

The logo for KBN, consisting of the letters 'KBN' in a bold, white, sans-serif font, set against a dark blue, trapezoidal background that is tilted to the right.

The Norwegian Agency  
for Local Governments

APRIL 2021

# THE NORWEGIAN AGENCY

FOR LOCAL GOVERNMENTS



The logo for KBN, consisting of the letters 'KBN' in a bold, white, sans-serif font, set against a dark blue, trapezoidal background.

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# KBN OVERVIEW

## Fundamentals

- Norwegian State Agency created by Act of Parliament in 1926/1999, having a public policy mandate from the central government to provide low cost finance to the Norwegian local government sector.
- 100% owned by the Kingdom of Norway (Aaa/AAA) and managed in accordance with the Central Government Maintenance Statement.
- KBN's sole purpose is to grant loans to local and regional governments or inter-municipal companies, in line with KBN's public policy mandate.
- Excellent asset quality, KBN's focused, specialized monoline lending model has never suffered a loan loss.
- KBN's mandate for sustainable financing of the local government sector is viewed as an important contribution for the Norwegian government to reach its climate goals.
- KBN is guided by prudent financial and risk management policies. Funding transactions are hedged and KBN maintains liquidity in excess of policy requirements.
- KBN is the closest proxy to Norwegian sovereign risk available in international currencies.
- Owing to full state ownership, the central public policy mission, a strong capital base, solid financial and operating performance and prudent financial and risk management policies, KBN is assigned Triple-A ratings by Standard & Poor's and Moody's.
- Staffed by 80 employees, KBN maintains headquarters in Oslo.



**AAA/Aaa  
(stable/stable)**



**100% Central  
Government  
owned**



**Central Government  
Maintenance  
Statement**



**100% of local  
governments as  
clients. No loan  
losses ever.**



**Closest proxy to  
Norwegian sovereign  
risk**

# Norwegian State Ownership



**KINGDOM OF NORWAY 100%**

**BOARD OF  
DIRECTORS (9)**



**SUPERVISORY  
BOARD (12)**

- The Central government through The Ministry of Local Government and Modernisation appoints both governing bodies; Board of Directors and Supervisory Board.
- KBN's ownership is limited to the public sector
- According to Constitutional requirements in Norway, material changes to KBN's business model would need the consent of the Parliament
- KBN is supervised by the Norwegian FSA ("Finanstilsynet"), the national financial regulator.



**The Norwegian Agency  
for Local Governments**

## AAA Rating In Line With Sovereign

CREDIT	RATINGS			RATING AGENCY	THEIR COMMENTS
	LONG	SHORT	OUTLOOK		
	AAA	A1+	Stable	<u>STANDARD &amp; POOR'S</u>	<ul style="list-style-type: none"> <li>Norway continues to benefit from a prosperous economy, strong fiscal and external positions, and a stable policy environment.</li> <li>The stable outlook reflects our expectation that Norway's credit metrics will remain very strong over our 2019-2022 forecast period, enabling the country to withstand the negative effect of potential oil price shocks, possible escalation of global trade tensions, or a severe housing market correction.</li> </ul> <p>(MARCH 2019)</p>
	Aaa	P-1	Stable	MOODY'S	<ul style="list-style-type: none"> <li>Resilient and Highly competitive economy.</li> <li>Norwegian government's balance sheet is extremely strong, even when compared to other Aaa-rated sovereigns.</li> <li>Unparalleled fiscal strength that is likely to be sustained over the long-term.</li> <li>A Track record of exceptionally strong macro and regulatory institutions.</li> </ul> <p>(JUNE 2018)</p>
	AAA	A1+	Stable	<u>STANDARD &amp; POOR'S</u>	<ul style="list-style-type: none"> <li>Important role for, and integral link with, the Norwegian government.</li> <li>KBN performs an important public policy function.</li> <li>Very strong and stable capitalization levels</li> <li>Extremely high likelihood of extraordinary financial support from the central government.</li> </ul> <p>(JUNE 2020)</p>
	Aaa	P-1	Stable	MOODY'S	<ul style="list-style-type: none"> <li>KBN benefits from operating in a wealthy and developed country with very high economic, institutional and government financial strength, as well as very low susceptibility to adverse events.</li> <li>We consider the Norwegian RLG sector financially strong because of the supportive and closely supervised system that underpins the sector</li> <li>KBN has not recorded any loss from lending during over 90 years of operations.</li> </ul> <p>(DEC 2020)</p>

Credit ratings do not constitute investment or financial advice, and credit ratings are not recommendations to purchase, hold or sell particular securities. Credit ratings do not comment on the suitability of an investment for any particular investor. There is no assurance that any rating will remain in effect for any given period of time or that such rating will not be revised or withdrawn entirely by a rating agency in the future if, in its judgment, circumstances so warrant.

# Norwegian Regional Government

- Norway's Counties and Municipalities form an integral part of the national economy.
- Governmental responsibilities are divided between the Central government, Counties and Municipalities. A large part of welfare and infrastructure provisions in Norway are assigned to the Local governments.
- The majority of KBN lending is made directly to counties 13%, municipalities 87%. KBN's county and municipal portfolio can be broken down as follows<sup>1</sup>:

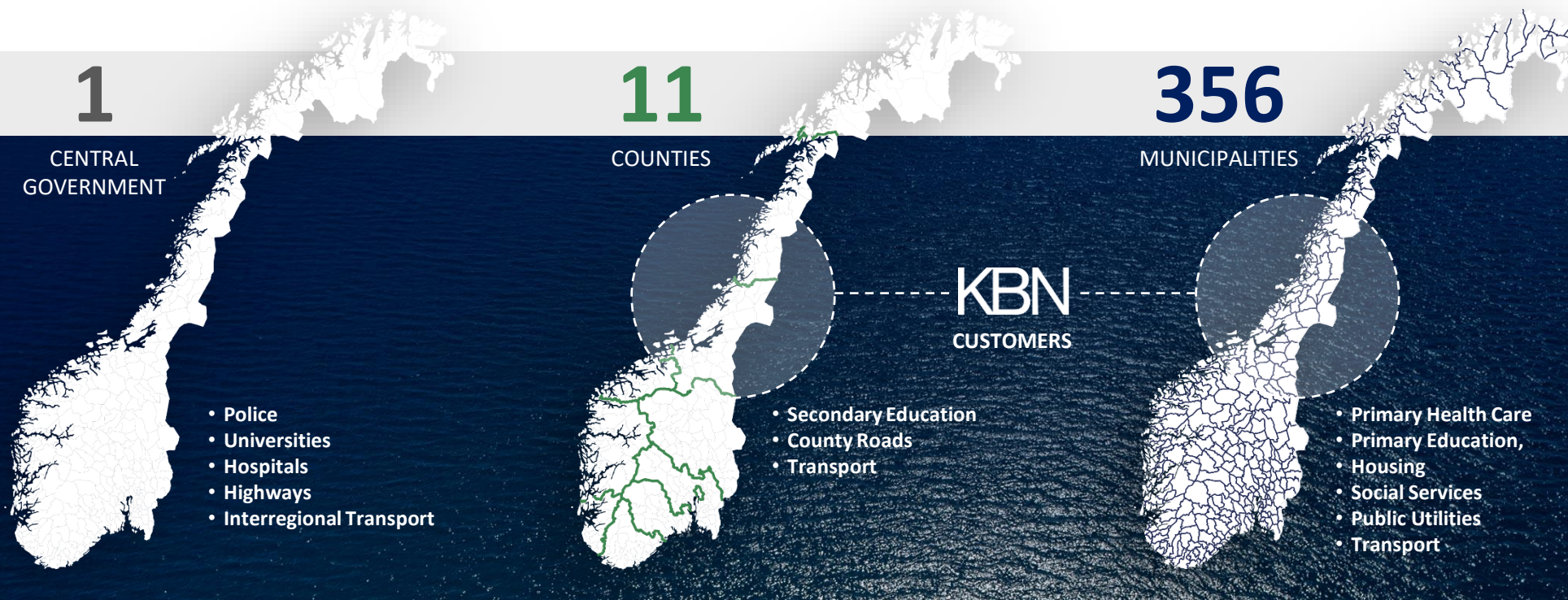
	Number	Share of Loans
Counties	10*	13%
22 Largest Munis	22	31%
Large Munis	91	34%
Medium Munis	166	19%
Small Munis	77	3%

<sup>1</sup> 22 Largest munis = > 45,000 inhabitants, Large munis = 45,000 ≤ 10,000 inhabitants, Medium-sized munis = 10,000 ≤ 2,000 inhabitants and Small munis = <1999 inhabitants.

\* Oslo is the only Municipality which is also a County and for these statistics has been included as a large Muni.



KBN also finances lending to companies and road projects, as well as to inter-municipal companies. Loans to these entities must carry either an explicit municipal or central government guarantee.



## Corporate Social Responsibility



Counties and municipalities have an important position in Norwegian society, and account for a large proportion of public sector services production. As a government agency, KBN recognizes its critical role in enabling the local and regional governments to improve quality of life across the country.

*“We want KBN to continue to be a driving force in the development of the market for green financing and to increase the proportion of its lending that is for green projects.”*

**MONICA MÆLAND**

Minister of Local Government and Modernization

### Long-term Financing for Sustainable Growth

- KBN maintains a strong focus on environmental, ethical and social issues and expects its partners and suppliers to mirror these commitments.
- Responsible lending is at the heart of KBN’s business model, ensuring lending activities support and encourage clients to manage borrowings and investments in a long-term sustainable manner.
- The integrity of KBN’s Green lending framework has been awarded a “Medium Green” rating by CICERO.

The Board of Directors has identified four of the UN’s Sustainable Development Goals that to the largest extent are impacted by KBN’s operations.

*Ensure availability and sustainable management of water and sanitation for all*



*Take urgent action to combat climate change and its impact*

*Make cities and human settlements inclusive, safe, resilient and sustainable*



*Strengthen the means and implementation and revitalize the global partnership for sustainable development*



# Conservative Risk Management

KBN's follows conservative and prudent risk management policies for all financial transactions.



The first priority for KBN's risk management professionals is to secure access to market funding on competitive terms.

## ✓ CURRENCY AND INTEREST RATE RISK HEDGED

- Proceeds from funding operations are hedged for currency and interest rate exposure and swapped into 3-month floating rate EURs, NOKs or USDs.

## ✓ MINIMAL LENDING CREDIT RISK

- Loans are only granted to local and regional governments as well as inter-municipal companies and other public sector enterprises which are municipally guaranteed.
- Strict government oversight of local and regional government financial management, via the ROBEK list and Local Government Act §55, negate potential loan losses.
- KBN has suffered no loan losses in over 90 years.

## ✓ STRICTLY MANAGED OFF-BALANCE CREDIT RISK

- KBN proactively manages risk via derivative strategies, negotiated under ISDA contracts with more than 30 financial institutions.
- Counterpart risk is minimized via two-way Credit Support Annexes (CSAs), cash collateral posting required with zero thresholds for counterpart ratings below AA-/Aa3.
- KBN currently marks and exchanges collateral for the majority of positions on a daily basis, and also uses over collateralization and independent amounts for some counterparts.

## ✓ CONSERVATIVE LIQUIDITY PORTFOLIO

- Liquidity managed conservatively and in excess of policy or regulatory requirements.
- Portfolio of highly rated liquid assets 0%, 10% and 20% risk weight, cover 1 year net debt service.

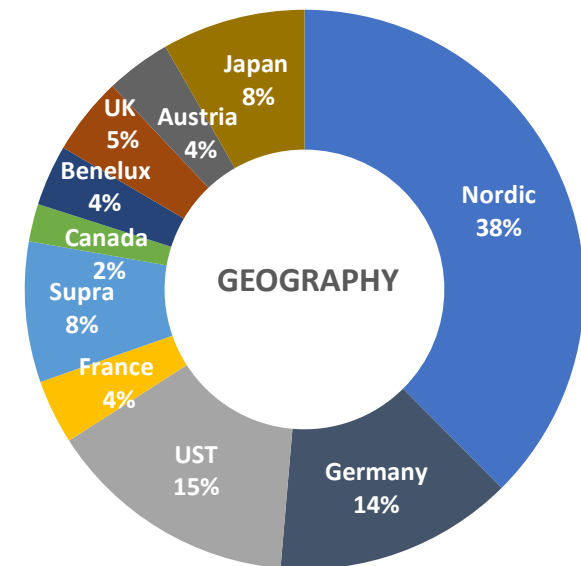
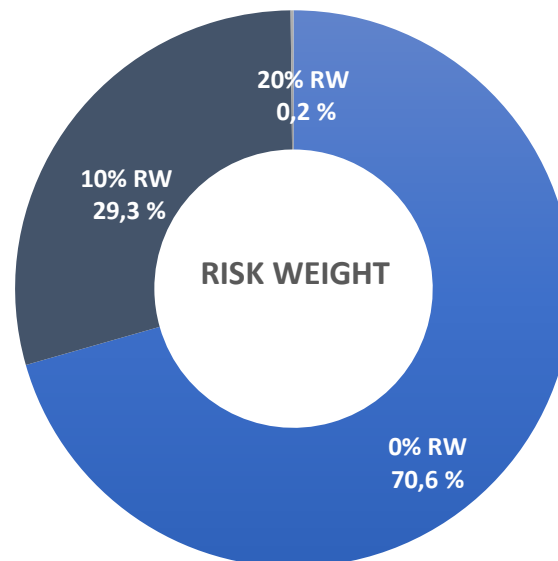
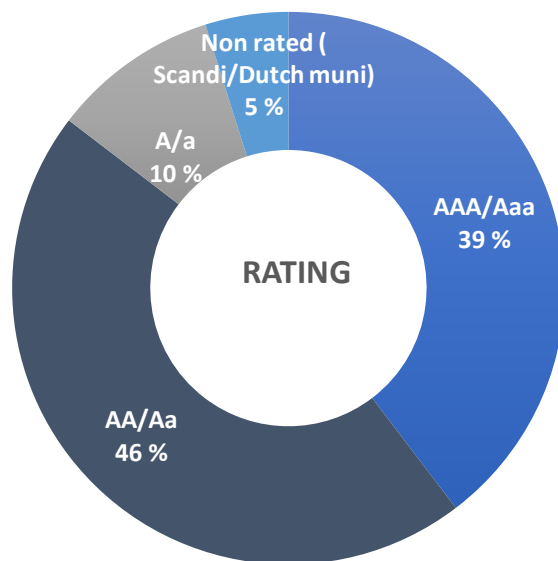
# Large and High Quality Liquidity Buffer

Managed under a conservative policy framework to ensure liquidity is available to cover a minimum of 12 months of debt servicing under various stress-tested models. Size approximately USD 12-13 bn and managed internally across EUR, NOK and USD.

- The average portfolio maturity typically ranges between 1.5–2.0 years (1.0-1.5 years ex. UST).
- The majority of liquidity is invested in 0% risk-weighted assets. Eligible securities include; sovereigns, provincial states, government agencies and supranationals. Investments in covered bonds and financial institutions are permissible, subject to rating restrictions.
- KBN also complies with LCR regulatory considerations and maintains cash liquidity to cover 30 days worth of debt redemptions.
- As an extra buffer, additional buckets of liquidity are maintained in a VHL portfolio limited to either USD, NOK or EUR and invested solely in US Treasuries, Norwegian, German or French government papers.

## PORTFOLIO BREAKDOWN

1.56 yr average maturity on liquidity portfolio (1.45yr ex. UST) Feb 2021



# Robust Financial Strength

- Strong operating results and capital injections in 2008, 2012, 2015 and 2020 have substantially strengthened the capital base in recent years.
- As a part of the Norwegian government’s Covid-19 response initiatives, KBN received a NOK 750 mn capital injection to ensure funding available for LG’s
- Tier 1 capital has risen from 7.5 % in 2008 to 20.8% in 2020.
- While KBN is not profit maximizing, it does target a central government defined return on equity target.
- Dividend paid to the Kingdom as owner. If the government ascertains that KBNs capital situation is satisfactory, up to 50% of KBN budgeted profit can be paid as a dividend.
- KBN maintains significant capital buffers above the regulatory requirements.
- KBN has been designated a systemically important financial institution in Norway and is thus subject to stricter regulatory oversight and is required to hold additional capital as a result. Given that KBN has never experienced a loan loss and there has been no change to KBN’s risk profile, the agency is today very strongly capitalized.

## SOLID BALANCE SHEET

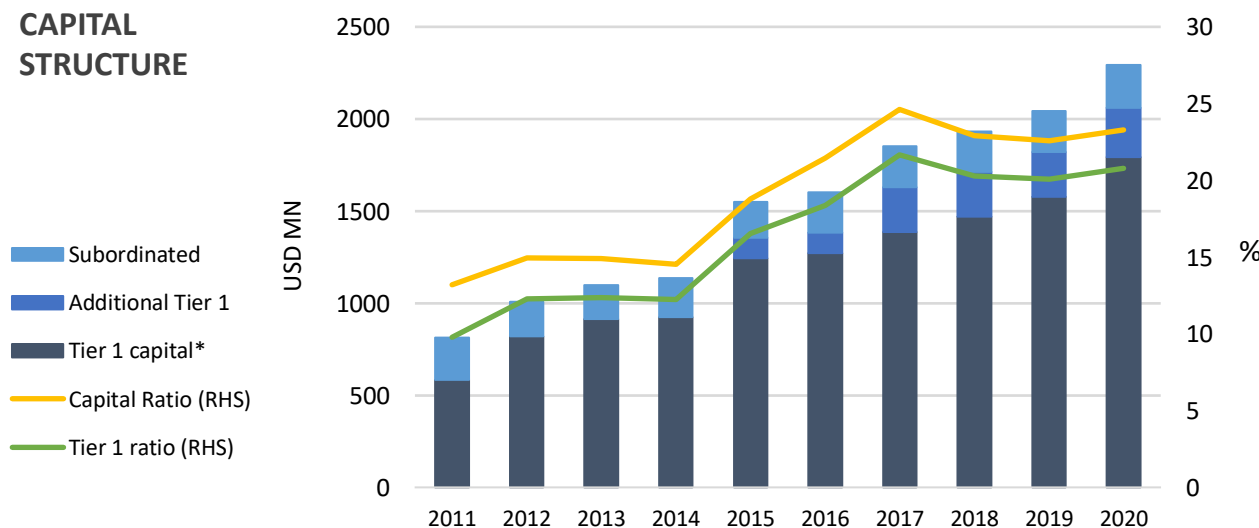
KBN’s balance sheet of USD 55.4 bn eq. is supported by a broad, diversified portfolio of loans to the country’s local authority sector, which cannot go bankrupt by order of Norway’s Local Government Act §55 (1992).

KBN maintains a short-term liquidity portfolio to cover at least 12 months of future debt service and potential loan disbursements.

There is no separate investment portfolio.



## CAPITAL STRUCTURE



\* Paid-in capital and retained earnings USD/NOK 9.00

## Sound Financial Performance

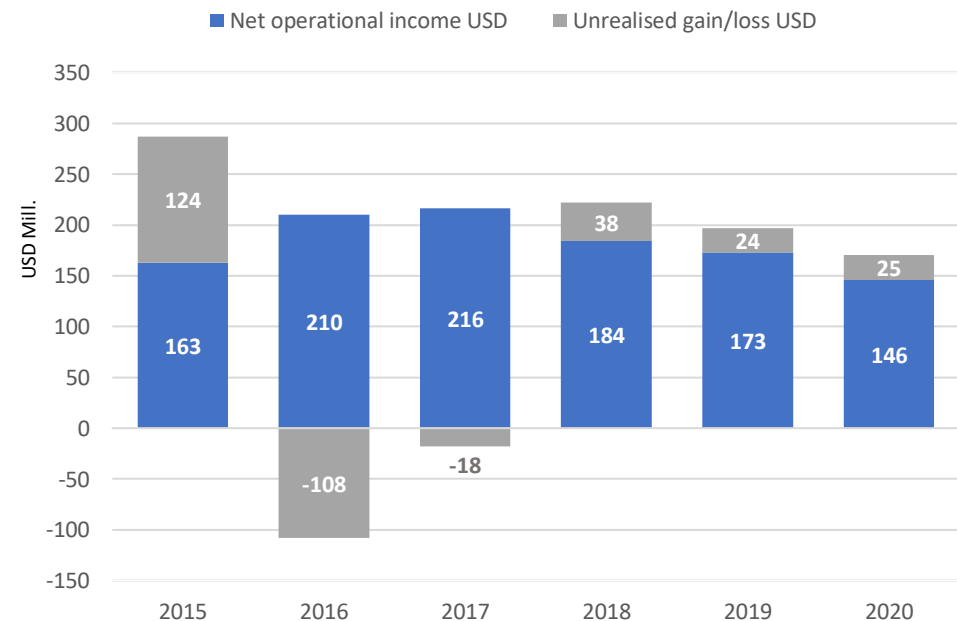
- The recent history of solid operational income and growth reflects well on KBN's conservative lending mandate and solid margins. KBN maintains financial performance targets to balance its state instrumentality role with ensuring it remains a financially viable institution.
- KBN's total Liquidity Coverage Ratio is well within policy guidelines and the leverage ratio is above the prescribed regulatory minimum level of 3%.
- KBN also operates with a low cost ratio of approximately 0,05% of total assets
- Unrealized gains and losses on the Income Statement primarily reflect volatility in mark-to-market derivatives used for hedging under IFRS accounting, linked in part to exchange rate developments.

