

October 2024

## THE NORWEGIAN AGENCY FOR LOCAL GOVERNMENTS



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KBN

# KBN OVERVIEW

**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 stable, long term and efficient funding to Norwegian local government sector in line with KBN's public policy mandate.
- Excellent asset guality, 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.





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**



- The Central Government, through the *Ministry of Local Government and Regional Development*, appoints both governing bodies; the Board of Directors and the 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 Financial Supervisory Authority ("Finanstilsynet").



#### **KINGDOM OF NORWAY 100%**

**BOARD OF DIRECTORS** (9 represantives) SUPERVISORY BOARD (12 representatives)





### **Central Government Maintenance Statement**

- "... The Ministry considers it extremely unlikely that Kommunalbanken will experience financial difficulties."
- "However, should that extremely unlikely situation arise, the Central Government would urgently review the need for assistance in order to find a timely solution."
- "...the Central Government has the duty of ensuring that the financial affairs of Kommunalbanken are managed in a way that secures the Agency's ability to pursue its operations and that it is in a position to meet its financial obligations in a timely manner."



Statement from Director General of the Ministry of Local Government and Regional Development *March 1. 2006. R*eaffirmed *2009, 2011, 2017* 



### AAA Rating in line with Sovereign

CREDIT	RATINGS			RATING	COMMENTS	
CREDIT	LONG	SHORT	OUTLOOK	AGENCY	COMMENTS	
Cocco R D	AAA	A1+	Stable	<mark>S&amp;P Global</mark> Ratings	<ul> <li>Norway has extremely strong fiscal and external net asset position, which together with high wealth levels, strong institutions, and an effective monetary policy regime support the rating.</li> <li>The stable outlook reflects S&amp;P Global Ratings' view that Norway has ample financial buffer and headroom to withstand a temporary economic chock, without a significant impact on its credit metrics. (Sep 2022)</li> </ul>	
	Aaa	P-1	Stable	MOODY'S	<ul> <li>Substantial fiscal buffer and track record of fiscal surpluses.</li> <li>Very high and evenly distributed wealth that supports economic resilience.</li> <li>A sound macro policy framework, a very strong social safety net and a stable, consensus oriented political system.</li> </ul>	
	AAA	A1+	Stable	<mark>S&amp;P Global</mark> Ratings	<ul> <li>Very important role and integral link with the Norwegian government.</li> <li>Very strong capitalization and liquidity position provide substantial financial buffers.</li> <li>Extremely high likelihood of receiving timely and sufficient extraordinary support from owner in the unlikely event of financial distress.</li> </ul>	
KBN	Aaa	P-1	Stable	MOODY'S	<ul> <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 a loss from lending during more than 90 years of operations. (May 2024)</li> </ul>	

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;
  - the counties;
  - and the municipalities.
- A large part of welfare and infrastructure provisions in Norway are assigned to the Local Governments.
- The majority of KBN lending is made to municipalities (88%), followed by counties (12%).



Munch Museum



Horten Secondary Schoo



The Hardanger Bridge





### **Sustainability**

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 55% by 2030, compared to 1990 levels.



#### Collaborating to fulfill our social function

°CICERO Center for International Climate Research

#### Cicero

Zero

KBN and CICERO have created a climate risk tool for the local government sector.

### ZERO 🔿

#### KBN works with the Zero Emission Resource Foundation (ZERO) on local government climate issues.



#### **Norwegian Climate Foundation** KBN works with the Norwegian Climate Foundation on

communicating knowledge on local government climate risk.



"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 (2018-2020)



### SUSTAINABLE G ALS

KBN have identified seven of the Sustainable Development Goals that are impacted by KBN's operations and where KBN is positioned to make a positive contribution.



17 PARTNERSHIPS FOR THE GOALS

B





### **Conservative Risk Management**



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

#### 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 covering 1 year net debt service.

ANNEXES

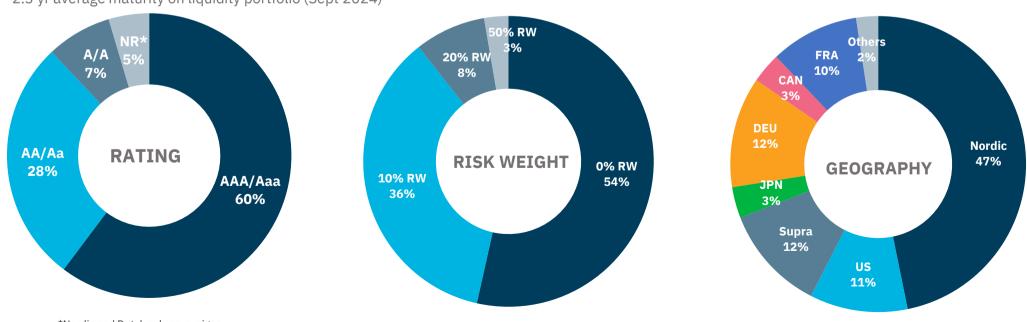


### Large and High Quality Liquidity Buffer

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 11-13 bn and managed internally across EUR, NOK and USD.

- The average portfolio maturity typically ranges between 1.5–2.5 years.
- 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, financial institutions and limited number of corporates 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 in US Treasuries, Norwegian, German or French government papers and selected Covered Bonds.



#### **PORTFOLIO BREAKDOWN**

2.3 yr average maturity on liquidity portfolio (Sept 2024)

\*Nordic and Dutch sub-sovereigns.

**CAPITAL STRUCTURE** 



### **Strong Financials**

- 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 govenment's initial Covid-19 response initatives, KBN received a NOK 750 mn capital injection in April 2020 to ensure funding available for LG's
- Tier 1 capital has risen from 7.5 % in 2008 to 22.3% Q2 2024.
- Dividend can be paid to the Kingdom as owner, if the government ascertains that KBNs capital situation is satisfactory.
- 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.





### FINANCIAL RESULTS

	2020	2021	2022	2023	Q2 2024
Total Assets	49.8	47.3	49.2	52.2	53.0
Loan Portfolio	31.8	32.3	32.8	35.4	35.8
Leverage Ratio	3.7%	3.7%	3.9%	4.0%	4.1%
OpEx / Total Assets	0.051%	0.054%	0.055%	0.060%	0.069%

**ANNEXES** 



### **International Peer Group**

	KBN The Norwegian Agency for Local Governments	rentenbank		European Investment Bank	kſw
DEBT RATING	AAA/Aaa (stable/stable)	AAA/Aaa (stable/stable)	AAA/Aaa (stable/stable)	AAA/Aaa (stable/stable)	AAA/Aaa (stable/stable)
OWNERSHIP	100% Norwegian central government	Direct federal institution under public law	50% Dutch central government, 50% local government	Co-owned by 27 EU Member States	80% Federal Republic of Germany, 20% German federal states
GUARANTEE / SUPPORT MECHANISM	Government owned agency with Maintenance Statement	Explicit and direct guarantee from the Federal Republic of Germany	Implicit Government Support	Supranational	Explicit and direct guarantee from the Federal Republic of Germany
PURPOSE	Public sector lending against guarantee. Limited to Norway	Government agency for agriculture and rural areas	Dutch public and semi-public sector lending	Regional (EU) and international (ex-EU) development	German Federal development bank. Not limited to Germany
BORROWING PROGRAM 2024	USD 8-9bn	EUR 12-14bn*	EUR 16bn	EUR 60bn	EUR 80bn

\*Maturity > 2 years. Source: Respective issuers' websites.

