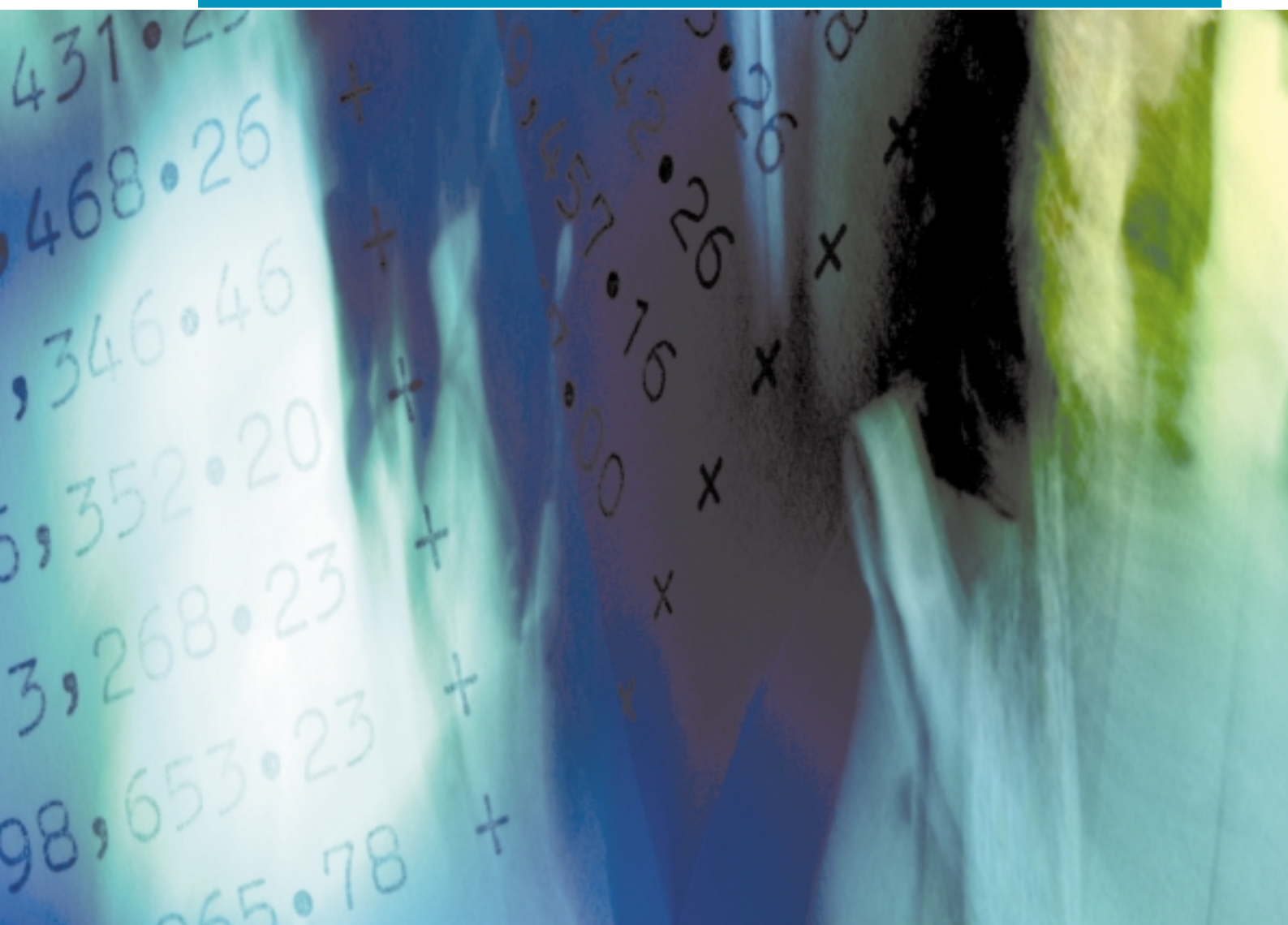




# Kommunalbanken

The Norwegian Local Government Funding Agency

## Annual Report and Accounts 1999



The company's name is Kommunalbanken AS

Press chapter headings for direct access to wanted page.

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## A time of challenges for Kommunalbanken

Kommunalbanken has an important role to play in society, ie to continue ensuring the strongest possible competition for loans to municipalities, in addition to providing its owners with a solid return on capital.

The state currently owns 80 per cent of our shares and the local government sector, as represented by the National Local Government Pension Fund, has acquired 20 per cent of the shares. For the public sector, it is important to achieve benefits for society beyond the actual benefits of owning a financial undertaking.

At present, the market for loans to the local government sector is characterised by strong competition. New institutions are eagerly joining the competition and lending margins are small. Kommunalbanken has been the driving force behind the downward pressure on margins. Private credit intermediaries have to reduce their margins considerably to win new loans and thus have to take into account the interest rates set by Kommunalbanken on its various interest rate products. The competition is genuine and of benefit to all municipalities in the country. With a market share of about 28 per cent, Kommunalbanken is in a position to influence this segment of the credit market and maintain its role in setting interest rates in this market.

After the conversion to a limited company, the government guarantee for new issues no longer applies. Kommunalbanken has already issued a number of bonds in its own name and is now marketing the agency in all major foreign capital markets. The issue terms for Kommunalbanken's international launches are considered to be very favourable and reflect the high credit rating associated with Kommunalbanken's name.

The rating agencies Moody's and Standard & Poor's have assigned the highest possible rating to Kommunalbanken bonds, ie Aaa/AAA. As a state bank, Kommunalbanken was not permitted to raise loans on foreign markets as from 1986. As a limited company, the agency has unrestricted access to international capital markets on a par with other Norwegian financial institutions. Kommunalbanken currently borrows capital on more reasonable terms abroad than would have been the case if it had used the Norwegian market even with a government guarantee.

As a result of the conversion, municipalities now have ownership interests in a financial undertaking with an optimal basis for the channelling of reasonable loan capital to Norwegian municipalities, in addition to being a setter of interest rates for the entire sector. The challenges will be many in the period ahead. However, it is a definite advantage that the authorities have now established a stable and predictable framework for Kommunalbanken.



Petter Skouen  
Managing Director

## This is Kommunalbanken AS

- Kommunalbanken AS was established on 1 November 1999, with a share capital of NOK 660 million kroner. The State owns 80 per cent of the shares in order to continue the activity of Norges Kommunalbank. 20 per cent of the shares were sold to the National Local Government Pension Fund in February 2000.

Kommunalbanken is a cost-effective means for the public sector to organise the financing of investment. An important goal for Kommunalbanken is to set the level of interest rates on credit to the local government sector.

- The international rating agencies Moody's Investors Service and Standard Et Poor's have assigned the highest possible rating, Aaa/AAA, to Kommunalbanken's long-term debt.
- The company is subject to the general legislation applying to financial institutions and has access to the credit market on an equal footing with other financial undertakings.
- With a loan portfolio of about NOK 30 billion, Kommunalbanken AS is the largest single provider of credit to the local government sector. Kommunalbanken's market position ensures that the entire local government sector is provided with favourable credit terms.
- Kommunalbanken offers loans with up to 40 years' maturity for all type of local government investments. The agency's borrowers are offered a range of different interest rate structures.
- Kommunalbanken will have two classes of debt up to the year 2009; government-guaranteed bonds issued by Norges Kommunalbank and bonds issued by Kommunalbanken AS.
- In addition to a number of listed domestic bonds totalling NOK 28 billion, the Bank has launched an international borrowing programme, Medium-Term Note Programme, in the amount of EUR 2 billion.
- The agency's Lending Department offers financial advisory services, e.g. with regard to loan portfolio composition, financial strategies, and bank agreements.
- Kommunalbanken is located in Oslo with a staff of 29.



# Key figures

In thousands of NOK	Pro forma 1999	NKB 1998	NKB 1997	NKB 1996	NKB 1995
Loans in foreign currency	0	248 209	460 670	685 223	993 263
Loans in cash	30 004,821	26 814 063	25 896 308	25 633 44	24 647 427
Loans in land purchase bonds	1 170	3 377	8 671	46 991	117 210
Total 31 Dec	30 005 991	27 065 649	26 365 655	26 365 655	25 757 900

## Lending

Allocations	6 265 463	4 244 606	3 647 366	2 592 934	2 800 000
Unsettled allocations	1 886 440	1 702 133	807 798	94 029	858 570
Disbursements	5 997 275	3 324 052	2 920 383	3 172 497	2 725 527
Principal payments on loans	2 813 933	2 626 666	2 938 183	2 572 827	2 223 262

## Borrowings

Borrowings in foreign currency	0	188 533	328 944	1 089 059	1 314 408
Domestic bond issues	28 566 068	15 759 860	13 211 270	10 405 950	9 636 480
Domestic note issues	3 764 520	13 612 000	16 474 000	16 260 000	14 830 000
Borrowings from the State	1 171	3 377	8 671	46 991	117 210

## Key figures

Average total assets	34 765 439	35 094 465	34 013 622	32 273 102	31 525 114
Return on equity before taxes	18.55%	21.4%	20.02%	8.82%	9.08%
Dividend	19 000	18 000	16 000	100 000	170 000
Capital adequacy	8.9%	9.1%	8.07%	45.05%	43.7%

## In per cent of average total assets

Interest and commission income	6.09	4.85	4.58	5.85	6.28
- Interest and borrowing costs	5.72	4.56	4.28	5.15	5.68
= Net interest and commission income	0.37	0.29	0.30	0.70	0.60
- Guarantee commission	0.08	0.07	0.11	0.11	-
+ Net exchange gains/losses	0	0.00	0.00	0.01	0.02
+ Other operating revenues	0	0.00	0.01	0.01	0.01
- Staff costs	0.04	0.04	0.04	0.04	0.05
- Other operating expenses	0.05	0.04	0.03	0.04	0.03
+ Extraordinary income	0	0.01	0	0	0
= Profit of the year	0.21	0.15	0.13	0.53	0.55

## Analysis of results

### (in millions of NOK)

	1999	1998	1997	1996	1995
Interest and commission income	2 118.9	1 700.0	1 559.0	1 889.3	1 989.2
- Interest and borrowing costs	1 988.2	1 602.0	1 457.3	1 663.4	1 798.3
= Net interest and commission income	130.7	98.0	101.7	225.9	190.9
- Guarantee commission	27.9	25.8	36.5	34.1	0
+ Net exchange gains/losses	0.9	0.9	0.2	1.7	8.5
+ Other operating revenues	1.3	1.4	2.6	4.6	3.2
- Staff costs	15.1	12.4	13.7	14.1	15.4
- Other operating expenses	17.5	13.7	11.6	12.4	11.1
+ Extraordinary income	0	4.0	0	0	0
= Operating profit	72.4	52.2	42.7	171.6	176.1
Profit of the year	72.4	52.2	42.7	171.6	176.1



The conversion from a state bank to a limited company has increased the agency's operating leeway and contributed to strengthening competition in the market.

Pursuant to the Act relating to the conversion of Norges Kommunalbank, Kommunalbanken AS was established on 1 November 1999 with a share capital of NOK 660 million and the state as sole owner. Norges Kommunalbank's assets, liabilities, claims, rights and authorisations were transferred to Kommunalbanken AS. As a limited company, the Bank is liable to taxes.

During the deliberations on the bill on the conversion of Norges Kommunalbank to a limited company, a majority of members of the Storting (Norwegian parliament) argued that Kommunalbanken should continue to play a key role in the intermediation of credit to the local government sector. The conversion from a state bank to a limited company has increased the agency's operating leeway and contributed to strengthening competition in the market.



«On the conversion of Norges Kommunalbank to a limited company»

Kommunalbanken AS is authorised to engage in business as a financial undertaking. The company is subject to general legislation pertaining to financial institutions and participates in the credit market on an equal footing with other financial undertakings. Kommunalbanken is located in Oslo.

The annual accounts have been drawn up using the going-concern principle. In the light of the opening balance at 1 November 1999, the Board is of the view that the profit and loss account and the balance sheet, with accompanying notes, of 31 December 1999, provide an accurate picture of the agency's financial position at year-end.

For purposes of comparison, the annual accounts have been incorporated in a proforma financial statement for Norges Kommunalbank and Kommunalbanken AS for the period 1 January-31 December 1999, including comparable figures for Norges Kommunalbank for 1998.

Sickness absence was lower in 1999 than in previous years. Absenteeism in terms of person-days came to 2.83 percent of total working days in 1999 as a whole. None of Kommunalbanken's employees were exposed to workplace accidents. The working environment is deemed to be satisfactory, and measures are considered on a regular basis. Cooperation with employee associations has been constructive and has made a positive contribution to the agency's activity.

Kommunalbanken's activity does not have a negative impact on the external environment.

## Financial statement

The pre-tax profit for the last two months of 1999 came to NOK 1.7 million. Annualised, this brings the return on equity to 10.7 per cent. The Board deems the agency's earnings for the first two months to be satisfactory.

Net interest income came to NOK 26.8 million during the period. This represents an interest margin in line with comparable financial institutions operating in a credit market with minimal risk.

Operating expenses were somewhat higher than in normal periods, partly reflecting the conversion and relocation to new office premises.

## Lending

Unlike the state bank Norges Kommunalbank, Kommunalbanken AS is not subject to lending restrictions. The size of the agency's total loans or individual loans are determined on the basis of the level of the agency's equity and subordinated loan capital in accordance with existing regulations

In the period under review, Kommunalbanken registered an increase in demand for loans. The loan portfolio came to NOK 27.9 billion at 1 November 1999. At year-end, the loan portfolio stood at NOK 30.0 billion, ie an increase of NOK 2.1 billion. Demand for debt-financing of investment in the health and care sector is particularly strong. Demand for loans has continued to grow in the first months of 2000, but is expected to level off through the year.

## Borrowing

Following the conversion, the government guarantee continues to apply to loans raised by Norges Kommunalbank. Kommunalbanken AS pays a guarantee fee to the government for these



loans. The government guarantee does not comprise the loans raised by Kommunalbanken AS. This means that the Bank will have two classes of debt up to the year 2009, ie government-guaranteed bonds issued by Norges Kommunalbank and bonds issued by Kommunalbanken AS without a government guarantee.

As a financial undertaking, Kommunalbanken may choose between domestic or foreign funding. In order to achieve favourable funding terms on international capital markets, the company is reliant on a high rating from at least one of the leading rating agencies. In December, Moody's Investors Service assigned the highest possible rating, Aaa, to the Bank's long-term debt. On 3 March of this year, Standard & Poor's assigned a AAA rating to Kommunalbanken's long-term debt. With the highest rating from the two leading rating agencies, Kommunalbanken has access to funding in the markets that offer the most favourable terms based on an overall assessment.

