



KBN

The Norwegian Agency
for Local Governments

DECEMBER 2020

THE NORWEGIAN AGENCY

FOR LOCAL GOVERNMENTS



KBN

The Norwegian Agency
for Local Governments

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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 & POOR'S</u>	<ul style="list-style-type: none"> Norway continues to benefit from a prosperous economy, strong fiscal and external positions, and a stable policy environment. 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. <p>(MARCH 2019)</p>
	Aaa	P-1	Stable	MOODY'S	<ul style="list-style-type: none"> Resilient and Highly competitive economy. Norwegian government's balance sheet is extremely strong, even when compared to other Aaa-rated sovereigns. Unparalleled fiscal strength that is likely to be sustained over the long-term. A Track record of exceptionally strong macro and regulatory institutions. <p>(JUNE 2018)</p>
	AAA	A1+	Stable	<u>STANDARD & POOR'S</u>	<ul style="list-style-type: none"> Important role for, and integral link with, the Norwegian government. KBN performs an important public policy function. Very strong and stable capitalization levels Extremely high likelihood of extraordinary financial support from the central government. <p>(JUNE 2020)</p>
	Aaa	P-1	Stable	MOODY'S	<ul style="list-style-type: none"> 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. We consider the Norwegian RLG sector financially strong because of the supportive and closely supervised system that underpins the sector KBN has not recorded any loss from lending during over 90 years of operations. <p>(JUNE 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 11%, municipalities 71% and road projects 6%. KBN's county and municipal portfolio can be broken down as follows¹:

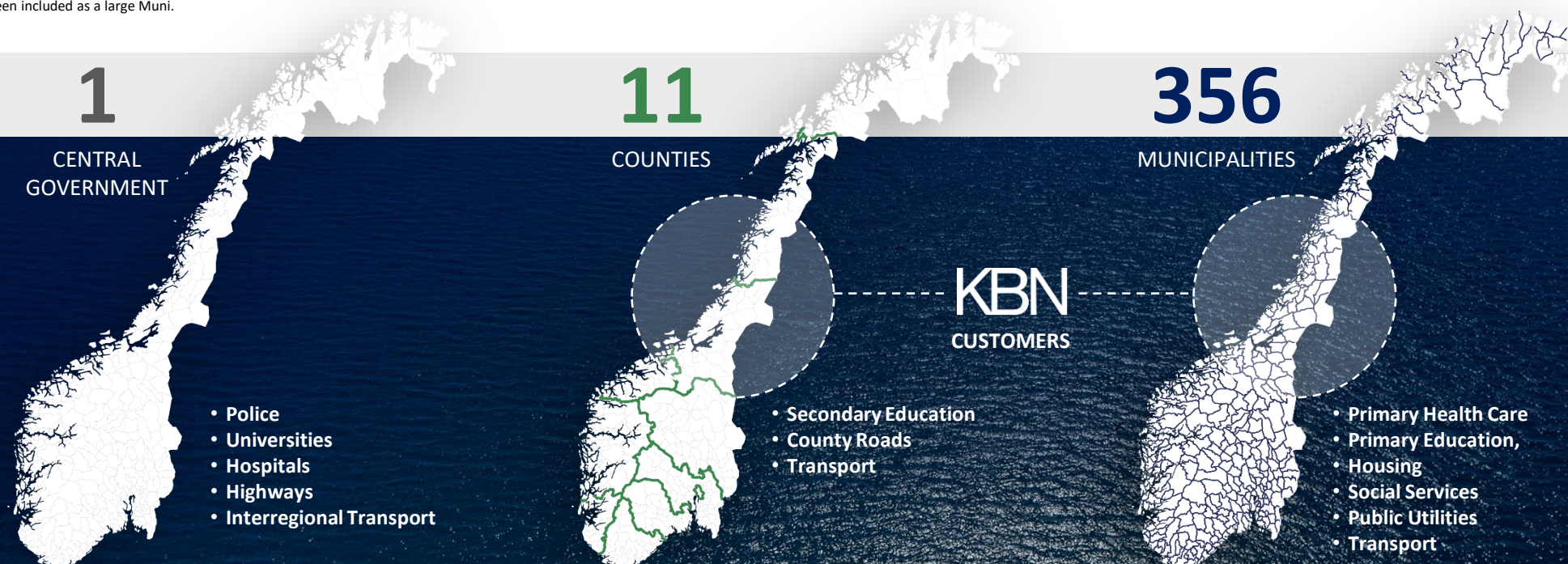
¹ Large munis = > 20,000 inhabitants, Medium-sized munis = 20,000 ≤ 10,000 inhabitants and Small munis = < 10,000 inhabitants.

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

	Number	Share of Overall Loans
Counties	10*	13%
Large Munis	62	49%
Medium Munis	50	15%
Small Munis	244	23%



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 “Dark Green” rating by CICERO, the highest possible rating.

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	✓ MINIMAL LENDING CREDIT RISK	✓ STRICTLY MANAGED OFF-BALANCE CREDIT RISK	✓ CONSERVATIVE LIQUIDITY PORTFOLIO
<ul style="list-style-type: none"> • Proceeds from funding operations are hedged for currency and interest rate exposure and swapped into 3-month floating rate EURs, NOKs or USDs. 	<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • 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.

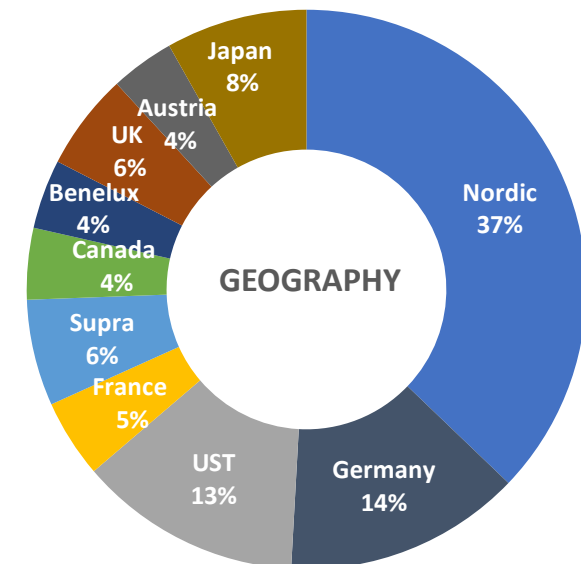
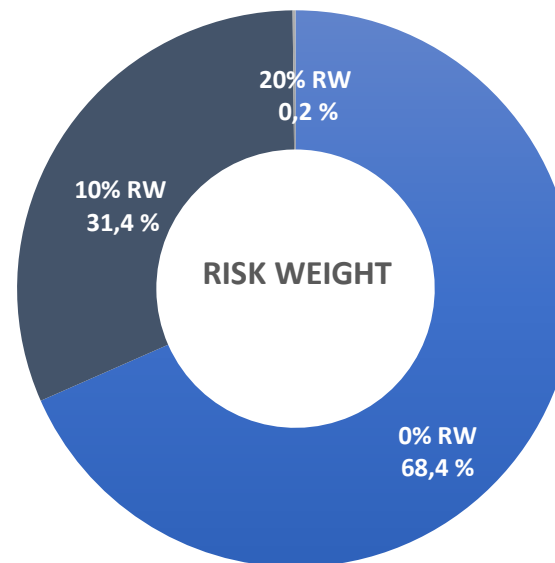
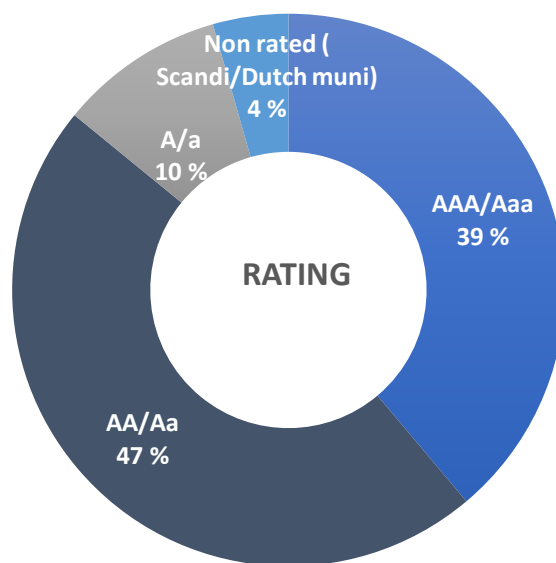
Large and High Quality Liquidity Buffer

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

1.58 yr average maturity on liquidity portfolio (1.45yr ex. UST) Nov 2020



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 21.2% in Q3 2020.
- While KBN is not profit maximizing, it does target a central government defined 8% return on equity target.
- Dividend paid to the Kingdom as owner. If the government ascertains that KBN's 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 55.8 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.

ASSETS

LENDING
Norwegian local gov.

LIQUIDITY PORTFOLIO

EQUITY & LIABILITIES

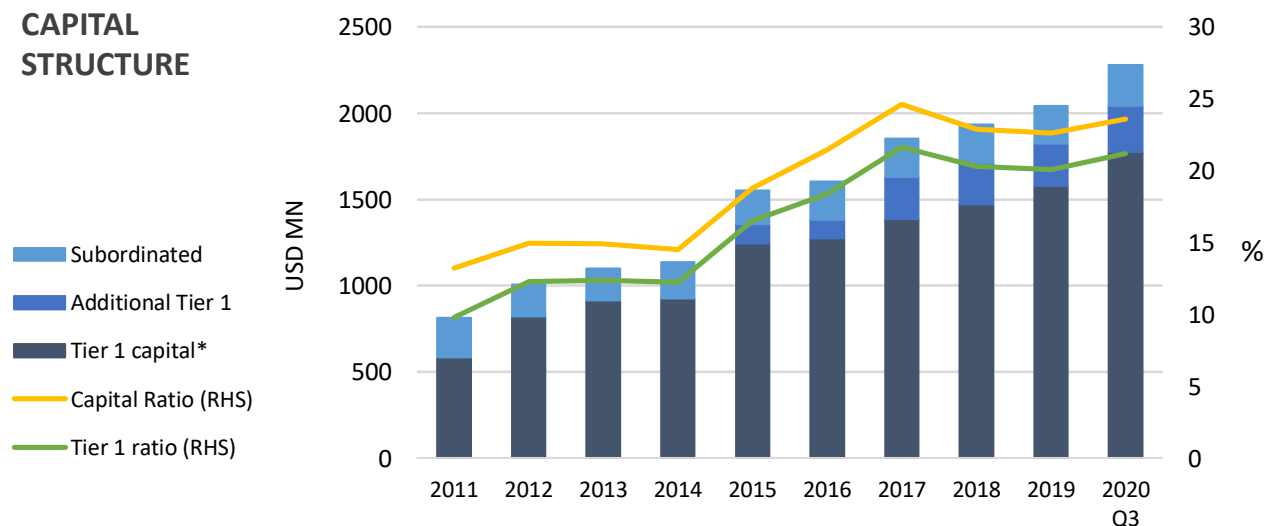
BORROWINGS

Sub debt
240mn

Add Tier 1 Cap
265mn

Equity
1.78bn

CAPITAL STRUCTURE



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

Sound Financial Performance

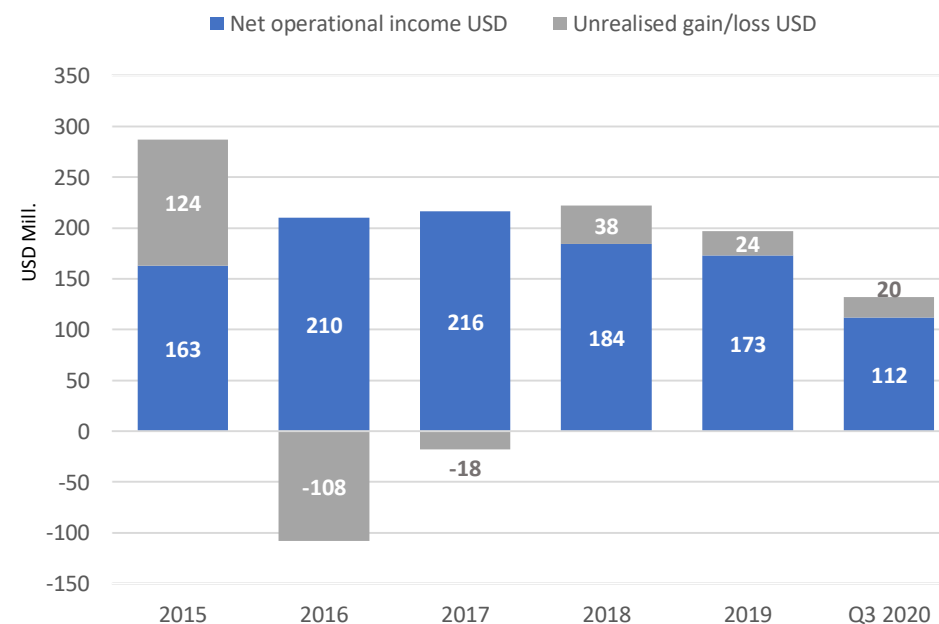
- The recent history of solid operational income and growth reflects well on KBN's conservative lending mandate and solid margins. KBN maintains financial performance targets to balance its state instrumentality role with ensuring it remains a financially viable institution.
- KBN's total Liquidity Coverage 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 Q3
Total Assets	46.5	45.9	50.9	51.2	55.8
Loan Portfolio	29.6	31.3	33.6	34.4	34.7
Leverage Ratio	2.7	3.7	3.6	3.7	3.8
Operating expenses/ total assets	0.042%	0.047%	0.046%	0.055%	0.048%

