

KBN STRATEGY: BUILDING A SUSTAINABLE SOCIETY

2022-2024

VISION: Long-term partner for local welfare

VALUES: Open, responsible, engaging



A SOCIETY IN CHANGE

Our strategy is driven by six major trends in particular:

- *Technological development:* High-quality, digital solutions have come to be expected by the market and are seen by customers as a minimum requirement. Digital solutions also enable new products and services to be developed on the basis of new forms of collaboration between KBN and other providers in its customers' ecosystem.
- *Changeable market conditions:* The capital markets are characterised by increasing uncertainty at what is a time of major international change.
- *Less room for manoeuvre financially:* Petroleum revenues will decline at the same time as the local government sector will need to invest significantly in response to

problems including demographic changes, climate change and a maintenance backlog.

- *The expectations of KBN's owner:* KBN has to be run commercially and to generate a satisfactory return while at the same time functioning as a tool for achieving the state's sector-political objectives.
- *Regulatory framework:* The regulations to which financial institutions are subject are intended to ensure the stability of the financial system. As a systemically important financial institution, KBN is subject to extensive requirements.
- *Sustainability:* The greater emphasis being placed on financial, social and environmental matters by investors, regulatory authorities and society in general is setting the parameters for both our activities and our expectations of our customers and suppliers.

KBN'S ROLE AND POSITION

KBN, the Norwegian state's lender to the local government sector, is one of the largest financial institutions in Norway with total assets of approximately NOK 500 billion. We provide attractive loans to municipalities investing in projects across Norway. KBN finances its activities by ensuring it has efficient access to the world's capital markets. A key tool for ensuring that the Norwegian local government sector's high creditworthiness is reflected in the cost of the loans KBN provides is KBN having a credit rating in line with that of the Norwegian state (AAA). In order to maintain such a high rating, KBN targets a strong and stable market position, a low level of risk and efficient operations.

KBN is a systemically important financial institution due to the role it plays in society and its position as the largest participant in the market for local government sector loans. KBN is required to be low risk and to be able to provide loans regardless of economic conditions. We seek to work in a systematic way to have an impact on priority regulatory matters that may help to create a regulatory framework that supports our mandate, which is reflected in the state's rationale for its ownership of KBN.

KBN's most important role is ensuring that its customers have predictable access to long-term financing. Our customers increasingly want shorter-maturity loans with no instalments prior to maturity, and this is contributing to greater pressure on KBN's profitability. In order to ensure KBN achieves a return that both meets its owner's dividend expectations and maintains KBN's market position, we have to attach importance to the profitability of our activities. This shapes the type of loan products we can offer and the positioning we can adopt when competing against other providers of loans to the local government sector. Our position in the market for local government sector loans is therefore primarily new long-term borrowing by customers and to a lesser extent short and medium-term loans. At the same time, our objective is to be relevant to all customers, across the range of loan preferences.

In the market in which KBN operates there is a strong focus on price and a limited willingness to pay for digital solutions and customer service. At the same time, we are finding that customers have clearer and greater expectations. Our objective is to preserve our high level of customer service and to be recognised as the lender that is the most knowledgeable about its customers. By means of our financial expertise and insight into the local government sector, we will seek to contribute to the professionalisation of debt management in the local government sector and to help our customers to succeed in their work to develop the best possible welfare services for their residents. As part of our function in society, we

want to promote sustainable local communities and to contribute to the green transition, including by providing the market's best green loan products.

THE CUSTOMER FIRST

KBN will be the most important financing partner for Norwegian municipalities and county authorities.

KBN will provide simple, future-oriented and flexible financing solutions that are adapted to customers' requirements. Through insight, financial expertise and digital tools, we will help our customers to make informed choices, to assess financial risk and to choose the financing solutions that best suit their needs. Customers that help KBN to achieve the level of profitability it requires for its further development will be prioritised and offered digital solutions and ongoing support to ensure they perceive their relationship with KBN as offering added value.

We will:

- Add value to our customer relationships by being our customers' preferred and most knowledgeable partner for discussions about financing.
- Strengthen our customer relationships by being a leader for digital solutions that provide customers with insight and the ability to keep track of how they are managing their borrowing.
- Meet our customers' needs by means of agile and structured business development and innovation with the aim of developing new, profitable products and services.

STRONG MARKET PARTICIPANT

Through a strong position in the capital markets, nationally and internationally, KBN will ensure Norwegian municipalities have access to attractive financing.

Efficient funding operations are the basis for the market's best lending products. Having a good understanding of the markets and strong relationships with investors will ensure that KBN maintains its desired market position. KBN will seek to secure the lowest possible transaction and hedging costs and low operational risk for its financing activities.

