

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

The Norwegian Agency  
for Local Governments

August 2022

# THE NORWEGIAN AGENCY

FOR LOCAL GOVERNMENTS





**KBN**

The Norwegian Agency  
for Local Governments

# CONTENT

## MAIN

- ▶ **KBN OVERVIEW**
- ▶ **KINGDOM OF NORWAY**
- ▶ **LENDING OPERATIONS**
- ▶ **FUNDING OPERATIONS**

## ANNEXES

- ▶ **KBN GREEN BONDS**
- ▶ **KBN FINANCIALS AND OPERATIONS**



# 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 Regional Development 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  
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# AAA Rating In Line With Sovereign

CREDIT	RATINGS			RATING AGENCY	THEIR COMMENTS
	LONG	SHORT	OUTLOOK		
	AAA	A1+	Stable	<u>STANDARD &amp; POOR'S</u>	<ul style="list-style-type: none"> <li>Norway 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 shock, without a significant impact on its credit metrics.</li> </ul> <p>(Sep. 2021)</p>
	Aaa	P-1	Stable	MOODY'S	<ul style="list-style-type: none"> <li>Resilient and highly competitive economy.</li> <li>Norwegian government's balance sheet is extremely strong, even when compared to other Aaa-rated sovereigns.</li> <li>Unparalleled fiscal strength that is likely to be sustained over the long-term.</li> <li>A Track record of exceptionally strong macro and regulatory institutions.</li> </ul> <p>(JUNE 2018)</p>
	AAA	A1+	Stable	<u>STANDARD &amp; POOR'S</u>	<ul style="list-style-type: none"> <li>Very important role and integral link with Norway's central government.</li> <li>Very strong capitalization and liquidity position provide financial buffers.</li> <li>Extremely high likelihood of receiving extraordinary support in the unlikely event of financial distress.</li> </ul> <p>(JUNE 2022)</p>
	Aaa	P-1	Stable	MOODY'S	<ul style="list-style-type: none"> <li>KBN benefits from operating in a wealthy and developed country with very high economic, institutional and government financial strength, as well as very low susceptibility to adverse events.</li> <li>We consider the Norwegian RLG sector financially strong because of the supportive and closely supervised system that underpins the sector</li> <li>KBN has not recorded a loss from lending during over 90 years of operations.</li> </ul> <p>(May. 2022)</p>

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





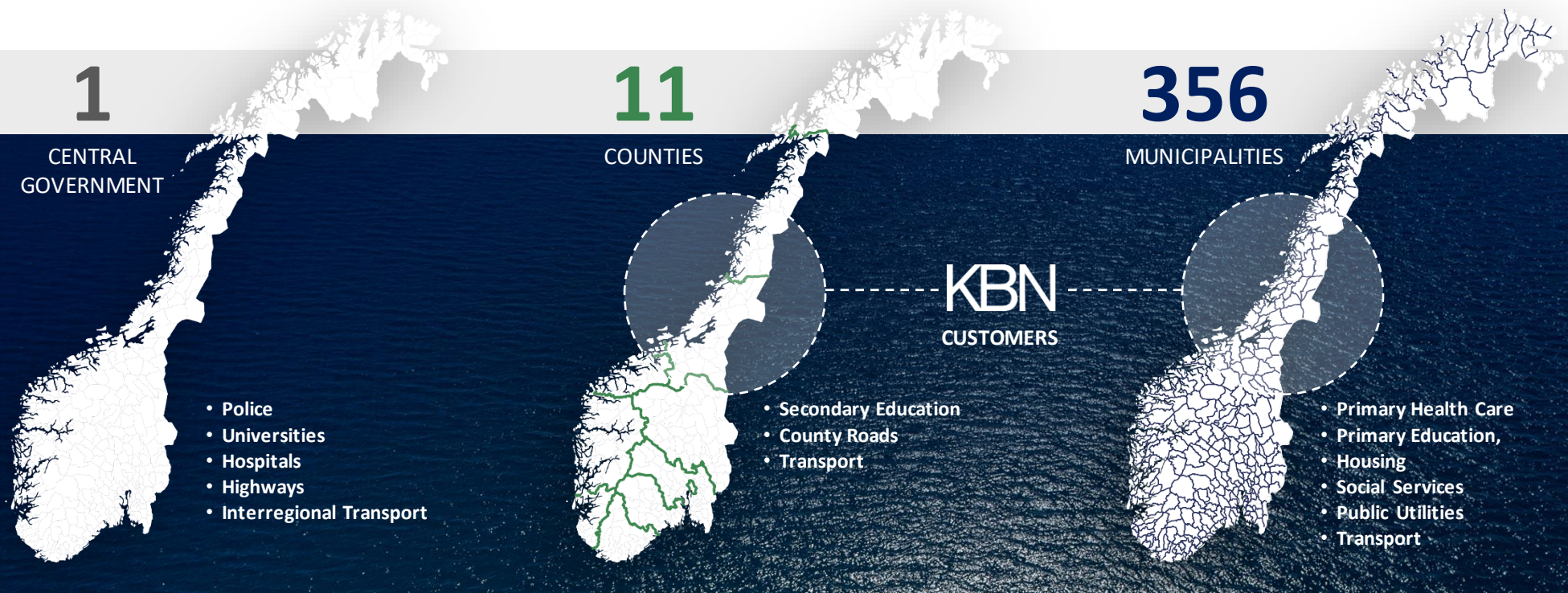
# Norwegian Regional Government

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

	Number	Share of Loans
Counties	10*	13%
22 Largest Munis	22	32%
Large Munis	91	33%
Medium Munis	166	19%
Small Munis	77	3%

<sup>1</sup> 22 Largest munis = >45,000 inhabitants, Large munis = 45,000 ≤ 10,000 inhabitants, Medium-sized munis = 10,000 ≤ 2,000 inhabitants and Small munis = <1999 inhabitants.  
 \* Oslo is the only Municipality which is also a County and for these statistics has been included as a large Muni.

**i** 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  
(2018-2020)

### Long-term Financing for Sustainable Growth

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

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

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



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

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



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

# Conservative Risk Management

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



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

## ✓ CURRENCY AND INTEREST RATE RISK HEDGED

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

## ✓ MINIMAL LENDING CREDIT RISK

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

## ✓ STRICTLY MANAGED OFF-BALANCE CREDIT RISK

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

## ✓ CONSERVATIVE LIQUIDITY PORTFOLIO

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



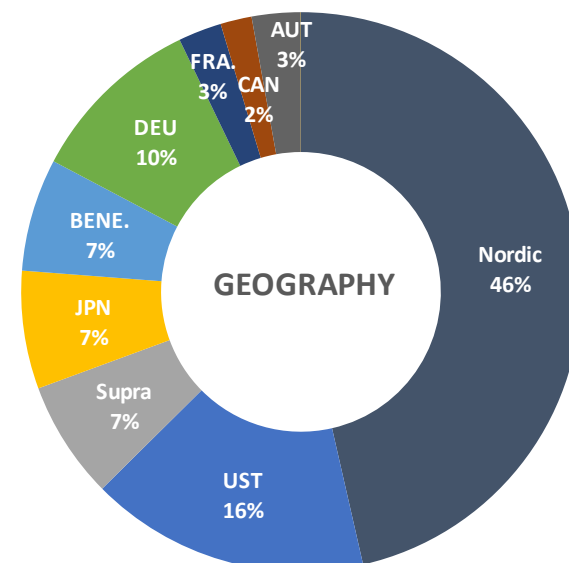
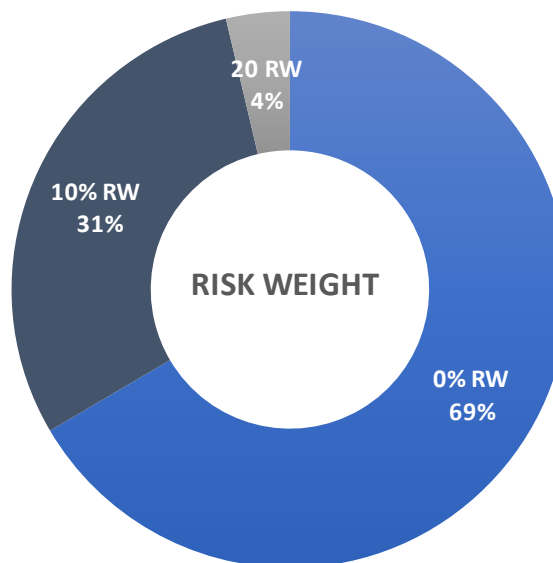
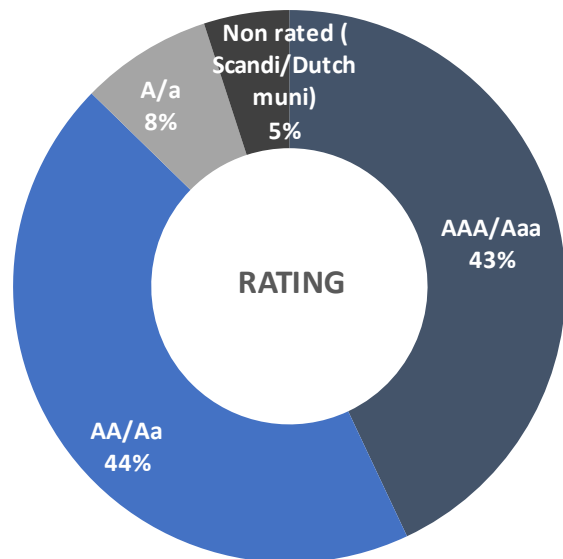
# Large and High Quality Liquidity Buffer

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

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

## PORTFOLIO BREAKDOWN

1.93 yr average maturity on liquidity portfolio (Aug 2022)



# 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 initial Covid-19 response initiatives, 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 20.5% Q2 2022.
- While KBN is not profit maximizing, it does target a central government defined return on equity target.
- Dividend can be paid to the Kingdom as owner. If the government ascertains that KBN’s capital situation is satisfactory, part of result can be paid out 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

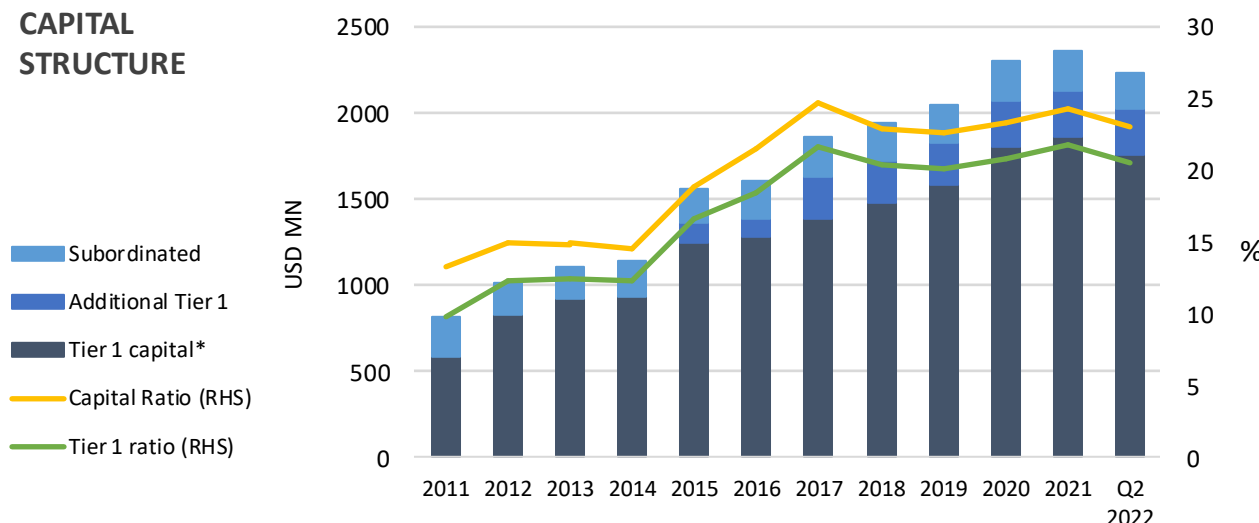
KBN’s balance sheet of USD 55 bn eq. is supported by a broad, diversified portfolio of loans to the country’s local authority sector, which cannot go bankrupt by order of Norway’s Local Government Act §55 (1992).

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

There is no separate investment portfolio.



## CAPITAL STRUCTURE



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



## Sound Financial Performance

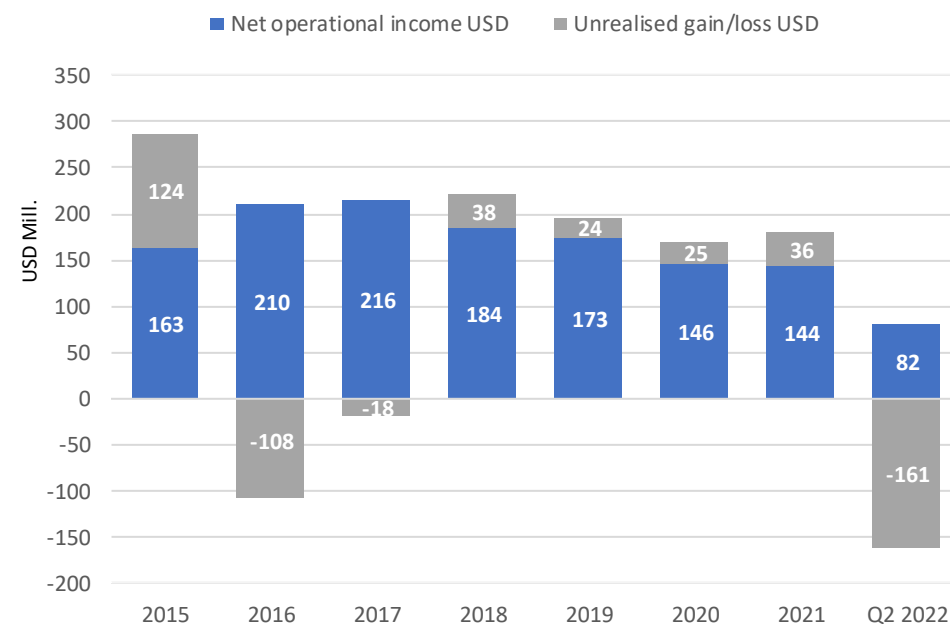
- The recent history of solid operational income and growth reflects well on KBN's conservative lending mandate and solid margins. KBN maintains financial performance targets to balance its state instrumentality role with ensuring it remains a financially viable institution.
- KBN's total Liquidity Coverage Ratio is well within policy guidelines and the leverage ratio is above the prescribed regulatory minimum level of 3%.
- KBN also operates with a low cost ratio of approximately 0.05% of total assets
- Unrealized gains and losses on the Income Statement primarily reflect volatility in mark-to-market derivatives used for hedging under IFRS accounting, linked in part to exchange rate developments.