* USD/NOK 9.0



KINGDOM OF NORWAY

Overview



POPULATION:

5,374,807



COUNTRY SIZE:

323 809 km²



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:

2nd



MAJOR EXPORT SECTORS:

- OIL and GAS
- FISH
- MARINE TRANSPORT
- METALS



OSLO AWARDED EUROPEAN GREEN CAPITAL AWARD 2019

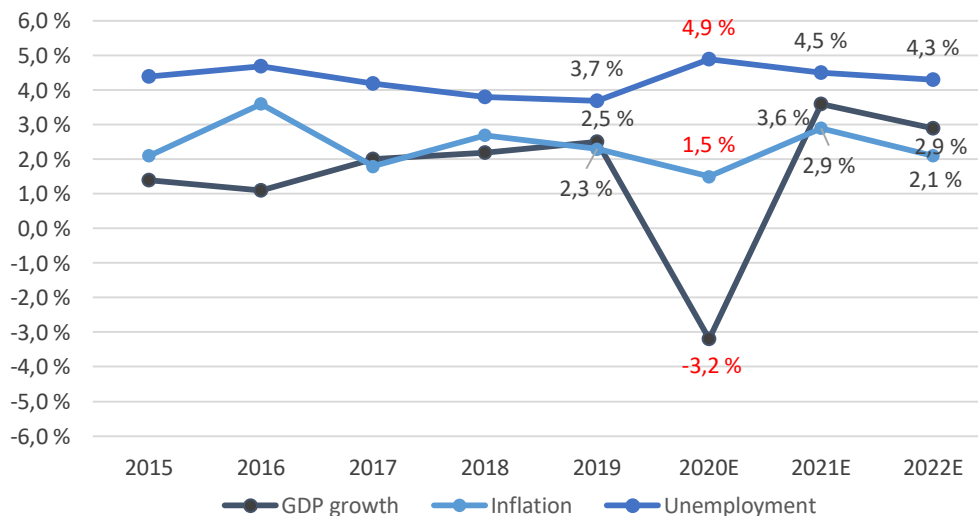
Sources:
Statistics Norway (2019), WHR (2018), Global Gender Gap Report 2018 EGC (2019), European Green Capital Award 2019,

Strong and Diversified Norwegian Economy

- Norway's economic fundamentals remain robust. At USD 393 bn¹ 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 2020² :

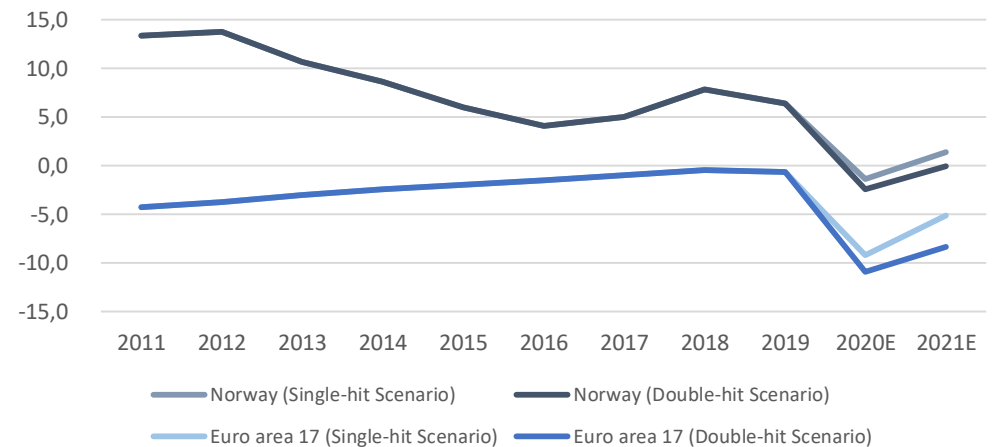
Current Account Surplus:	4.1%
GDP Growth:	-3.2%
Inflation:	1.5%
Unemployment:	4.9%
- Norway's macroeconomic stability pillar ranked first in the World Economic Forum's 2019 rankings.³
- The government has managed a solid current account surplus for the past decades and estimates continued surpluses going forward.

KEY ECONOMIC INDICATORS



GENERAL GOVERNMENT FINANCIAL BALANCES

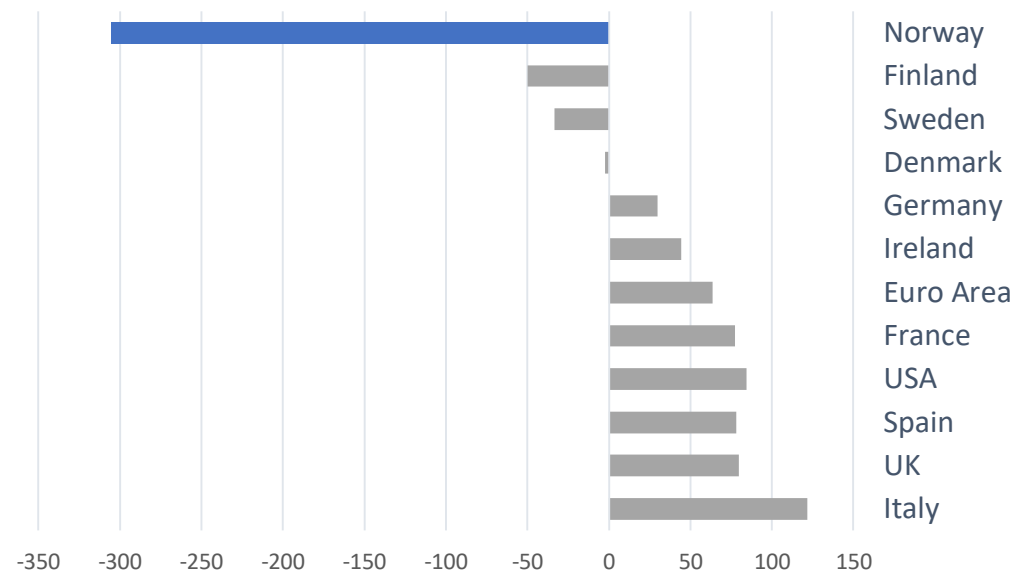
(% GDP)



Source: OECD Economic Outlook No. 107 Jun 2020

GENERAL GOVERNMENT NET FINANCIAL LIABILITIES

(% GDP 2019)



Source: OECD Economic Outlook No. 106 Nov 2019 / Statistics Norway
Debt measures are not always comparable across countries due to different definitions

¹ Statistics Norway : NOK/USD = 9.00

² Statistics Norway 11 Sept. 2020

³ World Economic Forum Global Competitiveness Report, 2019

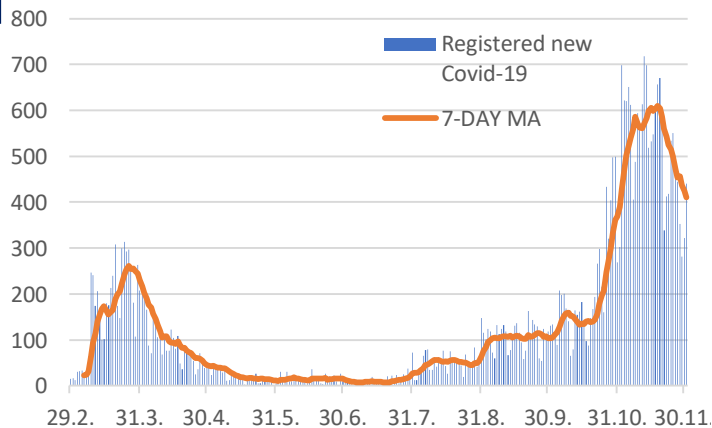
COVID-19 and Norway

- The Covid-19 outbreak has had and will have a material impact on the Norwegian economy and weigh on economic activity. However, recent economic data suggests less impact than anticipated in March/April. 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 proposed Covid-19 economic response measures or structural non-oil deficit as a percentage of Mainland Norway GDP corresponds to 4.5%.
- In the 2021 National Budget (Oct. 20), the government updated its 2020 estimates from the earlier Revised National Budget (May. 20). As the economy's recovery continues to take shape, the Structural non-oil fiscal deficit for 2020 was revised lower to 404.3bn (from 424.6bn) and the Transfer from the GPFG was also reduced to 3.9% (from 4.2%). In 2021, the Structural non-oil fiscal deficit is estimated at 313.4bn and Transfer from GPFG 3.0% (in line with the Fiscal Rule). This is still an expansive fiscal budget when compared to 2019 (252bn and 2.9% transfer from GPFG).
- The Government plans to compensate municipalities and counties for extra costs and revenue shortfalls linked to the virus outbreak, thereby enabling local governments to maintain their activities.

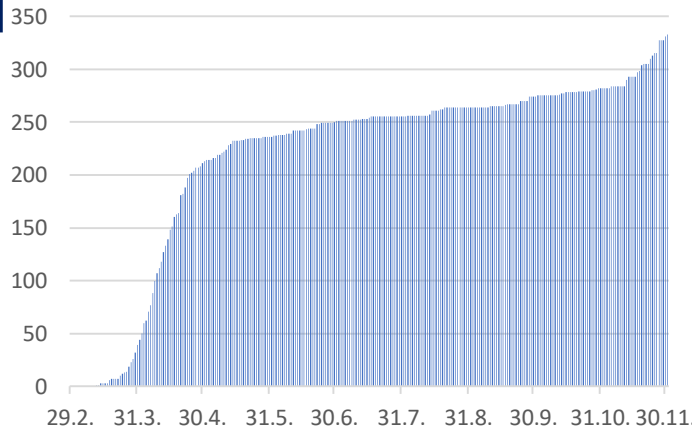
Norwegian Government Adopted or Proposed Covid-19 Economic Response Measures

Measures for businesses	66.1
- 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
Extension of Income protection for individuals	16.5
Other compensation schemes	11.1
Strengthening of critical infrastructure sectors	25.4
Other measures	7.2
SUM of Economic Measures	126.3
2020 Fiscal Impulse	4.5 %
2020 Spending of petroleum revenues as percent of the Government Pension Fund Global	3.9 %

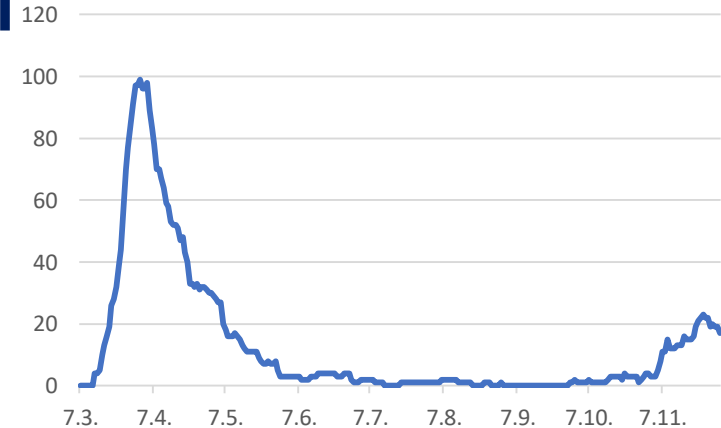
NORWAY REGISTERED COVID-19 CASES (DAILY)



NORWAY COVID-19 DEATHS



NORWAY PATIENTS ON RESPIRATORS



Sources : Norwegian Institute for Public Health (FHI) / Norwegian Surveillance System for Communicable Diseases (MSIS) / VG.no

Sources*: Norwegian Government, Economic measures in Norway in response to COVID-19 : 6/4/20
Norwegian Government, Revised National Budget, 12/05/20

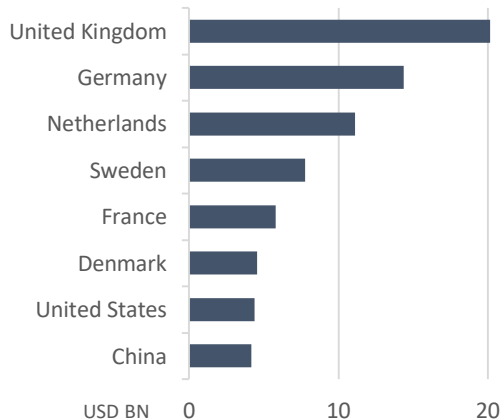
Norwegian Government, National Budget 2021, 7/10/20

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 one of the largest export counterparties 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. Norway's largest trading partner 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.

