due to the portfolio's short duration.

MARKET RISK

Market risk consists mainly of interest rate, basis spread and currency risk. KBN's risk policy allows minimal exposure to changes in interest rates, basis spreads, credit spreads and FX rates. Interest rate and currency risk are managed through matching of assets and liabilities 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 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. The maturity of the liquidity portfolio is kept short so that liquidity needs are mainly managed through maturity on 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 circumstances warrant it. Management reports to the Board on the operational risk and incidents. KBN's internal control shall 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 2020, and neither is there any evidence of actual default or payment problems with customers that would give reason to expect actual loan losses in 2021. KBN does not issue financial guarantees.

The table below includes exposures that are recognised as Deposits with credit institutions, Instalment loans and Notes, bonds and other interest-bearing securities. 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

2020

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	7 178	0	0	2 329	13 256	0	0	**22 763**
Multilateral development banks	0	2 762	0	0	0	118	5 917	0	**8 797**
Regional authorities [1]	0	9 344	45 135	0	1 726	10 250	823	284 907	**352 185**
Financial institutions	0	13 504	485	0	18 992	12 646	3 820	0	**49 446**
Securitisation	0	0	0	0	0	0	3	0	**3**
Covered Bonds	0	7 875	3 270	0	0	3 345	21 959	0	**36 449**
Total	**0**	**40 663**	**48 890**	**0**	**23 047**	**39 615**	**32 522**	**284 907**	**469 644**

[1] Including loans to the municipal sector amounting to NOK 321.9 bn.

Undisbursed loan commitments amount to NOK 4.8 bn as at 31 December 2020.

Credit exposure by country

2020

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	0	0	0	0	0	0	0	**0**
Belgium	0	1 034	0	0	0	1 661	0	0	**2 695**
Canada	0	100	0	0	1 737	0	800	0	**2 638**
Danmark	0	4 555	0	0	1 781	0	5 290	0	**11 625**
Finland	0	208	381	0	0	3 119	665	820	**5 193**
France	0	3 614	0	0	2 618	2 013	601	0	**8 847**
Japan	0	4 849	0	0	7 045	0	0	0	**11 894**
Netherlands	0	454	858	0	0	0	532	1 243	**3 086**
Norway	0	100	40 227	0	0	2 736	14 811	282 330	**340 203**
Austria	0	573	393	0	0	3 608	0	0	**4 574**
Spain	0	0	0	0	0	0	3	0	**3**
United Kingdom	0	4 010	403	0	2 637	0	1 861	0	**8 911**
Supranational	0	2 762	0	0	0	118	5 917	0	**8 797**
Switzerland	0	484	0	0	0	0	0	0	**484**
Sweden	0	6 359	2 988	0	1 084	4 519	1 433	514	**16 897**
Germany	0	7 199	3 639	0	2 561	7 400	1 795	0	**22 593**
USA	0	4 362	0	0	3 584	13 256	0	0	**21 203**
Total	**0**	**40 663**	**48 890**	**0**	**23 047**	**38 430**	**33 707**	**284 907**	**469 644**

Amounts in the table below represent actual credit exposure

2019

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	10 682	0	0	2 669	23 089	802	0	**37 241**
Multilateral development banks	0	2 030	0	0	0	113	4 867	0	**7 010**
Regional authorities [1]	0	11 261	43 081	0	0	9 452	2 811	278 586	**345 190**
Financial institutions	2 087	16 184	0	0	0	0	197	0	**18 468**
Securitisation	0	0	0	0	0	0	6	0	**6**
Covered Bonds	0	5 767	6 056	0	0	3 828	19 882	0	**35 534**
Total	**2 087**	**45 923**	**49 137**	**0**	**2 669**	**36 482**	**28 565**	**278 586**	**443 448**

[1] Including loans to the municipal sector of NOK 310.9 billion.

Undisbursed loan commitments amount to NOK 5.3 billion as at 31 December 2019.

