Annual Report 2023

Kommunalbanken AS

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Foreword

Solid results in uncertain times

Last year was marked by war, interest rates being increased at record speed in order to overcome galloping inflation, and a further setback for climate change and nature with new temperature records and numerous extreme weather incidents both globally and nationally. The good news is that the interest rate increases seem to have had an effect, and it appears that peak rates have been reached and the first cuts may come in 2024, indicating that we may be heading into calmer waters.

Ukraine has held out against Russia's invasion heroically for two years. Other conflicts and signs that Ukraine's supporters are growing weary of the war mean that there is an increased danger that Putin will succeed with his strategy of attrition. The presidential election in the USA this autumn may have major significance for how the war develops. If Donald Trump wins, Europe will have to be prepared to play an even bigger role in preventing the fall of a European democracy, at the same time as the uncertainty associated with the USA's support for NATO in the event of a change of president would require Europe to significantly upgrade its defence capabilities. This is the backdrop to Norway's current investment in its armed forces, which is the largest since the Second World War.

Since the Hamas terrorist attack on 7 October last year, Israel has bombed to pieces about 60% of all the buildings in Gaza. Over 30,000 Palestinians and more than 1,200 Israelis have been killed since the start. According to the USA's Secretary of Defence, over 25,000 of those who have died have been women and children. The World Food Program has stated that Gaza is now experiencing 'the worst level of child malnutrition anywhere in the world'. The International Court of Justice has concluded that there is a danger of genocide and has opened a case against Israel. Norwegian enterprises are subject not only to the OECD's guidelines on responsible business conduct but also to the Norwegian Transparency Act, and are therefore legally required to carry out due diligence assessments to ensure that they are not causing or contributing to breaches of human rights.

The situation in Ukraine and in the Middle East, and uncertainty about the economic outlook, have caused long-lasting uncertainty in the fixed income market and high credit spreads for local government sector issuers in the capital markets. It is still uncertain whether credit spreads for such issuers will fall over the course of 2024 or whether they will stabilise at a higher level. This, in combination with the increases in money market rates, has made it more expensive for our customers to finance their investment spending. It is expected that this may affect the overall demand for new financing in the years ahead.

Global warming set another record in 2023, with the highest average temperature ever recorded at 1.48oC above pre-industrial levels, in part as a result of the El Niño weather phenomenon. The Paris goal of limiting global warming to 1.5oC is under pressure. Although the world set a new record for investments in renewable energy in 2023, the level of investment is roughly only one third of that needed to achieve net zero by 2050, according to the Energy Transition Investments Trend 2024. The transition to a sustainable economy is continuing, but it could and should progress more rapidly. Even if the 1.5oC threshold is exceeded, researchers are clear that it is important to limit the increase in the average temperature as much as possible.

In addition there were a number of situations in 2023 where climate and environmental considerations were in conflict, even though there is general agreement that global warming is having a negative impact on nature. The Supreme Court of Norway ruled that the construction of wind farms in the Fosen region will have a material negative impact on reindeer herders who have their grazing areas there. Settlements have now been reached for both the relevant areas. The need for minerals to drive forward the green transition has been used as an argument for commencing seabed mining, as well as to allow the dumping of mining waste in Norwegian fjords.

Jannicke Trumpy Granquist, CEO

Norwegian municipalities and county authorities have a key role to play in the work to achieve Norway's climate targets, preserve nature and adapt to the changing climate. KBN seeks to contribute to this work both by providing green loans for projects that help reduce greenhouse gas emissions, improve energy efficiency and/or deliver adaptation for climate change, and by sharing its knowledge. As part of its knowledge sharing, KBN has produced an inspiration booklet in collaboration with the Norwegian Climate Foundation about how municipalities and county authorities can save and produce energy without impacting nature, and KBN has presented this work in a range of seminars and webinars. Approximately 3,000 copies of the booklet have been printed and sent to municipalities and county authorities that have requested them.

KBN set a new record for its green lending in 2023, which reached over NOK 52.8 billion, equivalent to just over 15% of its overall lending portfolio. 40% of Norway’s municipalities and county authorities now have green loans from KBN, which is something we are very pleased about. In addition, we put in place an agreement for a green loan for what will be Norway’s first school building to be constructed in line with the criteria in the EU Taxonomy. We have even higher ambitions in all these areas in 2024, and will in addition place greater emphasis on nature in our criteria for green loans.

In 2023 we strengthened KBN's role as the largest and most important provider of financing to the local government sector in Norway with growth in lending of NOK 26 billion. At the end of 2023, KBN’s market share was 51.1%, as compared to 49.7% at the end of 2022. KBN’s net interest income increased from NOK 1,866 million in 2022 to NOK 2,105 million in 2023. Good growth in profitable lending products, along with rising interest rates, contributed to the increase in earnings. KBN enjoyed good access to the international capital markets and completed its funding transactions as planned.

Jannicke T. Granquist

Jannicke Trumpy Granquist
ADMINISTRERENDE DIREKTØR

About KBN

With total assets over NOK 500 billion, Kommunalbanken AS (KBN) is one of the largest financial institutions in Norway. KBN provides loans to municipalities, county authorities and companies with municipal guarantee that carry out local government tasks. Our ambition is to contribute to the development of sustainable communities.

KBN is 100% owned by the Norwegian state. KBN was first established in 1927 and is today the largest lender to the local government sector.

KBNs total lending to the sector is

NOK 354 bn.

99.7%

of Norwegian municipalities are KBN customers

51.1%

of municipal debt is financed through KBN (excl. debt with Husbanken)

Building sustainable communities

KBN has a strong market position and seeks to use this to promote communities that are sustainable, both economically, socially and environmentally. We are committed to ensuring municipalities make future oriented 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 improve knowledge of climate change and risk, and interest rates, as well as economy and debt management for municipalities' elected representatives and administrative teams.

One of the largest Norwegian borrowers

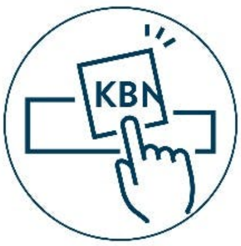
KBN finances its lending to the local government sector by borrowing money directly in the capital markets. KBN is today one of the largest Norwegian borrowers in the international capital markets, with a yearly borrowing program of around NOK 100 billion. KBNs green bonds finance the transition to a low-carbon, climate resilient future in Norwegian local societies. KBN has more than ten years' history as an issuer of green bonds.

AAA-rating

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, 2024-2026



Customers First Choice

Our main goal is for our customers to want to use KBN for long-term financing of investments in welfare.

It should provide added value to be a customer of KBN. Our goal of being the customer's first choice will be achieved through the further development of our key competitive advantages:

1. Attractive and predictable access to long-term financing with products tailored to each customer's needs.
2. Our customers and employees will prefer using KBN’s digital solutions because they provide insight, are efficient and provide a good basis for decisions.
3. Utilizing our unique knowledge of both the loan market and the municipal sector to closely follow up with our customers, with the aim of contributing to both competence development and good decision-making among our customers.

As the largest lender to the municipal sector, we have a responsibility to ensure financing capacity for new borrowing. At the same time, we have a responsibility to contribute to limiting significant new borrowings that would impair a customer's financial situation substantially. Based on responsible credit practices and our credit model, it will become increasingly important to support customers in making sound and forward-looking decisions that uphold economic sustainability and healthy local communities.

We will:

- Further develop our differentiated customer support to provide customers with a perceived added value in choosing KBN as the central lender. At the same time, all our customers should perceive KBN as relevant.
- Continue to develop our digital tools, simplify and fully digitize the loan process and ensure the realization of benefits from investments in new systems.
- Develop new profitable products and services that address customer needs.
- Establish customer centers and streamline the customer journey.
- Expand the use of measures to safeguard and contribute to economic sustainability for our customers.

Strong Market Participant

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

KBN aims to be recognized for having effective governance and control, as well as a strong risk management culture. Quality and transparency in reporting, a deep understanding of the market, and relationships with investors and market participants are intended to ensure that the bank maintains a strong position.

We will:

- Maintain a strong credit rating.
- Further develop a diversified, innovative and profitable funding program based on open, developed and transparent markets.
- Hold liquidity reserves that are invested in highly creditworthy liquid securities.
- Strive to be precise, open and transparent in our dialogue with the market through high quality financial and non-financial reporting.
- Further develop our risk management framework.
- Work to improve the framework conditions in areas that are central to our operations, and which strengthen our competitiveness.
- Integrate robust ESG analyses into decisions regarding investments and suppliers.
- Intensify efforts in systematically organizing, managing and maintenance of external and internal data to streamline and enhance the quality of risk measurements and reports, ensuring reliable governance data.
- Continue the digitalization of transaction and reporting processes.

Leader in Green Finance

KBN will be among the leading financial institutions on green financing solutions and insight that contributes to sustainable development and economic growth.

To maintain our leadership in green finance, we will focus on further developing our efforts in the following three main areas:

1. Green loans. Through green loans, we are driving more and increasingly ambitious green investments. Our goal is to continue the strong growth of green loans, with a larger proportion of our customers opting for green loans, thereby facilitating their transition to a low-emission society and adapting to a changing climate. This initiative is also intended to contribute to increased focus on biodiversity.
2. Measuring environmental impact and reducing emissions. Disseminating information and knowledge about the environmental impact of green loans to both our customers and debt investors. Additionally, we will strengthen our efforts to assess total financed emissions. This entails, as a lender, a heightened awareness of precisely what we are financing. In collaboration with our customers, we aim to formulate plans for reducing overall financed emissions.
3. Insight solutions for our clients, especially related to climate risk, that facilitate knowledge development and understanding.

We will:

- Further develop our green loan program to accelerate the growth of green investments.
- Enhance the criteria for defining what constitutes "green" and incorporate criteria for the use of natural resources.
- Continue the work on financing projects aligned with the EU Taxonomy and develop a framework for issuing bonds under the EU Green Bond Standard.
- Map our financed emissions and create a plan on how, together with our clients, we will reduce them.
- Building on our ESG risk model, shift customer dialogue to include their efforts more extensively in climate and nature conservation.

Competence- and technology-driven

The way we work should promote learning, knowledge sharing, and efficient utilization of technology.

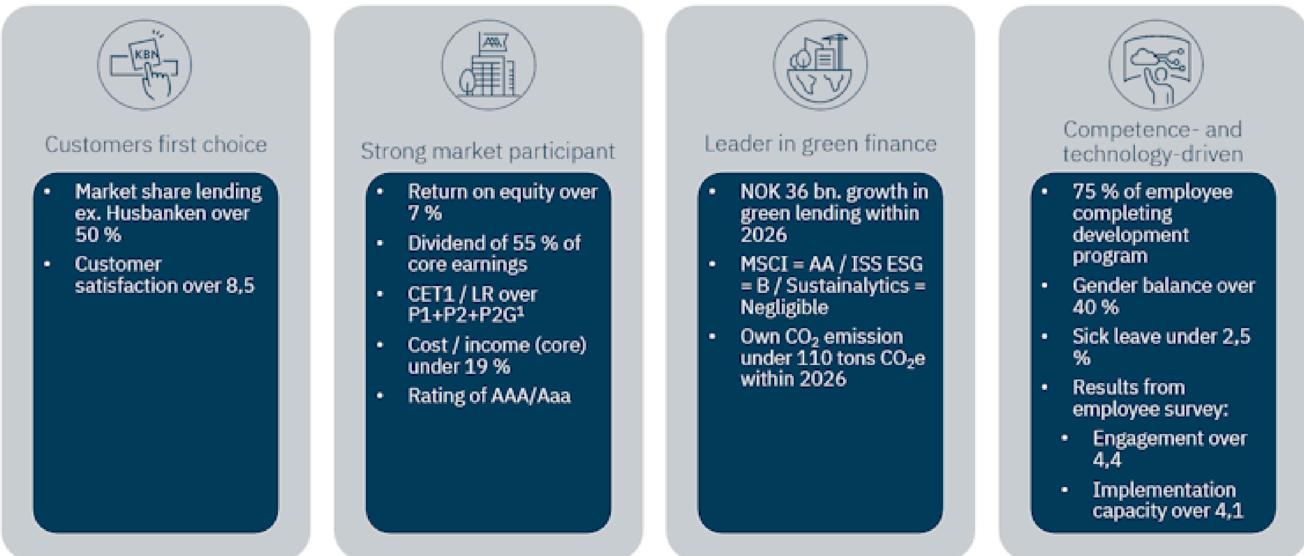
KBN aims to have strong professional communities that evolve and share knowledge. The combined expertise of our employees is our most valuable resource. By facilitating meaningful exchanges and diverse perspectives, we collaboratively arrive at the best solutions. Through leveraging technological opportunities and high-quality data, we aim to enhance efficiency and create added value for both customers and our organization. We aspire to be an attractive employer that engages and fosters job satisfaction among our employees.

We will:

- Maintain a culture of continuous learning- and knowledge-sharing, expanding expertise both in breadth and depth.
- Further develop the organization and renew how we work by digitizing and streamlining processes.
- Work systematically and purposefully in advancing our business.
- Be a data-driven organization – one truth, in one place, right the first time – providing insights and a solid foundation for decision-making.
- Foster digital competence across various methods and tools throughout the organization.
- Increase diversity and systematically invite different perspectives and experiences in problem-solving and development work.
- Make forward-looking technology and solution choices that provide excellent user experiences.

To achieve the government's goal of the highest possible returns over time within sustainable frameworks, the board has adopted strategic objectives for the strategy period.

Strategic goals for the strategy-period



[1] applicable requirements at any time. P1 includes associated buffer requirements.

KBN in Numbers

Financial key figures

(Amounts in NOK 1 000 000)	2023	2022	2021	2020	2019
Results					
Net interest income	2 105	1 866	1 585	1 672	1 875
Core earnings[1]	1 211	1 081	908	922	1 071
Profit after tax	1 432	(60)	1 208	1 159	1 283
Cost/income ratio (percent)[2]	15,6 %	15,8 %	16,4 %	16,3 %	14,0 %
Return on equity after tax[3]	7,9%	(0,8%)	7,1%	7,4%	9,5%
Return on equity after tax (core earnings)[4]	7,3%	6,6%	5,6%	6,3%	8,3%
Return on assets after tax[5]	0,3%	0,0%	0,3%	0,2%	0,3%
Loans to customers					
New disbursements	53 429	39 261	48 547	57 699	53 825
Aggregate loans to customers[6]	354 052	328 401	323 018	318 235	309 758
12 month lending growth in percent[7]	7,8 %	1,7 %	1,5 %	2,7 %	2,5 %
Green loans to customers[8]	52 763	41 421	32 876	26 112	23 049
Share of green loans in lending portfolio	15,4 %	13,3 %	10,9 %	8,9 %	8,3 %
Share of municipalities with green loans[9]	40%	38%	36%	34%	
Liquidity portfolio[6]	114 610	109 959	110 837	123 585	107 350
Debt securities issued					
New long-term debt securities issued	76 935	86 994	96 550	107 822	72 508
Aggregate debt securities issued[6]	438 407	429 206	395 385	405 451	400 489
Total assets	522 203	492 450	473 064	498 327	460 778
Equity					
Equity	21 684	18 903	19 081	18 538	16 401
Common equity Tier 1 capital adequacy ratio	17,4%	19,0%	18,8%	17,9%	17,4%
Leverage ratio	4,0%	3,9%	3,9%	3,7%	3,7%
Liquidity coverage ratio (LCR)[10]					
Total	266%	261%	175%	191%	348%
NOK	87%	95%	71%	77%	73%
EUR	251%	441%	140%	200%	800%
USD	171%	242%	137%	188%	422%
AUD	1 253%	1 078%	1 082%	1 239%	Infinite
GBP	43 868%	1 958%	733%	97 768%	Infinite
Other key figures					
Market share excl. Husbanken[11]	51,1%	49,7%	51,4%	52,8%	52,9%
Percentage of women employed in KBN[12]	36,0%	43,0%	46,0%	41,0%	42,0%
Emissions in tons CO_2 equivalents[13]	111,5	79,7	40,3	74,5	191,8

Footnotes

[1] Profit after tax adjusted for net unrealised gain/(loss) on financial instruments (in accordance with note 3) adjusted for estimated tax at 25% tax rate, and adjusted for Portion allocated to owners of additional Tier 1 capital. This result measure is included to give relevant information about the company's underlying operations.

[2] Operating expenses as a percentage of sum Net interest income and Total other operating income adjusted for Net unrealised gain/(loss) on financial instruments (in accordance with note 3).

[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 including 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 (annualised).

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

[6] Principal amounts.

[7] 12-month lending growth based on total lending (principal amounts).

[8] Aggregate green loans to customers financed by green bonds. In addition, the bank has a smaller portfolio of green loans to customers that were given before or that does not qualify after the criteria in Green bond framework published in 2016. These loans are no longer financed with green bonds. Total aggregate green loans to customers are NOK 54.7 billion.

[9] Percentage of municipalities in KBN's lending portfolio with green loans.

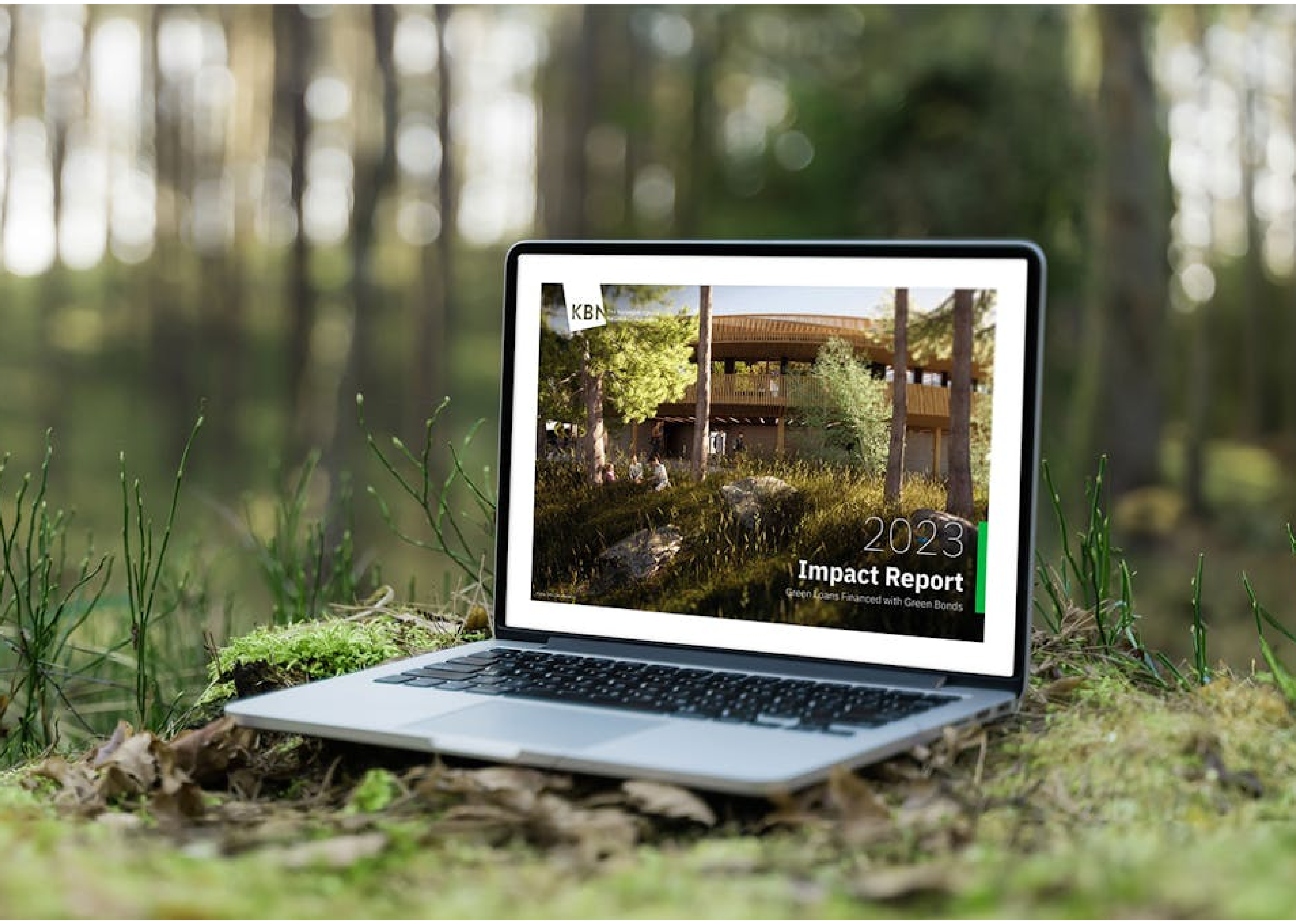
[10] Liquidity coverage ratio (LCR) is a measure for the regulatory liquidity reserve. LCR is defined as liquid assets as a percentage of net payments in a given stress period of 30 days.

[11] KBN's market share based on sector code 6500 from KBN divided by total loans to same sector based on SSBs K2-reporting. Lending from Husbanken is not included as KBN does not compete for these loans.

[12] Measured as the proportion of women among all employees.

[13] KBN's climate accounting is based on the Greenhouse Gas Protocol Corporate Standard. Own emissions consist of calculations within scope 1 and scope 2 in this climate statement.

See also the overview and description of alternative performance measures published on kbn.com



Impact Report 2023

KBN publishes a separate impact report in addition to the annual report. The report provides investors and other stakeholders with detailed information about the projects financed by KBN's green bonds. At the end of 2023, KBN had NOK 52.8 billion outstanding in green loans, distributed across 474 projects in the municipal sector, of which 67 are new projects in 2023.

Green bonds
38.6 bn. NOK

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

Green loans
52.8 bn. NOK

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

Read the full Impact Report 2023.

Corporate Governance

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.

BRIT KRISTIN 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 12 board meetings in 2023.

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 Audit Committee.

CEO at Store Norske. Board member AS Sigurd Hesselberg.

Participated in 12 board meetings in 2023.

EYVIND AVEN

EYVIND AVEN

Board member

since 2019

MBA and two year extension program in Finance at Norwegian School of Economics NHH. Sr. Risk Advisor within Group Risk function in Equinor. Chair, 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.

Participated in 12 board meetings in 2023.

NILS GUNNAR BAUMANN

Employee representative

since 2023

Master of Science in Economics and Business Administration. Senior Portfolio Manager, KBN. Member, KBN Remuneration Committee. Personal alternate is Harald Jacobsen.

Participated in 6 board meetings in 2023.

ANNE JENNY DVERGSDAL

Employee representative since May 2020

MSc in Economics and Business Administration, CEMS MIM HEC. Senior Relationship Manager, KBN. Member, KBN Audit Committee. Personal alternate is Kristine Henriksen Lien.

Participated in 12 board meetings in 2023.

TORIL HOVDENAK

Board member

since June 2020

MSc Economics and Business Administration. CEO Møre og Romsdal county. Member of Member, KBN Audit Committee.

Participated in 9 board meetings in 2023.

IDA ESPOLIN JOHNSON
Board member

since 2018

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

Participated in 10 board meetings in 2023.

IDA TEXMO PRYTZ
Board member

since June 2022

MSc Economics and Business Administration. Investment Director Nordkraft AS. Member, KBN Audit Committee. Member of the Board, Distriktsenergi, SKS Handel and NHO Arktis. Deputy member of the board, Energi Norge.

Participated in 11 board meetings in 2023.

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 12 board meetings in 2023.

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.

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

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

ANDREA SØFTING

CFO, employed

since 2021

Søfting is former CFO of SpareBank 1 Ringerike 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.

journalist in various print and broadcast media. Steinsland has a finance degree from Norwegian School of Economics (NHH).

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 School of Economics (NHH).

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 (NTNU).

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.

Regarding the objective and purpose of the state's ownership of KBN, the Norwegian government's white paper "A greener and more active state ownership" (Report to Storting No. 6 (2022-2023)) states that:

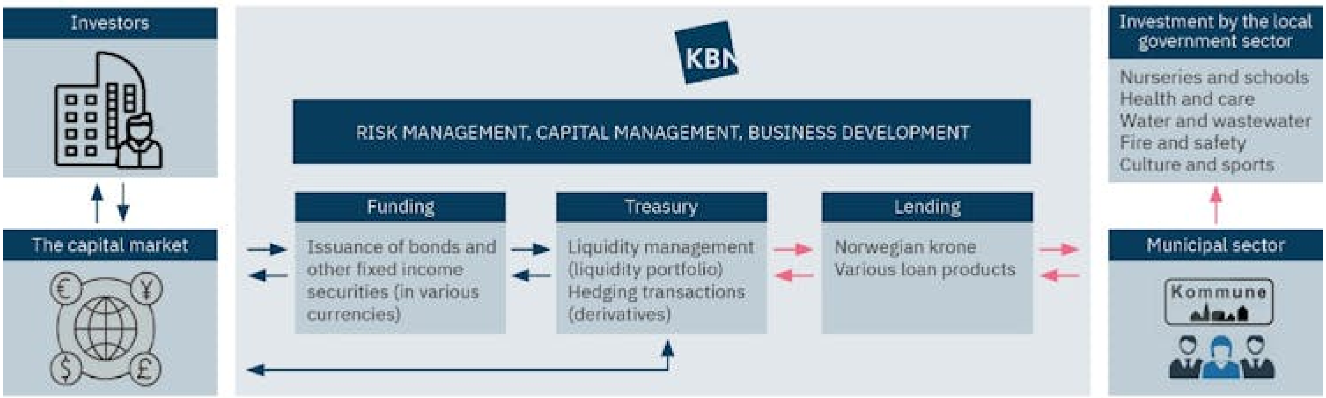
"The state is the owner of Kommunalbanken in order to offer stable long-term and efficient financing of the local government sector. The state's aim as owner is to achieve the highest possible return over time subject to the limits of sustainability".

KBN's Articles of Association state that its objective is *"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."*

KBN finances its lending activities by raising debt funding from capital markets around the world. 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. KBN is committed to helping to ensure that the local government sector's high creditworthiness is reflected in the lowest possible borrowing costs for the sector. 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 its 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: KBNs operating model

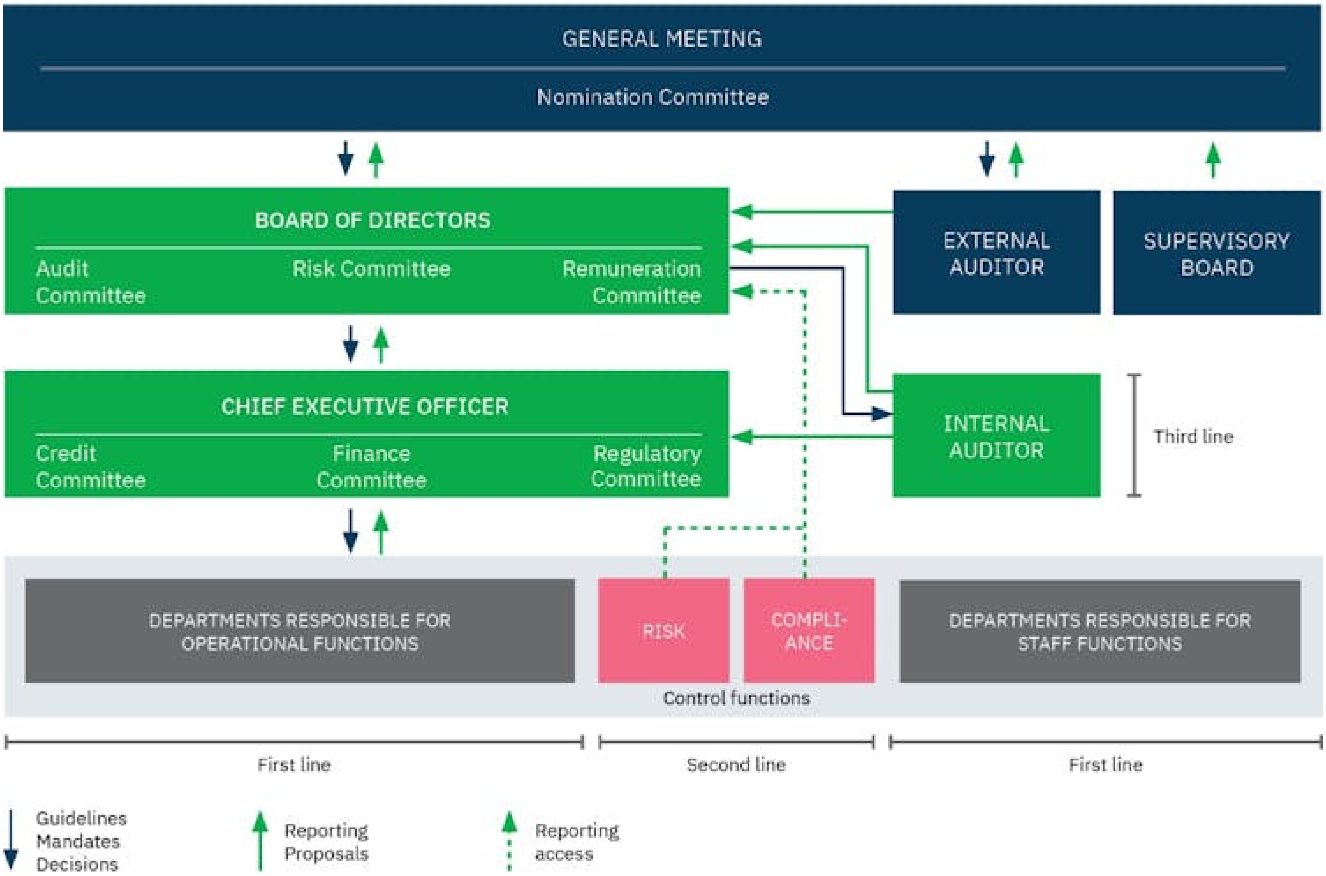


Organizational structure and governing bodies

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.

Jannicke Trumpy Granquist has been the CEO of KBN since 2020. Under her management, KBN has made some organisational changes to strengthen the capacity of KBN's operational functions.

Chart: Governing bodies in KBN



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. The General Meeting considers the guidelines for the remuneration of senior executives and the salary report.

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 risk, the company's risk appetite, ICAAP, ILAAP and the recovery plan, and in connection with this it assesses the outcomes of scenarios and stress tests as well as assessing whether the pricing proposed for any new products and services is sound from the perspective of KBN's risk appetite. The Committee also reviews internal audit's annual plan and reports that relate to the risk management area, 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. The committee assesses the effectiveness of KBN's internal control and risk management systems in relation to financial and sustainability-related reporting, assesses the effectiveness of the company's internal audit in relation to financial and sustainability-related reporting, and assesses and monitors 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 company's arrangements for variable salary, guidelines for the benefits received by senior executives, and evaluates the remuneration of the CEO. The Committee also considers the salary report and guidelines for the remuneration of senior executives, which are submitted to the General Meeting.

The Chief Executive Officer (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 comprises the senior executives of KBN, and 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

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 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

ensures that KBN complies with external and internal regulations. The Chief Compliance Officer carries out regular independent assessments of the risk of shortcomings in compliance, and produces a risk-based annual plan for compliance activities that is approved by the CEO. 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 co-ordinates and monitors KBN’s internal audit. The Chief Compliance Officer reports independently of the operational and staff functions for compliance risk, and provides regular compliance reports to the Board of Directors. The Chief Compliance Officer is KBN's nominated compliance officer in accordance with the Anti-Money Laundering Act. 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 is outsourced to KPMG.