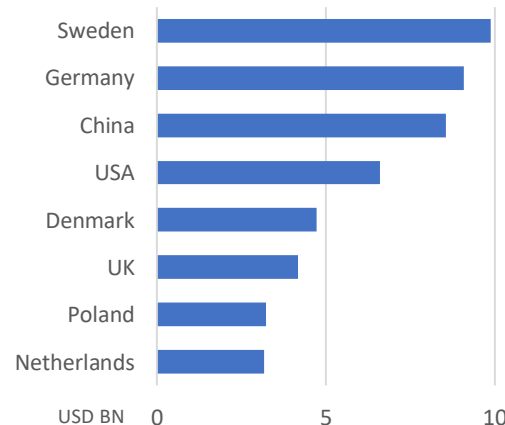
EXPORTS OF GOODS

Main Trading Partners (2019)



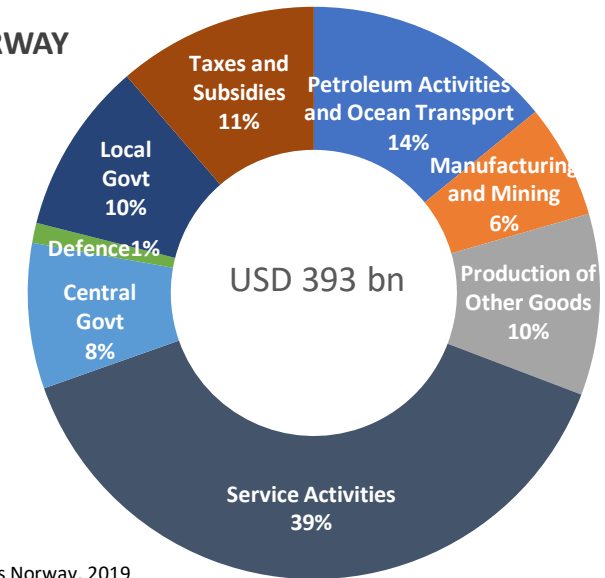
IMPORTS OF GOODS

Main Trading Partners (2019)



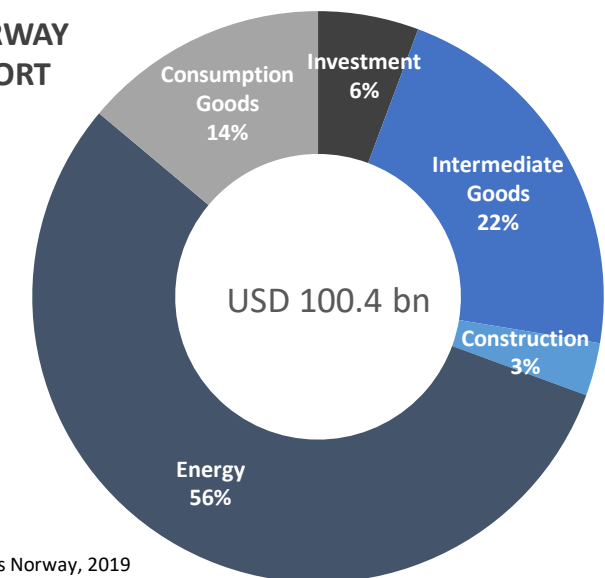
Source: Statistics Norway (USDNOK = 9.0)

NORWAY GDP



Source:
Statistics Norway, 2019
USDNOK 9

NORWAY EXPORT



Source:
Statistics Norway, 2019
USDNOK 9

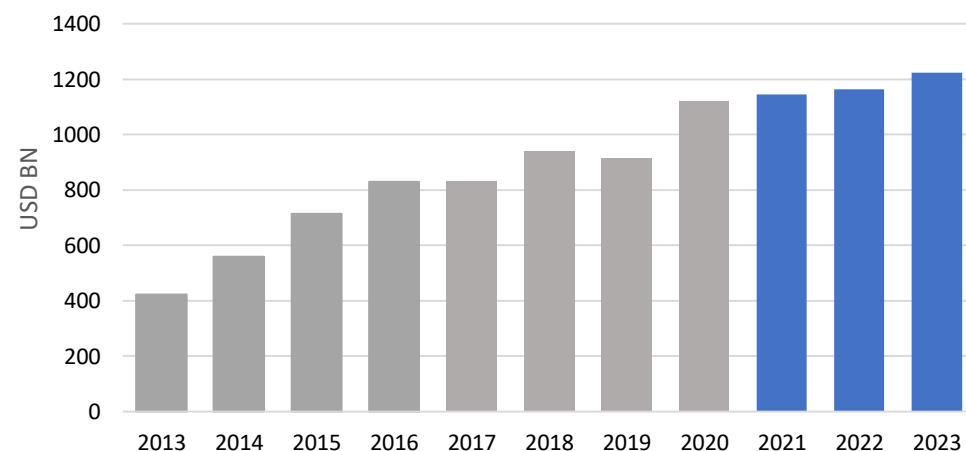
Norway Sovereign Wealth Fund

– A Long-term Contributor To The Nation's Wealth

- Norway's sovereign wealth fund (Government Pension Fund Global – GPFG) has current assets of USD 1.14 trillion (NOK 10.3 trillion eq). This ranks the GPFG as the world's largest SWF.¹ The size compares to almost 300% of Norway GDP and 700% 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 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 first half 2020, the Fund's actual average net annual real rate of return has been 3.9%.
- The history, objectives and management of the Norwegian sovereign wealth fund can be explored further here: <http://www.nbim.no/en>.

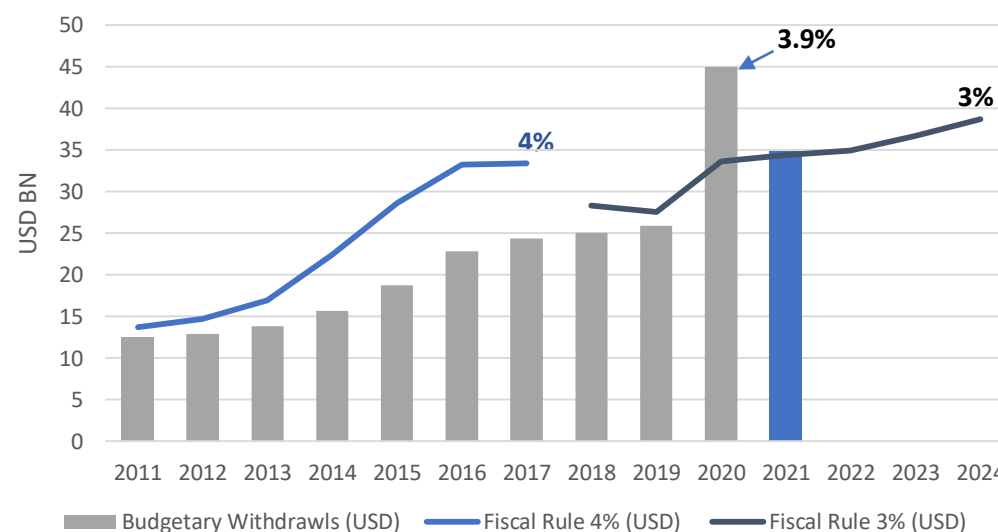
VALUE OF GOVERNMENT PENSION FUND GLOBAL (GPFG)

as of Jan 1. (2021 - 2023 EST.)



* USD/NOK 9.0

EXPECTED NET REAL RETURN AND ACTUAL WITHDRAWAL FROM GPFG



* USD/NOK 9.0

1 – Sovereign Wealth Fund Institute : February 2020

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



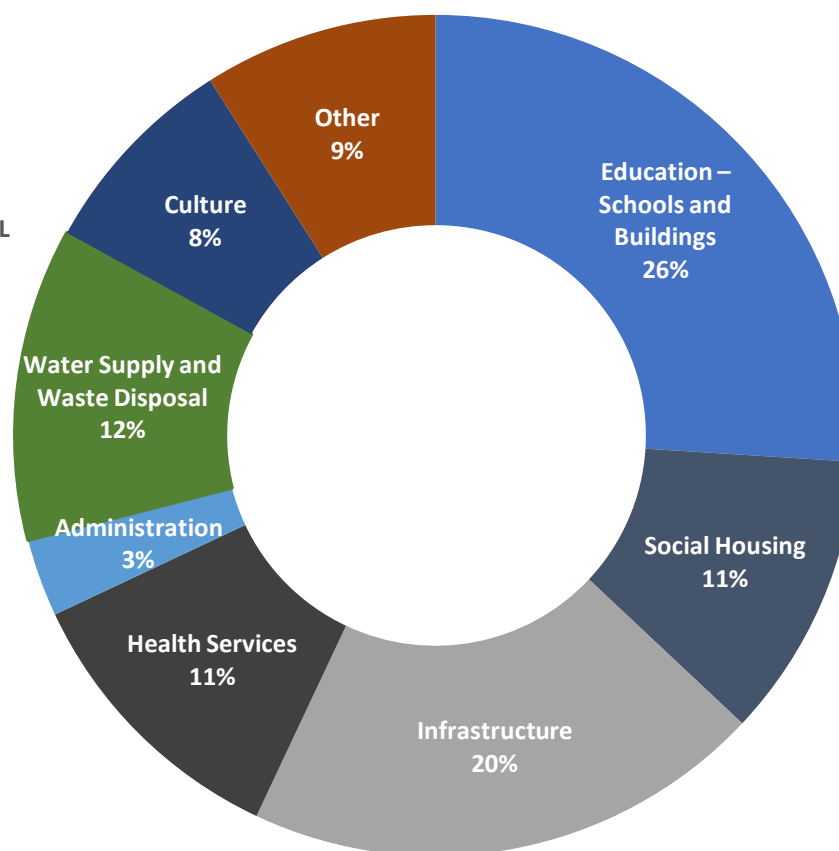
LENDING OPERATIONS

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

LOANS TO THE NORWEGIAN LOCAL GOVERNMENT SECTOR

KBN WITH APPROX 50% MARKET SHARE OF ALL CLIENT BORROWINGS CLOSELY MIRRORS THE SECTOR AS A WHOLE



* USD/NOK 9.00

Source : Statistics Norway / Kostra Registry



BY 2019 KBN HAD COMPLETED USD 2.5 BN IN LENDING to climate-friendly projects across a broad range of project categories. This represents 7.4% of the total lending portfolio.

For 2019, green loans represented 49% 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

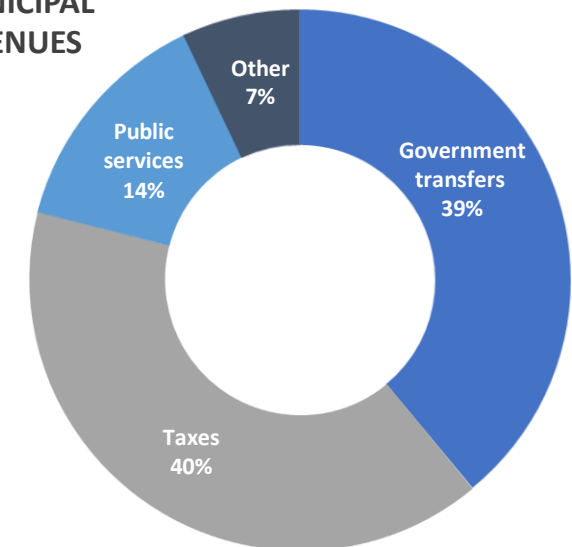
- All local government budgets are monitored and supervised by the central government. Strict limits are in place to manage financial conduct.
- Under the Local Government Act, counties and municipalities are prohibited from going bankrupt. Thus, they are subject to extensive central government oversight 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.

MOODY'S

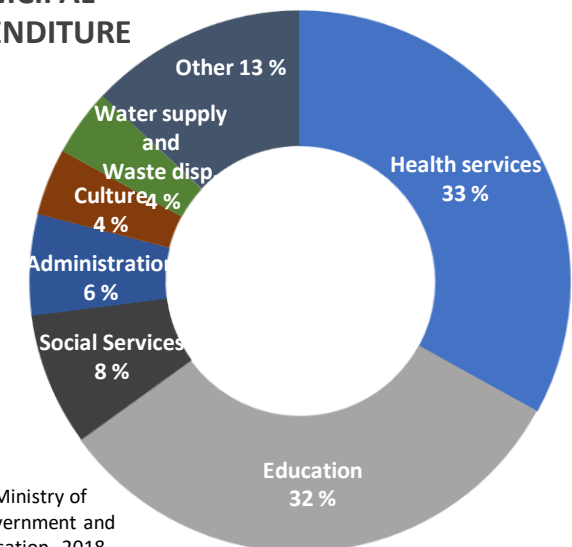
"Norwegian local governments are among the most regulated and supervised in Europe"

- Moody's Investors Services, June 2013

MUNICIPAL REVENUES



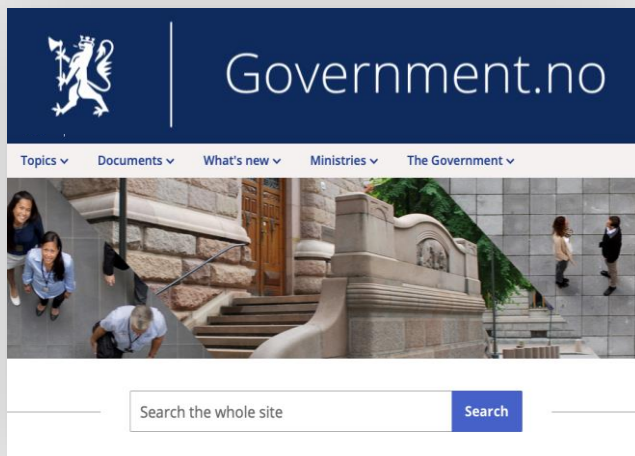
MUNICIPAL EXPENDITURE



Source: Ministry of Local government and Modernisation, 2018

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)

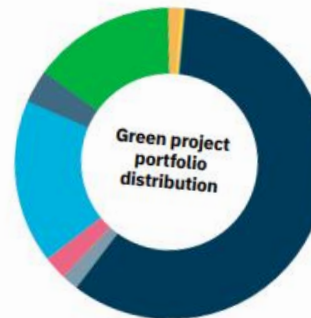
MUNICIPALITIES (residents)

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 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 40% by 2030, compared to 1990 levels.
- By 2019, KBN had completed USD 2.5 bn in lending to climate-friendly projects representing 7.4% of the total lending portfolio. For 2019, green loans represented a sizeable 49% of KBN's overall lending growth.