## Organisation

At the end of 1999 the agency's staff numbered 30 employees. Two employees chose to retire under the early-retirement scheme. Norges Kommunalbank's employees were civil servants and their legal status was defined in accordance with the Act relating to Civil Servants and the Act relating to Civil Servant Disputes. Subsequent to the conversion to a limited company, the legal status of the agency's employees is defined pursuant to the Working Environment Act and Labour Dispute Act. The employees that did not choose to accept the offer of employment in the limited company Kommunalbanken AS, were offered as civil servants the right of refusal and severance pay for a specified period. All the agency's employees accepted the offer of employment in Kommunalbanken AS.

In 1999 the organisation was adapted to the agency's new market situation. In order to strengthen Kommunalbanken's market



*The Board of Directors. Per N. Hagen, Bodil P. Hollingsæter, Else Bugge Fougner, Eva Bjøreng, Petter Skouen and Jan Inge Aas Eidem.*

## Risk management

The Board has adopted limits on the agency's exposure to different market risks. The Board receives continuous information concerning interest-rate risk and counterparty risk. Interest rate risk is measured as the potential loss associated with a change in interest rates of one percentage point, while the risk in the bank portfolio is measured based on the average fixed-rate period for borrowings relative to the fixed-rate period for lending. The Board considers risk-monitoring to be satisfactory.

profile and information activity, the agency decided in November to reorganise its activity and to establish a separate market and information department. The company has also established a finance and administration department and hired a financial comptroller with a view to strengthening its organisation.

It was decided that Advisory Services would be discontinued as a profit centre from the beginning of 2000. Financial Services has been transferred to the agency's Lending Department.

### Internal control and IT

In connection with the changeover to a limited company, work has been undertaken to review internal control, establish documentation and clarify responsibilities.

The work to facilitate a smooth transition to the year 2000 was assigned high priority, and the agency did not experience any problems with the transition to the new millennium.

Kommunalbanken's business systems, which include the funding system and lending system, must be modernised. This involves substantial IT investments and will require extensive participation on the part of the agency's employees. The Swedish local government funding agency, Kommuninvest i Sverige AB, is in the same phase as Kommunalbanken with regard to upgrading its business systems. A letter of intent has been signed by Kommunalbanken AS and Kommuninvest with the objective of achieving cost savings in connection with procurement and the transfer of skills and expertise in the process.

### Future development

The market for loans to the local government sector is currently characterised by strong competition. Kommunalbanken is a specialised institution that seeks to minimise credit risk in the local government sector. The organisational structure has proved to be viable in countries with which Norway tends to compare itself. The main challenges for the agency in the years ahead are adapting to the change in market conditions and competing with other domestic and foreign funding sources available to local

government sector. The Board deems that the foundation has been laid for continued growth in the agency's activity.

Kommunalbanken has never recorded any losses on loans. Nor has Kommunalbanken made provisions for loans outstanding at the end of the year. It is highly unlikely, given the provisions of the Local Government Act, that the agency will be exposed to credit risk in connection with loans to the local government sector. In view of residents' need for local government services and the principle of equal services for all, it is highly probable that measures will be taken to prevent municipalities from being exposed to financial difficulties.

### Note of appreciation

The employees have made an outstanding contribution to the planning and implementation of a successful relocation to new and modern office premises.

The Board wishes to express its gratitude to the agency's employees for their resolve in addressing the challenges facing the agency over the last period in connection with its conversion to a limited company.

### Application of profits

The Board proposes that the entire profit for the period 1 January-31 December 1999 of NOK 11 712 962 be transferred to other equity capital. Kommunalbanken has NOK 10 598 762 in distributable reserves, available for dividend payments.

Oslo, 7 March 2000

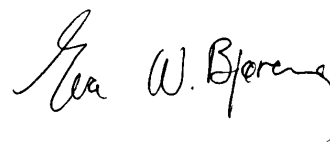
Board of Directors, Kommunalbanken AS



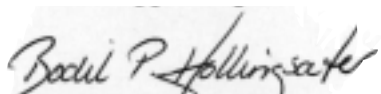
Else Bugge Fougner  
Chairman



Per N. Hagen  
Vice-Chairman



Eva Bjøreng  
Member



Bodil P. Hollingsæter  
Member



Jan Inge Aas Eidem  
Member



Petter Skouen  
Managing Director

Moody's og Standard & Poor's ratings (Aaa/AAA) reflect the very low risk associated with the agency's activity, and the agency's special position and mission in the Norwegian society.

An aerial photograph of a dense forest, similar to the one above, but with a different perspective. The trees are more varied in color, showing some autumnal hues, and the overall scene is more blurred and less focused on a single feature like the waterfall.



*From the Finance and Treasury Department*

# Profit and loss account

## Profit and loss account for Kommunalbanken AS

for the period 1 January–31 December 1999  
(in thousands of NOK)

	Note	99.11–01–12.31	Proforma 1999	NKB 1998
<b>Interest income and similar income</b>				
Interest income and similar income on loans to and claims on credit institutions		29 033	168 937	88 738
Interest income and similar income on loans to and claims on customers		287 246	1 800 896	1 447 212
Interest income and similar income on Treasury bills, bonds and other interest-bearing securities		27 763	148 059	163 983
Other interest income and similar income		965	1 040	45
<b>Total interest income and similar income</b>		<b>345 007</b>	<b>2 118 932</b>	<b>1 699 978</b>
<b>Interest and similar costs</b>				
Interest and similar costs on customer deposits and debt		0	75 401	9 821
Interest and similar costs on securities issued		318 148	1 793 619	14 322 005
Other interest and similar costs		66	119 244	160 227
<b>Total interest and borrowing costs</b>		<b>318 214</b>	<b>1 988 264</b>	<b>1 602 053</b>
<b>Net interest and commission income</b>		<b>26 793</b>	<b>130 668</b>	<b>97 925</b>
<b>Dividends and other income from securities with a variable yield</b>				
Income on shares and other securities with a variable yield		0	508	42
<b>Total dividends and other income from securities with a variable yield</b>		<b>0</b>	<b>508</b>	<b>42</b>
Commission costs and costs of banking services				
Guarantee fee to the state	20	5 145	27 864	25 833
<b>Total commission costs and costs of banking services</b>		<b>5 145</b>	<b>27 864</b>	<b>25 833</b>
<b>Net gains/losses on foreign currency and securities used as current assets</b>				
Net gains/losses on Treasury bills, bonds and other interest-bearing securities		21	1 005	610
Net gains/losses on foreign currency		16	-82	263
Net gains/losses on financial derivatives		0	0	0
<b>Total gains/losses on securities and foreign currency</b>		<b>37</b>	<b>923</b>	<b>873</b>
<b>Other operating revenues</b>				
Other operating revenues		481	855	1 375
<b>Total other operating revenues</b>		<b>481</b>	<b>855</b>	<b>1 375</b>
<b>Salaries and general administrative costs</b>				
Salaries, etc.				
Salaries	1	2 249	11 373	10 121
Pensions	2	94	1 694	505
Social security etc.		430	2 153	1 777
Administrative costs		1 849	9 716	7 537
<b>Total salaries and general administrative costs</b>		<b>4 622</b>	<b>24 935</b>	<b>19 941</b>
<b>Depreciation etc. on fixed assets</b>				
Ordinary depreciation	8	357	1 294	790
<b>Total depreciation etc. of fixed assets</b>		<b>357</b>	<b>1 294</b>	<b>790</b>
<b>Other operating expenses</b>				
Operating expenses real property	3	563	3 709	3 679
Other operating expenses		365	2 772	1 739
<b>Total other operating expenses</b>		<b>928</b>	<b>6 480</b>	<b>5 419</b>
Extraordinary income		0	0	4 000
<b>Profit for the year before taxes</b>		<b>16 261</b>	<b>72 381</b>	<b>52 231</b>
Tax on ordinary profit	10	4 548		
<b>Profit for the year</b>		<b>11 713</b>		<b>52 231</b>
<b>Transfers and allocations</b>				
Allocations				
Dividend				18 000
Costs related to changeover from state bank to limited company				3 000
Transfers to Reserve Fund				31 231
Other capital transfers	23	11 713		
<b>Total allocations</b>		<b>11 713</b>		<b>52 231</b>



# Balance

## Balance sheet as at 31 December 1999 Kommunalbanken AS

(in thousands of NOK)

ASSETS	Note	1999-12-31	1999-11-01	1998-12-31
<b>NKB</b>				
<b>Cash and deposits with Bank of Norway</b>		51 190	4 755 134	5 228 739
<b>Loans to and claims on credit institutions</b>				
Loans and claims on credit institutions without agreed maturities or notice period	4	331 455	870 116	28 120
Loans and claims on credit institutions with agreed maturities or notice period	4	594 000	0	0
<b>Total loans to and claims on credit institutions</b>		<b>925 455</b>	<b>870 116</b>	<b>28 120</b>
<b>Loans to and claims on customers</b>				
Instalment loans	5	30 005 991	27 949 958	27 068 730
Other loans	1	696	4 565	657
<b>Total net loans and claims on customers</b>		<b>30 006 687</b>	<b>27 954 523</b>	<b>27 069 387</b>
<b>Treasury bills, bonds and other interest-bearing securities with fixed return</b>				
Issued by the public sector				
- Treasury bills and bonds	6	975 683	1 806 021	315 300
- Other interest-bearing securities		0	0	2 330 000
Issued by others				
- Treasury bills and bonds	6	1 294 772	0	0
<b>Total notes, bonds and other interest-bearing securities with fixed return</b>		<b>2 270 455</b>	<b>1 806 021</b>	<b>2 645 300</b>
<b>Shares</b>				
Shares, units and primary capital certificates	7	100	100	5 100
<b>Intangible assets</b>				
Deferred tax benefits	10	1 352	238	0
<b>Fixed assets</b>				
Machinery, equipment and vehicles	8	5 793	5 515	1 846
<b>Other assets</b>				
Financial derivatives	9	298 480	118 650	70 875
Other assets		11 758	148	18
<b>Prepaid, not accrued costs and earned receivables</b>				
Accrued receivables		494 339	520 912	414 786
Prepaid, not accrued costs		843	560	255
<b>Total prepaid not accrued costs and earned receivables</b>		<b>495 182</b>	<b>521 472</b>	<b>415 041</b>
<b>TOTAL ASSETS</b>		<b>34 066 452</b>	<b>36 031 872</b>	<b>35 464 426</b>

LIABILITIES AND CAPITAL	Note	1999-12-31	1999-11-01	1998-12-31	NKB
<b>Due to credit institutions</b>					
Loans and deposits from credit institutions at agreed maturity		0	0	188 533	
<b>Borrowings by issuance of securities</b>					
Commercial paper and other short-term paper	11	3 764 520	4 313 075	15 230 000	
non-amortised commercial paper issued by the agency		0	0	-1 618 000	
Bond issues	12	28 566 068	29 297 422	19 996 410 000	
non-amortised bonds issued by the agency		0	0	-4 236 550 000	
other long-term loans	12	1 171	1 962	3 377	
<b>Total liabilities arising from securities issues</b>		<b>32 331 758</b>	<b>33 612 459</b>	<b>29 375 237</b>	
<b>Other liabilities</b>					
Margin drawings and other outstanding accounts with customers		35 275	5 099	9 365	
Other liabilities	13	286 979	1 178 825	2 488 660	
<b>Total other liabilities</b>		<b>322 254</b>	<b>1 183 924</b>	<b>2 498 025</b>	
Accrued expenses and received, not accrued income		739 652	574 403	797 480	
<b>Allocations for accrued costs and obligations</b>					
Pension obligations	2	836	849	0	
<b>Total liabilities</b>		<b>33 394 501</b>	<b>35 371 634</b>	<b>32 859 274</b>	
<b>Equity</b>					
Share capital (Basic Capital 1998)	22.23	660 000	660 000	2 350 000	
<b>Retained earnings</b>					
Other capital	22.23	11 951	238	255 152	
Total retained earnings		11 951	238	255 152	
<b>Total capital</b>		<b>671 951</b>	<b>660 238</b>	<b>2 605 152</b>	
<b>Total liabilities and capital</b>		<b>34 066 452</b>	<b>36 031 872</b>	<b>35 464 426</b>	
<b>Off-balance sheet items</b>					
Guarantee liabilities	21	10 188		16 707	

Oslo, 31 December 1999

7 March 2000

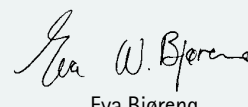
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Vice-Chairman



Eva Bjøreng  
Member




Bodil P. Hollingsæter  
Member



Jan Inge Aas Eidem  
Member



Petter Skouen  
Managing Director



Steinar Strøm  
Chief Accountant

# Notes

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## NOTE 0

### Accounting policies

The accounts are drawn up in accordance with the Accounting Act, the accounting regulation issued by the Banking, Insurance and Securities Commission and Generally Accepted Accounting Principles.

### Pro forma and comparable figures

Norges Kommunalbank was converted to Kommunalbanken AS on 1 November 1999. Norges Kommunalbank's assets, liabilities, claims, rights and authorisations were transferred to Kommunalbanken AS.

The activity of Kommunalbanken AS for 1999 only covers the period 1 November–31 December. Pro forma figures have been prepared to cover the entire year for the profit and loss account and some notes. In addition, the 1998 figures for Norges Kommunalbank are provided for purposes of comparison in the profit and loss account, the balance sheet and some notes.

### Securities

Bonds and notes are valued at the lower of acquisition cost or market value. Holdings of own bonds that are included in ordinary banking activity are recorded on a net basis against bond issues on the liability side of the balance sheet.

Shares classified as long-term investments are valued at acquisition cost.

### Financial instruments

Financial instruments comprise negotiable financial assets and liabilities and financial derivatives.

Financial instruments in the balance sheet primarily include loans outstanding, bonds and notes. Financial derivatives are contracts with financial institutions to establish financial values in the form of interest rate terms and exchange rates for an agreed period. Kommunalbanken is authorised to enter into the following contracts: forward exchange contracts, interest rate and currency swaps, interest rate options, share options, FRAs and financial futures.

For accounting purposes, a distinction is drawn between the purchase and sale of financial instruments as part of investment activity and transactions undertaken as part of the management of ordinary operations. Transactions in the former category make up the trading portfolio, whereas the latter transactions are part of banking activities. All transactions are classified on the commencement date of the contract as part of the trading portfolio or as part of banking activities, depending on the purpose of the transaction.

The trading portfolio comprises negotiable securities and interest rate derivatives. Securities are valued at the lower of cost or market valuation principle. Financial derivatives are valued at fair value. Securities and derivatives are used to hedge interest position. A financial instrument is classified as a hedging contract when the following requirements are satisfied:

- The transaction must be identified and considered suitable as a hedging transaction on the transaction date.
- The item to be hedged must involve an exchange rate or interest rate risk.
- There must be high degree of correlation between the value of the hedged item and the counterpart.