Credit exposure by country

2019

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	0	0	0	0	0	0	0	**0**
Belgium	0	2 005	0	0	0	1 025	0	0	**3 030**
Canada	0	764	0	0	0	0	802	0	**1 566**
Denmark	0	7 472	0	0	0	0	1 423	0	**8 895**
Finland	0	3 053	0	0	0	1 670	1 081	371	**6 175**
France	0	1 553	0	0	0	2 922	830	0	**5 305**
Japan	2 077	3 174	0	0	2 669	0	0	0	**7 919**
Netherlands	0	295	2 171	0	0	0	677	1 210	**4 353**
Norway	0	471	39 510	0	0	3 636	8 237	276 112	**327 965**
Austria	0	1 177	0	0	0	2 985	0	0	**4 162**
Spain	0	0	0	0	0	0	6	0	**6**
United Kingdom	10	7 450	0	0	0	431	4 543	0	**12 435**
Supranationals	0	2 030	0	0	0	113	4 867	0	**7 010**
Switzerland	0	4 321	0	0	0	0	0	0	**4 321**
Sweden	0	6 074	1 507	0	0	370	2 972	0	**10 924**
Germany	0	3 154	5 949	0	0	4 988	3 128	892	**18 111**
United States	0	2 931	0	0	0	18 342	0	0	**21 273**
Total	**2 087**	**45 923**	**49 137**	**0**	**2 669**	**36 482**	**28 565**	**278 586**	**443 448**

NOTE 28

INTEREST RATE RISK

(Amounts in NOK 1 000 000)

KBN has expanded its methods for calculating interest rate sensitivity. 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 using the EVE method and the NII method. The EVE method 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 the NII method gives an estimate of changes in net interest income in the period's result.

The economic value of equity (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. Stress testing using EVE is an internationally recognized standard for estimating interest rate risk.

The model indicates how interest rate changes will affect total capital. The bank uses the economic value of equity to manage its assets and liabilities. This is a long-term financial measure used to assess the degree of interest rate risk exposure.

The EVE method (Table 1) provides an estimate of sensitivity in the form of a change in market value related to a one percentage point change in market interest rates for the entire interest rate curve for all currency types. The bank's sensitivity to change in market value in the event of a one percentage point change in market interest rates is estimated at NOK 183 million at 31 December 2020. The calculation does not offset between different currency types.

Table 2 shows the estimated effect on unrealized value changes in the Income statement and the Statement of comprehensive income of a corresponding one percentage point change in market interest rates. This includes the part of the market value changes in accordance with the EVE method that applies to assets and liabilities that are measurement with methods where relevant value changes are recognized in the financial statements.

Table 3 provides an estimate of sensitivity in the form of a change in market value related to a basis spread change of one basis point for the entire yield curve for all currency types. The bank's sensitivity for a parallel shift of the basis curve by one basis point is estimated to be NOK -5 million as of 31 December 2020. The calculation does not offset between different currency types.

Table 4 shows sensitivity in the form of a change in market value related to a change in credit spread for one basis point for the entire yield curve and for all currency types. The bank's sensitivity to a change in market value due to a parallel shift of the credit spread curve by one basis point is estimated to be NOK -63 million as of 31 December 2020. The calculation does not offset between different currency types.

Net interest income (NII) is an economic performance measure that reflects the difference between interest income from interest-bearing assets and interest expense on interest-bearing liabilities. Excess revenue generated is net interest income.

Table 5 shows the bank's sensitivity to net interest income (NII method) within a 1-year period based on a one percentage point change in market interest rates, which is estimated at NOK 146 million as of 31 December 2020. The calculation does not offset between different currency types.

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	0	(7)	(11)	**(19)**	**19**
EUR	5	1	(6)	10	**10**	**10**
JPY	0	0	2	20	**22**	**22**
NOK	(33)	(38)	6	10	**(54)**	**54**
USD	(10)	7	11	(71)	**(64)**	**64**
Other	(1)	0	18	(25)	**(8)**	**14**
Total	**(39)**	**(31)**	**25**	**(67)**	**(113)**	**183**

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

The table below shows the effect on the Income statement in the form of unrealized 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 142.2 million, while the effect on the hedge accounted balance sheet items is NOK 187.3 million. Net effect of these is NOK 45 million.

