2019 Annual Report

Key figures

(Amounts in NOK 1 000 000)	2019	2018
RESULTS		
Net interest income	1 875	1 885
Core earnings[1]	1 071	1 194
Profit before tax	1 771	1 996
Profit for the year	1 283	1 496
Return on equity after tax[2]	9.5%	11.9%
Return on equity after tax (core earnings)[2]	8.3%	9.8%
Return on assets after tax[2]	0.3%	0.4%
Return on assets after tax (core earnings)[2]	0.2%	0.3%
LENDING		
New disbursements	53 825	55 749
Outstanding loans[3]	309 758	302 229
LIQUIDITY PORTFOLIO[3]	107 350	113 557
BORROWINGS		
New long-term borrowings	72 508	104 844
Repurchase of own debt	276	206
Redemptions	95 704	79 937
Total borrowings[3]	400 489	414 603
TOTAL ASSETS	460 778	457 701
EQUITY		
Equity	16 401	15 421
Total capital adequacy ratio	22.6%	22.9%
Tier 1 capital adequacy ratio	20.1%	20.3%
Common equity Tier 1 capital adequacy ratio	17.4%	17.4%
Leverage ratio	3.7%	3.6%

	2019	2018
LIQUIDITY COVERAGE RATIO (LCR)[4]		
Total	348%	349%
NOK	73%	56%
EUR	800%	625%
USD	422%	248%
AUD	Infinite	489%
JPY	533%	Infinite
GBP	Infinite	Insignificant
OTHER KEY FIGURES		
Green loans (NOK)[5, 6]	23 049	18 869
Green bonds (NOK)[7]	16 615	12 800
CO_2 reduced or avoided (tons of CO_2 equivalents)[8]	50 938	64 769
Percentage of women employed in KBN	42%	44%
Percentage of employees with nationality other than Norwegian	9%	11%
Customer satisfaction (score of 6)	5.32	5.17

[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] *Annualised return on equity and return on assets as percentage of average equity and average assets. Average equity is calculated based on monthly equity, not added to profit of the year, but deducted from dividend from the date this is allocated.*

[3] *Principal amounts*

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

[5] *Outstanding green loans according to KBN's set of criteria for green loans as at 31 December 2019. In addition, the bank has a small portfolio of green loans that were given before these criteria were established. These loans are no longer financed with green bonds.*

[6] *Following the introduction of a new tracking system for green loans in 2019, loans with an outstanding value of NOK 646 million were identified from the period 2015-2018, which have been omitted from the reporting for previous years. These loans are included in KBN's total outstanding green portfolio, but are not included in lending growth for 2019.*

[7] *Outstanding green bonds.*

[8] *Based on an European emission factor of 380g CO_2 per kWh of electricity avoided or produced in an emission-free manner; the reduction relates to projects that are financed with green obligations. For CO_2 results with other emission factors, please see the KBN Green Bond Impact Report.*

Management KBN

From left: Håvard Thorstad, Nancy Sørlie Paulsen, Sigbjørn Birkeland, Knut-André Ask Kristiansen, Ilse Bache, Kristine Falkgård, Jannicke Trumpy Granquist, Morten Hatlem, Thomas Yul Hanssen, Tor Ole Steinsland, Lars Strøm Prestvik. Photo: Jo Straube

Management as of 31 Dec 2019

Kristine Falkgård
President & CEO, employed since 2013
Former director of market operations and analysis at Norges Bank. Experience from other Norwegian financial institutions and the European Commission in Brussels. She previously worked in KBN. Postgraduate Diploma in Economics (London School of Economics), MBA (BI Norwegian Business School) and Bachelor in Business and Management (University of Salford).

Nancy S. Paulsen
Personal assistant to the President & CEO, employed since 2013
Previously held a similar position in Atea and Ferd. Paulsen has a good knowledge of corporate communication in addition to working with governing bodies. Paulsen has intermediate and business studies from BI.

Håvard Thorstad,
Chief Risk and Compliance Officer, employed since 2015
Former Deputy Head Risk Management at SIX Securities Services and Head of Risk Management at Oslo Clearing ASA, Norsk Hydro and Eksportfinans ASA and experience from Ministry of Finance and Norges Bank. He holds a Masters degree in Economics from Université de Fribourg, Switzerland.

Thomas Yul Hanssen
Chief Legal Officer, employed since 2015
Previously worked as a legal officer in the Financial Markets Department at the Norwegian Ministry of Finance. Hanssen has previously also held positions at the Norwegian Ministry of Trade and Industry and the Norwegian Tax Administration. He has a law degree from the University of Oslo, an economics degree from the London School of Economics and an MBA in finance from the Norwegian School of Economics and Business Administration.

Ilse Bache
Chief of Technology & Operations, employed since 2014
Came to KBN from position as director of Norges Bank's secretariat and has previously worked as IT Director of NBIM (the Norwegian oil fund) and administration director of in the department for monetary policy in Norges Bank. Bache holds an MBA from the Norwegian Business School (BI).

Jannicke Trumpy Granquist
Chief Financial Officer, employed since 2014
Former head of valuation and accounting at NBIM (the Norwegian oil fund), Previously worked in banking and finance in EY and Simcorp. Has an MSc in accounting and finance from the London School of Economics and Political Science.

Lars Strøm Prestvik
Chief Lending Officer, employed since 2014
Previously Senior Relationship Manager in Nordea, responsible for public sector customers. Prestvik has held the position as head of treasury in several Corporates. He holds a Master's degree from Norwegian School of Management and has leadership development from Harvard Business School.

Knut-André Ask Kristiansen
Chief Risk Officer (acting.), employed since 2017.
Previously he worked with financial risk management at DNB, Storebrand Asset Management and Norges Bank Investment Management. Has a degree within business administration (Siviløkonom) and an MSc in Financial Economics from Norwegian Business School (BI).

Morten Hatlem
Chief People and Strategy Officer, employed since 2017
He previously held the position as Chief of Staff and HR at The National Security Authority (NMS). He has experience as Chief of HR and Organizational Development in media companies such as Egmont and Schibsted, along with positions as Sales and Marketing Director. Holds a Master's degree from Norwegian School of Management.

Sigbjørn Birkeland
Chief Capital Markets Officer, employed since 2017
Birkeland heads both Treasury and Funding & IR. Previously, he held the position as Finance Director with the insurer Storebrand. He has also worked as a researcher at the Norwegian School of Economics and Business Administration. Birkeland also received his Ph.D. in Economics.

Tor Ole Steinsland
Chief Communications Officer, employed since 2012
Previously worked as partner and advisor in PR agency Kreab Gavin Anderson. Steinsland has been employed as a financial journalist in various print and broadcast media. Steinsland has a finance degree in from Norwegian School of Economics and Business Administration.

CEO's foreword

Prepared for bad weather

Photo: Jo Straube

KRISTINE FALKGÅRD
CEO, KBN

A decade that saw crises, geopolitical turmoil, historically low interest rates, but also the longest ever period of economic growth has just come to a close. The next decade will hardly be as easy.

For Norway, the drop in the price of oil in 2014 was the biggest financial setback of the 2010s. However, as following the Norwegian banking crisis in the 1990s and the global financial crisis in the first decade of this century, Norway's economy quickly recovered from the downturn. Norway's financial muscle and ability to implement countercyclical policies are two of the main reasons for this. Since the Minister of Finance at the time, Sigbjørn Johnsen, made the first deposit into the Oil Fund in 1996, the fund has grown to be worth over NOK 10,000 billion, which is more than three times the value created each year by Norway's mainland economy. Virtually all of the fund's appreciation in value dates to the last decade.

The local government sector can also look back on the 2010s as a strong decade from a financial perspective. The number of municipalities with unbalanced budgets (ROBEK) fell from 48 in 2009 to 10 in 2019. The sector's strong financial results have allowed municipalities' free reserves to grow significantly. Should new crises strike, the authorities will be able to implement countercyclical policies via the local government sector. During the 2008 financial crisis, the state increased its transfers to municipalities and provided KBN with additional equity capital to enable it to expand its lending to municipalities and contribute to increased investment activity.

As a small, open economy, Norway is affected by the world around it. The beginning of the new decade was characterised by political uncertainty, with the Brexit negotiations and the trade war between the USA and China dominating the news agenda. The industrials sector on both sides of the Atlantic experienced a downturn, and global trade fell for the first time in a decade. Despite the uncertainty, stock markets continued to rise, and interest rates were kept low. The Norwegian krone depreciated significantly against both the euro and the dollar, which contributed to KBN's total funding requirement being lower in 2019 than in 2018.

In terms of financial results, 2019 was a good year for KBN, as well as a year in which it enjoyed favourable borrowing costs and high demand for its products. Demand for KBN's green loans for projects with a clear climate ambition continued to grow in 2019, despite 2018 seeing the highest rate of growth ever in KBN's green lending. In 2019 green loans represented about half KBN's total lending growth. KBN has worked actively to ensure its customers are aware of its green loans, and we are proud to be able to contribute to the local government sector's efforts to create a low-carbon society. Going forward, electrifying the transport sector and modernising and adapting the water and wastewater system for climate change stand out as areas well-suited to green financing.

Climate risk is another area on which we did much work in 2019, both internally within our own organisation and in relation to our customers. We developed a new climate risk tool for municipalities together with the CICERO Centre for Climate Research, which has received good feedback. In 2020 we will develop this tool further, and we will also continue to work on incorporating climate risk into our own risk- and credit management system. Climate-related risks are now top of the World Economic Forum's lists of the biggest global threats both by likelihood and severity of impact. KBN will seek to help its customers take climate risk seriously, both to ensure that they are well-equipped to respond to the changing climate, and also as part of KBN's own comprehensive risk management, in order to ensure that the local government sector's finances are strong over the long term. This report also marks the first time that we have reported on climate risk in accordance with the TCFD's framework.

"KBN's robust financial results and efficient operations, as well as the strong growth in its lending for climate-friendly projects and high level of customer satisfaction, indicate that KBN is fulfilling its role in society successfully."

Kristine Falkgård

The **challenge of climate change** is one of the areas that will impact Norway's economy and local government sector in this decade. Norway will have to cut its greenhouse gas emissions by at least 50% by 2030, and by as much as 95% by 2050, if it is to contribute to the global community's goal of limiting the global temperature increase to 1.5oC. However, we are currently heading for an increase of over 3oC by 2100. Achieving the targets will require a formidable restructuring of society and major investment. The local government sector has an important role to play in this regard.

The **challenge of Norway's ageing** population, which is to say the challenge associated with the growing number of elderly people per working age adult, will be of great significance to public sector budgets. When a relatively small number of people are paying for welfare services for a relatively large number, it is even more important to get more people into work and to increase productivity. Municipalities play an important role in regional business development. The demographic challenges are going to be experienced very differently from one municipality to another, but they will necessitate new investment across the country. Delivering more welfare services for every krone spent through the use of new technology and new solutions will be a shared challenge.

The **challenge posed by oil** will affect not only Norway's national economy, due to the decrease in revenue from oil and gas and the relatively smaller contributions that will be made to the national budget from the oil fund, but also the supply industry that operates in many municipalities, which will see a fall in investment on the continental shelf.

These three challenges are some of those that we know we are going to face, and they are challenges that we can prepare for and try to mitigate the impact of. With KBN's new strategy – Building a sustainable society – we have set ourselves clear ambitions in relation to how we will help our customers to have the best possible basis for decisions when investing for the future. The strategy is supported by the targets and activities set out in the sustainability section of this report.

Regardless of the challenges the next decade brings, Norway will be one of the best equipped countries in the world to deal with them. We have a highly educated and skilled workforce, relatively low levels of financial and social inequality, adaptable businesses and industries, strong institutions, a stable political system and money in the bank. Come what may, KBN will remain the most important financing partner to the local government sector for the demanding decade ahead.

About KBN Norway

Kommunalbanken AS (KBN) is the Norwegian state agency for local government funding. KBN is 100 per cent 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 explicit public policy mandate. As an instrument of the state, KBN recognizes its critical role in enabling the local and regional governments to improve living standards across the country. 100 percent of Norwegian municipalities are KBN customers.

Through its Green Bond program, KBN aim to finance the Norwegian local sector's transition to a climate-resilient, low-carbon society. Proceeds from Green Bonds are disbursed as discounted Green Loans to climate- and environmentally conscious investments in the local sector. This reflects KBN's traditional, long-term focus on environmental, ethical and social impact.

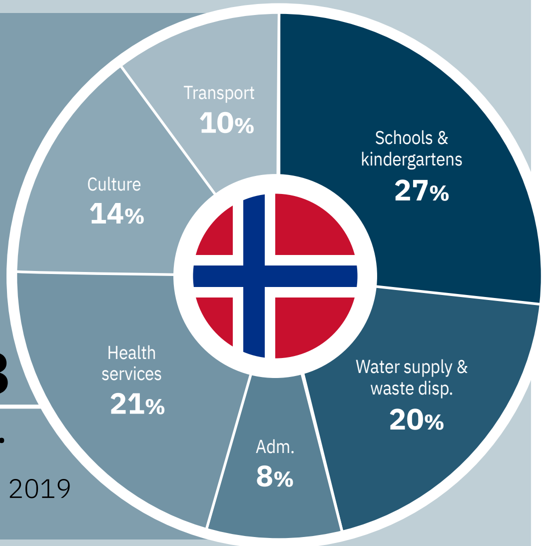
KBN is guided by prudent financial and risk management policies. All financial transactions are fully hedged and KBN maintains liquidity in excess of policy requirements. KBN's focused, specialized monoline lending model has never suffered a loan loss.

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.

309.8
USD bill.
TOTAL LENDING

72.5 **USD bill.** FUNDING 2019

53.8 **USD bill.** LENDING 2019



AAA
Standard & Poor's
Moody's

23 **USD bill.**
lending to climate-friendly municipal projects

100%
of Norwegian municipalities are KBN customers

46.8%
of municipal debt is financed through KBN

*Investment expenditures local/regional sector per service area, average last 10 years.


Photo: John Trygve Tollefsen

In depth – municipal sector finances

Growth in municipalities' borrowing – looking behind the figures

The local government sector's outstanding borrowing has grown significantly over recent years, but growth in borrowing alone does not tell the whole story.

BY LARS LUDVIGSEN
SENIOR RELATIONSHIP MANAGER

The municipality sector's principal duty is to deliver good quality services to its citizens. Its specific duties are either defined by legislation or by political priorities decided centrally and locally. The new Local Government Act, which came into force January 1, 2020, explicitly confirms the legal right of self-determination for municipalities. The elected members of municipality councils have wide authority to prioritise and make decisions.

The responsibilities for important areas of welfare provision such as nurseries, schools, health and care facilities, water supply, wastewater treatment and waste management are delegated to the country's 356 municipalities. Sizeable financial resources are transferred to municipalities. The Norwegian National Budget for 2019 estimates the total income of the municipality sector to be in the order of NOK 530 billion. Recent years have seen sound economic performance in the sector, and the number of municipalities on the Register for Governmental Approval of Financial Obligations (ROBEK) is currently at an historic low.

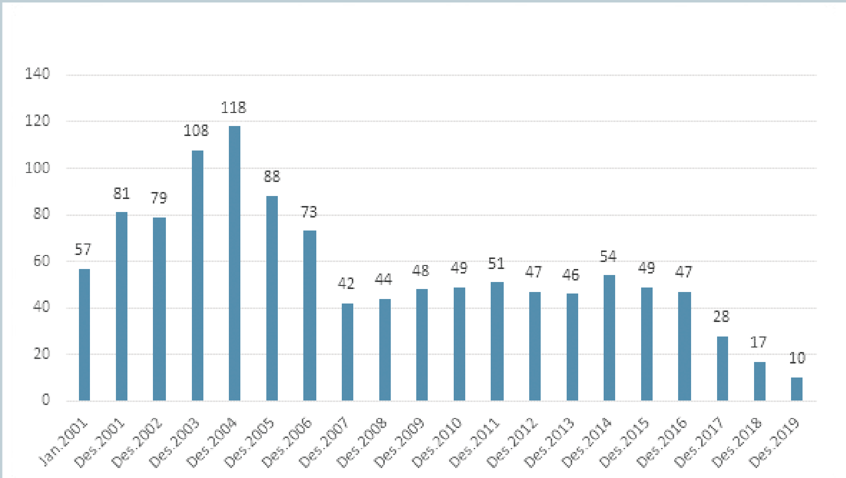


CHART 1
Number of municipalities on the ROBEK register.
Source: regjeringen.no

Sizeable growth in borrowing
In order to deliver welfare services, municipalities are dependent on the availability of appropriate and functional buildings and a robust and reliable infrastructure. Investment in these assets is largely financed by borrowing, and the sector's total borrowing has grown significantly over recent years in pace with both population growth and the increasing number of duties delegated to the sector. Statistics Norway reports that total indebtedness of the municipality sector at the close of 2017 was equivalent to 113% of the sector's total income, representing a marked increase from 67% in 2000.

Financial statements for municipalities are not available until June each year, but on the basis of Statistics Norway's credit indicator for the municipality sector, it is estimated that growth in outstanding borrowing in 2019 was in line with the two previous years. The credit indicator shows annual growth of 7,0% to NOK 550 billion. The rate of growth fell between 2015 and 2016, and has been relatively stable over the last three years. In 2019 there was a rise in the growth rate.

Sensitivity to higher interest rates
A significant proportion of the local government sector's growth in total borrowing was arranged at a time of historically low interest rates. However, the financial markets currently anticipate a moderate upward trend in interest rates over the next few years. The extent to which municipalities are sensitive to higher interest rates depends on a number of factors, of which two factors

CHART 2
Growth in domestic borrowing, local government sector.
Source: Statistics Norway

are most significant:

The first factor is that a large proportion of municipalities' borrowing is not directly exposed to changes in market interest rates. The proportion that is exposed is termed net interest-bearing debt and can be calculated by deducting the following elements from total outstanding borrowing:

- Lending
- Proceeds of borrowing that have not yet been used
- Borrowing related to full cost recovery areas such as water, wastewater and refuse collection
- Borrowing that is subject to interest rate compensation (loans for schools, churches, residential care and nursing homes)
- Liquidity not financed by borrowing

Carrying out this calculation often results in a figure which is less than half of total indebtedness, and therefore represents a significant reduction in interest risk. It is important to note that there are major differences between municipalities in terms of both total indebtedness and net interest-bearing debt. A study carried out by KBN concluded that the sector as a whole could withstand an increase in interest rates of 2 to 3 percentage points relatively well, but the municipalities with the highest level of debt would find it difficult to maintain their delivery of welfare services.

The second important factor is the proportion of borrowing with a fixed interest rate or interest rate hedging. Most municipalities have fixed interest rates on some of their borrowings in the form of either fixed rate loans or interest rate swaps. A typical finance guideline is that municipalities should have 25-30% of their borrowings on a fixed rate basis at any time. No figures for fixed interest borrowing and interest rate swaps are available for the municipality sector as a whole, but information from earlier surveys and analysis of KBN's loan portfolio provides the basis to estimate that at least 30% of the sector's total borrowings are on a fixed rate basis. This degree of interest rate hedging, taking into account the level of net interest-bearing debt, indicates that many municipalities are relatively well equipped to deal with an increase in interest rates while continuing to carry out their responsibilities. The sound financial performance seen for the local government sector over recent years has also generated significant growth in available reserves, which grew by NOK 23.5 billion between 2015 and 2018 and now stand at NOK 50.1 billion (these figures apply only to municipalities).

Well-equipped for the future

Norwegian municipalities make an important contribution to the Norwegian welfare model, and carry out a range of significant duties on behalf of society as a whole. Population growth and the addition of new services to the duties of municipalities have resulted in growth in borrowing, but at the overall level it does seem that the sector has the capacity to adjust to changes in its operating framework such as higher interest rates. The sector is characterised to a very large degree by prudence and a commitment to providing citizens with good services well into the future. KBN is committed to playing its role in helping municipalities to achieve these objectives.

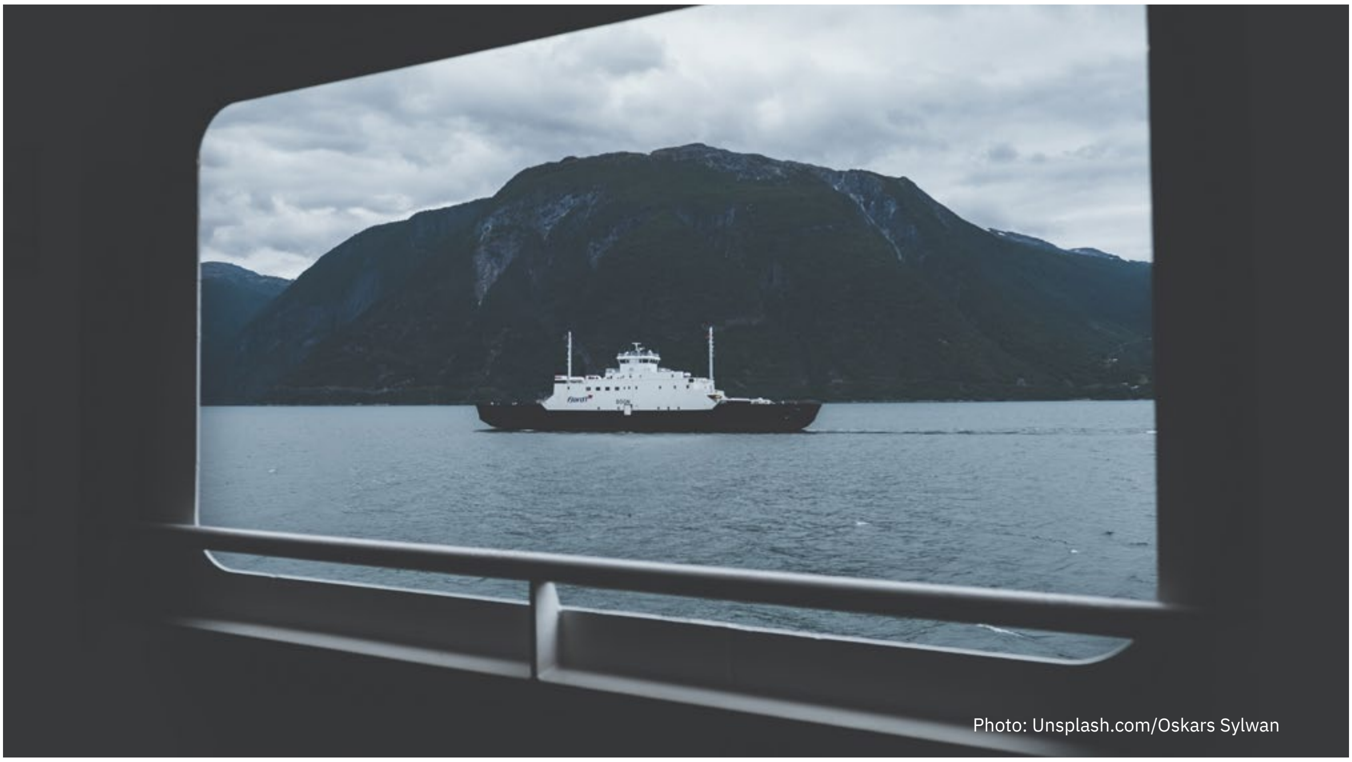


Photo: Unsplash.com/Oskars Sylwan

KBNs STRATEGY

Building a sustainable society

We provide financing on attractive terms, and we seek to promote sustainable local communities and to contribute to the green shift.

The customer first

We will be the most important financing partner for Norwegian municipalities and we will put customers first in everything we do.

Leader in green finance

We will help ensure our customers succeed in meeting their climate targets.

Building a sustainable society

Sustainability will permeate the way in which we carry out our activities.

Strong market participant

Through a strong position in the capital markets we will ensure Norwegian municipalities have access to attractive financing.

A future-oriented organisation

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

Customer driven digitalisation

Our digital solutions will give customers the best customer experience and help simplify and improve the quality of KBN'soperations.

JANUARY – DECEMBER 2019

Looking back on 2019

2019 was an eventful year for KBN. In a year in which the financial markets were characterised by political turmoil and trade wars, KBN enjoyed stable and good access to financing. Good market access is absolutely central to KBN's ability to provide the local government sector with stable and low-cost financing.

Our lending in 2019 was again characterised by Norwegian municipalities having significant ambitions in respect of the climate. Half of KBN's lending growth in 2019 was from green loans. KBN seeks to contribute to the sharing of expertise, and it organised a range of courses and seminars for customers and other stakeholders throughout the year.

FEBRUARY

KBN reports higher lending growth

KBN's lending grew by 7.3% in 2018 as compared to growth of 5.7% in 2017. Its lending for climate and environment projects grew by NOK 7.3 billion and represented a sizeable 36% of its total lending growth.

MARCH

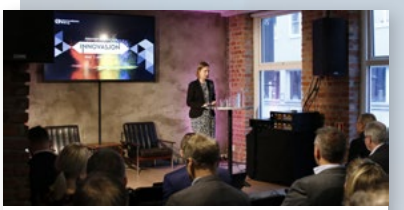
E-signatures now available to customers

Customers can now sign documents, letters of commitment, promissory notes (etc.) from KBN using BankID or the BankID mobile app. This saves time and is cost-effective.

MAY

New climate risk tool for municipalities launched

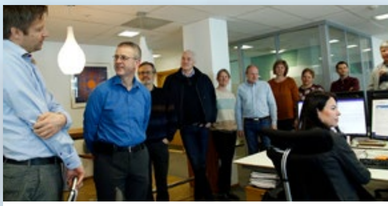
KBN worked with CICERO and the Norwegian Climate Foundation to move climate as a financial risk higher up the local government decision agenda. The web-based tool helps municipalities to identify and manage their own climate risk.



JANUARY

"Innovation: new solutions, better services"

KBN's annual conference was held on 23 January at Mesh in Oslo. The conference's theme in 2019 was innovation, and the event attracted around 150 politicians and managers from the local government sector.



APRIL

The KBN Skole program is run for the first time in 2019

The program is designed to help KBN's customers increase their expertise in debt management and financial risk.

MAY

Komøk 2019

KBN was one of the joint organisers of the 2019 Municipality Finance Conference (Komøk). The conference is the largest of its type, and brought together 400 finance managers from the local government sector for a two-day event.

	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE
Green loans	286 908 000	518 908 000	524 908 000	894 958 000	1 244 488 000	1 427 145 500
Totalt	2 084 837 900	4 041 054 224	6 861 937 224	9 001 332 744	8 743 774 077	10 877 342 627

Total value of loans agreed in 2019
(Excluding short-term certificate loans)
NOK **32 473 652 993**

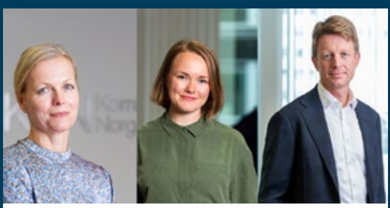
New green loans agreed in 2019
NOK **6 234 602 009**

SEPTEMBER
Green bond
With SEK 2 billion raised through its first SEK-denominated bond, KBN strengthens its position as Norway's most active issuer of green bonds.

SEPTEMBER
First green loan for an electric ferry
Porsgrunn municipality's electric ferry is the first zero-emissions vessel to be financed by a green loan from KBN.

AUGUST
Arendalsuka
KBN attends the Arendalsuka event for the fifth time. Over the course of four days, we arranged and participated in a total of seven debates on climate risk, green finance and the UN's Sustainable Development Goals.

NOVEMBER
World's safest banks in 2019
KBN is ranked the sixth safest bank in a global ranking of the safest financial institutions.



New external green appointments for KBN
We are actively involved in putting sustainability on the agenda thanks to the range of national and international external appointments held by our employees, which include a member of the Norwegian Climate Foundation's Council and a member of the Executive Committee of the Green Bond Principles.

OCTOBER
Finance seminars across Norway
KBN organised a total of 11 seminars across Norway between the start of the year and November. These seminars are targeted at local government sector finance employees and attracted around 170 attendees.

DECEMBER
New website and graphic profile
KBN launched a new graphic profile, a new website and a new 'name' - www.kbn.com.

JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER
1 807 079 500	2 155 679 500	2 421 779 500	2 639 579 500	4 160 127 517	6 234 602 009
12 221 526 150	14 316 215 514	18 869 232 394	21 689 027 826	25 054 135 191	32 473 652 993

The Board of Directors' Annual Report

KBN's Activities in 2019

Kommunalbanken AS (hereinafter KBN) is the most important provider of investment financing to the local government sector in Norway. KBN's role is to provide attractive and long-term debt financing regardless of market conditions. In 2019 KBN granted 628 new loans totalling NOK 53.8 billion. These loans financed investment in projects such as schools, health and care facilities, water and wastewater systems, and adaptations to climate change. KBN's robust financial results and efficient operations, as well as the strong growth in its lending for climate-friendly projects and high level of customer satisfaction, indicate that KBN is fulfilling its role in society successfully.

KBN's lending grew by 2.5% in 2019 as compared to growth of 7.3% in 2018. Much of the growth for 2019 was seen in the final two months of the year. KBN's green lending for climate-friendly projects grew by NOK 3.7 billion.

Profit for the year was NOK 1,283 million in 2019 as compared to NOK 1,496 million in 2018.

Net interest income for 2019 was in line with 2018. KBN's revenue is primarily generated from its lending activities. KBN's 2019 earnings were in line with expectations. However, KBN's profit for the year for 2019 was somewhat lower than in 2018 due to lower unrealised gains from changes in the value of financial instruments in 2019. KBN's return on equity after tax for 2019 was 9.5%, and in 2019 its equity increased by NOK 979 million.

Strategy and objectives

In November 2019 the Government of Norway published a new white paper on its ownership policy, *"The State's Direct Ownership of Companies – Sustainable Value Creation"* (Report to Storting (White Paper) No. 8 – 2019-2020). This new white paper places particular emphasis on sustainable value creation, and it also clarifies the Government's expectation that companies in which the state holds an ownership interest will be transparent and accountable.

In the white paper it is stated that *"the purpose of the state's ownership of Kommunalbanken is to facilitate the financing of the local government sector"* and also that "the state's aim as owner is to achieve the highest possible return over time". KBN's owner's return target and dividend expectations guide KBN's financial plans. KBN's current business model is based on holding the highest possible credit rating, AAA.

In 2019 the Board of Directors of KBN adopted a strategy for the 2020-2022 period entitled *"Building a sustainable society"*. To achieve the objectives set out in the strategy, the Board of Directors has prioritised the following areas for the strategy period:

- **Customer first:** KBN shall be the most important financing partner for Norwegian municipalities and county authorities and we will put customers first in everything we do. KBN shall provide simple, future-oriented and flexible financing solutions that are adapted to each customer's needs. With the help of our insight, financial expertise and digital tools, we shall help our customers to assess their financial risk and to choose the financing solutions that best suit their needs.
- **Building a sustainable society:** Sustainability shall permeate the way in which we carry out our activities. As an efficient allocator of capital, the finance industry can play a key role in the transition to a low-carbon society. KBN will contribute to the green shift and the financially sustainable development of society.
- **Strong market participant:** Through a strong position in the capital markets, nationally and internationally, KBN shall ensure Norwegian municipalities have access to efficient 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 shall ensure that KBN enjoys its desired market position. KBN will seek to secure the lowest possible transaction and hedging costs and low operational risk for its financing activities.
- **A leader in green finance:** KBN shall be among the leading financial institutions in the area of climate risk, sustainability and green finance solutions. Through our green lending, we shall be a driver for more investment in ambitious green projects. We shall seek to ensure climate risk is high on the agenda, and shall work to ensure that climate concerns are treated as a risk area for KBN's own activities as well as ensuring our customers focus on their own climate risk.
- **Future-oriented organisation:** KBN shall be recognised as a knowledge business in financing and in the development of future-oriented financing solutions for Norwegian municipalities. KBN's expertise shall be strengthened through internal mobility, and flexibility across departments and areas of specialist responsibility shall be emphasised. Modern working methods and tools will help ensure KBN is efficient and effective.
- **Customer-driven digitalisation:** Our digital solutions shall ensure that customers enjoy the best possible customer experience, and they shall help simplify and improve the quality of our own activities. As the biggest provider of financing to the local government sector, we will further digitise how we interact with customers and will help them to develop greater insight.

Statement on the annual accounts

The Board of Directors confirms, in accordance with Section 3-3a of the Norwegian Accounting Act, that KBN's ability to continue as a going concern remains unchanged, and that the financial statements (for 2019) have been prepared on a going concern basis. The Board of Directors considers that the financial statements and accompanying notes for the year ending 31 December 2019 provide an adequate description of KBN's financial position at year-end. The annual accounts have been prepared in accordance with International Financial Reporting Standards (IFRS).

The profit for the year was NOK 1,283 million in 2019 as compared to NOK 1,496 million in 2018.

TABLE 1
Profit for the year

	2019	2018
Profit for the year	**1 283**	**1 496**
Net interest income	1 875	1 885
Fees and commission expenses	87	34
Net unrealised gain/(loss) on financial instruments	213	338
Expected credit loss	-1	-1
Net trading income	23	17
Total operating expenses	252	209
Income tax	488	499

Amounts in NOK 1 000 000

Net interest income in 2019 totalled NOK 1,875 million as compared to NOK 1,885 million in 2018. In 2019 KBN's net interest income from its lending activities was affected by an increase in lending volumes and higher interest rates, while a fall in credit spreads pulled in the opposite direction. The contribution from KBN's liquidity management portfolio was affected by falling credit spreads and the portfolio's restructuring, including as a result of regulatory considerations. The portfolio has become more liquid and only made a marginal contribution to KBN's net interest income in 2019, in line with expectations.

