KBN Den norske stats kommunalbank

TCFD Report 2024

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KBN’s reporting of climate risk

The Task Force on Climate Related Financial Disclosures (TCFD) is a framework for analysing and reporting climate risk. This report is an assessment of KBN’s climate risk in accordance with the TCFD recommendations. In 2024, KBN opted to also produce a transitional statement in which the sustainability reporting is adapted to the requirements of the EU’s CSRD but without achieving full compliance.

Comparison between TCFD and CSRD

KBN will from 2025 report sustainability information in accordance with the EU’s Corporate Sustainability Reporting Directive (CSRD) and will seek to ensure its reporting is in accordance with the requirements of the European Sustainability Reporting Standards (ESRS). Apart from the two standards that contain requirements for general information, the standards are thematic, and the standards that a company is required to report on is determined by a double materiality analysis.

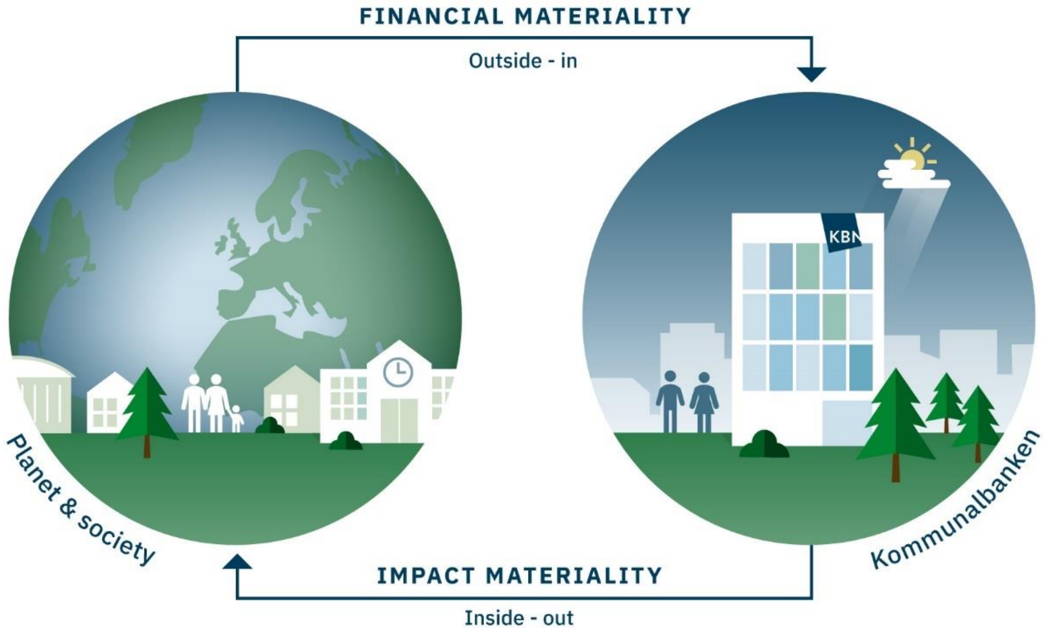

Figure 1 Double materiality analysis according to the CSRD

The TCFD framework aligns with the ESRS E1 standard, so a climate risk report according to the TCFD framework meets ESRS E1 requirements. A central theme in the CSRD is “double materiality”, which means that a company must not only consider and report on how the climate and environment, as well as social and business conduct-related matters, affect the company financially, but also how the company positively and negatively affects these same issues. The TCFD framework focuses on how climate-related issues affect a company financially. The question of how KBN influences climate issues is thus considered in its CSRD statement, and not in the TCFD report.

Governance

A. The Board's oversight of climate-related risks and opportunities

The Audit Committee is regularly informed of KBN's sustainability work, including on climate-related topics. The Audit Committee's mandate states that the responsibility for sustainability reporting is equivalent to its responsibility for financial reporting.

KBN's Board of Directors is involved in the sustainability area and climate-related topics as required. As part of its briefing on KBN's double materiality analysis process and determination of material topics in connection with CSRD, the Board is also briefed on climate risk (both physical and transition risk).

For 2024, KBN's sustainability work and climate ambitions have been integrated into the four strategic pillars, and sustainability and climate targets have been integrated correspondingly.

B. The management's role in assessing and managing climate-related risks and opportunities

The CEO has overall responsibility for monitoring and managing climate risk. The operational responsibility for KBN's sustainability reporting (in accordance with CSRD), and thus for assessing and monitoring financial risk, is delegated to the CFO.