Impact Report - in short (as of 31 Dec 2019)



Buildings	58.9%
Energy efficiency	1.8%
Renewable energy	2.5%
Transportation	17.1%
Waste and circular economy	3.3%
Water and waste water management	14.8%
Land use and area development projects	1.2%
Climate change adaptation	0.4%

Basic information

Green Bond Framework applied	KBN's Green Bond Framework, June 2016
Reporting period	Calendar year 2019. The report also contains an overview of outstanding green projects.
Date of publication	February 28, 2020
Reporting frequency	Annual
Next publication (planned)	February 2021
Approach	Portfolio-based and project-by-project reporting
Reporting framework	Nordic Public Sector Issuers: Position Paper on Green Bonds Impact Reporting

! READ THE FULL IMPACT REPORT 2019

Green Bonds Issuance and Green Project Portfolio



Project Portfolio and Impact Overview

Project category	Outstanding amounts to projects, 1000 NOK	CO ₂ e reduced and avoided, tonnes/year	Impact tonnes CO ₂ e per million NOK
Buildings			
Energy efficiency	13 570 913	6991	0.5
Renewable energy	410 821	5 637	13.7
Transportation	571 240	34 476	60.4
Waste and circular economy	3 942 029	3 833	1.0
Water and waste water management	757 745	n/a	n/a
Land use and area projects	3 420 036	n/a	n/a
Climate change adaptation	279 355	n/a	n/a
Total	23 048 661	n/a	n/a
Annual renewable energy general, GWh	109 GWh		
Annual energy reduced/avoided, GWh	37 GWh		

Impact attributable to green bond investors

Total outstanding green bonds divided by total outstanding disbursed amounts to projects, as of 31 dec 2019 (in NOK)				72% of which:
ISIN	Date issued	Amount	Maturity Date	
XS1188118100	11/02/2015	USD 600 mn.	02/11/2025	23%
US50048MBX74	10/25/2016	USD 500 mn.	10/26/2020	19%
XS1508672828	11/29/2017	NOK 750 mn.	11/29/2027	3%
US50048MCD02	11/29/2017	NOK 600 mn.	11/29/2032	3%
NO0010811276	09/05/2018	AUD 450 mn.	09/05/2023	12%
NO0010811284	08/28/2019	SEK 3 bn.	08/28/2026	12%
AU3CB0256162				
XS2047497289				



FUNDING OPERATIONS

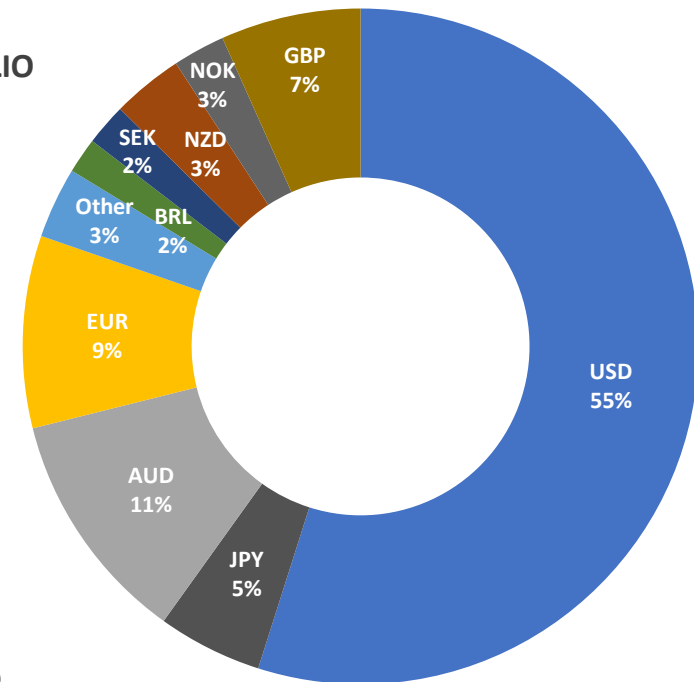
Flexible and Diversified Investor-Driven Funding Program

- KBN's annual borrowing program for 2020 will be approximately USD 11bn. For 2021, the program is estimated to be USD 9-10bn.
- 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 Nov 2020

KBN'S FUNDING STRATEGY



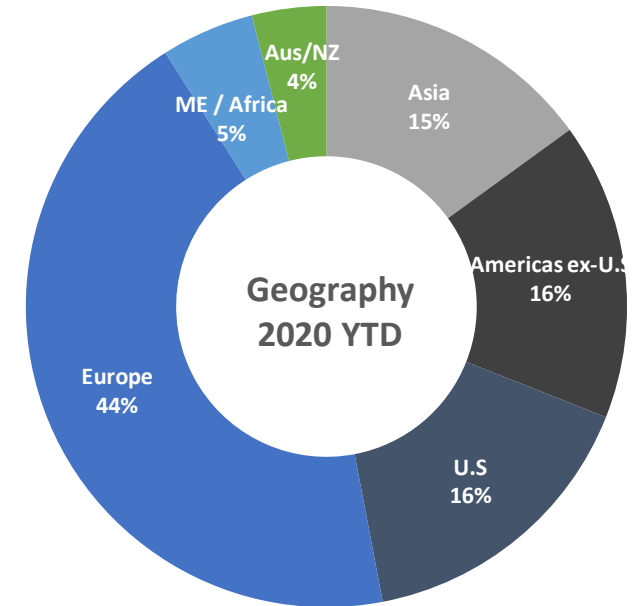
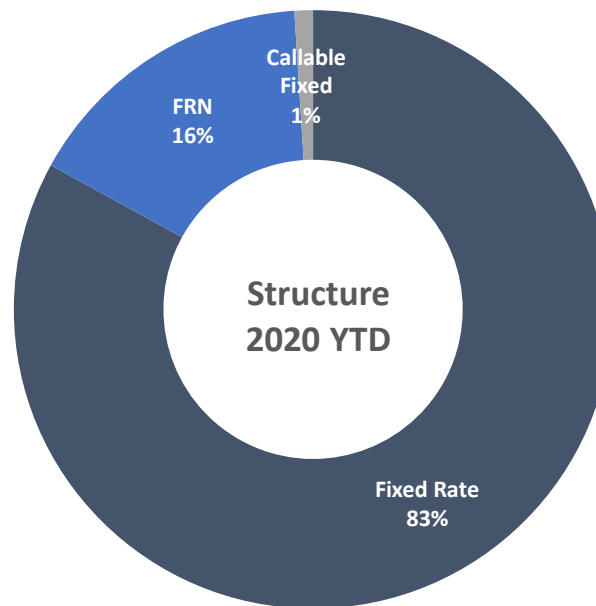
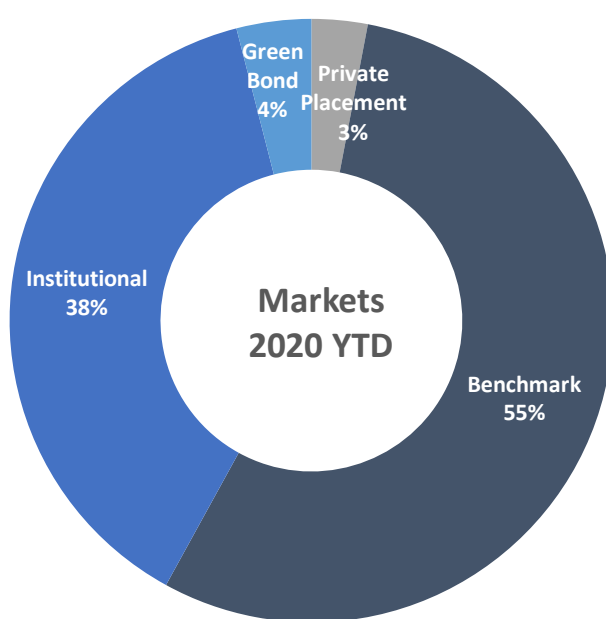
KBN Funding 2020 YTD

Highlights

- Total USD 11.3 bn raised → 34 Individual transactions
- Issuance in 6 different currencies → 4.55y avg maturity of new funding

Newsorthy

- USD 1.25 bn 5-year March 2025 Benchmark
- USD 750 mn 2-year Feb 2022 FRN
- NZD 500 mn 10-year July 2030 Kauri
- USD 1.50 bn 10-year June 2030 Benchmark
- USD 1.50 bn 5-year Sept 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.

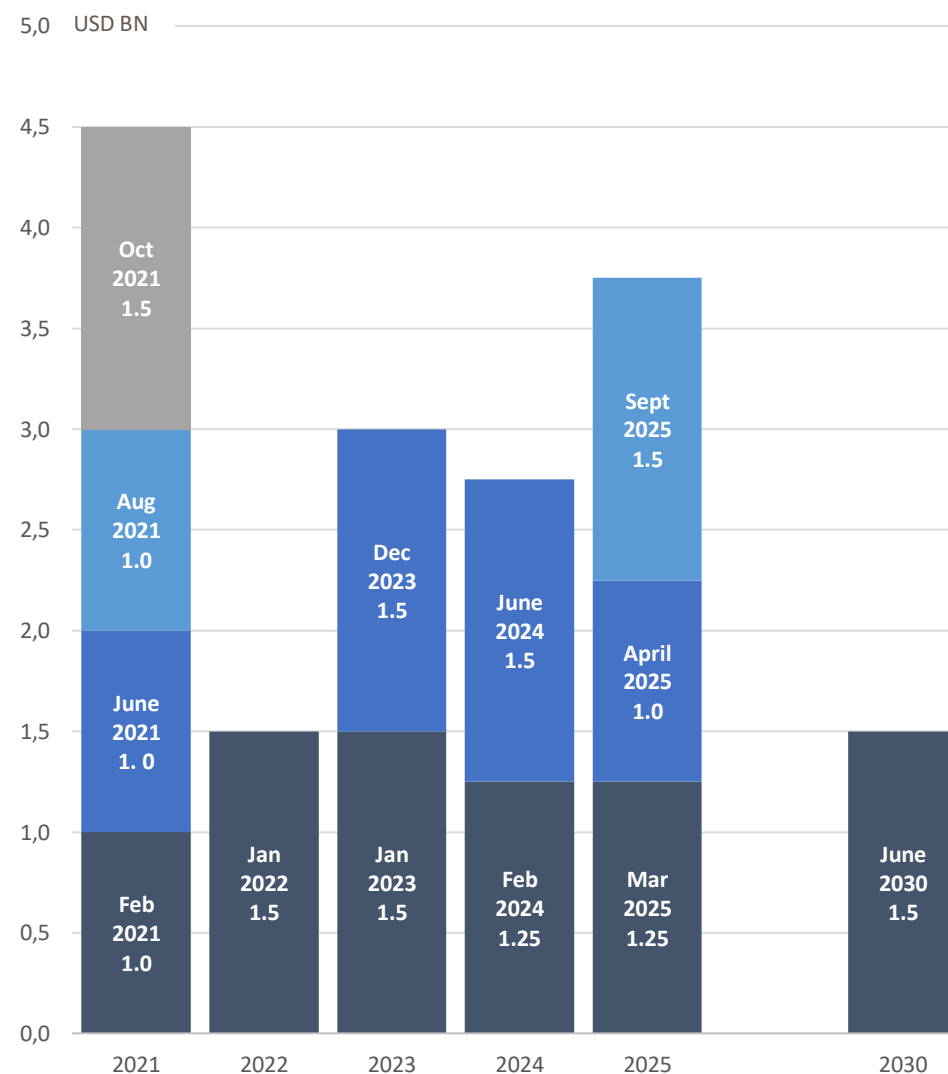


KBN currently has 13 USD benchmark transactions outstanding. The total notional amount is USD 17 bn.