### FINANCIAL RESULTS

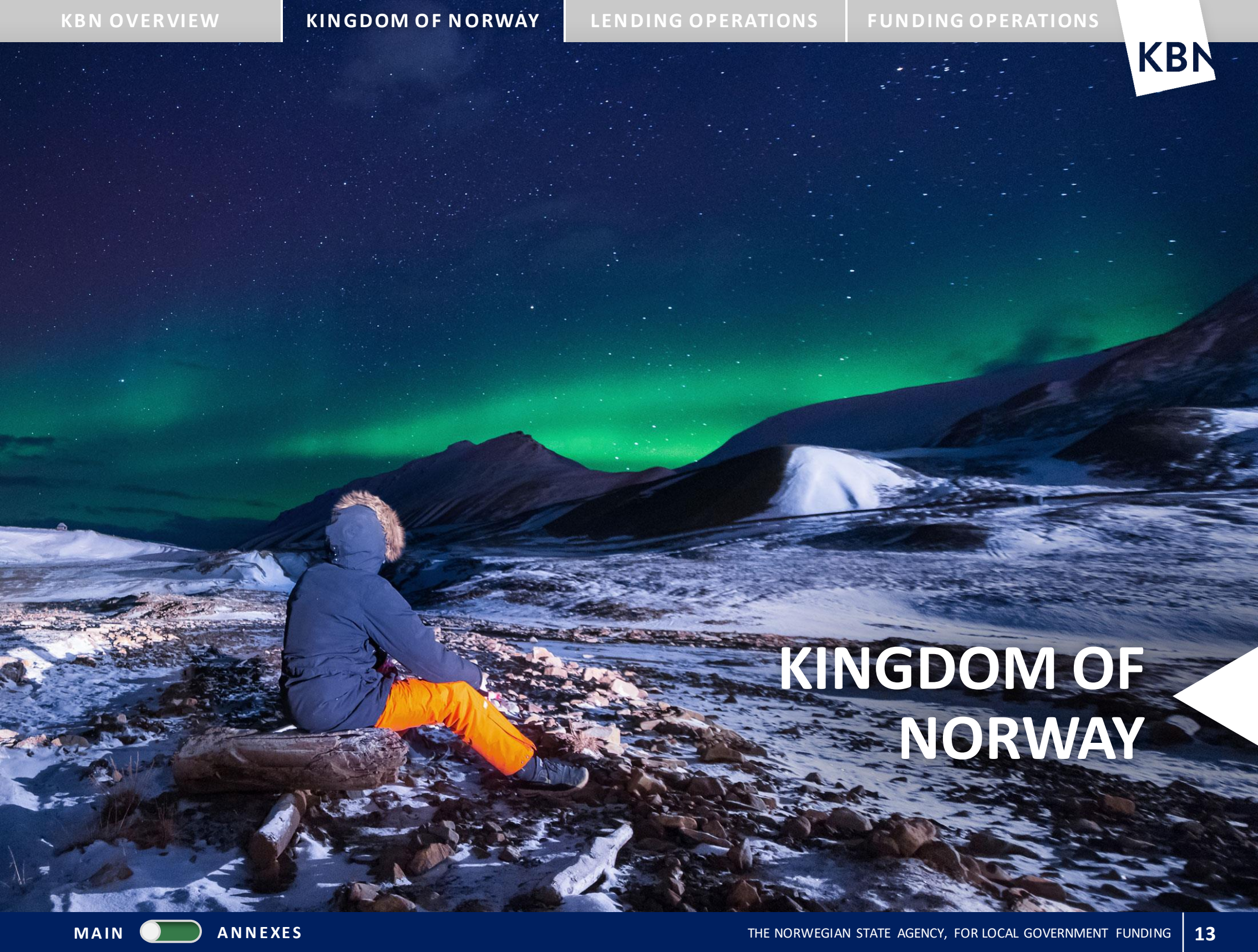
(All figures USD bn eq\*)

	2018	2019	2020	2021	Q2 2022
<b>Total Assets</b>	50.9	51.2	55.4	52.6	55.1
<b>Loan Portfolio</b>	33.6	34.4	35.4	35.9	35.2
<b>Leverage Ratio</b>	3.6	3.7	3.7	3.9	3.7
<b>Operating expenses/ total assets</b>	0.046%	0.055%	0.051%	0.054%	0.055%

\* USD/NOK 9.0







# KINGDOM OF NORWAY



# Overview



POPULATION:

# 5,400,000



COUNTRY SIZE:

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



FOREST SHARE OF TOTAL LAND AREA:

# 37,4%

OSLO



WOMEN'S SHARE OF GRADUATES FROM UNIVERSITIES:

# 60%



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

# 2<sup>nd</sup>



MAJOR EXPORT SECTORS:

- OIL and GAS
- FISH
- MARINE TRANSPORT
- METALS



OSLO AWARDED EUROPEAN GREEN CAPITAL AWARD 2019

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

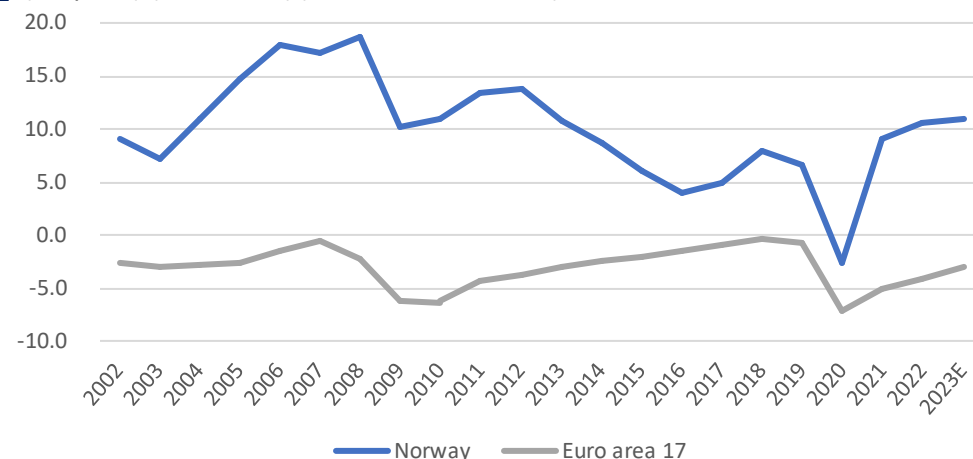
# Strong and Diversified Norwegian Economy

- Norway's economic fundamentals remain robust. At USD 460 bn<sup>1</sup> eq, Norway's GDP is broadly diversified across a range of productive sectors. Norway is one of the world's wealthiest countries, with a GDP per capita of approx. USD 85.000
- Key economic indicators shows solid economic data for 2022<sup>2</sup>:
 

Current Account Surplus:	21.7%
GDP Growth:	3.7%
Inflation:	4.7%
Unemployment:	3.0%
- 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.

## GENERAL GOVERNMENT FINANCIAL BALANCES

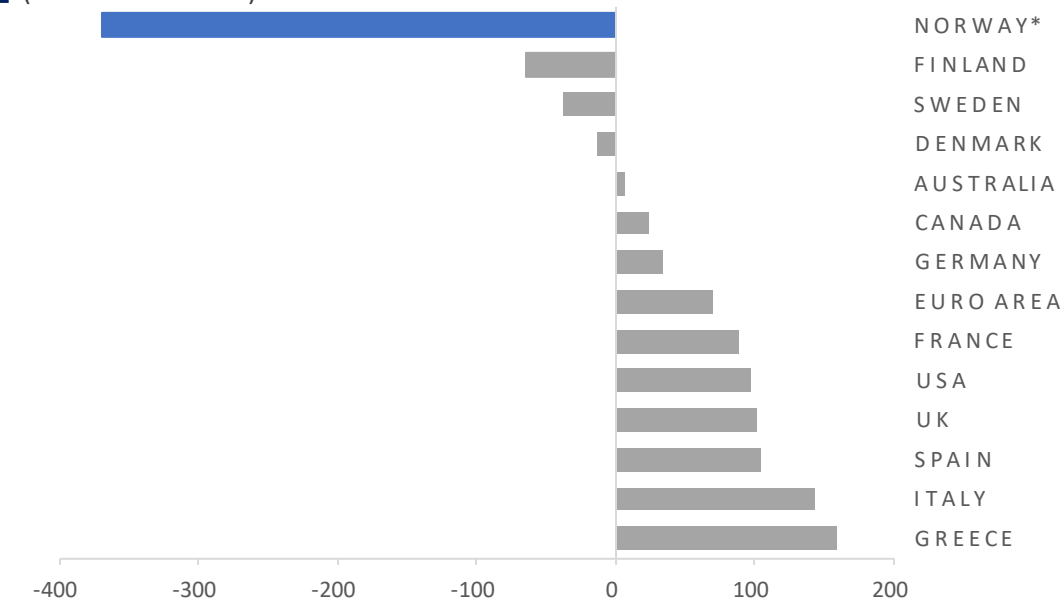
(Surplus (+) or deficit (-) as a % nominal GDP)



Source: OECD Economic Outlook No. 111 Jun 2022

## GENERAL GOVERNMENT NET FINANCIAL LIABILITIES (2022)

(% of nominal GDP)

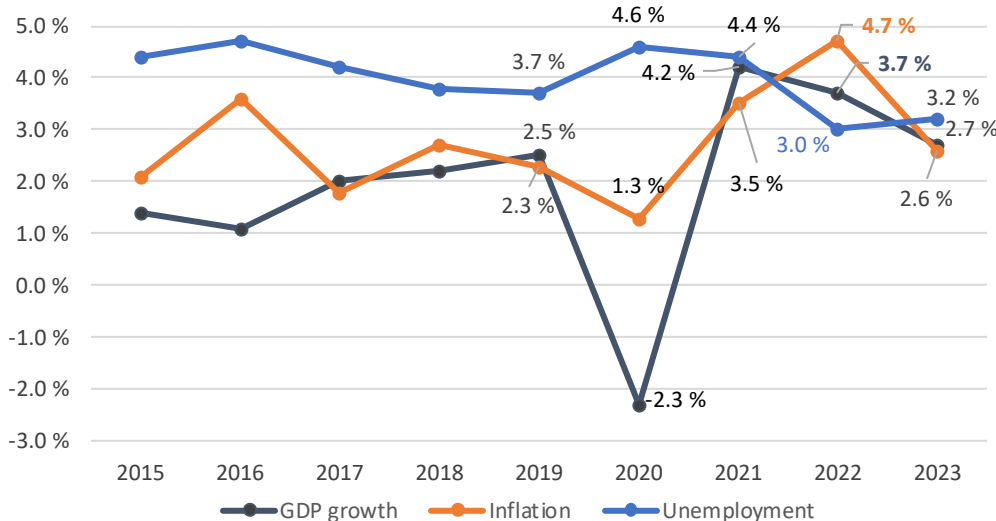


Source: OECD Economic Outlook No. 111 Jun 2022

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

## KEY ECONOMIC INDICATORS



<sup>1</sup> Statistics Norway :For 2021 NOK/USD=9.00

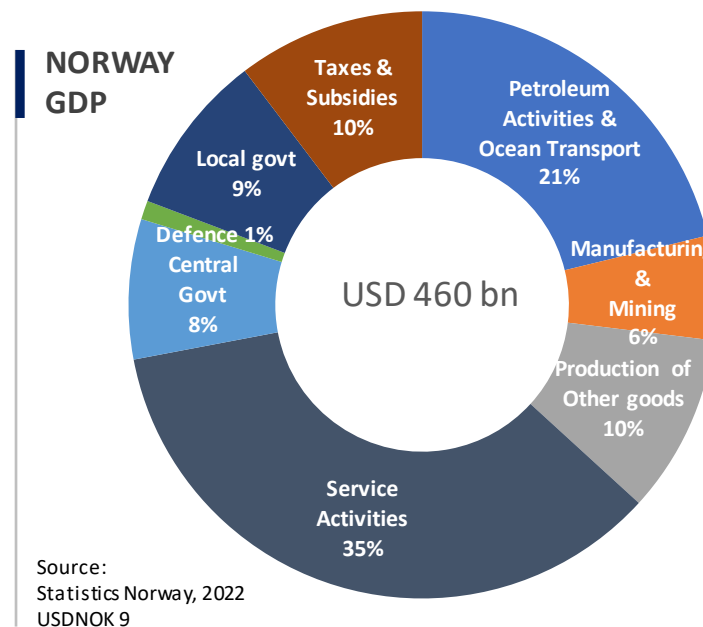
<sup>2</sup> Statistics Norway : June. 2022

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



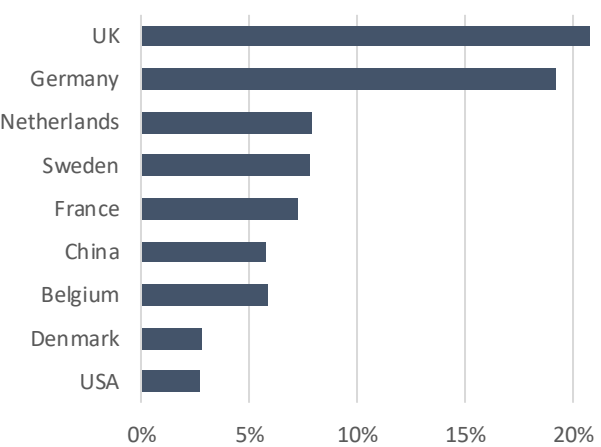
# Strong and Diversified Norwegian Economy

- The oil and gas industry (including supporting industries) constitutes approximately 20% of Norwegian GDP.
- The petroleum sector maintains its position as a major contributor to the overall trade balance and current account surplus, however, Norway’s industrial base continues to diversify with growth from other major industries:
  - fishing/aquaculture, shipping, metals and mining, timber – pulp and paper, manufacturing and machinery, construction and chemical products
- Norway’s reliance on primary industries has decreased as Service Activities make up a larger portion of GDP. This includes Transport and Communication, Financial and Business Services, Telecommunication and Information Services and Tourism.
- The UK is the largest export counterparty due to the high volume of crude oil and natural gas exports. Considerable volumes of petroleum products are also exported to Germany, the Netherlands and France. One of Norway’s largest trading partners in relation to goods and services import is Sweden. Imports from China have also grown in recent years, and now constitute a significant part of imported goods.
- EU countries account for approximately 70 percent of Norwegian exports of goods compared to just over 60 percent of imported goods.