Fees and commission expenses increased from NOK 34 million in 2018 to NOK 87 million in 2019 due to KBN having to contribute to a new resolution fund in 2019. KBN's contribution to the fund in 2019 was around NOK 60 million.

TABLE 2
Unrealised changes in value of financial instruments

	2019	2018
Net unrealised gain/(loss) on financial instruments recognised in the income statement	**213**	**338**
Notes, bonds and other interest-bearing securities and related financial derivatives	138	-82
Instalment loans and related financial derivatives	153	66
Senior securities issued and related financial derivatives (for 2018 without changes in fair value that are due to changes in own credit risk)	-78	354
Unrealised changes in fair value of Senior securities issued and related derivatives due to changes in own credit risk recognised in the Statement of comprehensive income in 2018	**319**	**-365**

Amounts in NOK 1 000 000

KBN's net unrealised post-tax gains of NOK 213 million in 2019 relate to loans and bond investments that are measured at fair value. The gains were due to credit spreads narrowing. KBN recognised unrealised post-tax gains of NOK 338 million in 2018, but these were the result of hedging contracts used to convert USD-denominated borrowings into Norwegian krone.

Changes in the value of KBN's borrowings resulted in an unrealised gain of NOK 319 million and were a consequence of the change in credit spreads seen in 2019. In 2018, changes in the value of KBN's own borrowings resulted in the recognition of an unrealised loss.

TABLE 3
Comprehensive income for the year

	2019	2018
Total comprehensive income for the year	**1 515**	**1 223**
Profit for the year	1 283	1 496
Unrealised change in fair value of liabilities (and related financial derivatives) after tax due to changes in own credit risk in 2018	319	-365
Actuarial gain/(loss) on defined benefit plan	-10	1
Tax effect on positions in Statement of comprehensive income	-77	91

Amounts in NOK 1 000 000

Total comprehensive income amounted to NOK 1,515 million in 2019 as compared to NOK 1,223 million in 2018.

KBN's financial instruments are normally held to maturity and the effects of unrealised gains and losses on KBN's profits reverse either when fluctuations in the market reverse or the instruments reach maturity.

Net trading income from market transactions in the form of KBN repurchasing its own bonds and selling securities held in its liquidity portfolio contributed NOK 23 million to profit for the year in 2019 as compared to NOK 17 million in 2018.

TABLE 4
Total operating expenses

	2019	2018
Total operating expenses	**252**	**209**
Salaries	92	80
Pension costs	13	9
Administrative expenses including employer contributions and other personnel benefits	54	53
Other expenses	71	46
Depreciation on fixed assets	22	22

Amounts in NOK 1 000 000

Total operating expenses were NOK 252 million in 2019 as compared to NOK 209 million in 2018. The increase was primarily due to costs associated with developing customer solutions and KBN's IT infrastructure, as well as with hired-in staff for the compliance function. Personnel expenses were also somewhat higher, primarily due to larger accruals in 2019 in connection with KBN's profit-sharing scheme. In 2018 the level of accruals was relatively low.

At 31 December 2019 KBN had total assets of NOK 461.8 billion as compared to NOK 457.7 billion at the end of 2018, meaning that total assets were virtually unchanged. However, KBN's total assets fluctuated significantly over the course of 2019, particularly throughout the second half of the year as a result of the temporary fall in the value of the Norwegian krone. The Norwegian krone strengthened towards the end of 2019, and KBN's total assets in NOK terms therefore fell in December. KBN's holdings of cash and cash-equivalents were somewhat lower than at the end of 2018, while the growth in KBN's lending helped to maintain the level of KBN's total assets.

KBN's total primary capital at 31 December 2019 was NOK 17,957 million. Of this amount, NOK 13,768 million is common equity Tier 1 capital. The common equity Tier 1 capital adequacy ratio at 31 December 2019 was 17.4%, the Tier 1 capital adequacy ratio was 20.1%, and the total capital adequacy ratio was 22.6%. The leverage ratio at 31 December 2019 was 3.7%. As at year end 2019 the common equity Tier 1 capital ratio is influenced by deductions from common equity Tier 1 capital related to deferred tax assets. These tax assets come from temporary differences between accounting net profit and taxable income. KBN has an ongoing discussion with the tax authorities relating to the calculation of temporary differences. Over time temporary differences will net to zero, however, under certain circumstances they may have material impact on payable tax and deferred tax for a given period, and hence affect capital adequacy.

As at 31 December 2019 KBN's common equity Tier 1 capital requirements, including the pillar 2 requirement, was14.8%, a Tier 1 capital adequacy was 16.3%, and the total capital adequacy requirement was 18.3%. KBN is also required to have a leverage ratio of at least 3.0%.

KBN manages its operations to ensure it complies with the regulatory requirements in force at any time. As from 31 December 2019 the risk-weighted capital adequacy requirement for KBN decreased by 0.7 percent point. The decrease is due to Norway's countercyclical capital buffer requirement rising while at the same time the systemically important institutions buffer decreased. The SREP from the Financial Supervisory Authority of Norway, based on KBN's ICAAP for 2019, involved an increase in the bank's pillar 2 requirement from 1.4%to 2.3 % with effect from 31 March 2020. The capital requirements to which KBN is subject are expected to increase in 2020, primarily due to an increase in the systemic risk buffer.

Lending

KBN experienced a high level of demand for loans in 2019. The level of demand in November and December was particularly strong, which indicates that many municipalities wait until the end of the year to obtain debt financing for their investments. There was a high level of competition between providers of new loans as well as a significant volume of extraordinary redemptions and repayments at the end of the year, and this resulted in KBN's lending growing less than would be expected given the level of growth in the market. KBN's market share in its core activities, which is to say loans to municipalities and county authorities, decreased from 48.3% in 2018 to 46.8% at the end of 2019. KBN's strategy is to have a market share over time of approximately 50%. All Norway's municipalities and county authorities as well as Longyearbyen Community Council had loans from KBN at the end of 2019, along with a range of municipal and inter-municipal companies and companies with municipal or county-authority guarantees.

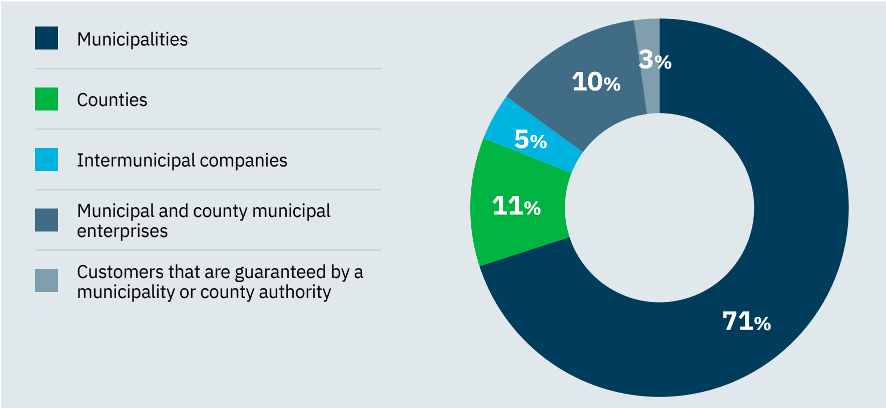
KBN's green lending for investment in climate and environment projects increased by NOK 3.7 billion in 2019. The growth in KBN's green lending was responsible for about half of KBN's total lending growth in 2019. KBN disbursed a total of NOK 6.2 billion in loans to 82 green projects in 2019.

KBN's green loans are offered with an interest rate that is 0.1 percentage points lower than its normal loans, and they are granted to projects that satisfy KBN's criteria set for green loans. KBN's criteria set has been rated as 'Dark Green' by the CICERO Centre for International Climate Research, indicating that the portfolio is compatible with a low-emission society by 2050. KBN produces a separate report on the impact of its green loans each year. KBN has worked actively on ensuring its customers are familiar with its green loans, and the number of projects that qualify for a green loan has grown strongly. KBN expects to see continued growth in its green lending in 2020.

KBN granted 628 new loans totalling NOK 53.8 billion in 2019. Its total lending at the end of 2019 was NOK 309.8 billion, an increase of NOK 7.5 billion or 2.5% from the end of 2018.

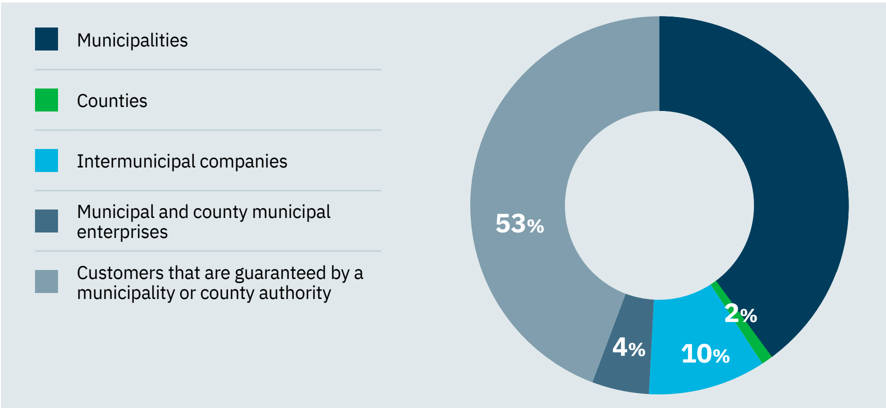
82% of KBN's lending is directly to municipalities and county authorities, as shown by the breakdown provided in chart 1. 13% of KBN's lending, which is equivalent to NOK 39.4 billion, is to inter-municipal companies, municipal companies with guarantees, and to other companies, associations and foundations that have municipal or county-authority guarantees. At the end of 2019, NOK 24.2 billion of this lending was to toll road companies.

CHART 1
Analysis of KBN's outstanding lending in NOK by customer category



A total of 1,055 customers have outstanding loans from KBN. Chart 2 below shows that 46% of KBN's customers are municipalities,county authorities or municipal companies. The rest are either customers with a guarantee or are inter-municipal companies.

CHART 2
Analysis of the number of customers by customer category



The overall rate of growth in the debt owed by the local government sector to Norwegian and international creditors (K3) was 7.7% in 2019. This is 0.5 percentage points higher than in 2018 and reflects a high level of investment activity in the sector, particularly in the health and care sector and in the water and wastewater area. The high level of investment, particularly at many of Norway's largest municipalities, is the most important reason for the rate of debt growth remaining high in 2019.

KBN conducts an annual customer satisfaction survey. The results for 2019 show that, as in previous years, customers are very satisfied with KBN, and the survey also revealed that customers value customer visits and the KBN Finans service.

No customer has defaulted or had problems with making payments, so there are no grounds to expect any loan losses in 2019.

The lending market

In 2019 the local government lending market was dominated by KBN and KLP, and by municipalities making direct use of the capital market. KBN is the biggest provider of long-term, instalment-based loans. The sector's borrowing patterns have been changing for a number of years and in 2019 were divided approximately equally between new long-term, instalment loans and loans with no instalment repayments with maturities of between three months and ten years. The use of loans with maturities of less than one year has stabilised, while loans with maturities of between two years and ten years have grown strongly.

Funding

KBN's AAA/Aaa credit ratings ensure it has stable access to funding with favourable terms, which benefits the sector. KBN pursues a diversified funding strategy that ensures it has a broad investor base and low refinancing risk. New long-term borrowings amounted to NOK 72.5 billion in 2019, which is NOK 32.3 billion lower than in 2018. The decrease in volume was primarily due to less debt maturing in 2019 and the Norwegian krone being weaker throughout the year.

Europe, the USA and Asia were KBN's most important markets for funding in 2019. KBN continued the approach it adopted it 2018 of focusing more on simple, non-structured bonds with fixed or floating rates. Bonds of this type represented over 96% of issues completed by KBN in 2019. KBN issued bonds in 11 currencies in 2019 and diversified its exposure to foreign currencies. The proportion of new bonds that were denominated in US dollars fell from 64% in 2018 to 51% in 2019. In 2019 KBN issued two USD benchmark bonds totalling USD 2.75 billion and its first Euro-denominated benchmark bond since 2017, which raised EUR 1 billion. KBN attracted a high level of interest from investors, and all its benchmark bonds were significantly oversubscribed.

KBN is one of the most active Norwegian issuers of green bonds and is one of the leaders in the development of green finance in the Nordic region. KBN is a member of the governing body of the ICMA's Green Bond Principles, which is the leading international industry standard for green bonds, and in 2019 it also organised and participated at a number of events designed to promote green finance solutions. KBN's green bonds finance its loans for customers' green projects. In August 2019 KBN issued its first green bond in Swedish kronor. The bond was sold in two tranches totalling SEK 3 billion and was quickly fully subscribed in the market.

KBN's total borrowings decreased in 2019 from NOK 414.6 billion to NOK 400.5 billion.

Liquidity management

KBN's policy is to operate with cash and cash equivalents that match its capital requirements, including growth in lending to the local government sector, for the subsequent 12 months at all times. KBN's liquidity portfolio is held in zero-risk-weighted securities issued by states, multinational institutions and regions, as well as in covered bonds that have a risk weighting of 10%. KBN's liquidity portfolio is managed according to an investment strategy that is low risk in terms of both credit risk and market risk. KBN's liquidity portfolio investments are primarily denominated in foreign currencies, meaning that fluctuations in the NOK exchange rate lead to fluctuations in KBN's liquidity reserves when translated into NOK terms. The value of the liquidity portfolio at the end of 2019 was NOK 107.4 billion as compared to NOK 113,6 billion at the end of 2018. The proportion of the liquidity portfolio invested in Norwegian krone assets has been increasing over recent years. Internationally credit margins have been pushed lower, due in part to the European Central Bank's new bond-buying program. At the end of 2019 KBN's overall liquidity coverage ratio (LCR) and its LCR for NOK were 348% and 73% respectively.

Corporate governance

KBN complies with the Norwegian Code of Practice for Corporate Governance in those areas that are relevant to its type of company, its ownership structure and its financial regulatory requirements. KBN is organised as a limited liability company that is 100%-owned by the Norwegian state. In its white paper on ownership policy (Report to Storting No. 8 2019-2020), the state classified KBN as a 'Category 2' entity, which means that the state has special reasons for its ownership that transcend commercial objectives.

KBN helps to ensure that the local government sector has access to an efficient financing market by providing long-term financing that is adapted to the lifetime of the investments made by the sector and by ensuring that Norway's municipalities have access to debt financing in diverse market conditions. KBN offers long-term financing with the same interest rate terms regardless of the size of the loan or of the municipality.

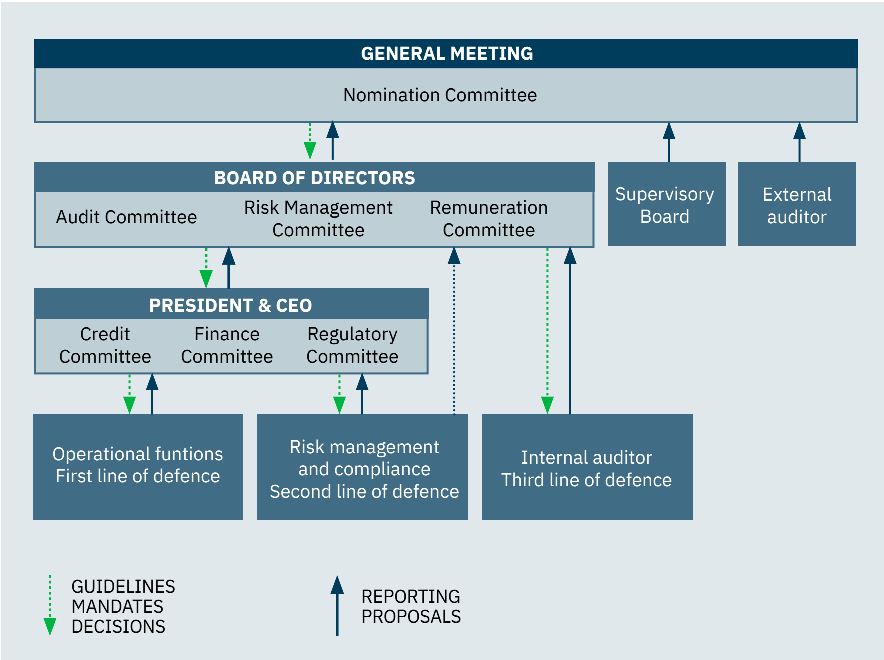
As owner, the state determines the size of dividends paid by KBN and its target return. The target return is set in the National Budget, with the return for the 2019-2021 period having been set at 8%.

KBN's governing bodies are organised in accordance with the provisions of the Norwegian Public Limited Liability Companies Act and the Financial Undertakings Act, as well as KBN's Articles of Association. The Board of Directors and the Supervisory Board are elected by the Annual General Meeting. The Supervisory Board is a governing body required by KBN's Articles of Association, and its purpose is to produce statements on issues that concern the company and to be particularly focused on corporate governance.

The Board of Directors is responsible for the management of KBN's activities, which includes appointing the CEO, approving the mandate for the CEO, decisions on borrowing and authorising delegated borrowing authority, and appointing the internal auditor. The Board of Directors has set up three committees that prepare cases for its consideration and whose members are elected by and from amongst its own members, namely the Audit Committee, the Risk Management Committee, and the Remuneration Committee. The Audit Committee's role is to help the Board of Directors supervise the company's financial reporting and control systems by preparing issues related to these areas and advising the Board on them. The Risk Management Committee's role is to help the Board of Directors oversee and manage the overall level of risk at KBN by preparing issues related to this area and advising the Board accordingly. The Remuneration Committee's role is to help the Board assess the company's remuneration arrangements by preparing issues related to this area and advising the Board accordingly.

The CEO manages KBN's day-to-day operations in accordance with the mandate issued by the Board of Directors. The Risk Management department is responsible for KBN's management of risk, while the Compliance department has overall responsibility for KBN's compliance with internal and external frameworks. Both these departments report to the CEO but have direct reporting access to the Board of Directors.

CHART
KBN's Governing Bodies



Risk management and internal control

KBN's Board of Directors has approved guidelines on risk management and internal control, and has determined a risk appetite framework for KBN. KBN's key guidelines, its risk appetite framework, and the policies and limits for KBN's operational activities are reviewed by the Board of Directors annually. The Board of Directors considers the CEO's assessment of internal control on a yearly basis.

The purpose of risk management is to ensure that KBN manages its assets and liabilities responsibly. Risk assessments are carried out in relation to material risks for all KBN's business areas at least annually. Stress tests and scenario analysis are used to assess the vulnerability of KBN's key risk areas. The results of these stress tests are evaluated and considered when determining KBN's risk appetite and as part of the capital planning process, recovery planning, and the commercial strategy design process.

The Board of Directors is regularly informed of KBN's activities, financial position and earnings situation. The Board considers the management's assessment of risk exposure and risk events, with this forming an integral part of KBN's routine activity reporting processes.

Risk management and internal control are organised into three lines of defence at KBN. KBN's operational activities represent the first line of defence and are responsible for managing and controlling whether KBN's activities are carried out within the approved limits and in accordance with internal and external regulations. The second line of defence monitors, guides and helps to improve and report on the first line checks. KBN's financial control function, risk management function and compliance function comprise the second line of defence. The third line of defence is provided by the Board's independent supervisory and control function, and is carried out by Deloitte as KBN's internal auditor.

Credit risk

Credit risk in the lending portfolio is limited to payments being deferred as payment obligations cannot be cancelled. Section 29-1 of the Local Government Act stipulates that municipalities and county authorities may not be declared insolvent. The Local Government Act also contains provisions regarding the procedures that must be followed if payments have to be deferred. This in practice protects lenders from any losses in relation to debt and accrued interest.

KBN manages its liquidity through investments in securities with a low credit risk, and it has a low appetite for credit risk in relation to its liquidity counterparties.

KBN uses derivatives to manage the interest rate risk and exchange rate risk associated with its lending and funding activities and its liquidity portfolio investments. The risk associated with entering into derivative contracts is controlled by the use of central counterparties or other counterparties with a high credit rating, and by exchanging cash collateral in order to reduce KBN's exposure.

Liquidity risk

KBN has a limited risk appetite with regard to liquidity risk. The Board of Directors has approved an internal framework for liquidity management. KBN shall ensure that it can at all times meet its liabilities when they fall due without incurring any significant extra costs.

Interest rate risk and exchange rate risk/market risk

KBN has a limited risk appetite with regard to its exposure to market risk.. Interest rate risk and exchange rate risk are managed with a target of ensuring that the risk exposure arising from KBN's assets and liabilities is balanced at all times. Hedging transactions are also used to hedge interest rate risk and exchange rate risk. Hedging for currency risk involves exposure to basis risk in the currency swap market.

Operational risk

KBN has a limited risk appetite with regard to operational risk. Operational risk management has a uniform and systematic approach to identifying risk and regular risk assessments are carried out for all critical functions. This work forms the basis for decisions regarding how KBN's resources for risk-reduction activities should be prioritised. Operational risk is subject to continual monitoring and reporting. Compliance risk is part of KBN's operational risk, and KBN has a very limited risk appetite with regard to compliance risk.

Climate risk

While climate reporting is a question of how a company affects the climate through its activities, climate risk reporting is a question of analysing how climate change and climate change policies affect a company's activities. The most widely recognised framework for climate risk reporting has been produced by the Task Force on Climate-related Financial Disclosures (TCFD). TCFD was established by the G20 countries' Financial Stability Board in 2016, and it published its recommendations in 2017.

In 2019 KBN's Board of Directors discussed how KBN could strengthen its work on climate risk, and it set a target for climate risk to be integrated into management's regular risk reports with effect from the start of 2020. On the basis of a report from the CICERO Centre for Climate Research, KBN launched a portal for local climate risk in 2019. This is the first step in KBN's work to put climate risk on the agenda at its customers - municipalities and county authorities. In 2020 KBN will further develop its climate risk tool for the local government sector by incorporating more data sources.

In 2020 KBN will expand its current credit assessment model to include parameters related to municipalities' exposure to climate risk. Going forward, KBN will work to ensure that green loans are responsible for at least half of its lending growth, and KBN will halve its own emissions by 2030. KBN recognises that the financial consequences of climate change may cause its customers to have less room for manoeuvre from a financial perspective. The Norwegian Local Government Act stipulates at Section 29-1 that municipalities and county authorities cannot be declared insolvent, meaning that KBN's exposure to default risk is very low.

The Board of Directors' statement on the remuneration of senior executives

Each year the Board of Directors approves guidelines on the remuneration of senior executives in the following financial year. The Board submits its statement on the remuneration of senior executives to the Annual General Meeting each year. The statement and information on the remuneration paid to senior executives are provided in Note 6 of KBN's financial statements in this annual report.

Corporate communications and public relations

The Board of Directors regards active, continuous dialogue with KBN's major stakeholders as an important means of ensuring that there is a good understanding of its model and the framework in which it operates. High-quality, open communication is important for maintaining the trust of KBN's owner, customers, employees and wider society.

In 2019 KBN launched its new graphic profile and a new website. KBN's aim with its new profile is to make KBN's position and mandate as well as the Norwegian state's role as owner more visible. KBN's lending activities and sustainability work have been made more prominent on the new website, in line with KBN's adopted strategy. Since the new website was launched in December, the number of visitors has increased by around 30% compared with the same period in 2018.

KBN's external communication activities are intended inter alia to help highlight issues that affect its customers, e.g. through changes to their or KBN's framework conditions. Green finance, including KBN's green bonds and green lending products, climate risk in the local government sector and Norway's new Local Government Act were central topics in KBN's external communication activities in 2019. The importance of a sustainable approach to borrowing by the local government sector was emphasised in the communication activities KBN conducted directly with its customers, including its finance seminars, KBN Skolen and in the further development of KBN Finans, KBN's debt management tool.

Ethics and sustainability

KBN has based its priorities in the area of sustainability on the extensive dialogue in which it engages its most important stakeholders, and it has separate guidelines for corporate social responsibility. KBN's sustainability work represents an important part of its strategy work and is integrated into its ordinary activities. KBN follows the Global Reporting Initiative (GRI) standard in its reporting of its corporate social responsibility and sustainability work.

In 2019 KBN carried out a materiality analysis as part of which KBN's most important stakeholders provided input on KBN's priorities for its sustainability work going forward. As a result of this, KBN will prioritise green finance, climate risk, expertise sharing, employee development and responsible lending as the main themes for its sustainability work in 2020.

Organisation and employees

KBN is a knowledge business that needs to recruit and develop skilled employees across a range of specialist areas in order to fulfil its aims. Greater competitive, technological and regulatory complexity in combination with greater demands and higher expectations from KBN's customers, owner, stakeholders and employees are affecting how KBN is organised and managed.

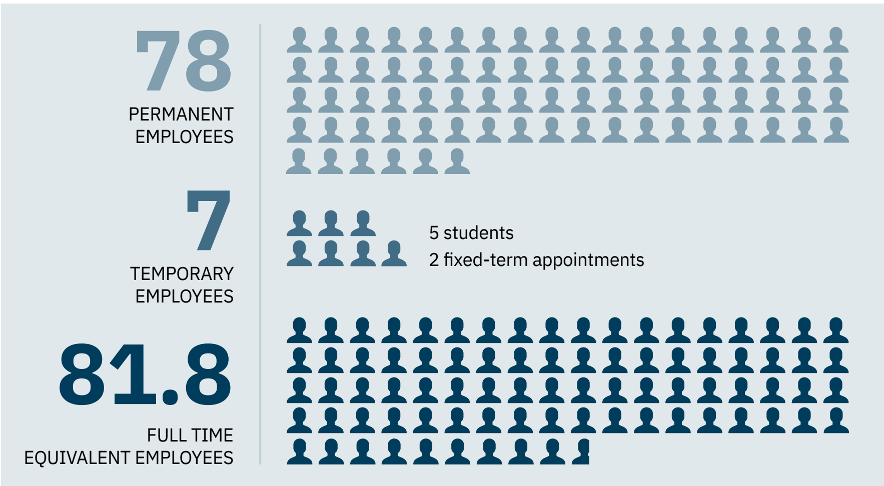
KBN continually assesses whether as an organisation it is appropriately staffed in terms of its ability to meet the regulatory requirements to which it is subject and to achieve its strategic objectives.

At the end of 2019 KBN had 85 employees, equal to 81.8 full-time equivalents. 78 of KBN's employees were permanent and seven were temporary. Five of the temporary employees were students and two were fixed-term appointments.

Diversity and equality

KBN works in a systematic and targeted way on diversity and equality across the organisation and on following up targets with specific measures in its activity plans. Its work to promote diversity and equality is a fundamental part of its recruitment of new employees, its development of managers and employees, and its succession planning. KBN's objective is to achieve a good gender balance at all levels and within all units so that there is at least a 40% representation of each gender.

FIGURE
Staffing at
31. December 2019



Both when recruiting new employees and when making changes to the composition of management groups and organisational units, KBN pays particular attention to gender balance. Recruitment processes are always carried out in such a way that the best-qualified female and male candidates are identified and assessed before any decision is taken. All candidates are treated equally, and no consideration is given to gender, sexual orientation, disability, age, or cultural, religious or geographic background when candidates' professional and personal qualifications are being assessed.

All employees are treated equally and have access to the same opportunities with regard to personal and professional development and promotion. Employees who do not speak Norwegian are provided with training in Norwegian. Flexible working hours are offered to facilitate arrangements for employees who have care responsibilities at home.

The target for succession planning for management positions and other critical roles is for internal candidates of both genders to be identified and developed in order to reduce vulnerability and to develop expertise.

At the end of 2019 the proportion of women on the Board of Directors was 56%, while the equivalent proportions for the CEO's management team and for all employees (permanent and temporary) were 36% and 42% respectively. The average age of KBN employees was 42. A total of six employees worked on a part-time basis, including five students. No employee worked part-time involuntarily. KBN is committed to diversity of multiple types and a total of 9% of KBN's employees were citizens of a country other than Norway, with eight different nationalities represented.

Health, safety and the working environment

KBN is committed to ensuring all its employees have high-quality working conditions. 2019 was the first full year in which a collective wage agreement was in place at KBN, and work on implementing processes and dialogue with employee representatives was undertaken. The Working Environment Committee's aim is to actively contribute to the creation of a good working environment and the promotion of good physical health by building a culture characterised by well-being and collaboration. The Committee has held regular meetings and carried out risk assessments in relation to health, safety and environmental issues, as well as related inspections. Workplace assessments and an annual health check are carried out, together with an annual employee satisfaction survey. Systematic work was carried out throughout the year on following up on the employee satisfaction survey.

Regular health-promoting and social activities, including organised and individual exercise options, were offered for all employees in collaboration with KBN's various activity groups.

No accidents or serious injuries were recorded as having occurred during working hours or in connection with journeys for work purposes or to or from work. No accidents or injuries were reported to the Norwegian Labour Inspection Authority.

The sickness rate was 3.2% in 2019 as compared to 2.5% in 2018. KBN's target is for the sickness rate to be below 2.5%. KBN works actively on health, safety and the working environment, on preventing and following up sick leave, and on facilitating a swift return to work for employees following leave of absence and sickness. Staff turnover in 2019 was 9%.

Allocation of profit

The Board of Directors of Kommunalbanken AS proposes the following allocation of the profit for the 2019 financial year: NOK 1 283 million is to be transferred to retained earnings. The Board of Directors believe that it is necessary to build the bank's equity capital and suggests to not allocate to pay dividend from the profit for 2019 as part of the financial statements for 2019. The need to build up common equity Tier 1 capital is due to deductions in such capital from deferred tax assets in 2019 and increased capital requirements in 2020. The necessary build-up of equity capital contributes to fulfilling capital requirements in force. The Board of Directors refers to the requirements in the financial undertakings act § 10-6 (1) where the justifiability norm looks to the need for building up equity capital. The Board of Directors refers to the Financial Undertakings act § 10-6 (1) where the prudence requirement related to dividend decisions also refers to the need for building up equity capital.

Future prospects

The Norwegian economy grew in 2019, with GDP (mainland Norway) estimated to have increased by 2.5% and the unemployment rate (Statistics Norway's Labour Force Survey) standing at 3.7%. The financial situation of Norwegian municipalities has been characterised by the strong income growth they have enjoyed in recent years. In the 2009-2018 period, the local government sector saw its total real average income grow by 2.3% per year. The positive trend seen for local government finances is expected to slow somewhat in the coming years, due in part to a more neutral national budget policy and higher costs.

The United Kingdom's withdrawal from the EU has resulted in KBN making changes to its agreements with external parties in 2019 in order to ensure it is adapted to the outcome of Brexit and can operate its activities in the new situation. In order to meet the regulatory requirement for derivative contracts to be cleared (EMIR), KBN has set up a connection to an EU-based central counterparty to ensure it complies with the mandatory clearing obligation, as well as to an EU-based transaction register to ensure it complies with the reporting requirement.

In autumn 2019 the EU launched its Green Deal, an overall plan to make the EU climate-neutral by 2050. The plan makes clear that climate-friendly policies are no longer just climate policies, but also have to be incorporated into areas such as trade policy, economic policy and social policy. The plan will affect Norway as well in its capacity as an integral part of the EU's climate and energy collaboration. KBN is following developments and will continually assess the opportunities and challenges involved for KBN's activities in the years ahead, including in relation to its work on green finance and climate risk.

2018 marked a clear turning point in that a significant proportion of the local government sector's construction projects were now working with energy efficiency and climate targets that were more ambitious than the standard building regulations require. This trend continued in 2019. Zero emission solutions and the electrification of the transport sector require a wider range of investments, and this is particularly the case in the areas for which county authorities are responsible.

The local government sector will continue to have significant investment needs in general. An ageing population will necessitate investment in health and care services in the years ahead. Continuing urbanisation will mean continuing growth in investment in schools and nurseries, particularly in municipalities that are seeing rapid population growth. Water supply and wastewater management facilities will require regular renewal and improvement, which means that the financing requirement for this type of investment will continue to grow. Greater awareness of climate risk and the need for measures to adapt to climate change will over time cause an increase in the level of investment in preventative measures, e.g. the management of surface run-off.

KBN has worked with the analysis firm Menon Economics to produce a forecast of the local government sector's investment and borrowing needs in the years ahead. This analysis indicates that borrowing by the local government sector will in real terms increase by 2.1% per year in the period up to 2040. This is approximately one-third the rate of growth seen in the previous 12 years and is more in line with the expected growth in the sector's income.

KBN's customers are seeking loans with maturities ranging from three months to over 30 years. KBN is committed to being a reliable and stable provider of financing, particularly long-term financing that is appropriate to the time horizon for the investment that is being carried out. While customers are expected to continue to seek a wide range of financing terms, the main emphasis is expected to be loans with medium and long maturities.

KBN can report a high level of customer satisfaction. Our most satisfied customers are those that use our digital debt management tool. In 2019 KBN invested significantly in digitising the customer experience. This work will continue in 2020 with an increase in the level of self-service for customers and through KBN providing relevant and specific information and expertise that represent added value for our customers' own decision processes. Digitalisation, changing customer expectations and new regulatory requirements represent major challenges that will require KBN to continually adapt its activities through internal mobility, skills development measures and interdisciplinary collaboration. Investment in new technology, creating a culture of change and adopting new work processes will be central elements of our work to respond to these challenges.

KBN seeks to facilitate the financing of the local government sector and is committed to operating with a low level of risk. As a result of increasing capital adequacy requirements, KBN will have to be particularly focused on capital efficiency and capital accumulation in 2020. KBN was affected in 2019 by deductions from its Tier 1 capital primarily as a result of deferred tax assets, and this will be monitored in 2020.