	0-3 months	3 months-1 year	1-5 years	>5 years	Net Total
AUD	0	0	(7)	(11)	**(19)**
EUR	(9)	1	(6)	10	**(4)**
JPY	0	0	2	20	**22**
NOK	253	(37)	3	(66)	**152**
USD	(45)	7	11	(71)	**(99)**
Other	(1)	0	18	(25)	**(8)**
Total	**198**	**(31)**	**22**	**(144)**	**45**

Table 3: Basis-spread sensitivity

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	0	(11)	(9)	**(21)**
EUR	0	1	0	(3)	**(3)**
JPY	0	1	0	(2)	**(2)**
NOK	3	6	21	5	**34**
Rest	0	0	(7)	(6)	**(13)**
Net exposure	**3**	**6**	**3**	**(16)**	**(5)**

Table 4: Credit-spread sensitivity

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
AUD	0	0	0	0	**0**
EUR	0	(1)	(1)	0	**(2)**
NOK	0	(2)	(26)	(22)	**(52)**
USD	0	(1)	(4)	0	**(5)**
Rest	0	(2)	(2)	0	**(4)**
Net exposure	(1)	(6)	(34)	(22)	**(63)**

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	42	50	92
USD	48	0	48
Other	0	0	0
Total	**96**	**50**	**146**

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 bank's 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 NOK 12 million for a 10 percent absolute change in all FX rates. KBN's balance sheet can also be affected by currency fluctuations without any effect on earnings.

	2020		2019	
Currency	**Net position**	**10% change in FX rate**	**Net position**	**10% change in FX rate**
USD	73.6	7.4	48.2	4.8
EUR	25.2	2.5	3.1	0.3
Other currencies	5.2	0.5	5.2	0.5
Total	**103.9**	**10.4**	**56.4**	**5.6**

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 2020 and 2019. 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.

2020 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	**18 950**	18 950	0	0	0	0	0
Other money-market deposits	**1 712**	1 398	314	0	0	0	0
Instalment loans	**357 386**	2 761	9 441	22 190	76 944	246 050	0
Notes, bonds and other interest-bearing securities	**127 398**	8 320	18 738	22 342	77 831	168	0
Total assets	**505 446**	**31 429**	**28 493**	**44 532**	**154 775**	**246 218**	**0**
Loans from credit institutions	**13 871**	13 871	0	0	0	0	0
Commercial paper	**20 040**	20 040	0	0	0	0	0
Senior securities issued	**429 276**	8 728	27 685	74 981	236 496	81 385	0
Other liabilities	**1 605**	8	21	1 516	23	0	37
Subordinated debt	**2 483**	0	0	60	242	2 181	0
Additional Tier 1 capital	**2 743**	0	5	51	1 410	1 278	0
Total liabilities	**470 018**	**42 647**	**27 711**	**76 608**	**238 170**	**84 845**	**37**
Financial derivatives	**6 961**	**630**	**(2 254)**	**277**	**4 561**	**3 748**	**0**
Net liquidity exposure	**42 389**	**(10 588)**	**(1 473)**	**(31 799)**	**(78 835)**	**165 121**	**(37)**

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.

2019 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	**18 181**	18 181	0	0	0	0	0
Other money-market deposits	**3 244**	1 568	1 676	0	0	0	0
Instalment loans	**383 696**	1 783	7 867	31 533	69 184	273 329	0
Notes, bonds and other interest-bearing securities	**113 614**	8 666	9 558	24 559	62 219	8 612	0
Total assets	**518 734**	**30 197**	**19 101**	**56 093**	**131 402**	**281 941**	**0**
Loans from credit institutions	**4 462**	4 462	0	0	0	0	0
Commercial paper	**2 638**	0	2 638	0	0	0	0
Senior securities issued	**431 913**	13 405	22 120	62 476	240 695	93 216	0
Other liabilities	**1 782**	24	440	1 282	0	0	36
Subordinated debt	**2 544**	0	0	60	242	2 242	0
Additional Tier 1 capital	**2 525**	0	9	1 043	156	1 317	0
Total liabilities	**445 864**	**17 891**	**25 206**	**64 862**	**241 093**	**96 775**	**36**
Financial derivatives	**18 009**	**1 070**	**1 487**	**4 120**	**12 320**	**(990)**	**0**
Net liquidity exposure	**90 880**	**13 377**	**(4 617)**	**(4 649)**	**(97 371)**	**184 176**	**(36)**

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, retained earnings, additional Tier 1 capital and supplementary capital/ subordinated debt. 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.