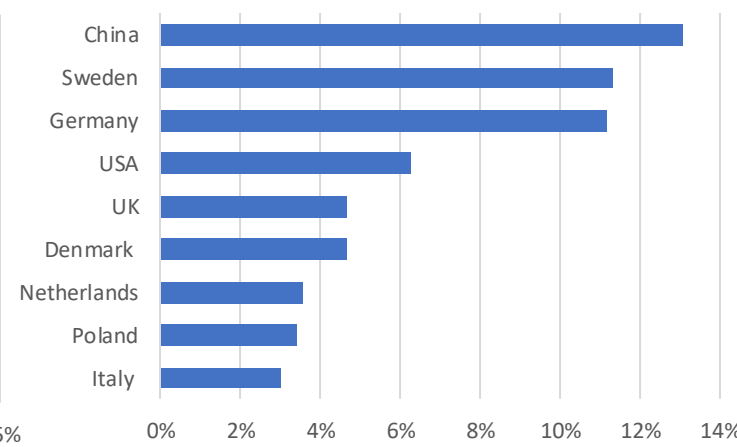
## EXPORTS OF GOODS

Main Trading Partners (2021)



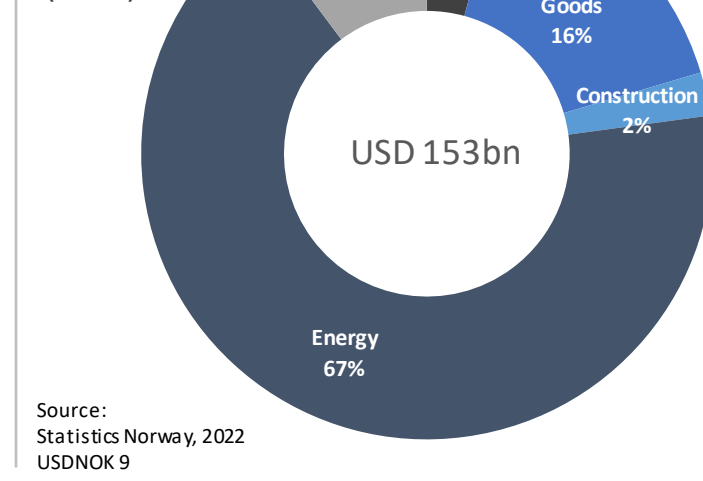
## IMPORTS OF GOODS

Main Trading Partners (2021)



Source: Statistics Norway 2022 (USDNOK = 9.0)

## NORWAY EXPORT (2021)



# Norway Sovereign Wealth Fund

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

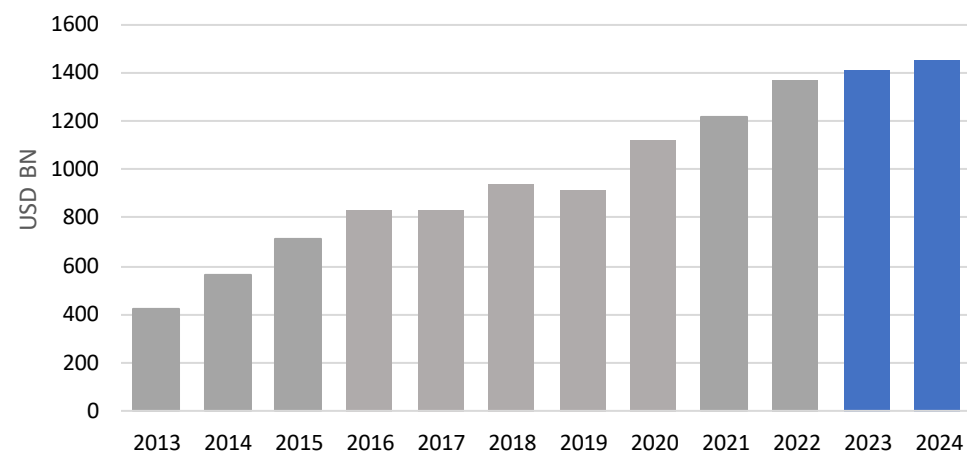
- Norway's sovereign wealth fund (Government Pension Fund Global – GPFG) year end 2021 assets of USD 1.35 trillion (NOK 12.3 tr. eq). This ranks the GPFG as the world's largest SWF.<sup>1</sup> The size corresponds to over 300% of Norway GDP and 800% of the national budget.
- The GPFG accumulates all petroleum related government revenue surpluses and has the ability to use a portion of the fund to finance counter-cyclical fiscal policies. Thus, the GPFG is fully integrated with the State Budget.
- The Fund's liquidity is invested entirely in overseas markets across equity, fixed income and real estate holdings, to avoid distorting the domestic economy.
- Fiscal rule states that up to expected average real rate of return of GPFG can be used to balance budget.
- Expected average real rate of return 4% 1998 - 2017 and adjusted to 3% from 2018 onwards due to lower rate environment.
- From 1998 to end 2021, the Fund's actual average net annual real rate of return has been 4.6%.
- The history, objectives and management of the Norwegian sovereign wealth fund can be explored further here: <http://www.nbim.no/en>.

1 – Sovereign Wealth Fund Institute : December 2021

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

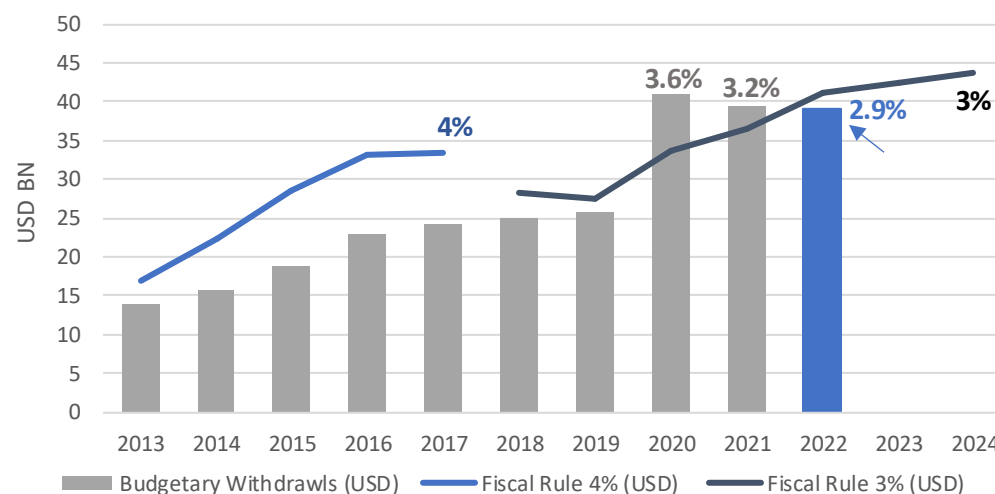
### VALUE OF GOVERNMENT PENSION FUND GLOBAL (GPFG)

as of Jan 1. (2023 - 2024 EST.)\*



\* The calculations of the projections from 2022 onwards assumes an annual real rate of return of 3% and a structural deficit adjusted to this path USD/NOK 9.0

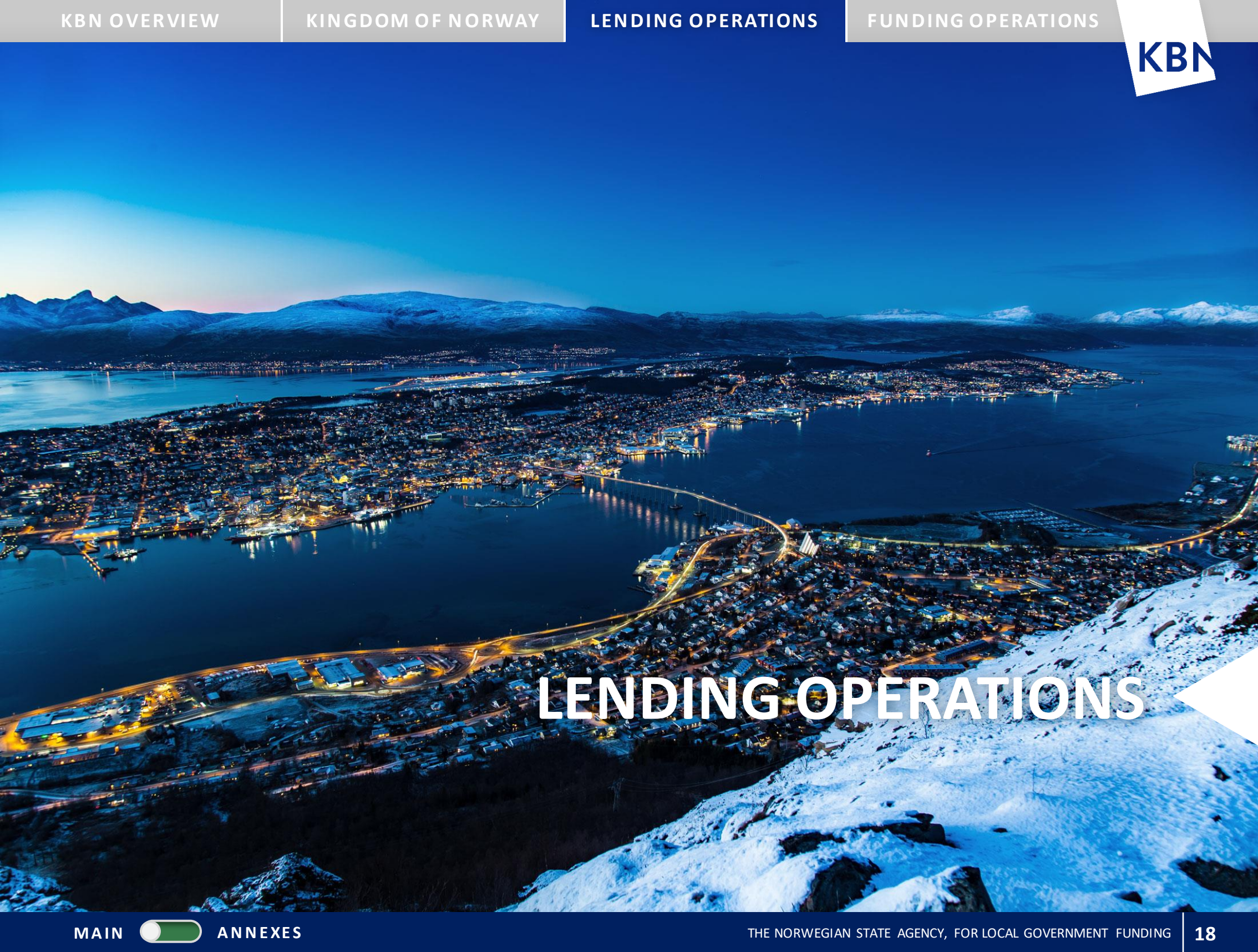
### EXPECTED NET REAL RETURN AND ACTUAL WITHDRAWAL FROM GPFG



\* USD/NOK 9.0







# LENDING OPERATIONS

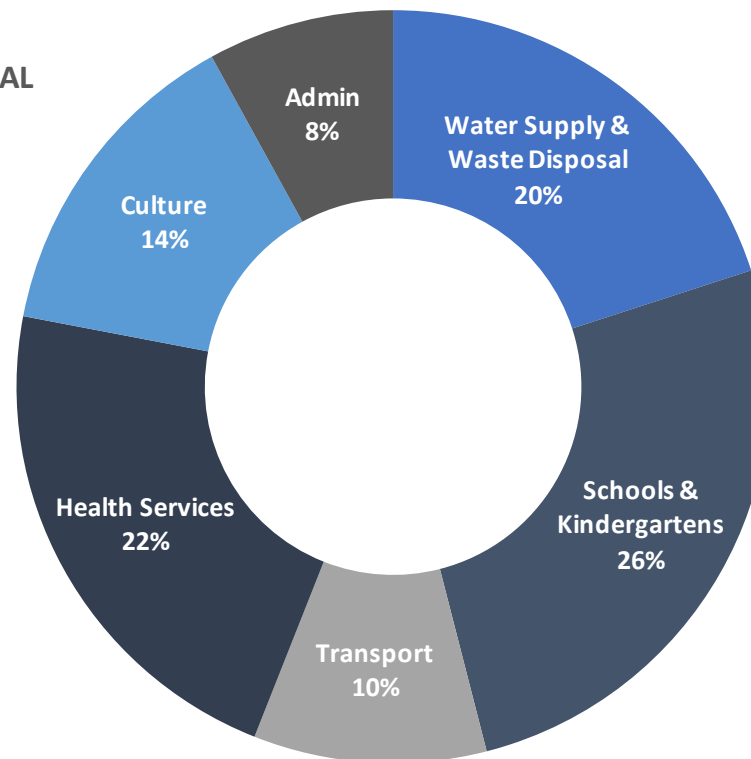


## KBN Lending Across Norway

- KBN oversees a diversified loan portfolio of USD 35bn\*. This reflects a market share of approx. 45% of all client borrowings. 100% of Norway's 11 counties and 356 municipalities are borrowing clients of KBN.
- KBN's clients all have equal access to KBN funding, at comparable levels in order to deliver welfare services on behalf of the central government.
- KBN loans are used to implement a broad range of key social projects

### LENDING TO THE NORWEGIAN LOCAL GOVERNMENT SECTOR

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



\* USD/NOK 9.00

Source : Statistics Norway / KBN



**BY 2022 KBN HAD COMPLETED USD 3.9 BN IN LENDING** to climate-friendly projects across a broad range of project categories. This represents over 10% of the total lending portfolio.

For 2021, green lending for investment in climate and environmentally friendly projects grew by 23%.



# 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

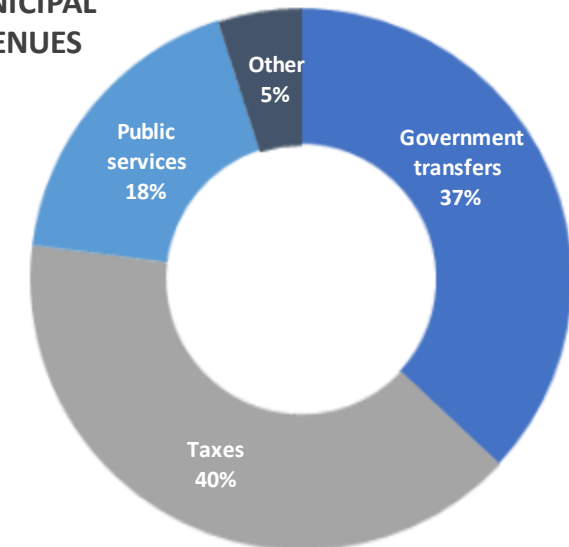
- All local government budgets are monitored and supervised by the central government. Strict limits are in place to manage financial conduct.
- Under the Local Government Act, counties and municipalities are prohibited from going bankrupt. Thus, they are subject to extensive central government oversight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

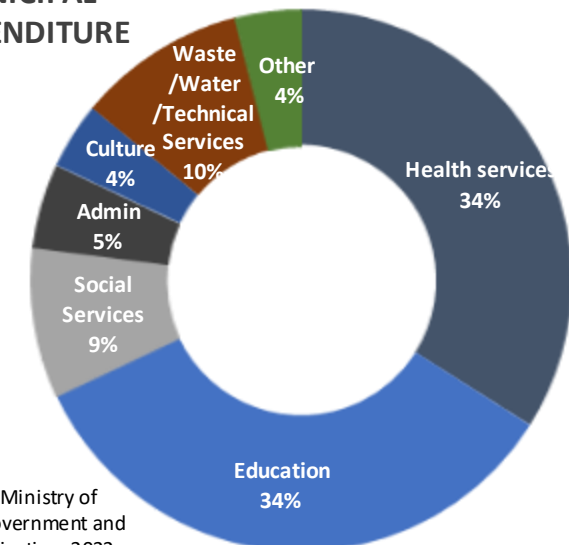
*"Norwegian local governments are among the most regulated and supervised in Europe"*

- Moody's Investors Services, June 2013

## MUNICIPAL REVENUES



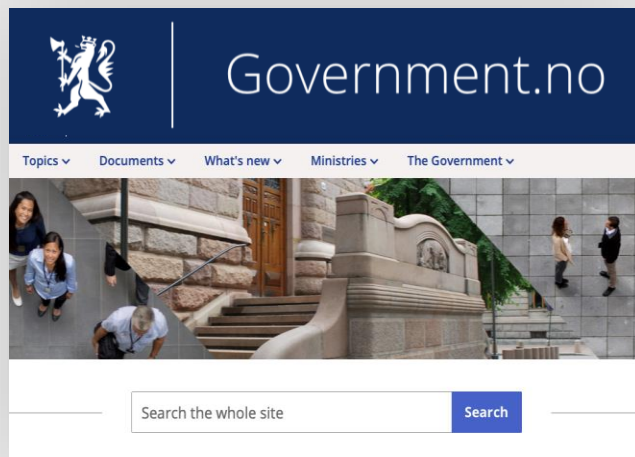
## MUNICIPAL EXPENDITURE



Source: Ministry of Local government and Modernisation, 2022

# 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 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. In 2020 the number of local governments were reduced from 422 to 356 and Counties from 18 to 11.