Governing bodies

Per 31.12.2023

The Board of Directors

- Brit Kristin Rugland, chair
- Rune Midtgaard, vice chair
- Eyvind Aven
- Nils Gunnar Baumann, employee representative
- Anne Jenny Dvergsdal, employee representative
- Toril Hovdenak
- Ida Espolin Johnson
- Ida Texmo Prytz
- Petter Steen jr.

Alternates to the employee representatives

- Kristine Henriksen Lien
- Harald Jacobsen

Board preparatory committees

Audit Committee

- Rune Midtgaard, chair
- Anne Jenny Dvergsdal
- Toril Hovdenak
- Ida Texmo Prytz

Risk Committee

- Eyvind Aven, chair
- Ida Espolin Johnson
- Brit Kristin Rugland

Remuneration Committe

Nomination Committee

- Cathrin Sætre, director general, Ministry of local government and regional development
- Otto Leirbukt, deputy director general, Ministry of local government and regional development
- Einar Bye, senior adviser, Ministry of local government and regional development

Alternates

- Arild Kormeseth, senior adviser, Ministry of local government and regional development

Supervisory board

- Ida Stuberg, chair, former mayor, Inderøy municipality
- Hege Mørk, vice chair, chief municipal executive, Gol municipality
- Ane Mari Braut Nese, county leader, Conservative party, Rogaland County
- Leidulf Gloppestad, former mayor, Gloppen municipality
- Aase Refsnes, mayor, Steigen municipality
- Bjørn Ropstad, former vice county mayor, Agder county
- Gunn Marit Helgesen, president of the board, The Norwegian Association of Local and Regional Authorities (KS)
- Leif Harald Walle, former chief municipal executive, Stor-Elvdal municipality
- Rigmor Brøste, ass. county governor, Møre & Romsdal county

- Brit Kristin Rugland, chair
- Nils Gunnar Baumann
- Petter Steen jr.

Auditor

Deloitte AS

- Henrik Woxholt, state authorised public accountant

Internrevisor

KPMG AS

- Kine Kjærnet, state authorised public accountant

- Terje Fronth-Pedersen, senior relationship manager, employee representative KBN
- Tron Bamrud, chief county executive, Innlandet county
- Tore Isaksen, chief municipal executive, Ringerike municipality

Alternates

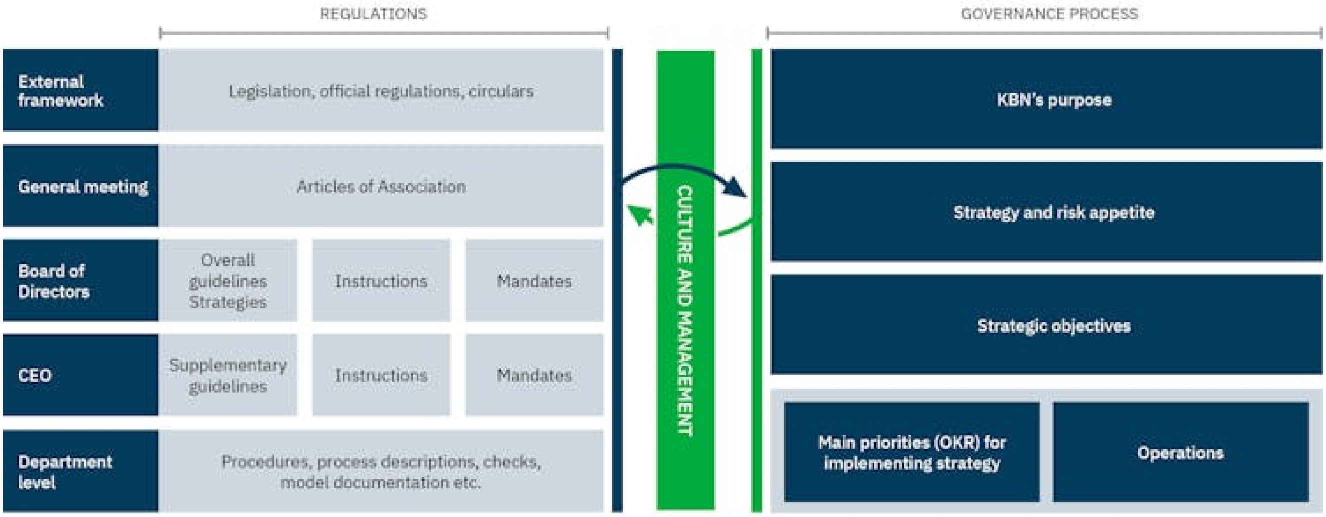
- Bente Rudrud Herdlevær, chief municipal executive, Nesbyen municipality
- Nina Bordi Øvergaard, chief municipal executive, Sør-Varanger municipality
- Terje Dalby, senior relationship manager, KBN
- Tommy Stensvik, chief municipal executive, Vågan municipality
- Toril Eeg, county director, Vestfold county

Corporate governance

Corporate governance at KBN is an interaction between the processes and structures that are used to manage KBN, including its organization, 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 operationalized 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 organized in order for it to fulfil its owner’s purpose in owning KBN.

Chart: Corporate governance at KBN



The Board of Director's main priorities in 2023

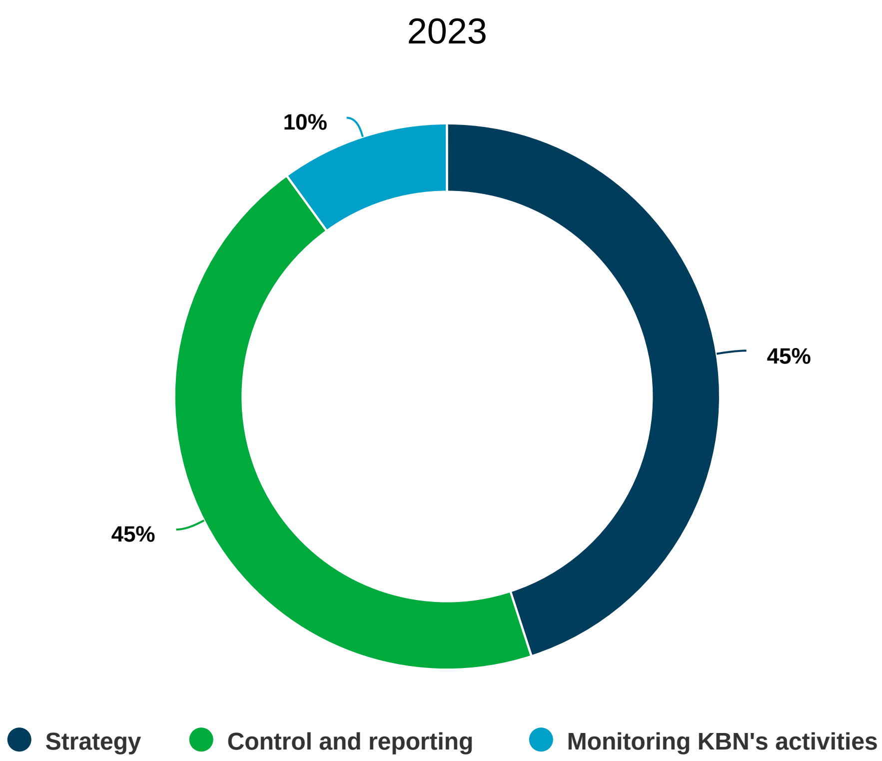
- Approving KBN's strategy and vision
- Setting performance indicators for the implementation of the strategy (OKR)
- Monitoring work to combat money laundering and cyber threats
- Decisions on adjustments to KBN's risk appetite, lending credit strategy and financial risk strategy
- Decisions on capital and liquidity requirements
- Decisions on a new IT strategy
- Decisions on adjustments to KBN's organisation and the establishment of a new customer centre
- Changes to KBN's dividend model
- New lending processes and a new lending system
- CSRD gap analysis

The Board of Directors balances its time between three main areas of work:

1. Strategic matters and expertise development
2. Control and supervisory tasks
3. Monitoring and receiving information on KBN's activities

In 2023, the Board of Directors spent around 45% of its time in Board meetings considering strategic matters and continuing expertise development. A similar amount of time was spent on control and supervisory tasks. The remaining 10% of its time was spent on monitoring and considering information on KBN's activities. The proportion of time the Board of Directors spends on strategic duties has increased over recent years, and has now stabilised at between 45% and 50%, while the time spent on considering information on KBN’s activities has reduced, due in part to the greater availability of information to the Board on a continual basis through the Board portal.

Chart: Time allocation for the Board of Directors



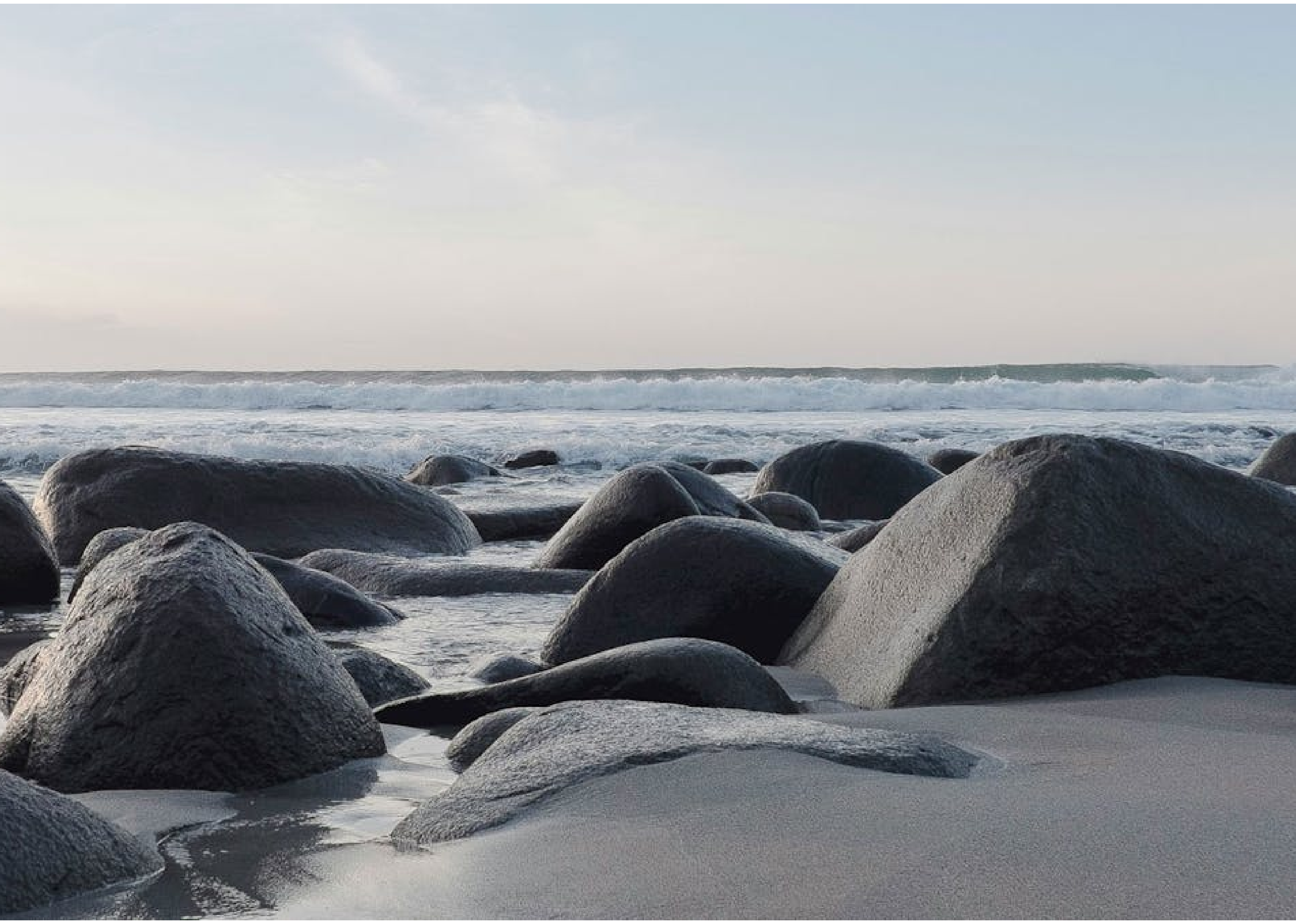
KBN’s response to its owner’s expectations

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

Topic	How KBN strives to fulfil the state's expectations
1. Ambitions, targets and strategies	KBN is a 'category 1' company with an objective of delivering the highest possible return over time subject to the limits of sustainability. With the exception of 2020, KBN has achieved the target returns based on its core earnings that have been set over the last ten years. KBN has identified the UN's Sustainable Development Goals to which KBN has the greatest ability to make a positive contribution, and KBN has mapped its green lending portfolio to identify the connections between our financing of green lending and the Sustainable Development Goals. The Board of Directors carried out a more comprehensive review of KBN's strategy in 2023, and one of the objectives of this review was to ensure that KBN's priorities were consistent with its owner's expectations. 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. The Board of Directors carries out annual reviews and approval of performance indicators in order to monitor the implementation of KBN's strategy (OKR), its capital adequacy planning and its risk appetite and risk limits, as well as KBN's targets and ambitions for sustainability.
2. Responsible organisation	KBN has carried out risk-based due diligence of its own activities and of its supplier chain pursuant to the Transparency Act. This is embedded in KBN's general guidelines for sustainability as approved by the Board of Directors. For further information, see the Transparency Act report on the KBN website.
3. Human rights and decent working conditions	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. These requirements are stipulated in KBN's general guidelines for sustainability as approved by the Board of Directors. KBN encourages its employees to be trade union members. Information on the trade unions represented at KBN is provided as part of the training arrangements for new employees. Information on the trade unions is provided on KBN's intranet, and the employee representatives are permitted to carry out the trade union work during their working hours.
4. Climate	KBN reports on its climate risk in accordance with the TCFD framework, and has developed indicators for its customers' climate risk exposure that are included in its credit approval model. KBN has set clear targets to reduce its own climate gas emissions, and will continue to work in 2024 to identify all material direct and indirect emissions.
5. Natural diversity and ecosystems	KBN offers green loans with discounted interest rates to finance investments in areas such as encouraging improvements in waste recovery and recycling, as well as measures to prevent pollution both on land and in water and for the restoration of natural areas. KBN will carry out a new materiality analysis in 2024 in compliance with the EU Corporate Sustainability Reporting Directive. A programme of work has been initiated to integrate the use of natural areas in KBN's criteria for green loans during the course of 2024.
6. Taxation and prevention of financial criminality	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.
7. Capital structure and dividend	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 adequacy plans (ICAAP report to the Financial Supervisory Authority of Norway), financial budgets, corporate OKRs and operating budgets in line with its long-term objectives and strategies.

Topic	How KBN strives to fulfil the state's expectations
8. Organisational structure and corporate culture	KBN's organisational decision-making structure is designed to facilitate the achievement of KBN's objectives and risk management policy, and complies with the Norwegian Code of Practice for Corporate Governance and the legislation and regulations that apply to financial institutions. Corporate culture and organisational development play central roles in KBN's strategy. A key theme for KBN's corporate culture is continuous renewal of expertise through training and sharing expertise in order to create value for its customers and for KBN's own activities. Measures to digitalise and improve the efficiency of work processes play a central role in KBN's strategy and strategic objectives. Specific targets have been introduced for employee involvement and achievement, which are monitored through regular employee surveys.

Topic	How KBN strives to fulfil the state's expectations
9. Employees and diversity	The general objectives for diversity and equality are embedded in KBN's guidelines for sustainability, as revised in 2023. KBN is committed to active, targeted and planned work on sustainability, which includes equality and prevention of discrimination. KBN's ambition is to be a leading player in its area. 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. KBN's approach is that by facilitating and encouraging the exchange of views and different perspectives it will make it possible to work jointly to achieve the best solutions. KBN has established a program to enhance employee expertise, with a personal budget for every employee that can be used for competence development subject to specified criteria. Employees are assessed on their completion of the development they undertake. In 2023, 85% of KBN's employees completed this program. KBN has established a student experience program which offers students in relevant disciplines the opportunity to apply for 40% part-time employment at KBN for up to 2 years. Many of the students that have participated in this program have subsequently become full-time permanent employees at KBN.
10. Salaries and other remuneration	KBN’s remuneration policy for senior executives is anchored in the company’s value proposition and its personnel policy, and is in line with the state's guidelines for the remuneration of senior executives. The annual salary report is submitted to the Annual General Meeting and is published on KBN's website. KBN's guidelines stipulate that that overall remuneration should be competitive but not market-leading. Fixed salary is the main element of remuneration. KBN also has a variable salary arrangement. This arrangement can award additional salary payments of up to 1.5 times one month's salary for all employees, based on quantitative criteria determined by the Board of Directors. Variable salary is conditional on KBN being in a position to pay a dividend to its owner.
11. Risk management	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.
12. 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 The Norwegian Code of Practice for Corporate Governance for further information. The Board of Directors observes practices for high-quality board work adapted to the company's activities.
13. Transparency and reporting	KBN has an objective of being one of the leading financial institutions in the areas of climate risk, green finance solutions, sustainability reporting and insight that supports sustainable development and financial reporting. KBN is in dialogue with its stakeholders and follows leading-edge practice for sustainability work and sustainability reporting. KBN complies with the GRI Standards and the TCFD recommendations, and reports to CDP and Eco-Lighthouse. KBN is open and reports on material matters related to its activities. KBN reports accordingly on www.kbn.com and in its published Pillar 3, quarterly and annual reports.



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.

See also section Business model and operating model and 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 adequacy 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.

See also section Sustainability and www.kbn.com/en/about-us also www.kbn.com/en/sustainability.

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

The Board of Directors assesses KBN's capital adequacy 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 5.5% for the 2022-2024 period. The state has a long-term expectation for KBN to pay around 55% of its core earnings after tax in dividend, subject to maintaining a satisfactory capital adequacy.

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**
   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 composition of the Board of Directors is broadly-based in order to ensure that the Board can operate independently of any vested interests and that 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.

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. 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. **Salaries and other 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 variable salary 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.

Information on the salaries and other remuneration paid to senior executives is published as a note to KBN's annual accounts. The salary report that provides information on the salaries and other remuneration received by executive personnel in 2023 will be submitted to the Annual General Meeting in 2024. The report will be published following consideration by the Annual General Meeting.

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.

Sustainability

KBN's approach to sustainability

The Norwegian government's white paper on state ownership policy 'Greener and more active state ownership' both clarifies and strengthens the expectations of the state as an owner in respect of sustainability. The white paper includes a number of clear expectations for work on sustainability by state-owned companies, particularly in the areas of climate, biodiversity and ecosystems, risk management, transparency and reporting, working conditions and wages and other remuneration. The state expects its objectives to be achieved both sustainably and as efficiently as possible: 'Sustainable presupposes that the companies balance economic, social and environmental conditions in a manner that contributes to long-term goal attainment without reducing the ability of future generations to meet their own needs'.

KBN's strategy for 2024-2026 states that 'Our value creation will balance financial, social and environmental factors so that the highest possible return over time is generated within sustainable limits'.

KBN's sustainability work is set out in the bank's *'General Guidelines for Sustainability'*, which is approved by the board.

Sustainability is integrated in KBN's activities and organisation, and the Head of Communications and Sustainability has a coordinating role in this respect. The Lending department has a dedicated 'Green team' that works with green lending, climate risk and environmental impact reporting. The Capital Markets department works with issuing green bonds and managing ESG for the liquidity portfolio. The Risk Management function shall ensure that material sustainability risk is identified, quantified, handled, and reported. The department of Business Support is responsible for producing sustainability reporting, including reporting pursuant to the activity duty and the duty to issue a statement in respect of diversity and equality, and to the Transparency Act.

KBN is committed to following leading practice in its work and reporting on sustainability and has reported in accordance with the GRI Standards since 2018. KBN also reports in accordance with the TCFD frameworks[1] (see section *Disclosure of climate-related risks and opportunities*) and CDP[3]*[Block footnote omitted]*. Going forward, KBN will also work with mapping the bank's nature-related risk with the aim to report in accordance with the TNFD[3] framework.

KBN also reports in accordance with the requirements in the Norwegian Accounting Act, § 3-3c, i.e., the current EU Non-Financial Reporting Directive (NFRD). From the fiscal year of 2025, KBN will report in accordance with the new Corporate Sustainability Reporting Directive (CSRD).

1 *Task Force on Climate-Related Financial Disclosures has established itself as the key framework for the assessment and reporting of climate risk.*

Stakeholders

KBN bases its sustainability work on engaging in extensive dialogue with stakeholders who are either significantly affected by KBN's activities, or who themselves can influence our activities in a material way. This includes KBN's customers, employees, owner, Board of Directors, the authorities, investors, rating agencies and society in general. KBN continually maps any new signals and expectations from our owner, changes in national and international laws and standards that affect best practice, and the development of norms and attitudes of significance to our stakeholders, with the objective of being at the forefront within prioritised areas of sustainability.

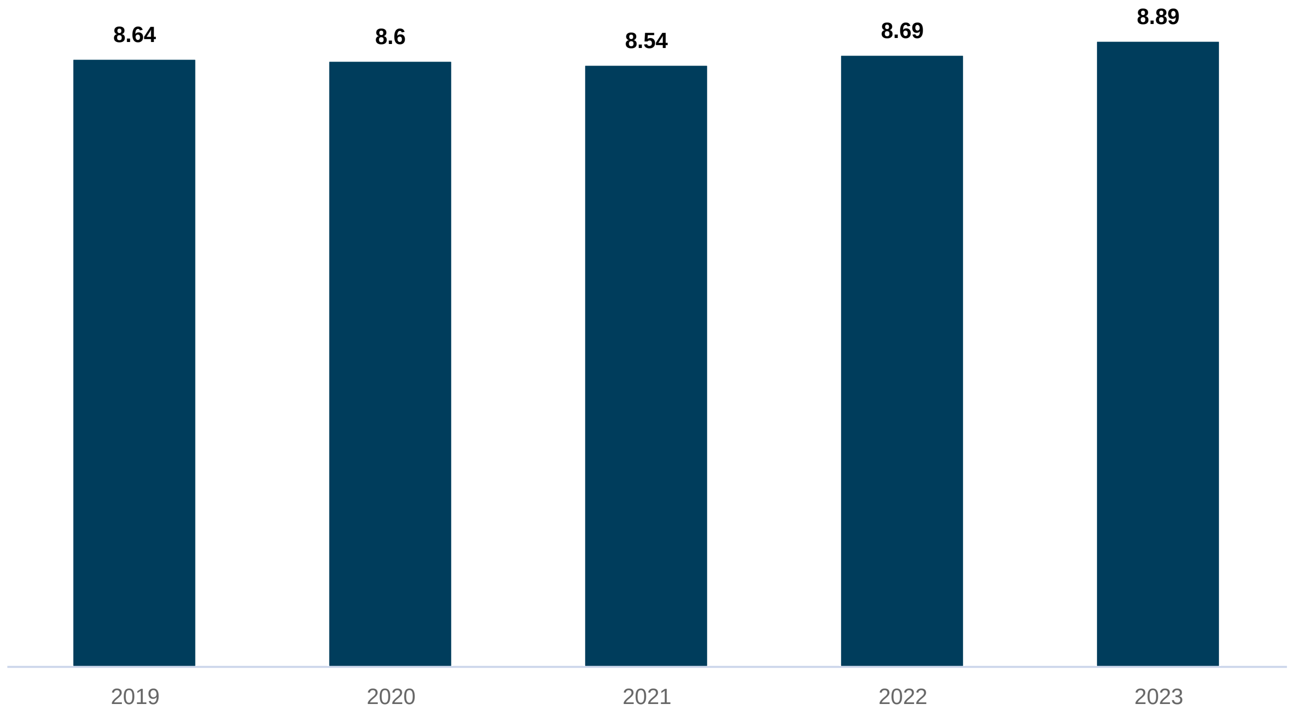
Openness is one of KBN's core values. As a knowledge-based organisation, we wish to share knowledge with our stakeholders and to contribute to best practice for, e.g., financial management, management of climate risk, and energy efficiency in the local government sector. We also seek input from our stakeholders as their feedback provides the foundation for our overall strategy and communications work, as well as for our sustainability work.

2023 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 customers' satisfaction with KBN and what impression customers have of KBN in various areas. The survey is also used to provide input for deciding on future priorities and for better understanding what customers consider to be particularly important in their relationship with KBN. The results from 2023 show that KBN's customers are generally extremely satisfied with KBN, with a marginal improvement from 2022 to give a score which is the best ever recorded to this question. Nearly half of KBN's customers responded to the survey.

Chart: Result customer survey

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 10, recalculated from a scale of 1 to 6 for the years 2018-2021.



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. The sections below provide a description of KBN's most important stakeholders and of KBN's activities with these stakeholders in 2023.

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 250 customer meetings in 2023, of which around half were digital meetings and the remainder were visits by KBN to the customer. KBN also organised 12 webinars on topics such as interest rates, the macroeconomic situation, local energy production and improving energy efficiency, and the 2050 Climate Change Committee, as well as 11 physical seminars across Norway and that 19 newsletters were sent out. The aim of KBN's seminars, webinars and newsletters is to increase the local government sector's insight into relevant macroeconomic developments and the outlook for interest rates, as well as promoting better understanding of financial risk management and debt management (financial sustainability). KBN carried out two events for our specially designed course KBN Skolen (Parts I and II). The KBN Skolen events are designed to offer both a foundation and a more advanced understanding of loan administration for municipalities and county authorities.

KBN updated its climate risk tool for the local government sector in 2023 with a new data source that provides information for comprehensive risk and vulnerability analysis. All Norway's municipalities are required to have a comprehensive risk and vulnerability analysis, and the Norwegian Directorate for Civil Protection recommends that this should be updated every four years in connection with updating their planning strategy. If a municipality does not do this or does not have an up-to-date risk and vulnerability analysis, it may indicate that their management of risk is deficient. In contrast, an up-to-date risk and vulnerability analysis can indicate that risk management is high on a municipality's agenda.

The annual Municipality Finance Conference, which is Norway's largest event of its type, was held in June 2023 with approximately 450 attendees. KBN organizes the conference in collaboration with the Norwegian Association of Local and Regional Authorities (KS), the Norwegian Association of Local Government Treasurers and Finance Managers (Norges Kemner- og Kommuneøkonomers Forbund), and the Norwegian Association of Local Government Auditors (Norges Kommunerevisorforbund).

KBN collaborated 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, at the Zero Conference in November. Nordre Follo municipality took first prize in 2023 with its decision to adopt land degradation neutrality for its local plan, a measure the municipality has received a lot of attention for throughout the winter in relation to the public debate on nature encroachment.

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 social role and social responsibility, and accordingly on our sustainability work in broad sense. The Supervisory Board held two physical meetings in 2023, one in Oslo and one in Inderøy in Trøndelag.

Employees

KBN's premises in Oslo are the place of work for all our employees. In 2023 KBN's employees worked from the office in the same way as before the pandemic, but the trial scheme involving employees having the option to work from home for up to two days a week was made as a permanent solution.

KBN organised a number of 'Lunch & Learn' talks for our employees in 2023, with topics such as macroeconomic developments, mental health, money laundering prevention, key rules on ethical conduct and IT security.

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, in particular to climate and nature.

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 our owner in 2023 and sustainability was one of the topics discussed. All the members of KBN's Board have annual discussions with our owner.

The authorities

KBN is subject to legislation, regulations and supervision in the same way as other financial institutions. KBN is one of the four financial institutions in Norway that have been designated as systemically important institutions. KBN held meetings in 2023 with inter alia the Financial Supervisory Authority of Norway, the Ministry of Finance, the Ministry of Climate and Environment, the Ministry of Trade, Industry and Fisheries, 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 2023, both in the form of physical meetings, digital one-to-one meetings and telephone conference calls. In addition, KBN distributed quarterly updates to investors around the world.

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. Rating agencies such as Moody's and S&P have developed methodologies for ESG rating, and Moody's carried out its first ESG ratings in 2022 of issuers including KBN. ESG is always on the agenda for KBN's annual meetings with credit rating agencies. KBN has established separate targets for the ESG risk ratings issued by Sustainalytics, ISS ESG and MSCI.

Suppliers

KBN's expectations for our suppliers are published on our website. We hold annual review meetings with our major suppliers, and KBN's expectations of the supplier and the supplier's work on sustainability are agenda topics for these meetings.

Society in general

KBN's activities affect Norwegian society, and we are therefore in close dialogue with a number of stakeholder organisations. In 2023 KBN organised open webinars on local energy production and local energy efficiency measures, as well as on the 2050 Climate Change Committee (in collaboration with the Norwegian Climate Foundation). KBN has a collaboration agreement with Ungt Entreprenørskap (Young Enterprise Norway) to help increase awareness of social entrepreneurship and sustainability in Norwegian lower secondary schools through the 'Student company' ('Elevbedrift') program. KBN has signed the Women in Finance Charter and was a contributor to its report for 2022.

Materiality analysis

A materiality analysis identifies an organisation's relevant sustainability-related issues and determines boundaries for its activities and reporting. KBN carried out the current materiality analysis in the autumn of 2022, as part of which key stakeholders provided input on KBN's priorities for our sustainability work going forward. With regard to internal stakeholders, all KBN's employees as well as our management team, Board of Directors and Supervisory Board were involved. With regard to external stakeholders, KBN conducted interviews with the Norwegian Association of Local and Regional Authorities (KS, local government sector interest group), Samfunnsbedriftene (an interest group for enterprises in the municipal sector), the Norwegian Climate Foundation (a climate interest group) and Citi.

The objective of the materiality analysis was to define KBN's most significant influence in respect of sustainability, and on the basis of this to ensure sound risk management, precise and reliable strategy and resource allocation, sound and relevant reporting and satisfactory compliance with rules and regulations. In addition, the materiality analysis facilitates anchoring and integrating sustainability into KBN's activities. The analysis was carried out using the concept of double materiality, which means that the analysis considered both how KBN affects, and is affected by, society and the environment. The following topics were identified as material:

Environment

- Greenhouse gas emissions
- Water and sanitation
- Responsible consumption of materials and the circular economy

Social

- Contribute to socioeconomic development in municipalities and county authorities
- Impact on local communities as a result of municipality and county authority activities
- Decent working conditions in the building and construction industry

Governance

- Improve financial expertise and access to financing
- Sustainability in the financial sector
- Involvement in political processes to strengthen work on sustainability in the local government sector

In 2023, KBN carried out a gap analysis to identify gaps with the EU's new CSRD, and in 2024 KBN will carry out a new double materiality analysis in line with the requirements of the directive.

The UN's Sustainable Development Goals

The UN's Sustainable Development Goals are the world's shared blueprint for eradicating poverty, fighting inequality and stopping climate change by 2030. The plan shall also ensure that today's needs are met without destroying the possibilities for future generations to meet their needs. The 17 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 rather 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 and documented the connections between our financing of green lending and the Sustainable Development Goals. See the 2023 KBN Impact Report.

The latest white paper on state ownership policy includes an expectation for state-owned companies that they will *'include work with the United Nations Sustainable Development Goals in the company's strategies and actively work to follow this up in day-to-day operations'.* KBN complies with our owner's expectations.

