KBN The Norwegian Agency for Local Governments

2021
Annual Report

Contents

Cover: The new Kautokeino school
Illustration: Ola Roald Arkitektur

The new Kautokeino school will accommodate students from first to tenth grade. It is being built on the same site as the existing primary and secondary school, in the center of Kautokeino. The new school facility is very space-efficient and designed according to national requirements for universal design. A main feature of the project is to promote the uniqueness of the Sami culture's activities and pedagogy.

The school is partly funded with a green loan from KBN.

KBN The Norwegian Agency for Local Governments

Photo: Jo Straube

Sustainable debt growth?

2022 holds plenty of challenges, with more to come down the road. A bright spot is that lockdowns seem to be over.

JANNICKE TRUMPY GRANQUIST
CEO

Despite everything that has happened, Norway seems to have come through the pandemic relatively well. With the help of the sizeable sovereign wealth fund, it has been possible to limit the damage caused by the coronavirus pandemic, both in terms of public health and the economy. Several hundred billion kroner have been made available through crisis packages for business and industry, the local government sector and households since the start of the pandemic in March 2020.

Now that these extraordinary measures are being phased out in pace with the increasing level of vaccination, and hospitals have sufficient intensive care capacity with a less dangerous virus in the community, things are changing for most people. Delays in supply chains have helped to push inflation to its highest level for 30 years (with the sole exception of 2008). As KBN submits our annual report, we receive messages that Russian tanks advance against the Ukrainian capital of Kyiv, with the implications this has for the Ukrainians first and foremost, but also the world economy. The attack is a grave breach of international law. Our thoughts are with the Ukrainians.

A combination of factors have also caused energy prices to reach record highs. The sharp increase in inflation has created significant upward pressure on wages. A number of central banks, including Norges Bank, started to increase interest rates in 2021, and the market expects up to four increases in Norwegian interest rates in 2022, with the key policy rate approaching 1.5%. By way of comparison, the key policy rate has not been higher than 1.5% since March 2012, and many borrowers will experience interest rates reaching a level this year that they have never experienced before. For the local government sector, the proportion of each municipality's debt that is on fixed rate terms will affect the outlook. 2021 saw only a small increase in the take up of fixed rate loans after several years of high demand, and this may suggest that the sector has reached a sufficiently high proportion of fixed rate borrowing.

A combination of price inflation, upward pressure on wages and increases in interest rates at a time when the economic support provided during the pandemic is coming to an end will put some municipalities' finances under pressure. For a number of these municipalities, it will not be financially sustainable to continue the kind of strong increase in borrowing that many municipalities have taken on over recent years. However, many municipalities still need to continue sizeable spending on necessary investment. With the proportion of the population over 80 years of age continuing to grow, demographic changes are beginning to have a considerable impact. The backlog of maintenance and the need to improve standards will continue to contribute to the increasing need for investment, particularly in the areas of health and care, water and wastewater, transport and schools.

Changes in climate and the transition to a low-carbon society will affect municipalities' investment decisions in the future. The physical climate risk caused by more frequent and more intense extreme weather events will necessitate greater investment in flood protection, avalanche mitigation and dealing with surface runoff, and will also affect decisions such as the location of new buildings and infrastructure. The transition risk associated with the move to renewable energy and carbon pricing, as well as regulatory and legislative changes, may lead to increased costs and reduced revenue for municipalities, for example in the form of stranded assets and lower tax revenue. An increasing incidence of weather-related damage due to more extreme weather conditions also increases liability risk for municipalities in relation to being held responsible for the costs that other parties incur as a result of insufficient climate adaptation or due care in the planning and building approvals which municipalities carry out.

On the other hand, municipalities that do pay attention to climate risk can reduce the future costs in areas such as operations and damage repair, as well as increasing their tax revenue, by facilitating and encouraging forward-looking businesses. Many parts of Norway experienced unusually high electricity prices in the second half of 2021. Given the enormous transition the world must undergo to achieve its climate targets, it is not inconceivable that energy prices will remain high for the foreseeable future. Working with the Norwegian Climate Foundation, KBN launched a project in autumn 2021 to develop and distribute knowledge about municipalities' role in the transition to green energy, with particular emphasis on investments that improve energy efficiency and production. These are areas where investment can both cut costs and reduce vulnerability to future price shocks and supply difficulties.

Investments by municipalities that help to reduce greenhouse gas emissions, improve energy efficiency and/or facilitate climate adaptation are eligible for green loans with favourable interest rates from KBN. We fund these green loans by issuing bonds in the international financial markets. 2021 was a record year for KBN's green finance activities, with three green bond issues in three currencies and green loan disbursements totalling NOK 7.9 billion to finance 97 projects throughout Norway. Municipal investments often have an economic life of 40-50 years, which means that they will still be with us well into the low-carbon society. This makes it particularly pleasing that a steadily increasing number of municipalities are choosing green solutions for these investments.

Total demand for new loan financing in 2021 was somewhat lower than in the three preceding years. The rate of growth in normal local government sector borrowing was 5.6% in 2021 as compared to 8.1% in 2020. A provisional assessment of the slowdown in borrowing growth between 2020 and 2021 suggests that this reflects a combination of 1) a somewhat lower level of planned investment, 2) delays in carrying out investments, including delays caused by the coronavirus pandemic, and 3) somewhat less use of loan financing for investment projects relative to previous years, and particularly relative to 2020.

KBN's lending increased in total by NOK 4.8 billion in 2021, equivalent to 1.5%. Growth was affected by large extraordinary repayments from toll-road financed road building projects and by a welcome reduction in the portfolio of loans granted on certificate loan terms. Loans of this type generate only weak profitability for KBN, and this kind of short-term financing by municipalities increases their refinancing risk, which became very apparent when the Norwegian capital market ceased to function in March 2020. KBN experienced good growth in green lending and in loans with longer maturity periods for its primary customers, which are municipalities and county authorities.

Profit for the year was NOK 1,208 million in 2021 as compared to NOK 1,159 million in 2020, and KBN's return on equity after tax for 2021 was 7.1%. In 2021 KBN granted new loans totalling NOK 49 billion, which financed investment in projects such as schools, health and care facilities, and water and wastewater systems. KBN's robust financial results, the good growth in its lending for projects with a clear climate ambition, its efficient operations and its high level of customer satisfaction show that KBN is fulfilling its role in society successfully.

After almost two years in which society was locked down for long periods and employees have been working from home, we now look forward to being able to meet each other and our customers more normally. It is challenging to maintain and develop a corporate culture solely through digital meetings, particularly for the employees who joined us during the course of the pandemic. We are therefore very pleased that we can arrange events such as a workshop to review KBN's vision and values, participate in the Climate Championship and visit our customers together.

About KBN

With total assets of about NOK 500 billion, Kommunalbanken AS (KBN) is one of the largest financial institutions in Norway. We provide loans to the local government sector, and our ambition is to contribute to the development of sustainable communities.

AAA
Standard & Poor's
Moody's

32.9 mrd. kr
lending to climate friendly projects in the municipal sector

99.7%
of Norwegian municipalities are KBN customers

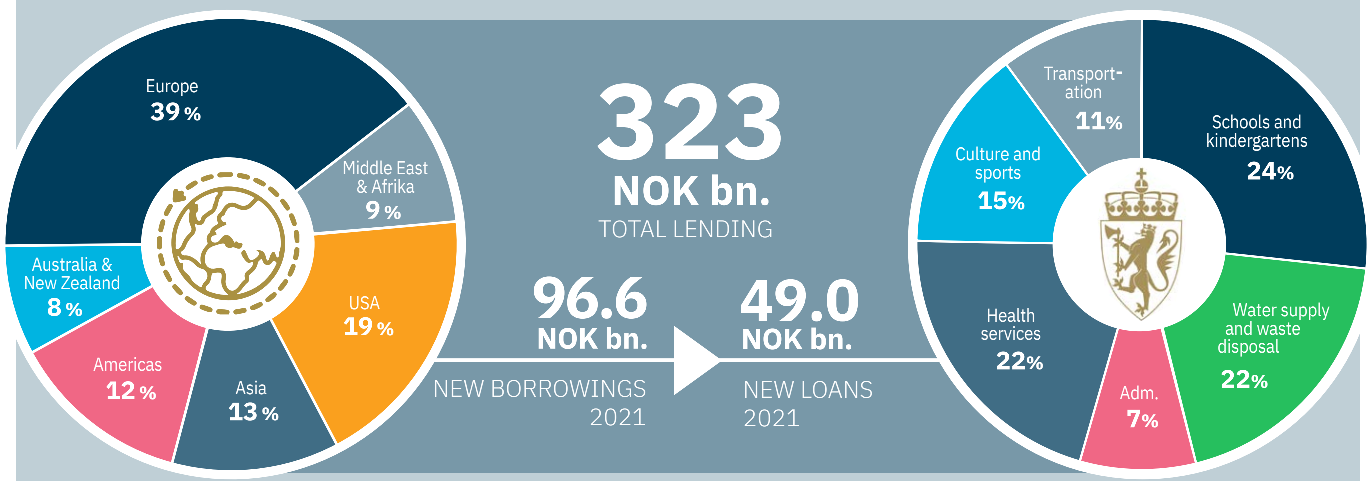
44.9%
of municipal debt is financed through KBN

KBN is 100% owned by the Norwegian state. Our objective is to provide loans to municipalities, county authorities and companies that carry out local government tasks. KBN was first established in 1927 and is today the largest lender to the local government sector. Our total lending to the sector is in excess of NOK 300 billion.

KBN has a strong market position and seeks to use this to promote sustainable communities. We are committed to ensuring municipalities make environmentally and climate-conscious choices when investing, and we offer a slightly lower interest rate on loans for projects that are ambitious from a climate perspective. We also use some of our resources to help municipalities' elected representatives and administrative teams improve their knowledge of climate change.

KBN finances its lending to the local government sector by borrowing money directly in the capital markets. KBN is today one of the largest Norwegian borrowers in the international capital markets, and each year it needs to borrow around NOK 100 billion. KBN finances its green loans for the local government sector by issuing green bonds. KBN has more than ten years' history as an issuer of green bonds, which are a central pillar in our long-term work on corporate social responsibility and sustainability.

KBN has a conservative risk profile and is one of the few AAA-rated financial institutions in the world. KBN has never suffered any losses on its lending. As a state-owned company with a public mandate, strong capital base, robust operations and low risk appetite, KBN holds the highest possible credit rating from both Standard and Poor's and Moody's.



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

KBN strategy 2022-2024

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

Our vision:
Long-term partner for local welfare

Values:
Open
Responsible
Engaging

THE CUSTOMER FIRST

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

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

STRONG MARKET PARTICIPANT

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

We will:
- Further develop a diversified funding program to maintain our low borrowing costs in the context of the more uncertain international economic outlook.
- In order to be ready to address situations such as another crisis in the financial markets or unforeseen needs to make disbursements, KBN will hold sufficient liquidity reserves that are invested in highly creditworthy liquid securities.
- Strive to simplify our financing activities by reducing the complexity, costs and risk associated with funding, hedging and contingency planning.

LEADER IN GREEN FINANCE

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

We will:

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

A DIGITAL FIRST CHOICE

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

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

Read the full strategy:
kbn.com/en/strategy

A FUTURE-ORIENTED ORGANISATION

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

We will:

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

SUSTAINABLE VALUE CREATION

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

We will:

- By means of our expertise and the tools we offer, contribute to our customers' long-term financial sustainability and provide them with the best possible basis for decisions about investment spending and financing solutions.
- Set high expectations in relation to ethical conduct and sustainability for ourselves
- and for our suppliers and collaboration partners. Have high expectations in relation to our customers' ethical conduct.
- Have active stakeholder dialogue in relation to politicians, authorities and organisations regarding our activities.
- Be an important discussion partner for our owner in relation to relevant topics related to debt financing for the local government sector.

TABLE
KBN has the following targets for 2022.

Financial targets	▪ Return on equity > 5,5 % / Return on equity (core) > 5,5 % ▪ Dividend capacity > 4 % of equity ▪ Tier 1 capital adequacy ratio > 16,8 % / Leverage ratio > 3,7 % ▪ Cost/income (core) < 18 %
Market targets	▪ Marketshare lending ex. Husbanken > 45 % ▪ Rating = AAA/Aaa ▪ Customer satisfaction > 5 (scale from 1 to 6) ▪ Annual growth in green lending > 15 %
Organisational targets	▪ Completion share, Kompetanseløftet* > 75 % ▪ Gender balance > 40 % ▪ Sick leave < 2,5 % ▪ Results from employee survet, Engagement > 4,4 and Implementation > 4,1 (scale from 1 to 5)
Sustainability targets	▪ Share of customers with green lending > 35 % ▪ Rating from ratingagencies; MSCI = AA / ISS ESG = B / Sustainalytics = Low ▪ CO_2 emissions reduces by 30 % compared to 2019-levels

**In 2021 KBN launched a campaign entitled "KBN Kompetanseløftet", which challenges all KBN's employees to learn something new over the course of the year. Employees are free to choose any topic that is relevant to KBN, with a training arrangement of at least two days.*

KBN history

For 95 years KBN has ensured that Norwegian municipalities have been able to finance local welfare on favourable terms.

The 1920s was a period of crisis in Norway. Prices fell and investments plummeted. Norwegian municipalities had taken on sizeable borrowings, and struggled to repay this debt. In 1926 the Norwegian Parliament resolved to establish a specialised credit institution for municipalities. The intention was to create an institution that would be able to provide long-term financing to the local government sector.

Ever since KBN was first established, its objective has been to raise funding on the most reasonable terms possible in order to make loans to the local government sector on the best terms possible.

At no time in its 95 year history has KBN ever suffered a loss on its lending, and it has never reported an operating loss. At the start of 2022, KBN is proud to say that every municipality in Norway is a customer of KBN, and KBN's loan portfolio represents almost half of all the outstanding loans to the Norwegian local government sector.

1927
KBN is established

In the year after the Norwegian Parliament's resolution, KBN's predecessor Norges Kommunalbank was established as a state institution. The most important objective in the beginning was to help heavily-indebted municipalities out of the difficult borrowing situation in which they found themselves by providing refinancing loans. As the debt crisis gradually subsided, regular lending to municipalities that were in a satisfactory financial situation became its main lending activity.

1927

1945
Following the Second World War, Norges Kommunalbank took on a central position as a lender to municipalities to finance their social welfare responsibilities. In the first decades following the Second World War, lending to finance the construction of electric power plants was a particularly important role for Norges Kommunalbank.

1954
From 1954 Norges Kommunalbank was able to accept deposits from municipalities, electricity boards and municipality pension funds.

1960s
During the 1960s the focus for local government investment moved towards infrastructure and production of local welfare services.

1974
Norges Kommunalbank ceased to accept deposits in 1974, and since this time KBN has funded its lending activity entirely from the capital markets.

1986
From 1986 through to 1999 Norges Kommunalbank was only permitted to fund its activities by taking up loans denominated in Norwegian krone. During this time Norges Kommunalbank operated with an annual lending limit decided by the Norwegian parliament.

1999

Norges Kommunalbank was converted into the current legal form of Kommunalbanken AS (KBN) on 1 November 1999. Following the conversion, KBN's funding quotas and lending limits were removed, and it was again able to fund its activities by taking up loans denominated in foreign currencies.

2000

AAA

KBN achieved an AAA-rating. The rating is based on KBN's position as a wholly state-owned limited company with a sound capital base and a conservative risk profile that lends exclusively to Norwegian municipalities and county authorities of very high credit quality.

2008-2009

In response to the global financial crisis, the Norwegian state provided NOK 200 million of equity to KBN in order to increase its capacity for lending to the local government sector. This injection of equity was important to maintain economic activity, and demonstrated how KBN can function as an instrument of public policy.

2010

KBN issued its first green bond in 2010 in response to interest from Japanese investors.

2013

KBN became one of the first state-owned European banks to issue a green bond denominated in US dollars, with the proceeds earmarked for financing green projects.

2016

The Norwegian government resolved that KBN should be deemed to be one (of two) systemically important financial institutions in Norway, and KBN became subject to separate capital adequacy requirements.

2020

In response to turbulence in the capital markets in connection with the coronavirus pandemic, KBN was given a capital injection of NOK 750 million "In order to help the markets to function as well as possible and to prevent municipalities' refinancing of short-maturity securities from contributing to further stress in the markets".

2021

2021

Since 1999 KBN's total assets have increased more than 15-fold from NOK 30 billion in 1999 to over NOK 470 billion at the close of 2021. Over the same period the number of employees has increased from 30 to 90. KBN's green lending portfolio increased to over NOK 35 billion in 2021, with its green loans financing more than 340 projects throughout Norway.

Looking back on 2021

2021 was another year affected by the coronavirus pandemic. The lockdown of society again put a damper on the number of physical events that KBN was able to arrange, but thanks to our digital solutions we managed to reach out to more people than ever before. Everything from the KBN's annual conference and meeting with the Prime Minister through to customer meetings and road shows for investors were carried out digitally. The feedback from our customers was that they are satisfied with our digital offering, and that they are also very positive to customer meetings being held digitally. 2021 was a record year for KBN's green products, and in December KBN received an award as Eco-Lighthouse of the Year.

JANUARY

Largest funding transaction in eight years

KBN issued a USD 2 billion bond with a five-year maturity. This was KBN's largest single funding transaction in the international capital markets since 2013.

FEBRUARY

Publication of KBN's Annual Report and Impact Report

KBN achieved good results in a challenging year that was affected by the pandemic, political unrest and Brexit. Lending to projects with a clear climate ambition continued to grow the most. KBN carried out an assessment of its green lending portfolio in relation to the technical screening criteria in the EU Taxonomy.

MARCH

KBN annual conference

KBN's first entirely digital annual conference for the local government sector attracted over 550 participants, making it the best attended annual conference so far. The Minister of Finance, Jan Tore Sanner, presented the government's white paper 'Long-term perspectives on the Norwegian economy 2021', the chair of the 'Norway towards 2025' Commission presented the Commission's report, and we received an update on the work being carried out on the future revenue system for the local government sector.

APRIL

Bond issued with a new reference interest rate

KBN successfully issued a USD 500 million bond. This was the first time a Norwegian financial institution had carried out a funding transaction with SOFR as the reference interest rate.

MAY

KBN becomes a collaboration partner for Young Enterprise Norway

KBN and Young Enterprise Norway entered into a collaboration agreement to help increase awareness of social entrepreneurship and sustainability in Norwegian lower secondary schools through the 'Student company' program.

	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE
Green loans	180,266,000	621,771,000	879,031,000	1,314,231,000	1,951,163,800	2,271,675,800
Total	585,603,000	2,954,149,754	5,206,562,518	8,212,422,252	12,283,248,847	15,232,867,983

Total disbursed 2021
(Excluding short-term certificate loans)
NOK **39 211 579 975**

Green loans disbursed 2021
NOK **7 916 669 290**

AUGUST

Arendalsuka

KBN took part in two events at the annual Arendalsuka conference. KBN's Chief Executive Officer Jannicke Trumpy Granquist presented a report on the role of business and industry in adapting Norway to climate change, while the Chief Lending Officer Lars Strøm Prestvik participated in a panel discussion on the role of the local government sector in the green transition.

SEPTEMBER

New green milestone for KBN

KBN issued its third green bond since the start of 2021, bringing the total funding raised in the green market in the year to over NOK 9.8 billion. At the same time the value of KBN's green lending to the local government sector passed the NOK 30 billion milestone.

NOVEMBER

New collaboration project: Municipalities' role in the transition to a low carbon economy

Working with the Norwegian Climate Foundation, KBN launched a project in autumn 2021 to develop and distribute knowledge about municipalities' role in the transition to green energy, with particular emphasis on investments that improve energy efficiency and production.

JUNE

Eight immediate climate change adaptation measures

In 2020 KBN and Fremtind Forsikring, an insurance company, took the initiative to produce a report on the role of business and industry in adapting Norway to climate change. Following a workshop involving a range of businesses that are members of the Skift network, KBN and Fremtind produced a report containing proposals for measures that business and industry should implement immediately. This was submitted to Prime Minister Erna Solberg on 9 June 2021.

OCTOBER

KBN Credit Monitor

KBN launched 'Credit Monitor' in its customer portal, which is an application that provides key figures and charts for municipalities and county authorities that are included in KBN's credit classification system.

Miljøfyrtårn
ÅRETS MILJØFYRTÅRN 2021
Kommunalbanken AS

DECEMBER

KBN received an award as Eco-Lighthouse of the Year

KBN received an award as Eco-Lighthouse of the Year 2021 (in the category for large companies and groups) for its active role in the green transition through its financing solutions for the local government sector.

JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER
2,346,375,800	2,837,988,800	4,394,257,530	6,443,247,530	6,688,667,530	7,916,669,290
15,821,351,254	17,671,981,064	21,719,844,794	26,973,547,274	31,552,377,747	39,211,579,975

Key figures

(Amounts in NOK 1,000,000)	2021	2020	2019	2018	2017
RESULTS[1]					
Net interest income	1 585	1 672	1 875	1 885	2 162
Core earnings[2]	908	922	1 071	1 194	1 517
Profit before tax	1 620	1 537	1 771	1 996	1 783
Profit for the year	1 208	1 159	1 283	1 496	1 429
Return on equity after tax[3]	7.1%	7.4%	9.5%	11.9%	12.7%
Return on equity after tax (core earnings)[4]	5.6%	6.3%	8.3%	9.8%	13.5%
Return on assets after tax[5]	0.3%	0.2%	0.3%	0.4%	0.3%
Return on assets after tax (core earnings)[6]	0.2%	0.2%	0.2%	0.3%	0.4%
LENDING					
New disbursements	48 547	57 699	53 825	55 749	55 021
Outstanding loans[7]	323 018	318 235	309 758	302 229	281 706
LIQUIDITY PORTFOLIO[7]	110 837	123 585	107 350	113 557	107 484
BORROWINGS					
New long-term borrowings	96 550	107 822	72 508	104 844	118 509
Repurchase of own debt	217	1 051	276	206	837
Redemptions	106 802	106 676	95 704	79 937	112 555
Total borrowings[7]	395 385	405 451	400 489	414 603	373 816
TOTAL ASSETS	473 064	498 219	460 778	457 701	412 854
EQUITY					
Equity	19 081	18 538	16 401	15 421	14 667
Total capital ratio	24.2%	23.3%	22.6%	22.9%	24.6%
Tier 1 capital adequacy ratio	21.7%	20.8%	20.1%	20.3%	21.7%
Common equity Tier 1 capital adequacy ratio	18.8%	17.9%	17.4%	17.4%	18.4%
Leverage ratio	3.9%	3.7%	3.7%	3.6%	3.7%

(Amounts in NOK 1,000,000)	2021	2020	2019	2018	2017
LIQUIDITY COVERAGE RATIO (LCR)[8]					
Total	175%	191%	348%	349%	570%
NOK	71%	77%	73%	56%	2 052%
EUR	140%	200%	800%	625%	233%
USD	137%	188%	422%	248%	308%
AUD	1082%	1 239%	Infinite	489%	Infinite
JPY	Insignificant	716%	533%	Infinite	185%
GBP	733%	97 768%	Infinite	Insignificant	Insignificant
ANDRE NØKKELTALL					
Market share[9]	44.9	46.5	46.8	48.3	47.3
Green loans[10]	32 876	26 112	23 049	18 869	11 500
Share of green loans in the lending portfolio	10.2%	8.2%	7.4%	6.2%	4.1%
Green bonds[11]	25 796	15 976	16 615	12 800	9 600
CO_2 saved or reduced (tons of CO_2 equivalents)[12]	37 181	50 058	50 938	64 769	40 803
Emissions in tons CO_2 equivalents[13]	40	75	192	282	323
Percentage of women employed in KBN	46%	41%	42%	44%	43%
Percentage of women in KBN's management team	50%	27%	36%	40%	40%
Customer satisfaction (score of 6)	5.27	5.31	5.32	5.17	5.24

[1] *The numbers are calculated on the basis of accounting rules that applied for the respective time period.*

[2] *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.*

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

[4] *Core earnings as a percentage of average equity (annualized).*

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

[6] *Core earnings as a percentage of average assets (annualized). Average assets are calculated based on monthly assets.*

[7] *Principal amounts*

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

[9] *KBNs market share based on sector code 6500.*

[10] *Outstanding green loans according to KBN's Criteria Document for green loans as at 31 December 2021. In addition, the bank has a small portfolio of green loans that were granted before these criteria were established. These loans are no longer financed with green bonds. Total outstanding green loans are NOK 35.1 billion.*

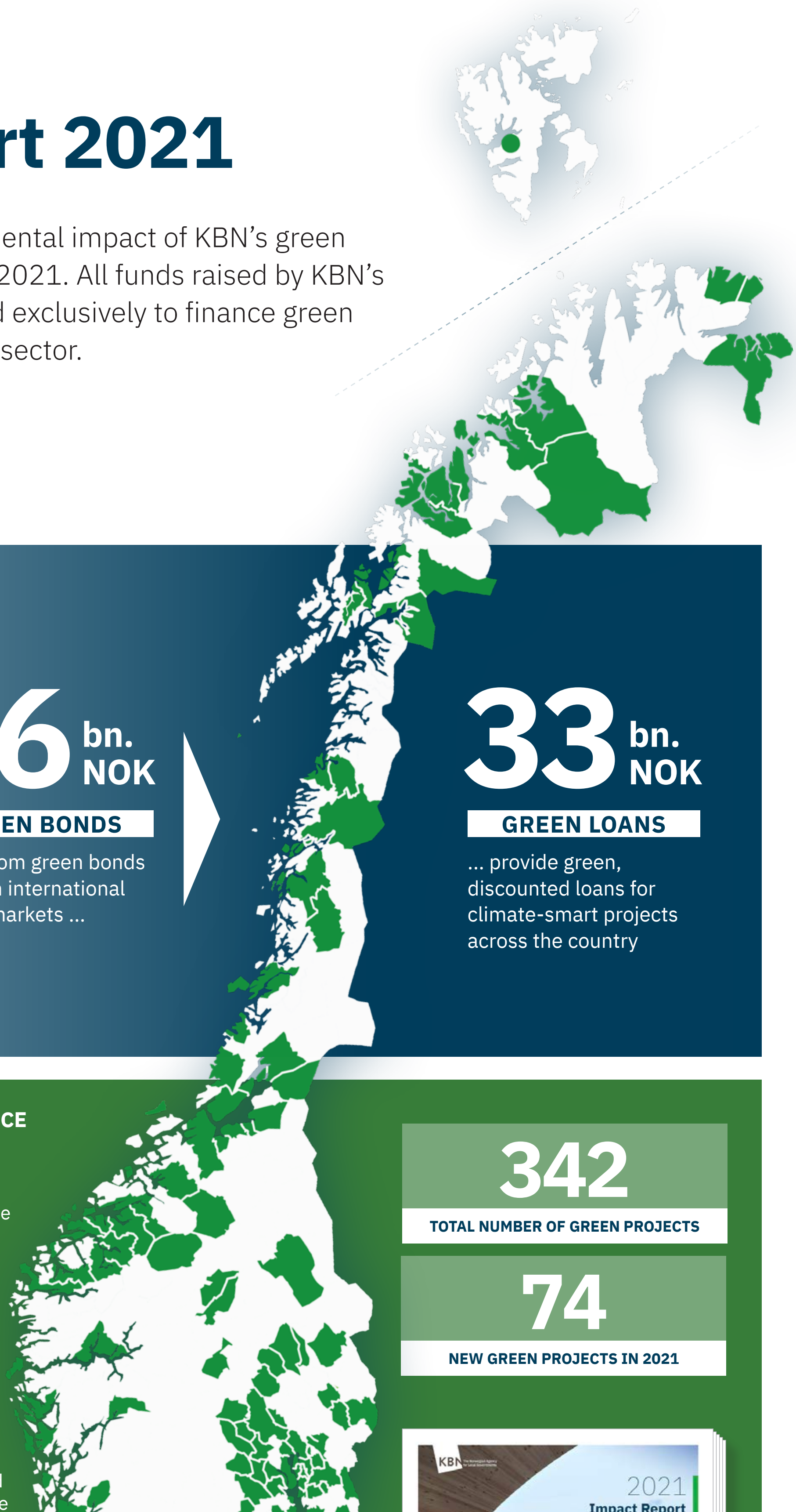
[11] *Outstanding green bonds*

[12] *Emissions reductions financed by KBN's green loans, financed with green bonds. Based on an European grid factor of 315g CO_2e per kWh electricity avoided or produced in an emission-free manner.*

[13] *KBN's calculated emissions.* *See Greenhouse gas accounting page 69.*

Impact report 2021

This report presents the environmental impact of KBN's green loan program as of 31 December 2021. All funds raised by KBN's green bond issuances will be used exclusively to finance green loans in the Norwegian municipal sector.



26 bn. NOK

GREEN BONDS

Funds from green bonds issued in international capital markets ...

33 bn. NOK

GREEN LOANS

... provide green, discounted loans for climate-smart projects across the country

OUR GREEN LOAN PROGRAM HELPS FINANCE

37 181
tonnes of CO_2e reduced and avoided annually[1]

150 134
tonnes increased waste management capacity

38
GWh energy reduced and avoided annually

79
GWh renewable energy produced annually

482 450
Population equivalents increase in water and wastewater capacity[2]

11%
of the portfolio is found to be in aligned with the EU Taxonomy's Technical Screening Criteria[3]

342
TOTAL NUMBER OF GREEN PROJECTS

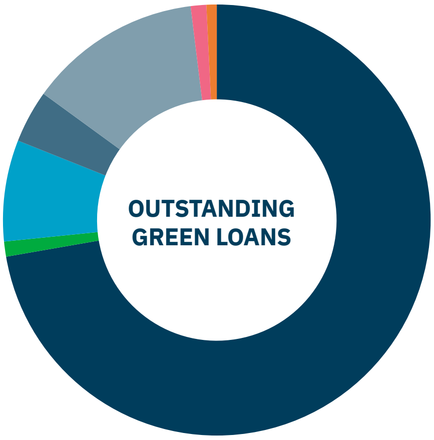
74
NEW GREEN PROJECTS IN 2021

Read the full KBN IMPACT REPORT on www.kbn.com

[1] We do our best to ensure the quality of the information provided; however, the reader should be aware that there is uncertainty related to estimating climate and environmental impact from investments.
[2] Population equivalents is an expression that describes the load and capacity of water and wastewater supply
[3] Self-assessment carried out by KBN. The assessment only evaluates the taxonomy's technical screening criteria and we have not analysed the "do no significant harm" criteria or the "minimum social safeguards".

Executive summary

As of 31 Dec 2021

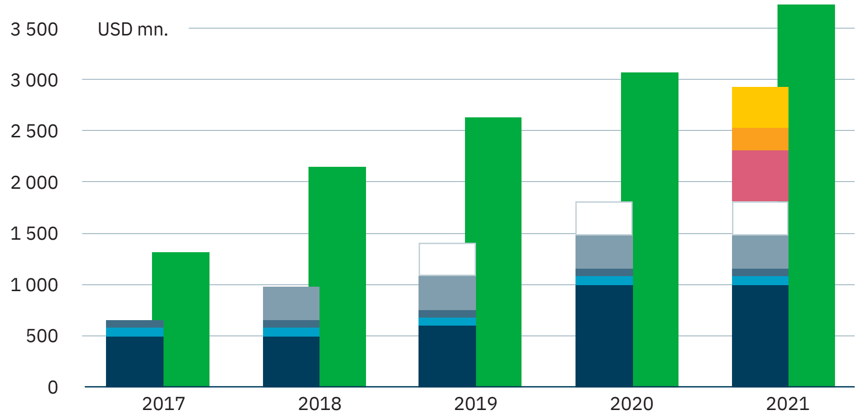


■	Buildings	**72%**
■	Renewable energy	**1%**
■	Transportation	**8%**
■	Waste and circular economy	**4%**
■	Water and wastewater management	**13%**
■	Land use and area development projects	**1%**
■	Climate change adaptation	**1%**

BASIC INFORMATION

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

GREEN BONDS ISSUANCE AND PORTFOLIO OF GREEN LENDING



- USD 1 bn Green Bond (11 Feb 2025)*
- NOK 750 mn Green Bond (29 Nov 2027)
- NOK 600 mn Green Bond (29 Nov 2032)
- AUD 450 mn Green Bond (05 Sep 2023)
- SEK 3 bn Green Bond (28 Aug 2026)
- USD 500 mn Green Bond (21 Oct 2024)
- AUD 300 mn Green Bond (08 Oct 2024)
- CAD 500 mn Green Bond (18 Oct 2024)
- Outstanding green lending

** Originally USD 500 mn., USD 100 mn. tap in 2019 and USD 400 mn. tap in 2020.*

PROJECT CATEGORIES AND ENVIRONMENTAL IMPACT [1]

Project category	Green loan outstanding (1000 NOK)	Reduced and avoided GHG (tonnes CO_2e annually)	Impact tonnes CO_2e per million NOK [2]
Buildings	23 762 231	14 779	0.6
Renewable energy	371 751	21 498	57.8
Transportation	2 497 477	740	0.3
Waste and circular economy	1 301 259	164	0.1
Water and wastewater management	4 301 108	n/a	n/a
Land use and area development projects	387 716	n/a	n/a
Climate change adaptation	255 312	n/a	n/a
Total	**32 876 855**	**37 181**	**58.8**
Renewable energy generated annually			**78 551 024 kWh**
Energy reduced/avoided annually			**38 361 315 kWh**

[1] The impact reported corresponds to the share of the project financed by us. A grid factor of 315g CO_2e per kWh electricity is applied throughout when converting electricity to emissions, as this is recommended by the Nordic Public Sector Issuers.
[2] Tonnes CO_2e reduced or avoided per million NOK of green lending.

IMPACT ATTRIBUTABLE TO GREEN BOND INVESTORS

Total outstanding green bonds divided by total outstanding loans disbursed, as of 31 December 2021 (in NOK)				**79% of which**
ISIN	**Issue date**	**Amount**	**Maturity Date**	
XS1188118100/ US50048MBX74	11 Feb 2015	USD 1 billion	11 Feb 2025	**27%**
NO0010811276	29 Nov 2017	NOK 750 million	29 Nov 2027	**2%**
NO0010811284	29 Nov 2017	NOK 600 million	29 Nov 2032	**2%**
AU3CB0256162	05 Sept 2018	AUD 450 million	05 Sept 2023	**9%**
XS2047497289	28 Aug 2019	SEK 3 billion	28 Aug 2026	**9%**
XS2333390164/ US50048MDA53	21 Apr 2021	USD 500 million	21 Oct 2024	**13%**
AU3CB0283596	08 Oct 2021	AUD 300 million	08 Oct 2024	**6%**
XS2398386776/ US50047JAJ79	18 Oct 2021	CAD 500 million	18 Oct 2024	**11%**

Photo: John Trygve Tollefsen

Growth in municipalities' borrowing – looking behind the figures

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

LARS LUDVIGSEN
Head of lending, KBN

The local government sector's primary duty is to deliver high-quality services to residents. Its specific tasks are either defined by legislation or by political priorities decided centrally and locally. The new Local Government Act, which came into force on 1 January 2020, explicitly confirms municipalities' legal right of self-determination. The elected members of municipal councils have wide-ranging authority with regard to what to prioritise and decision making. 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 the sector, and at around NOK 580 billion its combined income is approximately 19% of mainland Norway's GDP. Recent years have seen the sector achieve strong financial results, and the number of municipalities on the Register for Governmental Approval of Financial Obligations (ROBEK) at the end of 2021 was at a low level.

Sizeable growth in borrowing

In order to deliver welfare services, municipalities need appropriate and functional buildings and robust and reliable infrastructure. Investment in assets of this type 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

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

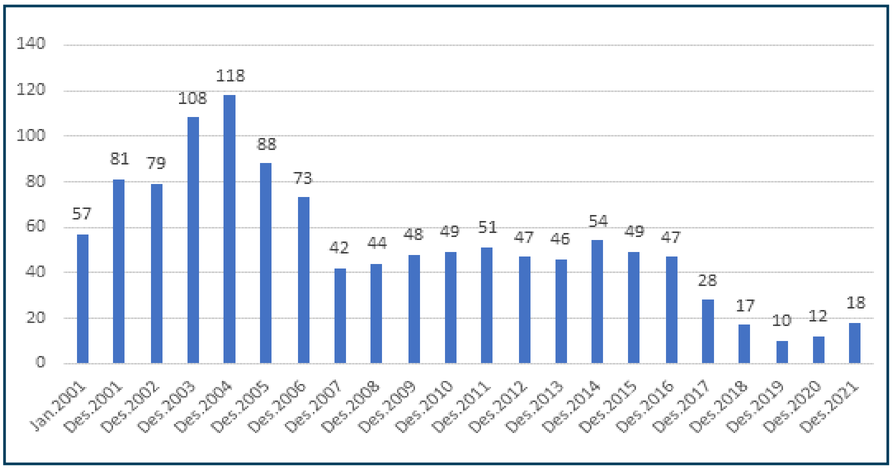
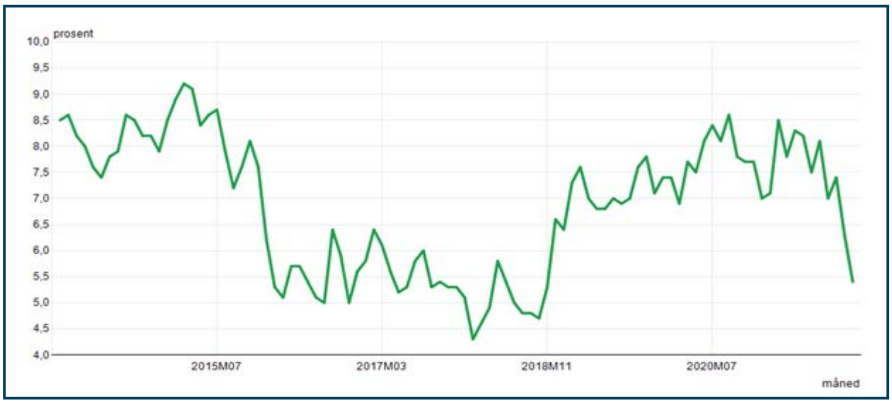


CHART 2
Growth in domestic borrowing by the local government sector, seasonally adjusted, over the preceding 12 months, in percent.
Source: ssb.no



number of tasks delegated to the sector. According to Statistics Norway, the total indebtedness of the local government sector at the close of 2017 was equivalent to 113% of the sector's combined income, representing a marked increase from 67% in 2000.

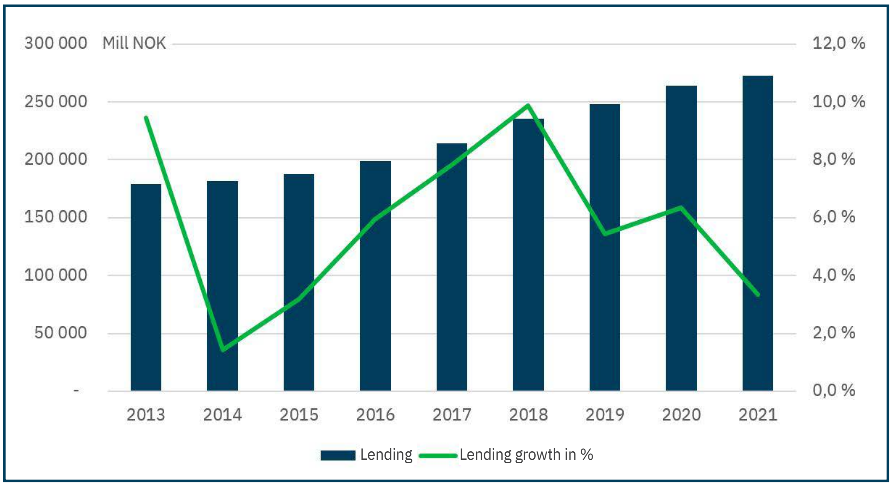
Municipalities' financial accounts are not available until June each year, but on the basis of Statistics Norway's credit indicator for the municipality sector, growth in outstanding borrowing in 2021 is likely to have been somewhat slower than in 2020. The credit indicator as at the end of December 2021 shows annual growth in borrowing of 5.4% to NOK 624 billion. This represents a marked slowdown in growth in borrowing following several years with growth of 7-8%. It is as yet too early to reach a conclusion on the reason for this slowdown, but it is possible that both slower progress with work on investment projects as a result of the coronavirus pandemic and expectations of higher interest rates may have held back growth in borrowing.

KBN's lending to the local government sector (total lending minus loans to companies backed by a municipality guarantee) has over the same period grown by approximately 5.9% annually, but the variations are somewhat larger than for the sector taken as a whole.

Sensitivity to higher interest rates

A significant proportion of the growth in the local government sector's total borrowing has taken place at a time of historically low interest rates. Norges Bank cut its key policy rate to 0% in May 2020, a level never before seen in Norway. This has led to record-low floating interest rates for large parts of 2020 and 2021 for households, the private sector and Norwegian municipalities and county authorities. Norges Bank announced two increases in interest rates during the second half of 2021, and its key policy rate is currently 0.5%. The 3-month NIBOR interest rate has increased from 0.2% in July 2021 to over 1.1% in February 2022. The fixed income market is pricing in a further increase for three-month NIBOR over the course of 2022 and 2023 of 1.3 percentage points. However, the level of interest rates can

CHART 3
KBN's lending to the local government sector and annual lending growth in percent



still be considered low by historical comparison.