In addition, the following roles are involved in assessing and managing climate-related threats and opportunities:

1) Sustainability Reporting Manager: Responsible for producing KBN's sustainability reports and double materiality analysis (including risk assessments), producing reports in accordance with the standards and communicating the reports to the CFO, Management Team, Audit Committee and Board of Directors.
2) Chief Lending Officer: Responsible for mapping customers' exposure to climate-related risks, including the climate risk methodology that is integrated into KBN's model for credit assessment of lending customers. See the presentation of the model in the Risk Management section. Responsible for the green lending

program framework and the Criteria Document for green loans, and for producing KBN's Impact Reports. Also responsible for procedures related to the granting of green loans and environmental impact reporting.

3) Chief Capital Markets Officer: Responsible for the management of climate-related risk in the liquidity portfolio and in respect of counterparties. Responsible for processes and governance documents/procedures related to KBN's green funding.
4) Chief Risk Officer: Responsible for ensuring that all areas of risk, including climate-related risk, are identified, measured and managed. The Chief Risk Officer is responsible for risk reporting to the Board.
5) Chief Compliance Officer: Responsible for ensuring compliance with the regulatory framework and guidelines related to sustainability and climate-related risk.
6) Head of Legal Operations: Responsible for monitoring and reporting to the Board on regulatory changes that may affect KBN, including changes that relate to climate-related risk.

Climate-related matters are presented to the management team as required.

Strategy

A. Climate-related risks and opportunities that KBN has identified over the short, medium, and long term

KBN has produced a list of risks and opportunities it has identified, including an assessment of their impact, likelihood, and time-horizon. The risks and opportunities have been assessed on the basis of a business-as-usual scenario (low-emission and high-emission scenarios are assessed in 2C). KBN has used a weighting scale in its assessment, as follows:

- Impact: Very low, Low, Moderate, High, Severe
- Likelihood: Very Low, Low, Moderate, High, Very High
- Time horizon: Short (0-1 year), Medium (1-5 years), Long (more than 5 years)

KBN’s assessment of the climate-related risks and opportunities is exposed as follows:

Risk category	Description	Time perspective
Physical climate risk		
Physical damage to KBN’s office building as a result of extreme weather events	Higher costs for repairs/restoration of office space	Impact: Low Likelihood: Very low Time horizon: Medium
Physical climate risk for customers	Lower lending activity as a result of customers’ capacity being taken up by reconstruction using funds from insurance claims	Impact: Moderate Likelihood: Low Time horizon: Medium
Transition risk		
Risks		
Transition risk for customers	Customers’ financial room for manoeuvre changes, and this impacts KBN's lending activity	Impact: High Likelihood: Moderate Time horizon: Medium
Adapting our lending products	KBN’s ability to adapt its lending products (including funding) to maintain and increase its profitability	Impact: High Likelihood: Low Time horizon: Medium
Increase in carbon taxes, cost/availability of capital, technology risk and assets losing value	An increase in carbon taxes could affect KBN’s journey to net zero emissions, high CO2e emissions in KBN’s lending portfolio could impact KBN’s funding costs/access to capital, and assets losing value in the local government sector could impact KBN’s customers’ financial room for manoeuvre	Impact: Moderate Likelihood: Moderate Time horizon: Medium
Reputational risk related to KBN making a small or unsuccessful contribution to the green transition (own operations)	The risk of a negative financial impact on KBN of it making a small or unsuccessful contribution to the green transition in its own operations	Impact: Moderate Likelihood: Low Time horizon: Long
Reputational risk related to KBN making a small or unsuccessful contribution to the green transition at its customers	The risk of a negative financial impact on KBN resulting from KBN making a small or unsuccessful contribution to the green transition at KBN’s customers. KBN has a market share in loans to the local	Impact: Moderate Likelihood: Low Time horizon: Long