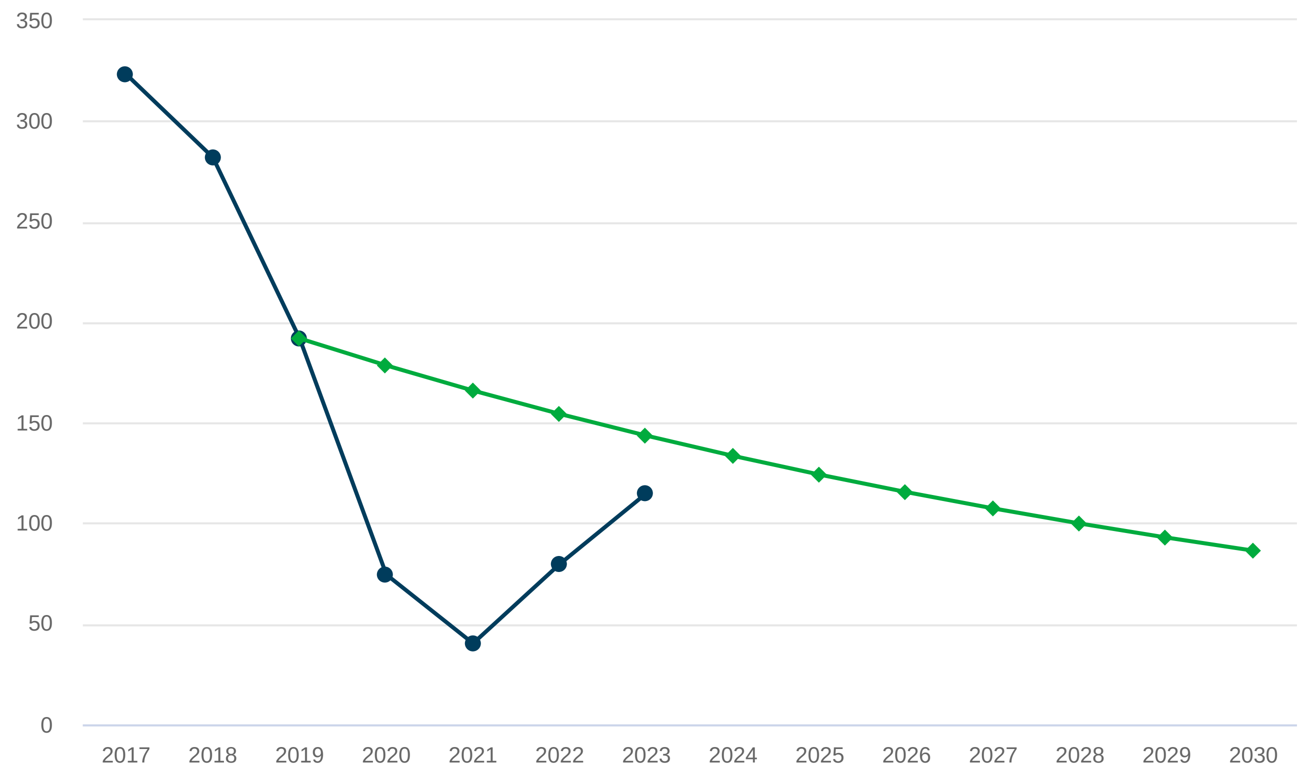
The Sustainable Development Goals that KBN has identified as particularly relevant to our activities:

Greenhouse gas accounting

Despite being somewhat indirect, the most important contribution made by KBN to Norway achieving its climate goals is our discounted green loans for projects/investments undertaken by the local government sector. These 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 we fulfil our societal duty to the sector that we serve. In 2020 KBN also adopted a long-term climate target to reduce our own emissions by at least 50% compared with the 2019 level before 2030. As part of KBN's target setting for 2022, the 2030 target was increased to at least 55%.

Chart: Emissions and emissions pathway

KBN's emissions between 2017 and 2023 and an emissions trajectory (dotted line) that would enable KBN to achieve its target of reducing our emissions by at least 55% by 2030 compared with the 2019 level.



This climate target means that we will need to do things differently in the future. Prior to the coronavirus pandemic, flights were responsible for about two-thirds of KBN's total calculated CO2 emissions. With nearly 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. Although digital meetings cannot fully replace physical meetings, it has been natural for digital meetings to continue to account for a significant proportion of our meetings even after the pandemic came to an end, not least because experience suggested that the time saved by using digital meetings is a significant benefit.

Table: Emissions in tonnes of CO_2e

Scope	Category	2023	2022	2021	2020	2019	2018
Scope 1			0.8	0.53	0.77	2.8	3.88
Scope 2	Location-based	38.02	35.72	30.6	50.61	57.79	57.21
	Market-based	162.11					
Scope 1+2	Total (location-based)	38.02					
Scope 3	Category 5	0.3					
	Category 6 Business travel	76.59					
	Total	76.89	43.21	9.13	23.08	131.25	220.73
Total		**114.91**	**79.73**	**40.26**	**74.46**	**191.84**	**281.82**

KBN’s greenhouse gas accounts 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 bank and finance criteria. KBN uses a location-based calculation for scope 2, but has included a market-based calculation in the table for the reader's information. KBN is of the view that our greenhouse gas accounts include the most material emissions within Scope 2 (indirect emissions related to the purchase of energy or cooling), including district heating, district cooling and electricity consumed in our premises. The Eco-Lighthouse Foundation has published its own emissions factors for location and market-based reporting methods, and we will report our Scope 2 emissions based on both methods starting with reporting for 2023, as emissions factors are not available for previous years. Based on the Greenhouse Gas Protocol, we have with effect starting from 2023 reclassified our emissions associated with reimbursing employees for business travel by car from Scope 1 to Scope 3 'Business travel', meaning that the bank’s calculated Scope 3 emissions for the time being includes Category 6 ‘Business Travel’ with emissions from flights and the driving of petrol, diesel and electric cars, and Category 5 ‘Waste’. The emissions factors for waste and business travel in diesel, petrol and electric cars are provided by the Eco-Lighthouse Foundation. Since 2019 KBN has used the ICAO emissions factors for emissions from flights.

Complete Scope 3 emissions cover all emissions from assets/activities that are affected by KBN’s activities but are emitted from sources that are not owned or controlled by KBN. This also includes KBN’s suppliers, as well as emissions financed by KBN’s lending and liquidity portfolio. Accordingly KBN’s greenhouse gas accounts are not currently fully comprehensive in respect of Scope 3, but do include material emissions that KBN is able to affect directly. In 2023 KBN started work on identifying material indirect emissions, with the objective of including as much as possible of the outstanding Scope 3 emissions in the greenhouse gas accounts. At the moment it is difficult to collect data of sufficient quality for KBN’s largest source of emissions in Scope 3, which comprises emissions financed through the lending portfolio. This is the case partly because the local government sector is not required to report emissions from the assets that have been financed, and partly because KBN’s loan portfolio only includes a limited proportion of project financing. Reference is made here to the statements in the white paper on state ownership policy that the state expects to see the use of science-based climate targets where these are available. It is not specified whether such targets can be judged to be available for lending in a situation where the assets financed cannot be clearly identified, and there is work in progress to investigate solutions to this question. Companies that are subject to the new reporting directive and sustainability requirements of CSRD will be required to report their entire climate gas emissions in respect of all three Scopes (as far as possible), as well as direct and indirect climate risk. In 2024 KBN will work further on gathering data and developing methods in order for it to be able to report all material Scope 3 emissions.

KBN seeks to contribute to transparency regarding greenhouse gas emissions and has for a number of years reported to CDP, the leading international organisation for environmental and climate disclosures. CDP’s assessment of the entities that report to it includes guidelines, greenhouse gas and energy accounting, and the measures and improvements that it has implemented. In 2023 KBN also became the first Norwegian financial institution to complete the CDP ‘Water Security’ questionnaire.

KBN’s external auditor, Deloitte, produces an annual certification statement for KBN’s greenhouse gas accounts.

Performance in 2023

KBN's achievement of its 2023 objectives was consistently good. We will work further in 2024 on the most important areas in which we did not meet our objectives. This primarily relates to financing more projects designed in accordance with the EU's Taxonomy, and mapping our material indirect emissions.

2023 Objectives	Status	Outcome
Green finance		
Increase green loans as a proportion of the total lending portfolio to at least 15%	●	15.4% of the lending portfolio was green loans at 31 December

Increase the proportion of municipalities with a green loan from KBN to 40%	40% of all municipalities had one or more green loans at 31 December
Identify three investment projects in the local government sector that seem likely to qualify pursuant to the EU Taxonomy	Entered into one agreement, with Sandefjord municipality, relating to the construction of a building for Vesterøya School, which will be in line with the EU Taxonomy criteria
Increase the number of projects for water and wastewater treatment in the green lending portfolio by 10 new projects	The number of projects in water and wastewater increased by 9
Increase the number of projects for waste and the circular economy in the green lending portfolio by 10 new projects	The number of projects for waste and the circular economy increased by 3
Increase the proportion of green funding to 8% of total funding	8,6% of total funding was green funding at 31 December
The proportion of sustainable investments in the liquidity portfolio to be at least equivalent to the proportion of green funding relative to total funding	14,2% of the liquidity portfolio consisted of sustainable investments, which exceeds the share of 8.6% of total borrowings

Emissions

Through green lending contribute to at least 12,000 tonnes of reduced and avoided CO2e emissions	14,034 tonnes of CO2e emissions reduced and avoided[3]
Reduce calculated emissions by at least 35% from the 2019 level	KBN's emissions in 2023 were 40% lower than in 2019
Identify emissions resulting from KBN's lending (Scope 3)	In 2023 KBN entered into a collaboration with KS and KLP to map emissions resulting from lending, and this will continue in 2024

3 See the 2023 Impact report.

Identify material emissions from KBN's suppliers and identify suppliers' own targets for emissions reduction (Scope 3)	Identification work started and will continue in 2024
Social objectives	
At least 75% of employees to have completed KBN's Kompetanseløftet in the course of the year	85% of employees completed Kompetanseløftet in 2023
A score of at least 4.1 (on a scale of 1-5) for employee engagement in the employee survey	A score of 4.5 was achieved for employee engagement in the 2023 employee survey
Be available for new loan applications from all municipalities, and maintain a lending relationship with at least 97% of all Norwegian municipalities and county authorities	99.16% of all municipalities and counties in
Measure the number of customers that have in place internal control procedures including conflicts of interest, business ethics, whistle-blowing and evaluating the risk of financial criminality	Ethical guidelines: 98% Whistle-blowing: 89% Rules on conflicts of interest: 85% Procedures for evaluating the risk of financial criminality internally: 58%
Include questions on customers' requirements for follow-up of their suppliers in relation to the procurement of materials and operation of building and construction projects through dialogue with customers and follow-up	Number of replies: 483 out of 943 customers
Governance	
Carry out KBN Skolen I & II events	KBN Skolen 1 and 2 events were held in 2023
Continue the development of KBN's customer portal with relevant content	The customer portal was developed on a continual basis in 2023, primarily in the form of a major technical update

Through arranging events and initiatives, contribute to greater commitment to sustainability in the finance sector and making the finance industry a driver in the green transition, including through its role as a source of capital		Events were organised on energy efficiency and local energy production (in Bodø, Bergen and Arendal) One webinar on Norway's 2030 Climate Change Committee was held KBN co-organised the Municipality Finance Conference
Contribute expertise that can help to strengthen the local government sector's work on sustainability		Green loans and climate risk were topics at all customer seminars in autumn 2023. Carried out various insight work on interest and debt management
Give municipalities and county authorities access to their climate risk scoring by KBN		Climate risk scoring for all municipalities has been developed and is available internally. The information will be made available to all municipalities in 2024
Targets for ESG-ratings: MSCI: AA ISS ESG: B Sustainalytics: Low risk		MSCI: AA, Sustainalytics: Low risk, ISS ESG: C+ (no new analysis completed in 2023)

Objectives for 2024

Environmental objective (E)

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 1.05 million using a discount rate of 4%. 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.

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 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 our Green Expert Committee, which is composed of representatives from relevant specialist groups, authorities, and the local government sector.

An overview of the projects financed by a green loan from KBN is available on the KBN website. At the end of 2023, KBN's outstanding green loans represented approximately 15.4% of our total lending. KBN has a target of increasing this to at least 17% of our lending portfolio by the end of 2024. As a consequence of these targets, KBN also sets a target for the greatest possible number of municipalities to prioritise green investments rather than conventional investments. The target for 2024 is for at least 45% of municipalities to have at least one green loan from KBN.

As part of our strategy to be a leading player in green finance, KBN launched a pilot project in 2023 for the financing of projects adapted to the EU Taxonomy. This resulted in an agreement with Sandefjord municipality relating to the construction of the first school building adapted to the EU Taxonomy in Norway. In 2024, KBN's objective is to secure five new agreements for projects adapted to the EU Taxonomy with green loans from KBN.

KBN's green bonds are issued in the international capital markets. In 2023 KBN issued one green benchmark bond, a CAD 500 million bond. At the end of 2023, 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 2023, the total outstanding volume of KBN's green bonds was, in NOK terms, NOK 38.6 billion. This represents approximately 8.6% of KBN's total borrowings.

Climate risk

KBN expects that our investors will increasingly attach weight to climate risk and in a broader sense to ESG risk when making investment decisions, and has therefore worked since 2018 on identifying and managing climate risk both within our own organisation and at our customers. See section Disclosure of climate-related risks and opportunities for more detailed reporting on climate risk.

KBN's customers face *physical risks* associated with climate change and global warming, 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. In November 2022, Norway notified the UN that it had submitted an enhanced climate target of reducing emissions by at least 55% by 2030 compared to 1990 levels. The local government sector will play an important role in achieving this target. 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 has developed a climate risk tool for the local government sector that will continue to be developed 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. KBN has designed a model for classifying individual municipalities' climate risk, which is taken into account in KBN's assessments of its customers' creditworthiness. The model comprises indicators for both physical climate risk and transition risk, and will be made available to municipalities over the course of 2024. Going forward, KBN will work on expanding the climate risk model to include other types of ESG risk.

In 2022, KBN implemented a sustainability strategy for our 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, i.e., issuers. KBN has carried out continual ESG screening of our liquidity portfolio with quarterly reporting since 2022. KBN adopted *Guidelines for Sustainable Investments* in 2023.

Objectives for 2024

- Increase green loans as a proportion of the total lending portfolio to at least 17%
- Increase the proportion of municipalities and county authorities with a green loan from KBN to at least 45%
- Finance five new projects designed in accordance with the EU Taxonomy criteria
- Further develop KBN's green loan criteria to include physical climate risk for large projects
- Further develop KBN's green loan criteria to include conserving or restoring nature
- Increase the proportion of green funding to at least 8% of total funding
- The proportion of sustainable investments in the liquidity portfolio to be at least equivalent to the proportion of green funding relative to total funding
- Reduce KBN's calculated emissions by at least 40% from the 2019 level
- Develop a methodology for calculating emissions from KBN's financing with the aim to set science-based targets for reducing these emissions

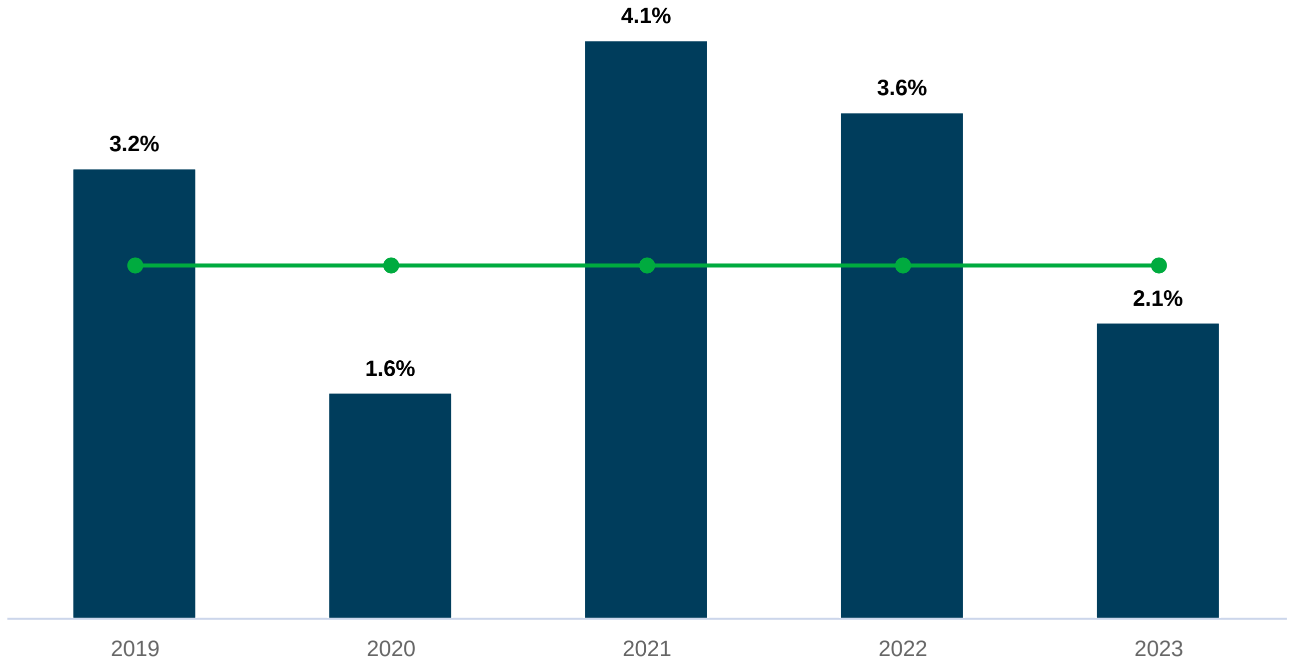
Social objectives (S)

KBN seeks to be recognised as a knowledge business in financing and in relation to the development of future-oriented financing solutions for Norwegian county authorities and municipalities. We strive to have strong specialist teams that work to develop and share their knowledge. 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. A central part of our strategy is that we continually renew our expertise in order for KBN to be relevant and create value for our customers both now and in the future. 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. This was a success and has become a permanent offering for employees.

Employee engagement and wellbeing at work can affect motivation, productivity and the quality of employees' work. KBN carries out regular employee interviews and surveys to map employees' perception of their day-to-day work and opportunities for improvement. KBN is committed to ensuring all employees have good working conditions. In 2023, development discussions were conducted with all permanent employees. When analysed by employee category, development discussions were conducted with 100% of female staff and 100% of male staff in the senior management team and with 96,3% of female staff and 95,7% of male staff at other levels of the organisation. Those who did not conduct development discussions were either on leave or were employed late in the year. 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 2023 and carried out risk assessments in relation to health, safety and environmental issues, as well as related inspections.

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. 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.

Chart: Sick leave rate over the last five years
Line shows KBN's target of a sick leave rate of below 2.5%



The surplus from KBN's activities largely returns to the Norwegian community as a whole through the dividends paid to the owner and transfer to the bank's equity. The latter to ensure necessary build-up of capital to meet the capital adequacy requirements to which KBN is subject, while having the capacity of lending to the municipality sector. The state's particular objective for its ownership of KBN is *'to offer stable, long-term and effective financing to the municipal sector'*, and the bank have also in 2023 been present for the sector during periods of pressure and high prices in the capital market. KBN is the only financial institution in Norway that offers loans with maturities of up to 50 years, giving customers access to financing appropriate to the lifetime of the investment to be financed. KBN ensures that the high creditworthiness of the government sector is reflected in their borrowing costs, and that this includes the small and medium-sized municipalities that do not have their own rating and only have limited opportunities to directly access the capital market in an efficient way. While KBN is more important for the small and medium-sized municipalities, it aims to contribute to sustainable economic development throughout the local government sector.

KBN’s lending is used by our customers to finance investments in school buildings, healthcare buildings, nurseries, water and waste processing facilities, cultural venues and sports halls throughout Norway. KBN is committed to ensuring that the loans facilitate efficient welfare production to the benefit of residents, and that there should be good working conditions for the building and construction industry for both urban and rural projects. Questions about customers’ own internal control and monitoring of suppliers in connection with procurement are being given more attention in KBN’s follow-up of our customers. KBN asks all the municipalities whether they use ‘proper conduct’ clauses in relation to HSE, working conditions etc. in their building and construction contracts, and will work to encourage more municipalities to use such clauses.

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 procurement processes are designed so that they help promote KBN’s environmental, social and governance 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. See KBN's 'General guidelines for procurement'.

The Transparency Act entered into force on 1 July 2022. The purpose of the Act is to promote enterprises’ respect for fundamental human rights and decent working conditions, and to ensure public access to information in this respect. The Act imposes a duty on enterprises to disclose information and to carry out due diligence, and publish a report in respect of these requirements, which is published on our website.

KBN has 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. KBN has signed the Women in Finance Charter. See section Statement on equality for further information on the bank's work in diversity and equality.

Social objectives for 2024

- At least 75% of employees to have completed KBN’s Kompetanseløftet in the course of the year
- A score of at least 4.4 (on a scale of 1-5) for engagement and of 4.1 for work accomplishment in the employee survey
- A sick leave rate of under 2.5%
- A gender balance of at least 40% for both sexes among the bank’s employees

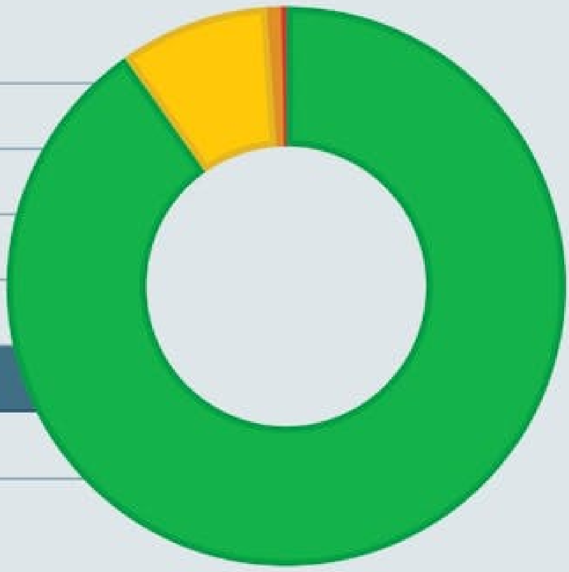
Governance (G)

As the largest lender to the local government sector, 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 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.

Despite all municipalities and counties cannot be declared bankrupt, KBN has developed its own credit assessment model that is at the heart of our lending processes which are reviewed annually for all customers. 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 our 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, and KBN has accordingly published details of its credit assessment model. KBN has also developed a model for classifying each individual municipality's climate risk and integrating this information into its credit assessments. The model will be further developed to incorporate other types of ESG, and will form part of KBN's discussions with customers going forward.

Chart: Number of municipalities and county authorities by category in KBN's credit assessment model
Includes Longyearbyen Community Council

Green	331
Yellow	32
Orange	3
Red	1
Total	**367**
Not green	*36*



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. KBN's customer portal is subject to continual development with new functionality and new tools to deliver greater value added for KBN's customers.

KBN contributes to the sharing of knowledge, including by offering regional finance seminars and through the KBN Skolen I/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. With our climate risk tool, KBN aims to help customers to also evaluate and manage their exposure to climate-related risk. KBN's booklet on local measures to improve energy efficiency and energy production draws on the experience of municipalities that have carried out measures to reduce costs, energy consumption and emissions to inspire other municipalities to follow their example.

Rating agencies, issue managers and investors are including and emphasising ESG data in their evaluations to an increasing extent. Poor ESG scores can play a role in companies being excluded from investment universes, and can push up their financing costs. KBN is therefore committed to making available the information on our sustainability activities that ESG rating agencies need for their analyses. KBN is rated among the best in its class by the leading ESG rating companies MSCI, Sustainalytics and ISS ESG.

In 2023, KBN mapped the proportion of its customers that have internal control procedures, including in respect of conflicts of interest, business ethics, whistle blowing, and the assessment of the risk of financial criminality. KBN has also incorporated into its discussions and monitoring of customers questions regarding the requirements they impose on their suppliers and how these are monitored, specifically in relation to procurement and building and construction projects. In 2024, KBN will follow up on this in its discussions with customers with the aim of creating greater awareness among its customers.

Governmental objectives for 2024

- Target ESG ratings: MSCI: AA; ISS ESG: B; and Sustainalytics: Low Risk
- Climate risk assessments in KBN's credit model to be included in discussions with customers
- Discuss the customer's work on internal control, its monitoring of building and construction projects, and financial sustainability in at least 50% of all customer meetings

Statement on equality

Current status of gender equality

KBN has over time implemented a number of initiatives and measures to achieve 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. The table below shows the proportion of women and men by organisational level at the end of 2022 and 2023. KBN can report good results for the gender balance at the CEO and management team level for both years. The gender balance for all employees has been stable over time, but in 2023 we were below our target of 40% of all employees being women.

The reduction in the proportion of female employees was due to more women having left KBN, and the fact that the majority of new employees were men. Two factors explain the disproportionate number of women leavers. A majority of the company's older employees are women, meaning more women are retiring. In addition, KBN has in recent years employed a number of younger employees with attractive expertise. These individuals have access to offers and opportunities at other companies.

At the middle management level, the skewed distribution is mainly due to reorganisation and staff turnover and the fact that in the period more men than women were appointed at this level. Despite a great deal of effort, finding female candidates in some specialist areas is challenging, particularly in finance and technology.

Chart: Gender balance in percentage by organisational level at the end of the year

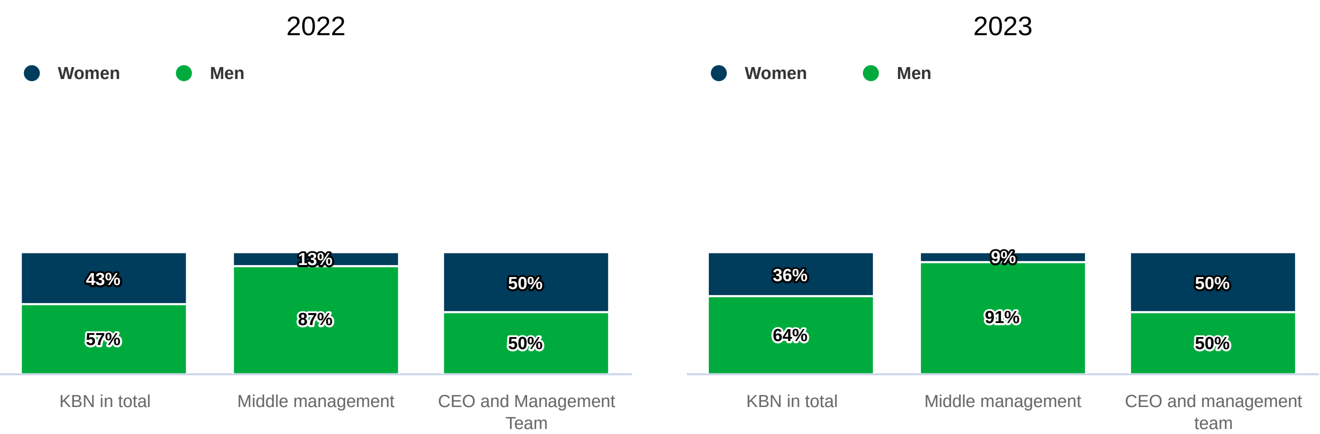


Table: Temporary employees, parental leave and part-time working

The figures in the table are for the 2023 accounting year and as at 31 December 2023

Temporary employees *(to a large extent students in part-time employment)*		***Absence on parental leave*** *(average no. of weeks)*		**Part-time working (primarily students)** Actual part-time work		Involuntary part-time work	
Women	**Men**	**Women**	**Men**	**Women**	**Men**	**Women**	**Men**
3	2	3	2	3	2	0	0

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 substantial welfare reasons. KBN also offers part-time employment opportunities for students. Most employees working in part-time positions at the close of 2023 were students, and no-one at KBN is required to work on a part-time basis against their wishes (involuntary part-time working). We use the services of temporary staff only to a small extent. The general exceptions are temporary staff substituting for employees on leave of absence and temporary project staff, as well as students, who account for the major part of the temporary staff reported.

Table: Parental leave in weeks

The table shows the average number of weeks for which men and women took parental leave in 2023

Women	Men
29.1	14.7

Information on salaries

The table below 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 2023 accounting year. We considered 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: Women's salaries as a percentage of men's salaries across six employment groups

Group	Number of women	Number of men	Women's salaries as a percentage of men's	Examples of roles in the employment group
Group 1	1	0	N/A	CEO
Group 2	3	4	95%	Managers in the management team
Group 3	1	10	N/A	Middle managers, technical specialists
Group 4	22	40	84%	Faglig ansatte
Group 5	2	0	N/A	Administration employees
Group 6	2	2	100%	Students

The differences in group 4 are primarily explained by the number of men who have worked at KBN for a long time and the over-representation of men in specialist roles. At the same time, a number of experienced women in this group have left the company in recent years, and young women in an early stage of their career are now over-represented in the group. We will carry out further work on identifying differences that can be linked to gender and will continue our work to secure more female candidates when recruiting, with the aim of increasing the proportion of women and closing the salary gap.

Work to promote equality and prevent discrimination

KBN arbeider aktivt, målrettet og planmessig med bærekraft, herunder for likestilling og ikke-diskriminering. Likestillingsarbeidet omfatter alle diskrimineringsgrunnlagene på de ulike personalområdene; rekruttering, lønns- og arbeidsvilkår, forfremmelse, utviklingsmuligheter, tilrettelegging og mulighet for å kombinere arbeid og familieliv, andre relevante forhold, samt arbeid mot trakassering, seksuell trakassering og kjønnsbasert vold.

We have set the following ambitions for our 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 focus on diversity.
- An Action Plan based on risk assessments will be produced and disclosed throughout the KBN organisation.

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. KBN's ethical guidelines (Code of Practice) include rules on conduct. KBN has zero tolerance for harassment, sexual harassment, or discrimination. 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 and are assessed to identify any inequalities. KBN also imposes requirements for its suppliers' work on diversity and equality.

Our work to promote equality and prevent discrimination in practice

Our ambitions, objectives, and measures to ensure equality and prevent discrimination are firmly anchored with KBN's management. Our guidelines set the direction for our work in this area, together with our ambitions and strategic objectives. 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. Equality and discrimination are topics in management and employee development. Meetings of the Workplace Environment Committee (Arbeidsmiljøutvalget) are held regularly, and the measures adopted are followed up in collaboration with the employee representatives and the Committee

KBN's Human Resources (HR) function has the overall responsibility, and collaborates closely with the employee representatives and the Workplace Environment Committee in its work on the activity duty and the duty to publish annual statements using a four-step working method. A number of meetings were held in collaboration with the employee representatives to investigate the risk of discrimination and barriers to equality. KBN's guidelines, policies and working procedures in all areas of human resources have been reviewed with a focus on all sources of discrimination. A range of measures based on the risk assessment have been implemented and continued.

The annual employee survey combined with systematic follow-up maps the working environment, including equality and discrimination. Employee development interviews that address these topics 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, harassment, or sexual harassment.

Gender balance is measured continuously by quarterly reporting and at the start of recruitment processes. The annual salary review process is reviewed to identify any inequalities before the final decisions on salary increases are approved. Gender equality is mapped in collaboration with employee representatives every other year.