KBN’s capital status is assessed against risk in a 12-month perspective and using long-term stress tests. The minimum requirement for total capital requirements including buffers and pillar 2 requirements is set at 18.7 percent as at 31 December 2020. The minimum requirement for common equity Tier 1 capital adequacy ratio including buffer requirements, but before pillar 2 requirements, is set at 12.9 percent on 31 December 2020. KBN's pillar 2 requirement has been set at 2.3 percent on 31 December 2020, in total a 15.2 percent requirement on common equity Tier 1 capital.

The minimum requirement for leverage ratio is set at 3 percent as at 31 December 2020. KBN is compliant with all statutory capital requirements as at 31 December 2020. However, capital adequacy has been weakened as a result of deductions in common equity Tier 1 capital, primarily related to deferred tax assets. See note 8 for further information.

Allocation of the Profit for the year to retained earnings has been proposed, along with the decision not to pay out a dividend to the owner due to expected changes in capital adequacy regulation and requirements for the years ahead, especially deductions in Common equity Tier 1 capital based on deferred tax assets in 2020, as well as expectations of prudence from regulatory authorities (connected to the Covid-19 pandemic) regarding companies’ distribution of dividends.

KBN is well capitalised on the reporting date, and is adapting its capital structure to new capital requirements.

Capital adequacy	**2020**			**2019**		
	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	39 690	0	0	37 241	0	0
Regional governments and local authorities	357 985	64 698	5 176	339 268	62 578	5 006
Of which are Norwegian municipalities	*321 849*	*64 698*	*5 176*	*310 881*	*62 578*	*5 006*
Public sector entities	7 552	0	0	5 892	0	0
Multilateral development banks	8 797	0	0	7 010	0	0
Financial institutions	17 955	2 049	164	11 011	1 917	153
Of which counterparty exposure on derivatives	*17 733*	*2 004*	160	*10 073*	*1 729*	*138*
Claims secured by residential property	25	25	2	31	31	2
Covered bonds	36 490	3 649	292	35 534	3 553	284
Other assets	1 634	4 062	325	1 466	3 635	291
Securitisation	3	1	0	6	1	0
Credit Valuation Adjustment	260	3 252	260	300	3 754	300
Total credit risk	**470 391**	**77 735**	**6 219**	**437 758**	**75 468**	**6 037**
Market risk	**0**	**0**	**0**	**0**	**0**	**0**
Operational risk - Basic Indicator Approach		**3 772**	**302**		**3 879**	**310**
Minimum capital requirements		**81 507**	**6 521**		**79 347**	**6 348**
Total capital ratio			**23.3%**			**22.6%**
Tier 1 capital adequacy ratio			**20.8%**			**20.1%**
Common equity Tier 1 capital adequacy ratio			**17.9%**			**17.4%**
Leverage ratio			**3.7%**			**3.7%**

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)	**2020**	**2019**
Common equity Tier 1 capital		
Share capital	3 895	3 145
Retained earnings previous years	11 092	9 784
Profit for the year included in Tier 1 capital	1 159	1 283
Pension funds above pension commitments	0	0
Deferred tax asset*	(1 611)	(688)
Intangible assets	(131)	(126)
Dividends payable	0	0
Other additions/deductions in common equity Tier 1 capital	171	370
Share of nulled unamortised estimate differences	0	0
Total common equity Tier 1 capital	**14 574**	**13 768**
Other approved Tier 1 capital	2 392	2 189
Total Tier 1 capital	**16 966**	**15 957**
Supplementary capital		
Ordinary subordinated debt	2 000	2 000
Total supplementary capital	**2 000**	**2 000**
Total primary capital	**18 966**	**17 957**

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

Primary capital has been calculated under the Financial Undertakings Act and the associated regulations. Unrealised gain/(loss) on liabilities that is due to changes in own credit risk include both non-derivative and derivative liabilities.

Board statement

We confirm that the company's annual financial statements 2020 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 2020
25 February 2021
The Board of Kommunalbanken AS

Brit Kristin Rugland
Chair

Rune Midtgaard
Vice chair

Toril Hovdenak
Board member

Martha Takvam
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

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INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Kommunalbanken AS

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Kommunalbanken AS, which comprise the balance sheet as at 31 December 2020, 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 have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company as at 31 December 2020 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including 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 ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations 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.