Risk management and risk monitoring are key tasks for KBN's activities. We emphasise enterprise risk management that is based on insight, analysis and market knowledge. KBN's funding activities must be based on open, developed and transparent markets with clearly identifiable pricing elements.

KBN's activities are characterised by low risk and stable core earnings. KBN will by means of its risk management framework limit its exposure to market risk, and its business model will be designed so as to minimise volatility in its earnings and key regulatory metrics.

We will:

- Further develop a diversified funding program to maintain our low borrowing costs in the context of the more uncertain international economic outlook.
- In order to be ready to address situations such as another crisis in the financial markets or unforeseen needs to make disbursements, KBN will hold sufficient liquidity reserves that are invested in highly creditworthy liquid securities.

- Strive to simplify our financing activities by reducing the complexity, costs and risk associated with funding, hedging and contingency planning.

LEADER IN GREEN FINANCE

KBN will help its customers to succeed in achieving their climate objectives.

KBN intends to be among the leading financial institutions in relation to the focus on climate risk, sustainability and green financing solutions. Through our green lending, we will be a driver for more investment in ambitious green projects. Through our digital climate risk solution, we will help develop expertise in and understanding of this area, which will be of increasing financial significance to our customers in the years ahead.

We will:

- Continually develop our green loan products to ensure they are the best on the market.
- Continue to develop one of the market's best programs for issuing green bonds.
- Monitor and influence ESG at institutions where we have invested our liquidity reserves.
- Follow the development of the EU's Green Taxonomy and other initiatives related to green finance and sustainability, and continually assess our position and the opportunities open to us.
- Further develop our climate risk solution for customers and increase our own understanding of how climate risk affects KBN as a financial institution and as the most important lender to Norwegian municipalities and county authorities.

A DIGITAL FIRST CHOICE

We will strive to ensure that our customer-oriented digital solutions are regarded as simple and effective for the borrowing process and contribute to our customers' insight into their debt management. Our internal system solutions and future-oriented tech choices will free up time for more value-adding work.

We will:

- Further develop customer needs-based digital solutions that simplify the borrowing process and the qualification procedure for green loans.
- Create customer satisfaction and added value by providing digital products and insight solutions in order to preserve our strong customer relationships.
- Systematically use external and internal data to further strengthen our customer insight.
- Take future-oriented tech choices and exploit new digital solutions to simplify KBN's operations and enable a faster pace of change. Give our employees a high-quality user experience in relation to our tech choices and the system solutions they use.

A FUTURE-ORIENTED ORGANISATION

KBN will be a recognised knowledge business in financing and for the development of future-oriented financing solutions for Norwegian municipalities.

It is important for KBN to succeed in further developing the entire organisation's customer insight and digital expertise, as well as for it to build pride in the role it plays in society. KBN shall be known for having strong specialist teams in its core areas of expertise and a culture characterised by learning and the desire to be at the forefront of developments. Good solutions to complex problems are ensured by taking a wide-ranging and inter-disciplinary approach that is based on collaboration and teamwork. We have a shared responsibility for KBN achieving its objectives. Expertise will be strengthened through internal mobility, and flexibility across departments and areas of specialist responsibility will be emphasised. Modern ways of working and tools will deliver quality improvements, time savings and strong delivery capabilities. Changes to KBN's employees' ways of working introduced due to coronavirus will facilitate flexibility and productivity, while interdisciplinary collaboration will be maintained and further developed.

We will:

- Work together to build our customer insight and collaborate in an interdisciplinary way to develop and make use of our combined expertise.
- Refresh our expertise and ways of working to stay ahead.
- Use digital solutions and expert digital skills to increase the quality of the information and insight produced for decision-making processes while at the same time reducing the time this requires.
- Use service providers in areas of expertise where KBN needs a temporary increase in capacity or specialist expertise, or where it has a need for expertise in areas that are far outside its core activities.

SUSTAINABLE VALUE CREATION

Our value creation will balance financial, social and environmental sustainability.

Climate considerations, sustainability and the green transition will characterise society's development going forward. As an efficient allocator of capital, the finance industry can play a key role in the transition to a low-carbon society. KBN intends to contribute to the implementation of the green transition and the ongoing development of a sustainable society in Norway. As the most important source of financing for the local government sector, KBN is in a unique position in terms of influencing how local communities across Norway develop. We are conscious of this responsibility.

We will:

- By means of our expertise and the tools we offer, contribute to our customers' long-term financial sustainability and provide them with the best possible basis for decisions about investment spending and financing solutions.
- Set high expectations in relation to ethical conduct and sustainability for ourselves and for our suppliers and collaboration partners. Have high expectations in relation to our customers' ethical conduct.

- Have active stakeholder dialogue in relation to politicians, authorities and organisations regarding our activities.
- Be an important discussion partner for our owner in relation to relevant topics related to debt financing for the local government sector.