In designing its regulations, the EU has to some extent taken low-risk financial institutions such as KBN into account. Several countries have issued suitably adapted regulations for financial institutions that lend to the public sector, for example by classifying them as “promotional banks”. A predictable environment and framework conditions that are adapted to KBN’s distinctive nature are important to KBN’s ability to provide municipalities with low-cost debt financing and thus to its role in the creation of a sustainable society.

The Board of Directors would like to thank KBN’s employees for a job well done.

Oslo, 31 December 2019

28 February 2020

The Board of Directors of Kommunalbanken AS

Brit Kristin Sæbø Rugland
CHAIR

Rune Midtgaard
VICE CHAIR

Eyvind Aven
MEMBER OF THE BOARD

Nanna Egidius
MEMBER OF THE BOARD

Marit Urmo Harstad
EMPLOYEE REPRESENTATIVE

Harald Jacobsen
EMPLOYEE REPRESENTATIVE

Ida Espolin Johnson
MEMBER OF THE BOARD

Petter Steen Jr.
MEMBER OF THE BOARD

Martha Takvam
MEMBER OF THE BOARD

Kristine Falkgård
PRESIDENT & CEO

The board of directors of KBN

Bottom right: Brit Kristin Rugland, Nanna Egidius, Petter Steen Jr., Harald Jacobsen, Marit Urmo Harstad, Eyvind Aven, Rune Midtgaard, Ida Espolin Johnson. Martha Takvam was not present when the picture was taken.

Photo: Ina Kristine Andersen

BRIT KRISTIN SÆBØ RUGLAND

Chair since June 2018, Member of the Board since 2016.

Bachelor of Business Administration, Master of Management. Chair, KBN Remuneration Committee. Member, KBN Risk Committee. Chair, Figgjo AS. Member of the Board, Norfund. Member of Council on Ethics for the Norwegian Government Pension Fund Global.

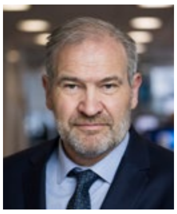
Participated in 10 board meetings in 2019.

RUNE MIDTGAARD

Vice chair since 2019, Member of the Board since 2014.

MBA and Authorised Financial Analyst (AFA). CEO, Norsk Luftambulanse AS. Chair, KBN Risk Committee.

Participated in 10 board meetings in 2019.



EYVIND AVEN

Member of the Board since June 2019.

MBA and two year extension program in Finance. Sr. Risk Advisor within Group Risk function in Equinor. Member, KBN Risk Committee. Deputy member of Equinor Asset management ASA board and chair of its Risk Committee. Chair, Diakonisenteret Stavanger.

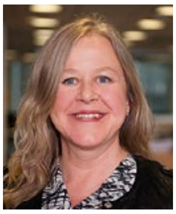
Participated in 6 board meetings in 2019.

NANNA EGIDIUS

Member of the Board since 2004.

MBA. Director of Strategic Planning and Development, Lillehammer municipality. Member, KBN Audit Committee. Chair, LGE Holding AS. Member of the Board, Ikomm AS.

Participated in 10 board meetings in 2019.



MARIT URMO HARSTAD

Employee representative since October 2018.

Bachelor of Management. Senior Relationship Manager, KBN. Currently following a master programme in green growth as part of an Executive MBA at BI. Personal alternate is Anne Jenny Dvergsdal.

Participated in 10 board meetings in 2019.

HARALD JACOBSEN

Employee representative since June 2019.

MSc Economics and Business Administration. Head of Sustainability, KBN. Member, KBN Remuneration Committee. Member of the Board, Utøya AS.

Participated in 5 board meetings in 2019.

IDA ESPOLIN JOHNSON

Member of the Board since June 2018.

Lawyer, partner in law firm Haavind AS. Member, KBN Audit Committee.

Participated in 10 board meetings in 2019.

PETTER STEEN JR.

Member of the Board since 2015.

Teacher. Former Mayor of Haugesund. Consultant/advisor to Sveio Municipality. Member, KBN Remuneration Committee. Chair, Haugaland Kraft AS.

Participated in 10 board meetings in 2019.

MARTHA TAKVAM

Member of the Board since 2005.

Master of Business and MBA in Finance. Former Director Group Internal Audit and Group Treasurer, Telenor ASA. Chair, KBN Audit Committee. Vice Chair of the Board of Fontenehuset Asker.

Participated in 10 board meetings in 2019.

Sustainability

Our sustainability work

The Government's white paper on state ownership, Sustainable Value Creation (Report to Storting No. 8 (2019-2020)), highlights KBN's owner's expectation that companies in which it has an ownership stake will have an overall plan for sustainable value creation: *"A sustainable company balances financial, social and environmental considerations in a way that contributes to long-term value creation and such that the needs of today are met without damaging the ability of coming generations to meet their needs. (...) A company that helps develop its surroundings and understands its role in society and the concerns of its stakeholders can better understand what affects value creation opportunities".*

KBN's 2020-2022 strategy, *Building a sustainable society*, states that 'Sustainability will permeate the way in which we carry out our activities.' KBN's overall sustainability guidelines state that "KBN will work systematically on sustainability and will have the ambition to be a leader in its area".

Roles and responsibilities

The Board of Directors is responsible for the organisation's sustainability work. The Board determines the overall guidelines for sustainability and KBN's yearly targets and measures.

The President and CEO is responsible for implementing KBN's work on sustainability and sets supplementary guidelines for the administration's work.

The Chief Communications Officer has the coordinating responsibility for the sustainability work. Nominates a Head of sustainability, who has a particular responsibility for actively following developments in the area, proposing targets and indicators for their achievement, ensuring relevant processes are in place. Assists the organisation in the area and prepares overall external reporting of the bank's sustainability work.

KBN bases its sustainability work on engaging in extensive dialogue with its stakeholders, including both stakeholders who are affected by KBN's activities and those who can influence our activities in a material way. These stakeholders include KBN's customers, employees, owner, Board of Directors, the authorities, investors and society in general. As part of KBN's objective to be a leader in its selected areas of sustainability, it continually maps any new signals and expectations from its owner, changes to national and international standards that affect best practice, and developments in respect of norms and attitudes of significance to its stakeholders.

KBN is committed to following leading practice in its sustainability work and in its reporting of this work, and it has reported in accordance with the GRI Standards since 2018.

Stakeholders

Openness is one of KBN's core values. As a knowledge-based organisation, we wish to share information with our stakeholders and to exchange views with them within the framework permitted by legislation.

KBN strives to contribute to best practice for financial management in the local government sector, including by sharing our knowledge of the borrowing situation in the local government sector with local and national decision makers.

The input provided by regular contact with stakeholders forms the basis of KBN's overall strategy and communications work as well as of its sustainability work. We regularly review our priorities in relation to the expectations of our most important stakeholders.

2019 Customer Survey

KBN carries out a customer satisfaction survey each year. The results show that KBN's customers are generally very satisfied with KBN.

CUSTOMER SURVEY, 2019
Around half of Norway's municipalities and county authorities took part in the customer satisfaction survey

5.32
Satisfaction
- all municipalities

5.39
Satisfaction
- smallest municipalities

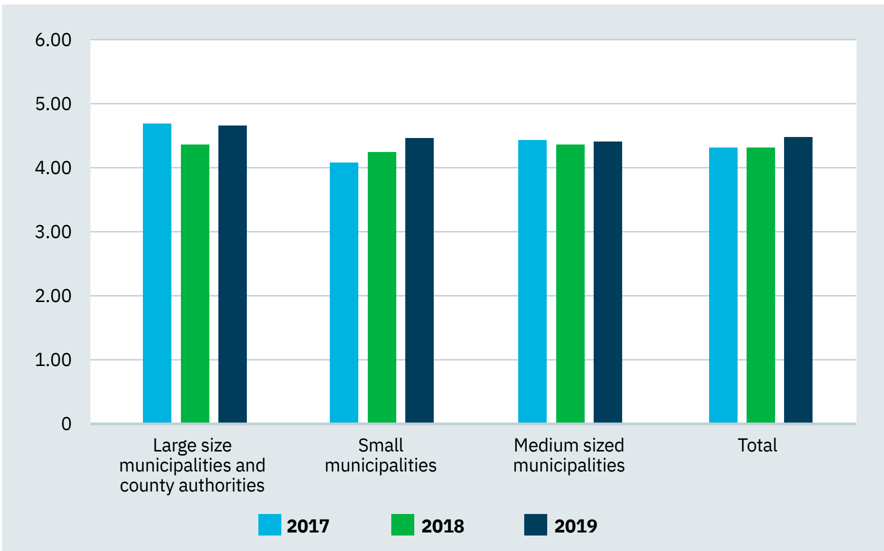
5.31
Satisfaction
- largest municipalities and county authorities

5.27
KBN tilbyr enkle og fleksible låneprodukter

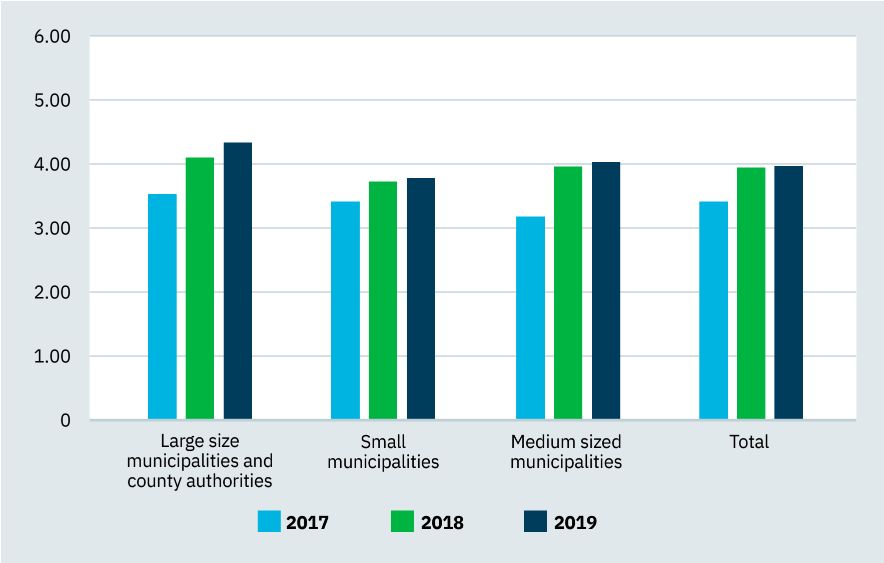
5.14
KBN is the most important financing partner for Norwegian municipalities

6
IS THE BEST SCORE
1
IS THE LOWEST SCORE

I AM VERY FAMILIAR WITH KBN'S GREEN LOANS
2019 Customer Survey



MY MUNICIPALITY IS CONSIDERING USING KBN'S GREEN LOANS OVER THE NEXT TWELVE MONTHS.
2019 Customer Survey



List of stakeholders

Our stakeholders are parties that can influence our operations and parties that can be affected by our operations to a significant extent. Below is a presentation of KBN's key stakeholders.

Customers

KBN's customers are municipalities and county authorities, in addition to a range of municipal and inter-municipal companies and companies with a municipal or county-authority guarantee. KBN held 150 customer meetings in 2019. 15 finance seminars were conducted across the country and the KBN Skolen (KBN School) program was run three times, attracting a total of over 240 attendees. The aim of KBN's finance seminars and of KBN Skolen is to increase the local government sector's insight into financial risk management and debt management. Developments in the fixed income market, e-signatures, updates on our debt management tool KBN Finans and the new Municipal Law are among the topics our customers have brought up in meetings. KBN published a booklet, *Climate risk – What can you do at your municipality?*, in collaboration with the Norwegian Climate Foundation and launched a climate risk tool for the local government sector in collaboration with CICERO.

KBN organised a separate annual conference on the topic of innovation with around 150 attendees. KBN worked with the Norwegian Association of Local and Regional Authorities (KS), the Norwegian Association of Local Government Treasurers and Finance Managers (Norges Kemner- og Kommuneøkonomers Forbund), and the Norwegian Councillors' Forum (Norsk rådmannsforum) to arrange the annual Municipality Finance Conference (Kommuneøkonomikonferansen), which is Norway's largest conference of its type with around 400 attendees. KBN also organised four events on local government topics at the Arendalsuka conference, at which it also participated as a speaker/panellist at a further four events. KBN also worked with KS and the Zero Emission Resource Organisation to award the "Local Climate Measure of the Year" award, a climate competition for the local government sector, with the winner announced at the 2019 Zero conference. KBN also sent its customers 13 newsletters.

KBN's Supervisory Board is appointed by KBN's owner and consists of representatives from KBN's various customer groups. It is tasked with focusing on KBN's sustainability work.

Employees

All of KBN's employees are located at its premises in Oslo. In 2019 KBN organised monthly 'lunch & learn' talks on topics such as the climate, sustainability, IT security, digital programs and tax evasion. Summaries of the week's most important climate/sustainability items were published on KBN's intranet. A kick-off meeting on the climate was held for all employees, and a beach cleaning day, two company-wide meetings and a workshop for all employees on the UN's Sustainable Development Goals were organised. More than 90% of KBN's employees took part in the two-week long voluntary 'Climate challenge' competition, which involves a range of businesses competing to cut their CO_2 emissions the most. Two staff walks on the topic of climate risk and climate change adaptation were organised. When asked to evaluate their walk, 94% of employees answered that it had *"provided them with a greater understanding of KBN's customers' need to adapt because of climate change"*, with 92% also answering that it had *"helped increase their understanding of the fact that doing something about climate change is urgent"*, and 87% responding that the walk had *"helped increase their awareness of their own carbon footprint"* (somewhat agree/fully agree).

The employee stakeholder group includes potential employees. KBN has chosen to market itself as an organisation that is helping to build a sustainable society, including in the context of recruitment. We also want to attract employees who are committed to delivering on our mandate and strategy, and we are finding that job applicants are increasingly committed to sustainability.

Owner

KBN is a limited company 100%-owned by the Norwegian state, with the Ministry of Local Government and Modernisation acting as KBN's owner. KBN held quarterly meetings with its owner in 2019 and corporate social responsibility/sustainability was one of the topics. Autumn 2019 saw the publication of the first government white paper on state ownership since 2014, which inter alia set clearer expectations with regard to sustainable value creation.

The authorities

KBN is subject to legislation, regulations and supervision in the same way as other financial institutions. KBN met with inter alia the Ministry of Finance, the Financial Supervisory Authority of Norway, the Ministry of Climate and Environment, the Ministry of Transport, the Agency for Public Management and eGovernment (Difi), the Norwegian Environment Agency and the Norwegian Directorate for Civil Protection (DSB). Corporate social responsibility and sustainability were topics at a number of these meetings.

Investors

KBN's investors are the buyers of the bonds it issues, including capital markets participants such as commercial banks, central banks and pension funds from around the world. KBN held over 300 investor meetings in 2019, both in the form of physical one-to-one meetings and conference calls. In addition, KBN distributed quarterly updates to over 600 investors. KBN's investors showed great interest in green finance, especially from Sweden, and this contributed to KBN's first green bond in the SEK market in 2019.

Society in general

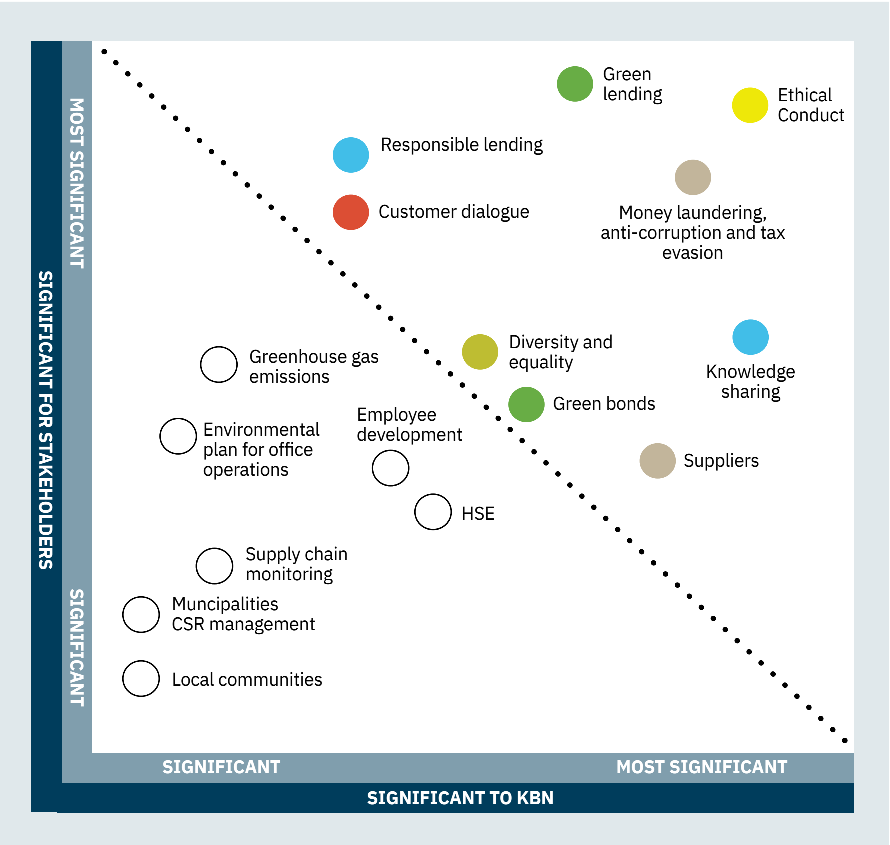
KBN's activities affect Norwegian society and we are therefore in close dialogue with a number of interest groups. In 2019 we regularly held meetings with the Norwegian Association of Local and Regional Authorities (KS), the Norwegian Association of Local Government Treasurers and Finance Managers (Norges Kemner- og Kommuneøkonomers Forbund), the Zero Emission Resource Organisation (ZERO) and the CICERO Center for International Climate Research. KBN also held more sporadic meetings with Enova and Norwegian Water. (GBP, Skift, Fremtind, the United Nations Association of Norway).

KBN organised four open seminars on green finance/climate risk, in addition to contributing keynote speakers and panel members at a range of events. KBN's publication "Klimakunnskap – globalt og lokalt" (Climate Knowledge – globally and locally) is also provided free for teaching purposes in elementary and secondary schools. The booklet discusses topics related to environmental challenges and climate change, and 13,000 copies were printed and distributed in 2019.

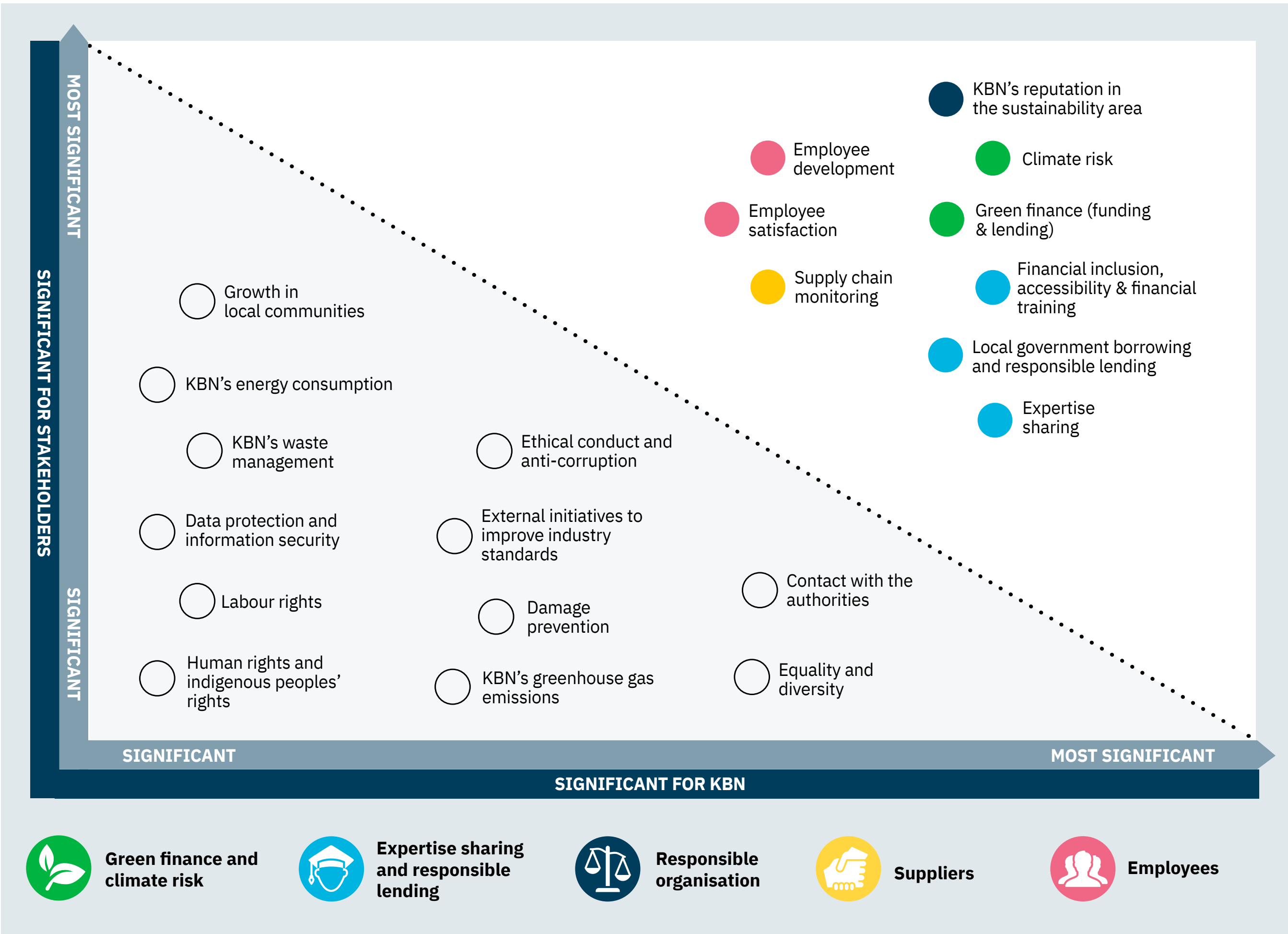
Materiality analysis

A materiality analysis identifies the organisation's most material issues and determines boundaries for both its activities and reporting. Nine categories were prioritised for our work in 2019 based on the materiality matrix below. The indicators we report on in the GRI index at the end of the annual report.

MATERIALITY ANALYSIS FROM 2016
These categories were the basis for KBN's sustainability work in 2019.



KBN carried out a materiality analysis in the autumn of 2019, as part of which key stakeholders provided input on KBN's priorities for its sustainability work going forward. With regard to internal stakeholders, all KBN's employees as well as its management team, Board of Directors and Supervisory Board were involved. With regard to external stakeholders, KBN conducted interviews with its owner (the Ministry of Local Government and Modernisation), the Chair of KBN's Board of Directors, the Norwegian Association of Local and Regional Authorities (KS, local government sector interest group), CICERO (climate/research interest group) and Citi (investor). The topics that were identified as material were divided into five categories, which represent KBN's priorities for its sustainability work going forward, and reporting from 2020 onwards. The new categories deviate to some extent from the priority areas from KBN's previous materiality analysis.



MATERIALITY ANALYSIS 2019
Through the materiality analysis, five categories were prioritised.

Performance in 2019

Priorities for KBN's sustainability work in 2019 were Green finance, Climate risk, Expertise sharing and responsible lending, Diversity and equality, ESG requirements in KBN's core activities, Ethical conduct, Supply chain and Dialogue with stakeholders. Not all goals were fully accomplished in 2019. In the area of Climate risk, a substantial effort was made to put climate risk on the agenda of KBN's customers, while further work will be done in 2020 to identify KBN's own climate risk. In the area of Diversity and equality, a change was made in the composition of the management group towards the end of the year, where a woman resigned and, after internal relocation, was temporarily replaced by a man pending a hiring process. In the Supply chain area, new overall procurement guidelines were adopted in the fall of 2019, while supplementary guidelines and supplier requirements and expectations will be completed in 2020.

Priority	Objective	Status	Outcome
Green finance	Contribute to the achievement of national targets for the transition to a low-carbon society through an increase in green lending		▪ The growth in KBN's green lending represented 49% of the growth in its overall lending
	Contribute to the development of the market for green finance by issuing green bonds		▪ KBN issued its first SEK-denominated green bond, which attracted much interest from investors
	Actively work to influence the development of international standards in green finance		▪ A new version of the Nordic Position Paper on Green Bonds Impact Reporting was launched, the technical working group for which is led by KBN ▪ KBN co-organised a seminar on environmental impact reporting in Frankfurt ▪ A KBN employee was re-elected as a member of the Executive Committee of ICMA GBP
	Increase KBN's expertise and awareness of employees about climate and environment issues		▪ KBN set up an internal climate and environment group ▪ KBN strengthened its work on green finance and built a separate team ▪ KBN conducted a field trip to our most climate-exposed customers to learn more about climate change and -adaptation ▪ Approximately 90% of employees stated they had become more aware of environment and climate topics

Priority	Objective	Status	Outcome
Climate risk	Produce and launch guidelines on climate risk for municipalities		▪ KBN launched a climate risk tool for municipalities with CICERO ▪ KBN launched a booklet on climate risk with the Norwegian Climate Foundation ▪ Presented the climate risk tool at two regional conferences organized by The County Governor, counties and The Norwegian Environment Agency.
	Work systematically to identify climate risk in KBN's own lending portfolio		▪ Work underway, with a target of it being completed in 2020
	Incorporate climate and environmental risk into KBN's own credit assessment process		▪ Work underway, with a target of it being completed in 2020
	KBN to operate in a more climate-friendly way		▪ KBN has been certified as an Eco-Lighthouse since 2009 and was-re-certified in 2018. A new calculation method was the primary reason for the decrease in reported emissions from 2018-2019
Sharing expertise and responsible lending	Actively disseminate information and help increase the level of insight into financial risk management and debt management in the local government sector		▪ KBN ran the KBN Skolen/KBN Skolen II programs three times, attracting a total of 240 attendees ▪ KBN ran 15 finance seminars across Norway
	Support our customers in managing their borrowings in a long-term, sustainable way through our lending activities		▪ KBN launched a new customer portal with a tool for risk and debt management ▪ KBN produced a memo for the local government sector that addresses the expectations contained in the new Local Government Act in respect of financial risk
	Promote openness and transparency in the capital markets, nationally and internationally		▪ KBN has not yet reached a conclusion on possible involvement in the UN Principles for responsible banking initiative
Diversity and equality	Be a company with a commitment to equality and ensure diversity among our employees		▪ KBN's target of achieving a gender balance of at least 40% of both genders was met for the Board and among employees, but only 36% of the management team are women
	Expect the work of our suppliers and their subcontractors on corporate social responsibility, including in relation to the environment, ethical conduct, diversity and equality, to have a documentable impact		▪ New procurement guidelines were produced and approved. Supplementary guidelines and a memo setting out KBN's expectations will be completed in 2020
Application of ESG requirements to core activities	Ensure KBN applies ESG requirements to its core activities to at least as high a standard as recognised good practice in its sector		▪ A review was completed, with KBN considering inclusion of ESG criteria in its interest rate management

Priority	Objective	Status	Outcome
Ethical conduct	KBN employees to exhibit ethical behaviour in line with our Code of Conduct in their interaction with customers, colleagues, suppliers and in other relationships		▪ Ethical conduct was addressed as part of new employee inductions, but an ethical conduct program has not been developed
	KBN employees to exercise caution and exhibit ethical conduct in public spaces, including on social media		▪ KBN's Code of conduct was updated to better reflect developments in the society
	Low threshold for reports expressing concern and for whistle-blowing reports regarding harassment and discrimination		
Supply chain	Expect that suppliers and their collaboration partners work actively to prevent corruption, money laundering and cyber-crime		▪ New procurement guidelines were produced and approved ▪ Supplementary guidelines and a memo setting out KBN's expectations will be completed in 2020
Dialogue with stakeholders	Engage in active, continuous dialogue with KBN's most important stakeholders		▪ Gjennomført en systematisk interessentdialog med bankens mest sentrale interessenter, herunder en vesentlighetsanalyse
	Report on our sustainability work in accordance with international standards (GRI)		

The UN's Sustainable Development Goals

The UN's Sustainable Development Goals are the world's shared blueprint for eradicating poverty, fighting inequality and stopping climate change by 2030. The Sustainable Development Goals are closely inter-connected and need to be achieved together. However, businesses and organisations will typically be more able to contribute to some of these goals than others depending on the nature of their activities. KBN ran a workshop for all employees in the autumn of 2019 at which it identified the Sustainable Development Goals to which KBN has the greatest ability to make a positive contribution. In addition, we mapped our green lending portfolio to identify the connections between our financing of green lending and the Sustainable Development Goals – see the 2019 impact report.

UN'S SUSTAINABLE DEVELOPMENT GOALS

The Sustainable Development Goals that KBN has identified as particularly relevant to its activities are:

2020 Objectives

GREEN FINANCE AND CLIMATE RISK

The activities support the following SDGs:

KBN is committed to being one of the leading financial institutions in Norway in the area of climate risk, sustainability and green financing solutions. Through our green lending, we aim to be a driver for more investment in ambitious green projects in the local government sector. We seek to ensure that climate risk is on the agenda, and will work to ensure that climate concerns are treated as a risk area for KBN's own activities as well as ensuring that our customers focus on their own climate risk.

KBN raised its first green funding in 2010, and in 2013 it became the first financial institution in the Nordic region to issue a public green bond.

Potentially a list of green bond issues

KBN follows the International Capital Market Association's (ICMA) Green Bond Principles (GBP) and has contributed to their development as a member of the ICMA GBP Executive Committee, to which we were re-elected for a further two years in

2019. KBN led the technical working group behind the Nordic Public Sector Issuers' Position Paper on Green Bonds Impact Reporting, which is now used by issuers in a number of locations across Europe.

KBN's green bonds are issued in the international capital markets and finance climate-friendly projects carried out by Norwegian municipalities through loans from KBN. Green loans with lower interest rates are granted for projects that reduce energy consumption or greenhouse gas emissions or that contribute to local adaptations to climate change. Applications for green loans must provide information that satisfies KBN's criteria, and KBN produces a separate environmental impact report each year on the projects that have been granted green loans.

Oslo Economics, working in collaboration with CICERO and Inventura, produced a benefit analysis of green procurement on assignment for the Norwegian Agency for Public Management and eGovernment and the Norwegian Environment Agency. This analysis shows that setting climate requirements for procurement can successfully deliver significant environmental gains, including reductions in greenhouse gas emissions, local air pollution and noise. The 10 procurement exercises investigated by the study cost on average 6% more than a standard reference project, but generated a notable 70% reduction in emissions relative to the relevant standard reference project.

KBN's green loans help reduce the additional cost of environmentally friendly projects for the Norwegian local government sector by giving borrowers an interest rate discount of 10 basis points. For example, the reduction in the interest rate on a loan of NOK 100 million borrowed over thirty years has a present value of NOK 1.22 million using a discount rate of 3%, which is equivalent to 20% of the average initial additional cost in the example. KBN's green loans are a supplement to other forms of assistance, e.g. Enova grants and Klimasats subsidies, which can further reduce the costs of investing in climate friendly projects.

KBN's outstanding green loans amount to about 7% of its total loans, and the share is expected to increase in the future. About half of KBN's net lending growth in 2019 came from green loans. The goal for 2020 is that at least half of the lending growth should be green loans. In 2020 KBN will further develop its green lending program and will work to influence the development of international standards in green finance. KBN will also seek to work to increase knowledge and awareness of climate and environmental issues internally. In 2019 a cross-departmental climate and environment group was set up, which works on raising awareness regarding our own climate footprint – both as employees and as private individuals - and on increasing knowledge internally at the bank about climate and environment issues and green solutions.

2020 objectives

- Contribute to the achievement of national targets for the transition to a low carbon society by increasing the proportion of KBN's lending that is green lending for projects with a clear environmental ambition
- Contribute to the development of the green financing market by issuing green bonds and influencing the development of international standards

Climate risk

Climate risk completely dominated the World Economic Forum's Global Risks Report 2020, which was presented in January 2020. The report, which identifies the top threats for the next ten years on the basis of a survey of leaders from across the world, ranks climate-related risks as the top five risks in terms of likelihood over the next ten years, and four of the top five risks by severity of impact over the next ten years were also climate-related, ahead of weapons of mass destruction.

The Bank of England, under Governor Mark Carney, announced in December 2019 that in 2021 it would be extensively stress-testing the financial industry’s resilience to the physical and transition risks associated with different possible climate scenarios. Norway’s government-appointed Climate Risk Committee, which delivered its report in December 2018, recommended that the “State should stress-test the public finances for climate risk and ensure that its financial policies are robust with respect to climate-related shocks and disturbances”.

As one of Norway’s two systemically important finance institutions and an undertaking that raises capital internationally and lends to all Norway’s municipalities and county authorities, KBN is exposed to different types of climate-related risk that it needs to manage. We expect Norway’s finance industry will be stress-tested as well. We also expect that our investors will increasingly attach weight to climate risk and in a broader sense to ESG risk when making investment decisions. KBN has therefore worked since 2018 on identifying and managing climate risk both within its own organisation and at its customers.