Gains and losses on financial derivatives that are part of banking operations are recorded on an accruals basis in accordance with associated balance sheet items.

Repos in bonds are not treated as bond turnover, but the equivalent value is recorded as an asset or liability. Income and costs for repos are recorded as interest income and interest expenses.

### Premiums and discounts on bonds and notes

Bonds and notes are recorded in the balance sheet at nominal value with an addition for the premium and a deduction for the discount.

Premiums are recorded as income and discounts are charged to the balance sheet according to a schedule whereby current interest expenses are adjusted in the period up to the notes'/bond's redemption, or up to the first redemption right for bondholders or the first interest rate adjustment. Premiums or discounts in connection with the purchase and sale of government bonds and Treasury bills are classified as part of banking operations and are recorded on an accruals basis. Losses and gains on buy-backs and resale of own bonds are recorded on an accruals basis for the remaining maturity.

### Loan-loss provisions

Kommunalbanken's loans are valued at nominal value. There are no holdings of non-performing or doubtful loans. For this reason, no specified or unspecified loss provisions have been made.

### Assets and liabilities in foreign currency

Assets and liabilities in foreign currency are classified as cash items and are translated on the basis of market rates prevailing on the balance sheet date.

### Pension costs and pension obligations

Kommunalbanken has a pension scheme for its employees and applies the Provisional Norwegian Accounting Standard to its pension obligations. In accordance with this standard, the pension scheme shall be treated as a defined-benefit scheme. The traditional entitlement profile and expected final pay are used to calculate the entitlement basis.

The period's net pension costs are included in «salaries and salary-related costs» and consist of the sum of the period's earned entitlements, interest cost, of the estimated obligation and expected return on pension funds. The pension funds are computed as the difference between the fair value of pension funds and the present value of estimated pension obligations, and are recorded as a long-term asset in the balance sheet. When pension liabilities exceed pension funds, this is recorded as a long-term liability in the accounts

### Fixed assets

Fixed assets are recorded in the balance sheet at original cost and accumulated, ordinary depreciation is deducted. If the value of an asset falls below book value, the write-down is recorded at estimated fair value.

Ordinary depreciation based on cost price is calculated on a linear basis over the estimated economic life of fixed assets. The following depreciation rates are used:

Office machinery: 25%

IT equipment: 33%

Fixtures, fittings, etc.: 20%

### Tax expenses

Taxes are expensed as they accrue, ie tax expenses are related to the accounting result before taxes. An adjustment is made for temporary and permanent differences before determining taxes payable for the year. Deferred taxes and deferred tax advantages are estimated on the basis of temporary difference between accounting and tax-related values at the end of the accounting year. Nominal tax rates are used in the calculations. Differences that reduce taxes and increase taxes are valued against each other for the same time period. However, some items are valued separately, including pension liabilities. Tax expenses consist of payable taxes (taxes on the year's profit liable to tax) and the change in net deferred taxes.

### Recognition of income and expenses

Income is recorded in the profit and loss account as it accrues. Expenses are matched with income so that expenses are charged to the profit and loss account in the same accounting period to which the income relates.

### Accruals of interest and fees

Interest and fees are recognised in the profit and loss account as they are earned as income or incurred as costs.



## NOTE 1

### Remuneration

Staff numbered 30 at year-end. Total salaries and other remuneration to employees and officers amounted to NOK 2 259 907 from 1 November 1999. This sum includes the Managing Director's salary and other remuneration of NOK 146 954.

The employees are members of the Norwegian Public Service Fund, and the agency's share of the premium from 1 November 1999 to 31 December 1999 came to NOK 112 926. The auditor's remuneration for the period has not been charged to expenses.

	Balance at 99-12-31	Balance at 99-11-01	Balance at 98-12-31
<u>Loans to employees</u>			
All employees	696 158	519 668	657 398
Of which to managers:			
Managing Director	45 200	47 500	33 328
Lending Director	12 660	37 500	68 750
Market Director	71 500	37 500	68 750
Accounting and Administration Director	89 832	-	-
<u>Total loans to managers</u>	<u>216 492</u>	<u>103 994</u>	<u>152 742</u>
	Pro forma 1999	11/1-12/31 1999	NKB 1998
Interest rate subsidies in the period	20 066	3 036	18 560

Interest rate subsidies are calculated as the difference between the lending rate and the interest rate that is treated as taxable benefits.

## NOTE 2

### Pensions

Kommunalbanken AS has continued its collective pension fund in the Norwegian Public Service Pension Fund. The pension scheme covers benefits under the Act relating to the Norwegian Public Service Pension. Benefits include old-age and disability, and pensions for spouses and children. The pension benefits are integrated in social security benefits. In addition, the benefits paid out from 62 years of age are calculated based on the early retirement scheme for the central government sector.

The calculations from the Norwegian Public Service Pension Fund were submitted before the end of the year. The method of calculation that has been applied is that the calculations have been based on opening stock and the carrying forward of this, in accordance with the underlying assumptions, to year-end. The calculations provide an estimate (best estimate) of the size of the accrued pension obligations, pension costs and pension funds.

The setting of premiums and the calculation of the value of the pension obligations are based on actuarial principles. The arrangement is not fund-based, however. The payment of pensions is guaranteed by the government under law (section 1 of the act). The management of the assets in the fund will be simulated (constructed funds) as though the resources had been invested in long government bonds, on the assumption that the bonds are not sold before maturity. Pension funds are thus recorded at book value.

The calculations are based on the following assumptions:

Discount rate	6.00%
Wage adjustment	3.30%
Basic pension adjustment	2.90%
Pension adjustment	2.90%
Voluntary retirement	0.00%
<u>Expected return</u>	<u>7.00%</u>

The pension scheme is treated in the accounts in accordance with the Norwegian Accounting Standard for pension costs, which entails that the pension scheme is treated as a defined-benefit scheme. The calculations are based on an «actuarial standard» that is applied to the calculations that are made based on the Norwegian Accounting Standard. A number of practical adjustments were made in the calculations for 1999.

## Notes to the accounts for 1999

The actuarial parameters are the same as those applied by the Public Service Pension Fund.

The early retirement scheme was extended in 1997/1998 and will be amortised over 17 years. Two periods have been amortised at 31 December 1999. The remaining 15 amounts are fully amortised as indicated below in the amount of NOK 447 589.

Changes in salaries and membership for Kommunalbanken have resulted in an upward adjustment of the pension fund's premium rate to 9.0% (7%+2%) with effect from 1 January 2000.

Net pension costs are calculated as follows:

	Pro forma 1999	11/1-12/31 1999	NKB 1998
<b>Composition of the period's pension costs</b>			
Estimate - Net present value of the year's pension entitlement	544 990	90 832	587 461
Estimate - Interest rate expenses	622 959	103 826	604 775
Estimate - Gross pension costs	1 167 949	194 658	1 192 236
Estimate - Return on pension funds	732 757	122 126	737 000
Estimate - Amortisation pension plan changes	447 589	0	0
Estimate - Amortisation estimate deviation	720 423	0	0
Estimate - Net pension costs	1 603 204	72 532	483 210

*Reconciliation of pension funds and pension obligations:*

<b>Balance as at</b>	<b>99-12-31</b>	<b>99-11-01</b>	<b>98-12-31</b>
Estimate - Accrued pension obligations	10 755 609	10 644 284	10 101 750
Estimate - Pension funds (constructed fund)	9 919 357	9 795 322	10 357 254
Net pension funds recorded in balance sheet	-836 252	-848 962	255 504

### NOTE 3

#### Other operating expenses

Kommunalbanken relocated to renovated office premises on Munkedamsveien 45, Vika Atrium, in the autumn of 1999. The building is owned by Olav Thon Eiendomsselskap ASA and Kommunalbanken signed a lease for 1,378 sq.m. The lease runs on a continuous and non-terminable basis up to 31 August 2009. The annual rent comes to NOK 3 031 600, in addition to a proportional share for service charges. The rent can be adjusted by the lessor each year in accordance with and in proportion to changes in Statistics Norway's consumer price index.

### NOTE 4

#### Loans to credit institutions

	1999
Loans to and claims on credit institutions without agreed maturity	NOK 331 433 231
Loans to and claims on credit institutions with agreed maturity	NOK 594 000 000
Total deposits in and loans to credit institutions	NOK 925 455 231

NOK 1 523 918 has been deposited in a separate tax withholding account.

## NOTE 5

### Loans to and claims on customers

Loans to customers mature as follows: (in thousands of NOK)

<u>Period to maturity</u>	<u>Up to 3 months</u>	<u>3 months to 1 year</u>	<u>1 year–5 years</u>	<u>Over 5 years</u>	<u>Total</u>
Floating rate loans	410 487	1 049 782	5 415 472	11 725 104	18 600 844
Fixed rate loans	380 821	716 441	3 010 418	7 296 295	11 403 976
Loans against land acquisition bonds	0	799	357	14	1 171
<b>Total</b>	<b>791 308</b>	<b>1 767 022</b>	<b>8 426 247</b>	<b>19 021 413</b>	<b>30 005 991</b>

Kommunalbanken has not made any loss provisions in 1999 and has never recorded any loan losses. Loans distributed by geographical area:

<u>Counties</u>	<u>Amount 31.12.99</u>	<u>Amount 31.12.98</u>
<i>(in thousands of NOK)</i>		
Østfold	1 361 951	1 298 323
Akershus	1 520 345	1 419 044
Oslo	156 981	170 157
Hedmark	894 043	862 230
Oppland	962 386	976 922
Buskerud	1 440 209	1 110 373
Vestfold	896 937	834 647
Telemark	1 236 764	1 094 841
Aust-Agder	643 675	683 750
Vest-Agder	2 191 590	1 924 299
Rogaland	2 054 804	1 549 713
Hordaland	2 511 134	2 474 305
Sogn og Fjordane	1 883 436	1 620 450
Møre og Romsdal	2 105 461	1 463 590
Sør-Trøndelag	2 867 930	2 641 283
Nord-Trøndelag	2 000 207	1 913 100
Nordland	2 487 444	2 340 074
Troms	1 910 612	1 826 507
Finnmark	880 082	865 122
<b>Total</b>	<b>30 005 991</b>	<b>27 068 730</b>

#### Other loans

Loans to employees at 31 December	696 158
Purchase repos at 31 December	0
<b>Total</b>	<b>696 158</b>

**NOTE 6****Holdings of notes, bonds and other interest-bearing securities**

	Book value	Acquisition cost	Fair value
Government and government-guaranteed notes (weighted 0%)	299 607	299 527	299 670
Notes issued by financial institutions (weighted 20%)	1 294 772	1 294 854	1 294 894
Government-guaranteed bonds (weighted 0%)	676 076	715 446	695 022
<b>Total</b>	<b>2 270 455</b>	<b>2 309 827</b>	<b>2 289 586</b>

Kommunalbanken's holdings of Treasury bills and government bonds are included in the hedging portfolio. The difference between cost price and nominal (premium or discount) are recorded on an accruals basis for the remaining maturity.

Notes issued by financial institutions are valued individually using the lower of cost price or fair value principle.

**NOTE 7****Shares**

The share portfolio consists of 1,000 shares in Norsk Vekst ASA at a cost price of NOK 100 per share. The share's nominal value is NOK 90. The company's total share capital is NOK 600 million. The shares are recorded at cost price. The market value is NOK 200 per share.

**NOTE 8****Machinery and equipment**

(in thousands of NOK)

(Depreciation period, linear)	Office machinery	IT	Furniture	Total
	4 yrs	3 yrs	5 yrs	
Acquisition cost at 1 Nov. 1999	407	3 043	2 065	5 515
+ Acquisitions 1999 at cost price	0	40	667	707
- Disposals 1999 at cost price	59	21	0	80
Cost price at 31 Dec. 1999	348	3 062	2 732	6 143
Acc. depreciation at 1 Nov. 1999	0	0	0	0
+ Depreciation in 1999	23	252	81	356
- Acc. depreciation of disposals of fixed assets 1999	6	1	0	7
Acc. depreciation at 31 Dec. 1999	17	251	81	349
Book value at 31 Dec. 1999	331	2 811	2 651	5 793

As a result of the conversion to a limited company, all fixed assets were acquired at book value (new cost price) and are stated in the line acquisition cost 1 Nov. 1999.

The tax value of fixed assets is NOK 4 630 entailing a positive temporary difference of NOK 1 163 at 31 December 1999.

**NOTE 9****Other assets – financial derivatives**

The accounting item «Financial derivatives» only comprises accrued interest on the interest rate instruments interest rate swaps, FRAs and futures. Accrued interest on interest rate swaps is recorded on a net basis.

## NOTE 10

### Tax on the profit for the year

(in thousands of NOK)

Tax expenses for the period are broken down on: **99.11-01 – 12-31**

Payable taxes	5 662
Changes in deferred taxes	-1 114
<b>Total tax expenses</b>	<b>4 548</b>

Estimated tax base for the period:

Profit before tax expenses	16 261
Permanent differences	-17
Changes in temporary differences	3 978
<b>Tax base for the period</b>	<b>20 222</b>

Temporary differences:	99-12-31	99-11-01
Fixed assets	1 163	-
Share option premium	-559	-
Notes	-80	-
Own securities	-4 515	-
Pensions	-836	-849
<b>Total</b>	<b>-4 827</b>	<b>-849</b>

28% deferred tax

The explanation as to why the year's tax expenses do not amount to 28% of the pre-tax profit:

28% of pre-tax profit	4 553
Permanent differences (28%)	-5
<b>Estimated tax expenses</b>	<b>4 548</b>

The deferred tax benefit is recorded in the balance sheet at NOK 1 352 as Kommunalbanken may use this advantage through future earnings.

## NOTE 11

### Domestic note issues and other short-term issues at 31 December 1999

(in thousands of NOK)

ISIN no.	Coupon	Maturity	Outstanding
001001540.7	5.60%	21.06.99 – 21.06.00	2 338 338
001002303.9	5.65%	20.09.99 – 20.09.00	1 306 449
001003037.2	*	14.12.99 – 14.12.00	29 920
001003038.0	*	14.12.99 – 14.12.00	28 644
001003039.8	*	14.12.99 – 14.12.00	29 353
001003040.6	*	14.12.99 – 14.12.00	31 816
			<b>3 764 520</b>

The coupon rate is set 5 days before the period expires.

Premiums (discounts) paid out are recorded as interest distributed over the maturity of each issue.