	government sector of approximately 50% and is in a unique position to be an organisation that shares knowledge and expertise on green options	
Opportunities		
Physical climate risk for customers	Customers' need to adapt and rebuild may impact KBN's lending activities positively, including green loans	Impact: High Likelihood: Moderate Time horizon: Medium
Transition risk for customers	Customers' need to adapt to growing climate risk may impact KBN's lending activities positively, including green loans	Impact: Moderate Likelihood: Moderate Time horizon: Medium
Adapting our products	KBN's ability to adapt its lending products (including funding) to maintain and increase its profitability	Impact: Moderate Likelihood: Moderate Time horizon: Medium
The impact on our reputation in light of our own climate impact	The opportunity for a positive financial impact on KBN resulting from it making a successful contribution to the green transition in its own operations	Impact: Low Likelihood: Low Time horizon: Long
The impact on our reputation in light of our own customers' climate impact	The opportunity for a positive financial impact as a result of KBN's customers making a successful contribution to the green transition. KBN has a market share in loans to the local government sector of approximately 50% and is in a unique position to be an organisation that shares knowledge and expertise on green options	Impact: Low Likelihood: Low Time horizon: Long
Energy savings in our buildings that lead to lower costs	The opportunity to reduce our own energy consumption and thus costs	Impact: Very low Likelihood: High Time horizon: Short

B. The impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning

KBN finances the Norwegian local government sector and has a market share of loans to the sector of approximately 50%. KBN's lending is intended to be used for investment projects, and it is a contractual requirement that loans cannot be used for operational expenditure. The local government sector's investment projects primarily relate to building and construction activities, i.e. the construction of welfare services in Norway. The building and construction industry is associated with sizeable greenhouse gas emissions. (Content from: Contractors Association – Building and Construction – The 2050 Climate Change Committee).

Climate risk is part of KBN's overall management of risk and is considered in the corporate governance work, strategic processes, risk management activities, operational activities, and reporting. Climate risk is also considered as part of the ESG assessments in the ICAAP process.

All identified climate risks and opportunities that will impact KBN's lending activities, reputation or operations either negatively or positively are assessed on an ongoing basis, and processes, actions and approaches are implemented to address the risks or facilitate the opportunities where deemed appropriate.

C. The impact of different scenarios, including a 2 ˚C scenario, on the organisation's business, strategy and financial planning

In collaboration with CICERO - the Centre for International Climate Research - KBN has developed three different climate scenarios for Norwegian municipalities. The scenarios were developed in 2020, and during 2025, KBN will work on updating the scenarios. It is considered unlikely that the world will develop in accordance with what is described in scenario 1.

A full description of the scenarios can be found on the climate risk pages on KBN's website, and a short summary of each scenario is provided below:

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

- **Scenario 2: The middle road – we continue as before (SSP2-4.5):** More time passes before global climate agreements are put in place and their policies take effect and measures are implemented. The world does not manage to achieve the goal of the Paris Agreement. In this scenario, the Norwegian economy still grows well over the century, driven primarily by continued investment in the petroleum industry. Norway's oil revenues decline after 2050, but natural gas revenues are high for a few more decades before they in turn decrease. Once emissions reduction measures are rolled out on a large scale in the second half of the century at the same time as the need to invest in climate change adaptation increases significantly, the local government sector will have a significant need to invest that will coincide with a reduction in the revenues it receives from key industries. KBN considers that in scenario 2 the level of demand for debt capital would remain steady in the first half of the century but then increase in the second half.
- **Scenario 3: Regional rivalry – the bumpy road (SSP3-7.0):** The world does not achieve the goal of the Paris Agreement by a sizeable margin and the physical consequences of climate change are significant, even in Norway. Norway's gross national product is lower than in scenario 1 and scenario 2, and this will have an effect on local government sector finances. The oil and gas industry performs well in the first half of the century, but other important industries will be threatened by physical climate-related risk caused by the effects of climate change. Norway's local government sector will face major challenges in relation to adapting to climate change and carrying out repairs after extreme weather. In this scenario, the Norwegian state and local government are expected over time to have significantly less financial room for manoeuvre, which in turn means a smaller market for KBN. The weaker financial situation of both the Norwegian state and local government authorities could impact KBN's credit rating and funding costs.