The local government sector faces physical risks, such as surface runoff, floods, landslides, rising sea levels etc, which damage or destroy property, liability risk, which is the risk of being held liable for losses suffered by others as a result of climate change, and the transition risk associated with the transition to a low-carbon society, which includes changes to political and regulatory framework conditions, developments in technology and changes to consumer behaviour. In February 2020 the Norwegian Government announced a stricter climate objective for 2030, which requires Norway to cut its greenhouse gas emissions by 2030 by at least 50% compared with 1990 levels. The local government sector will have to contribute to the attainment of this objective. Local government sector projects undertaken today have an expected economic life of up to 40 years and will therefore still be in place when society has to face a less hospitable climate and probably far stricter requirements in terms of greenhouse gas emissions and resource usage.

On this basis, KBN has been clear that climate risk should be an important part of the evaluation criteria applied when investment decisions are made in the local government sector. In 2020 we will further develop the climate risk tool we launched in 2019 in order to provide municipalities with even better and more relevant information on their climate risk and include this information in their decision-making processes and investment plans. We will also work to put in place a methodology and practice for identifying and reporting on climate risk as a financial risk in KBN's own activities.

2020 objectives

- Identify and manage KBN's own climate risk and help our customers to develop their expertise in mapping and managing their own climate risk

EXPERTISE SHARING AND RESPONSIBLE LENDING

The activities support the following SDGs:

11 SUSTAINABLE CITIES AND COMMUNITIES

17 PARTNERSHIPS FOR THE GOALS

As the largest lender to the local government sector, with the very important task of providing it with low-cost and stable financing, KBN has a particular responsibility to support long-term and sustainable debt management. Through expertise sharing, dialogue with customers and digital tools such as KBN Finance, we seek to raise awareness about financial issues and to contribute to the sector having the best possible basis for decisions. As a systemically important financial institution, we also seek to contribute to financial stability. Our aim is to be the best source of information to support decision-making on financing and debt management in the local government sector.

Local government sector borrowing and responsible lending

KBN has developed its own credit assessment model that is at the heart of its lending processes. Customers who are classified red or orange according to the model have to undergo a separate assessment by KBN's internal Credit Committee when they apply for a loan. KBN wants its credit assessment methodology to be open and accessible in order to increase the transparency of our assessments and to provide customers with valuable insight into their own financial situation.

KBN'S CREDIT ASSESSMENT MODEL

Number of customers in the red, green, light yellow, yellow and orange categories of KBN's credit assessment model

Year	Red	Orange	Yellow	Light Yellow	Green	No. of customers in total	No. of customers on the ROBEK* register
2015	0	7	57	32	332	428	49
2016	0	5	25	11	387	428	47
2017	1	2	17	10	396	426	28
2018	0	3	18	2	400	423	18

*) Register for Governmental Approval of Financial Obligations

KBN launched a debt management system known as KBN Finans in 2016. This is a web-based tool that helps our customers with their transaction history and analysis and reporting relating to their loans and interest rate fixings, and it allows customers to evaluate their municipality's borrowing position and exposure to financial risk. In 2019 the tool was further developed to automatically include any loans that a municipality has from the Norwegian State Housing Bank in its overview on KBN Finans. This has provided our customers with a more complete debt management tool. KBN Finans will be further developed in 2020.

In 2020, KBN will launch the first version of our new customer portal, with information about the customers' loan conditions and with the possibility of requesting new loans as well as changing existing loans. The portal will be continuously developed with new functionality and new tools that add value to the customers.

KBN's credit model will be made available for our customers in 2020, and further developed to include climate risk as well.

2020 objectives

- Support our customers in managing their borrowings in a long-term, sustainable way

Expertise sharing

KBN contributes to the sharing of expertise, including by offering regional finance seminars and through the KBN Skolen/KBN Skolen 2.0 programs for customers. KBN's aim is to increase customer knowledge in the areas of financial risk management, the fixed income market, and debt management. In 2020 we will further develop these services and work to increase accessibility by also providing training and information through digital seminars and solutions.

2020 objectives

- Contribute to greater insight into financial risk management and debt management in the local government sector by actively disseminating information

Financial inclusion, accessibility and financial training

KBN's AAA/Aaa rating and its solid reputation in the capital markets are the two most important requirements for it to have access to the markets and to enjoy favourable borrowing terms. KBN's policy is to operate with holdings of cash and cash equivalents that match its capital requirements, including lending growth to the local government sector, for the subsequent 12 months at all times, with the aim of ensuring that its customers always have access to funding when they need it.

2020 objectives

- Ensure that municipalities have access to useful and low-cost financial products and services that meet their needs – transactions, payments, saving and borrowing – with KBN providing them in a responsible and sustainable manner

RESPONSIBLE ORGANISATION

The activities support the following SDGs:

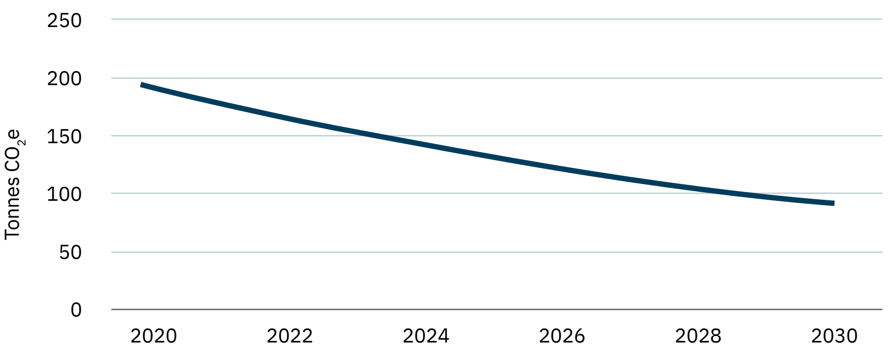
KBN's strategy – Building a sustainable society – emphasizes that "sustainability will permeate the way in which we operate our activities". This creates obligations for KBN, and at the same time it provides a clear framework for our work going forward. Our stakeholders and wider society expect us to be a sustainable organisation with a good reputation for sustainability.

The Norwegian Government's white paper on state ownership states inter alia that there is an expectation that companies in which the government has an ownership interest "will have an overall plan for sustainable value creation, will produce, implement and report on clear objectives and strategies, and will be a leader in their work to operate responsibly", and "will be open about material areas, objectives and measures within their work to operate responsibly". In 2020 KBN will work on following up on the recommendations contained in the white paper.

Sustainability is an increasingly important motivational factor for job applicants, and a strong reputation for sustainability can be a competitive advantage in a recruitment context. We are therefore going to continue to highlight our sustainability work on our own website, on social media, in recruitment campaigns and in other marketing contexts.

KBN's credibility in the area of sustainability partially depends on it keeping its own house in order. KBN is following the Norwegian state's example by setting a target of achieving at least a 50% reduction in greenhouse gas emissions by 2030 (baseline: 2019)

EMISSION REDUCTIONS, TARGET



EMISSIONS IN TONNES OF CO_2e

	2019	2018
Scope 1	2.8	3.9
Scope 2	57.8	57.2
Scope 3*	131.8	220.7
Total	192.4	281.8

Scope 1 is the company's direct emissions. For KBN, this applies to petrol and diesel from the use of private cars on business trips.
Scope 2 is the companies' indirect emissions from electricity purchased and used. For KBN, this applies to district heating, cooling and electricity use in our premises.
Scope 3 is all other indirect emissions. For KBN, this applies to residual waste and business travel (flights)
*KBN has introduced a new calculation method for emissions from flights (ICAO) with effect from 2019

As a responsible organisation, work on ethical conduct is an important part of KBN's business. We expect all employees and managers to act in line with KBN's Code of conduct, last revised in 2019. Training sessions on ethical conduct and dilemma training shall be provided for employees annually. KBN's Code of conduct must be made known to all employees, communicated to suppliers and customers and be available on KBN's website in English and Norwegian. KBN has a zero-tolerance approach to bullying, harassment and discrimination.

KBN works to ensure corruption and money laundering have no place in its business activities. KBN's zero-tolerance approach is communicated through its Code of conduct, as well as in internal guidelines against corruption and money laundering. The Code of conduct is communicated to all KBN's employees and is part of the onboarding process. In addition, the Board, the management and employees with direct customer contact receive training in measures against financing of terror and money laundering. In 2020, this will also be part of the onboarding process for new employees through an e-learning course.

KBN has procedures in place for anyone who is concerned about unacceptable conduct or circumstances to report this (whistle-blowing), and has rules and procedures in place for processing such reports. To reduce the threshold for whistle-blowing, KBN has set up an external whistle-blowing channel. This arrangement makes it easier for external parties to whistle-blow, and also makes it possible for both external parties and employees to whistle-blow anonymously if they consider this to be preferable or essential.

2020 objectives

- Meet our stakeholders' expectations for our sustainability work
- Cut out emissions by at least 50% by 2030 compared to 2019

SUPPLIERS

The activities support the following SDGs:

KBN procures goods and services worth approximately NOK 100 million each year. Through our direct role as a purchaser and our collaboration with others in the business community, we can set requirements that drive suppliers and their sub-suppliers to adopt more sustainable and responsible conduct. In 2019 KBN adopted new procurement guidelines that contain a range of guiding principles that KBN must apply in its procurement activities.

KBN's procurement processes must be designed so that they help promote KBN's environmental, social and governance objectives (ESG), e.g. procurement must promote climate-friendly solutions where relevant, either through specific requirements for tenderers or by using environmental parameters as criteria when selecting suppliers.

Having sustainability as a guiding principle also imposes restrictions on the suppliers with which KBN can associate. We will not use suppliers that are involved in corruption or money laundering, or suppliers who do not respect basic human rights and labour rights, equality and diversity, or requirements relating to ethical conduct and social issues. The principle also requires KBN to ensure that it has a reasonable overview of its supply chains in order for it to be able to ensure that it can take into account ethical and corporate social responsibility considerations at its suppliers' sub-contractors.

In 2020 KBN will operationalise the content and reach of its principles into comprehensive guidelines and an associated framework, and it will also set ESG requirements that an organisation has to meet in order to be a supplier to KBN.

2020 objectives

- Select suppliers that respect human rights and employee rights, and whose conduct prevents corruption and is ethical and environmentally friendly

EMPLOYEES

The activities support the following SDGs:

KBN is a knowledge business, and its employees are its most important resource. We are committed to ensuring all employees have good working conditions, are treated equally, and have access to the same opportunities with regard to personal and professional development and promotion.

KBN works in a systematic and targeted way on diversity and equality across the organisation and this work is a fundamental part of its recruitment of new employees, its development of managers and employees, and its succession planning. KBN's objective is to achieve a good gender balance at all levels and within all units so that there is at least a 40% representation of each gender. Both when recruiting new employees and when making changes to the composition of management groups and organisational units, KBN pays particular attention to gender balance. Recruitment processes are always carried out in such a way that the best-qualified female and male candidates are identified and assessed before any decision is taken. All candidates are treated equally, and no consideration is given to gender, disability, age, or cultural or geographic background when candidates' professional and personal qualifications are being assessed. Flexible working hours are offered to facilitate arrangements for employees who have care responsibilities at home.

Employee development

KBN encourages employees to make use of its skills development offering, which includes courses, conferences and seminars, as well as the opportunity to undertake further training. Employees who do not speak Norwegian are provided with training in Norwegian. KBN seeks to offer specialist talks for all employees each month. KBN's climate and environment group regularly organises knowledge and awareness-raising activities in relation to the climate, the environment and sustainability.

2020 objectives

- Facilitate employees' personal and professional development to meet KBN's needs and equip employees for their current and future roles

Employee engagement

Employee engagement and wellbeing at work can affect motivation, productivity and the quality of employees' work. KBN carries out regular employee interviews and surveys to map employees' perception of their day-to-day work and opportunities for improvement. KBN offers employees social activities on a monthly basis as well as weekly group exercise options.

2020 objectives

- Regularly map engagement, well-being and the perceived framework for doing a good job, and facilitate greater employee satisfaction

FACTS
Corporate diversity in KBN.

SHARE OF WOMEN	**56 %** Board of directors (56)	**42 %** Employees (43)	**36 %** CEO and management (40)	**57 %** Next management level (50)
AGE	**41,8** Mean age men (41)	**41,4** Mean age women (42)	**15** Employees 30 years or younger (16)	**21** Employees over 50 years (19)
INTERNATIONAL	**9 %** Other citizenship than Norwegian (11)	**8** Nationalities (8)	**12 %** International work experience, more than one year (15)	**31 %** Education abroad, more than one year (33)

AVERAGE SALARIES WOMEN

All employees	**85 %** of men's salary
CEO and executive management	**138 %** of men's salary
Management team (excluding CEO)	**109 %** of men's salary

TCFD reporting

KBN follows the Task Force on Climate-related Financial Disclosures (TCFD) recommendations for corporate reporting on climate risk. The recommendations consist of four major categories: Governance, Strategy, Risk Management and Metrics and Targets, with a total of 11 recommended disclosures. The table below reports the status of KBN's work in 2019 and planned measures for 2020.

GOVERNANCE

Status 2019	Measures for 2020
In 2019 KBN's climate risk portal and management's work on climate risk in relation to its customers were presented to the Board. The Board asked management to oversee KBN's climate risk work and encouraged KBN to become involved in public consultations on the matter. Management has reported on KBN's work in the area to the Board throughout the year.	Climate risk will be incorporated into management's regular risk reports for the Board.
The launch of a portal for local climate risk and an associated report prepared by CICERO in 2019 represented the first step in KBN's work to put climate risk on the agenda of its customers (municipalities and county authorities). This work was followed up through a number of seminars targeted at Norwegian municipalities, and was a topic in meetings with customers. KBN has actively sought contact with specialist institutes, business and industry, relevant organisations and the local government sector in order to increase its own expertise and understanding in relation to various aspects of climate risk.	Finalise a framework for incorporating climate risk into KBN's risk management system, as well as making this available to customers. Further develop the climate risk tool for the local government sector to include more data. Help our customers to monitor and include climate risk in their own processes to ensure that they are well equipped to respond to climate change.

STRATEGY

Status 2019	Measures for 2020
KBN's customers are exposed to climate risk, and this could result in immediate financial consequences or gradual effects that over time could weaken their financial room for manoeuvre, including their ability to obtain debt financing. The Norwegian Local Government Act stipulates at Section 29-1 that municipalities and county authorities cannot be declared insolvent, meaning that KBN's exposure to default risk is very low. The financial consequences of climate risk may weaken KBN's own financial room for manoeuvre. It is assumed that, over the short term (three years), climate-related risk will have a limited impact on the local government sector's overall finances. Some municipalities, however, may face higher costs that reduce their financial room for manoeuvre as a result of individual incidents, e.g. incidents related to floods or landslides. It has to be assumed that, over the medium term (2030) and the long term (2050), both physical climate change and stricter climate policies will increase costs for the local government sector and create a need for significant investment. A more extreme and wetter climate may mean that investments financed by KBN have a shorter life than originally anticipated. This will be an added financial cost for KBN's customers.	KBN will work to identify specific climate risks over different time horizons and emissions scenarios.

STRATEGY

Status 2019	Measures for 2020
Stricter climate policies may create greater demand for financing for green projects. Work on climate change adaptation measures and on measures intended to prevent the consequences of more extreme weather may result in higher levels of investment. More frequent and heavier precipitation will place increased pressure on water and wastewater systems, which are already facing a significant maintenance backlog and are in many cases under-dimensioned. This may create greater demand for tailored financial solutions for the water, wastewater and sanitation sector. The prospect of declining oil revenues, the transition to a low-carbon society and fewer working-age people may affect tax revenues at both the national and local levels, and may therefore impact municipalities' financial position and ability to manage the costs associated with the changing climate. With regard to funding, KBN is well-positioned to meet international demand for green bonds. International developments, including the EU's 'Financing Sustainable Growth' action plan, may facilitate favourable borrowing prices for future green bonds of the high quality offered by KBN. KBN is finding that rating agencies, issue managers and investors are increasingly including ESG data in their evaluations. Poor scores on such evaluations can increase borrowing costs.	KBN will develop and offer its customers a lending product adapted to investing in projects in the water, wastewater and sanitation area. By sharing knowledge, engaging in dialogue with customers and offering digital tools such as KBN Finans, we strive to help increase awareness of financial issues and to provide the best possible basis for decisions. In 2020 KBN will work on ensuring that ratings agencies have access to up-to-date and appropriate information for their ESG evaluations.
A 1.5 oC scenario will require major investment in the transition, including in infrastructure and new technology in the local government sector. It will also require some investment in climate change adaptation, as the global average temperature is expected to increase by at least 0.5 oC relative to today. A 4 oC scenario is expected to require major investment in climate change adaptation measures, as well as to result in costs associated with damage caused by a less hospitable climate. Such a scenario is also expected to result in an abrupt restructuring of the economy as the century progresses. In both scenarios, municipalities will be affected by a loss of jobs and tax revenue, and in many instances by a reduction in the number of residents as well. KBN assumes that the financing needs of the local government sector will be significant under both scenarios.	KBN will develop scenario analyses for use when assessing individual municipalities' finances and the local government sector's finances.

RISK MANAGEMENT

Status 2019	Measures for 2020
In 2019 KBN started work on increasing its knowledge of climate risk exposure within its own organisation. KBN has actively sought contact with specialist institutes, business and industry, and relevant organisations, and has visited selected areas of Norway to better understand how climate change is affecting its customers. It is currently working on mapping what data sources are available and useful with regard to identifying and quantifying different types of climate risk at the level of the individual municipality. KBN developed and launched a climate risk tool for municipalities in collaboration with the CICERO Centre for International Climate Research. In 2019 KBN produced an information booklet on climate risk in the local government sector in collaboration with the Norwegian Climate Foundation, and ran regional events to increase its customers' expertise.	KBN will work to set up a system for modelling municipalities' exposure to different types of climate risk. The next phase will be to analyse how the climate risk faced by municipalities will impact KBN's lending portfolio. KBN will further develop its climate risk tool with additional relevant data at the municipality level.

RISK MANAGEMENT

Status 2019	Measures for 2020
In 2019 KBN attached importance to increasing its customers' understanding of the climate as a financial risk, including by offering an information booklet and an online tool on the topic. KBN offers discounted loans to projects that reduce the customer's exposure to climate risk. KBN's green loans were responsible for half of its lending growth in 2019.	KBN will expand its existing credit assessment model so that it includes municipalities' exposure to climate risk. KBN's aim is for green loans to represent 50% of its total lending growth in 2020. Its new criteria document for green loans (valid with effect from 1 January 2020) attaches greater weight to physical climate risk.
Climate-related risk has not been explicitly incorporated into the organisation's risk management system.	KBN will expand its existing credit assessment model so that it addresses municipalities' exposure to climate risk.

METRICS AND TARGETS

Status 2019	Measures for 2020
In anticipation of KBN having separate indicators to identify climate risk, KBN's green lending and the growth in the proportion of its lending that is green lending represent proxy metrics for climate risk.[1]	Increase green lending as a proportion of KBN's lending portfolio. Expand KBN's credit assessment model for lending by adding indicators that assess climate risk.
Scope 1[2]: 2.80 tonnes of CO_2 Scope 2[3]: 57.79 tonnes of CO_2 Scope 3[4]: 131.81 tonnes of CO_2 The greenhouse gas emissions produced by KBN's own activities are limited and the associated risk is assessed primarily to be related to reputational loss.	KBN has approved a target of halving its greenhouse gas emissions by 2030 relative to 2019.
KBN has a target of increasing the proportion of green lending (with lower climate risk) in its portfolio – in 2019 half of KBN's lending growth was from green loans.	- Expand KBN's credit assessment model to include climate-related data. - Half of KBN's lending growth will come from green lending. - Halve our own emissions by 2030.

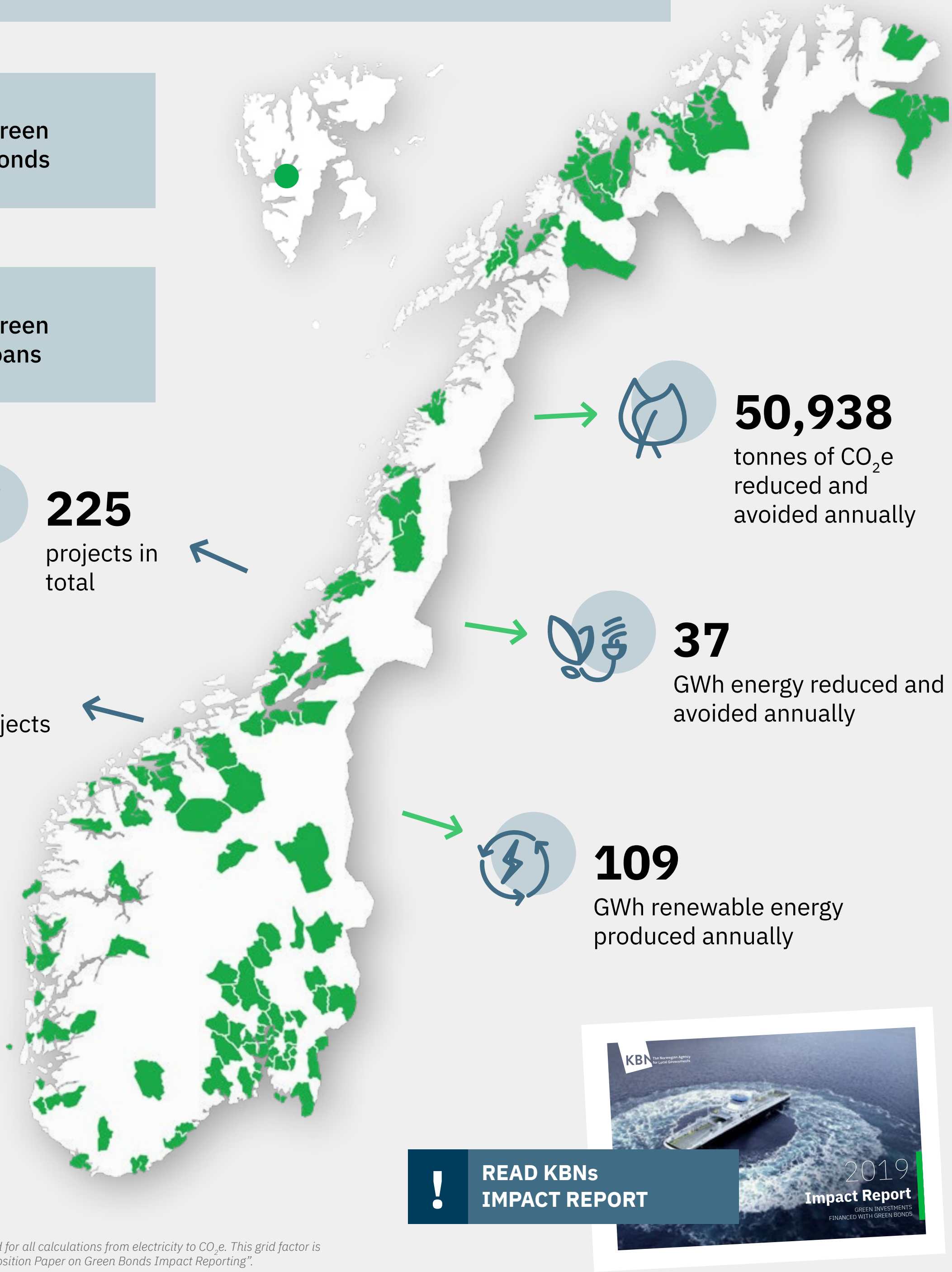
1 KBN's green lending program has been rated 'dark green' by CICERO, which signals that the investments that are financed are in line with the climate targets for 2050.
2 Petrol/diesel
3 District cooling, district heating, electricity
4 Residual waste, air travel (ICAO carbon emissions calculator)

Impact Report 2019

KBN reports annually on the effects of the Green Loans in its Impact Report. The report provides investors and other stakeholders with extensive information on the projects financed by Green Bonds, such as CO_2 reduced or avoided. At the end of 2019, KBN had NOK 23 billion outstanding in Green Loans to 225 projects in the municipal sector. The map below shows where in the country the projects are located. A summary of the Impact Report follows on the next page.

16.6 mrd. NOK — **Green bonds**

23.0 bn. NOK — **Green loans**



225
projects in total

45
New projects in 2019

50,938
tonnes of CO_2e reduced and avoided annually

37
GWh energy reduced and avoided annually

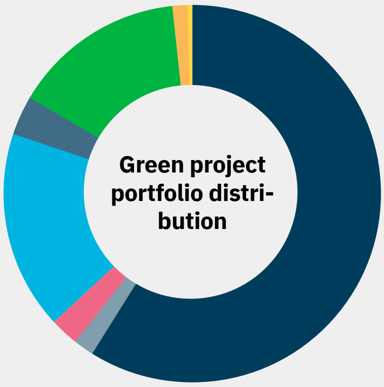
109
GWh renewable energy produced annually

! READ KBNs IMPACT REPORT

A grid factor of 315g CO_2 per kWh of electricity is used for all calculations from electricity to CO_2e. This grid factor is recommended in the "Nordic Public Sector Issuers' Position Paper on Green Bonds Impact Reporting".

Summary

As of 31 Dec 2019

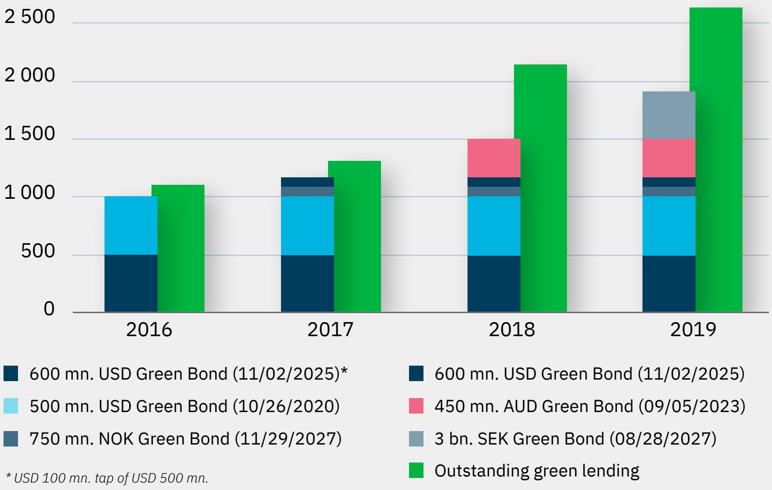


■	Buildings	58.9%
■	Energy efficiency	1.8%
■	Renewable energy	2.5%
■	Transportation	17.1%
■	Waste and circular economy	3.3%
■	Water and waste water management	14.8%
■	Land use and area developent projects	1.2%
■	Climate change adaptation	0.4%

Basic information

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

Green Bonds Issuance and Green Project Portfolio



** USD 100 mn. tap of USD 500 mn.*

Project Portfolio and Impact Overview

Project category	Outstanding amounts to projects, 1000 NOK	CO_2e reduced and avoided, tonnes/ year	Impact tonnes CO_2e per million NOK
Buildings	13 570 913	6991	0.5
Energy efficiency	410 821	5 637	13.7
Renewable energy	571 240	34 476	60.4
Transportation	3 942 029	3 833	1.0
Waste and circular economy	757 745	n/a	n/a
Water and waste water management	3 420 036	n/a	n/a
Land use and area projects	279 355	n/a	n/a
Climate change adaptation	96 521	n/a	n/a
Total	**23 048 661**		
Annual renewable energy general, GWh	**109 GWh**		
Annual energy reduced/ avoided, GWh	**37 GWh**		

Impact attributable to green bond investors

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

Photo: Scanpix

In depth – climate risk

Climate risk entering KBN's risk assessments

Both climate change and climate policies will impact the local government sector's finances over the coming decades. This can in turn affect KBN. KBN has therefore started work on modelling different types of climate risk at municipality level.

BY TORUNN BRÅNÅ
FAGANSVARLIG GREEN FINANCE, KBN

Climate risk is an umbrella term for the uncertainties associated with the consequences of climate change, climate policies and climate-related developments in technology and consumer demand.

KBN started work on integrating climate risk indicators into its normal risk assessment models in 2019. In parallel with this, we worked on disseminating knowledge about climate risk to our customers through our climate risk tool: www.kbn.com/klimarisiko (in Norwegian only).

Modelling climate risks
KBN's credit model operates through a traffic light system, where green indicates low risk, yellow medium risk and red high risk. The credit assessment is performed on each customer, not project, as all risk is associated with the customer (the municipality), not the specific project.

As we build a better data foundation for developing climate-related indicators, climate risks may be modelled following a similar approach.

The choice of climate scenarios applied in the analysis determine the estimated impact of climate change and climate policies on the financial situation of the local government sector. Hence, a core part of KBN's efforts going forward will be to establish a range of climate scenarios that allow us to conduct simple stress tests. Such stress tests may include both physical climate risks and transition risks.

! VISIT KBN.COM/KLIMARISIKO

THREE TYPES OF CLIMATE RISK

Physical climate risk: The consequences of climate change in the form of both the impacts from acute events and from changes that take place over time. This includes, for example, damage caused by floods, landslides, rising sea levels, drought and the decay of organic matter caused by increased humidity e.g. in buildings. An organisation can be exposed to physical climate risk both directly and indirectly through its suppliers and distribution chains.

Transition risk: The consequences of climate and energy policies, technological developments, changes in demand and other developments in connection with the transition to a low-carbon economy. A concrete example is the pricing of greenhouse gas emissions (quotas and CO_2 taxes). The process of low-carbon transition may impact the number of jobs and their location, the profitability of investments, etc.

Liability risk: The risk of being held liable for damage or losses suffered by others as a consequence of climate change.

TABLE 1

It remains a challenge to find suitable municipal-level data sources that provide information on the climate-related developments that may affect Norway's different municipalities in the future and their possible consequences. The table below sets out the types of data we have examined so far.

	Backward-looking: Factual observations	Forward-looking: Scenario-based
Physical climate risk and liability risk	Historical weather data Statistics on insurance pay-outs Mapping studies of natural hazards, e.g. quick clay and floods The age and condition of infrastructure	Climate projections Sea level projections Climate scenarios (with an emphasis on climate change)
Transition risk	Greenhouse gas emissions Employment in various industries Municipality-state-reporting (KOSTRA) figures on municipalities' consumption and investment KPIs for the UN's Sustainable Development Goals	Climate scenarios (emphasis on climate policies) Stress tests of various industries

TABLE 2

Generic example of how climate risk indicators may be modelled.

		Metropolitan municipality, Eastern Norway	Medium-sized industrial municipality	Medium-sized,eastern municipality subject to poor weather	Small, inland municipality
Physical risk	Extreme precipitation	🟡	🟢	🔴	🟢
	Flooding	🟢	🔴	🔴	🟡
	Sea level rise	🟡	🔴	🟢	🟢
	Avalanches and landslides	🟢	🟢	🟡	🟡
Liability risk	Insurance pay-outs related to natural hazards	🔴	🟡	🟢	🟢
	Age of wastewater infrastruc-ture Renewal/replacement Rate	🔴	🔴	🟢	🟢
Tran-sition risk	CO2 emissions per inhabitant (current and trend)	🟡	🔴	🟡	🟢
	Diversification of industrial base	🟢	🔴	🟡	🟡
	Vulnerable key industries	🟢	🔴	🟡	🔴
	Municipalities' energy consumption	🟢	🟡	🔴	🔴

Financial statement 2019

- Income statement
- Statement of comprehensive income
- Statement of financial position
- Statement of changes in equity
- Statement of cash flows
- Accounting policies

Notes to the financial statements

INCOME STATEMENT

(Amounts in NOK 1 000 000)	Note	2019	2018
Interest income from assets measured at amortised cost		*5 039*	*3 738*
Interest income from assets measured at fair value		*3 777*	*3 017*
Total interest income		8 817	6 755
Interest expense		6 942	4 871
Net interest income	**1**	**1 875**	**1 885**
Fees and commission expenses	**2**	87	34
Net unrealised gain/(loss) on financial instruments	**3**	213	338
Expected credit loss	**16**	1	1
Net trading income	**4**	23	17
Total other operating income		**148**	**320**
Salaries and administrative expenses	**5,6,7**	159	142
Depreciation on fixed assets		22	22
Other expenses	**9**	71	46
Total operating expenses		**252**	**209**
Profit before tax		**1 771**	**1 996**
Income tax	**8**	488	499
Profit for the year		**1 283**	**1 496**
Portion allocated to shareholder		1 231	1 448
Portion allocated to owners of additional Tier 1 capital		52	48

STATEMENT OF COMPREHENSIVE INCOME

(Amounts in NOK 1 000 000)	Note	2019	2018
Profit for the year		1 283	1 496
Other comprehensive income			
Items which will not be reclassified to profit or loss			
*Change in fair value of liabilities due to changes in own credit risk**	**20**	319	(365)
Actuarial gain/(loss) on defined benefit plan		(10)	1
Tax effect		(77)	91
Total other comprehensive income		**232**	**(273)**
Total comprehensive income for the year		**1 515**	**1 223**

**Change in fair value of liabilities due to changes in own credit risk shall be presented in the Statement of comprehensive income.*

STATEMENT OF FINANCIAL POSITION

(Amounts in NOK 1 000 000)	**Note**	**2019**	**2018**
Assets			
Deposits with credit institutions	**10,11,12,14,22**	18 181	22 987
Other money market deposits	**10,11,12,14**	3 244	-
Instalment loans	**10,11,12,15**	310 912	303 571
Notes, bonds and other interest-bearing securities	**10,11,12,13,17**	111 111	116 519
Financial derivatives	**10,12,13,21,22**	15 025	14 497
Deferred tax asset	**8**	2 134	0
Other assets	**18**	172	127
Total assets		**460 778**	**457 701**
Liabilities and equity			
Loans from credit institutions	**10,12,19,22**	4 462	12 085
Commercial paper	**10,12,20**	2 631	-
Senior securities issued	**10,11,12,13,20**	403 913	402 916
Financial derivatives	**10,12,13,21,22**	27 425	24 051
Other liabilities	**18**	55	34
Current tax liabilities	**8**	3 868	0
Deferred tax liabilities	**8**	0	1 164
Pension liabilities	**7**	36	47
Subordinated debt	**10,12,23**	1 987	1 982
Total liabilities		**444 377**	**442 279**
Share capital	**24**	3 145	3 145
Additional Tier 1 capital	**25**	2 189	2 189
Retained earnings		11 067	10 088
Total equity		**16 401**	**15 421**
Total liabilities and equity		**460 778**	**457 701**

STATEMENT OF CHANGES IN EQUITY

(Amounts in NOK 1 000 000)

2019

	Note	Share capital	Additional Tier 1 capital	Value changes on liabilities due to changes in own credit risk	Retained earnings	Total equity
Equity as of 1 January 2019		3 145	2 189	(634)	10 720	15 421
Profit for the year		-	-	-	1 283	1 283
Other comprehensive income - value change on liabilities due to changes in own credit risk		-	-	239	-	239
Other comprehensive income - actuarial gain/loss		-	-	-	7	7
Interest paid on Tier 1 capital	**25**	-	-	-	(69)	(69)
Dividends for 2018		-	-	-	(481)	(481)
Equity as of 31 December 2019	**24**	**3 145**	**2 189**	**(395)**	**11 460**	**16 401**

Allocation of the Profit for the period to retained earnings has been proposed, along with the decision not to pay out a dividend to the owner due to the adopted and announced increase in capital requirements in 2020, and further due to special deductions in Common equity Tier 1 capital based on deferred tax assets in 2019.