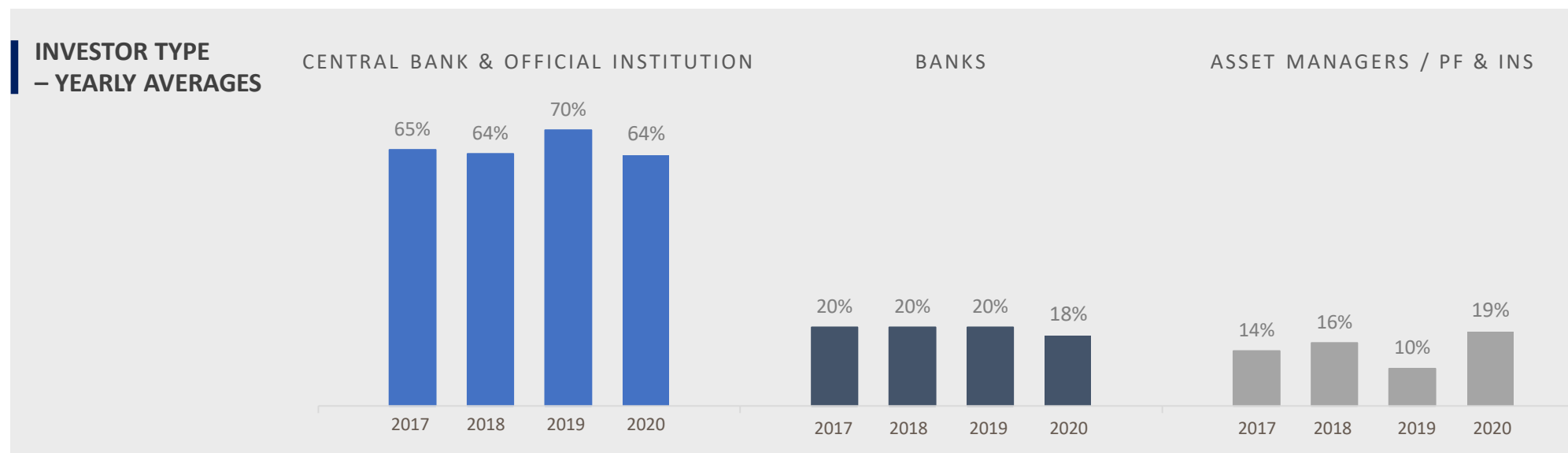


Since April 2010, KBN has issued USD benchmarks under RegS and 144a documentation, which provides additional settlement options via DTC.

OUTSTANDING 144 A BENCHMARKS

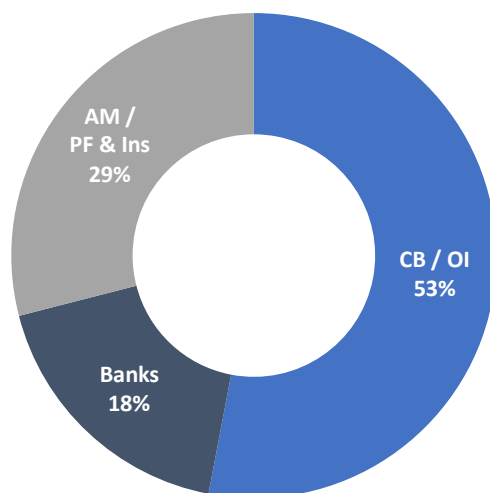


USD Benchmark Distribution – Investor Type

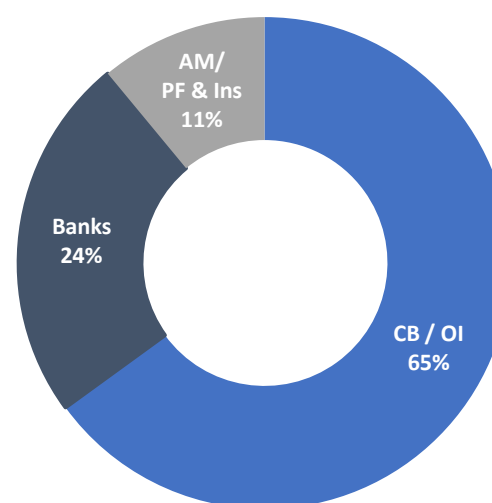


**DISTRIBUTION ON
LAST 3 USD
BENCHMARKS**

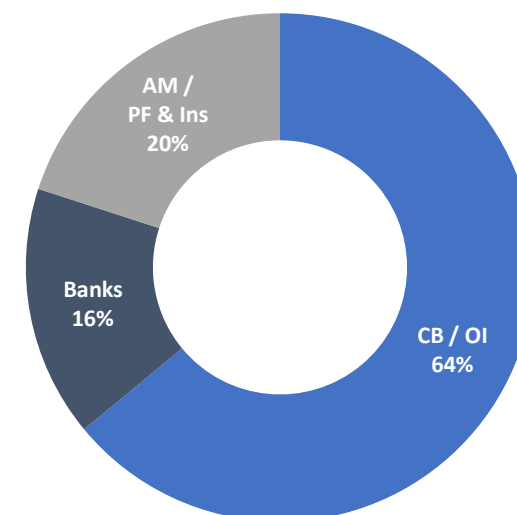
June 2020 @ MS +38
USD 1.50bn 10yr June 2030



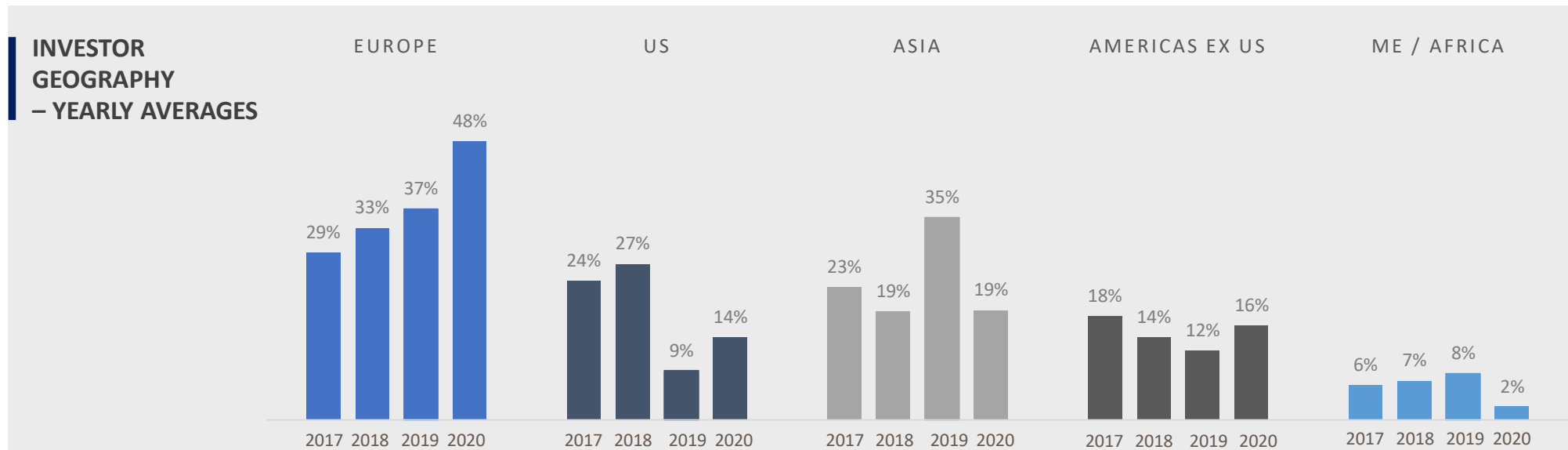
Sept 2020 @ MS +15
USD 1.50bn 5yr Sept 2025



Dec 2020 @ MS +4
USD 1.50bn 3yr Dec 2023

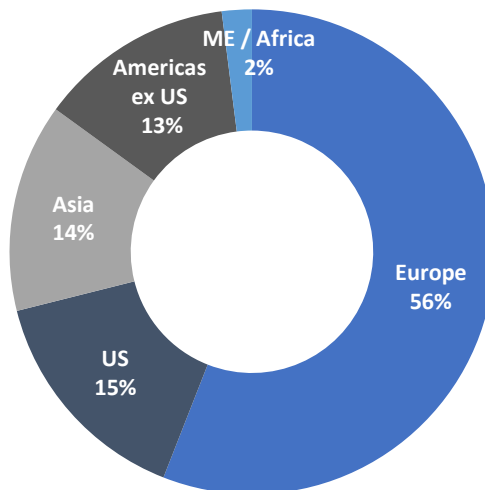


USD Benchmark Distribution – Geography

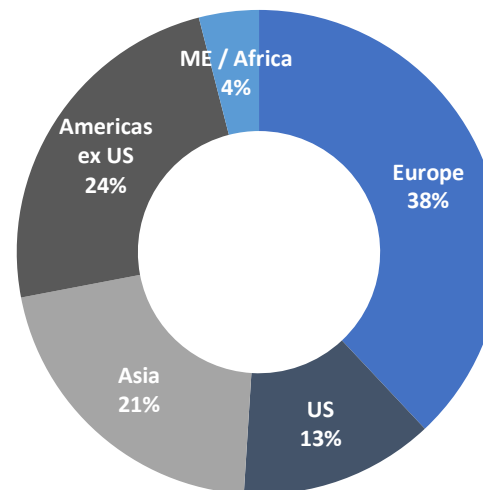


DISTRIBUTION ON LAST 3 USD BENCHMARKS

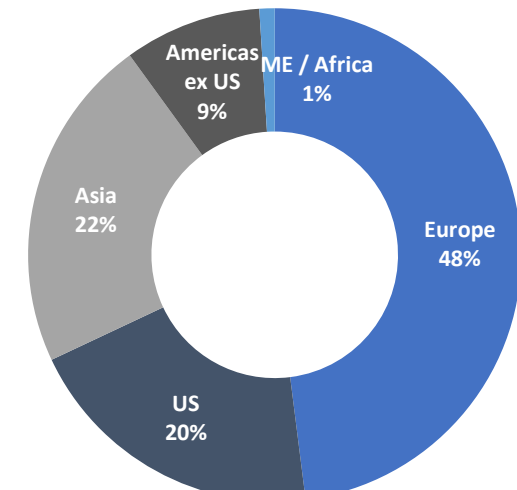
JUN 2020 @ MS +38
USD 1.50bn 10yr June 2030



Sept 2020 @ MS +15
USD 1.50bn 5yr Sept 2025



Dec 2020 @ MS +4
USD 1.50bn 3yr Dec 2023

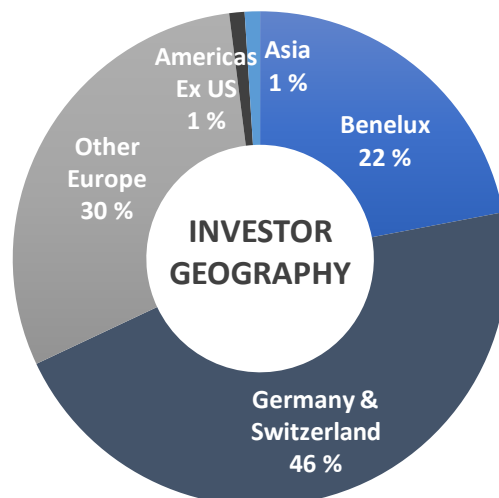
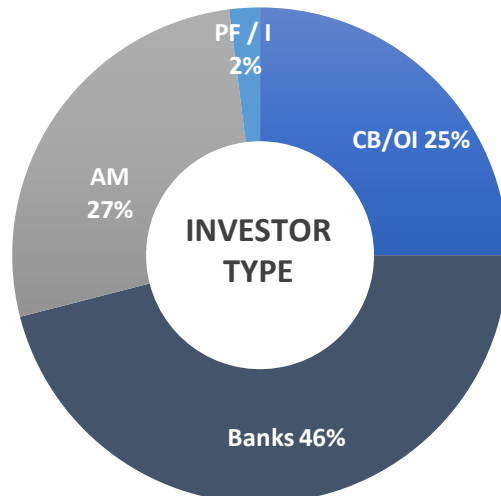


EUR Benchmark Strategy

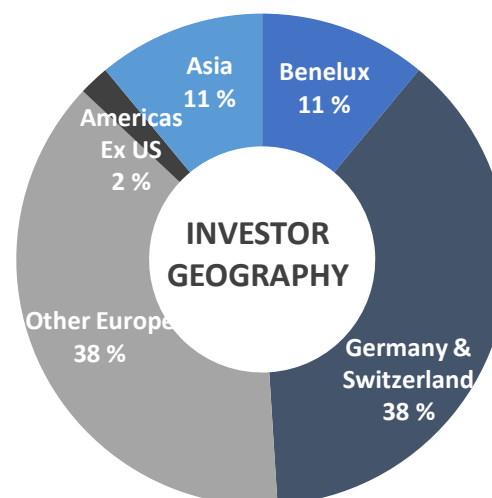
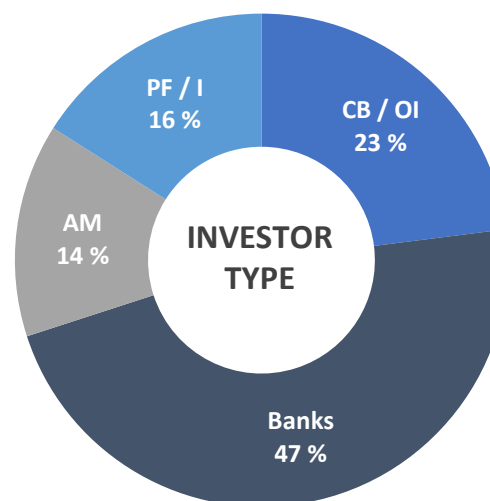
Diversifying The Funding Program Via Investor-driven Issuance