**NOTE 12****Bonds outstanding and other long-term debt**

Long-term debt in foreign currency, net	NOK	0
Domestic bonds, net	NOK	28 566 067 534
<b>Total</b>	<b>NOK</b>	<b>28 566 067 534</b>

**Domestic bonds***(in thousands of NOK)*

ISIN no.	Issue	Initial amount	Instalment period	Closing date	Outstanding at 98-12-31	Issued 1999*	Repayment/ Bought back	Outstanding at 99-12-31	Assessed 99-12-31	Book value 99-12-31
102301.4	13.00% 1982	Closed	1982/99		7 450	0	7 450	0		
102303.0	13.00% 1982	Closed	1982/99		7 300	0	7 300	0		
102304.8	13.00% 1982	Closed	1982/99		7 450	0	7 450	0		
102306.3	13.25% 1982	Closed	1987/04		97 600	0	96 200	1 400	115 73	-6 475
102314.7	12.00% 1984	Closed	1985/01		34 800	0	33 550	1 250	105 84	404
102356.8	10.23% 1992	Closed	K-R1	2007	271 300	0	249 900	21 400	99 40	21 421
102357.6	10.40% 1992	Closed		1999	1 427 000	0	1 427 000	0		
102362.6	5.75% 1994	Closed	0	2002	2 704 620	1 06 380	41 590	3 769 410	99 27	3 787 684
102363.4	8.15% 1995	Closed	0	2005	1 149 790	1 038 210	390 210	1 797 790	108 14	1 993 085
102364.2	7.40% 1995	Closed	0	2000	3 898 050	0	1 233 040	2 665 010	100 27	2 674 304
102365.9	4.96% 1996	Closed	O-P-R2	2001	1 245 000	0	100 000	1 145 000	99 60	1 145 849
102366.7	0.00% 1997	Closed	0	1999	879 000	0	879 000	0		
102367.5	2.50% 1997	Closed	1999	700 000	0	700 000	0			
102368.3	5.44% 1997	Closed	O - R3	2002	922 000	0	665 800	256 200	93.66	273 418
102369.1	4.09% 1997	Closed	O - R4	2002	225 000	0	30 000	195 000	98.58	195 184
102370.9	4.50% 1998	Closed	O - R5	2008	260 000	0	120 000	140 000	92.38	140 886
102371.7	4.60% 1998	Closed	K- O- R6	2003	835 000	0	20 000	815 000	96.61	814 981
102372.5	5.35% 1998	Closed	0	2003	442 050	3 271 950	138 840	3 575 160	97.64	3 569 718
102373.3	5.55% 1998	Closed	0	2008	1 683 000	1 515 000	175 300	3 022 700	94.19	3 013 283
102374.1	8.29% 1998	Closed	O- R7	2003	300 000	0	0	300 000	99.56	300 000
102375.8	5.60% 1998	Closed	0	2004	900 000	957 100	0	1 857 100	97.68	1 847 806
102376.6	5.85% 1998	Closed	0	2009	2 000 000	500 000	0	2 000 000	94.87	2 515 956
1000109.2	5.40 % 1999	Closed	2006	0	740 000	0	740 000	94.74	738 428	
1000171.2	5.25 % 1999	Closed	2005	0	2 174 000	0	2 174 000	95.41	2 133 781	
1000587.9	5.20 % 1999	Closed	2001	0	1 705 000	0	1 705 000	99.21	1 706 840	
1002724.6	6.15 % 1999	Closed	2002	0	1 000 000	0	1 000 000	100.02	999 626	
1002749.3	6.00 % 1999	Closed	2001	0	700 000	0	700 000	99.91	699 887	
Gross outstanding own bonds					19 996 410	14 707 640	6 322 630	28 381 420	28 566 067	
Gross government land purchase bonds					3 377		2 207		1 171	
Total bonds					19 999 787				28 567 238	
Purchased bonds					-4 236 550				0	
Net outstanding bonds					15 763 237				28 567 238	

• No new bonds have been issued by Kommunalbanken AS, ie all new bonds have been issued in the period 99.01-01-10-31

K = Callable

O = Redemption right for bondholders

P = Floating rate with adjustable interest rate ceiling

R1 = Current interest 5.793 % to be adjusted 00-03-15

R2 = Current interest rate 5.72 % to be adjusted 00-03-15

R3 = 9 % - 6-month Nibor. Current interest 2.88 % to be adjusted 00-03-20

R4 = 3-month Nibor + 0.15 % max. 5.9 %. Current interest 5.90 % to be adjusted 00-01-17

R5 = 12-month Nibor min. 4.5%, max. 5.5%. Current interest 5.50% to 00-02-07

R6 = Step-up m-call each year. Current interest 5.32% to 00-02-18

R7 = 3-month Nibor - 0.27%. Current interest 5.75 % to 00-03-15

Repayment on debt outstanding: Up to 3 months	2 674 304
From 3 months to 1 year	799
From 1 year to 5 years	15 335 280
Over 5 years	10 556 855
	<hr/> 28 567 238

## NOTE 13 Other debt

Other debt comprises NOK 206,450,767 for own bonds with buy-back agreements. The nominal value of the bonds come to NOK 207 million. Debt owed to the central government has been posted in the amount of NOK 19 million, and is the dividend amount to be set aside and approved on 31 October 1999.

## NOTE 14 Maturity structure for interest-sensitive assets and liabilities

Residual maturity and interest rate adjustment date for assets and liabilities at 31 December 1999

Amount by residual maturity (in thousands of NOK)

	Total	Up to 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Without maturity
<b>Assets:</b>							
Deposits in other financial institutions	976 644	976 644					
Loans outstanding	30 005 991		791 308	1 767 023	8 426 247	19 021 413	
Securities	2 270 455	169 962	1 424 418		458 850	217 225	
Other short-term loans	696			418	278		
Prepaid expenses – other assets	805 421	805 421					
Other assets	7 245					100	7 145
<b>Total</b>	<b>34 066 452</b>	<b>1 952 027</b>	<b>2 215 726</b>	<b>1 767 441</b>	<b>8 885 375</b>	<b>19 238 638</b>	<b>7 145</b>
<b>Liabilities:</b>							
Capital	671 951						671 951
Other debt	1 062 743	961 026	28 731	72 986			
Loans raised through issues of securities	32 331 758		2 674 304	3 765 319	15 335 280	10 556 855	
<b>Total</b>	<b>34 066 452</b>	<b>961 026</b>	<b>2 703 035</b>	<b>3 838 305</b>	<b>15 335 280</b>	<b>10 556 855</b>	<b>671 951</b>
Net liquidity exposure balance sheet items	0	991 001	-487 309	-2 070 865	-6 449 905	8 681 783	-664 806
Net liquidity exposure financial derivatives		-4 114 000	-12 333 000	2 030 000	7 018 000	7 399 000	
<b>Total liquidity exposure</b>		<b>-3 122 999</b>	<b>-12 820 309</b>	<b>-40 864</b>	<b>568 095</b>	<b>16 080 883</b>	<b>-664 806</b>

## Notes to the accounts for 1999

Amount by interest rate adjustment date: (in thousands of NOK)

	Total	Up to 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Without maturity
<b>Assets:</b>							
Deposits in other financial institutions	976 644		976 644				
Loans outstanding	30 005 991	168 173	20 599 400	738 758	6 818 695	1 680 965	
Securities	2 270 455		1 594 380		458 850	217 225	
Other short-term loans	696			418	278		
Prepaid expenses							
other assets	805 421	805 421					
Other assets	7 245				100	7 145	
<b>Total</b>	<b>34 066 452</b>	<b>973 594</b>	<b>23 170 424</b>	<b>739 176</b>	<b>7 277 823</b>	<b>1 898 290</b>	<b>7 145</b>
<b>Liabilities:</b>							
Capital	671 951						671 951
Other liabilities	1 062 743	1 061 907		836			
Loans raised through issues of securities	32 331 758	195 184	5 342 964	3 765 319	16 760 610	6 267 681	
<b>Total</b>	<b>34 066 452</b>	<b>1 257 091</b>	<b>5 342 964</b>	<b>3 766 155</b>	<b>16 760 610</b>	<b>6 267 681</b>	<b>671 951</b>
Net interest exposure in balance sheet	0	-283 497	17 827 460	-3 026 979	-9 482 787	-4 369 391	-664 806
Fin derivatives that influence interest rates sensitivity		-4 114 000	-12 333 000	2 030 000	7 018 000	7 399 000	
<b>Net incl. financial derivatives</b>	<b>5 501 755</b>	<b>-4 397 497</b>	<b>11 003 460</b>	<b>-996 979</b>	<b>-2 464 787</b>	<b>3 029 509</b>	<b>-664 806</b>

Interest rate adjustment of floating rate loans within 3 months.  
Off-balance-sheet items are primarily based on constructed cash flows.

## NOTE 15

### Volumes of various financial derivatives

Interest rate and currency swaps, FRAs and interest rate options have been entered into. The purpose of these transactions is to hedge against specific risks.

The contracts are linked to the funding, and comprised at the end of 1999:  
(in thousands of NOK)

Type of agreement	Nominal value		Net	Market value
	Bought	Sold		
FRAs	200 000	6 815 000	-6 615 000	296
....of which trading portfolio	20 000	20 000	0	0
Interest rate swaps in NOK	1 506 800	21 417 200	-19 910 400	302 900
Interest rate options	73 762	0	73 762	0
<b>Total</b>	<b>1 800 562</b>	<b>28 252 200</b>	<b>-26 451 638</b>	<b>303 196</b>

## NOTE 16

### Interest rate risk

Interest rate risk is associated with the lending and borrowing activity and arises from the difference in the fixed-interest rate period for the Bank's assets and liabilities and that ingoing and outgoing payments occur at different times. As part of the interest rate risk management, Kommunalbanken engages in active purchases and sales of own bonds and notes, government bonds, Treasury bills, interest rate futures, interest rate and currency options and FRAs, in addition to interest rate swaps.

Kommunalbanken has continued its strategy of adapting the various types of loans to the borrowings so that the fixed-interest period for lending is virtually the same as for borrowing. The agency has established various portfolios for lending and borrowing. Interest rate risk is managed by matching the duration of the lending portfolios to that of the funding portfolios. The duration of a portfolio is defined as the weighted duration of the fixed-interest rate period for each individual loan or borrowing in the portfolio. The weights consist of the market value of the loans/borrowing in relation to the market value of the entire portfolio. In addition, the repayment profile for our loans is adapted to the repayment profile for our funding.

Kommunalbanken manages the duration of assets and liabilities through trading in the agency's securities, government paper and derivatives. Derivatives are described above.

In the portfolios which are defined as particularly interest rate sensitive, total exposure was at 31 December 1999 NOK 3.47 million for a 1 percentage point increase in interest rates and NOK 4.64 million for a 1 percentage point decline in interest rates.

## NOTE 17

### Counterparty risk associated with financial instruments

Counterparty risk is the risk that the counterparty is unable to honour commitments at the time of settlement.

Kommunalbanken has taken a highly restrictive stance concerning agreements giving rise to counterparty risk. The Board has set limits for maximum exposure for each counterparty. These counterparties are only solid Norwegian and international financial institutions with a minimum Aa3/AA- rating by Moody's or Standard & Poor's. Exposure is monitored continually and reported weekly to the internal interest rate risk committee and the Board at each board meeting.

Some contracts are structured with a view to reducing counterparty risk. This is achieved by means of netting agreements, provision of collateral or up-front payments.

Credit risk is associated with the following instruments (in thousands of NOK): 99-12-31

FRAs	296
Interest rate swaps	302 900

Market exposed values are calculated using the market value method (c.f. capital adequacy regulations). In the calculations, we have taken into account the counterparties so that negative credit exposure to a counterparty does not reduce the total. The resulting value is not weighted, but all exposures are assigned a weighting of 20 per cent.

## NOTE 18

### Exchange risk

Exchange risk can be defined as the risk of losses associated with a change in exchange rates.

Kommunalbanken has no foreign currency debt and only has limited deposits in foreign currency, with an attendant limited exposure to exchange rate variations.

Deposits:	USD	1 500
	JPY	2 938 000

## NOTE 19

### Refinancing risk

Refinancing risk is the risk that Kommunalbanken is unable to meet its obligations on the date of settlement as a result of market-related factors.

The agency seeks to maintain sufficient liquidity to meet its obligations well in advance of the date of maturity for the large issues, so that the liquidity risk can be considered to be very limited. In addition, the agency has access to long-term financing with a short fixed-interest period through interest rate swaps.

Kommunalbanken has a government guarantee for an amount up to NOK 33.5 billion in 1999. This guarantee secured access to financing on a par with government terms up to the conversion on 1 November 1999. Moody's assigned a rating of Aaa to the agency in December 1999. Standard & Poor's assigned a rating of AAA in March 2000.

## NOTE 20

### Guarantee fee to the State

The Storting decided that Kommunalbanken shall pay a guarantee fee of 0.10% to the State for government-guaranteed issues.

## NOTE 21

### Guarantee liabilities

Kommunalbanken has provided guarantees for loans raised by municipalities for financing school buildings. The guarantees total NOK 10 188 115 at 31 December 1999. The guarantee liability was reduced by NOK 6 519 190 in 1999.



## NOTE 22

### Capital adequacy

(in thousands of NOK)

Supplementary capital cannot exceed 100% of core capital. Kommunalbanken's capital satisfies the capital adequacy requirements.

The eligible capital is composed of the following elements:

	<u>1999</u>
<b>Core capital:</b>	
Share capital	660 000
Other capital	11 951
<b>Total core capital</b>	<b>671 951</b>
Supplementary capital	0
Deferred tax benefit recorded in balance sheet	-1 352
<b>Total capital</b>	<b>670 599</b>

The risk-weighted basis for measuring capital is as follows:

Risk weight	1999		1998	
	Book	Weighted	Book	Weighted
0 %	1 057 662	0	2 874 039	0
20 %	31 136 078	6 227 216	27 465 366	5 493 073
50 %	1 256 613	628 306	97 610	48 805
100 %	614 829	614 829	27 196	27 196
Off-balance sheet items which are not included in the trading portfolio		60 970	184 589	36 918
Credit and market risk (foreign exchange items in the trading portfolio)			10 794	2159
<b>Sum of risk-weighted items</b>	<b>34 065 181</b>	<b>7 531 320</b>	<b>30 659 594</b>	<b>5 608 151</b>
<b>Capital ratio</b>		<b>8.90</b>		<b>9.10</b>

## NOTE 23

### Change in capital

(in thousands of NOK)

	Share capital	Other capital	Total capital
99-11-01	660 000		660 000
Deferred tax benefit recorded in balance sheet		238	238
Application of the profit for the year		11 713	11 713
<b>99-12-31</b>	<b>660 000</b>	<b>11 951</b>	<b>671 951</b>

The State owns 100 % of the shares. The nominal price per share is NOK 1 000 and the number of shares is 660 000.