2018

	Note	Share capital	Additional Tier 1 capital	Value changes on liabilities due to changes in own credit risk	Retained earnings	Total equity
Equity as of 31 December 2017		3 145	2 189	-	9 333	14 667
Effects 1 Januray 2018 due to transition to IFRS 9		-	-	(360)	383	23
Equity as of 1 January 2018		3 145	2 189	(360)	9 716	14 691
Profit for the year		-	-	-	1 496	1 496
Other comprehensive income - value change on liabilities due to changes in own credit risk		-	-	(274)	-	(274)
Other comprehensive income - actuarial gain/loss		-	-	-	(1)	(1)
Interest paid on Tier 1 capital	**25**	-	-	-	(48)	(48)
Dividends for 2017		-	-	-	(443)	(443)
Equity as of 31 December 2018	**24**	**3 145**	**2 189**	**(634)**	**10 720**	**15 421**

STATEMENT OF CASH FLOWS

(Amounts in NOK 1 000 000)	**2019**	**2018**
Cash flows from operating activities		
Interest received	8 666	6 529
Interest paid	(6 514)	(3 899)
Fees and commissions paid	(87)	(34)
Receipts from repurchase of issued securities	21	17
Cash payments to employees and suppliers	(246)	(209)
Income taxes paid	0	0
Net disbursement of loans to customers	(7 557)	(20 525)
Net (increase)/decrease in deposits with credit institutions	(5 758)	(4 492)
Net (increase)/decrease in notes, bonds and other interest-bearing securities	6 812	(6 370)
Net (increase)/decrease in other assets	(9)	8
Net increase/(decrease) in other liabilities	(23)	(55)
Net (increase)/decrease in financial derivatives	24 528	3 489
Net cash flows from operating activities	**19 832**	**(25 542)**
Cash flows from investing activities		
Net (purchase)/sales of property and equipment	7	2
Net cash flows from investing activities	**7**	**2**
Cash flows from financing activities		
Proceeds from issuance of commercial paper	20 337	0
Repayment of commercial paper	(17 678)	0
Repayment on lease obligation	(6)	-
Proceeds from issuance of debt securities	72 508	104 845
Repayment of debt securities	(94 564)	(79 004)
Proceeds from issuance of additional Tier 1 capital	0	0
Interest paid on Tier 1 capital	(69)	(65)
Proceeds from issuance of subordinated debt	0	0
Repayment of subordinated debt	0	0
Dividends paid	(481)	(443)
Net cash flows from financing activities	**(19 952)**	**25 333**
Net cash flows	**(113)**	**(208)**
Effects of foreign exchange differences	296	396
Net cash flows after foreign exchange differences	**183**	**189**
Cash and cash equivalents at 1 January	276	87
Net change in cash and cash equivalents	183	189
Cash and cash equivalents at 31 December	**459**	**276**
Whereof		
Deposits with credit institutions without agreed time to maturity	*459*	*276*
Loans from credit institutions without agreed time to maturity	*0*	*0*

See note 20 for a reconciliation of changes in the carrying amount of liabilities that are part of financing activities. Such liabilities are Senior securities issued and Subordinated debt.

ACCOUNTING POLICIES

REPORTING ENTITY

KBN is a limited company providing loans to counties, municipalities, intermunicipal companies and other companies that carry out tasks at a municipal level. KBN's registered office is in Haakon VIIs gate 5B, Oslo. The financial statements for the year ended 31 December 2019 were approved by the Board of Directors on 28 February 2020.

BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

FOREIGN CURRENCY TRANSLATION

The Company's functional and presentation currency is the Norwegian kroner (NOK). Assets and liabilities denominated in a foreign currency are translated into NOK at the exchange rate on the reporting date. Revenues and expenses denominated in a foreign currency are translated into NOK at the exchange rate at the transaction date. The financial statements are presented in NOK and rounded to the nearest million kroner, except for Notes 6 and 7 that are presented in NOK thousand.

SIGNIFICANT ESTIMATES AND ACCOUNTING JUDGEMENTS

The preparation of financial statements in accordance with IFRS requires management to make judgements and use estimates that will affect the use of accounting policies. The estimates and accounting judgements affect carrying amounts of assets and liabilities, and revenues and expenses. Assumptions made about future development may change due to market changes, and actual results may deviate from the estimates.
The most significant judgements and estimates used in the preparation of the financial accounts are:

Fair value measurement

The fair value of financial instruments that are not traded in an active market, or do not have available quoted prices at the reporting date, is determined using valuation techniques. When inputs are to a significant extent not observable, management makes assumptions and uses estimates when considering credit risk and liquidity risk related to financial instruments. Even if the assumptions and estimates are, to the greatest possible extent, based on actual market conditions prevailing at the reporting date, they involve judgement and may add to the degree of uncertainty in valuations. Assumptions and judgements may also apply to the allocation of financial instruments measured at fair value in the IFRS 13 hierarchy (Level 1, 2 or 3).

FINANCIAL INSTRUMENTS

Accounting principles for financial instruments within IFRS 9 *Financial Instruments are as follows:*

RECOGNITION AND DERECOGNITION

Financial assets and liabilities are recognised in the Statement of financial position when KBN becomes a party to the contractual provisions of the instrument. At initial recognition, all financial assets and liabilities are measured at fair value. For financial assets that are not categorised as at fair value through profit or loss, the value at initial recognition includes transaction costs that are directly attributable to acquisition. Recognition and derecognition of financial instruments take place on the settlement date. For a regular way purchase or sale of a financial asset, the value changes of the asset are recognised from the trade date. Financial assets are derecognised when the contractual rights to the cash flows expire or are transferred. Financial liabilities are derecognised when the contractual obligation has been discharged, cancelled or has expired. When issued debt securities are repurchased, the liability is derecognised. Any difference between the settlement amount and the carrying amount is recognised in the income statement as gain or loss at the transaction date.

CLASSIFICATION AND MEASUREMENT

Classification of financial instruments takes place at initial recognition and determines the subsequent measurement of the carrying amount. Classification of financial instruments is determined by the characteristics of the financial instrument and by the business model for the management of financial assets.

If the risk within an asset or liability is hedged with a derivative contract, the asset or liability can be designated at fair value through profit or loss (FVO) and thereby reduce the measurement inconsistency between the asset / liability and its derivative. Amortized cost is used if the asset / liability and its associated derivative contract are subject to hedge accounting or if the asset / liability is not directly hedged with a derivative contract. This also applies to deposits with and loans from credit institutions. All financial derivatives are measured at fair value through profit or loss.

KBN's financial instruments are classified as Financial assets measured at amortised cost, Financial assets designated at fair value through profit or loss, Financial liabilities measured at amortised cost, Financial liabilities designated at fair value through profit or loss (FVO), and Financial derivatives. See Note 10 for accounting policies for classification and measurement of financial instruments.

FAIR VALUE OF FINANCIAL INSTRUMENTS

All assets and liabilities, which are not measured at amortized cost, are measured at fair value through profit or loss. Fair value, as defined in IFRS 13 *Fair Value Measurement,* is the market-based price that would have been obtained selling an asset or paying to transfer a liability in a well-arranged transaction between market participants at the time of measurement under the current market conditions, regardless of whether the price is directly observable or estimated using a valuation method.

Financial instruments are categorised into the fair value hierarchy, where the level of classification (levels 1, 2 or 3) is based on the observability of the input that is significant to the fair value measurement. See note 11 for accounting principles on fair value measurement.

PRESENTATION OF FINANCIAL ASSETS AND LIABILITIES

KBN does not offset any financial assets and liabilities in the Statement of financial position. Standard master netting agreements do not qualify for offsetting and net presentation. Therefore, the related assets and liabilities are presented gross in the Statement of financial position. Cash collateral received or pledged as additional security for derivative exposure is subject to ISDA-agreements that give right to offsetting of assets and liabilities in the event of default, but do not qualify for offsetting in the Statement of financial position under IAS 32. Cash collateral is presented on a gross basis in the Statement of financial position.

The part of changes in fair value of liabilities that is attributable to changes in KBN'S own credit risk is recognised in other comprehensive income, while the remaining part of the value changes is recognised in the Income statement.

EXPECTED CREDIT LOSS
A provision for expected credit losses is recognised for all financial assets that are measured at amortised cost.

Expected credit loss is calculated per instrument / loan at each reporting date and is based on the instrument's / loan's exposure at default, probability of default and loss at default, all estimated at the reporting date. Expected credit loss for instruments whose credit risk has not increased significantly since initial recognition is reflected by calculating a loss based on the probability of default within the next 12 months. For instruments whose credit risk has increased significantly since initial recognition, the expected credit loss is reflected by calculating a loss based on a probability of default during the full life of the asset.

See note 16 Expected credit loss for accounting principles on measuring expected credit loss.

HEDGE ACCOUNTING
Interest rate and cross currency swaps are used to hedge interest rate and currency risk in assets and liabilities. KBN applies IFRS 9 for hedge accounting. When a hedge relationship between a bond and a swap fulfils the criteria for hedge accounting and is designated as such, it is accounted for as a fair value hedge. The hedged items in the portfolio of Senior securities issued, are classified as measured at amortised cost.

The hedge relationship is documented at designation, including the hedging strategy, and hedge effectiveness is measured on an on-going basis using Dollar-offset method. Any ineffective part of the hedge is recognised in the income statement.

Hedging instruments are measured at fair value through profit or loss, and carrying amounts are adjusted accordingly. The value change of the hedged items that is attributable to the hedged risk (interest rate risk), is recognised as part of the carrying amount of the item and in the income statement as "Net unrealised gain/(loss) on financial instruments".

STATEMENT OF CASH FLOWS
The Statement of Cash Flows is prepared using the direct method and presents cash flows classified by activity. Cash and cash equivalents include cash on hand, demand deposits and short-term deposits with credit institutions without agreed time to maturity.

RECOGNITION OF REVENUES
Interest and commissions are recognised in the income statement as they are earned or accrued, and interest is presented as interest income or interest expense independent of underlying assets and liabilities. Interest income for assets and liabilities measured at amortised cost is recognised in the income statement using the effective interest method. For items measured at fair value, including interest rate derivatives, interest is recognised as it accrues either as income or expense. Unrealised gains and losses on financial instruments at fair value and value changes attributable to the hedged risk on hedged items under hedge accounting are recognised in the income statement as "Net unrealised gain/(loss) on financial instruments". Other commission expenses and charges are recognised as expenses in the period when the service is provided.

FIXED ASSETS
Fixed assets are measured at cost with the deduction of accumulated depreciation and write-downs. Ordinary depreciation, based on cost price, is calculated by using a straight-line method over the estimated useful life, and the disposal value of the assets is assumed to be zero.

INTANGIBLE ASSETS
Intangible assets are measured at cost and consist of IT systems whose acquisition cost is amortised over their useful life. Assets are tested for impairment annually. If there is an indication that assets are impaired, the value of the assets is written down, and the difference between the carrying amount and the recoverable amount is recognised in profit or loss.

PENSIONS
The bank's pension scheme is a defined contribution pension scheme. This means that the bank is paying a fixed percentage deposit as savings to each employee's pension account, depending on the size of the employee's salary. Employees who were 55 or older at the time of transition to the defined contribution pension scheme on 1 January 2018, remain in the former defined benefit pension scheme.

The defined contribution pension scheme is expensed on an ongoing basis.

For the earlier closed defined benefit plans (including defined benefit plan covering salaries over 12 times Base amount (G)), pension liabilities are measured at the present value of future pension obligations accrued on the balance sheet date. Pension liabilities are calculated on a straight-line basis, based on assumptions about discount rates, future salary adjustment, pensions and benefits from the National Insurance, as well as assumptions on mortality and voluntary retirement. The pension cost for the period consists of the sum of the period's accrual, interest expense on the calculated liability and administrative expenses. Changes in previous periods' pension accruals (plan change) are recognised in the income statement when the pension plan change occurs.

The net pension cost for the period is included in «Salaries and administrative expenses». Changes in pension liabilities and plan assets under defined benefit plans that result from changes and deviations in the calculation assumptions (changes in financial and actuarial assumptions) are presented in the Statement of comprehensive income as Other comprehensive income.

LEASES
IFRS 16 *Leases* replaces IAS 17 Leases and came into force on 1 January 2019. The new standard no longer distinguishes between operating and financial leases, but relates to only one model for recognition, which is based on accounting for leases in the same way as for financial leases in the old standard.

For leased assets ("right-to-use-assets"), depreciation is recognized in the income statement, at the same time as interest costs also are recognized on the lease obligation. Repayment of the lease obligation's principal is classified as financing activities. The interest portion is classified as financing activities in the cash flow statement.

As a result of the new standard, "right-to-use-assets" of NOK 43 million have been recognized from the bank's leases, with a corresponding lease-related obligation of NOK 43 million. KBN has chosen a so-called modified retrospective method at implementation, which means that comparative figures for 2018 have not been restated. The implementation had no effect on equity.

TAXES

Taxes are recognised in the income statement as they accrue, i.e. the income tax is based on profit before tax and on interest expense on Tier 1 capital that is recognised in the Statement of changes in equity. Temporary and permanent differences are adjusted for before the year's tax base for current taxes is calculated. Deferred tax liabilities and deferred tax assets are calculated on the basis of temporary differences between the accounting and tax values at the financial year end. The nominal tax rate is used for this calculation. Tax increasing and tax-reducing differences within the same period are offset. Income tax consists of current taxes (tax on the taxable profit or loss for the year), changes in net deferred tax and adjustment to taxes payable in respect of previous years.

IAS 12 *Income Tax* has been amended with effect from 1 January 2019. The change means that tax deductions on interest from Tier 1 capital that is classified as equity, are presented as a reduction in the tax expense in the Income statement. Prior to the change, this tax deduction was also recognized directly in equity. The amended standard therefore entails a reduced tax expense in the income statement of NOK 17.2 million compared with the previous accounting principle. Comparative figures have not been restated.

The tax rate is 25% and is unchanged from 2018.

EQUITY

The Company's equity consists of share capital, additional Tier 1 capital that fulfils the requirements of equity and retained earnings. Dividends are classified as equity until approved by the Annual General Meeting. The additional Tier 1 capital is measured at cost and paid interest is subtracted from retained earnings in the same way as dividends.

SEGMENT INFORMATION

The Company has one operating segment: lending to the Norwegian municipalities and municipal companies. The Company does not provide separate segment reporting other than disclosures on the lending portfolio and the business as a whole.

IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

KBN has implemented IFRS 16 *Leases* and IAS 12 *Income tax* on 1 January 2019.

FUTURE CHANGES IN STANDARDS

IBOR (reference rates)

International work is being carried out where today's interbank (Inter Bank Offer Rates, IBOR) reference rates are expected to be replaced by new reference rates. The timing of these specific changes is uncertain. KBN has a number of contracts with terms related to IBOR reference rates. Changes in the reference rates will affect the bank's internal processes and valuation models as well as they could have an impact on both tax positions and financial accounts. IASB, the International Accounting Standards Board, has conducted (phase 1), and will continue conducting (phase 2) change projects relating to the accounting standard for financial instruments that take into account the IBOR reform. KBN's preliminary opinion is that existing hedging relationships, where hedging instruments and hedging objects have contract terms in IBOR interest rates, can be maintained. KBN will continue to monitor developments closely and provide additional information in the financial accounts when such relevant information becomes available.

NOTE 1

NET INTEREST INCOME

(Amounts in NOK 1 000 000)

2019	Total	At fair value through profit and loss				Amortised cost
		Fair value option	Mandatory at fair value	Fair value hedge	Total at fair value	
Deposits with credit institutions	**0**	0	0	0	0	(0)
Instalment loans	**6 350**	1 878	0	0	1 878	4 472
Notes, bonds and other interest-bearing securities	**1 200**	632	0	0	632	568
Financial derivatives	**1 267**	0	1 267	0	1 267	0
Total interest income	**8 817**	**2 511**	**1 267**	**0**	**3 777**	**5 039**
Loans from credit institutions	**(0)**	(0)	0	0	(0)	0
Senior securities issued	**10 897**	5 689	0	0	5 689	5 207
Financial derivatives	**(4 016)**	0	(4 202)	186	(4 016)	0
Subordinated debt	**61**	61	0	0	61	0
Total interest expenses	**6 942**	**5 751**	**(4 202)**	**186**	**1 735**	**5 207**
Net interest income	**1 875**	**(3 240)**	**5 468**	**(186)**	**2 043**	**(168)**

2018	Total	At fair value through profit and loss				Amortised cost
		Fair value option	Mandatory at fair value	Fair value hedge	Total at fair value	
Deposits with credit institutions	**37**	0	0	0	0	37
Instalment loans	**5 000**	1 616	0	0	1 616	3 384
Notes, bonds and other interest-bearing securities	**755**	437	0	0	437	317
Financial derivatives	**964**	0	964	0	964	0
Total interest income	**6 755**	**2 053**	**964**	**0**	**3 017**	**3 738**
Loans from credit institutions	**3**	1	0	0	1	1
Senior securities issued	**10 707**	6 124	0	0	6 124	4 583
Financial derivatives	**(5 900)**	0	(6 017)	117	(5 900)	0
Subordinated debt	**61**	61	0	0	61	0
Total interest expenses	**4 871**	**6 186**	**(6 017)**	**117**	**286**	**4 584**
Net interest income	**1 885**	**(4 133)**	**6 981**	**(117)**	**2 731**	**(846)**

NOTE 2

FEES AND COMMISSION EXPENSES

(Amounts in NOK 1 000 000)

	2019	2018
Expenses of banking services	17	19
Contribution to resolution fund	57	-
Other transaction costs	13	15
Total fees and commission expenses	**87**	**34**

NOTE 3

NET UNREALISED GAIN/(LOSS) ON FINANCIAL INSTRUMENTS

(Amounts in NOK 1 000 000)

2019	Total	At fair value			Amortised cost
		Fair value option	Mandatory at fair value	Fair value hedge	
Instalment loans	**(412)**	(412)	0	0	0
Notes, bonds and other interest-bearing securities	**750**	750	0	0	0
Financial derivatives	**15 380**	0	11 980	3 400	0
Loans from credit institutions	**0**	0	0	0	0
Senior securities issued	**(15 501)**	(12 029)	0	0	(3 472)
Subordinated debt	**(4)**	(4)	0	0	0
Net unrealised gain/(loss) on financial instruments	**213**	**(11 695)**	**11 980**	**3 400**	**(3 472)**

2018	Total	At fair value through profit or loss			Loans and receivables
		Fair value option	Mandatory at fair value	Fair value hedge	
Instalment loans	**(420)**	(420)	0	0	0
Notes, bonds and other interest-bearing securities	**44**	43	0	0	1
Financial derivatives	**(8 084)**	0	(7 851)	(233)	0
Loans from credit institutions	**0**	0	0	0	0
Senior securities issued	**8 771**	8 585	0	0	187
Subordinated debt	**27**	27	0	0	0
Net unrealised gain/(loss) on financial instruments	**338**	**8 234**	**(7 851)**	**(233)**	**187**

Changes in fair value of liabilities due to changes in own credit risk are not included in the line Net unrealised gain/(loss) on financial instruments in the Income statement. Such fair value changes are recognised in Other comprehensive income in the Statement of comprehensive income on the line Change in fair value of liabilities due to changes in own credit risk. See Note 20 Senior securities issued for information on calculation of such value changes. The change in fair value arising from Senior securities issued presented in the above table is due to changes in parameters other than credit, such as interest rates.

Changes in fair value are the result of changes in market parameters and risk factors, mainly prices on bonds, market interest rates, credit spreads, basis swap spreads and FX rates, and are reflected in carrying amounts in the Statement of financial position and in the income statement. As KBN takes very limited currency and interest rate risk, the changes in relevant parameters will mostly be symmetric on the asset and liabilities sides of the Statement of financial position and therefore to a small extent give rise to net effects in the income statement. Changes in credit spreads for investments in the liquidity portfolio and issued bonds may on the other hand lead to significant income statement effects, as may changes in basis swap spreads.

Of net unrealised gains in 2019 amounting to NOK 213 million, Notes, bonds and other interest-bearing securities and related financial derivatives contribute with a gain of NOK 138 million. The gain is primarily due to the fall in USD interest rates and credit spreads which affect the value of bond prices. Instalment loans and related financial derivatives contribute further with a gain of NOK 153 million, due to reduced credit spreads. Senior securities issued and related financial derivatives reduce the overall unrealised gain with NOK 78 million. Net unrealised gains amounting to NOK 338 million in 2018 came primarily from Senior securities issued and related financial derivatives. In cases where the changes in fair value are realised on sale, repurchase or termination before maturity, the resulting gain or loss is presented as "Net trading income" in the income statement.

Financial derivatives in fair value hedges are measured at fair value through profit or loss (see note 13 Hedge accounting). The related hedged items comprise NOK 165.3 billion in "Senior securities issued", that are classified as measured at amortised cost. Changes in fair value for the hedged item that is attributable to the hedged risk adjust the carrying amount of the item, and are recognized and presented in the income statement as "Net unrealised gain/(loss) on financial instruments".

NOTE 4

NET TRADING INCOME

(Amounts in NOK 1 000 000)

To some extent, KBN does transactions that entail realisations and derecognition before maturity of either assets or liabilities. These transactions comprise sales of securities from the liquidity portfolio or repurchases of bond debt. Realised gain/(loss) is presented as Net trading income.

	2019	2018
Gain/(loss) from repurchase of securities issued	4	1
Gain/(loss) from sales of bond investments and derivatives terminations	17	16
Gain/(loss) from earlly repayment of loans and termination of financial derivatives	1	-
Net trading income	**23**	**17**

NOTE 5

SALARIES AND ADMINISTRATIVE EXPENSES

(Amounts in NOK 1 000 000)

	2019	2018
Salaries	92	80
Employer contributions	18	18
Pension costs	13	9
Other personnel benefits	4	3
Administrative expenses	32	31
Total salaries and administrative expenses	**159**	**142**
Average number of man-years	*80*	*77*

NOTE 6

REMUNERATION

(Amounts in NOK 1 000)

The Board of Directors will submit the following statement on the salary and other remuneration of senior executives to the Annual General Meeting:

THE REMUNERATION SCHEME FOR SENIOR EXECUTIVES

KBN's remuneration policy for senior executives is anchored in the Company's value proposition and its personnel policy, and is in line with its owner's expectations of the Company and its guidelines for the remuneration of senior executives. The central principles observed when determining the salaries of senior executives are that overall remuneration should be competitive but not market-leading when compared with equivalent companies in the banking and finance sector.

KBN's remuneration scheme for senior executives complies with the provisions of the Financial Undertakings Act[1], the Financial Undertakings Regulation[2], the circular on this Regulation issued by the Financial Supervisory Authority of Norway[3], and the Norwegian Government's Guidelines for remuneration of senior executives in companies with state ownership[4].

Remuneration for all employees, including senior executives, consists of a fixed salary, variable salary payments, pensions and other benefits, including personnel insurance, newspapers, mobile telephone and a residential mortgage scheme. KBN does not operate share-based remuneration programs or options. Fixed salary is the main element of remuneration received. The Board of Directors sets quantitative criteria each year for variable salary payments for the next financial year and can award payments in the following financial year of up to 1.5 times one month's salary for all employees.

All employees' fixed salaries are adjusted each year with effect from 1 January based on a combined assessment of KBN's results, their contribution to the attainment of shared targets and their adherence to the bank's values, with leadership skills also forming part of the assessment for managers with reporting staff.

Senior executives are defined as the President & Chief Executive Officer (the "CEO") and the CEO's management team, as shown in the table below.

MANAGEMENT SYSTEM AND DECISION-MAKING PROCESS

The Board of Directors has appointed an advisory committee - the Remuneration Committee - which carries out preparatory work on the principles applicable to remuneration, guidelines for variable salary, and guidelines for the remuneration of senior executives and for the remuneration of the CEO. The Board has issued a mandate for the work of the Remuneration Committee.

Minutes of the meetings of the Remuneration Committee are circulated to the Board. The Remuneration Committee has three members, who are appointed annually by and among the members of the Board. At year end 2019, the Committee's members are Brit Rugland (Chair), Petter Steen jr. and Harald Jacobsen (employee representative).

The Board approves guidelines each year for the remuneration of senior executives and for variable salary payments. KBN carries out an annual review of the practical implementation of the variable element of remuneration in the form of a written report that is reviewed by the internal auditor in accordance with the Financial Undertakings Regulation.

The Board determines the remuneration of the CEO following preparatory work on this matter carried out by the Remuneration Committee.

The CEO determines the remuneration of the other senior executives within the limits set by the Board's guidelines and takes into account the Board's views when making final decisions on such remuneration. The CEO's decisions on the remuneration of senior executives are subsequently submitted to the Board for information.

REMUNERATION OF KBN's SENIOR EXECUTIVES IN 2019

Fixed salary

Fixed salary payable in 2019 included the normal annual salary increase, as well as a compensation for the transition to a new pension scheme for some senior executives.

Variable salary

In line with the guidelines for variable salary and achieved results in 2018, all employees were granted a variable salary corresponding to 0.5 monthly salaries, paid out in 2019.

Other benefits

Other benefits include insurance arrangements, mobile phone, newspaper subscription etc. on the same terms and conditions as apply to other employees. The insurance arrangements relate to various forms of personnel insurance including health insurance and travel insurance, as well as disability insurance and life insurance up to the current level of fixed salary.

The CEO and the Chief Lending Officer are entitled to a fixed annual car benefit of NOK 130,000 and NOK 50,000 respectively.

The CEO has a contractual entitlement, subject to certain conditions, to severance pay equivalent to one year's fixed salary.

Pension benefits

KBN's pension scheme changed on 1 January 2018 from a defined benefit pension scheme administered by KLP for salaries below 12 times the National Insurance base amount (G) to a defined contribution scheme administered by Storebrand Livsforsikring AS.

The defined contribution pension scheme was established with a deposit rate of 7% for salaries between zero and 7.1G and 18% for salaries between 7.1 and 12G. A contractual pension plan (AFP) in the private sector associated with the joint scheme is entered into as part of the collective agreement. Related insurance coverings are included in the scheme and include disability pension scheme with child allowance without the right to paid-up policies, child pension and group life insurance / death benefit. The defined contribution scheme applies to all employees, except for those who were 55 years or older as of 1 January 2018 and employees who were partially or fully disabled with the right to sickness benefits as of 1 January 2018. These are covered by the previous scheme administered by KLP, which entitles its members to a life expectancy adjusted retirement pension upon the completion of 30 years of service equivalent to 66% of base salary at the time of leaving KBN. This scheme also includes disability and life pensions and contractual early retirement.

Employees who are estimated to receive a lower expected retirement pension at the age of 67 according to the new scheme compared to the defined benefit plan, have been granted a partial compensation (30%), paid monthly over two years (2018 and 2019), provided they were still under KBN employment during the payout period.

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[1] The Financial Undertakings Act
[2] The Financial Undertakings Regulation
[3] The Financial Supervisory Authority of Norway: Circular 15/2014
[4] Guidelines for remuneration of senior executives in companies with state ownership, adopted by the Ministry of Trade, Industry and Fisheries with effect from 13. February 2015.

2019

Remuneration to senior executives	**Agreed fixed salary**	**Paid fixed salary***	**Variable salary accrued in the period****	**Other benefits**	**Pension costs**	**Total**
Kristine Falkgård (President & CEO)	3 133	3 287	347	194	234	4 062
Sigbjørn Birkeland (Chief Capital Markets Officer)	2 088	2 265	231	25	137	2 658
Jannicke Trumpy Granquist (CFO)	1 943	2 195	215	30	165	2 605
Tor Ole Steinsland (Chief Communications Officer)	1 325	1 483	147	29	184	1 844
Håvard Thorstad (Chief Compliance Officer)1)	1 787	2 054	198	23	155	2 430
Ilse Margarete Bache (Chief of IT and Operations)	1 511	1 569	168	24	212	1 974
Lars Strøm Prestvik (Chief Lending Officer)	1 643	1 833	182	102	161	2 277
Morten Hatlem (Chief People, Strategy and Digital Development Officer)	1 493	1 522	165	14	137	1 838
Thomas Yul Hanssen (Chief Legal & Regulatory Affairs Officer)	1 403	1 658	155	39	162	2 014
Knut Andre Ask Kristiansen (acting CRO) from 01.12.19	1 400	117	13	1	11	142
Total remuneration to senior executives	**17 726**	**17 983**	**1 821**	**480**	**1 560**	**21 844**
Total remuneration to employees whose professional activities affect the risk position of the institution		**17 870**	**1 908**	**427**	**1 991**	**22 196**
Total remuneration to the employees in the independent control functions		**19 905**	**2 146**	**436**	**2 560**	**25 047**

**11 months fixed salary and holiday pay based on last year's salary **Paid out in the following year*
1) CRO and Chief Compliance Officer until 31.01.19. CRO from 01.02.19 until 30.11.19.

2018

Remuneration to senior executives	**Agreed fixed salary**	**Paid fixed salary***	**Variable salary accrued in the period****	**Other benefits**	**Pension costs**	**Total**
Kristine Falkgård (President & CEO)	3 056	3 248	127	209	222	3 806
Sigbjørn Birkeland (Chief Capital Markets Officer), from 1 August 2017	2 010	2 106	84	33	190	2 412
Jannicke Trumpy Granquist (CFO)	1 900	2 143	79	28	160	2 410
Tor Ole Steinsland (Chief Communications Officer)	1 283	1 439	53	44	208	1 744
Håvard Thorstad (CRO)	1 757	2 011	73	29	201	2 315
Ilse Margarete Bache (Chief of IT and Operations)	1 465	1 523	61	24	93	1 701
Lars Strøm Prestvik (Chief Lending Officer)	1 585	1 771	66	107	200	2 144
Morten Hatlem (Chief People, Strategy and Digital Development Officer), from 1 September 2017	1 400	1 443	58	13	139	1 653
Thomas Yul Hanssen (Chief Legal & Regulatory Affairs Officer), from 1 April 2017	1 340	1 585	56	39	187	1 866
Total remuneration to senior executives	**15 796**	**17 269**	**657**	**526**	**1 599**	**20 051**
Total remuneration to employees whose professional activities affect the risk position of the institution		**18 610**	**665**	**532**	**2 097**	**21 904**
Total remuneration to the employees in the independent control functions		**23 488**	**880**	**416**	**3 054**	**27 838**

**11 months fixed salary and holiday pay based on last year's salary **Paid out in the following year*

Remuneration to Board of Directors	2019	2018
Chairman Else Bugge Fougner (until 4 June2018) [1) 3)]	-	210
Chairman Brit K. S. Rugland (from 4 June 2018) [1) 3)]	439	318
Vice-chairman Martin Skancke (until 01.06.19) [3)]	117	278
Vice-chairman Rune Midtgaard (from 01.06.19) [3)]	274	250
Board member Nanna Egidius [2)]	214	207
Board member Martha Takvam [2) 3) (until 01.06.19)]	305	325
Board member Petter Steen jr [1)]	198	191
Board member Ida Espolin Johnson (from 4 June 2018) [2)]	214	105
Board member Eyvind Aven (from 01.06.19) [3)]	121	-
Board member employees' representative Jarle Byre (until 01.06.19) Alternate Board member employee's representative (from 01.06.19)[1)]	87	191
Board member employees' representative Harald Jacobsen (from 01.06.19) [1)]	113	-
Board member employees' representative May-Iren Walstad Wassås (unitil 4 June 2018)	-	74
Board member employees' representative Cathrine Lorvik Segerlund (from 4 June 2018 until 1 October 2018)	-	38
Board member employees' representative Marit Urmo Harstad (from 1 October 2018)	154	38
Total remuneration to Board of Directors	**2 236**	**2 225**

[1)] *Member of remuneration committee*

[2)] *Member of audit committee*

[3)] *Member of risk committee*

Remuneration to Supervisory Board	2019	2018
Chairman Svein Ludvigsen (until 4 June 2018)	-	12
Chairman Alfred Bjørlo (from 4 June 2018)	25	16
Board members	57	71
Total remuneration to Supervisory Board	**82**	**99**

Fees to the statutory auditor	2019	2018
Statutory audit fees	978	900
Other financial audit and attestation services	1 129	1 288
Tax services	485	661
Other services not related to audit	187	67
Total fees excl. VAT	**2 779**	**2 917**

NOTE 7

PENSIONS

(Amounts in NOK 1 000)

Kommunalbanken's pension scheme is a defined contribution plan with Storebrand Livsforsikring AS.