- 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

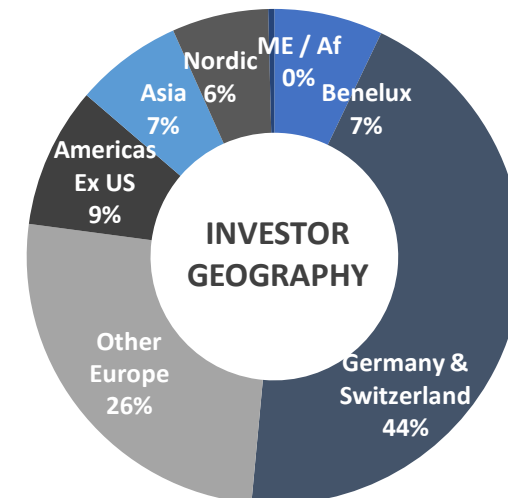
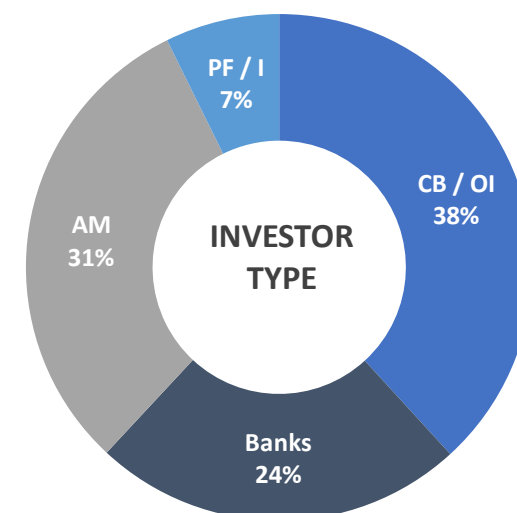
APRIL 2016 @ MS+9
EUR 1.0BN 10Y APRIL 2026



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



NEW ZEALAND – KAURI

- Currently NZD 2.225 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 2.25 bn outstanding
- 5 issues: 2020, 2021, 2022, 2023, 2024
- Recent launch:
 - GBP 250 mn. Dec 24
 - GBP 100 mn Nov 22



NORWAY – VPS/EMTN

- Currently NOK 10.55bn outstanding
- 9 issues: 2020, 2022, 2023, 2027, 2028, 2029 2032, 2036
- Recent launch:
 - NOK 1.0 bn Oct 29
 - NOK 1.5 bn Apr 22



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

Green Bond Issuance

KBN in 2013 was one of the first European SSA issuers to launch a public USD Green Bond.

- KBN and the Central government have since prioritized investments in Green projects in the Local government sector and subsequently KBN has been an active SSA issuer of Green bonds in several markets.
- With increasing global demand for sustainable and responsible investments and projects providing a climate benefit KBN will continue to be an active issuer in the Green Bond market.
- KBN offers a 10 basis point discount on Green loans, to encourage greater focus on ESG projects.
- As of Nov. 2020, KBN's Green Lending portfolio equaled USD 2.77 bn*.



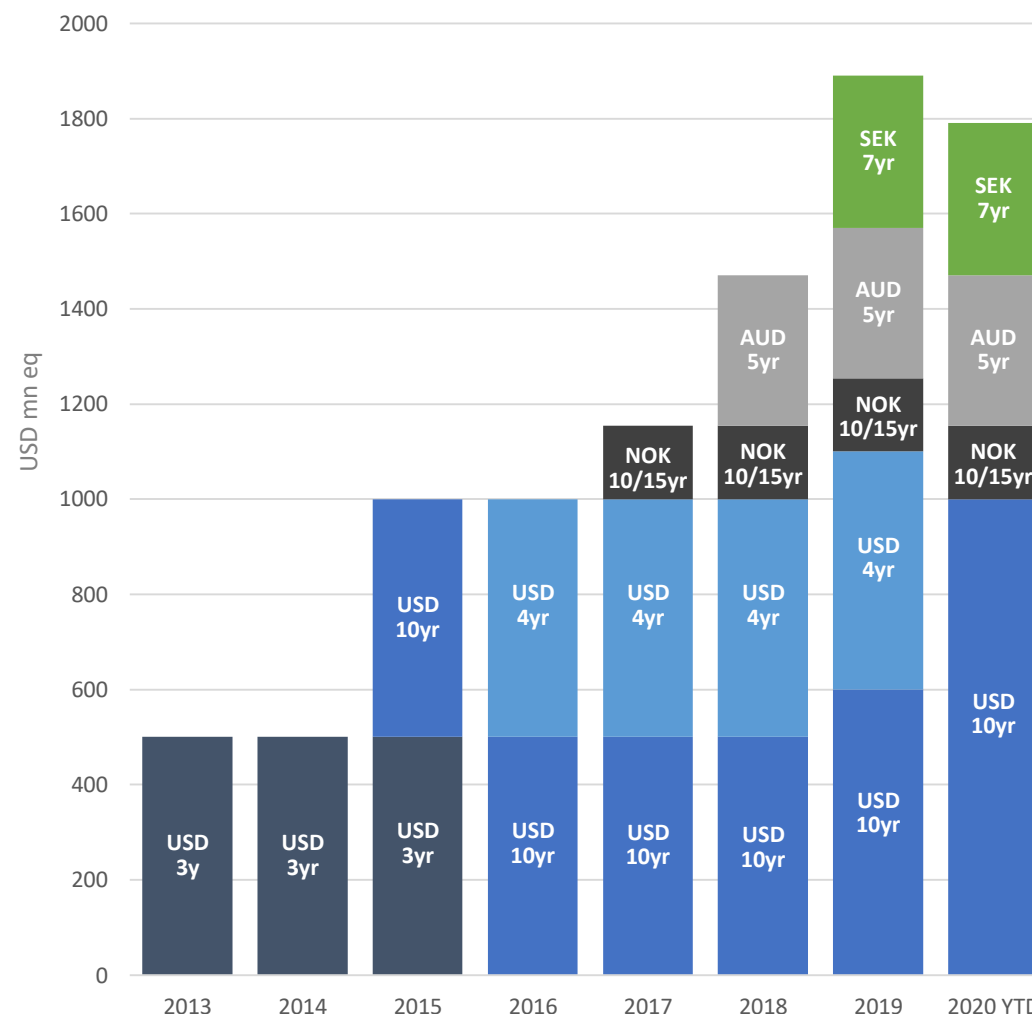
°CICERO
Dark Green

CICERO DARK GREEN SHADING

In June 2016, KBN updated its Green Bond program and was rewarded with CICERO's highest **"DARK GREEN"** rating. In 2017, KBN was elected as an **Executive Committee Member** for the Green Bond Principles, an initiative managed by ICMA.

* USDNOK : 9.0

KBN Outstanding Public Green Bond Issuance*



KBN has issued public green bonds in the USD, NOK, AUD and SEK markets. KBN will continue to strive to diversify its issuance of green bonds in markets where there is specific ESG investor demand.

*AUDUSD .7024 / USDSEK 9.35 / USDNOK 8.7808

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 GPFG)
- 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 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

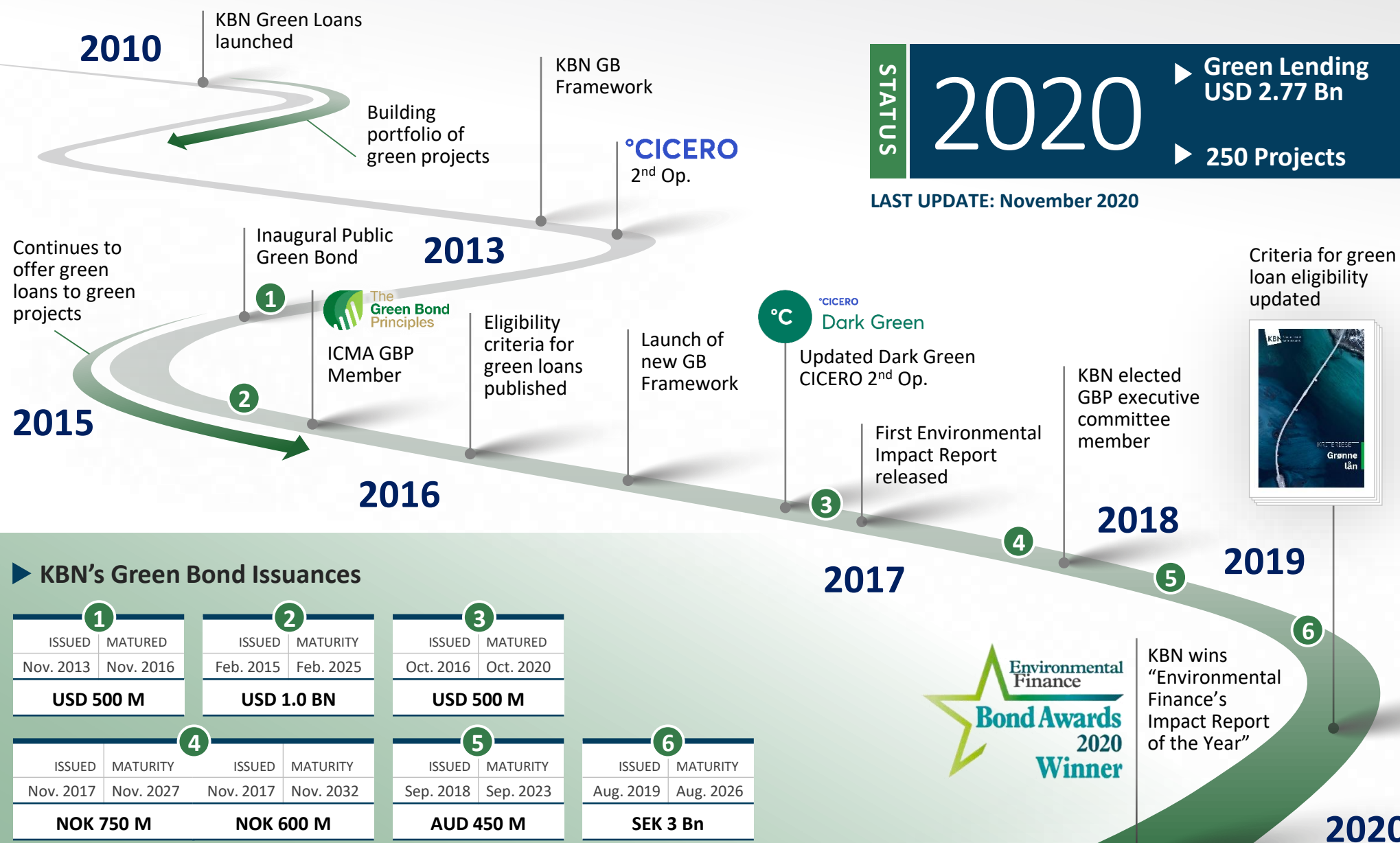
ICMA: Green Bond Principles
<https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>

