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TCFD Report 2025

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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's recommendations. A complete update of the reporting for the 2025 reporting year has not been carried out pending the finalization of the climate risk scenarios under CRD6. Consequently, the subsequent reporting is based on the 2024 reporting. However, it is considered that there are no material changes in the assumptions or assessments since 2024. For 2025, KBN has developed its sustainability report in accordance with the Voluntary Sustainability Reporting Standard for SMEs (VSME).

The TCFD framework focuses on how climate-related factors financially affect the company and differs from a double materiality assessment, which also requires assessing how the company itself impact climate-related conditions. However, the TCFD reporting is based on the risk assessment (outside-in) conducted as part of the update of the double materiality analysis in 2024.

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, the Board is also briefed on climate risk (both physical and transition risk).

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. 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 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) **Manager of Financial and Sustainability Reporting:** Responsible for producing KBN's sustainability reports and double materiality analyses (including risk assessments) and producing reports in accordance with the standards.
- 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 bonds.
- 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) **Chief Legal and Compliance Officer:** 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

The overview below presents the climate-related risks and opportunities, 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 applied a scale for assessing consequences, likelihood and time horizon 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 (over 5 years)

KBN's assessment of the climate-related risks and opportunities to which it is exposed is 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 | The risk of a negative financial impact on KBN resulting from | Impact: Moderate Likelihood: Low |

| | | |
|--|---|--|
| unsuccessful contribution to the green transition at its customers | 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 government sector of approximately 50% and is in a unique position to be an organisation that shares knowledge and expertise on green options | Time horizon: Long |
| Opportunities | | |
| Physical climate risk at 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 at 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 business, 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 legally regulated 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 and further development of welfare services in Norway (new municipal buildings, refurbishment, etc.). 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 its 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. It is assessed that there is a low likelihood that the world will develop in line with what is described in Scenario 1, the low-emission scenario. In 2025/2026, KBN has collaborated with CICERO to update the climate scenarios. The updated climate scenarios will form the basis for the next update of the TCFD reporting.

A complete description of the scenarios used in this reporting can be found on the climate risk pages of KBN's website. A short summary 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 to keep the temperature increase below 2 °c. 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 to keep the temperature increase below 2 °c 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), as noted above. KBN has used the following scales 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-emissions scenario and a high-emissions scenario is summarised in the table below:

| Risk category | Impact | Low-emissions scenario | | High-emissions scenario | |
|---|----------|------------------------|-------------|-------------------------|------------|
| | | 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 | Moderate | Low | Neutral | Very low | Neutral |

| | | | | | |
|---|----------|-----------|-------------|----------|-------------|
| green transition (own operations) | | | | | |
| Reputational risk related to KBN making a small or unsuccessful contribution to the green transition at its customers | Moderate | Low | Neutral | Very low | Neutral |
| Opportunities | | | | | |
| Physical climate risk at customers | High | Low | Moderate | High | Significant |
| Transition risk at 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 is exposed directly and indirectly to climate-related risks. This is illustrated in KBN's value chain - see below. KBN's indirect value chain comprises of 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 customers downstream.

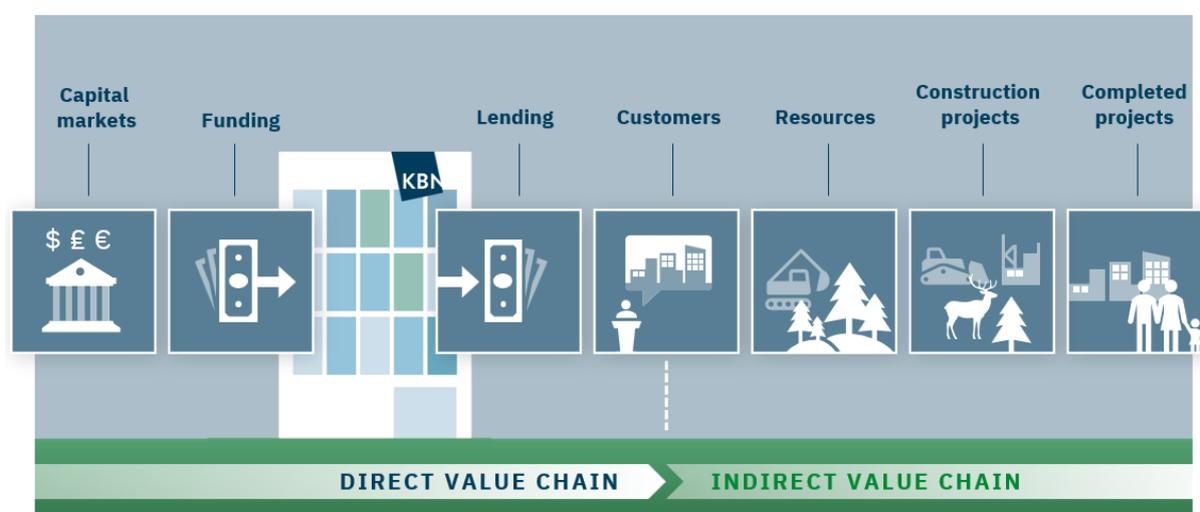


Figure 1 Value chain

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

The climate risk model is integrated into KBN's credit rating model for 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 its 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, working meetings 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 and described in the tables in paragraph Strategy A and C.

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 due to expected reporting requirements from CSRD. As a result of the EU's simplification package (Omnibus), KBN will no longer be subject to CSRD reporting requirements. KBN will report in accordance with the voluntary VSME reporting standard, in line with the recommendation from the Financial Supervisory Authority of Norway for entities that are not subject to mandatory reporting requirements. Based on its 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 KBN's indirect value chain that affect its lending activity. In contrast to its direct value chain, it will be more challenging for KBN to implement effective mitigation measures and measure their effectiveness in its indirect value chain.

KBN's climate risk framework (risk register) consists of five types of risk, and below is an overview of how climate-related risks and opportunities are integrated in these:

- **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 loss, that may be caused by insufficient or deficient internal processes, systems or external events. Operational risk also includes legal risk. Operational risks consists of the sub-categories personnel risk, process risk, IT-risk, cyber risk, risk of being used for money laundering or contributing to terrorist financing, third-party risk, compliance risk, and other operational risks. 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 is: low, and very low for compliance risk.

KBN will continue to monitor the development of climate-related risks and opportunities.

C. Describe 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. Disclose the 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.

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

In the case of transition risk, some metrics are more important than others:

- 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

Although several metrics exist that can give an indication of physical climate risk and transitional risk, the area is also characterized by a high degree of judgement.

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

KBN's greenhouse gas emissions are reported in the greenhouse gas accounts that form part of KBN's sustainability reporting. For 2025, KBN's greenhouse gas inventory does not yet include Scope 3 Category 15 emissions (financed emission). Together with other industry actors, KBN has developed a methodology and a model for calculating financed emissions and continues to work on further developing the method. KBN's greenhouse gas emissions from its own activities are limited, and as a share of total direct and indirect emissions (Scopes 1-3), the financed emissions will represent the majority of KBN's total emissions. However, the financed emissions in Scope 3 (the municipal sector's emissions from related investments) 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. Describe the 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.

Sustainability and climate ambitions are integrated into its four strategic pillars, with the same integration of its sustainability and climate targets.

KBN's strategic climate objectives for 2025 (at the company level) were:

- NOK 100 billion in green lending by 2027
- Own CO₂ emissions reduced by 55% by 2030
- 50% of municipalities/ county authorities hold green loans

TCFD-index

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