The extent to which municipalities are sensitive to higher interest rates depends on a number of factors. The first factor is that a large proportion of municipalities' borrowing is not directly exposed to changes in market interest rates. The proportion of a municipality's borrowing that is exposed to interest rate changes is termed net interest-bearing debt, and this can be calculated by deducting the following elements from its 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 rate risk. It is important to note that there are major differences between municipalities in terms of both total indebtedness and net interest-bearing debt. The second important factor is the proportion of borrowing with a fixed rate or interest rate swap. In order to secure greater predictability, most municipalities choose fixed interest rates for some of their borrowings. Municipalities' internal financial regulations typically state that municipalities should have at least a third of their borrowings on a fixed rate basis at any time. No figures for the total value of fixed interest rate borrowing or interest rate swaps are available for the municipality sector as a whole, but a study of municipalities' financial reports for the first four months of 2020 carried out by KBN concluded that many municipalities have a significant proportion of their borrowings on fixed rate terms. The proportion of the sector's total borrowings that is on a fixed rate basis is estimated to be in excess of 40%. This degree of interest rate hedging, taking into account the proportion of total debt that is net interest-bearing debt, indicates that many municipalities have prioritised having predictable interest rate costs and are therefore relatively well equipped to deal with rising interest rates while continuing to meet their responsibilities. The local government sector's sound financial performance over recent years has also generated significant growth in municipalities' available reserves, which have more than doubled from 2015 to 2020 and currently amount to NOK 57.9 billion for municipalities and NOK 11.9 billion for county authorities. This provides a significant buffer for municipalities and county authorities in terms of their ability to cope with unexpected or rapid increases in interest rates. The survey of municipality budgets for 2022 carried out by the Norwegian Association of Local and Regional Authorities (KS) estimates that municipalities are planning a higher level of investment in 2022 than in 2021. The survey concludes with an estimate that investment volume for 2022 will be in the order of NOK 90-95 billion, representing an increase of 8% from the previous year's survey.

The pandemic

In 2020 and 2021, the local government sector made an impressive effort during the coronavirus pandemic. The sector's employees were on the front line of the fight against the virus, and at the same time had to maintain important, high-quality societal functions and services such as schools, nurseries, elderly care and public transport. There is no doubt that the pandemic has had financial consequences for municipalities and county authorities, and the sector was granted significant amounts in both 2020 and 2021 in compensation for this. The pandemic does not thus far seem to have seriously impacted the sector's investment plans or borrowing. Current projects and planned projects are being implemented despite the demanding day-to-day circumstances, and the underlying factors driving the need for investment, such as population changes and municipalities' tasks, remain unchanged.

Well-equipped for the future

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


Photo: iStock.com

Fiscal policy and petroleum revenue spending in Norway: Successes and challenges

Norway's fiscal rule for petroleum revenue spending has been useful, but it has resulted in resources being tied up. Going forward, Norway should reduce the growth in its petroleum revenue spending, and its politicians will increasingly have to prioritise within set limits.

PROFESSOR HILDE C. BJØRNLAND
BI Norwegian Business School

Norway has been a significant producer of oil and gas for over half a century. Its petroleum reserves are large not only from a Norwegian perspective, but also from an international perspective: Norway is one of the world's largest net exporters of gas, and it continues to be one of the 15 largest net exporters of oil. However, Norway stands out in comparison with the other major producers of oil and gas. The majority of oil-rich countries have not grown in a stable fashion and have high levels of corruption and inequality. Norway's economy has been characterised by a low level of inequality and has grown more strongly than the majority of our trading partners' economies in recent decades.

Norway's development of its oil and gas reserves has not taken place in isolation but rather needs to be seen in the context of the years of expertise development and the emergence of a highly capable supplier industry, which have had ripple effects on large parts of the country's economy – see Bjørnland and Thorsrud

CHART 1
PETROLEUM REVENUE SPENDING AND THE NEUTRAL PATHWAY

Net transfers from the Government Pension Fund Global as a percentage of Mainland Norway GDP

Source: Norwegian Ministry of Finance

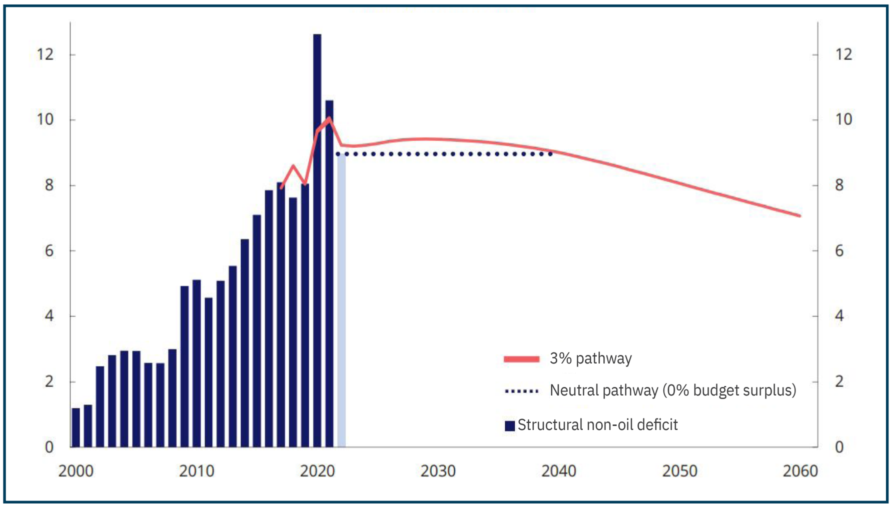
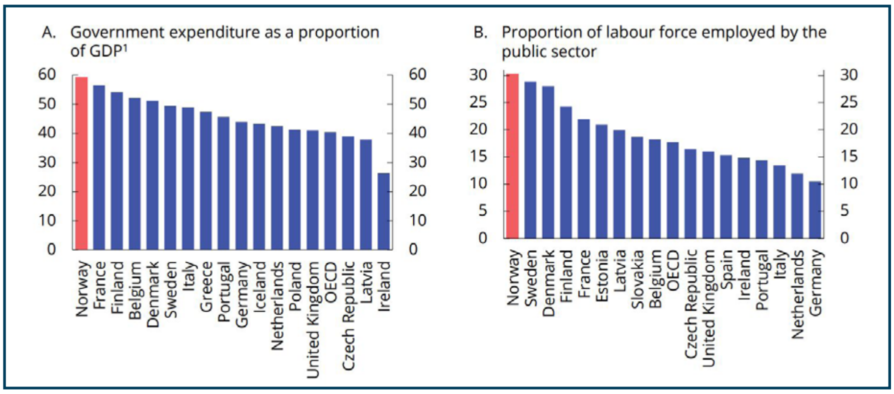


CHART 2
PUBLIC SECTOR RESOURCE USE

Source: Norwegian Ministry of Finance



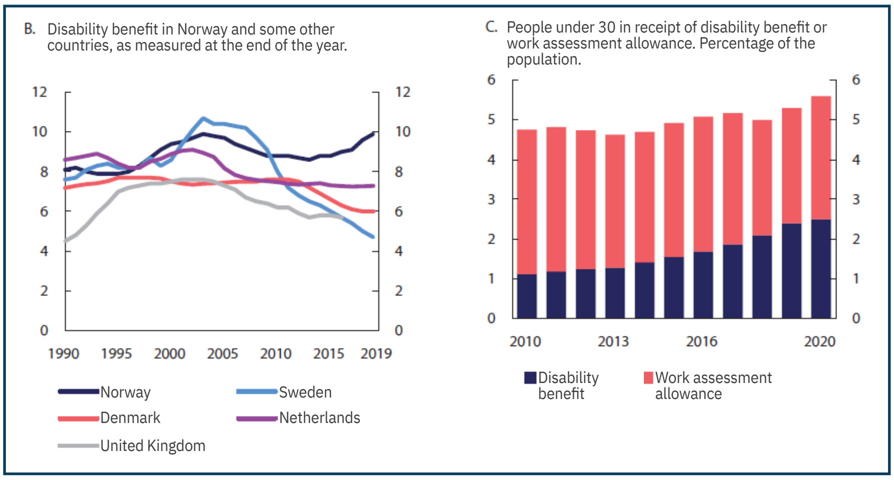
(2016), and Bjørnland, Thorsrud and Torvik (2019) for research reports. Together with a good framework for phasing in Norway's petroleum revenues, Norway has succeeded in shielding its economy from fluctuations in the oil price and has saved enormous sums from its petroleum industry. This has given Norway a financial room for manoeuvre that few other countries can dream of.

We are approaching peak oil. What will this mean for Norway's room for manoeuvre in terms of fiscal policy in the future? The purpose of the fiscal rule approved by Norway's parliament in 2001 for spending its petroleum revenues (the structural non-oil budget deficit) was to lay the foundation for Norway's petroleum revenues to be gradually phased into the country's economy, in line with the expected real annual rate of return on the Government Pension Fund Global. This rate was initially set at 4%, but this was revised down to 3% in 2017 due to a decrease in the expected return on the oil fund.

Norway's fiscal rule has served its economy well, and has prevented both overconsumption and the economy from overheating. By saving the majority of its petroleum revenues, Norway has also been able to spend more of its petroleum revenues in difficult times. The problem, however, is that the greater petroleum revenue spending seen during downturns has not been followed by cuts in this spending during the subsequent upturns, but has instead become permanent. For example, the extraordinary increases in petroleum revenue spending during the 2008/2009 financial crisis, the plunge in the oil price in 2014/2015 and the pandemic of 2020-2021 have become permanent increases, as Chart 1 illustrates.

Going forward, petroleum revenues and the associated tax revenues will decrease, while the challenges will mount up. Restructuring the Norwegian economy will result in higher spending, at least in the short term. The country's ageing population is pulling in the same direction. These factors will create a different reality for

CHART 3
INCREASE IN DISABILITY BENEFIT IN NORWAY
Source: Norwegian Ministry of Finance



politicians than that which we have been used to for the last 20 years. If Norway's politicians continue to observe the fiscal rule (the 3% pathway) into the future, they will be able to phase in Norway's petroleum revenues for about another ten years before having to cut public spending successively (or increase taxes), as indicated by Chart 1.

There is therefore much to suggest that this adjustment should be started now, and that steps should be taken such that the increases in petroleum revenue spending do not exceed the rate of growth in the economy. In other terms, this would mean keeping the structural non-oil deficit as a proportion of GDP constant through economic cycles (known as the neutral path, see Chart 1), obviously once it has been adjusted down from the pandemic year of 2021. The time for increasing the phasing in of Norway's petroleum revenues should therefore be over. There might still be room to increase spending during downturns, but such increases would have to be followed by equivalent cuts during upturns. This would provide a proper means of managing each economic cycle, with a greater focus on priorities. By keeping petroleum revenue spending as a proportion of GDP constant, it might also be possible to avoid eating into the oil fund to finance petroleum revenue spending.

The consequence of the spending over many years is made clear by Chart 2. According to the "Long-term Perspectives on the Norwegian Economy" report published in February 2021, Norway's public sector has the highest level of resource usage in the OECD: while public expenditure represents 60% of GDP in Norway, it represents just below 50% in Sweden, and across the OECD nearly 40%.

Norway also tops the OECD for the proportion of the labour force employed in the public sector, which accounts for 30% of jobs. This is happening at a time when resource usage by the public sector has been reduced in most other countries. Where, for example, Sweden and Denmark had to cut public expenditure following the financial crisis, public sector costs and consumption expenditure have gradually increased in Norway over time, even during upturns in which other countries have reigned in public sector spending. This has permanently increased resource usage by the Norwegian public sector.

The fact that many of the temporary stimulus measures have remained in place during economic upturns, as described above, may also mean that structural challenges have not been sufficiently addressed. The OECD, for example, has highlighted that there is a startling mismatch between Norway's low rate of unemployment and the fact that a much larger proportion of its population is outside the labour force due to ill health or disability than is the case in any other OECD country.

Charts from the "Long-term Perspectives on the Norwegian Economy 2021" report indicate that while the proportion of the population that is disabled has fallen over time in a number of comparable countries, it has increased in Norway, and

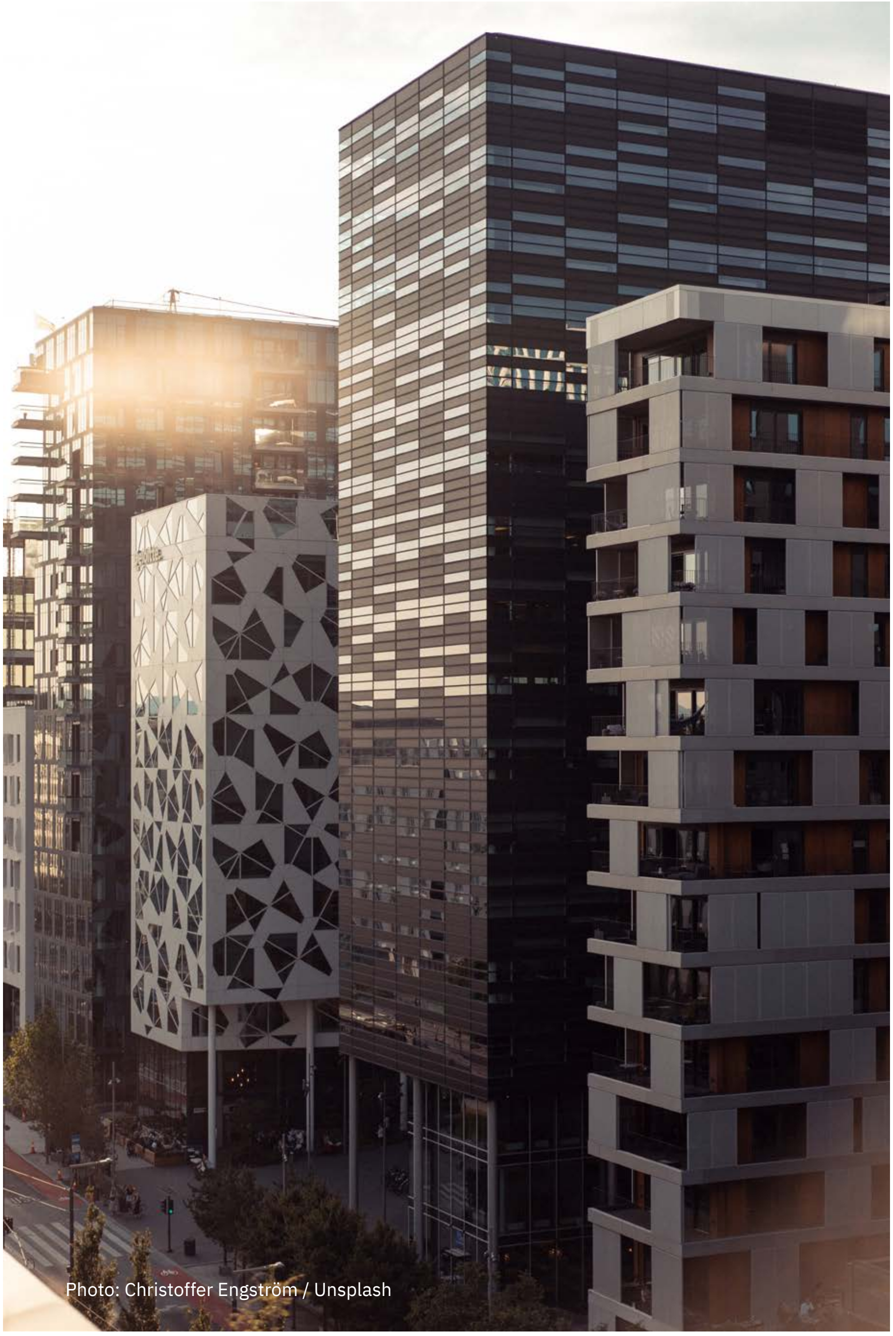


Photo: Christoffer Engström / Unsplash

particularly so after the financial crisis, see Chart 3. The proportion of young disabled people is also increasing. Perhaps we are seeing the emergence of a 'mutated' and much more serious version of the Dutch disease in Norway, as I suggested in Dagens Næringsliv in 2010, see Bjørnland (2010).

In summary: the fiscal rule for petroleum revenue spending has helped deliver predictability in that Norway has been able to phase in this spending gradually, while also being able to increase spending extraordinarily during downturns to shield businesses and households, such as during the current pandemic. This countercyclical policy has been desirable, but it is nonetheless unfortunate that petroleum revenue spending has remained at high levels even after each crisis. This has tied up resources in the public sector, and may have contributed to a failure to address structural challenges.

Going forward, Norway's room for manoeuvre will be completely different. Its politicians will increasingly have to manage to prioritise within set limits, despite wishing to make headway with their political ambitions. For a government that depends on a number of parties in parliament for its majority, this will be especially important, but probably demanding as well.

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The future of rural municipalities

Photo: Stian Vesterinen / Unsplash

Norway's policy for its rural areas has been at the forefront of debate in recent years, and this policy is to a large extent based on Statistics Norway's projections. The Telemark Research Institute's scenarios, however, forecast a far greater decrease in the population of Norway's rural municipalities than Statistics Norway's projections. Is Norway's policy for its rural areas, as well its rural municipalities' plans and investment spending, based on overly optimistic forecasts for its rural areas?

KNUT VAREIDE
Senior scientist / social economist at Telemarksforskning

Two public committees have looked at the future of Norway's rural areas from slightly different angles: The Committee for Rural Business Development, led by Svein Richard Brandtzæg, and the Demography Committee, led by Victor Norman. Both committees produced their own official reports: The importance of business for living and sustainable local communities (NOU 2020: 12), and It's about Norway - Study on the consequences of demographic challenges in the districts (NOU 2020: 15).

The background to the existence of these two committees is obvious. The population of Norway's rural areas is falling, while at the same time older people make up an increasing proportion of their population and the proportion of young people is decreasing. If this trend continues, Norway's rural areas will become depopulated at some time in the future.

Naturally enough, the Rural Business Development Committee focused on the significance of business and industry to centralisation. How much centralisation is due to the growth of business and industry? The answer is that only a quite small degree

What is needed are entirely different, innovative and radical tools that not only address employment growth and business growth, but that also encourage young people to choose to live in rural areas to an increasing extent.

of the centralisation of the population is due to centrally located businesses growing more quickly. Businesses in Norway's rural areas have delivered lower employment growth, but this is due to the fact that a large proportion of businesses in rural areas are concentrated in productive and profitable industries such as fishing, aquaculture, electricity production and industrial processing, which are high value-adding sectors that have become ever more efficient. The strong centralisation of public sector jobs has made just as large a contribution to centralisation as the growth of business and industry. The most important reason for Norway's population moving to urban centres is, however, young people's preferences about where they live. Young people have a tendency to move from rural areas to more central locations regardless of employment growth. The fact that educational institutions are largely located in the most central areas at a time when more and more young people are completing tertiary education is another reason for centralisation. If Norway's rural areas are to continue to be living and sustainable communities, measures need to be introduced on three fronts: business and industry in rural areas need to be stimulated so that they can deliver the same employment growth as in the rest of the country, the public sector must cease becoming more centralised as has been the case in recent years and, finally, Norway's rural areas need to be made more attractive to young people as places to live. The Rural Business Development Committee concluded that if Norway continues to apply the same policy to its rural areas as it has until now, they will continue to see their populations decline. A new and considerably more powerful policy for Norway's rural areas is needed to avoid a continual decline in their population.

The Demography Committee did not consider the decrease in the population of Norway's rural areas as the biggest threat. It based itself on Statistics Norway's projected population figures for Norway's rural areas, which indicate that the population levels in Norway's least central municipalities (centrality tier 6) will stabilise. The Demography Committee thought that the ageing of the population in Norway's rural districts would be their biggest problem in the future. Since Norway's rural areas now have many older people in their population and a small proportion of young people, their populations do not reproduce themselves but instead need a net inflow of young people. The solution to the problem proposed by the Demography Committee was thus measures that make rural areas more attractive to young people. On this point, the two committees were in complete agreement: Norway's traditional policy for its rural areas will not address the problems that they will face in the future. What is needed are entirely different, innovative and radical tools that not only address employment growth and business growth, but that also encourage young people to choose to live in rural areas to an increasing extent.

The two committees differed on one relatively significant point, namely the question of what is the probable change in the population of Norway's rural areas. The Demography Committee relied on Statistics Norway's projection from 2020, while the Rural Business Development Committee relied on the Telemark Research Institute's scenarios, which are also from 2020. The different projections for centrality tier 6, which is made up of Norway's 113 least central municipalities, are shown in Chart 1.

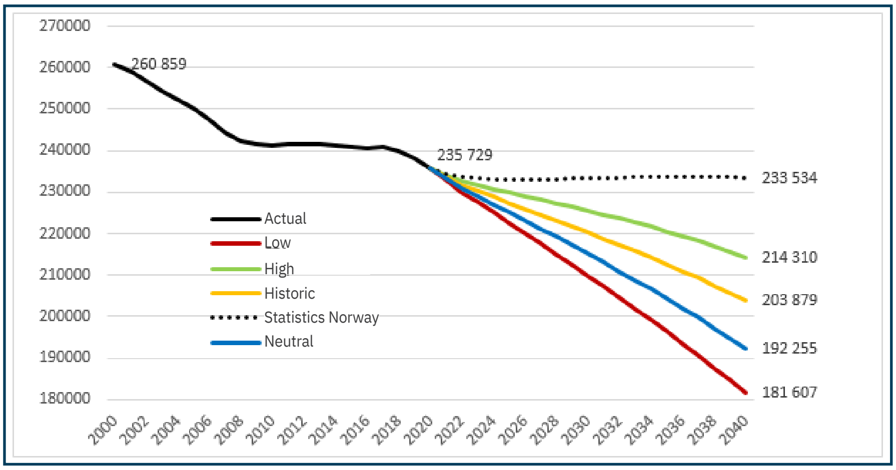


CHART 1
POPULATION OF CENTRALITY TIER 6,
Actual change from 2000-2020, then various projections

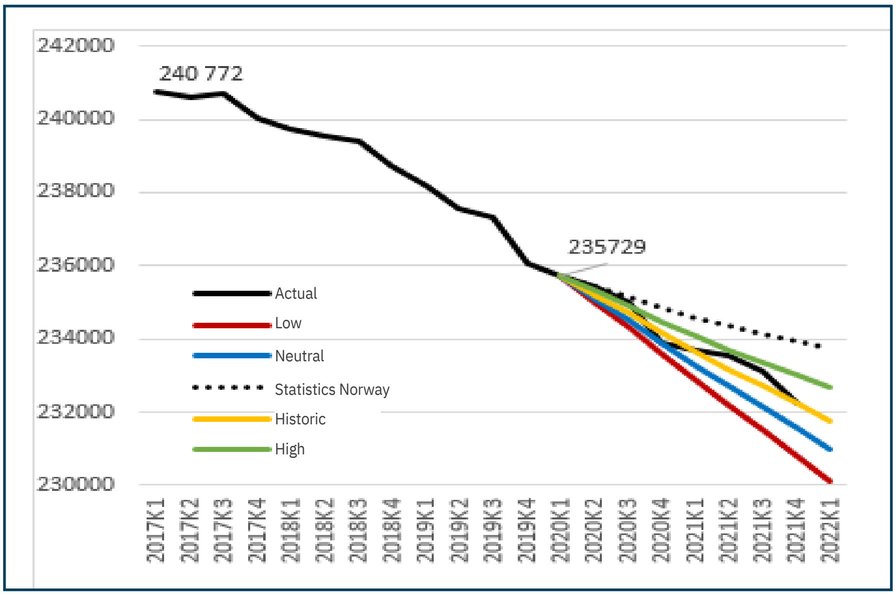


CHART 2
THE POPULATION OF CENTRALITY TIER 6 MUNICIPALITIES
Actual change from 2000 until the third quarter of 2021, compared with different projections.

Statistics Norway's projection (base case) involves a small decrease in the overall population of the municipalities in centrality tier 6 between now and 2025. It then forecasts a small increase in their population. According to Statistics Norway, the population of centrality tier 6 municipalities will decrease by less than 1% by 2040. The Telemark Research Institute has four scenarios for the population of centrality tier 6 municipalities. These scenarios are based on the same fertility, mortality and immigration assumptions as Statistics Norway's projections, but have a different model for internal migration. The Telemark Research Institute's most probable scenarios are its historic scenario, which involves a decrease in the population of centrality tier 6 municipalities to 203,879, and its neutral scenario, which puts the population of centrality tier 6 municipalities in 2040 at 192,255. According to the Telemark Research Institute, these most likely outcomes envisage that the population of Norway's least central municipalities will decrease by 13.5% and 18.5% respectively. Statistics Norway and the Telemark Research Institute thus paint completely different pictures of the future changes in Norway's least central municipalities. The projections are so different that at least one of them will turn out to have been completely wrong.

For individual municipalities in rural areas, the projections from Statistics Norway and the Telemark Research Institute are in many instances very different. Statistics Norway forecasts that about half, specifically 56 of the 113 municipalities in centrality tier 6, will see their populations grow, while the Telemark Research

Institute's historical scenario only forecasts growth in around one in ten of the municipalities, more specifically in 13 of the 113.

Statistics Norway and the Telemark Research Institute use different models to calculate future internal migration. Statistics Norway bases its projections on historic internal migration patterns and calculates internal population movement to and from municipalities, as well as the effect of external immigration and emigration, for each individual municipality. The Telemark research Institute's model involves calculating net migration in an operation in which each municipality's centrality and employment growth determine its level of net migration. These two different methods provide quite similar projections for municipalities of middling centrality, but in many instances provide very different projections for rural municipalities.

Now that we are in 2022, we can consider what has actually happened in the first seven quarters of the period covered by the two organisations' projections.

At the end of the third quarter of 2021, the population of centrality tier 6 municipalities was 232,260. This is 13 more than in the Telemark Research Institute's scenario based on historical attraction and 1,681 fewer than in Statistics Norway's projection. The changes seen in 2020 and 2021 were probably affected by coronavirus. There were record-high numbers of people moving out of Oslo in 2020 and 2021, meaning that the majority of locations saw stronger population growth than expected. Despite this, the population of Norway's least central municipalities has decreased by more than Statistics Norway projected. Thus far, the Telemark Research Institute's scenarios have been more accurate in terms of the change in the population than Statistics Norway's projections. Many rural municipalities that should have seen their populations increase according to Statistics Norway have actually seen them decrease.


Photo: Christoffer Engström / Unsplash

The conclusion is that Statistics Norway's projections probably strongly underestimate the risk of a decline in the population of Norway's rural municipalities. This means that Norway's national policies and its policy for its rural areas in particular are built on an overly optimistic foundation. In addition, many of the rural municipalities that rely on Statistics Norway's projections will base their planning on population forecasts that are too optimistic. This may mean that municipalities will not prioritise correctly and will be at significant risk of making the wrong investment decisions. Municipalities that plan and invest for growth, but actually see their populations decrease, will in turn be left with a large amount of debt to be carried by fewer residents as time passes.

Climate risk and Norway's municipalities

Photo: Nathan Anderson / Unsplash

In 2021 KBN developed the first version of a climate risk model for Norwegian municipalities. Developing this climate risk model for use in credit assessment is part of KBN's objective to develop better insight into the climate risk to which municipalities are exposed and how this in turn can affect KBN.

MIRIAM BUGGE ANDERSSEN
Climate and green finance adviser, KBN

TORUNN BRÅNÅ
Head of green finance, KBN

KBN lends solely to municipalities, county authorities, inter-municipal companies and other companies that carry out municipal tasks and borrow with guarantees from the municipality or municipalities that own them. The Norwegian Local Government Act states in Section 29-1 that municipalities and county authorities cannot be declared insolvent, and consequently KBN's exposure to default risk is very low.

Developing a model for climate risk involves developing valuable expertise in a number of areas. Firstly, there are increasing expectations, both regulatory and market-driven, for banking and financial institutions to identify and manage climate-related risk in their lending portfolios. Secondly, a climate risk model is a very useful basis for our discussions with individual municipalities. Work on the climate risk model supports our strategy of helping to build a sustainable society by encouraging municipalities to pay greater attention to climate risk.

Vulnerability and resilience to climate change and the transition to a low-carbon economy

The concept of climate risk includes all types of risk that can be connected directly or indirectly to climate change. The Climate Risk Commission appointed by the Norwegian Government pointed out in its report[1] that the concept of climate risk differs from the concept of risk in traditional economics literature. The probability of a particular outcome cannot be known or objective, and the consequences of an outcome are to some extent unknown. This suggests that the concept of

1 *NOU 2018:17, p. 55* and *English summary*

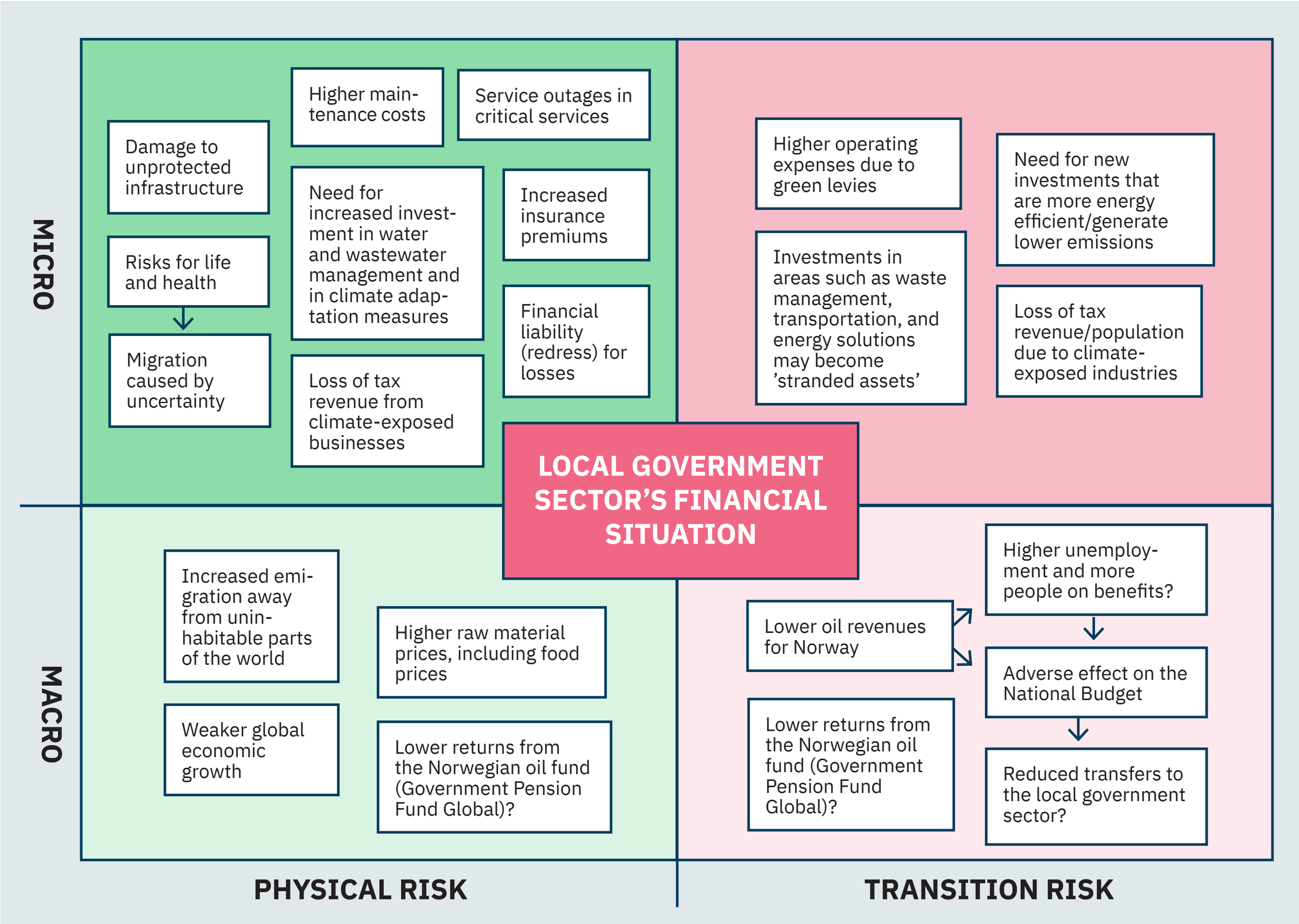


CHART 1
Climate risk factors relevant for the municipal sector. The illustration is non-exhaustive

'uncertainty' normally used in risk theory literature is a better description of what is termed 'risk' in the climate risk concept. This also has consequences for analysis of climate risk, since the significant uncertainty associated both with the probability and the scale of the consequence of any particular outcome makes it difficult to quantify climate risk using the same kind of model as is used for other risks. The Commission therefore took the view that it was more appropriate to focus on using tools such as scenario analysis and assessment of vulnerability and resilience, preferably combined with a number of different future scenarios.

Two categories, many channels
Climate risk is usually divided into two main categories:

Physical risk is the risk associated with the effects and consequences of climate change. These may take the form of acute events, such as extreme precipitation, flooding, storm surges, and various types of landslides, or long-term trends such as rising sea levels and a greater risk of rot or dry rot in buildings. These factors may cause significant direct and indirect costs for municipalities, residents and local business and industries. Physical risk is the basis for liability risk, which is the risk of being held liable for losses or damage suffered by others as a result of climate change. For municipalities, this may take the form of recourse claims from insurance companies.

Transition risk relates to the regulatory and societal changes that will follow from the transition to a low-carbon economy. For municipalities, this could mean lost tax revenues, higher social welfare costs or inhabitants relocating due to changes to an area's industrial structure, as well as municipalities' investments having a shorter lifetime than anticipated or unforeseen need for additional expenditure due to regulatory changes.

In addition to the direct effects on municipalities' costs and revenues at the micro level, climate risk can also impact municipalities through macro factors such as increased migration, higher prices and especially lower levels of revenue and returns for the state.

The main climate risk factors for municipalities can be summarised in Chart 1 (the lists are not exhaustive).

These types of risk may be experienced through a number of the established risk channels that operate in banking and finance. The most obvious expression of climate risk for a bank is the credit risk associated with an asset that has lost value due to an event such as flooding, or a borrower that runs into payment problems because of reduced demand for its products or services. In the case of KBN, the credit risk associated with borrowers is more relevant than the climate risk associated with the individual physical assets (such as buildings) that are financed by loans from KBN since KBN does not take a security interest in such assets. Accordingly, the starting point for the model is to analyse climate risk in a municipality on a holistic basis. The Norwegian Local Government Act states at Section 29-1 that municipalities and county authorities cannot be declared insolvent, and consequently KBN's exposure to default by its customers is very low.

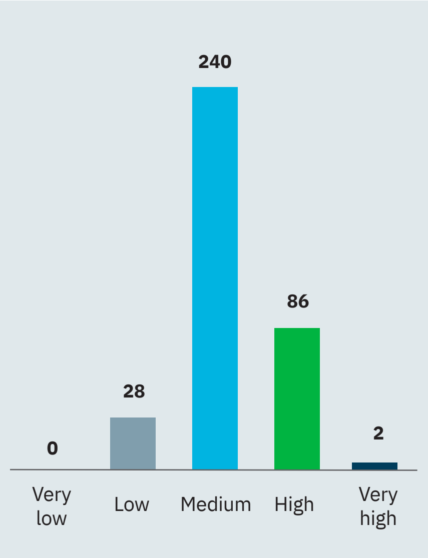
A microeconomic approach to climate risk

The first version of KBN's climate risk model is based on a selection of microeconomic factors at the level of the individual municipality. In other words, it is not a climate risk model for the local government sector as a whole, nor is it a model for KBN's activities. The overall climate risk for the local government sector, and consequently KBN's climate-related credit risk, is described in the TCFD report in KBN's Annual Report for 2020[2]. The reader is also referred to the various climate risk scenarios that CICERO has developed for KBN, which are described in the same Annual Report and are also available at klimarisiko.kbn.com/klimascenarioer/ (only available in Norwegian).

It is challenging to find data that can be used to quantify the climate risk exposure of individual municipalities in a meaningful way, and the limited availability of data and its quality (for this purpose) limits the scope of the model.

CHART 2

Climate risk scoring of norwegian municipalities.



The structure of KBN's climate risk model

The model currently comprises eight separate indicators, as described in the table 1. Each municipality is given a score (very low, low, medium, high, or very high) for each indicator. The scores are then used to calculate an overall score using the same scale. The indicators used in the first version of the model are shown in the table.

Results

A first run of the model resulted in the distribution of results shown in Chart 2. The overall results, with no municipality scored as 'very low', 28 scored as 'low', 240 scored as 'medium', 86 scored as 'high' and two scored as 'very high' are a good match with our own assumptions. This indicates that all municipalities are exposed to climate risk, but that the scale of the risk is greater for some than others.

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2 TCFD (the Task Force on Climate-related Financial Disclosures) is an expert group established by the G20's Financial Stability Board to develop recommendations for more effective climate-related disclosures in order to reduce the risk of instability in the financial markets due to climate change and climate policies. TCFD delivered its 'Final Report' in 2017 (available at https://www.fsb-tcfd.org/publications/) in which it recommended a broadly focused reporting framework that addresses climate risk assessment and management as part of risk management, strategy and corporate governance. This is now known as TCFD reporting and is becoming an accepted standard. KBN has published TCFD reports in its annual reports since 2019.

TABLE 1
KBN’s climate risk model for norwegian municipalities.

	Indicator and weighting	Rationale	Weaknesses and comments
Physical risk	No. of buildings/km road/ district per head affected by the modelled once in 200 years storm surge risk – 10%	A large number of buildings and other infrastructure that are vulnerable to storm surges (which in turn correlates with vulnerability to higher sea levels in the future) is considered to be a risk. For municipalities, this can have consequences through possible damage to the municipality’s own assets, a sense of uncertainty among its residents and the risk of claims for compensation on the grounds of ’incorrect’ planning and building permission etc.	This indicator is based on models that only to a limited extent incorporate factors such as the size and value of buildings, and whether or not there can be danger to life (for example whether a building is a boathouse or a residential building). However, public sector and socially critical buildings are weighted more highly than private sector buildings. The model does not take into account whether preventative measures have been incorporated for individual buildings or whether infrastructure measures have been implemented that can reduce or eliminate risk in individual cases.
	Average age of the municipality wastewater network – 10%	Using legacy infrastructure to drain away precipitation is perceived as a risk since such infrastructure is often damaged and in general does not have sufficient capacity for today’s precipitation volume and patterns - let alone the precipitation volume and patterns expected in the future.	Looking at the situation one year at a time, this indicator will not capture the extent to which a municipality is working to improve the situation. KOSTRA (municipality reporting system) collects some data on the pace of infrastructure replacement, but data is not available for many municipalities so this is not included in the model. Future work on the model will assess whether to include level of investment/ pace of replacement as a dimension. Current data only provides some information about the age of infrastructure and not how well it is maintained. There may be examples of municipalities that will be able to cope well using their legacy infrastructure even in the future.
	Calculation of future increase in precipitation – 15%	Large relative increases in precipitation represent a risk of surface run-off damage and flooding, because local communities are typically not well-equipped to cope with the higher volumes of water.	This is a heavily downscaled climate model that involves a degree of uncertainty. The dataset includes historic average annual precipitation and so does not provide information about how much more intensive precipitation may become. However we know from research that much of the increase in precipitation will typically come in the form of intense periods of torrential rain.
	Percentage of employed persons in the municipality that work in industries classified as vulnerable to physical climate risk – 20%	Tax revenue and population numbers represent an important part of a municipality’s financial foundation. If we assume that there will be lower activity/ profitability in industries that are identified as vulnerable to physical climate risk, this can have consequences for tax revenue and population size.	See the comments for this indicator in the transition risk section.
Transition risk	Greenhouse gas emissions per resident compared with the national average – 15%	High levels of emissions are considered to be a risk factor since Norway has committed itself to a sharp reduction in greenhouse gas emissions. It can be expected that major sources of emissions will be subject to various forms of measures with consequences that may include a reduction in economic activity.	The available statistics include only direct emissions and do not include indirect emissions such as those associated with the purchase of goods and services. The datasets also include sources of emissions over which municipalities have little control, such as road traffic (this is typically the main source of emissions in municipalities that include a stretch of a major highway such as the E6). The statistics are prepared using distribution keys, and not all the emissions-reducing measures implemented locally will necessarily be included. Around 70% of emissions in Norway are included in the statistics, which implies that a number of sources are currently excluded, and these are sources that are typically difficult to allocate by municipality.
	Change in climate gas emissions in the municipality over the last five years – 10%	This relates to the indicator above, but looks at the trend over time so that municipalities that have a good record over recent years are recognised for this.	
	Percentage of employed persons in the municipality that work in industries classified as vulnerable to transition risk – 20%	Tax revenue and population numbers represent an important part of a municipality’s financial foundation. If we assume that there will lower activity/ profitability in industries that are identified as vulnerable to physical climate risk, this can have consequences for tax revenue and population size.	The assessment of which industries are vulnerable to climate risk is made at the national level, which means that local circumstances are not taken into account, and nor is the relative pace of adaptation/competitiveness of individual businesses. A municipality where a ’greener’ cement factory is a major local business will still be ’punished’ for having a large number of employees in the cement industry, which is assumed to have a high exposure to transition risk. The assessment of whether a particular industry is exposed to climate risk is a binary choice, with no nuanced treatment of differences or any different weighting for businesses within the industry even if they do in reality have different levels of risk exposure. Some industries are defined as vulnerable to both transition risk and physical risk. In the current form of the model, employees in such industries are double counted in the sense that this employment is scored for both physical risk and transition risk in the model even though these employees represent only one tax income that will disappear over time.
	Percentage of the municipality’s borrowing from KBN that is in the form of a green loan	Green loans are seen as a proxy for a municipality taking climate risk into consideration in its investment decisions and thereby reducing its vulnerability to climate risk, e.g. by choosing low energy solutions for new buildings or by implementing climate adjustment measures before climate events occur.	The data for this indicator is somewhat insufficient, in part because the data to which we have access is only based on green loans provided by KBN. Other financial institutions (KLP) also offer green loans, and there may also be green investments financed by loans from KBN of ordinary loans that are not therefore included. At the moment, green loans are only included where the municipality itself is the borrower. There are many green investments where a county authority or inter-municipality company is the borrower, but these are not currently included in the model. In addition, we do not know how well this indicator works as a proxy.