## THE ROBEK LIST

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

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

## \* THE KOSTRA REGISTRY

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

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



# Project Examples

## STANDARD & POOR'S

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

- Standard & Poor's – April 2019

### SVALBARD (2,310)

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



### FINNMARK (76,167)

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



### NORDKAPP (3,239)

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



### HORDALAND (505,246)

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



### BOKN (865)

- New multipurpose sports halls
- New fire truck

### KONGSVINGER (12,078)

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



### TØNSBERG (41,239)

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



COUNTIES (residents)

MUNICIPALITIES (residents)

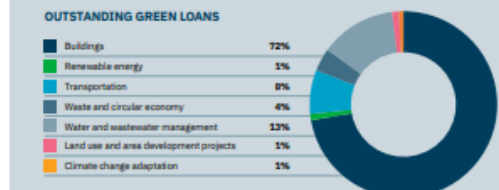
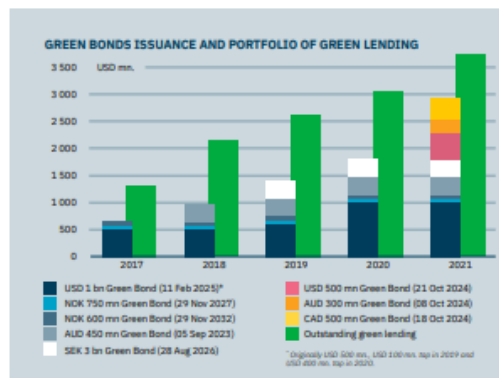
# Green Lending Integral Part of Mandate

- On behalf of the government, KBN has been given a mandate to implement greater environmental and social awareness via Green Lending and thus offers up to a 10 basis point discount on green loan projects versus traditional lending to all KBN clients.
- The local government sector is regarded as vital to achieve Norway's goals under the Paris Climate Agreement, which targets a reduction in greenhouse gas emissions of at least 50% by 2030, compared to 1990 levels.
- By 2022, KBN had completed USD 3.9 bn in lending to climate-friendly projects representing over 10% of the total lending portfolio. For 2021, the green loan portfolio grew by 23%.



## Executive summary

As of 31 Dec 2021



### PROJECT CATEGORIES AND ENVIRONMENTAL IMPACT<sup>1</sup>

Project category	Green loan outstanding (1000 NOK)	Reduced and avoided GHG (tonnes CO <sub>2</sub> e annually)	Impact tonnes CO <sub>2</sub> e per million NOK
<b>Buildings</b>	23 762 231	14 779	0.6
<b>Renewable energy</b>	371 751	21 498	57.8
<b>Transportation</b>	2 497 477	740	0.3
<b>Waste and circular economy</b>	1 301 259	164	0.1
<b>Water and wastewater management</b>	4 301 103	n/a	n/a
<b>Land use and area development projects</b>	387 716	n/a	n/a
<b>Climate change adaptation</b>	255 312	n/a	n/a
<b>Total</b>	<b>32 876 855</b>	<b>37 381</b>	<b>56.8</b>
<b>Renewable energy generated annually</b>			<b>78 551 024 kWh</b>
<b>Energy reduced/avoided annually</b>			<b>38 261 215 kWh</b>

<sup>1</sup> The impact reported corresponds to the share of the project financed by us. A grid factor of 255g CO<sub>2</sub>e per kWh electricity is applied throughout when converting electricity to emissions, as this is recommended by the Nordic Public Sector Investors' Group based on calculation methods on page 54.  
<sup>2</sup> Tonnes CO<sub>2</sub>e reduced or avoided per million NOK of green lending.

### IMPACT ATTRIBUTABLE TO GREEN BOND INVESTORS

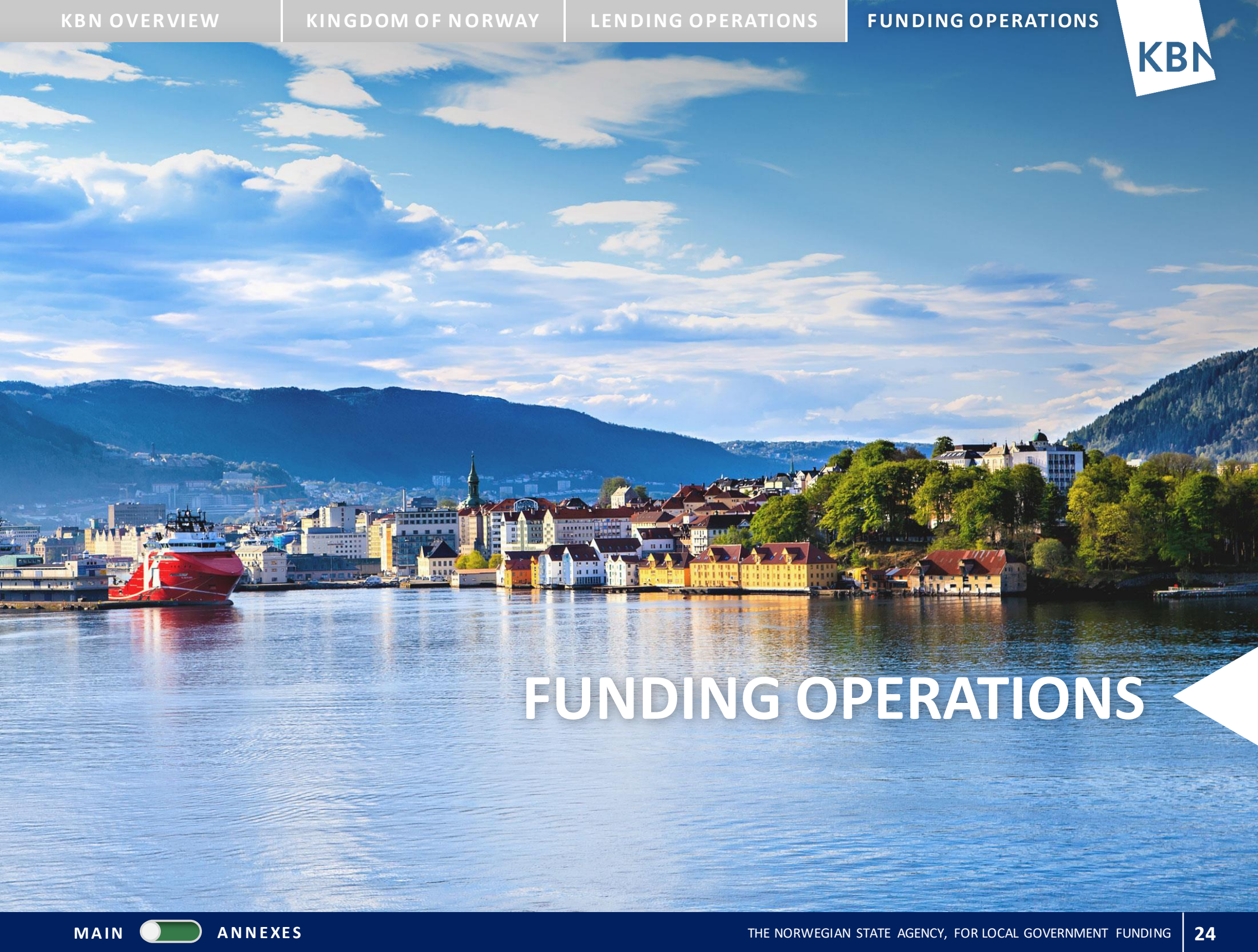
Total outstanding green bonds divided by total outstanding loans disbursed, as of 31 December 2021 (in NOK)				79% of which
ISIN	Issue date	Amount	Maturity Date	
X51188138100/US5048M6K74	11 Feb 2015	USD 1 billion	11 Feb 2025	27%
N00010811276	29 Nov 2017	NOK 750 million	29 Nov 2027	2%
N00010811284	29 Nov 2017	NOK 600 million	29 Nov 2032	2%
AU3280256162	05 Sept 2018	AUD 450 million	05 Sept 2023	9%
X52047497289	28 Aug 2019	SEK 3 billion	28 Aug 2026	9%
X5233390164/US5048MDA53	21 Apr 2021	USD 500 million	21 Oct 2024	13%
AU3280283596	08 Oct 2021	AUD 300 million	08 Oct 2024	6%
X52398386776/US50473AJ79	18 Oct 2021	CAD 500 million	18 Oct 2024	11%

### BASIC INFORMATION

<b>Current Green Bond Framework</b>	KBN Green Bond Framework, dated March 2021
<b>Reporting period</b>	Calendar year 2021. The report summarizes projects financed from the start of the green bond and green loan programmes. The project list in this report lists new projects added in 2021. For a complete overview of all projects in the portfolio, an extended version of the report in spreadsheet format can be found at kbn.com.
<b>Date of publication</b>	25 February 2022
<b>Reporting frequency</b>	Annually, next report scheduled February 2023
<b>Reporting approach</b>	Portfolio-based and project-by-project reporting
<b>Reporting framework</b>	Nordic Public Sector Investors' Position Paper on Green Bonds Impact Reporting
<b>Verification</b>	Internal audit of compliance of guidelines and routines related to green loans and bonds, as well as allocation. Conducted by KPMG. See page 55







# FUNDING OPERATIONS



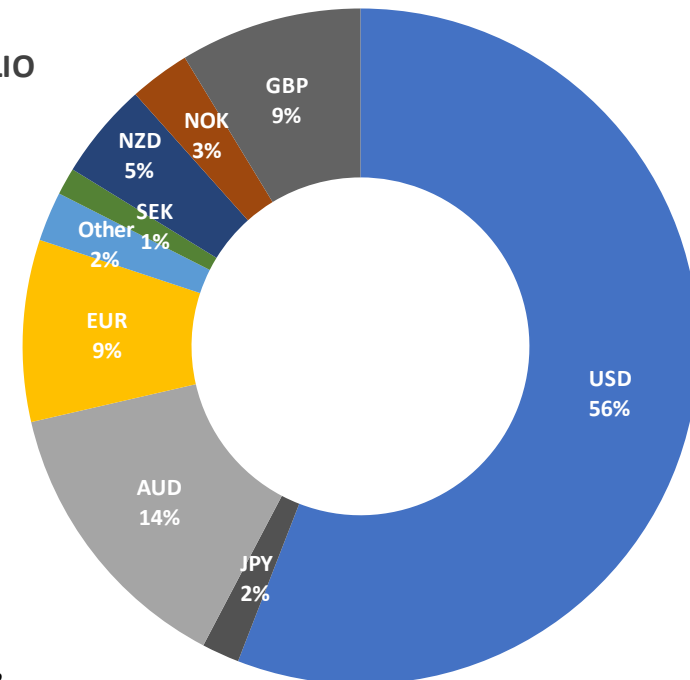
# Flexible and Diversified Investor-Driven Funding Program

- KBN's borrowing program for 2022 will be approximately USD 9 billion. For 2021, the final program size was USD 11.1 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.

## Benchmark pricing strategy

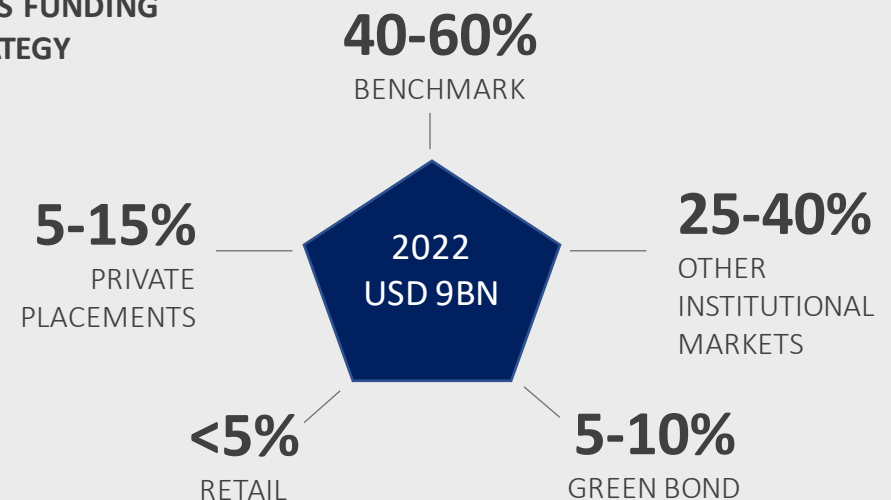
- A considerable portion of KBN's annual borrowing program is raised by issuing liquid benchmark securities.
- KBN recognizes the value of maintaining a solid partnership with investors for these offerings, and seeks to offer attractive relative value, with excellent credit quality.
- Principles guiding 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 Aug 2022

## KBN'S FUNDING STRATEGY





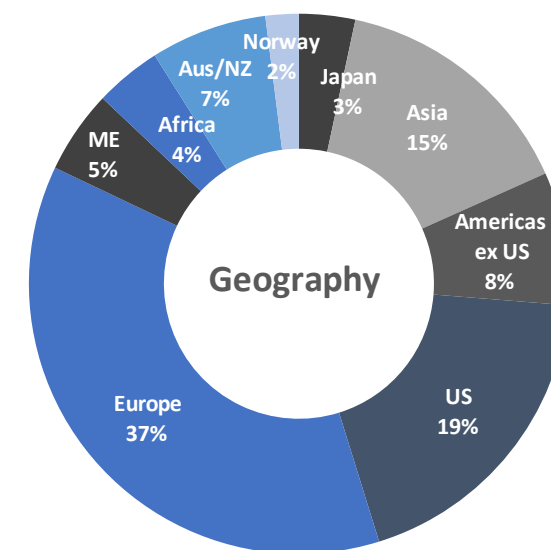
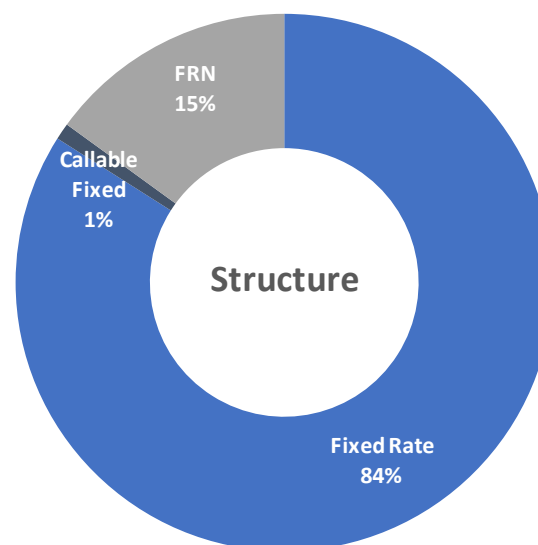
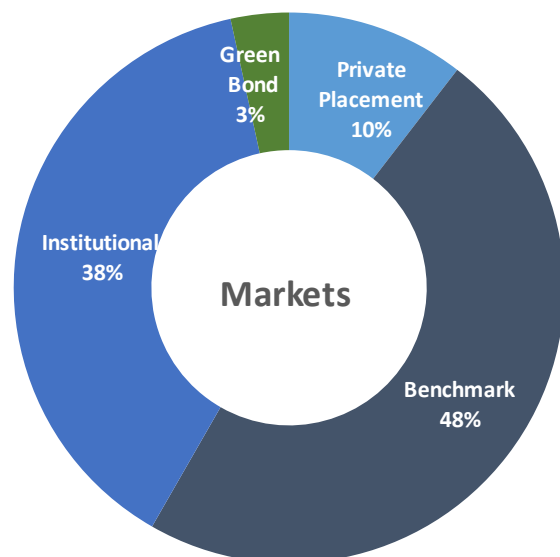
## KBN Funding 2022 - YTD

### Highlights

- Total USD 5.4 bn raised → 27 Individual transactions
- Issuance in 9 different currencies → 4.11 y avg maturity of new funding

### Newsorthy

- USD 1.25 bn 5-year Jan 2027 Benchmark
- NZD 500 mn 5-year Feb 2027 Kauri
- AUD 500 mn 5-year Jan 2027 Kangaroo
- SEK 1.75 bn 3-year Feb 2025 Green Bond
- CHF 175 mn 6-year April 2028



## 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 2022, KBN plans to issue 3-4 USD benchmarks in maturities ranging from 2 to 10 years.