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 2020. 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

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 therefore has a higher risk of errors. Such instruments comprise assets of NOK 106 223 million and liabilities of NOK 59 671 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.

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.

Level 3 instruments which are presented at fair value on the statement of financial position are disclosed in note 11 in the financial statements.

Other information

Other information consists of the information included in the Company's 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 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 on the other information obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 law, regulations and generally accepted auditing principles in Norway, including 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 those charged with governance 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 those charged with governance, 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.

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report and on the statements on corporate social responsibility and corporate governance

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statements on corporate social responsibility and corporate governance concerning the financial statements, the going concern assumption, and proposal for the allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than* Audits *or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Oslo, 25 February 2021
ERNST & YOUNG AS

Einar Hersvik
State Authorised Public Accountant (Norway)

(This translation from Norwegian has been made for information purposes only.)

Articles of Association

These Articles of Association were last changed by the Annual General Meeting held on 5 June 2020.

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:

Ensure that the Company's business operations/activities are soundly organised.

Draw up strategies and plans, budgets and guidelines for the Company's business operations/activities and check that they are followed:

Keep itself informed of the Company's financial position and ensure that its operations, accounts and fund management are subject to adequate control.

Make decisions and grant authority for new loans raised.

Grant special powers and authorisation to sign on behalf of the company per procurationem.

Present the annual accounts and directors' report to the Annual General Meeting.

Make recommendations to the Annual General Meeting with respect to alterations to the Articles of Association.

Appoint the managing director.

Fix the managing director's salary.

Prepare statements on remuneration policy.

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 Modernisation 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 Modernisation, the Board of Directors or the Company's auditor.

The ordinary Annual General Meeting shall:

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.

Elect members to the Board of Directors in accordance with § 8 of the Articles of Association.

Elect members and deputy member to the Supervisory Board in accordance with § 13 of the Articles of Association.

Elect members and deputy member to the Nomination Committee in accordance with § 16 of the Articles of Association.

Elect the Company's auditor.

Fix remuneration for members of the Supervisory Board and the Board of Directors, the board's subcommittees and the Company's auditor.

Approve the Board of Director's statement on remuneration policy.

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 - Alterations to the Articles of Association

§ 26 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

Compulsory indicators

GRI indiccator	Description	Location in report (page number)	Information
Organisational profile			
102-1	Name of the organisation	About KBN Norway (3)	
102-2	Activities, brands, products and services	About KBN Norway (3)	
102-3	Location of headquarters		Haakon VIIs gate 5b, 0161 Oslo
102-4	Location of operations		KBN operates in Norway.
102-5	Ownership and legal form	About KBN Norway (3)	
102-6	Markets	About KBN Norway (3)	KBN borrows from around the world and offers low-cost loans to Norwegian municipalities and county authorities.
102-7	Scale of the organisation	About KBN Norway (3) Diversity and equality (47) Organisation and employees (60) 2020 Annual accounts (90-91)	
102-8	Information on employees and other workers	Organisation and employees (60)	No work at KBN is performed by workers who are not employees. No significant variations in employee numbers.
102-9	Supply chain	Suppliers (81)	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.
102-10	Significant changes to the organisation and its supply chain		No significant changes to KBN's structure, ownership or staffing.
102-11	Precautionary principle or approach		KBN seeks to reduce the adverse environmental impact of its normal activities by obtaining Eco-Lighthouse certification and through its green lending, but it has no material risk of causing unknown environmental consequences as a result of its activities or lending. KBN follows the guidelines of the UN Global Compact, including the precautionary principle (principle 7).
102-12	External initiatives		Our sustainability work: https://www.kbn.com/en/sustainability/our-sustainability-work/