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

KBN has assessed the threats and opportunities arising from a low-emissions scenario and a high-emissions scenario, in addition to those arising from the middle road (business-as-usual). KBN has used the following scale in its assessment:

- Impact: Very low, Low, Moderate, High, Severe
- Likelihood: Very Low, Low, Moderate, High, Very High
- Time horizon: Short (0-1 year), Medium (1-5 years), Long (over 5 years)
- Assessment: Neutral, Moderate, Significant

KBN's assessment of the risks and opportunities arising from a low-emission scenario and a high-emissions scenario is summarised in the table below:

		Low-emissions scenario		High-emissions scenario	
Risk category	Impact	Likelihood	Assessment	Likelihood	Assessment
Physical climate risk					
Physical damage to KBN's office building as a result of extreme weather events	Low	Very low	Neutral	Low	Neutral
Physical climate risk for customers	Moderate	Low	Neutral	Moderate	Moderate
Transition risk					
Risks					
Transition risk for customers	High	High	Significant	Low	Moderate
Adapting our lending products (and also funding) to include climate-related dimensions	High	Moderate	Significant	Very low	Neutral
Increase in carbon taxes, cost/availability of capital, technology risk and assets losing value	Moderate	Moderate	Moderate	Moderate	Moderate
Reputational risk related to KBN making a small or unsuccessful contribution to the green transition (own operations)	Moderate	Low	Neutral	Very low	Neutral
Reputational risk related to KBN making	Moderate	Low	Neutral	Very low	Neutral

a small or unsuccessful contribution to the green transition at its customers					
Opportunities					
Physical climate risk for customers	High	Low	Moderate	High	Significant
Transition risk for customers	Moderate	High	Significant	Low	Neutral
Adapting our lending products (and also funding) to include climate-related dimensions	Moderate	High	Significant	Moderate	Moderate
The impact on our reputation in light of our own climate impact	Low	Low	Neutral	Low	Neutral
The impact on our reputation in light of our customers' climate impact	Low	Low	Neutral	Low	Neutral
Energy savings in our buildings that lead to lower costs	Very low	Very high	Moderate	Moderate	Neutral

KBN is aware of the risks and opportunities associated with the three different scenarios.

Risk management

A. KBN's processes for identifying and assessing climate-related risk

KBN analyses the exposure to physical climate risk and transition risk each year as part of its reporting in accordance with the TCFD.

KBN is exposed directly and indirectly to climate-related risks. This is illustrated in KBN's value chain - see below. KBN's indirect value chain means the local government sector’s value chain in connection with the investment projects it undertakes using financing from KBN, and the indirect value chain for each project starts with KBN's customer's downstream.

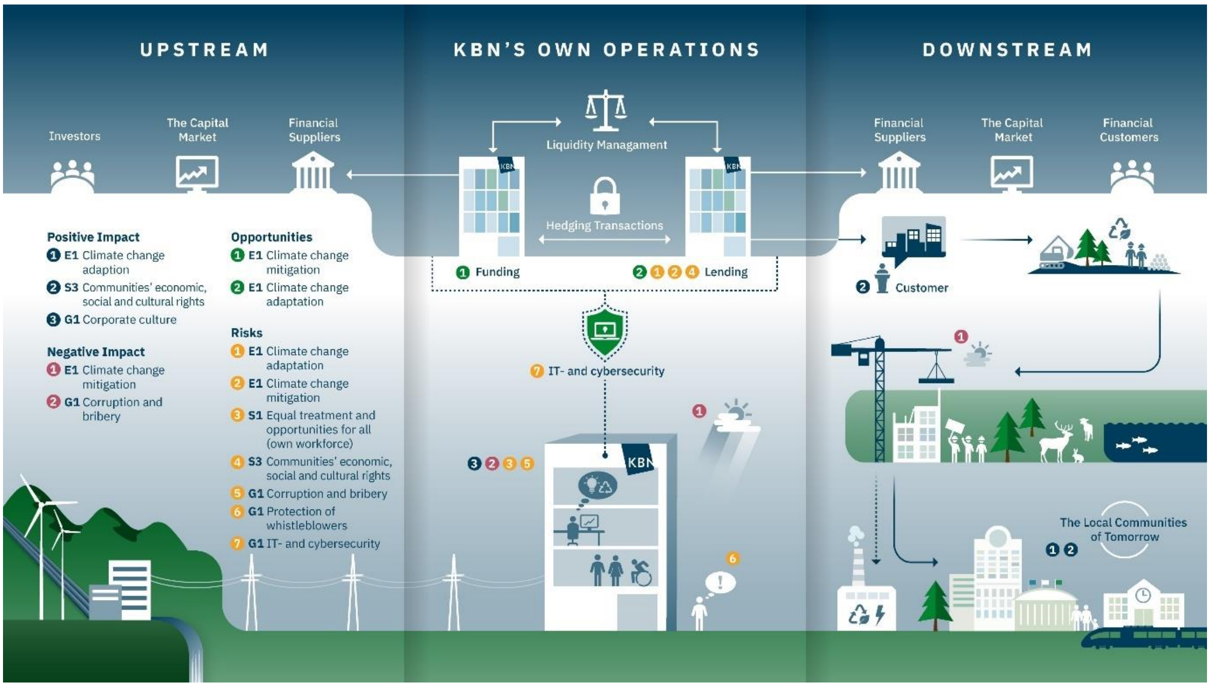

Figure 2 Value chain

KBN analyses physical risk and transition risk annually as part of the TCFD reporting. KBN has also developed its own climate risk model.

