

KBN STRATEGY: BUILDING A SUSTAINABLE SOCIETY

2023-2025

Our value creation will balance financial, social and environmental factors so that our return over time is generated within sustainable limits.

Vision: Long-term partner for local welfare services

Values: Open, responsible, ahead



A SOCIETY IN CHANGE

Our strategy is driven by six major trends in particular:

- *Greater geopolitical turmoil and volatile market conditions:* The pandemic, followed by the outbreak of war in Europe and tension between Asia and the West, are challenging the current world order and have made the geopolitical situation more uncertain and less predictable, resulting in greater volatility and uncertainty in the capital markets.
- *Greater expectations and requirements in respect of sustainability, responsible business practices and reporting:* The greater emphasis being placed on environmental, social and financial matters by KBN's owner as well as by investors, regulatory authorities and society in general is setting the parameters for both our activities and our expectations of our customers and suppliers.
- *Less room for manoeuvre financially:* Norway's ageing population will in the years ahead result in higher costs in connection with pensions, health and social care. The scope for major public sector investment and for the local government sector to continue to see good growth in its income will decrease significantly. At the same time, KBN's customers are facing the need to invest significantly in projects associated with demographic change, climate change and a large maintenance backlog.
- *KBN's owner's changing expectations:* As KBN's owner, the Norwegian state expects KBN as a state-owned company to operate commercially with the target of achieving the highest possible return within sustainable limits. The rationale for the state's ownership of KBN is that it will facilitate the transition to a sustainable economy and greater value creation by the local government sector by correcting a failure of the capital markets. On this basis, the specific purpose of its ownership is to provide stable, long-term and efficient financing to the local government sector.
- *Greater regulation:* 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. The finance industry has a central role to play in the green transition, and further regulation, including in relation to non-financial reporting, will be introduced in the time ahead.
- *Rapid technological development:* High-quality digital solutions are expected and demanded by both KBN's customers and employees. Digital solutions create new opportunities in terms of the development of new products and services, and new means of collaboration for KBN and other providers in its customers' ecosystems.

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 and county authorities 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 providing stable, long-term and efficient financing for the local government sector, and 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.

Climate considerations, sustainability and the green transition will characterise society's development going forward. The finance industry can play a key role in the transition to a low-carbon society as an efficient allocator of capital. As the most important lender to the local government sector, KBN is in a good position to promote sustainable local communities and to contribute to the green transition. We seek to ensure that we create value in a way that balances financial, social and environmental factors so that our return over time is generated within sustainable limits.

In order to ensure that KBN continues to be a relevant and attractive lender to the local government sector, we need to engage in active stakeholder dialogue about our activities with politicians, the authorities and appropriate organisations. We will seek to be an

important discussion partner for our owner in relation to relevant topics related to debt financing for the local government sector. We will set high expectations in relation to ethical conduct and sustainability for ourselves and for our suppliers and collaboration partners, and we will have high expectations in relation to our customers' ethical conduct.

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 contribute the level of profitability needed for KBN's continuing development will be prioritised and provided with digital solutions and follow up that help to ensure that they perceive their relationship with KBN as providing 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, quick 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.

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.
- Hold liquidity reserves that are invested in highly creditworthy liquid securities in order to be ready to address situations such as another crisis in the financial markets or unforeseen needs to make disbursements.
- 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 be among the leading financial institutions on climate risk, green financing solutions, sustainability reporting and insight that contributes to sustainable development.

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 and undertake a pilot project in relation to the financing of projects adapted to the EU Taxonomy.
- Develop a framework for issuing bonds under the EU Green Bond Standard.
- Spread knowledge about climate risk and help our customers to succeed in meeting their climate objectives.
- Provide tools and knowledge that strengthen our customers' basis for making decisions in terms of investing in financially sustainable projects.
- Undertake a project to map our material direct and indirect emissions with the objective of setting a science-based target for KBN that is in line with the Paris Agreement.

A DIGITAL FIRST CHOICE

Our customers and employees will prefer using KBN's digital solutions because they provide insight, are efficient and provide a good basis for decisions.

We will strive to ensure our digital solutions for the lending process are regarded as simple and effective by our customers. We will collaborate with other organisations to create new services that provide a good level of insight and efficient debt management for our customers. We will strive to ensure that the digital solutions used internally at KBN provide employees with a high quality user experience, contribute to the efficient production of data-driven foundations for decisions and offer continuous insight into KBN's key figures and the different possible outcomes going forward.

We will:

- Transition to fully digital lending processes for the entire process from applying for a loan through to the money arriving in the account.
- Simplify and digitise the qualification process for green loans.
- Provide digital products and insight solutions to maintain our strong customer relationships.
- Systematically employ external and internal data when creating the basis for decisions and analysis and to generate new 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

Our culture will be characterised by the fact that we refresh our expertise through learning and knowledge sharing in order to create value for our customers.

As a knowledge business, the expertise of our employees is our most important resource. KBN will seek to be recognised as having strong specialist teams and a culture characterised by learning and the desire to be at the forefront of developments. Good solutions to complex problems will be ensured by taking a wide-ranging and interdisciplinary approach that is based on collaboration and teamwork.

We will:

- Facilitate continual learning and knowledge sharing.
- Refresh our ways of working by automating, digitising and streamlining.
- Strengthen our capacity and expertise in analysis
- Be an attractive employer by facilitating engagement and development.