For example, we note that small coastal municipalities generally score badly. This is due to the financial consequences of the sea level indicator in particular, which will have a particularly significant impact on island and coastal locations. Moreover their small populations mean that there will be relatively few residents to share the bill for preventative measures and repairing damage.

The next steps in developing the model will involve using additional sources of relevant data, and fine tuning the category thresholds and weighting to ensure that the model is as accurate as possible. It is also possible that a similar approach can be used for an ESG model if data of sufficient quality is available.

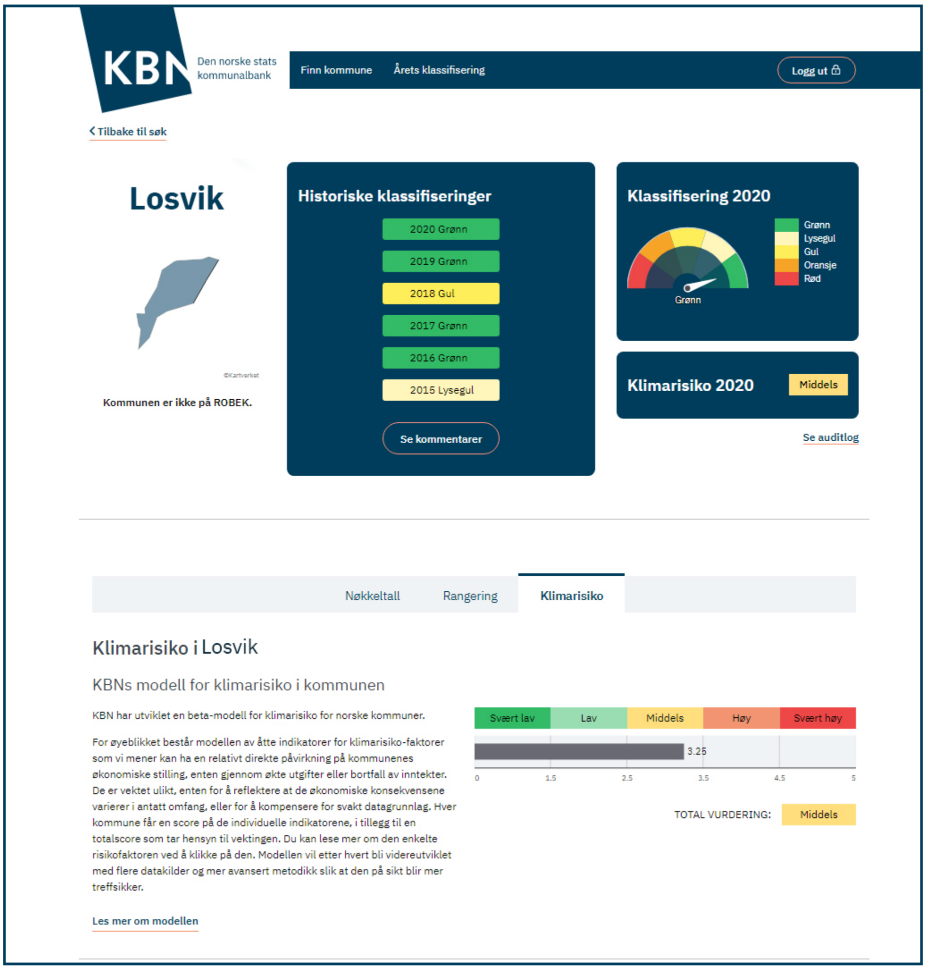
How does climate risk affect the credit rating of municipalities?

KBN carries out annual credit assessments of all municipalities, based on factors such as operating surplus, net indebtedness and accumulated reserves. This assessment results in a traffic light model, in which customers that are classified as red or orange must be assessed by KBN's internal credit committee before loans are granted. KBN's objective is to develop a climate/ESG risk model which is of a sufficiently high standard to be integrated into the credit approval model so that climate and ESG risk factors are treated in the same way as financial factors. In the interim, the climate risk score will operate as the deciding factor for municipalities that are on the border between two of the traffic light colours.

In KBN's credit monitoring system, the climate risk of every municipality is recorded as supplementary information to the municipality's credit status. This means that KBN's employees can use this tool to find information on every municipality's climate risk, including an explanation of how and why each of the indicators used in the climate risk model affects the municipality's exposure to climate risk.

KBN'S CREDIT MONITORING SYSTEM

Screenshot of KBN Kredittmonitor, generic example.



Working towards sustainable liquidity management

Sustainability increasingly pervades KBN's core activities. In 2021 work started on an ESG strategy for KBN's liquidity portfolio, which totals around NOK 110 billion.

HARALD JACOBSEN
Head of communications and sustainability, KBN

KRISTINE HENRIKSEN LIEN
Portfolio manager, KBN

KBN has a strategic objective to be one of the leading financial institutions in Norway in the areas of climate risk, sustainability and green financing solutions. This involves working on sustainability in all of KBN's departments to make sustainability an integral part of a KBN's core activities, which are funding, lending and liquidity management. In the areas of funding and lending, KBN has worked systematically for a considerable amount of time to help make the finance market and the local government sector greener. We have offered green loans on favourable terms to projects that have a clear environmental and climate ambition for more than 10 years, and we have issued green bonds to fund this lending. At the close of 2021, KBN's portfolio of green loans totalled around NOK 33 billion and financed 342 projects with a calculated total annual emissions saving of 37,200 tonnes of CO_2 equivalent in reduced and avoided greenhouse gas emissions[1].

KBN's activities over more than 10 years as Norway's most active contributor to green financing have included publishing three frameworks for green bonds and issuing a number of updates of our criteria document for green loans, and we have been on the board of Green Bond Principles[2] and chaired working groups for the Nordic Public Sector Issuers' Position Paper on Green Bonds Impact Reporting[3]. Over recent years we have also developed and refined a climate risk tool for the local government sector with the objective of helping municipalities to develop the essential expertise that they need to be better equipped to meet the challenge of the transition to a low carbon economy and a future characterised by major climate changes.

1 *See KBN's 2021 Impact Report*
2 *A body hosted by the ICMA that publishes voluntary guidelines for the issuance of green bonds. These guidelines are recognised as the market standard for green bonds.*
3 *Guidelines for environmental impact reporting for Norwegian issuers of green bonds.*

Greater transparency and reduced sustainability risk

In addition to over NOK 320 billion of lending outstanding to the local government sector, KBN operates with a liquidity portfolio of around NOK 110 billion. KBN's policy is to maintain a portfolio of liquid holdings that matches its net capital requirements for the subsequent 12 months in order to ensure that KBN has sufficient liquidity at all times. The portfolio comprises holdings of bonds of very high credit quality, and is managed in accordance with a framework that regulates matters such as liquidity requirements, derivatives trading, rating and diversification requirements, as well as requirements for counterparties and types of financial instrument. The investment counterparties for assets held by the portfolio are all located in OECD countries, and comprise sovereign states and central banks, local and regional authorities, financial institutions, issuers of covered bonds and public sector entities. Membership of the OECD means that these counterparties are subject to guidelines that cover areas such as the environment, the fight against corruption, consumer rights, corporate governance and taxation.

KBN started work in 2021 on developing a sustainability strategy for the management of its liquidity portfolio. This decision reflected both increasing expectations for work on sustainability by KBN and its stakeholders, and the implementation of a broader-based process throughout KBN to identify and reduce its exposure to sustainability risk in all its core activities. The objective of a sustainable investment strategy is to improve our knowledge about our counterparties, give us better insight into the overall risk picture and channel our investments towards issuers that can demonstrate a conscious commitment to sustainability, as well as identifying what we do and do not find acceptable when placing liquidity. This will help us to be more transparent about our requirements, and we will work to influence our investment universe in the direction of sustainability. Over the longer term, KBN will strive to encourage the development of a more open and sustainable securities market.

Regulatory changes and new requirements

The concept of sustainability has developed at breakneck speed over recent years. Increasing expectations from stakeholders and other market participants for transparency, access to information and a focus on sustainability have encouraged companies and other issuers to publish indicators of their ESG performance to a much greater extent. An increasing number of investors now see ESG indicators as an important addition to traditional investment analysis when evaluating whether issuers are well equipped to manage the challenge of rapidly changing global trends and the transition to a low carbon society.

As a result, there has been a dramatic increase in the need for agreed standards for sustainability reporting and ESG indicators. It has so far been the case that this kind of information has been published on a voluntary basis with little regulation. However, this is now changing. The European Banking Authority (EBA) has recommended the public disclosure of information on ESG risks associated with strategies and objectives, corporate governance and risk management, and has recommended that ESG risk should be treated as a driver of financial risk in the assessment of capital allocation. The EBA recommendations have been submitted to the EU Parliament and Council and to the EU Commission in connection with updates to the EU's capital adequacy rules (CRR/CDR[4]), and include requirements for public disclosure of ESG risk and climate risk as part of Pillar 3[5]. Norway and KBN are subject to this regulatory

4 Capital Requirement Regulation and Directive

5 The capital adequacy regulations are based on three pillars. Pillar 3 addresses the requirements stipulated by the authorities for the public disclosure of information on capital and risk framework through the EEA Agreement. The Ministry of Finance has in addition proposed new legislation on sustainable finance that will incorporate two EU regulations: the Sustainable Finance Disclosure Regulation for the finance sector and the Taxonomy Regulation for sustainable economic activities[6].

With the advent of new and increased regulatory requirements for reporting on climate risk and ESG risk, companies and other issuers throughout Europe, as well as the European bank and finance sector as a whole, are now expected to pay much greater attention to ESG adoption and integration. The intended effect is to reduce the risk of 'greenwashing' and improve transparency and access to information, which will help to make it possible for capital to flow towards investments that offer the best possible return within the framework of social and environmental responsibility.

KBN's approach to sustainable investments

In its work on establishing a sustainable investment strategy, KBN has evaluated various combinations of exclusion criteria based on products and conduct, as well as the use of ESG[7] ratings, screenings and data monitoring. Conduct-based exclusion criteria include approaches such as monitoring whether companies and public institutions breach legislation and regulations for areas such as employee rights, child labour, modern slavery, human rights, corruption and environmental damage. Product based exclusion criteria can be used to restrict or exclude from the investment universe companies that profit from areas such as alcohol, tobacco, narcotics, pornography, gambling, coal and controversial weapons. Exclusion criteria for sovereign states and regional authorities can include entities that are on the United Nations sanction lists, that have a low score on the Transparency International Corruption Perceptions Index and similar indices, or that have declined to ratify international agreements such as the Paris Agreement and United Nations resolutions and sanctions. By carrying out an ESG rating of its investment universe, KBN will be able to identify which issuers and other financial counterparties work actively to recognise their social and environmental responsibility, provide decent, safe and secure employment, and practice sound corporate governance.

Availability of data and data quality as barriers for sustainable finance

The lack of comprehensive, reliable and sufficient ESG data represents a significant barrier for sustainable investment. Financial investors often use third-party ESG data suppliers for ESG rating and screening when assessing sustainability risk. While large and well-known issuers are typically rated by several ESG rating agencies, there are fewer or in some cases no such ratings for issuers such as the regional authorities and local government sector entities that represent a significant proportion of KBN's investment universe. The quality of the data used as the basis for ESG ratings is variable, and is very dependent on the extent to which the rating agency has access to the information needed for the rating process. There are also considerable differences between which issuers the various rating companies include in their databases. In addition, the various rating agencies use different methods for their assessment, and the effect of this is sometimes apparent when agencies publish different ratings for the same issuer. These factors create particular challenges when carrying out ESG screening of our investment universe as part of the investment assessment process. We see some signs of a move towards consolidation in the market for ESG ratings, in part as a result of traditional credit rating agencies acquiring ESG rating businesses and incorporating the ESG assessments

6 *Regjeringen.no*
7 *ESG is the abbreviation used for Environmental, Social and Governance.*


Photo: Eirik Hodne / Unsplash

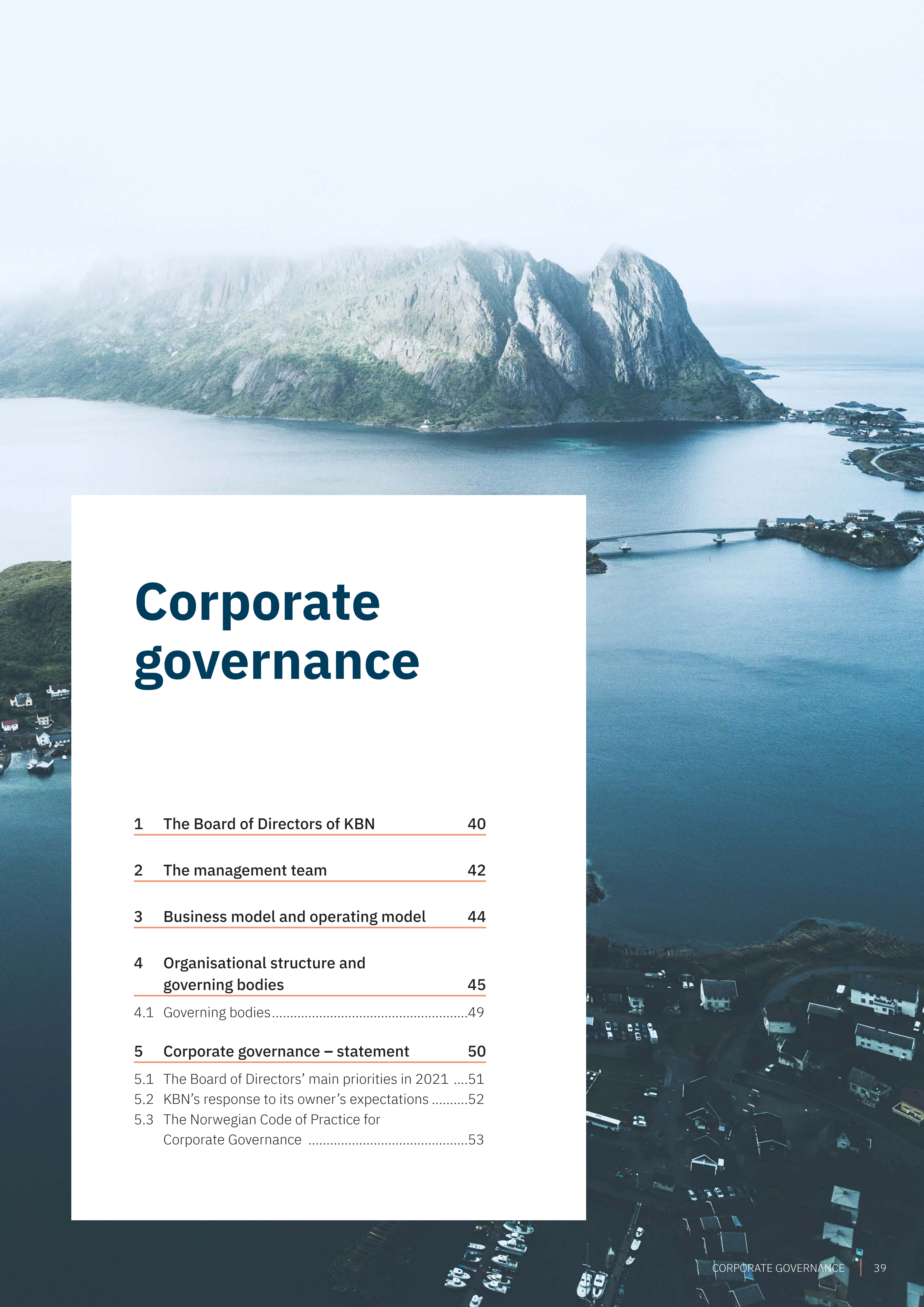
into their overall credit assessment processes.

Sustainable finance on a long-term perspective

Investment analysis has traditionally defined risk and return using a short-term perspective, with investors driven by competitive pressure and reporting cycles that focus on the next quarterly or annual results. This has meant that long-term environmental challenges and systemic risk have not been given sufficient weight in investment decision making. The environmental consequences of a decision made today will not necessarily become apparent within the traditional investment horizon, but may nonetheless have significant adverse cost consequences for future generations.

Climate change and the consequent regulatory changes represent a significant source of systemic risk, particularly for banking and finance entities that are exposed to economic sectors and geographic areas that are liable to be particularly affected by these changes. Climate change is the largest global risk factor that we now face, and by assessing the potential financial effect that climate change will have on an investment by using a number of different time horizons will help investors to be better able to evaluate the issuer’s long-term sustainability and make better informed investment decisions.

By using a sustainable investment strategy, KBN will be able to carry out a broader-based risk assessment and accordingly reduce its reputational risk and financial risk by ensuring a more sustainable and stable long-term return. ESG risk is a relatively new phenomenon, characterised by limited historical data and a very fast pace of change. With its history of more than 90 years as the most important lender to the Norwegian local government sector and its objective to be an important contributor to the sector’s transition to a low-carbon and zero-carbon society, it is important for KBN to contribute to the development of a better basis for decision making and of a more sustainable financial industry.



Corporate governance

1 The Board of Directors of KBN

The Board of Directors of KBN is the company's highest governing body and is responsible, through the CEO, for ensuring that the company's activities are soundly organised. The Board of Directors has three committees: the Risk Management Committee, the Audit Committee and the Remuneration Committee.

Photo: Jo Straube

BRIT KRISTIN SÆBØ RUGLAND
Chair since june 2018, board member 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. Former member of The central bank of Norway's Executive Board.

Participated in 11 board meetings in 2021.

RUNE MIDTGAARD
Vice Chair since 2019, board member since 2014.

Master of Science in Business and Economics and Certified Financial Analyst (AFA NHH). Chair, KBN Risk Committee. Group CFO in Scandza.

Participated in 11 board meetings in 2021.

EYVIND AVEN
Board member since 2019.

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

Participated in 11 board meetings in 2021.

ANNE JENNY DVERGSDAL
Employee representative since 2020.

MSc in Economics and Business Administration, CEMS MIM. Senior Relationship Manager, KBN. Member, KBN Audit Committee. Personal alternate is Marit Urmo Harstad.

Participated in 11 board meetings in 2021.

TORIL HOVDENAK
Board member since 2020.

MSc Economics and Business Administration. CEO Rauma municipality. Member of Member, KBN Audit Committee.

Participated in 11 board meetings in 2021.

HARALD JACOBSEN
Employee representative since 2019.

MSc Economics and Business Administration. Head of Communications and Sustainability, KBN. Member, KBN Remuneration Committee. Member of the Board, Utøya AS. Personal alternate is Nils Baumann.

Participated in 11 board meetings in 2021.

IDA ESPOLIN JOHNSON
Member of the Board since 2018.

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

Participated in 9 board meetings in 2021.

PETTER STEEN JR.
Board member since 2015.

Teacher. Former Mayor, City of Haugesund. Advisor to Sveio Municipality. Member, KBN Remuneration Committee. Chair, Haugaland Kraft AS. Chair, Helse Fonna HF. Member of the board, Moster 2024 AS.

Participated in 11 board meetings in 2021.

MARTHA TAKVAM
Board member since 2005.

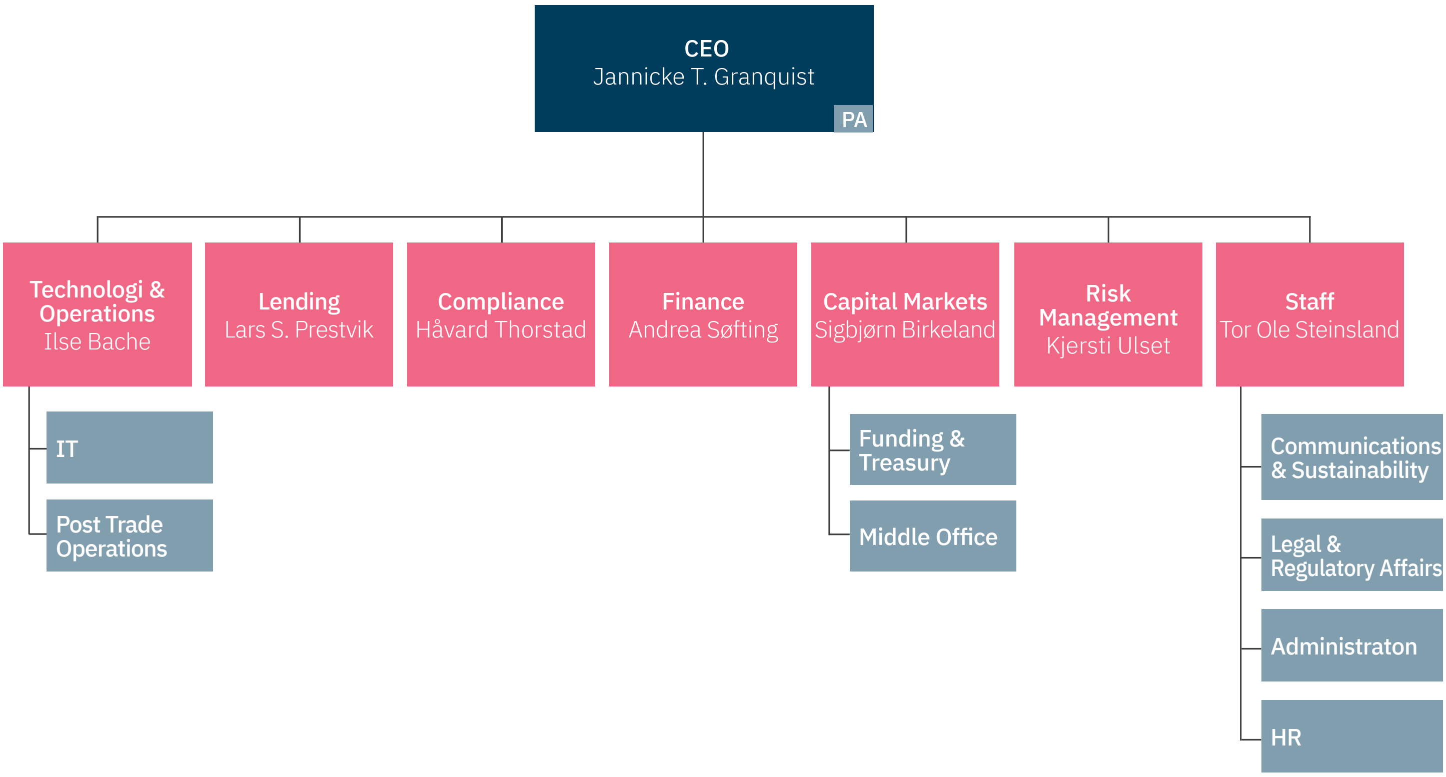
Master of Business and MBA in Finance. Former Director Group Internal Audit and Group Treasurer, Telenor ASA. Chair, KBN Audit Committee. Vice Chair of the Board of Fontenehuset Asker.

Participated in 11 board meetings in 2021.

2 The management team

The management team at KBN forms the CEO's collegiate group for the day-to-day management of KBN. All material decisions are taken following discussion by the management team.

As of 31.12.2021



JANNICKE TRUMPY GRANQUIST
CEO, employed since 2014.

Granquist previously held the position as CFO at KBN and was hired as the new President & CEO in 2020. She came to KBN from the position as 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.

ILSE BACHE
Chief Technology & Operations Officer, employed since 2014.

Previously CTO and Head of Risk & Performance at NBIM (The Norwegian Oil Fund), Administrations Director at the department of Monetary Policy at the Central Bank of Norway. Bache holds an MBA from the Norwegian Business School (BI) and studies in selective courses (Executive Education) from Harvard Business School.

SIGBJØRN BIRKELAND
Deputy CEO and 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 (NHH). Birkeland also received his Ph.D. in Economics.

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.

TOR OLE STEINSLAND
Chief of Staff, 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 from Norwegian School of Economics (NHH).

ANDREA SØFTING
CFO, employed since 2021.

Søfting is former CFO of SpareBank 1 Ringerike Hadeland. Previously worked in audit and consulting at Deloitte. Andrea Søfting holds a MSc in Audit and Accounting (state-authorised auditor) and a MBA in Management Controls, both from Norwegian Business School.

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.

KJERSTI ULSET
Chief Risk Officer, employed since 2021.

Ulset joined KBN from a position as Head of Clearing Risk in Nasdaq Clearing. Prior to KBN she worked as a manager and analyst within market analysis and modelling of commodity markets. Ulset holds a Master of Science in applied mathematics from Norwegian University of Science and Technology.

3 Business model and operating model

KBN is organised as a limited liability company that is 100% owned by the Norwegian state. The Ministry of Local Government and Regional Development manages the state's ownership of KBN. KBN has no subsidiaries.

The Ministry of Local Government and Modernisation became the Ministry of Local Government and Regional Development 1 January 2022.

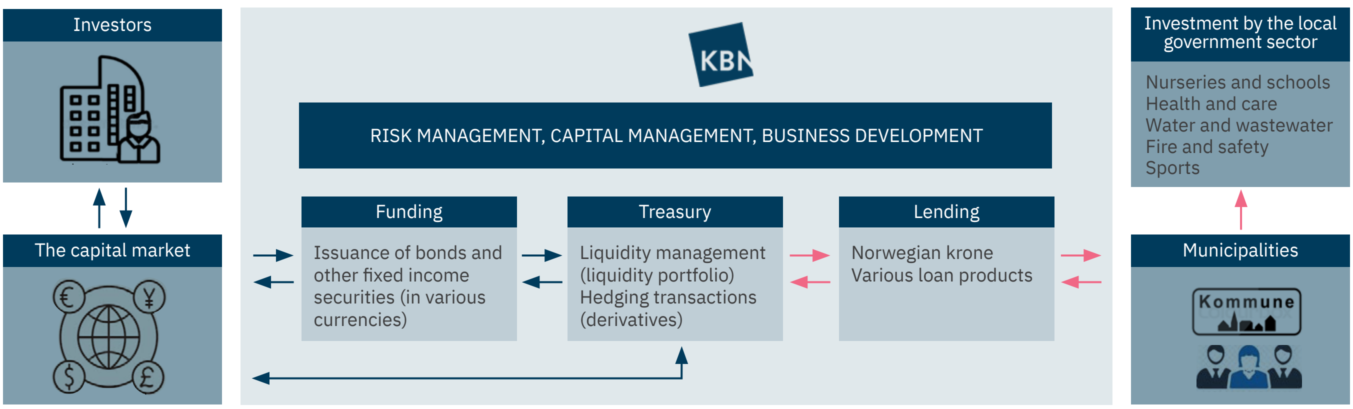
Regarding the objective and purpose of the state's ownership of KBN, the government's white paper on ownership policy (Report to Storting No. 8 2019-2020) states that *"The purpose of the state's ownership of Kommunalbanken is to facilitate the financing of the local government sector. The state's aim as owner is to achieve the highest possible return over time."*

KBN's Articles of Association state that its objective is *"to provide loans to local governments, counties, intermunicipal companies and other companies that carry out local government tasks against either a municipal guarantee, a government guarantee, or other satisfactory security. The Company can also undertake other tasks appropriate to the Company's business."*

KBN finances its lending activities by efficiently accessing the world's capital markets. Its business model and strategy are based on KBN operating with a low level of risk while also having the ability to provide loans regardless of economic conditions. The local government sector's high creditworthiness should be reflected in the cost of the loans KBN provides. KBN will operate with a target of having a credit rating that is in line with the rating of Norway (AAA). In order for it to be able to fulfil this role, KBN has a target of being a market leader.

KBN is required to meet its owner's target return without infringing the restrictions on its activities laid down in its Articles of Association. In order to achieve this, KBN works systematically on optimising the structure of its balance sheet and on increasing the efficiency of its use of capital. KBN's operating model/business model is illustrated below.

CHART
KBN's operating model



4 Organisational structure and governing bodies

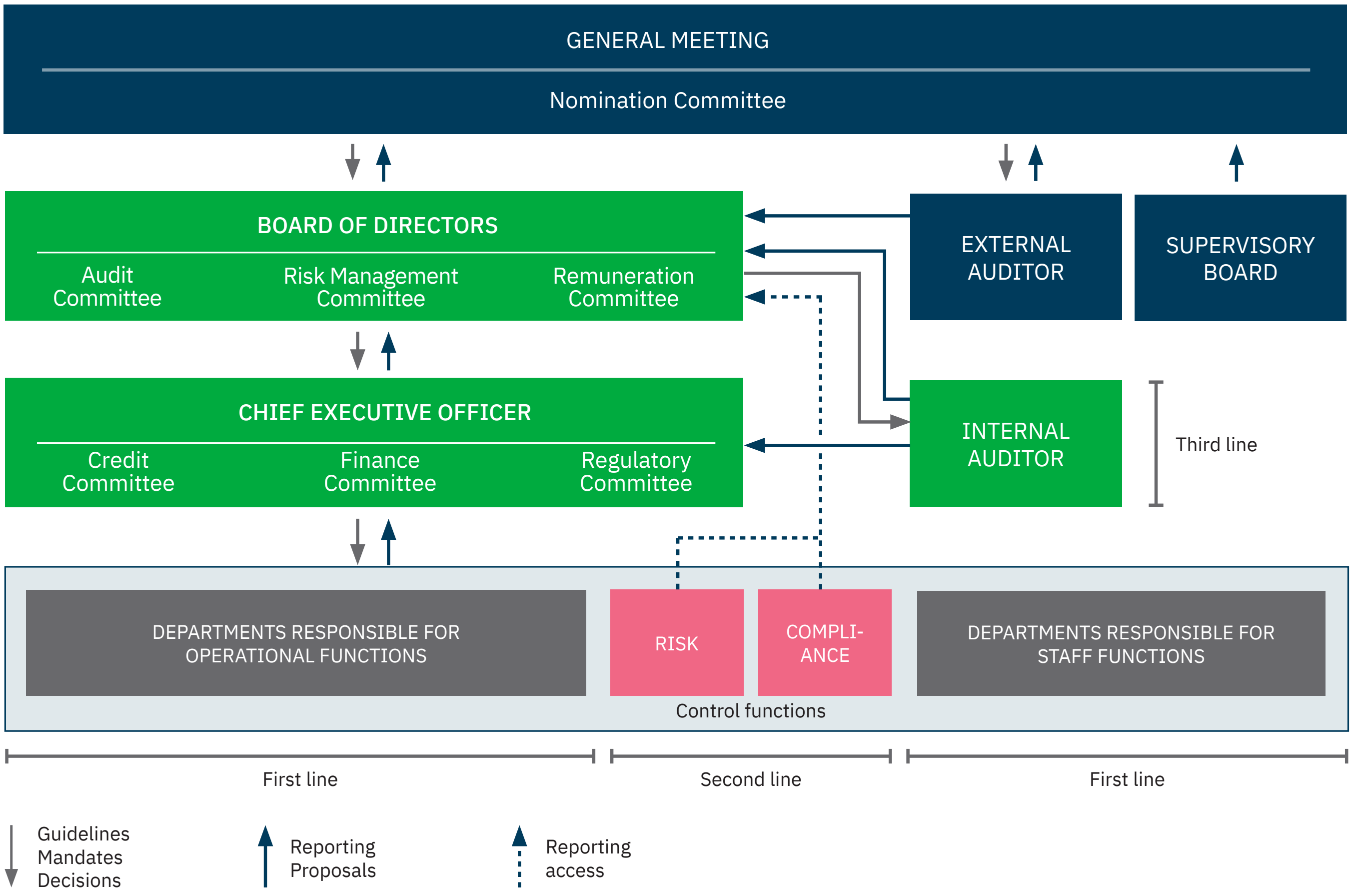
KBN's organisational structure is intended to ensure it adapts effectively to changes in customers' expectations, to contribute to robust decision-making, and to be characterised by the existence of clear responsibilities within the framework of its owner's expectations and regulatory requirements.

In 2020 Jannicke Trumpy Granquist was appointed as the new CEO of KBN. Work continued in 2021 on the organisational changes that were initiated in 2020 with the aim of strengthening the capacity of KBN's operational functions and adjusting the management team to better reflect the size of KBN's organisation.

The General Meeting (the Norwegian state acting through the Ministry of Local Government and Regional Development) elects the Board of Directors as well as the members and deputy members of the Nomination Committee and Supervisory Board and the company's auditor. The General Meeting approves the annual accounts and annual report, including the allocation of profit and coverage of losses, and the payment of dividends. The General Meeting also sets the remuneration of the members of the Board of Directors, the company's auditor and the members of the Supervisory Board, and it considers the Board of Directors' statement on and determination of the salaries and remuneration of senior executives.

The Supervisory Board's role is set out in KBN's Articles of Association. It is tasked with ensuring that the company's objectives are promoted in accordance with the law, its Articles of Association and the resolutions passed by the General Meeting. The Supervisory Board is also required to provide a statement to the General Meeting on the annual accounts and the allocation of profit and coverage of losses proposed by the Board of Directors, as well as to give its opinion on matters that concern the company, and in this regard it shall have a particular focus on the company's role in society and corporate social responsibility. The Supervisory Board shall be composed of as broad a range of members as possible.

The Board of Directors has both managerial and supervisory responsibility for KBN and is required to ensure that its activities are soundly organised and, to the extent required, to draw up plans and budgets and overall guidelines for its activities. The Board of Directors must also keep itself informed of KBN's financial position and ensure that its activities and asset management are subject to adequate control. The Board of Directors is required to supervise the day-to-day management of KBN and its activities in general, to monitor and manage KBN's overall risk exposure and capital needs, and to assess whether its governance and control arrangements are adapted to KBN's level of risk and the scope of its activities. The board committees that advise on and prepare issues for the Board's consideration are elected by and from amongst the Board's own members.



The Risk Management Committee carries out preparatory work to facilitate the Board of Directors' consideration of the company's risk appetite, ICAAP and recovery plan, and in connection with this it assesses the outcomes of scenarios and stress tests as well as assessing whether the pricing models proposed for new products and services are sound from the perspective of KBN's risk appetite. The Committee also reviews internal audit's annual plan and reports as well as risk reports produced for the Board of Directors, and conducts preparatory work to facilitate the Board's monitoring of whether its risk management guidelines are being followed.

The Audit Committee's main focus relates to financial and sustainability-related reporting and control. The Committee is tasked with helping the Board to ensure that there is proper control of the reporting and the reporting process, and carrying out preparatory work to facilitate the Board's monitoring of external reporting. The committee assesses the effectiveness of KBN's internal control and risk management systems in relation to financial reporting and sustainability-related reporting, assessing the effectiveness of the company's internal auditing in relation to financial and sustainability-related reporting, and assessing and monitoring the (external) auditor's independence, particularly the extent to which services other than auditing are provided in accordance with the regulations. The Committee is also required to monitor matters that the Financial Supervision Authority of Norway has drawn attention to in its routine supervision of KBN or in letters to the Board, and which are relevant to financial and sustainability-related reporting. The Committee is also responsible for carrying out preparatory work for the company's election of its external auditor.

The Remuneration Committee prepares all matters related to the company's remuneration scheme that are to be considered by the Board of Directors, including the benefits received by senior executives, and it produces a recommendation for the Board regarding the remuneration of the President and CEO, and prepares the Board's statement on the remuneration of senior executives.

The CEO of KBN has the authority to take decisions on all matters relating to the operation of KBN that are not required by any act of law or official regulation or the Board of Directors' guidelines to be considered by the Board. The CEO can make decisions regarding any such matters if mandated to do so by the Board of Directors. The CEO can delegate his/her decision-making authority to KBN's department heads subject to the delegated authority arrangements and guidelines issued by the Board. The CEO is responsible for ensuring that KBN's activities are operated in accordance with the strategy, plans, budgets and risk appetite framework produced by the Board. The CEO shall ensure that there is proper internal control through effective operational and control routines. The CEO determines the responsibilities and areas of authority of the department heads in the form of job specifications and delegated authority arrangements.

The Management Team is made up of the department heads and assists the CEO of KBN with the day-to-day management of KBN. There are committees and special fora with their own internal regulations that function as advisory bodies for the CEO, with whom the authority to make decisions lies.

The Credit Committee's overall function is to carry out the mandate issued by the Board of Directors in its guidelines, including the lending framework, and to assist the CEO in managing KBN's credit risk.

The Finance Committee is tasked with providing advice and opinions on decisions that relate to matters of principle and to matters of material significance related to the capital markets area, including financial risk management. The Finance Committee also provides recommendations regarding new products (NPAP).

The Regulatory Committee's overall function is to provide advice to ensure that KBN identifies at an early stage regulatory matters that will affect its achievement of its objectives.

The department heads report to the CEO and are responsible for assisting the CEO with the day-to-day management of KBN, as well as for the organisation and day-to-day operation of their own departments. Their job specifications define their specific responsibilities and the authority delegated to their position. Their general responsibilities include executing KBN's strategies and plans in accordance with the law and official regulations and KBN's guidelines, as well as for carrying out internal control. Their special responsibilities relate to their departments' tasks. Department heads can set procedures within their area of responsibility. Department heads who are responsible for staff functions can, if mandated by the CEO, produce procedures in their specialist field that apply across KBN's departments following consideration of such procedures by the management team.

Internal control is organised into three lines of defence. KBN's operational and staff functions represent the first line of defence, its control functions are the second line of defence, and the internal auditor is the third line of defence. The third line of defence is intended to ensure that KBN's different levels of management each have their own control functions to assist them with their responsibility to ensure that KBN's activities are operated in a reliable, robust and efficient manner, as well as in accordance with the applicable regulations. KBN's control functions are independent of the functions and areas subject to their controls.

The department heads (first line) of the operational and staff functions are responsible for governance and internal control for their own area of responsibility, including for processes and activities designed to achieve set targets, and for managing risk and compliance with external and internal regulations.

The Chief Risk Officer (second line) leads the risk management function, is the CEO’s control function, and is provided with instructions for his/ her work by, and reports to, the CEO. The risk management function independently assesses risks to which KBN is exposed, is responsible for the aggregated risk reporting to the Board of Directors, maintains and develops KBN’s risk management framework, including proposals for its risk appetite framework, and checks that risk management, including first-line models and processes, are in accordance with KBN’s framework. The Chief Risk Officer independently assesses the level of operational risk. The Chief Risk Officer has direct access to the Board of Directors if required.

The Chief Compliance Officer (second line) leads the compliance function, is the CEO’s control function, and is provided with instructions for his/her work by, and reports to, the CEO. The Chief Compliance Officer independently assesses the risk of shortcomings in compliance with external and internal regulations and produces an annual plan for compliance activities on the basis of this risk assessment. The Chief Compliance Officer is responsible for checking that KBN’s guidelines meet the requirements to which they are subject pursuant to the law and official regulations, and the Chief Compliance Officer regularly assesses whether KBN’s guidelines and measures are sufficiently effective. The Chief Compliance Officer is also responsible for carrying out KBN’s processes related to the management of operational risk, and provides assessments of operational risk to the Chief Risk Officer. The Chief Compliance Officer co-ordinates and monitors KBN’s internal audit. The Chief Compliance Officer reports independently of the operational functions for compliance risk, and provides regular compliance reports to the Board of Directors. The Chief Compliance Officer has direct access to the Board of Directors if required.

Internal Audit (third line) is the Board of Director’s control function and is provided with instructions for its work and with audit plans by the Board. The internal auditor assists the Board and management team with exercising good corporate governance by providing independent and neutral assessments of whether KBN is organised and operated in a sound manner and in accordance with the requirements that apply to its activities. The internal audit function was outsourced to Deloitte until 31 December 2021, and KPMG has been appointed to carry out the internal audit task with effect from 1 January 2022.