The climate risk model is integrated into KBN’s credit rating model for lending to customers. Based on ten microeconomic indicators, each municipality is assigned a risk score on a scale of "Low", "Medium" and "High". The indicators include changes in emissions, vulnerability to storm surges due to rising sea levels and how up to date the municipality's risk and vulnerability analysis is.

To identify and assess its physical climate risk, KBN has used the climate risk model and information collected from external sources. This helps to provide an indication of KBN’s physical climate risk.

With regard to transition risk, workshops and calibration meetings have been held with a combined team of key people from KBN’s different sections. The meetings have identified and assessed the relevant risks and opportunities, and calibrated assessments and set thresholds for materiality for the risks and opportunities associated with the transition to a low-emission society. The material risks and opportunities are identified in the tables at 2A and 2C.

The processes for identifying and assessing physical climate risks and transition risks contribute to the identification of potential and essential mitigation measures that will make KBN more resilient to climate change.

B. KBN’s processes for managing climate-related risks

KBN has been proactive in identifying and monitoring climate-related risks in recent years. In 2024, KBN conducted an expanded climate risk assessment in connection with the implementation of sustainability reporting in accordance with the CSRD. Based on the assessment of the risks and opportunities in the three scenarios, it is clear that the material climate risks to which KBN is exposed relate to matters in the indirect value chain affecting lending activity. In contrast to the direct value chain, it will be more challenging for KBN to implement effective mitigation measures and measure their effectiveness in the indirect value chain.

KBN’s climate risk framework consists of five categories of risk. The following provides an overview of how climate-related risks and opportunities are identified in the five categories:

- **Capital risk:** Capital risk is the risk of not having sufficient financial capital to support KBN’s strategy and commercial operations, as well as the risk of KBN having insufficient capital to meet regulatory capital adequacy requirements. Future changes to the regulatory framework will probably favour the green transition, which is to say green and sustainable investment. An example of a green development affecting capital requirements is CDP 6, which includes a requirement for a transition plan with requirements equivalent to CSRD, and other regulatory measures include the EU Taxonomy, the EU Green Bond Regulation etc. KBN’s green lending program is well-established and is tracking growth in green lending volumes.
  The Board of Directors' risk appetite in relation to capital risk: low.
- **Liquidity risk**: Liquidity risk is defined as the risk of KBN not being able to meet its financial obligations or not being able to access stable financing regardless of market conditions, as well as the risk of not being able to comply with regulatory requirements for liquidity and stable financing. KBN has a strategy for holding liquid investments in a liquidity portfolio and sets a target for the proportion of this portfolio that satisfies sustainability criteria (criteria for ESG, not solely E). As stated in the capital risk section, KBN's green funding program is well established.
  The Board of Directors' risk appetite in relation to liquidity risk: very low.

- **Credit risk:** Credit risk is the risk of loss as a result of the counterparty not being able to fulfil its financial obligations at the agreed time and in accordance with the agreement entered into and any collateral received does not meet the outstanding claim on the counterparty. KBN carries out credit assessments of all customers both at the start of the customer relationship and on an ongoing basis throughout the duration of the customer relationship. Norwegian municipalities, county authorities and indirect companies guaranteed by a local government authority cannot be declared insolvent, meaning that KBN's exposure to default risk is very low. KBN also takes into account climate risk as part of its credit assessment.
  The Board of Directors' risk appetite in relation to credit risk: low
- **Market risk:** Market risk is the risk of variation in income from financial instruments and changes in the value of financial instruments as a result of changes in market prices. KBN monitors market developments and customers' sensitivity to the pricing of green lending and normal lending products, including funding and liquidity management.
  The Board of Directors' risk appetite in relation to market risk: low
- **Operational risk:** Operational risk is the risk of direct or indirect loss, including reputational risk, which may be caused by insufficient, deficient or incomplete internal processes, human error or system errors, as well as losses caused by external events. Operational risk also includes legal risk. KBN has established internal guidelines for how guidance can be provided to customers (this also applies to guidance in relation to climate risk), for the conduct of approving green loans, for the monitoring of green funding and investment of liquidity. KBN also continuously monitors external ESG evaluations.
  The Board of Directors' risk appetite in relation to operational risk: low, and very low for the anti-money laundering area.