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 in recruitment, and for some departments 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 were aimed at creating a corporate culture and management for inclusivity and diversity.

In 2023, two employees, one a member of the management team and one an employee in HR, completed a certification course in diversity management. The knowledge they gained was shared with all KBN employees through talks, and a number of workshops on diversity and the gender balance were run for the management team. KBN intends to progress its work in this area in 2024, and diversity is an ever-growing part of KBN's strategy.

KBN has over time pursued a number of initiatives and measures for work on gender balance. The overall gender balance for employees in total has been relatively stable over time and is in line with our ambitions. The gender balance at the senior management level was 50% at the close of 2023, unchanged from the previous year. At the middle management level, KBN has an imbalance in gender representation, which is due to a combination of more female middle managers having left the company, organizational changes that have been made, and the fact that more male employees have been appointed. The gender balance overall falls short of KBN's target of at least 40% of employees being women.

Table: Gender balance among new employees

The following table sets out the gender balance at KBN among new employees over the last five years:

Year	Women	Men
2019	6	7
2020	4	9
2021	10	5
2022	6	4
2023	3	13

KBN strives to ensure a good gender balance and attract a diverse range of candidates with differing expertise, background, and experience. The bank worked purposefully on this in 2023, even though the outcome of the processes resulted in a high proportion of newly hired men, as indicated in the table above. In our work on promoting diversity, we believe that placing significant emphasis on diversity in recruitment processes is an important tool for achieving our ambitions. This represents a challenge for certain areas of expertise where we experience a much higher proportion of male rather than female applicants. This reflects the situation in the finance and tech industries where there is still a relatively large over-representation of male employees, although the situation is moving in the right direction with increasing numbers of women taking up employment in these sectors.

A number of measures intended to increase the number of women that KBN appoints have been implemented. These include women designing KBN's job announcements, ensuring its interview panels have a balance of genders, and using head-hunters to increase the number of female candidates. However, more men than women are being employed. As discussed above, finding female candidates represents a major challenge, particularly in finance and tech. In 2023 we reviewed and continued to work on improving our routines and templates for the recruitment process to ensure that candidates are treated equally to a large extent. Unconscious discrimination can affect the assessment of candidates. A recruitment course for managers will be run in 2024 which will include this topic.

KBN's membership of the Women in Finance Charter means we are required to set internal targets for the gender balance at the managerial level, to nominate one person at the management level who is designated as having responsibility for monitoring work in this area, to publish our status and progress, and to link management remuneration to the achievement of our targets. We attend network meetings and conferences to keep up with developments in the area of gender balance in general in our industry and to share our experiences and challenges with other companies.

We have implemented a number of measures over time that have had positive effects and that we continue to use. Our new and existing measures to ensure diversity and a gender balance in recruitment include the following:

- 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 CEO.

- Structured recruitment processes and training in diversity recruitment, including training in avoiding unconscious bias. Appropriate training for managers involved in recruitment will continue in 2024.
- 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 succeed in recruiting 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.

We will also continue with the target of ensuring that manager and employee development includes diversity management and the avoidance of unconscious discrimination. It is also important that we have a long-term perspective on the outlook for diversity and gender balance in our middle management roles. 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 focussing on 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 worked proactively to reduce the observed differences in how employees take advantage of the competence building opportunities that KBN offers. Our 'Kompetanseløftet' skill development program is intended to challenge all employees to develop their expertise and to learn something new each year. Managers are appraised on the basis of the take-up for this program in their departments. This also serves to ensure that everyone is given equal opportunities for personal development. The program continued in 2023 with a completion rate of 85%.

We celebrated both World Mental Health Day and Pride at KBN with a number of activities for employees, with high attendance. We also ran dilemma training for individual employee groups with a focus on sexual harassment, discrimination and whistle blowing.

There is a risk that key employees may experience that others are largely dependent on their deliveries, which in turn can cause stress. We have therefore continued and expanded a number of measures 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.
- Arrangements that continue after core hours or normal working hours are planned well in advance. As a general rule the work-related element is scheduled during normal working hours.
- Hybrid working whereby employees have the option to work at home for up to two days a week to give employees flexibility in terms of where they work, and to ensure a balance between work and free time due to less time spent on travelling to/from work.
- Our work on our meeting culture and our management of meetings will continue in 2024.

- Employee development interviews include the topic of whether the employee needs any workplace adaptations.
- The transition to an activity-based office at KBN's new premises will meet different needs that employees have in the course of their working day. The solution provides varied working areas that support different ways of working, e.g. quiet areas for work that requires concentration, as well as areas for collaborating and a rest area.

Results of the work carried out

The employee survey carried out in 2023 shows that the majority of our employees think that KBN has an inclusive working environment. 72% of employees agreed with the statement 'At KBN, we are very accepting of diversity', while 17% had no particular view either way, and 9% disagreed. A preventative workplace inspection was carried out in December 2023 with particular focus on matters including the working environment, discrimination, harassment and sexual harassment. The inspection reported good results.

Courses and workshops on the themes of diversity and equality have created engagement, and are a major focus area and priority for the management team. Dilemma training with a focus on discrimination and potential uncomfortable situations was provided to employees who are frequently in contact with third parties. This measure is being continued, and will be provided to more employees in 2024.

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 follows an annual schedule with regular meetings held between the employer and employee representatives. The activities in 2023 were carried out in accordance with the annual schedule and will therefore also be scheduled again for 2024. The Action Plan for 2024 set out below details the plans and priorities for further action:

Action plan for 2024

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.

Background for measures/status/risk	Description of measures	Objectives for the measures
Recruitment		
There may be inequalities in diversity, including gender balance for certain levels/departments.	Equal treatment shall be applied whereby expertise and personal qualifications are evaluated regardless of gender, disability, age, cultural and geographic background.	Ensure a good gender balance and that we attract a diversity of candidates with a range of different expertise, backgrounds and experience.
Focus on diversity and recruitment in all our processes.	Stipulate requirements for diversity and non-discriminatory processes when using external recruitment services.	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.
	Identify the best qualified woman and the best qualified man in all recruitment processes.	Reduce the possibility of unconscious discrimination.
	Training in diversity recruitment and non-discriminatory processes.	
	Focus on diversity throughout each recruitment process, e.g. when designing job descriptions, publicising vacancies and profiling candidates, ensuring the interview panel has a balance of genders, and using objective and fair selection methods.	
Promotion and personal development opportunities		
Employees shall be given equal opportunities in respect of competence building and career advancement, salaries, and flexible working.	Continue the skill development program (Kompetanseløftet).	Equal opportunities for competence building and career advancement.
Focus on diversity in succession planning for key positions and management roles.	Employee interviews with individual development plans.	
	Language training for employees who do not speak Norwegian.	
Pay and working conditions		
Salary discrimination 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.	Mapping whether there is equal pay for the same work or work of equal value at all times at KBN.
Risk of age-related salary discrimination.	Salary adjustments to be assessed in respect of any inequalities before the changes are finally decided.	Avoid age-related discrimination for annual salary adjustments.
	Full-time employment to continue to be the general rule, with some opportunities for part-time employment.	
Adaptations		
No need for specific measures.	Topic to be given more attention as a possible topic for employee development interviews.	Employees with temporary or permanent disabilities shall be provided with adaptations appropriate to their individual requirements through discussion with their manager.
	Preventative workplace inspections to be carried out yearly.	
Work and family life balance		
Meeting culture.	Include the topic of managing meetings in workshops.	Improve the efficiency of meetings, ensuring breaks between successive meetings.
Long working days can have an adverse effect on family life.	Managers and employees take joint responsibility. Plan for equal sharing of duties and time allocation.	All employees to have equal opportunities to combine work with family life.
Key person risk and high level of dependence on individual employees can create time pressure in some departments.	Analyse overtime and workloads in different departments.	
Harassment, sexual harassment, and gender-based violence		
KBN has zero tolerance for discrimination, harassment and sexual harassment.	Ensure all employees are fully aware of the current guidelines.	Ensure a safe working environment.
Unconscious discrimination may be encountered through the comments and conduct of customers and colleagues.	Breaches of the guidelines may result in sanctions.	Monitoring by preventative workplace inspections/ employee surveys.
	Training in appropriate behaviour for all employees.	Corporate culture and management to promote inclusivity and diversity.

Background for measures/status/risk	Description of measures	Objectives for the measures
Other relevant areas (e.g., working environment Preconceptions/ attitude/ culture)		
Attitudes and preconceptions can affect the perception of corporate culture and interactions with colleagues, customers, and collaboration partners.	Training for managers in diversity and equality.	Corporate culture and management to promote inclusivity and diversity.
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 management.	Celebrate Pride.	Prevent unconscious discrimination.
	Celebrate World Mental Health Day.	Ensure a good working environment .
	Be conscious of diversity and inclusion when planning social events.	

Disclosure of climate-related risks and opportunities

Governance

Description of KBN's governance of climate-related risks and opportunities.

1. 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. Climate-related risk is included in KBN's assessment of its overall capital requirements through the Internal Capital Adequacy Assessment Process (ICAAP), which is approved by the Board of Directors and evaluated by the Financial Supervisory Authority of Norway.

KBN's Risk Management Committee ensures that KBN operates within the stipulated risk appetite, and that the guidelines for risk management are followed. The Board's Audit Committee carries out independent monitoring of the company's sustainability-related reporting, including climate-related risk.

The Board receives reports on KBN's green lending, greenhouse gas emissions and ESG screening of the liquidity portfolio at least quarterly.

The Board receives an annual internal audit opinion for KBN's Green Bond Framework.

2. Management's role in assessing and managing climate-related risks and opportunities

Climate-related risk involves several departments at KBN:

Chief Lending Officer: Responsible for mapping customers' exposure to climate-related risks, including the climate risk methodology that is integrated into KBN's model for credit assessment of lending customers (see the presentation of the model in the Risk management section.)

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

Chief Risk Officer: Responsible for ensuring that all areas of risk, including climate-related risk, are identified, measured and managed. The Chief Risk Officer is responsible for risk reporting to the Board.

Chief Compliance Officer: Responsible for ensuring compliance with the regulatory framework and guidelines related to sustainability and climate-related risk.

Head of Legal Operations: Responsible for monitoring and reporting to the Board on regulatory changes that may affect KBN, including changes that relate to climate-related risk.

Head of Sustainability and Communications: Responsible for communicating KBN's work on climate-related risk to KBN's stakeholders, including the Board of Directors, on a continual basis.

See the section *Organisational structure and governing bodies*.

KBN launched a climate risk model for Norwegian municipalities in 2019, and this model is subject to a continuing program of development.

Strategy

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

1. Climate-related risks and opportunities that KBN has identified over the short, medium, and long term

Risks in the short, medium and long-term

KBN's customers are exposed to various forms of climate-related risk, including physical risk, transition risk and liability risk. In the short term, individual incidents have immediate financial consequences, and in the medium term impacts may over time affect the customers' economic leeway, including their ability to access new debt financing. In the long term, this may have an impact on KBN's lending activity. Evaluation of each customer's climate-related risk exposure has been included in the annual customer risk assessment since 2022.

Opportunities in the short, medium and long-term

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 somewhat better demand and prices for the green bonds it issues, than other types of financing. This advantage is expected to increase over the medium term.

Green loans account for over 15% of KBN's lending portfolio. Investments financed by green loans must comply with strict criteria and be deemed to be part of the road to a low emissions society.

KBN has mapped its criteria for green loans against the technical criteria for 'significantly contributing' and 'do no significant harm' (DNSH) in the EU Taxonomy. The mapping of the portfolio against the criteria for 'significantly contributing' showed that approximately 19% of KBN's green loans were aligned with the technical criteria, while approximately 52% were evaluated as likely to be aligned. However when the 'do no significant harm' criteria were included in the assessment, there was no basis to conclude that the portfolio's criteria are aligned with the technical criteria, which demonstrates the Taxonomy's high level of ambition. The Taxonomy criteria will naturally be taken into account when KBN's criteria for green loans are revised.

The Ministry of Finance has expressed the view that it is natural to expect that companies that carry out activities that satisfy the criteria in the EU Taxonomy will have better access to capital in the future. An increase in the proportion of investments by KBN's customers that qualify as green investments will over time help to reduce climate-related risks, for example investments in zero emissions technology are expected to reduce transition risk, and climate adaption measures reduce physical risk.

2. Actual and potential impacts 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.

With regard to its funding, KBN is well positioned to meet the increasing 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 sustainability-related bond issues by high quality issuers. In 2023, KBN launched a pilot project relating to the financing of projects that are adapted to the EU Taxonomy. This is a strategic measure approved by the Board of Directors. KBN has a target of financing five new projects adapted to the EU Taxonomy in 2024.

3. The resilience of KBN's operations, strategy and financial planning, taking into consideration different climate-related scenarios

CICERO (the Center for International Climate Research) has developed three 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 here (only in Norwegian).

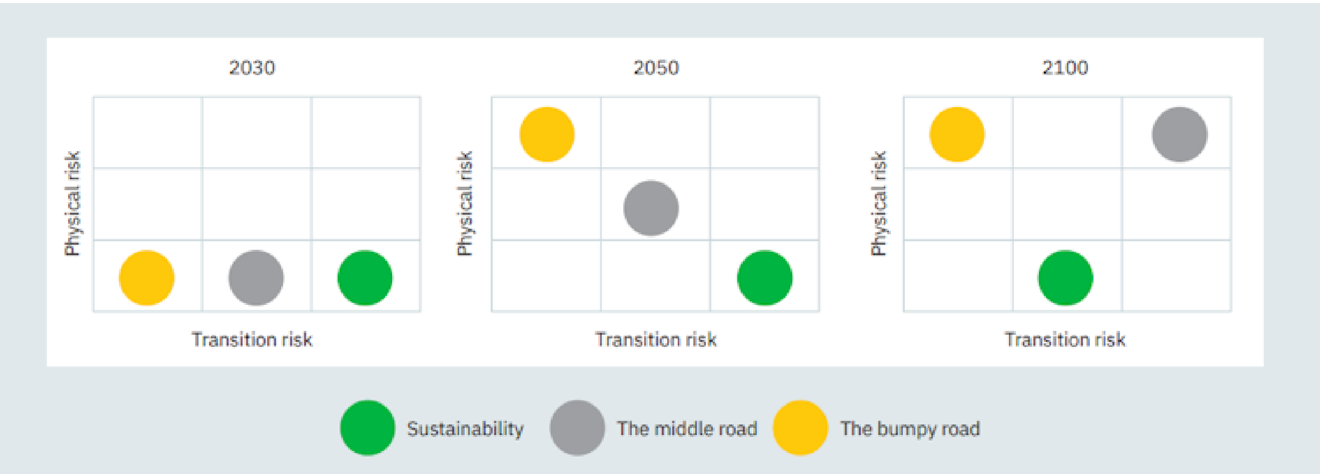
Scenario 1: Sustainability – the green road (SSP1-2.6): Strong climate policies are implemented starting in 2020, emissions fall, and the world achieves the goal of the Paris Agreement. This is the scenario with the strongest economic growth, but it assumes significant investment by both the public and private sectors. The economic picture continues to be sufficiently positive (relative to the other scenarios) for the local government sector in general to be able to invest significantly in the transition to low carbon solutions in terms of buildings, transportation and infrastructure, as well as in climate change adaptation measures in areas such as the water and wastewater sector. This means the local government sector will need to have greater access to debt capital throughout the entire century.

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, the Norwegian economy still grows well over the century, driven primarily by continued investment in the petroleum industry. Norway's oil revenues decline after 2050, but natural gas revenues are high for a few more decades before they in turn decrease. 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 invest in climate change adaptation increases significantly, the local government sector will have a significant need to invest that will coincide with a reduction in the revenues it receives from key industries. KBN considers that in scenario 2 the level of demand for debt capital would remain steady in the first half of the century but then increase in the second half.

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. Norway's gross national product is lower than in scenario 1 and scenario 2, and this will have an effect on local government sector finances. The oil and gas industry performs well in the first half of the century, but other important industries will be threatened by physical climate-related risk caused by the effects of climate change. Norway's local government sector will face major challenges in relation to adapting to climate change and carrying out repairs after extreme weather. In this scenario, the Norwegian state and local government are expected over time to have significantly less financial room for manoeuvre, which in turn means a smaller market for KBN. The weaker financial situation of both the Norwegian state and local government authorities could impact KBN's credit rating and funding costs.

Chart

The three scenarios represent different levels of physical climate risk and transition risks respectively between 2030 and 2100. For example, will the "Green transition" result in a high level of transition risk in the short-term because the transition needs to happen quickly, with the result that the benefit comes in the form of lower physical risk in the long term relative to the other scenarios?



Risk management

Description of how KBN identifies, assesses and manages climate-related risks

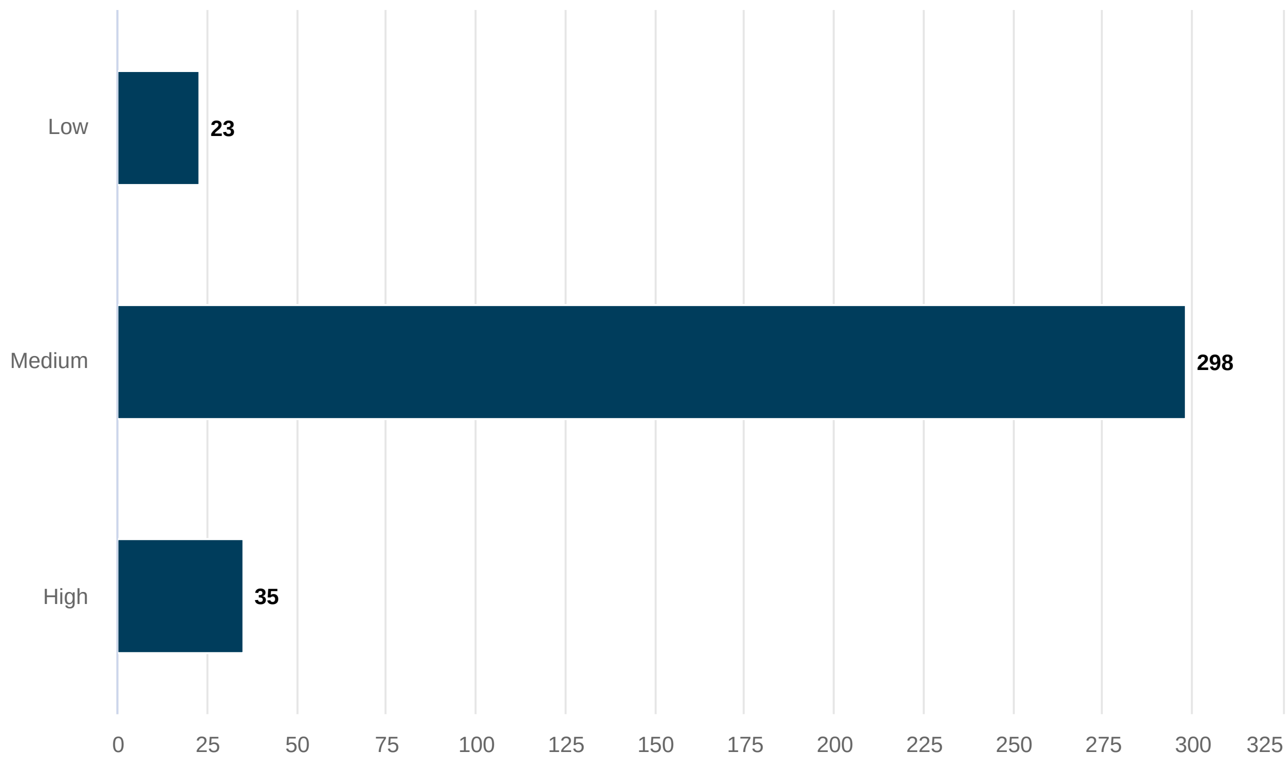
1. KBN's processes for identifying and assessing climate-related risks

KBN is indirectly exposed to climate-related risks - in the extreme case climate-related risks that impact the long-term financial sustainability of municipalities and county authorities would also impact the state and KBN.

Climate risk is integrated into KBN's credit assessment model for customer lending. The model applies 10 microeconomic indicators, e.g. changes in GHG emissions, storm surge vulnerability as sea levels rise and how updated the municipality's risk-and vulnerability analysis is, to give a climate risk score for each municipality on a scale of 'Low', 'Medium', and 'High'. Most of the municipalities have been given a "medium risk" score in the model. Municipalities that score high in the model tend to have large point emissions from industrial companies that employ relatively many people, have very old wastewater networks and relatively high emissions per inhabitant. Municipalities that do well have low emissions per inhabitant, are not exposed to storm surges, have up-to-date risks- and vulnerability analyses and a significant proportion of green loans. In 2024, KBN will provide details of the climate risk assessments in its credit model in its discussions with customers.

Chart: Risk scores

On the basis of ten microeconomic indicators, each municipality is awarded a risk score of 'Low', 'Medium' or 'High'



2. KBN's processes for managing climate-related risks

Climate is integrated into a number of the categories in KBN's risk management framework:

Capital risk: KBN expects that changes to the regulatory framework are likely to 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 developed a strategy for its liquidity portfolio in 2022 that takes into account ESG factors and has carried out routine ESG screenings of the holdings in its liquidity portfolio. KBN has a well-developed green funding program that will support its access to capital when capital flows are being directed toward sustainable investments. The Board's risk appetite in relation to liquidity risk is 'very low'.

Credit risk: Norwegian municipalities and county authorities, which represent the most important credit counterparties for KBN, cannot be declared insolvent, meaning that KBN's exposure to default risk is very low. Despite this, KBN assesses the creditworthiness of municipalities and county authorities regardless of the insolvency protection, and also works to analyse the climate risks to which municipalities and county authorities are exposed. The Board's risk appetite in relation to overall credit risk is 'low'.

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

Operational risk: 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-related risk is described in KBN's *'Documentation of risk profile and assessment of capital requirements'* (ICAAP).

3. How processes for identifying, assessing and managing climate-related risks are integrated into KBN's overall risk management

KBN carries out annual reviews of risk exposure to ensure that all material risk is identified and satisfactorily managed. This review includes climate-related risk.

In addition to the climate risk scoring mentioned above, KBN implemented ESG and NBS screening of its liquidity portfolio in 2022. The results of this screening are reported on a quarterly basis.

Metrics and methods

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

1. The methods used by KBN to assess climate-related risks and opportunities in line with its strategy and risk management processes

Method:	Strengths:	Weaknesses:
Green lending as a proportion of the total lending portfolio	Gives information on the extent to which KBN's lending portfolio has a better climate profile than comparable institutions	Provides little information on the concentration of green loans and the extent to which they are in line with the EU Taxonomy requirements
Proportion of municipalities and county authorities with a green loan from KBN	Indicates the spread and diversity of green lending	Provides no information on the extent to which these loans are in line with the EU Taxonomy requirements
KBN's own greenhouse gas emissions	Gives information on KBN's own emissions and facilitates comparison with other institutions and industry standards	Based on voluntary reporting, so it is possible that only municipalities and county authorities that already have a high level of awareness will reply to the question
Identify and finance investment projects in the local government sector that can be expected to satisfy the requirements of the EU Taxonomy	The projects have a higher level of ambition	Scope 3 estimates are limited to air travel and residual waste
Green funding as a proportion of total funding	Gives information on the extent to which KBN's funding has a better climate profile than comparable institutions	
Proportion of sustainable investments in the liquidity portfolio.	Gives information on the extent to which KBN's liquidity portfolio has a better climate profile than comparable institutions	Provides no information on the extent to which green funding is in line with the EU's Green Bond Standard
Categorisation in the climate risk model	Gives information on the climate risk profile of KBN's customers	

2. KBN’s Scope 1, Scope 2 and Scope 3 greenhouse gas emissions and the related risks

See the Greenhouse gas accounting 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, and plans to set science-based targets for reductions in emissions where this is possible.

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

3. The targets KBN uses to manage climate-related risks and opportunities and performance against targets

See the section *Objectives for 2024* for KBN’s objectives in respect of green finance and emissions.

The Board of Directors' Report 2023

KBN's activities in 2023

Kommunalbanken AS (hereinafter KBN) is 100% owned by the Norwegian state, with the Ministry of Local Government and Regional Development acting as KBN's owner, and its business address is in Oslo, Norway. KBN's role is to provide stable, long-term and efficient debt financing for the local government sector. In 2023 KBN strengthened its role as the largest and most important provider of financing to the local government sector in Norway with growth in lending of NOK 26 billion. At the end of 2023, KBN's market share was 51.1%, compared to 49.7% at the end of 2022. The loans KBN granted in 2023 financed investment in projects such as schools, health and care facilities, and water and wastewater systems.

KBN seeks to facilitate the transition to a sustainable economy and greater value creation. It provides green lending products to finance investment in projects with a climate ambition. KBN's green lending grew by NOK 11 billion in 2023, as compared to an increase of NOK 8 billion in 2022. Green lending represented 15.4% of KBN's total lending at the end of 2023. Good growth in lending for projects with a climate ambition, efficient operations and a high level of customer satisfaction demonstrate that KBN is fulfilling its role in society successfully.

KBN's core earnings increased from NOK 1,081 million in 2022 to NOK 1,211 million in 2023. Net interest income increased from NOK 1,866 million in 2022 to NOK 2,105 million in 2023. The increase was principally due to rising money market interest rates, which increased in pace with increases in the key policy rate by Norges Bank. KBN's result for the period for 2023 as a whole was a profit of NOK 1,432 million as compared to a loss of NOK 60 million in 2022.

KBN's annualised return on equity in 2023 was 7.9%, compared to -0.8% in 2022. Based on its core earnings, KBN's annualised return on equity in 2023 was 7.3%, compared to 6.6% in 2022. The return requirement set for KBN by its owner for 2023 was 5.5%.

Strategy, objectives and strategic activities

In October 2022 the Norwegian government issued a white paper on state ownership, "The State's direct ownership of companies - Greener and more active state ownership" (Report to Storting No. 6 (2022-2023)). The white paper places significant importance on sustainable value creation, and on the state being an active and responsible owner with a long-term perspective.

The white paper stipulates that "The state is the owner of Kommunalbanken in order to offer stable long-term and efficient financing of the local government sector" and that "The state's aim as owner is to achieve the highest possible return over time subject to the limits of sustainability". KBN's owner's return requirement 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 2023 the Board of Directors of KBN updated KBN's current strategy. In order for KBN to achieve its objectives, the Board of Directors has set the following strategic pillars for the strategy period:

- THE CUSTOMER'S FIRST CHOICE: Our main aim is for our customers to want to use KBN for long-term financing of investment in welfare.
- STRONG MARKET PARTICIPANT: Through a strong position in the capital markets, nationally and internationally, KBN will ensure Norwegian municipalities and county authorities have access to attractive financing.
- A LEADER IN GREEN FINANCE: KBN will be among the leading financial institutions on green financing solutions and insight that contribute to the transition to a sustainable economy and value creation.
- EXPERTISE AND TECHNOLOGY DRIVEN: The way we work will promote learning, knowledge sharing and the efficient use of technology.

The Board of Directors, working on the basis of KBN's strategy, approves prioritized strategic objectives for the strategy period, as well as ambitions and key results that are to be prioritized in the first year of the period. KBN uses OKR (Objectives and Key Results) as the goal management tool for its organisation.

Work on establishing new lending processes and a new lending system were again among the main activities carried out in 2023. This project is expected to be completed in 2024. Completion of this project is important in order to modernize and ensure greater efficiency in the lending process. Extensive work was carried out in 2023 to further develop a data warehouse as a source for KBN's reports and analysis. Activities were carried out in respect of sustainability reporting, financing projects within the EU Taxonomy, and the development of a model to calculate indirect emissions generated as a result of KBN's lending portfolio. Work also continued on the transition to new benchmark interest rates, and on an initiative to improve the operating framework for KBN.

Statement of 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 2023 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 2023 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 Board of Directors confirms, in accordance with Section 5-5 of the Norwegian Securities Trading Act, that the annual accounts for the company for 2023 to the best of its knowledge have been prepared in accordance with IFRS, and that the information in the accounts provides a true and fair view of the company's assets, liabilities, financial position and earnings for the company as a whole. The Board of Directors confirms that, to the best of its knowledge, the annual report provides a true and fair view of important events during the accounting period and their influence on the annual accounts, and of the most important risks and uncertainties facing the company in the next accounting period.

Result for the year

The result for the year was a profit of NOK 1,432 million as compared to a loss of NOK 60 million in 2022.

Table 1: Net Income Results

(Amounts in NOK 1 000 000)	**2023**	**2022**
Net interest income	2 105	1 866
Fees and commission expenses	126	133
Net gain/(loss) on financial instruments	212	(1 615)
Increased/(reduced) provision for expected credit loss	(10)	28
Operating expenses	325	271
Income tax	444	(120)
Profit for the year	**1 432**	**(60)**

Net interest income totalled NOK 2,105 million in 2023 as compared to NOK 1,866 million in 2022. In 2023 KBN's net interest income from its lending activities was positively affected by rising money market interest rates, lending growth and higher lending margins. The net interest income from KBN's liquidity management portfolio generated a modest contribution to KBN's earnings in 2023, in line with expectations. Fees and commission expenses totalled NOK 126 million in 2023 compared to NOK 133 million in 2022. 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 82 million in 2023 as compared to NOK 87 million in 2022.

Table 2: Net gain/(loss) on financial instruments

(Amounts in NOK 1 000 000)	**2023**	**2022**
Loans to customers, and related financial derivatives	101	(1 129)
Commercial paper and bonds, and related financial derivatives	(82)	(138)
Senior debt securities issued, and related financial derivatives	193	(348)
Net gain/(loss) on financial instruments	**212**	**(1 615)**
Whereof net unrealised gain/(loss) on financial instruments	120	(1 622)
Whereof net realised gain/(loss) on financial instruments	92	6

KBN's net gain on financial instruments amounted to NOK 212 million in 2023, compared to a net loss of NOK 1,615 million in 2022. There was a net gain on fixed rate lending recognised at fair value and associated hedging contracts amounting to NOK 101 million in 2023. Credit spreads for Norwegian municipalities and county authorities were at approximately the same level at the end of 2023 as at the end of 2022. KBN introduced hedge accounting for all new fixed rate loans with effect from 1 January 2022. The introduction of hedge accounting for fixed rate lending will, over time, reduce the portfolio of fixed rate loans measured at fair value and accordingly reduce the extent of unrealised gains or losses in the accounts.

There was a net gain on KBN's borrowings, not taking into account any changes to its own credit risk, of NOK 193 million. In 2023 KBN recognised a realised gain of NOK 101 million from its repurchasing of subordinated loan capital. The remainder of the gain primarily relates to unrealised gains resulting from changes to basis spreads that affect the value of hedging contracts held at the end of 2023. A net loss of

NOK 82 million was also recognised for KBN's liquidity investments, NOK 72 million of which were unrealised losses.

Table 3: Total comprehensive income

(Amounts in NOK 1 000 000)	2023	2022
Profit for the period	1 432	(60)
Change in fair value of liabilities due to changes in own credit risk	484	800
Actuarial gain/(loss) on pension liability	(8)	2
Tax	(119)	(200)
Total comprehensive income for the period	**1 789**	**541**

Total comprehensive income amounted to NOK 1,789 million in 2023 as compared to NOK 541 million in 2022. A gain of NOK 484 million due to a change in KBN's own credit risk was attributable to a widening of credit spreads in relation to bond debt issued by KBN. The equivalent figure for 2022 was a gain of NOK 800 million.