4.1 Governing bodies

As of 31.12.2021

The Board of Directors

- Brit Kristin Rugland, chair
- Rune Midtgaard, vice chair
- Eyvind Aven
- Anne Jenny Dvergsdal, employee representative
- Toril Hovdenak
- Harald Jacobsen, employee representative
- Ida Espolin Johnson
- Petter Steen jr.
- Martha Takvam

Alternates to the employee representatives

- Marit Urmo Harstad
- Nils Baumann

Board preparatory committees

Audit Committee

- Martha Takvam, chair
- Anne Jenny Dvergsdal
- Toril Hovdenak
- Ida Espolin Johnson

Risk Committee

- Rune Midtgaard, chair
- Eyvin Aven
- Brit Kristin Rugland

Remuneration Committee

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

Auditor

Ernst & Young AS

- Einar Hersvik, State Authorised Public Accountant

Internal Auditor

Deloitte AS

- Eivind Skaug, State Authorised Public Accountant

Supervisory board

- Ida Stuberg, chair, mayor, Inderøy municipality
- Hege Mørk, vice chair, CEO, Gol municipality
- Rigmor Brøste, governor, Møre & Romsdal county
- Aase Refsnes, mayor, Steigen municipality
- Bjørn Ropstad, CEO, Agder county
- Ane Mari Braut Nese, county leader, Conservative party, Rogaland County
- Alfred Bjørlo, former mayor, Stad municipality. From October 2021 member of the Norwegian Parliament
- Leif Harald Walle, CEO, Stor-Elvdal municipality
- Tron Bamrud, CEO, Innlandet county
- Tore Isaksen, CEO, Ringerike municipality
- Gunn Marit Helgesen, President of the Board, The Norwegian Association of Local and Regional Authorities (KS)
- Terje Dalby, Senior Relationship Manager, Employee representative KBN

Alternates

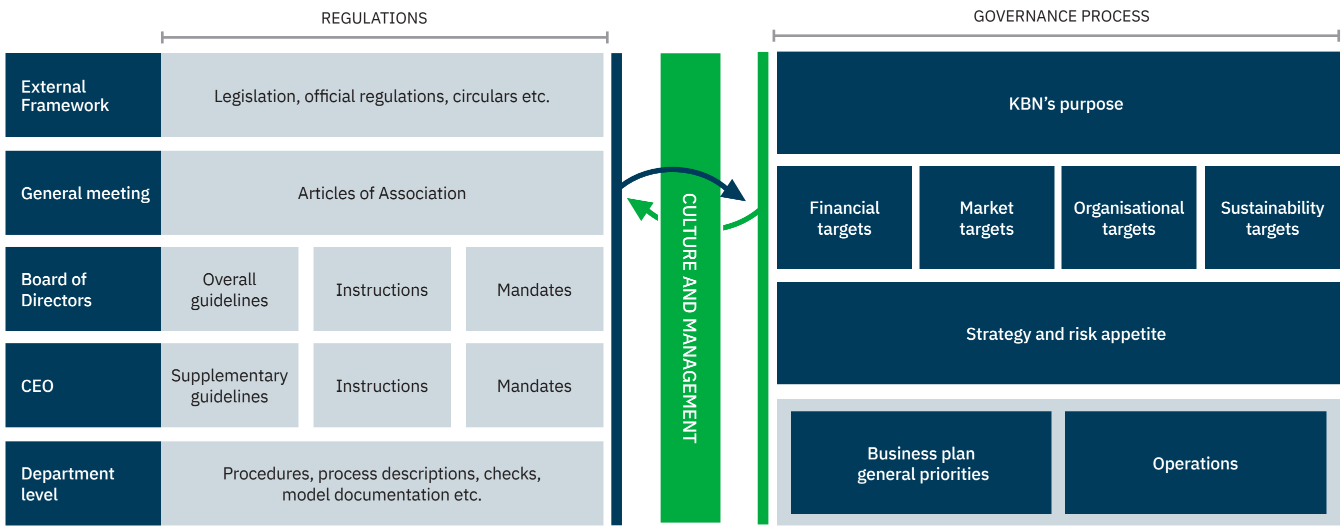
- Toril Eeg, CEO, Færder municipality
- Tommy Steinsvik, CEO, Vågan municipality
- Nina Bordi Øvergaard, CEO, Sør-Varanger municipality
- Bente Rudrud Herdlevær, Assistant chief executive of Bærum municipality
- Terje Fronth-Pedersen, Senior Relationship Manager, KBN

5 Corporate governance – statement

Corporate governance at KBN is an interaction between the processes and structures that are used to manage KBN, including its organisation, internal regulations and controls. KBN is managed through its defined overall objectives, its strategy, the assessment and determination of its risk appetite framework, and annual assessments and plans such as long-term financial forecasts, capital plans, operating plans and budgets.

The Board of Directors sets KBN's overall objectives, strategy and risk appetite framework and approves its annual plans and budgets. KBN's risk appetite framework is operationalised through the setting of limits on the types and scope of the risk to which it can be exposed. The Board of Directors sets general guidelines and the CEO sets supplementary guidelines. There are also instructions, delegated authority arrangements, mandates, process descriptions, procedures etc. These governance documents guide how KBN's activities are to be organised in order for it to fulfil its owner's purpose in owning KBN.

CHART
Corporate governance at KBN



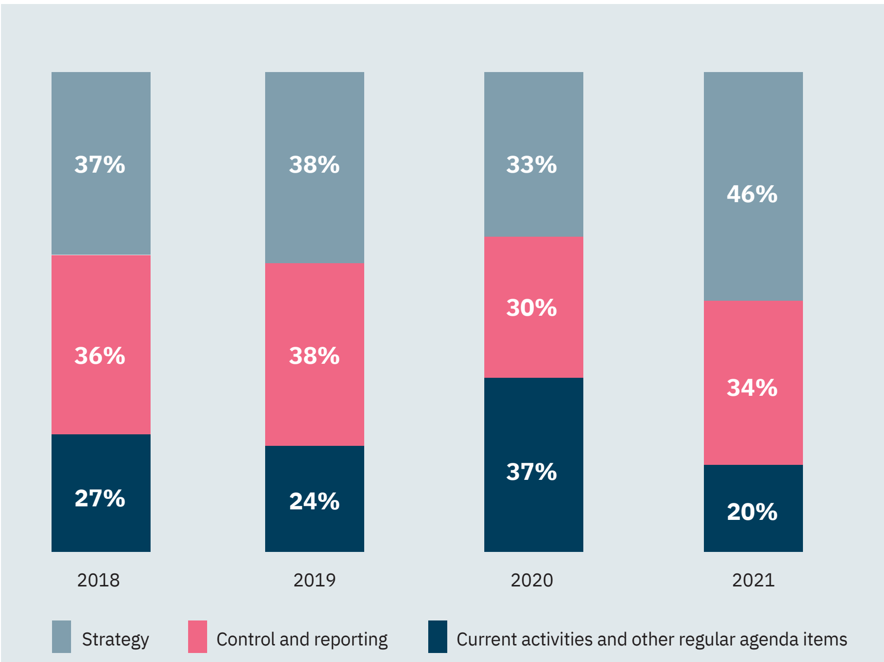
5.1 The Board of Directors' main priorities in 2021

- Approving a change to KBN's strategy in September.
- Considering and making decisions regarding various strategic matters, including in relation to KBN's lending strategy, profitability and the roadmap for digital customer solutions, as well as renewal of the key processes and systems for the lending function.
- Monitoring work to combat money laundering and cyber threats.
- Decisions on KBN's sustainability targets and reporting.
- Dialogue with KBN's owner through quarterly meetings with the Ministry of Local Government and Regional Development.
- Response to the supervision reports produced by the Financial Supervisory Authority of Norway (Finanstilsynet) in respect of i) market and liquidity risk and ii) ICT inspection.
- Decision on contracting out internal audit services to KPMG from 1 January 2022.
- Decision on appointing a new company auditor (external audit) for consideration by the General Meeting to be held in June 2022.
- Decision on adjustments to KBN's risk appetite.
- Decision on adjustments to the mandates for the Board of Directors and for the Chief Executive Officer.
- Decision on changes to the guidelines for the remuneration of senior executives in response to the changes in the State's Guidelines for the Remuneration of Senior Executives in Companies with State Ownership, Ministry of Trade, Industry and Fisheries 30.4.2021
- Proposals to KBN's owner in respect of yield requirement and dividend.
- Monitoring organisational changes

The Board of Directors balances its time between three main areas of work:
(i) Strategic matters and expertise development
(ii) Control and supervisory tasks
(iii) Monitoring and receiving information on KBN's activities

In 2021, the Board of Directors spent almost half of its time in Board meetings considering strategic matters and continuing expertise development, one third of its time on monitoring and considering information on KBN's activities and the remainder of its time on control and supervisory tasks. The proportion of time the Board of Directors spends on strategic duties has increased over recent years, while the time spent on receiving information on KBN's activities has reduced, due in part to the greater availability of information on a continuous basis.

CHART
Allocation of the Board of Directors' time to (i) strategy, (ii) control and reporting and (iii) monitoring KBN's activities



5.2 KBN's response to its owner's expectations

The description below sets out how KBN responds to the Norwegian state's expectations of state-owned companies.

TABLE
The state's expectations of its companies

	Topic	How KBN strives to fulfil the state's expectations
1	Overall objective of the state's ownership	KBN is a 'category 2' company with an objective of delivering the highest possible return over time. A target return of 8% of value-adjusted equity has been set for KBN for the 2019-2021 period, and in this period the state expects to receive dividends equivalent to half the target return. With the exception of 2020, KBN has achieved the target return set for it over the last ten years.
2	Sustainable value creation, clear objectives and strategies	The Board of Directors considers and approves KBN's annual strategy, operating plan, capital plan, risk appetite framework and risk limits, as well as KBN's objectives and ambitions in relation to sustainability. In 2021 the Board updated KBN's current strategy, "Building a Sustainable Society" to take into account developments at KBN and in the society around us. The foundation of the strategy is that KBN's activities should balance financial, social and environmental considerations in a way that contributes to long-term value creation.
	Factors of significance to KBN's achievement of its objectives and its execution of its strategy:	
3	Resources and organisation	KBN's resources are managed efficiently. KBN's organisation and decision-making structure are designed so as to promote the achievement of the company's objectives and risk management, and are aligned with the Norwegian Code of Practice for Corporate Governance and the regulations that apply to credit institutions.
4	Incentives	KBN's remuneration policy is based on its value platform and personnel policy, and is in line with the State's Guidelines for the Remuneration of Senior Executives in Companies with State Ownership. The statement on the remuneration of senior executives is contained in note 6 and in the Board of Directors' report for 2021.
5	Responsible organisation	KBN has an objective of being a leading financial institution in relation to climate risk, sustainability and green finance. KBN is in dialogue with its stakeholders and follows leading-edge practice for sustainability work and sustainability reporting. KBN has reported in accordance with the GRI Standards since 2018. KBN operates in Norway and complies with the tax rules as in force from time to time, and has approved a Policy for its tax compliance that is published on the KBN website. KBN operates its activities with the aim of preventing financial crime. KBN is open about its objectives and the measures it adopts for its work on being a responsible organisation.
6	Performance and risk management	KBN's owner's target return and dividend expectations guide KBN's financial plans. KBN reports on its financial goals and results by publishing annual and quarterly reports. The Board of Directors produces annual capital plans (ICAAP report to the Financial Supervisory Authority of Norway), financial budgets, operating plans and operating budgets in line with its long-term objectives and strategies. Performance management was a topic of KBN's discussion meetings with its owner in 2021. KBN's Board has issued risk management and internal control guidelines, and has set KBN's risk appetite framework. Important guidelines and limits for KBN's risk appetite are reviewed periodically at board meetings.
7	The Norwegian Code of Practice for Corporate Governance	KBN complies with the recommendations of the Norwegian Code of Practice for Corporate Governance published by the Norwegian Corporate Governance Board except where it is subject to other requirements pursuant to the special provisions for government-owned limited liability companies contained in the Norwegian Limited Liability Companies Act. See section 5.3 for further information.
8	The Board's work	The Board of Directors observes practices for high-quality board work, adapted to the company's activities.
9	Transparency and reporting	KBN is open with regard to and reports on material matters related to its activities on www.kbn.com and in its published quarterly and annual reports.

5.3 The Norwegian Code of Practice for Corporate Governance

The Norwegian Corporate Governance Board (NCGB) published a new edition of the Norwegian Code of Practice for Corporate Governance in 2021. The change that is particularly relevant for KBN is the recommendation that companies should create value for shareholders in a sustainable manner (Section 2).

The table below details KBN's compliance with the recommendations of the Norwegian Code of Practice for Corporate Governance (the "Code of Practice"). KBN's deviations from the Code of Practice are the consequence of the special provisions for government-owned limited liability companies contained in the Norwegian Limited Liability Companies Act.

1. Implementation and reporting on corporate governance
Some deviation from the Code of Practice.

KBN complies with the Code of Practice's recommendations to the extent permitted by the legislation that applies to government-owned limited liability companies and the regulations that result from authorisation to operate as a credit institution. The areas in which KBN deviates from the Code of Practice's recommendations primarily relate to the fact that some provisions are not suited to KBN due to its state ownership.

Read more:
Chapter 3 Business model and operating model
www.kbn.com/en/about-us

2. Business
No deviation from the Code of Practice.

KBN's objective is set out in its Articles of Association and is to provide loans to the local government sector. KBN's Articles of Association are publicly available. The Board of Directors considers and approves each year KBN's strategy, operating plan, capital plan, risk appetite and risk limits, as well as KBN's objectives and ambitions in relation to sustainability. The Board also has adopted guidelines on ethical conduct, anti-money laundering and corruption, a document that defines KBN's expectations of its suppliers, and guidelines on sustainability, which include guidelines for diversity and equality.

KBN's Guidelines for Sustainability are intended to ensure that KBN creates value in a manner that takes into account financial, social and environmental sustainability and that we have clear ambitions for work on diversity and equality.

Read more:
www.kbn.com/en/sustainability

3. Equity and dividends
Some deviation from the Code of Practice.

The Board of Directors assesses KBN's capital situation on a continual basis in the light of the purpose behind the state's ownership and the company's objectives, strategy and risk profile, as well as in relation to the requirements and expectations of the Financial Supervisory Authority of Norway and other supervisory authorities. KBN seeks to meet its owner's target for it to achieve the highest possible return over time subject to the limits on its activities contained in its Articles of Association. The target return for KBN is set in the National Budget for three years at a time and is 8% for the 2019-2021 period, during which time the payment of dividends equivalent to half the target return was budgeted for.

Consent from the Norwegian Parliament must be obtained for changes to be made to the state's ownership interest in KBN (purchases and sales of shares) and for decisions regarding capital injections that involve the state paying out funds.

4. Equal treatment of shareholders and transactions with close associates
No deviation from the Code of Practice.

The Norwegian state owns 100% of KBN, and KBN follows the Code of Practice within the framework of its state ownership.

5. Shares and negotiability
Deviation from the Code of Practice

Under KBN's Articles of Association, the state's shares can be assigned to municipalities, county authorities, intermunicipal companies and municipal pension funds. Any such assignment shall be carried out in accordance with the company's aim of maintaining the highest possible creditworthiness.

6. General meetings
Some deviation from the Code of Practice.

KBN has only one shareholder. The Norwegian state, acting through the Ministry of Local Government and Regional Development, calls General Meetings, to which the Chair of the Board of Directors, the CEO, the company's auditor, and the Office of the Auditor General are invited.

7. Nomination committee
Some deviation from the Code of Practice.

KBN's Articles of Association require it to have a Nomination Committee and the Committee consists of up to three members and one deputy member, all of whom are elected by the General Meeting for a term of office of two years. All members and the deputy member are independent of the Board of Directors and senior executives.

No fees are paid to members of the Nomination Committee.

8. Board of directors: composition and independence
No deviation from the Code of Practice.

The members of the Board of Directors represent a diverse group of individuals and the Board has the necessary experience and expertise to understand KBN's activities. The suitability of individual members of the Board is assessed at the time the individual is first elected to the Board, and there is a requirement for routine confirmation of suitability thereafter. The Board's collective suitability is assessed at least annually in accordance with the regulatory requirements for financial institutions.

The General Meeting elects the Board's members as well as the chair and deputy chair.

The term of office for board members is two years.

All board members are independent of material business contacts of KBN.

9. The work of the Board of Directors
No deviation from the Code of Practice.

The Board of Directors has issued instructions for its own work and for the CEO. The Board has three committees: the Audit Committee, the Risk Management Committee and the Remuneration Committee.

The Board elects at least three members to its committees each year from among its members, and it appoints the chairs of these committees.

The Board evaluates its performance and expertise annually and shares its evaluation with the Ministry of Local Government and Regional Development in its dialogue meetings.

10. Risk management and internal control
No deviation from the Code of Practice.

The Board of Directors ensures that KBN has sound internal control and systems for risk management that are appropriate in relation to the nature of KBN's activities, and this includes ensuring that internal control and risk management are in line with the regulatory requirements for financial institutions and the specific requirements set for KBN by the authorities.

Read more:

Pillar 3: www.kbn.com/en/about-us/publications

The Board regularly reviews KBN's most important areas of exposure to risk, ensures its risk management is developed continuously, and sets KBN's risk appetite for different types of risk.

11. Remuneration of the Board of Directors
No deviation from the Code of Practice.

The remuneration of the Board of Directors reflects its responsibilities, expertise, time commitment and KBN's complexity. The remuneration of the Board is not linked to KBN's performance and share options are not granted to Board members.

12. Remuneration of executive personnel
No deviation from the Code of Practice.

The Board of Directors prepares guidelines for the remuneration of KBN's senior executives that are submitted to the General Meeting of KBN. KBN has a profit-sharing scheme of which all employees are members. The maximum amount any employee can receive under the scheme in any year is 1.5 times the employee's monthly salary. The amount awarded is based on quantitative criteria defined by the Board.

KBN does not have any exchange-listed equity instruments and does not operate option schemes for its employees. The Board's statement on the remuneration of senior executives is submitted to the General Meeting.

The remuneration paid to senior executives is published as a note to KBN's annual accounts.

13. Information and communications
No deviation from the Code of Practice.

The Board of Directors has produced guidelines for the company's external reporting, as well as guidelines for information management and market conduct. KBN is committed to giving market participants accurate, clear, relevant and up-to-date information. In its activities in the markets for financial instruments, KBN is committed to operating in a manner that does not represent market manipulation.

The Board has decided which individuals shall act as spokespersons on behalf of KBN. KBN has a disaster recovery plan that also includes a separate plan for crisis communication.

Information about KBN is published in Norwegian and English.

14. Take-overs
Deviation from the Code of Practice.

Consent from the Norwegian parliament must be obtained in the event of changes to the state's ownership interest in KBN (purchases and sales of shares).

15. Auditor
No deviation from the Code of Practice.

The company's auditor is appointed by the General Meeting. The auditor issues an audit report in connection with KBN's annual accounts. The auditor attends the meetings of the Audit Committee, as well as those Board meetings at which KBN's annual and quarterly reports are considered.

The Audit Committee assesses the auditor's independence annually.

The auditor's fees are set by the General Meeting.

Our sustainability work

KBN's approach to sustainability

Read more:

Norwegian Government's white paper on state ownership

KBN strategy 2022-2024

KBN guidelines for sustainability

The Norwegian Government's white paper on state ownership, Sustainable Value Creation (Report to the 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"*.

Sustainable value creation is the foundation of KBN's strategy for 2022-2024, *"Building a sustainable society"*. KBN's Overall Guidelines for Sustainability state that *"KBN will work systematically on sustainability and will have the ambition to be a leader in its area"*.

Roles and responsibilities

Board of Directors: Has the overall responsibility for the organisation's sustainability work. The Board determines the overall guidelines for sustainability and decides on KBN's yearly objectives and measures. The Board is responsible for ensuring that KBN complies with the duty to make active equality efforts and with the duty to report in this respect in accordance with the Norwegian Gender Equality Act.

CEO: Responsible for the implementation of KBN's work on sustainability. The CEO sets supplementary guidelines for sustainability, the work of the organisation and the allocation of responsibility.

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, rating agencies 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 laws and 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. KBN also reports in accordance with the frameworks of the TCFD[1] and CDP[2].

1 *The Task Force on Climate-Related Financial Disclosures has established a position as the leading authority on the analysis and reporting of climate risk.*

2 *CDP, previously known as the Carbon Disclosure Project, maintains the world's largest database of corporate information on climate change.*

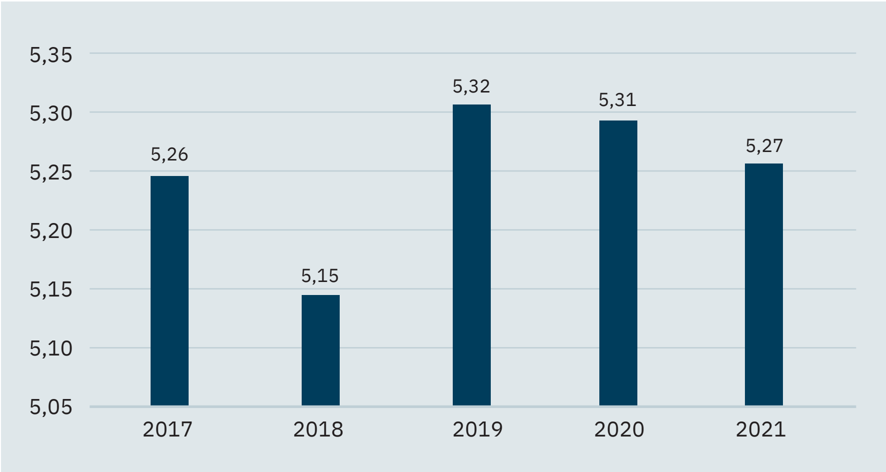
Stakeholders
Openness is one of KBN's core values. As a knowledge-based organisation, we wish to share information with our stakeholders and to exchange views with them.

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

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

2021 Customer Survey
KBN carries out a customer satisfaction survey each year. A number of the survey's questions have been identical for many years, and we therefore have good data on changes to customer satisfaction levels in various areas. The results from 2021 show that KBN's customers are generally very satisfied with KBN, approximately to the same extent as in 2019 and 2020.

RESULTS CUSTOMER SURVEYS
Average score given by respondents to the customer satisfaction survey in response to the assertion "I am satisfied with KBN" on a scale of 1 to 6.



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. KBN's most important stake-holders are described below.

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 approximately 160 customer meetings in 2021, most of which were held digitally because of the coronavirus pandemic. KBN also organi-sed 12 webinars on topics such as interest rates, the macroeconomic situation, local energy production and improving efficiency (in collaboration with the Norwegian Climate Foundation), as well as nine physical seminars across Norway. The aim of KBN's seminars and webinars is to increase the local government sector's insight into and understanding of financial risk management and debt management. The topics that are of particular interest to our customers include outlook for interest rates, internal financial regulations, financial reporting, the new interest rate benchmarks and how to make effective use of KBN's debt management system, KBN Finans. As a result of the coronavirus situation, KBN was only able to carry out one event for its own specially designed course, KBN Skolen, which provides an

Read more:
KBN's climate risk tool

introduction to loan administration for municipalities.

KBN's climate risk tool for the local government sector was updated with new functionality over the course of 2021.

KBN's first digital annual conference for the local government sector attracted over 550 participants, making it the best attended annual conference. The theme of this year's conference was *"The future of municipality finances - Challenging decisions on priorities"* and the conference was held in March. The speakers included the Minister of Local Government and Modernisation in office at that time and the present Prime Minister.

The annual Municipality Finance Conference, which is Norway's largest event of its type with around 400 attendees, had to be cancelled because of the coronavirus pandemic. KBN and the event's other organisers, namely 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 Association of Local Government Auditors (Norges Kommunerevisorforbund), instead organised eight webinars on various topics relevant to local government finances. On average over 300 people signed up for each webinar.

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. The winner of the award was the City of Oslo for its climate budgeting guide.

KBN sent out 28 newsletters to its customers.

KBN's Supervisory Board is appointed by KBN's owner and consists of representatives from KBN's various customer groups. The Supervisory Board is tasked with focusing on KBN's sustainability work. The Board held one digital meeting and one physical meeting in 2021.

Employees

KBN's premises in Oslo are the place of work for all its employees. During the pandemic, the proportion of employees working at KBN's premises has varied from the minimum needed to attend to tasks that cannot be completed remotely to up to half of KBN's employees. KBN's employees have otherwise been working from home. All employees had the option to work from the office during periods when the infection rate was low as part of a rotation scheme that involved a maximum of half of KBN's workforce working in its office premises at the same time.

KBN organised a number of digital *"Lunch & Learn"* talks for its employees in 2021, with topics such as the United Nations IPCC report, money laundering, key rules on ethical conduct, and IT security. Summaries of the week's most important climate and environment news stories were regularly published on KBN's intranet. Five all-company meetings were held.

The employee stakeholder group also 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 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 liability company 100%-owned by the Norwegian state, with the Ministry of Local Government and Regional Development acting as KBN's owner. KBN held quarterly meetings with its owner in 2021 and corporate social responsibility/ sustainability was one of the topics. All the members of KBN's Board have annual discussions with its owner.

The authorities
KBN is subject to legislation, regulations and supervision in the same way as other financial institutions. KBN has been designated as a systemically important institution, along with one other bank in Norway. KBN held meetings in 2021 with inter alia the Financial Supervisory Authority of Norway, the Ministry of Climate and Environment, the Norwegian Environment Agency and Norges Bank. Climate 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/official institutions and pension funds from around the world. As in previous years, KBN held a range of meetings with investors in 2021, both in the form of digital one-to-one meetings and conference calls. In addition, KBN distributed quarterly updates to over 600 investors.

Rating agencies
KBN is rated annually by both of the traditional credit rating agencies, and is in addition rated by ESG rating agencies on an increasing scale. We also note that rating agencies such as Moody's and S&P are developing a methodology for ESG rating. KBN has established separate targets for the ESG risk ratings issued by Sustainalytics, ISS ESG and MSCI. In 2021 KBN achieved an improvement in its ratings from Sustainalytics and ISS ESG and it retained its high rating with MSCI.

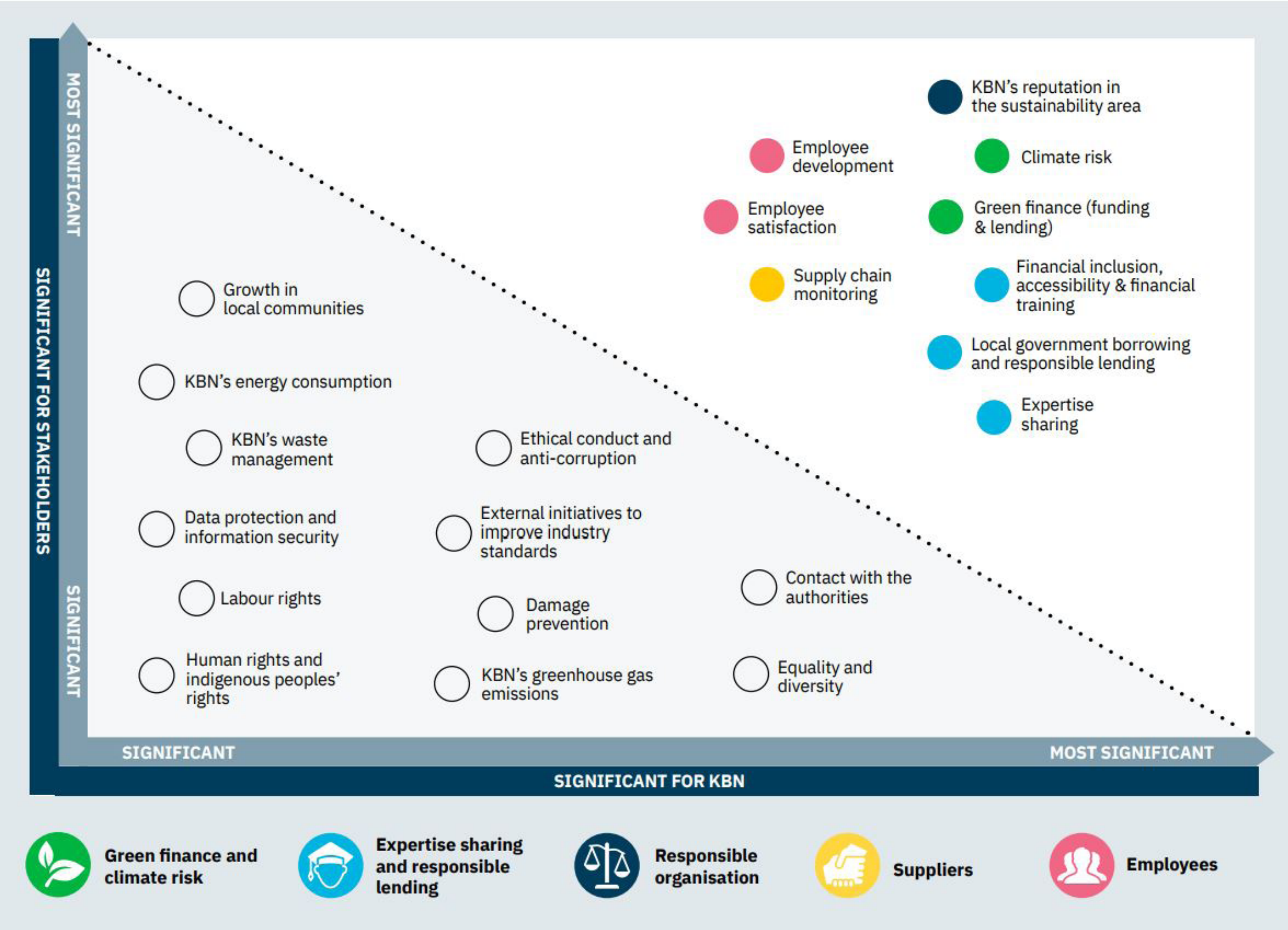
Society in general
KBN's activities affect Norwegian society and we are therefore in close dialogue with a number of interest groups. Slightly fewer such meetings were held in 2021 due to the coronavirus pandemic. KBN organised open webinars on local climate budgets (in collaboration with Storebrand) and on local energy production and local energy efficiency measures (in collaboration with the Norwegian Climate Foundation). KBN's publication ”Klimakunnskap – globalt og lokalt” (Climate Knowledge – globally and locally) is also provided free for teaching purposes to all schools. The booklet discusses topics related to environmental challenges and climate change. In 2021 KBN printed and distributed around 5,000 copies in response to orders from schools across the country.

KBN entered into a collaboration agreement with Ungt Entreprenørskap (Junior Achievement Norway) to help increase awareness of social entrepreneurship and sustainability in Norwegian lower secondary schools through the ”Student company” program.

Materiality analysis

A materiality analysis identifies an organisation's most material sustainability-re¬la-ted issues and determines boundaries for its activities and reporting. 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 Regional Development), 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. KBN will carry out a new materiality analysis in 2022.

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



Performance in 2021

The targets for 2021 were set on the assumption that life could be expected to become more normal following the coronavirus pandemic in 2020. The results achieved were generally good, but we did not fully achieve all the targets. The coronavirus pandemic affected some outcomes negatively since most of the planned activities that involve physical attendance could not be carried out, and it became necessary to adjust priorities over the course of the year, but also had some positive effect in that there was far less business travel than expected and this resulted in very low levels of greenhouse gas emissions by KBN.

2021 objectives:		Outcome for 2021
Green finance and climate risk		
▪ At least 10% of KBN's lending portfolio to be green loans. ▪ At least 30% of Norway's municipalities to have a green loan.		▪ Green loans accounted for 10.9% of the total lending portfolio at the end of 2021. ▪ 35% of Norway's municipalities now have one or more green loans from KBN.
▪ Develop and publish a new framework for KBN's green bonds. ▪ Issue a green bond.		▪ KBN launched a new framework for green bonds in April. ▪ KBN issued three green bonds in three different currencies.
▪ Incorporate the first indicators of climate risk into KBN's credit assessment processes. ▪ Initiate a project to assess KBN's lending portfolio in relation to the EU Taxonomy.		▪ A first version of the model for incorporating climate risk into credit assessment processes was developed. ▪ The project to map the green lending portfolio in relation to the technical screening criteria in the EU Taxonomy was completed.
▪ At least 30% of customers to state that they are working to map and manage their climate risk.		▪ In response to the question in KBN's 2021 survey, 56% of customers stated that they are working to map their own climate risk, but have not yet implemented significant measures to manage climate risk. 13% stated that they have implemented significant measures.
Expertise sharing and responsible lending		
▪ Develop and launch a financial forecasting and investment simulation tool. ▪ Publish KBN's credit assessment model.		▪ A consulting firm and the Telemark Research Institute have provided assistance for the development of a model. The complexity of the work involved has meant that development is still in progress. ▪ The simplified version of KBN's credit model was launched as part of KBN's customer portal with access to specific data for each customer.
▪ Run the KBN Skolen I & II programs with 60 attendees from 50 new municipalities. (To the extent that this is possible). ▪ Launch a digital version of KBN Skolen.		▪ As a result of the pandemic only one KBN Skolen program was possible. ▪ The digital version of KBN Skolen was not ready for launch in 2021.
▪ Maintain KBN's AAA rating. ▪ Be available to customers regardless of market conditions. ▪ Achieve a score at least 5.2 out of 6 on our customer satisfaction survey.		▪ KBN maintained its AAA rating. ▪ KBN was available to customers throughout the year. ▪ The customer satisfaction survey reported a score of 5.27 out of 6.

2021 objectives:		Outcome for 2021
Responsible organisation		
▪ Cut our emissions by 12% from the 2019 level.		▪ KBN's emissions were around 79% lower than in 2019.
▪ Achieve a score at least 5 out of 6 for the question ”To what extent do you recognise KBN as a sustainable builder of society” on a survey of our most important stakeholders. ▪ Initiate a project for social sustainability.		▪ The survey was postponed to 2022. ▪ A project was initiated in collaboration with Junior Enterprise Norway.
▪ ESG risk: Sustainalytics: Low risk MSCI: AA ISS ESG: B		▪ Sustainalytics: Low risk MSCI: AA ISS ESG: C+
Suppliers		
▪ All new agreements in 2021 to be entered into in accordance with KBN's new procurement guidelines.		▪ All agreements registered in 2021 were in accordance with the procurement guidelines.
Employees		
▪ At least 60% of employees to have completed or started KBN's Kompetanseløftet scheme.		▪ 69% of employees participated in the Kompetanseløftet scheme.
▪ A score of at least 4.0 (on a scale of 1-5) for employee engagement on the employee satisfaction survey.		▪ The employee satisfaction survey reported a score of 4.4.

The UN's Sustainable Development Goals

Read more:

KBN Impact report 2021

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 have mapped our green lending portfolio to identify the connections between our financing of green lending and the Sustainable Development Goals. See the 2021 KBN Impact Report on kbn.com.

For 2022 we have selected activities for our sustainability work that will contribute to one or more of the targets under the Sustainable Development Goals identified by KBN.

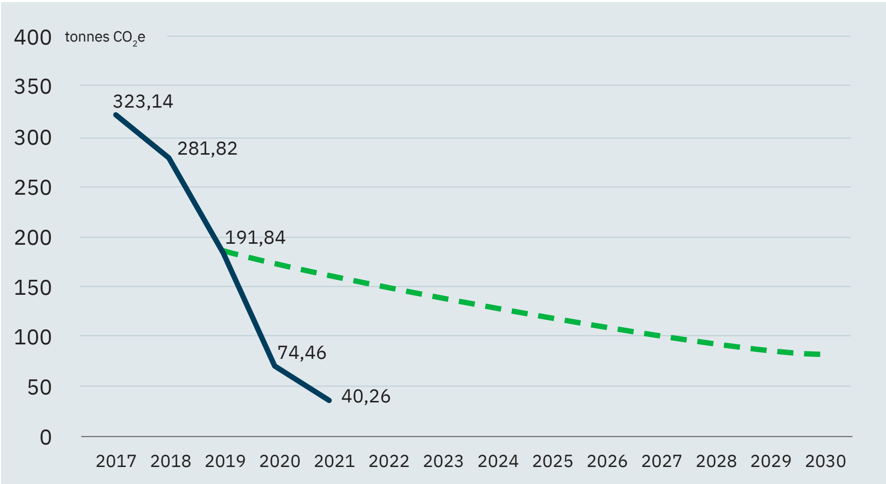
THE UN'S SUSTAINABLE DEVELOPMENT GOALS

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

Greenhouse gas accounting

Despite being somewhat indirect, the most important contribution made by KBN to the achievement of climate goals is our discounted green loans for projects undertaken by the local government sector that reduce energy consumption, cut greenhouse gas emissions or contribute to local climate change adaptation. KBN is of the view that this is an important and impactful part of how it fulfils its societal duty to the sector that it serves. In 2020 KBN also adopted a long-term climate target to reduce its own emissions by at least 50% compared with the 2019 level before 2030. As part of KBN's targets for 2022, the 2030 target was increased to at least 55%.

EMISSIONS REDUCTION TARGET
KBN's emissions between 2017 and 2021 and an emissions trajectory (dotted line) that would enable KBN to achieve its target of halving its emissions by 2030 compared with the 2019 level.



This climate target means that we will need to do things differently in future. Prior to the coronavirus pandemic, flights were responsible for about two-thirds of our calculated carbon footprint. With all of Norway's municipalities as customers, KBN employees attend meetings across the country. In addition, we meet with investors in numerous different locations across the world in order to ensure we are able to offer the local government sector the best possible borrowing terms on loans from KBN. There will continue to be some need for KBN employees to travel by plane in the future, but a number of these journeys can be replaced by other solutions. An internal survey carried out before the coronavirus pandemic revealed that a large proportion of the flights taken by KBN employees were for journeys which could be made by train. KBN has therefore increased the incentives it offers for taking the train instead of flying.

Although digital meetings cannot fully replace physical meetings, it will be natural for digital meetings to continue to account for a significant proportion of our meetings even after the pandemic comes to an end. As part of KBN's customer survey for 2021, 53% of customers replied that they could envisage their next customer meeting with KBN being held digitally. KBN's long-term work on its strategic objectives of putting the customer first and being the digital first choice helped ensure it was well-equipped to respond to the pandemic. KBN's own greenhouse gas emissions were around 46% lower in 2021 than in 2020.

GREENHOUSE GAS ACCOUNTING
KBN's emissions from 2017 to 2021 by scope. In tonnes CO_2 equivalent.

	2021	2020	2019	2018	2017
Scope 1	0,53	0,77	2,80	3,88	4,52
Scope 2	30,60	50,61	57,79	57,21	58,02
Scope 3	9,13	23,08	131,25	220,73	260,60
Total	**40,26**	**74,46**	**191,84**	**281,82**	**323,14**

Scope 1 covers direct emissions from controlled sources. For KBN's part this consists of emissions when employees use their own petrol or diesel cars for business travel. The emissions factor for scope 1 is sourced from Eco-lighthouse. Scope 2 is indirect emissions from electricity purchased and used. For KBN this includes district heating, district cooling and electricity in our premises. The emissions factor for scope 2 is sourced from Eco-lighthouse. Scope 3 is all other indirect emissions. For KBN this covers residual waste and flight travel. The emissions factor for residual waste is sourced from Eco-lighthouse. The emissions factor for flight travel is sourced from ICAO from 2019 onwards.

KBN's greenhouse gas accounts are based on the Greenhouse Gas Protocol's Corporate Standard and are produced annually as part of the annual climate and environment report that we produce for the Eco-Lighthouse Foundation. KBN has been Eco-Lighthouse certified since 2009, and was re-certified in 2021 in accordance with the new bank and finance criteria. At present KBN only includes the greenhouse gas emissions associated with flights taken by employees and the residual waste it produces in its Scope 3 emissions figures. However, Scope 3 can contain all the emissions generated by our activities that are emitted from sources that we do not control, e.g. by our suppliers, lending portfolio and liquidity portfolio. Over the long term KBN wants to measure, report and reduce its Scope 3 emissions to the greatest extent possible, but it is currently challenging to collect data of sufficient quality to carry out the necessary analysis.

KBN seeks to contribute to transparency regarding greenhouse gas emissions and in 2021 reported to CDP, which runs the leading international system for environmental and climate disclosures. CDP's assessment takes into account KBN's guidelines, greenhouse gas and energy accounts, and the measures and improvements that it has implemented. KBN has arranged for an external audit of its greenhouse gas accounts for 2021 by the accounting firm EY.

As a company KBN compensates for its emissions. This means that we buy carbon offsets for those emissions that we currently cannot avoid. We purchase the carbon offsets once we have the emissions figures for the year in question, meaning we will compensate for our 2021 emissions in 2022 and will thus include this information in our annual report for 2022. KBN uses the EU's carbon price for the year concerned as the basis for its purchases of carbon offsets since this represents a more realistic level for the price of a term of CO_2 than the price indicated by carbon credits. KBN's residual emissions for 2020 were approximately 75 tonnes of CO_2e and the EU's allowance price was EUR 25/tonne. KBN therefore bought carbon offsets, known as verified carbon units, equivalent to this amount to compensate for its emissions in 2020. The project we selected was prevention of deforestation in Pacajai in Brazil. The project helps to reduce greenhouse gas emissions and to share expertise with the local population on protecting forests and biodiversity. The project supports a range of the UN Sustainable Development Goals and is Verra certified.

2022 objectives

Green finance and climate risk

The activities support the following SDGs:

The activities support the following strategic objectives:

A leader in green finance

Sustainable value creation

KBN is committed to being one of the leading financial institutions in the areas of climate risk, sustainability and green financing solutions. Through our green lending we are committed to be a driver for many ambitious green investments. With our climate risk tool we are paving the way for sharing our expertise and awareness in an area that will have increasing financial significance for our customers in the years ahead.

Green finance

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. KBN's green bonds finance parts of KBN's portfolio of discounted green loans. KBN's green loans are intended to be a tool for promoting the transition to a low-carbon society and the local government sector's adaptation to climate change, and by providing lower interest rates KBN helps reduce the additional cost of investing in climate-friendly projects (see the box). KBN's Criteria Document for Green Loans sets out the type of projects/investments that can qualify for a green loan. KBN revises its criteria annually in collaboration with its Green Expert Committee, which is composed of representatives from environmental organisations, authorities, and the local government sector.

To take an example, the reduction in the interest rate on a green loan of NOK 100 million borrowed over thirty years has a present value of NOK 1.4 million using a discount rate of 1%. KBN's green loans are a supplement to other forms of state assistance, e.g. Enova grants and Klimasats subsidies, which can further reduce the costs of investing in climate friendly projects.

KBN currently has two different types of holdings of green loans, which are termed light green and dark green. The light green loans comprise loans and projects that were granted before KBN introduced its first Criteria Document for green loans in 2016, and that cannot sufficiently document compliance with the relevant criteria. These loans did not satisfy the requirements of the 2016 Green Bond Framework, and are excluded from the calculation of the holdings that are funded by the issue of green bonds. The value of outstanding light green loans at the close of 2021 was NOK 2.2 billion. This will reduce over time as the loans are repaid and no new light green loans are granted. The value of outstanding dark green loans at the close of 2021 was NOK 32.9 million, of which NOK 30.9 million comprise projects that satisfy the current Green Bond Framework and the minimum criteria set for green lending (March 2021).