The defined contribution pension scheme has been established with deposit rates of 7% for salaries 0-7.1 G and 18% for salaries between 7.1 G and 12 G. A collective agreement is entered into, and AFP is offered in the private sector related to the joint scheme. Insurance coverage is included in the pension scheme and includes disability pension with child supplement without paid-up policy, child pension and group life insurance / death compensation. The scheme applies to all employees, except for those who were 55 years or older on 1 January 2018, which marks the transition date from the previous defined benefit pension scheme with KLP. These have remained within the last mentioned pension scheme which has been closed as of 1 January 2018. This applies also to those employees who were partially or fully disabled and were entitled to sickness benefit at the time of transition.

The closed benefit plan gives, with a service period of 30 years, the right to retirement pension of 66 per cent of base salary at the time of retirement. The scheme also includes disability pension and pensions for spouses and dependent children as well as contractual early retirement. The assets in this benefit pension scheme are placed in a collective portfolio and cannot be specified for asset clas-ses.

Employees who were estimated to receive a lower expected retirement pension at the age of 67 according to the new scheme compa-red to the defined benefit plan, have been granted a partial compensation (30%) that has been paid out monthly over the course of two years (2018 and 2019), provided that the employee still worked at KBN during the payout period. The compensation has been paid out as salary and is included on the line Salaries in Note 5 Salaries and administrative expenses. It is therefore not included in the pension costs below.

The defined benefit plan covering salaries over 12x Base amount (G)has been closed as of 1 April 2011, and was terminated in 2015 for current employees that were part of the plan.

Pension costs and pension obligations for the defined benefit scheme include employer contributions. For the defined contribution scheme, employer contributions are presented as this in note 5 Salaries and adminitrative expenses and are thus not included in the pension costs below.

Economic estimates used in calculation of pension costs and defined benefit obligation	**31.12.2019**	**31.12.2018**
Discount rate	2.30%	2.60%
Estimated wage growth	2.25%	2.75%
Estimated growth in Base amount	2.00%	2.50%
Expected growth in benefit levels	1.24%	1.73%

KBN has used Norwegian covered bonds as input when determining the discount rate for 2019 and 2018. The actuarial assumptions are based on standard assumptions related to demographic factors recommended by the Norwegian Accounting Standards Board.

Pension costs	**Funded plan**		**Unfunded plan**	
	2019	**2018**	**2019**	**2018**
Defined benefit pension scheme				
Net periodic pension cost	1 469	1 663	0	0
Net interest	870	795	462	419
Service cost	104	141	0	0
Employer contributions	345	367	65	59
Plan change at transition to defined contribution scheme	2 420	0	0	0
Total pension cost defined benefit scheme	**5 208**	**2 966**	**527**	**479**
Defined contribution pension scheme				
Pension cost for the year	6 200	5 823	**-**	-
Total pension costs (both benefit and contribution scheme)	**11 408**	**8 789**	**527**	**479**
Actuarial gain/(loss) recognised in other comprehensive income	(9 054)	667	(620)	121
Net pension costs	**2 354**	**9 456**	**(93)**	**600**

Pension liabilities	**Funded plan**		**Unfunded plan**	
	2019	**2018**	**2019**	**2018**
Defined benefit obligation	118 860	120 969	17 557	17 877
Plan assets	(104 647)	(98 041)	0	0
Employer contributions	2 004	3 233	2 475	2 521
Net pension liabilities	**16 217**	**26 161**	**20 032**	**20 398**

Movement in pension liabilities	**Funded plan**		**Unfunded plan**	
	2019	**2018**	**2019**	**2018**
Net pension liabilities as of 1 January	26 161	29 424	20 398	20 079
Net pension costs	(3 847)	3 633	(93)	600
Contribution to the pension scheme	(6 097)	(6 896)	(273)	(280)
Net pension liabilities as of 31 December	**16 217**	**26 161**	**20 032**	**20 398**

Movement in the fair value of plan assets	Funded plan		Unfunded plan	
	2019	**2018**	**2019**	**2018**
Fair value of plan assets as of 1 January	98 041	91 700	0	0
Net interest	2 334	2 047	0	0
Actuarial gain/(loss)	1 731	(100)	0	0
Service cost	(104)	(141)	0	0
Contribution to the pension scheme	5 343	6 044	240	246
Benefits paid	(2 699)	(1 507)	(240)	(246)
Fair value of plan assets as of 31 December	**104 647**	**98 041**	**0**	**0**

NOTE 8

TAX

(Amounts in NOK 1 000 000)

The corporate income tax rate was reduced from 27 percent to 25 percent from 1 January 2016.

	2019	**2018**
Payable taxes on income for the period	3 868	0
Change in deferred tax	(3 298)	317
Change in deferred tax as a result of changes in tax return for previous years	(5)	182
Effect of reduced tax rate as a result of changes in tax return for previous years	0	0
Items recognised in Other Comprehensive Income	(77)	-
Total income tax	**488**	**499**

Reconciliation of effective income tax rate	**2019**	**2018**
Profit before tax	1 771	1 996
Calculated tax expense	443	499
Tax on Tier 1 Capital	(17)	-
Effect of reduced tax rate as a result of changes in tax return for previous years	63	0
Effect of change in tax rate	0	0
Tax expense	**488**	**499**
Effective income tax rate	28%	25%

Deferred tax liability/(asset)	**2019**	**2018**
Deferred tax liability/(asset) as at 1 January	1 164	551
Change in deferred tax	(3 376)	317
Changes in deferred tax on items recognised in other comprehensive income	77	91
Changes in deferred tax on items recognised in equity (additional Tier 1 capital)	0	(16)
Changes in deferred tax from items recognised in equity (transition effects IFRS 9)	0	8
Previous years' losses carried forward offset against payable tax for 2017	0	214
Deferred tax liability/(asset) as at 31 December (25%)	**(2 134)**	**1 164**

Temporary differences	**2019**	**2018**
Fixed assets	(5)	(4)
Pension liabilities	(36)	(47)
Provisions	(11)	(5)
Bonds (assets and liabilities)	(5 433)	10 912
Financial derivatives	(3 051)	(2 427)
Losses carried forward for tax purposes	-	(3 774)
Total temporary differences	**(8 537)**	**4 655**
Deferred tax liability/(asset)	**(2 134)**	**1 164**

KBN received a decision in November 2017 regarding changes in the tax return for the tax year 2014, and in continuation of this, KBN received in June 2018 a notification of change of tax return for the years 2015 and 2016. The amendment relates to the tax treatment and periodisation of financial instruments, principally regarding the use of the realisation principle on the currency element of financial instruments. According to the tax autorities' decision, KBN has recognised changes in ending temporary differences for financial instruments in the financial statements for 2017 and 2018.

The decision regarding changes in the tax return for the tax year 2014 leads to the original taxable income for 2014 and 2015, when the tax rate was 27%, being moved forward in time until 2016 or later, with a tax rate of 25%. The effect of this is a reduction in the tax expense amounting to NOK 89 million, which has been recognized in 2017, based on the tax authorities' decision. This results in an effective tax rate of 20% for 2017, see table Reconciliation of effective income tax rate above.

The tax authorities' decision implies a changed periodisation and timing of taxable income / expense over time, but no changes in which items are included in taxable income in total over the instruments' lifetime. It is the bank's view that the tax authorities' decision will result in larger and more volatile temporary differences and tax payments, but without a material effect for the bank tax expense, with the exception of when the tax rate changes.

NOTE 9

LEASES

(Amounts in NOK 1 000 000)

KBN has one lease agreement that is covered by IFRS 16 *Leases.* The agreement applies to the lease of office space on Haakon VIIs gate in Oslo.

The right-of-use-asset is presented in the Statement of financial position on the line Other assets, while the lease obligation is presented on the line Other liabilities. See Note 18 for further information.

Lease liability	**2019**
Current	7
Non-current	29
Total interest expense recognised	1

	2019	**2018**
Lease liability under IAS 17	0	7

NOTE 10

CLASSIFICATION OF FINANCIAL INSTRUMENTS

(Amounts in NOK 1 000 000)

Accounting policies for classification and measurement

Classification of financial instruments takes place at initial recognition and determines the subsequent measurement of the carrying amount. Classification of financial instruments is determined by the characteristics of the financial instrument and by the business model for the management of financial assets.

Financial assets measured at amortised cost
KBN's business model for Instalment loans and Notes, bonds and other interest-bearing securities is to "hold financial assets in order to collect contractual cash flows". When the assets' cash flows only consist of principal and interest payments, and instruments with mainly offsetting value changes are not present, the assets are measured at amortised cost. New Instalment loans and Notes, bonds and other interest-bearing securities are subject to an assessment of whether the cash flows of the asset are only repayment, principal or interest payments. If this is not the case, the asset shall be classified as measured at fair value. KBN's p.t. and Nibor loans are measured at amortised cost. Notes, bonds and other interest-bearing securities without related financial derivatives are also measured at amortised cost, as well as Deposits from credit institutions (cash deposits, money market deposits and cash collateral pledged) and Other money market deposits, if they are not hedged with a derivative contract. Other money market deposits are deposits to non-financial institutions. Measurement of amortised cost is performed using the effective interest rate method.

Hedge accounting may apply to assets classified as measured at amortised cost. When fair value hedge accounting is applied, the value change that is attributable to the hedged risk is recognised as part of the carrying amount under "notes, bonds and other interest-bearing securities" or "Instalment loans" and in the Income statement as "Net unrealized gain/(Loss) on financial instruments".

Financial assets designated at fair value through profit or loss (FVO)
Selected bonds and notes in the liquidity portfolio, instalment loans with fixed interest rate and money-market deposits (both to financial and non-financial institutions) are designated as at fair value through profit or loss at initial recognition, in order to achieve similar treatment as related derivative contracts which are measured at fair value. This leads to a reduction in measurement inconsistency between bonds and notes and instalment loans on one hand, and financial derivatives on the other hand.

Financial liabilities measured at amortised cost
Public benchmark loans and some loans from institutional investors *in* public niche markets are classified as financial liabilities measured at amortised cost, using the effective interest method. The same applies to floating rate notes issued in USD or EUR, and loans from credit institutions (cash collateral received or money market loans). The majority of financial liabilities in this category is designated as hedged items and hedge accounting is applied. This implies that value changes that are attributable to the hedged risk are recognised as part of the carrying amount under "Senior securities issued" and in the income statement as "Net unrealised gain/(loss) on financial instruments".

Financial liabilities designated at fair value through profit or loss (FVO)
Selected bonds with fixed interest and that are not subject to hedge accounting are designated as at fair value through profit or loss at initial recognition, in order to achieve similar treatment as related derivative contracts, which are measured at fair value. This leads to a reduction in measurement inconsistency between issued bonds on one hand and financial derivatives on the other hand. For Senior securities issued that are measured at fair value, the part of changes in fair value of liabilities that is attributable to changes in KBN's own credit risk is recognised in Other comprehensive income. The remaining part of the change in fair value of liabilities is recognised in the Income statement.

Financial derivatives
Financial derivatives are classified as at fair value through profit and loss, with the exception of contracts designated as hedging instruments in fair value hedges. All financial derivatives are measured at fair value through profit or loss and are presented as assets when the value is positive, and as liabilities when the value is negative.

		At fair value			
2019	**Total**	**Fair value option**	**Mandatory at fair value**	**Fair value hedge**	**Amortised cost**
Deposits with credit institutions	**18 181**	0	0	0	18 181
Other money market deposits	**3 244**	394	0	0	2 850
Instalment loans	**310 912**	95 014	0	0	215 898
Notes, bonds and other interest-bearing securities	**111 111**	89 397	0	0	21 714
Financial derivatives	**15 025**	0	12 095	2 929	0
Total financial assets	**458 472**	**184 805**	**12 095**	**2 929**	**258 643**
Loans from credit institutions	**4 462**	**0**	**0**	**0**	**4 462**
Commercial paper	**2 631**	**0**	**0**	**0**	**2 631**
Senior securities issued	**403 913**	**170 856**	**0**	**0**	**233 057**
Financial derivatives	**27 425**	**0**	**27 046**	**379**	**0**
Subordinated debt	**1 987**	**1 987**	**0**	**0**	**0**
Total financial liabilities	**440 418**	**172 844**	**27 046**	**379**	**240 149**

2018	Total	At fair value Fair value option	Mandatory at fair value	Fair value hedge	Amortised cost
Deposits with credit institutions	**22 987**	0	0	0	22 987
Instalment loans	**303 571**	87 296	0	0	216 275
Notes, bonds and other interest-bearing securities	**116 519**	87 670	0	0	28 849
Financial derivatives	**14 497**	0	13 838	659	0
Total financial assets	**457 574**	**174 966**	**13 838**	**659**	**268 111**
Loans from credit institutions	**12 085**	0	0	0	12 085
Senior securities issued	**402 916**	167 949	0	0	234 967
Financial derivatives	**24 051**	0	22 322	1 730	0
Subordinated debt	**1 982**	1 982	0	0	0
Total financial liabilities	**441 035**	**169 931**	**22 322**	**1 730**	**247 052**

NOTE 11

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE
(Amounts in NOK 1 000 000)

Accounting principles for measuring financial instruments at fair value

Financial instruments are categorised into the fair value hierarchy, where the level of categorisation (Levels 1, 2 or 3) is based on the observability of the input that is significant to the fair value measurement.

Level 1
For securities traded in an active market with frequent market observations quoted prices on the reporting date are used in the measurement of fair value. Quoted prices are provided by international vendors (Reuters/Bloomberg), and are classified as Level 1-inputs when they represent actual market transactions. Of the bank's financial instruments, a larger share of Notes, bonds and other interest-bearing securities and issued benchmark bonds are allocated to Level 1.

Level 2
For financial instruments without available quoted prices in an active market, KBN will either use quoted prices of similar instruments in active markets, where possible, or valuation techniques where significant inputs are based on observable market data (provided by Reuters). Level 2-inputs might include:
· Observable interest rate yield curves, basis swap spreads, FX-rates, equity indices, commodity indices and volatilities
· Quoted prices and credit spreads at the reporting date for similar instruments issued by the same issuer but with a different tenor, so that an adjustment for maturity is necessary
· Quoted prices and credit spreads at the reporting date for similar instruments issued by the same issuer but denominated in a different currency, so that an adjustment for basis swap spread is necessary
· Actual market transactions in identical instruments before or after the reporting date, so that an adjustment for events between the date of transaction and the reporting date is necessary
· More liquid instruments issued by the same issuer with identical maturity, but an adjustment for liquidity risk is necessary
· Prices on potential new issues in similar instruments from the same issuer
Of the bank's financial instruments Deposits with credit institutions and a larger share of Instalment loans, Notes, bonds and other interest-bearing securities, Financial derivatives and Senior securities issued are allocated to Level 2.

Level 3
Level 3 is relevant for financial instruments that are not traded in an active market and fair value is determined using valuation techniques where significant input is based on unobservable data. Financial instruments classified as Level 3 include notes and bonds with low liquidity, fixed rate loans to customers, issued debt securities not traded in an active market and where inputs are to a large extent unobservable, and OTC-derivatives with option elements. The same type of input might be used to determine the fair value of notes and bonds classified as Level 2 and Level 3, however, the significance of adjustments of market data and to what extent the adjustment is done based on observable data are given weight when the instrument is categorized according to IFRS 13. Other inputs used in determination of fair value might include:
· Indicative prices and estimates for similar instruments provided by other market participants
· Market indices, both bond and credit default swap indices, for similar instruments
· Non-binding price quotes from different sources
· Historical or implied volatilities

Fair value disclosures
For financial instruments categorised in the fair value hierarchy at several period ends a reconciliation of movements between the levels is done at the end of each reporting period. The valuation technique used to determine fair value of financial instruments categorised in Level 2 or Level 3 is determined based on the instruments' features. Fair value of financial instruments without embedded option-elements is determined using the discounted cash flows method, where discount rates are derived from the relevant observable money market interest rates and other risk factors that may significantly affect the fair value of the instruments. When such factors cannot be reliably observed at a reporting date, management may make assumptions and use estimates when determining the fair value. Fair value of financial instruments with embedded option-elements is determined using both discounting and option pricing models with observable market data and estimates as inputs. The most significant unobservable input used in the valuation in Level 2 and Level 3 comprises the credit premium for financial instruments that are not traded in an active market.

2019	Level 1	Level 2	Level 3	Total
Deposits with credit institutions	0	0	0	0
Other money market deposits	0	394	0	394
Instalment loans	0	13 576	81 437	95 014
Notes, bonds and other interest-bearing securities	67 818	14 172	7 407	89 397
Financial derivatives	0	12 925	2 099	15 025
Total financial assets measured at fair value	**67 818**	**41 067**	**90 943**	**199 829**
Loans from credit institutions	0	0	0	0
Commercial paper	0	0	0	0
Senior securities issued	14 460	90 240	66 156	170 856
Financial derivatives	0	17 948	9 475	27 425
Subordinated debt	0	0	1 987	1 987
Total financial liabilities measured at fair value	**14 460**	**108 187**	**77 618**	**200 268**

Holdings of NOK 4 billion kroner are transferred from Level 2 to Level 1 for Notes, bonds and other interest-bearing securities per 31. December 2019

2018	Level 1	Level 2	Level 3	Total
Deposits with credit institutions	0	0	0	**0**
Instalment loans	0	15 800	71 496	**87 296**
Notes, bonds and other interest-bearing securities	61 334	22 720	3 616	**87 670**
Financial derivatives	0	13 218	1 279	**14 497**
Total financial assets measured at fair value	**61 334**	**51 738**	**76 391**	**189 462**
Loans from credit institutions	0	0	0	**0**
Senior securities issued	11 205	80 922	75 822	**167 949**
Financial derivatives	0	5 666	18 385	**24 051**
Subordinated debt	0	0	1 982	**1 982**
Total financial liabilities measured at fair value	**11 205**	**86 588**	**96 190**	**193 983**

Holdings of NOK 12 billion kroner are transferred from Level 2 to Level 1 for Notes, bonds and other interest-bearing securities per 31. December 2018

Information about fair value

Methods used for the determination of fair value fall within three categories, as described in the accounting principles above.

All changes in fair value of financial instruments adjust the carrying amounts of assets and liabilities and are recognised in the income statement as “Net unrealised gain/(loss) on financial instruments”.

KBN has established policies and guidelines for valuation that describe principles for fair value measurement of financial instruments. The main principles are that fair value should be measured at the value the asset may be sold for or the liability repurchased/transferred for, and that observable data shall be used to the extent possible in the valuation, and quality assurance should be undertaken against alternative sources. The guidelines also set out the frequency of valuation for different instrument types, and procedures for control of fair value.

Deposits with credit institutions
Deposits with credit institutions are measured at amortised cost.

Other money market deposits
Other money market deposits are deposits to non-financial institutions and are measured at fair value if they are hedged with a derivative contract.

Instalment loans
Level 2 includes short-term debt certificates issued by municipalities. Within these loan products, the customers have more flexibility in refinancing the loans with other lenders when market conditions change. As a result, these types of loans are subject to greater competition and better liquidity in the market and allow the use of observable prices on new loans as inputs in the valuation of these loan products.

Level 3 includes fixed rate loans to customers that are not traded in an active market and do not have observable market prices after initial recognition. A significant input for such loans is the credit spread, which is estimated at each reporting date. Credit risk is considered to be the same for all municipalities. As observable credit spreads are not available, management makes assumptions and estimates relevant adjustments for credit risk for different maturities, based on prices for loans issued in a period closer to the balance sheet date. Loans from a limited time-period before the reporting date are used in determining the credit spread, in order to ensure sufficient data and representative estimates. In addition, an evaluation is carried out of whether conditions leading up to the balance sheet date suggest that the chosen time period does not to a sufficient extent reflect the market conditions on the balance sheet date.

Notes, bonds and other interest-bearing securities
Determination of fair value based on quoted prices in an active market with many willing buyers and sellers gives a fair value estimate with the lowest degree of valuation uncertainty (Level 1). Level 1 inputs for Notes, bonds and other interest-bearing securities include quoted prices provided by international vendors (Bloomberg), which represent actual transactions in an active market. Such third-party prices are also partially used within Level 2, where the price is not considered to reflect sufficient liquidity to allocate the position to level 1.

The fair value of notes and bonds where quoted prices are not sufficiently available on the reporting date, is determined using the discounted cash flow method, where discount rates are derived from observable money market interest rate yield curves (parts of Level 2 and Level 3). Discount rates are adjusted for the issuer's credit and liquidity risk to as large a degree as possible, based on observable market data. When applying credit/liquidity adjustments to discount rates, the assets are grouped based on the issuer's credit rating, currency, time to maturity, underlying exposure and geographic location. Management allocates all investments to their respective levels on each reporting date. Unobservable credit spreads are used to some extent when there is little or no market activity for the security in concern or equivalent securities. Where these are material for the valuation, the security is allocated to Level 3, which reflects significant valuation uncertainty. For more information about inputs used in fair value measurement, see the Accounting Policies.

Senior securities issued

The funding portfolio is split into four main groups, based on the funding product and loan documentation used. The four main categories are public (quoted) USD and EUR benchmark loans, loans in public niche markets, private placements and retail loans. The two first groups are characterised by listed syndicated loans in various currencies, where the size of the loan forms the primary difference between the two groups. For listed benchmark bonds quoted prices in an active market exist, such that these are assessed to belong to Level 1, with limited valuation uncertainty. Hedge accounting is mainly applied for these bonds, see Note 12 and 13. For Senior securities issued in public niche markets, quoted prices are also available to some extent, however, the market activity and liquidity is assessed as somewhat lower. The determination of fair value of these securities is mainly done by using valuation techniques and observable market data. For these bonds the discounted cash flows method is used with discount rates based on observable market data, such as market interest rates, quoted prices and prices on similar instruments adjusted for differences in time to maturity, size and currency (Level 2). Prices on new issues are used as an important indicator in the valuation, and in addition KBN collects non-binding price indications from brokers.

Group three is comprised of private placements where the loan terms are specially adapted for a single investor. The final main group is retail loans, i.e. loans sold to non-professional investors. Bonds in these two groups are not listed and normally not traded in the secondary market, and are to a large extent structured products with option elements that are linked to stock prices, equity indices, FX rates or commodity prices. Quoted prices are hence not available for the security, and unobservable inputs are used to a significant degree in the valuation. These loans are therefore allocated to Level 3 in the fair value hierarchy, and thus are characterised by significant valuation uncertainty. The choice of valuation techniques and inputs depends on the structure and terms of each loan. For all bonds in these groups fair value is determined by using the discounted cash flow method where inputs are current interest rate yield curves and credit spreads that are estimated from price indications to brokers via the Company's information channels. Credit spreads are for these groups regarded as an unobservable input, and hence an estimate. For structured bonds with option elements, option pricing models are used in addition to determine expected cash-flows. These models use interest rates, FX-rates, stock prices, equity indices and implicit or historical volatilities as inputs.

Financial derivatives

All financial derivatives are OTC-contracts used only in economic hedges of interest rate and currency risk. For basis swaps (USD-NOK, USD-EUR and EUR-NOK), FRAs and plain vanilla interest rate and cross currency swaps without option elements, fair value is determined by using the discounted cash flow method with discount rates derived from observable basis swap spreads and swap interest rates. Hence, these contracts are allocated to Level 2, with considerable market activity for new contracts and relevant market parameters. Cross-currency swaps and interest rate swaps which are economic hedges of structured bonds and that have option elements linked to for instance equity or FX rates are valued using the same valuation models as corresponding issued bonds and are classified as Level 3 when unobservable inputs are used to a significant extent.

Valuation techniques

The methods used for determining the fair value of financial instruments, where third-party prices are not used, are defined based on the instruments' features and structure. Fair value of financial instruments without embedded derivatives or option elements is determined using the discounted cash flows method, where discount rates are derived from the relevant observable money market interest rates and other significant risk factors that may affect the fair value of the instruments. When such factors cannot be reliably observed at a reporting date, management may make assumptions and use estimates when determining fair value. The most significant unobservable inputs used in the valuation in Level 3 are credit spreads for financial instruments that are not traded in an active market. Fair value of financial instruments with embedded derivatives or option elements is determined using a combination of a discounted cash flows method and option pricing models with observable market data and estimates as inputs. For financial instruments measured at fair value that are part of the holdings over several periods, a reconciliation of movements between the levels is done at the end of each reporting period.

KBN analyses the fair values and the period's value changes at period ends, including the reason for the development in fair values.

Reconciliation of movements in Level 3

	Instalment loans	Notes, bonds and other interest-bearing securities	Senior securities issued	Subordinated debt	Financial derivatives
Carrying amount at 31 December 2018	**71 496**	**3 616**	**75 822**	**1 982**	**(17 106)**
Purchase	0	12 765	0	0	4 089
Sale	0	(501)	(276)	0	0
Issue	34 747	0	7 599	0	0
Settlement	(25 233)	(5 167)	(22 103)	0	(5 991)
Transfer into Level 3	1 929	804	0	0	0
Transfer out of Level 3	(3 297)	(3 111)	0	0	0
Gain/(loss) recognised in the period	1 796	(1 000)	5 115	5	11 632
Carrying amount at 31 December 2019	**81 437**	**7 406**	**66 156**	**1 987**	**(7 376)**

	Instalment loans	Notes, bonds and other interest-bearing securities	Senior securities issued	Subordinated debt	Financial derivatives
Carrying amount at 31 December 2017	**69 313**	**574**	**80 159**	**2 008**	**(10 183)**
Purchase	0	0	0	0	4 553
Sale	0	0	(33)	0	0
Issue	27 165	1 466	13 956	0	0
Settlement	(18 900)	(187)	(20 892)	0	4 611
Transfer into Level 3	1 922	2 189	0	0	0
Transfer out of Level 3	(3 272)	(287)	0	0	0
Gain/(loss) recognised in the period	(4 732)	(138)	2 632	(26)	(16 087)
Carrying amount at 31 December 2018	**71 496**	**3 616**	**75 822**	**1 982**	**(17 106)**

Significant unobservable inputs in fair value measurement, within Level 3

In cases of very little or no market activity for the relevant instrument, the valuation is to a significant extent based on estimates as inputs to the valuation technique. The most significant estimate is an add-on (spread) to swap interest rates. For Senior securities issued the spread reflects liquidity risk, own credit risk and market risk in the relevant currency market. Credit spreads measured against USD 3M Libor used in valuation at 31 December 2019 vary from –60 bp to +136 bp for debt issuances. For Notes, bonds and other interest-bearing securities the spread reflects liquidity risk, credit risk of the issuer and market risk in the relevant currency market. Measured against USD 3M Libor the spreads vary between –1 bp to +21 bp for notes and bonds. Other significant unobservable inputs include volatilities within option pricing models. Other than this, inputs used in option pricing are mainly observable.

In 2019, Notes, bonds and other interest-bearing securities amounting to NOK 2 308 million were transferred to Level 3 from Level 1 or 2, based on somewhat lower liquidity for these securities. For Instalment loans, the transfer out of Level 3 is due to customers ending a period of fixed interest, i.e. a product change.

The total credit spread and yield curve is sensitive to changes in each underlying factor. The fair value of the instrument will thus be affected by changes in credit spreads, liquidity risk or market risk. For more information on sensitivity to unobservable inputs, see table “Impact of changes in key assumptions – yield curve” below. The table shows a sensitivity analysis for a change in discount rate of 10 basis points (up).

Impact of changes in key assumptions - yield curve	**2019**		**2018**	
	Carrying amount	**Impact of changes in key assumptions**	**Carrying amount**	**Impact of changes in key assumptions**
Instalment loans	81 437	(310)	71 496	(238)
Notes, bonds and other interest-bearing securities	7 407	(21)	3 616	(60)
Financial derivatives	(7 376)	(327)	(17 106)	(483)
Senior securities issued	(66 156)	322	(75 822)	487
Subordinated debt	(1 907)	15	(1 982)	16
Total	**13 324**	**(320)**	**(19 798)**	**(278)**

The changes in key assumptions are defined as a 10 bp change in the discount rate.

An increase in the discount rate used for measuring Instalment loans in Level 3 of 10 bp across all maturities will lead to a reduction in value of NOK 310 million for these loans. Such an increase in the discount rate could be caused by an increase in the credit spread across all maturities. Similarly, an increase in the discount rate of 10 bp for Notes, bonds and other interest-bearing securities allocated to Level 3 would lead to an insignificant reduction in value. For Senior securities issued allocated to Level 3, an increase in the discount rate of 10 bp would lead to a reduction in value of NOK 322 million, which results in an unrealised gain. Again, this could be caused by an increase in the credit spread, in this case for KBN. The table above assumes a parallel shift of the yield curve, different changes for different maturities may also be envisaged.

Change of fair value of an issued bond, that is based on the change of a parameter that is part of option pricing (observable or unobservable) will lead to an equivalent change in fair value with opposite sign for the associated hedging derivative. These effects (gains/losses) will cancel each other out and will have no income statement effect. Structured bonds with option elements linked to equities or equity indices are a type of issued bonds where the equity exposure is fully hedged using a derivative contract and where volatility is a significant unobservable input in the option pricing both for the bond and the associated derivative.

The table below shows the value sensitivity associated with a 10% increase in volatility, for such structured bonds with option elements linked to equities or equity indices and associated financial derivatives. The table also shows that the net income statement effect is zero. This is also the case for other types of structured funding with option elements.

Impact of changes in key assumptions - volatility

	2019		2018	
	Carrying amount	**Impact of changes in key assumptions**	**Carrying amount**	**Impact of changes in key assumptions**
Senior securities issued - with option element linked to equities or equity indices	(4 685)	43	(6 036)	545
Financial derivatives - with option element linked to equities or equity indices	(152)	(43)	(1 026)	(545)
Total	**(4 837)**	**0**	**(7 061)**	**0**

The table below shows total unrealised gain/(loss) recognised in the income statement in 2019 and 2018 for assets and liabilities allocated to Level 3.

Level 3 unrealised gain/(loss) in the period

	2019		2018	
	Carrying amount	**Unrealised gain/ (loss)**	**Carrying amount**	**Unrealised gain/ (loss)**
Instalment loans	81 437	(389)	71 496	(386)
Notes, bonds and other interest-bearing securities	7 407	(11)	3 616	13
Senior securities issued	(66 156)	(9 336)	(75 822)	8 328
Financial derivatives	(7 376)	9 518	(17 106)	(8 509)
Subordinated debt	(1 987)	(5)	(1 982)	26
Total	**13 325**	**(223)**	**(19 798)**	**(528)**

Amounts in the column "Unrealised gain/(loss)" in the table above are included on the line "Net unrealised gain/(loss) on financial instruments" in the income statement.

NOTE 12

FINANCIAL INSTRUMENTS MEASURED AT AMORTISED COST
(Amounts in NOK 1 000 000)

	2019		2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Deposits with credit institutions	18 181	18 181	22 987	22 987
Other money market desposits	2 850	2 850	-	-
Instalment loans	215 898	216 016	216 275	216 275
Notes, bonds and other interest-bearing securities classified as amortised cost	21 715	21 733	28 849	28 858
Total financial assets measured at amortised cost	**258 644**	**258 780**	**268 111**	**268 120**
Loans from credit institutions	4 462	4 462	12 085	12 085
Commercial paper	2 631	2 631	-	-
Senior securities issued	233 057	232 967	234 967	234 986
Total financial liabilities measured at amortised cost	**240 149**	**240 060**	**247 052**	**247 070**

Information about the level within the fair value hierarchy, for financial instruments measured at amortised cost, where fair value is disclosed

2019	**Level 1**	**Level 2**	**Level 3**	**Total**
Instalment loans	0	181 985	34 032	216 016
Notes, bonds and other interest-bearing securities	17 653	2 282	1 798	21 733
Total fair value of financial assets, measured at amortised cost	**17 653**	**184 267**	**35 830**	**237 750**
Senior securities issued	160 528	72 439	0	232 967
Total fair value of financial liabilities, measured at amortised cost	**160 528**	**72 439**	**0**	**232 967**

2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Instalment loans	0	178 812	37 463	216 275
Notes, bonds and other interest-bearing	25 811	1 802	1 245	28 858
Total fair value of financial assets, measured at amortised cost	**25 811**	**180 614**	**38 706**	**245 131**
Senior securities issued	171 684	63 302	0	234 986
Total fair value of financial liabilities, measured at amortised cost	**171 684**	**63 302**	**0**	**234 986**

INFORMATION ABOUT FAIR VALUE

See Note 11 Financial instruments measured at fair value for information regarding fair value measurement.

For liabilities that are part of hedging relationships as hedged items (Senior securities issued classified as measured at amortised cost, see Note 13 Hedge accounting) value changes due to the hedged risk is calculated. This value change adjusts the carrying amount of the liability and is recognized in the income statement on the line “Net unrealised gain/(loss) on financial instruments”. Also for this purpose a discounted cash flow method is used, but where the discount rate reflects only the hedged risk (interest and currency element).