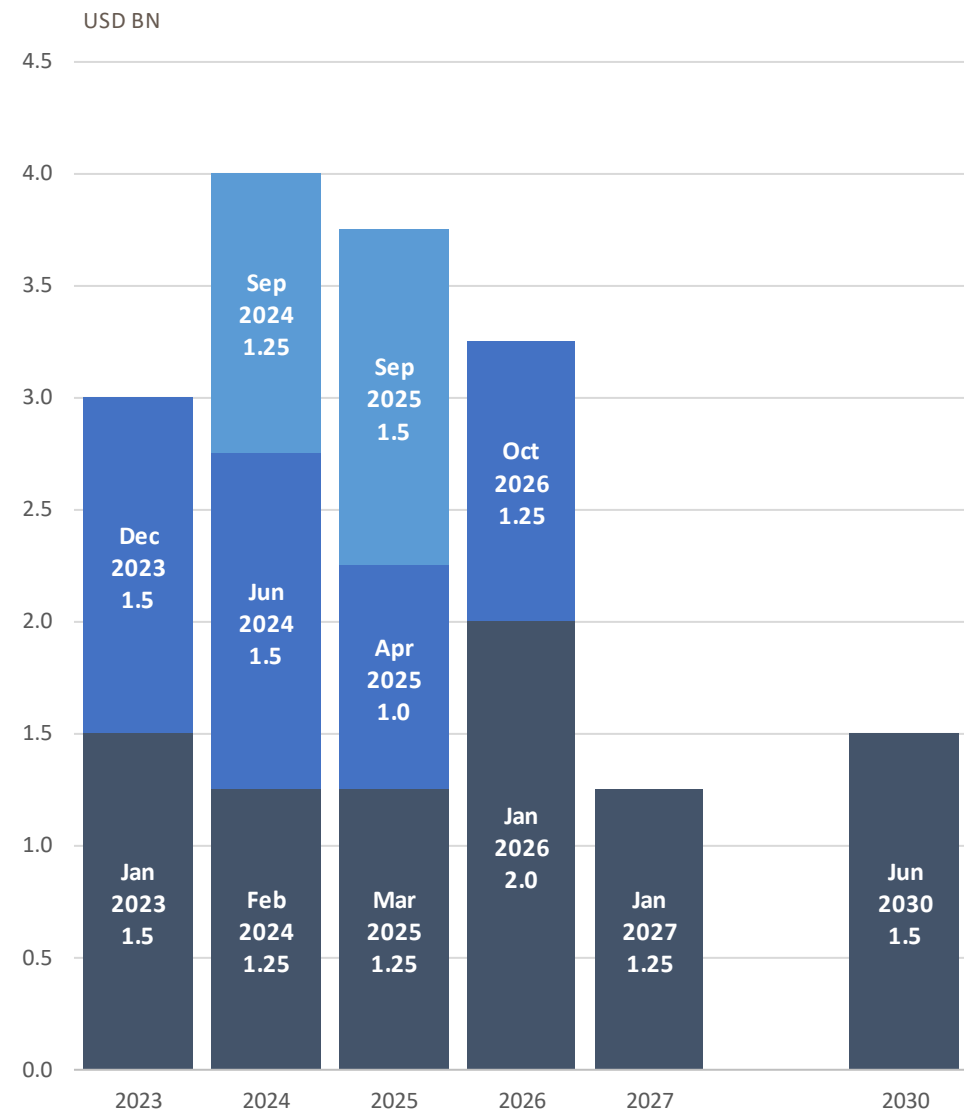


KBN currently has 12 USD benchmark transactions outstanding. The total notional amount is USD 16.75 bn.



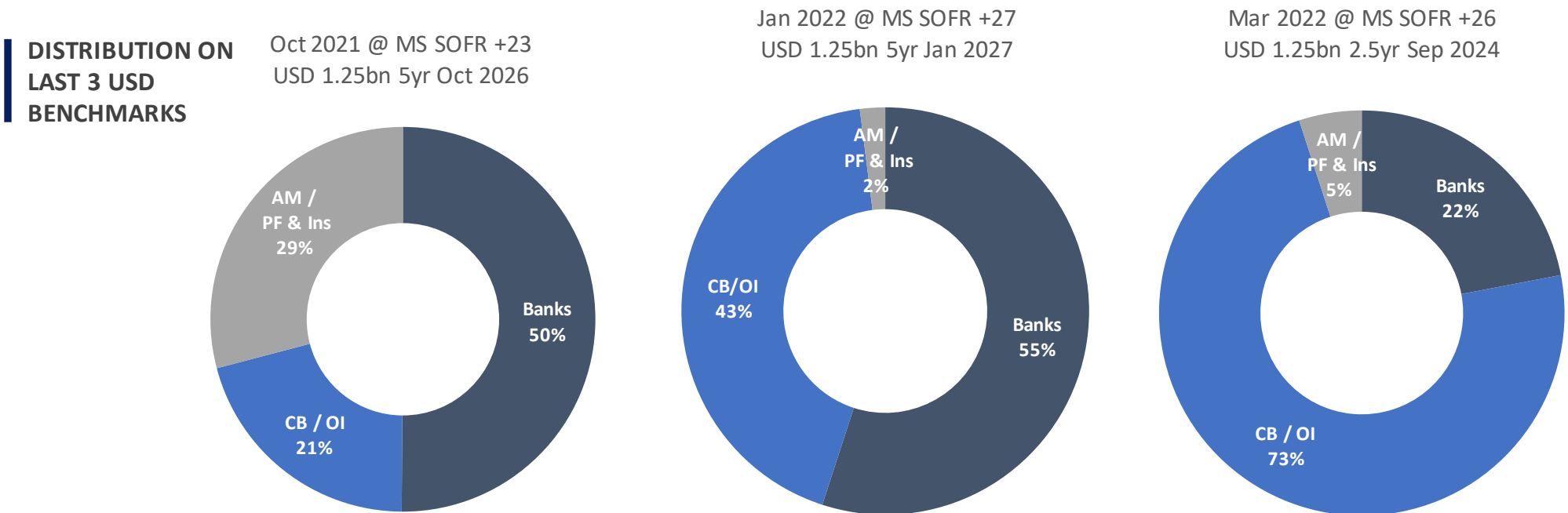
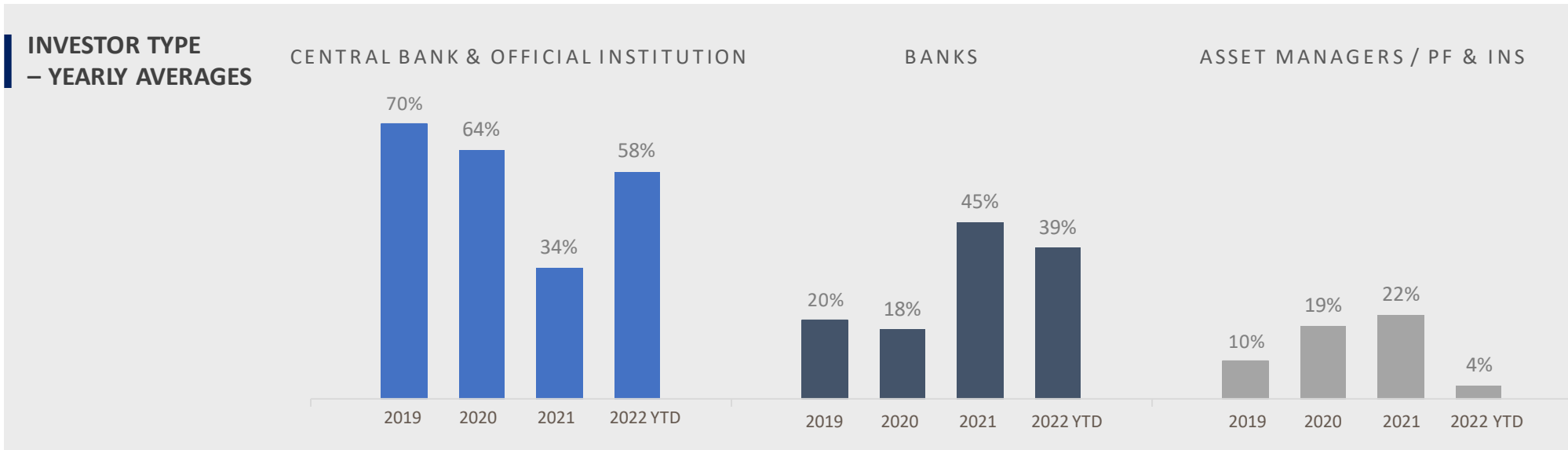
Since April 2010, KBN has issued USD benchmarks under RegS and 144a documentation, which provides additional settlement options via DTC.

### OUTSTANDING 144 A BENCHMARKS

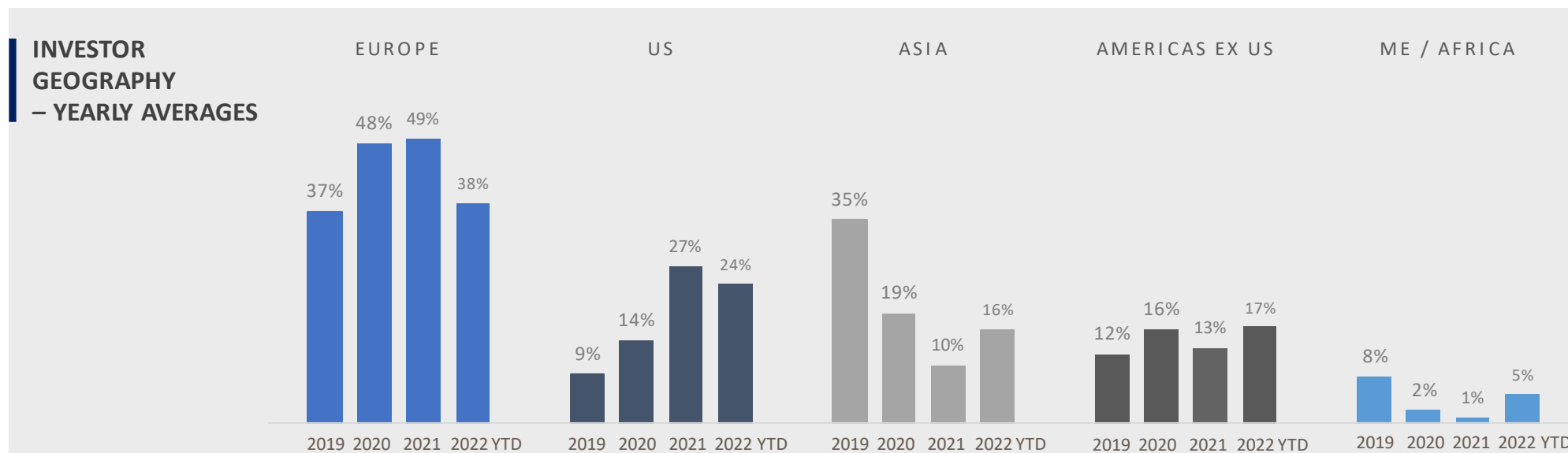




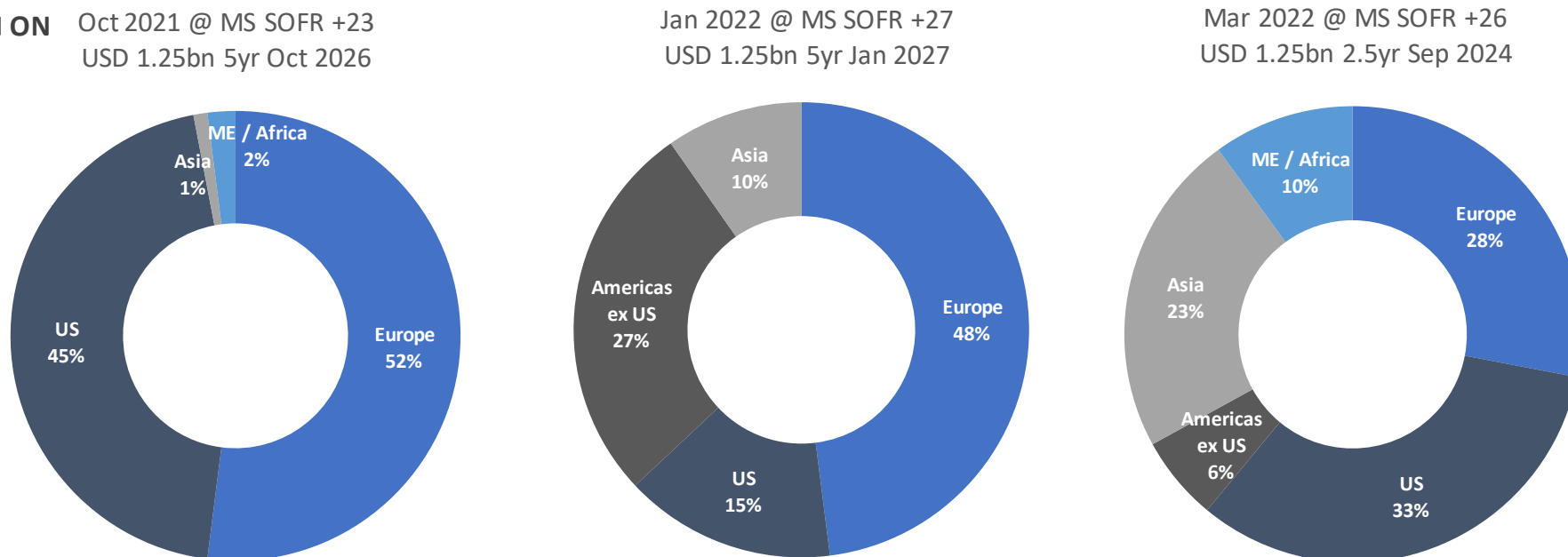
# USD Benchmark Distribution – Investor Type



# USD Benchmark Distribution – Geography



**DISTRIBUTION ON LAST 3 USD BENCHMARKS**



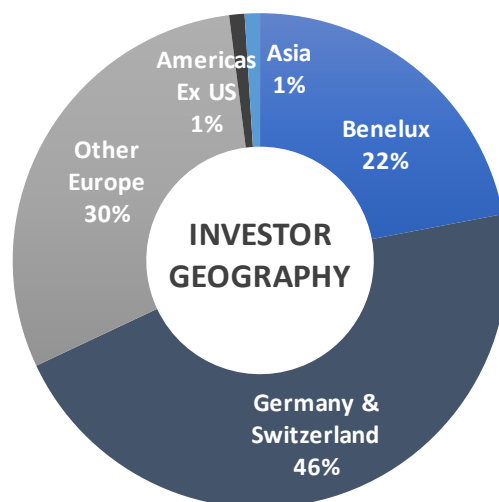
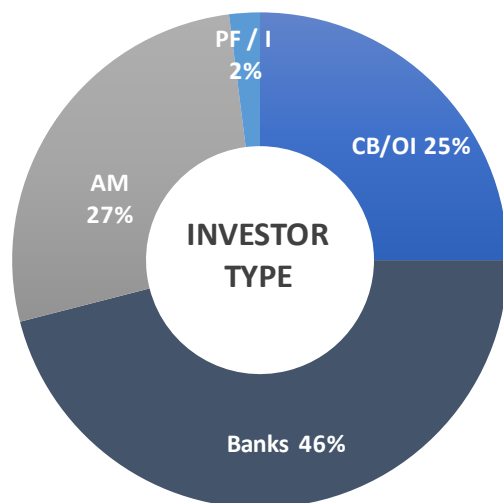