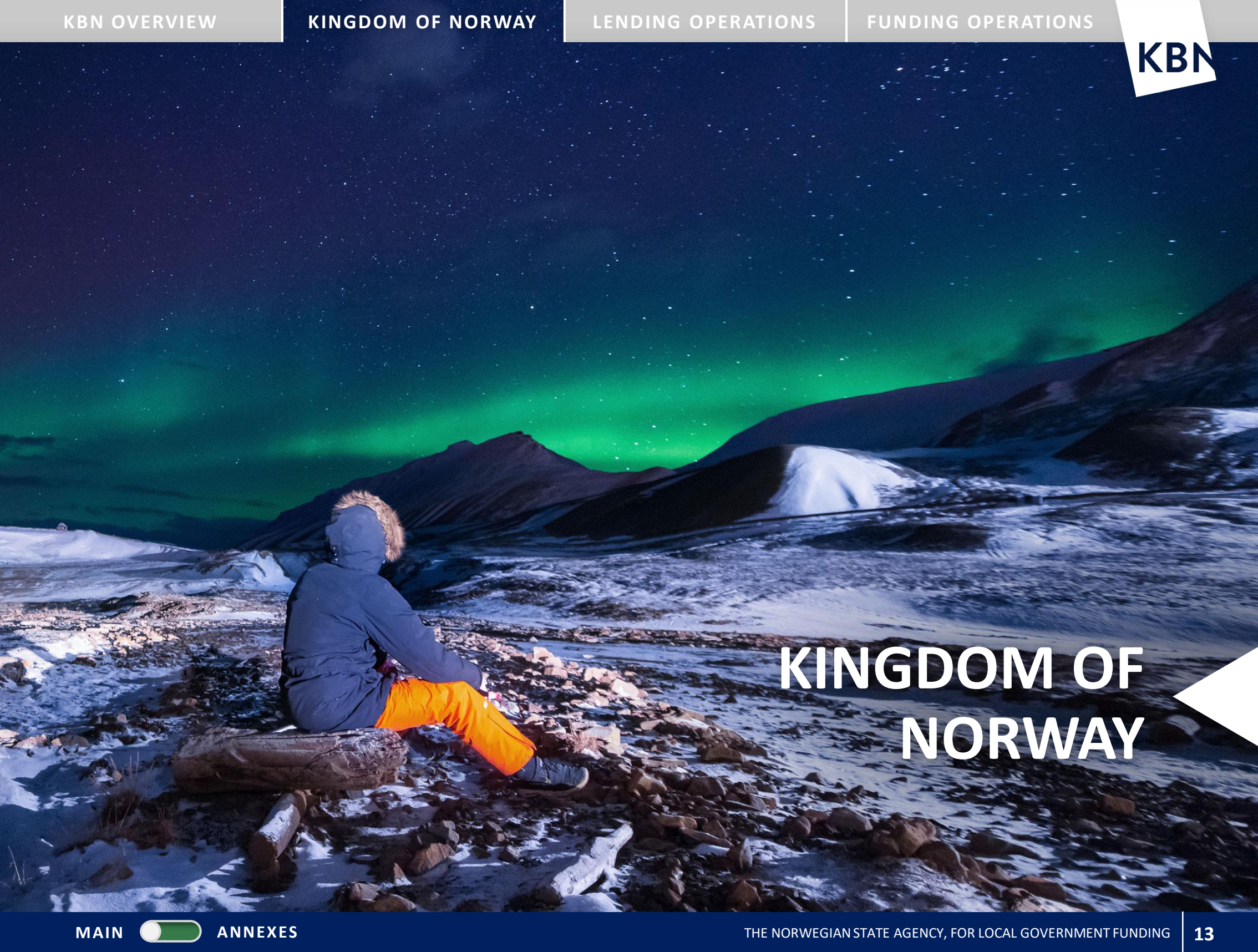
### FINANCIAL RESULTS

(All figures USD bn eq\*)

	2016	2017	2018	2019	2020
<b>Total Assets</b>	46.5	45.9	50.9	51.2	55.4
<b>Loan Portfolio</b>	29.6	31.3	33.6	34.4	35.4
<b>Leverage Ratio</b>	2.7	3.7	3.6	3.7	3.7
<b>Operating expenses/ total assets</b>	0.042%	0.047%	0.046%	0.055%	0.051%

\* USD/NOK 9.0





# KINGDOM OF NORWAY

# Overview



POPULATION:

# 5,384,576



COUNTRY SIZE:

# 323 809 km<sup>2</sup>



FOREST SHARE OF TOTAL LAND AREA:

# 37,4%

OSLO



WOMEN'S SHARE OF GRADUATES FROM UNIVERSITIES:

# 60%



RANK IN GENDER EQUALITY IN THE WORLD ECONOMIC FORUM GLOBAL GENDER GAP REPORT:

# 2<sup>nd</sup>



MAJOR EXPORT SECTORS:

- OIL and GAS
- FISH
- MARINE TRANSPORT
- METALS



OSLO AWARDED EUROPEAN GREEN CAPITAL AWARD 2019

Sources:  
Statistics Norway (2020), WHR (2018), Global Gender Gap Report 2018 EGC (2019), European Green Capital Award 2019,



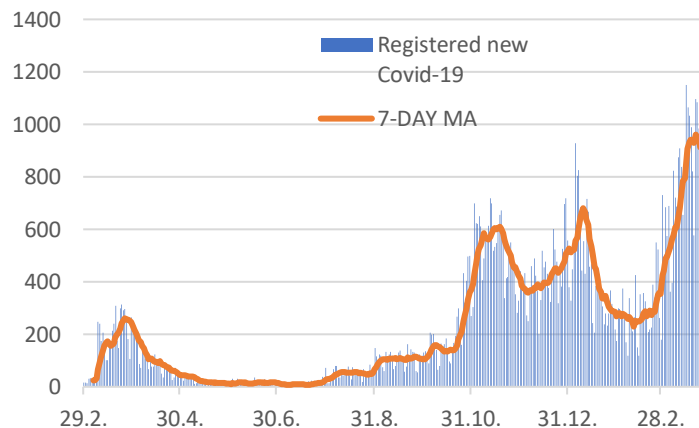
# COVID-19 and Norway

- The Covid-19 outbreak has had a visible impact on the Norwegian economy and weighed on economic activity. However, recent economic data suggests less impact than initially anticipated. The Norwegian government has introduced significant measures to support jobs, help businesses and people, and strengthen health services.
- Norwegian measures have been introduced in several steps. There has been broad political cooperation between the Government and the other parties in parliament (Stortinget).
- The fiscal impulse of the measures undertaken in 2020 including Covid-19 economic response measures, corresponded to 4.5% of Mainland Norway GDP.
- The Structural non-oil fiscal deficit for 2020 NOK 404.3bn (revised lower from earlier expectations at NOK 424.6bn) and transfer from the GPFG was 3.9% (reduced from 4.2%).
- For 2021, the Structural non-oil fiscal deficit is estimated at 363.2bn and transfer from GPFG 3.3%. While lower than 2020, this is still an expansive fiscal budget when compared to 2019 (252bn and 2.9% transfer from GPFG).
- The Government has stated it will compensate municipalities and counties for extra costs and revenue shortfalls linked to the virus outbreak, thereby enabling local governments to maintain their activities.

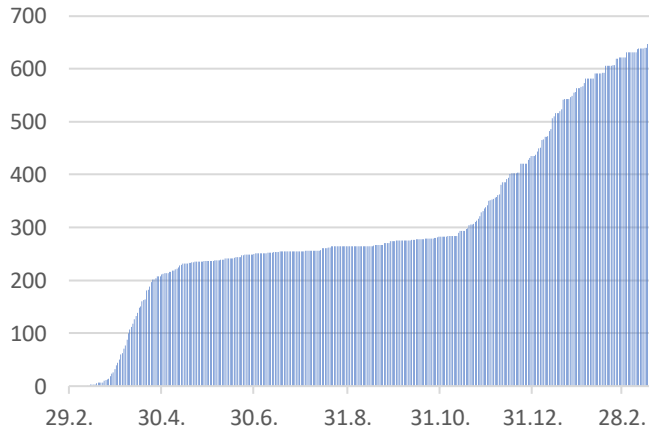
## Norwegian Government Adopted or Proposed Covid-19 Economic Response Measures (2020)

<b>Measures for businesses</b>	<b>66.1</b>
- Mitigating income loss for businesses	34.8
- Compensation to enterprises with severe income loss	7.0
- Aviation sector	14.3
- Loss provisioning, government guarantees for bank loans to businesses	10.0
<b>Extension of Income protection for individuals</b>	<b>16.5</b>
<b>Other compensation schemes</b>	<b>11.1</b>
<b>Strengthening of critical infrastructure sectors</b>	<b>25.4</b>
<b>Other measures</b>	<b>7.2</b>
<b>SUM of Economic Measures</b>	<b>126.3</b>
<b>2020 Fiscal Impulse</b>	<b>4.5 %</b>
<b>2020 Spending of petroleum revenues as percent of the Government Pension Fund Global</b>	<b>3.9 %</b>

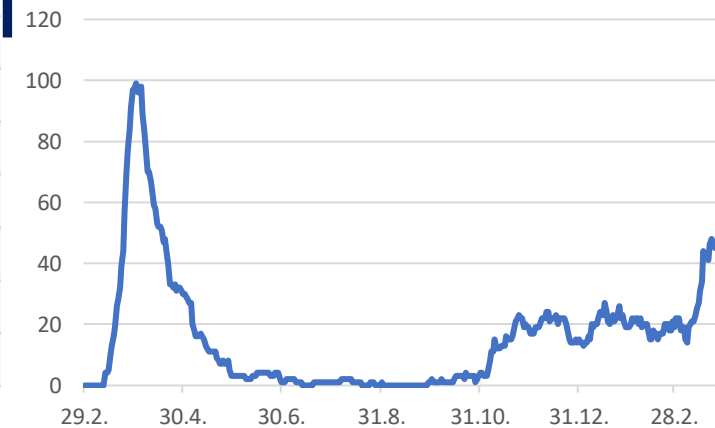
### NORWAY REGISTERED COVID-19 CASES (DAILY)



### NORWAY COVID-19 DEATHS



### NORWAY PATIENTS ON RESPIRATORS



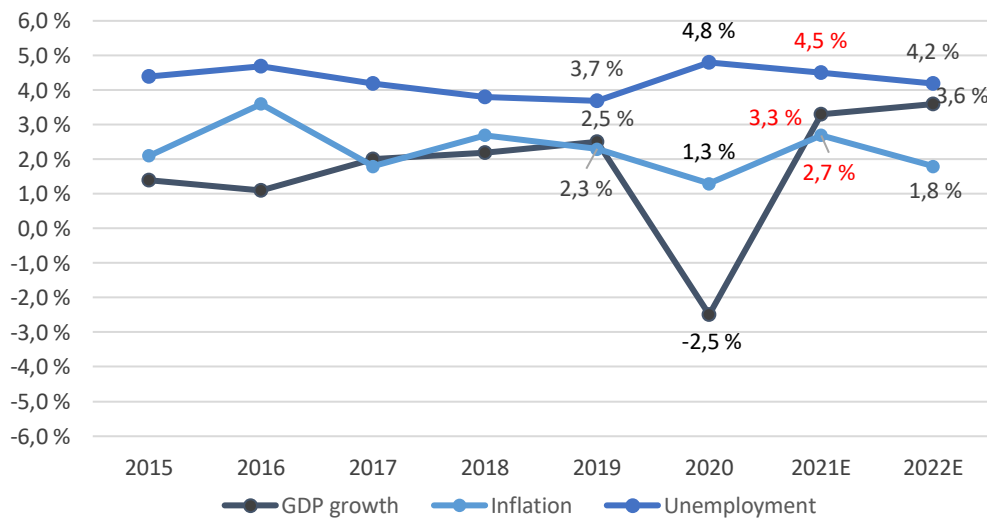
Sources\*: Norwegian Government, Economic measures in Norway in response to COVID-19 : 6/4/20  
 Norwegian Government, Revised National Budget, 12/05/20  
 Norwegian Government, National Budget 2021, 7/10/20  
 Norwegian Government, Proposition 79 S – Amendments to 2021 Budget

# Strong and Diversified Norwegian Economy

- Norway's economic fundamentals remain robust. At USD 393 bn<sup>1</sup> eq, Norway's GDP is broadly diversified across a range of productive sectors. Norway is one of the world's wealthiest countries, with a GDP per capita of approx. USD 73.100
- Key economic indicators shows significant Covid-19 impact for 2020<sup>2</sup> :
 

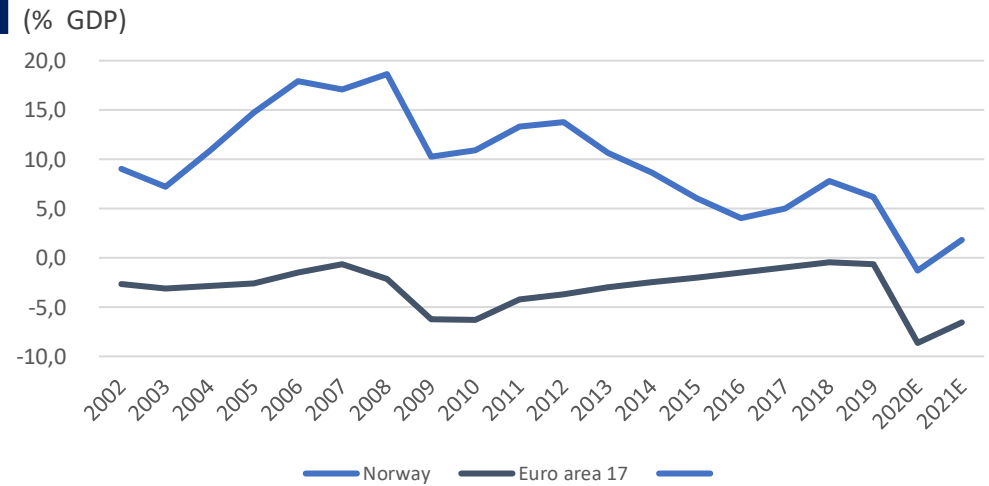
Current Account Surplus:	0.9%
GDP Growth:	-2.5%
Inflation:	1.3%
Unemployment:	4.8%
- Norway's macroeconomic stability pillar ranked first in the World Economic Forum's 2019 rankings.<sup>3</sup>
- The government has managed a solid current account surplus for the past decades and estimates continued surpluses going forward.

## KEY ECONOMIC INDICATORS



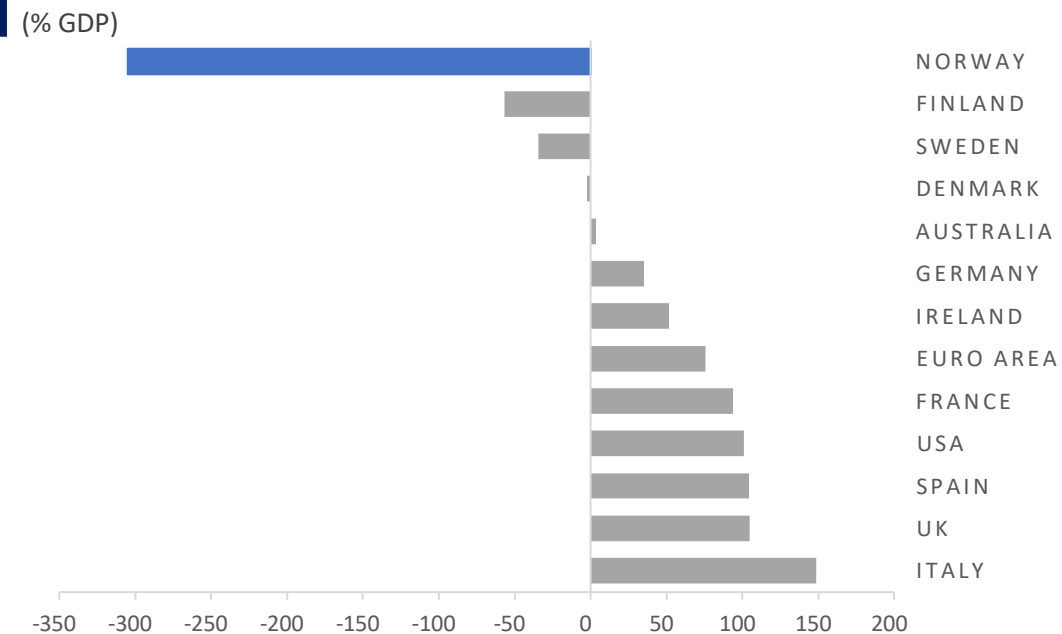
<sup>1</sup> Statistics Norway : NOK/USD = 9.00  
<sup>2</sup> Statistics Norway : March 2021  
<sup>3</sup> World Economic Forum Global Competitiveness Report, 2019

## GENERAL GOVERNMENT FINANCIAL BALANCES



Source: OECD Economic Outlook No. 108 Dec 2020

## GENERAL GOVERNMENT NET FINANCIAL LIABILITIES

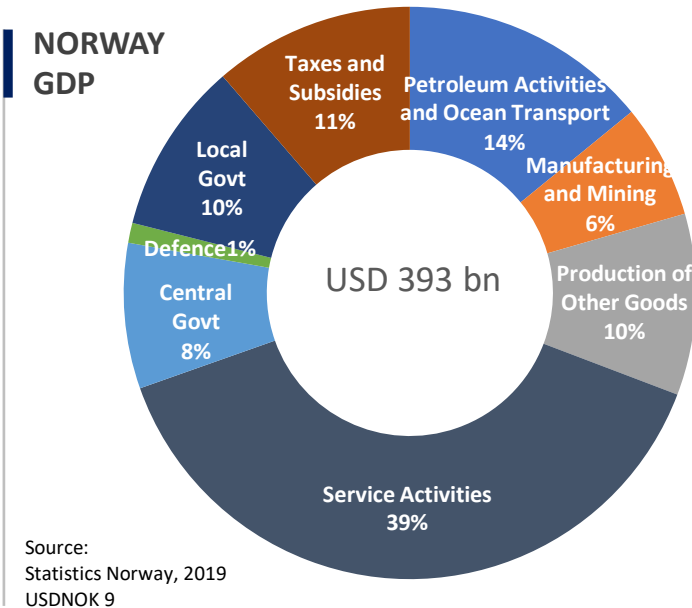


Source: OECD Economic Outlook No. 108 Dec 2020 / Statistics Norway  
 Debt measures are not always comparable across countries due to different definitions



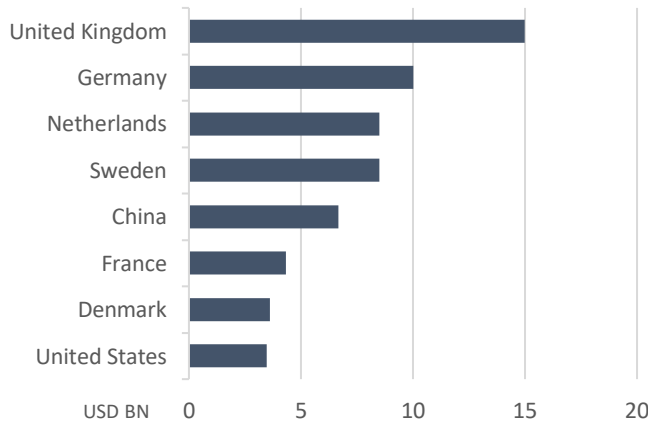
# Strong and Diversified Norwegian Economy

- The oil and gas industry (including supporting industries) constitutes approximately 20% of Norwegian GDP.
- The petroleum sector maintains its position as a major contributor to the overall trade balance and current account surplus, however, Norway’s industrial base continues to diversify with growth from other major industries:
  - fishing/aquaculture, shipping, metals and mining, timber – pulp and paper, manufacturing and machinery, construction and chemical products
- Norway’s reliance on primary industries has decreased as Service Activities make up a larger portion of GDP. This includes Transport and Communication, Financial and Business Services, Telecommunication and Information Services and Tourism.
- The UK is the largest export counterparty due to the high volume of crude oil and natural gas exports. Considerable volumes of petroleum products are also exported to Germany, the Netherlands and France. One of Norway’s largest trading partners in relation to goods and services import is Sweden. Imports from China have also grown in recent years, and now constitute a significant part of imported goods.
- EU countries account for just over 80 percent of Norwegian exports of goods compared to just under 60 percent of imported goods.