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

Table 4: Operating expenses

(Amounts in NOK 1 000 000)	2023	2022
Salaries	132	113
Pension costs	12	12
Administrative expenses and other expenses	139	108
Depreciation	43	38
Operating expenses	**325**	**271**

KBN's operating expenses totalled NOK 325 million in 2023 as compared to NOK 271 million in 2022. As a result of the financial results reported by KBN for 2022, variable salary payments equivalent to 1.1 times employees' monthly salaries were accrued in 2023, while no variable salary payments were accrued in 2022. This explains some of the increase in personnel expenses. Administrative expenses and other operating expenses increased by NOK 31 million from 2022. The increase was due to higher prices, the weakness of the Norwegian krone, a higher level of activity in relation to developing and improving KBN's operations, and the hiring-in of workers pending appointments.

Capital adequacy – key figures

Table 5: Capital adequacy – key figures

As at 31 December 2023	Volume in NOK billion	Capital adequacy	Requirements
Common equity Tier 1 capital adequacy ratio	16,5	17,4 %	14,8 %
Tier 1 capital adequacy ratio	20,0	21,0 %	16,7 %
Total capital ratio	20,8	21,9 %	19,2 %

KBN received the Financial Authority of Norway's (Finanstilsynet's) decision regarding its Pillar 2 requirement (SREP) on 22 December 2023. The Financial Supervisory Authority of Norway determined that KBN will have a Pillar 2 requirement consisting of 2.0% of the basis for calculation under Pillar 1. KBN's Pillar 2 requirement has therefore been reduced by 0.1 percentage points. The Pillar 2 requirement is intended to address risks that the undertaking is exposed to and that are not, or are only partially, covered by the general capital requirements in Pillar 1. The requirement must be satisfied with at least 56.25% common equity Tier 1 capital and at least 75% Tier 1 capital. The decision came into force on 31 December 2023.

KBN's leverage ratio at the end of 2023 was 3.9%, as compared to the requirement of 3.0%.

At 31 December 2023 KBN had total assets of NOK 522 billion as compared to NOK 492 billion at the end of 2022. The increase in total assets is principally due to the weakness of the Norwegian krone. KBN's lending portfolio (outstanding principal) increased by NOK 26 billion in the course of 2023.

Capital adequacy figures are sensitive to large fluctuations in exchange rates, particularly the US dollar / Norwegian krone rate, because these impact the size of KBN's balance sheet both through the conversion into NOK and because changes in the value of KBN's outstanding currency hedging contracts cause fluctuations in cash collateral. When the krone weakens, KBN receives collateral, the size of KBN's balance sheet increases and KBN's capital adequacy decreases. When the krone strengthens, KBN's capital adequacy increases. The figures for weighted capital adequacy are also temporarily affected by changes in the value of KBN's hedging contracts until the collateral is received the following day and the additional effect is offset. KBN has internal buffers to ensure its capital adequacy does not fall below the regulatory requirements as a result of exchange rate fluctuations.

Lending

In 2023 the local government lending market was, as in previous years, dominated by KBN, KLP, and issuers borrowing directly from the capital market. KBN is the biggest provider of loans overall, and is specifically the biggest provider of long-term, instalment-based loans. 2023 again saw strong competition from time to time between the lenders active in the local government market, but in the second half of the year in particular the capital market was a less attractive source of financing for municipalities and county authorities. With sufficient and well-managed lending capacity throughout 2023, KBN ensured that its customers had access to financing throughout the year, even during periods including the end of the year when alternative sources of financing were very limited or expensive. Were it not for KBN's capacity, many customers would have experienced significantly higher borrowing costs on new loans in the fourth quarter.

KBN's lending increased in total by NOK 25.7 billion in 2023, equivalent to 7.8%. The rate of growth in normal local government sector borrowing was 7.9% in 2023 compared to NOK 5.7% in 2022. Municipalities again increased their borrowing from the Norwegian State Housing Bank in 2023, and these loans are used to make loans to residents under the municipal start-up loans scheme. After correcting for growth in loans from the Norwegian State Housing Bank, the increase in borrowing in 2023 was 7.2% as compared to 4.8% in 2022. The total growth in borrowing in 2023 by municipalities and county authorities that are included in the calculation of KBN's market share was NOK 43.5 billion. This represents higher growth in borrowing than was expected for 2023, but should be seen in the context of significant increases in prices for goods and services related to the investments that were financed.

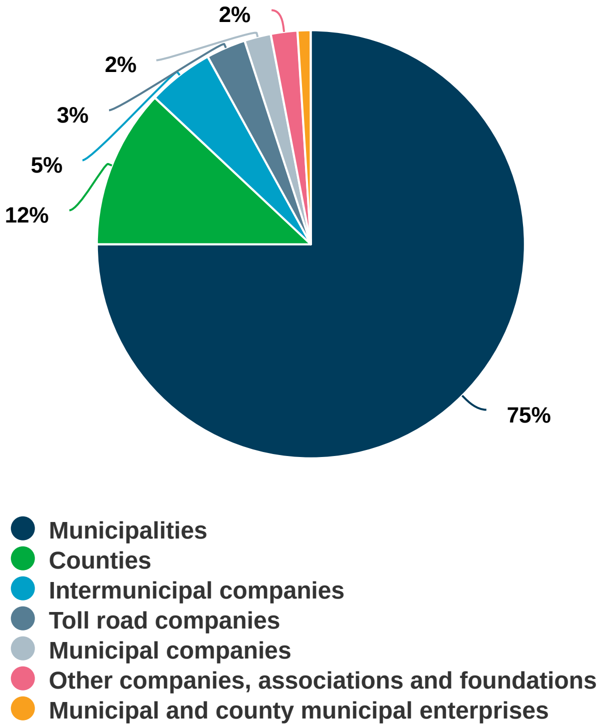
KBN saw a record level of demand in 2023 for long-term loans with instalment payments, and the volume of disbursements for this type of loan was higher than ever before. The strong demand is thought to reflect the instability in the capital market and less than attractive terms on offer for much of 2023, leading to many customers to instead decide on a standard rate loan from KBN that is a predictable and simple loan product. There was also good demand for fixed rate loans compared to previous years, and this is thought to reflect the favourable market conditions for this type of loan throughout 2023. As in previous years the main areas of investment for which loan financing was used were schools, health and care, and water and wastewater. Demand for borrowing varied between different types of municipality. The largest municipalities and county authorities accounted for the largest growth in KBN's lending in 2023.

KBN's market share increased during 2023 as a result of good demand and sufficient lending capacity. At 31 December 2023 KBN's market share was 51.1%, an increase from 49.7% at the close of 2022, and representing market share in line with the close of 2021. KBN's objective is to maintain over time a stable share of the market for lending to municipalities and county authorities. At the end of 2023, 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.

KBN's total portfolio of green lending for investment in climate and environmentally friendly projects increased by 25% in 2023, equivalent to NOK 11 billion for 114 projects. At the end of 2023, 141 municipalities, five county authorities and a total of 72 other customers had green loans from KBN, and outstanding green lending totalled NOK 55 billion. The environmental impact of these loans is reported annually in KBN's separate Impact Report. KBN's Criteria Document for green lending is updated annually in pace with developments in environmental standards.

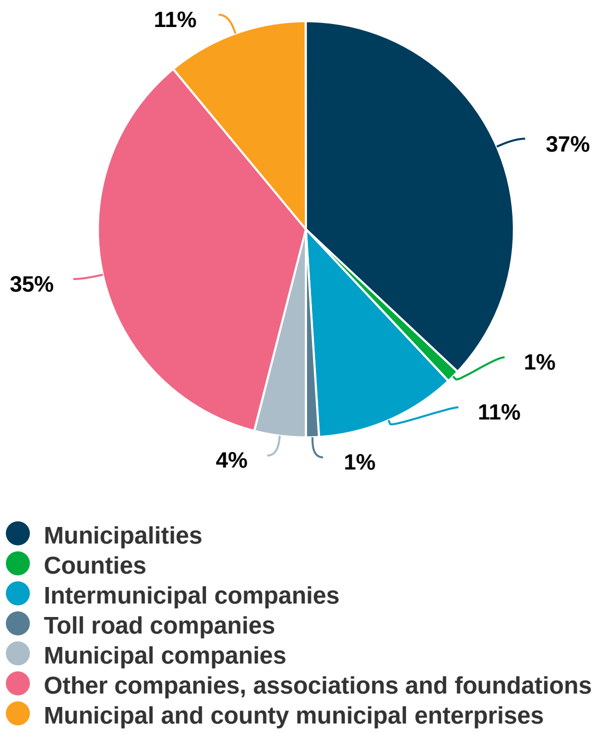
89% of KBN's lending is directly to municipalities (including municipal companies) and county authorities, as shown by the breakdown provided in the chart below. A further 5.5% of KBN's lending is to inter-municipal companies, and the remaining 6% of the lending portfolio is made up of loans to borrowers with a variety of organisational types, all of which are guaranteed by municipalities or county authorities, with toll-financed road projects accounting for just over half of this category.

Figure: Analysis of KBN's outstanding lending in NOK by customer category



A total of 967 customers have outstanding loans from KBN. The chart below shows that 42% of KBN's customers are municipalities, county authorities or municipal companies, 11% are intermunicipal companies, and 47% are customers with a municipal or county authority guarantee.

Figure: Analysis of the number of customers by customer category



KBN did not experience any default or payment problems with customers in 2023.

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 78 billion in 2023, as compared to NOK 87 billion in 2022. The reduction in the amount raised in NOK terms was primarily due to the weakness of the Norwegian krone in 2023, which resulted in a lower financing requirement for KBN. KBN enjoyed good access to funding from the capital markets throughout 2023.

Europe, the USA and Asia are KBN's most important markets for funding. KBN issued bonds in 10 currencies in both 2023 and 2022. KBN achieved a good currency diversification for its funding over the course of 2023, and the proportion of new borrowing that was denominated in US dollars was maintained at around 50%. In 2023 KBN issued four USD benchmark bonds totalling USD 3.5 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 Canadian dollars.

In 2020 the UK's Financial Conduct Authority (FCA) decided that LIBOR would be discontinued and would cease to be quoted with effect from 1 July 2023. The reference rate therefore had to be replaced by a new, risk-free reference rate for current contracts and activities. For the USD, LIBOR was replaced by the Secured

Overnight Financing Rate (SOFR) reference rate. KBN did not have any bonds with a floating LIBOR rate at the time of the transition, but it did have a significant portfolio of financial derivatives with USD LIBOR as their reference rate. The transition was regulated by a transition clause in the ISDA agreement for financial derivatives, which meant that the reference rate changed from three-month USD LIBOR to USD SOFR with a spread premium of 26.16 basis points. KBN converted all its ongoing derivative contracts to USD SOFR in 2023. The conversion did not have a material impact on KBN's earnings.

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's green bonds finance its loans to customers for their green projects. KBN's Green Bond Framework was last 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 four green bonds in 2023 with a total nominal value equivalent to USD 0.5 billion.

KBN's total outstanding bonds and other borrowings increased in 2023 from NOK 429 billion to NOK 438 billion. The increase in total borrowing measured in Norwegian kroner, is largely due to the weakening of the krone through 2023.

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. A large proportion of KBN's liquidity portfolio investments are 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 2023 was NOK 115 billion as compared to NOK 110 billion at the end of 2022. At the end of 2023 KBN's overall Liquidity Coverage Ratio (LCR) and its LCR for NOK were 266% and 87% respectively. LCR is a measure of liquid assets relative to net payments in a situation of stress in the bond and capital markets for a period of 30 days ahead.

Corporate governance

The corporate governance of KBN is based inter alia on the Norwegian Financial Institutions Act, the Limited Liability Companies Act, the 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). For more information, see KBN's corporate governance report.

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 remuneration report that details the salaries and other remuneration received by executive personnel is submitted to the Annual General Meeting for an advisory vote. The report is published on the KBN website at the same time as the Annual Report.

Risk management and internal control

KBN's Board of Directors issues 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 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 at KBN is established in a structure based on three lines of defence that ensures systematic identification, assessment, monitoring and reporting of risk in all parts of KBN's activities. The first line of defence carries out operational tasks and is responsible for managing and checking that 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 and compliance assessments, assesses and validates risk models and produces independent risk and compliance reports. KBN's second line of defence comprises its risk management and compliance functions. KBN's third line of defence is provided by the internal auditor (KPMG) and represents the Board's independent supervisory and control function.

KBN has arranged directors' and officers' liability insurance for the members of the Board of Directors and for the CEO in respect of their potential liability to KBN and third parties. The insurance cover is subject to a limit of NOK 600 million. The lead insurer is Tryg Forsikring NUF.

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 lends exclusively to customers connected to the local government sector, and this means it has a very limited risk of incurring financial losses from its lending activities. This is in part because of the Norwegian Local Government Act, which stipulates that municipalities cannot be declared insolvent. 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 financial 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 reduced by the use of central counterparties or other counterparties with a high credit rating, and by exchanging cash collateral on a daily basis.

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, cyber risk and the risk of money laundering and terror financing, represent three 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 and limited risk appetite for cyber risk.

Environmental, social and governance risk (ESG)

Social and governance risk

KBN acts to reduce its exposure to social and environmental risk in its own activities through sound governance and corporate management, sound risk management and internal control, good working conditions that facilitate diversity and equality, and ethical business conduct.

KBN strives through its follow-up of its customers to create good awareness of the importance of sound routines and procedures for internal control, including avoidance of conflicts of interest, ethical conduct, arrangements for whistle blowing and assessment of the risk of financial criminality, as well as asking questions about each customer's approach to setting requirements for its suppliers and following up their compliance in respect of procurement and the conduct of building and construction projects.

Climate-related risk

KBN is exposed to direct climate-related risk through its own activities to a limited extent, but is indirectly exposed through the local government sector's exposure to climate-related risk. As mentioned above, the Norwegian Local Government Act states at Section 29-1 that municipalities and county authorities cannot be declared insolvent, and consequently the potential risk of lending losses as a consequence of KBN's indirect exposure to climate-related risk is very limited. KBN's direct and indirect exposure to climate-related risk is discussed in more detail in the Task Force on Climate-related Financial Disclosures (TCFD) report that is included in the Annual Report.

Nature-related risk

KBN has only a limited direct exposure to nature-related risk through its own activities, but is indirectly exposed through its lending to the local government sector. The local government sector takes up loans from KBN to finance its investment in buildings, water and wastewater facilities, roads and other infrastructure that can impact nature. Such investments also use raw materials that can have an impact on nature. Norwegian municipalities and county authorities cannot be declared insolvent, and consequently the potential risk of lending losses as a consequence of KBN's indirect exposure to nature-related risk is very limited. KBN will work in 2024 on mapping its exposure to nature-related risk with a view to reporting in accordance with the Taskforce on Nature-related Financial Disclosures (TNFD) framework.

ESG-related risk in the liquidity portfolio

KBN has an established strategy for its liquidity portfolio that also takes into account ESG-related risk, and has guidelines and systems for regular screening of the liquidity portfolio.

Corporate communication 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 business 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, for example changes to their own or to KBN's framework conditions. Inflation and rising interest rates, green finance and the local government sector's long-term sustainability in a broad sense were central topics in KBN's external communication activities in 2023. KBN organized a range of webinars on these topics, among others. 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

KBN expects all its employees and managers to act in line with KBN's Code of Conduct, which was most recently revised in 2023. All employees have confirmed that they have paid proper attention to KBN's rules and guidelines on ethical conduct, including the Code of Conduct, for 2023.

Corporate social responsibility

KBN has based its priorities in the area of sustainability on its extensive dialogue with its most important stakeholders, and it carries out regular materiality analyses. KBN's reporting in response to the Norwegian Transparency Act is provided in the Report on due diligence.

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. In addition, KBN reports on sustainability/ESG to CDP (the Carbon Disclosure Project). Read more about KBN's work on sustainability in the sustainability report.

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 renewal and generates a continuous supply of new expertise throughout the organisation. In 2023 KBN have started renewal of the bank's lending processes and systems, which has also led to some adjustments in the organisation of tasks associated with the lending process. The Kompetanseløftet program, which encourages all employees to learn something new, again saw a high completion rate in 2023. The employee survey carried out in 2023 showed that KBN have engaged employees who are very effective in their work, and who are proud to work at KBN.

The sickness rate was 2.1% in 2023 as compared to 3.6% in 2022. KBN's target is for the sickness rate to be below 2.5% over time.

Read more about our work on diversity and equality in KBN's statement on equality.

Allocation of surplus

The Board of Directors of KBN proposes the following allocation of the surplus for the 2023 accounting year: NOK 700 million to be paid in dividend to the owner, NOK 131 million to be paid in interest to Additional Tier 1 capital holders, and NOK 601 million to be transferred to other equity. The proposed dividend is equivalent to 48.9% of KBN's profit for the year and 57.8% of its core earnings. The state has a long-term expectation for KBN to pay around 55% of its core earnings after tax in dividend, subject to maintaining a satisfactory capital adequacy. Proposed dividends are included in KBN's equity until such time as the dividend is approved by the Annual General Meeting, but are deducted for the purpose of calculations of capital adequacy.

Future prospects

Norges Bank raised its key policy rate to 4.5% at its December 2023 monetary policy committee meeting, and it has implied that it will probably keep the key policy rate at this level for some time ahead. Norges Bank has stated that the reason for the increases is the need to reduce inflation. Norges Bank's forecast for its key policy rate indicates that it will remain at the current level until autumn 2024 before gradually decreasing. The future path of the policy rate thereafter will depend on economic developments. The goal of monetary policy is for the annual rate of growth in the consumer price index to be as close as possible to 2% annual growth.

Labour market conditions in Norway are tight, although unemployment is expected to increase somewhat over the course of 2024. The rate of wage growth is expected to remain high throughout 2024. Volatile markets are again expected in 2024.

The wars in Ukraine and in the Middle-East and uncertainty about the economic outlook have caused long-lasting uncertainty in the fixed income market. For 2023 as a whole, credit spreads for local government sector issuers were at a high and stable level. The fact credit spreads have remained high as we moved into 2024 reveals the continuing nervousness in financial markets. It is still uncertain whether credit spreads will fall over the course of 2024 or whether they will stabilise at a higher level. This, in combination with the increases in money market rates, has made it more expensive for our customers to finance their investment spending. It is expected that this may affect the overall demand for new financing in the years ahead.

At a time of rapid growth in costs, higher interest rates will result in a more challenging financial situation for many of KBN's customers. 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, and public transport.

According to Statistics Norway's population forecasts, the number of people over 80 will double within 15 years. Increased use of welfare technology will make it possible for more people to remain independent and live at home longer, and we note the Health Personnel Commission's report published on 2 February 2023 in this respect. 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. 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. Statistics Norway's population forecasts anticipate a continuing low birth rate, which indicates a decline in the level of investment in schools and nurseries. The availability of skilled employees is already a significant problem for many municipalities. In the future this will become an increasingly important factor for investment decisions and for how welfare services can be delivered to residents.

Climate change, the transition to a low carbon society and the need to reduce the degradation of nature in relation to land use will place demands on investment decisions through their impact 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. A sustainable approach to nature and land use will become increasingly necessary over the years ahead, and will be an ever more important factor in investment decisions by municipalities and county authorities.

The regulatory requirements for the finance sector are expected to become more demanding over the years ahead. The EU Commission's action plan for sustainable finance, including new reporting requirements, will have an increasing impact. In addition, the EU Commission's DORA regulation and Banking Package 2 will be implemented during the course of 2024 or 2025. An increasing range of new regulatory requirements and reporting to the authorities will require greater resources. 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. 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 to its role in the creation of a sustainable society.

The level of demand for KBN-issued bonds is good, and the increase in the credit spreads on KBN's bonds has been relatively moderate. This means that KBN is in a good position to improve its profitability, which will help to further strengthen its long-term capitalisation and lending capacity.

The Board of Directors thanks KBN's employees for a job well done.

Oslo

14 March 2024

The Board of Directors and Chief Executive Officer of Kommunalbanken AS

Brit Kristin Sæbø Rugland
CHAIR

Rune Midtgaard
VICE CHAIR

Eyvind Aven
BOARD MEMBER

Anne Jenny Dvergsdal
EMPLOYEE REPRESENTATIVE

Toril Hovdenak
BOARD MEMBER

Nils Gunnar Baumann
EMPLOYEE REPRESENTATIVE

Ida Espolin Johnson
BOARD MEMBER

Ida Texmo Prytz
BOARD MEMBER

Petter Steen Jr.
BOARD MEMBER

Jannicke Trumpy Granquist
CEO

Financial statement 2023

Income statement

INCOME STATEMENT

(Amounts in NOK 1 000 000)	Note	2023	2022
Interest income from assets measured at amortised cost		*15 411*	*6 155*
Interest income from assets measured at fair value		*6 933*	*3 026*
Total interest income		22 345	9 180
Interest expense		20 240	7 315
Net interest income	1	**2 105**	**1 866**
Fees and commission expenses	2	126	133
Net gain/(loss) on financial instruments	3	212	(1 615)
Increased/(reduced) provision for expected credit loss	14	(10)	28
Total other operating income		**96**	**(1 775)**
Salaries and administrative expenses	4,5	190	166
Depreciation of fixed and intangible assets		43	38
Other operating expenses	7	92	67
Total operating expenses		**325**	**271**
Profit before tax		**1 876**	**(180)**
Income tax	6	444	(120)
Profit for the year		**1 432**	**(60)**
Portion allocated to shareholder		1 301	(135)
Portion allocated to owners of additional Tier 1 capital		131	75

STATEMENT OF COMPREHENSIVE INCOME

(Amounts in NOK 1 000 000)	Note	2023	2022
Profit for the year		1 432	(60)
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	18	484	800
Actuarial gain/(loss) on pension liability		(8)	2
Tax		(119)	(200)
Total other comprehensive income		**357**	**601**
Total comprehensive income for the year		**1 789**	**541**
Portion allocated to shareholder		1 658	467
Portion allocated to owners of additional Tier 1 capital		131	75

Statement of financial position

(Amounts in NOK 1 000 000)	Note	2023	2022
Assets			
Deposits with credit institutions	8,10,12,20	36 601	39 512
Loans to customers	8,9,10,13	352 226	324 532
Commercial paper and bonds	8,9,10,11,15	114 344	109 235
Financial derivatives	8,9,10,11,19,20	16 505	16 119
Deferred tax asset	6	2 318	2 881
Other assets	16	210	170
Total assets		**522 203**	**492 450**
Liabilities and equity			
Due to credit institutions	8,10,17,20	5 232	6 567
Commercial paper issued	8,10,18	41 318	23 377
Debt securities issued	8,9,10,11,18	424 593	402 553
Financial derivatives	8,9,10,11,19,20	28 505	39 070
Other liabilities	16	76	56
Pension commitments	5	25	27
Subordinated loan capital	8,9,10,11	770	1 897
Total liabilities		**500 520**	**473 547**
Share capital	22	3 895	3 895
Additional Tier 1 capital	23	3 484	2 392
Other equity		14 305	12 617
Total equity		**21 684**	**18 903**
Total liabilities and equity		**522 203**	**492 450**

Oslo

14 March 2024

The Board of Directors and Chief Executive Officer of Kommunalbanken AS

Brit Kristin Sæbø Rugland
CHAIR

Rune Midtgaard
VICE CHAIR

Eyvind Aven
BOARD MEMBER

Anne Jenny Dvergsdal
EMPLOYEE REPRESENTATIVE

Toril Hovdenak
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Ida Texmo Prytz
BOARD MEMBER

Petter Steen Jr.
BOARD MEMBER

Jannicke Trumpy Granquist
CEO

Statement of changes in equity

2023	Note	Share capital	Additional Tier 1 capital	Financial liabilities, changes in own credit risk	Other equity	Total equity
Equity as of 31 December 2022		**3 895**	**2 392**	**(304)**	**12 920**	**18 903**
Profit for the year		0	0	0	1 432	1 432
Other comprehensive income after tax - financial liabilities, changes in own credit risk		0	0	363	0	363
Other comprehensive income after tax - actuarial gain/loss		0	0	0	(6)	(6)
Interest paid on additional Tier 1 capital	23	0	0	0	(101)	(101)
Issuance of additional Tier 1 capital		0	1 093	0	0	1 093
Dividends for 2022		0	0	0	0	0
Equity as of 31 December 2023	22	**3 895**	**3 484**	**59**	**14 245**	**21 684**

2022		Share capital	Additional Tier 1 capital	Financial liabilities, changes in own credit risk	Other equity	Total equity
Equity as of 31 December 2021		**3 895**	**2 392**	**(904)**	**13 698**	**19 081**
Profit for the year		0	0	0	(60)	(60)
Other comprehensive income after tax - financial liabilities, changes in own credit risk		0	0	600	0	600
Other comprehensive income after tax - actuarial gain/loss		0	0	0	2	2
Interest paid on additional Tier 1 capital	23	0	0	0	(74)	(74)
Dividends for 2021		0	0	0	(646)	(646)
Equity as of 31 December 2022	22	**3 895**	**2 392**	**(304)**	**12 920**	**18 903**

Statement of cash flows

(Amounts in NOK 1 000 000)	2023	2022
Cash flows from operating activities		
Interest received	21 671	7 680
Interest paid	(19 068)	(5 568)
Fees and commissions paid	(129)	(131)
Cash payments for operations	(285)	(233)
Paid taxes	0	(525)
Net disbursement of loans to customers	(25 647)	(5 385)
Net (payment)/disbursement short-term investments	1 677	(21 209)
Net payment/(disbursement) from purchase/sale of securities	1 936	5 950
Net (payment)/disbursement other assets	(50)	(5)
Net payment/(disbursement) other liabilities	24	(27)
Net (payment)/disbursement financial derivatives	11 435	25 528
Net cash flows from operating activities	**(8 436)**	**6 079**
Cash flows from investing activities		
Disbursment from sale of fixed assets	(34)	(32)
Net cash flows from investing activities	**(34)**	**(32)**
Cash flows from financing activities		
Payments on issued commercial paper	152 355	148 633
Repayment of commercial paper issued	(134 845)	(156 685)
Lease payments	(8)	(8)
Payments on issued debt securities	76 935	86 995
Repayment of debt securities issued	(85 790)	(84 295)
Interest Paid on additional Tier 1 capital	(101)	(74)
Dividends paid	0	(646)
Net cash flows from financing activities	**8 546**	**(6 080)**
Net cash flows	**76**	**(33)**
Adjusment of exchange rate changes	29	(24)
Net cash flows after effects of exchange rate changes	**105**	**(57)**
Cash and cash equivalents at 1 January	251	308
Net changes of cash and cash equivalents	105	(57)
Cash and cash equivalents at 31 December	**356**	**251**
Whereof		
Deposits with credit institutions without agreed time to maturity	*356*	*251*
Due to credit institutions without agreed time to maturity	*0*	*0*

Notes to the financial statements

Accounting policies

Reporting entity

KBN is a Norwegian limited company providing loans to counties, municipalities, intermunicipal companies and other companies with municipal guarantee that carry out tasks at a municipal level. KBN ’s registered office is located in Haakon VIIs gate 5B, Oslo. KBN is wholly owned by the Norwegian state through the Ministry of Local Government and Districts.

Basis of preparation

The financial statements have been prepared in accordance with IFRS® Accounting Standards as adopted by the EU. The accounting is based on the historical cost principle, except for financial assets and liabilities measured at fair value.

Functional Currency and Presentation Currency

The company's functional and presentation currency is Norwegian Kroner (NOK). Balance sheet items in foreign currency are translated into Norwegian Kroner using the exchange rate on the balance sheet date. Income statement items in foreign currency are translated into Norwegian Kroner using the exchange rate at the transaction date. Effects from the translation of the principal amount of non-derivative interest-bearing instruments in foreign currency and on accrued interest and fees, are presented net in the income statement. Corresponding changes in fair value from currency derivatives used as hedging instruments in the economic hedging of the mentioned currency exposure are presented net along with translation differences from the hedged item.

Significant estimates and accounting judgements

The preparation of financial statements in accordance with IFRS requires management to make estimates and judgments and assumptions that affect the reported amounts of assets and liabilities, and revenues and expenses. Estimates and judgments are based on historical experience and expectations about future developments. The key estimates and assessments in the financial statements include:

Measurement at Fair Value

The fair value of financial instruments not traded in an active market or lacking readily available quoted prices on the balance sheet date is determined using valuation models. When inputs into valuation models cannot be directly derived from observable market data, management makes assessments and uses assumptions related to credit risk and liquidity risk in financial instruments. Although judgmental assessments and assumptions are largely based on actual market conditions on the balance sheet date, they may introduce uncertainty into the recognised amounts. Management exercises particular judgment in valuing instruments measured at fair value in Level 3 of the fair value hierarchy, as detailed in note 9.

Financial instruments

RECOGNITION AND DERECOGNITION

Recognition of financial assets and derivatives occurs when the entity becomes a party to the contractual provisions of the instrument, i.e., at the contract inception. Recognition of financial liabilities occurs at the settlement date. The recognised amount for financial assets and liabilities not classified at fair value through profit or loss also includes transaction costs directly attributable to the acquisition.

Financial assets and derivatives are derecognised when the contractual rights to cash flows expire or are transferred, and substantially all the risks and rewards of ownership are transferred. Financial liabilities are derecognised when the obligation specified in the contract is fulfilled, cancelled, or expires. In the case of repurchasing issued bonds, the financial liability is derecognised at the settlement 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 8 together with tabular statements of the instruments.

FAIR VALUE OF FINANCIAL INSTRUMENTS

All assets and liabilities, which are not measured at amortised cost, are measured at fair value with changes in fair value recognised in the income statement or in statement of comprehensive income. Fair value 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 9 for accounting principles on fair value measurement.

PRESENTATION OF FINANCIAL ASSETS AND LIABILITIES

KBN does not offset any financial assets and liabilities and does not present them as net amounts in the balance sheet. General master netting agreements for financial derivatives do not meet the conditions for offsetting, and all financial derivatives are presented gross in the balance sheet. Cash received or provided as collateral for derivative exposure, which grant the right of offset in the event of bankruptcy also do not meet the conditions for offsetting under IAS 32. Cash collateral is presented gross in the balance sheet as liabilities to or receivables from credit institutions.

All financial derivatives are measured at fair value through profit or loss and are classified as assets when the value is positive and as liabilities when the value is negative.

For issued liabilities that are designated as measured at Fair Value Option (FVO), the part of changes in fair value that is attributable to changes in KBN 's own credit risk will be recognised in other comprehensive income in the statement of comprehensive income. The remaining part of the value changes is recognised in the income statement.

EXPECTED CREDIT LOSS

Provision for expected credit loss is recognised for all financial assets that are measured at amortised cost. Expected credit loss 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 where credit risk has not increased significantly since initial recognition, is calculated based on the probability of default within the next 12 months. For instruments where credit risk has increased significantly since initial recognition, the expected credit loss is calculated based on a probability of default during the full lifetime of the asset. See note 14 Expected credit loss for accounting principles on measuring expected credit loss.