# EUR Benchmark Strategy

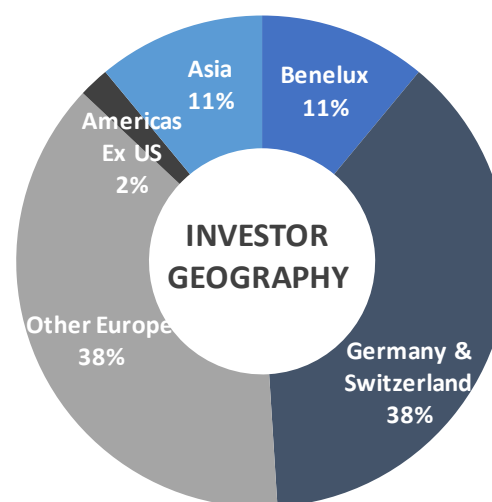
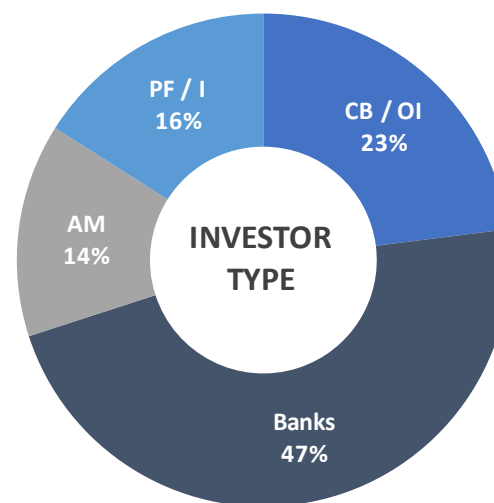
## Diversifying The Funding Program Via Investor-driven Issuance

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

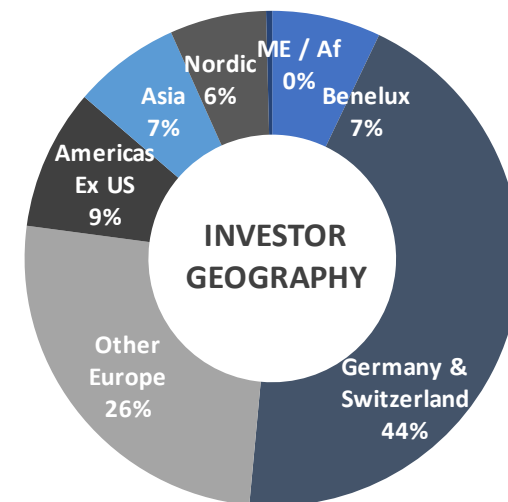
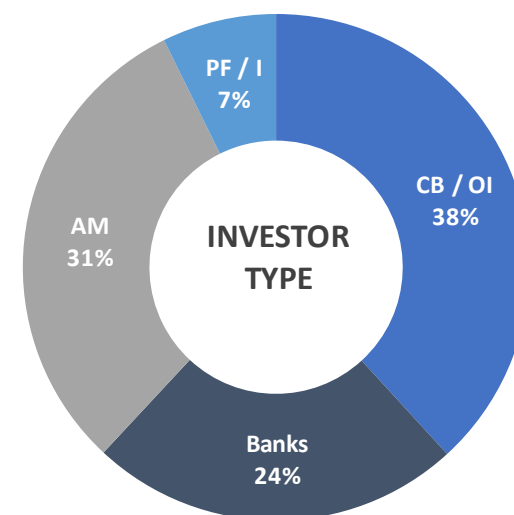
APRIL 2016 @ MS+9  
EUR 1.0BN 10Y APRIL 2026



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



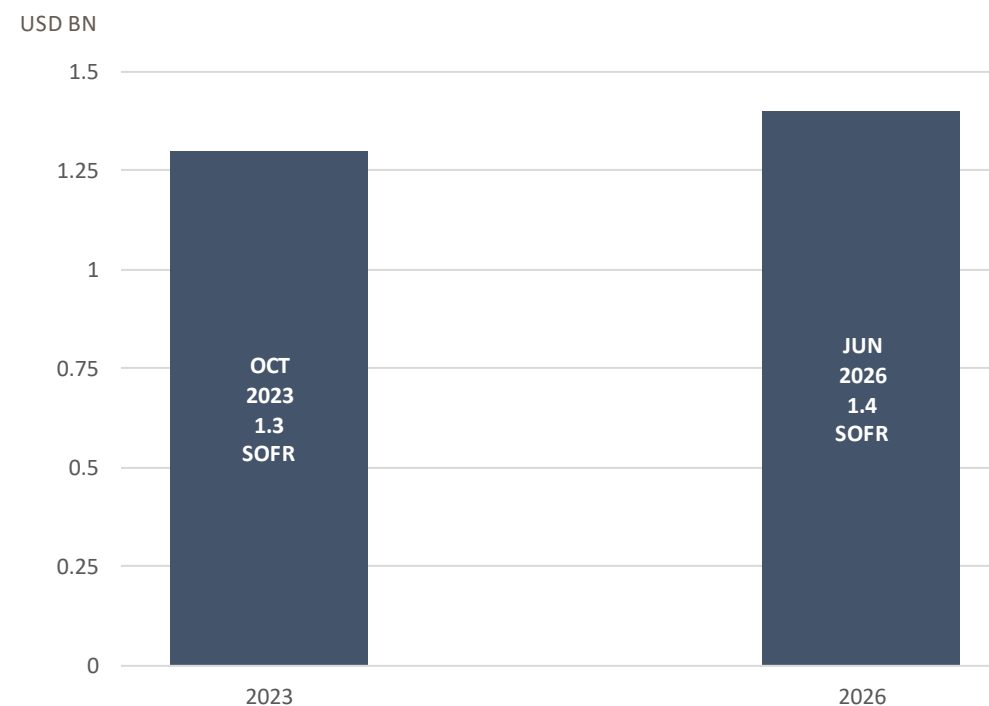
Oct 2019 @ MS +7  
EUR 1.0 BN 10Y OCT 2029



## USD FRN Strategy

- KBN was for many years been one of the more active issuers of Libor USD FRNs.
- Issuance has historically responded to investor demand, enabling KBN to tap into discrete pools of liquidity that prefer floating-rate investments. This strategy will be continued as KBN builds its SOFR referenced curve.
- 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 will aim to build a new, liquid curve of SOFR referenced FRNs.
- SOFR referenced Private Placement opportunities will be assessed on a case-by-case basis.

### OUTSTANDING USD 144A/REGS FRNs



## 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 8.025 bn outstanding
- 14 issues: 2023, 2024, 2025, 2026, 2027 2028, 2029, 2030, 2032
- Recent launch:
  - AUD500 mn Jan 27
  - AUD 100 mn Aug 32



### NEW ZEALAND – KAURI

- Currently NZD 3.1 bn outstanding
- 6 issues: 2023 2024, 2025, 2027 2030
- Recent Launch:
  - NZD 500 mn Feb 27
  - NZD 500 mn July 30



### UNITED KINGDOM – EMTN

- Currently GBP 2.8 bn outstanding
- 5 issues: 2022, 2023, 2024, 2025, 2026
- Recent launch:
  - GBP 50 mn Dec 24 TAP
  - GBP 100 mn Dec 26 TAP



### NORWAY – VPS/EMTN

- Currently NOK 11.65 bn outstanding
- 11 issues: 2023, 2025, 2026, 2027, 2028, 2029, 2031, 2032, 2033 2036, 2037
- Recent launch:
  - NOK 1.0 bn Apr 37
  - NOK 1.1 bn Feb 31



### SWEDEN – EMTN

- Currently SEK 5.75 bn outstanding
- 4 issues: 2024, 2025, 2026
- Recent launch:
  - SEK 1.75 bn Feb 25 Green Bond
  - SEK 3.0 bn Aug 26 Green Bond



### CANADA – EMTN

- Currently CAD 500 mn outstanding
- 1 issue: 2024
- Recent launch:
  - CAD 500 mn Oct 24 Green Bond



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

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

# AAA

# Contact

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



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## ADDITIONAL INFORMATION

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

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

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

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-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**



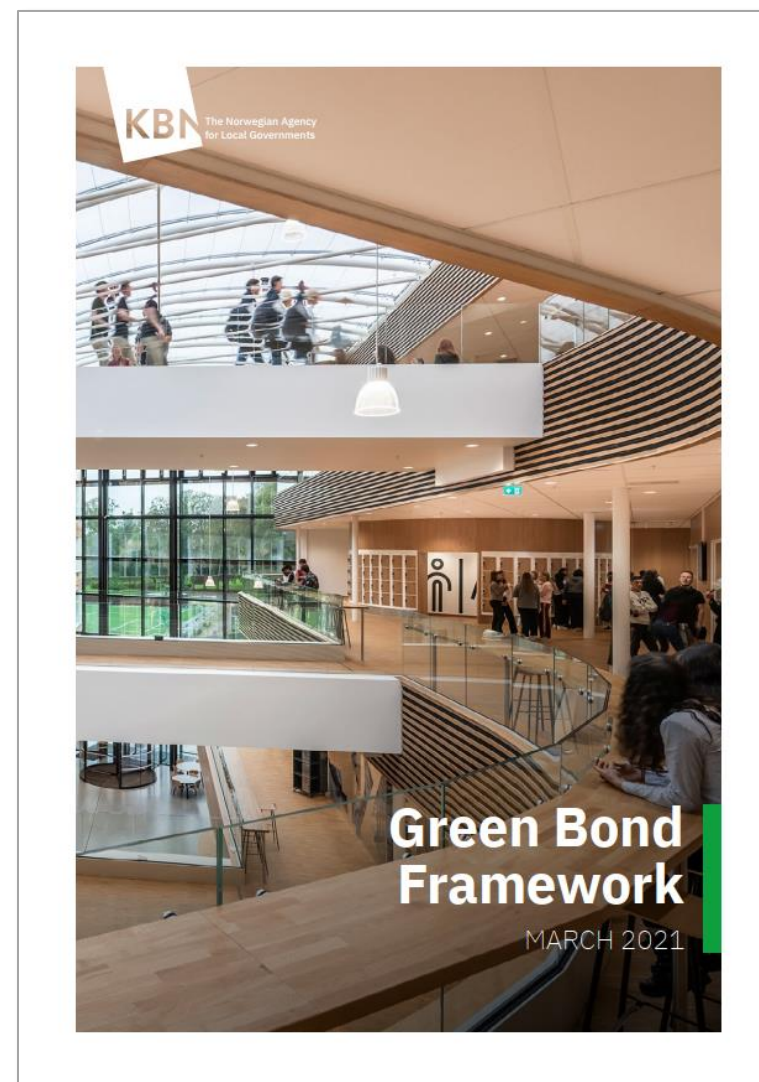
# The Evolution of KBN'S Green Strategy



# KBN Green Bond Framework 2021

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

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



## CICERO Second Opinion

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



### CICERO 2ND OPINION OF KBN’S GREEN PROJECT CATEGORIES

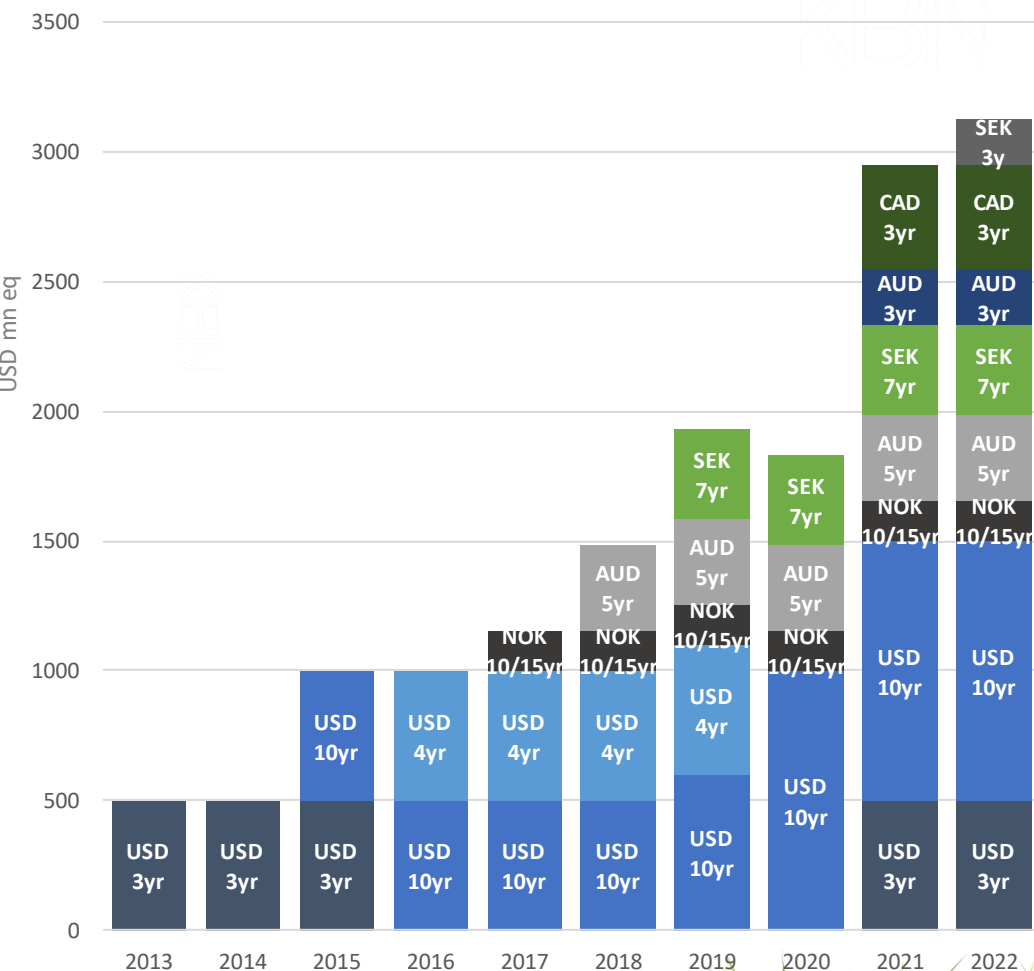
Buildings	Medium Green
Renewable Energy	Medium to Dark Green
Transportation	Medium to Dark Green
Waste and Circular Economy	Medium to Dark Green
Water and Wastewater Management	Dark Green
Land Use and Area Development Projects	Medium to Dark Green
Climate Change Adaptation	Medium Green



# KBN Green Bond Issuance

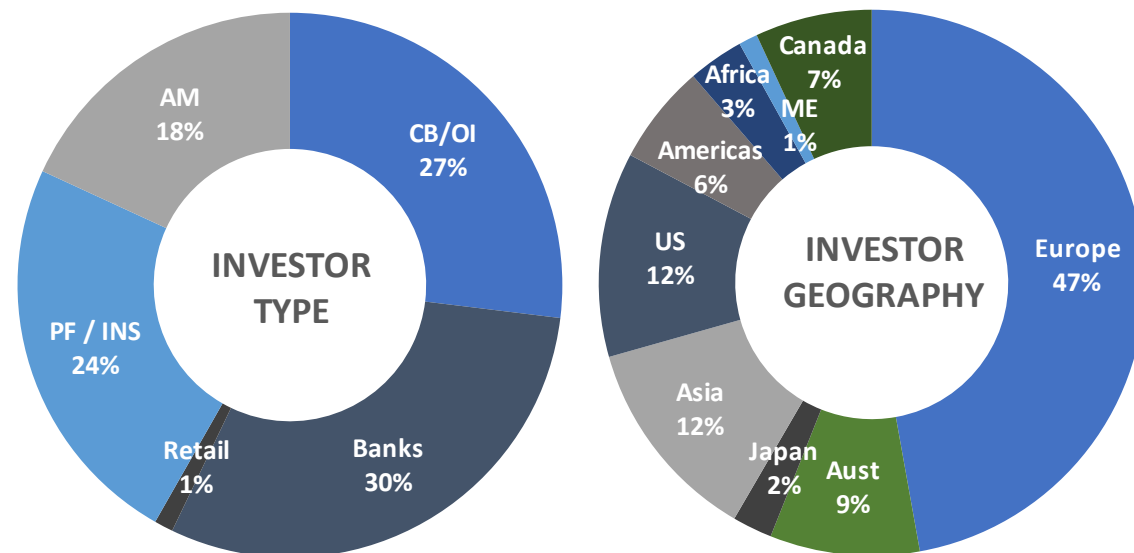
TOTAL OUTSTANDING **3.08** BN. USD\*

## KBN PUBLIC GREEN BOND ISSUANCE



\*AUDNOK 6.424 / SEKNOK 0.996 / USDNOK 8.81828 / CADNOK 7.1331

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



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

\* As of March 2022

# KBN's Green Bonds finance Green Loans

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



## BUILDINGS

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



## WASTE AND CIRCULAR ECONOMY

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



## RENEWABLE ENERGY

Facilitating the use of renewable energy sources.