KBN

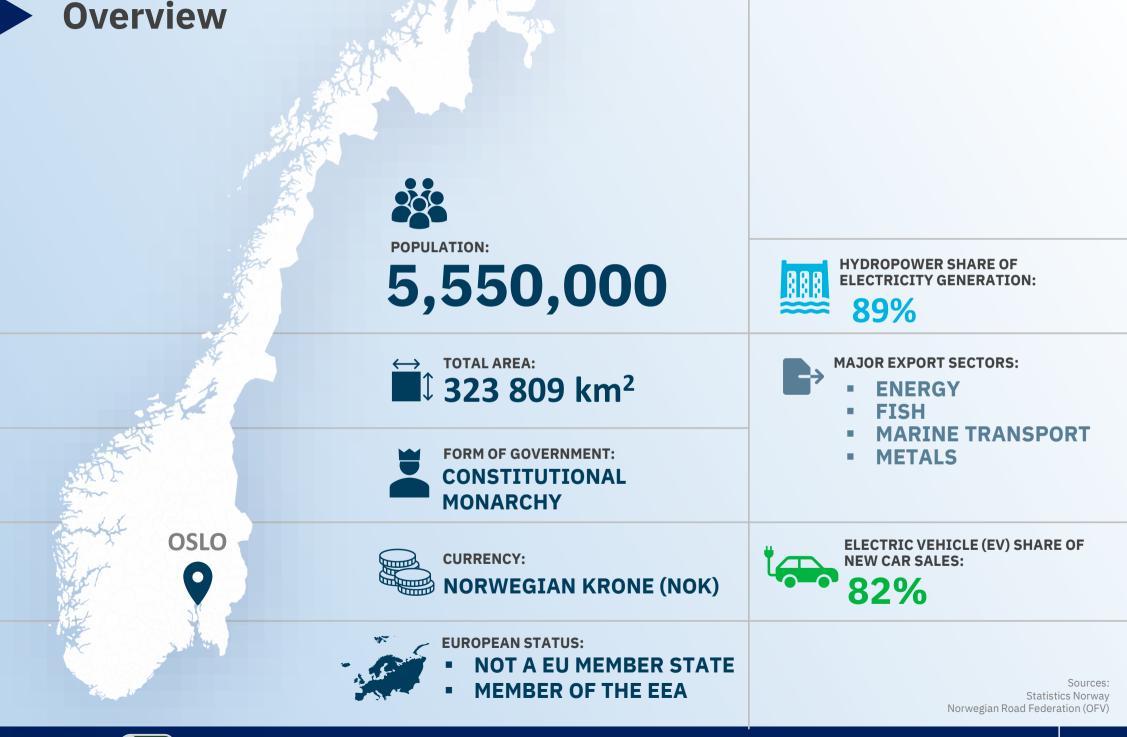
# KINGDOM OF NORWAY

ANNEXES

#### **KINGDOM OF NORWAY**

LENDING OPERATIONS







### **Strong and Diversified Norwegian Economy**

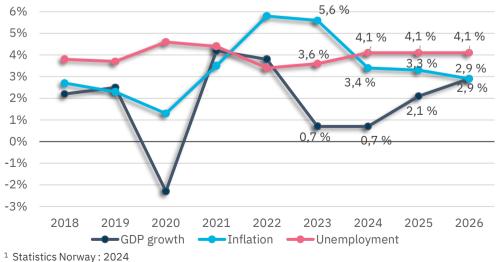
- Norway's economic fundamentals remain robust.
- At approx. USD 513 bn<sup>1</sup> eq, Norway's GDP is broadly diversified across a range of productive sectors. Norway is one of the world's wealthiest countries based on GDP per capita.

#### Key Economic Indicators for 2024<sup>2</sup>

15.9%	0.7%	3.4%	4.1%
Current Account Surplus	GDP Growth	Inflation	Unemployment

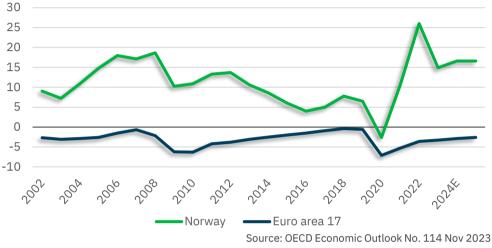
- Norway's macroeconomic stability pillar ranked first in the World Economic Forum's 2019 rankings<sup>3</sup>.
- The government has managed a solid current account surplus for the past decades and estimates continued surpluses going forward.

#### **KEY ECONOMIC INDICATORS**<sup>2</sup>



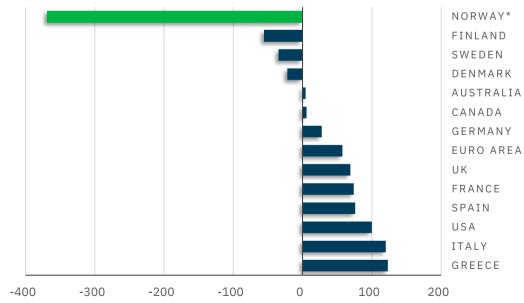
#### **GENERAL GOVERNMENT FINANCIAL BALANCES**

Surplus (+) or deficit (-), % nominal GDP



#### GENERAL GOVERNMENT NET FINANCIAL LIABILITES

% of nominal GDP



Source: OECD Economic Outlook No. 114 Nov 2023

Debt measures are not always comparable across countries due to different definitions \*OECD has not published an estimate for Norway since 2020. Figure for Norway is sourced from OECD EO 109

<sup>&</sup>lt;sup>2</sup> Statistics Norway : Sep. 2024

<sup>&</sup>lt;sup>3</sup> World Economic Forum Global Competitiveness Report, 2019

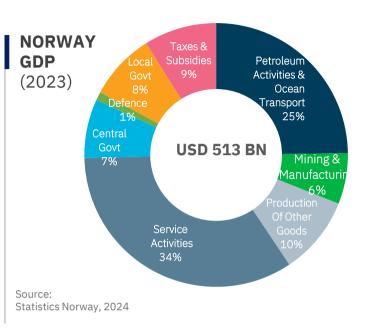
MAIN



### **Strong and Diversified Norwegian Economy**

- The oil and gas industry (including supporting industries) historically constituted approximately 20% of Norwegian GDP. Higher gas prices have elavated this share, but it is expected to normalize going forward.
- The petroleum sector is the major contributor to the overall trade balance and current account surplus. Norway's industrial base however 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
- Service Activities do make up the largest portion of GDP. This includes industries such as Transport and Communication, Financial and Business Services, Telecommunication and Information Services and Tourism.
- The UK and Germany are Norway's largest export counterparties due to the high volume of crude oil and natural gas exports. Post the Ukraine invasion, Norway is now the largest supplier of natural gas to Europe. Sweden is one of Norway's largest trading partners in relation to the import of goods and services, but imports from China have also grown in recent years, and now constitute a significant portion of imported goods.
- EU countries account for almost 70 percent of Norwegian exports of goods compared to just over 55 percent of imported goods.





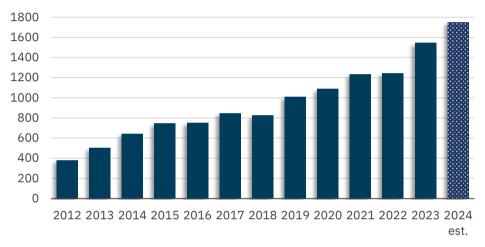
#### NORWAY EXPORT OF GOODS



### Norwegian Sovereign Wealth Fund – A Long-Term Contributor to the Nation's Wealth

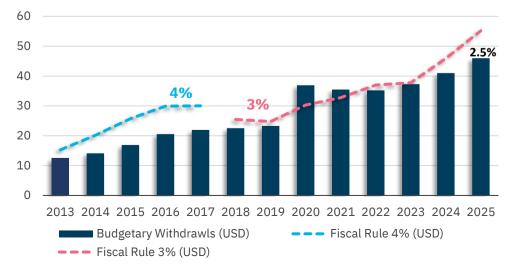
- Norway's sovereign wealth fund, called the Government Pension Fund Global (GPFG), by end 2024 expected assets of USD 1.75 trillion (NOK 18.4 tr. eq). This ranks the GPFG as the world's largest SWF.<sup>1</sup> The size corresponds to approx. 350% of Norway GDP and 900% of the national budget.
- The 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 GPFG'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 Q2 2024, the Fund's actual average net annual real rate of return has been 4.0%.
- The history, objectives and management of the GPFG can be explored further <u>here</u>.





### EXPECTED NET REAL RETURN AND ACTUAL WITHDRAWAL FROM GPFG

in USD bn



<sup>1</sup> Sovereign Wealth Fund Institute, Jan 2024 Sources : Norges Bank Invesment Management / Ministry of Finance / Norwegian Government



# LENDING OPERATIONS

ANNEXES



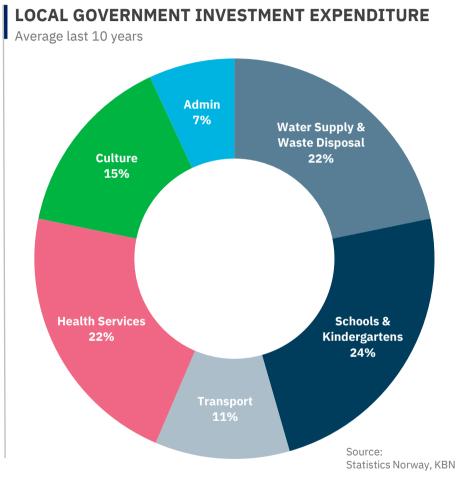
# KBN Lending Supports the Nation's Economic & Social Welfare

Norwegian Local Governments have equal access to funding with KBN, at comparable levels, in order to deliver welfare services on behalf of the Central Government.

- KBN oversees a diversified loan portfolio of USD 36bn\*. This reflects a market share of approx. 50% of client borrowings.
- All of Norway's 15 counties and 357 municipalities are borrowing clients of KBN.
- KBN loans are used to implement a broad range of key social projects.

#### KBN's mandate have been extended to implement greater environmental and social awareness via Green Lending.

- Green loans are offered at reduced interest rates to projects with clear climate- and environmental ambitions.
- By 2023, KBN had completed USD 5.2 bn in lending to climate-friendly projects across a broad range of project categories. This represents 15.4% of the total lending portfolio, with an aim of reaching 20% by end of 2025.
- For 2023, green lending for investments in climate and environmentally friendly projects grew by a record 11bn NOK.



#### **S&P Global** Ratings

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

- Standard & Poor's



### 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**

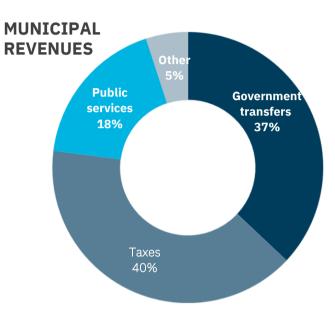
- KBN benefits from an extremely solid customer base:
  - Municipal authority is seen as a delegated state authority as they are not defined a legal entity in the Norwegian Constitution.
  - Municipals receive a large proportion of revenue from central government transfers, in order to ensure a unified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

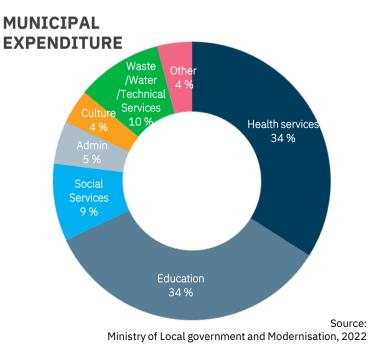
#### **Close Supervision and Control**

- 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 may not be subject to bankruptcy proceedings. 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.