# Cash flow statement

## Cash flow statement

(in thousands of NOK)

	99.11-01 - 12-31	Pro forma 1999
Interest rate inpayments	198 287	1 789 152
Interest rate outpayments	70 553	1 695 560
Other inpayments	518	2 286
Operating outpayments	5 550	57 248
<b>Net cash flow from operations</b>	<b>122 702</b>	<b>38 630</b>
Increase loans	2 052 164	2 937 300
Increase other claims	166 309	320 838
Increase short-term securities	464 434	1 955 155
Increase investments in credit institutions	55 339	897 335
<b>Net cash flow from current financial operations</b>	<b>2 738 246</b>	<b>6 110 628</b>
Increase other fixed assets	707	5 317
Disposals fixed assets	66	66
<b>Net cash flow from investments</b>	<b>773</b>	<b>5 383</b>
Increase (- reduction) loans, issuance of securities	-1 280 701	2 767 988
Increase capital - note 1	0	384 848
Increase (- reduction) other debt	-808 472	-2 263 770
<b>Net cash flow from long-term financial operations</b>	<b>-2 089 173</b>	<b>889 066</b>
<b>Net change in liquid assets</b>	<b>-4 703 944</b>	<b>-5 177 549</b>
Liquid assets 99-01-01	4 755 134	5 228 739
Liquid assets 99-12-31	51 190	51 190
<b>Note 0 – Pro forma 1999</b>		
Norges Kommunalbank (10 months) and Kommunalbanken AS (2 months)		
<b>Note 1 – Net increase capital</b>		
Total capital (cf. accounts)	2 605 152	
Other interest-bearing securities	-2 330 000	
<b>Net capital closing balance 1998</b>	<b>275 152</b>	
<b>New share capital 99-11-01</b>	<b>660 000</b>	
<b>Net increase capital</b>	<b>384 848</b>	

# To the General Meeting of Kommunalbanken AS

## Auditor's Report for 1999

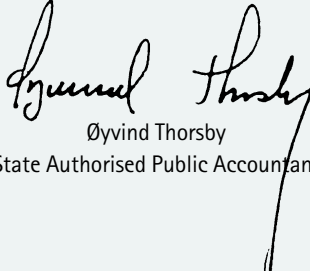
We have audited the annual financial statement for Kommunalbanken AS for the accounting year 1999, which shows a profit of NOK 11,712,962. We have also audited the information in the annual report on the financial statement, the premises for continued operations and the proposal for the application of the profit. The financial statement consists of the profit and loss account, the balance sheet, the cash flow statement and notes. The financial statement and the annual report are presented by the Bank's Board of Directors and Managing Director. Our responsibility is to comment on the financial statement and other related matters pursuant to the requirements of the Act relating to Auditors.

We have conducted our audit in accordance with the Act relating to Auditors and Norwegian generally accepted auditing standards. These standards require planning and an audit performance that provides adequate assurance that the financial statement is free of material misstatements. We have examined selected parts of the evidence supporting the accounts, and assessed the accounting policies applied, the content and the presentation of the financial statement. To the extent required by Norwegian generally accepted accounting principles, we have reviewed the management of the company's assets and accounting and internal control systems.

### In our opinion

- the annual financial statement has been prepared in accordance with existing law and regulation and presents the agency's financial position at 31 December 1999 and the profit and cash flows in the accounting year in accordance with Norwegian generally accepted accounting principles
- management has fulfilled its obligation to ensure proper and transparent registration of documentation of accounting information in accordance with Norwegian law and generally accepted account principles
- information in the annual report concerning the annual financial statement, the premises for continued operations and the proposal for the application of the profit are consistent with the annual financial statement and in accordance with laws and regulations.

Oslo, 7 March 2000  
PricewaterhouseCoopers DA

  
Øyvind Thorsby  
State Authorised Public Accountant

## Audit Committee's statement on the annual report and accounts for the year

At its meeting of 17 March 2000, the Audit Committee examined the annual accounts and annual report together with the managing director and external auditor.

With reference to the above and to the auditor's report, the Audit Committee recommends that the accounts and annual report presented be approved as the Bank's accounts for 1999.

The Audit Committee notes that its statement refers to the annual accounts for the period subsequent to the Bank's conversion to a limited company, i.e. 1 November 1999–31 December 1999.

Oslo, 17 March 2000  
Audit Committee for Kommunalbanken AS



Aage Rundberget  
Chairman



Britt Lund



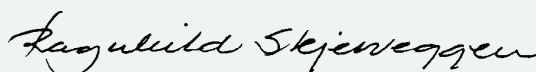
Svein Blix

## Supervisory Committee's statement on the annual report and accounts for the year

In accordance with §15 in Kommunalbanken's Articles of Association, the annual accounts and report for 1999 have been examined by the Supervisory Board.

The Supervisory Board recommends that the Board of Directors' proposals for the profit and loss account and balance sheet, as well as application of profits, NOK 11 712 962, is adopted by the Annual General Meeting.

Oslo, 5 April 2000  
Supervisory Committee for Kommunalbanken AS



Ragnild Skjerveggen  
Chairman

# Organisation



Kommunalbanken's overriding objective is to ensure that its interest rates on loans to municipalities bolster competition for loans to the local government sector.



## The Norwegian economy

1999 was a year of consolidation for the Norwegian economy after six consecutive years of strong growth. According to preliminary national accounts figures, the Norwegian mainland economy expanded at a rate of 0.8 per cent in 1999. The average growth rate for the six years was around 3.5 per cent, peaking at 4.4 per cent in 1997. The slowdown in 1999 is primarily attributable to the low level of oil prices in 1998, and a downturn in investment in both the mainland economy and the petroleum sector.

## Interest rates

In recent years, investment in the mainland economy has made a contribution to growth in aggregate demand of about 2 per cent of GDP. However, the sharp rise in interest rates in 1998 led to a contraction in investment in 1998 and the first half of 1999.

The interest rate reductions in 1999 – Norges Bank's deposit rate was lowered from 8 per cent at the beginning of 1999 to 5.5 per cent at the end of the year – provided renewed impetus to investment activity. On an annual basis, investment growth was still negative. The central bank deposit rate was around one percentage point higher at the end of 1999 than before the increase in interest rates in 1998.

In 1999, growth in household demand was weak compared with previous years. The household saving ratio was positive for the third consecutive year. The growth in income has not had an impact on the CPI so far. The CPI is projected to rise slightly in 2000, to 2.4 per cent, and then fall back to 2 per cent in 2001.

Employment remained relatively stable in 1999, with a slight rise in unemployment in the latter half of the year. Over the last five years, employment growth in Norway has hovered around 2.2 per cent annually, while growth in employment declined to 0.5 per cent in 1999. Unemployment has decreased to 3.2 per cent of the labour force, which is very low compared with our trading partners. In 1999, all of 71 per cent of the population between 16 and 74 years of age were gainfully employed.

Norway's net foreign assets are estimated at NOK 119 billion at the end of 1999, i.e. an increase of NOK 33 billion compared with 1998. General government net assets are estimated at NOK 510 billion in 1999, and the figure for 2000 is estimated at NOK 580 billion or about 47 per cent of GDP.

The outlook for Norway for the year 2000 is positive. Both the rise in commodity prices in recent years and higher growth among Norway's main trading partners will have a favourable impact. GDP growth among Norway's trading partners has been around 2.5 per cent over the last two years, while the growth forecast for 2000 is around 3 per cent. Against this background, in conjunction with the upswing in traditional merchandise exports and low growth in imports, the current account surplus is estimated to increase further in 2000. In addition, the decline in petroleum investment is expected to level off in 2001, which normally leads to higher growth in Norway.



*Thomas Møller, Finance Director*

## Growth in local government economy

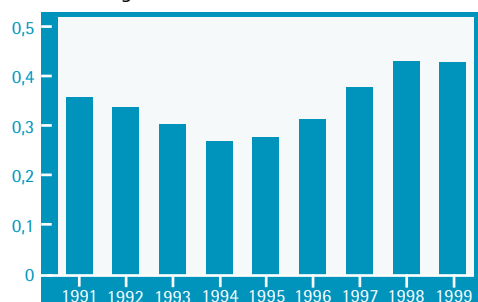
Activity in the local government sector has shown brisk growth over the last decade. This partly reflects an improvement in services and the increased scale of local government services. Substantial investments have been made to expand kindergartens and schools in connection with the 1994 and 1997 school reforms. The reform in care for the mentally disabled, the expansion of hospitals and elderly care have also required substantial investments.

Local government activity increased at a faster rate than growth in mainland GDP in the second half of the 1980s and up to 1992. In the following years to end-1996, economy activity was lower than growth in mainland GDP, reflecting the sharp increase in private domestic demand during these years. In 1997 local government activity rose by a good 6 per cent, primarily as a result of the high level of investment in connection with the primary school reform. In 1998 local government activity slowed somewhat, while growth in local government activity is expected to be considerably higher this year than mainland GDP growth.

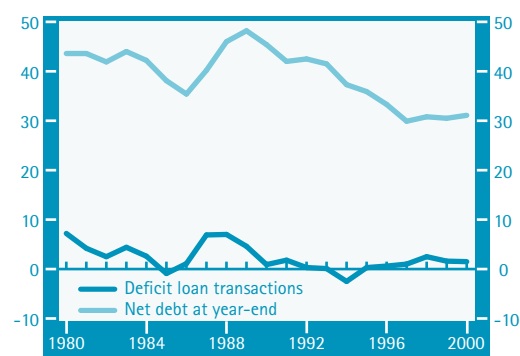
Growth in local government real revenues is estimated at NOK 44 billion between 1989 and 1999, or about 2.5 per cent average annual growth. For the period 1989-1999, local government employment (measured in person-hours) rose by about 25 per cent, or an average 2.3 per cent on an annual basis. The number employed in the local government sector increased by about 130 000 during the same period. The local government sector's share of total employment has thus increased from about 17 per cent in 1980 to about 24 per cent in 1999. The largest share of the increase came in the beginning of the 1990s, while the local government sector's share of total employment has been relatively stable over the last five years. This must be seen in connection with the strong growth in overall employment over the last years.

The year 1994 featured a large surplus, with sharp growth in tax revenues. Since 1997, the deficits have increased somewhat as a share of revenues. Local government net debt as a percentage of total revenues was reduced from close to 50 per cent in 1989 to about 30 per cent in 1997. The size of the deficits in 1996 and 1997 was to some extent influenced by investments in connection with the primary school reform. A large share of these investments was financed through local government borrowing, but will be compensated for through annual appropriations by the central government over a period of 20 years. The deficits from 1998 must be seen in connection with the investments to improve elderly care. About a third of the costs will be covered by direct state subsidies. The remaining two-thirds will be reflected in higher deficits. However, municipalities will also receive state subsidies for servicing this debt for a period of up to 30 years, which will cover this share of the investment cost.

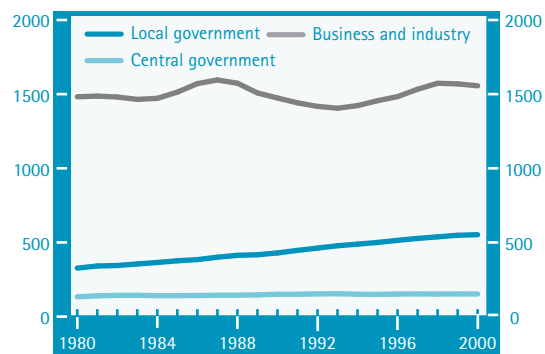
General government net assets



Source: Statistics Norway

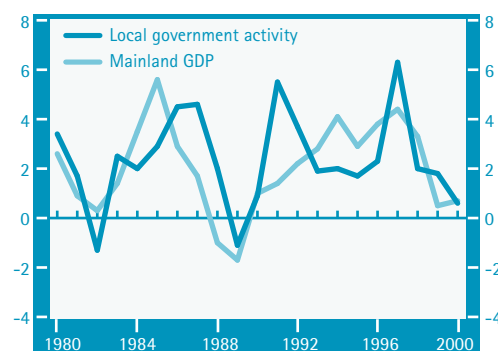


Source: National Budget 2000



Source: National Budget 2000

Local



Source: National Budget 2000

### Lending activity

The agency's loans outstanding increased markedly from NOK 27.1 billion to NOK 30 billion in 1999. Of the total increase in lending of NOK 2.9 billion, NOK 2.1 billion was recorded in the first two months after Kommunalbanken AS was established. Further growth in lending has been registered so far in 2000. This confirms that the conversion of Kommunalbanken to a limited company was in the best interest of the local government sector and that the agency can enhance its role even further as the local government sector's most important instrument for procuring loans on favourable terms.

Kommunalbanken grants loans against local government guarantees to municipalities, counties, inter-municipal companies and other companies that perform local government services. Total loans are evenly distributed on municipalities and counties throughout the country. Kommunalbanken's strategy as a state bank, subject to specific lending quotas, was to give priority to small and medium-sized municipalities. After the conversion to a limited company, the

agency places continued emphasis on providing credit on favourable terms to this important customer group. Governed by the same laws and regulations as other financial undertakings, the agency can also provide competitive offers to large municipalities and counties with substantial borrowing needs.

In 1999 approved and disbursed loans came to NOK 6.265 billion and NOK 5.997 billion, respectively. Most municipalities take up one single loan for the year to finance different type of investments. The bulk of the loans, in the amount of NOK 1.5 billion from the agency, has been used to finance investments in the health and social sector. The local government sector is following up the Storting's and Government's plan of action for elderly care, which requires substantial investments in nursing homes and dwellings for the elderly. Kommunalbanken has placed emphasis on giving priority to this area.

As in previous years, the State Housing Bank was not in a position in 1999 to grant loans within their lending quotas for municipal



*Lending Department's Loan Managers: Marit Ødegård, Lise Schie Berntsen, Jan Inge Aas Eidem and Børge Daviknes*



investment in the care sector. Kommunalbanken cooperates closely with the State Housing Bank, so that municipalities are still ensured debt-financing at competitive interest rates. A new aspect is that companies such as housing cooperatives have been referred by the State Housing Bank to Kommunalbanken for financing of their care sector projects. This cooperation will continue in 2000 to the benefit of the local government sector as whole.

Other important projects that have been financed through loans from Kommunalbanken are environmental projects at NOK 450m and water supply facilities at NOK 500m. Refinancing loans have been granted for the equivalent of NOK 1.3 billion. Most of these loans were extended during the last two months of the year, after the state bank's conversion to a limited company. Under the new framework conditions, Kommunalbanken will prioritise refinancing of loans to the same extent as loans for new investments.

Borrowers can choose between long and short floating-rate loans based on 1 to 12-month NIBOR, 3-month NIBOR with interest

rate caps, and fixed-rate loans from 6 months to 10 years.