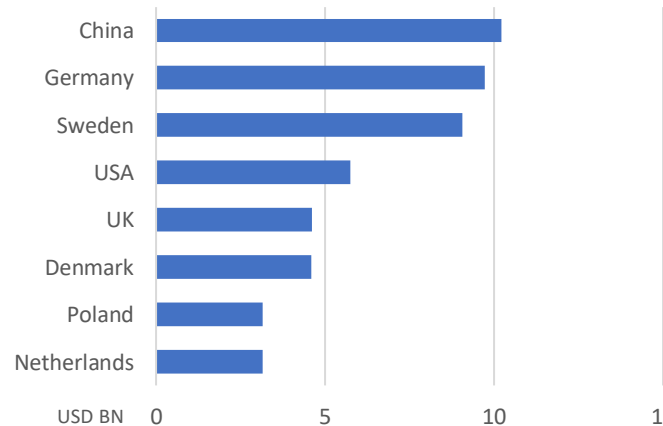
## EXPORTS OF GOODS

Main Trading Partners (2020)



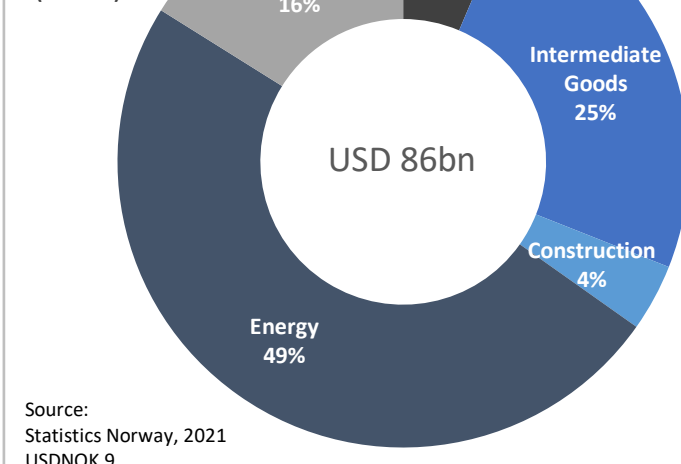
## IMPORTS OF GOODS

Main Trading Partners (2020)



Source: Statistics Norway 2021 (USDNOK = 9.0)

## NORWAY EXPORT (2020)

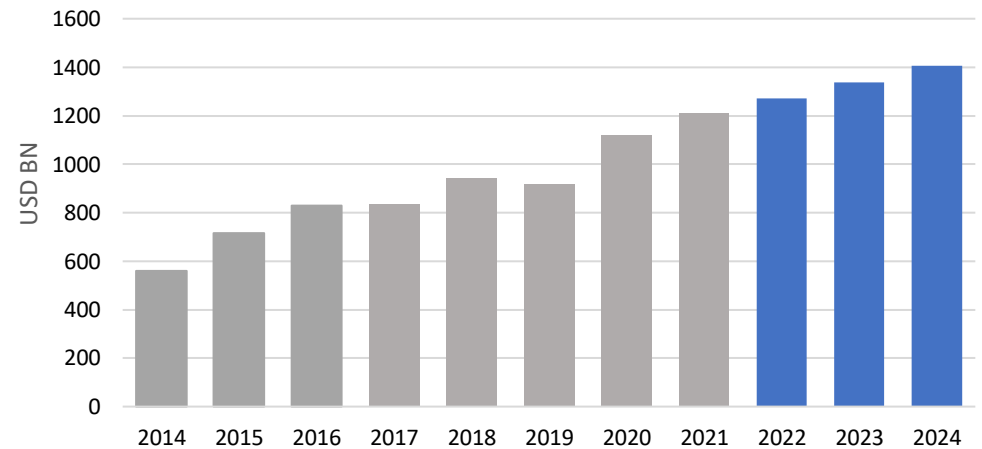


# Norway Sovereign Wealth Fund – A Long-term Contributor To The Nation’s Wealth

- Norway’s sovereign wealth fund (Government Pension Fund Global – GPFG) has current assets of USD 1.25 trillion (NOK 11.2 trillion eq). This ranks the GPFG as the world’s largest SWF.<sup>1</sup> The size compares to over 300% of Norway GDP and 750% of the national budget.
- The GPFG accumulates all petroleum related government revenue surpluses and has the ability to use a portion of the fund to finance counter-cyclical fiscal policies. Thus, the GPFG is fully integrated with the State Budget.
- The Fund’s liquidity is invested entirely in overseas markets across equity, fixed income and real estate holdings, to avoid distorting the domestic economy.
- Fiscal rule states that up to expected average real rate of return of GPFG can be used to balance budget.
- Expected average real rate of return 4% 1998 - 2017 and adjusted to 3% from 2018 onwards due to lower rate environment.
- From 1998 to end of 2020, the Fund’s actual average net annual real rate of return has been 4.42%.
- The history, objectives and management of the Norwegian sovereign wealth fund can be explored further here: <http://www.nbim.no/en>.

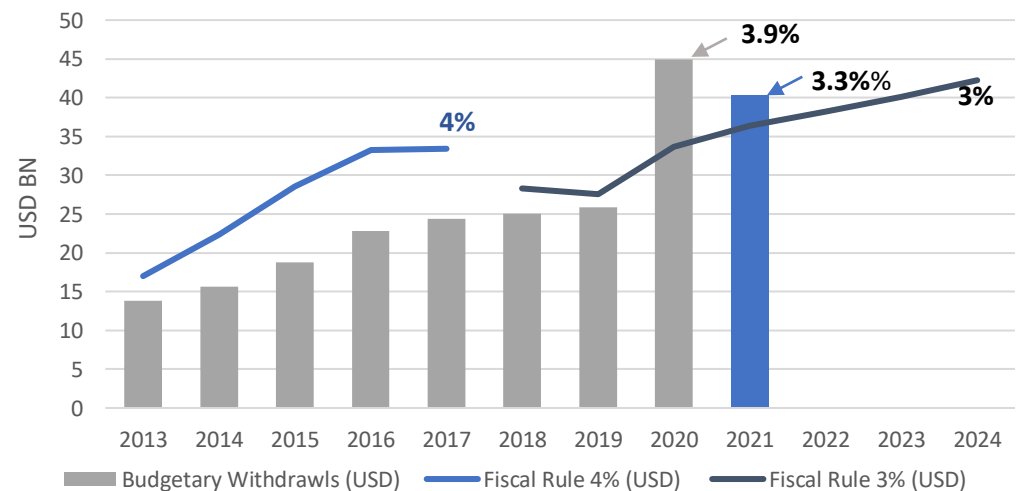
## VALUE OF GOVERNMENT PENSION FUND GLOBAL (GPFG)

as of Jan 1. (2022 - 2024 EST.)\*



\* The calculations of the projections from 2021 onwards assumes an annual real rate of return of 3% and a structural deficit adjusted to this path USD/NOK 9.0

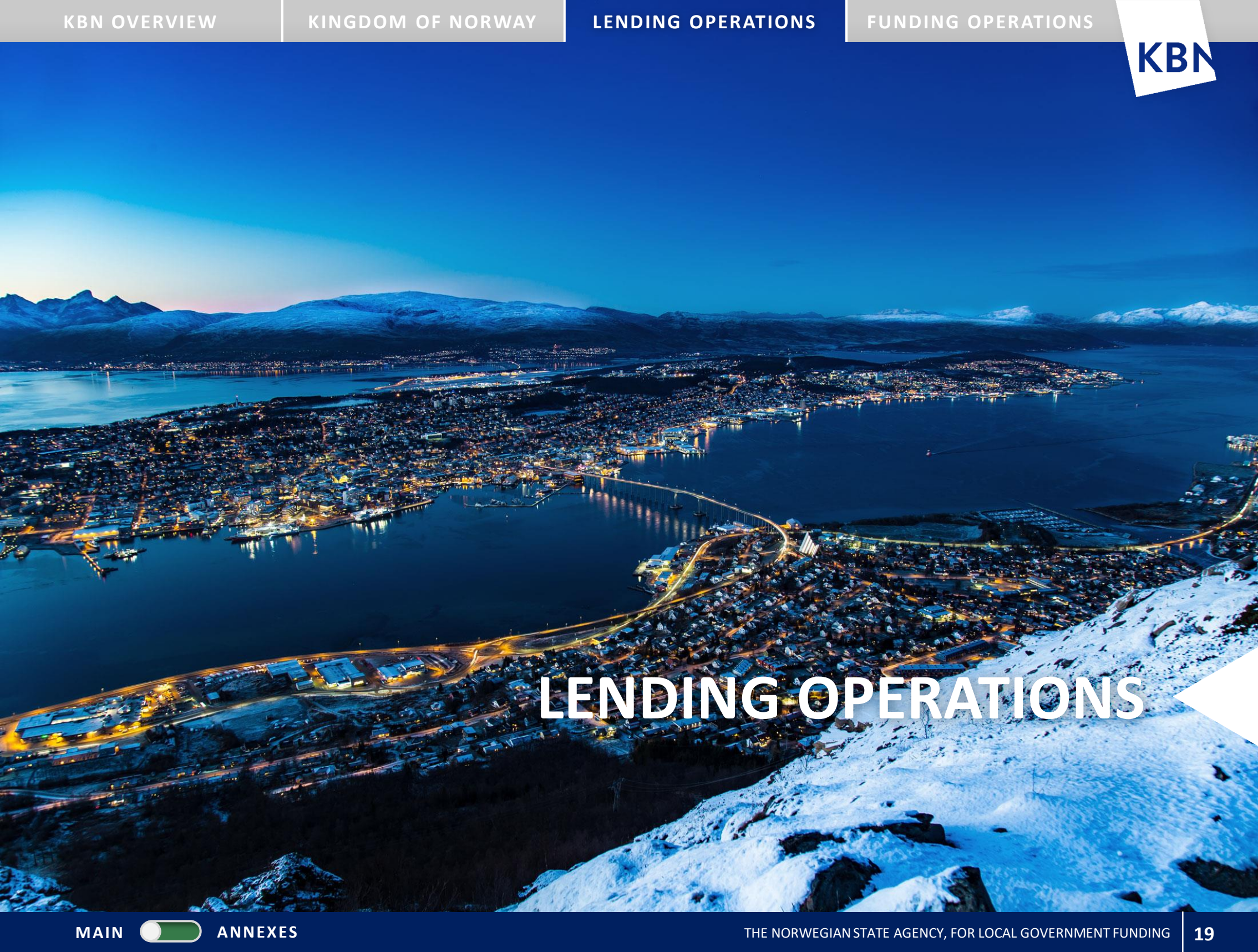
## EXPECTED NET REAL RETURN AND ACTUAL WITHDRAWAL FROM GPFG



1 – Sovereign Wealth Fund Institute : February 2020

Sources : Norges Bank Investment Management / Ministry of Finance / Norwegian Government

\* USD/NOK 9.0



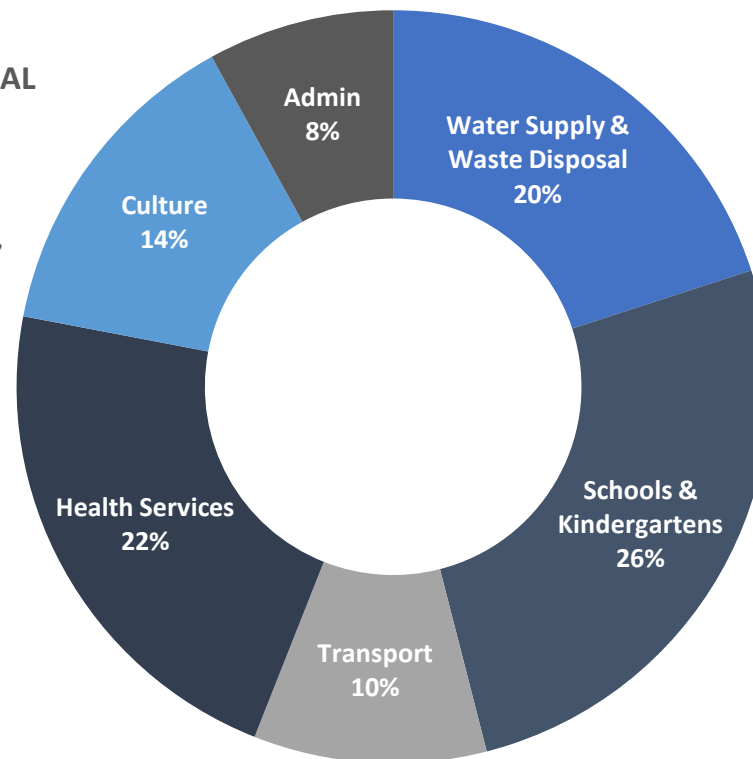
# LENDING OPERATIONS

## KBN Lending Across Norway

- KBN oversees a diversified loan portfolio of USD 35bn\*. This reflects a market share of approx. 50% of all client borrowings. 100% of Norway's 11 counties and 356 municipalities are borrowing clients of KBN.
- KBN's clients all have equal access to KBN funding, at comparable levels in order to deliver welfare services on behalf of the central government.
- KBN loans are used to implement a broad range of key social projects

### LENDING TO THE NORWEGIAN LOCAL GOVERNMENT SECTOR

INVESTMENT EXPENDITURES  
LOCAL/REGIONAL SECTOR PER SERVICE AREA,  
AVERAGE LAST 10 YEARS.



\* USD/NOK 9.00

Source : Statistics Norway / KBN



**BY 2020 KBN HAD COMPLETED USD 2.9 BN IN LENDING** to climate-friendly projects across a broad range of project categories. This represents 8.2% of the total lending portfolio.

For 2020, green loans represented 34% of KBN's overall lending growth.

# The Norwegian Local Government Sector is Financially Robust

The sound financial position of the Norwegian local government sector and the strict financial framework within which it operates make the whole sector and individual entities highly creditworthy borrowers.

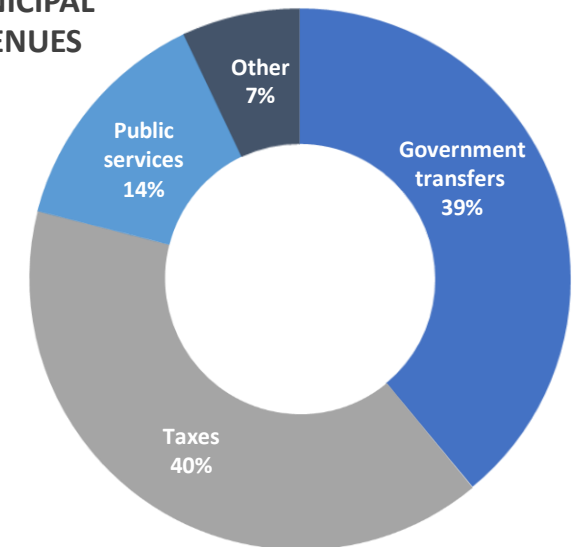
## Sound Revenue Foundation

- KBN benefits from an extremely solid customer base:
  - Municipal authority is seen as a delegated state authority as they are not defined a legal entity in the Norwegian Constitution.
  - They receive a large proportion of revenue from central government transfers, in order to ensure a unified service delivery throughout the country.

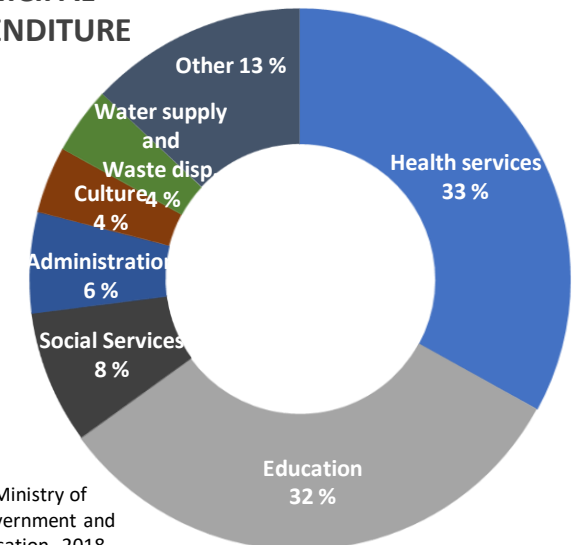
## Close Supervision and Control

- All local government budgets are monitored and supervised by the central government. Strict limits are in place to manage financial conduct.
- Under the Local Government Act, counties and municipalities are prohibited from going bankrupt. Thus, they are subject to extensive central government oversight and regular reporting requirements.
- Counties and municipalities can not budget for an operating deficit. If facing a deficit, the local government will be placed on a list for contingent control (ROBEK List) and the central government must explicitly approve all borrowings and guarantees until the deficit is eliminated (within maximum 3 years).
- Borrowings may only finance primary investments. No commercial projects or guarantees for private-sector third parties are permitted.
- KBN has more than 90 years of operating experience and strict centralized control enhances financial discipline.
- KBN has never suffered a loan loss.

## MUNICIPAL REVENUES



## MUNICIPAL EXPENDITURE



Source: Ministry of Local government and Modernisation, 2018

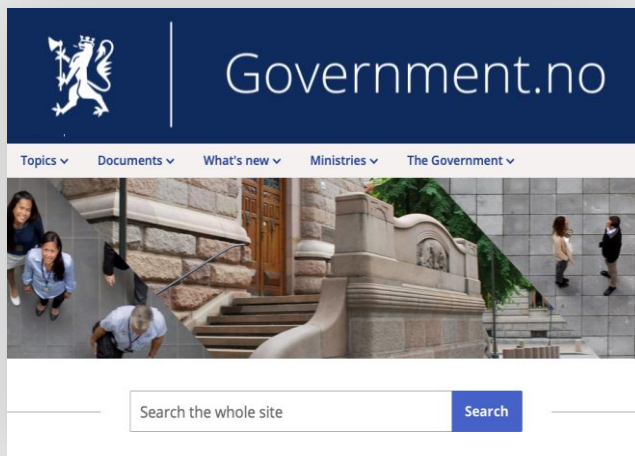
MOODY'S

*"Norwegian local governments are among the most regulated and supervised in Europe"*

- Moody's Investors Services, June 2013

# KBN Lending – Supports the Nation’s Economic & Social Welfare

- KBN offers a range of flexible financing structures to its borrowing clients. KBN’s competitive advantage is in providing, at all times, stable funding solutions to the local government sector. This reflects KBN’s core public policy mandate as a strategic long-term partner for the country’s framework of social services.
- Loans are only extended in NOK and KBN does not differentiate between any clients on loan pricing. Local government creditworthiness is viewed equally due to the central government oversight and support, ensuring that clients are able to offer a unified standard of services across the country.
- KBN reviews local governments annual borrowing requests to ensure the underlying investment strategies are socially and commercially viable and fits within its balanced budget.
- The Credit Risk Management (CRM) department works on a continuous basis to track and analyze clients’ financial developments based on data from the government KOSTRA Registry\*. Lending decisions can thus be made quickly, due to centralized oversight of client finances and KBN’s ongoing credit review processes.
- Loans for Green projects are all analyzed individually. KBN’s Green lending model follows international best practice for transparency, use of proceeds analysis and impact reporting.
- An ongoing amalgamation process of local governments is helping smaller and medium-sized municipalities gain economies of scale in administration, management, operations, resulting in efficiency and cost-effectiveness. By January 1. 2020 the number of local governments were reduced from 422 to 356 and Counties from 18 to 11.



## THE ROBEK LIST

The Register for Governmental Approval of Financial Obligations (ROBEK) is a government register of municipalities and counties experiencing an operating deficit. Local governments on this list must have any new borrowing explicitly approved by the state representative Fylkesmann in order to be valid. Entities on this list have 3 years to balance their budget. This list is available publicly:

<https://www.regjeringen.no/en/topics/municipalities-and-regions/municipal-economy/register-for-governmental-approval-of-fi/id449305/>

## \* THE KOSTRA REGISTRY

Since 1997, local and regional governments have been required by law to register statistics on budget, financial activities and public services in the KOSTRA (Municipality-State-Reporting) database. This registry is managed by Statistics Norway and provides key inputs for KBN’s credit risk management models.

<https://www.ssb.no/en/offentlig-sektor/kostra>

# Project Examples

## STANDARD & POOR'S

*“Norwegian local and regional governments act as delegated arms of the central government in the provision of public services.”*

- Standard & Poor's – April 2019

### SVALBARD (2,310)

- Upgrades for powerstation
- Increased harbour capacity
- New kindergarten
- Upgrade of remote heating facilities (thermal heating plant)
- Increased capacity of recycling and refuse facilities



### FINNMARK (76,167)

- New high school
- New dental clinic
- New harbor facilities
- Upgrading energy efficiencies in county buildings



### NORDKAPP (3,239)

- Road upgrade
- New cemetery
- Upgrading harbor facilities
- New library equipment



### HORDALAND (505,246)

- Hardanger Bridge
- New suspension bridge across Eidfjorden
- Total length: 1,380 (30m longer than Golden Gate Bridge)



### BOKN (865)

- New multipurpose sports halls
- New fire truck

### KONGSVINGER (12,078)

- Kongsvinger lower secondary school
- Built in solid wood
- Financed by green lending rate from KBN



### TØNSBERG (41,239)

- Greve Biogas: “The magic factory”
- Turning food waste and manure into fuel
- Financed by green lending rate from KBN



COUNTIES (residents)

MUNICIPALITIES (residents)

# Green Lending Integral Part of Mandate

- On behalf of the government, KBN has been given a mandate to implement greater environmental and social awareness via Green Lending and thus offers up to a 10 basis point discount on green loan projects versus traditional lending to all KBN clients.
- The local government sector is regarded as vital to achieve Norway's goals under the Paris Climate Agreement, which targets a reduction in greenhouse gas emissions of at least 50% by 2030, compared to 1990 levels.
- By 2020, KBN had completed USD 2.9 bn in lending to climate-friendly projects representing 8.2% of the total lending portfolio. For 2020, green loans represented a sizeable 34% of KBN's overall lending growth.



## Executive summary

As of 31 Dec 2020

**GREEN BONDS ISSUANCE AND PORTFOLIO OF GREEN LENDING**

**GREEN BONDS ISSUANCE AND PORTFOLIO OF GREEN LENDING**

- USD 1 bn. Green Bond (11/02/2025)<sup>1</sup>
- USD 500mn. Green Bond (10/26/2020)
- NOK 750 mn. Green Bond (11/29/2027)
- AUD 450 mn. Green Bond (09/05/2023)
- SEK 3 bn. Green Bond (08/28/2027)

<sup>1</sup> Originally USD 500 mn., USD 200 mn. tpp in 2019 and USD 400 mn. tpp in 2020.

**OUTSTANDING GREEN LOANS**

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%

**PROJECT PORTFOLIO AND ENVIRONMENTAL IMPACT<sup>1</sup>**

Project category	Outstanding amounts to projects (1000 NOK)	CO <sub>2</sub> e reduced and avoided (tonnes annually)	Impact tonnes CO <sub>2</sub> e per million NOK
Buildings	19,117,937	13,356	0,7
Renewable energy	521,568	34,718	62,1
Transportation	1,460,057	1,764	1,3
Waste and circular economy	807,512	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
<b>Total</b>	<b>26,112,224</b>	<b>50,058</b>	<b>64,4</b>

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

<sup>1</sup> The impact reported corresponds to the share of the project financed by us. A grid factor of 315g CO<sub>2</sub>e per kWh electricity is applied throughout when converting electricity to emissions, as this is recommended by the Nordic Public Sector Issuers. Read more about calculation methods on page 44.