## WATER AND WASTEWATER MANAGEMENT

Water and wastewater investments with a climate and environmental profile



## TRANSPORTATION

Transport solutions with minimal or zero emissions



## LAND USE AND AREA DEVELOPMENT PROJECTS

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



## CLIMATE CHANGE ADAPTATION

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

## Eligibility criteria defined in separate Criteria Document

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



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



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



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

*Example of Eligibility Criteria: Renewable energy*



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



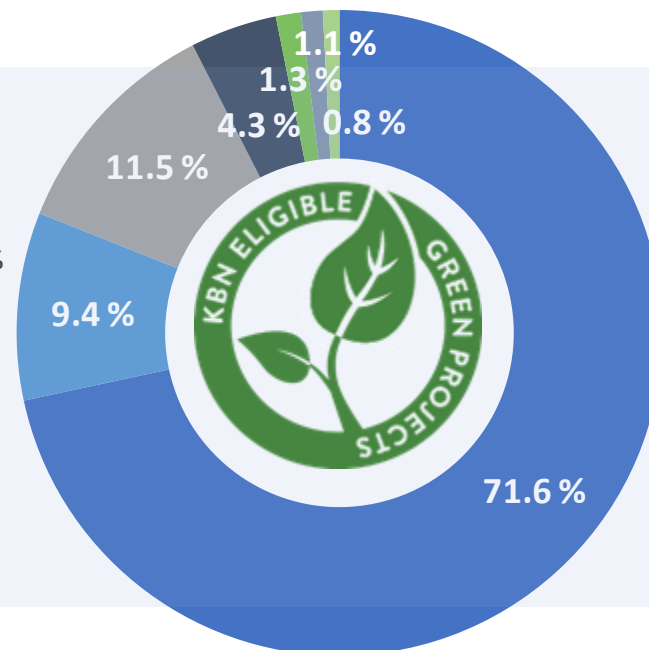


# Green Lending Portfolio

**GREEN LOANS OUTSTANDING**  
USD 3.94 BN\*

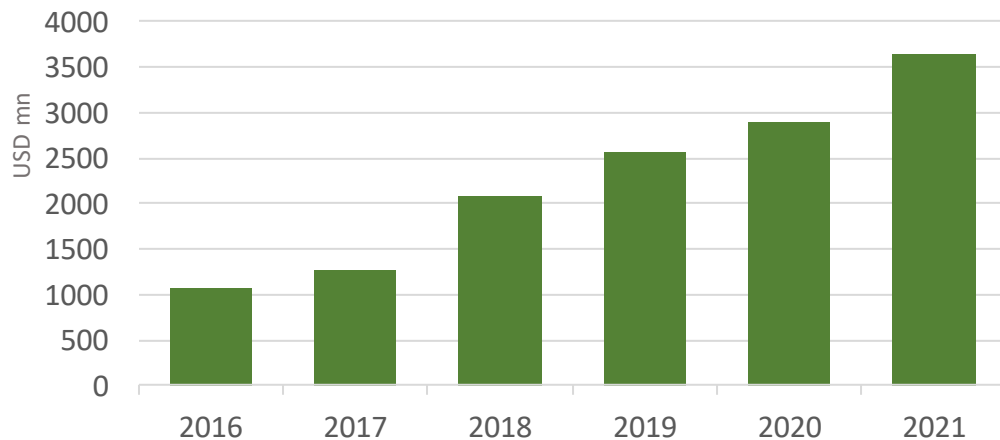
KBN has offered reduced-rate green loans for investments that contribute to solving the climate challenges of the future since 2010.

- Buildings 71.6%
- Transportation 9.4%
- Water and Wastewater Management 11.5%
- Waste and Circular Economy 4.3%
- Renewable Energy 1.3%
- Land Use and Area Development 1.1%
- Climate Change Adaptation 0.8%



## KBN GREEN LOANS\*

Accumulative Lending - End of year 2016-2021



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

Green lending in 2021, has for the first time surpassed 10% of KBN's total outstanding lending.

\*USDNOK = 9

## Paris-aligned eligibility criteria

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

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

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



# Governance

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



## Green loan process

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

## Management of funds

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

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

## Use of funds

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

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



# KBN Impact Reporting

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

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

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

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



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

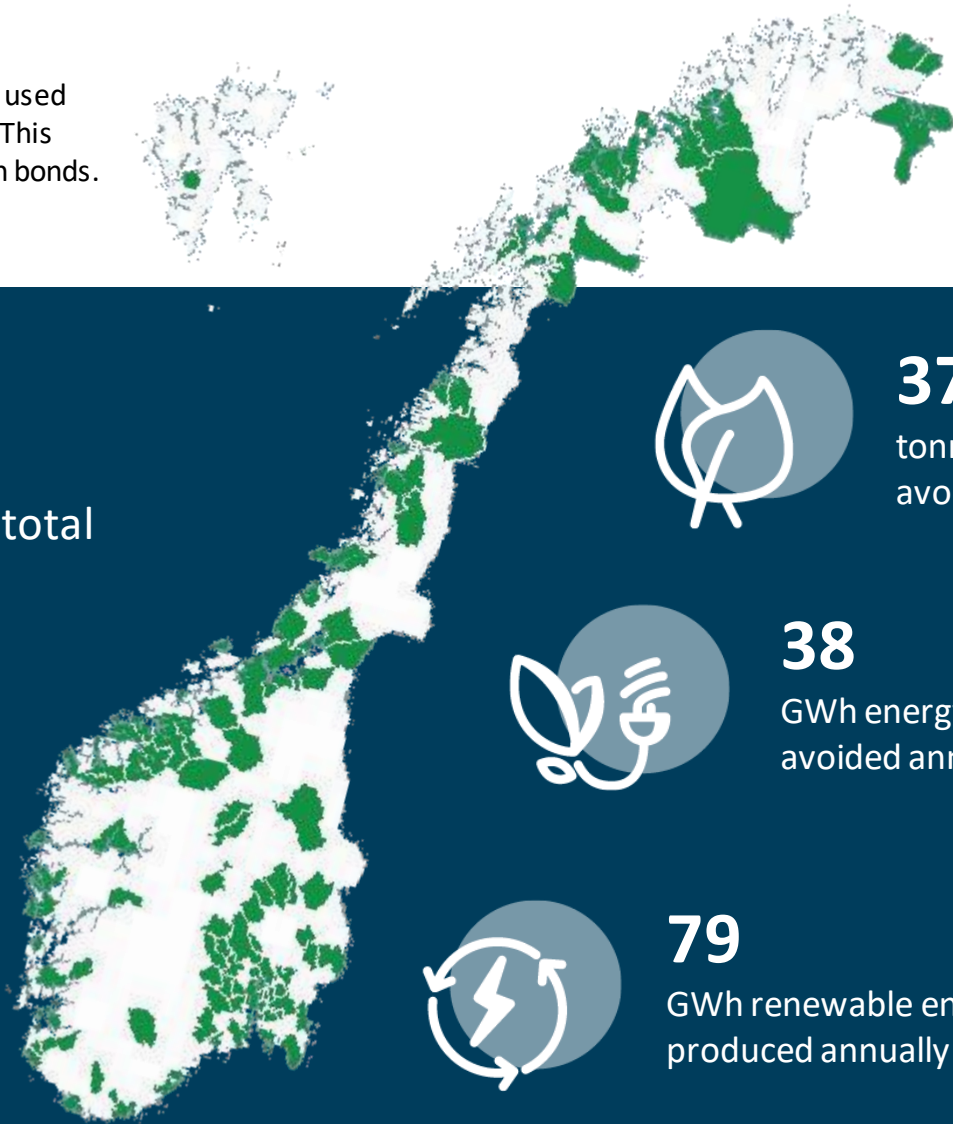


[2021 KBN Impact Report](#)

*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 2021

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.



**342**  
Projects in total



**37,181**  
tonnes of CO2e reduced and avoided annually



**74**  
New projects in 2021



**38**  
GWh energy reduced and avoided annually

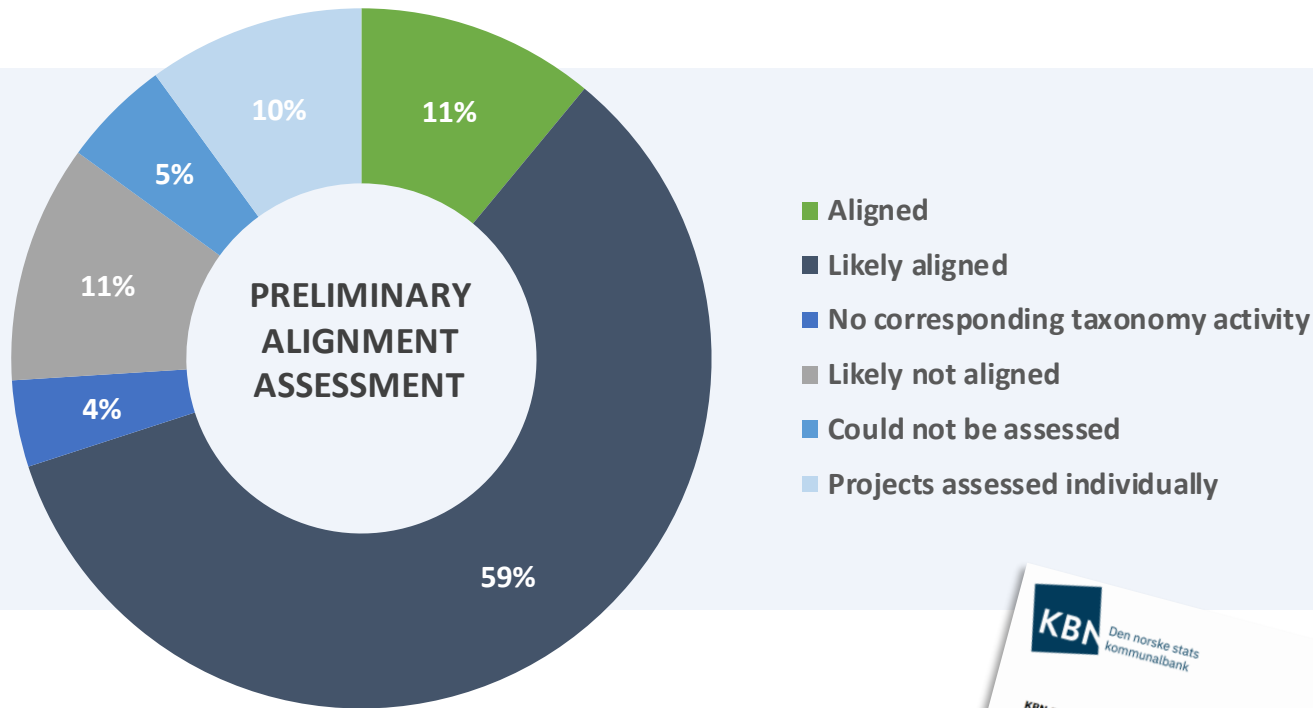


**79**  
GWh renewable energy produced annually

*The information in this report is provided by our customers. The data has been reviewed by KBN but has not been verified by KBN or a third party. Calculation of impact is done by KBN. We do our best to ensure the quality of the information provided; however, the reader should be aware that there is uncertainty related to estimating climate and environmental impact from investments. A grid factor of 315g CO2 per kWh of electricity is used for all calculations from electricity to CO2e. This grid factor is recommended in the "Nordic Public Sector Issuers' Position Paper on Green Bonds Impact Reporting". Read more about reporting principles in Impact report 2020.*

# Voluntary Taxonomy alignment assessment

KBN has screened our green project portfolio against the technical screening criteria (TSC) in the EU's Taxonomy for sustainable economic activities. We perform this exercise to learn more about the gaps between our criteria and the taxonomy, and we publish the results to be transparent about our findings. The result is a preliminary taxonomy alignment assessment of the entire green project portfolio.



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

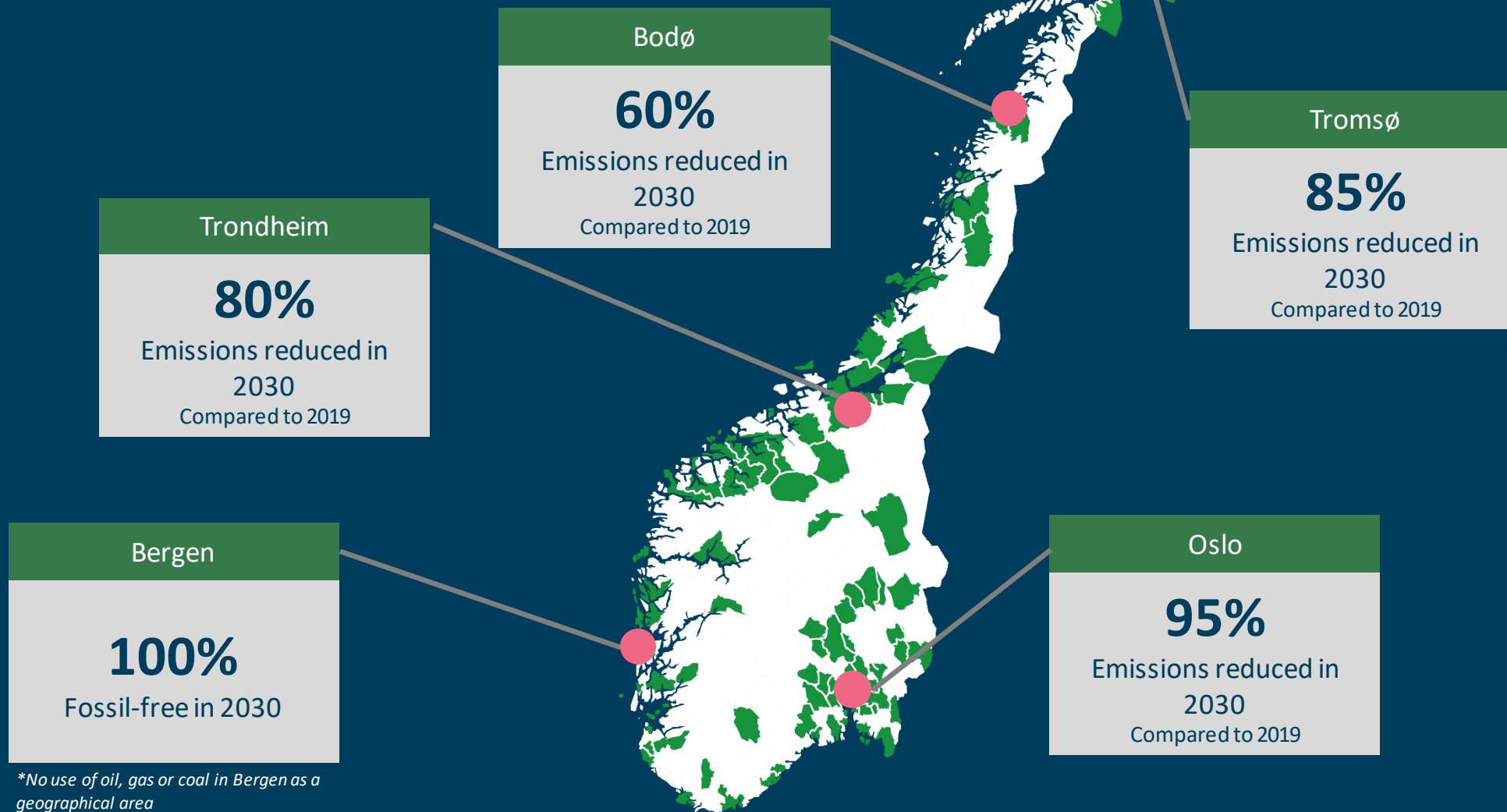


*The mapping is voluntary, preliminary and done on a best-effort basis. We have done our utmost to analyse the taxonomy and have consulted relevant experts but might not yet have the full picture. The results must be used with caution. The taxonomy is not yet complete or adopted in its final form and is likely to change over time. We have mapped against the April 2021 taxonomy delegated act and its annexes and the technical working group's suggested criteria for objectives 3-6. DNSH criteria have currently not been assessed. KBN's mapping should therefore be regarded as preliminary.*



# The Norwegian municipalities take the lead

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



*\*No use of oil, gas or coal in Bergen as a geographical area*



CASE



BUILDINGS

## A kindergarten in natural environments

■ ■ Hatlelia kindergarten is built according to the passive house standard and has a low demand for energy. The building is built in massive timber, with heating from energy wells. The inside surfaces consist of wood and concrete, with large windows that provide light and good views.