The Green Bond Framework was updated in March 2021 with a requirement that new issues of green bonds must be linked to projects that at a minimum satisfy the most recent Criteria Document for green lending. It is expected that future annual updates of the Criteria Document will impose stricter requirements. When green bonds issued previously reach maturity and are refinanced in accordance with the current Green Bond Framework or a subsequent updating of the framework, this will result in an increasing proportion of dark green loans no longer qualifying for funding by the issue of green bonds.

Read more:
Criteria for green loans
Green project list

An overview of the projects financed by a green loan from KBN is available on our website. At the end of 2021, KBN's outstanding green loans represented approximately 11% of its total lending. KBN has a target of increasing this proportion going forward. KBN's target for 2022 is for green loans to represent at least 12% of its lending portfolio by the end of the year, and KBN also has a target of growing this proportion to at least 20% by the end of 2025. In addition, KBN sets targets for the greatest possible number of municipalities to prioritise green investments rather than conventional investments. The target for 2022 is for at least 35% of municipalities to have at least one green loan from KBN, with the target increasing to reach at least 50% in 2025.

KBN follows the International Capital Market Association's (ICMA) Green Bond Principles (GBP) and contributed to their development as a member of the ICMA GBP Executive Committee over the period 2018-2021. KBN also led the technical working group responsible for the Nordic Public Sector Issuers' 2020 update of the Position Paper on Green Bonds Impact Reporting, which is now used by issuers in a number of locations across Europe. KBN published its new framework for green bonds in 2021, representing the third issue of the framework. KBN has published impact reports with information on the projects that have been financed by its green loans since 2016.

Read more:
Green Bond Framework

KBN's green bonds are issued in the international capital markets. In 2021 KBN issued three green bonds in three different currencies equivalent in total to approximately NOK 9.8 billion. At the end of 2021, KBN had outstanding green bonds in five currencies, namely the US dollar, the Australian dollar, the Canadian dollar, the Swedish krona and the Norwegian krone. At the end of 2021 the total outstanding volume of KBN's green bonds was, in NOK terms, just under NOK 26 billion. This represents approximately 6.4 % of KBN's total borrowings.

2030 ambitions:	2022 objectives:	2025 objectives:
▪ Help municipalities and county authorities to achieve their climate goals.	▪ At least 12% of KBN's lending portfolio to be green loans. ▪ At least 35% of Norway's municipalities to have a green loan. ▪ KBN's green lending encourages municipalities to prioritise green investments rather than conventional investments.	▪ At least 20% of KBN's lending portfolio to be sustainability-related loans. ▪ At least 50% of Norway's municipalities to have a sustainability-related loan from KBN.
▪ Contribute to the existence of an efficient green bond market.	▪ Green funding to account for at least 5% of total funding.	▪ Develop a funding program for sustainability-related bonds that matches our lending ambitions. ▪ Green funding to account for at least 10% of total funding.

Climate risk

Over recent years climate risk has attracted ever-increasing attention, not only in business and industry, academia and politics but in society as a whole. In 2021 the Norwegian Environment Agency published a report on climate risk in the local government sector at the request of the Ministry of Climate and Environment and the Ministry of Local Government and Modernisation as it was at the time. The conclusions of the report included recognition of the need to strengthen and put into practice knowledge about climate risk and the need for the local government sector to contribute to the transition to a low carbon society in relation to all its duties, while recognising that there was a lack of incentives for the local government sector to deal with climate risk in a holistic way and that it would be necessary to strengthen the planning and building regulations as a tool for responding to climate change. In August 2021 the Ministry of Finance appointed an expert group to examine the implications of climate risk for the Government Pension Fund Global (the Oil Fund). The Financial Supervisory Authority of Norway published a report in December 2021 that analysed the possible impact on Norwegian banks of the transition to a low carbon society and concluded that the overall losses would be significant but would be manageable for Norwegian banks.

KBN is exposed to different types of climate-related risk that we need to manage. We 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. See the TCFD report for more detailed reporting on climate risk. 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 can impact municipalities as a result of changes to political and regulatory framework conditions, developments in technology and changes to consumer behaviour.

The current Norwegian government of Prime Minister Jonas Gahr Støre announced in its opening statement a target for Norway to cut its greenhouse gas emissions by 2030 by at least 55% compared with 1990 levels, with the entire reduction to be achieved within Norway. The local government sector will have to contribute to this goal. Local government sector projects undertaken today have an expected economic life of more than 40 years and will therefore still be in place when society has to face a less hospitable climate and what are likely to be 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. KBN was part of the reference group for the Norwegian Environment Agency's mapping of knowledge about the local government sector's exposure to climate risk. In 2021, KBN made further improvements to its web-based, freely accessible climate risk tool for the local government sector. In 2022 we will further develop our climate risk tool in order to provide municipalities with even better and more relevant information on their climate risk and help to promote the inclusion of climate risk into municipalities' decision-making processes and investment plans. A first version of a climate risk model for use in our credit assessment was developed in 2021. This will be developed further in 2022 with the intention of making it available to our customers.

KBN started work in 2021 on developing a sustainability strategy for its liquidity management as part of a process for identifying and reducing KBN's overall exposure to sustainability risk. The objectives for this project are to give us better insight into how we invest KBN's liquidity, to communicate what we do and do not find acceptable when placing liquidity, to help to increase transparency and to influence our investment universe. This work is continuing in 2022 with the target of carrying out a screening of the liquidity portfolio.

2030 ambitions:	2022 objectives:	2025 objectives:
▪ To have mapped and managed KBN's own climate risk and to have helped the local government sector to map and manage their own climate risk.	▪ Continue development of the climate risk model to a quality that makes it possible for the model to be communicated externally. ▪ Achieve an increase of at least 20% in visits to the climate risk pages on KBN's website and increase the average reading time per session relative to 2021.	▪ Make climate risk assessment an integrated part of the credit model and a tool that can be used by customers in their own assessment of climate risk.
▪ To have the largest proportion of sustainability-related lending of any of Norway's financial institutions.	▪ Map KBN's green lending portfolio in relation to the technical screening criteria in the EU Taxonomy. ▪ Identify the opportunities to use the taxonomy in connection with local government sector investment spending.	▪ Map all new loans in relation to the EU Taxonomy.
▪ Monitor and influence ESG in the institutions in which KBN invests its liquidity.	▪ Carry out quarterly ESG screening of the liquidity portfolio.	▪ Routine screening and monitoring of ESG in the liquidity portfolio. ▪ Set a target for ESG scoring of the liquidity portfolio.

Expertise sharing and responsible lending

The activities support the following SDGs:

11 SUSTAINABLE CITIES AND COMMUNITIES

17 PARTNERSHIPS FOR THE GOALS

The activities support the following strategic objectives:

Customer first

Strong market participant

A figital first choice

Sustainable value creation

As the largest lender to the local government sector, with the most important task of providing the sector with low-cost and stable financing, KBN has a particular responsibility to support long-term and sustainable debt management. Through insight, financial expertise and digital tools we seek to help our customers to make informed decisions, evaluate financial risk and select the financing solutions that are best matched to their requirements. As a systemically important financial institution, we also strive to contribute to financial stability.

Sustainable local government finances and borrowing growth
KBN has developed its own credit assessment model that is at the heart of its lending processes.

Customers who are classified in the orange category according to the model have to undergo a separate assessment by KBN's internal Credit Committee before a loan can be approved. In the case of customers that are classified in the red category, any application for a new loan must be decided by KBN's Board of Directors. 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. As part of this, KBN published details of its credit assessment model in 2021. Work is also currently underway to develop relevant indicators for governance parameters.

KBN Finans, which is KBN's debt management system, is a web-based tool that helps 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 2020 KBN launched the first version of its customer portal, which provides information on customers' existing loans and allows them to request a new loan and to make changes to existing loans. Further improvements were made to the portal in 2021 with new functionality and new tools that add value for customers. Work on developing a tool for long term operational analysis and investment planning for municipalities started in 2021, and KBN plans to launch a first version of this tool in 2022.

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	Number of customers	No. of custmers 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
2019	0	2	20	4	331	357	10
2020	0	2	16	5	334	357	

**) Register for Governmental Approval of Financial Obligations*

2030 ambitions:	2022 objectives:	2025 objectives:
▪ Help our customers to maintain a long-term and sustainable financial outlook, and provide the best possible basis for their decision making in relation to investment spending and the selection of financing solutions.	▪ Develop and launch a first version of a tool for financial forecasting and investment simulation.	▪ Make available to customers the tools and information they need to make forward-looking investment decisions.

Expertise sharing

KBN contributes to the sharing of expertise, including by offering regional finance seminars and through the KBN Skolen/KBN Skolen II 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 so they can make informed decisions. KBN started work in 2021 on the development of the KBN Skolen Digital. This work continues in 2022.

2030 ambitions:	2022 objectives:	2025 objectives:
▪ Contribute to greater insight into financial risk management and debt management in the local government sector.	▪ Continue the work on KBN Skolen Digital ▪ Run the KBN Skolen I & II programs for 60 attendees from 50 new municipalities. ▪ Continue development of the KBN customer portal with the addition of technical content available to customers.	▪ KBN Skolen Digital to be an important training tool for customers. ▪ Run the KBN Skolen I & II programs with 300 attendees. ▪ 75% of municipalities to have completed the KBN Skolen program.

Financial inclusion, accessibility and financial training

KBN's AAA/Aaa rating and its solid reputation in the capital markets are the most important requirements for it to have access to the markets and to enjoy favourable borrowing terms. KBN's objective is for its strong position in both domestic and international capital markets to ensure the availability of attractive financing for the Norwegian local government sector. 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, with the aim of ensuring that its customers always have access to funding when they need it. KBN strives to be available to its customers even in periods when the capital market is not functioning, as we were in March 2020 and during the 2008 financial crisis. In 2022 we will seek to be even more readily available by providing even more digital services and using the capacity digitalisation frees up to be even more assiduous in our customer follow up work.

2030 ambitions:	2022 objectives:	2025 objectives:
▪ Ensure that municipalities have access to useful and low-cost financial products and services that meet their needs, with KBN providing them in a responsible and sustainable manner.	▪ Maintain KBN's AAA rating. ▪ Maintain a score of at least 5 out of 6 on our customer satisfaction survey.	▪ Maintain KBN's AAA rating. ▪ Achieve a score of at least 5.2 out of 6 on our customer satisfaction survey.

Responsible organisation

The activities support the following SDGs:

The activities support the following strategic objectives:

Sustainable value creation

KBN's strategy – Building a sustainable society – is based on KBN balancing financial, social and environmental sustainability in a way that contributes to long-term value creation. This creates obligations for KBN, and at the same time it provides a clear framework for our work. 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 2022 KBN will strive to ensure that it complies with the recommendations contained in the white paper at all times.

KBN's reputation in the context of sustainability

Climate change and sustainability are increasingly cited as important motivational factors for job applicants, and a strong reputation for sustainability can be a competitive advantage in a recruitment context. KBN has taken care to highlight its sustainability work on its website, in the media, on social media, in its recruitment campaigns and in other marketing contexts. Towards the end of the year KBN was recognised as an Eco-Lighthouse of the Year for 2021 by the Eco-Lighthouse national environmental certification scheme "for its active role in transforming society through its green financing solutions for Norwegian local government".

KBN's credibility in the area of sustainability depends in part on it keeping its own house in order. KBN has set itself clear targets relating to its greenhouse gas emissions. The most important step required in order for KBN to meet its target of cutting its emissions by at least 55% by 2030 is for KBN to achieve a permanent reduction in the emissions associated with business travel by KBN employees, which will include replacing flights with train journeys and physical meetings with digital meetings to a significant extent. KBN will compensate for its residual emissions, which is to say the emissions we are unable to avoid.

KBN is finding that rating agencies, issue managers and investors are increasingly including ESG data in their evaluations. Poor ESG scores can result in companies being excluded from investment universes and can push up their financing costs. From 2020 onwards KBN has taken steps to make the data that ESG rating agencies require freely available. KBN reports to CDP, the leading disclosure system for climate and environmental impacts, in order to contribute to transparency in respect of greenhouse gas emissions. KBN improved its ESG score from a number of leading ESG rating agencies in 2021 and will work to maintain and improve its strong ratings in 2022.

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, which was last revised in 2022. Training sessions on ethical conduct and dilemma training are provided for employees annually. KBN ensures that all employees are familiar with the Code of Conduct, and it is also communicated to suppliers and customers and made available on KBN's website in English and Norwegian. KBN works to ensure corruption and money laundering have no place in its business activities. KBN's measures and guidelines for preventing corruption and money laundering are communicated through its Code of Conduct, as well as in internal guidelines on the prevention of corruption and money laundering. The internal guidelines are communicated to all KBN's employees and form an integral part of its induction program. In addition, the Board, management and employees with direct customer contact receive training in measures against terrorism financing and money laundering. 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.

Read more:
Code of Conduct

2030 ambitions:	2022 objectives:	2025 objectives:
▪ Cut KBN's own emissions by at least 55%*.	▪ Cut KBN's own emissions by at least 30%*.	▪ Cut KBN's own emissions by at least 40%*.
▪ Be recognised as helping to build a sustainable society.	▪ Achieve a score of at least 5 out of 6 on a survey of our most important stakeholders. ▪ Through collaboration with Young Enterprise Norway help students at lower secondary schools to start student companies with social objectives.	▪ Achieve a score of at least 5.5 out of 6 on a survey of our most important stakeholders.
▪ Have the best possible calculated ESG risk score.	▪ Sustainalytics: Low risk ▪ MSCI: AA ▪ ISS ESG: B	▪ Sustainalytics: Negligible risk ▪ MSCI: AA ▪ ISS ESG: A

**compared to 2019 levels*

Suppliers

The activities support the following SDGs:

8 DECENT WORK AND ECONOMIC GROWTH

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

The activities support the following strategic objectives:

Sustainable value creation

Read more:

General guidelines for procurement

Supplier requirements

KBN procures goods and services worth in excess of 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. KBN's supplementary guidelines and its expectations of suppliers entered into force with effect from 2021. KBN's procurement processes are designed so that they help promote KBN's environmental, social and governance (ESG) objectives, 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-suppliers. KBN's expectations of its suppliers will also form part of its regular follow-up discussions with its biggest suppliers.

KBN intends in 2022 to investigate the possibility of carrying out ESG screening of its suppliers with the aim of making it possible to use suppliers that have low ESG risk.

2030 ambitions:	2022 objectives:	2025 objectives:
▪ Select suppliers that are helping to solve society's social, financial and environmental challenges.	▪ Consider introducing higher expectations for suppliers. ▪ Consider introducing ESG screening of suppliers.	▪ Use suppliers that have low ESG risk.

Employees

The activities support the following SDGs:

8 DECENT WORK AND ECONOMIC GROWTH

The activities support the following strategic objectives:

Future oriented organisation

Sustainable value creation

KBN strives to be recognised as a knowledge-based company in financing and in the development of future-oriented financing solutions for Norwegian municipalities. KBN's 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 to promote diversity and equality in a systematic and targeted manner, and the principles of equality and diversity are a fundamental part of recruitment and the development of managers and employees. KBN's objective is to achieve gender balance at all levels and within all teams. It strives to work towards ensuring that each gender should represent at least 40% of employees. Both when recruiting new employees and when making changes to the composition of management groups and organisational units, KBN pays particular attention to the gender balance. Recruitment processes have to be carried out in such a way that the best-qualified female and male candidates are identified and assessed before any decision is made. All employees and potential employees are treated equally, and their professional qualifications and personal qualities are evaluated regardless of gender, disability, age and cultural or geographic background. Flexible working hours are offered to facilitate arrangements for employees who have care responsibilities at home. KBN expects any external recruitment agencies it uses to attend to diversity and equality in their work.

KBN's HR policy and guidelines are designed to promote equality and to prevent discrimination. As an employer, KBN does not tolerate bullying or discrimination, and it works to prevent all forms of harassment. Its continual work on such matters is supported by the Board of Directors and management, and is carried out in collaboration with managers, HR, employee representatives and the Working Environment Committee. KBN's internal guidelines and procedures ensure that this work is active and systematic.

KBN achieved a 50/50 gender balance in its management team in 2021.

Employee development
KBN actively 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 arranges specialist talks for employees featuring external and internal speakers approximately once a month. KBN's climate and environment group regularly organises knowledge and awareness-raising activities in relation to the climate, the environment and sustainability. Activities in 2022 will include participation in the Climate Championship organised by Ducky.

A central part of our strategy is for KBN to be known for its expertise in our core areas of activity and for a culture characterised by expertise development and a determination to be at the leading edge of progress. As part of this, in 2021 KBN launched a campaign entitled "KBN Kompetanseløftet", which challenges all KBN's employees to learn something new over the course of the year. Employees are free to choose any topic that is relevant to KBN, with a training arrangement of at least two days. 69% of KBN's employees completed the challenge in 2021. This campaign will be continued in order to stimulate a continuing desire to learn, to create more space for learning in employees' day-to-day activities, and to increase and renew the expertise of the entirety of KBN.

2030 ambitions:	2022 objectives:	2025 objectives:
▪ Facilitate employees' personal and professional development and continue to develop the corporate culture for sustainable business at KBN.	▪ At least 75% of employees to have completed KBN's Kompetanseløftet scheme in the course of the year.	▪ At least 75% of employees to complete KBN's Kompetanse-løftet scheme each year. ▪ KBN's employees to have a high level of expertise and aware-ness in relation to sustainability.

Employee satisfaction
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 impro-vement. KBN is committed to ensuring all employees have good working conditions.

In 2021, development discussions were conducted with all employees.

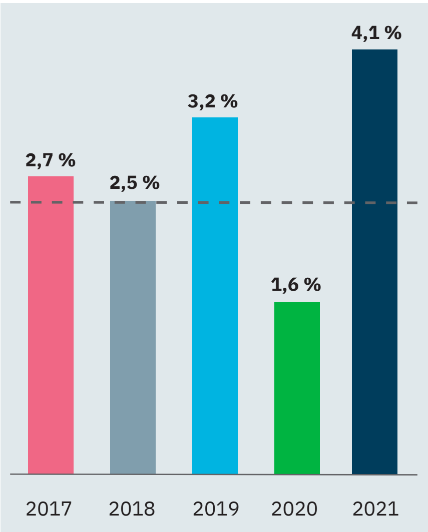
The Working Environment Committee's aim is to actively contribute to the creation of a good working environment and the promotion of good physical health by building a culture characterised by well-being and collaboration. The Committee held regular meetings in 2021 and carried out risk assessments in relation to health, safety and environmental issues, as well as related inspections. The sick leave rate was 4.1% in 2021 as compared to 1.6% in 2020. KBN's target is for the sick leave rate to be below 2.5%.

Regular health-promoting and social activities, including organised and individual exercise activities, were offered for all employees in collaboration with KBN's various activity groups, with some taking place digitally and others physically.

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.

2030 ambitions:	2022 objectives:	2025 objectives:
▪ Facilitate the highest possible level of employee satis-faction.	▪ A score of at least 4.1 (on a scale of 1-5) for employee engagement in the employee satis-faction survey.	▪ Measurements of employee satis-faction to demonstrate high levels of motivation, work satisfaction and effectiveness, together with strong agreement that KBN is a learning environment.

CHART
Sick leave rates at KBN over the last five years. (2022 target is 2.5%)



Statement on equality

KBN carries out quarterly meetings of the Workplace Environment Committee, annual preventative workplace inspections, annual discussions with the employee representatives, regular employee surveys and quarterly reporting of equality indicators to the Board of Directors as part of its follow-up of work on diversity and equality.

Current status of gender equality

KBN has over time implemented a number of initiatives and measures for work on gender balance. Our objective is to have a gender balance of at least 40% at all levels of the organisation, and an ambition for equal gender representation in all departments. Table 1 shows the proportion of women and men by organisational level at the end of the year.

TABLE 1
Proportion of women and men by organisational level at the end of the year

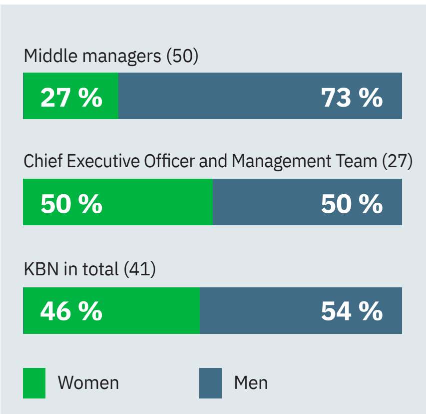
Temporary employees *(Temporary employees are to a large extent students in part-time employment)*		**Absence on parental leave** *(average number of weeks)*		**Part-time working** *(principally students)*			
				Actual part-time work		Involuntary part-time work	
Women	Men	Women	Men	Women	Men	Women	Men
7	**4**	**22**	**0**	**6**	**3**	**0**	**0**

The figures in the table are for the 2021 accounting year and as of 31.12.2021.

KBN in general offers only full-time employment, but there are some opportunities for part-time work when employees reach the age of 62 and for employees who need the opportunity to work part-time for health, social or other welfare reasons. All the employees who were working in part-time positions at the close of 2021 were students, and no-one at KBN is required to work on a part-time basis against their wishes (involuntary part-time working). KBN uses the services of temporary staff only to a small extent, with the exception of certain temporary staff substituting for absent staff, temporary project staff and student positions.

No male employees took paternity leave in 2021. Female employees absent on maternity leave in 2021 were on average on leave for 22 weeks in the calendar year.

CHART 1
Gender balance in % analysed by organisational level at the end of 2021 (percentage proportion of women in 2020 in brackets).



Information on salaries
Table 2 shows the salaries of female employees as a percentage of the salaries of male employees at six organisational levels. For the purpose of calculating salary differences, we have identified fixed salary and various additions, bonuses and benefits for the 2021 accounting year. We have also taken into account the question of the same work and work of equal value when determining the employment levels in accordance with the working methods recommended by the public authorities. This means that all roles are evaluated and given weight in accordance with the requirements for expertise, responsibility and effort. The employee representatives have participated in planning, carrying out and evaluating the information on salaries.

TABLE 2
Salaries of female employees as a percentage of the salaries of male employees at six organisational levels.

Group	No. of women	No. of men	Women's salaries as % of men's salaries	Examples of roles in the employment group
Organisational level 1	1	0		Chief Executive Officer
Organisational level 2	3	4	92 %	Managers in the senior management team
Organisational level 3	4	17	82 %	Middle managers, technical specialists
Organisational level 4	25	27	86 %	Technical specialists
Organisational level 5	4	0		Administration employees
Organisational level 6	6	3	100%	Students

Work to promote equality and prevent discrimination

KBN works in an active, targeted and planned manner on sustainability, and this includes its work on equality and preventing discrimination. KBN has an ambition to be a leader in its field. Our work on equality includes the personnel-related areas of recruitment, pay and working conditions, promotion, development opportunities, arrangements and opportunities for combining work and family life, and other relevant matters, as well as work to prevent harassment, sexual harassment and gender-based violence.

Principles, procedures and standards for equality and prevention of discrimination
Work on equality and preventing discrimination is an integral part of KBN's Human Resources policy, and is followed up in all areas of KBN's activities. KBN is committed to having an inclusive culture in which all employees have the same rights and opportunities and are treated with respect. Our overall work on diversity and equality is anchored in the guidelines for sustainability, as revised in 2021. KBN's ethical guidelines (Code of Practice) include rules on conduct. KBN does not accept bullying or harassment of any kind, including unwanted sexual attention and hostile or degrading comments and behaviour. Our guidelines for whistle blowing and whistle blowing procedures ensure the availability of secure channels and opportunities for individuals to whistle blow. Annual salary adjustments take place in accordance with a standard process using gender-equal and transparent criteria which assesses whether there are any inequalities. KBN imposes requirements for its suppliers' work on diversity and equality.

Our work to promote equality and prevent discrimination in practice
Work to promote equality and prevent discrimination has been a priority area over time, and is an integral part of how we work. Ambitions, objectives and measures to ensure equality and prevent discrimination are firmly anchored with KBN's management, and are supported by various guidelines. Reports on the current status of diversity and equality, including work on the activity duty and the duty to issue a statement, are required to be provided regularly. There is a requirement for equality and discrimination to be topics in management and employee development. Mandatory training in appropriate conduct is carried out for all employees. Meetings of the Workplace Environment Committee (Arbeidsmiljøutvalget) are held regularly, and the measures adopted are followed up in collaboration with the employee representatives. The risk assessments that are carried out are followed up with appropriate measures.

In 2021 KBN signed the Women in Finance Charter, which commits us to setting internal targets for gender balance at the management level, to nominate one person at the management level to have dedicated responsibility for monitoring this work, to publicly disclose the status and development of this work and to link management remuneration to the achievement of the targets.

KBN has set the following ambitions for work on diversity and equality:
- KBN shall have a corporate culture and management that promotes inclusion and diversity.
- KBN shall be a diverse organisation. There shall be a gender balance of at least 40% at all levels and the ambition of equal gender representation in all departments. The Chief Executive Officer shall monitor the gender balance in KBN.
- In relation to recruitment and internal mobility, KBN shall place emphasis on maintaining and improving diversity. The best qualified woman and the best qualified man shall be identified in all recruitment processes.
- Employees shall be given equal opportunities in respect of competence building and career advancement, salary and employment flexibility.
- Succession planning for key positions shall ensure diversity.
- An Action Plan based on risk assessments shall be produced and disclosed throughout the KBN organisation.

How we work to identify the risk of discrimination and other obstacles to equality

Human Resources (HR) has the overall responsibility for work to identify the risk of discrimination and obstacles to equality, and collaborates closely with the employee representatives and the Workplace Environment Committee in relation to the activity duty and the duty to publish annual statements using a four-step working method. This work is embedded in the company's management. A number of meetings were held in 2021 at which KBN's guidelines, procedures and routines were reviewed for all areas of HR policy on the basis of the various sources of discrimination. An exercise to map equality has also been carried out in collaboration with the employee representatives.

The annual employee survey and systematic follow-up help to map the working environment, including equality and discrimination. Employee development interviews at which these topics are on the agenda are carried out annually. The annual preventative workplace inspection maps the physical and psychosocial working environment, and helps to identify whether employees believe that they have been exposed to, or observed, any kind of discrimination or harassment.

Gender balance is measured by quarterly reporting and at the start of recruitment processes.

Risks of discrimination and obstacles to equality, possible causes, and the measures implemented and planned

The risks of discrimination and obstacles to equality that are identified relate particularly to diversity, including gender balance, recruitment, expertise building, and the balance between work and family life. Enhanced awareness and knowledge are crucial for preventing discrimination, promoting equality and preventing various forms of harassment. A number of measures were therefore implemented over the course of last year that are aimed at creating a corporate culture and management for inclusivity and diversity. Work on management and employee development has included diversity management, unconscious discrimination and mental health. In addition, training in appropriate behaviour is carried out, with topics including harassment, sexual harassment and whistle blowing. The employee survey included for the first time indicators for diversity and inclusivity.

KBN has over time pursued a number of initiatives and measures for work on gender balance. At the end of 2020, the proportion of female employees at the highest management level in KBN was 27%. Following a reorganisation in June 2021 and the recruitment of two female managers, the gender balance for this level at the close of 2021 was 50%.

KBN strives to attract a diverse range of candidates with differing expertise, background and experience. Placing emphasis on diversity in recruitment processes is an important tool for achieving our ambitions. In 2021 we reviewed and made changes to our routines and templates for the recruitment process in order to ensure to a greater extent that candidates are treated equally. Unconscious discrimination can affect the assessment of candidates.

KBN has implemented a number of measures over time that have had positive effects and that we continue to use, including:

- Preparing an overview of the gender balance for KBN as a whole and for the recruiting department.
- Identifying the best qualified female candidate and the best qualified male candidate in all recruitment processes.
- Including KBN's gender balance for its activities in the performance evaluation of the Chief Executive Officer.
- Structured recruitment processes and training in diversity recruitment, including training in avoiding unconscious attitudes.
- Requirements for diversity and non-discriminatory processes for the recruitment agencies with which we collaborate.
- Publicising the objective of diversity through the content of recruitment advertisements, profiling and communication, as well as applying greater awareness of who is the target audience and using gender-neutral words and expressions.
- Working in a focused way to recruit female students to student jobs at KBN. A number of these female students have since taken up permanent employment once they have completed their studies.

The following table shows a gender analysis of new employees over the past three years:

Year	Women	Men
2019	6	7
2020	4	9
2021	10	5

The reorganisation carried out in 2021 has expanded the middle management level in KBN, and this has created a number of career opportunities internally. It is KBN's policy to give existing employees equal opportunities in terms of competence building and career advancement, and we are also committed to ensuring diversity in the succession planning for key positions. Employee development interviews are held on a regular basis, together with the preparation of individual personal development plans.

We have observed some differences in how employees take advantage of the competence building opportunities that KBN offers. We launched the 'Kompetanseløftet' campaign in 2021 with the intention of challenging all employees to develop their expertise. Managers are appraised on the basis of the take-up for this scheme in their departments. This also serves to ensure that everyone is given equal opportunities for personal development. The Kompetanseløftet scheme will continue in 2022. In addition to this, KBN offers language courses for employees who do not speak Norwegian. A new management development program will be launched in 2022, and this program will also include middle management.

The employee survey showed that some areas of the organisation experience a lack of balance between work and free time. As part of our follow-up of the employee survey we have focused on this issue and implemented appropriate measures. The coronavirus pandemic may have contributed to this imbalance, in part because the difference between work and free time can become unclear when employees work from home. Holding meetings outside core hours can also create pressure on the balance between work and family life. As a small, specialised organisation, there is a risk that some key employees may experience that KBN is particularly dependent on their contribution, and this can cause stress.

Among the new and continuing measures we use to ensure a good balance between work and free time, we would mention in particular:

- Flexible working hours, extra holiday leave and time off in lieu.
- Core hours that take into account the opening hours of schools and nurseries.
- Arrangements that continue after core hours or normal working hours are planned well in advance, and as a general rule the work-related element is scheduled during normal working hours.
- A pilot project for hybrid working will offer flexibility in where work is carried out.
- Work in progress on KBN's meetings culture.
- Self-management is a topic in KBN's employee development, and delegation and autonomy are topics in management development.
- Employee development interviews include the employee's life phase situation as a topic.

Results of the work carried out

The employee survey carried out in 2021 shows that KBN has an inclusive working environment. A preventative workplace inspection was carried out in December 2021 and January 2022 which produced good results, but also identified some areas for improvement that will be followed up in 2022.

At the close of 2021 we can report good results for gender balance both at the senior management level and for KBN's employees as a whole. Gender representation for employees in total has been relatively stable over time and within the objective of at least 40% representation of each gender, but is lower in some departments. The reorganisation mentioned above involved a number of male managers moving down a management level with the result that male employees are overrepresented at this level.

Work on the pilot project for hybrid working will include carrying out surveys to gather more information from employees.

A number of the measures in place for recruitment, competence building and the balance between work and family life are considered to be important in order to ensure equality and prevent discrimination. These measures will be continued.

Work on the activity duty and the duty to issue a statement was systemised to a large extent in 2021, and this generated valuable experience that is being applied to the continuing work. The Action Plan for 2022 set out below details the plans and priorities for further action:

Action plan for 2022

The types of basis for discrimination that we address are gender, pregnancy, leave in connection with childbirth or adoption, care responsibilities, ethnicity, religion, belief, disability, sexual orientation, gender identity and gender expression, as well as combinations of these types of basis.

HR area	Background for measures/status/risk	Description of measures	Objectives for the measures
Recruitment	• Need for greater awareness of diversity recruitment • Inequalities in diversity, including gender balance for certain levels/departments • Risk of preconceptions and (unconscious) discrimination • Commitment to ensuring a fair process • Employee representatives are not involved in recruitment processes and therefore have a limited opportunity to evaluate how the processes are conducted in relation to the guidelines, procedures and legal requirements. Important to carry out training for managers to reduce the risks.	• Continuing focus on diversity and gender balance when carrying out recruitment for all positions. Prepare an overview of the total gender balance and the gender balance in the recruiting department at the start of the recruitment process • Advertisements of job vacancies and marketing material to be gender neutral • Stipulate requirements for diversity and non-discriminatory processes when using external recruitment services • Demonstrate the objective of diversity through both content and pictures (diversity declaration, awareness of choice of wording and pictures as well as who is the target audience for the communication) • Identify the best qualified woman and the best qualified man in all recruitment processes • President and Chief Executive Officer to be assessed on the basis of gender balance throughout the organisation • Job description and interview template to be prepared in order to ensure a structured expertise-based interview process so that candidates are evaluated in relation to relevant expertise requirements rather than in relation to information that is not relevant for the position that is to be filled • Investigate and assess the possibility of anonymous recruitment processes whereby personal information about candidates is excluded from the start • Training in diversity recruitment and non-discriminatory recruitment processes • Create a recruitment pool on the basis of temporary student appointments	• Ensure a good gender balance and that we attract a diversity of candidates with a range of different expertise, backgrounds and experience • KBN is committed to diversity. Our objective is a gender balance of at least 40% at all levels and our ambition is for equal gender representation in all departments
Promotion and personal development opportunities	• Employees shall be given equal opportunities in respect of competence building and career advancement, salaries and flexible working • Need to ensure diversity in succession planning for key positions	• Continue the Kompetanseløftet scheme • Employee development interviews to use personal development plans • Language training for employees who do not speak Norwegian	• Equal opportunities for competence building and career advancement
Pay and working conditions	• Gender discrimination in respect of salaries is considered to always be a risk	• Individual annual salary adjustments to take place in accordance with a standard process and with equal treatment using disclosed criteria • Salary adjustments to be assessed in respect of any inequalities before the changes are finally decided • Full-time employment to continue to be the general rule, with some opportunities for part-time employment	• Objective for salary analysis to demonstrate equal salaries for the same work or for work of the same value
Adaptations	No need for adaptations	• Topic to be given more attention as a possible topic for employee development interviews • Preventative work place inspections to be carried out	• Specific adaptations made available for pregnant employees and for employees with disabilities
Work and family life balance	• Risk of insufficient follow-up in advance of, during, and after parental leave • Opportunity for working from home • Meetings arranged outside core working hours at short notice • Key person risk and high level of dependence on individual employees can create time pressure	• Develop procedures for follow-up of employees in advance of, during and after parental leave • Further testing of the hybrid working pilot scheme • Meeting culture • Measure: Managers and employees take the same responsibility. Plan for equal sharing of duties. Self management, delegation and autonomy.	• All employees to have equal opportunities to combine work with family life
Harassment, sexual harassment and gender-based violence	• KBN has zero tolerance of discrimination, harassment and sexual harassment	• Ensure all employees are fully aware of the current guidelines • Breaches of the guidelines may result in sanctions • Digital training material for new employees to ensure that everyone receives this information as early in their employment as possible • Annual training in appropriate behaviour for all employees	• Ensure a safe working environment. Monitoring by preventative workplace inspections/employee surveys
Other relevant areas (e.g. working environment) Preconceptions/ attitude/ culture/	• Attitudes and preconceptions can affect perception of corporate culture and interactions with colleagues, customers and collaboration partners. Managers at all levels should have expertise in diversity and equality. It is considered significant to address these topics in management training in order that work on diversity and equality is not solely dependent on individuals but is embedded in the management	• Training/workshops relevant to diversity and equality	• Corporate culture and management for inclusivity and diversity

TCFD report

KBN is exposed to direct climate risk through its own activities to a limited extent, however different types of climate risk may impact municipalities' financial situation and therefore their ability and willingness to invest in new projects, as well as ultimately their capacity to service their existing liabilities.

Governance

Disclose KBN's governance around climate-related risks and opportunities

a) Describe the Board's oversight of climate-related risks and opportunities

Each year the Board sets KBN's risk appetite, which is an expression of the amount of risk that KBN is willing to assume in order to achieve its strategic objectives.

KBN's Risk Management Committee carries out preparatory work to facilitate the Board's assessment of the company's risk appetite and monitoring of whether its risk management guidelines are being followed.

The Board's Audit Committee carries out independent monitoring of the company's sustainability reporting.

Climate risk is described in KBN's Internal Capital Adequacy Assessment Process (ICAAP), which is approved by the Board and evaluated by the Financial Supervisory Authority of Norway.

The Board receives reports on KBN's green lending and greenhouse gas emissions at least quarterly.

The Board has considered an internal audit report that examines the maturity of KBN's sustainability and climate risk reporting, and has also received an internal audit opinion on KBN's Green Bond Framework.

The Board considers and approves KBN's annual Sustainability Report, which forms part of the Annual Report.

In 2021 the Board approved new overall guidelines for sustainability.

b) Describe management's role in assessing and managing climate-related risks and opportunities

Chief Capital Markets Officer: Responsible for the management of climate risk in the liquidity portfolio and in respect of the counterparties involved. The Chief Capital Markets Officer is also responsible for KBN's sustainability-related funding and Green Bond Framework.

Chief Risk Officer: Responsible for ensuring that climate risk/sustainability risk is identified, measured and managed. The Chief Risk Officer is responsible for risk reporting to the Board, including climate risk/sustainability risk.

Chief Compliance Officer: Responsible for ensuring compliance with the objectives and activities related to sustainability and climate risk.

Head of legal operations: Responsible for reporting to the Board on a continual basis on regulatory changes that may affect KBN, including in relation to climate risk.

Head of Sustainability and Communications: Responsible for communicating KBN's work on climate risk to KBN's stakeholders on a continual basis and reporting developments relevant to climate risk to the Board, and is also responsible for following up KBN's work with ESG rating companies.

See the section Organisational structure and governing bodies.

KBN launched a climate risk tool for the local government sector in 2019. The climate risk tool is based on specialist content from the CICERO Center for International Climate Research, as well as on data from third-party sources such as the Norwegian Centre for Climate Services, the Norwegian Environment Agency and Statistics Norway, and has been an important step in KBN's work to contribute to putting climate risk on the agenda at its customers. KBN continued to develop the climate risk tool in 2021, adding new functionality including individual pages for each county and provision for comparison between municipalities.

Strategy

Disclose the actual and potential impacts of climate-related risks and opportunities on KBN's businesses, strategy, and financial planning where such information is material

a) Describe the climate-related risks and opportunities that KBN has identified over the short, medium, and long term

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.

Climate risk expands a municipality's existing risk profile and may, for example, affect its demographic development, the outlook for employment and businesses, its tax revenues and the value of its real estate and infrastructure. KBN's customers are exposed to various forms of climate risk, including physical risk, transition risk and liability risk, and climate risk related incidents may have immediate financial consequences or gradual impacts that over time weaken their financial freedom to act, including their ability to access new debt financing. This may in turn have an impact on KBN's lending activity. Starting in 2022, evaluation of each customer's climate risk exposure will form part of the annual customer risk assessment.

Green loans account for approximately 11% of KBN's lending portfolio. Investments financed by green loans must satisfy strict criteria and must be recognised as part of the "way to a low-carbon society" (CICERO Second Opinion). The local government sector's transition to a low-carbon society represents an opportunity for KBN in respect of sales of green products. KBN's objective is to increase the proportion of such products in its overall lending portfolio to reach 20% in 2025.

There is growing demand for green funding products from investors with ESG mandates, and this also represents an opportunity for KBN in that it makes it possible for KBN to achieve better prices for the green bonds it issues. This pricing advantage is expected to increase over the medium term.

KBN has carried out a mapping exercise on its green loan portfolio in relation to the technical screening criteria in the EU's taxonomy. This exercise has shown that around 11% of the portfolio clearly complies with the technical criteria, while around 59% is considered to be likely to be in compliance.

A major proportion of the green investments carried out by KBN's customers are capable of reducing their climate risk exposure. Their use of green loans can be seen as indication that the local government sector is competent at managing change and well aware of the role it should play in the transition to a low-carbon society, and that the sector is taking a long-term approach to its investment decisions.

KBN is working on identifying the ESG risk exposure associated with its liquidity portfolio.

KBN does not make any loans to fossil energy production or to companies that base their activities to a material extent on the use of energy from fossil fuels, and this approach serves to limit KBN's indirect exposure to transition risk related to increasing carbon prices and stranded assets.

b) Describe the impact of climate-related risks and opportunities on KBN's businesses, strategy, and financial planning

Climate-related risks and opportunities form part of the Board's annual strategy process and the annual assessment of capital adequacy.

KBN's objective is to reduce its calculated emissions from their 2019 level by at least 55% by 2030. This objective is supported by planned measures, and KBN reports progress in its quarterly reports.

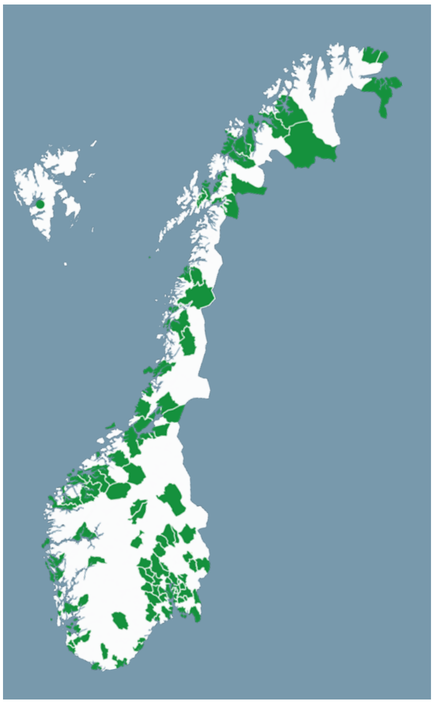
Climate risk forms part of KBN's expectations of its suppliers, which came into effect in 2021.