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

- Moody's





**MOODY'S** 



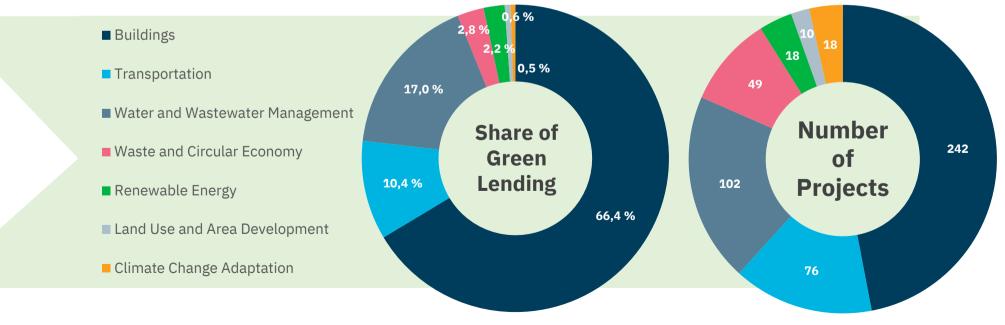
### **Green Lending Portfolio**

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

- Green loans are awarded to projects that contribute to reducing greenhouse gas emissions, improving energy efficiency, the environment or climate change adaptation.
- KBN's green lending portfolio has grown at a compounded annual growth rate of 27% over the last 7 years to above NOK 50 billion.
- As of 31 December 2023, the green lending portfolio consisted of 474 green projects across Norway, from the smallest municipality of Utsira to the capital of Oslo.
- KBN strives for transparency in reporting and its annually published Impact Report has twice won "Environmental Finance's Impact Report of the Year".



#### KBN GREEN LENDING PORTFOLIO



#### MAIN 🔵

ANNEXES



### **Conservative and Strictly Supervised Lending Portfolio**

- 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.

# Government.no



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#### 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:

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

#### 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.



#### LENDING OPERATIONS

## KBN

### **Project Examples**

**COUNTIES** (population) **MUNICIPALITIES** (population)

#### **SVALBARD** (2,310)

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



#### **HORDALAND** (505,246)

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





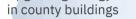
- sports halls
- New fire truck



- New dental clinic
- New harbor facilities
- in county buildings



- Upgrading energy efficiencies





**NORDKAPP** (3.239)

Upgrading harbor facilities

Road upgrade

New cemetery

•

#### **KONGSVINGER** (12,078)

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

#### **TØNSBERG** (41,239)

- Greve Biogass
- Turning food waste and manure into fuel
- Financed by green lending rate from KBN







# FUNDING OPERATIONS





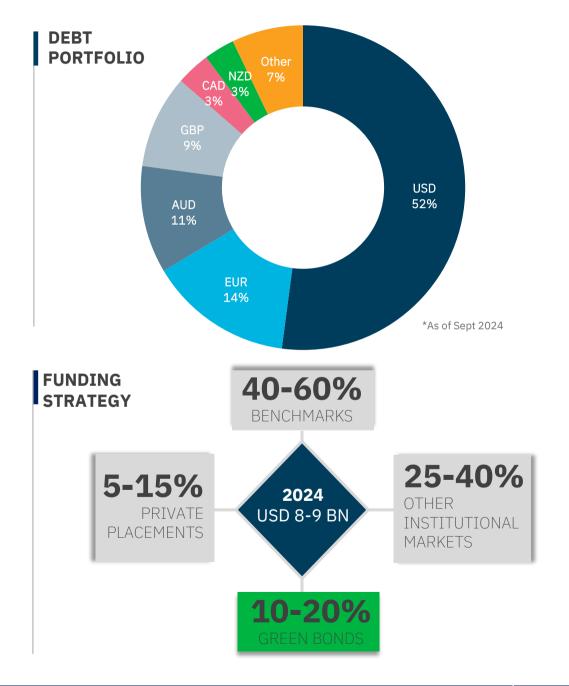
### **Flexible and Diversified Investor-Driven Funding Program**

### KBN's funding borrowing program for 2024 is estimated to be USD 8-9 billion.

- 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, Norway and Switzerland as well as an MTN Program with a 144a tranche.

# A considerable portion of KBN's annual borrowing program is raised by issuing liquid USD and EUR benchmark securities.

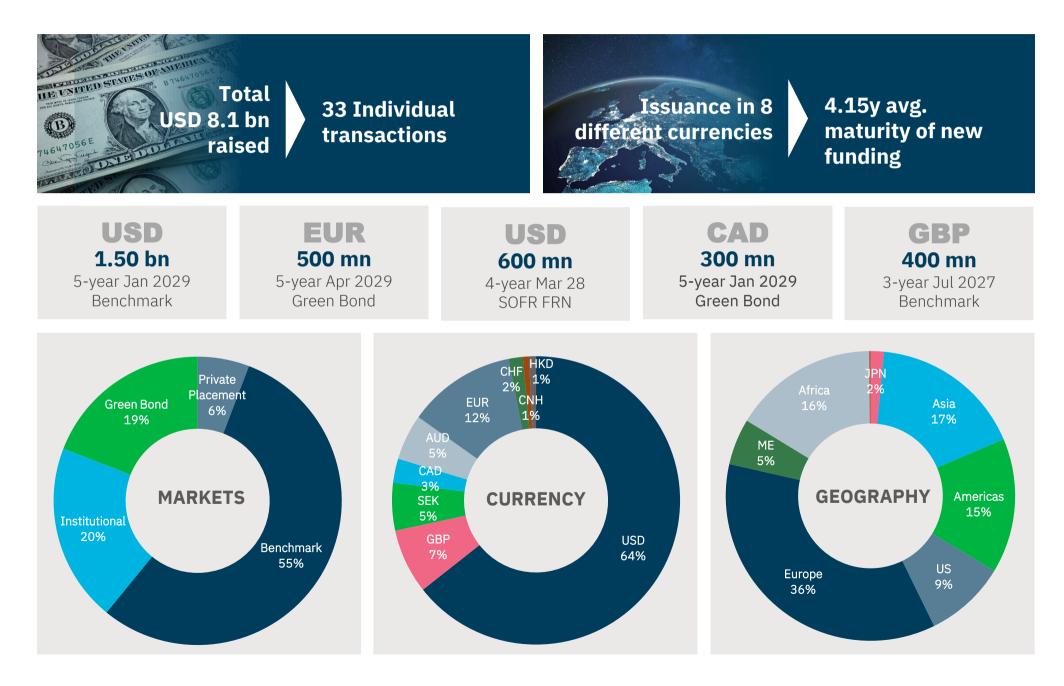
- KBN recognizes the value of maintaining a solid partnership with investors for these offerings, and seeks to offer attractive relative value, with excellent credit quality.
- Principles guiding benchmark pricing includes:
  - regular consultation with underwriters experienced in target markets;
  - pricing and sizing issues "to clear"; and
  - performance in secondary markets.



FUNDING OPERATIONS



### **KBN Funding 2024 YTD**





### **USD Benchmark Strategy**

- KBN's strategy is to issue benchmarks regularly in order to:
- enhance market presence;
- access a wide institutional investor base;
- provide liquidity and performance for investors;
- issue products in line with market demand; and
- build strong long-term investor and bank relationships.



For 2024, KBN plans to issue 3 USD benchmarks in maturities ranging from 3 to 10 years.



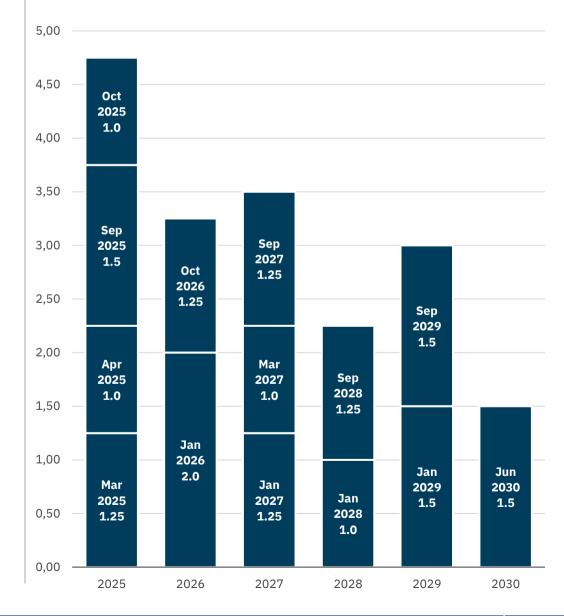
KBN currently has 14 USD benchmark transactions outstanding. The total notional amount is USD 18.25 bn.