**IMPACT ATTRIBUTABLE TO GREEN BOND INVESTORS**

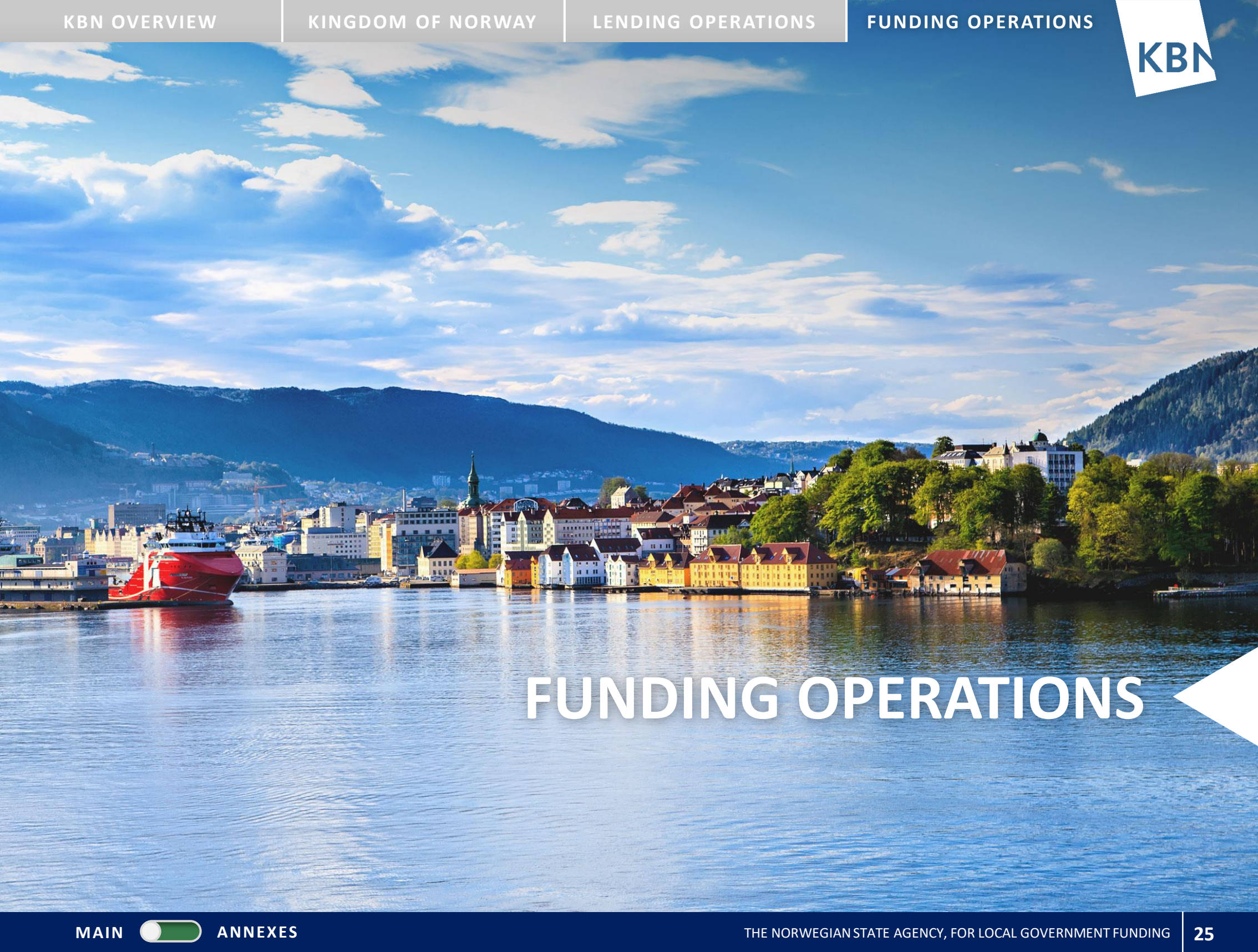
Total outstanding green bonds divided by total outstanding disbursed amounts to projects, as of 31 dec 2020 (in NOK): **61%** of which

ISIN	Issue date	Amount	Maturity Date	%
XS1188118100 / US050048H8K74	02/11/2015	USD 1 bn.	02/11/2026	33%
NO0010811276	11/29/2017	NOK 750 mn.	11/29/2027	3%
NO0010811284	11/29/2017	NOK 600 mn.	11/29/2032	2%
AU3CB0256162	09/05/2018	AUD 450 mn.	09/05/2023	11%
XS2047497289	08/28/2019	SEK 3 bn.	08/28/2026	12%

**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	Annually
Next report scheduled	February 2022
Next report scheduled	Portfolio-based and project-by-project reporting
Reporting approach	Nordic Public Sector Issuers: Position Paper on Green Bonds Impact Reporting
Verification	Internal audit of compliance of guidelines and routines related to green loans and bonds, conducted by Deloitte. See p. 46.





# FUNDING OPERATIONS

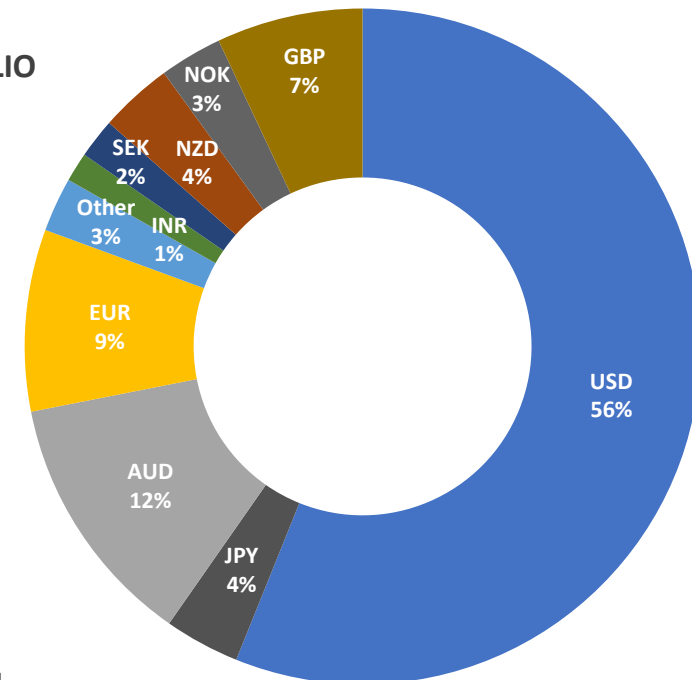
# Flexible and Diversified Investor-Driven Funding Program

- KBN's borrowing program for 2021 will be approximately USD 10bn. For 2020, the final program size was USD 11.4bn.
- KBN has developed a solid international investor base, enabling it to access broad and well-diversified funding sources.
- KBN expect to see healthy lending growth going forward and will remain actively engaged in capital market issuance and market developments.
- KBN continuously works to gather market intelligence and expand its network of investors and products. Issuance is conducted via a range of documentation platforms, enabling access to both domestic and international investors. KBN manages domestic borrowing programs in Australia, Canada, New Zealand and Norway as well as an MTN Program with a 144a tranche.

## Benchmark pricing strategy

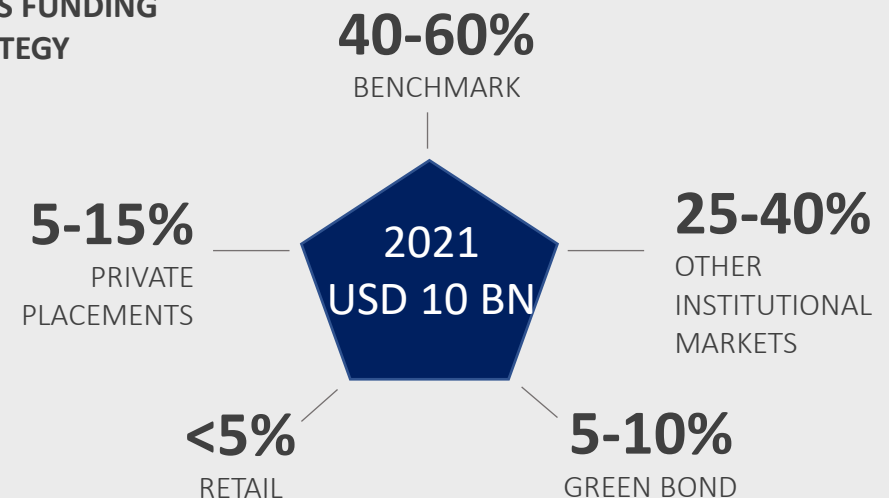
- A considerable portion of KBN's annual borrowing program is raised by issuing liquid benchmark securities.
- KBN recognizes the value of maintaining a solid partnership with investors for these offerings, and seeks to offer attractive relative value, with excellent credit quality.
- Principles guiding benchmark pricing include:
  - Regular consultation with underwriters experienced in target markets
  - Pricing and sizing issues "to clear"
  - Performance in secondary markets

## DEBT PORTFOLIO



\*As of Mar 2021

## KBN'S FUNDING STRATEGY



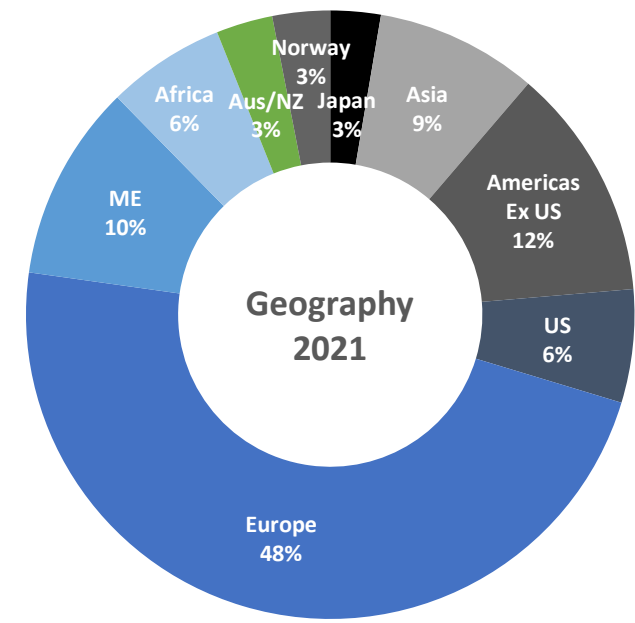
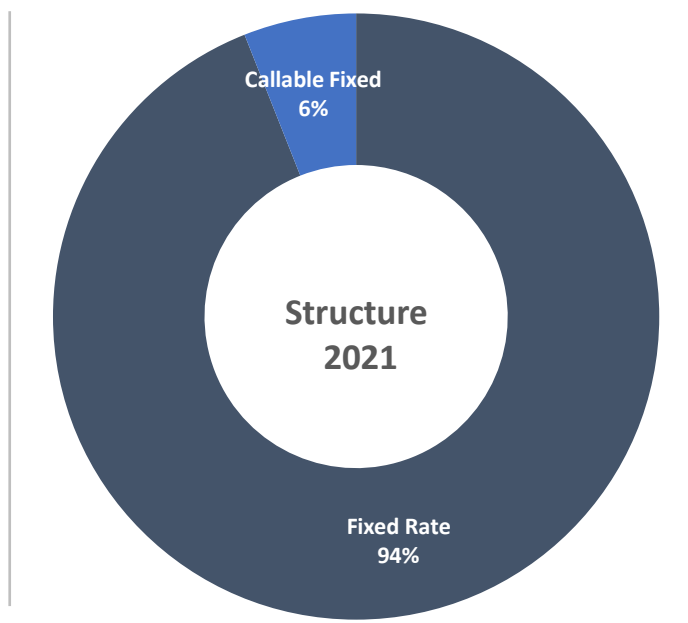
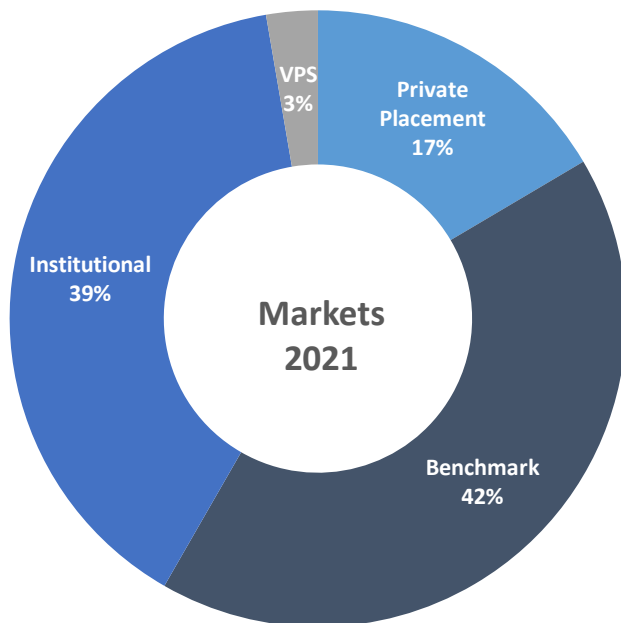
# KBN Funding 2021 - YTD

## Highlights

- Total USD 4.75 bn raised —————> 23 Individual transactions
- Issuance in 7 different currencies —————> 4.69y avg maturity of new funding

## Newsorthy

- USD 2.00 bn 5-year Jan 2026 Benchmark
- NZD 125 mn July 2030 Kauri Tap
- AUD 250 mn June 2026 Kanagroo Tap
- GBP 500 mn Dec 2025 Benchmark



## USD Benchmark Strategy

KBN's strategy is to issue benchmarks regularly, to:

- Enhance market presence
- Access a wide institutional investor base
- Provide liquidity and performance for investors
- Issue products in line with market demand
- Build strong long-term investor and bank relationships



For 2021, KBN plans to issue 3-4 USD benchmarks in maturities ranging from 2 to 10 years.

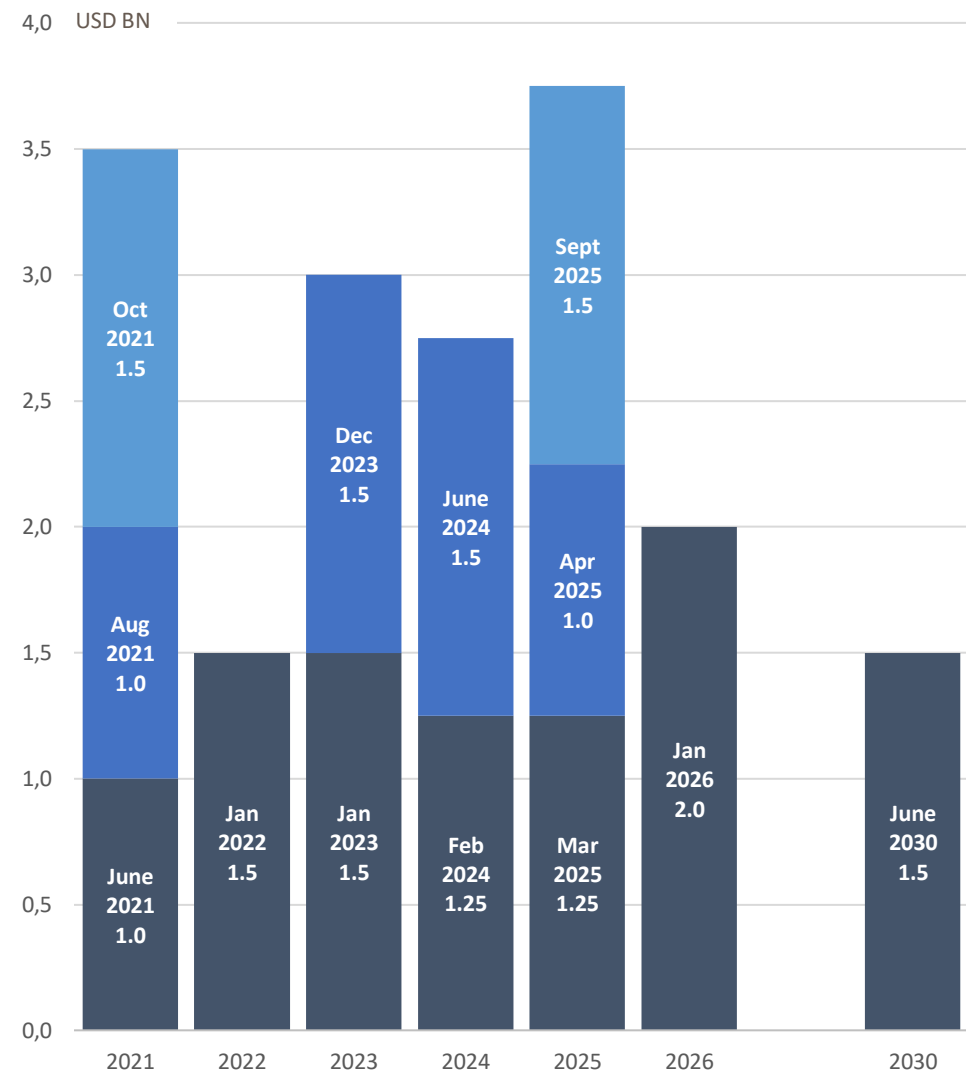


KBN currently has 13 USD benchmark transactions outstanding. The total notional amount is USD 18 bn.

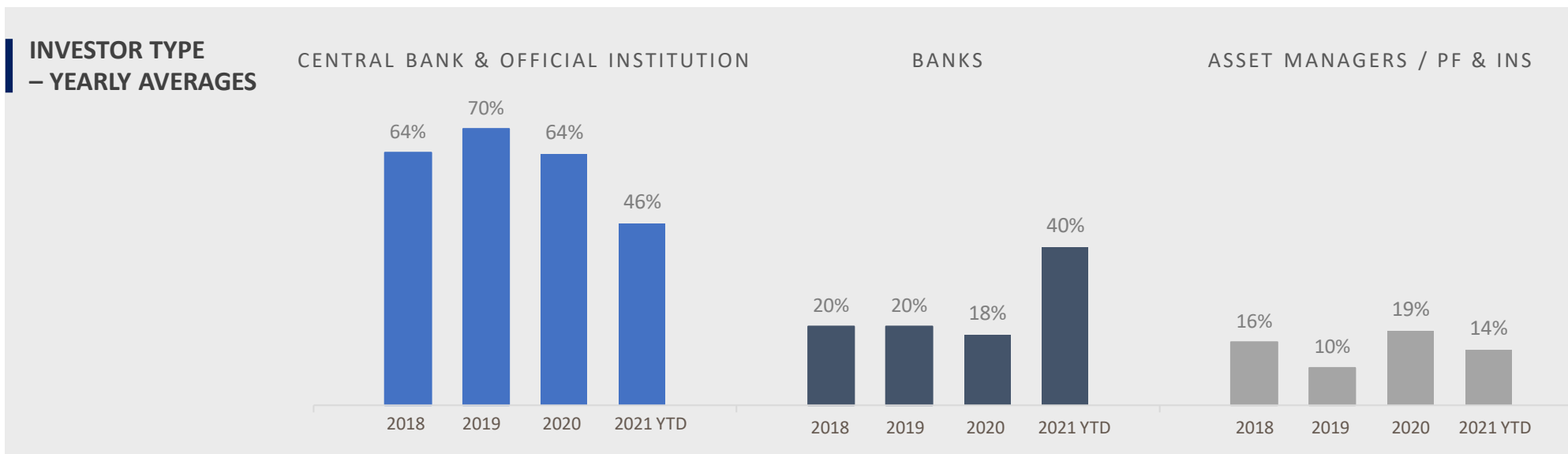


Since April 2010, KBN has issued USD benchmarks under RegS and 144a documentation, which provides additional settlement options via DTC.