With regard to its funding, KBN is well positioned to meet international demand for green bonds. International developments, including the EU's Sustainable Finance Action Plan and Taxonomy Regulation, may enable favourable borrowing terms to be achieved on future green bond issues by high quality issuers.

KBN is finding that rating agencies, issue managers and investors are increasingly including ESG data in their evaluations. Low ESG scores can push up financing costs, and therefore represent a risk. The systematic work on ESG KBN carried out in 2021 has resulted in an improvement of KBN's ratings with Sustainalytics and ISS ESG and it has retained its rating with MSCI. See the Sustainability Report.

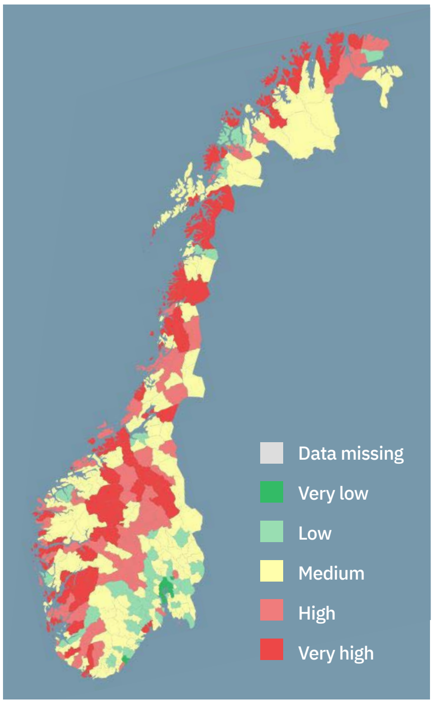
KBN'S GREEN PROJECTS

Number of investments in the municpalities that are finansed with KBNs green loans.



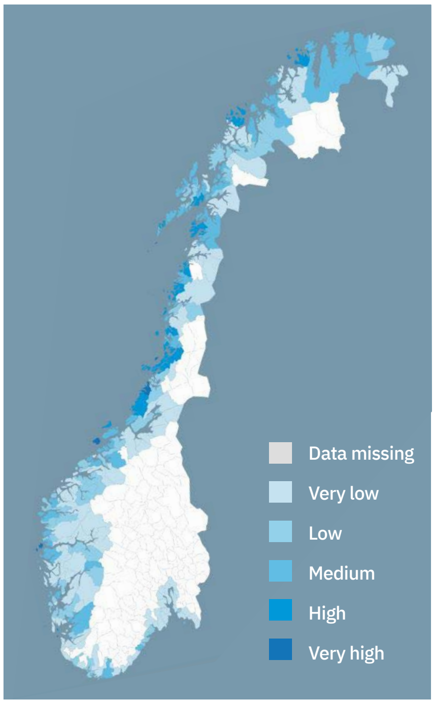
EMISSIONS PER CITIZENS

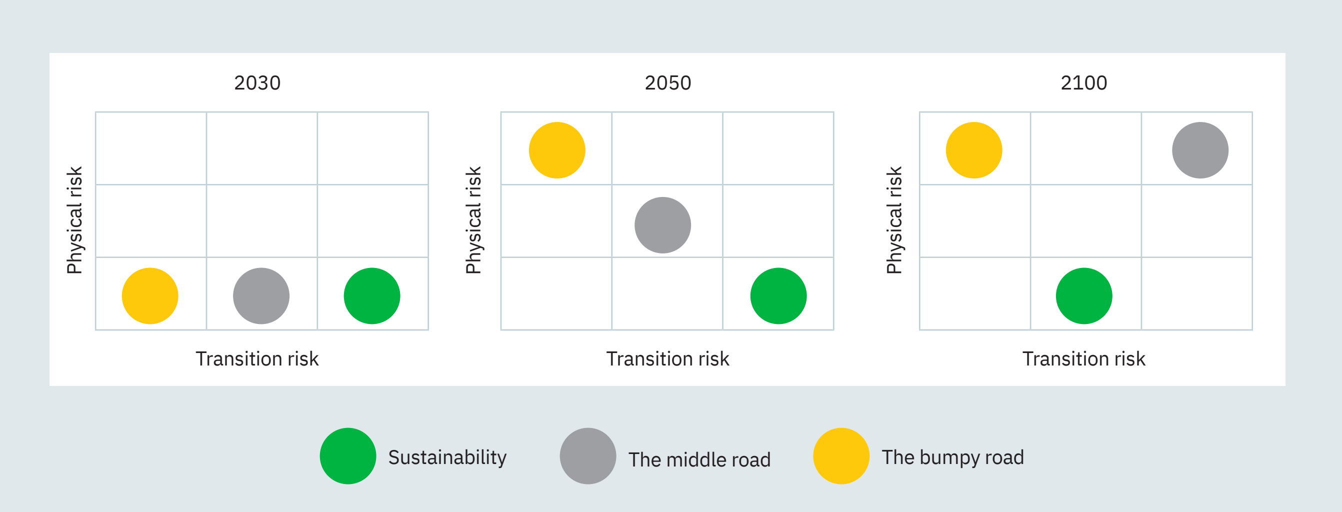
Emissions per citizen in municipality, shown as percentage of the country average.



STORMSURGE

Risk for buildings and infrastructure with searise in year 2090, given a scenario of high emissions.





CHART

The three scenarios cover different levels of physical and transition risk at different stages towards year 2100. For instance, in "the green road" the level of transition risk will be high in the short term as transition is undertaken quicky. The reward is a reduced level of physical risk in the long term compared to the other scenarios.

c) Describe the resilience of KBN's strategy, taking into consideration diffe-rent climate-related scenarios, including a 2°C or lower scenario

CICERO (the Center for International Climate Research) has developed three narrative climate scenarios for the Norwegian local government sector on behalf of KBN. KBN has used these scenarios as the basis for evaluating the risks and opportunities that may affect KBN through its involvement with the local government sector. A brief description of these scenarios is provided here, with a more thorough description and their expected significance to KBN available in the In-depth Review: Risks and opportunities for KBN in different climate scenarios.

1) Scenario 1: Sustainability – the green road (SSP1-2.6): Strong climate policies are imple-mented starting in 2020, emissions fall, and the world achieves the goal of the Paris Agreement. In this scenario (scenario 1), the level of physical climate risk is low over the short (2030), medium (2050) and long (2100) term, while the level of transition risk is high over the short and medium term and medium over the long term. This is the scenario with the strongest economic growth, but it also assumes significant investment by both the public and private sectors. The economic picture continues to be sufficiently positive (rela-tive to the other scenarios) for municipalities to be generally able to invest significantly in the transition to low-carbon solutions in terms of buildings, transportation and infrastruc-ture, as well as in climate change adaptation measures in areas such as the water and wastewater sector. Nonetheless, there are costs following extreme weather events, but the resulting need to make repairs is used as an opportunity to protect against future events. The high level of investment is maintained over the short, medium and long term, although investment in climate change adaptation can be expected to decrease some-what (although from a high level) towards the end of the century as the rate of increase in the temperature decreases. This means the local government sector will need to have a greater access to debt capital throughout the entire century.

2) Scenario 2: The middle road – we carry on as before (SSP2-4.5): More time passes before global climate agreements are put in place and their policies take effect and measures are implemented. The world does not manage to achieve the goal of the Paris Agreement. In this scenario (scenario 2), the level of physical climate risk is low over the short term, me-dium over the medium term, and high over the long term, while the level of transition risk is medium over the short and medium term and high over the long term. In this scenario, the Norwegian economy still grows well over the century, driven primarily by continued investment in the petroleum industry. Norway's oil revenues begin to decline after 2050, but natural gas revenues are high for a few more decades before they in turn decrease. The level of investment undertaken by municipalities as well as their willingness to invest can be expected to be approximately similar to today until the final couple of decades of

2the century. However, in this scenario, the projects in which municipalities invest are not particularly targeted at delivering emissions reductions or adapting to Norway's increas-ingly warm and wet climate, and this creates a risk that some large, long-term investments will in time turn out to have been unwise. Once emissions reduction measures are rolled out on a large scale in the second half of the century at the same time as the need to in-vest in climate change adaptation and repairs in the wake of natural disasters is increasing, the local government sector will have a relatively significant need to invest that will coin-cide with a period in which the revenues it receives from key industries are decreasing. KBN considers that such developments would mean that in scenario 2 the level of de-mand for debt capital would remain steady in the first half of the century but then in-crease in the second half.

3) Scenario 3: Regional rivalry – the bumpy road (SSP3-7.0): The world does not achieve the goal of the Paris Agreement by a sizeable margin and the physical consequences of climate change are significant, even in Norway. In this scenario (scenario 3), the level of physical climate risk is low over the short term and high over the medium and long term, while the level of transition risk is low across all three time horizons. Scenario 3 is the scenario in which Norway's gross national product is calculated to be the lowest, and this will in turn have an effect on local government sector finances. Even though the oil and gas industry performs well in the first half of the century and is also active in the second half of the century, other important industries will be threatened by both the physical climate risk caused by the effects of climate change in Norway and because of failing supply chains and export markets globally. In addition, Norway's municipalities will face major challenges in relation to adapting to climate change and carrying out repairs after extreme weather – particularly where insurance companies have ceased to offer cover. In this scenario, however, the Norwegian state and municipalities are expected over time to have significantly less to money to spend than today, which means that municipalities will probably cease to be responsible for some of the duties they are currently expected to carry out. This will mean municipalities are less able and less willing to invest, which in turn means a smaller market for KBN. At the same time, many municipalities' ability to service their debt will weaken over the course of the century. This will particularly apply to municipalities that are especially exposed to extreme weather and significant precipitation levels combined with declining revenues as a result of important industries also being vulnerable to physical climate risk. Those municipalities which in addition have invested extensively in the years prior to the situation escalating will be in a particularly difficult position, as this will mean they have higher debt service and operating costs for several decades. It is conceivable that the weaker financial situation of both the Norwegian state and the country's municipalities could impact KBN's credit rating and funding costs. This would in turn increase the cost of its loans for municipalities and thereby further reduce the sector's ability to invest in new projects.

Risk management

Disclose how KBN identifies, assesses, and manages climate-related risks

a) Describe KBN's processes for identifying and assessing climate-related risks

KBN is directly exposed to climate risk through its own activities only to a limited degree, but it is indirectly exposed through the local government sector's exposure to climate risk. KBN considers that its work on sharing expertise on climate risk forms part of its general responsibility to society as a whole, and plays an important role in the strategic work to encourage sustainable value creation in the local government sector.

KBN carried out further work in 2021 to increase its own level of expertise in climate risk. Climate risk was a prioritised project at the company-wide level in KBN's business plan for 2021, and this included developing a model for climate risk that can be integrated into KBN's credit approval processes for customer lending. This project has now produced a beta-version of a climate risk model for the Norwegian local government sector. The model uses eight macroeconomic indicators to allocate an overall risk score to individual municipalities on a scale of "very low", "low", "average", "high" or "very high". This risk score will be incorporated into the normal credit approval model. The first iteration of this task has been completed, but work will continue to further improve the climate risk model to make it more comprehensive. Read more on page 30.

KBN also worked in 2021 on developing a strategy for its liquidity portfolio that takes into account ESG factors, and is now working on screening this portfolio. In 2022 KBN will produce guidelines and systems for routine screening of the liquidity portfolio. This will give valuable insight into KBN's exposure to ESG risk through the liquidity portfolio, as well as identifying opportunities to manage this risk exposure.

Read more on page 35.

In 2021, at the instigation of the Ministry of Finance and the Ministry of Climate and Environment, 41 Norwegian financial institutions representing a combined portfolio of around NOK 1,900 billion used the Paris Agreement Capital Transition Assessment solution (PACTA) to assess the climate risk in their lending and investment portfolios. While the results for the Norwegian financial institutions were good in comparison to other countries in the testing program, it was still apparent that they were not on target to achieve the climate objectives, due in part to the presence in their lending portfolios of activities such as oil production, coal mining and manufacturing of fossil fuel vehicles. In contrast to these results for commercial banks, the results for KBN with its portfolio of lending solely to the local government sector showed that it was not directly exposed to any particularly climate-risk exposed business activities.

b) Describe KBN's processes for managing climate-related risks

KBN's indirect exposure to climate-related risks through its customers' climate risk exposure will primarily affect KBN's exposure to credit risk through its lending portfolio. KBN has developed a climate risk module for use in the credit evaluation of the customers in its lending portfolio. Climate risk will be included in the assessment of such customers' ability to service their current loans, as well as their ability to increase their borrowing and service increased interest and instalment payments.

Climate-related risks in the context of some of the general risk categories covered by KBN's risk appetite framework:

Capital risk: It is expected that changes may be made to the rules on capital adequacy requirements and to other regulatory frameworks that will favour qualifying green/sustainable investments. KBN has a well-established green lending program that is growing more quickly than its other lending activities. The Board's risk appetite in relation to capital risk is 'low'.

Liquidity risk: KBN worked in 2021 on developing a strategy for its liquidity portfolio that takes into account ESG factors. Starting in 2022, KBN will routinely screen the holdings in its liquidity portfolio. KBN has a well-developed green funding program that will support its access to capital now that capital flows are being directed toward sustainable investments. The Board's risk appetite in relation to liquidity risk is 'very low'.

Credit risk: With its green lending program and climate risk tool for municipalities, KBN is seeking to help steer the sector in the direction of investing in sustainable projects. Projects that qualify for a green loan from KBN help reduce municipalities' and county authorities' exposure to transition risk and thereby indirectly reduce KBN's exposure to credit risk. The transition to a low-carbon economy in Norway's municipalities involves the need for significant investment. The Board's risk appetite in relation to credit risk is 'low'.

Market risk: KBN is working to develop a sustainability strategy for its liquidity portfolio investments. The Board's risk appetite in relation to market and liquidity risk is 'low'.

Operational risk: KBN is an Eco-Lighthouse certified company in accordance with the banking and finance criteria, and produces annual greenhouse gas accounts, as well as reporting to CDP. KBN has an emissions reduction target and it reports on its progress on this target in its quarterly reports, and it compensates for its residual emissions by purchasing high-quality carbon allowances. KBN has a long-term objective of operating with the lowest possible level of ESG risk, and has established separate targets for ESG risk scores for KBN from MSCI, Sustainalytics and ISS ESG. The Board's risk appetite in relation to operational risk is 'low', and is 'very low' in relation to money laundering and compliance.

Climate risk is described in KBN's 'Documentation of risk profile and assessment of capital requirements' (ICAAP).

c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into KBN's overall risk management

KBN worked in 2021 on incorporating experience in data from its work on municipalities' climate risk into the development of a model for climate risk for use by KBN, which will include credit assessment of customers. The objective of this work was to identify data sources and the associated KPIs that could be used as parameters to estimate the risk of an immediate or long-term weakening in municipalities' financial situation as a direct or indirect result of climate risk. This work will continue in 2022.

KBN carried out a project in 2021 to develop a sustainability strategy for its liquidity investments, and in 2022 will start carrying out quarterly ESG screenings of its equity portfolio.

KBN intends in 2022 to evaluate the introduction of ESG screening of its suppliers where this is possible, and its long-term objective is to apply this in order to use suppliers that have low ESG risk.

Metrics and targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

a) Disclose the metrics used by KBN to assess climate-related risks and opportunities in line with its strategy and risk management process

KBN Uses the Eco-Lighthouse environmental management system as a tool, and our environmental certification is externally verified. In 2021 KBN gained certification in accordance with the Eco-Lighthouse specific criteria for banking and finance. KBN was recognised as Eco-Lighthouse of the Year in 2021 for the category large businesses and groups.

Green loans as a proportion of our total lending portfolio: 10.9%.

Proportion of municipalities that have a green loan: 35%.

Proportion of customers who state they work to map and manage their own risk: Mapping of risk: 56%. Implementing significant measures: 13%.

KBN calculates and reports on its own emissions, and has set an objective of cutting its own emissions by at least 55% by 2030. KBN's greenhouse gas accounts for 2021 have been externally audited.

KBN's scores from high-profile ESG rating agencies at the close of 2021:

MSCI: AA, Sustainalytics: Low risk, ISS ESG: C+

KBN is a climate-compensated business, and uses the EU's carbon permit price as the basis for its purchases of carbon offsets.

b) Disclose KBN's Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks

See the Greenhouse gas accounts section for an overview of KBN's estimated greenhouse gas emissions over time and its plan and the measures it is implementing to reduce its emissions. KBN is currently working to develop methodology for calculating a greater proportion of its Scope 3 emissions.

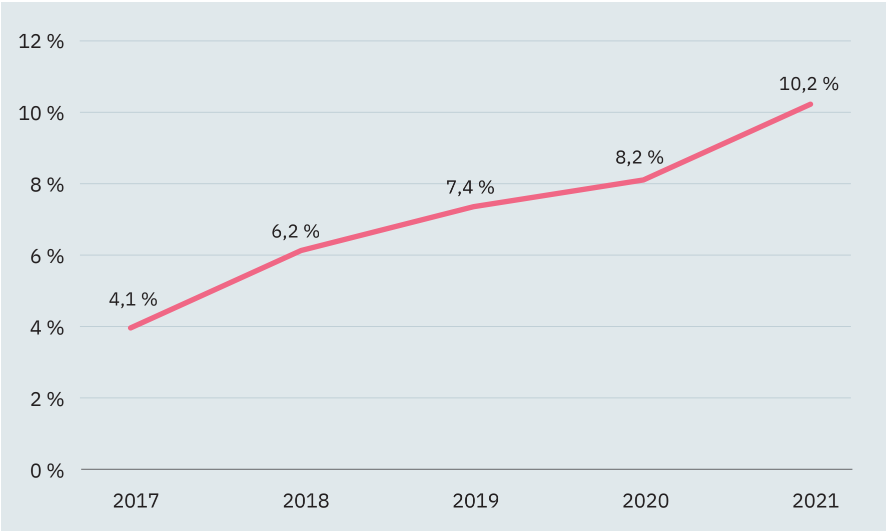
Greenhouse gas emissions from KBN's own activities are limited and the risk is assessed to relate primarily to its reputation.

c) Describe the targets used by KBN to manage climate-related risks and opportunities and performance against targets

See the Greenhouse gas accounts and Green financing and climate risk sections for an overview of KBN's key objectives in the climate area and its timelines for achieving its objectives.

CHART

Green loans as a proportion of the total lending portfolio 2017-2021.



The Board of Directors' Annual Report 2021

The Board of Directors' Annual Report

Kommunalbanken AS (hereinafter KBN) is the most important lender to the local government sector in Norway. KBN's role is to provide attractive and long-term debt financing regardless of market conditions. In 2021 KBN granted new loans totalling NOK 49 billion. These loans financed investment in projects such as schools, health and care facilities, and water and wastewater systems. KBN's robust financial results, the good growth in its lending for projects with a clear climate ambition, its efficient operations and its high level of customer satisfaction show that KBN is fulfilling its role in society successfully.

KBN's activities in 2021

KBN's lending grew by 1.5% in 2021 as compared to growth of 2.7% in 2020. KBN's green lending for projects with a clear climate ambition increased by NOK 6.7 billion, equivalent to growth of 23% relative to 2020.

Profit for the year was NOK 1,208 million in 2021 as compared to NOK 1,159 million in 2020.

KBN's revenue is primarily generated from its lending activities. Net interest income for 2021 was somewhat lower than in 2020. This was a result of the low level of interest rates as well as a reduction in lending margins. KBN's profit for the year for 2021 was positively affected by unrealised gains from changes in the value of financial instruments in the year. KBN's return on equity after tax for 2021 was 7.1%.

Strategy and objectives

In November 2020 the Norwegian Government of Prime Minster Erna Solberg published a new white paper on its ownership policy, "The State's Direct Ownership of Companies – Sustainable Value Creation" (Report to Storting No. 8 (2019-2020)). The white paper places particular emphasis on sustainable value creation, and it also clarifies the Solberg 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, as well as the need for KBN to be able to provide loans regardless of market conditions, guide KBN's financial plans.

In 2021 the Board of Directors of KBN updated KBN's current strategy, entitled 'Building a sustainable society'. KBN seeks to achieve its role in society by carrying out responsible lending activities. KBN's objective is for its activities to balance financial, social and environmental considerations in a way that contributes to long-term value creation.

In order to ensure KBN meets its objective, the Board 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 be driven by putting the customer first.
- STRONG MARKET PARTICIPANT: KBN shall ensure that Norwegian municipalities have access to attractive financing through KBN's strong position in the capital markets nationally and internationally.
- A LEADER IN GREEN FINANCE: KBN shall help its customers to succeed in achieving their climate objectives.
- A DIGITAL FIRST CHOICE: Our digital solutions shall ensure our customers have the best possible customer experience and shall contribute to simplification and quality improvements at KBN.
- 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.

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 2021 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 2021 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 1,208 million in 2021 as compared to NOK 1,159 million in 2020.

Net interest income totalled NOK 1,585 million in 2021 as compared to NOK 1,672 million in 2020. In 2021 KBN's net interest income from its lending activities was positively affected by an increase in lending volumes, but lower interest rates as well as narrower credit margins led to net interest income decreasing in overall terms. The net interest income from KBN's liquidity management portfolio generated a small contribution to KBN's earnings in 2021, in line with expectations. Fees and commission expenses totalled NOK 106 million in 2021 compared to NOK 115 million in 2020, KBN's contribution to the Resolution Fund run by the Norwegian Banks' Guarantee Fund was the largest single cost item in this category, amounting to NOK 73 million in 2021 as compared to NOK 70 million in 2020.

Net trading income from market transactions in the form of KBN repurchasing its own bonds, selling securities held in its liquidity portfolio and the concluding of financial derivative contracts contributed NOK 73 million to profit for the year in 2021 as compared to NOK 25 million in 2020.

KBN's net unrealised gains of NOK 322 million in 2021 relate to both 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 224 million in 2020.

TABLE 1
Profit for the year

	2021	2020
Profit for the year	**1 208**	**1 159**
Net interest income	1 585	1 672
Fees and commission expenses	106	115
Net unrealised gain/(loss) on financial instruments	322	224
Expected credit loss	0	14
Net trading income	73	25
Total operating expenses	255	255
Income tax	411	377

Amounts in NOK 1 000 000

TABLE 2
Net unrealised gain/(loss) on financial instruments

	2021	2020
Net unrealised gain/(loss) on financial instruments	**322**	**224**
Notes, bonds and other interest-bearing securities and related financial derivatives	54	72
Instalment loans and related financial derivatives	99	159
Senior securities issued and related financial derivatives	169	(7)
Change in fair value of liabilities and related financial derivatives due to changes in own credit risk	**(809)**	**130**

Amounts in NOK 1 000 000

TABLE 3
Total comprehensive income

	2021	2020
Total comprehensive income for the year	**602**	**1 255**
Profit for the year	1 208	1 159
Change in fair value of liabilities and related financial derivatives due to changes in own credit risk	(809)	130
Actuarial gain/(loss) on defined benefit plan	1	(2)
Tax effect	202	(32)

Amounts in NOK 1 000 000

TABLE 4
Operating expenses

	2021	2020
Operating expenses	**255**	**255**
Salaries	95	83
Pension costs	11	11
Administrative expenses, employer contributions and other personnel benefits	54	54
Other expenses	66	84
Depreciation on fixed assets	29	25

Amounts in NOK 1 000 000

The changes in the value of KBN's borrowings, not taking into account any changes to KBN's own credit risk, led to an unrealised gain of NOK 169 million, which was largely attributable to gains on currency hedging contracts at the close of the year.

Total comprehensive income amounted to NOK 602 million in 2021 as compared to NOK 1,255 million in 2020. Unrealised losses of NOK 809 million are attributable to narrower credit spreads on bond debt issued by KBN.

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.

KBN's total operating expenses of NOK 255 million in 2021 were in line with 2020, but were somewhat lower than expected. The year-on-year increase in personnel expenses was primarily due to the fact that no costs were incurred for KBN's profit-sharing scheme in 2020. Other operating expenses were reduced by NOK 18 million from 2020, due in part to lower costs for hired-in support and expertise.

At 31 December 2021 KBN had total assets of NOK 473.1 billion as compared to NOK 498.2 billion at the end of 2020. KBN's holdings of cash and cash-equivalents were higher than at the end of 2020. KBN's lending portfolio (outstanding principal) increased by NOK 4.8 billion in the course of 2021.

KBN's total primary capital at 31 December 2021 was NOK 19,711 million. Of this amount, NOK 15,320 million is common equity Tier 1 capital. The common equity Tier 1 capital adequacy ratio at 31 December 2021 was 18.8%, the Tier 1 capital adequacy ratio was 21.7%, and the total capital adequacy ratio was 24.2%. The leverage ratio at 31 December 2021 was 3.9%. KBN's common equity Tier 1 capital ratio was particularly affected by deductions from common equity Tier 1 capital related to deferred tax assets. These tax assets are due to 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, although they may have a material impact on tax payable and deferred tax in the accounts for a period, and hence can affect KBN's capital adequacy negatively.

At 31 December 2021 the capital requirements to which KBN was subject, including the pillar 2 capital requirement, required KBN to have a common equity Tier 1 capital adequacy ratio of 15.1%, a Tier 1 capital adequacy ratio of 16.6% and a total capital adequacy ratio of 18.6%. KBN is also subject to a requirement to have a leverage ratio in excess of 3.0%.

KBN manages its operations to ensure it complies with the regulatory requirements in force at any time. There were no significant changes to regulatory requirements during the course of the most recent accounting year. The changes to legislation to implement the new EU rules to strengthen banks' resilience and better prepare for the future (the Banking Package) into Norwegian law were approved on 18 June 2021, and are expected to come into force in Norway during the first half of 2022.

Lending

In 2021 the local government lending market was, as in previous years, dominated by KBN, KLP, and municipalities and county authorities borrowing directly from the capital market. KBN is the biggest provider of loans overall, and is the biggest provider of long-term, instalment-based loans. From time to time there was strong competition between the lenders active in the local government market. KBN's lending grew more slowly than the market as a whole over the course of 2021, leading to a fall in market share. At 31 December 2021 KBN's market share was 45%, down by 1.5 percentage points from 2020. KBN's objective is to maintain a stable share of the market for lending to municipalities and county authorities.

At the end of 2021, KBN had loans outstanding to all of Norway's county authorities, 355 of Norway's 356 municipalities, and Longyearbyen Community Council. In addition, a range of municipal and intermunicipal companies and companies with a municipal or county-authority guarantee are loan customers of KBN.

There was continuing demand for new loans throughout 2021, but demand was particularly high in the fourth quarter. A clear trend has been established over recent years for many municipalities and county authorities to wait as late in the year as possible when arranging loans to meet their planned external financing requirement for the year's investment spending. Half of the total lending paid out in 2021 took place in the fourth quarter, with December alone accounting for over 20% of the total loan disbursements for the entire year. This trend is even more pronounced for long-term instalment loans. The result was an increase in lending of NOK 8.5 billion for the fourth quarter of 2021 in isolation. This creates the need for KBN to manage its total lending growth over the course of the year in a way that ensures sufficient capacity for the expected high level of demand in the fourth quarter, particularly for long-term instalment loans.

Total demand for new loan financing in 2021 was somewhat lower than in the three preceding years. The rate of growth in normal local government sector borrowing was 5.6% in 2021, representing a slowdown in growth from the rate of 8.1% seen in 2020. Municipalities also increased their borrowing in 2021 from the Norwegian State Housing Bank, and these loans are used to make loans to residents under the municipal start-up loans scheme. If the figures for local government sector borrowing are adjusted for the growth in loans from the Norwegian State Housing Bank, the slowdown in borrowing growth between 2020 and 2021 is more pronounced. A provisional assessment of the slowdown in borrowing growth between 2020 and 2021 suggests that this reflects a combination of 1) a somewhat lower level of planned investment, 2) delays in carrying out investments, including delays caused by the coronavirus pandemic, and 3) somewhat less use of loan financing for investment projects relative to previous years, and particularly relative to 2020. As in previous years the main areas of investment for which loan financing was used were schools, health and care, and water and wastewater. The 63 largest municipalities, with populations in excess of 20,000, accounted for 50% of the total demand for new financing in 2021. There was a significant increase in demand for loan financing from county authorities in 2021 compared to 2020.

KBN's lending increased in total by NOK 4.8 billion in 2021, equivalent to 1.5%. Growth was affected by large extraordinary repayments from toll-road financed road building projects and by a welcome reduction in the portfolio of loans granted on certificate loan terms which represent weak profitability.

The overall growth in lending to municipalities and county authorities which is included in calculation of KBN's marked share in 2021 was NOK 8.5 billion, equivalent to 3%. After adjusting for the reduction of lending on certificate loan terms, the total increase in lending to this customer group was NOK 14.6 billion, representing a growth rate that has been very stable over recent years. Demand for loans on fixed rate terms has increased over recent years, but in 2021 growth in fixed rate lending was much slower. The reasons for this may have been that many municipalities and county authorities already have a sufficiently high proportion of fixed rate borrowing, and that the fixed interest rates available increased over the course of 2021.

KBN's portfolio of green lending for investment in climate and environment friendly projects increased by 23%, equivalent to NOK 6.7 billion, in 2021. KBN disbursed a total of NOK 7.9 billion in green loans to 97 different projects in 2021. At the end of 2021, 126 municipalities, four county authorities and a total of 73 other customers had green loans from KBN. KBN's outstanding green lending totalled NOK 35.1 billion, of which NOK 32.9 billion was in line with KBN's Green Bond Framework 2016 or newer, and hence are financed with green bonds. The environmental impact of these loans is included in KBN's separate Impact Report. KBN's Criteria Document for green lending is updated annually in pace with developments in the market.

Around 88% of KBN's lending is directly to municipalities (including municipal companies) and county authorities, as shown by the breakdown provided in chart 1. A further 5.1% of KBN's lending is to inter-municipal companies. The rest of the loan portfolio, totalling NOK 22.5 billion equivalent to 7%, is made up of loans

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

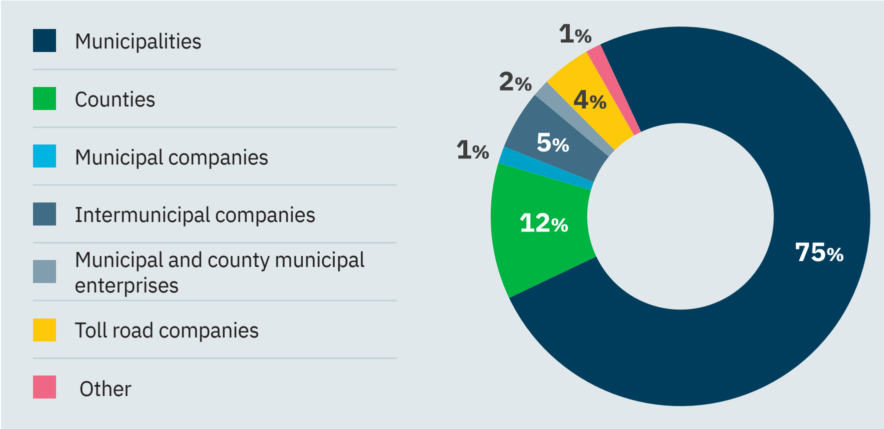
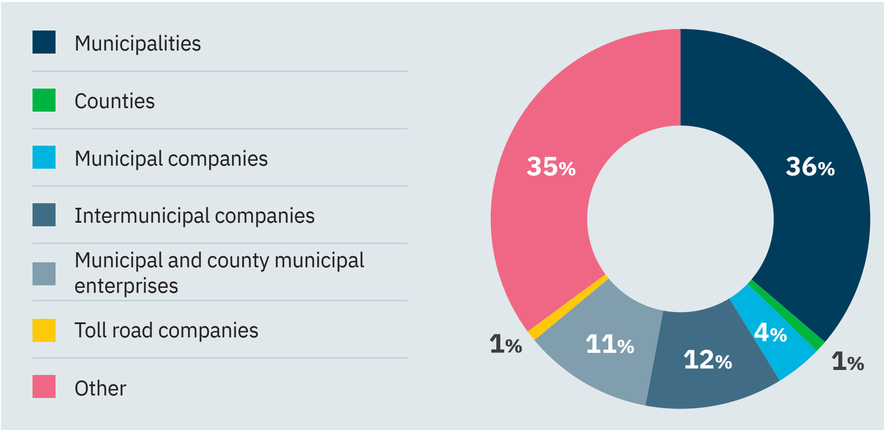


CHART 2
Analysis of the number of customers by customer category



to companies and various other types of institutions and foundations where the lending is guaranteed by a municipality or county authority guarantee. This includes loans to toll road companies totalling NOK 13.5 billion at the close of 2021, which is NOK 3.7 billion lower than the previous year.

A total of 980 customers have outstanding loans from KBN. Chart 2 below shows that 41% of KBN's customers are municipalities, county authorities or municipal companies, 12% are intermunicipal companies, and 47% are customers with a municipal or county authority guarantee.

KBN did not experience any default or payment problems with customers in 2021.

Funding

KBN's AAA/Aaa credit ratings ensure it has stable access to funding on favourable terms, which benefits the local government 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 97 billion in 2021, as compared to NOK 108 billion in 2020. The reduction in new borrowings was primarily due to less debt maturing in 2021 than in 2020 and a stronger Norwegian krone exchange rate in 2021. KBN's funding program has not been adversely affected by the coronavirus pandemic, and KBN enjoyed good access to the capital markets throughout 2021.

Europe, the USA and Asia are KBN's most important markets for funding. KBN has continued the approach it has followed in recent years of focusing more on simple, non-structured bonds with fixed or floating rates. Bonds of this type represented over 97% of issues completed by KBN in 2021. KBN issued bonds in 9 currencies in 2021, an increase from 2020 when KBN issued bonds in 6 different currencies. KBN increased the currency diversification of its funding portfolio over the course of 2021. The proportion of new borrowing that was denominated in US dollars decreased from 83% in 2020 to 61% in 2021. In 2021 KBN issued two USD benchmark bonds totalling USD 3.3 billion. KBN attracted a high level of interest from investors, and all its benchmark bonds were significantly oversubscribed. In addition, KBN experienced good interest from investors in British pounds, Australian dollars and New Zealand dollars.

The initiative to replace the most important international reference interest rate (LIBOR) is progressing. KBN is in the process of amending the contracts that will be affected to use what is expected to be the new market standard in accordance with the standards under continuous development by ISDA, and work is also underway internally to map and analyse the risks that may result from the transition to and use of new reference rates. KBN became the first Norwegian financial institution to issue bonds using the new USD SOFR reference rate in April 2021. This issue was well received by the market.

KBN is one of the most active Norwegian issuers of green bonds and is one of the leading participants in the development of green finance in the Nordic region. KBN was a member in 2021 of the governing body of the ICMA's Green Bond Principles, which is the leading international industry standard for green bonds, and it also organised and participated in a number of virtual events designed to promote green finance solutions. KBN's green bonds finance its loans to customers for their green projects. KBN's Green Bond Framework was updated in spring 2021, and develops further the earlier 2016 framework which it replaces. The updated framework has been subjected to an independent third-party assessment by CICERO, and received an overall rating of 'Medium Green' and a rating of 'Excellent' for governance. KBN issued three green bonds in 2021 with a total nominal value equivalent to NOK 9.8 billion and denominated in US, Australian and Canadian dollars respectively.

KBN's total outstanding bonds and other borrowings decreased in 2021 from NOK 405.5 billion to NOK 395.4 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 primarily in securities issued by states, multinational institutions and regions. KBN also invests in covered bonds. 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 2021 was NOK 110.8 billion as compared to NOK 123.6 billion at the end of 2020. Credit spreads were relatively stable for 2021 as a whole in both the Norwegian market and in international markets. At the end of 2021 KBN's overall liquidity coverage ratio (LCR) and its LCR for NOK were 175% and 71% respectively.

Corporate governance

The corporate governance of KBN is based inter alia on the Norwegian Accounting Act, the Norwegian Government's white paper on state ownership, and the Norwegian Code of Practice for Corporate Governance issued by the Norwegian Corporate Governance Board (NCGB). NCGB published a new edition of the Code of Practice in 2021. The change that is particularly relevant for KBN is the recommendation that companies should create value for shareholders in a sustainable manner. For more information, see KBN's corporate governance report starting on p. 39.

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

The Board of Directors produces guidelines on the remuneration of senior executives. These guidelines are approved by the Board, and are submitted to the Annual General Meeting for approval whenever there has been a change to the guidelines, and in any case at least every fourth year. The Board’s statement and information on the remuneration paid to senior executives will be submitted to the 2022 Annual General Meeting for consideration

Risk management and internal control

KBN’s Board of Directors has established guidelines on risk management and internal control. The Board determines KBN’s risk appetite framework and ensures that this is within KBN’s risk capacity. The threshold levels for KBN’s risk appetite framework and the need for any adjustments are assessed annually. The Board considers the President and CEO’s assessment of internal control on a yearly basis.

The purpose of risk management is to ensure that KBN’s management of its assets and liabilities is in accordance with the Board’s guidelines for risk management and internal control and its defined risk appetite framework. 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 adequacy plan, recovery planning, and the commercial strategy design process.

The Board is regularly informed of KBN’s activities, financial position and earnings situation. The Board routinely considers management’s assessment of risk exposure, compliance and risk events.

Risk management and internal control are organised into three lines of defence at KBN. The first line of defence carries out operational tasks and is responsible for managing and checking whether KBN’s activities are carried out within the approved limits and in accordance with internal and external regulations. The second line of defence carries out independent risk assessments, checks and validates models, and develops and prepares KBN’s risk and compliance reporting. KBN’s financial control function, together with the risk management function and compliance functions, comprise the second line of defence. KBN’s third line of defence is provided by the internal auditor (Deloitte) and represents the Board’s independent supervisory and control function. KPMG is to take over as the bank’s internal auditor from 2022-01-01.

Capital risk
KBN has a limited risk appetite with regard to capital risk. KBN’s regulatory capital risk is the result of KBN’s commercial direction and the composition of its balance sheet, as well as external matters that affect its capital adequacy requirements. KBN’s financial capital risk is made up of the aggregated risk to which its equity is exposed (risk of loss associated with market risk, credit risk, liquidity risk and operational risk).

KBN has in place a structured process to calculate its capital requirements including the necessary capital buffers to ensure that it maintains a sufficient level of capital in relation to its risk profile.

Credit risk
KBN has a limited risk appetite with regard to its overall exposure to credit risk.

KBN exclusively has customers connected to the local government sector, and this means it has a very limited risk of incurring financial losses. This is because the Norwegian Local Government Act stipulates that municipalities cannot be declared insolvent and that in the event that any municipality runs into financial difficulties or comes under pressure financially, it will be monitored by the state by means of the Register for State Review and Approval of Financial Obligations (ROBEK) system. These factors in practice protect KBN from any losses in relation to accumulated debt and accrued interest.

KBN manages its liquidity through investments in securities with a low credit risk, and it has a limited 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 counterparty 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 on a daily basis in order to reduce KBN's risk.

Liquidity risk
KBN has a very limited risk appetite with regard to liquidity risk. Liquidity risk is managed by means of KBN's internal liquidity management framework. KBN's policy is to ensure that it is in a position at all times to meet its liabilities when they fall due without incurring any significant extra costs.

Market risk, including interest rate risk and foreign exchange risk
KBN has a limited risk appetite with regard to market risk, and financial derivatives are used to hedge all significant exposure to interest rate risk and foreign exchange risk. The remaining source of market risk for KBN is principally basis risk, which is the risk of a change in basis spreads between two currencies that affects the value of hedging contracts. Credit spread risk is the risk of changes in the credit spreads on assets.

Operational risk
KBN has a limited risk appetite with regard to operational risk. A uniform and systematic approach to identifying risk is used for managing operational risk, and regular risk assessments are carried out for all material 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, i.e. the risk of a breach of compliance with external or internal regulations or guidelines, and the risk of money laundering and terror financing, represent two sub-types of operational risk that are subject to special reporting. KBN has a very limited risk appetite with regard to compliance risk and the risk of money laundering and terror financing.

Climate risk
KBN is exposed to direct climate risk through its own activities to a limited extent, but is indirectly exposed through the local government sector's exposure to climate risk. The Norwegian Local Government Act states at Section 29-1 that municipalities and county authorities cannot be declared insolvent, and consequently the potential financial consequences of KBN's indirect exposure to climate risk is very limited. KBN's direct and indirect exposure to climate risk is discussed in more detail in the TCFD report that is included in the Annual Report.

ESG risk in the liquidity portfolio
KBN worked in 2021 on developing a strategy for its liquidity portfolio that also takes into account ESG risk, and intends to develop guidelines and systems for regular screening of its liquidity portfolio.

Corporate communications and public relations

The Board of Directors regards engagement by KBN in continuous dialogue with its 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, investors and employees, as well as the trust of rating agencies, regulatory authorities and wider society.

KBN's external communication activities are intended inter alia to help highlight issues that affect its customers, e.g. changes to their own or to KBN's framework conditions. The macroeconomic situation, green finance, climate risk, energy production and the local government sector's long-term sustainability were central topics in KBN's external communication activities in 2021. The coronavirus pandemic and the subsequent lockdown of parts of society meant that in 2021 KBN continued to hold the majority of its meetings and seminars as digital events. KBN organized a range of webinars on the macroeconomic picture, municipality finances, climate risk, climate budgeting and renewable energy. The importance of a sustainable approach to debt management by the local government sector was emphasised in the communication activities KBN conducted directly with its customers, including its finance seminars, its digital portfolio management tool (KBN Finans) and its newsletters.

Ethics and corporate social responsibility

KBN has based its priorities in the area of sustainability on its extensive dialogue with its most important stakeholders, and it updated its guidelines on sustainability in 2021. KBN follows the Global Reporting Initiative (GRI) standard in its reporting of its sustainability work and the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) in its reporting of climate risk.