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

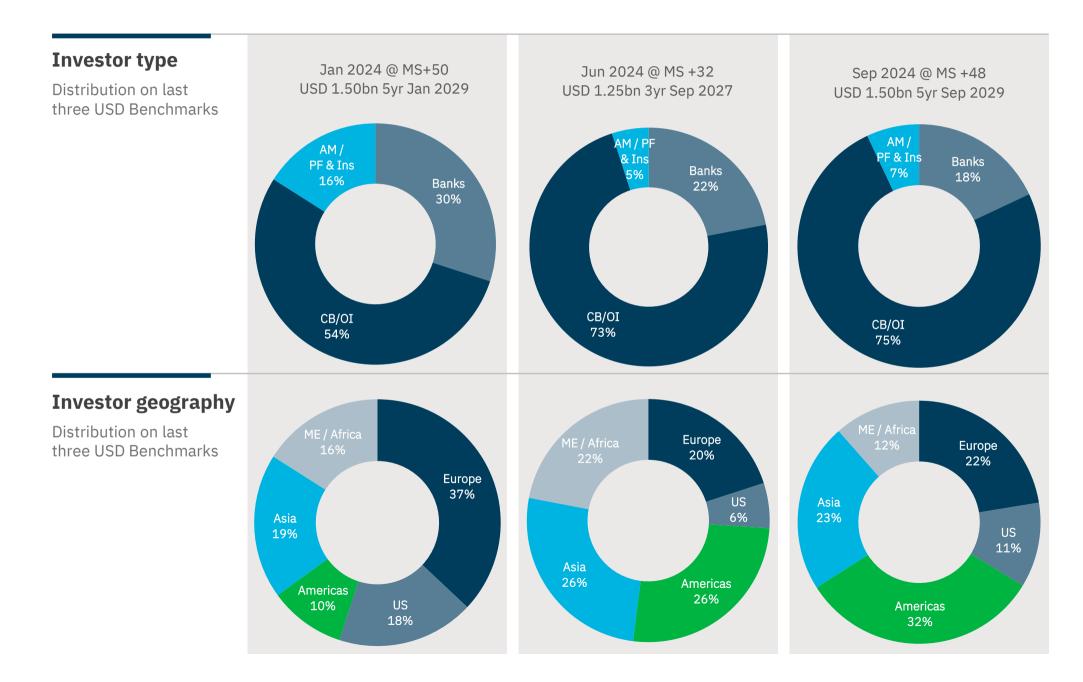
#### OUTSTANDING 144A BENCHMARKS







### **USD Benchmark Distribution**

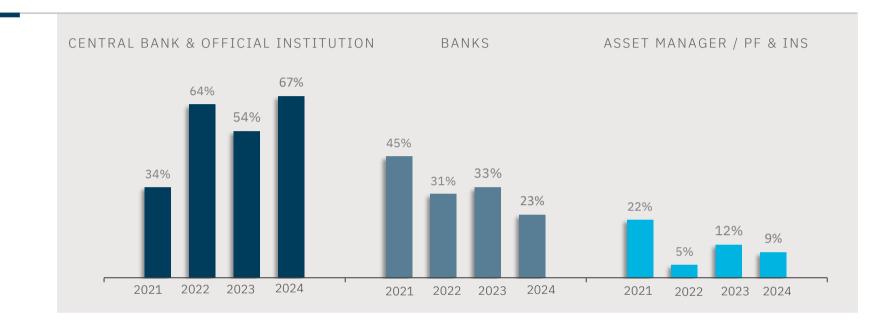


**Investor type** 

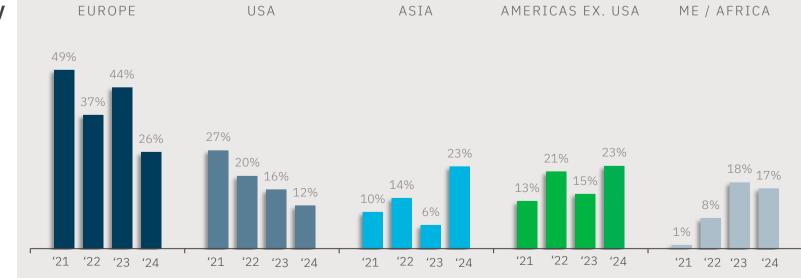
Annual averages



### **USD Benchmark Distribution**



#### **Investor geography**



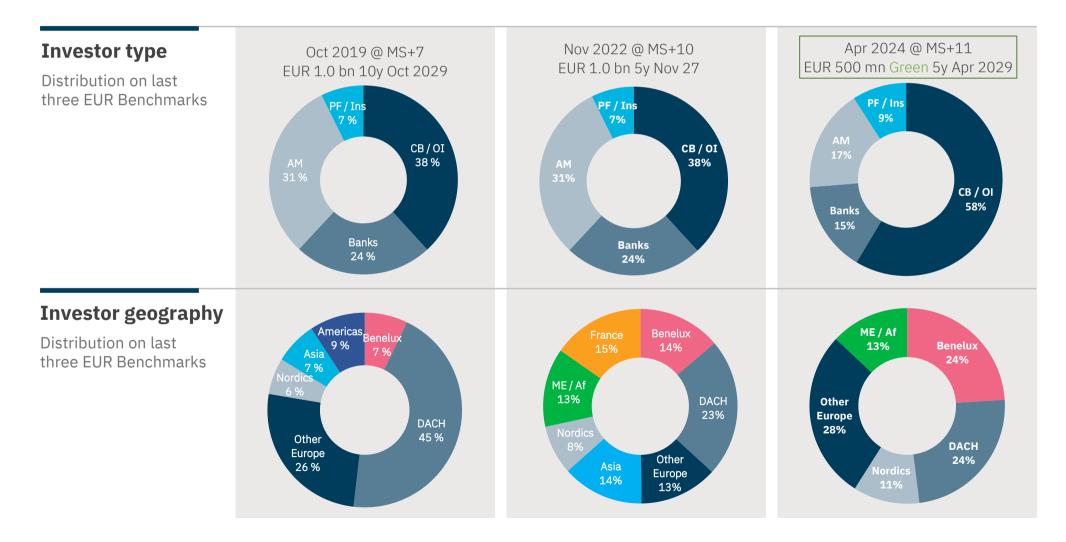
Annual averages



### **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





### **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.

#### **USD FRN Strategy**

- KBN typically opens a new line with USD 500mn minimum notional.
- Taps are priced on the basis of investor demand.
- Lines are increased up to a maximum notional of USD 2 bn.
- In April 2021, KBN became one of the first European Agencies to issue a SOFR referenced bond, completing it's inaugural SOFR USD 500mn Oct 2023 line.
- Over time, KBN aim to build a liquid curve of SOFR referenced FRNs.

* **	AUSTRALIA KANGAROO		NORWAY EMTN / VPS
Notional outstanding:	AUD 6.655 bn	Notional outstanding:	NOK 10.65 bn
Maturities outstanding:	2025, 2026, 2027, 2028, 2029, 2030, 2032, 2034	Maturities outstanding:	2025, 2026, 2027, 2028, 2029, 2031, 2032, 2033, 2036, 2037
***	<b>NEW ZEALAND</b> KAURI		SWEDEN Emtn
Notional outstanding:	NZD 2.13 bn	Notional outstanding:	SEK 9.25 bn
Maturities outstanding:	2025, 2026, 2027, 2030	Maturities outstanding:	2025, 2026, 2027, 2029, 2031
	<b>UNITED KINGDOM</b> EMTN	+	SWITZERLAND
Notional outstanding:		Notional outstanding:	SWITZERLAND CHF 610 mn
	EMTN		
outstanding: Maturities	EMTN GBP 2.97 bn	outstanding: Maturities	CHF 610 mn
outstanding: Maturities	EMTN GBP 2.97 bn	outstanding: Maturities	CHF 610 mn
outstanding: Maturities	EMTN GBP 2.97 bn 2024, 2025, 2026, 2027 UNITED STATES (FRN)	outstanding: Maturities	CHF 610 mn 2027, 2028, 2030, 2031 CANADA



### Institutional Public Markets – AUD

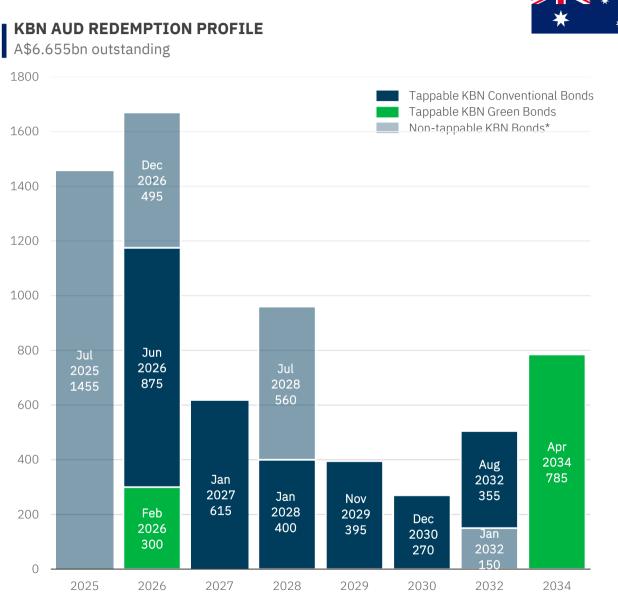
### KBN has been an active issuer in the Kangaroo market since 2001.

- Maintain regular market presence.
- Diversify investor base.
- Strategic market target issuance 5-10% of annual Funding Programme.
- Long term commitment to building investor relationships.
- Dedicated investor marketing.
- Ability to issue in Fixed, FRN and Green format.