The interest rate situation in the winter of 1999 featured an inverted yield curve. Short rates were markedly higher than long rates. Later in the year, the situation changed. In 1999, Norges Bank reduced its overnight lending rate and deposit rate on five occasions by a total of 2.50 percentage points. Money market rates declined by a comparable margin, as did Kommunalbanken's floating rates. Long rates were low during the first months of the year, but rose in pace with the interest rate increases in the US and the Euro area from the spring of 1999.

The agency's short floating-rate loans are based on the funding costs for the agency's shortest issues. These interest rates are highly sensitive to fluctuations at the short end of the money market. The agency has changed its short floating rates on nine occasions in 1999, from 8.45 per cent at the beginning of the year to 6.15 per cent at end-1999. Early in the year 2000, this interest rate was lowered further to 5.95 per cent.

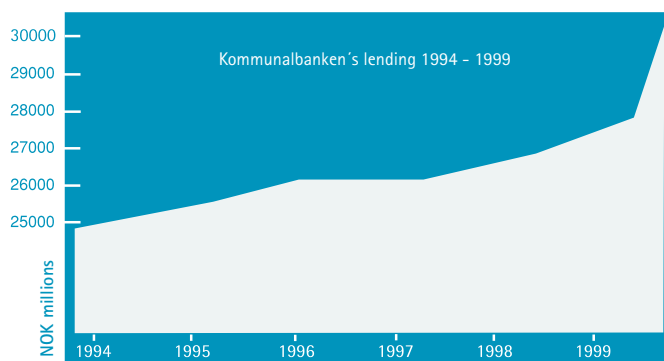
## Approved and disbursed loans in 1999 (NOK)

	Approved 1999	Disbursed 1999
Electric power stations and power grid	48 000 000	73 000 000
Water supply	379 166 970	328 758 420
Harbour development	69 681 500	131 904 814
Site development	20 272 550	32 807 711
Hospitals, nursing homes etc.	1 260 414 399	1 181 775 787
Municipal buildings	214 507 033	254 984 518
Church buildings	4 578 000	5 246 500
Schools	153 678 469	390 836 419
Roads and bridges	20 312 315	26 890 460
Other	2 467 976 880	2 206 027 870
Infrastructure investments	28 495 000	23 596 000
Land acquisition	5 395 000	6 121 775
Environmental protection measures	320 319 600	242 649 834
Energy saving measures	1 900 000	1 900 000
Refinancing	1 270 764 992	1 090 775 326
	6 265 462 708	5 997 275 434



**Loans distributed by county at 31 December 1999:**  
(in thousands of NOK)

Counties	99-12-31
Østfold	1 361 951
Akershus	1 520 345
Oslo	156 981
Hedmark	894 043
Oppland	962 386
Buskerud	1 440 209
Vestfold	896 937
Telemark	1 236 764
Aust-Agder	643 675
Vest-Agder	2 191 590
Rogaland	2 054 804
Hordaland	2 511 134
Sogn og Fjordane	1 883 436
Møre og Romsdal	2 105 461
Sør-Trøndelag	2 867 930
Nord-Trøndelag	2 000 207
Nordland	2 487 444
Troms	1 910 612
Finnmark	880 082
<b>Total</b>	<b>30 005 991</b>



The agency's long floating rates and floating rate on loans disbursed prior to 1 March 1993 are determined on the basis of the agency's funding costs for issues with an average residual maturity of 3-7 months. This promotes stability in the interest rates offered by the agency. These interest rates were changed on four occasions in 1999, from 7.50 per cent and 7.60 per cent, respectively, at the beginning of the year to 6.25 per cent and 6.35 per cent at the end of the year. With effect from 20 February 2000, these two interest rates were lowered further to 6.10 per cent and 6.20 per cent.

The agency's overriding objective is to ensure that its interest rates on loans to municipalities bolster competition for loans to the local government sector. When Kommunalbanken changes its lending rates, other financial institutions tend to follow suit fairly quickly. Municipalities refer to the agency's rates when negotiating with other credit institutions, which provides them with substantial savings in terms of interest expenditure.

The agency offers fixed-rate loans from six months to 10 years. Municipalities can thus choose interest rates based on their own interest rate strategy and need for stable rates.

Up to the spring of 1999, many customers opted for fixed-rate loans. With a negative yield curve and a fixed interest rate on 5-10 year loans that was lower than 5.50 per cent in periods, many municipalities found it appropriate to secure stable and predictable interest expenditure by opting for a fixed rate. The low level of long rates also prompted many customers to hedge parts of the portfolios against changes in interest rates by converting existing floating-rate loans to longer fixed-rate loans. In addition to fixed-rate loans for new investments, a number of municipalities have chosen to convert existing floating-rate loans to fixed-rate loans. Fixed-rate loans account for NOK 11.4 billion of the agency's total loan portfolio of about NOK 30 billion. Following the marked increase in bond yields in the latter part of 1999 and the fall in short money market rates, most customers have shown a preference for floating-rate loans. In the autumn of 1999, the agency conducted a customer satisfaction survey. The survey showed that municipalities are generally satisfied with the agency's lending services. Customer needs are accommodated by offering competitive interest rates, close follow-up, rapid processing, high-quality service and financial services.

The agency assists municipalities in elaborating financial strategies and reviewing their portfolios, and proposes new portfolio compositions adapted to the local government sector's need for stable capital costs.

It is highly unlikely that the agency will be exposed to credit risk in connection with its loans to the local government sector. As a result, the agency has not made any provisions for future losses. The local government sector is in reality an arm of the general government sector and municipalities perform services for the

central government. In 1999, local government spending rose at a faster pace than revenues, which entailed a deficit before loan transactions in 1999. A share of this deficit is attributable to the investments made to finance the elderly care reform, which was initially financed by loans raised by the local government sector. However, municipalities will receive state subsidies to cover interest and principal payments on these loans for a period of up to 30 years. The Government has also signalled an increase in central government transfers to the local government sector.

### Borrowing activity

Until its conversion to a limited company on 1 November 1999, Norges Kommunalbank's funding activity was confined to the Norwegian bond and note market. The state bank worked actively to restructure its debt portfolio, shifting from notes to bonds as the government guarantee on the state bank's own issues would cease to apply after conversion to a limited company.

As a limited company, Kommunalbanken is now permitted to raise funds in markets other than the Norwegian securities market. The agency can raise loans on international markets. In the period from 1 November to the end of 1999, Kommunalbanken drew up guidelines for an international borrowing programme, Medium-Term Note Programme, in an amount equivalent to EUR 2 billion. This programme standardises borrowing documentation for each currency loan, and provides the agency with sufficient flexibility to take advantage of the most favourable market terms at any given time.

### Framework conditions

In Proposition no. 44/99 to the Odelsting, "On the conversion of Norges Kommunalbank to a limited company", it was proposed that the level of the agency's equity capital be set based on an appropriate capitalisation of the type of activity in which the agency engages. The Ministry of Local Government and Regional Development concluded that the core capital required to operate the limited company Kommunalbanken AS would be NOK 660 million. In addition, it was agreed that Kommunalbanken would raise a subordinated loan in the market. Kommunalbanken AS raised a subordinated loan in the amount EUR 40 million (NOK 321 million) in January 2000, bringing its total equity and subordinated loan capital to NOK 981 million. The agency's capital adequacy ratio was 8.90 at year-end. Kommunalbanken will maintain a capital ratio equivalent to 150 per cent of the minimum requirement.

Kommunalbanken will apply a normal risk-adjusted return on owners' equity.

### Investor distribution

The government guarantee on Norges Kommunalbank's issues has made it possible for the banking industry to use the securities to meet liquidity reserve requirements. As a result, banks and insurance companies account for a particularly large share of the government-guaranteed securities with a 0 per cent weighting.

After the conversion, Kommunalbanken's securities are weighted at 20 per cent based on BIS weights. The agency is planning to meet a substantial share of its borrowing needs in international capital markets. The share of foreign investors will thereby increase.

### Funding

The agency undertook an extensive restructuring of its debt portfolio during 1999. The agency has reduced its need for refinancing substantially by replacing a sizeable share of its notes with long-term bonds. At the end of 1999, the agency's debt outstanding came to NOK 28.6 billion in bonds and NOK 3.8 billion in notes. For purposes of comparison, the figures were NOK 15.8 billion and NOK 3.8 billion, respectively, at the end of 1998. The agency has built up its cash reserves in 1999 by fully utilising the government-guaranteed funding quota in the domestic market. This was necessary in order to establish a liquidity buffer for the changeover to a new organisational structure. The bulk of the agency's bonds were swapped to a floating rate. The difference between government and swap spreads through most of 1999 allowed the agency to achieve favourable rates on this type of instrument.

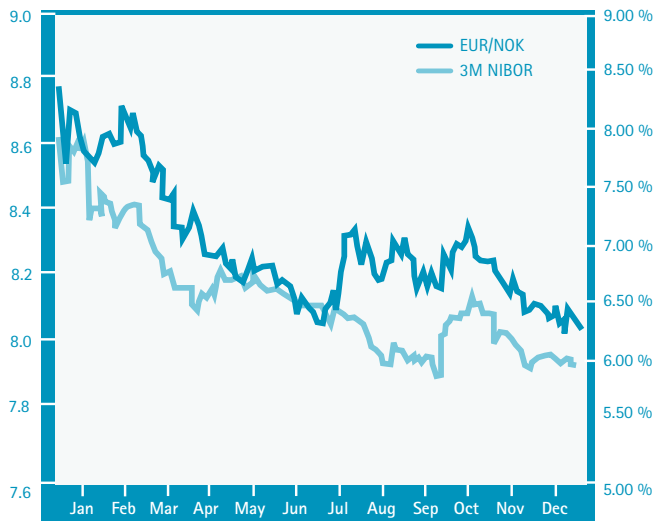
The agency will continue to use the swap market to finance the agency's floating-rate portfolio. The agency maintained a high level of note trading last year. The agency actively quoted bid and offer prices on its Reuters page NKBA for up to NOK 100 million. However, the agency's market maker activity was discontinued after the conversion on 1 November. The agency will consider whether it would be appropriate to establish a new market-maker panel in the Norwegian market in the course of 2000. The agency will also consider establishing a Commercial Paper programme in 2000.

The agency's fixed-rate debt portfolio is funded in the bond market. In order to promote effective pricing and liquidity of Kommunalbanken's bonds, the agency established a market-maker panel in 1993 for the agency's bonds with the highest turnover. In 1999, the panel was composed of the largest brokerage firms in the Norwegian market. The market makers quote prices on the Oslo Stock Exchange, which are published on Reuters page NKAZ. Under the agreement concluded with the brokers, the agency was required to sell bonds to the brokers participating in the arrangement. After the conversion, the agreement was terminated and the market-maker arrangement discontinued.

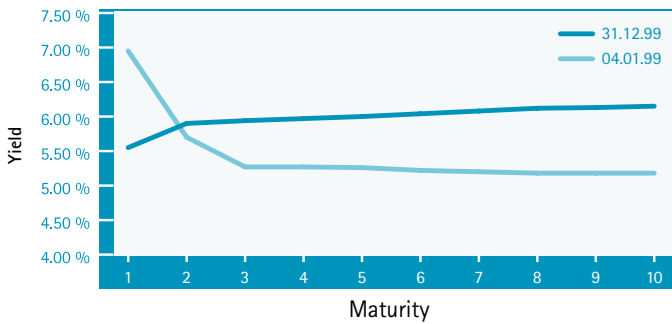
Kommunalbanken hopes to continue to be a visible actor in the Norwegian market. The agency will increasingly look to foreign markets for funding as the terms in these markets are expected to be more favourable than in the domestic market.

Kommunalbanken will seek to cover its financing requirements through a relatively opportunistic funding policy. The agency will also attach importance to flexibility with regard to investors' needs, and take market initiatives to build up a foreign investor base.

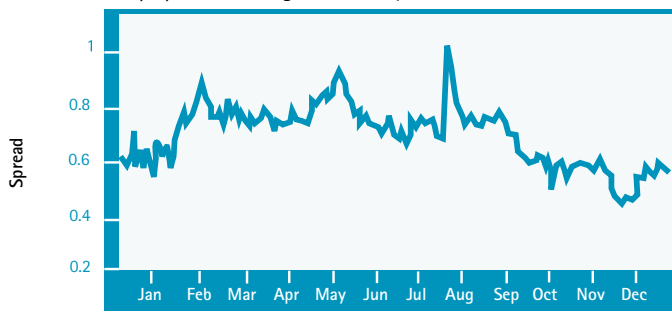
3M NIBOR and EUR/NOK 1999



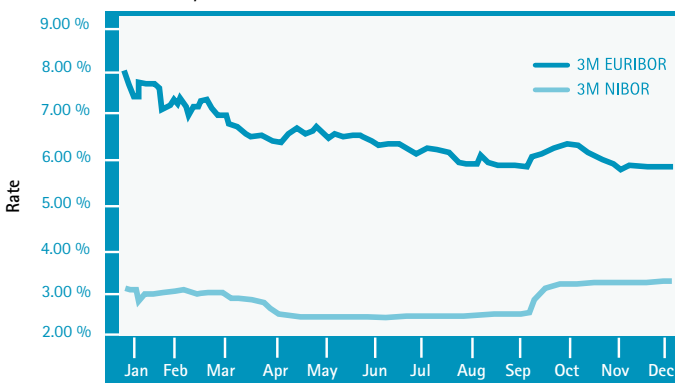
Norwegian Treasury yield curve



Swap spread Norwegian Treasury



3M NIBOR/3M EURIBOR 1999



Source: Reuters

Access to foreign capital markets requires a rating from at least one of the leading rating agencies. Kommunalbanken contacted Moody's Investors Service in 1999 and requested a rating of the agency's bonds. In December, Moody's assigned a Aaa rating to Kommunalbanken's long-term debt. The short-term rating is P-1. On 3 March 2000, Standard & Poor's assigned a AAA rating to the agency's long-term debt and A-1 to its short-term debt. The ratings from Moody's og Standard & Poor's are the highest ratings possible and both ratings reflect the very low risk associated with the agency's activity, and the agency's special position and mission. The ratings secure the agency access to low funding costs so that these highly competitive funding costs can be passed on to the local government sector in the form of loans on favourable terms.

At the end of February 2000, Kommunalbanken had issued three notes under the MTN programme. Two issues were private offerings in Japan and one issue was placed with European investors. The prices obtained by the agency were very favourable compared with domestic alternatives.

Kommunalbanken has also negotiated a borrowing programme in the amount of EUR 100 million in the European Investment Bank. The borrowing programme is part of the European Investment Bank's global borrowing programme and will be channelled to finance local government projects relating to the environment, water treatment, infrastructure and energy.