KBN expects all its employees and managers to act in line with KBN's Code of Conduct, which was last revised in 2021. During the course of 2021 all employees have confirmed that they have paid proper attention to KBN's rules and guidelines on ethical conduct, including the Code of Conduct.

Organisation and employees

As a knowledge business, KBN needs to recruit, develop and retain skilled employees across a range of specialist areas in order to fulfil its objectives. KBN needs to adapt continuously to the changes that are being driven by factors such as technology, regulatory requirements and changing customer behaviours, in addition to the requirements and expectations of our owner, other stakeholders and KBN's employees themselves. This requires a corporate culture which encourages a desire to learn and generates a continuous supply of new expertise throughout the organisation. At the same time, the coronavirus pandemic has influenced our work on KBN's organisation and management. The employee survey carried out in 2021 showed that we have engaged employees who are very effective in their work, and who are proud to work at KBN.

The sickness rate was 4.1% in 2021 as compared to 1.6% in 2020. The increase from 2020 can to some extent be attributed to the coronavirus pandemic. KBN's target is for the sickness rate to be below 2.5% over time.

Read more about our working conditions on page 74 and our work on diversity and equality on page 76.

Allocation of profit

The Board of Directors of KBN proposes the following allocation of the profit for the 2021 financial year: NOK 646 million is to be paid as a dividend to the owner and NOK 562 million is to be transferred to retained earnings. Decisions on dividend payments are made by the General Meeting. Proposed dividend payments are included in the bank's equity until such time as they are approved by the General Meeting, but are not included in calculations of capital adequacy.

Future prospects

2021 was a year of frequently changing market conditions as the coronavirus pandemic led to both periods of reopening and optimism as well as periods with new waves of infection and lockdowns. The extensive scale of lockdowns and quarantine around the world resulted in major delays in supply chains that have caused abnormal price increases for some product groups. We began to see accelerating inflation from the summer of 2021, which central banks initially judged to be only temporary. However more persistent inflationary pressures over the course of the autumn caused a number of central banks to increase interest rates towards the end of the year, including Norges Bank.

The outlook for 2022 anticipates that the danger of inflation and the resulting upward pressure on wages will result in central banks taking action to normalise the level of interest rates more quickly than we anticipated at the close of 2020. The path of the coronavirus pandemic will continue to create uncertainty, while at the same time tensions between Ukraine and Russia will also contribute to greater uncertainty in 2022. At the start of 2022 the Norwegian fixed income market anticipated that Norges Bank would make four increases in interest rates over the course of 2022, amounting to a one percentage point increase.

2021 was a year of strong borrowing growth for the Norwegian local government sector. The further continuation of the strong growth in borrowing that many municipalities have undertaken over recent years will, in many cases, not be sustainable and will not be compatible with maintaining a sound financial condition over time. A return to a more normal level of interest rates will contribute to increasing interest costs over time. The speed at which this will affect individual municipalities will depend on the proportion of their borrowing that is on fixed interest rate terms. At the same time many municipalities will face a continuing need for sizeable investment spending. The overhang of overdue maintenance requirements and essential improvements in standards will continue to contribute to growth in investment spending, especially in the areas of health and care, water and wastewater, public transport and schools.

Climate change and the transition to a (climate adapted) low carbon society will place demands on investment decisions through its effect on the location of new buildings, the content and implementation of construction contracts, energy solutions, resource use and choice of materials. Climate changes will in themselves create a need for greater investment spending, particularly to address the impact of physical climate risk. Wastewater networks will need to be upgraded and adapted to cope with increases in precipitation. Dealing with the problem of surface runoff is one example of an area where there is uncertainty over questions of liability and financing. The need to protect against more extreme weather events will require sizeable investment in measures such as flood prevention and avalanche prevention in the future.

However, the area that will cause the largest need for increased investment in the future will be the health and care sector. We are just at the start of a wave of growth in the population aged over 80 that, according to Statistics Norway's population forecasts, will not slow down before 2099. Over the course of the next 15 years the number of people over 80 will double. Increased use of welfare technology will make it possible for more people to remain independent and live at home longer. However the growth in the older population will be so rapid that it will force a radical change in how essential care can be provided to those who need it. Greater investment spending in the health and care area will contribute to keeping the aggregate level of investment that KBN's customers will need to carry out at high levels for the years ahead.

Regulatory pressure on the finance sector is expected to continue at a persistently high level over the years ahead. The European Commission's reform to further strengthen the resilience of EU banks (the Banking Package) is expected to enter into force in Norwegian law during the course of 2022. In addition the EU Commission's action plan for sustainable finance, including new reporting requirements, will come into effect before too long. An increasing scale of new regulatory requirements and reporting to the authorities will require greater resources, both financially and operationally. KBN has a specialised business model with extremely low risk lending, an internationally oriented wholesale funding model and public sector ownership, all of which differentiate it from other Norwegian financial institutions. Regulatory requirements are often designed with normal commercial banks in mind and are not sufficiently adjusted to KBN's business model. KBN is, through the European Association of Public Banks and in dialogue with Norway's regulatory authorities, seeking to highlight the challenges that insufficient regulatory differentiation can cause. A predictable environment and framework conditions that are adapted to KBN's function in society 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, 25 February 2022

The Board of Directors of Kommunalbanken AS

Brit Kristin Sæbø Rugland
CHAIR

Rune Midtgaard
VICE CHAIR

Eyvind Aven
MEMBER OF THE BOARD

Anne Jenny Dvergsdal
EMPLOYEE REPRESENTATIVE

Toril Hovdenak
MEMBER OF THE BOARD

Harald Jacobsen
EMPLOYEE REPRESENTATIVE

Ida Espolin Johnson
MEMBER OF THE BOARD

Petter Steen Jr.
MEMBER OF THE BOARD

Martha Takvam
MEMBER OF THE BOARD

Jannicke Trumpy Granquist
CEO

Financial statement 2021

INCOME STATEMENT

(Amounts in NOK 1 000 000)	Note	2021	2020
Interest income from assets measured at amortised cost		*2 148*	*3 258*
Interest income from assets measured at fair value		*1 381*	*2 442*
Total interest income		3 529	5 700
Interest expense		1 943	4 028
Net interest income	**1**	**1 585**	**1 672**
Fees and commission expenses	**2**	106	115
Net unrealised gain/(loss) on financial instruments	**3**	322	224
Expected credit loss	**16**	0	14
Net trading income	**4**	73	25
Total other operating income		**289**	**120**
Salaries and administrative expenses	**5,6,7**	160	147
Depreciation on fixed assets		29	25
Other expenses	**9**	66	84
Total operating expenses		**255**	**255**
Profit before tax		**1 620**	**1 537**
Income tax	**8**	411	377
Profit for the year		**1 208**	**1 159**
Portion allocated to shareholder		1 149	1 095
Portion allocated to owners of additional Tier 1 capital		59	64

STATEMENT OF COMPREHENSIVE INCOME

(Amounts in NOK 1 000 000)	Note	2021	2020
Profit for the year		1 208	1 159
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**	(809)	130
Actuarial gain/(loss) on defined benefit plan		1	(2)
Tax effect		202	(32)
Total other comprehensive income		(606)	96
Total comprehensive income for the year		**602**	**1 255**

STATEMENT OF FINANCIAL POSITION

(Amounts in NOK 1 000 000)	Note	2021	2020
Assets			
Deposits with credit institutions	**10,11,12,14,22**	17 317	18 950
Other money market deposits	**10,11,12,14**	0	1 712
Instalment loans	**10,11,12,15**	323 672	321 874
Notes, bonds and other interest-bearing securities	**10,11,12,13,17**	112 839	127 108
Financial derivatives	**10,12,13,21,22**	16 047	25 176
Deferred tax asset	**8**	3 021	3 230
Other assets	**18**	169	169
Total assets		**473 064**	**498 219**
Liabilities and equity			
Loans from credit institutions	**10,12,19,22**	5 891	13 871
Commercial paper	**10,12,20**	31 567	20 045
Senior securities issued	**10,11,12,13,20**	393 663	413 717
Financial derivatives	**10,12,13,21,22**	20 072	28 341
Other liabilities	**18**	85	63
Current tax liabilities	**8**	581	1 501
Deferred tax liabilities	**8**	0	0
Pension liabilities	**7**	32	37
Subordinated debt	**10,12,23**	2 092	2 106
Total liabilities		**453 983**	**479 681**
Share capital	**24**	3 895	3 895
Additional Tier 1 capital	**25**	2 392	2 392
Retained earnings		12 795	12 251
Total equity		**19 081**	**18 538**
Total liabilities and equity		**473 064**	**498 219**

STATEMENT OF CHANGES IN EQUITY

(Amounts in NOK 1 000 000)

2021

	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 2020		**3 895**	**2 392**	**(297)**	**12 547**	**18 538**
Profit for the year		0	0	0	1 208	1 208
Other comprehensive income—value change on liabilities due to changes in own credit risk		0	0	(607)	0	(607)
Other comprehensive income—actuarial gain/loss		0	0	0	1	1
Interest paid on Tier 1 capital	**25**	0	0	0	(59)	(59)
Dividends for 2020		0	0	0	0	0
Equity as of 31 December 2021	**24**	**3 895**	**2 392**	**(904)**	**13 698**	**19 081**

Allocation of the profit for the year 2021 has been proposed as follows: NOK 646 million will be paid out as dividends to the owner and NOK 562 million will be transferred to other equity.

2020

	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 2019		**3 145**	**2 189**	**(395)**	**11 460**	**16 401**
Profit for the year		0	0	0	1 159	1 159
Other comprehensive income—value change on liabilities due to changes in own credit risk		0	0	97	0	97
Other comprehensive income—actuarial gain/loss		0	0	0	(2)	(2)
Interest paid on Tier 1 capital	**25**	0	0	0	(64)	(64)
Call of Tier 1 capital	**25**	0	(994)	0	0	(994)
Issuance of Tier 1 capital	**25**	0	1 197	0	(5)	1 192
Issue of share capital	**24**	750	0	0	0	750
Dividends for 2019		0	0	0	0	0
Equity as of 31 December 2020	**24**	**3 895**	**2 392**	**(297)**	**12 547**	**18 538**

STATEMENT OF CASH FLOWS

(Amounts in NOK 1 000 000)

	2021	2020
Cash flows from operating activities		
Interest received	3 410	6 371
Interest paid	(1 894)	(4 653)
Fees and commissions paid	(73)	(115)
Receipts from repurchase of issued securities	73	25
Cash payments to employees and suppliers	(220)	(224)
Income taxes paid	(920)	(3 872)
Net disbursement of loans to customers	(4 783)	(8 466)
Net (increase)/decrease in deposits with credit institutions	(4 733)	10 132
Net (increase)/decrease in notes, bonds and other interest-bearing securities	12 301	(12 801)
Net (increase)/decrease in other assets	(9)	(4)
Net increase/(decrease) in other liabilities	(30)	4
Net (increase)/decrease in financial derivatives	(4 239)	(7 021)
Net cash flows from operating activities	**(1 117)**	**(20 624)**
Cash flows from investing activities		
Net (purchase)/sales of property and equipment	(21)	(16)
Net cash flows from investing activities	**(21)**	**(16)**
Cash flows from financing activities		
Proceeds from issuance of commercial paper	273 232	198 006
Repayment of commercial paper	(262 037)	(180 621)
Repayment on lease obligation	(6)	(7)
Proceeds from issuance of debt securities	96 551	107 823
Repayment of debt securities	(106 476)	(106 301)
Proceeds from issuance of additional Tier 1 capital	0	1 196
Repayment of Tier 1 capital	0	(1 000)
Interest paid on Tier 1 capital	(60)	(68)
Dividends paid	0	0
Paid in share capital	0	750
Net cash flows from financing activities	**1 205**	**19 778**
Net cash flows	**67**	**(862)**
Effects of foreign exchange differences	51	539
Net cash flows after foreign exchange differences	**118**	**(268)**
Cash and cash equivalents at 1 January	190	459
Net change in cash and cash equivalents	118	(268)
Cash and cash equivalents at 31 December	**308**	**190**
Whereof		
Deposits with credit institutions without agreed time to maturity	*308*	*190*
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 2021 were approved by the Board of Directors on 25 February 2022.

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

The financial statements are presented in NOK and rounded to the nearest million kroner, except for Notes 6, 7 and one table in note 16, that are presented in NOK thousand.

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.

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, and most of the risk and profit potential has been 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.

Detailed principles of classification and measurement are presented in note 10 together with tabular statements of the 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. Fair value is the achieved price 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. Some currency-related derivatives have, in addition to their ordinary function as a hedging instrument, a subset of transactions that have a built-in financing element with ongoing predefined payments during the term and repayment at maturity.

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.

For issued liabilities that are designated as measured at Fair Value Option (FVO) will the part of changes in fair value that is attributable to changes in KBN'S own credit risk be 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 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 accounting principles for hedge accounting are described in detail in note 13 together with the financial information.

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. If the annual impairment test indicates 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.

LEASES

Leases are being accounted for according to IFRS 16 *Leases* which is based on recognition of depreciation for leased assets ("right-to-use-assets") 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.

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.

The company is subject to financial tax. The tax rate is 25%.

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 AS WELL AS AMENDED STANDARDS AND INTERPRETATIONS
KBN has not implemented new standards in 2021.

In September 2019, the International Accounting Standard Board (IASB) published changes in the standard called "Interest Rate Benchmark Reform, Amendments to IFRS 9, IAS 39 and IFRS 7". The standard changes respond to the effect of the IBOR reform on financial reporting and the publication concludes phase one of the IASB's work, which provides temporary reliefs for hedge accounting until the replacement of IBOR with an alternative nearly risk-free interest rate, and was effective on 1 January 2020.

In August 2020, the IASB published "Interest Rate Benchmark Reform—Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (IBOR reform Phase 2)". Phase 2 comprises all financial instruments that are affected by changes in IBOR and came into force on 1 January 2021.

Note 21 provides information on KBN's management of the risk arising from the transition to new benchmark interest rates and which financial instruments are affected by those changes.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1

NET INTEREST INCOME

(Amounts in NOK 1 000 000)

2021	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 [1]	**(48)**	0	0	0	0	(48)
Other money market deposits [1]	**(3)**	0	0	0	0	(3)
Instalment loans	**4 028**	1 990	0	0	1 990	2 037
Notes, bonds and other interest-bearing securities	**491**	330	0	0	330	161
Financial derivatives	**(939)**	0	(939)	0	(939)	0
Total interest income	**3 529**	**2 320**	**(939)**	**0**	**1 381**	**2 148**
Loans from credit institutions	**0**	0	0	0	0	0
Commercial paper [2]	**(65)**	0	0	0	0	(65)
Senior securities issued	**6 723**	3 810	0	0	3 810	2 914
Financial derivatives	**(4 859)**	0	(2 634)	(2 225)	(4 859)	0
Subordinated debt	**61**	61	0	0	61	0
Other interest expense [3]	**84**	0	0	0	0	84
Total interest expenses	**1 943**	**3 871**	**(2 634)**	**(2 225)**	**(988)**	**2 932**
Net interest income	**1 585**	**(1 551)**	**1 695**	**2 225**	**2 369**	**(784)**

[1] Deposits in EUR carrying negative interest rates.

[2] Short term funding in EUR carrying negative interest rates.

[3] interest expense on tax as a result of changes in tax return for previous years

2020	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 [1]	**(18)**	0	0	0	0	(18)
Other money market deposits [1]	**(13)**	0	0	0	0	(13)
Instalment loans	**5 125**	2 111	0	0	2 111	3 013
Notes, bonds and other interest-bearing securities	**1 780**	1 504	0	0	1 504	276
Financial derivatives	**(1 173)**	0	(1 173)	0	(1 173)	0
Total interest income	**5 700**	**3 615**	**(1 173)**	**0**	**2 442**	**3 258**
Loans from credit institutions [2]	**(1)**	0	0	0	0	(1)
Commercial paper	**6**	0	0	0	0	6
Senior securities issued	**9 371**	5 198	0	0	5 198	4 174
Financial derivatives	**(5 409)**	0	(3 559)	(1 851)	(5 409)	0
Subordinated debt	**61**	61	0	0	61	0
Total interest expenses	**4 028**	**5 259**	**(3 559)**	**(1 851)**	**(151)**	**4 179**
Net interest income	**1 672**	**(1 644)**	**2 386**	**1 851**	**2 592**	**(921)**

[1] Deposits in EUR carrying negative interest rates.

[2] Short term funding in EUR carrying negative interest rates.

NOTE 2

FEES AND COMMISSION EXPENSES

(Amounts in NOK 1 000 000)

	2021	2020
Expenses of banking services	18	27
Contribution to resolution fund	73	70
Other transaction costs	15	19
Total fees and commission expenses	**106**	**115**

NOTE 3

NET UNREALISED GAIN/(LOSS) ON FINANCIAL INSTRUMENTS

(Amounts in NOK 1 000 000)

2021	Total	At fair value through profit or loss			Amortised cost
		Fair value option	Mandatory at fair value	Fair value hedge	
Instalment loans	**(3 048)**	(3 048)	0	0	0
Notes, bonds and other interest-bearing securities	**(784)**	(784)	0	0	0
Financial derivatives	**(6 204)**	0	(131)	(6 072)	0
Loans from credit institutions	**0**	0	0	0	0
Senior securities issued	**10 344**	4 044	0	0	6 300
Subordinated debt	**14**	14	0	0	0
Net unrealised gain/(loss) on financial instruments	**322**	**226**	**(131)**	**(6 072)**	**6 300**

2020	Total	At fair value through profit or loss			Amortised cost
		Fair value option	Mandatory at fair value	Fair value hedge	
Instalment loans	**2 842**	2 842	0	0	0
Notes, bonds and other interest-bearing securities	**443**	443	0	0	0
Financial derivatives	**2 103**	0	(1 211)	3 315	0
Loans from credit institutions	**0**	0	0	0	0
Senior securities issued	**(5 047)**	(1 578)	0	0	(3 469)
Subordinated debt	**(118)**	(118)	0	0	0
Net unrealised gain/(loss) on financial instruments	**224**	**1 589**	**(1 211)**	**3 315**	**(3 469)**

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, fixed interest-rate Instalment loans measured at fair value 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 2021 amounting to NOK 322 million, Notes, bonds and other interest-bearing securities and related financial derivatives contribute with a gain of NOK 54 million. The gain is primarily due to the fall in credit spreads which affect the value of bond prices. Instalment loans and related financial derivatives contribute further with a gain of NOK 99 million, due to reduced credit spreads. Senior securities issued and related financial derivatives contribute to the overall unrealised gain with NOK 169 million mainly due to a tightening of USD-NOK basisspreads. Net unrealised gains amounting to NOK 224 million in 2020 came primarily from Notes, bonds and other interest-bearing securities and Instalment loans 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 189 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.

	2021	2020
Gain/(loss) from repurchase of securities issued	3	21
Gain/(loss) from sales of bond investments and derivatives terminations	70	2
Gain/(loss) from early repayment of loans and termination of financial derivatives	0	2
Net trading income	**73**	**25**

NOTE 5

SALARIES AND ADMINISTRATIVE EXPENSES

(Amounts in NOK 1 000 000)

	2021	2020
Salaries	95	83
Employer contributions	20	19
Pension costs	11	11
Other personnel benefits	2	1
Administrative expenses	32	33
Total salaries and administrative expenses	**160**	**147**
Average number of man-years	*84*	*84*

NOTE 6

REMUNERATION

(Amounts in NOK 1 000)

The Board's statement on the determination of salaries and other remuneration to senior executives

The Board of Directors will submit the following statement on the salary and other remuneration of senior executives to the Annual General Meeting in 2022.[1]

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[2], the Financial Undertakings Regulation[3], the circular on this Regulation issued by the Financial Supervisory Authority of Norway[4], and the Norwegian Government's Guidelines for remuneration of senior executives in companies with state ownership[5], the provisions of the Public Limited Liability Companies Act[6] , with regulations[7] on salaries and remuneration to senior executives.

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. Each year the Board of Directors sets quantitative criteria 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. 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 2021, the Committee's members are Brit Rugland (Chair), Petter Steen jr. and Harald Jacobsen (employee representative).

Each year the Board approves guidelines for variable salary payments. Guidelines for remuneration to senior executives are adopted by the Board and submitted to the Annual General Meeting for approval in the event of change, or minimum every four years. 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. 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 2021

Fixed salary
Fixed salary payable in 2021 included the normal annual salary increase.

Variable salary
In line with the guidelines for variable salary and achieved results in 2021, all employees were granted a variable salary corresponding to 0.88 monthly salaries, paid out in 2022. Correspondingly, no variable salary was earned in 2020.

Other benefits
Other benefits include insurance arrangements, mobile phone, newspaper subscription etc. on the same terms and conditions as apply to other employees. In connection with the corona pandemic, all employees, including senior executives, received extraordinary grants for broadband to ensure a sound working environment from home office.

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 Chief Lending Officer is entitled to a fixed annual car benefit of NOK 50,000.

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 has since 2018 been a defined contribution scheme for salaries under 12x Base amount (G) administered by Storebrand Livsforsikring AS.

The defined contribution pension scheme has 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.

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[1] *From 2023 onwards, this declaration will be replaced by a salary report submitted to the general meeting*

[2] *The Financial Undertakings Act*

[3] *The Financial Undertakings Regulation*

[4] *The Financial Supervisory Authority of Norway: Circular 02/2020*

[5] *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.*

[6] *Act on Public Limited Companies*

[7] *Regulations on guidelines and report on remuneration for senior executives*

2021

Remuneration to senior executives	Agreed fixed salary	Paid fixed salary*	Seve-rance pay	Variable salary accrued in the period**	Other benefits	Pension costs	Total
Jannicke Trumpy Granquist (Chief Executive Officer)	3 189	3 121	-	204	59	191	3 371
Sigbjørn Birkeland (Chief Capital Markets Officer, Deputy CEO) [1)]	2 193	2 265	-	144	28	146	2 440
Tor Ole Steinsland (Chief of Staff) [2)]	1 570	1 475	-	99	16	225	1 716
Håvard Thorstad (Chief Compliance Officer)	1 600	1 635	-	103	27	296	1 958
Ilse Margarete Bache (Chief of Technology and Operations)	1 854	1 920	-	122	26	178	2 123
Lars Strøm Prestvik (Chief Lending Officer)	1 723	1 754	-	113	77	187	2 018
Andrea Søfting (Chief Financial Officer from June 1 2021)	1 700	802	-	65	9	86	897
Kjersti Ulset (Chief Risk Officer from September 1 2021)	1 750	583	-	38	5	49	637
Frank Øvrebø (Acting CFO until May 31 2021)	1 650	713	-	-	7	110	830
Knut Andre Ask Kristiansen (Acting CRO until August 31 2021)	1 650	1 171	-	-	13	98	1 282
Morten Hatlem (Chief of Organisation and Stra-tegy until May 31 2021) [3)]	1 516	655	-	-	7	61	723
Thomas Yul Hansen (Chief of Legal and Regula-tory Affairs until May 31 2021) [3)]	1 427	616	-	-	11	79	707
Total remuneration to senior executives	**21 823**	**16 711**	**-**	**889**	**285**	**1 705**	**18 702**

**11 months fixed salary and holiday pay based on last year's salary* ***Earned at the end of the year and paid out in the following year*

[1)] *Deputy CEO from 15 september 2021*

[2)] *Chief Communications Officer until 31 May 2021. Acting Chief of Staff from 1 June 2021 and appointed Chief of Staff from 15 November 2021.*

[3)] *An adjustment to the organisational structure was carried out in 2021 with effect from 1 June. The responsibility for strategy and corporate governance was transferred to the CFO, while the responsibility for communication, organisation, legal/regulatory and administration was gathered within the bank's management team with the new Chief of Staff.*

2020

Remuneration to senior executives	Agreed fixed salary	Paid fixed salary*	Seve-rance pay	Variable salary ac-crued in the period**	Other benefits	Pension costs	Total
Kristine Falkgård (President & CEO) until 09.03.20[1)]	3 133	1 800	1 566	-	113	138	3 617
Jannicke Trumpy Granquist (President & CEO) from 19.10.20[2)]	3 100	2 733	-	-	32	174	2 938
Sigbjørn Birkeland (Chief Capital Markets Officer)	2 128	2 165	-	-	26	147	2 338
Tor Ole Steinsland (Chief Communications Of-ficer)	1 347	1 371	-	-	25	179	1 575
Ilse Margarete Bache (Chief of Technology and Operations)	1 543	1 596	-	-	24	222	1 842
Håvard Thorstad (Chief Compliance Officer)	1 812	1 875	-	-	24	163	2 062
Lars Strøm Prestvik (Chief Lending Officer)	1 671	1 701	-	-	102	162	1 965
Morten Hatlem (Chief of Organisation and Stra-tegy)	1 516	1 567	-	-	14	153	1 734
Thomas Yul Hanssen (Chief Legal & Regulatory Affairs Officer)	1 427	1 477	-	-	39	165	1 680
Knut Andre Ask Kristiansen (acting CRO) from 01.12.19	1 650	1 581	-	-	16	148	1 744
Frank Øvrebø (acting CFO) from 01.11.20	1 650	275	-	-	3	32	310
Total remuneration to senior executives	**20 977**	**18 140**	**1 566**	**-**	**417**	**1 683**	**21 807**

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

[1)] President and CEO until 09.03.20. Salary in notive period up to and including 30.06.20. Severance pay in period 01.07.20–30.03.21.

[2)] CFO until 09.03.20. Acting President & CEO from 09.03.20 to 19.10.20. President and CEO from 19.10.20.

Remuneration to Board of Directors	2021	2020
Chairman Brit K. S. Rugland [1) 3)]	451	445
Vice-chairman Rune Midtgaard [3)]	294	290
Board member Martha Takvam [2)]	283	279
Board member Eyvind Aven [3)]	220	217
Board member Ida Espolin Johnson [2)]	220	217
Board member Toril Hovdenak [2)]	220	127
Board member Petter Steen jr [1)]	203	200
Board member Nanna Egidius (until 05.06.20)	0	108
Board member employees' representative Harald Jacobsen [1)]	203	200
Board member employees' representative Anne Jenny Dvergsdal (from 05.06.20)	158	91
Board member employees' representative Marit Urmo Harstad (until 05.06.20)	0	78
Total remuneration to Board of Directors	**2 252**	**2 252**

[1)] *Member of remuneration committee*

[2)] *Member of audit committee*

[3)] *Member of risk committee*

Remuneration to Supervisory Board	2021	2020
Chairman Alfred Bjørlo (until 27.09.21)	13	25
Chairman Ida Stuberg (from 27.09.21)	7	-
Board members	85	92
Total remuneration to Supervisory Board	**104**	**117**

Fees to the statutory auditor	2021	2020
Statutory audit fees	1 360	1 753
Other financial audit and attestation services	1 147	1 364
Total fees excl. VAT	**2 507**	**3 117**

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, as well as employees who were partially or fully disabled and were entitled to sickness benefit at the time of transition. These remain in the closed benefit plan that 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 classes.

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 and are measured at the present value of future pension obligations accrued on the balace 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.

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	31.12.2021	31.12.2020
Discount rate	1.90%	1.70%
Estimated wage growth	2.75%	2.25%
Estimated growth in Base amount	2.50%	2.00%
Expected growth in benefit levels	1.73%	1.24%

KBN has used Norwegian covered bonds as input when determining the discount rate for 2021 and 2020. 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	
	2021	2020	2021	2020
Defined benefit pension scheme				
Net periodic pension cost	1 843	1 446	0	0
Net interest	325	560	320	401
Service cost	99	103	0	0
Employer contributions	320	297	45	56
Plan change at transition to defined contribution scheme	0	0	0	0
Total pension cost defined benefit scheme	**2 586**	**2 407**	**365**	**457**
Defined contribution pension scheme				
Pension cost for the year	7 274	**6 519**	0	**-**
Total pension costs (both benefit and contribution scheme)	**9 860**	**8 926**	**365**	**457**
Actuarial gain/(loss) recognised in other comprehensive income	(2 280)	1 004	1 092	1 477
Net pension costs	**7 581**	**9 930**	**1 457**	**1 934**

Pension liabilities	Funded plan		Unfunded plan	
	2021	2020	2021	2020
Defined benefit obligation	135 808	128 653	19 972	18 974
Plan assets	(127 798)	(115 516)	0	0
Employer contributions	1 129	1 852	2 816	2 675
Net pension liabilities	**9 139**	**14 990**	**22 788**	**21 650**

Movement in pension liabilities	Funded plan		Unfunded plan	
	2021	2020	2021	2020
Net pension liabilities as of 1 January	14 990	16 217	21 650	20 032
Net pension costs	306	3 410	1 457	1 934
Contribution to the pension scheme	(6 157)	(4 638)	(318)	(316)
Net pension liabilities as of 31 December	**9 139**	**14 990**	**22 788**	**21 650**

Movement in the fair value of plan assets	Funded plan		Unfunded plan	
	2021	2020	2021	2020
Fair value of plan assets as of 1 January	115 516	104 647	0	0
Net interest	1 874	2 180	0	0
Actuarial gain/(loss)	7 406	7 076	0	0
Service cost	(99)	(103)	0	0
Contribution to the pension scheme	5 396	4 065	279	277
Benefits paid	(2 296)	(2 348)	(279)	(277)
Fair value of plan assets as of 31 December	**127 798**	**115 516**	**0**	**0**

NOTE 8

TAX

(Amounts in NOK 1 000 000)

	2021	2020
Payable taxes on income for the period	0	0
Change in deferred tax	209	(1 096)
Change in deferred tax as a result of changes in timing of taxable income for previous years	0	1 501
Effect of reduced tax rate as a result of changes in tax return for previous years	0	3
Items recognised in Other Comprehensive Income	202	(32)
Total income tax	**411**	**377**

Reconciliation of effective income tax rate	2021	2020
Profit before tax	1 620	1 537
Calculated tax expense	405	384
Tax on Tier 1 Capital	(15)	(18)
Effect of reduced tax rate as a result of changes in tax return for previous years	0	3
Effect of change in tax rate	21	7
Tax expense	**411**	**377**
Effective income tax rate	25%	25%

Deferred tax liability/(asset)	2021	2020
Deferred tax liability/(asset) as at 1 January	(3 230)	(2 134)
Change in deferred tax	411	374
Changes in deferred tax on items recognised in other comprehensive income	(202)	32
Change in deferred tax as a result of changes in timing of taxable income for previous years	0	(1 501)
Deferred tax liability/(asset) as at 31 December (25%)	**(3 021)**	**(3 230)**

Temporary differences	2021	2020
Fixed assets	(5)	(5)
Leases	(1)	(1)
Pension liabilities	(32)	(37)
Provisions	(36)	(5)
Bonds (assets and liabilities)	(800)	(8 150)
Financial derivatives	(2 085)	(1 414)
Losses carried forward for tax purposes	(9 124)	(3 308)
Total temporary differences	**(12 083)**	**(12 919)**
Deferred tax liability/(asset)	**(3 021)**	**(3 230)**

KBN received a decision in November 2017 regarding changes in the tax return for the tax year 2014. In continuation of this, KBN received in June 2021 a decision regarding a change in tax return for the years 2015—2018. KBN also received a notification of change in tax assessment for 2019 and 2020. The amendments relate to the tax treatment and periodisation of financial instruments, principally regarding the use of the realisation principle for some types of structured funding and on the currency element of financial instruments and tax hedging. KBN's accounts for both 2020 and 2021 have been prepared in line with the tax authorities' views. KBN is still in disagreement with the tax authorities about certain matters regarding tax accrual in the accounts and parts of the decisions have been appealed.

Tax accruals / timing of income and expenses may deviate significantly from accounting accruals over the instruments' lifetime. However, there will be no difference in total income / expense over the life of the instruments. This can lead to volatility in temporary differences and tax payments. This will not have a significant effect on the bank's tax cost over time, except for changes in tax rate. Deferred tax assets arising from temporary differences affect capital adequacy adversly.

Change in Current tax liabilities in KBN's Balance sheet from 2020 to 2021 is due to the payment of tax in line with the change in fixed income for the years 2015-2018. The changes also include matters that have been appealed by KBN.

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	2021	2020
Current	7	7
Non-current	15	22
Total interest expense recognised	0	1

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)
If the risk in 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) is hedged with a derivative contract, then these financial assets can be 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.

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.

2021	Total	At fair value			Amortised cost
		Fair value option	Mandatory at fair value	Fair value hedge	
Deposits with credit institutions	**17 317**	0	0	0	17 317
Other money market deposits	**0**	0	0	0	0
Instalment loans	**323 672**	107 283	0	0	216 389
Notes, bonds and other interest-bearing securities	**112 839**	83 820	0	0	29 019
Financial derivatives	**16 047**	0	13 590	2 457	0
Total financial assets	**469 874**	**191 103**	**13 590**	**2 457**	**262 725**
Loans from credit institutions	**5 891**	0	0	0	5 891
Commercial paper	**31 567**	0	0	0	31 567
Senior securities issued	**393 663**	174 868	0	0	218 795
Financial derivatives	**20 072**	0	17 363	2 708	0
Subordinated debt	**2 092**	2 092	0	0	0
Total financial liabilities	**453 285**	**176 961**	**17 363**	**2 708**	**256 253**

2020	Total	At fair value			Amortised cost
		Fair value option	Mandatory at fair value	Fair value hedge	
Deposits with credit institutions	**18 950**	0	0	0	18 950
Other money market deposits	**1 712**	0	0	0	1 712
Instalment loans	**321 874**	110 423	0	0	211 452
Notes, bonds and other interest-bearing securities	**127 108**	101 225	0	0	25 883
Financial derivatives	**25 176**	0	18 589	6 587	0
Total financial assets	**494 820**	**211 647**	**18 589**	**6 587**	**257 997**
Loans from credit institutions	**13 871**	0	0	0	13 871
Commercial paper	**20 045**	0	0	0	20 045
Senior securities issued	**413 717**	175 317	0	0	238 400
Financial derivatives	**28 341**	0	28 033	309	0
Subordinated debt	**2 106**	2 106	0	0	0
Total financial liabilities	**478 080**	**177 423**	**28 033**	**309**	**272 316**

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.

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

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.

2021	Level 1	Level 2	Level 3	Total
Instalment loans	0	8 430	98 853	107 283
Notes, bonds and other interest-bearing securities	68 744	8 477	6 599	83 820
Financial derivatives	0	15 054	993	16 047
Total financial assets measured at fair value	**68 744**	**31 961**	**106 445**	**207 150**
Senior securities issued	7 738	136 608	30 522	174 868
Financial derivatives	0	10 405	9 667	20 072
Subordinated debt	0	0	2 092	2 092
Total financial liabilities measured at fair value	**7 738**	**147 013**	**42 281**	**197 032**

Holdings of NOK 1.1 billion kroner are transferred from Level 2 to Level 1 for Notes, bonds and other interest-bearing securities per 31. December 2021

2020	Level 1	Level 2	Level 3	Total
Instalment loans	0	14 544	95 878	**110 423**
Notes, bonds and other interest-bearing securities	85 391	8 065	7 769	**101 225**
Financial derivatives	0	22 599	2 576	**25 176**
Total financial assets measured at fair value	**85 391**	**45 209**	**106 223**	**236 823**
Senior securities issued	14 992	111 638	48 687	**175 317**
Financial derivatives	0	19 464	8 878	**28 341**
Subordinated debt	0	0	2 106	**2 106**
Total financial liabilities measured at fair value	**14 992**	**131 101**	**59 671**	**205 764**

Holdings of NOK 2.5 billion kroner are transferred from Level 2 to Level 1 for Notes, bonds and other interest-bearing securities per 31. December 2020

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.

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 2020	**95 879**	**7 768**	**48 687**	**2 106**	**(6 302)**
Purchase	0	4 337	(138)	0	253
Sale	0	0	0	0	0
Issue	19 726	0	2 981	0	0
Settlement	(18 878)	(2 834)	(18 891)	0	(441)
Transfer into Level 3	1 459	1 976	0	0	0
Transfer out of Level 3	(3 508)	(3 920)	0	0	0
Gain/(loss) recognised in the period	4 175	(729)	(2 117)	(14)	(2 184)
Carrying amount at 31 December 2021	**98 853**	**6 599**	**30 522**	**2 092**	**(8 674)**

	Instalment loans	Notes, bonds and other interest-bearing securities	Senior securities issued	Subordinated debt	Financial derivatives
Carrying amount at 31 December 2019	**81 437**	**7 406**	**66 156**	**1 987**	**(7 376)**
Purchase	0	4 430	0	0	0
Sale	0	0	(636)	0	17
Issue	31 433	0	(602)	0	0
Settlement	(20 250)	(2 358)	(13 068)	0	(2 543)
Transfer into Level 3	3 003	2 976	0	0	0
Transfer out of Level 3	(3 420)	(4 419)	0	0	0
Gain/(loss) recognised in the period	3 676	(267)	(3 164)	118	3 601
Carrying amount at 31 December 2020	**95 879**	**7 768**	**48 687**	**2 106**	**(6 302)**

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 2021 vary from –48 bp to +69 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 NOK 3M Nibor the spreads vary between –17 bp to +10 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 2021, Notes, bonds and other interest-bearing securities amounting to NOK 7.4 billion 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	2021		2020	
	Carrying amount	Impact of changes in key assumptions	Carrying amount	Impact of changes in key assumptions
Instalment loans	98 853	(401)	95 878	(394)
Notes, bonds and other interest-bearing securities	6 599	(11)	7 769	(15)
Financial derivatives	(8 674)	(33)	(6 302)	(147)
Senior securities issued	(30 522)	38	(48 687)	147
Subordinated debt	(2 092)	12	(2 106)	14
Total	**64 164**	**(394)**	**46 552**	**(395)**

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

The table above assumes the same change for all maturities in the yield curve. 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 401 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 a reduction in value of NOK 11 million. 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 38 million, which results in an unrealised gain. If the increase is attributed to an increased credit spread, the unrealized gain will be recognized in the Statement of comprehensive income. If the change is due to increased interest rates, the unrealized gain will be recognized in the income statement.

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	2021		2020	
	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	0	0	(713)	0.1
Financial derivatives - with option element linked to equities or equity indices	0	0	(65)	(0.1)
Total	**0**	**0**	**(778)**	**0**

There are no outstanding Senior securities issued with option elements linked to equities or equity indices as per 31 December 2021. The table below shows total unrealised gain/(loss) recognised in the income statement in 2021 and 2020 for assets and liabilities allocated to Level 3.

Level 3 unrealised gain/(loss) in the period	2021		2020	
	Carrying amount	Unrealised gain/(loss)	Carrying amount	Unrealised gain/(loss)
Instalment loans	98 853	3 056	95 878	2 837
Notes, bonds and other interest-bearing securities	6 599	(83)	7 769	90
Senior securities issued	(30 522)	2 243	(48 687)	1 065
Financial derivatives	(8 674)	(2 230)	(6 302)	(1 069)
Subordinated debt	(2 092)	13	(2 106)	(119)
Total	**64 164**	**2 999**	**46 552**	**2 805**

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)

	2021		2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Deposits with credit institutions	17 317	17 317	18 950	18 950
Other money market desposits	0	0	1 712	1 712
Instalment loans	216 389	216 307	211 452	214 436
Notes, bonds and other interest-bearing securities classified as amortised cost	29 019	29 060	25 883	25 937
Total financial assets measured at amortised cost	**262 725**	**262 683**	**257 997**	**261 035**
Loans from credit institutions	5 891	5 891	13 871	13 871
Commercial paper	31 567	31 568	20 045	20 045
Senior securities issued	218 795	224 552	238 400	236 455
Total financial liabilities measured at amortised cost	**256 253**	**262 010**	**272 316**	**270 371**

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

2021	Level 1	Level 2	Level 3	Total
Instalment loans	0	158 274	58 033	216 307
Notes, bonds and other interest-bearing securities	25 136	1 454	2 470	29 060
Total fair value of financial assets, measured at amortised cost	**25 136**	**159 728**	**60 503**	**245 366**
Senior securities issued	186 659	37 893	0	224 552
Total fair value of financial liabilities, measured at amortised cost	**186 659**	**37 893**	**0**	**224 552**

2020	Level 1	Level 2	Level 3	Total
Instalment loans	0	175 161	39 275	214 436
Notes, bonds and other interest-bearing securities	23 265	400	2 271	25 937
Total fair value of financial assets, measured at amortised cost	**23 265**	**175 561**	**41 546**	**240 373**
Senior securities issued	184 562	51 893	0	236 455
Total fair value of financial liabilities, measured at amortised cost	**184 562**	**51 893**	**0**	**236 455**

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)

Accounting principles for hedge accounting

KBN uses fair value hedge accounting for selected economic hedges of interest rate and cross-currency risk according to IFRS 9. Fair value hedging is applied at individual transaction level where the hedging instrument is explicitly linked to the hedged item (hedging ratio 1:1). 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”.

Carrying amount of financial instruments in fair value hedges	2021	2020
Notes, bonds and other interest-bearing securities	0	0
Senior securities issued	188 593	191 426
Financial derivatives	(252)	6 278
Total	**188 341**	**197 704**

Nominal amounts of hedging objects in fair value hedges	2021	2020
Notes, bonds and other interest-bearing securities	0	0
Senior securities issued	188 124	185 204
Total	**188 124**	**185 204**

Recognised value changes on financial instruments in fair value hedges	2021	2020
Notes, bonds and other interest-bearing securities	0	0
Senior securities issued	6 300	(3 469)
Financial derivatives	(6 072)	3 315
Total	**228**	**(154)**

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	(13 354)	(97 421)	(49 454)	(28 996)	(189 225)
Value change (hedged risk)	(16)	(397)	26	1 019	632
Total carrying amount	**(13 370)**	**(97 818)**	**(49 428)**	**(27 977)**	**(188 593)**

Accumulated ineffectivity amounts to NOK 42 million as of 31 December 2021.