Hedge accounting

The bank uses interest rate and cross currency swaps to financially hedge interest rate and currency risk in assets and liabilities. KBN applies IFRS 9 for hedge accounting. When a hedge relationship fulfils the criteria for hedge accounting and is designated as such, it is accounted for as a fair value hedge. The hedged items are classified as measured at amortised cost. The accounting principles for hedge accounting are described in detail in note 11 together with the financial information.

Principles of Revenue Recognition and Cost Allocation

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. Changes in the value of derivatives resulting from accrued or incurred interest are presented as interest income/cost, as the derivatives are used in economic hedging. Interest income/costs from financial derivatives included in hedge accounting are presented together with corresponding interest income/costs from the hedged item.

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 gain/(loss) on financial instruments.

Fees and commission expenses are recognised as expenses in the period when the service is provided.

Fixed assets

Fixed assets are measured at acquisition cost with the deduction of accumulated depreciation and write-downs. Depreciation is calculated by using a linear method over the estimated useful life, where the disposal value of the assets is assumed to be zero.

Intangible assets

Intangible assets are measured at acquisition cost and consist of IT systems. Acquisition cost is depreciated over its 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. Depreciation for leased assets (“right -to -use -assets”) are recognised in the income statement, at the same time as interest costs on the lease obligation. Repayment of the lease obligation ’s principal and interest portion, are classified as financing activities in the cash flow statement.

Taxes

Taxes are recognised in the income statement as they accrue. The income tax is based on profit before tax, other comprehensive income before tax, and on interest expense on additional Tier 1 capital that is recognised in the Statement of changes in equity. Temporary and permanent differences are adjusted for in the year's tax base when current taxes are calculated. Deferred tax liabilities and deferred tax assets are calculated on the basis of temporary differences between the accounting and tax values at year end. The nominal tax rate is used for 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 for 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 other 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 other equity.

Segment information

The company has only one operating segment. There is thus no segment information beyond the note information provided on lending to customers and the business as a whole, including information on the geographical distribution of lending, commercial paper and bonds and income from various categories of financial instruments.

Statement of cash flows

The cash flow statement is prepared using the direct method and presents cash flows by category. Cash flows from derivatives are classified as either interest received or interest paid, while cash flows from the exchange of principal on derivatives are reported on the line net (increase)/decrease in financial derivatives. Some derivatives involve periodic settlements of currency on the nominal amount, and these inflows or outflows are also recorded on the net (payment)/disbursement financial derivatives line. Cash flows from realised and unrealised foreign exchange gains/losses are reported on adjustment of exchange rate changes. Cash and cash equivalents include cash on hand, receivables, and payables with credit institutions with no notice period.

Implementation of new accounting standards as well as amended standards and interpretations

KBN has not implemented new standards in 2023. There has been no significant change in accounting principles throughout the year. There are no relevant standards and interpretation that have been approved, but not yet entered into force, that have an impact on KBN`s accounting principles in the coming financial year.

Note 1 Net interest income

(Amounts in NOK 1 000 000)

(Amounts in NOK 1 000 000)	2023	2022
Deposits with credit institutions	404	(0)
Other money market deposits	11	0
Loans to customers	11 755	5 274
Financial derivatives, hedge accounting loans to customers	239	(30)
Commercial paper and bonds	3 002	911
Interest income from assets measured at amortised cost	*15 411*	*6 155*
Loans to customers	1 398	1 977
Commercial paper and bonds	1 524	628
Financial derivatives	4 011	421
Interest income from assets measured at fair value	*6 933*	*3 026*
Total interest income	**22 345**	**9 180**
Due to credit institutions	0	18
Commercial paper issued	417	98
Debt securities issued	6 195	3 592
Financial derivatives, hedge accounting debt securities issued	8 858	953
Other interest expense	0	(12)
Interest expenses from debt measured at amortised cost	*15 470*	*4 649*
Debt securities issued	4 003	3 365
Financial derivatives	726	(761)
Subordinated loan capital	41	61
Interest expenses from debt measured at fair value	*4 770*	*2 666*
Total interest expenses	**20 240**	**7 315**
Net interest income	**2 105**	**1 866**

From 2023, KBN has changed the presentation of interest from financial instruments in fair value hedging. This entails that interest that was previously presented as interest income or expense measured at fair value in the table above, is now presented as interest income or expense measured at amortised cost. The change only affects the presentation of interest on financial derivatives. Historical data has been adjusted accordingly.

Note 2 Fees and commission expenses

(Amounts in NOK 1 000 000)	2023	2022
Expenses of banking services	24	28
Contribution to resolution fund	82	87
Other transaction costs	20	17
Total fees and commission expenses	**126**	**133**

Note 3 Net gain/(loss) on financial instruments

(Amounts in NOK 1 000 000)

Net gain/(loss) on financial intruments	2023	2022
Loans to customers[1]	1 049	(5 377)
Commercial paper and bonds[2]	1 310	(2 177)
Financial derivatives	9 803	(18 748)
Debt securities issued	(11 959)	24 492
Subordinated loan capital	10	196
Net gain/(loss) on financial instruments	**212**	**(1 615)**
Whereof net unrealised gain/(loss) on financial instruments	120	(1 622)
Whereof net realised gain/(loss) on market transactions	92	6

[1]Change in fair value attributed to credit spread change amounted to NOK 111 million in gain troughout the year, and NOK 414 million in accumulated loss.

[2]Change in fair value attributed to credit spread change amounted to NK 82 million in losses throughout the year, and NOK 28 million in accumulated losses.

Specification of net gain/(loss) on financial instruments including hedging instruments	2023	2022
Loans to customers, including hedging instruments	101	(1 129)
Commercial paper and bonds, including hedging instrument	(82)	(138)
Debt securities issued and subordinated loan capital, including hedging instruments	193	(348)
Net gain/(loss) on financial instruments	**212**	**(1 615)**

Specification of net gain/(loss) on financial instruments in fair value hedges	2023	2022
Loan to customers	243	(261)
Financial derivatives, in hedge accounting loans to customers	(250)	245
Debt securities issued	(7 154)	18 247
Financial derivatives, in hedge accounting debt securities issued	7 242	(18 262)
Net gain/(loss) on financial instruments in fair value hedge	**81**	**(31)**

Changes in fair value of liabilities due to changes in own credit risk are not included in the line net gain/(loss) on financial instruments in the table above. Such fair value changes are recognised in other comprehensive income in the statement of comprehensive income and amounted to NOK 485 million in profit throughout the year, and NOK 79 million in accumulated profit. The change in fair value arising from debt securities issued presented in the above table, is due to changes in parameters other than own credit risk.

Changes in fair value are the result of changes in market parameters - mainly prices on bonds, 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 has 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 will therefore only to a small extent cause net effects in the income statement. Changes in credit spreads for investments in the liquidity portfolio, fixed interest-rate loans to customers measured at fair value and issued debt securities, as well as changes in basis swap spreads, may on the other hand lead to significant effect in income statement and in the statement of comprehensive income.

KBN hedges currency risk. The bank's guidelines require hedging of all currency risk associated with positions in foreign currency. However, short-term net positions may arise related to income statement and balance sheet items in USD and EUR. KBN's framework for currency risk in these currencies is set at 1.6% of regulatory capital. This means that net income effects from short-term exchange rate fluctuations are limited. Effects from the currency conversion of principal amounts from non-derivative interest-bearing instruments in foreign currency, including certificates and bonds and debt securities issued, as well as from interest and fees are presented net in the income statement. Corresponding changes in fair value from FX derivatives used as hedging instruments in the economic hedging of the mentioned currency exposure, are presented net along with exchange differences from the hedged item. In the tables above, only the effects of exchange rate changes on fair value changes and changes in hedging value are presented.

Note 4 Salary and administrative expenses

(Amounts in NOK 1 000 000)	2023	2022
Salaries	105	89
Payroll tax	23	20
Pension costs	12	12
Other personnel benefits	4	4
Administrative expenses	47	41
Total salaries and administrative expenses	**190**	**166**
Average number of full-time positions	*82,4*	*83,5*

Remuneration to senior executives	2023	2022
Salaries, fixed and variable, and other benefits	19,0	16,5
Pension cost	1,8	1,5
Total remuneration to senior executives	**20,8**	**18,0**
Remuneration to Board of Directors and Supervisory Board	2,6	2,4

For further information about remuneration to senior executives see the remuneration report for 2023 published at KBNs website.

Fees to the statutory auditor	2023	2022
Statutory audit fees	1,3	1,6
Other certification services	1,5	1,6
Total fees excl. VAT	**2,8**	**3,2**

Note 5 Pensions

(Amounts in NOK 1 000)

The company is obliged to have an occupational pension scheme in accordance with the Mandatory Occupational Pensions Act. The company has a pension scheme that meets the requirements of this Act.

KBN have a defined contribution pension scheme at Storebrand Livsforsikring AS. The contribution pension scheme has contribution rates of 7% for salaries 0-7.1 times the National Insurance basic amount (G) and 18% for salaries between 7.1 G and 12 G. The scheme includes the option for the Advanced Pension Plan

(AFP) in the private sector associated with the common scheme. Associated insurance coverages are part of the scheme and include disability pension with child supplement without individual policy accumulation, child pension, and group life insurance/death benefits. The contribution scheme applies to all employees, except those who were 55 years or older as of 1 January 2018, and employees who were partially disabled or incapacitated with the right to sick pay at the time of the establishment of the contribution pension schemes. These individuals are covered by the previous scheme with KLP, which, with 30 years of accrual, grants the right to age-adjusted retirement pension at 66% of the pensionable salary at the time of retirement. The scheme also includes disability and survivor pensions as well as agreed-upon early retirement. The assets in the pension scheme are placed in a collective portfolio and cannot be specified in terms of asset classes. KBN had an operational pension scheme for salaries exceeding 12G that was closed in 2011.

Pension costs and pension liabilities for the defined benefit scheme include payroll tax and are assessed at the present value of future pension obligations accrued as of the balance sheet date. Pension obligations are calculated based on linear accrual, considering assumptions about discount rates, future salary adjustments, pensions, and benefits from the National Insurance, as well as assumptions about mortality and voluntary turnover. The period's pension cost consists of the sum of the period's accrual, interest cost on the calculated liability, and administrative costs. Changes in prior periods' pension accruals (plan amendments) are recognised in the period's results when the pension plan changes. The period's net pension cost is recognised under salary and administrative expenses. Changes in pension liabilities and assets in defined benefit schemes due to changes and variations in 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, payroll tax is presented as such in Note 4 Salary and administrative expenses and are therefore not included in the pension costs below.

Economic estimates used in calculation of pension costs and defined benefit obligation	31.12.2023	31.12.2022
Discount rate	3,10%	3,00%
Estimated wage growth	3,50%	3,50%
Estimated growth in Base amount	3,25%	3,25%
Expected growth in benefit levels	2,80%	2,63%

KBN has used preferential bonds (OMF) in the Norwegian market as a basis for determining the discount rate for 2023 and 2022. Actuarial assumptions are based on commonly used assumptions regarding demographic factors.

Pension costs	Funded plan		Unfunded plan	
	2023	2022	2023	2022
Defined benefit pension scheme				
Net periodic pension cost	1 189	1 270	0	0
Net interest expense	109	256	593	376
Service cost	97	92	0	0
Payroll tax	197	228	84	53
Total pension cost defined benefit scheme	**1 592**	**1 847**	**677**	**429**
Defined contribution pension scheme				
Pension cost for the year	8 446	7 950	0	0
Total pension costs (both benefit and contribution scheme)	**10 038**	**9 797**	**677**	**429**
Actuarial gain/(loss) recognised in other comprehensive income	7 287	(2 287)	1 009	(47)
Net pension costs	**17 325**	**7 510**	**1 686**	**382**

Pension liabilities	Funded plan		Unfunded plan	
	2023	2022	2023	2022
Gross accrued pension liabilites	142 622	135 052	21 095	19 926
Pension funds	(142 004)	(131 736)	0	0
Payroll tax	87	468	2 974	2 810
Net pension liabilities	**705**	**3 784**	**24 069**	**22 736**

Changes in pension liabilities	Funded plan		Unfunded plan	
	2023	2022	2023	2022
Net pension liabilities as of 1 January	3 784	9 139	22 736	22 788
Net pension costs	8 879	(440)	1 686	382
Contribution to the pension scheme, incl. payroll tax	(11 958)	(4 915)	(353)	(435)
Net pension liabilities as of 31 December	**705**	**3 784**	**24 069**	**22 736**

Changes in the fair value of pension funds	Funded plan		Unfunded plan	
	2023	2022	2023	2022
Fair value of pension funds as of 1 January	131 736	127 798	0	0
Net interest income	3 941	2 329	0	0
Actuarial gain/(loss) on pension funds	(1 582)	(491)	0	0
Service cost	(97)	(92)	0	0
Contribution to the pension scheme	10 480	4 307	309	381
Benefits paid	(2 474)	(2 114)	(309)	(381)
Fair value of pension funds as of 31 December	**142 004**	**131 736**	**0**	**0**

Note 6 Tax

(Amounts in NOK 1 000 000)

	2023	2022
Payable taxes on profit for the period	0	0
Change in deferred tax	563	134
Increased/(reduced) payable tax for previous years	0	(54)
Items recognised in other comprehensive Income	(119)	(200)
Total income tax	**444**	**(120)**

Reconciliation of effective income tax rate	2023	2022
Profit before tax	1 876	(180)
Calculated tax expense	469	(45)
Tax on additional Tier 1 Capital	(25)	(18)
Effects of changes in tax rate and tax returns for previous years	0	(54)
Permanent differences	0	(3)
Tax expense	**444**	**(120)**
Effective income tax rate	24%	67%

Deferred tax liability/(asset)	2023	2022
Deferred tax liability/(asset) as at 1 January	(2 885)	(3 021)
Change in deferred tax on items recognised in income statement	444	(134)
Changes in deferred tax on items recognised in other comprehensive income	119	200
Change in deferred tax as a result of changes in timing of taxable income for previous years	4	70
Deferred tax liability/(asset) as at 31 December (25%)	**(2 318)**	**(2 885)**

Temporary differences	2023	2022
Fixed assets	(4)	(4)
Leases	1	0
Pension commitments	(25)	(27)
Other differences	0	(16)
Provisions	(10)	(8)
Debt istruments	10 790	21 135
Financial derivatives	(11 534)	(22 452)
Losses carried forward for tax purposes	(8 489)	(10 166)
Total temporary differences	**(9 271)**	**(11 539)**
Deferred tax liability/(asset)	**(2 318)**	**(2 885)**

In April 2023 KBN received a resolution on changes to its tax assessments for 2021. KBN has previously received a resolution on changes to its tax assessments for the years 2015-2020. The changes relate to the tax treatment and periodisation of the accrual of financial instruments. The Norwegian Tax Administrations resolutions implies a change to the timing of taxable income and expense, but no change in total taxable income and expense over the lifetime of the instruments. KBN has prepared its accounts in compliance with the treatment expected by the tax authorities. KBN is still in disagreement with the Norwegian Tax Administration on certain matters relating to the tax treatment of the accrual of financial instruments in the accounts. KBN has submitted an appeal against aspects of the resolutions.

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 banks tax cost over time, except for changes in tax rate. Deferred tax assets arising from temporary differences affect capital adequacy adversely through deduction in common equity tier 1 capital.

Note 7 Lease agreements

(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 in Haakon VIIs gate in Oslo. KBN has entered into an agreement on new premises at Filipstad brygge with occupancy from August 2024. The agreement will be recognised from the time of occupancy.

The right-of-use-asset is presented in the statement of financial position as other assets, while the lease obligation is presented as other liabilities.

See Note 16 for further information.

Lease liability	2023	2022
Current (under 1 year)	7	8
Non-current (over 1 year)	0	7
Amortisation	7	7
Total interest expense recognised	0	0

Note 8 Classification of financial instruments

Accounting policies for classification and measurement

Classification of financial instruments are carried out 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 loans to customers and commercial paper and bonds is to “hold 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 loans to customers and commercial paper and bonds 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 PT and NIBOR loans are measured at amortised cost. Commercial paper and bonds 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, 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 loans to customers, and in the income statement as net gain/(loss) on financial instruments.

Financial assets designated at fair value through profit or loss (FVO)

If the risk in selected commercial paper and bonds, loans to customers with fixed interest rate and money-market deposits (both to financial and non-financial institutions) is hedged with a derivative contract, these financial assets is designated 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 commercial paper and bonds and loans to customers on one hand, and financial derivatives on the other hand.

Financial liabilities measured at amortised cost

Debt securities issued in the form of benchmark loans and certain loans from institutional investors in niche markets issued in public capital markets, are classified as financial liabilities measured at amortised cost and are measured at amortised cost using the effective interest rate method. The same applies to floating-rate bonds issued in U.S. dollars or Euros, due to credit institutions (received cash collateral or loans in the money market), as well as commercial papers issued. A portion of these financial liabilities is designated as hedged items and is subject to fair value hedge accounting rules. The hedged risk is limited to interest rate risk for liabilities in USD, EUR, and NOK. Changes in value attributable to the hedged risk in the bond are recognised under debt securities issued, and accounted for in the income statement under net gain/(loss) on financial instruments.

Financial liabilities designated at fair value through profit or loss (FVO)

Debt securities issued that are not measured to amortised cost, are designated as at fair value through profit or loss at initial recognition. This to achieve similar treatment as related derivative contracts, which are measured at fair value. This leads to a reduction in measurement inconsistency between debt securities issued on one hand and financial derivatives on the other hand. For debt 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 in the statement of comprehensive income. The remaining part of the change in fair value is recognised in the income statement. Note 9 provides additional information about financial assets at fair value through profit or loss (FVO).

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.

Accumulated principal of the debt for repayment, including commercial paper issued, debt securities issued and subordinated loan capital, amounts to NOK 485 billion against a book value of NOK 467 billion.

(Amounts in NOK 1 000 000)

2023	Total	At fair value: Fair value option	At fair value: Mandatorily at fair value	At fair value: Fair value hedge	At amortised cost: Designated at hedge accounting	At amortised cost: Hold to collect
Deposits with credit institutions	**36 601**	0	0	0	0	36 601
Loans to customers	**352 226**	71 461	0	0	42 274	238 490
Commercial paper and bonds	**114 344**	66 898	0	0	0	47 446
Financial derivatives	**16 505**	0	15 454	1 051	0	0
Total financial assets	**519 675**	**138 359**	**15 454**	**1 051**	**42 274**	**322 537**
Due to credit institutions	**5 232**	0	0	0	0	5 232
Commercial paper issued	**41 318**	0	0	0	0	41 318
Debt securities issued	**424 593**	165 165	0	0	240 285	19 143
Financial derivatives	**28 505**	0	14 267	14 238	0	0
Subordinated loan capital	**770**	770	0	0	0	0
Total financial liabilities	**500 419**	**165 935**	**14 267**	**14 238**	**240 285**	**65 694**

2022	Total	At fair value: Fair value option	At fair value: Mandatorily at fair value	At fair value: Fair value hedge	At amortised cost: Designated at hedge accounting	At amortised cost: Hold to collect
Deposits with credit institutions	**39 512**	0	0	0	0	39 512
Loans to customers	**324 532**	83 650	0	0	15 577	225 305
Commercial paper and bonds	**109 235**	60 324	0	0	0	48 911
Financial derivatives	**16 119**	0	15 837	283	0	0
Total financial assets	**489 399**	**143 974**	**15 837**	**283**	**15 577**	**313 728**
Due to credit institutions	**6 567**	0	0	0	0	6 567
Commercial paper issued	**23 377**	0	0	0	0	23 377
Debt securities issued	**402 553**	154 458	0	0	219 532	28 563
Financial derivatives	**39 070**	0	19 417	19 653	0	0
Subordinated loan capital	**1 897**	1 897	0	0	0	0
Total financial liabilities	**473 465**	**156 355**	**19 417**	**19 653**	**219 532**	**58 507**

Note 9 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 following.

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. The bank uses quoted prices provided by international vendors, and they are classified as level 1-inputs when they represent actual market transactions for the instrument.

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. 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.

The same type of input might be used to determine the fair value of commercial paper 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, determines the categorisation. 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 multiple periods, 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 with the addition of a credit surcharge. 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 3, comprises the credit premium for financial instruments that are not traded in an active market.

2023	Level 1	Level 2	Level 3	Total
Loans to customers	0	0	71 461	71 461
Commercial paper and bonds	52 667	3 471	10 760	66 898
Financial derivatives	0	16 151	354	16 505
Total financial assets measured at fair value	**52 667**	**19 622**	**82 575**	**154 864**
Debt securities issued	11 759	128 495	24 911	165 165
Financial derivatives	0	25 888	2 618	28 505
Subordinated loan capital	0	0	770	770
Total financial liabilities measured at fair value	**11 759**	**154 382**	**28 299**	**194 441**
2022	**Level 1**	**Level 2**	**Level 3**	**Total**
Loans to customers	0	0	83 650	83 650
Commercial paper and bonds	49 861	4 039	6 424	60 324
Financial derivatives	0	15 967	152	16 119
Total financial assets measured at fair value	**49 861**	**20 006**	**90 226**	**160 094**
Debt securities issued	12 284	122 595	19 580	154 458
Financial derivatives	0	34 780	4 290	39 070
Subordinated loan capital	0	0	1 897	1 897
Total financial liabilities measured at fair value	**12 284**	**157 374**	**25 767**	**195 425**

Holdings of NOK 2 billion are transferred from Level 3 to Level 1 for Commercial paper and bonds per 31. December 2022

Information about fair value

Assets and liabilities measured at fair value are in the above tables categorised in the three levels 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 either the income statement as net unrealised gain/(loss) on financial instruments or in the statement of comprehensive income as change in fair value of liabilities due to changes in own credit risk under other comprehensive income.

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. 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.

Loans to customers

Level 3 includes fixed rate loans to customers granted before 1 January 2022. Fixed rate loans to customers are granted on individual level and are not traded in an active market. Hence, observable market prices are not available after initial recognition. Fair value of such loans is estimated based on the credit spread for Norwegian municipalities at the reporting date. Fixed rate loans with an amortisation schedule are valued adding a discretionary spread to cover liquidity premium.

Commercial paper and bonds

Level 1

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

Level 2 and 3

The fair value of commercial paper 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 issuers 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. All investments are allocated 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. When these are material for the valuation, the security is allocated to level 3, which reflects significant valuation uncertainty.

Debt securities issued.

The bond debt is divided into three main groups based on the type of borrowing product and the corresponding loan documentation used. The three groups are loans in public niche markets, private placement loans, and retail loans. The first two groups are public (listed) syndicated loans in various currencies, where the issuance size constitutes the primary difference between the two groups.

Level 1

For quoted loans in public niche markets, quoted prices exist in an active market and these are considered to belong to level 1 with limited valuation uncertainty.

Level 2

For other loans in public niche markets, there are partially listed prices, but the activity and liquidity are somewhat low, so they are considered to belong to level 2, with some valuation uncertainty. A discounted cash flow model is used in the valuation, where inputs include market interest rates, listed prices, and prices of comparable instruments adjusted for differences in maturity, size, and currency. Prices of new issuances are also used as an important indicator in the valuation, and the bank makes non-binding price inquiries to brokers.

Level 3

The second group comprised of private placement loans 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. Inputs are current interest rate yield curves and credit spreads that are estimated from price indications to brokers at 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 cashflows. These models use interest rates, FX-rates, stock prices, equity indices and implicit or historical volatilities as inputs.

Financial derivatives

All financial derivatives are unlisted OTC-contracts used in economic hedges of interest rate and currency risk, and other market risks for debt securities. Derivatives are used for all portfolios, including securing interest for fixed-rate loans. For basis swaps (USD-NOK, USD-EUR and EUR-NOK), FRAs and interest rate swaps and cross currency swaps without option elements, fair value is determined by using the discounted cash flow method. Discount rates are 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 debt securities issued with option elements, are valued using discounted cash flow method and option pricing. These are classified as Level 3 due to significant use of unobservable inputs.

KBN analyses the fair value and the value changes at the end of the reporting period, including the basis for the development in fair values.

Reconciliation of changes in level 3

(Amounts in NOK 1 000 000)	Loans to customers	Commercial paper and bonds	Debt securities issued	Subordinated loan capital	Financial derivaties
Carrying amount at 31 December 2022	**83 650**	**6 424**	**19 580**	**1 897**	**(4 138)**
Purchase	0	9 203	0	(1 099)	(15)
Sale	0	(1 396)	0	0	0
Issue	0	0	6 528	0	0
Settlement	(7 884)	(3 864)	(1 655)	0	1 238
Transfer into Level 3	0	4 093	0	0	0
Transfer out of Level 3	(5 111)	(3 655)	0	0	0
Net unrealised gain/(loss) recognised in the period	806	(45)	459	(28)	651
Carrying amount at 31 December 2023	**71 461**	**10 760**	**24 911**	**770**	**(2 264)**

(Amounts in NOK 1 000 000)	Loans to customers	Commercial paper and bonds	Debt securities issued	Subordinated loan capital	Financial derivaties
Carrying amount at 31 December 2021	**98 853**	**6 599**	**30 522**	**2 092**	**(8 674)**
Purchase	0	9 711	(208)	0	0
Sale	0	0	0	0	(30)
Issue	0	0	766	0	(28)
Settlement	(7 136)	(7 374)	(12 311)	0	3 153
Transfer into Level 3	0	175	0	0	0
Transfer out of Level 3	(2 943)	(2 580)	0	0	0
Net unrealised gain/(loss) recognised in the period	(5 124)	(108)	811	(195)	1 441
Carrying amount at 31 December 2022	**83 650**	**6 424**	**19 580**	**1 897**	**(4 138)**

Transfers to and from level 3 primarily result from changes in the availability of observable inputs to valuation methods during the period, as well as refinancing or product shifts for loans to customers. In 2023, net assets of NOK 210 mill. were transferred from level 2 to level 1, and NOK 1,867 mill. were transferred from level 1 to level 2. Transfer between level 1 and level 2 is due to improved or reduced reliability of market data used in the valuation.

Effects from the currency conversion of principal amounts from non-derivative interest-bearing instruments in foreign currency and from interest and fees, are presented net in the income statement. Corresponding changes in fair value from currency derivatives used as hedging instruments in the economic hedging of the mentioned currency exposure, are presented net along with FX differences from the hedged item.

Net unrealised fair value changes for loans to customers, commercial paper issued, debt securities issued as well as subordinated loans are included in the income statement in net gain/(loss) on financial instruments, with the exception of unrealised fair value changes due to a change in own credit risk. Unrealised fair value changes due to a change in own credit risk are included in the statement of comprehensive income as other comprehensive income.

Description of significant unobservable data used in valuation, within level 3

In cases where there is very little or no market activity for the relevant instrument, the valuation relies significantly on estimates as input in the model. The most significant estimate includes a spread to the relevant yield curve. For debt securities issued, the spread includes liquidity risk, own credit risk, and market risk in the relevant currency market. For commercial paper and bonds valued using a model, the spread includes liquidity risk, issuer credit risk, and market risk in the relevant currency market. Other unobservable inputs include volatilities within option pricing models, where relevant. Beyond this, the parameters used in valuing instruments with option elements are primarily observable. Bonds with option elements are hedged one-to-one with financial derivatives where the option element is offsetting, thus eliminating exposure from the option element.

The total credit spread and thus the yield curves are sensitive to changes in underlying components. Changes in credit spread, liquidity risk, or market risk in the relevant currency market will therefore affect the fair value of the instrument. See the sensitivity analysis in the following table for the impact of a 10 bp increase in the discount rate.

Sensitivity analysis level 3

(Amounts in NOK 1 000 000)	2023 Carrying amount	2023 Impact of changes in key assumptions	2022 Carrying amount	2022 Impact of changes in key assumptions
Loans to customers	71 461	(225)	83 650	(293)
Commercial paper and bonds	10 760	(20)	6 424	(17)
Financial derivatives	(2 264)	(31)	(4 138)	(22)
Debt securities issued	(24 911)	16	(19 580)	25
Subordinated loan capital	(770)	3	(1 897)	9
Total	**54 276**	**(256)**	**64 459**	**(297)**

Sensitivity of level 3 are measured by changes in fair value due to a 10 bp increase in the discount rate.

For debt securities issued as well as subordinated loan capital, changes attributed to an increased credit spread will result in recognising the unrealised gain in other comprehensive income in the statement of comprehensive income, whereas if it is due to an increased money market interest rate, the unrealised gain will be recognised in the income statement.

Level 3 unrealised gain/(loss) in the period

(Amounts in NOK 1 000 000)	2023 Carrying amount	2023 Unrealised gain/(loss)	2022 Carrying amount	2022 Unrealised gain/(loss)
Loans to customers	71 461	806	83 650	(5 124)
Commercial paper and bonds	10 760	57	6 424	(182)
Financial derivatives	(2 264)	1 403	(4 138)	2 219
Debt securities issued	(24 911)	(1 270)	(19 580)	(2 149)
Subordinated loan capital	(770)	(92)	(1 897)	(195)
Total	**54 276**	**904**	**64 459**	**(5 431)**

Amounts in the column unrealised gain/(loss) in the table above are included in net gain/(loss) on financial instruments in the income statement, and in other comprehensive income in the statement of comprehensive income.

Note 10 Financial instruments measured at amortised cost

(Amounts in NOK 1 000 000))

	2023		2022	
	Carrying amount	Fair value	Carrying amount	Fair value
Deposits with credit institutions	36 601	36 599	39 512	39 512
Loans to customers	280 765	280 966	240 882	240 596
Commercial paper and bonds	47 446	47 442	48 911	48 836
Total financial assets measured at amortised cost	**364 812**	**365 007**	**329 305**	**328 944**
Due to credit institutions	5 232	5 232	6 567	6 567
Commercial paper issued	41 318	41 303	23 377	23 371
Debt securities issued	259 427	259 469	248 095	248 372
Total financial liabilities measured at amortised cost	**305 978**	**306 004**	**278 039**	**278 311**

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

2023	Level 1	Level 2	Level 3	Total
Loans to customers	0	186 086	94 880	280 966
Commercial paper and bonds	39 111	7 772	559	47 442
Total fair value of financial assets	**39 111**	**193 857**	**95 439**	**328 408**
Debt securities issued	238 150	21 319	0	259 469
Total fair value of financial liabilities	**238 150**	**21 319**	**0**	**259 469**

2022	Level 1	Level 2	Level 3	Total
Loans to customers	0	100 454	140 141	240 596
Commercial paper and bonds	42 755	1 024	5 057	48 836
Total fair value of financial assets	**42 755**	**101 478**	**145 199**	**289 432**
Debt securities issued	217 683	30 689	0	248 372
Total fair value of financial liabilities	**217 683**	**30 689**	**0**	**248 372**

Information about fair value for assets and liabilities recognised at amortised cost

Loans to customers.

Loans to customers at level 2 includes P.t. loans and NIBOR-loans with floating margin and NIBOR-loans with fixed margin with time to maturity within 1 year. These loans have time to maturity and/or interest rate terms that give the customer more flexibility to change the loan provider if market terms change, which entails higher competition and better liquidity in the market. Hence observable prices on new loans are used as inputs in the valuation of these loan products.

Loans to customers at level 3 includes NIBOR-loans with fixed interest rate margin and time to maturity above 1 year, and fixed rate loans. These loans are not traded in an active market. Valuation is hence based on credit spread for Norwegian municipalities. Fixed rate loans with an amortisation schedule are valued adding a discretionary spread to cover liquidity premium.