Deposits with and loans to credit institutions
Deposits with and loans to credit institutions include short-term money market deposits or loans with agreed maturities with other financial institutions, as well as pledged and held cash collateral, and deposits with banks without agreed maturity. The fair value of these positions is approximately equal to their principal amount due to their short-term nature.

Other money market deposits
Other money market deposits include money market deposits to non-financial institutions and are measured at amortised cost if they are not hedged with a derivative contract.

Instalment loans
Level 2: P.t. loans and Nibor-loans with floating margin and Nibor-loans with fixed margin (time to maturity within 1 year) have time to maturity and/or interest rate terms that give the customer more flexibility to change the loan provider if market terms change. This leads to higher competition and better liquidity in the market and allows the use of observable prices on new loans to be used as inputs in the valuation of these loan products.

Level 3: Nibor-loans with fixed interest rate margin (time to maturity above 1 year) are granted bilaterally between KBN and a loan customer, and are not traded in an active market.

Senior securities issued
Senior securities issued measured at amortised cost consist mainly of USD or Euro benchmark loans and loans in public niche markets as well as floating rate notes (FRN) without corresponding financial derivative contracts.

NOTE 13

HEDGE ACCOUNTING

(Amounts in NOK 1 000 000)

KBN uses fair value hedge accounting for selected economic hedges of interest rate and cross-currency risk. Fair value hedging is applied at individual transaction level where the hedging instrument is explicitly linked to the hedged item, and the hedge relationship is properly documented. Hedged risk is the value change of fixed-rate bonds due to changes in market interest rates (long-term interbank swap rates). Hedge effectiveness is measured on an on-going basis and all ineffectiveness is recognised under "Net unrealised gain/(loss) on financial instruments".

Carrying amount of financial instruments in fair value hedges	2019	2018
Notes, bonds and other interest-bearing securities	0	0
Senior securities issued	165 328	176 412
Financial derivatives	2 550	(1 071)
Total	**167 879**	**175 341**

Recognised value changes on financial instruments in fair value hedges	2019	2018
Notes, bonds and other interest-bearing securities	0	0
Senior securities issued	(3 472)	187
Financial derivatives	3 400	(233)
Total	**(72)**	**(46)**

Recognised value changes are a result of changes in underlying risk factors, such as interest rates and currency basis swap spreads, hence the hedged risk. For the hedging instrument (the financial derivative), the full fair value change is recognised, as these are measured at fair value.

Maturity profile carrying amount of Senior securities issued in fair value hedges

	0-1 years	1-3 years	3-5 years	> 5 years	Total
Carrying amount at amortised cost	33 138	60 661	38 376	30 962	163 137
Value change (hedged risk)	5	(885)	(683)	(548)	(2 110)
Total carrying amount	**33 133**	**61 546**	**39 059**	**31 510**	**165 328**

Accumulated ineffectivity amounts to NOK 28 million as of 31 December 2019.

NOTE 14

DEPOSITS WITH CREDIT INSTITUTIONS

(Amounts in NOK 1 000 000)

	2019	2018
Deposits with credit institutions without agreed time to maturity	459	276
Deposits with credit institutions with agreed time to maturity	641	7 066
Cash collateral pledged	17 080	15 646
Total deposits with credit institutions	**18 181**	**22 987**

	2019	2018
Other money market deposits	3 244	-
Total other money market deposits	**3 244**	**-**

NOTE 15

INSTALMENT LOANS

(Amounts in NOK 1 000 000)

	2019	2018
Principal amount	309 758	302 199
Accrued interest	1 318	1 121
Fair value adjustment	(183)	229
Expected credit loss	(11)	(11)
Total loans to customers	**310 881**	**303 538**
Other loans	31	33
Total instalment loans	**310 912**	**303 571**

Geographic distribution	2019	2018
Østfold	13 438	11 874
Akershus	34 224	30 284
Oslo	8 539	9 064
Hedmark	14 402	13 844
Oppland	10 144	10 528
Buskerud	30 963	30 877
Vestfold	11 091	10 859
Telemark	7 510	9 693
Aust-Agder	7 125	6 725
Vest-Agder	14 632	12 935
Rogaland	24 147	25 090
Hordaland	32 239	35 597
Sogn og Fjordane	10 030	9 635
Møre og Romsdal	17 041	15 644
Trøndelag	31 793	28 762
Nordland	22 254	20 377
Troms	10 888	11 951
Finnmark	9 185	8 335
Svalbard	113	123
Loans to customers, principal amount	**309 758**	**302 199**

NOTE 16

EXPECTED CREDIT LOSS

Accounting policies on measuring of expected credit loss

At each reporting date, an allocation to stages 1, 2 or 3 is performed for all Instalment loans and Notes, bonds and other interest-bearing securities that are measured at amortised cost.

All assets are allocated to stage 1 at initial recognition. On subsequent reporting dates, stage 1 allocation means that there has been no significant increase in credit risk since initial recognition for that particular asset. An allocation to stage 2 on a subsequent reporting date represents a significant increase in credit risk since initial recognition, while stage 3 implies that the asset is credit impaired. Stage 1 requires the calculation of a 12-month expected credit loss that is recognised in the Income statement and Statement of financial position. Assets allocated to stages 2 and 3 require the calculation of a lifetime expected credit loss, which also will be recognised in the Income statement and Statement of financial position.

The recognition of interest income for assets allocated to stages 1 and 2 is based on the asset's principal amount, while the recognition of interest income for assets allocated to stage 3 is based on the asset's amortised cost, meaning after deduction of the provision for the expected credit loss. Expected credit loss is calculated per loan/instrument, based on exposure at default, probability of default and loss given default, all estimated at the reporting date.

KBN uses three different scenarios in its model for the calculation of expected credit loss. Furthermore, the normalized values for probability of default are adjusted for market cycles in line with current market conditions at reporting times. The period's change in total expected credit loss is recognised in the Income statement as "Expected credit loss". Within stage 1 a 12-month probability of default and lifetime losses based on default within the next 12 months are used, while stages 2 and 3 use lifetime probability of default and losses resulting from this.

Major changes in the issuer's rating or a significant move under KBN's internal credit rating assessment are used as indicators of significant increase in credit risk since initial recognition. These will lead to an allocation of the asset to stage 2. For lending customers, consideration shall be given to whether such deterioration has taken place if a payment stop is decided under the Municipality Act. An assessment as credit impaired or allocation to stage 3 for loans to customers includes events that result in actual credit losses, or payment delays of at least 90 days over a certain threshold amount. Actual credit losses have never taken place during KBN's history. For Notes, bonds and other interest-bearing securities this will be triggered by events such as late payment, bankruptcy or restructuring due to financial problems.

The below table shows expected credit loss as part of the carrying amount of Instalment loans and Notes, bonds and other interest-bearing securities at the end of the period.

	31 December 2019		31 December 2018
(Amounts in NOK 1 000 000)	**Carrying amount**	**Expected credit loss**	**Expected credit loss**
Instalment loans	215 898	(11)	(11)
Notes, bonds and other interest-bearing securities	21 714	(1)	(1)
Total	**237 613**	(12)	(12)

The below table shows a specification of the period's change in expected credit loss that is recognised in the income statement.

(Amounts in NOK 1 000)	**31 Decenber 2019**
Instalment loans	(282)
Notes, bonds and other interest-bearing securities	(384)
Total	**(666)**

The following table shows an allocation of KBN's expected credit losses as at 31 December 2019 to stage 1, 2 and 3. According to the impairment principles described in IFRS 9 *Financial Instruments*, Stage 1 implies no significant increase in credit risk since recognition of the asset. Stage 2 implies such a significant increase, while stage 3 implies that the asset is credit-impaired.

	Stage 1	**Stage 2**	**Stage 3**
Instalment loans	(11)	0	0
Notes, bonds and other interest-bearing securities	(1)	0	0
Total expected credit loss	**(12)**	**0**	**0**

NOTE 17

NOTES, BONDS AND OTHER INTEREST-BEARING SECURITIES

(Amounts in NOK 1 000 000)

Notes, bonds and other interest-bearing securities by type of issuer	2019	2018
Domestic		
Issued by other borrowers	16 584	15 274
Foreign		
Issued by public bodies[1]	75 285	98 567
Issued by other borrowers	19 243	2 679
Total notes, bonds and other interest-bearing securities	**111 111**	**116 519**

[1]Issued by or guaranteed by sovereigns, central banks, regional authorities and multilateral development banks

Notes, bonds and other interest-bearing securities by time to maturity	2019	2018
Under 1 year	40 923	76 078
1-5 years	60 604	33 224
> 5 years	9 584	7 217
Total notes, bonds and other interest-bearing securities	**111 111**	**116 519**

NOTE 18

OTHER ASSETS

(Amounts in NOK 1 000 000)

	2019	2018
Intangible assets	126	116
Leases	43	-
Fixed assets	2	8
Other assets	2	2
Total other assets	**172**	**127**

Intangible assets comprise two IT systems and a new website. The portfolio system was brought into use in 2015, the lending portal in 2016, while the new website was brought into use in December 2019. All are amortised over their expected lifetimes.

OTHER LIABILITIES

(Amounts in NOK 1 000 000)

	2019	2018
Accounts payable	3	2
Public fees	8	8
Leases	37	-
Other short term liabilities	(5)	7
Accrued expenses and received, not yet accrued interest	12	18
Total other liabilities	**55**	**34**

NOTE 19

LOANS FROM CREDIT INSTITUTIONS

(Amounts in NOK 1 000 000)

	2019	2018
Cash collateral received	4 462	12 085
Total loans from credit institutions	**4 462**	**12 085**

NOTE 20

Senior securities issued

(Amounts in NOK 1 000 000)	2019	2018
Senior securities issued (nominal amounts) as at 1 January	**414 603**	**373 816**
New issuance	72 508	104 844
Redemptions*	(95 981)	(80 143)
Amortisation**	1 417	1 138
Translation differences	7 943	14 947
Senior securities issued (nominal amounts) as at 31 December	**400 489**	**414 603**
Accrued interest	4 402	4 474
Fair value adjustment	(978)	(16 160)
Of which value change that is due to change in own credit risk	*527*	*845*
Of which value change that is due to other reasons	*(1 505)*	*(17 005)*
Total senior securities issued	**403 913**	**402 916**

Commercial paper (nominal amounts) as at 1 January	**2019**	**2018**
New issuance	20 337	-
Redemptions*	(17 678)	-
Amortisation**	1	-
Translation differences	(30)	-
Commercial paper (nominal amounts) as at 31 December	**2 631**	**-**

* *Redemptions in 2019 include buybacks of NOK 276 million.*

** *Amortisation is shown in an own line in the table above, but is included in Repayment of debt securities in the table below*

As at 31 December 2019 there are no breaches of debt covenants.

The value change on liabilities that is due to changes in own credit risk is calculated as the change in the credit spread that KBN pays on issued bonds in the form of a spread above the floating USD interest rate. This includes value changes for swaps in funding packages based on the fact that the bank issues debt that is converted from other currencies to USD. Value changes on liabilities that are due to changes in own credit risk are recognised in Total comprehensive income, while value changes on liabilities that are due to changes in other market parameters are recognised in the Income statement on the line Net unrealised gain/(loss) on financial instruments. Value changes in the table above are before tax.

RECONCILIATION OF CHANGES IN LIABILITIES THAT ARE PART OF FINANCING ACTIVITIES

	Commercial paper	**Senior securities issued**	**Subordinated debt**
Carrying amount 31 December 2018	**0**	**402 916**	**1 982**
Cash flows			
Proceeds from issuance of debt securities	20 337	72 508	0
Repayment of debt securities	(17 678)	(94 564)	0
Changes that are not related to cash flows			
Change due to accrued interest and amortisation	1	(73)	0
Changes in fair value	0	15 182	5
Translation differences	(30)	7 943	0
Carrying amount 31 December 2019	**2 631**	**403 913**	**1 987**

	Commercial paper	**Senior securities issued**	**Subordinated debt**
Carrying amount 31 December 2017	**0**	**369 482**	**2 008**
Cash flows			
Proceeds from issuance of debt securities	0	104 845	0
Repayment of debt securities	0	(79 004)	0
Changes that are not related to cash flows			
Change due to accrued interest and amortisation	0	1 137	1
Changes in fair value	0	(8 490)	(27)
Translation differences	0	14 947	0
Carrying amount 31 December 2018	**0**	**402 916**	**1 982**

NOTE 21

FINANCIAL DERIVATIVES

(Amounts in NOK 1 000 000)

KBN uses financial derivatives only to economically hedge exposures to interest rate and currency risk arising in the Company's business activities, and to economically hedge exposure to option elements in issued structured bonds. KBN enters into swap contracts with counterparties with an average credit rating of AA– and all derivative exposure is subject to risk limits approved by the Board. Bond debt denominated in foreign currency is cashflow-hedged with interest rate and currency swaps to 3 month money market interest rates in NOK, USD and EUR.

Borrowing in foreign currency is converted to Norwegian kroner through basis swaps, where KBN receives interest payments in foreign currency and pays interest in Norwegian kroner. Interest rate risk arising from loans to customers with fixed rate terms is hedged with interest rate swaps and FRA contracts. Interest rate and currency swaps are also used to hedge market risk in the liquidity portfolio. KBN has no credit derivatives in the portfolio.

Counterparty risk related to financial derivatives contracts is mitigated by using standard ISDA agreements that give the right to offset assets and liabilities in the event of default, and in addition collateral agreements are entered into with all swap counterparties. The derivatives exposure is monitored on an ongoing basis.

See note 22 and note 26 for information on ISDA agreements, collateral transfers and clearing, that reduce counterparty risk. Counterparty risk is measured and monitored on an ongoing basis.

(Amounts in NOK 1 000 000)	2019			2018		
	Notional amount	**Positive market values - assets**	**Negative market values - liabilities**	**Notional amount**	**Positive market values - assets**	**Negative market values - liabilities**
Mandatory at fair value:						
Interest rate derivatives	195 931	2 357	3 770	150 119	757	2 552
Currency derivatives	495 215	9 693	23 014	503 779	13 067	18 721
Equity related derivatives	5 253	45	262	7 130	14	1 048
	696 399	**12 095**	**27 046**	**661 027**	**13 838**	**22 322**
Fair value hedges:						
Interest rate derivatives	166 263	2 591	379	173 862	425	1 730
Currency derivatives	3 102	339	0	3 011	234	0
	169 364	**2 929**	**379**	**176 873**	**659**	**1 730**
Total financial derivatives	**865 763**	**15 025**	**27 425**	**837 900**	**14 497**	**24 051**

All financial derivatives are measured at fair value through profit and loss. Most contracts are categorised as mandatory at fair value according to IFRS 9. The remaining contracts are designated as hedging instruments in fair value hedges. As standard master netting agreements (ISDA) do not fulfil the requirements for offsetting in the Statement of financial position even if they imply the right to offset in case of default, financial derivatives are presented on a gross basis in the Statement of financial position, such that contracts with a positive fair value are presented as assets and contracts with a negative fair value are presented as liabilities.

NOTE 22

COLLATERAL AND OFFSETTING

(Amounts in NOK 1 000 000)

KBN has entered into ISDA agreements with all derivatives counterparties. This implies that all exposures vs the counterparty may be offset in the event of default. The ISDA agreements contain agreements regarding the exchange of collateral in the form of Credit Support Annex (CSA) related to financial derivatives exposures. The collateral consists of cash in USD, EUR or NOK. Cash collateral received and cash collateral pledged is presented in the Statement of financial position as Deposits with credit institutions or Loans from credit institutions with a related payable to or receivable from credit institutions. Cash collateral received is included in KBN's cash management, and is placed either in notes and bonds or in short term money market instruments. See Note 21 for additional information about financial derivatives.

(Amounts in NOK 1 000 000)	**2019**	**2018**
Cash collateral received	4 462	12 085
Cash collateral pledged	(17 073)	(15 646)
Total cash collateral	**(12 611)**	**(3 561)**

Effect of offsetting and collateral

KBN only has offsetting rights for exposures in financial derivatives, and for these, legally binding master agreements are used both for offsetting and for collateral. Financial derivatives are presented gross in the Statement of Financial Position because the netting agreements do not meet the conditions for offsetting in the Statement of Financial Position, and payments are normally not netted under normal market conditions. The table below shows the carrying amounts of financial derivatives. Since these are presented gross in the Statement of Financial Position, the financial significance of the offsetting right, that is agreed on in the master netting agreements with the derivative counterparties, as well as held or pledged cash collateral, is quantified and highlighted in separate columns. In the event of default of a derivative counterparty it will be possible to enforce the offsetting right as well as make use of the cash security. The value after offsetting and cash security shows the remaining credit risk for the derivative positions.

(Amounts in NOK 1 000 000)

				Amounts that may not be offset in the statement of financial position but that are subject to a netting agreement			
2019	**Gross fair value**	**Amounts that are offset in the statement of financial position**	**Carrying amount**	**Offsetting effect for counterparties with both asset and liabilities items**	**Amount after offsetting**	**Cash collateral**	**Amounts after offsetting and collateral**
Assets[1)]							
Financial derivatives	15 025	0	15 025	11 587	3 438	2 944[2)]	494
Liabilities[3)]							
Financial derivatives	27 425	0	27 425	11 587	15 839	14 324[4)]	1 515

[1)] KBN has credit exposure against counterparties

[2)] The difference between the amount in this table and carrying amount for received cash collateral as shown in the table above (NOK 4 462 million) is due to a combination of offsetting of cash collateral and that the bank has received cash collateral over the exposure
[3)] Counterparties have credit exposure against KBN

[4)] The difference between the amount in this table and carrying amount for pledged cash collateral as shown in the table above (NOK – 17 073 million) is due to a combination of offsetting of cash collateral and that the bank has pledged cash collateral over the exposure

(Amounts in NOK 1 000 000)

				Amounts that may not be offset in the statement of financial position but that are subject to a netting agreement			
2018	**Gross fair value**	**Amounts that are offset in the statement of financial position**	**Carrying amount**	**Offsetting effect for counterparties with both asset and liabilities items**	**Amount after offsetting**	**Cash collateral**	**Amounts after offsetting and collateral**
Assets							
Financial derivatives	14 497	0	14 497	5 215	9 282	12 085	0
Liabilities							
Financial derivatives	24 051	0	24 051	5 215	18 836	15 646	3 191

NOTE 23

SUBORDINATED DEBT

(Amounts in NOK 1 000 000)	Currency	Nominal amount in CCY	Redemption right	Coupon	Nominal amount in NOK 2019	2018
Ordinary subordinated loan capital	NOK	2 000	2028	3.02 %	2 000	2 000
Total subordinated debt					**2 000**	**2 000**

NOTE 24

SHARE CAPITAL

	2019		2018	
	Number of shares	Share in %	Number of shares	Share in %
The Kingdom of Norway	3 144 625	100	3 144 625	100

NOTE 25

ADDITIONAL TIER 1 CAPITAL

(Amounts in NOK 1 000 000)	Currency	Nominal amount in CCY	Redemption right	Coupon	Carrying amount 2019	2018
Additional Tier 1 capital	NOK	1 000	2020	3 month NIBOR +1.5%	994	994
Additional Tier 1 capital	NOK	1 200	2027	3.26%	1 195	1 195
Total additional Tier 1 capital					**2 189**	**2 189**

KBN issued additional Tier 1 capital in the form of a subordinated bond in June 2015 and one in June 2017. The bonds form part of KBN's Tier 1 capital, see Note 31. Based on KBN having a one-sided right to not pay interest and notional amount to the investors, the bond does not qualify as a liability under IAS 32 and is therefore classified as equity in the Statement of Financial Position. The interest expenses are not presented on the line Interest expense in the income statement, but rather as a reduction of Retained earnings. The expenses are recognised when paid, see the Statement of changes in equity. Interest amounting to NOK 52 million (after tax) has been paid in 2019 (NOK 48 million in 2018). In addition, NOK 16 million (after tax) had accrued at year end 2019 (NOK 16 million in 2018). In total NOK 52 million of profit after tax is attributed to the additional Tier 1 capital holders in 2019 (NOK 49 million in 2018).

NOTE 26

RISK MANAGEMENT

State ownership, customer group and sector political role imply that KBN maintains a very low risk profile and is further divided into the risk areas Market, Liquidity, Credit, Capital and Operational Risk with associated risk profiles.

Risk management and internal control are an integral part of KBN’s strategy and business processes, and are adapted to the nature, scope and complexity of the risk exposure.

Robust internal control is carried out as an integral part of the business processes of the bank. Risk management is established in a structure based on three lines of defence that shall ensure systematic identification, assessment and monitoring of the risk in all parts of KBN’s activities.

ORGANISATION OF RISK MANAGEMENT

Board of Directors. The Board of Directors has the overall responsibility for the risk management and sets the risk appetite of KBN in line with requirements from the owner and the authorities. The risk appetite reflects KBN’s capacity to bear risk and the tolerance for fluctuations in profits and capital. The risk appetite is implemented through the determination of risk limits.

Risk committee of the Board. The risk committee is a preparatory and advisory body to the Board. Its three members are appointed annually from and by the members of the Board. The main function of the committee is to assist the Board in making decisions on risk capacity, including development of limits for risk tolerance. Furthermore, it shall assist the Board in the monitoring and management of KBN’s total risk.

President & CEO. The President & CEO has an overall responsibility for risk management and internal control, and is following up changes in KBN’s risk exposures on an ongoing basis.

Three lines of defence. KBN’s first line of defence within risk management and internal control comprises the Lending department, the Financial Markets department that performs funding, liquidity management and the post trade operation functions. The second line of defence comprises financial control, as well as the risk management and the compliance functions. The second line of defence monitors, guides and contributes to improving the first line controls, and performs comprehensive risk measurement. This responsibility includes also risk management and monitoring of compliance to external and internal regulations. The third line of defence is carried out by the internal auditor Deloitte, reporting directly to the Board.

RISK TYPES

The risk management and risk exposure in KBN are subject to strict internal guidelines to ensure the bank's credit rating and access to the interbank markets. Credit and liquidity risk are generally low. Interest rate and currency risk is hedged on transaction level for all currencies except for NOK, USD and EUR. Interest rate risk for these currencies is hedged with interest rate swaps, such that the bank is only exposed to changes in three-month interest rates.

The following risk factors are identified as the most important for KBN:

Credit risk and counterparty risk

- Loss on loans granted to customers
- Counterparty default—derivative transactions
- Issuer default—liquidity portfolio

Market risk

- Basis spread risk
- Interest rate risk
- Credit spread risk
- Currency risk

Capital level

Liquidity risk

Operational risk

CREDIT RISK

KBN's assets consist of loans to municipalities and similar and a liquidity portfolio of bonds and notes issued by or guaranteed by sovereigns, regional authorities, multilateral development banks, covered bonds and financial institutions with high credit rating.

Credit risk arising from lending customers is limited to payment deferrals as the payment obligation cannot be waived. The Local Government Act states that municipalities and similar cannot be declared bankrupt. In the Local Government Act, provisions have also been made on the procedures to be followed if payment deferral must be implemented. According to these provisions, the Ministry takes over the control of a municipality if the municipal council adopts payment deferrals. KBN does, however, perform credit assessment of all lending customers, based on a model for economic analysis of municipalities and similar. The model considers the municipalities' financial situation with both qualitative and quantitative key indicators for economic development and prospects of the customer.

KBN grants loans to public sector entities that carry out tasks for local and regional authorities. The conditions for such loans are that the municipalities or regional authorities provide guarantees that have been politically approved and authorised by government via the County governor or the Ministry of Local Government and Modernisation.

Financial counterparties are subject to regular credit assessment. Credit limits are determined through an internal assessment of the counterparty's rating, the bank's risk capital, the type of financial instrument and its maturity.

For investments in Notes, bonds and other interest-bearing securities, as well as for hedging instruments (financial derivatives), the minimum rating requirement is A3/A from Moody's and Standard and Poor's.

KBN enters into derivative transactions in order to control interest rate and currency risk. Counterparties in derivative transactions are financial institutions or central counterparties. In addition to strict rating requirements, the risk inherent in derivative transactions is mitigated through the use of ISDA agreements (offsetting). Such agreements, that include the exchange of cash collateral, have been made with all derivative counterparties.

KBN uses clearing services at a central counterparty (London Clearing House—LCH) for hedging instruments related to interest rate risk and has prepared for the use of a similar counterparty on the continent (Eurex). Central counterparties that are established in the EU/EEA area are subject to capital and risk management through an own EU regulation (EMIR) and are considered to have lower counterparty risk than ordinary financial institutions.

KBN does not have a direct membership at LCH and two clearing brokers act on behalf of KBN towards LCH. KBN has chosen to segregate its derivative positions and funds (collateral) in relation to any possible default of the clearing broker. Thus, the bank's exposure is directly against LCH. KBN achieves a high degree of protection through such a solution.

Credit risk related to the liquidity portfolio is low. An average rating of the portfolio is AA+ (based on the lowest of S&P and Moody's), and 68 per cent of the portfolio is invested in securities with a BIS-weight of zero per cent. Average time to maturity of the portfolio was 1.51 years as of 31 December 2019. The price risk in the portfolio is managed at issuer level and is limited due to the portfolio's short duration.

MARKET RISK

Market risk consists mainly of basis spread, interest rate, credit spread and currency risk. KBN's risk appetite and risk limits allow limited exposure to changes in interest rates and credit spread changes, whereas for currency risk only a minimal framework is allowed for operational reasons. Interest rate and currency risk are managed through matching of assets and liabilities as well as through economic hedges with derivative instruments.

CAPITAL MANAGEMENT

KBN is subject to the Financial Undertakings Act and its capital requirements. In addition, KBN assesses its capital level taking into account all substantial risks the bank is exposed to. The Board of Directors discusses the capital level and assesses all the risks at least annually to ensure that the Company's capital level is sufficient based on the actual and expected risk exposure.

In the process of capital assessment, management identifies and measures all the risks KBN may be exposed to and estimates the capital level necessary to cover the total risk exposure. The following risks are assessed separately: credit risk, market risk, liquidity risk, operational risk and other non-financial risk.

The Board pays special attention to the risk of changes in regulatory framework. The impending changes to CRD IV and to the national capital requirements have increased KBN's capital requirements.

KBN's Common equity Tier 1 capital adequacy ratio is 17.35 per cent. KBN is compliant with all regulatory capital requirements, relating to regulatory minimum requirements and buffer requirements, and for all capital measures (common equity Tier 1 capital, total Tier 1 capital and primary/total capital).

LIQUIDITY RISK

Liquidity risk is managed by matching maturity profiles and interest rate reset periods for assets and liabilities. KBN holds a liquidity portfolio in order to be able to meet its payment obligations for a minimum of 10 months without access to new funding. Short average time to maturity ensures that KBN's liquidity requirements mainly can be met through maturities on the asset side. The liquidity portfolio is invested in liquid bonds and notes with high credit rating and short time to maturity.

OPERATIONAL RISK

KBN has low appetite for operational risk. Assessment of operational risk is performed at least on a yearly basis and otherwise when circumstances warrant it. Management reports to the Board on the operational risk and incidents. KBN's internal control facilitates targeted and efficient operations, reliable reporting and compliance with external and internal regulations.

Operational risk arises in all functions and is minimised through controls of work processes, high professional and competency level, focus on ethical behaviour internally and versus business relations, and robustness in critical functions, amongst others.

NOTE 27

CREDIT RISK

(Amounts in NOK 1 000 000)

KBN has credit exposures against the municipal sector in Norway, as well as against sovereigns, local authorities, multilateral development banks, financial institutions and issuers of covered bonds within the OECD. For the Norwegian municipal sector, the maximum maturity is determined by the Municipality Act and the credit framework is governed by regulations on large commitment. Credit exposu-

KBN has no actual loan losses in 2019, and neither is there any evidence of actual default as at 31 December 2019. KBN does not issue financial guarantees.

The table below includes exposures that are recognised as Deposits with credit institutions, Instalment loans and Notes, bonds and other interest-bearing securities. Exposures on the line Regional authorities includes loans to companies guaranteed by municipalities and regional authorities.

Amounts in the table below represent actual credit exposure

2019

Time to maturity		< 1 year				> 1 year			
Risk class	**A-2**	**A-1/A-1+**	**Not rated**	**BBB**	**A**	**AA**	**AAA**	**Not rated**	**Total**
Sovereigns and central banks	0	10 682	0	0	2 669	23 089	802	0	**37 241**
Multilateral development banks	0	2 030	0	0	0	113	4 867	0	**7 010**
Regional authorities [1]	0	11 261	43 081	0	0	9 452	2 811	278 586	**345 190**
Financial institutions	2 087	16 184	0	0	0	0	197	0	**18 468**
Securitisation	0	0	0	0	0	0	6	0	**6**
Covered Bonds	0	5 767	6 056	0	0	3 828	19 882	0	**35 534**
Total	**2 087**	**45 923**	**49 137**	**0**	**2 669**	**36 482**	**28 565**	**278 586**	**443 448**

[1] Including loans to the municipal sector amounting to NOK 310.9 bn.

Undisbursed loan commitments amount to NOK 5.3 bn as at 31 December 2019.

Credit exposure by country

2019

Time to maturity		< 1 year				> 1 year			
Risk class	**A-2**	**A-1/A-1+**	**Not rated**	**BBB**	**A**	**AA**	**AAA**	**Not rated**	**Total**
Australia	0	0	0	0	0	0	0	0	**0**
Belgium	0	2 005	0	0	0	1 025	0	0	**3 030**
Canada	0	764	0	0	0	0	802	0	**1 566**
Denmark	0	7 472	0	0	0	0	1 423	0	**8 895**
Finland	0	3 053	0	0	0	1 670	1 081	371	**6 175**
France	0	1 553	0	0	0	2 922	830	0	**5 305**
Japan	2 077	3 174	0	0	2 669	0	0	0	**7 919**
Netherlands	0	295	2 171	0	0	0	677	1 210	**4 353**
Norway	0	471	39 510	0	0	3 636	8 237	276 112	**327 965**
Austria	0	1 177	0	0	0	2 985	0	0	**4 162**
Spain	0	0	0	0	0	0	6	0	**6**
United Kingdom	10	7 450	0	0	0	431	4 543	0	**12 435**
Supranationals	0	2 030	0	0	0	113	4 867	0	**7 010**
Switzerland	0	4 321	0	0	0	0	0	0	**4 321**
Sweden	0	6 074	1 507	0	0	370	2 972	0	**10 924**
Germany	0	3 154	5 949	0	0	4 988	3 128	892	**18 111**
United States	0	2 931	0	0	0	18 342	0	0	**21 273**
Total	**2 087**	**45 923**	**49 137**	**0**	**2 669**	**36 482**	**28 565**	**278 586**	**443 448**

Amounts in the table below represent actual credit exposure

2018

Time to maturity		**< 1 year**				**> 1 year**			
Risk class	**A-2**	**A-1/A-1+**	**Not rated**	**BBB**	**A**	**AA**	**AAA**	**Not rated**	**Total**
Sovereigns and central banks	0	23 233	1 168	0	0	13 596	2 936		**40 934**
Regional authorities [1]	0	21 426	33 382	0	0	4 891	1 670	287 547	**348 917**
Multilateral development banks	0	7 756	351	0	0	468	2 279		**10 854**
Financial institutions	0	3 162	0	0	0	0	87	0	**3 213**
Securitisation	0	0	0	0	0	0	8	0	**8**
Covered bonds	0	11 467	994	0	0	1 441	13 066		**26 967**
Total	**0**	**67 009**	**35 895**	**0**	**0**	**20 396**	**20 046**	**287 547**	**430 893**

[1] Including loans to the municipal sector of NOK 303.6 billion.

Undisbursed loan commitments amount to NOK 6.8 billion as at 31 December 2018.

Credit exposure by country

2018

Time to maturity		**< 1 year**				**> 1 year**			
Risk class	**A-2**	**A-1/A-1+**	**Not rated**	**BBB**	**A**	**AA**	**AAA**	**Not rated**	**Total**
Australia	0	0	0	0	0	0	0	0	
Belgium	0	1 172	0	0	0	1 008	0	0	**2 180**
Canada	0	62	0	0	0	1 036	0	0	**1 098**
Denmark	0	10 877	0	0	0	87	656	0	**11 620**
Finland	0	410	495	0	0	730	0	0	**1 635**
France	0	11 813	1 272	0	0	1 216	0	0	**14 301**
Japan	0	3 044		0	0	0	0	0	**3 044**
Netherlands	0	990	902	0	0	0	87	0	**1 979**
Norway	0	3 604	27 716	0	0	1 441	9 339	287 547	**329 647**
Austria	0	27	0	0	0	57	0	0	**84**
Spain	0	0	0	0	0	0	8	0	**8**
United Kingdom	0	360	0	0	0	0	3 818	0	**4 178**
Supranationals	0	7 756	351	0	0	468	2 279	0	**10 854**
Switzerland	0	3 953	0	0	0	0	0	0	**3 953**
Sweden	0	11 878	2 922	0	0	0	1 610	0	**16 410**
Germany	0	10 199	2 238	0	0	1 821	2 248	0	**16 506**
United States	0	865	0	0	0	12 532	0	0	**13 396**
Total	**0**	**67 009**	**35 895**	**0**	**0**	**20 396**	**20 046**	**287 547**	**430 893**

NOTE 28

INTEREST RATE RISK

(Amounts in NOK 1 000 000)

KBN has expanded its methods for calculating interest rate sensitivity. The interest rate sensitivity information illustrates how the value of the bank's assets and liabilities, profit and equity would be affected by a change in the respective market rate. KBN calculates interest rate sensitivity using the EVE method and the NII method. The EVE method gives an estimate of the change in market value of all the bank's balance sheet items regardless of the measurement method in the financial statements, while the NII method gives an estimate of changes in net interest income in the period's result.