The Interbank Offered Rates (IBOR) reform enters into force on 1 July 2023 and affects the bank’s financial instruments that are subject to hedge accounting and based on USD Libor curve with a maturity beyond 1 July 2023. More information on this is provided in note 21.

NOTE 14

DEPOSITS WITH CREDIT INSTITUTIONS

(Amounts in NOK 1 000 000)

	2021	2020
Deposits with credit institutions without agreed time to maturity	308	190
Deposits with credit institutions with agreed time to maturity	3 223	2
Cash collateral pledged	13 785	18 758
Total deposits with credit institutions	**17 317**	**18 950**

	2021	2020
Other money market deposits	0	1 712
Total other money market deposits	**0**	**1 712**

NOTE 15

INSTALMENT LOANS

(Amounts in NOK 1 000 000)

	2021	2020
Principal amount	323 018	318 230
Accrued interest	1 048	985
Fair value adjustment	(390)	2 659
Expected credit loss	(24)	(25)
Total loans to customers	**323 652**	**321 849**
Other loans	20	25
Total instalment loans	**323 672**	**321 874**

Geographic distribution	2021	2020
Agder	21 117	21 006
Innlandet	24 514	24 405
Møre og Romsdal	19 580	17 708
Nordland	24 651	24 108
Oslo	14 989	13 880
Rogaland	22 305	23 745
Troms og Finnmark	22 688	21 506
Trøndelag	37 058	35 551
Vestfold og Telemark	18 768	18 730
Vestland	39 791	38 439
Viken	77 558	79 153
Loans to customers, principal amount	**323 018**	**318 230**

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 2021		31 December 2020
(Amounts in NOK 1 000 000)	Carrying amount	Expected credit loss	Expected credit loss
Instalment loans	216 389	(24)	(25)
Notes, bonds and other interest-bearing securities	29 019	(2)	(1)
Total	**245 408**	**(26)**	**(26)**

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 December 2021
Instalment loans	329
Notes, bonds and other interest-bearing securities	(470)
Total	**(141)**

The following table shows an allocation of KBN's expected credit losses as at 31 December 2021 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.

(Amounts in NOK 1 000 000)	Stage 1	Stage 2	Stage 3
Instalment loans	(24)	0	0
Notes, bonds and other interest-bearing securities	(2)	0	0
Total expected credit loss	**(26)**	**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	2021	2020
Domestic		
Issued by other borrowers	19 279	17 415
Foreign		
Issued by public bodies[1]	76 498	61 557
Issued by other borrowers	17 061	48 137
Total notes, bonds and other interest-bearing securities	**112 839**	**127 108**

[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	2021	2020
Under 1 year	51 325	48 296
1-5 years	59 787	78 637
> 5 years	1 726	175
Total notes, bonds and other interest-bearing securities	**112 839**	**127 108**

NOTE 18

OTHER ASSETS

(Amounts in NOK 1 000 000)	2021	2020
Intangible assets	140	131
Leases	21	28
Fixed assets	6	8
Other assets	2	2
Total other assets	**169**	**169**

Intangible assets comprise two IT systems, website, new customer portal and data-warehouse. The portfolio system was brought into use in 2015, the lending portal in 2016, the new website in December 2019, while the new customer portal and the data-warehouse were brought into use in 2020. All are amortised over their expected lifetimes.

OTHER LIABILITIES

(Amounts in NOK 1 000 000)	2021	2020
Accounts payable	0	1
Public fees	9	10
Leases	22	30
Other short term liabilities	37	6
Accrued expenses and received, not yet accrued interest	17	15
Total other liabilities	**85**	**63**

NOTE 19

LOANS FROM CREDIT INSTITUTIONS

(Amounts in NOK 1 000 000)	2021	2020
Cash collateral received	5 891	13 137
Repurchase agreements	0	733
Commercial paper	31 567	20 045
Total loans from credit institutions	**37 458**	**33 915**

NOTE 20

SENIOR SECURITIES ISSUED

(Amounts in NOK 1 000 000)	2021	2020
Senior securities issued (nominal amounts) as at 1 January	**405 451**	**400 489**
New issuance	96 550	107 822
Redemptions*	(107 019)	(107 727)
Amortisation**	544	1 425
Translation differences	(141)	3 441
Senior securities issued (nominal amounts) as at 31 December	**395 385**	**405 451**
Accrued interest	3 875	4 327
Fair value adjustment	(5 596)	3 939
Of which value change that is due to change in own credit risk	*1 206*	*397*
Of which value change that is due to other reasons	*(6 802)*	*3 542*
Total senior securities issued	**393 663**	**413 717**

(Amounts in NOK 1 000 000)	2021	2020
Commercial paper as at 1. January (nominal amounts)	20 045	2 631
New issuance	273 232	198 006
Redemptions*	(262 037)	(180 621)
Amortisation**	(65)	6
Translation differences	392	23
Commercial paper (nominal amounts) as at 31 December	**31 567**	**20 045**

* *Redemptions in 2021 include buybacks of NOK 217 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 2021 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

(Amounts in NOK 1 000 000)	Commercial paper	Senior securities issued	Subordinated debt
Carrying amount 31 December 2020	**20 045**	**413 717**	**2 106**
Cash flows			
Proceeds from issuance of debt securities	273 232	96 551	0
Repayment of debt securities	(262 037)	(106 476)	0
Changes that are not related to cash flows			
Change due to accrued interest and amortisation	(65)	(454)	1
Changes in fair value	0	(9 535)	(14)
Translation differences	392	(141)	0
Carrying amount 31 December 2021	**31 567**	**393 663**	**2 092**

(Amounts in NOK 1 000 000)	Commercial paper	Senior securities issued	Subordinated debt
Carrying amount 31 December 2019	**2 631**	**403 913**	**1 987**
Cash flows			
Proceeds from issuance of debt securities	198 006	107 823	0
Repayment of debt securities	(180 621)	(106 301)	0
Changes that are not related to cash flows			
Change due to accrued interest and amortisation	6	(75)	1
Changes in fair value	0	4 917	118
Translation differences	23	3 441	0
Carrying amount 31 December 2020	**20 045**	**413 717**	**2 106**

NOTE 21

FINANCIAL DERIVATIVES

KBN uses financial derivatives 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 bonds. In addition to its ordinary function as a hedging instrument, a subset of currency-related derivatives has a built-in financing element, with ongoing predefined payments during the term and repayment at maturity.

KBN enters into swap contracts with counterparties with an average credit rating of A+ 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 reference 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.

	2021			2020		
(Amounts in NOK 1 000 000)	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	221 323	3 113	3 015	239 712	3 078	6 124
Currency derivatives	519 277	10 478	14 348	515 979	15 242	21 770
Of which principal amounts on transactions with financing element	5 090	0	0	*15 289*	*0*	*0*
Equity related derivatives	0	0	0	3 682	269	139
	740 600	**13 590**	**17 363**	**759 372**	**18 589**	**28 032**
Fair value hedges:						
Interest rate derivatives	188 124	2 457	2 708	181 924	6 243	309
Currency derivatives	0	0	0	3 280	344	0
	188 124	**2 457**	**2 708**	**185 204**	**6 587**	**309**
Total financial derivatives	**928 724**	**16 047**	**20 072**	**944 576**	**25 176**	**28 341**

All financial derivatives are measured at fair value through profit and loss. Changes in fair value of financial derivatives designated as hedging instruments for Senior securities issued that are measured at Fair Value Option (FVO) and where changes in fair value are due to changes in own credit risk, are presented together with the liabilities in the Statement of comprehensive income as Other comprehensive income. 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.

As a result of the Interbank Offered Rates (IBOR) reform, KBN established a project group that prepares for and assesses the consequences of the changes in benchmark interest rates. The group is organized as an interdisciplinary project that is responsible for the operational adaptation, including system solutions for correct measurements and conversion of the portfolio as well as mapping and management of financial risks for KBN. Of the reference rates subject to liquidation, KBN has a reference to USD Libor 3M for financial derivatives, all of which are covered by the provisions on fallback by ISDA. This provision states that the deriviatives will change the reference rate from USD Libor 3M to SOFR imposed fallback spread of 26.16 bp from 1 July 2023. KBN has started preparing for the new benchmark interest rates by using SOFR as the benchmark interest rate for relevant new financial instruments.

The table below indicates the nominal amounts of all financial instruments that will be affected by the IBOR reform, both phase 1 and phase 2. The amounts provide a close approximation of the extent of risk exposure to financial instruments that will be affected by the liquidation of the USD Libor *(Amounts in NOK 1 000 000).*

IBOR reform phase	Interest rate curve	Asset	Liability	Net amount
Phase 1 - Hedging instruments	USD Libor 3M		(114 618)	(114 618)
Phase 2 - Financial derivatives (except for hedging instruments)	USD Libor 3M	90 018	(104 243)	(14 226)
Total		**90 018**	**(218 862)**	**(128 844)**

NOTE 22

COLLATERAL AND OFFSETTING

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. 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. Additionally, KBN has pledged securities of NOK 996 million to derivative counterparties as collateral. These assets are still recognised in the Statement of financial position as Notes, bonds and other interest-bearing securities.

See Note 21 for additional information about financial derivatives.

(Amounts in NOK 1 000 000)	2021	2020
Cash collateral received	5 891	13 137
Cash collateral pledged	(13 785)	(18 758)
Total cash collateral	**(7 894)**	**(5 621)**

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 (variation margin), 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 effect of collateral (variation margin) on 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			
2021	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	16 047	0	16 047	9 544	6 503	4 298[2)]	2 205
Liabilities[3)]							
Financial derivatives	20 072	0	20 072	9 556	10 516	10 053[4)]	463

[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 5 891 million) is due to a combination of offsetting of cash collateral and that the bank has received cash collateral over the exposure amount
[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 13 785 million) is due to a combination of offsetting of cash collateral and that the bank has pledged cash collateral over the exposure amount

(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			
2020	**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	25 176	0	25 176	13 589	11 587	10 199[2]	1 388
Liabilities[3]							
Financial derivatives	28 341	0	28 341	13 591	14 750	12 587[4]	2 163

[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 13 137 million) is due to a combination of offsetting of cash collateral and that the bank has received cash collateral over the exposure amount
[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 18 758 million) is due to a combination of offsetting of cash collateral and that the bank has pledged cash collateral over the exposure amount

NOTE 23

SUBORDINATED DEBT

(Amounts in NOK 1 000 000)	Currency	Nominal amount in CCY	Redemption right	Coupon	Nominal amount in NOK 2021	2020
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

	2021		2020	
	Number of shares	Share in %	Number of shares	Share in %
The Kingdom of Norway	3 894 625	100	3 894 625	100

NOTE 25

ADDITIONAL TIER 1 CAPITAL

(Amounts in NOK 1 000 000)	Currency	Nominal amount in CCY	Redemption right	Coupon	Carrying amount 2021	2020
Additional Tier 1 capital	NOK	1 200	2027	3.26%	1 195	1 195
Additional Tier 1 capital	NOK	1 200	2025	3 month NIBOR + 1.25%	1 196	1 196
Total additional Tier 1 capital					**2 392**	**2 392**

KBN issued additional Tier 1 capital in the form of a subordinated bond in June 2020 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 44 million (after tax) has been paid in 2021 (NOK 48 million in 2020). In addition, NOK 16 million (after tax) had accrued at year end 2021 (NOK 17 million in 2020). In total NOK 44 million of profit after tax is attributed to the additional Tier 1 capital holders in 2021 (NOK 48 million in 2020).

NOTE 26

RISK MANAGEMENT

State ownership, customer group and sector political role imply that KBN maintains a low to very low risk profile. The Board has determined KBN's overall risk appetite, which is divided into the following categories: market risk, liquidity risk, credit risk, capital risk and operational risk with associated risk appetite.

Risk management and internal control are integrated into the bank's strategy and business processes, and are adapted to the nature, scope and complexity of the risk exposure. The CEO is responsible for the implementation of risk management and internal control, and follows up and assesses changes in the bank's 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. The first line of defense carries out operational tasks and is responsible for managing and controlling that all the activities are carried out within the established framework and in accordance with external and internal reulations. The second lind of defense conducts independent risk assessments, controls and validates models and develops and prepares KBN's risk and compliance reporting. The second line of defense consists of financial controlling as well as the risk management and compliance functions. Internal audit (Deloitte) constitutes KBN's third line of defense and is the Board's independent control and confirmation body. By 1 January 2022, KPMG will take over the role as the bank's internal auditor.

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:

Capital management

Credit risk and counterparty risk

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

Market risk

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

Liquidity risk

Operational risk

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, KBN 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 European Capital Requirement Regulation and to the national capital requirements have increased KBN's capital requirements.

KBN's Common equity Tier 1 capital adequacy ratio is 18.8 per cent as of 31 December 2021. 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 ratio, Tier 1 capital ratio, total capital ratio and leverage ratio).

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 also grants loans to companies that perform tasks for municipalities and county municipalities. The prerequisite for such loans is that the municipalities, or county municipalities, provide guarantees that have been politically adopted and approved by the state through the county governor or the Ministry of Local Government and District.

Financial counterparties in the liquidity portfolio are subject to regular credit assessment and are allocated a credit limit. 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. 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. The average rating of the portfolio is AA+ (based on the lowest of S&P and Moody's) at 31 December 2021, and 66 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 1.6 years as of 31 December 2021. The 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 interest rate, basis spread, credit spread and currency risk. KBN's low risk appetite and risk policy allows a limited degree of exposure to changes in interest rates, basis spreads and credit spreads, while it only allows a minimal degree of exposure towards FX rates because of operational reasons. Interest rate and currency risk are managed through matching of assets and liabilities at all times, as well as through economic hedges with derivative instruments.

LIQUIDITY RISK

Liquidity risk is managed by matching maturity profiles and interest rate reset periods for assets and liabilities. 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 at least 10 months without new borrowing. The maturity of the liquidity portfolio is kept short so that liquidity needs are mainly managed through maturity on the asset side. The liquidity portfolio is invested in liquid securities of very high credit quality.

OPERATIONAL RISK

KBN has very 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 shall facilitate 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 exposures. Credit exposures to financial institutions shall have a rating of A- or above.

KBN has no actual loan losses in 2021, and neither is there any evidence of actual default or payment problems with customers that would give reason to expect actual loan losses in 2022. 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

2021

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	20 543	1 001	0	1 482	16 189	0	0	**39 215**
Multilateral development banks	0	2 357	0	0	0	93	5 163	0	**7 613**
Regional authorities [1]	0	12 325	35 828	0	247	9 750	2 295	292 898	**353 343**
Financial institutions	1 360	14 235	1 719	0	0	0	0	0	**17 314**
Securitisation	0	0	0	0	0	0	0	0	**0**
Covered Bonds	0	7 346	4 663	0	0	2 853	21 480	0	**36 343**
Total	**1 360**	**56 807**	**43 212**	**0**	**1 729**	**28 885**	**28 938**	**292 898**	**453 828**

[1] Including loans to the municipal sector amounting to NOK 323.7 bn.

Undisbursed loan commitments amount to NOK 4.1 bn as at 31 December 2021.

Credit exposure by country

2021

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	510	0	0	0	0	0	0	**510**
Belgium	0	1 157	1 003	0	0	514	0	0	**2 674**
Canada	0	2 900	1 719	0	0	0	0	0	**4 619**
Danmark	0	3 009	1 552	0	0	0	6 737	0	**11 298**
Finland	0	251	400	0	0	1 663	231	784	**3 329**
France	0	6 034	503	0	0	677	481	0	**7 696**
Japan	1 360	5 902	498	0	1 482	0	0	0	**9 241**
Netherlands	0	207	504	0	0	0	296	668	**1 675**
Norway	0	622	34 597	0	0	2 732	14 334	290 934	**343 219**
Austria	0	1 899	0	0	0	2 185	0	0	**4 084**
Spain	0	0	0	0	0	0	0	0	**0**
United Kingdom	0	4 792	648	0	0	0	102	0	**5 543**
Supranational	0	2 357	0	0	0	93	5 163	0	**7 613**
Switzerland	0	6 942	0	0	0	0	0	0	**6 942**
Sweden	0	10 146	1 432	0	247	3 949	889	511	**17 175**
Germany	0	4 658	354	0	0	3 582	705	0	**9 299**
USA	0	5 419	0	0	0	13 490	0	0	**18 909**
Total	**1 360**	**56 807**	**43 212**	**0**	**1 729**	**28 885**	**28 938**	**292 898**	**453 828**

Amounts in the table below represent actual credit exposure

2020

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	7 178	0	0	2 329	13 256	0	0	**22 763**
Multilateral development banks	0	2 762	0	0	0	118	5 917	0	**8 797**
Regional authorities [1]	0	9 344	45 135	0	1 726	10 250	823	284 907	**352 185**
Financial institutions	0	13 504	485	0	18 992	12 646	3 820	0	**49 446**
Securitisation	0	0	0	0	0	0	3	0	**3**
Covered Bonds	0	7 875	3 270	0	0	3 345	21 959	0	**36 449**
Total	**0**	**40 663**	**48 890**	**0**	**23 047**	**39 615**	**32 522**	**284 907**	**469 644**

[1] Including loans to the municipal sector of NOK 321.9 billion.

Undisbursed loan commitments amount to NOK 4.8 billion as at 31 December 2020.

Credit exposure by country

2020

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	1 034	0	0	0	1 661	0	0	**2 695**
Canada	0	100	0	0	1 737	0	800	0	**2 638**
Danmark	0	4 555	0	0	1 781	0	5 290	0	**11 625**
Finland	0	208	381	0	0	3 119	665	820	**5 193**
France	0	3 614	0	0	2 618	2 013	601	0	**8 847**
Japan	0	4 849	0	0	7 045	0	0	0	**11 894**
Netherlands	0	454	858	0	0	0	532	1 243	**3 086**
Norway	0	100	40 227	0	0	2 736	14 811	282 330	**340 203**
Austria	0	573	393	0	0	3 608	0	0	**4 574**
Spain	0	0	0	0	0	0	3	0	**3**
United Kingdom	0	4 010	403	0	2 637	0	1 861	0	**8 911**
Supranational	0	2 762	0	0	0	118	5 917	0	**8 797**
Switzerland	0	484	0	0	0	0	0	0	**484**
Sweden	0	6 359	2 988	0	1 084	4 519	1 433	514	**16 897**
Germany	0	7 199	3 639	0	2 561	7 400	1 795	0	**22 593**
USA	0	4 362	0	0	3 584	13 256	0	0	**21 203**
Total	**0**	**40 663**	**48 890**	**0**	**23 047**	**38 430**	**33 707**	**284 907**	**469 644**

NOTE 28

INTEREST RATE RISK

(Amounts in NOK 1 000 000)

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 for the economic value of equity (EVE) and the net interest income (NII) for changes in interest rates, basis spreads and credit spreads. EVE 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 NII gives an estimate of changes in net interest income for the period's result.

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. EVE sensitivity indicates how a basis point change in the yield curve will affect the total capital. NII is a cash flow calculation that deducts interest costs of all known and expected cash flows on debt from the interest income of all known and expected cash flows on assets. NII sensitivity indicates how a basispoint change in the yield curve will affect the net interest income in the Income Statement. EVE sensitivity and NII sensitivity are internationally recognised standards for estimating interest rate risk. The bank uses both models to manage its assets and liabilities.

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 161 million at 31 December 2021. 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 table 1 that applies to assets and liabilities that are measurement with methods where relevant value changes are recognized in the financial statements. KBN's interest rate sensitivity for unrealised changes in value on the Income statement and Statement of comprehensive income is estimated at NOK 20 million as of 31 December 2021.

Table 3 provides an estimate of sensitivity in the form of a change in market value related to a basis spread change of one basis point for the entire yield curve for all currency types. The bank's sensitivity for a parallel shift of the basis curve by one basis point is estimated to be NOK –4 million as of 31 December 2021. The calculation does not offset between different currency types.

Table 4 shows sensitivity in the form of a change in market value related to a change in credit spread for one basis point for the entire yield curve and for all currency types. The bank's sensitivity to a change in market value due to a parallel shift of the credit spread curve by one basis point is estimated to be NOK –52 million as of 31 December 2021. The calculation does not offset between different currency types.

Table 5 shows the bank's sensitivity to net interest income within a 1-year period based on a one percentage point change in market interest rates, which is estimated at NOK 60 million as of 31 December 2021. The calculation does not offset between different currency types.

Table 6 shows the bank's sensitivity to net interest income within a 1-year period based on a change in the basis spread of one basis point, which is estimated at NOK –16 million as of 31 December 2021. The calculation does offset between different currency types.

Table 7 shows the bank's sensitivity to net interest income within a 1-year period based on a change in credit spread of one basis point, which is estimated at NOK 12 million as of 31 December 2021. The calculation does offset between different currency types and balance sheet items.

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	1	(1)	(7)	**(8)**	**8**
EUR	2	15	13	(22)	**8**	**8**
JPY	0	3	0	11	**14**	**14**
NOK	(11)	(9)	(22)	(19)	**(62)**	**62**
USD	(58)	12	12	(23)	**(56)**	**56**
Other	(1)	3	(3)	(8)	**(10)**	**14**
Total	**(68)**	**24**	**(1)**	**(68)**	**(113)**	**161**

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

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 –188 million, while the effect on the hedge accounted balance sheet items is NOK 208 million. Net effect of these is NOK 20 million.

	0-3 months	3 months-1 year	1-5 years	>5 years	Net Total
AUD	0	1	(1)	(7)	**(8)**
EUR	(14)	1	13	(22)	**(21)**
JPY	0	3	0	11	**14**
NOK	286	(7)	(58)	(48)	**173**
USD	(114)	6	3	(23)	**(128)**
Other	(1)	3	(3)	(8)	**(10)**
Total	**157**	**6**	**(46)**	**(97)**	**20**

Table 3: Basis-spread sensitivity (EVE)

The table below shows sensitivity in market value for derivatives in form of a parallel shift of the basis curve by one basis point (up). The items included in the table have an effect on profit and loss.

	0-3 months	3months-1 year	1-5 years	>5 years	Net Total
AUD	0	(1)	(10)	(6)	**(17)**
EUR	0	0	(1)	(3)	**(5)**
JPY	0	0	0	(2)	**(2)**
NOK	3	7	22	2	**34**
Rest	0	(2)	(9)	(5)	**(15)**
Net exposure	**3**	**4**	**2**	**(13)**	**(4)**

Table 4: Credit-spread sensitivity (EVE)

The table below shows sensitivity in market value of balance sheet items (assets measured at fair value) by a parallel shift of the credit spread curve by one basis point (up). The items included in the table have an effect on profit and loss.

	0-3 months	3months-1 year	1-5 years	>5 years	Net Total
Instalment loans	0	(2)	(16)	(23)	**(41)**
Notes, bonds and other interest-bearing securities	0	(2)	(8)	(1)	**(11)**
Net exposure	**(1)**	**(4)**	**(24)**	**(24)**	**(52)**

Table 5: 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	32	(22)	11
NOK	116	8	124
USD	(67)	(8)	(74)
Other	0	0	0
Total	**81**	**(21)**	**60**

Table 6: Sensitivity for change in basis spread 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 1bp parallel shift of the basis curve (up).

	0-3 months	3 months-1 year	Net Total
EUR	2	0	2
NOK	(17)	(1)	(17)
Other	(2)	1	(1)
Total	**(17)**	**0**	**(16)**

Table 7: Sensitivity for change in credit spread 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 1bp parallel shift of the credit spread curve (up).

	0-3 months	3 months-1 year	Net Total
EUR	0	0	(1)
NOK	14	1	15
USD	(3)	0	(4)
Other	2	0	1
Total	**12**	**0**	**12**

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 gross currency position that can not exceed 1.6% of subordinated capital. KBN's balance sheet can also be affected by currency fluctuations without any effect on earnings.

	2021		2020	
Currency	**Net position**	**10% change in FX rate**	**Net position**	**10% change in FX rate**
USD	40.1	4.01	73.6	7.4
EUR	2.0	0.20	25.2	2.5
Other currencies	4.0	0.40	5.2	0.5
Total	**46.1**	**4.61**	**103.9**	**10.4**

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 2021 and 2020. 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 at least 10 months without new borrowing.

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 re-purchase 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.

2021 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	**17 317**	17 317	0	0	0	0	0
Other money-market deposits	**0**	0	0	0	0	0	0
Instalment loans	**373 554**	2 736	7 760	27 080	120 440	215 537	0
Notes, bonds and other interest-bearing securities	**114 772**	10 273	19 103	23 058	60 538	1 799	0
Total assets	**505 643**	**30 326**	**26 863**	**50 139**	**180 978**	**217 336**	**0**
Loans from credit institutions	**5 891**	5 891	0	0	0	0	0
Commercial paper	**31 565**	11 028	9 875	10 662	0	0	0
Senior securities issued	**414 876**	14 979	22 774	47 578	266 037	63 508	0
Other liabilities	**698**	37	19	595	15	0	32
Subordinated debt	**2 000**	0	0	0	0	2 000	0
Additional Tier 1 capital	**2 400**	0	0	0	1 200	1 200	0
Total liabilities	**457 430**	**31 935**	**32 668**	**58 836**	**267 252**	**66 708**	**32**
Financial derivatives	**(5 067)**	**1 403**	**192**	**(2 465)**	**(4 342)**	**145**	**0**
Net liquidity exposure	**43 145**	**(207)**	**(5 612)**	**(11 162)**	**(90 615)**	**150 773**	**32**

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.

2020 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	**18 950**	18 950	0	0	0	0	0
Other money-market deposits	**1 712**	1 398	314	0	0	0	0
Instalment loans	**357 386**	2 761	9 441	22 190	76 944	246 050	0
Notes, bonds and other interest-bearing securities	**127 398**	8 320	18 738	22 342	77 831	168	0
Total assets	**505 446**	**31 429**	**28 493**	**44 532**	**154 775**	**246 218**	**0**
Loans from credit institutions	**13 871**	13 871	0	0	0	0	0
Commercial paper	**20 040**	20 040	0	0	0	0	0
Senior securities issued	**429 276**	8 728	27 685	74 981	236 496	81 385	0
Other liabilities	**1 605**	8	21	1 516	23	0	37
Subordinated debt	**2 483**	0	0	60	242	2 181	0
Additional Tier 1 capital	**2 743**	0	5	51	1 410	1 278	0
Total liabilities	**470 018**	**42 647**	**27 711**	**76 608**	**238 170**	**84 845**	**37**
Financial derivatives	**6 961**	**630**	**(2 254)**	**277**	**4 561**	**3 748**	**0**
Net liquidity exposure	**42 389**	**(10 588)**	**(1 473)**	**(31 799)**	**(78 835)**	**165 121**	**(37)**

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. The bank is subject to the capital adequacy regulations and must at all times ensure a capital level that is justifiable in relation to the risk profile and market conditions. The goal for capital management is operationalized through common Tier 1 capital adequacy, Tier 1 capital adequacy and total capital adequacy

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 and pillar 2 requirements is set at 18.6 percent as at 31 December 2021. The minimum requirement for common equity Tier 1 capital adequacy ratio including buffer requirements, but before pillar 2 requirements, is set at 12.9 percent on 31 December 2021. KBN's pillar 2 requirement has been set at 2.2 percent on 31 December 2021, in total a 15.1 percent requirement on common equity Tier 1 capital.

The minimum requirement for leverage ratio is set at 3 percent as at 31 December 2021. KBN is compliant with all statutory capital requirements as at 31 December 2021.

The capital adequacy is affected by deduction items in common equity Tier 1 capital, primarily related to deferred tax assets, see note 8 Tax for further information. KBN's capital adequacy exceeds government-determined and board-determined capital requirements as of 31 December 2021.

Capital adequacy	2021			2020		
	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	39 215	0	0	39 690	0	0
Regional governments and local authorities	348 549	65 025	5 202	357 985	64 698	5 176
Of which are Norwegian municipalities	323 652	65 025	5 202	*321 849*	*64 698*	*5 176*
Public sector entities	4 774	0	0	7 552	0	0
Multilateral development banks	7 614	0	0	8 797	0	0
Financial institutions	16 719	2 642	211	17 955	2 049	164
Of which counterparty exposure on derivatives	13 468	1 992	159	*17 733*	*2 004*	160
Claims secured by residential property	20	20	2	25	25	2
Covered bonds	36 374	3 637	291	36 490	3 649	292
Other assets	1 673	4 174	334	1 634	4 062	325
Securitisation	0	0	0	3	1	0
Credit Valuation Adjustment	194	2 420	194	260	3 252	260
Total credit risk	**455 132**	**77 919**	**6 234**	**470 391**	**77 735**	**6 219**
Market risk	**0**	**0**	**0**	**0**	**0**	**0**
Operational risk - Basic Indicator Approach		**3 573**	**286**		**3 772**	**302**
Minimum capital requirements		**81 492**	**6 519**		**81 507**	**6 521**
Total capital ratio			**24.2%**			**23.3%**
Tier 1 capital adequacy ratio			**21.7%**			**20.8%**
Common equity Tier 1 capital adequacy ratio			**18.8%**			**17.9%**
Leverage ratio			**3.9%**			**3.7%**

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)	2021	2020
Equity	19 081	18 538
Ordinary subordinated debt included in equity	(2 392)	(2 392)
Equity included in Tier 1 capital	16 690	16 146
Deductions:		
Deferred tax asset*	(1 353)	(1 611)
Intangible assets	(140)	(131)
Dividends payable	(646)	0
Prudent valuation adjustments (AVA)	(135)	(127)
Adjustments unrealized loss (gains) due to changes in own credit risk	904	297
Total common equity Tier 1 capital	**15 320**	**14 574**
Other approved Tier 1 capital	2 392	2 392
Total Tier 1 capital	**17 711**	**16 966**
Supplementary capital		
Ordinary subordinated debt	2 000	2 000
Total supplementary capital	**2 000**	**2 000**
Total primary capital	**19 711**	**18 966**

***Only non reversing deferred tax asset to be deducted here, or the portion that exceeds 10% of the common equity Tier 1 capital if the deferred tax assets are reversing.*

Primary capital has been calculated under the Financial Undertakings Act and the associated regulations. Unrealised gain/(loss) on liabilities that is due to changes in own credit risk include both non-derivative and derivative liabilities.

Board statement

We confirm that the company's annual financial statements 2021 have been prepared in accordance with IFRS, and that the information in the financial statements gives a true and fair view of the company's assets, liabilities, financial position and results as a whole.

In our best belief, the annual report provides a true and fair view of important events during the accounting period and their influence on the annual accounts, and the most important risk and uncertainty factors the company faces in the next accounting period.

Oslo, 31 December 2021
25 February 2022
The Board of Kommunalbanken AS

Brit Kristin Rugland Chair	Rune Midtgaard Vice chair	Toril Hovdenak Board member	Martha Takvam Board member
Harald Jacobsen Board member	Petter Steen jr. Board member	Anne Jenny Dvergsdal Board member	Ida Espolin Johnson Board member
Eyvind Aven Board member			Jannicke T. Granquist President & CEO

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INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Kommunalbanken AS

Opinion

We have audited the financial statements of Kommunalbanken AS (the Company), which comprise the balance sheet as at 31 December 2021, income statement, statements of comprehensive income, cash flows and changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements comply with applicable legal requirements and give a true and fair view of the financial position of the Company as at 31 December 2021 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Our opinion is consistent with our additional report to the audit committee.

Basis for opinion

We conducted our audit in accordance with 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 requirements of the relevant laws and regulations in Norway and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), and we have fulfilled our other ethical responsibilities 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.

To the best of our knowledge and belief, no prohibited non-audit services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided.

We have been the auditor of Kommunalbanken AS continuously for 21 years from the fiscal year 2001.

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 2021. 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

Basis for the key audit matter

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 106 445 million and liabilities of NOK 42 281 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.

Our audit response

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

Basis for the key audit matter

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.

Our audit response

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 annual report other than the financial statements and our auditor's report thereon. The Board of Directors and President & CEO (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 board of directors' report, the statement on corporate governance and the statement on corporate social responsibility contain the information required by applicable legal requirements and 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 or

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that the information required by applicable legal requirements is not included, we are required to report that fact.

We have nothing to report in this regard, and in our opinion, the board of directors' report, the statement on corporate governance and the statement on corporate social responsibility are consistent with the financial statements and contain the information required by applicable legal requirements.

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 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 the board of directors 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 the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to 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 the board of directors, 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.

Oslo, 25 February 2022
ERNST & YOUNG AS

Einar Hersvik
State Authorised Public Accountant (Norway)

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

Articles of Association

These Articles of Association were last changed by the Annual General Meeting held on 1 June 2021.

These articles of association are issued in Norwegian and have been translated into English. In case of discrepancy between the two versions, the Norwegian version shall prevail.

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, county authorities, intermunicipal companies and municipal pension funds. Such assignment will be done in accordance with the Company's aim of maintaining the highest possible creditworthiness.

§ 3 The Company's objectives are to provide loans to municipalities, county authorities, intermunicipal companies and other companies that carry out local government tasks against either a municipal guarantee, a 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 3,894,625,000 (three billion, eight hundred and ninety-four million, six hundred and twenty five thousand Norwegian kroner) divided into 3,894,625 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.

The Nomination Committee shall prepare the election of the chairman and the vice-chairman and the other non-employee members 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 it 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 guidelines and remuneration report in accordance with § 26 of the Articles of Association.
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 a 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 Directors and 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 to make proposals. 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, regulations, memorandum and articles of association, and the resolutions of the General Meeting and the Supervisory Board by:

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.

Scrutinise the Board of Directors' report and the auditor's report.

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 - The Nomination Committee

§ 16 The Nomination Committee shall consist of up to three members and one deputy member who shall be elected by the General Meeting for a two-year period.

§ 17 The Nomination Committee shall propose candidates for election to the following offices and functions:

Chairman and vice chairman of the Board of Directors

Other members of the Board, with the exception of those members who are elected by and from amongst the employees

Members and deputy member of the Nomination Committee

Chapter VI - Annual General Meeting

§ 18 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 to which the members of the Board of Directors, managing director and the Company's auditor are called.

An extraordinary 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 ordinary 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 of the Articles of Association.
3. Elect members and deputy member to the Supervisory Board in accordance with § 13 of the Articles of Association.
4. Elect members and deputy member to the Nomination Committee in accordance with § 16 of the Articles of Association.
5. Elect the Company's auditor.
6. Fix remuneration for members of the Supervisory Board and the Board of Directors, the board's subcommittees and the Company's auditor.
7. Adress guidelines and remuneration report in accordance with § 26 of the Articles of Association.
8. 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 VII

Auditor

§ 19 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 VIII

§ 20 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 to 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.

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

§ 22 The Board of Directors shall determine the terms and conditions that shall apply to its loans at any time.

§ 23 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 the highest possible creditworthiness.

Chapter IX - Annual Report and Accounts

§ 24 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 put 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 X - Age of retirement

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

Chapter XI - Renumeration to senior executives

§ 26 The company shall apply the provisions of Sections 6-16 a and 6-16 b of the Public Limited Liability Companies Act and the implementing regulations to these provisions. Guidelines in accordance with Section 6-16 a of the Public Limited Liability Companies Act shall be presented for approval by the General Assembly from 2022 and a remuneration report in accordance with Section 6-16 b of the Public Limited Liability Companies Act shall be presented for the General Assembly from 2023.

Chapter XII - Alterations to the Articles of Association

§ 27 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.

GRI-index

Compulsory indicators

GRI indicator	Description	Location in report (page number)	Information
Organisational profile			
102-1	Name of the organisation	About KBN Norway (6)	
102-2	Activities, brands, products and services	About KBN Norway (6)	
102-3	Location of headquarters		Haakon VIIs gate 5b, 0161 Oslo
102-4	Location of operations		KBN operates in Norway.
102-5	Ownership and legal form	About KBN Norway (6)	
102-6	Markets	About KBN Norway (6)	KBN borrows from around the world and offers low-cost loans to Norwegian municipalities and county authorities.
102-7	Scale of the organisation	About KBN Norway (6) Statement on equality (76) Employees (74-75) Financial statements (104)	
102-8	Information on employees and other workers	Statement on equality (76-81)	No work at KBN is performed by workers who are not employees. No significant variations in employee numbers.
102-9	Supply chain	Suppliers (74)	The core of KBN's supply chain is its use of issue managers in connection with our funding activities. KBN also has agreements with and carries out financial transactions with a number of financial undertakings. Our financial agreements and transactions are subject to internal financial guidelines, which require, inter alia, that issue managers must be subject to anti-money laundering rules. KBN also purchases consulting services to a normal extent and goods and equipment for normal operations to a limited extent.
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		KBN 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. KBN follows the guidelines of the UN Global Compact, including the precautionary principle (principle 7).
102-12	External initiatives		Our sustainability work: https://www.kbn.com/en/sustainability/our-sustainability-work/

102-13	Membership of associations	The Board of Directors' Report (102) Green finance and climate risk (68)	
Strategy			
102-14	Statement from senior decision maker	CEO's foreword (4-5)	
Ethics and integrity			
102-16	Values, standards, principles and norms	KBN's 2022-2024 strategy (7-9) Responsible organisation (72-73) Ethics and corporate social responsibility (100)	Code of Conduct: https://www.kbn.com/en/about-us/ethics/code-of-conduct/
Governance			
102-18	Governance structure	Organisational structure and governing bodies (45-49) KBN's approach to sustainability (57-58)	
Stakeholder analysis			
102-40	List of stakeholder groups	List of stakeholders (58-60)	
102-41	Collective bargaining agreements		26%
102-42	Identifying and selecting stakeholders	KBN's approach to sustainability (57-58) List of stakeholders (58-60)	
102-43	Approach to stakeholder engagement	KBN's approach to sustainability (57-58) List of stakeholders (58-60)	
102-44	Key topics and concerns raised	List of stakeholders (58-60)	
Reporting practice			
102-45	Entities included in the consolidated financial statements		Kommunalbanken AS
102-46	Defining report content and topic boundaries	KBN's approach to sustainability (57-58) Materiality analysis (61)	
102-47	List of material topics	Materiality analysis (61)	
102-48	Restatements of information		None
102-49	Changes in reporting		None
102-50	Reporting period		2021
102-51	Date of previous report		25/02/2021
102-52	Reporting cycle		Annual

102-53	Contact point for questions concerning report	Harald Jacobsen Head of Communications and Sustainability Mobile: +47 99 53 80 05 haj@kbn.com
102-54	Claims of reporting in accordance with GRI Standards	This report has been prepared in accordance with the GRI Standards: Core option.
102-55	GRI content index	2021 Annual Report, pages 155-158
102-56	External assurance	This report is not externally verified.

Compulsory indicators

Material topic	Reference and indicator description	Location in report (page number)	Information
Green financing and climate risk			
Climate risk	TCFD	CEO's foreword (4-5) Climate risk and Norway's municipalities (30-34) 2021 Performance (62) Climate risk (68-70) TCFD Report (82-89) The Board of Directors' Report (99)	
Green finance (funding and lending)	GRI (G4) FS8 Product portfolio	Looking back on 2020 (12-13) 2021 Impact report (16-17) Green finance and climate risk (67-68)	
Expertise sharing and responsible lending			
Local government borrowing and responsible lending	KBN-defined: Number and proportion of customers in each category of KBN's credit model. Measures taken throughout the year to help municipalities' borrowing situations to develop responsibly.	Expertise sharing and responsible lending (70-71)	see table below
Expertise sharing and industry initiatives	KBN-defined: Number of participants at KBN's financial expertise initiatives and industry initiatives.	List of Stakeholders (58-60)	
Financial inclusion, accessibility and financial training	KBN-defined: Number of loans and training measures related to initiatives implemented to promote development of local communities	Expertise sharing and responsible lending (70-71) Board of Directors' Report (94-96)	

	Red	Orange	Yellow	Light yellow	Green
No.	0	2	16	5	334
Proportion	0%	0.6%	4.5%	1.4%	93.6%

Responsible organisation			
GRI 419-1 Non-compliance with laws and regulations in the social and economic area	KBN's reputation in a sustainability context		KBN was not sanctioned or fined in 2021. KBN was awarded "Eco-Lighthouse of the year 2021".
Suppliers			
Supply chain	GRI 308-1 New suppliers that were screened using environmental criteria	Performance in 2021 (63) Suppliers (74)	100%
Supply chain	GRI 414-1 New suppliers that were screened using social criteria	Performance in 2021 (63) Suppliers (74)	100%
Employees			
Employee development	GRI 404-1 Average hours of training per year per employee	Employees (74-75)	69% of KBN's employees completed "KBN Kompetanseløftet" in 2021, with a minimum of 15 hours of training. In addition, all employees underwent diversity training and ethics training. **Average hours of training** Men: 12.2 Women: 10.8 Management team: 8.5 Employees excl. Management team: 11.7
Employee development	GRI 404-3 Percentage of employees receiving regular performance and career development reviews	Employees (74-75)	
Employee satisfaction	GRI 401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees.		All employees (with the exception of students) have life insurance, health insurance, and disability and incapacity insurance through KBN. All employees are members of KBN's leave of absence and pension schemes. The figures include KBN's headquarters in Oslo.
Employee satisfaction	GRI 401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees		All employees have access to parental leave through KBN. In 2020 three women and no men took parental leave. One woman and no men returned to work following their parental leave.