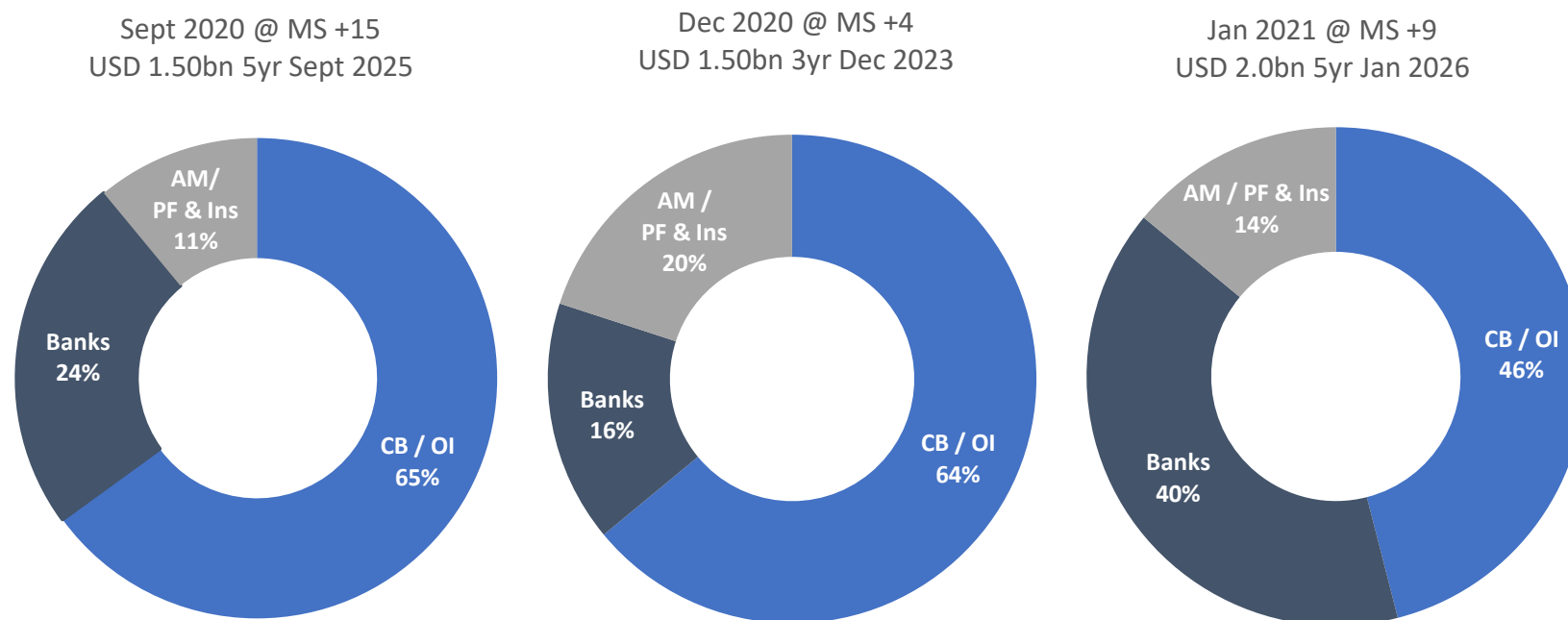
### OUTSTANDING 144 A BENCHMARKS



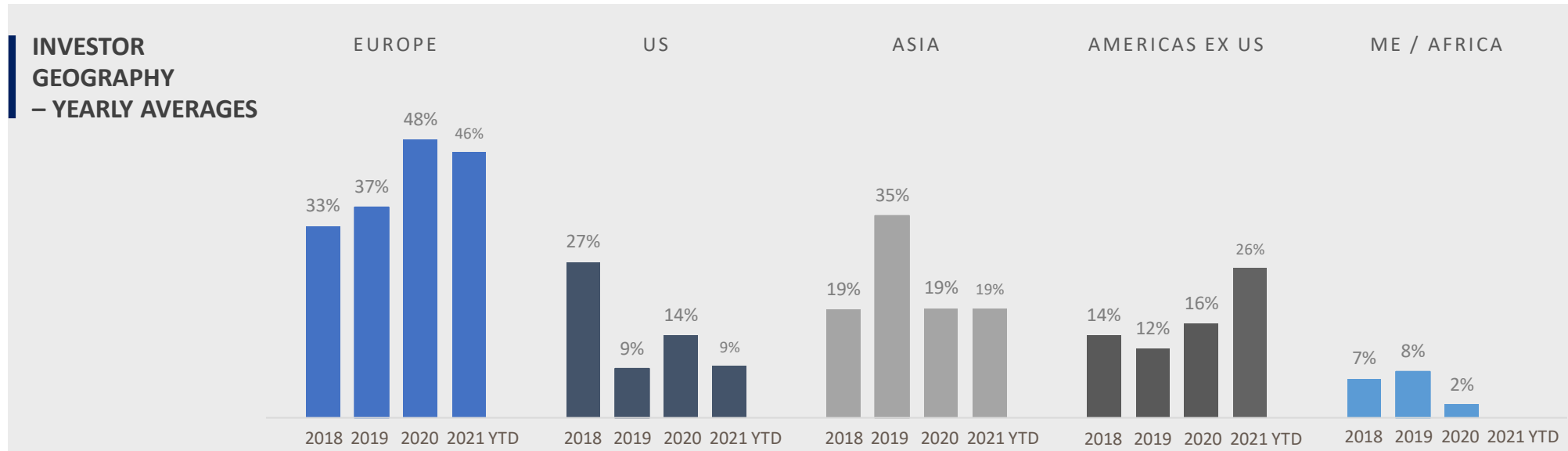
# USD Benchmark Distribution – Investor Type



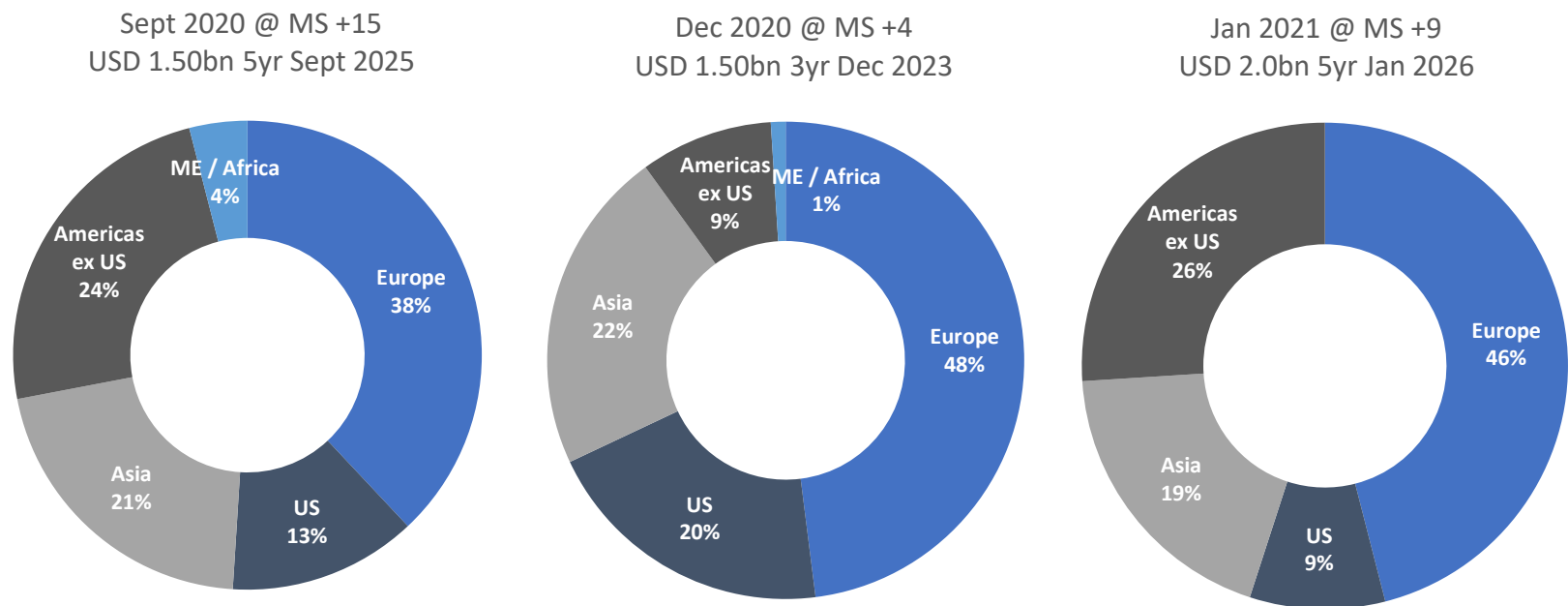
**DISTRIBUTION ON LAST 3 USD BENCHMARKS**



# USD Benchmark Distribution – Geography



**DISTRIBUTION ON LAST 3 USD BENCHMARKS**

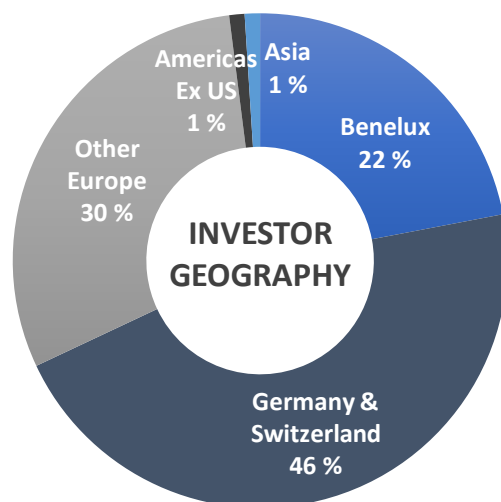
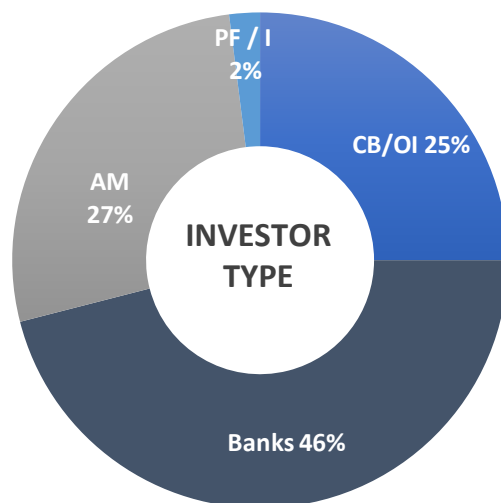


# EUR Benchmark Strategy

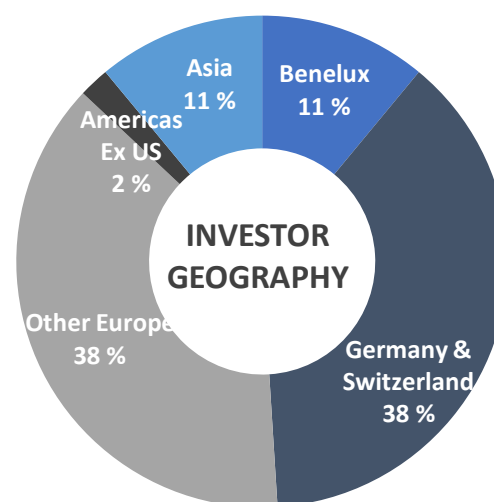
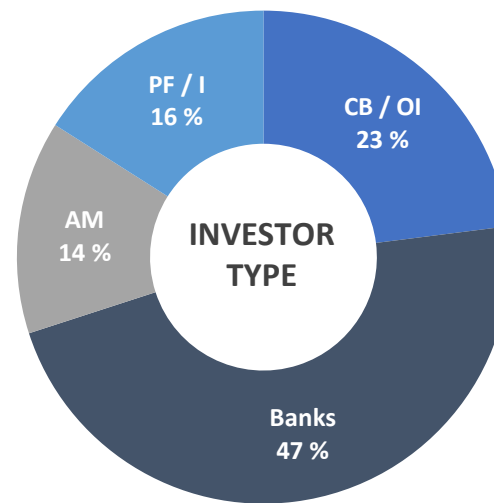
## Diversifying The Funding Program Via Investor-driven Issuance

- Broaden the KBN investor base
- Expand market presence
- Raise visibility in Continental Europe
- Provide liquidity and performance for investors
- Issue in size of EUR 1 bn minimum
- Target maturities from 5 to 10 years

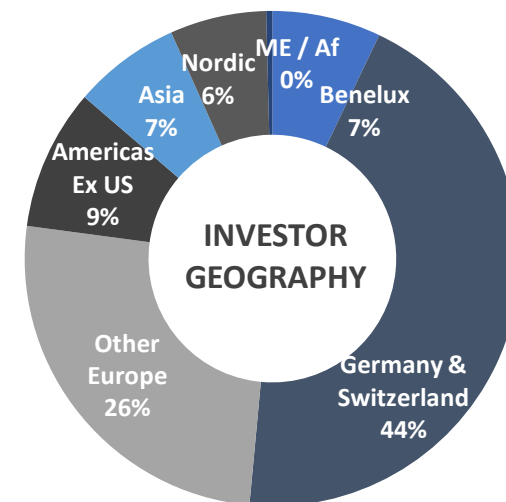
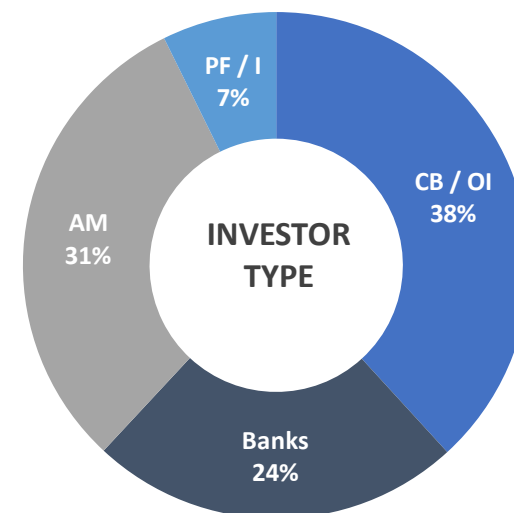
APRIL 2016 @ MS+9  
EUR 1.0BN 10Y APRIL 2026



MAY 2017 @ MS+4  
EUR 1.0BN 10Y MAY 2027



Oct 2019 @ MS +7  
EUR 1.0 BN 10Y OCT 2029



## Other Key Institutional Markets

KBN will continue its strategy to nurture its presence in other public markets with strategic issues in local currencies. Focus will be on taps and new issues, 2y – 10y+, in all markets, pricing and market conditions allowing



### AUSTRALIA – KANGAROO

- Currently AUD 7.795 bn outstanding
- 12 issues: 2021, 2022, 2023, 2024, 2025, 2026, 2028, 2029, 2030, 2032
- Recent launch:
  - AUD 250 mn Jun 26 TAP
  - AUD 75 mn Dec 30



### NEW ZEALAND – KAURI

- Currently NZD 2.35 bn outstanding
- 6 issues: 2021, 2023 2024, 2025, 2030
- Recent Launch:
  - NZD 500 mn July 30
  - NZD 250 mn June 25



### UNITED KINGDOM – EMTN

- Currently GBP 2.55 bn outstanding
- 6 issues: 2021, 2022, 2023, 2024, 2025, 2026
- Recent launch:
  - GBP 500 mn Dec 25
  - GBP 250 mn. Dec 26



### NORWAY – VPS/EMTN

- Currently NOK 12.85bn outstanding
- 11 issues: 2022, 2023, 2026, 2027, 2028, 2029, 2031, 2032, 2033 2036
- Recent launch:
  - NOK 1.1 bn Feb 31
  - NOK 1.0 bn Feb 26



### SWITZERLAND – DOMESTIC

- Currently CHF 100 mn outstanding
- 1 issue: 2021



### SWEDEN – EMTN

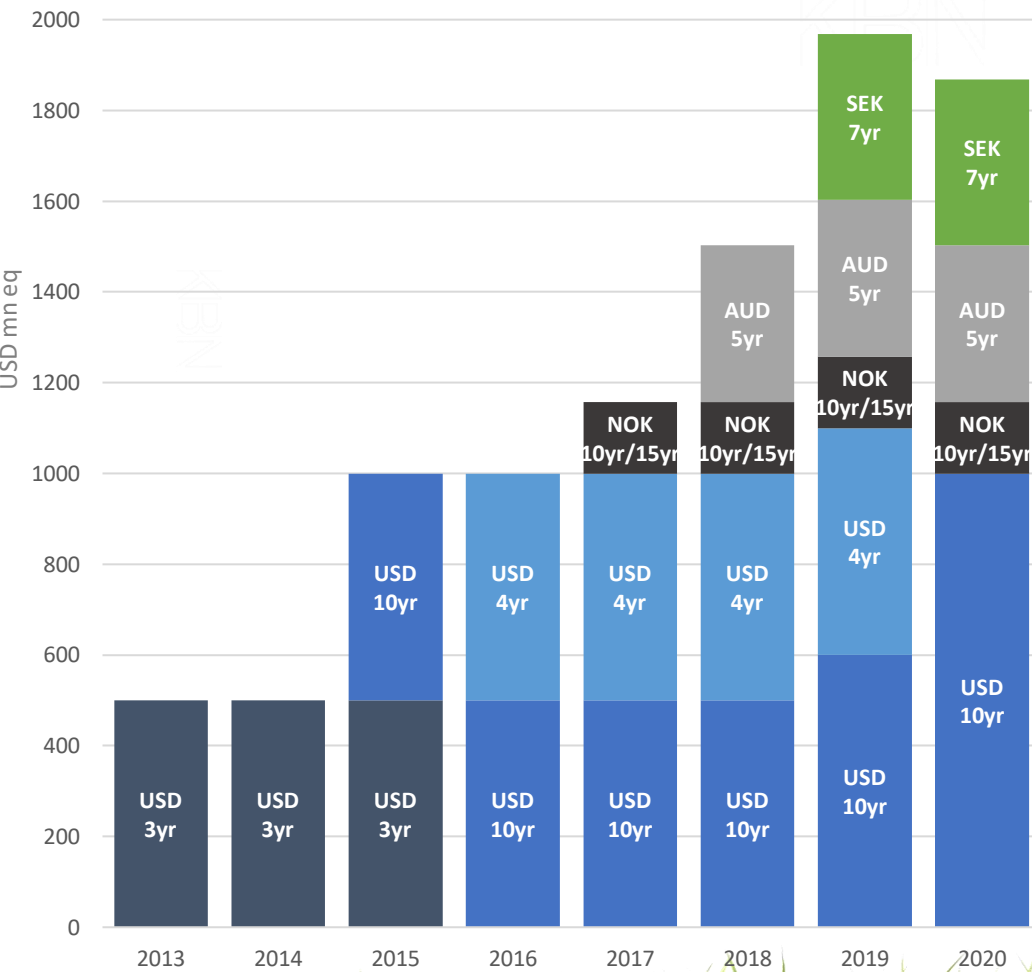
- Currently SEK 8bn outstanding
- 3 issues: 2022, 2024, 2026
- Recent launch:
  - SEK 3.0 bn Aug 26 Green Bond
  - SEK 4.0 bn Mar 22



# KBN Green Bond Issuance

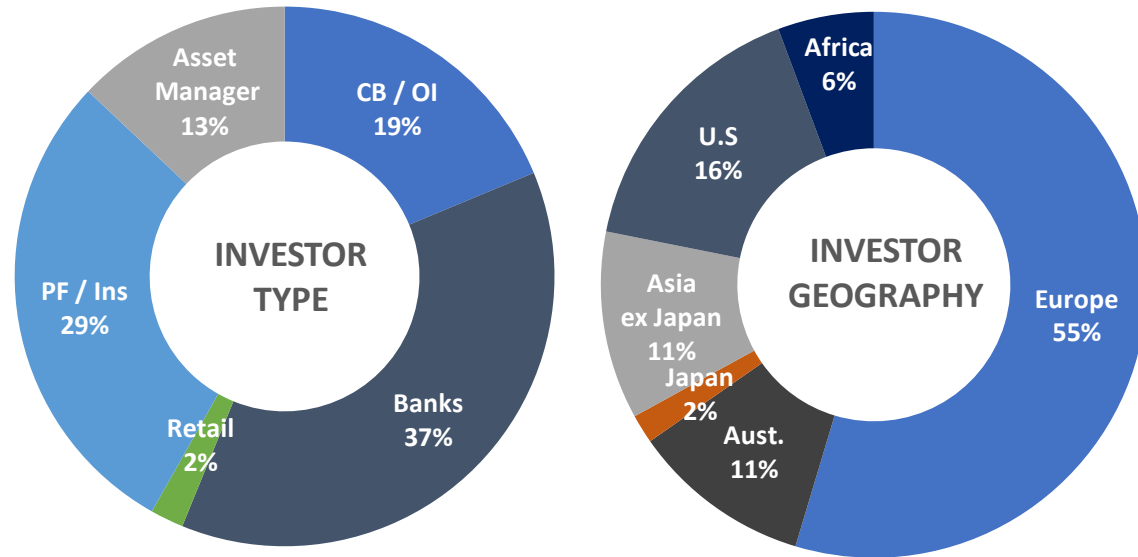
TOTAL OUTSTANDING **1.9** BN. USD\*

OUTSTANDING KBN PUBLIC GREEN BOND ISSUANCE



\*AUDUSD .7694 / USDSEK 8.2719 / USDNOK 8.5866

OUTSTANDING KBN PUBLIC GREEN BOND ISSUANCE\*  
Investor Type and Geography



KBN was one of the first European issuers to issue a green bond in USD. The past years we've experienced a strong global increase in investor demand for our issues in USD, NOK, AUD and SEK.

\* As of March 2021

## KBN - Norwegian State Agency – A Solid AAA Credit

- 1 100% owned and supervised by the Kingdom of Norway (AAA/Aaa)
- 2 Monoline business model, financing core local government welfare investments in Norway and no cross border lending.
- 3 Counties and municipalities – KBN's clients - are prohibited by law from declaring bankruptcy
- 4 KBN has never suffered loan losses in over 90 years of operations
- 5 Conservative and prudent financial and risk management policies
- 6 Strong financial profile with liquidity well in excess of regulatory requirements
- 7 Strong, well-capitalized balance sheet
- 8 Norway is one of the wealthiest countries globally, and owner of the largest sovereign wealth fund (the GPF)
- 9 KBN is the closest proxy to Norwegian sovereign risk available in the international markets
- 10 Triple-A ratings from S&P and Moody's since first independently rated in 1999

# AAA

# Contact

For annual reports, rating reports and general information, please visit our website [www.kbn.org](http://www.kbn.org) or contact:



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## ADDITIONAL INFORMATION

The Norwegian Government  
<https://www.regjeringen.no/en/id4/>

Norges Bank  
<https://www.norges-bank.no/en/>

Government Pension Fund Global (GPGF)  
<https://www.nbim.no/>

Statistics Norway  
<https://www.ssb.no/en>

KOSTRA Registry  
*Website*

ICMA: Green Bond Principles  
<https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>

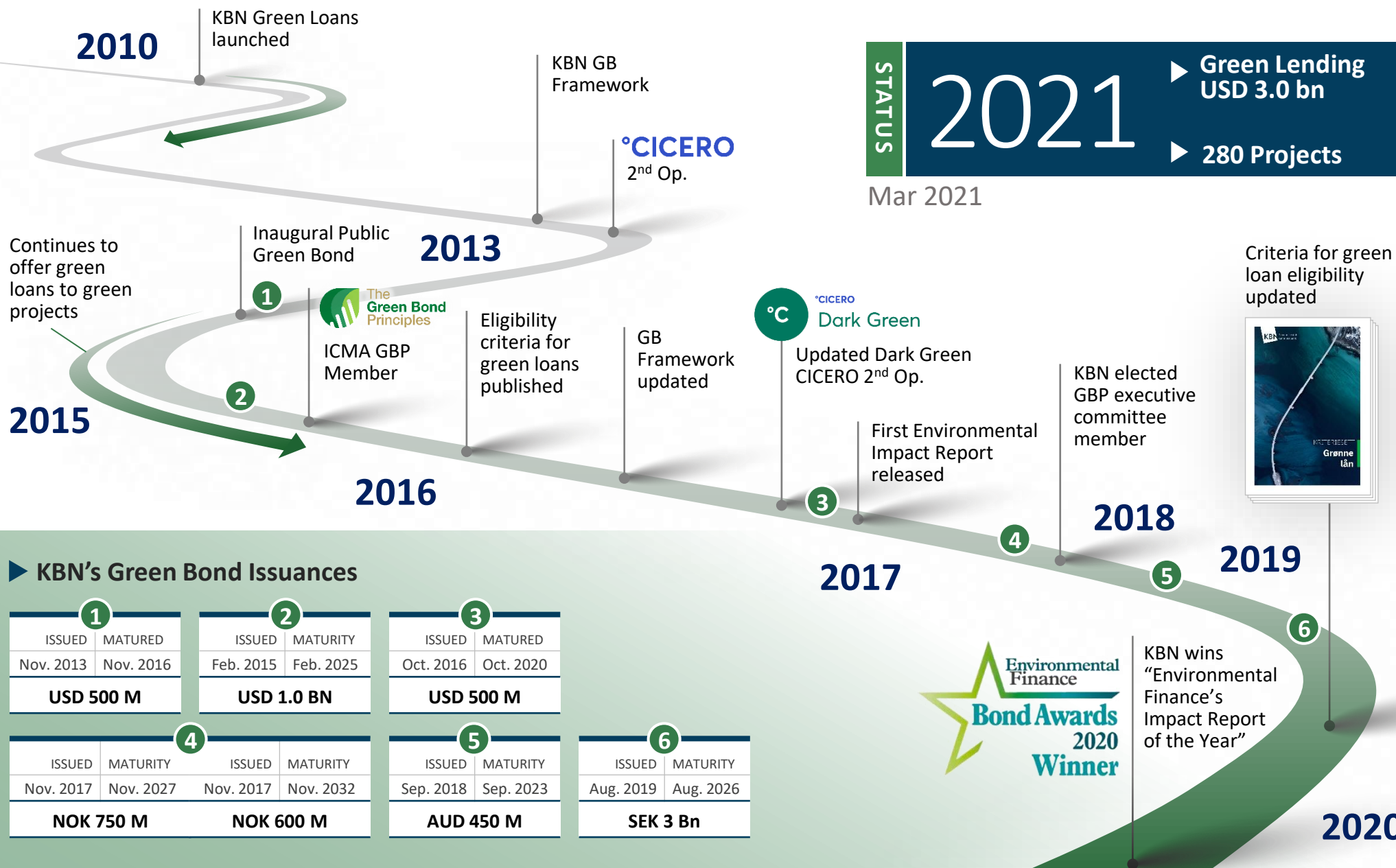
## NOTICE

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A wide-angle landscape photograph of a mountain range. The foreground shows a rocky, moss-covered ridge. In the middle ground, there are steep, green mountainsides leading down to a valley with a small, bright blue lake. The background features more mountain peaks partially obscured by white clouds under a blue, overcast sky.