Since the conversion, only a few small structured issues in NOK have been launched in the period to end-1999. All structured issues are swapped at a floating NIBOR so that the agency does not incur any risk linked to the structural element. The agency only accepts swap counterparties with a high credit rating. Foreign banks and financial institutions must in general have a minimum rating of AA- from Standard & Poor's and a minimum rating from Moody's of Aa3.

Kommunalbanken seeks to minimise all types of risk at all times. The interest rate risk associated with the loan and debt portfolio is hedged. All currency exposure is hedged using approved instruments. The agency had no foreign currency debt at 31 December 1999.

Previously, the agency was required to place all surplus liquidity in a deposit account in Norges Bank or in government securities. This requirement ceased to apply after the conversion to a limited company and the agency has drawn up new guidelines for the management of the agency's cash surplus. In line with the agency's low risk profile, sound limits have been set for exposure to this type of risk.

Kommunalbanken estimates the agency's total borrowing requirement at NOK 10 billion in 2000.

Printed by Reuters

Thursday, 16 December 1999 10:45:31

9:02/16 Dec MOODY'S ASSIGNS KOMMUNALBANKEN AS (NORWAY) AAA LONG TERM ISSUER RATING  
9:02/16 Dec MOODY'S ASSIGNS KOMMUNALBANKEN AS (NORWAY) AAA LONG TERM ISSUER RATING  
9:05/16 Dec Kommunalbanken (Norway) gets AAA issuer rtg-Moodys  
(Press release provided by Moody's Investors Service)  
NEW YORK, Dec 16 - Moody's Investors Service assigned a AAA long term issuer rating to Kommunalbanken AS  
Moody's said that the rating reflects the importance of Kommunalbanken to the central government as a specialized lender to Norwegian local governments and its strong customer base.

Printed by Reuters

Friday, 3 March 2000 13:56:39

12:45/3 Mar RTRS-S&P ASSIGNS KOMMUNALBANKEN TRIPLE-A AND A1 PLUS LONG- AND SHORT TERM RATINGS  
12:47/3 Mar RTRS-S&P assigns Kommunlabanken a triple-A rating  
(The following statement was released by the rating agency)  
LONDON, March 3 - Standard & Poor's today assigned its triple-A long-term issuer credit rating and its short-term A-1-plus rating to Kommunalbanken. Norway-based Kommunalbanken operates as a special-purpose funding vehicle, lending solely to the strong Norwegian local government sector. The outlook is stable. The ratings reflect Kommunalbanken's increasingly

INFORMATION MEMORANDUM



**Kommunalbanken**

*The Norwegian Local Government Funding Agency*

**KOMMUNALBANKEN AS**

*incorporated with limited liability in the Kingdom of Norway*

**Programme for the Issuance of Debt Instruments**

Application has been made to the Luxembourg Stock Exchange for debt instruments (the "Instruments") issued under the programme (the "Programme") described in this document (as amended or supplemented, the "Information Memorandum") to be listed on the Luxembourg Stock Exchange during the period of twelve months after the date of this document. Instruments may also be issued under the Programme which are not listed on any stock exchange.

*Arranger for the Programme*

**MORGAN STANLEY DEAN WITTER**

*Dealers*

**ABN AMRO**

**DRESDNER KLEINWORT BENSON**

**IBJ INTERNATIONAL PLC**

**KOMMUNALBANKEN AS**

**MORGAN STANLEY DEAN WITTER**

**SALOMON SMITH BARNEY INTERNATIONAL**

**TOKYO-MITSUBISHI INTERNATIONAL PLC**

**WARBURG DILLON READ**

January 1, 2000

*The ratings secure the agency access to low funding costs. These highly competitive funding costs can be passed on to the local government sector in the form of loans on favourable terms.*

*The Medium-Term Note Programme standardises borrowing documentation for each currency loan, and provides the agency with sufficient flexibility to take advantage of the most favourable market terms at any given time.*

### Accounting and Administration

The agency has moved into functional, bright and pleasant office premises in Vika Atrium. The lending and funding departments operate in an open office landscape.

In the autumn of 1999, the agency attended the annual Nordic conference, this time in Finland, for the staff of the Nordic local government funding agencies in Sweden, Finland, Denmark and Norway. The conference is a forum for upgrading skills and developing a network across borders in different fields of expertise.

With the conversion on 1 November 1999, the agency is subject to new framework conditions.

The agency's employees have participated actively in the process of adapting to a new market situation, and have shown the resolve and ability to contribute to Kommunalbanken's leading position as a provider of credit to the local government sector.

The working environment is a joint responsibility and will be an important part of activity in 2000. The project "Winner Culture for Kommunalbanken" will contribute to maintaining and developing the best working conditions for the agency's employees.

The agency's employees are highly competent professionals with long experience in their respective fields. Intellectual capital is regarded as a strategic resource and further education will be encouraged and supported as part of the agency's activity.

### IT

A cooperation project with Kommuninvest in Sweden concerning the upgrading of the agency's business system is underway. A letter of intent has been signed by Kommunalbanken and Kommuninvest with the aim of transferring expertise and achieving cost savings in connection with procurement.

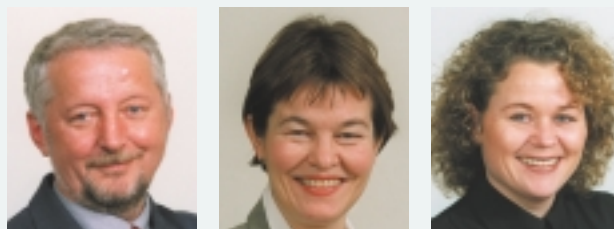
In connection with the relocation to new office premises in Vika Atrium, the IT Section drew up a specification of the agency's requirements and followed up the installation of a separate computer room. The IT section also worked on a general upgrading of the agency's telephony, communications and cable system. A new archive system has been installed and control applications have been upgraded.

The agency's has its own home page at "[www.kommunalbanken.no](http://www.kommunalbanken.no)".

The transition to the year 2000 was well prepared and went smoothly. The agency has subsequently reaped the benefits of the preparations, e.g. with regard to systems upgrading and enhanced contingency structures.

### Marketing and Corporate Communication

The changeover from a state bank to a limited company has compelled the agency to place emphasis on marketing, communication and promotion. This was also reflected in a customer survey carried out in the early autumn. The agency therefore decided to establish a Marketing and Corporate Communication department. The department is responsible for communications, marketing, promotion, arrangements, and public relations, in close cooperation with the agency's managing director and other departments.



*Marketing and Corporate Communication Department.  
Tor Christian Hansen, Sissel Johnsen-Lie and Hilde Fagerslett.*



## Nordic cooperation

Kommunalbanken cooperates with the other Nordic local government funding agencies KommuneKredit in Denmark, Municipality Finance in Finland and Kommuninvest in Sweden. The objective of all four agencies is to foster competition for loans to the local government sector in their respective countries by offering the most cost-effective financing possible. All four agencies are leading operators in their markets and are well-known on both national and international capital markets.

Cooperation between the four Nordic local government funding agencies includes common market activities internationally, exchange of experience and advisory services through EMAC. EMAC – the European Municipal Advisory Consortium – provides the agencies with assistance in developing a financial infrastructure in the local government sector in countries with less developed infrastructure in this area. Training is also provided for in EMAC's projects. The Nordic model has aroused considerable interest, and there is also interest in further formalising EMAC cooperation.

### KommuneKredit

KommuneKredit organized a centennial celebration in 1999. All Danish municipalities and counties are currently members of KommuneKredit. Members are jointly and severally liable for KommuneKredit's obligations.

### Municipality Finance Plc

In 1999 it was ten years ago since Municipality Finance Plc was established. The company is owned by the Finnish local government pension fund. The company has a strong and stable position as Finnish municipalities' financial representative in national and international markets.

### Kommuninvest i Sverige AB

Kommuninvest is a limited company that is owned by Kommuninvest ekonomisk förening. Kommuninvest started operations in 1986 as a form of cooperation between municipalities in Örebro county. Today, there are members from all regions of Sweden and the association has 109 members at present; 106 municipalities and 3 landsting. Members of Kommuninvest are jointly and severally liable for Kommuninvest's obligations.

For those interested, further information may be obtained from the home pages of the four agencies.

Sweden: Kommuninvest i Sweden – [www.kommuninvest.se](http://www.kommuninvest.se)

Finland: Municipality Finance – [www.munifin.fi](http://www.munifin.fi)

Denmark: KommuneKredit – [www.kommunekredit.dk](http://www.kommunekredit.dk)

Norway: Kommunalbanken – [www.kommunalbanken.no](http://www.kommunalbanken.no)



KommuneKredit



## Governing bodies and organisation

### Board of Directors

Else Bugge Fougner, Barrister-at-law (Supreme Court), Chairman  
Per N. Hagen, Vice-Chairman  
Eva Bjøreng, Director, Corporate Communications  
Bodil P. Hollingsæter, Comptroller  
Jan Inge Aas Eidem, Loan Manager (elected by the employees)  
Petter Skouen, Managing Director

### Supervisory Board

Ragnhild Skjerveggen, Chairman  
Oddvar Flæte, County governor, Vice-Chairman  
Trond Lesjø, Chief Administrative Officer  
Kjell Pettersen, Chief Administrative Officer  
Elisabeth Aspaker  
Eva Nilsen, Mayor  
Roy Waage, Mayor  
Harald Røed, Principal  
Anne Katrine Slungård, Mayor  
Arne Øren, County mayor  
Thor Bernstrøm, Assistant director general  
Cato Gaustad, Senior Portfolio Manager

### Alternates to the Supervisory Board

Nils R. Sandal, County mayor  
Elisabeth Enger, Chief Administrative Officer  
Christine Hjortland, Assistant director general  
Asbjørn Gundersen, Personnel Manager  
(elected by the employees)

### Audit Committee

Aage Rundberget, County Governor, Chairman  
Britt Lund, Chief Administrative Officer  
Svein Blix, Chief Administrative Officer

### Staff

Petter Skouen, Managing Director  
Helge Salseng, Director Lending Department  
Thomas Møller, Finance Director & Treasurer  
Tor Christian Hansen, Director  
Marketing & Corporate Communication  
Aina Wiggen, Director  
Accounting & Administration

Lise Schie Berntsen, Assistant Director & Loan Manager  
Majken Danielsen, Archivist  
Børge Daviknes, Loan Manager  
Jan Inge Aas Eidem, Loan Manager  
Hilde Fagerslett, Technical Coordinator  
Kristine Falkgård, Manager Foreign Funding  
Siv Felling Galligani, Assistant Treasurer  
Cato Gaustad, Senior Portfolio Manager  
Espen Gluva, Accounting Officer  
Asbjørn Gundersen, Personnel Manager  
Ingebjørg Heggedal, IT Adviser  
Aud Holm, Receptionist  
Åse Kristensen, Collateral Officer  
Anita Sabel Kullberg, Collateral Officer  
Sissel Johnsen Lie, Corporate Communication Manager  
Kristin Lorentzen, Back Office Manager  
Torill Lund, Back Office Officer  
Annette Nielsen, Collateral Department Manager  
Knut Nordenhaug, Financial Controller  
Terje Fronth Pedersen, Portfolio Manager  
Roger Solmyr, IT Adviser  
Steinar Strøm, Chief Accountant  
Jorunn Svae, Accounting Officer  
Marit Ødegård, Loan Manager



## Articles of Association of Kommunalbanken AS



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



# Articles of Association of Kommunalbanken AS

## Chapter I Company, objectives, registered office

- § 1 The Company's name is Kommunalbanken AS.
- § 2 The Company is a direct continuation of the enterprise carried out by the government administrative body, Norges Kommunalbank. The State's shares will gradually be assigned to the local government sector (local governments, counties, intermunicipal companies, municipal pension funds and Kommunal Landspensjonskasse (KLP)). Such assignment shall be done in accordance with the Company's aim of maintaining highest possible creditworthiness.
- § 3 The Company's objectives are to provide loans to local governments, counties, intermunicipal companies and other companies that carry out local government tasks against either a municipal guarantee, government guarantee, or other satisfactory security.
- The Company can also undertake other tasks appropriate to the Company's business.
- § 4 The Company's registered office is situated in Oslo.

## Chapter II Equity and subordinated loan capital – shares

- § 5 The Company's share capital is NOK 660,000,000 (six hundred and sixty million Norwegian kroner) divided into 660,000 shares of NOK 1,000 (one thousand Norwegian kroner) each.
- § 6 The acquisition of shares is conditional on the consent of the Company's Board of Directors. Consent can only be withheld on grounds of fact.
- § 7 Pre-emption rights given to shareholders under section 4–19 of the Norwegian Companies Act can also be claimed for shares which have changed owner.

## Chapter III Board of Directors

- § 8 The Company's Board of Directors shall number not more than eight (8) but need not exceed five (5). The Company's managing director shall be a member of the Board. One (1) of the elected members of the Board shall be elected by and from amongst the Company's employees. For this member one (1) personal deputy shall be elected with the right to be present and to speak at board meetings.
- The other members shall be elected by the Annual General Meeting for two-year terms, so that at least two (2), but no more than three (3) of the elected members shall retire from the Board each year. At least half the elected members shall retire at the end of the first year after the drawing of lots, and the remaining members shall retire at the end of the second year.
- The Annual General Meeting shall elect the chairman and vice-chairman of the Board of Directors.
- When Kommunal Landspensjonskasse (KLP) holds more than zero, but less than or equal to 20 per cent of the shares, the Ministry for Local Government and Regional Development will execute the power of election assigned to the Annual General Meeting stated in the second and third subsection. If the local government sector/KLP attains an ownership exceeding 20 percent, the Board shall be elected by the Supervisory Board.
- § 9 The chairman of the Board shall ensure that the Board holds meetings as often as the Company's business necessitates, or when a member calls for a meeting to be held.
- The Board constitutes a quorum if more than half the members are present. Valid resolutions are those for which the majority of the members present have voted, although a proposal which implies an alteration or amendment requires a majority of more than two-thirds of all board members. If the votes on each side are equal, the chairman of the meeting shall have the casting vote.

- § 10 The Board is responsible for managing the Company's business and shall therefore inter alia:
1. Lay down guidelines for the conduct of the Company's business and check that they are followed
  2. Grant loans and delegate authority
  3. Make decisions and grant authority for new loans raised
  4. Grant special powers and authorisation to sign on behalf of the company per procurationem
  5. Lay the annual accounts and directors' report before the Annual General Meeting
  6. Make recommendations to the Annual General Meeting with respect to alterations to the Articles of Association
  7. Fix the managing director's salary
- § 11 The chairman of the Board, the managing director or two members of the Board jointly shall sign for the Company.
- § 12 The managing director shall be responsible for the day-to-day management of the Company and its business in accordance with the instructions laid down by the Board and approved by the Supervisory Board.