KBN will continue to monitor the development of climate-related risks and opportunities, and has set an objective to produce a climate reporting transition plan over the course of 2025/2026.

C. How processes for identifying, assessing, and managing climate-related risks are integrated into the organisation’s overall risk management

Risk management and the strategy for climate-related risk are related to the assessment of operational risk, credit risk, market risk, capital risk and liquidity risk, in addition to other sustainability-related risks (ESG). The identification, assessment, management, and follow-up of climate risks help to ensure that climate risk is integrated into the decision-making processes for risk management at KBN, and so contributes to KBN developing and strengthening its ability to manage the risks associated with climate change.

Targets and methods

A. Metrics and targets used to assess and manage relevant climate-related risks and opportunities in relation to the strategy and processes for risk management

KBN uses metrics that are consistent with KBN's strategy and risk management process when evaluating climate-related risks and opportunities.

Some metrics for physical climate risk that can be used are monitoring of "climate events" in the local government sector and changes in the composition of its customers' financing (borrowing, insurance settlements etc.).

Below, KBN has summarized some potential metrics:

- Green lending as a proportion of KBN's total loan portfolio
- Approved and potential EU taxonomy loans as a proportion of KBN's total loan portfolio
- The proportion of local government borrowers that have green loans from KBN
- Green funding as a proportion of KBN's total funding portfolio
- ESG investments as a proportion of KBN's total liquidity portfolio
- KBN's Scope 1, 2 and 3 emissions
- Sharing of the climate risk model
- Changes to legislation and regulation

While there are various metrics that can give an indication of physical climate risk and transition climate risk, the assessment of climate risk still requires a high degree of judgement.

B. Scope 1, Scope 2, and Scope 3 GHG emissions, and the related risk factors

KBN's greenhouse gas emissions are reported in the greenhouse gas accounts that form part of KBN's sustainability reporting. KBN did not produce figures for Scope 3 Category 15 emissions in 2024. KBN is currently in the process of developing a method for calculating financed emissions. KBN's greenhouse gas emissions from own activities are limited, and in percentage terms financed emissions will represent the majority of KBN's total emissions. However, financed emissions are the most challenging for KBN to influence since they are dependent on the progress made with the green shift by the local government sector.

The largest risks and opportunities will be related to changes in legislation, regulation etc. in connection with the green shift that will affect the local government sector's opportunity, willingness, or ability to invest or take out new loans, and this will in turn have an impact on KBN's lending activities. Other than this, risk factors associated with greenhouse gas emissions are limited to reputational risk, but this is considered to be on a limited scale.

C. Targets used by the organisation to manage climate-related risks and opportunities and performance against targets

KBN's strategy includes a stated ambition to play a role in the green shift by reducing its climate and environment footprint. However, this ambition must be balanced by the requirement for KBN to continue to offer stable long-term and efficient financing for the local government sector, and to generate over time the highest possible return within sustainable limits.

For 2024, KBN's sustainability and climate ambitions are integrated into its four strategic pillars, with the same integration of its sustainability and climate targets. In 2025 KBN will consider the need to further adapt its strategy and objectives in connection with the transition to sustainability reporting in accordance with CSRD and will produce a climate transition plan.

KBN's strategic climate objectives for 2024 (at the company level) were:

- growth in green lending of NOK 36 bn. by 2026
- KBN's own CO2 emissions to be reduced to less than 110 tonnes CO2e by 2026

TCFD index

	TCFD Framework	Reference
Governance	**Disclose the organisation's governance around climate-related risks and opportunities**	
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	b) Describe management's role in assessing and managing climate-related risks and opportunities	p. 4
Strategy	**Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning**	
	a) Describe the climate-related risks and opportunities that KBN has identified over the short, medium, and long term	p. 5
	b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning	p. 8
	c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2˚C or lower scenario.	p. 8
Risk management	**Disclose how the organisation identifies, assesses, and manages climate-related risks**	
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