ANNEXES  
**KBN GREEN BONDS**

# The Evolution of KBN'S Green Strategy



## ▶ KBN's Green Bond Issuances

1		2		3	
ISSUED	MATURED	ISSUED	MATURED	ISSUED	MATURED
Nov. 2013	Nov. 2016	Feb. 2015	Feb. 2025	Oct. 2016	Oct. 2020
<b>USD 500 M</b>		<b>USD 1.0 BN</b>		<b>USD 500 M</b>	

4		5		6	
ISSUED	MATURED	ISSUED	MATURED	ISSUED	MATURED
Nov. 2017	Nov. 2027	Nov. 2017	Nov. 2032	Sep. 2018	Sep. 2023
<b>NOK 750 M</b>		<b>NOK 600 M</b>		<b>AUD 450 M</b>	

6	
ISSUED	MATURED
Aug. 2019	Aug. 2026
<b>SEK 3 Bn</b>	

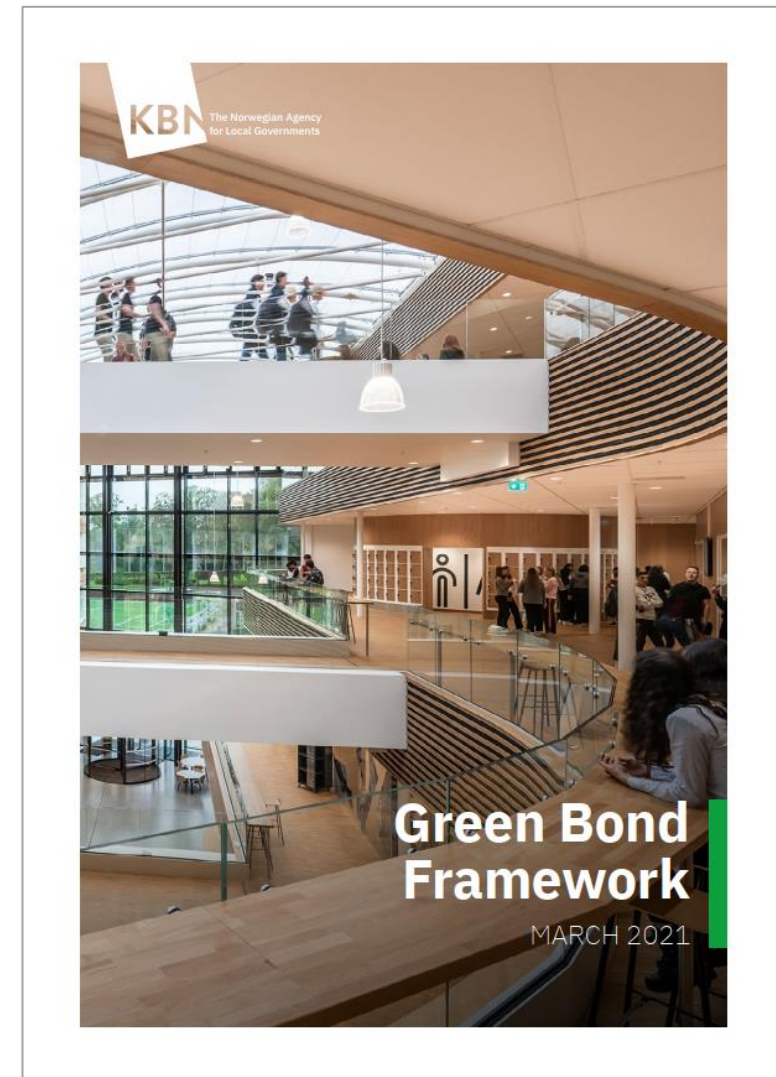


KBN wins "Environmental Finance's Impact Report of the Year"

# KBN Green Bond Framework 2021

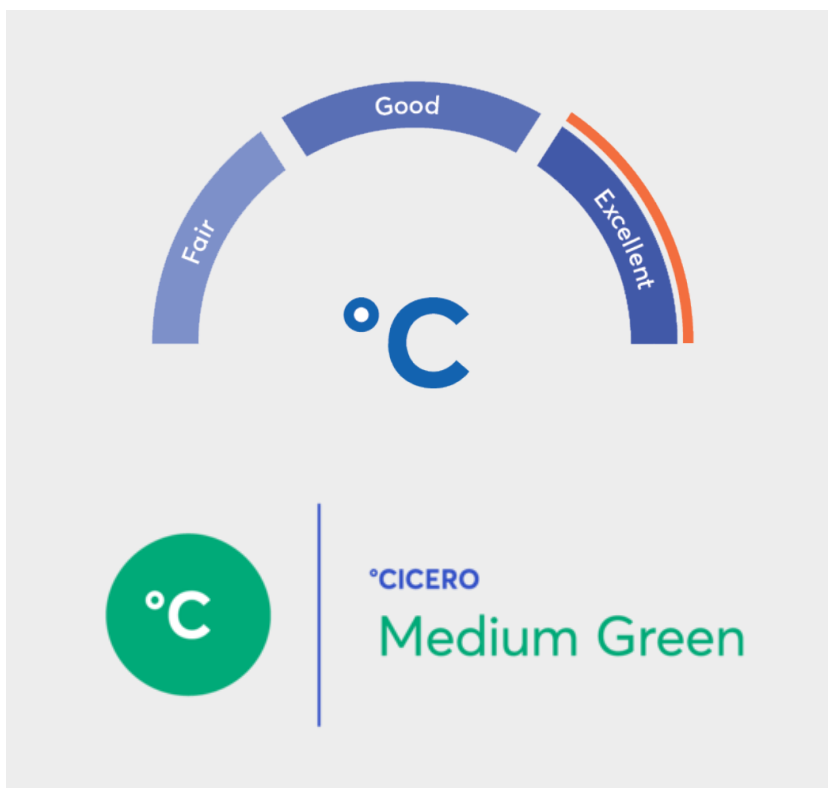
KBN's March 2021 Green Bond Framework replaces our 2016 Framework. All proceeds from bonds and taps dated after the update will be allocated to projects in line with the new Framework.

- ✓ Reinforces Green Finance as a strategic priority for KBN
- ✓ All projects must be aligned with 2021 version of KBN's Green Loan eligibility criteria, guided by KBN's external Green Expert Committee
- ✓ Annual in-house assessment of criteria's alignment with EU Taxonomy
- ✓ Annual third party review of asset selection process and allocation



# CICERO Second Opinion

*“Based on the overall assessment of the project types that will be financed by the green finance, governance, and transparency considerations, KBN’s green bond framework receives a **CICERO Medium Green** shading and a governance score of **Excellent**. Although the framework contains many Dark Green elements and features an excellent governance structure, the main category, Green buildings, contains elements that allows for projects not rated Dark Green.”*

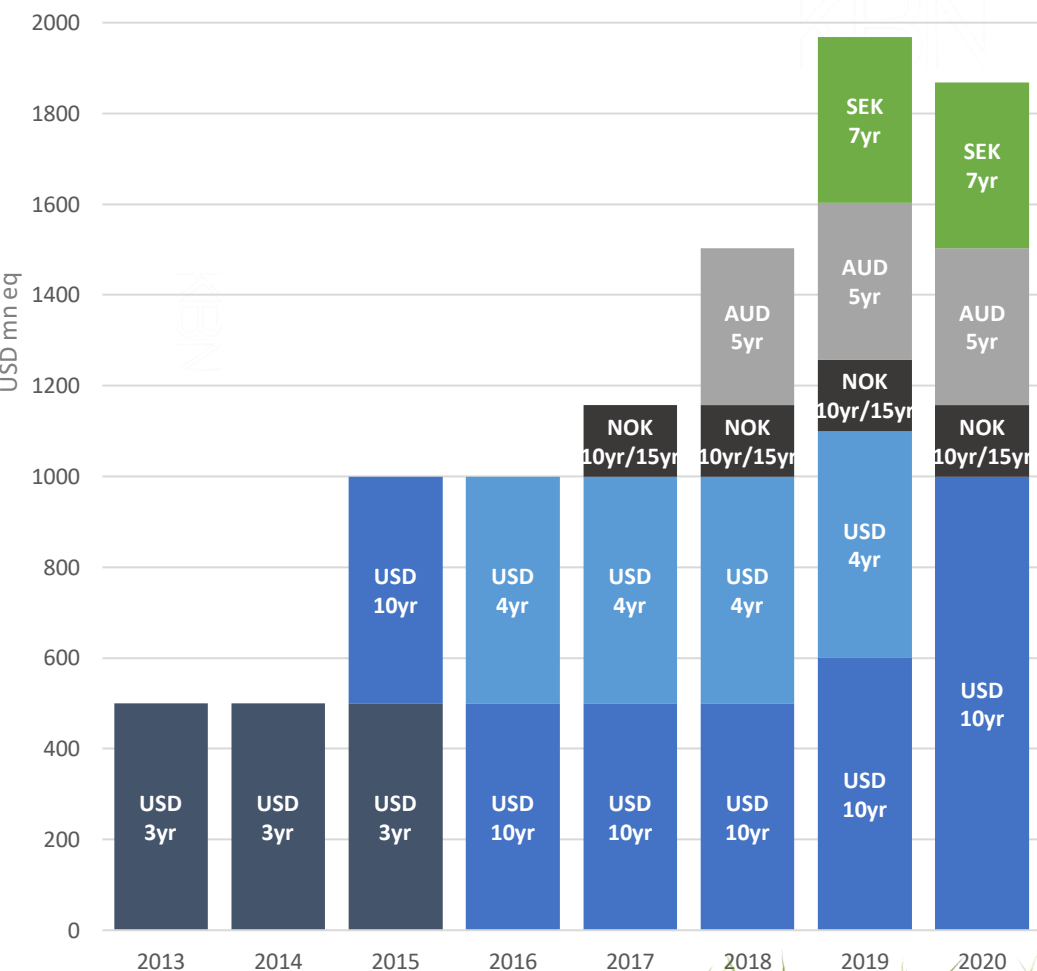


CICERO 2ND OPINION OF KBN’S GREEN PROJECT CATEGORIES	
Buildings	Medium Green
Renewable Energy	Medium to Dark Green
Transportation	Medium to Dark Green
Waste and Circular Economy	Medium to Dark Green
Water and Wastewater Management	Dark Green
Land Use and Area Development Projects	Medium to Dark Green
Climate Change Adaptation	Medium Green

# KBN Green Bond Issuance

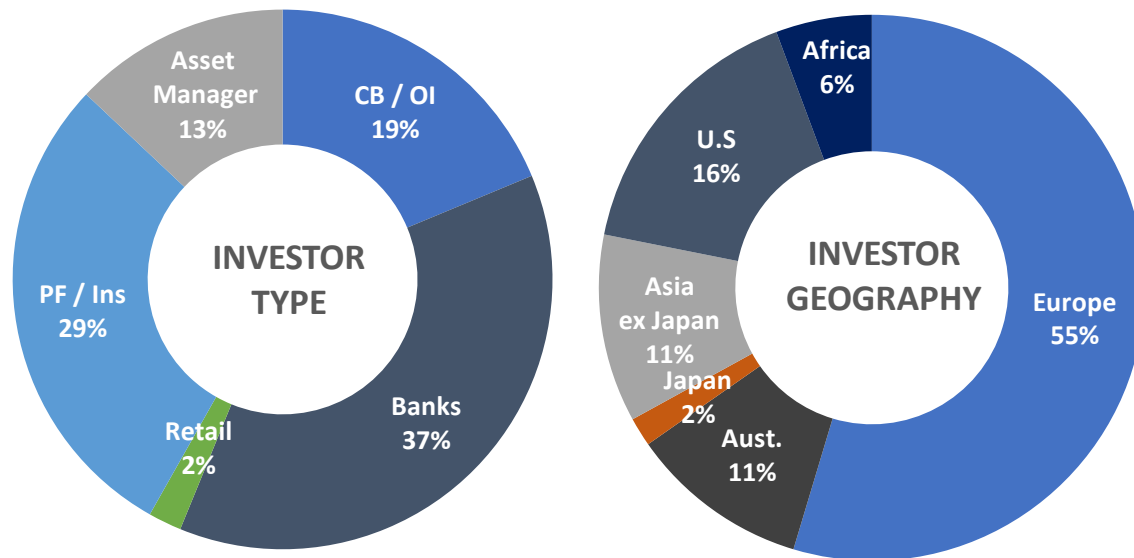
TOTAL OUTSTANDING **1.9** BN. USD\*

OUTSTANDING KBN PUBLIC GREEN BOND ISSUANCE



\*AUDUSD .7694 / USDSEK 8.2719 / USDNOK 8.5866

OUTSTANDING KBN PUBLIC GREEN BOND ISSUANCE\*  
Investor Type and Geography



KBN was one of the first European issuers to issue a green bond in USD. The past years we've experienced a strong global increase in investor demand for our issues in USD, NOK, AUD and SEK.

\* As of March 2021



# KBN's Green Bonds finance Green Loans

All proceeds from KBN's Green Bonds are allocated to Green Loans for investments within seven categories:



## BUILDINGS

Buildings contributing to lower energy use and/or sustainable use of materials.



## WASTE AND CIRCULAR ECONOMY

Measures that help minimize waste, increase reuse, recycling and improve energy recovery



## RENEWABLE ENERGY

Facilitating the use of renewable energy sources.



## WATER AND WASTEWATER MANAGEMENT

Water and wastewater investments with a climate and environmental profile



## TRANSPORTATION

Transport solutions with minimal or zero emissions



## LAND USE AND AREA DEVELOPMENT PROJECTS

Projects contributing to safe, inclusive and sustainable areas and healthy ecosystems.



## CLIMATE CHANGE ADAPTATION

Measures making local communities better equipped to withstand current and future climate change and reduce physical climate risk.

# Eligibility criteria defined in separate Criteria Document

2.1 RENEWABLE ENERGY PRODUCTION	DOCUMENTATION
<p><b>2.1.1 Renewable energy production</b> Applies to the following:</p> <ul style="list-style-type: none"> <li>a) Biogas plants</li> <li>b) Geothermal wells</li> <li>c) Solar cells or solar thermal collectors</li> <li>d) Pellet or wood chip heating systems</li> <li>e) Other renewable energy sources.</li> </ul> <p>↪ For renewable energy production systems for buildings, see the Buildings category.</p>	<ul style="list-style-type: none"> <li>▪ Expected annual energy production (kWh/year)</li> </ul>
2.2 ENERGY STORAGE	DOCUMENTATION
<p><b>2.2.1 Energy storage in connection with energy production facilities</b> Storage of locally generated energy using one of the following methods:</p> <ul style="list-style-type: none"> <li>a) Electrical storage, e.g. batteries</li> <li>b) Thermal storage</li> <li>c) Storage as hydrogen.</li> </ul> <p>↪ For the installation of energy storage solutions for buildings, see the Buildings category.</p>	<ul style="list-style-type: none"> <li>▪ Expected storage capacity (kW)</li> </ul>
2.3 ENERGY INFRASTRUCTURE	DOCUMENTATION
<p><b>2.3.1 Network capacity</b> Municipalities' contribution to work to construct or upgrade the network's capacity, e.g. a construction contribution.</p>	<ul style="list-style-type: none"> <li>▪ Expected increase in capacity (MW)</li> </ul>
<p><b>2.3.2 District heating/cooling</b> A production plant or distribution network for district heating or cooling. The plant must use renewable energy sources for both base and peak loads. Use of electricity to meet peak loads is acceptable. Energy from waste incineration or surplus heat/cold generated by other processes can also be used. The use of mineral-based emergency fuels can only be approved for clearly defined emergency situations.</p> <p>↪ For the installation of charging points for electric cars, see the Transport category.</p>	<ul style="list-style-type: none"> <li>▪ Expected increase in capacity (MW)</li> <li>▪ Expected distribution between energy sources (%)</li> </ul>

✓ Eligible project categories are described in the **Green Bond Framework** and further defined in the **Criteria document for Green Loans**

✓ The criteria document is intended to **mirror developments in technology, official regulations and best practice**, ensuring investments financed with KBN's Green Loans are always at the forefront.

✓ The Criteria Document is assessed annually by **KBN's Green Expert Committee** consisting of external experts in fields such as clean energy and transport, sustainable buildings, and representatives from the local government sector.

*Example of Eligibility Criteria: Transport*

[Criteria Document for Green Loans \(pdf\)](#)

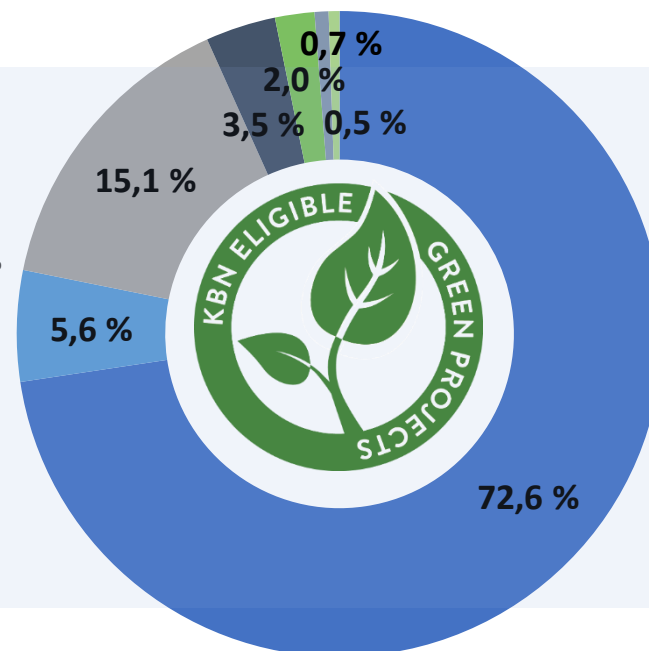


# Green Lending Portfolio

**GREEN LOANS OUTSTANDING**  
USD 3.0 BN\*

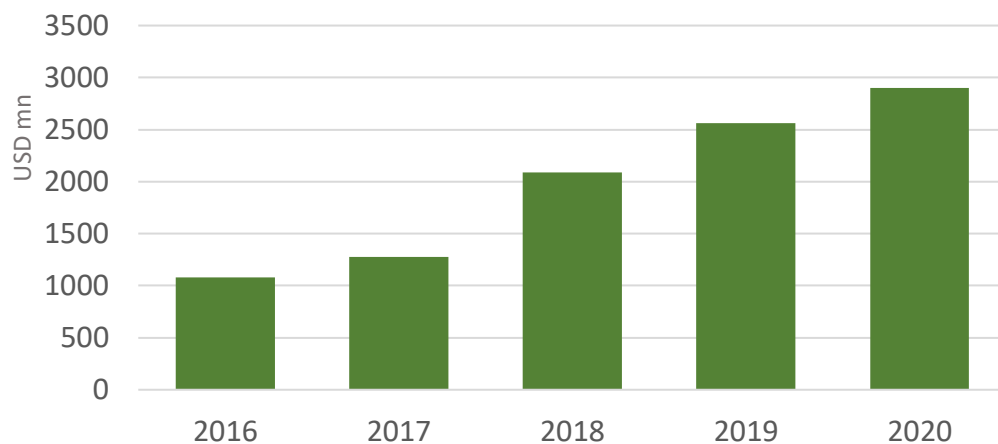
KBN has offered reduced-rate green loans for investments that contribute to solving the climate challenges of the future since 2010.

- Buildings 72.6%
- Transportation 5.6%
- Water and Wastewater Management 15.1%
- Waste and Circular Economy 3.5%
- Renewable Energy 2.0%
- Land Use and Area Development 0.7%
- Climate Change Adaptation 0.5%



## KBN GREEN LOANS\*

Accumulative Lending - End of year 2016-2020



The demand for green loans has risen substantially the last few years, mirroring the increased interest for green bonds.