Year	Annual Issuance (A\$ mn)
2021	1,015
2022	1,240
2023	910
2024 YTD	660

#### Objectives for the current year in AUD:

- Primary focus will be in the mid-curve.
- New lines and taps to build size/liquidity, pricing and market conditions allowing.
- Fill demand for longer dated tenors (8-15y)
- Ambition of further issuance of Green Bonds in AUD.



\*As a result of the implementation of the BRRD (directive 2014/59/EU) legislation in Norway, KBN updated its base prospectus on 22 March 2019 to comply with the legislation. KBN has been advised by external counsel that, as a result of this, it will not be possible to achieve fungibility with existing series of notes and it will therefore no longer tap existing lines. All notes issued from 22 March 2019 will be open to be increased as per market practice.

FUNDING OPERATIONS



### Institutional Public Markets – GBP



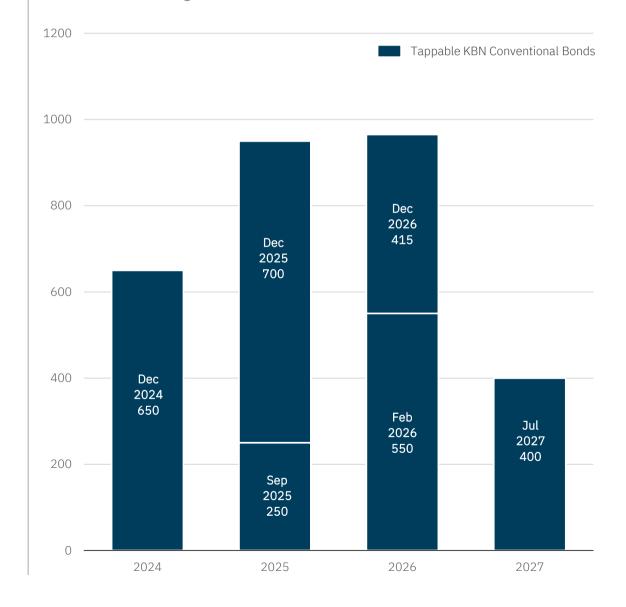
# The Sterling market is a strategic source of funding and offers diversification for KBN's funding program.

- Continue to build market presence and investor relations.
- Tap outstanding lines and/or open new lines.
- Maturity focus is 2-7 year.
- Prepare for a potential SONIA issuance.

Year	Annual Issuance (£ mn)
2021	1,205
2022	565
2023	650
2024 YTD	400

#### **KBN GBP REDEMPTION PROFILE**

£2.965bn outstanding





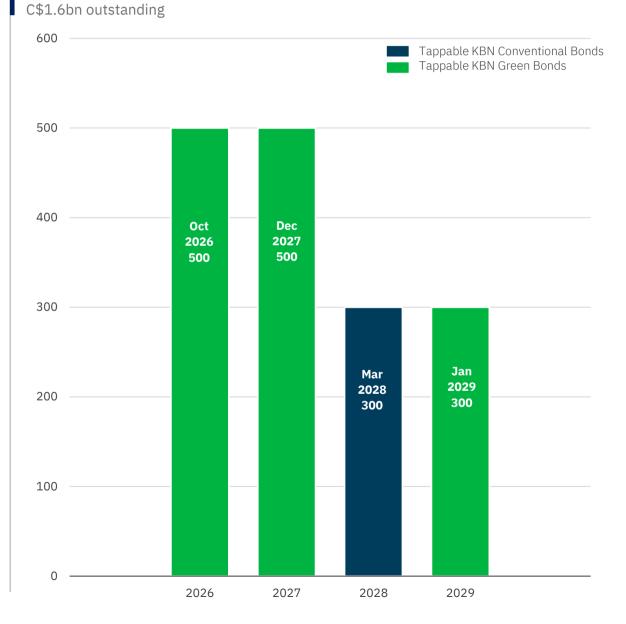
### Institutional Public Markets – CAD

### KBN re-entered the Canadian Dollar market with a Green Bond issuance in 2021.

- Continue to build market presence.
- Diversify investor base.
- Develop a liquid CAD curve.
- Tap outstanding lines and/or open new lines.
- Maturity focus is 2-7 year.
- Can issue both Green and Conventional Bonds.

Year	Annual Issuance (C\$ mn)
2021	500
2022	500
2023	800
2024 YTD	300

#### **KBN CAD REDEMPTION PROFILE**



MAIN



### Institutional Public Markets – NZD

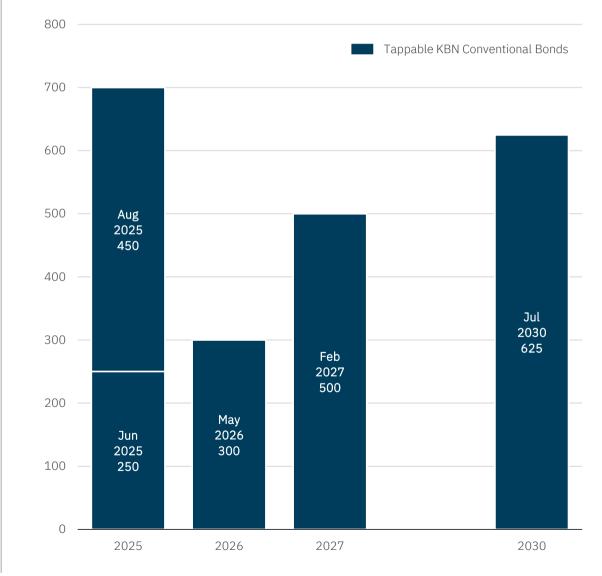
### KBN has been an active in the Kauri market since 2007.

- Supply NZD investors with high quality investments based on market demand.
- Long term commitment to building investor relationships.
- Focus on 2-10y maturity.
- Potential for Green NZD issuance.
- Fixed and Floating formats.

Year	Annual Issuance (NZ\$ mn)
2020	750
2021	1,125
2022	500
2023	300

#### KBN NZD REDEMPTION PROFILE

NZ\$2.125bn outstanding





## **Private Placements**

KBN is focused on maintaining its position as an active and flexible issuer in

## Private Placement format.

- Plain Vanilla or Fixed Callable structures.
- Can issue in a range of currencies, including CNY (offshore) and HKD.
- Size will depend on capacity. Previously issued from 10mn to 1bn USD-equivalent.
- Maturities ranging from 1- to 30-years, with maximum of 10-years for Bullet trades.

## **Euro-Commerical Paper (ECP) Programme**

## KBN is an active issuer of Commercial Papers under our ECP Programme.

Outstanding amount will vary based on KBN's short-term liquidity needs.

- Programme is unlimited in size.
- Tenors between 1 and 12 months.
- Issue primarily in EUR and USD but can also issue other G10 currencies in Fixed format.
- Rated P-1 by Moody's and A-1+ by S&P.
- Dealers on the programme are Barclays, Credit Agricole, Citibank, ING, JP Morgan and UBS.

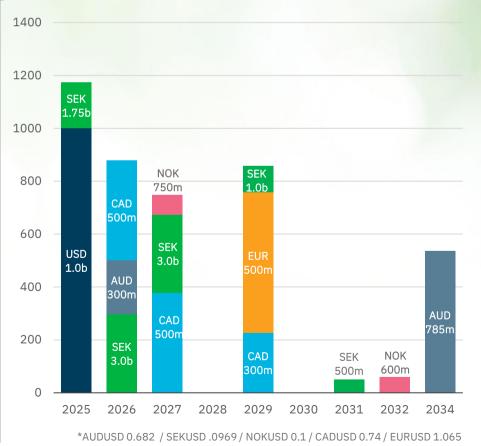


## **KBN Green Bond Issuance**

- KBN was one of the first European issuers to issue a green bond in USD.
  - The past years KBN have experienced a strong global increase in investor demand for our issuance in USD, NOK, AUD, SEK, CAD and EUR.



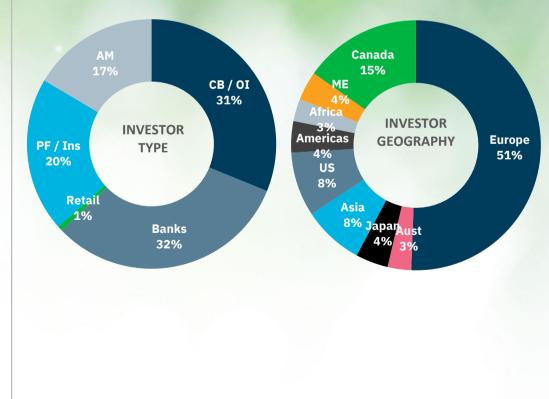
in USD mn\*





#### **OUTSTANDING KBN PUBLIC GREEN BOND ISSUANCE**

Investor Type and Geography



As of October 2024



## KBN – A Stable AAA Norwegian State Agency

- **1. 100%** owned by the Kingdom of Norway (AAA/Aaa) and supervised by the Norwegian FSA
- Monoline business model, financing core local government welfare investments in Norway and no cross border lending.
- Counties and municipalities KBN's clients under the Local Government Act may not be subject to bankruptcy proceedings.
- **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

FUNDING OPERATIONS



## Contact

For annual reports, rating reports and general information, please visit our website <u>www.kbn.org</u> or contact:



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## $\mathcal{O}_{\mathcal{O}}$ ADDITIONAL INFORMATION