102-13	Membership of associations	The Board of Directors' Report (62) Green finance and climate risk (75)	
Strategy			
102-14	Statement from senior decision maker	CEO's foreword (4-5)	
Ethics and integrity			
102-16	Values, standards, principles and norms	KBN's 2021-2023 strategy (6-7) Ethics and corporate social responsibility (60) Responsible organisation (79)	Code of Conduct: https://www.kbn.com/en/about-us/ethics/code-of-conduct/
Governance			
102-18	Governance structure	Organisational structure and governing bodies (35-39) KBN's approach to sustainability (65-66)	
Stakeholder analysis			
102-40	List of stakeholder groups	List of stakeholders (66-68)	
102-41	Collective bargaining agreements		29%
102-42	Identifying and selecting stakeholders	KBN's approach to sustainability (65-66) List of stakeholders (66-68)	
102-43	Approach to stakeholder engagement	KBN's approach to sustainability (65-66) List of stakeholders (66-68)	
102-44	Key topics and concerns raised	List of stakeholders (66-68)	
Reporting practice			
102-45	Entities included in the consolidated financial statements		Kommunalbanken AS
102-46	Defining report content and topic boundaries	KBN's approach to sustainability (65-66) Materiality analysis (68)	
102-47	List of material topics	Materiality analysis (68)	
102-48	Restatements of information		None
102-49	Changes in reporting		None
102-50	Reporting period		2020
102-51	Date of previous report		28/02/2020
102-52	Reporting cycle		Annual

102-53	Contact point for questions concerning report	TOR OLE STEINSLAND Chief Communications Officer Mobile: +47 98 24 70 16 tost@kbn.com
102-54	Claims of reporting in accordance with GRI Standards	This report has been prepared in accordance with the GRI Standards: Core option.
102-55	GRI content index	2020 Annual Report, pages 139-142
102-56	External assurance	This report is not externally verified.

Compulsory indicators

<table>
<tr><th>Material topic</th><th>Reference and indicator description</th><th>Location in report (page number)</th><th>Information</th></tr>
<tr><td colspan="4">Green financing and climate risk</td></tr>
<tr><td>Climate risk</td><td>TCFD</td><td>Risks and opportunities for Norway’s municipalities and KBN in different climate scenarios (23-28)
The Board of Directors’ Report (59)
2020 Performance (70)
Climate risk (76-77)
TCFD Report (85-88)</td><td></td></tr>
<tr><td>Green finance (funding and lending)</td><td>GRI (G4) FS8 Product portfolio</td><td>2020 Impact report (12-13)
Looking back on 2020 (8-9)
Green finance and climate risk (75)</td><td></td></tr>
<tr><td colspan="4">Expertise sharing and responsible lending</td></tr>
<tr><td>Local government borrowing and responsible lending</td><td>KBN-defined: Number and proportion of customers in each category of KBN’s credit model. Measures taken throughout the year to help municipalities’ borrowing situations to develop responsibly.</td><td>Expertise sharing and responsible lending (77-78)</td><td><table><tr><th></th><th>Red</th><th>Orange</th><th>Yellow</th><th>Light yellow</th><th>Green</th></tr><tr><td>No.</td><td>0</td><td>2</td><td>20</td><td>4</td><td>331</td></tr><tr><td>Proportion</td><td>0%</td><td>0,6%</td><td>5,6%</td><td>1,1%</td><td>92,7%</td></tr></table></td></tr>
<tr><td>Expertise sharing and industry initiatives</td><td>KBN-defined: Number of participants at KBN’s financial expertise initiatives and industry initiatives.</td><td>Expertise sharing (78)</td><td></td></tr>
</table>

Financial inclusion, accessibility and financial training	KBN-defined: Number of loans and training measures related to initiatives implemented to promote development of local communities	Expertise sharing and responsible lending (77-78) Board of Directors' Report (49)	
Responsible organisation			
GRI 419-1 Non-compliance with laws and regulations in the social and economic area	KBN's reputation in a sustainability context		KBN was not sanctioned or fined in 2020.
Suppliers			
Supply chain	GRI 308-1 New suppliers that were screened using environmental criteria	Suppliers (81)	100%
Supply chain	GRI 414-1 New suppliers that were screened using social criteria	Suppliers (81)	100%
Employees			
Employee development	GRI 404-1 Average hours of training per year per employee		KBN will improve its reporting in this area in 2021.
Employee development	GRI 404-3 Percentage of employees receiving regular performance and career development reviews	Employees (82-83)	
Employee satisfaction	GRI 401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees.		All employees (with the exception of students) have life insurance, health insurance, and disability and incapacity insurance through KBN. All employees are members of KBN's leave of absence and pension schemes. The figures include KBN's headquarters in Oslo.
Employee satisfaction	GRI 401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees		All employees have access to parental leave through KBN. In 2020 two women and four men took parental leave. One woman and four men returned to work following their parental leave.