NOTICE

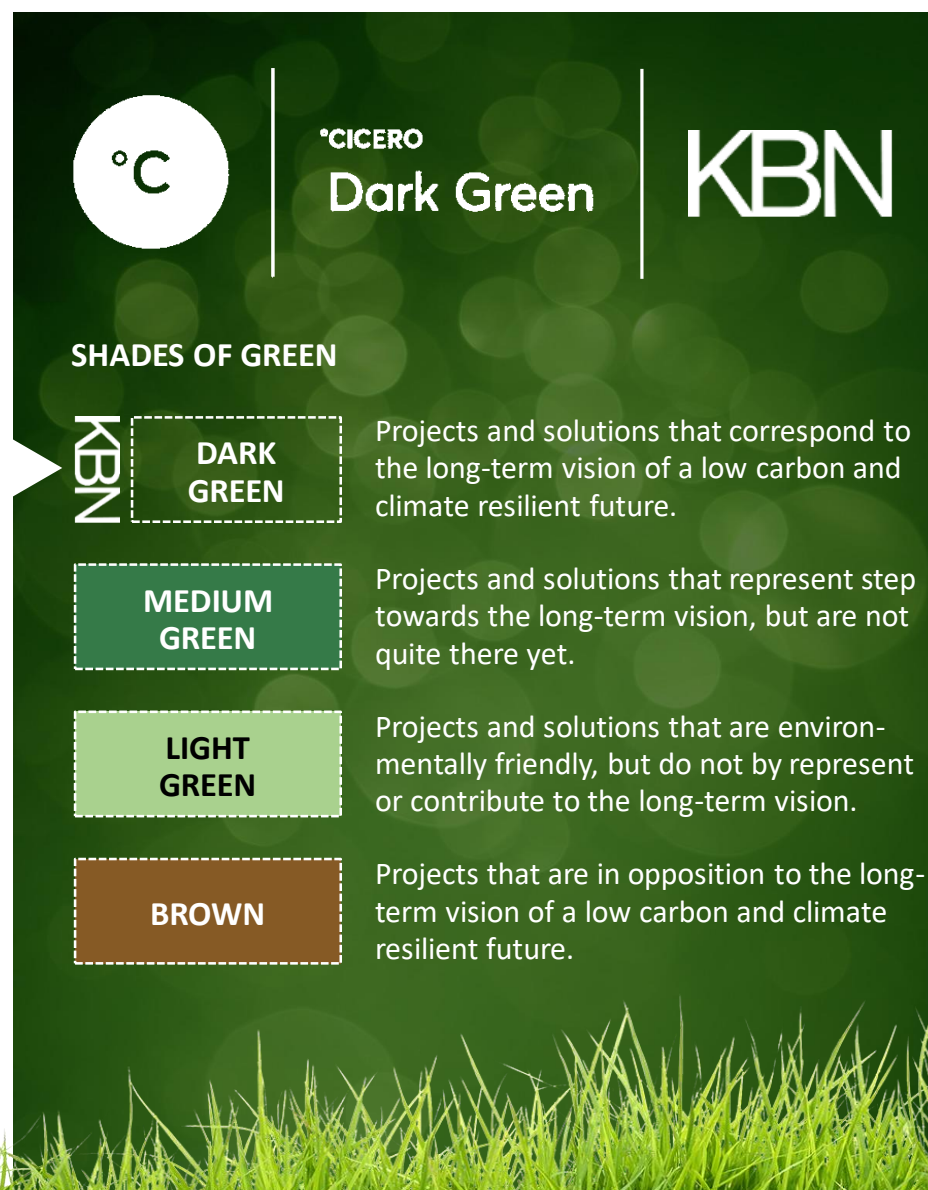
The information and statements contained herein are general, and shall not be construed as advice on financial, legal, tax or other matters. Further, the information and statements shall not be interpreted or construed as an offer, advice or recommendation to subscribe, purchase, sell or any other form of trade in securities or other financial instruments, including financial instruments issued by Kommunalbanken. Kommunalbanken shall not be liable for any loss of profit, loss of revenue or any other direct, indirect or consequential loss arising out of any use of the information provided herein.

ANNEXES KBN GREEN BONDS

The Evolution of KBN'S Green Strategy

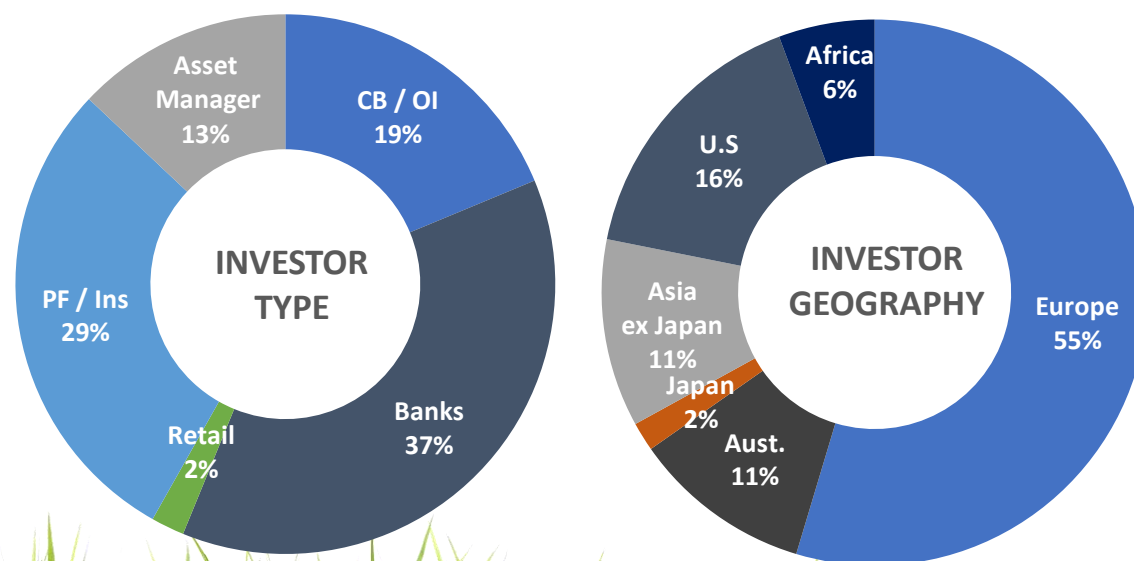


Cicero Dark Green Shading



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.

OUTSTANDING KBN PUBLIC GREEN BOND ISSUANCE* Investor Type and Geography



* As of Nov 2020

Use of Proceeds: KBN's Green Lending Program

Subcategory	Requires documentation
CYCLING AND WALKING	
BICYCLES Procurement of electric scooters, bicycles, and electric bicycles.	<ul style="list-style-type: none"> Investment decision or other documentation on the project
Facilitating walking and cycling Possible projects include constructing new footpaths and cycle paths, lighting for footpaths/cycle paths, and bike parking facilities/stations.	<ul style="list-style-type: none"> Investment decision or other documentation on the project
LAND TRANSPORT	
Zero-emission vehicles Procurement of light or heavy vehicles, or buses, that run on electricity, biogas or hydrogen. Plug-in hybrids do not qualify for green loans. For vehicles that use biogas, there must be a contractual requirement that fossil fuels will not be used. To calculate the impact that procuring the vehicles will have in terms of emissions, the Norwegian Environment Agency's calculation tool can be used (only available in Norwegian). Locate the correct tool under the "Road traffic" category.	<ul style="list-style-type: none"> Type of vehicle Impact on emissions from procuring the vehicles
Equipment for rail-based public transport Procurement of new rolling stock and other equipment for rail-based public transport.	<ul style="list-style-type: none"> Investment decision or other documentation on the project
MARITIME TRANSPORT	
Zero-emission maritime transport Procurement of ferries, high-speed craft and other types of maritime transport vessel that runs on electricity, biogas or hydrogen as fuel. For vessels that use biogas, there must be a contractual requirement that fossil fuels will not be used. Use of fossil fuel as an emergency back-up is allowed.	<ul style="list-style-type: none"> Type of vessel
<i>For investment in climate-friendly port buildings, see the Buildings category.</i>	



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.



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



KBN Green Lending Project Categories

Following KBN Green Bond Framework, Green Loans may be granted to seven different categories of projects:



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.



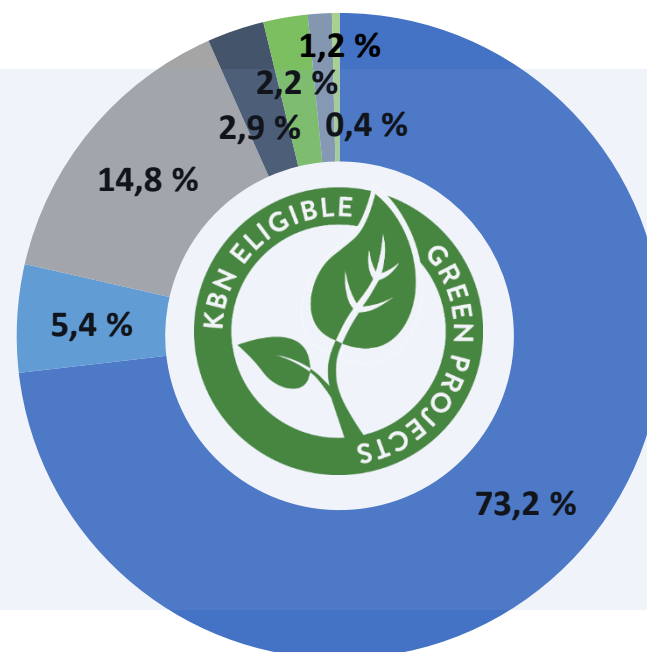
CLIMATE CHANGE ADAPTATION

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

Green Lending Portfolio - December 2020

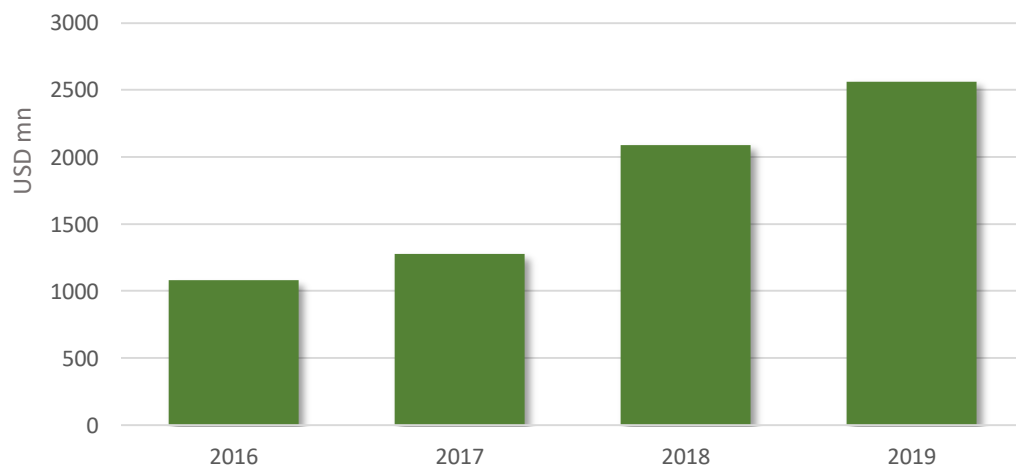
GREEN LOANS OUTSTANDING
USD 2.77BN*

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



KBN GREEN LOANS*

Accumulative Lending - End of year 2016-2019



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

In 2019, green loan growth accounted for 49% of KBN's total lending growth.

*USDNOK = 9

Fossil-free Green Lending Portfolio

- KBN's discounted Green Loans are investments in line with Norway's national climate commitments.
- Thus, KBN does not allow any use of fossil fuels or other non-renewable energy sources in projects funded by our Green Bonds issued in line with our updated Green Bond Framework:

✓ 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 \(2016\)](#), 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 (380g of CO₂/kWh).
- In addition to key indicators such as CO₂ reduced or avoided and electricity generated, the reporting includes category-specific environmental indicators.
- From 2018, our reporting also indicates to which of the UN's Sustainable Development Goals the various project categories make a contribution.
- 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](#)



[2019 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 2019

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.



225

Projects in total



45

New projects in 2019



50,938

tonnes of CO2e reduced and avoided annually



37

GWh energy reduced and avoided annually



109

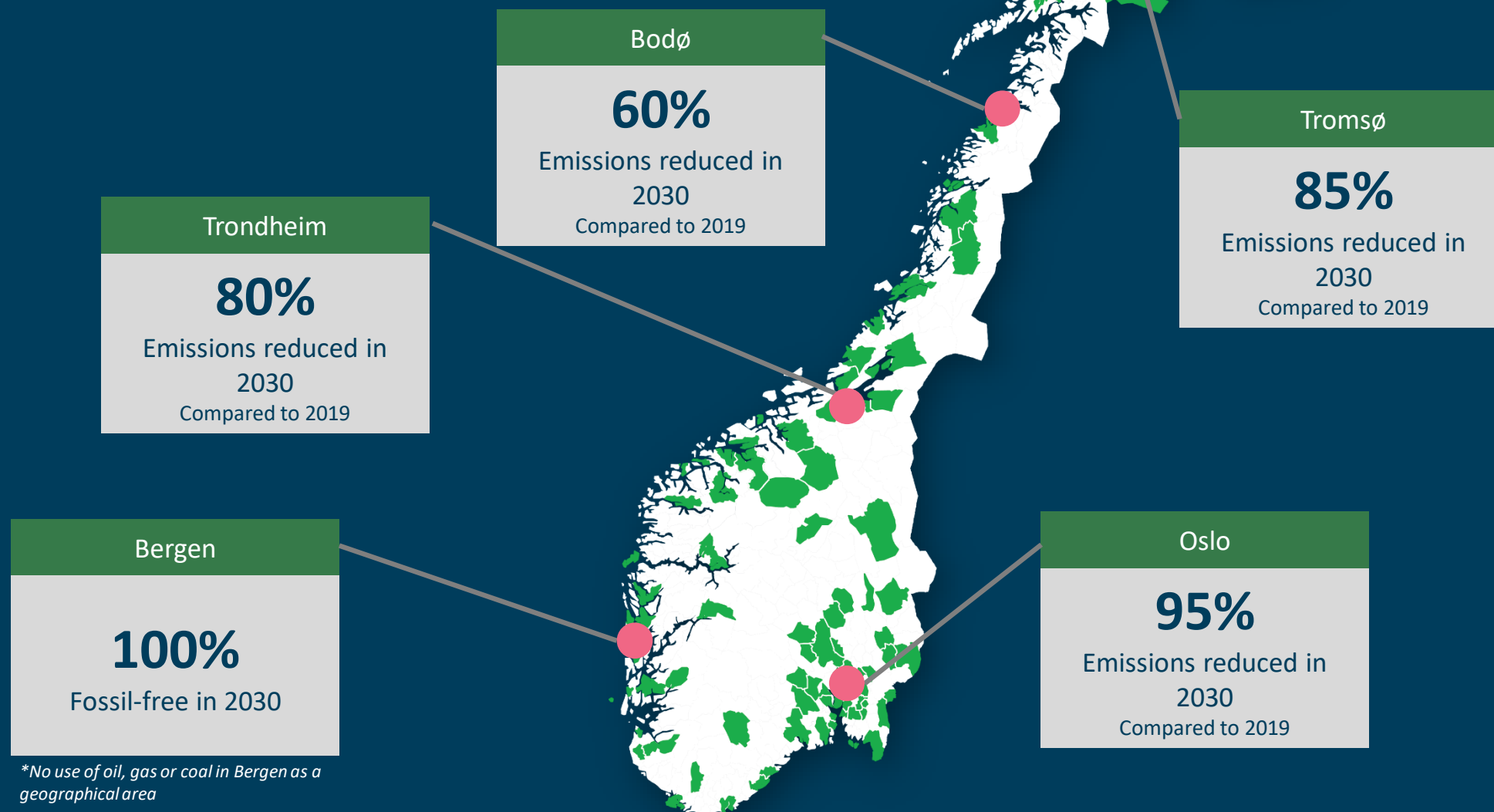
GWh renewable energy produced annually

The map shows municipalities as of 31 Dec 2019

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 on page 14-15 in this report.