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

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

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

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

KOSTRA Registry https://www.ssb.no/en/offentlig-sektor/kostra

ICMA Green Bond Principles https://www.icmagroup.org/green-social-andsustainability-bonds/green-bond-principles-gbp/

#### NOTICE

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**KBN FINANCIALS AND OPERATIONS** 



# ANNEXES KBN GREEN BONDS

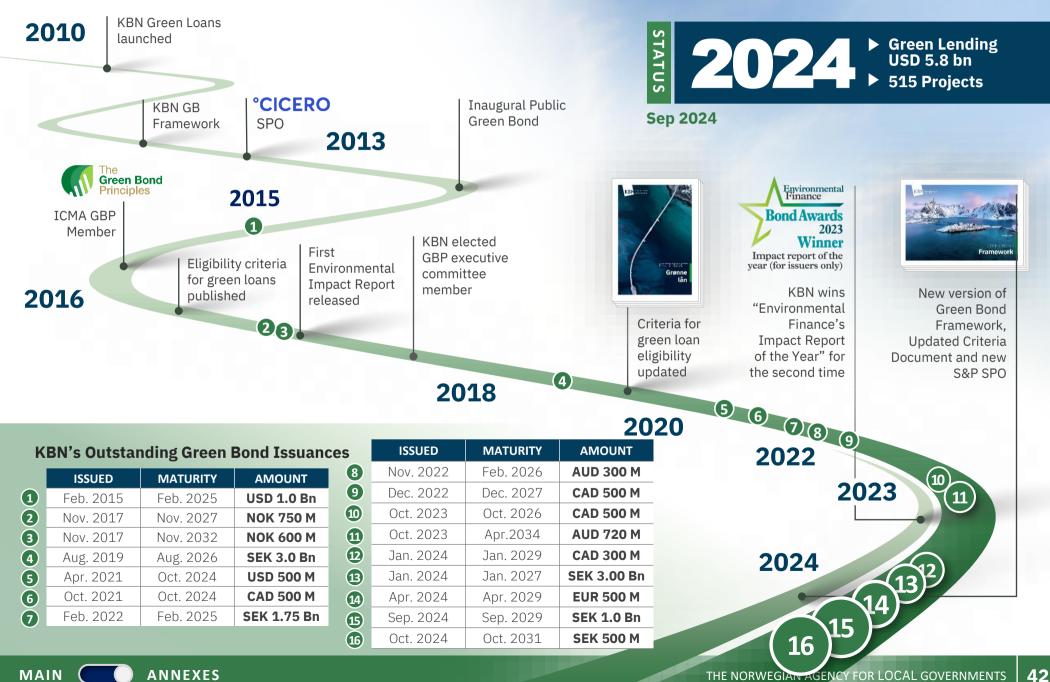
MAIN

ANNEXES

THE NORWEGIAN AGENCY FOR LOCAL GOVERNMENTS **41** 



## The Evolution of KBN'S Green Strategy





## **KBN Green Bond Framework 2024**

KBN's April 2024 Green Bond Framework replaces our 2021 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 new projects must be aligned with 2024 version of KBN's Green Loan eligibility criteria, guided by KBN's external Green Expert Committee

Places greater emphasis on nature and climate related risks

Annual third party review of asset selection process and allocation

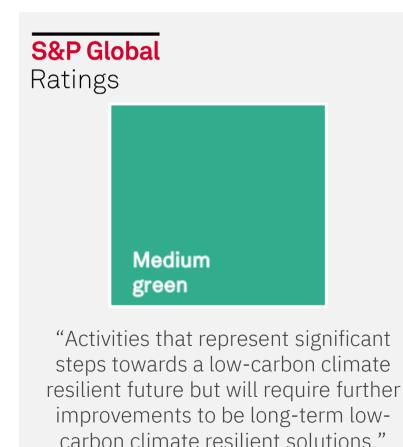
Framework

# KBN

## **S&P Second Party Opinion**

## **Overall Shades of Green Assessment:**

"Based on the project category shades of green detailed below, and considering the environmental ambitions reflected in the issuer's green bond framework, we assess the framework as **Medium green**."



## S&P's Second Party Opinion of KBN'S Green Project Categories

Buildings	Medium to Light Green		
Renewable Energy	Dark to Medium Green		
Transportation	Dark Green		
Waste and Circular Economy	Dark to Medium Green		
Water and Wastewater Management	Medium Green		
Land Use and Area Development Projects	Medium to Light Green		
Climate Change Adaptation	Dark to Medium Green		



## **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 contrubuting 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

 $\checkmark$ 

2.1 RENEWABLE ENERGY PRODUCTION		
<ul> <li>2.1.1 Renewable energy production</li> <li>Applies to the following: <ul> <li>a) Biogas plants</li> <li>b) Geothermal wells</li> <li>c) Solar panels or solar thermal collectors</li> <li>d) Locally sourced pellet or wood chip for heating systems (timber). Whole timber as fuel is not eligible.</li> <li>e) Heat pumps</li> <li>f) Other renewable energy sources</li> </ul> </li> <li>For renewable energy production in buildings - see the Buildings category.</li> </ul>	<ul> <li>Expected annual energy production (kWh/year)</li> <li>If a) Plan for monitoring and contingency of methane leakage</li> <li>If d) If raw material usage: PEFC/FSC certification</li> </ul>	Elig Gre the The dev
2.2 ENERGY STORAGE 2.2.1 Energy storage in connection with energy production facilities Storage of locally generated energy using one of the following methods a) Electrical storage, e.g. batteries, b) Thermal storage	<ul> <li>DOCUMENTATION REQUIRED</li> <li>Expected storage capacity (kWh)</li> <li>If c) Plan for monitoring and contingency of leakage</li> </ul>	<b>reg</b> inve are
<ul> <li>Storage as green hydrogen</li> <li>For the installation of renewable energy storage in buildings - see the Buildings ca</li> <li>2.3 ENERGY INFRASTRUCTURE</li> </ul>		The KBI exte
2.3 ENERGY INFRASTRUCTORE 2.3.1 Network capacity Municipalities' contribution to constructing or upgrading the network's capacity, e.g. a construction contribution.	Expected increase in capacity     (kWh)	repi
<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 will not be considered eligible. Surplus heat/cold generated by other processes is considered a renewable source if the input is renewable. The use of mineral-based emergency fuels can only be approved for clearly defined emergency situations.	<ul> <li>Expected increase in capacity (kWh)</li> <li>Expected distribution between energy sources (%)</li> </ul>	
$\rightarrow$ For the installation of charging stations for electric vehicles - see the Transportation	on category.	
2.4 OTHER	DOCUMENTATION REQUIRED	

Projects that are highly innovative and solutions that are not yet well known in the market can qualify under "Other". Documentation that demonstrates that the project has a significant climate or environmental impact must be provided. We will assess projects based on the documentation provided.

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.

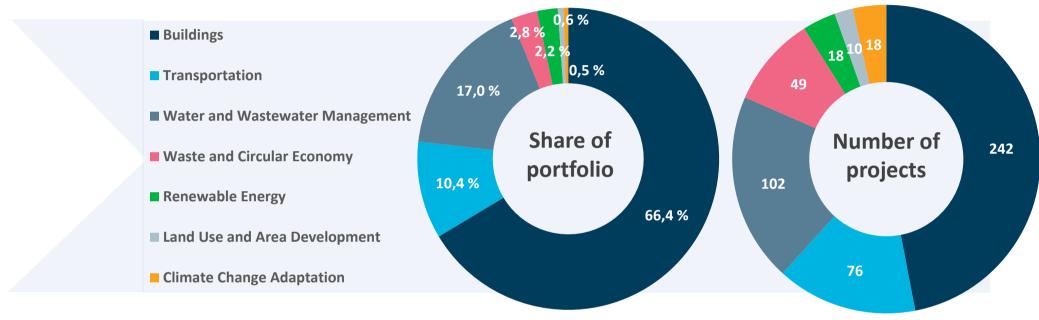
The Criteria Document is assessed annually by KBN's Green Expert Committee consisting of external experts in fields such as clean energy and transport, sustainable buildings, and representatives form the local government sector.





## **Green Lending Portfolio**

GREEN LOANS OUTSTANDING USD 5.8 BN\* 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 - 2016-2023

5000 4000 3000 2000 1000 0 2016
2017
2018
2019
2020
2021
2022
2023 The demand for green loans has risen substantially the last few years, mirroring the increased interest for green bonds.

By the end of 2023, Green Lending accounted for 15.4% of KBN's total outstanding lending. KBN's goal is to reach 20% by end of 2025.

\*USDNOK = 10.6



## **Contributing to a low-carbon society**

KBN's discounted Green Loans finance investments that contribute to a low-carbon climate resilient future.

Green loans are not awarded to any investments 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 use fossil fuel only as a back-up solution





## **Selection and evaluation of eligible projects**

KBN has designed and implemented a process to ensure that only projects aligned with the Criteria Document outlined above will be selected as Eligible Assets and Projects for its Green Bond issuance.

5



The project owner/customer proposes a potential project by submitting the Application Form for the relevant project category, supported by any required documentation as listed in the Criteria Document.

- The application and any additional 2 documentation is first assessed by the customer's Relationship Manager, who nominates projects for Green Loan financing.
- The project is then assessed by one of 3 KBN's Climate Advisers, who checks the project's eligibility against the relevant Eligibility Criteria and proposes the project's approval, alternatively rejection.