Commercial paper and bonds

Commercial paper and bonds without related financial derivatives are measured at amortised cost. Fair value valuation and grouping in levels 1, 2 and 3 follow similar principles as for commercial paper and bonds measured at fair value, see note 9 for information on fair value measurement.

Debt securities issued.

Debt securities issued in the form of benchmark loans and certain loans from institutional investors in niche markets issued in public capital markets, are classified as financial liabilities measured at amortised cost. The same applies to bond debt with a floating interest rate issued in USD or Euros. The valuation at fair value and the grouping in levels 1, 2 and 3 follow similar principles as for debt securities issued that is measured at fair value, see note 9 for information on fair value measurement.

Note 11 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 risk according to IFRS 9 of debt securities issued and loans to customers. KBN has initiated hedge accounting for loans to customers with fixed rate, for new loans starting from 1 January 2022. For these loans, the economic interest rate risk is hedged using interest rate swaps. Fair value hedging is applied when the economic hedging meets the requirements for the use of fair value hedge accounting. The hedge relationship is documented at designation, including the goals and strategy for the risk management of the hedge relationship. The documentation includes identification of the hedge relationship, description of hedged risk (interest rate risk) and a prospective effectiveness test. Hedge effectiveness is measured on an on-going basis. 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 gain/(loss) on financial instruments.

Ineffectiveness occurs due to changes in market rates in the floating leg of the hedging instrument (swap), the use of different interest rate curves for discounting the hedging instrument and where the hedge is not 1:1.

Carrying amount of financial instruments in fair value hedges	2023	2022
Hedged item:		
Debt securities issued	240 285	220 629
Loans to customers	42 274	15 555
Hedging instruments:		
Financial derivatives, in fair value hedge of debt securities issued	(12 844)	(19 495)
Financial derivatives, in fair value hedge of loans to customers	(343)	124
Total	**269 372**	**216 813**

Nominal values of hedged items in fair value hedges	2023	2022
Debt securities issued	251 450	237 813
Loans to customers	40 886	15 643
Total	**292 335**	**253 456**

Recognised value changes on financial instruments in fair value hedges	2023	2022
Hedged item:		
Debt securities issued	(7 154)	18 247
Loans to customers	243	(261)
Hedging instruments:		
Financial derivatives, in fair value hedge of debt securities issued	7 242	(18 262)
Financial derivatives, in fair value hedge of loans to customers	(250)	245
Total	**81**	**(31)**

Recognised value changes are a result of changes in underlying risk factors, hence the hedged risk (secured inefficiency). For the hedging instrument (the financial derivative), the full fair value change is recognised, as these are measured at fair value.

Maturity profile of financial instruments in fair value hedge.

Maturity profile of financial instruments in fair value hedge 2023	0-1 years	1-3 years	3-5 years	> 5 years	Total
Carrying amount of debt securities issued, measured at amortised cost	(45 913)	(102 890)	(69 330)	(33 876)	(252 009)
Fair value adjustment	750	5 433	912	4 629	11 725
Total carrying amount of debt securities issues	**(45 163)**	**(97 457)**	**(68 417)**	**(29 248)**	**(240 285)**
Nominal value of financial derivatives, in fair value hedge of debt securities issued	45 686	102 587	68 865	34 311	251 450
Carrying amount of loans to customers, measured at amortised cost	1 635	13 874	14 864	11 884	42 257
Fair value adjustment	30	(42)	(14)	44	18
Total carrying amount of loans to customers	**1 665**	**13 832**	**14 850**	**11 928**	**42 274**
Nominal value of financial derivatives, in fair value hedge of loans to customers	750	4 915	19 593	13 326	38 584

Maturity profile of financial instruments in fair value hedge 2022	0-1 years	1-3 years	3-5 years	> 5 years	Total
Carrying amount of debt securities issued, measured at amortised cost	(29 728)	(102 493)	(76 595)	(30 692)	(239 508)
Fair value adjustment	659	5 532	6 840	5 849	18 879
Total carrying amount of debt securities issues	**(29 069)**	**(96 961)**	**(69 756)**	**(24 844)**	**(220 629)**
Nominal value of financial derivatives, in fair value hedge of debt securities issued	29 552	100 971	76 620	28 970	236 113
Carrying amount of loans to customers, measured at amortised cost	57	1 451	7 117	7 183	15 808
Fair value adjustment	(1)	4	(77)	(180)	(253)
Total carrying amount of loans to customers	**56**	**1 455**	**7 040**	**7 003**	**15 555**
Nominal value of financial derivatives, in fair value hedge of loans to customers	0	1 250	5 227	7 965	14 442

Note 12 Deposits with credit institutions

(Amounts in NOK 1 000 000)	2023	2022
Deposits with credit institutions without agreed time to maturity	356	251
Deposits with credit institutions with agreed time to maturity	6 528	9 755
Cash collateral pledged	29 717	29 506
Total deposits with credit institutions	**36 601**	**39 512**

Note 13 Loans to customers

(Amounts in NOK 1 000 000)	2023	2022
Principal amount	354 052	328 401
Accrued interest	2 915	1 928
Fair value adjustment	(4 700)	(5 506)
Value adjustment in fair value hedges	(18)	(261)
Expected credit loss	(41)	(52)
Total loans to customers	**352 208**	**324 511**
Other loans	18	22
Total loans	**352 226**	**324 532**

Geographic distribution of principal amount	2023	2022
Agder	20 656	20 240
Innlandet	26 931	25 292
Møre og Romsdal	21 235	21 026
Nordland	26 356	25 108
Oslo	18 538	16 611
Rogaland	22 921	22 825
Troms og Finnmark	25 364	22 738
Trøndelag	38 667	35 791
Vestfold og Telemark	24 299	20 243
Vestland	41 037	38 648
Viken	88 049	79 878
Loans to customers, principal amount	**354 052**	**328 401**

Note 14 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 loans to customers and commercial paper and bonds 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, recognised in the income statement and statement of financial position. The assets are allocated back to lower stages if the credit risk is since reduced. Actual credit losses have never taken place during KBN's history.

The recognition of interest income for assets allocated to stages 1 and 2 is based on the assets principal amount, while the recognition of interest income for assets allocated to stage 3 is based on the assets 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 normalised values for probability of default are adjusted for market cycles in line with current market conditions at reporting times. The periods change in total expected credit loss is recognised in the Income statement as increased/(reduced) provision for 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 issuers 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 loans to customers 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 are triggered by events that result in actual credit losses, or payment delays of at least 90 days over a certain threshold amount. For bonds and certificates, allocations to level 3 are triggered by events such as payment delays, bankruptcy petitions, or restructuring due to financial difficulties.

The below table shows expected credit loss as part of the carrying amount of loans to customers and commercial paper and bonds at the end of the period. All exposures are assessed to be in stage 1, both as of 31 December 2023, and 31 December 2022.

(Amounts in NOK 1 000 000)	31 December 2023		31 December 2022	
	Carrying amount	Expected credit loss	Carrying amount	Expected credit loss
Loans to customers	280 765	41	240 882	52
Commercial paper and bonds	47 446	3	48 911	2
Total	**328 211**	**44**	**289 793**	**54**

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 1 000 000)	31 December 2023	31 December 2022
Loans to customers	(11,0)	27,4
Commercial paper and bonds	1,2	0,1
Increased/(reduced) provision for expected credit loss	**(9,8)**	**27,5**

Note 15 Commercial paper and bonds

(Amounts in NOK 1 000 000)

Commercial paper and bonds by type of issuer	2023	2022
Domestic		
Issued by public bodies[1]	0	0
Issued by other borrowers	25 107	20 257
Foreign		
Issued by public bodies[1]	69 755	77 918
Issued by other borrowers	19 481	11 061
Total commercial paper and bonds	**114 344**	**109 235**

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

Commercial paper and bonds by time to maturity	2023	2022
Under 1 year	31 833	42 635
1-5 years	80 869	64 789
> 5 years	1 642	1 811
Total commercial paper and bonds	**114 344**	**109 235**
Average duration (years)	1,9	2,0

Note 16 Other assets and other liabilities

Other assets

(Amounts in NOK 1 000 000)	2023	2022
Intangible assets	162	143
Leases	7	14
Fixed assets	7	8
Other assets	35	6
Total other assets	**210**	**170**

Intangible assets comprise of IT systems, website, customer online banking and data-warehouse. IT-systems were brought into use in 2015 and 2016, the website in 2019, and the customer online banking and the data warehouse in 2020. New assets in 2023 is related to new IT-systems related to lending process, as well as improvement and development of existing systems. All are amortised over their expected lifetimes.

Other liabilities

(Amounts in NOK 1 000 000)	**2023**	**2022**
Accounts payable	16	1
Public fees	9	9
Leases	6	14
Other short term liabilities	13	10
Accrued expenses and received, not yet accrued interest	32	22
Total other liabilities	**76**	**56**

Note 17 Due to credit institutions

(Amounts in NOK 1 000 000)	**2023**	**2022**
Cash collateral received	5 232	6 567
Commercial paper and other short-term debt	41 318	23 377
Total due to credit institutions	**46 551**	**29 944**

Note 18 Debt securities issued and commercial paper issued

(Amounts in NOK 1 000 000)	**2023**	**2022**
Debt securities issued (nominal amounts) as at 1 January	**429 206**	**395 385**
New issuance	76 935	86 995
Redemptions*	(85 790)	(83 648)
Amortisation (incl. fees)**	(242)	(647)
Effects of exchange rate changes	18 297	31 122
Debt securities issued (nominal amounts) as at 31 December	**438 407**	**429 206**
Accrued interest	5 592	4 228
Fair value adjustment	(19 406)	(30 881)
Of which value adjustmenst that is due to change in own credit risk	*(78)*	*406*
Of which value adjustmenst that is due to other reasons, fair value	*(7 603)*	*(12 408)*
Of which value adjustmenst that is due to other reasons, hedge accounting	*(11 725)*	*(18 879)*
Total Debt securities issued	**424 593**	**402 553**

(Amounts in NOK 1 000 000)	**2023**	**2022**
Commercial paper issued (nominal amounts) as at 1 January	23 377	31 567
New issuance	152 355	148 633
Redemptions	(134 845)	(156 685)
Amortisation	417	98
Effects of exchange rate changes	15	(236)
Commercial paper issued (nominal amounts) as at 31 December	**41 318**	**23 377**

* There have been no buybacks in 2023. **Amortisation is shown in its own line in the table above but is included in buyback in the table below.

Changes in value due to a change in own credit risk are recognised in other comprehensive income in the statement of comprehensive income, while changes in value due to changes in short term interest are recognised in the income statement as net gain/(loss) on financial instruments.

Reconciliation of changes in liabilities that are part of financing activities.

(Amounts in NOK 1 000 000)	Commercial paper issued	Debt securities issued	Subordinated loan capital
Carrying amount 31 December 2022	**23 377**	**402 553**	**1 897**
Cash flows	-	0	0
Payments from issuance	152 355	76 935	0
Redemptions	(134 845)	(85 790)	0
Changes that are not related to cash flows	0	0	0
Changes due to accrued interest and amortisation	417	1 122	(19)
Changes in fair value	0	0	92
Repurchase, related to issuance of Tier 1 capital	0	0	(1 200)
Effects of exchange rate changes on nominal amount incl. fees	15	18 297	0
Carrying amount 31 December 2023	**41 318**	**424 593**	**770**

(Amounts in NOK 1 000 000)	Commercial paper issued	Debt securities issued	Subordinated loan capital
Carrying amount 31 December 2021	**31 567**	**393 663**	**2 092**
Cash flows	0	0	0
Payments from issuance	148 633	86 995	0
Buyback	(156 685)	(84 295)	0
Changes that are not related to cash flows	0	0	0
Changes due to accrued interest and amortisation	98	352	0
Changes in fair value	0	(25 285)	(196)
Effects of exchange rate changes on nominal amount incl. fees	(236)	31 122	0
Carrying amount 31 December 2022	**23 377**	**402 553**	**1 897**

Note 19 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 derivative contracts with counterparties with an average credit rating of A+ and all derivative exposure is subject to risk limits approved by the Board. The bank's assets and liabilities denominated in foreign currency, are financially secured with interest rate and currency derivatives based on reference rates in NOK, USD, and EUR. Net assets or liabilities in reference rates in USD or EUR are converted to reference rates in NOK using a combination of basis swaps and currency forwards. Derivatives that are both interest rate and currency related are presented as currency related in the table below.

Interest rate risk arising from interest rate fixation on loans to customers is hedged using interest rate swaps.

See note 20 and note 24 for information on ISDA agreements, collateral transfers and clearing, that reduce counterparty risk. Counterparty risk is measured and monitored on an ongoing basis.

	2023			2022		
(Amounts in NOK 1 000 000)	Nominal amounts	Positive fair values	Negative fair values	Nominal amounts	Positive fair values	Negative fair values
Mandatorily at fair value:						
Interest rate related derivatives	264 004	8 078	5 287	265 750	9 207	6 235
Currency related derivatives	557 649	7 376	8 980	506 595	6 630	13 182
Of which principal amounts on transactions with financing element	2 803	249	260	2 947	52	314
	821 653	**15 454**	**14 267**	**772 346**	**15 837**	**19 417**
Fair value hedges:						
Interest rate related derivatives	290 033	1 051	14 238	252 255	283	19 653
Currency related derivatives	0	0	0	0	0	0
	290 033	**1 051**	**14 238**	**252 255**	**283**	**19 653**
Total financial derivatives	**1 111 686**	**16 505**	**28 505**	**1 024 600**	**16 119**	**39 070**

All financial derivatives are measured at fair value through profit and loss. Most contracts are categorised as mandatorily at fair value according to IFRS 9. The remaining contracts are designated as hedging instruments in fair value hedges. Standard netting agreements (ISDA) do not fulfil the requirements for offsetting in the statement of financial position, even though they imply the right to offset in case of default. Financial derivatives are hence 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.

KBN have financial instruments that have been affected by the IBOR reform. In accordance with the fallback provisions in ISDA, all derivatives with USD Libor 3M as reference rate changed reference rate to SOFR with an imposed fallback spread of 26.16 basis points as of July 1, 2023. The transition had no significant impact on the financial statement of 2023.

Note 20 Collateral and offsetting

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 due to credit institutions. Cash collateral received is included in KBN's cash management and is placed either in commercial paper and bonds or in short term money market instruments. KBN has also pledged securities to derivative counterparties as collateral, 1,514 million at year-end 2023 (1,569 million as of year-end 2022). These assets are not offset in the balance sheet and are still recognised as commercial paper and bonds. As of year-end 2023, no repurchase agreements or reverse repurchase agreements have been entered into (NOK 3,629 million reverse repurchase agreements as of year-end 2022). Please see note 19 for further information about financial derivatives.

(Amounts in NOK 1 000 000)	2023	2022
Cash collateral received	5 232	6 567
Cash collateral pledged	(29 717)	(29 506)
Net received cash collateral	**(24 485)**	**(22 939)**

Effect of offsetting and collateral

KBN only has offsetting rights for exposures in financial derivatives, and for these, legally binding 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 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			
2023	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	16 505	0	16 505	14 230	2 274	(4 337)[2]	6 611
Liabilities[3]							
Financial derivatives	28 505	0	28 505	14 251	14 255	13 653[4]	602

[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 5,232 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 -29,717 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			
2022	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	16 119	0	16 119	14 946	1 174	1 104[2]	69
Liabilities[3]							
Financial derivatives	39 070	0	39 070	14 968	24 102	22 438[4]	1 664

[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 6 567 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 -29 506 million) is due to a combination of offsetting of cash collateral and that the bank has pledged cash collateral over the exposure amount

Note 21 Subordinated loan capital

(Amounts in NOK 1 000 000)	Currency	Principal amount in currency	Redemption right	Coupon	Principal amount in NOK 2023	2022	Carrying amout 2023	2022
Ordinary subordinated loan capital	NOK	800 mill	2028	3,02%	800	2 000	770	1 897
Total Subordinated loan capital					**800**	**2 000**	**770**	**1 897**

Note 22 Share capital

	2023		2022	
	Number of shares	Share in %	Number of shares	Share in %
The Kingdom of Norway	3 894 625	100	3 894 625	100

Note 23 Additional Tier 1 capital

(Amounts in NOK 1 000 000)	Currency	Principal amount in currency	Redemption right	Coupon	Principal amount in NOK 2023	2022	Carrying amount 2023	2022
Additional Tier 1 capital	NOK	1 200 mill	2027	3,26%	1 200	1 200	1 195	1 195
Additional Tier 1 capital	NOK	1 200 mill	2025	3 mnd NIBOR +1,25%	1 200	1 200	1 196	1 196
Additional Tier 1 capital	NOK	1 200 mill	2028	4,22%	1 200		1 093	
Total additional Tier 1 capital					**3 600**	**2 400**	**3 484**	**2 392**

KBN issued additional Tier 1 capital in June 2023, June 2020 and June 2017. The bonds forms part of KBN's Tier 1 capital, see Note 29. The bonds are perpetual with redemption rights by the issuer. 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 as interest expense in the income statement, but rather as a reduction of other equity. The expenses are recognised when paid, see the Statement of changes in equity. In 2023 interest in the amount of NOK 76 million (after tax) has been paid (NOK 55 million in 2022). In addition, NOK 39 million (after tax) had accrued at year end 2023 (NOK 17 million in 2022).

Note 24 Risk management

Risk management

KBN's 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 appetite is operationalised through defined limits for types and extent of risk exposure.

Risk management and internal control are integrated into the banks 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 banks risk exposure.

Robust internal control is carried out as an integrated part of the business processes of the bank. Risk management is established in a structure based on three lines of defence that ensures systematic identification, assessment, monitoring and reporting of the risk in all parts of KBN's activities. The first line of defence carries out operational tasks and is responsible for managing and controlling that all the activities are carried out within the established limits, and in accordance with external and internal regulations. The second line of defence conducts independent risk- and compliance assessments, controls and validates models and develops and prepares KBN's risk and compliance reporting. The second line of defence consists of the risk management and compliance functions. Internal audit (KPMG) constitutes KBN's third line of defence and is the Board's independent control and confirmation body.

Risk types

The risk management and risk exposure in KBN are subject to strict internal guidelines to ensure the banks credit rating and access to the most attractive money markets. KBNs appetite for credit and liquidity risk are low and very 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 or shorter money market 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

- Basis risk
- Interest rate 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 have a strategy and process of assessing necessary capital level, considering all substantial risks the bank is exposed to. The Board of Directors discusses the capital level and assesses all the risks annually to ensure the Company's capital level based on the actual and expected future risk exposure.

In the process of capital assessment, KBN estimates the capital level necessary to cover the total risk exposure. This is done by estimating the capital requirement per risk area. The following risks are assessed separately: credit risk, market risk, liquidity risk and operational risk.

The Board pays special attention to the risk of changes in regulatory framework. Implementation of European Capital Requirement Regulation to the national capital requirements have increased KBN's capital requirements.

KBN's Common equity Tier 1 capital adequacy ratio is 17,4 per cent as of 31 December 2023, and KBN is compliant with all regulatory minimum requirements and buffer requirements 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 commercial paper and bonds issued by or guaranteed by sovereigns, regional authorities, multilateral development banks, covered bonds and financial institutions with high credit rating.

Credit risk arising from loans to customers is limited to payment deferrals as the payment obligation cannot be waived. The Local Government Act states that municipalities and county authorities 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. KBN does, however, perform credit assessment of all lending customers, based on a model for economic analysis of municipalities and county authorities. 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 authorities. The prerequisite for such loans is that the municipalities, or county authorities, provide guarantees that have been politically adopted and approved by the state through the chief county executive or the Ministry of Local Government and Regional Development.

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 banks risk capital, the type of financial instrument and its maturity.

For investments in commercial paper and bonds, as well as for financial derivatives, the minimum rating requirement is A2/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 have been made with all derivative counterparties.

KBN uses clearing services at a central counterparty (London Clearing House —LCH) for financial derivatives related to interest rate risk. As a central counterparty, LCH are subject to capital and risk management, and are considered to have lower counterparty risk than ordinary financial institutions.

KBN does not have a direct membership at LCH and uses clearing brokers that 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 banks' 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) as of 31 December 2023, and 63 per cent of the portfolio is invested in securities with a risk weight of zero per cent. Average time to maturity of the portfolio was 1.9 years as of 31 December 2023. The risk in the portfolio is managed at issuer level and is limited due to the portfolios short duration.

Market risk

Market risk consists mainly of interest rate, basis spread, credit spread and currency risk. KBN 's risk appetite and risk policy allows a limited degree of exposure to changes in interest rates, basis spreads and credit spreads, while it allows a minimal degree of exposure of currency for operational reasons. Interest rate and currency risk are managed through matching of assets and liabilities at all times. Economic hedges with derivative instruments are used actively to reduce market risk.

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 must at any time cover a minimum of 10 months' obligations, without access to new borrowing. The maturity of the liquidity portfolio is kept short, so that liquidity needs are mainly managed through maturity of the asset side. The liquidity portfolio is invested in liquid securities of very high credit quality and with low ESG-risk.

Note 25 Credit risk

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 2023. Neither are there any evidence of actual default or payment problems with customers that would give reason to expect actual loan losses in 2024. KBN does not issue financial guarantees.

The table below includes exposures that are recognised as deposits with credit institutions, loans to customers and commercial paper and bonds. 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.

(Amounts in NOK 1 000 000)	2023									
Time to maturity	< 1 year				> 1 year					
Risk class	A-1	A-2	A-3	Not ratet	BBB	A	AA	AAA	Not ratet	Total
Sovereigns and central banks	11 242	0	0	0	0	574	6 718	2 590	0	**21 125**
Multilateral development banks	1 409	0	0	0	0	0	1 713	9 133	0	**12 256**
Regional authorities[1]	12 762	0	0	31 634	0	208	16 102	20 280	310 031	**391 017**
Financial institutions	36 214	532	0	0	0	0	274	0	0	**37 020**
Corporates	1 400	0	0	0	0	1 826	0	1 533	0	**4 759**
Covered Bonds	2 166	0	0	0	0	0	0	34 827	0	**36 994**
Total	**65 194**	**532**	**0**	**31 634**	**0**	**2 608**	**24 807**	**68 364**	**310 031**	**503 170**

[1]Including loans to the municipality, regional authority and intermunicipal companies amounting to NOK 352.1 bn. Undisbursed loan commitments amount to NOK 5 bn as at 31 December 2023.

Credit exposure by country

(Amounts in NOK 1 000 000)	2023									
Time to maturity	< 1 year				> 1 year					
Risk class	A-1	A-2	A-3	Not ratet	BBB	A	AA	AAA	Not ratet	Totalt
Australia	0	0	0	0	0	0	0	0	0	**0**
Ireland	0	0	0	0	0	0	0	0	0	**0**
Belgium	2 868	0	0	0	0	0	0	0	0	**2 868**
Canada	5 973	0	0	0	0	208	272	2 552	0	**9 005**
Danmark	4 001	0	0	0	0	0	0	7 642	0	**11 643**
Finland	1 495	0	0	190	0	0	3 964	3 399	430	**9 478**
France	15 856	0	0	0	0	0	6 000	1 370	0	**23 226**
Japan	5 186	64	0	0	0	574	0	0	0	**5 824**
Netherlands	145	0	0	0	0	0	0	0	887	**1 032**
Norway	2 117	0	0	31 333	0	0	0	36 487	307 799	**377 736**
Austria	0	0	0	0	0	0	526	0	0	**526**
Spain	0	0	0	0	0	0	0	0	0	**0**
United Kingdom	739	346	0	0	0	0	0	1 658	0	**2 744**
Supranational	1 409	0	0	0	0	0	1 713	9 133	0	**12 256**
Switzerland	3	0	0	0	0	0	0	0	0	**3**
Sweden	5 369	0	0	101	0	0	4 168	3 441	915	**13 994**
Germany	15 500	122	0	0	0	0	1 971	2 693	0	**20 286**
USA	4 532	0	0	0	0	1 826	6 192	0	0	**12 549**
Total	**65 194**	**532**	**0**	**31 624**	**0**	**2 608**	**24 807**	**68 375**	**310 031**	**503 170**

Amounts in the table represent actual credit exposure.

(Amounts in NOK 1 000 000)	2022									
Time to maturity		< 1 year					> 1 year			
Risk class	A-1	A-2	A-3	Not ratet	BBB	A	AA	AAA	Not ratet	Totalt
Sovereigns and central banks	24 043	0	0	2 094	0	4 251	11 817	0	0	**42 204**
Multilateral development banks	1 962	0	0	0	0	0	1 688	5 012	0	**8 662**
Regional authorities[1]	8 358	0	0	32 400	0	0	9 609	4 458	298 483	**353 308**
Financial institutions	36 677	371	0	2 463	0	0	0	0	0	**39 511**
Corporates	395	0	0	0	0	103	0	0	0	**498**
Covered Bonds	1 421	0	0	282	0	0	2 775	24 618	0	**29 097**
Total	**72 857**	**371**	**0**	**37 238**	**0**	**4 354**	**25 889**	**34 088**	**298 483**	**473 280**

[1]Including loans to municipality, regional authority and intermunicipal companies amounting to NOK 324.5 bn. Undisbursed loan commitments amount to NOK 2,6 bn as at 31 December 2022.

Credit exposure by country

(Amounts in NOK 1 000 000)	2022									
Time to maturity		< 1 year					> 1 year			
Risk class	A-1	A-2	A-3	Not ratet	BBB	A	AA	AAA	Not ratet	Totalt
Australia	289	0	0	0	0	0	0	0	0	**289**
Ireland	341	0	0	0	0	0	0	0	0	**341**
Belgium	558	0	0	0	0	0	0	0	0	**558**
Canada	1 472	0	0	2 463	0	0	0	0	0	**3 935**
Danmark	1 257	0	0	0	0	0	0	5 650	0	**6 907**
Finland	5 078	0	0	204	0	0	1 907	3 082	565	**10 837**
France	21 718	0	0	2 094	0	0	0	0	0	**23 811**
Japan	3 174	58	0	0	0	4 251	0	0	0	**7 483**
Netherlands	783	0	0	681	0	0	0	0	787	**2 251**
Norway	38	0	0	30 044	0	0	2 373	16 162	296 212	**344 829**
Austria	0	0	0	0	0	0	2 163	0	0	**2 163**
Spain	0	0	0	0	0	0	0	0	0	**0**
United Kingdom	1 105	310	0	0	0	0	0	0	0	**1 416**
Supranational	1 962	0	0	0	0	0	1 688	5 012	0	**8 662**
Switzerland	1 597	3	0	0	0	0	0	0	0	**1 600**
Sweden	2 801	0	0	1 226	0	0	3 628	3 470	919	**12 044**
Germany	19 806	0	0	526	0	0	4 476	711	0	**25 520**
USA	10 880	0	0	0	0	103	9 654	0	0	**20 636**
Total	**72 857**	**371**	**0**	**37 238**	**0**	**4 354**	**25 889**	**34 088**	**298 483**	**473 280**

Note 26 Interest rate risk

Interest rate sensitivity

The interest rate sensitivity information illustrates how the value of the bank's assets and liabilities, income statement 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) on a 12-month horizon 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. Tables below show amounts before tax, for effects on equity, a tax of 25 per cent must be deducted.

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 basis point 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 interest rate sensitivities are calculated before tax according to the items agreed rate fixing, distributed per currency type at a 1%-point parallel shift in market interest rate.

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

The table below illustrates the sensitivity in market value for all balance sheet items, based on a parallel shift in the yield curve (market rate/swap rate) of 100 basis points (upward).

(Amounts in NOK 1 000 000) 2023	0-3 months	3 months - 1 year	1-5 years	>5 years	Net total	Gross total
AUD	0	0	(9)	(29)	**(38)**	**38**
EUR	37	(1)	2	(12)	**26**	**26**
JPY	0	(0)	(0)	0	**0**	**0**
NOK	54	(9)	0	(2)	**43**	**43**
USD	(1)	2	1	(26)	**(23)**	**23**
Other	1	(2)	(17)	(11)	**(29)**	**29**
Total	92	(10)	(23)	(80)	**(21)**	**159**
2022	**0-3 months**	**3 months -1 year**	**1-5 years**	**>5 years**	**Net total**	**Gross total**
AUD	0	1	(7)	(20)	**(27)**	**27**
EUR	9	2	1	(19)	**(7)**	**7**
JPY	0	0	0	1	**2**	**2**
NOK	36	(21)	4	4	**22**	**22**
USD	47	(65)	(16)	(3)	**(36)**	**36**
Other	0	5	(20)	(8)	**(24)**	**29**
Total	92	(78)	(38)	(44)	**(69)**	**122**

Table 2: Interest rate sensitivity for unrealised fair 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 unrealised fair value changes at a parallel shift of 100bp, as in table 1. 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 in the income statement of balance sheet items measured at fair value is NOK 169 million, while the effect in the income statement of balance sheet items measured at hedge accounting is NOK -190 million. Net effect of these is NOK -21 million.

(Amounts in NOK 1 000 000) 2023	0-3 months	3 months - 1 year	1-5 years	>5 years	Net Total
AUD	0	0	(9)	(29)	**(38)**
EUR	(2)	(1)	2	(12)	**(13)**
JPY	0	(0)	(0)	0	**0**
NOK	388	(6)	(91)	(3)	**288**
USD	(10)	1	(5)	(25)	**(40)**
Other	1	(2)	(17)	(11)	**(29)**
Total	377	(8)	(121)	(80)	**169**
2022	**0-3 months**	**3 months - 1 year**	**1-5 years**	**>5 years**	**Net Total**
AUD	0	1	(7)	(20)	**(27)**
EUR	20	2	1	(19)	**4**
JPY	0	0	0	1	**2**
NOK	343	(18)	(81)	(22)	**223**
USD	49	(69)	(23)	(2)	**(45)**
Other	0	5	(20)	(8)	**(24)**
Total	412	(78)	(130)	(70)	**134**

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.

(Amounts in NOK 1 000 000) 2023	0-3 months	3 months - 1 year	1-5 years	>5 years	Net total	Gross total
AUD	(0)	(1)	(8)	(6)	**(15)**	**15**
EUR	(0)	0	0	(2)	**(2)**	**2**
JPY	0	0	0	(0)	**0**	**0**
NOK	3	7	19	7	**36**	**36**
Rest	0	(2)	(14)	(3)	**(18)**	**18**
Net exposure	3	4	(2)	(5)	**0**	**72**
2022	**0-3 months**	**3 months - 1 year**	**1-5 years**	**>5 years**	**Net total**	**Gross total**
AUD	0	(1)	(9)	(5)	**(16)**	**16**
EUR	0	0	(1)	(3)	**(4)**	**4**
JPY	0	0	0	(1)	**0**	**0**
NOK	3	5	20	4	**32**	**32**
Rest	0	(1)	(13)	(3)	**(17)**	**20**
Net exposure	3	3	(2)	(8)	**(5)**	**72**

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 influence profit and loss.