In 2020, green loan growth accounted for 34% of KBN's total lending growth.

\*USDNOK = 9

## Paris-aligned eligibility criteria

KBN's discounted Green Loans are investments aiming towards a zero-emission and climate resilient society in line with the Paris agreement.

KBN does not allow any investments locking in fossil fuels or other non-renewable energy sources, unless it is strictly for emergency back-up only.

- ✓ All transportation projects shall be strictly fossil-free. Sustainably produced bio fuels such as biogas from waste decomposition is allowed.
- ✓ All energy production shall be based on renewable sources
- ✓ For buildings, no oil-based or other fossil-based heating is allowed
- ✓ District heating systems, ships and ferries may have fossil-based peak loads only as a fallback solution



# Governance

KBN's green loan and bond programs are governed by the obligations we have set out in our [Green Bond Framework \(2021\)](#), which is aligned with the four pillars of the Green Bond Principles.



## Green loan process

- 1** The customer submits an application for a green loan. The climate or environmental impact for which the customer must provide evidence are specified for each category.
- 2** The customer's account manager assesses whether the project is in line with KBN's green lending criteria and prepares a recommendation which is forwarded to an internal climate adviser for evaluation.
- 3** The climate adviser makes a technical evaluation of the project describing uncertainty, impact and documentation associated with the project. If the project qualifies, it is forwarded to a climate controller for quality assurance purposes.
- 4** The climate controller checks that the account manager and climate adviser's assessments are verifiable and that the project qualifies for a green loan.

## Management of funds

KBN's green bonds and green loans are tagged and tracked separately in KBN's systems. The total amounts of KBN's green funding and lending are reported in KBN's ordinary quarterly reports.

As a rule, KBN's outstanding green lending will always exceed its outstanding green borrowing, as this means that 100% of the funds it has borrowed by issuing green bonds are always allocated to green projects.

## Use of funds

The funds raised by KBN's green bond issues can only be used to finance projects that satisfy KBN's green lending criteria.

This [criteria document](#) represents KBN's 'taxonomy' and sets out criteria for the categories of project that can be granted a green loan.

# KBN Impact Reporting


## The central principles of our environmental impact reporting are:

- Reports include information at the project level, category level and portfolio level.
- Reported impact relates to the proportion of the project we financed.
- We base our calculations on projected (ex-ante) values.
- Reporting is centred around the net benefit of each project relative either to the situation prior to the project's completion or to a reference scenario, as appropriate. As reference scenarios we use the relevant regulatory requirements.
- Our reporting is limited to emissions and emissions reductions that fall under Scopes 1 and 2\*
- Energy produced, saved or avoided is converted to greenhouse gas emissions reductions by applying an emission factor for electricity production in mainland EU and Norway (315g of CO<sub>2</sub>/kWh).
- In addition to key indicators such as CO<sub>2</sub> reduced or avoided and electricity generated, the reporting includes category-specific environmental indicators.
- We report which of the UN's Sustainable Development Goals and which of the EU's six environmental objectives the various project categories help to achieve.
- KBN also supplements its Impact Report with data on the environmental impact of its green bonds in a investor-friendly spreadsheet.

\* Defined by the Greenhouse Gas Protocol as direct emissions from projects (Scope 1) and indirect emissions from the production of electricity and/or district heating used in projects (Scope 2).

*KBN contributed to "Nordic Public Sector Issuers: Position Paper on Green Bonds Impact Reporting", which KBN uses as the basis for its environmental impact reporting.*



 [NPSI Position Paper on Green Bonds Impact Reporting 2020](#)

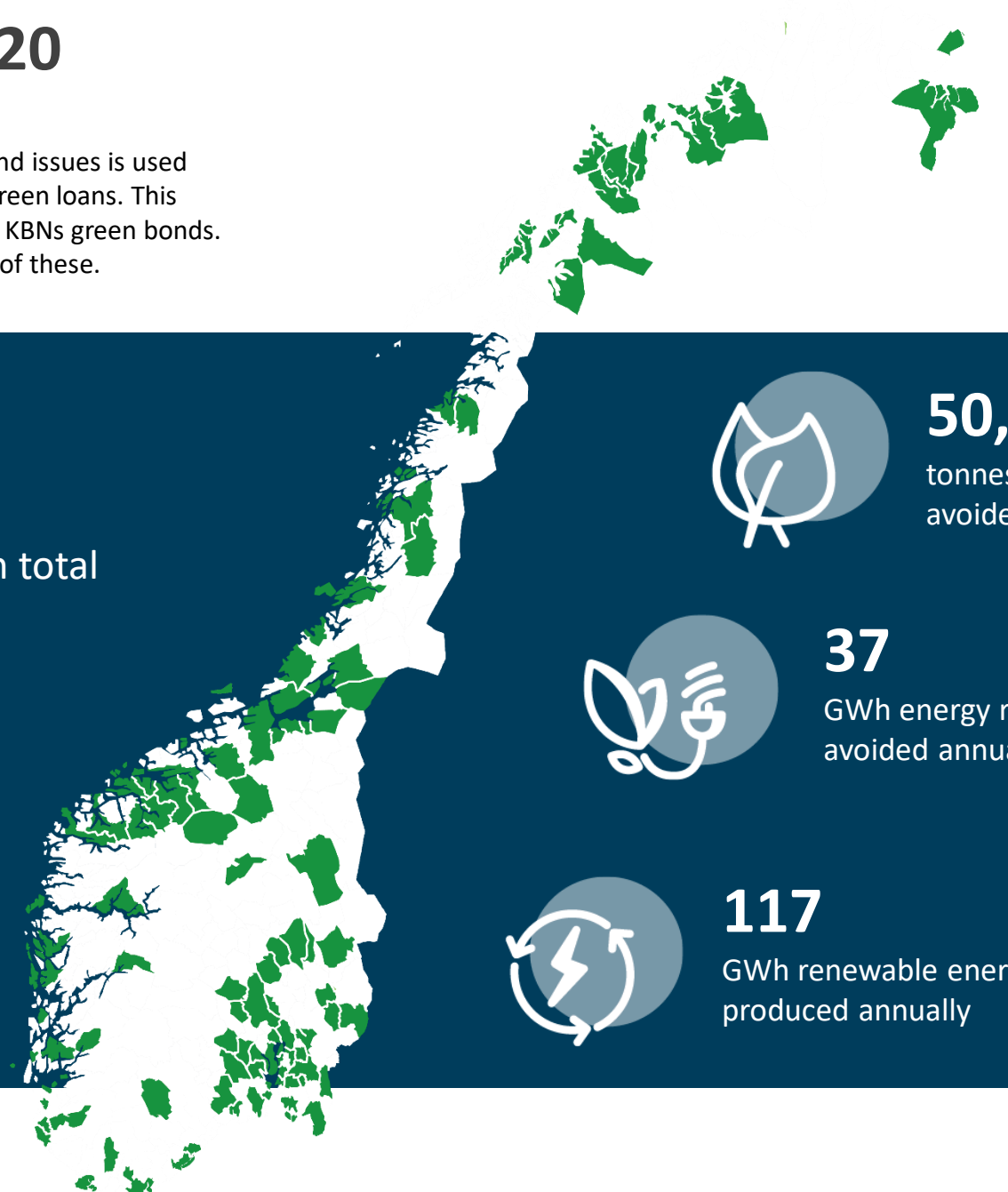


 [2020 KBN Impact Report](#)

*KBN Norway's impact reporting is conducted according to the principles and methodology presented in the Position Paper on Green Bonds Impact Reporting*

# Impact Report 2020

All the funding raised by KBN's green bond issues is used exclusively for lending to customers as green loans. This report presents the projects financed by KBNs green bonds. The map shows the geographic location of these.



**267**  
Projects in total



**50,058**  
tonnes of CO2e reduced and avoided annually



**37**  
GWh energy reduced and avoided annually



**48**  
New projects in 2020

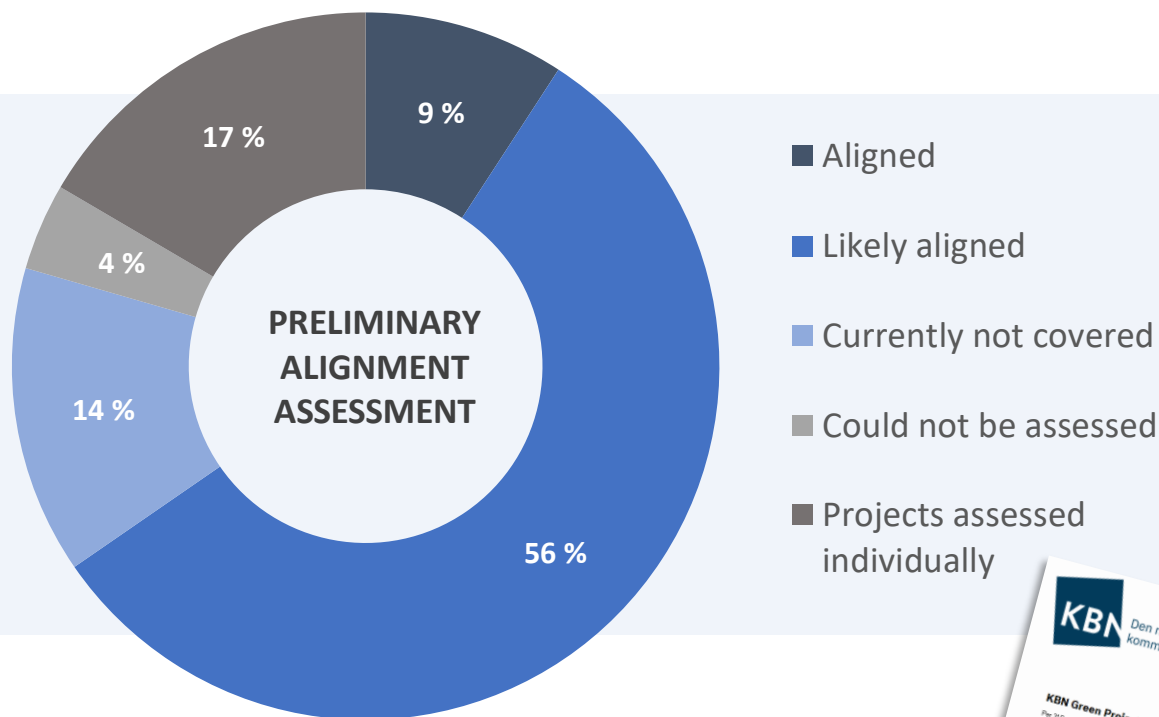


**117**  
GWh renewable energy produced annually

*The information in this report is provided by our customers. The data has been reviewed by KBN but has not been verified by KBN or a third party. Calculation of impact is done by KBN. 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. A grid factor of 315g CO2 per kWh of electricity is used for all calculations from electricity to CO2e. This grid factor is recommended in the "Nordic Public Sector Issuers' Position Paper on Green Bonds Impact Reporting". Read more about reporting principles in Impact report 2020.*

# Preliminary Taxonomy alignment assessment

KBN has for the first time screened all projects in its existing Green Project Portfolio against the technical screening criteria (TSC) in the EU's Taxonomy for sustainable economic activities.



[Download full mapping \(Excel\)](#)

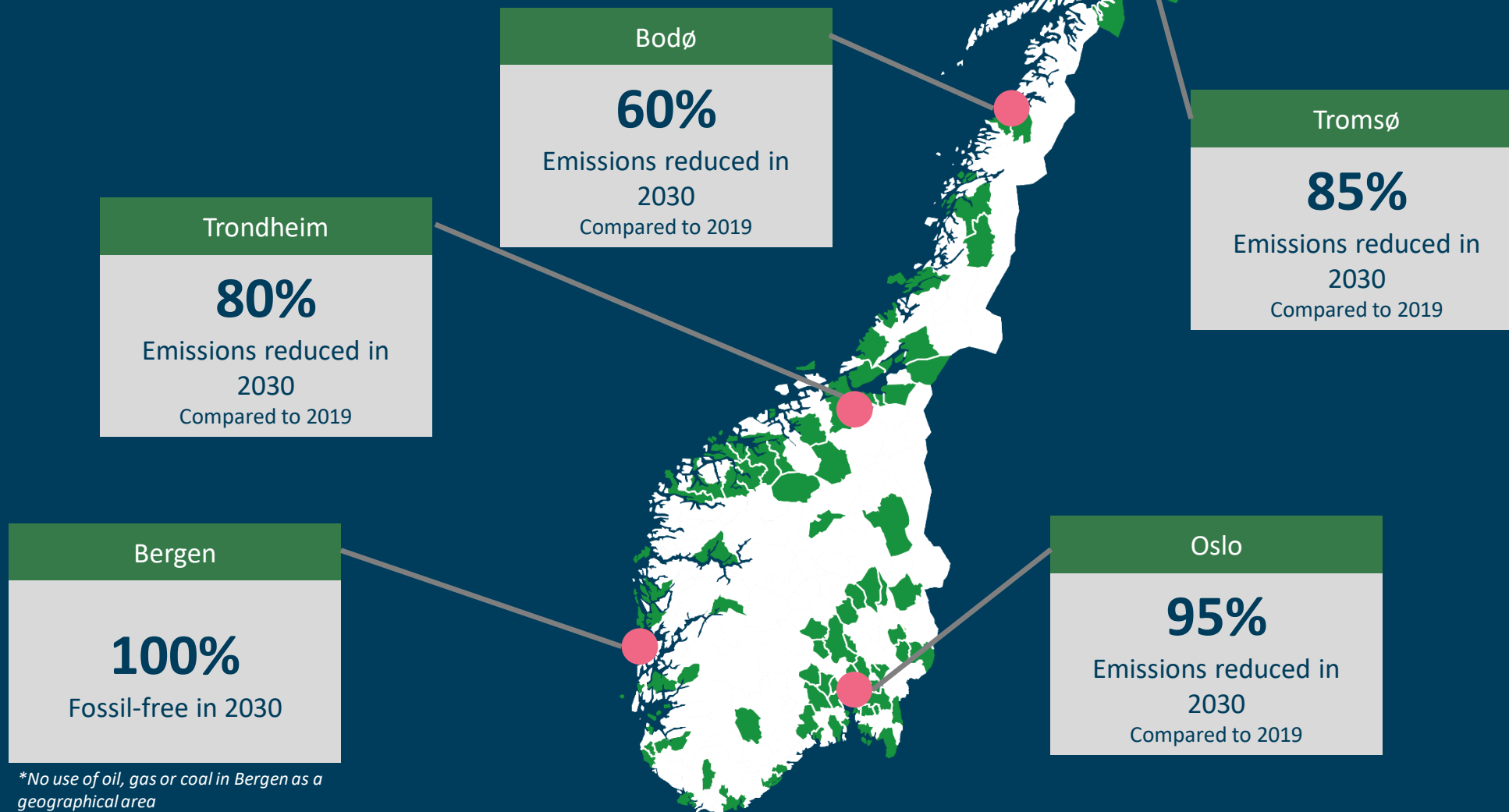


The assessment has been conducted with the best intentions and on the basis of the information available. It is to be noted that the taxonomy has not yet been approved in its final form, and that KBN's review is based on the technical screening criteria in the draft of the Taxonomy from November 2020. DNSH criteria have currently not been assessed. KBN's mapping should therefore be regarded as preliminary.



# The Norwegian municipalities take the lead

All the largest cities of Norway are aiming to reduce their direct climate gas emissions from 60 to 100 percent by 2030.



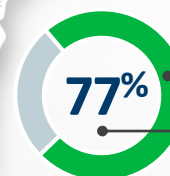
CASE

## Built for the future

With elevators that store their own energy, a grass roof and a cooling system based on seawater, the new Munch Museum has become a futuristic home for some of Norway’s artistic treasures in the centre of Oslo.

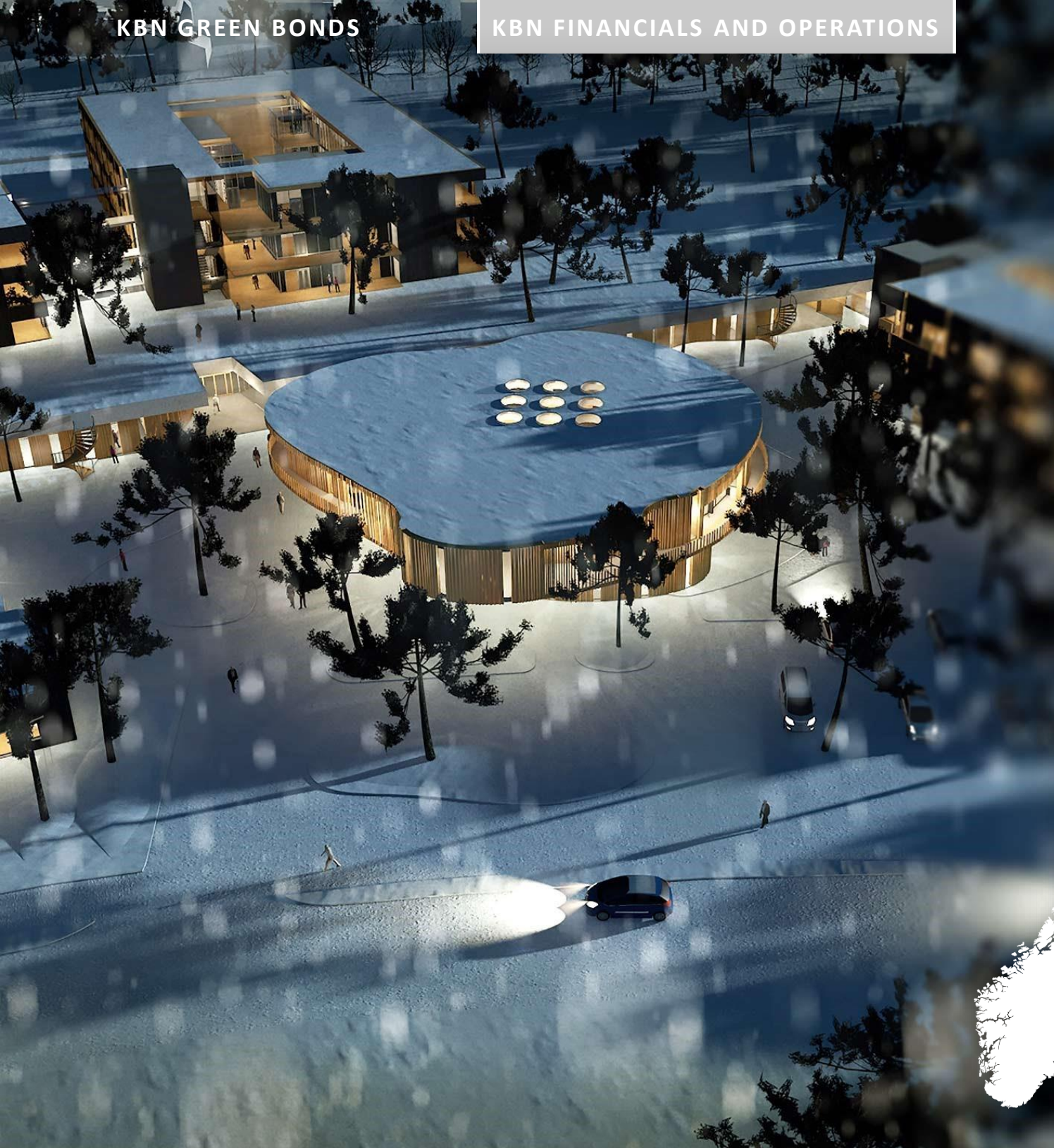
“The aim was to reduce the building’s greenhouse gas emissions by more than 50%, and we managed to achieve this”, explains Karianne Tvedt from Advansia, who was responsible for the environmental dimension of the building’s project management.

New Munch museum, Oslo municipality



**2.6** Total cost, billion NOK  
**2** Outstanding green loan, billion NOK  
 KBN share of financing (outstanding)

ESTIMATED IMPACT (share financed with green loan)	
Energy avoided, MWh/annually	<b>989</b>
Corresponds to avoided GHG (tonnes CO <sub>2</sub> e/annually)	<b>312</b>

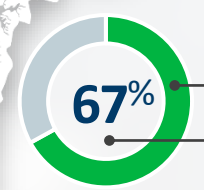


CASE

### Finnmark's First Care Centre in Mass Timber

Alta municipality chose environmentally friendly mass timber when they built a new care centre. A total of 4,000m3 of mass timber will be required. The building also benefits from modern and effective energy solutions.

ALTA CARE CENTRE, ALTA MUNICIPALITY



**898** Total cost, million NOK  
**636** Outstanding green loan, million NOK  
 Share financed with outstanding green loan

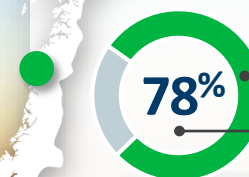
ESTIMATED IMPACT (share financed with green loan)	
Energy use avoided, MWh/year	506
Energy produced, MWh/year	1 468
GHG emissions avoided, tonnes CO <sub>2</sub> e	622

CASE

## Innovative system that uses seawater as a source of energy

Sandnessjøen Fjernvarmeanlegg AS (SFV) is using sea water as a source of energy for its heat pump system. SFV’s district heating system uses energy from the sea to heat everything from a hospital to private homes. The energy is distributed via heated water that maintains a temperature of between 58° and 65°, depending on the outside temperature. This heated water is pumped to subscribers via a separate system of pipes that totals 3.5 km in length. The solution chosen by SFV helps Sandnessjøen’s residents to heat their homes using low-cost, renewable energy.

Installation of heat pumps, SFV



**6.3** Total cost, million NOK

**4.9** Outstanding green loan, million NOK

KBN share of financing (outstanding)

**ESTIMATED IMPACT**  
(share financed with green loan)

Expected energy production (MWh/annually)	<b>5 850</b>
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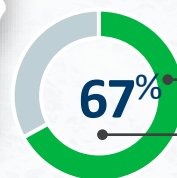


CASE

## The first zero-emission vessel to be financed by KBNs green loan

The electric ferry in Porsgrunn will be equipped with battery packs that can be charged from the electricity network. It will also meet the strictest environmental requirements, which will significantly reduce the ferry's CO2 emissions and energy consumption.