The economic value of equity (EVE) is a cash flow calculation that deducts the present value of all known and expected cash flows stemming from debt positions from the present value of all known and expected cash flows stemming from assets. Stress testing using EVE is an internationally recognized standard for estimating interest rate risk.
The model indicates how interest rate changes will affect total capital. The bank uses the economic value of equity to manage its assets and liabilities. This is a long-term financial measure used to assess the degree of interest rate risk exposure.

The EVE method (Table 1) provides an estimate of sensitivity in the form of a change in market value related to a one percentage point change in market interest rates for the entire interest rate curve for all currency types. The bank's sensitivity to change in market value in the event of a one percentage point change in market interest rates is estimated at NOK 172 million at 31 December 2019. The calculation does not offset between different currency types.

Table 2 shows the estimated effect on unrealized value changes in the Income statement and the Statement of comprehensive income of a corresponding one percentage point change in market interest rates. This includes the part of the market value changes in accordance with the EVE method that applies to assets and liabilities that are measurement with methods where relevant value changes are recognized in the financial statements.

Net interest income (NII) is an economic performance measure that reflects the difference between interest income from interest-bearing assets and interest expense on interest-bearing liabilities. Excess revenue generated is net interest income.

Table 3 shows the bank's sensitivity to net interest income (NII method) within a 1-year period based on a one percentage point change in market interest rates, which is estimated at NOK 127 million as of 31 December 2019. The calculation does not offset between different currency types.

Table 1: Interest rate sensitivity on the market value of balance sheet items (EVE)

The table below shows the sensitivity in market value for all balance sheet items, based on a parallel shift in the yield curve

(market interest rate/swap rate)
of 100 bp (up).

	0-3 months	3 months-1 year	1-5 years	>5 years	Net Total	Gross Total
AUD	0	0	(9)	(14)	**(22)**	**22**
EUR	5	16	8	(38)	**(9)**	**9**
JPY	(2)	0	(1)	23	**21**	**21**
NOK	(142)	(7)	(24)	68	**(105)**	**105**
USD	42	111	36	(187)	**3**	**3**
Other	(1)	3	(5)	(9)	**(12)**	**12**
Total	(99)	124	6	(156)	**(125)**	**172**

Table 2: Interest rate sensitivity for unrealised market value changes in the Income statement and the Statement of comprehensive income

The table below shows the effect on the Income statement in the form of unrealized market value changes at a parallel shift of 100bp, as in EVE. Not all balance sheet items included in EVE have an accounting measurement method that impacts profit and loss, this only applies to assets and liabilities measured at fair value and assets and liabilities included in hedge accounting. The effect on the balance sheet items measured at fair value is NOK 20.4 million, while the effect on the hedge accounted balance sheet items is NOK 133.2 million.

	0-3 months	3 months-1 year	1-5 years	>5 years	Net Total
AUD	0	0	(9)	(14)	**(22)**
EUR	8	16	8	(38)	**(6)**
JPY	(2)	0	(1)	23	**21**
NOK	244	4	(5)	(42)	**200**
USD	13	111	37	(187)	**(27)**
Other	(1)	3	(5)	(9)	**(12)**
Total	260	134	25	(266)	**154**

Table 3: Interest rate sensitivity for net interest income (NII)

The table below shows the sensitivity of the bank's net interest income on a 12-month horizon based on a 100bp parallel shift of the yield curve (up).

	0-3 months	3 months-1 year	Net Total
EUR	(9)	0	**(9)**
NOK	122	0	**122**
USD	14	0	**14**
Other	0	0	**0**
Total	**127**	**0**	**127**

The table above shows that KBN is only sensitive to interest rate changes for maturities up to 3 months, regardless of the stressed yield curve. The time horizon for measuring NII is 1 year (for effects on profit and loss)

NOTE 29

CURRENCY RISK

(Amounts in NOK 1 000 000)

Currency risk is defined as the risk of loss due to changes in market values based on fluctuations in FX rates. Currency risk arises due to KBN's borrowing being mainly in foreign currency, while lending is in NOK. The bank's guidelines require hedging of all currency risk related to assets and liabilities in foreign currency. However, short term net positions related to income statement items in USD and EUR may occur. Currency risk is hedged at both transaction level and portfolio level. The limit for currency risk is set to NOK 12 million for a 10 percent absolute change in all FX rates.

	2019		2018	
Currency	**Net position**	**10% change in FX rate**	**Net position**	**10% change in FX rate**
USD	48.2	4.8	80.6	8.1
EUR	3.1	0.3	4.3	0.4
Other currencies	5.2	0.5	4.4	0.4
Total	**56.4**	**5.6**	**89.3**	**8.9**

The table above shows an absolute effect in the income statement of a 10 percent change in FX rates relative to NOK. The amount is calculated based on all net positions in foreign currency as at 31 December 2019 and 2018. The sensitivity analysis assumes zero correlation between FX rates and other market risk factors.

NOTE 30

LIQUIDITY RISK

(Amounts in NOK 1 000 000)

Liquidity risk is defined as the risk of KBN not being able to meet its commitments or finance lending demand without significant extra costs being incurred in the form of reduction in value of assets that need to be sold, or in the form of more expensive funding. Liquidity risk is monitored and managed through the bank's liquidity policy set by the Board of Directors.

The policy requires that the liquidity portfolio should generally cover 12 months' net redemptions, and at any time a minimum of 10 months' net redemptions. This implies that the bank has to be in the position to cover all its liabilities/payables, including that related to the lending activities, during the next 12 months without new borrowing.

A large part of the portfolio matures within 12 months. Further to this liquidity risk is reduced by matching maturities on assets and liabilities up to 3 months. The bank also has a short term funding programme and a credit line with DNB to manage short-term liquidity.

KBN has a portfolio of highly liquid securities. These holdings shall be transferrable to cash without significant losses for KBN under severely stressed market conditions, either through direct sales or through the use of repurchase agreements in a recognised repurchase market.

The liquidity portfolio shall have low credit and market risk and is invested in notes and bonds issued by sovereigns, local authorities, multilateral development banks and highly rated financial institutions.

2019

Exposure by time to maturity	Total	< 1 month	1-3 months	3-12 months	1-5 years	>5 years	Without maturity
Deposits with credit institutions	**18 181**	18 181	0	0	0	0	0
Other money-market deposits	**3 244**	1 568	1 676	0	0	0	0
Instalment loans	**383 696**	1 783	7 867	31 533	69 184	273 329	0
Notes, bonds and other interest-bearing securities	**113 614**	8 666	9 558	24 559	62 219	8 612	0
Total assets	**518 734**	**30 197**	**19 101**	**56 093**	**131 402**	**281 941**	**0**
Loans from credit institutions	**4 462**	4 462	0	0	0	0	0
Commercial paper	**2 638**	0	2 638	0	0	0	0
Senior securities issued	**431 913**	13 405	22 120	62 476	240 695	93 216	0
Other liabilities	**1 782**	24	440	1 282	0	0	36
Subordinated debt	**2 544**	0	0	60	242	2 242	0
Additional Tier 1 capital	**2 525**	0	9	1 043	156	1 317	0
Total liabilities	**445 864**	**17 891**	**25 206**	**64 862**	**241 093**	**96 775**	**36**
Financial derivatives	**18 009**	**1 070**	**1 487**	**4 120**	**12 320**	**(990)**	**0**
Net liquidity exposure	**90 880**	**13 377**	**(4 617)**	**(4 649)**	**(97 371)**	**184 176**	**(36)**

The table shows the sum of net maturities in that period, including interest payments. Additional Tier 1 capital is included in the table although it is not classified as liability in the Statement of financial position, because it is included in the bank's liquidity management. Financial derivatives are net cash flows (principal and interest) per time period.

2018

Exposure by time to maturity	Total	< 1 month	1-3 months	3-12 months	1-5 years	>5 years	Without maturity
Deposits with credit institutions	**22 987**	22 987	0	0	0	0	0
Instalment loans	**360 490**	3 931	8 873	19 210	68 249	260 227	0
Notes, bonds and other interest-bearing securities	**119 015**	21 523	35 819	19 567	34 496	7 611	0
Total assets	**502 492**	**48 441**	**44 693**	**38 777**	**102 744**	**267 838**	**0**
Loans from credit institutions	**12 085**	12 085	0	0	0	0	0
Senior securities issued	**454 822**	3 553	22 498	72 547	260 482	95 742	0
Other liabilities	**1 244**	9	16	9	1 164	0	47
Subordinated debt	**2 604**	0	0	60	242	2 302	0
Additional Tier 1 capital	**2 578**	0	7	50	1 164	1 356	0
Total liabilities	**473 332**	**15 647**	**22 521**	**72 666**	**263 051**	**99 400**	**47**
Financial derivatives	**33 238**	**2 915**	**2 030**	**3 408**	**15 692**	**9 192**	**0**
Net liquidity exposure	**62 398**	**35 709**	**24 202**	**(30 482)**	**(144 615)**	**177 630**	**(47)**

The table shows the sum of net maturities in that period, including interest payments. Additional Tier 1 capital is included in the table although it is not classified as liability in the Statement of financial position, because it is included in the bank's liquidity management. Financial derivatives are net cash flows (principal and interest) per time period.

NOTE 31

CAPITAL ADEQUACY AND CAPITAL MANAGEMENT

(Amounts in NOK 1 000 000)

KBN's capital consists of share capital, retained earnings, additional Tier 1 capital and supplementary capital/subordinated debt. A satisfactory level of capital is seen as necessary for maintaining the AAA-rating and to ensure efficient market competition. The Board assesses the capital level on an ongoing basis and approves KBN's principles for capital management.

KBN's capital status is assessed against risk in a 12-month perspective and using long-term stress tests. The minimum requirement for total capital requirements including buffers is set at 16.7 percent as at 31 December 2019. The minimum requirement for common equity Tier 1 capital adequacy ratio including buffer requirements, but before pillar 2 requirements, is set at 13.2 percent on 31 December 2019. These figures take into account the reduction of KBN's buffer for systematically-important institutions from 2 to 1 percent.

KBN's pillar 2 requirement has been set at the highest of the Financial Supervisory Authority of Norway of 1.4 percent and the bank's own assessed capital requirement of 1.6 percent and was thus 1.6 percent on 31 December 2019, in total a 14.8 percent requirement on common equity Tier 1 capital.

The pillar 2 requirement as set by the Financial Suprvisory Authority was increased to 2.3 percent on 7 Februry 2020, with effect from 31 March 2020. From this date on, the total regulatory requirement on common equity Tier 1 capital adequacy ratio is 15.5 percent.

The minimum requirement for leverage ratio is set at 3 percent as at 31 December 2019. KBN is compliant with all statutory capital requirements as at 31 December 2019. However, capital adequacy has been weakened as a result of deductions in common equity Tier 1 capital, primarily related to deferred tax assets. See note 8 for further information.

In order to maintain a sufficient capital level, KBN can, depending on market conditions, reduce or increase its total assets or enter into a dialogue with the owner regarding changing its capital structure by changes in dividend policy or issue of share capital.

KBN is well capitalised on the reporting date, and is adapting its capital structure to new capital requirements.

Capital adequacy		**2019**			**2018**	
	Carrying amount	Risk-weighted assets	Minimum capital requirements and capital adequacy	Carrying amount	Risk-weighted assets	Minimum capital requirements and capital adequacy
Credit risk						
Sovereigns and central banks	37 241	0	0	40 934	0	0
Regional governments and local authorities	339 268	62 578	5 006	328 043	61 154	4 892
Of which are Norwegian municipalities	*310 881*	*62 578*	*5 006*	*303 538*	*61 154*	*4 892*
Public sector entities	5 892	0	0	10 038	0	0
Multilateral development banks	7 010	0	0	10 854	0	0
Financial institutions	11 011	1 917	153	40 467	6 520	522
Of which counterparty exposure on derivatives	*10 073*	*1 729*	*138*	*14 690*	*1 365*	*109*
Claims secured by residential property	31	31	2	33	33	3
Covered bonds	35 534	3 553	284	26 967	2 697	216
Other assets	1 466	3 635	291	10	10	1
Securitisation	6	1	0	8	8	1
Credit Valuation Adjustment	300	3 754	300	180	2 255	180
Total credit risk	**437 758**	**75 468**	**6 037**	**457 535**	**72 677**	**5 814**
Market risk	**0**	**0**	**0**	**0**	**0**	**0**
Operational risk - Basic Indicator Approach		**3 879**	**310**		**3 299**	**264**
Minimum capital requirements		**79 347**	**6 348**		**75 976**	**6 078**
Total capital ratio			**22.6 %**			**22.9 %**
Tier 1 capital adequacy ratio			**20.1 %**			**20.3 %**
Common equity Tier 1 capital adequacy ratio			**17.4 %**			**17.4 %**
Leverage ratio			**3.7 %**			**3.6 %**

Supplementary capital cannot exceed 100 percent of Tier 1 capital. KBN's total capital satisfies the capital adequacy requirements. KBN's total primary capital comprises the following elements:

(Amounts in NOK 1 000 000)	**2019**	**2018**
Common equity Tier 1 capital		
Share capital	3 145	3 145
Retained earnings previous years	9 784	8 591
Profit for the year included in Tier 1 capital	1 283	1 496
Pension funds above pension commitments	0	0
Deferred tax asset*	(688)	0
Intangible assets	(126)	(116)
Dividends payable	0	(481)
Other additions/deductions in common equity Tier 1 capital	370	609
Share of nulled unamortised estimate differences	0	0
Total common equity Tier 1 capital	**13 768**	**13 244**
Other approved Tier 1 capital	2 189	2 189
Total Tier 1 capital	**15 957**	**15 433**
Supplementary capital		
Ordinary subordinated debt	2 000	2 000
Total supplementary capital	**2 000**	**2 000**
Total primary capital	**17 957**	**17 433**

*Only non reversing deferred tax asset to be deducted here.

Primary capital has been calculated under the Regulation on the calculation of primary capital for financial institutions. Unrealised gain/(loss) on liabilities that is due to changes in own credit risk include both non-derivative and derivative liabilities.

Statsautoriserte revisorer
Ernst & Young AS

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INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Kommunalbanken AS

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Kommunalbanken AS, which comprise the balance sheet as at 31 December 2019, income statement, statements of comprehensive income, changes in equity and cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company as at 31 December 2019 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's *responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for 2019. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

Valuation of Financial Instruments

Unlisted or illiquid financial instruments measured at fair value are valued based on models that use assumptions that are not observable in the market place. The valuation of these instruments therefore has a higher risk of errors. Such instruments comprise assets of NOK 90,943 million and liabilities of NOK 77,618 million measured at fair value in the statement of financial position and classified as level 3 instruments within the fair value hierarchy. Due to the materiality of the unlisted or illiquid instruments, we considered the valuation of these instruments a key audit matter.

We assessed the design and tested the operating effectiveness of internal controls over the valuation process including management's determination and approval of assumptions and methodologies used in model-based calculations. Our assessment also included management's review of valuations performed by internal experts. We assessed pricing models against industry practice and valuation guidelines. We performed independent valuations for selected instruments and used external source data where available. We compared results of our valuations to the Company's valuations.

Level 3 instruments which are presented at fair value on the statement of financial position are disclosed in note 11 in the financial statements.

IT systems supporting financial reporting

Kommunalbanken AS uses complex IT systems in an automated IT environment and is highly dependent on its IT systems in supporting the reporting of financial information. To ensure complete and accurate presentation of financial information, it is important that controls over transaction processing and measurement are designed and operate effectively. Likewise IT-general controls need to be designed and operate effectively to ensure appropriate access rights and system changes. The IT systems supporting financial reporting are considered a key audit matter as these systems are critical to ensure accurate, complete and reliable financial reporting.

We obtained an understanding of Kommunalbanken's IT systems and the IT-environment relevant for financial reporting. We assessed and tested the automated controls within the financial system related to amongst others, effective interest rate and discounting. Furthermore, we involved IT specialists in assessing and testing the operating effectiveness of the IT general controls exercised by management throughout the reporting period.

Other information

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board of Directors and Chief Executive Officer (management) are responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with law, regulations and generally accepted auditing principles in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report and on the statement on corporate social responsibility

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statement on corporate social responsibility concerning the financial statements, the going concern assumption and proposal for the allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than* Audits *or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Oslo, 28 February 2020
ERNST & YOUNG AS

Einar Hersvik
State Authorised Public Accountant (Norway)

(This translation from Norwegian has been made for information purposes only.)

Articles of association

The Articles of Association were last changed by the Annual General Meeting 29 June 2016.

The bylaws are issued in Norwegian and translated into English. In case of discrepancy between the two versions, the Norwegian version prevails.

CHAPTER I
Company, objectives, registered office

§ 1 The Company's name is Kommunalbanken AS.

§ 2 The Company is a direct continuation of the enterprise carried out by the government administrative body, Norges Kommunalbank.

The State's shares may be assigned to municipalities, counties, intermunicipal companies and municipal pension funds. Such assignment will be done in accordance with the Company's aim of maintaining highest possible creditworthiness.

§ 3 The Company's objectives are to provide loans to local governments, counties, intermunicipal companies and other companies that carry out local government tasks against either a municipal guarantee, government guarantee, or other satisfactory security.

The Company can also undertake other tasks appropriate to the Company's business.

§ 4 The Company's registered office is in Oslo.

CHAPTER II
Equity and subordinated loan capital - shares

§ 5 The Company's share capital is NOK 3,144,625,000 (three billion, one hundred and forty-four million, six hundred and twenty five thousand Norwegian kroner) divided into 3,144,625 shares of NOK 1,000 (one thousand Norwegian kroner) each.

§ 6 The acquisition of shares is conditional on the consent of the Company's Board of Directors. Consent can only be withheld on grounds of fact.

§ 7 Pre-emption rights given to shareholders under section 4-19 of the Norwegian Companies Act can also be claimed for shares which have changed owner.

CHAPTER III
Board of Directors

§ 8 The Company's Board of Directors shall collectively exhibit diversity and breadth of qualifications, experience and background and consist of between five (5) and nine (9) members. If a majority of the employees should so decide, it can demand that a third and at least two (2) of the members of the Board shall be elected by and from amongst the Company's employees. For these members two (2) personal deputies shall be elected.The other members shall be elected by the Annual General Meeting for two-year terms, so that at least two (2) shall be elected annually, but no more than four (4) of the elected members

The Annual General Meeting shall elect the chairman and vice-chairman of the Board of Directors.

§ 9 The chairman of the Board shall ensure that the Board holds meetings as often as the Company's business necessitates, or when a member calls for a meeting to be held. The Board constitutes a quorum if more than half the members are present. Valid resolutions are those for which the majority of the members present have voted, although a proposal which implies an alteration or amendment requires more than one-third of all board members. If the votes on each side are equal, the chairman of the meeting shall have the casting vote.

§ 10 The responsibility for the overall management of the Company belongs to the Board and shall therefore inter alia:

1. Ensure that the Company’s business operations/activities are soundly organised.
2. Draw up strategies and plans, budgets and guidelines for the Company's business operations/activities and check that they are followed:
3. Keep itself informed of the Company’s financial position and ensure that its operations, accounts and fund management are subject to adequate control.
4. Make decisions and grant authority for new loans raised.
5. Grant special powers and authorisation to sign on behalf of the company per procurationem.
6. Present the annual accounts and directors' report to the Annual General Meeting.
7. Make recommendations to the Annual General Meeting with respect to alterations to the Articles of Association.
8. Appoint the managing director.
9. Fix the managing director's salary.
10. Prepare statements on remuneration policy.
11. Supervise the day-to-day management of the Company and its overall operations.

§ 11 The chairman of the board, or the vice-chairman of the board shall jointly with one of the board members or the managing director sign for the Company.

§ 12 The managing director shall be responsible for the day-to-day management of the Company and its business operations/activities in accordance with the instructions laid down by the Board.

CHAPTER IV
Supervisory Board

§ 13 The Supervisory Board shall consist of twelve members and five deputy members. One member and one personal deputy member shall be elected by and from amongst the employees. The remainder of the members and deputy members shall be elected by the Annual General Meeting. The Supervisory Board should be composed of as broad a range of members as possible, so as to ensure that the various districts and interest groups affected by the Company's business are fairly represented. No member of the Board of Directors nor any of the Company’s senior executives can be elected member of the Supervisory Board.

The members of the Supervisory Board shall be elected for two-year terms. One third of the members shall retire each year. At least one third of the members shall be elected annually.

The Supervisory Board shall elect chairman and vice-chairman from amongst its members to serve for a term of one year.

§ 14 The Supervisory Board shall be convened by the chairman and meet at least once a year or as often as the chairman finds necessary or when called for by the Board of Directors, or by a minimum of two members of the Supervisory Board. The notice of the meeting shall set out the business to be considered.

The Board of Directorsand the Company's auditor shall be called to attend the meetings of the Supervisory Board. Unless otherwise determined by the Supervisory Board in individual instances, the members of the Board of Directors are entitled to be present at the meetings of the Supervisory Board with the right to speak and the right of initiative. The Ministry of Local Government and Modernisation can participate in the Supervisory Board meeting with up to two observers.

The Supervisory Board constitutes a quorum when at least 2/3 of its members or deputy members are present. If the requisite number of members is not present, a new meeting of the Supervisory Board shall be called. The new meeting will constitute a quorum if more than half the members are present.

Valid resolutions of the Supervisory Board are those for which the majority of the members present have voted, although a resolution can only be passed if voted for by more than one third of all members. If the votes on each side are equal, the chairman of the meeting shall have the casting vote.

§ 15 The Supervisory Board shall endeavour to ensure that the Company's objectives are being promoted in accordance with law, regulation, memorandum and articles of association, and the resolutions of the Annual General Meeting and the Supervisory Board by:

1. Provide a statement to the Annual General Meeting in respect of the Board of Directors' proposals for the income statement and balance sheet and the Board's proposals for the application of profit or covering of loss for the year.
2. Scrutinise the Board of Directors' report and the auditor's report.
3. Give an opinion on matters concerning the Company which are brought before the Supervisory Board by the Board of Directors or that the Supervisory Board considers necessary to address, with a particular focus on corporate governance.

CHAPTER V

Annual General Meeting

§ 16 The ordinary Annual General Meeting shall be held before the end of June.

The Ministry (The Ministry of Local Government and Modernisation) calls the Annual General Meeting where members of the board, managing director and the Company’s auditor are called.

An extraordinary Annual General Meeting shall be held if called for by the Ministry of Local Government and Modernisation, the Board of Directors or the Company's auditor.

The regular Annual General Meeting shall:

1. Adopt the Company's annual report and accounts, including the application of profit or covering of loss for the year, and the declaration of dividend.
2. Elect members to the Board of Directors in accordance with § 8.
3. Elect members to the Supervisory Board in accordance with § 13 of the Articles of Association.
4. Elect the Company’s auditor.
5. Fix remuneration for members of the Supervisory Board and the Board of Directors, the board’s subcommittees and the Company’s auditor.
6. Approve the Board of Director's statement on remuneration policy.
7. Address other business referred to in the notice of the meeting or which by law or Articles of Association falls under the Annual General Meeting.

CHAPTER VI

Auditor

§ 17 The Company's auditor shall be a state-authorised public accountant and shall be elected by the Annual General Meeting based on a recommendation from the Board of Directors.

The auditor's report shall be delivered at least two weeks prior to the meeting of the Supervisory Board which shall consider the accounts.

CHAPTER VII

§ 18 The Company shall raise funds for lending by issuing bonds, certificates or other form of loan notes or by entering into loan agreements. The Company may raise primary capital and other foreign capital.

Raising primary capital and Tier 1 capital instruments is effected based on a majority Annual General Meeting resolution as in the case of alterations in the Articles of Association, or by the Board of Directors according to the authority adopted by such a majority. The authority shall be limited upward in amount and is not valid for longer than the next year’s regular Annual General Meeting, or maximum of 18 months.

§ 19 Loans can only be granted to municipalities, counties, intermunicipal companies and other companies which carry out local government tasks against either a municipal guarantee, government guarantee or other satisfactory security. The Company can also undertake other tasks appropriate to the Company's business.

§ 20 The Board of Directors shall fix all lending terms and conditions as may be in force at any time.

§ 21 The Company's capitalisation and financial administration shall be satisfactory in relation to the Company's business and consistent with the Company's aims of maintaining highest possible creditworthiness.

CHAPTER VIII

Annual Report and Accounts

§ 22 The Company's financial year shall follow the calendar year.

The Board of Directors shall deliver annual accounts and an annual report for each financial year.

The annual accounts shall be placed at the disposal of the auditor at least one month prior to the ordinary Annual General Meeting. The audited annual report and accounts shall be scrutinised by the Supervisory Board before being laid before the Annual General Meeting.

The Annual General Meeting shall adopt the annual report and accounts no later than the end of June.

The Board of Directors shall publish the annual report and accounts no later than one week after they have been adopted by the Annual General Meeting.

CHAPTER IX

Age of retirement

§ 23 The age of retirement for the Company's Managing Director is 70 years.

CHAPTER X

Alterations to the Articles of Association

§ 24 Alterations to the Articles of Association must be approved by the King if prevailing regulations so demand. If such approval is demanded, the Articles of Association will come into force on the date such approval is forthcoming.

Governing bodies

BOARD OF DIRECTORS

- Brit Kristin Rugland, Chair
- Rune Midtgaard, Vice Chair
- Eyvind Aven
- Nanna Egidius
- Martha Takvam
- Petter Steen jr.
- Ida Espolin Johnson
- Marit Urmo Harstad, employee representative
- Harald Jacobsen, employee representative

ALTERNATES TO THE EMPLOYEE REPRESENTATIVES

- Anne Jenny Dvergsdal
- Jarle Byre

SUPERVISORY BOARD

- Alfred Bjørlo, Chair, Mayor, Eid municipality
- Berit Flåmo, Vice Chair, Mayor, Frøya municipality
- Rigmor Brøste, County Governor, Møre og Romsdal county
- Bjørn Ropstad, Mayor, Evje og Hornnes municipality
- Ane Marie Braut Nese, Mayor, Klepp municipality
- Ida Stuberg, Mayor, Inderøy municipality
- Leif Harald Walle, CEO, Stor-Elvdal municipality
- Tron Bamrud, CEO, Akershus county
- Kjetil Århus, director of digitalization, Bergen municipality
- Tore Isaksen, CEO, Ringerike municipality
- Hege Mørk, CEO, Gol municipality
- Terje Dalby, senior kundeansvarlig, ansattes representant
- Terje Dalby, Senior Relationship Manager, employee representative

DEPUTIES

- Toril Eeg, CEO, Færder municipality
- Hans Seierstad,former Mayor, Østre Toten municipality
- Tommy Steinsvik, CEO, Vågan municipality
- Nina Bordi Øvergaard, CEO, Sør-Va-ranger municipality
- Terje Fronth-Pedersen, Senior Relationship Manager, alternate to the employee representative

OBSERVERS TO THE SUPERVISORY BOARD

- Sølve Monica Steffensen, Director General, Ministry of Local Government and Modernisation
- Thor Bernstrøm, Assistant Director General, Ministry of Local Government and Modernisation

AUDITOR

Ernst & Young AS

- Einar Hersvik, State Authorised Public Accountant

INTERNAL AUDITOR

Deloitte AS

- Eivind Skaug, State Authorised Public Accountant

BOARD PREPARATORY COMMITTEES

Audit Committee

- Martha Takvam, Chair
- Nanna Egidius
- Ida Espolin Johnson

Risk Committee

- Rune Midtgaard, Chair
- Brit Kristin Rugland
- Eyvind Aven

Remuneration Committee

- Brit Kristin Rugland, Chair
- Petter Steen jr.
- Harald Jacobsen

GRI Index

General information

GRI indicator	Description	Location in the report	Information
Organisational profile			
102-1	Name of the organisation	About KBN Norway (8)	
102-2	Activities, brands, products, and services	About KBN Norway (8)	
102-3	Location of headquarters		Haakon VIIs gate 5b, 0161 Oslo
102-4	Location of operations		Kommunalbanken operates in Norway
102-5	Ownership and legal form	About KBN Norway (8)	
102-6	Markets served	About KBN Norway (8)	Kommunalbanken borrows from around the world in order to offer low-cost financing to Norwegian municipalities and county authorities
102-7	Scale of organisation	About KBN Norway (8) The Board of Directors' Annual Report - Organisation and employees (27-28) The Board of Directors' Annual Report - Annual Accounts (17-19) Annual Accounts 2019 – Statement of Financial Position (60)	
102-8	Information on employees and other workers	The Board of Directors' Annual Report - Organisation and employees (27-28)	See tables below. No work in Kommunalbanken is performed by workers who are not employees. No significant variations in employee numbers.

	Women	Men
Permanent employees	32	46
Temporary employees	4	3

	Women	Men
Full-time	32	46
Part-time	4	3

102-9	Supply chain	Performance in 2019 – Supply chain (41) 2020 Objectives - Supply chain (47-48)	The core of the KBN's supply chain is the use of facilitators when making our loans. Furthermore, KBN has agreements and makes financial transactions with several financial players. Our financial agreements and transactions are governed by internal financial guidelines, which require, among other things, that facilitators must be subject to anti-money laundering rules. In addition, KBN has ordinary purchasing of consultancy services and limited purchase of goods and equipment for ordinary operations.
102-10	Significant changes to the organisation and its supply chain		No significant changes to KBN's structure, ownership or staffing.
102-11	Precautionary Principle or approach		Kommunalbanken seeks to reduce the adverse environmental impact of its normal activities by obtaining Eco-Lighthouse certification and through its green lending, but it has no material risk of causing unknown environmental consequences as a result of its activities or lending. Kommunalbanken is a member of the UN Global Compact and is therefore committed to complying with the precautionary principle.
102-12	External initiatives		Out sustainability work: https://www.kbn.com/en/sustainability/Our-sustainability-work/
102-13	Membership of associations	Looking back on 2019 (15) The Board of Directors' Annual Report (22)	
Strategy			
102-14	Statement from senior decision maker	CEO's foreword (6-7)	
Ethics and integrity			
102-16	Values, standards, principles and norms	2020 Objectives – Responsible organisation (46-47) KBN's values (108)	Code of Conduct: https://www.kbn.com/en/about-us/ethics/code-of-conduct/
Governance			
102-18	Governance structure	Our sustainability work (33)	
Stakeholder analysis			
102-40	List of stakeholder groups	List of stakeholders (35-37)	
102-41	Collective bargaining agreements	Organisation and employees (27)	
102-42	Identifying and selecting stakeholders	Our sustainability work (33-34)	
102-43	Approach to stakeholder engagement	Our sustainability work (33-34) List of stakeholders (35-37)	
102-44	Key topics and concerns raised	List of stakeholders (35-37)	
Reporting practice			
102-45	Entities included in the consolidated financial statements		Kommunalbanken AS
102-46	Defining report content and topic Boundaries	Our sustainability work (33-34) Materiality Analysis (37-38)	
102-47	List of material topics	Materiality Analysis (37-38)	
102-48	Restatements of information		None

102-49	Changes in reporting		None
102-50	Reporting period		2019
102-51	Date of previous report		28.02.2019
102-52	Reporting cycle		Annual
102-53	Contact point		TOR OLE STEINSLAND Chief Communications Officer (CCO) +47 98 24 70 16 tost@kommunalbanken.no
102-54	Claims of reporting in accordance with the GRI Standards		This report has been prepared in accordance with the GRI Standards: Core option.
102-55	GRI content index		Harald: Fyll inn hvilke sider i årsrapporten GRI indeksen vil befinne seg på: Annual Report 2018, pages XX-XX
102-56	External assurance		This report is not externally verified

Specific information

GRI indicator	Description	Location in the report	Information
Anti-corruption			
103-1	Explanation of the material topic and its boundary	2020 Objectives – Responsible organisation (46-47)	
103-2	The management approach and its components		
103-3	Evaluation of the management approach		
205-2	Communication and training about anti-corruption policies and procedures	2020 Objectives – Responsible organisation (46-47)	Partly reported. Kommunalbanken is working on complete reporting in 2020.
205-3	Confirmed incidents of corruption and actions taken		No confirmed incidents.
Diversity and equal opportunity			
103-1	Explanation of the material topic and its boundary	2020 Objectives – Employees (48-49)	
103-2	The management approach and its components		
103-3	Evaluation of the management approach		

405-1	Diversity of governance bodies and employees	2020 Objectives – Employees (48-49)	

	Women	Men
Top management	4	7
Other managers	4	3
Regular employees	29	38

	30 and below	30-50	**50+**
Top management		6	**5**
Other managers		5	**2**
Regular employees	15	38	14

	Women	Men
Support	29	32
Core	7	17

	30 and below	30-50	**50+**
Support	9	36	**16**
Core	3	13	**5**

405-2	Ratio of basic salary and remuneration of women to men	2020 Objectives – Employees (48-49)	Students are excluded from the calculations.
419-1	Non-compliance with laws and regulations in the social and economic area		Kommunalbanken has not identified any internal noncompliance with Norwegian orinternational regulations.
Product responsibility			
103-1	Explanation of the material topic and its boundary	2020 Objectives – Green finance (42-44)	
103-2	The management approach and its components		
103-3	Evaluation of the management approach		
FS8	Monetary value of products and services designed to deliver a specific environmental benefit for each business line broken down by purpose	The Board of Directors' Annual Report – Lending (20)	

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