(Amounts in NOK 1 000 000) 2023	0-3 months	3 months - 1 year	1-5 years	>5 years	Net total
Loans to customers	(0)	(2)	(9)	(11)	**(22)**
Commercial paper and bonds	(0)	(1)	(10)	(0)	**(11)**
Net exposure	(0)	(3)	(19)	(11)	**(34)**
2022	**0-3 months**	**3 months - 1 year**	**1-5 years**	**>5 years**	**Net total**
Loans to customers	0	(2)	(15)	(21)	**(38)**
Commercial paper and bonds	0	(2)	(8)	(1)	**(11)**
Net exposure	0	(3)	(23)	(21)	**(48)**

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).

(Amounts in NOK 1 000 000) 2023	0-3 months	3 months - 1 year	Net total
EUR	(25)	41	**17**
NOK	329	(136)	**193**
USD	(172)	35	**(137)**
Other	(0)	0	**(0)**
Total	133	(60)	**73**
2022	**0-3 months**	**3 months - 1 year**	**Net total**
EUR	6	(0)	**6**
NOK	155	2	**157**
USD	(265)	192	**(72)**
Øvrige	0	0	**0**
Total	(103)	194	**91**

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).

(Amounts in NOK 1 000 000) 2023	0-3 months	3 months - 1 year	Net total
EUR	4	0	**4**
NOK	(19)	(2)	**(21)**
Other	(0)	0	**(0)**
Total	(16)	(2)	**(17)**
2022	**0-3 months**	**3 months - 1 year**	**Net total**
EUR	1	0	**1**
NOK	(16)	(3)	**(19)**
Other	(1)	1	**1**
Total	(16)	(2)	**(17)**

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).

(Amounts in NOK 1 000 000) 2023	0-3 months	3 months - 1 year	Net Total
Loans to customers	16	0	**17**
Commercial paper and bonds	2	1	**3**
Liabilities	(5)	(2)	**(7)**
Total	13	(1)	**12**
2022	**0-3 months**	**3 months - 1 year**	**Net Total**
Loans to customers	15	0	**16**
Commercial paper and bonds	3	1	**4**
Liabilities	(4)	(2)	**(6)**
Total	15	(1)	**14**

Note 27 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 banks 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 net currency position that cannot exceed 1.6% of subordinated capital.

2023 (Amounts in NOK 1 000 000)	Gross position USD	Sensitivity 10% change in FX rate	Gross position EUR	Sensitivity 10% change in FX rate	Gross position Other FX	Sensitivity 10% change in FX rate	Gross position Total in FX	Sensitivity 10% change in FX rate
Deposits with credit institutions	18 377	1 838	16 201	1 620	5	1	34 583	3 458
Commercial paper and bonds	25 845	2 585	14 947	1 495	23 642	2 364	64 435	6 443
Commercial paper issued	(12 253)	(1 225)	(29 066)	(2 907)	0	0	(41 318)	(4 132)
Debt securities issued	(242 648)	(24 265)	(55 322)	(5 532)	(139 386)	(13 939)	(437 357)	(43 736)
Financial derivatives	210 791	21 079	53 201	5 320	115 744	11 574	379 736	37 974
Net position	**112**	**11**	**(38)**	**(4)**	**6**	**1**	**79**	**8**

2022 (Amounts in NOK 1 000 000)	Gross position USD	Sensitivity 10% change in FX rate	Gross position EUR	Sensitivity 10% change in FX rate	Gross position Other FX	Sensitivity 10% change in FX rate	Gross position Total in FX	Sensitivity 10% change in FX rate
Deposits with credit institutions	21 233	2 123	12 362	1 236	12	1	33 608	3 361
Commercial paper and bonds	30 733	3 073	15 839	1 584	23 112	2 311	69 685	6 968
Commercial paper issued	(20 155)	(2 016)	(3 146)	(315)	0	0	(23 302)	(2 330)
Debt securities issued	(239 911)	(23 991)	(50 562)	(5 056)	(135 396)	(13 540)	(425 869)	(42 587)
Financial derivatives	208 274	20 827	25 475	2 547	112 284	11 228	346 033	34 603
Net position	**174**	**17**	**(32)**	**(3)**	**12**	**1**	**154**	**15**

The table above shows an effect in the income statement of a 10 percent change in FX rates relative to NOK. The effect in the income statement is before tax, for effects on equity, a tax of 25 per cent must be deducted. The amount is calculated based on all positions in foreign currency as of December 31, 2023, and 2022. The sensitivity analysis assumes zero correlation between FX rates and other market risk factors.

Note 28 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 normal 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 repurchase market.

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

2023

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	**36 603**	36 603	0	0	0	0	0
Other money market deposits	**0**	0	0	0	0	0	0
Loans to customers	**530 314**	2 259	8 048	27 758	185 372	306 877	0
Commercial paper and bonds	**122 737**	6 044	16 563	12 706	87 295	130	0
Total assets	**689 654**	**44 906**	**24 611**	**40 463**	**272 666**	**307 007**	**0**
Due to credit institutions	**5 232**	5 232	0	0	0	0	0
Commercial paper	**41 518**	14 237	27 282	0	0	0	0
Debt securities issued	**475 015**	3 049	22 124	61 248	336 595	51 999	0
Other liabilities	**101**	28	35	13	0	0	25
Subordinated loan capital	**921**	0	0	24	897	0	0
Additional Tier 1 capital	**4 106**	0	18	140	3 948	0	0
Total liabilities	**526 894**	**22 547**	**49 458**	**61 425**	**341 440**	**51 999**	**25**
Dfinancial derivatives	**(11 659)**	**(1 138)**	**(1 384)**	**(3 441)**	**(3 922)**	**(1 775)**	**0**
Net liquidity exposure	**151 101**	**21 222**	**(26 231)**	**(24 402)**	**(72 696)**	**253 233**	**(25)**

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.

2022

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	**39 514**	39 514	0	0	0	0	0
Other money market deposits	**0**	0	0	0	0	0	0
Loans to customers	**515 648**	2 429	10 655	26 463	170 321	305 780	0
Commercial paper and bonds	**116 203**	4 859	27 630	12 532	71 034	148	0
Total assets	**671 365**	**46 802**	**38 286**	**38 994**	**241 355**	**305 928**	**0**
Due to credit institutions	**6 567**	6 567	0	0	0	0	0
Commercial paper	**23 453**	2 463	20 990	0	0	0	0
Debt securities issued	**452 558**	17 428	19 776	47 837	307 602	59 913	0
Other liabilities	**82**	11	22	15	7	0	28
Subordinated loan capital	**2 302**	0	0	60	2 242	0	0
Additional Tier 1 capital	**2 731**	0	13	81	2 636	0	0
Total liabilities	**487 693**	**26 469**	**40 801**	**47 994**	**312 487**	**59 913**	**28**
Dfinancial derivatives	**(17 718)**	**(1 317)**	**535**	**(5 558)**	**(9 730)**	**(1 648)**	**0**
Net liquidity exposure	**165 955**	**19 016**	**(1 981)**	**(14 558)**	**(80 862)**	**244 367**	**(28)**

Note 29 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 subordinated loan capital. 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 operationalised 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. Per 31. December 2023 is KBN`s requirement including buffers and pillar 2 requirements is set at 14.8 percent for common equity tier 1 capital, 16.7 percent for tier 1 capital and 19.2 percent for total capital. KBN’s pillar 2 requirement is 2.0 percent. The minimum requirement for leverage ratio is set at 3 percent. KBN's capital adequacy exceeds government-determined and board-determined capital requirements as of 31 December 2023.

The capital adequacy is affected by deduction items in common equity Tier 1 capital, primarily related to deferred tax assets, see note 6 Tax for further information.

Capital adequace	2023 Carrying amount	2023 Risk-weighted assets	2023 Minimum capital requirements and capital adequacy	2022 Carrying amount	2022 Risk-weighted assets	2022 Minimum capital requirements and capital adequacy
Credit risk						
Sovereigns and central banks	21 125	0	0	42 196	0	0
Regional governments and local authorities	381 386	71 120	5 690	346 133	65 500	5 240
Of which are Norwegian municipalities	352 226	70 637	5 651	324 532	65 155	5 212
Corporates	4 759	1 613	129	499	249	20
Public sector entities	9 630	0	0	7 155	0	0
Multilateral development banks	12 258	0	0	8 661	0	0
Financial institutions	34 358	6 442	515	17 238	2 794	224
Of which counterparty exposure on derivatives	27 495	5 966	477	10 703	2 138	171
Claims secured by residential property	21	21	2	22	22	2
Covered bonds	36 995	3 865	309	29 046	2 905	232
Other assets	1 727	4 298	344	1 675	4 158	333
Credit Valuation Adjustment	427	5 343	427	202	2 530	202
Total credit risk	**502 687**	**92 703**	**7 416**	**452 827**	**78 158**	**6 253**
Market risk	**0**	**0**	**0**	0	**0**	**0**
Operational risk - Basic Indicator Approach[1]	**0**	**2 554**	**204**		**2 374**	**190**
Minimum capital requirements	**0**	**95 257**	**7 621**		**80 531**	**6 443**
Total capital ratio			**21,9 %**			**24,5 %**
Tier 1 capital adequacy ratio			**21,0 %**			**22,0 %**
Common equity Tier 1 capital adequacy ratio			**17,4 %**			**19,0 %**
Leverage ratio			**4,0 %**			**3,9 %**

[1]KBN uses basic indicator approach to calculate operational risk, where average of net income last three years are basis for the calculation. Net income include Net unrealised gain/(loss) on financial instruments. Reduction of capital requirement is due to low net income in 2022.

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)	2023	2022
Equity	21 684	18 903
Additional Tier 1 capital included in equity	(3 484)	(2 392)
Equity included in common equity Tier 1 capital	**18 199**	**16 512**
Deductions:		
Deferred tax asset that exceeds 10 % of common equity Tier 1 capital	(604)	(1 228)
Intangible assets	(162)	(143)
Dividends payable	(700)	0
Prudent valuation adjustments (AVA)	(138)	(147)
Adjustments unrealised loss (gains) due to changes in own credit risk	(59)	305
Total common equity Tier 1 capital	**16 536**	**15 299**
Other approved Tier 1 capital	3 484	2 392
Total Tier 1 capital	**20 020**	**17 691**
Supplementary capital		
Subordinated loan capital	800	2 000
Total supplementary capital	**800**	**2 000**
Total primary capital	**20 820**	**19 691**

Primary capital has been calculated under Capital Requirements Regulation (CRR). Unrealised gain/(loss) on liabilities that is due to changes in own credit risk is related to debt securities issued.

In 2023, KBN conducted a repurchase of subordinated debt of NOK 1.2 billion and a corresponding issuance of additional Tier 1 capital. Both loans have a first redemption date in the second quarter of 2028. The repurchase resulted in at realised gain of NOK 101 million before tax, which has been recognised as income. The transaction led to an enhancement of the bank`s tier 1 capital adequacy ratio and leverage ratio.

Statements related to the annual financial statement

Independent auditor's report

Deloitte.

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NO-0103 Oslo
Norway

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To the General Meeting of Kommunalbanken AS

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Kommunalbanken AS (the Company), which comprise the balance sheet as at 31 December 2023, statement of profit and loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion

- the financial statements comply with applicable statutory requirements,
- the financial statements give a true and fair view of the financial position of the Company as at 31 December 2023, and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting 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 as required by 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 for 1 year from the election by the general meeting of the shareholders on 1. juni 2022 for the accounting year 2023.

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 of 2023. 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.

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IT systems and controls relevant for financial reporting of commercial papers and bonds, financial derivatives, commercial papers issued and debt securities issued ("funding")

Description of the Key Audit Matter	How the matter was addressed in the audit
Processes and control activities in the commercial papers and bonds, financial derivatives and funding management related to amongst others calculation of interest, amortization of premium and discount, valuation, and foreign currency translation are largely automated. Results and deviations from the automated management processes are analysed and followed up. Kommunalbanken`s IT systems are mainly standard systems adapted to Kommunalbanken`s needs. The IT solutions are operated in cooperation with various third parties. The IT systems used in the investment management are central for accounting and reporting. Effective internal controls in the automated investment management processes as well as in handling deviations are of high importance to form the basis for ensuring accurate, complete and reliable financial reporting and this is therefore a key audit matter.	Kommunalbanken has established overall governance models and control activities for evaluation of the commercial papers and bonds, financial derivatives and funding management. We assessed those elements of the overall governance models that are relevant to financial reporting. We assessed and tested the design of selected control activities related to IT operations, change management and access management. For a sample of these control activities we tested if they operated effectively in the reporting period. We used our own IT specialists to understand the overall governance model for IT systems and in the assessment and testing of the control activities. We assessed whether selected valuation and calculation methods, including the method for calculation of interest, amortization of premium and discount, valuation, and foreign currency translation, were in accordance with IFRS. We assessed and tested the design of selected automated control activities for the IT systems related to calculation of interest, amortization of premium and discount, valuation, and foreign currency translation. For a sample of these control activities we tested if they operated effectively in the reporting period. We assessed and tested the design of selected manual control activities for the areas listed above related to analysis of the results from the calculations. We performed selected tests of details and analytical procedures for a sample of profit and loss and balance sheet items calculated by the automated calculation methods related to commercial papers and bonds, financial derivatives and funding. The procedures covered both commercial papers and bonds and funding measured at amortized cost and commercial papers and bonds, financial derivatives and funding measured at fair value categorized in both level 1, 2 and 3 in the fair value hierarchy.

Other Information

The Board of Directors and the Managing Director (management) are responsible for the information in the Board of Directors' report and the other information accompanying the financial statements. The other information comprises information in the annual report, but does not include the financial statements and our auditor's report thereon. Our

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opinion on the financial statements does not cover the information in the Board of Directors' report nor the other information accompanying the financial statements.

In connection with our audit of the financial statements, our responsibility is to read the Board of Directors' report and the other information accompanying the financial statements. The purpose is to consider if there is material inconsistency between the Board of Directors' report and the other information accompanying the financial statements and the financial statements or our knowledge obtained in the audit, or whether the Board of Directors' report and the other information accompanying the financial statements otherwise appear to be materially misstated. We are required to report if there is a material misstatement in the Board of Directors' report or the other information accompanying the financial statements. We have nothing to report in this regard.

Based on our knowledge obtained in the audit, it is our opinion that the Board of Directors' report

- is consistent with the financial statements and
- contains the information required by applicable statutory requirements.

Our opinion on the Board of Directors' report applies correspondingly to the statements on Corporate Governance and Corporate Social Responsibility.

Responsibilities of Management for the Financial Statements
Management is responsible for the preparation of financial statements that give a true and fair view in accordance with IFRS Accounting 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 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. We 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 a true and fair view.

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.

Report on Other Legal and Regulatory Requirements

Report on Compliance with Requirement on European Single Electronic Format (ESEF)

Opinion

As part of the audit of the financial statements of Kommunalbanken AS, we have performed an assurance engagement to obtain reasonable assurance about whether the financial statements included in the annual report, with the file name "KBN Annual Report 2023 in xhtml-format", have been prepared, in all material respects, in compliance with the requirements of the Commission Delegated Regulation (EU) 2019/815 on the European Single Electronic Format (ESEF Regulation) and regulation pursuant to Section 5-5 of the Norwegian Securities Trading Act, which includes requirements related to the preparation of the annual report in XHTML format.

In our opinion, the financial statements, included in the annual report, have been prepared, in all material respects, in compliance with the ESEF regulation.

Management's Responsibilities

Management is responsible for the preparation of the annual report in compliance with the ESEF regulation. This responsibility comprises an adequate process and such internal control as management determines is necessary.

Auditor's Responsibilities

Our responsibility, based on audit evidence obtained, is to express an opinion on whether, in all material respects, the financial statements included in the annual report have been prepared in compliance with ESEF. We conduct our work in compliance with the International Standard for Assurance Engagements (ISAE) 3000 – "Assurance engagements other than audits or reviews of historical financial information". The standard requires us to plan and perform procedures to obtain reasonable assurance about whether the financial statements included in the annual report have been prepared in compliance with the ESEF Regulation.

As part of our work, we have performed procedures to obtain an understanding of the Company's processes for preparing the financial statements in compliance with the ESEF Regulation. We examine whether the financial statements are presented in XHTML-format. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Oslo, 14. March 2024
Deloitte AS

Henrik Woxholt
State Authorised Public Accountant

Note: This translation from Norwegian has been prepared for information purposes only.

GRI index

GRI indicator	Description	Location in report	Reporting 2023
Organisational profile			
2-1	Name of the organisation, ownership and legal form, location of headquarters, and location of operations	About KBN	Haakon VIIs gate 5b, 0161 Oslo. KBN operates in Norway.
2-2	Entities included in the organisation's sustainability reporting		Kommunalbanken AS
2-3	Reprting period, frequency, dato of publishing, and contact person		01.01.2023 to 31.12.2023, annually, 14.03.24. Harald Jacobsen Head of Communication and Sustainability Mobile: +47 995 38 005 haj@kbn.com
2-4	Restatements of information		None
2-5	External assurance		The annual report as a whole is not externally verified. Greenhouse gas accounting in the annual report is externally assured.
Activities and employees			
2-6	Activities, value chain, and other business relationships	About KBN Performance in 2023 Objectives for 2024	KBN borrows from around the world and offers low-cost loans to Norwegian municipalities and country authorities. 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.
2-7	Employees	Statement on equality	84 employees, 36% women, 64% men, Oslo. Data gathered by head counting at the end of the reporting period. No large variations in total number of employees.
2-8	Workers who are not employees		Throughout 2023, KBN have hired 25 temporary workers, mainly consultants in IT, HR, Compliance og administrative services. Data gathered by head counting at the end of the reporting period. No large variations in number of workers.
Governance			
2-9	Governance structure and composition	The Board of Directors of KBN The management team Organisational structure and governing bodies Sustainability	Minority backgrounds have not been mapped among the board members, but it is assumed that minority backgrounds are less represented on the board than the general population. The board is composed according to expertise in finance, risk management, legal, and municipalities and counties.
2-10	Nominating and selecting the highest governance body	Organisational structure and governing bodies Corporate governance	Meld.St.6 (2022-2023) Report to the Storting, Chapter 12.5
			https://www.regjeringen.no/contentassets/b45b4a63e301435293bd1b10d1ede45b/en-gb/pdfs/stm202220230006000engpdfs.pdf
2-11	Chair of the highest governance body	The Board of Directors	The Board of Directors and management team are independent.
2-12	Role of the highest governance body in overseeing the management of impacts	Organisational structure and governing bodies Sustainability	General guidelines are approved by the Board of Directors, and is reported quarterly.

GRI indicator	Description	Location in report	Reporting 2023
			https://www.kbn.com/en/sustainability/our-sustainability-work/overall-guidelines-for-corporate-social-responsibility/
			https://www.kbn.com/en/sustainability/our-sustainability-work/requirements-for-suppliers/
			https://www.kbn.com/en/about-us/ethics/code-of-conduct/
2-13	Delegation of responsibility for managing impacts	Sustainability	The report is presented at each board meeting which occurs monthly.
2-14	Role of the highest governance body in sustainability reporting		The CEO is responsible for the implementation of sustainability. The audit committee is the preparatory committee for sustainability reporting to the board. The board reviews and approves reported information.
2-15	Conflicts of interest		https://www.kbn.com/en/about-us/ethics/code-of-conduct/
2-16	Communicating critical concerns	Objectives for 2024	It is reported to the CEO monthly and quarterly to the Board of Directors. No critical concerns reported in 2023.
2-17	Collective knowledge of highest governance body	The Board of Directors' main priorities in 2023 NUEs recommendation	A program is conducted for skills development among the directors with various topics, as well as a requirement for annual training in money laundring.
2-18	Evaluating the highest governance body’s performance	Organisational structure and governing bodies	An annual self-evaluation is carried out. It will be considered to implement measures if necessary. Examples are measures to increase competence, which has been done in the past in the fields of finance and IT. The administration helps to arrange this. Another measure is to change the area of responsibility for the individual on the board, and in more serious cases to replace board members. There has not been a need for this in the past. KBN is also subject to the EBA's guidelines for the suitability of members of the board and other key functions. In addition, a separate assessment form has been created for the sustainability work/ESG at the board.
2-19	Remuneration policies	Statement of financial positions, Note 4 Statement on equality	Guidelines for remuneration are meausred by compliance with the bank's value.
2-20	Process for determining remuneration	Organisational structure and governing bodies NUEs recommendation Statement of financial positions, Note 4	
2-21	Annual total compensation ratio		The change in the CEOs total compensation is 2.96 times the average annual change in compensation for other employees, with the same percentage increase as the median percentage increase for other employees. Students are not included in the selection.

GRI indicator	Description	Location in report	Reporting 2023
Strategy, policies and practices			
2-22	Statement on sustainable development strategy	Forward The Board of Directors' Report 2023	
2-23	Policy commitments		The guidelines are adopted by the board. KBN carries out regular risk-based vigilance assesments and maps and assesses actual and potential negative consequences. Annual review of the ethical guidelines are assessed internally. For suppliers, surveys are carried out as further follow-up on a quarterly, half-yearly or annual basis, depending on the supplier's size.
			https://www.kbn.com/en/about-us/ethics/code-of-conduct/
			https://www.kbn.com/en/sustainability/our-sustainability-work/overall-guidelines-for-corporate-social-responsibility/
			https://www.kbn.com/en/about-us/ethics/code-of-conduct/
2-24	Embedding policy commitments		https://www.kbn.com/en/about-us/ethics/code-of-conduct/
2-25	Processes to remediate negative impacts		A complaint channel has been created for customers to identify and process complaints: https://www.kbn.com/en/customer/complaints/ As of today, there is no concrete process for handling the complaints. The emergency plan includes 8 different scenarios with a description of how the crisis managment is carries out. The recovery plan is covered by ICAAP, where the CEO presents to the board at least annually an overview of the capital requirement together with a long-term capital plan. The communication plan must ensure that KBN's reputation is secured in the event of critical incidents that could damage the bank's reputaiton.
2-26	Mechanisms for seeking advice and raising concerns	Objectives for 2024 Statement on equality	
2-27	Compliance with laws and regulations		KBN was not sanctioned or fined in 2023. What is defined as a significant case is included in the assessment system internally for operational risk management.
2-28	Membership associations		https://www.kbn.com/en/sustainability/our-sustainability-work/
Stakeholder engagement			
2-29	Approach to stakeholder engagement	Sustainability	
2-30	Collective bargaining agreements		39% of KBN's employees are covered by collective agreements. Employees are covered by the bank's own collective agreements even if they are not organised.
Energy			
308	Management approach	Objectives for 2024	
308-1	New suppliers that were screened using environmental criteria	Performance in 2023 Objectives for 2024	52% of new suppliers are assessed against environmental criteria.
Employment			
401	Management approach	Objectives in 2024	
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees		All employees (expect students) have life insurance, health insurance, disability and invalidity cover through KBN. All employees are covered by KBN's leave and pension scheme. Figures include KBN's headquarters in Oslo. All employees have access to parental leave through KBN.

GRI indicator	Description	Location in report	Reporting 2023
Training and education			
404	Management approach	Objectives for 2024	
404-1	Average hours of training per year per employee		85% of employees completed the "Kompetanseløftet" program in 2021, with a requirement of at least 15 hours duration. In addition, training was carried out in ethics, cyber security and various lectures for all employees.
404-3	Percentage of employees receiving regular performance and career development reviews	Objectives for 2024	
Supplier social assessment			
414	Management approach	Objectives for 2024	
414-1	New suppliers that were screened using social criteria	Performance in 2023 Objectives for 2024	52% of new suppliers are assessed against social criteria.
Socioeconomic compliance			
419	Management approach		
419-1	Non-complaince with laws and regulations in the social and economic area		KBN was not sactioned or fined in 2023.

GRI indicator	Description	Location in report (page number)	Reporting 2022
Organisational profile			
2-1	Name of the organisation, ownership and legal form, location of headquarters, and location of operations	About KBN (6)	Haakon VIIs gate 5b, 0161 Oslo. KBN operates in Norway.
2-2	Entities included in the organisation's sustainability reporting		Kommunalbanken AS
2-3	Reprting period, frequency, dato of publishing, and contact person		01.01.2022 to 31.12.2022, annually, 27.02.23. Harald Jacobsen Head of Communication and Sustainability Mobile: +47 995 38 005 haj@kbn.com
2-4	Restatements of information		None
2-5	External assurance		The annual report as a whole is not externally verified. Greenhouse gas accounting in the annual report is externally assured.
Activities and employees			
2-6	Activities, value chain, and other business relationships	About KBN (6), Objectives for 2023 (and 2025) (57), Performance in 2022 (55)	KBN borrows from around the world and offers low-cost loans to Norwegian municipalities and country authorities. 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.
2-7	Employees	Statement of equality (64)	86 employees, 43% women, 57% men, Oslo. Data gathered by head counting at the end of the reporting period. No large variations in total number of employees.
2-8	Workers who are not employees		Throughout 2022, KBN have hired 25 temporary workers, mainly consultants in IT, HR, Compliance og administrative services. Data gathered by head counting at the end of the reporting period. No large variations in number of workers.

GRI indicator	Description	Location in report (page number)	Reporting 2022
Governance			
2-9	Governance structure and composition	The Board of Directors (30), Organisational structure and governing bodies (35), Performance in 2022 (55), The management team (32)	Minority backgrounds have not been mapped among the board members, but it is assumed that minority backgrounds are less represented on the board than the general population. The board is composed according to expertise in finance, risk management, legal, sustainability and municipalities and counties.
2-10	Nominating and selecting the highest governance body	Organisational structure and governing bodies (35), Corporate governance (39)	Meld.St.6 (2022-2023) Report to the Storting, Chapter 12.5: https://www.regjeringen.no/contentassets/b45b4a63e301435293bd1b10d1ede45b/en-gb/pdfs/stm202220230006000engpdfs.pdf
2-11	Chair of the highest governance body	The Board of Directors (30)	The Board of Directors and management team are independent.
2-12	Role of the highest governance body in overseeing the management of impacts	Performance in 2022 (55), Organisational structure and governing bodies (35)	General guidelines are approved by the Board of Directors, and is reported quarterly. https://www.kbn.com/en/sustainability/our-sustainability-work/requirements-for-suppliers/
2-13	Delegation of responsibility for managing impacts	Performance in 2022 (55)	The report is presented at each board meeting which occurs monthly.
2-14	Role of the highest governance body in sustainability reporting		The CEO is responsible for the implementation of sustainability. The audit committee is the preparatory committee for sustainability reporting to the board. The board reviews and approves reported information.
2-15	Conflicts of interest		https://www.kbn.com/en/about-us/ethics/code-of-conduct/
2-16	Communicating critical concerns	Objectives for 2023 (and 2025) (57)	It is reported to the CEO monthly and quarterly to the Board of Directors. No critical concerns reported in 2022.
2-17	Collective knowledge of highest governance body	The Board of Directors' main priorities (40), The Norwegian Code of Practice for Corporate Governance (43)	A program is conducted for skills development among the directors with various topics, as well as a requirement for annual training in money laundring.
2-18	Evaluating the highest governance body's performance	Organisational structure and governing bodies (35)	An annual self-evaluation is carried out. It will be considered to implement measures if necessary. Examples are measures to increase competence, which has been done in the past in the fields of finance and IT. The administration helps to arrange this. Another measure is to change the area of responsibility for the individual on the board, and in more serious cases to replace board members. There has not been a need for this in the past. KBN is also subject to the EBA's guidelines for the suitability of members of the board and other key functions. in addition, a separate assessment form has been created for the sustainability work/ESG at the board.
2-19	Remuneration policies	Statement of financial positions (103), Statement of equality (64)	Guidelines for remuneration are meausred by compliance with the bank's value.
2-20	Process for determining remuneration	Organisational structure and governing bodies (35), The Norwegian Code of Practice for Corporate Governance (43) Statement of financial positions (103)	
2-21	Annual total compensation ratio		The CEO is compensated 3.52 times as much as the average annual compensation for all employees, with a 1% higher increase than the median percentage increase for all employees. Students are not included in the selection.

GRI indicator	Description	Location in report (page number)	Reporting 2022
Strategy, policies and practices			
2-22	Statement on sustainable development strategy	Foreword (4), The Board's of Director's Report 2022 (79)	
2-23	Policy commitments		The guidelines are adopted by the board. KBN carries out regular risk-based vigilance assesments and maps and assesses acutal and potential negative consequences. Annual review of the ethical guidelines are assessed internally. For suppliers, surveys are carried out as further follow-up on a quarterly, half-yearly or annual basis, depending on the supplier's size. Ethical guidelines: https://www.kbn.com/en/about-us/ethics/code-of-conduct/ Our sustainability work: https://www.kbn.com/en/sustainability/our-sustainability-work/overall-guidelines-for-corporate-social-responsibility/ Code of conduct: https://www.kbn.com/en/about-us/ethics/code-of-conduct/
2-24	Embedding policy commitments		https://www.kbn.com/en/about-us/ethics/code-of-conduct/
2-25	Processes to remediate negative impacts		A complaint channel has been created for customers to identify and process complaints: https://www.kbn.com/en/customer/complaints/ As of today, there is no concrete process for handling the complaints. The emergy plan includes 8 different scenarios with a description of how the ciris managment is carries out. The recovery plan is covered by ICAAP, where the CEO presents to the board at least annually an overview of the capital requirement together with a long-term capital plan. The communication plan must ensure that KBN's reputation is secured in the event of critical incidents that could damage the bank's reputaiton.
2-26	Mechanisms for seeking advice and raising concerns	Objectives for 2023 (and 2025) (57), Statement of equality (64)	
2-27	Compliance with laws and regulations		KBN was not sanctioned or fined in 2022. What is defined as a significant case is included in the assessment system internally for operational risk management.
2-28	Membership associations		https://www.kbn.com/en/sustainability/our-sustainability-work/
Stakeholder engagement			
2-29	Approach to stakeholder engagement	Performance in 2022 (55)	
2-30	Collective bargaining agreements		35% of KBN's employees are covered by collective agreements. Employees are covered by the bank's own collective agreements even if they are not organised.
Energy			
308	Management approach	Objectives for 2023 (and 2025) (57)	
308-1	New suppliers that were screened using environmental criteria	Performance in 2022 (55), Objectives for 2023 (and 2025) (57)	79% of new suppliers are assessed against environmental criteria.
Employment			
401	Management approach	Objectives for 2023 (and 2025) (57)	
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees		All employees (expect students) have life insurance, health insurance, disability and invalidity cover through KBN. All employees are covered by KBN's leave and pension scheme. Figures include KBN's headquarters in Oslo. All employees have access to parental leave through KBN.

GRI indicator	Description	Location in report (page number)	Reporting 2022
Training and education			
404	Management approach	Objectives for 2023 (and 2025) (57)	
404-1	Average hours of training per year per employee		87% of employees completed the "Kompetanseløftet" program in 2021, with a requirement of at least 15 hours duration. In addition, training was carried out in self-management, ethics, cyber security and various lectures for all employees.
404-3	Percentage of employees receiving regular performance and career development reviews	Objectives for 2023 (and 2025) (57)	
Supplier social assessment			
414	Management approach	Objectives for 2023 (and 2025) (57)	
414-1	New suppliers that were screened using social criteria	Performance in 2022 (55), Objectives for 2023 (and 2025) (57)	79% of new suppliers are assessed against social criteria.
Socioeconomic compliance			
419	Management approach		
419-1	Non-complaince with laws and regulations in the social and economic area		KBN was not sactioned or fined in 2022.

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