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.



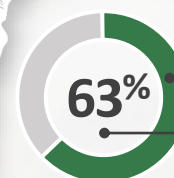
CASE

Fossil-fuel-free construction site for smart energy solutions

The new Jordal Amfi arena will be an ice hockey venue for both recreational and professional players in Oslo, with around 5,300 seats for spectators.

Great importance has been attached to heat recovery, and the arena itself is 97.5% self-sufficient in thermal energy. CO₂-based refrigeration units, solar panels, a sedum green roof and geo-thermal wells will help to achieve strict emissions figures. The arena will use about a third as much energy as its predecessor. In addition, the building site for the new arena will be fossil-fuel-free, meaning that all the construction machinery on the building site will have to be electric or bio-diesel powered.

Jordal Amfi,
Oslo municipality



649 Total cost,
million NOK

440 Outstanding green
loan, million NOK

KBN share of financing
(outstanding)

ESTIMATED IMPACT (share financed with green loan)

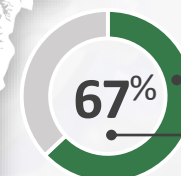
Energy avoided, MWh/annually	318
Corresponds to avoided GHG (tonnes CO ₂ e/annually)	100

CASE

Rogaland using its unique situation to produce biogas

Methane is 25 times more powerful as a greenhouse gas than CO₂. Organic waste can be used as a source of energy instead of being composted, spread or left to rot. With 10% of Norway's population, 20% of its livestock and organic waste from fisheries and other industry, Rogaland is very well placed to produce biogas. Grødal plant receives various types of sludge, food waste and organic waste. Biogas is produced from this and then refined and sold to Lyse AS. The CO₂ that is extracted from the biogas is used as food for plants, and the bio residue is used as fertilizer and soil improver. This is the circular economy in practice.

Grødal Biogas Plant,
Rogaland county



546 Total cost,
million NOK

362 Outstanding green
loan, million NOK

KBN share of financing
(outstanding)

ESTIMATED IMPACT (share financed with green loan)

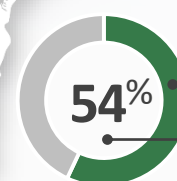
Installed capacity, kW	744
Expected energy production (MWh/annually)	59,829
Corresponds to avoided and reduced GHG (tonnes of CO ₂ e/annually)	18,846

CASE

Best available technology for Lesja nursing home

The nursing home in Lesja previously used a large amount of energy, the windows were draughty, the indoor environment was poor quality, and the light fittings were old and not controlled. In order to reduce the home's energy consumption significantly, the municipality carried out an extensive renovation. A new energy plant was installed using ground-source heating to replace the building's electric heating, and insulation was installed and other energy-saving measures were implemented both inside and outside. The project received funds from Enova as the best available technology was used for the renovation. The energy efficiency measures are positive both for the environment and the municipality's finances.

Lesja nursing home,
Lesja municipality



107 Total cost,
million NOK

57 Outstanding green
loan, million NOK

KBN share of financing
(outstanding)

ESTIMATED IMPACT (share financed with green loan)

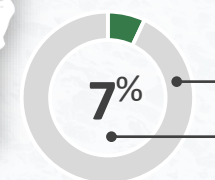
Energy reduced and avoided (MWh/annually)	382
Corresponds to avoided GHG (tonnes of CO ₂ e/annually)	120

CASE

First green loan for an electric ferry

Electrifying the ferry sector is important both for the climate in general and for individual local environments. Norway is a leading nation in zero-emissions shipping, and more and more municipalities are using their purchasing power to drive forward new climate-friendly technology. Porsgrunn municipality's electric ferry is the first zero-emissions vessel to be financed by a green loan from KBN. The electric ferry 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

7 Outstanding green loan, million NOK

KBN share of financing (outstanding)

ESTIMATED IMPACT (share financed with green loan)

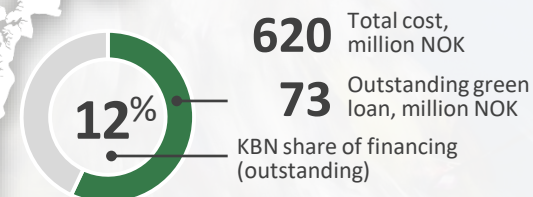
Energy passengers (annually)	120 000
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CASE

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. The raw materials that are recovered are distributed to the plastics and metals industry where they take on a new life as new products. Waste that cannot be recycled is used as fuel to produce electricity and for district heating. The plant is one element in a sustainable circle where waste is converted back into valuable raw materials. This in turn helps increase recycling, saving the environment around 33,000 tonnes of environmentally harmful emissions annually. This is equivalent to the emissions generated by 20,000 petrol cars.

IVAR IKS,
Rogaland county



ESTIMATED IMPACT (share financed with green loan)

No. tonnes the facility is expected to process per year	15,378
Estimated increase in capacity attributable to the investment (tonnes)	3076

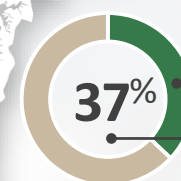
CASE

Finnmark's First Care Centre in Mass Timber

When Alta municipality decided to build a new care centre in the middle of town, it chose to use environmentally friendly mass timber. The care centre consists of 60 sheltered housing units and 108 nursing home places spread across a total of five buildings. It is calculated that a total of 4,000m³ of mass timber will be required.

The use of mass timber will help reduce greenhouse gas emissions, and mass timber is manufactured in a more energy-efficient way and is a renewable material. It is also cheap to manufacture! The building will benefit from modern energy solutions, including energy wells that will meet 50% of the building's total energy requirements.

ALTA CARE CENTRE, ALTA MUNICIPALITY



898 Total cost, million NOK

333 Outstanding green loan, million NOK

Share financed with outstanding green loan

ESTIMATED IMPACT (share financed with green loan)

Energy use avoided, kWh/year	282 944
Energy produced, kWh/year	535 457
GHG emissions avoided, tonnes CO ₂ e	311

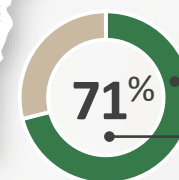
CASE

Food Waste and Manure Being Turned Into Fuel

“The magic factory” in Vestfold is at the cutting edge of bio energy production in Norway. The facility conjures up biogas equivalent to 6.5 million litres of diesel from 60 000 tonnes of food waste and 65 000 tonnes of manure, while also producing 110 000 tonnes of bio-fertilizer. This has helped cut synthetic fertilizer sales in Vestfold by 2 500 tonnes a year.

The facility has made it possible for the area’s refuse trucks and buses to run on food waste and manure. Greve biogas is helping to reduce greenhouse gas emissions and air pollution. Value is being created by using waste as a resource, and the factory is a good step in the global shift towards renewable energy.

GREVE BIOGAS: “THE MAGIC FACTORY”, TØNSBERG MUNICIPALITY



240 Total cost,
million NOK

170 Outstanding green
loan, million NOK

Share financed with
outstanding green loan

ESTIMATED IMPACT (share financed with green loan)

Energy produced, kWh/year	46 041 667
GHG emissions avoided, tonnes CO ₂ e	17 496

KBN FINANCIALS AND OPERATIONS

Financial Highlights

(Amounts in NOK 1 000 000)

	January-September 2020	January-September 2019	2019
RESULTS			
Net interest income	1 292	1 404	1 875
Core earnings ^a	721	844	1 071
Profit before tax	1 183	1 126	1 771
Profit for the period	902	860	1 283
Return on equity after tax ^a	7.8%	8.4%	9.5%
Return on equity after tax (core earnings) ^a	6.6%	8.6%	8.3%
Return on assets after tax ^a	0.2%	0.3%	0.3%
Return on assets after tax (core earnings) ^a	0.2%	0.2%	0.2%
LENDING			
New disbursements	39 441	34 368	53 825
Outstanding loans ^a	312 395	305 197	309 758
LIQUIDITY PORTFOLIO^a			
	125 561	117 271	107 350
BORROWINGS			
New long-term borrowings	79 465	56 790	72 508
Repurchase of own debt	781	260	276
Redemptions	94 397	67 861	95 704
Total borrowings ^a	415 512	420 587	400 489
TOTAL ASSETS			
	502 281	473 521	460 778
EQUITY			
Total capital adequacy ratio	23.6%	23.0%	22.6%
Tier 1 capital adequacy ratio	21.2%	20.4%	20.1%
Common equity Tier 1 capital adequacy ratio	18.3%	17.6%	17.4%
Leverage ratio	3.8%	3.5%	3.7%

Notes:

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. 2 Annualised return on equity and assets after tax: Profit after tax/Core earnings as percentage of average equity (from owner) and average assets. Average equity is calculated based on monthly opening equity (less Tier 1 capital) excluding profit for the year/comprehensive income/interest on Tier 1 capital. Capital injections and dividends are added/deducted in the payment month, such that opening equity for the following month is adjusted for the change. Average assets is calculated based on monthly total assets.

3. Principal amounts

LIQUIDITY COVERAGE RATIO (LCR)^a

	January-September 2020	January-September 2019	2019
Total	208%	417%	348%
NOK	68%	67%	73%
EUR	424%	351%	800%
USD	179%	411%	422%
AUD	1 395%	905%	Infinite
JPY	6 181%	426%	533%
GBP	Infinite	Insignificant	Infinite
OTHER KEY FIGURES			
Green loans ^a	24 170	21 295	23 049
Emissions in CO ₂ e ^a	58.7	n/a	192.4

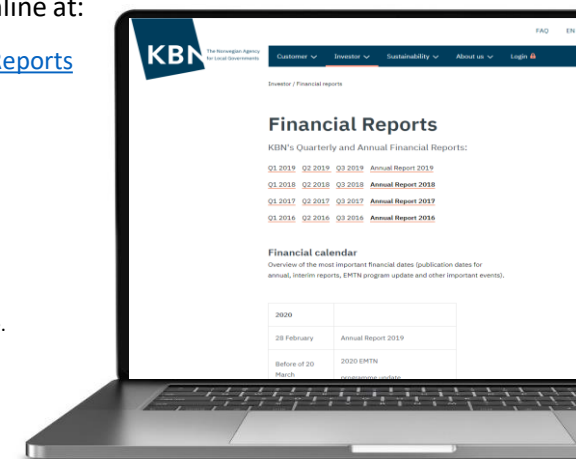


Further information

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



[Financial Reports](#)



4. Liquidity coverage ratio (LCR) is a measure for the regulatory liquidity reserve. LCR is defined as liquid assets as a percentage of net payments in a given stress period of 30 days ahead.

5. Outstanding green loans according to KBN's set of criteria for green loans. 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.

6. Includes the company's direct (Scope 1) and indirect (Scope 2) emissions, as well as residual waste and flights (Scope 3)



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 ROBEK 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 ROBEK List

The Register for Governmental Approval of Financial Obligations (ROBEK) 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.

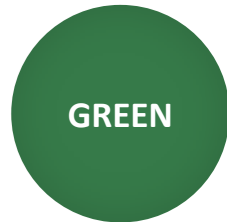
Framework for Local Government debt:

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.

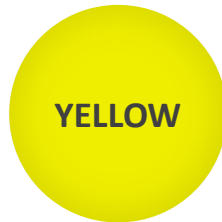
In accordance with the new municipal act in effect from 2020 all local governments will be required to implement financial target numbers for cost control and financial management to eliminate material financial risk.

KBN's Traffic Lights for Client Loan Requests



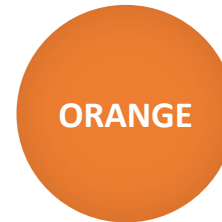
GREEN

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



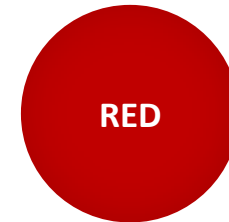
YELLOW

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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