Finally, the decision is controlled by a KBN Climate Controller, who signs the final approval of the project to be added to the Green Project Portfolio.



6

In cases of doubt or where Eligibility Criteria are not fully covering the project in question, or when the project is assessed under an "Other" criterion. the final decision is made by KBN's Chief Lending Officer.

KBN's Internal Auditor or an appointed reputable external reviewer will perform an internal audit on a yearly basis covering the allocation of the green bond proceeds to eligible projects and on its reported impact metrics as applicable.



## **KBN Impact Reporting**

The central principles of our environmental impact reporting are:

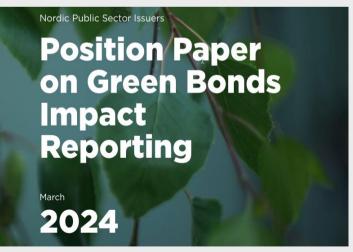
- Reports include information at the project level, category level and portfolio level. Reported impact relates to the proportion of the project we financed.
- We report the expected impact of projects (ex ante) and may in the future report actual impact (ex post).
- Reporting is centred around the net 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.
- We have established quantitative indicators for each project category and provide this data for each project whenever feasible.
- Additionally, we offer a qualitative description of the impact for each project. While we strive to quantify the impacts of all projects, certain projects currently yield positive environmental outcomes but lack

Reporting 2024

clear metrics or adequate reference points for comparison. Consequently, the total impact reported may underestimate the actual impact.

- Our reporting is limited to emissions and emissions reductions that fall under Scopes 1 and 2\*
- Electricity consumption is converted to greenhouse gas emissions using the grid factor for Norway as calculated by The Norwegian Water Resources and Energy Directorate (NVE). The factor applied is 19 grams of CO2e per kilowatt hour.
- 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 it's green bonds in a investor-friendly spreadsheet.

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** 



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

2023 KBN Impact Report

\* 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).

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# KB

## **Impact Report 2023**

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 KBN's green bonds. The map shows the geographic location of these.

46 684 MWh energy reduced and avoided annually

**14 034** tonnes of CO<sub>2</sub>e reduced and avoided annually

107 849 MWh renewable energy produced annually

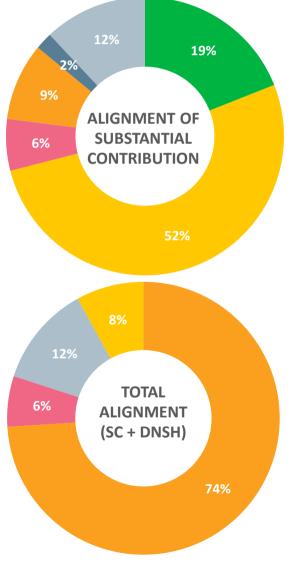
## **474** Projects

68 New projects in 2023



## **Voluntary Taxonomy Alignment Assessment**

KBN has for several years performed an analysis of how eligibility criteria for green loans align with the EU Taxonomy.



Taxonomy alignment self-assessment of the entire green project portfolio.

- ALIGNED
- PARTLY ALIGNED
- LIKELY NOT ALIGNED
- NOT ELIGIBLE
- COULD NOT BE ASSESSED

#### PROJECTS ASSESSED INDIVIDUALLY



KB

#### Download full mapping (Excel)

- 71% of KBN's portfolio is identified as either aligned or partly aligned with the Substantial Contribution (SC) criteria of the taxonomy. Project types include measures to improve the energy efficiency of buildings, low-carbon public land and maritime transportation, installation of solar energy equipment and new low-energy buildings.
- The significant proportion of partly aligned projects is primarily attributed to criterion 1.2.1: New low-energy buildings larger than 5000 m2. We consider the criteria for energy performance to be met, a determination facilitated by a Norwegian nZEB (nearly zero-emission building) definition published by Norwegian authorities in 2023. Air-tightness is also deemed to be fulfilled, but there is insufficient information available to assess whether the criteria regarding the life cycle Global Warming Potential (GWP) are met for all projects larger than 5,000 m2.
- While we identify numerous criteria to be aligned or likely aligned with the SC criteria, there is no full alignment with both SC and Do Not Significantly Harm (DNSH) criteria. This primarily stems from the fact that extensive risk, water, and biodiversity assessments, as referred to in most DNSH criteria, are typically not conducted for smaller scale projects within the Norwegian local government sector. The absence of full alignment with SC and DNSH criteria across all project types underscores the complexity of the taxonomy and its documentation requirements, and that the market for taxonomy-compliant projects is still immature in Norway.

**KBN GREEN BONDS** 

KBN FINANCIALS AND OPERATIONS

## **Municipalities Driving Green Transition**

Norway's largest cities are all aiming to reduce their direct climate gas emissions from 60 to 100 percent by 2030.

## Bodø 70% Tromsø of emissions reduced in 2030 85% compared to 2009 levels Trondheim of emissions reduced in 2030 compared to 2009 levels 80% of emissions reduced in 2030 compared to 2009 levels Oslo Bergen 95% 85% of emissions reduced in 2030 of emissions reduced in 2030 compared to 2009 levels compared to 2009 levels

**KB** 



## **Prime ESG Ratings**

- KBN has received prime ESG ratings from the leading ESG rating agencies, reflecting KBNs continuous work with both Environmental, Social and Governance related issues.
- More than 15% of the total lending portfolio consists of Green Loans, which offer favorable interest rates to climate- and environmental-friendly projects financed by the municipalities.
- KBN has a low risk of experiencing material financial impacts from ESG factors, due to low exposure to material ESG issues.
- KBN has received high transparency level from ISS ESG, reflecting the institution's efforts to disclose relevant information related to ESG factors.
- The institution has set up a robust system for business ethics compliance.

**6** Our research indicates the company continues to lead peers in most ESG parameters. **– MSCI** 

KBN's ESG reporting is assessed as very strong and it has board level oversight for ESG issues. **Sustainalytics** 



#### **KBN FINANCIALS AND OPERATIONS**



## **Project Examples**

Flood protection prevents damage from extreme weather.

New recycling station utilising recycled materials and adapting to climate change.

> Biodegradable field fill reduces local pollution.

New low-energy school building with solar panels covering half of its electricity consumption.











biogas aimed at capturing CO<sub>2</sub>. Electric terminal

Innovative hydrogen

production from

Electric terminal tractor reduces noise and emissions from port operations.

New energypositive wastewater treatment plant improves the water quality in the Oslo Fjord. KBN GREEN BONDS



#### CASE

BUILDINGS

## Promoting energy efficiency and local energy production in new school building

The new Frakkagjerd secondary school in Tysvær will consist of three floors and include special rooms such as music rooms, practice rooms, activity halls, libraries, classrooms, and group rooms. The school will be certified as BREEAM Very Good and its energy performance will correspond to nearly zero-energy buildings (nZEB) according to FutureBuilt's definition. Energy estimates have been assessed against the requirements of the EU taxonomy.

Solar panels will be installed on the school, complemented by a battery system to maximise the utilisation of self-produced electricity.



ANNEXES

MAIN

### CASE



KBN

RENEWABLE ENERGY

## Innovative hydrogen production from biogas

A new biogas plant for sewage sludge aims to produce hydrogen for fuel-quality purposes. Additionally, carbon is removed from the cycle by capturing  $CO_2$ . This represents a pioneering technology under development, previously untested.

This approach to hydrogen production is relatively unfamiliar in the market, with no known instances of implementation elsewhere in the world thus far. This variant of hydrogen is identified as 'red hydrogen', meaning hydrogen production with a negative  $CO_2$  footprint.



12% KBN share of financing

LO LOL

Green loan outstanding:

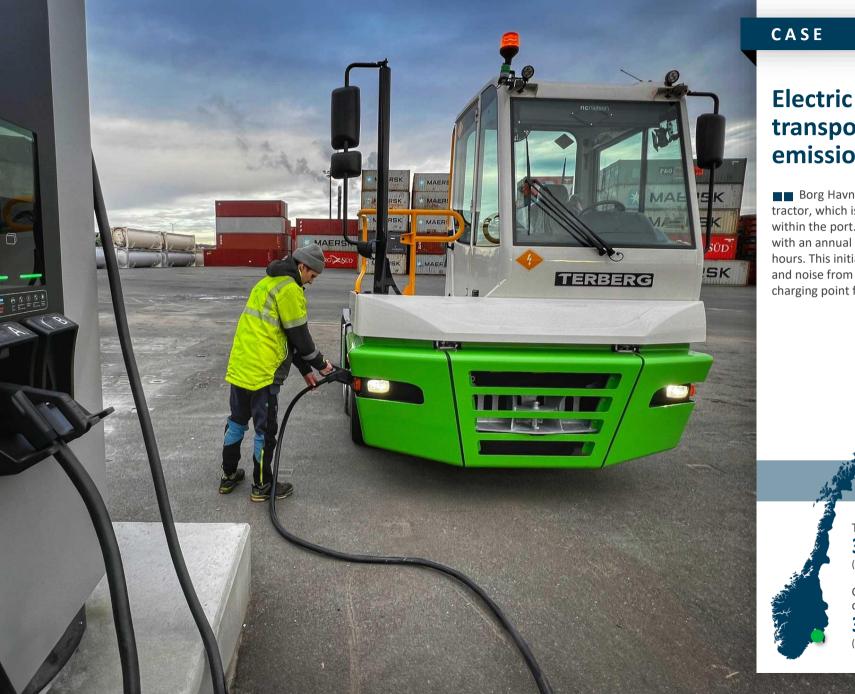
(1000 NOK)

200 000

MAIN

#### **KBN FINANCIALS AND OPERATIONS**





TRANSPORTATION

## **Electric port** transportation reduces emissions

Borg Havn IKS is investing in a new terminal tractor, which is a towing vehicle for transportation within the port. The terminal tractor is electric, with an annual usage time of approximately 2000 hours. This initiative will reduce both emissions and noise from port operations. Additionally, a charging point for the tractor is established.