Electric ferry, Porsgrunn municipality

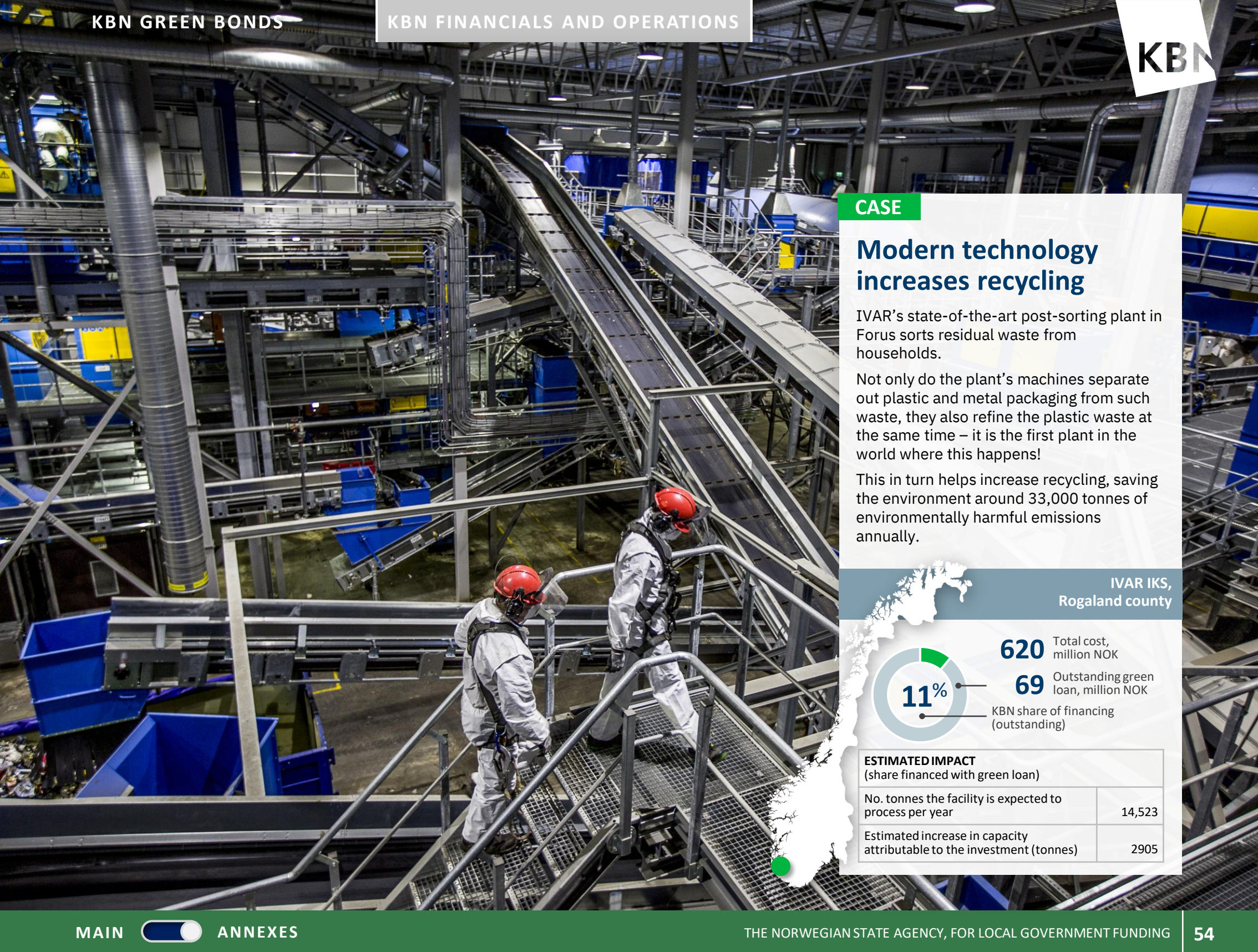


**100** Total cost, million NOK

**67** Outstanding green loan, million NOK

KBN share of financing (outstanding)

ESTIMATED IMPACT (share financed with green loan)	
Passangers (annually)	80 400



CASE

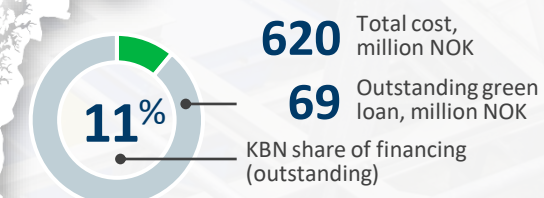
## Modern technology increases recycling

IVAR's state-of-the-art post-sorting plant in Forus sorts residual waste from households.

Not only do the plant's machines separate out plastic and metal packaging from such waste, they also refine the plastic waste at the same time – it is the first plant in the world where this happens!

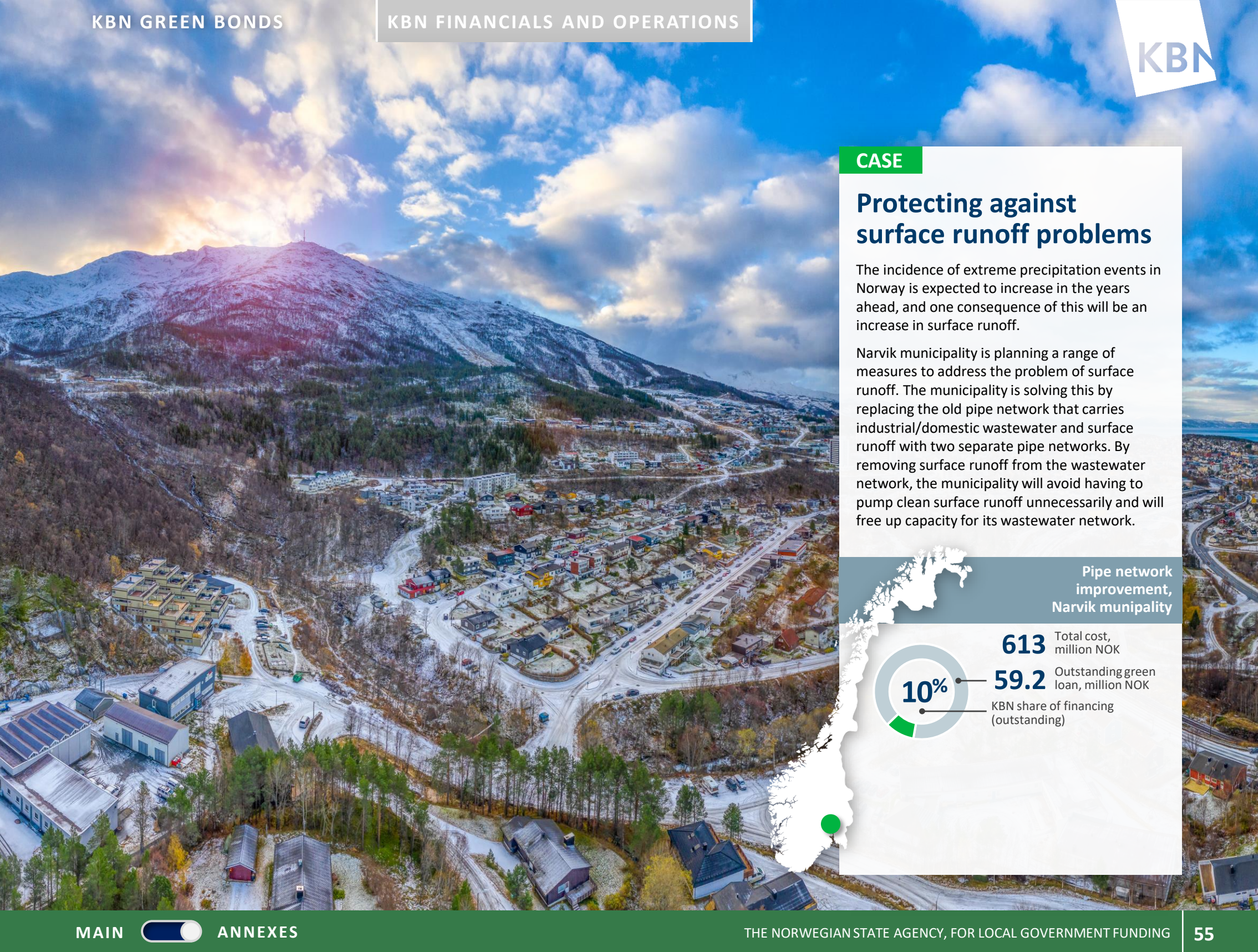
This in turn helps increase recycling, saving the environment around 33,000 tonnes of environmentally harmful emissions annually.

IVAR IKS,  
Rogaland county



**ESTIMATED IMPACT**  
(share financed with green loan)

No. tonnes the facility is expected to process per year	14,523
Estimated increase in capacity attributable to the investment (tonnes)	2905

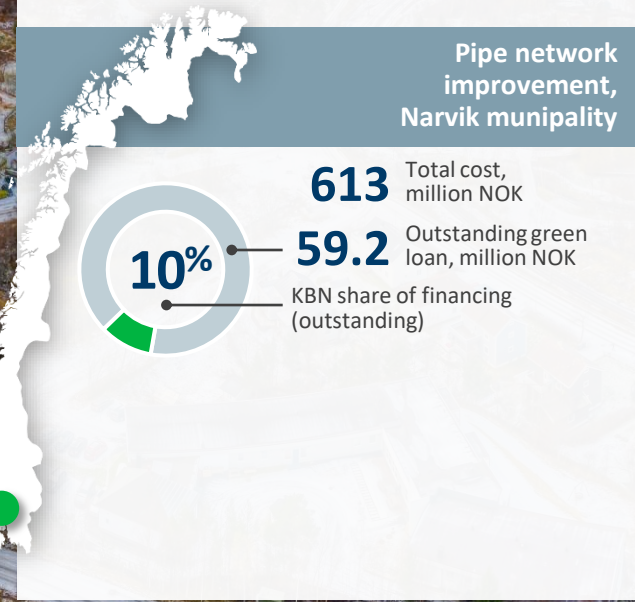


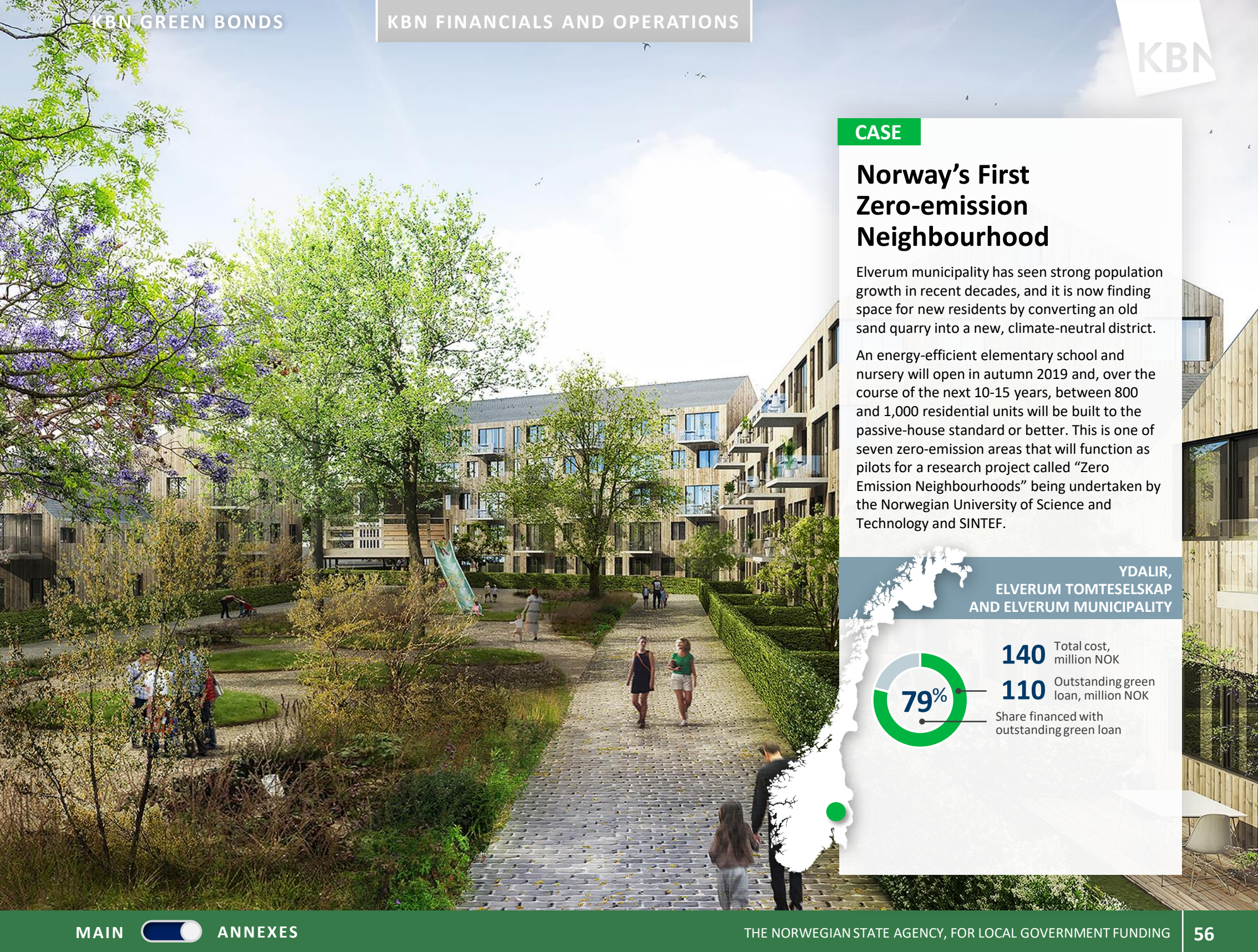
CASE

## Protecting against surface runoff problems

The incidence of extreme precipitation events in Norway is expected to increase in the years ahead, and one consequence of this will be an increase in surface runoff.

Narvik municipality is planning a range of measures to address the problem of surface runoff. The municipality is solving this by replacing the old pipe network that carries industrial/domestic wastewater and surface runoff with two separate pipe networks. By removing surface runoff from the wastewater network, the municipality will avoid having to pump clean surface runoff unnecessarily and will free up capacity for its wastewater network.



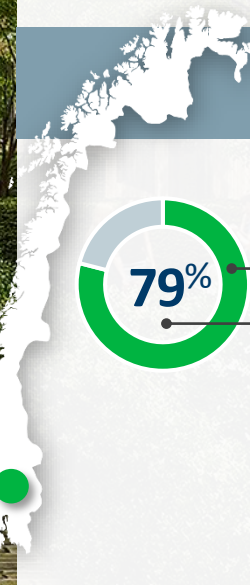


CASE

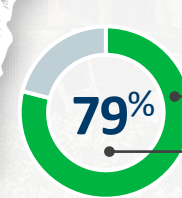
## Norway's First Zero-emission Neighbourhood

Elverum municipality has seen strong population growth in recent decades, and it is now finding space for new residents by converting an old sand quarry into a new, climate-neutral district.

An energy-efficient elementary school and nursery will open in autumn 2019 and, over the course of the next 10-15 years, between 800 and 1,000 residential units will be built to the passive-house standard or better. This is one of seven zero-emission areas that will function as pilots for a research project called "Zero Emission Neighbourhoods" being undertaken by the Norwegian University of Science and Technology and SINTEF.



YDALIR,  
ELVERUM TOMTESELSKAP  
AND ELVERUM MUNICIPALITY



**140** Total cost, million NOK  
**110** Outstanding green loan, million NOK  
 Share financed with outstanding green loan



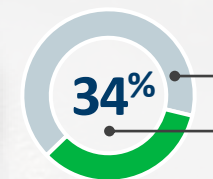
## CASE

## Extreme weather urges the municipality to move its waterworks

Ågleinåga is currently the main waterworks in Beiarn municipality and supplies the central areas of Moldjord and Storjord. The source of its water is, however, exposed to avalanches and landslides.

Due to the increasing frequency of short-duration precipitation events and milder winters, coupled with the fact that the source of the water is partially fed by glaciers, the waterworks will become even more vulnerable going forward. Beiarn municipality therefore decided to move its main waterworks to its other facility at Tollå, which has high water quality and capacity, and is protected against pollution.

### Improving Ågleinåga waterworks, Beiarn municipality



34%

**47.6** Total cost, million NOK

**16** Outstanding green loan, million NOK

KBN share of financing (outstanding)



# KBN FINANCIALS AND OPERATIONS

# Financial Highlights

(Amounts in NOK 1 000 000)

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

## Notes:

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 period 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 period, 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 period 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.

## LIQUIDITY COVERAGE RATIO (LCR)<sup>8</sup>

	2020	2019	2018	2017
Total	191%	348%	349%	570%
NOK	77%	73%	56%	2,052%
EUR	200%	800%	625%	233%
USD	188%	422%	248%	308%
AUD	1,239%	Infinite	489%	Infinite
JPY	716%	533%	Uendelig	185%
GBP	97,768%	Infinite	Insignif-icant	Insignif-icant

## OTHER KEY FIGURES

Green loans <sup>9</sup>	26,112	23,049	18,869	11,500
Green bonds <sup>10</sup>	15,976	16,615	12,800	9,600
CO <sub>2</sub> saved or reduced (tonnes of CO <sub>2</sub> equivalents) <sup>11</sup>	50,058	50,938	64,769	40,803
Emissions in tonnes CO <sub>2</sub> equivalents <sup>12</sup>	74.5	191.8	281.8	323.1
Percentage of women employed in KBN	41%	42%	44%	43%
Customer satisfaction (score of 6)	5.31	5.32	5.17	5.24

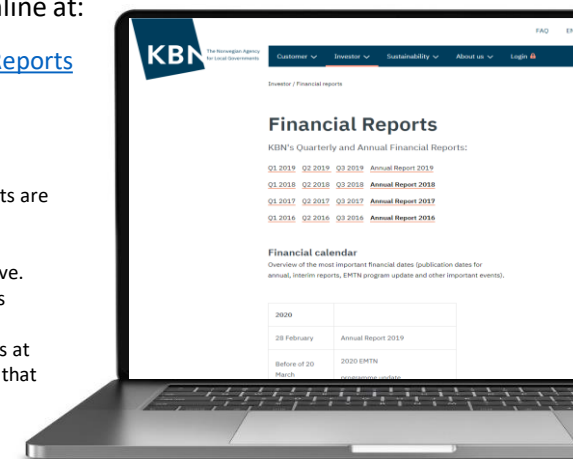


## Further information

on KBN's finances are available in the Annual Report and Quarterly Funding Updates, which are available online at:



[Financial Reports](#)



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 Outstanding green loans according to KBN's set of criteria for green loans as at 31 December 2020. In addition, the bank has a small portfolio of green loans that were given before these criteria were established. These loans are no longer financed with green bonds.

10 Outstanding green bonds

11 Based on an European emission factor of 380g CO<sub>2</sub> per kWh of electricity avoided or produced in an emission-free manner; the reduction relates to projects that are financed with green obligations. For CO<sub>2</sub> results with other emission factors, please see the KBN Green Bond Impact Report.

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



# KBN's Loan Approval Process and Principles

## Annual Budget Preparations

Clients set up an annual investment plan defining investments and funding needs. The plan is approved by the Municipal board



## Internal Review

KBN's credit committee perform an annual credit review of all counties/municipalities based on quantitative and qualitative factors across several key parameters:

- Profit margins over the past two years
- Debt burden and use of short-term debt
- Percentage of cash flow focused on debt servicing
- Available liquidity
- Presence on the ROBЕК list

The credit process culminates in a traffic light ranking system ranging from green to red for all clients. KBN Board receives a report on all result.



## Loan Process

Loan application is assessed against the credit review, loan purpose and financial sustainability of the project before approval.

## The KOSTRA Registry

Since 1997, local and regional governments have been required by law to register statistics on budget, financial activities and public services in the KOSTRA (Municipality-State-Register) database. This registry is managed by Statistics Norway and provides key inputs for KBN's credit risk management models.

Central Government Control and Oversight Leads to...



...Disciplined and Prudent Financial Management at both clients and KBN

## The ROBЕК List

The Register for Governmental Approval of Financial Obligations (ROBЕК) is a government register of municipalities and counties who have not submitted a balanced budget. Entities on the list must have any new debt contracts approved by the state representative Fylkesmann in order to be valid. They earn a KBN yellow light.

## Framework for Local Government debt:

County and local government debt management are monitored by the Norwegian Ministry of Local Government and Regional Development. Financial report/accounting must be registered in the KOSTRA registry, ensuring transparency of operating activities.

Because the Norwegian legal statute Article §55 states that no county or municipality may go bankrupt, the Ministry provides technical assistance on budgeting and debt management.

In accordance with the new municipal act in effect from 2020 all local governments will be required to implement financial target numbers for cost control and financial management to eliminate material financial risk.



## KBN's Traffic Lights for Client Loan Requests

### GREEN

Clients in strong financial health; approvals given on a timely basis.

### YELLOW

Additional due diligence is undertaken by CRM prior to approval

### ORANGE

More detailed analysis is required to consider debt sustainability and the soundness of the client's finances and management strategies.

### RED

Approvals require a Board vote *and government agreement*

### KBN Improving the Sector's Debt Management

- KBN's work to improve debt management capacity - via the KBN School – is starting to show results. In 2016, the School launched a debt management system known as KBN Finans, a web-based tool that helps clients with analysis and reporting relating to their loans and interest rate fixings.
- KBN Finans helps customers evaluate their own borrowing position and exposure to financial risk. Since starting this training, the financial quality and debt sustainability of local and regional governments has improved.

  
KBNskolen

KBN Finans

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