Hatlelia has a focus on outdoor activities. The children's outdoor time has an educational content on a par with what they get inside, where environmental protection and sustainability is central. Outside they have their own kitchen garden with vegetables, fruit trees, berry bushes and composting.

Estimated impact:  
14 tonnes CO<sub>2</sub>e reduced

Project period: 2018-2020  
Molde municipality

Total cost:  
**50 000**  
(1000 NOK)

Green loan outstanding:  
**38 443**  
(1000 NOK)

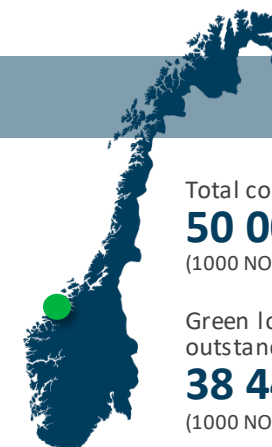
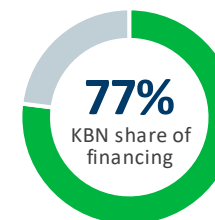


Photo: Renate Bevre Glide





CASE



RENEWABLE ENERGY

## Investments in biochar production cuts emissions

■ ■ Øvre Romerike Avfallsselskap (ØRAS) replaces ordinary wood chip firing with pyrolysis in a new bio-firing plant. The investment makes it possible to utilise waste to create a new product and produce energy at the same time as cutting emissions.

ØRAS receives large amounts of untreated wood daily, which is fed into the pyrolysis plant and is charred to biochar. In this process, CO<sub>2</sub> is formed, but instead of releasing the gases into the atmosphere, most of the carbon is captured in the biochar that is produced. In addition, emissions are saved by avoiding landfilling of ash.

Expected annual energy production: 1 262 857 kWh/year

Project period: 2021

Øvre Romerike Avfallsselskap



Total cost:  
**8 400**  
(1000 NOK)

Green loan outstanding:  
**8 160**  
(1000 NOK)

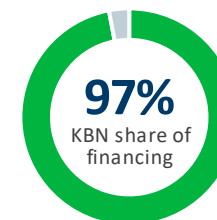


Photo: Øvre Romerike Avfallsselskap





CASE



TRANSPORTATION

## A small step towards the green transition

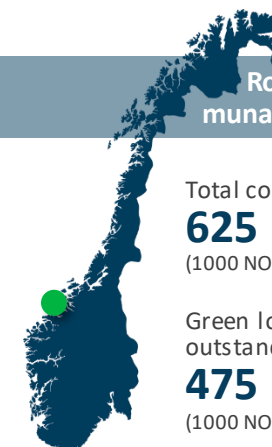
More and more companies are joining the green transition. A waste management company at the Romsdal peninsula (RIR IKS) is now investing in green solutions.

The company has an ambitious goal: “RIR IKS shall be a leading waste management company, both in terms of quality and the environment. The idea of a circular economy should form the basis for all activities in the company.”

Therefore, it is only fitting that RIR IKS was granted a green loan from KBN to finance an electric forklift truck. The company plans to replace diesel-powered construction machines with electric ones, and this forklift is the first in line.

Project period: 2020

Romsdalshalvøya Interkommunale Renovasjonsselskap IKS



Total cost:  
**625**  
(1000 NOK)

Green loan outstanding:  
**475**  
(1000 NOK)

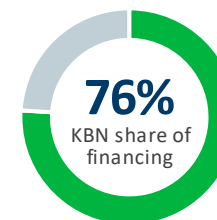


Photo: Jungheinrich





CASE



WASTE AND CIRCULAR ECONOMY

## Building a new local waste facility reduces the need for transportation

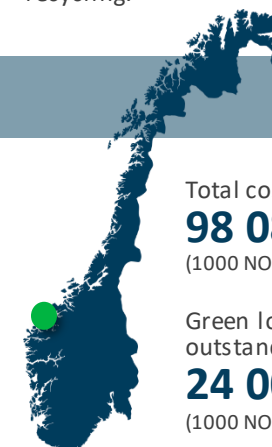
■ ■ Volda og Ørsta Reinhaldsverk waste management company is building a new waste facility for organic waste, paper/cardboard, plastic, glass, metal and residual waste. The facility consists of four buildings.

Today, organic waste is transported to the neighbouring town of Ulsteinvik, where it gets reloaded. By building the new facility in Ørsta/Volda, approximately 22.000 km of driving will be avoided per year.

The office building and changing rooms at the facility will be heated using heat pumps. Minimising waste will be an important aspect of the building process, and the waste that is produced will be reused or recycled. The materials used in the buildings will also be suitable for recycling.

Project period: 2020-2022

Volda og Ørsta Reinhaldsverk IKS



Total cost:  
**98 089**  
(1000 NOK)

Green loan outstanding:  
**24 000**  
(1000 NOK)

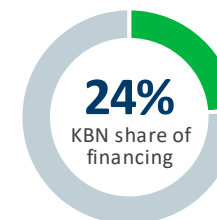


Photo: Volda og Ørsta Reinhaldsverk IKS







CASE



WATER AND WASTEWATER MANAGEMENT

## Reducing pressure on the wastewater network

■ ■ In Strand municipality, surface runoff and wastewater share the same pipe network. As a result, both wastewater and rainwater are channelled into the treatment plant. Pumping and cleaning the water requires considerable amounts of energy. Climate change will cause increased precipitation and more extreme weather events in the future, which will lead to increased pressure on the wastewater network.

To address this challenge, Strand will separate surface runoff and wastewater in two individual pipe networks. By handling surface runoff in a separate pipe, the amount of wastewater going into the treatment plant is reduced. This way they avoid cleaning rainwater which is already considered pure, which again will free capacity for the wastewater network. This will save substantial amounts of energy.

Project period: 2020-2021

Strand municipality



Total cost:  
**4 781**  
(1000 NOK)

Green loan outstanding:  
**2 424**  
(1000 NOK)

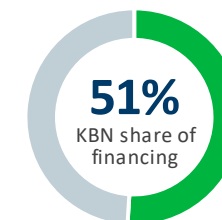


Illustration: H&S, Photo: Øyvind Haug





CASE



LAND USE AND AREA DEVELOPMENT PROJECTS

## Climate-smart city center: a boost for the municipality - and the economy

■ ■ Skårersletta in Lørenskog will be a climate-smart and pleasant city center that invites activities and recreation for its citizens. Bike lanes, wider sidewalks and easier access to public transport will reduce transportation by car, and in order to manage surface runoff and protect biodiversity, trees and flower beds are planted along the street.

The clear climate ambitions of the project led to the granting of a green loan by KBN. Lørenskog municipality was granted NOK 200 million in a green loan and received a discount on the ordinary interest rate. By choosing a green loan compared to an ordinary loan, the municipality will save NOK 3.5 million during the lifetime of the loan.

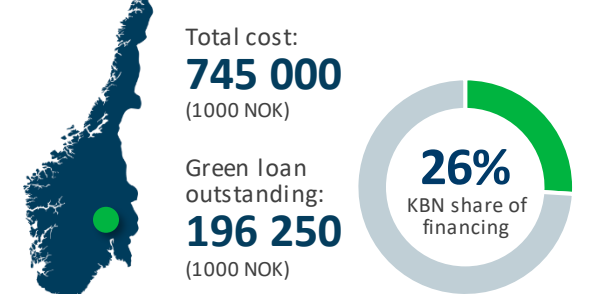


Illustration: Norconsult/Beereni





CASE



CLIMATE CHANGE ADAPTATION

## Replacing the dock to withstand rising sea levels

■ ■ Rocks sliding into the harbour basin has caused damage to the dock in Båtsfjord. The port of Båtsfjord has therefore decided to replace the existing dock.

The new dock is 300 meters long and will be built to withstand climate change - several efforts will be made to secure buildings and infrastructure against storm surges and changes in sea level. The front of the dock will be raised to allow for higher water levels in the future.

Concrete from the old dock will be recycled and used as filler compound on land. The project also involves an improvement of the water and wastewater system by building a new and more energy efficient treatment plant.

By installing onshore power supply for boats, the port of Båtsfjord prepares for increased electric sea transport for the coming years.



Project period: 2021

Båtsfjord Havn KF

Total cost:  
**103 750**  
(1000 NOK)

Green loan outstanding:  
**64 000**  
(1000 NOK)

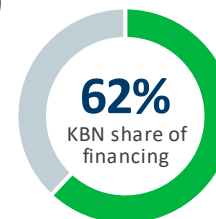


Photo: Anne Jenny Dvægsdal



A woman with long blonde hair, wearing a light-colored patterned sweater, stands on a wooden balcony on the right side of the frame, looking out over a vast, scenic mountain valley. The valley is filled with green fields and forests, with a winding road and a river visible. The mountains are rugged and grey, with some snow patches. The sky is blue with light clouds.

# KBN FINANCIALS AND OPERATIONS



# Financial Highlights

(Amounts in NOK 1 000 000)

	January-June 2022	January-June 2021	2021
<b>RESULTS</b>			
Net interest income	913	748	1 585
Core earnings <sup>1</sup>	591	405	908
Profit for the period	(429)	516	1 208
Cost/income ratio (per cent) <sup>2</sup>	14.9%	17.5%	16.4%
Return on equity after tax <sup>3</sup>	(5,6%)	6.0%	7.1%
Return on equity after tax (core earnings) <sup>4</sup>	7,1%	5.0%	5.6%
Return on assets after tax <sup>5</sup>	(0,2%)	0.2%	0.3%
<b>LENDING</b>			
New disbursements	14 194	21 759	48 547
Outstanding loans <sup>6</sup>	316 708	318 284	323 018
12 month lending growth in percent <sup>7</sup>	(0.5%)	3.8%	1.5%
Green loans <sup>8</sup>	36 003	27 685	32 876
Share of green loans in lending portfolio	11.4%	8.7%	10.2%
Share of municipalities with green loans <sup>9</sup>	36.9%	34.4%	35.5%
<b>LIQUIDITY PORTFOLIO<sup>6</sup></b>	<b>107 642</b>	<b>108 123</b>	<b>110 837</b>
<b>BORROWINGS</b>			
New long-term borrowings	47 474	63 638	96 550
Total borrowings <sup>6</sup>	430 562	403 169	395 385
<b>TOTAL ASSETS</b>	<b>495 546</b>	<b>476 507</b>	<b>473 064</b>
<b>EQUITY</b>			
Equity	18 100	18 583	19 081
Common equity Tier 1 capital adequacy ratio	17.6%	18.1%	18.8%
Leverage ratio	3.7%	3.8%	3.9%

## Notes:

- 1 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 Operating expenses as a percentage of sum Net interest income and Total other operating income adjusted for Net unrealised gain (loss) on financial instruments.
- 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 added to the 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 12-month lending growth based on total lending (principal amounts).

## LIQUIDITY COVERAGE RATIO (LCR)<sup>10</sup>

	January-June 2022	January-June 2021	2021
Total	318%	272%	175%
NOK	65%	58%	71%
EUR	198%	359%	140%
USD	266%	202%	137%
AUD	122%	1 103%	1 081%
JPY	Insignificant	2 661%	Insignificant
GBP	Infinite	Infinite	733%

## OTHER KEY FIGURES

	January-June 2022	January-June 2021	2021
Market share <sup>11</sup>	42.4	45.1	44.9
Percentage of women employed in KBN	45%	42%	46%
Emissions in CO <sub>2</sub> e <sup>12</sup>	37.7	22,1	40.3



## Further information

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



[Financial Reports](#)

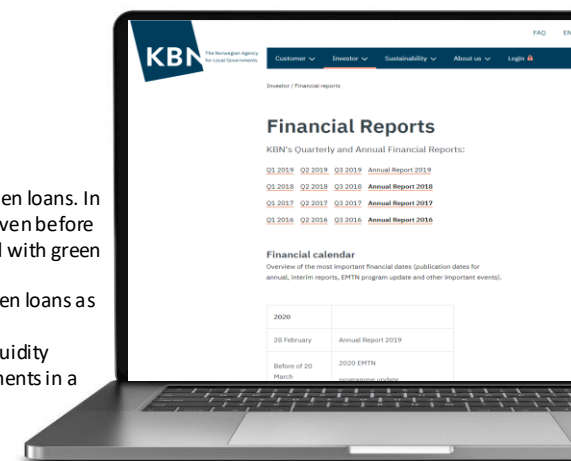
8 Outstanding green loans according to KBN's set of criteria for green loans. In addition, the bank has a small portfolio of green loans that were given before these criteria were established. These loans are no longer financed with green bonds. Total outstanding green loans are NOK 38.2 billion.

9 Percentage of municipalities in KBN's lending portfolio with green loans as of 30.6.2022.

10 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.

11 The market share is calculated based on lending to sector 6500 from KBN divided by total lending to the same sector based on Statistics Norway's K2 reporting.

12 KBN's calculated emissions.



# KBN's Loan Approval Process and Principles

## Annual Budget Preparations

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

## Internal Review

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

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

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

## Loan Process

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

## The KOSTRA Registry

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

Central  
Government  
Control and  
Oversight  
Leads to...



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

## The ROBЕК List

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

## Framework for Local Government debt:

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

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

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

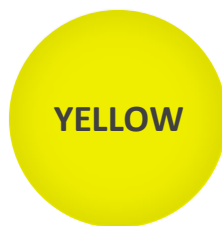


## KBN's Traffic Lights for Client Loan Requests



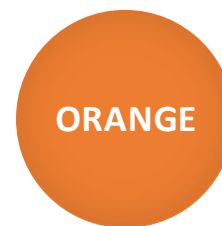
**GREEN**

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



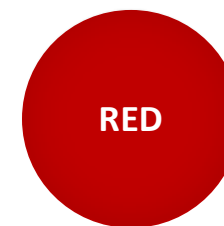
**YELLOW**

Additional due diligence is undertaken by CRM prior to approval



**ORANGE**

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



**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:

– Green (2020):	331
– Light Yellow (2020):	8
– Yellow (2020):	16
– Orange (2020):	2
– Red (2020):	0



**KBNskolen**

**KBN Finans**

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