Photo: Borg

ANNEXES MAIN

MAIN

ANNEXES

#### **KBN FINANCIALS AND OPERATIONS**



## CASE

#### WASTE AND CIRCULAR ECONOMY

## New recycling station adapting to climate change

Luster municipality is implementing climate adaptation measures at a new recycling station in two ways: by raising the terrain to protect against damage from floods or sea level rise, and by establishing a system for handling stormwater.

The new recycling station to be built in the area will utilise recycled materials in the building structure, such as used tires and windows, as well as low-carbon concrete. It will facilitate better handling and storage of waste by placing containers under a shelter, thereby preventing degradation of waste quality due to precipitation.



THE NORWEGIAN AGENCY FOR LOCAL GOVERNMENTS

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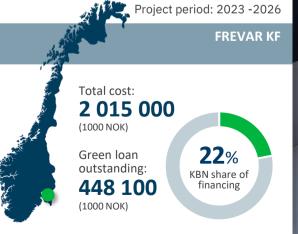
WATER AND WASTEWATER MANAGEMENT

KB

## New wastewater treatment plant improves the water quality in the Oslo Fjord

Due to population growth and stricter requirements for sewage treatment, FREVAR KF is constructing a new wastewater treatment plant. The new facility will remove phosphorus and particles, and eliminate excess nitrogen from the wastewater, aiming to improve the water quality in the Oslo Fjord.

The treatment plant is planned to be energypositive by producing more energy than it consumes. This is achieved through the installation of solar panels on the roof, heat recovery, and the production of biogas as fuel for buses in the local town, Fredrikstad.



THE NORWEGIAN AGENCY FOR LOCAL GOVERNMENTS

Illustration: FREVAR KI

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ANNEXES



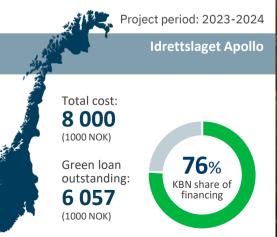
## CASE

LAND USE AND AREA DEVELOPMENT PROJECTS

# Biodegradable field fill reduces local pollution

■ IL Apollo in Askøy is environmentally improving and expanding its sports facility. The football field fill, consisting of fossil-based rubber granulate, is replaced by 100% biodegradable granulate mix consisting of cork and coconut fiber. This change aims to stop the local pollution of rubber granulate from the football field. Additionally, solar cells have been installed on the club house.

Trees that have been cut down have been repurposed into materials for use within the local community. All excess materials from the field expansion have been utilised to expand the facility and create a bicycle facility.







ANNEXES

#### **KBN FINANCIALS AND OPERATIONS**



## CASE

CLIMATE CHANGE ADAPTATION

## Flood protection prevents damage from extreme weather

■ In the event of a 200-year flood, a residential area in Sunndal municipality would be prone to flooding. Since the flood zone mapping in the year 2000, there is now estimated to be a 40% increase in flood size due to climate change. Therefore, the municipality and NVE are now collaborating to protect the area from floods, and a 465-meter-long flood embankment will be established to prevent flooding and damage from extreme weather.



MAIN

# KBN FINANCIALS AND OPERATIONS

**KBN** 



ANNEXES



## **Financial Highlights**

#### **Key figures**

(Amounts in NOK 1 000 000)	2nd quarter 2024	January - June 2024	2nd quarter 2023	January - June 2023	2023
RESULTS					
Net interest income	550	1 104	507	1 0 1 5	2 105
Core earnings <sup>1</sup>	330	638	360	640	1 211
Profit after tax	493	884	280	669	1 432
Cost/income ratio (percent) <sup>2</sup>	16.1%	16.7%	13.1%	14.4%	15.6%
Return on equity after tax <sup>3</sup>	10.1%	8.9%	6.1%	7.5%	7.9%
Return on equity after tax (core earnings) <sup>4</sup>	7.3%	7.1%	8.7%	7.8%	7.3%
Return on assets after tax <sup>5</sup>	0.3%	0.3%	0.3%	0.3%	0.3%
LOANS TO CUSTOMERS					
New disbursements	7 640	18 924	12 106	21 370	53 429
Aggregate loans to customers <sup>6</sup>	358 059	358 059	335 516	335 516	354 052
Aggregate customer financing?	360 655	360 655	335 516	335 516	354 052
12 month lending growth in percent <sup>8</sup>	6.7%	6.7%	5.9%	5.9%	7.8%
12 month aggregate financing growth in percent <sup>9</sup>	7.5%	7.5%	5.9%	5.9%	7.8%
Green loans to customers <sup>10</sup>	54 890	54 890	44 127	44 127	52 763
Share of green loans in lending protfolio	15.8%	15.8%	13.2%	13.2%	15.4%
Share of municipalities with green loans <sup>11</sup>	40.1%	40.1%	38.8%	38.8%	39.9%
LIQUIDITY PORTFOLIO <sup>6</sup>	120 787	120 787	123 558	123 558	114 610
DEBT SECURITIES ISSUED					
New long-term debt securities issued	23 392	61 580	8 435	32 894	76 935
Aggregate debt securities issued <sup>6</sup>	474 307	474 307	460 430	460 430	438 407
TOTAL ASSETS	530 227	530 227	515 604	515 604	522 203
EQUITY					
Equity	21 510	21 510	20 557	20 557	21 684
Common equity Tier 1 capital adequacy ratio	18.5%	18.5%	18.6%	18.6%	17.4%
Leverage ratio	4.1%	4.1%	4.0%	4.0%	4.0%
LIQUIDITY COVERAGE RATIO (LCR) <sup>12</sup>					
Total	246%	246%	256%	256%	266%
NOK	77%	77%	106%	106%	87%
EUR	336%	336%	191%	191%	251%
USD	231%	231%	131%	131%	171%
AUD	189%	189%	721%	721%	1 253%
GBP	3205%	3205%	291%	291%	43 868%
OTHER KEY FIGURES					
Market share excl. Husbanken <sup>13</sup>	49.8 %	49.8 %	50.0 %	50.0 %	51.1 %
Market share overall financing of customers excl. Husbanken <sup>14</sup>	50.2 %	50.2 %	50.0 %	50.0 %	51.1 %
Percentage of women employed in KBN	36%	36%	41%	41%	36%
Emissions in tons CO <sub>2</sub> equivalents <sup>15</sup>	21.2	52.2	28.5	50.3	111.5

1 Profit after tax adjusted for net unrealised gain/(loss) on financial instruments (in accordance with note 2) adjusted for estimated tax at 25% tax rate, and adjusted for Portion allocated to owners of additional Tier 1 capital. This result measure is included to give relevant information about the company's underlying operations. 2 Operating expenses as a percentage of sum Net interest income and Total other operating income adjusted for Net unrealised gain/(loss) on financial instruments (in accordance with note 2).

3 Share of the Profit for the year allocated to shareholders as a percentage of average equity (annualized). Average equity is calculated based on monthly equity, not including Profit for the year, less dividends from the time the dividends are paid out, as well as addition or reduction of the company's share capital during the year. 4 Core earnings as a percentage of average equity (annualized).

5 Share of Profit for the year allocated to shareholders as a percentage of average assets (annualized). Average assets are calculated based on monthly assets.

#### 6 Principal amounts.

7 Principal amounts. Aggregate customer financing is the sum of KBN's lending portfolio and KBN's portfolio of municipal bonds in the liquidity portfolio, which are included as a part of KBN's financing of customers. 8 12-month lending growth based on aggregate loans to customers (principal amounts).

9 12-month growth based on aggregate customer financing (principal amount).

10 Aggregate green loans to customers financed by green bonds. In addition, the bank has a smaller portfolio of green loans to customers that were given before or that does not qualify after the criteria in Green bond framework published in 2016. These loans are no longer financed with green bonds. Total aggregate green loans to customers are NOK 56.1 billion.

11 Percentage of municipalities in KBN's lending portfolio with green loans, based on total aggregate green loans to customers.

12 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.

13 KBN's market share based on total loans to customers of sector code 6500 divided by total lending to the same sector, based on Statistics Norway's K2 reporting. Lending from Husbanken is not included as KBN does not compete for these loans.

14 KBN's market share based on total customer financing of sector code 6500 divided by total lending to the same sector, based on Statistics Norway's K2 reporting. Lending from Husbanken is not included as KBN does not compete for these loans.

15 KBN's climate accounting is based on the Greenhouse Gas Protocol Corporate Standard. Own emissions consist of calculations within scope 1 and scope 2 in this climate statement, as well as indirect emissions in scope 3 from waste management and travel activities. See also the overview and description of alternative performance measures published on kbn.com



#### **Further information**

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

**Financial Reports** 



## **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 qualitive 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.

...Disciplined

and Prudent

both clients

Management at

Financial

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**



#### **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.



## **KBN** Finans

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