## Chapter IV Supervisory Board

- § 13 The Supervisory Board shall consist of twelve members and four deputy members. The Supervisory Board should be composed of as broad a range of members as possible, so as to ensure that the various districts and interest groups affected by the Company's business are fairly represented. A member of the Board of Directors cannot also be a member of the Supervisory Board.

One (1) of the members of the Supervisory Board shall be elected by and from amongst the Company's employees. For this member shall be elected one (1) personal deputy. The remaining members and deputy members shall be elected by the Annual General Meeting.

The members of the Supervisory Board shall be elected for two-year terms. One third of the members shall retire each year. The Supervisory Board shall elect a chairman and vice-chairman from amongst its members to serve for a term of one year.

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

The Board of Directors, the Audit Committee, the Auditor General of Norway and the Company's auditor shall be called to attend the meetings of the Supervisory Board. Unless otherwise determined by the Supervisory Board in individual instances, the Board of Directors and members of the Audit Committee are entitled to be present at the meetings of the Supervisory Board with the right to speak and the right of initiative.

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

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

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

The Supervisory Board shall:

1. Appoint the managing director, and approve the instructions for the managing director as laid down by the Board
2. Elect a state-authorized public accountant to act as auditor
3. Provide a statement to the Annual General Meeting in respect of the Board of Directors' proposals for the profit and loss account and balance sheet, including any consolidated profit and loss account and consolidated balance sheet, and the Board's proposals for the application of profit or covering of loss for the year
4. Scrutinise the Board of Directors' report, the auditor's report and the Audit Committee's report
5. Adopt instructions for the Audit Committee
6. Give an opinion on matters concerning the Company which are brought before the Supervisory Board by the Board of Directors or Audit Committee.

## Chapter V Annual General Meeting

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

An extraordinary General Meeting shall be held if called for by the Department of Local Government and Regional Development, two members of the Supervisory Board, the Board of Directors, the Audit Committee or the Company's auditor.

The Ministry of Local Government and Regional Development shall call the Annual General Meeting. Notice of the meeting shall be issued in writing with at least eight (8) days' prior notice both for ordinary and extraordinary General Meetings.

The Annual General Meeting shall transact the following business:

1. The consideration and adoption of the Company's annual report and accounts, including the application of profit or covering of loss for the year, and the declaration of dividend
2. The fixing of remuneration of the members of the Supervisory Board and the Board of Directors, the members of the Audit Committee and the auditor
3. Elections of members and deputy members of the Audit Committee in accordance with § 17 of the Articles of Association
4. Other business referred to in the notice of the meeting or which under the Norwegian Companies Act or Articles falls under the Annual General Meeting.

## Chapter VI Audit Committee

§ 17 The Audit Committee shall consist of three members and one deputy member who shall be elected by the Annual General Meeting. One member shall satisfy the requirements to be fulfilled by judges under section 54, second subsection of the Norwegian Courts of Justice Act of 13 August 1915. The election of this member must be approved by the Banking, Insurance and Securities Commission.

No member or deputy member of the Board of Directors, auditor or employee of the Company can be elected as a member or deputy member of the Audit Committee. Nor can any person become a member who is under a legal disability or in a relationship of collaboration, subordinacy or dependency to, or married to, or related by marriage or blood in the direct ascending or descending line or the first collateral line to a member of the Board of Directors, auditor or officer of the Company. No person may be elected as a member whose estate is in bankruptcy, under debt settlement proceedings or private administration. Should circumstances arise which render a person no longer eligible for election, he shall retire from the Audit Committee.

Members of the Audit Committee shall be elected for two-year terms. The Audit Committee shall elect a chairman and vice-chairman from amongst its members.

The Audit Committee shall supervise the business of the Company, including the transactions of the Board of Directors, and ensure inter alia that the business is run in accordance with law and the Articles of Association.

The Audit Committee shall meet as often as may be considered necessary in order to ensure effective supervision. It shall keep such a record of its proceedings as is authorised by the Banking, Insurance and Securities Commission, and shall annually deliver a report on its work to the Supervisory Board, the Annual General Meeting and the Banking, Insurance and Securities Commission.

## Chapter VII Auditor

§ 18 The Company's auditor shall be a state-authorized public accountant and shall be elected by the Supervisory Board.

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

## Chapter VIII

- § 19 The Company shall raise funds for lending by issuing bonds, certificates or other forms of loan notes or by entering into loan agreements.
- § 20 Loans can only be granted to municipalities, county municipalities, intermunicipal companies and other companies which carry out local government tasks against either a municipal guarantee, government guarantee or other satisfactory security. The Company can also undertake other tasks appropriate to the Company's business.
- § 21 The Board of Directors shall fix all lending terms and conditions as may be in force at any time.
- § 22 The Company's capitalisation and financial administration shall be satisfactory in relation to the Company's business and consistent with the Company's aims of maintaining highest possible creditworthiness.

## Chapter IX Annual Report and Accounts

- § 23 The Company's financial year shall follow the calendar year.
- The Board of Directors shall deliver annual accounts and an annual report for each financial year.
- The annual accounts shall be placed at the disposal of the auditor at least one month prior to the ordinary Annual General Meeting. The audited annual report and accounts shall be scrutinised by the Audit Committee and Supervisory Board before being laid before the Annual General Meeting.
- The Annual General Meeting shall adopt the annual report and accounts no later than the end of June.
- The Board of Directors shall publish the annual report and accounts no later than one week after they have been adopted by the Annual General Meeting.

## Chapter X Age of retirement

- § 24 The age of retirement for the Company's Managing Director is 65 years.

## Chapter XI Entry into force

- § 25 These Articles of Association shall enter into force on the day on which they are Approved by the King.

## Chapter XII Alterations to the Articles of Association

- § 26 The Articles of Association cannot be altered save with the approval of the King.



It is highly unlikely, given the provisions of the Local Government Act, that Kommunalbanken will be exposed to credit risk in connection with loans to the local government sector.

The Board would like to convey its appreciation to the employees for their contribution in connection with the transition to a new organisational structure and wishes Kommunalbanken AS a prosperous future.

### Report of the Board of Directors

On 15 June 1999, the Storting (the Norwegian parliament) adopted a resolution to convert Norges Kommunalbank to a limited company, Kommunalbanken AS, which shall continue the business of the administrative body Norges Kommunalbank. The date of entry into force of the Conversion Act was fixed at 1 November 1999, which means that Norges Kommunalbank ceased operating as a state bank on 31 October. On 1 November 1999, Norges Kommunalbank's assets and liabilities, claims, obligations and rights were assigned to Kommunalbanken AS, which was established on the same date with a share capital NOK 660 million. Upon conversion, the state, represented by the Ministry of Local Government and Regional Development will own all the shares. Norges Kommunalbank's balance sheet at 31 October 1999 will be the opening balance sheet of Kommunalbanken AS in addition to the new share capital. The difference between assets and liabilities, as well as the balance in the Basic Fund/land purchase bonds and the cash component of the Basic Fund, will revert to the Treasury by the end of December 1999.

In the Board's opinion, the profit and loss account and the balance sheet present fairly the bank's financial position at 31 October 1999. The operating result of NOK 56.1 million represents solid growth compared with the same period last year. The bank's profit before provisions for dividends corresponds to a return on available equity of 26.3 per cent. Kommunalbanken's available equity is lower than that of comparable financial institutions, however.

NOK 17.1 million has been set aside as prepaid interest in the balance sheet. These funds, combined with previously allocated funds, will be reversed to the bank's loan customers with floating rate terms.

Ordinary operating expenses have not exceeded the amount budgeted. The relocation to new office premises has resulted in some one-off expenses. Calculations from the State Public Pension Fund show underfunding of accrued pension obligations and the bank has chosen to set aside sufficient funds to meet these obligations. The bank has also decided to pay as a one-off amount a previously amortised pension obligation under the contractual early retirement scheme. Total operating expenses amount to NOK 26.8 million, which is NOK 2.5 million higher than budgeted. The costs directly relating to the conversion to and establishment of a limited company were set aside in connection with the financial statement for 1998 as an application of the profit for that year.

Total assets amounted to NOK 37.6 billion on 31 October 1999. This represents an increase of about NOK 2.6 billion since the beginning of the year and is attributable to higher lending, an increase in bond funding and the use of repos at the turn of the month.

In the period to the conversion the lending growth limit for Kommunalbanken was NOK 800 million. Credit demand in the local government sector has been buoyant and the lending quota was fully utilised at 31 October. The bulk of loans was used to finance

care dwellings, nursing home places and projected in connection with the primary school reform.

As part of the preparations for the conversion to a limited company, which entailed the discontinuation of a government guarantee on new issues, the bank restructured its debt portfolio. The amount outstanding in notes has been reduced a little more than NOK 10 billion with a corresponding increase in bond debt. At 31 October, the bank's outstanding government-guaranteed issues came to a total of NOK 33.4 billion. All issues were launched on the domestic capital market.

The bank has deemed it appropriate to make internal organisational changes in connection with the preparatory work ahead of the conversion to a limited company. The Finance and Treasury Section has been separated from the previous Treasury Department and is now a separate department responsible for its own performance. The remaining sections of the Treasury Department have been merged with the Personnel and Administration Department. The Board has recommended to the new Board that Advisory Services be discontinued as a separate profit centre and that a Marketing and Corporate Communication Department be established with a view to strengthening marketing activities targeting customer segments.

At 31 October 1999, the bank had 30 employees.

The Board proposes that the profit of NOK 56 119 860 be applied as follows:

- NOK 19 000 000 for payments of dividends in accordance with the Storting's resolution in the government budget for 2000
- NOK 37 119 860 to be transferred to the reserve fund.

In connection with the closing settlement with the state, Kommunalbanken will, cf chapter 2 and chapter 4.3 in Proposition no. 44/99 to the Odelsting, transfer the following to the Treasury by the end of 1999:

- NOK 20 000 000 which constitutes the state's cash component of the Basic Fund
- NOK 202 801 048 which constitutes the legal reserve (Reserve Fund)
- NOK 89 471 676 which constitutes the Contingency Fund
- NOK 1 643 529 which constitutes the unsettled amount after provision in the 1998 accounts for costs relating to the establishment of Kommunalbanken AS.

The Board would like to convey its appreciation to the employees for their contribution in connection with the transition to a new organisational structure and wishes Kommunalbanken AS a prosperous future.





The Board of Directors, Norges Kommunalbank: Odvar Nordli, Nils R. Sandal, Asbjørn Haugstvedt and Eva Bjøreng.  
(Kirsten Huser Leschbrandt was not present at the photo session.)

Oslo, 15 December 1999

Board of Directors, Norges Kommunalbank

*Odvar Nordli*

Odvar Nordli  
Chairman

*Nils R. Sandal*

Nils R. Sandal  
Vice-Chairman

*Asbjørn Haugstvedt*

Asbjørn Haugstvedt  
Member

*Eva W. Bjøreng*

Eva Bjøreng  
Member

*Kirsten Huser Leschbrandt*

Kirsten Huser Leschbrandt  
Member

*Petter Skouen*

Petter Skouen  
Managing Director

# Financial statement

## Profit and loss account for the period 1 January – 31 October 1999

	99.1-01 – 10-31	1998
<b>Interest income and similar income</b>		
Interest income and similar income on loans to and claims on credit institutions	139 904 355	88 737 930
Interest and similar income on loans to and claims on customers	1 513 650 345	1 447 211 685
Interest and similar income on Treasury bills, bonds and other interest-bearing securities	120 295 541	163 983 164
Other interest income and similar income	74 943	44 742
<b>Total interest income and similar income</b>	<b>1 773 925 185</b>	<b>1 699 977 521</b>
<b>Interest and similar costs</b>		
Interest and similar costs on customer deposits and debt	75 401 052	9 821 312
Interest and similar costs on securities issued	1 475 470 335	1 432 005 036
Other interest and similar costs	119 178 443	160 226 505
<b>Total interest and similar costs</b>	<b>1 670 049 830</b>	<b>1 602 052 854</b>
<b>Net interest and commission income</b>	<b>103 875 355</b>	<b>97 924 668</b>
<b>Dividends and other income from securities with a variable yield</b>		
Income on shares and other securities with a variable yield	508 108	41 580
<b>Total dividends and other income from securities with a variable yield</b>	<b>508 108</b>	<b>41 580</b>
<b>Commission costs and costs of banking services</b>		
Guarantee commissions	22 719 689	25 833 152
<b>Total commission income and income from banking services</b>	<b>22 719 689</b>	<b>25 833 152</b>
<b>Net gains/losses on foreign currency and securities (that are not held as financial assets for permanent ownership and use)</b>		
Net gains/losses on Treasury bills, bonds and other interest-bearing securities	984 366	610 138
Net gains/losses on foreign currency	-98 202	262 524
Net gains/losses on financial derivatives	0	0
<b>Total net gains/losses on securities and foreign currency</b>	<b>886 163</b>	<b>872 661</b>
<b>Other operating revenues</b>		
Other operating revenues	373 858	1 374 754
<b>Total other operating revenues</b>	<b>373 858</b>	<b>1 374 754</b>
<b>Salaries and general administrative costs</b>		
Salaries, etc.		
Salaries	9 123 764	10 121 249
Pensions	1 600 863	505 274
Social security, etc.	1 722 794	1 776 711
Administrative costs	7 866 384	7 537 421
<b>Total salaries and general administrative costs</b>	<b>20 313 804</b>	<b>19 940 654</b>

	99.01-01 - 10-31	1998
<b>Depreciation etc. of fixed assets</b>		
Ordinary depreciation	937 377	790 124
<b>Total depreciation etc. of fixed assets</b>	<b>937 377</b>	<b>790 124</b>
<b>Other operating expenses</b>		
Operating expenses real property	3 146 043	3 679 486
Other operating expenses	2 406 711	1 739 267
<b>Total other operating expenses</b>	<b>5 552 754</b>	<b>5 418 753</b>
Extraordinary income	0	4 000 000
Profit for the year	56 119 860	52 230 980
<b>Allocation of profit</b>		
Dividend	19 000 000	18 000 000
Transferred to Reserve Fund	37 119 860	31 230 980
Costs related to changeover from state bank to limited company		3 000 000
<b>Total allocations</b>	<b>56 119 860</b>	<b>52 230 980</b>

# Financial statement

## Balance sheet as at 31 October 1999

ASSETS	99-10-31	98-12-31
Cash and deposits with Bank of Norway	4 755 134 412	5 228 739 212
Loans to and claims on credit institutions		
Loans to and claims on credit institutions without agreed maturities	210 116 225	28 120 130
<b>Loans to and claims on customers</b>		
Instalment loans	27 949 958 250	27 068 729 682
Other loans	4 565 017	657 398
<b>Total net loans and claims on customers</b>	<b>27 954 523 267</b>	<b>27 069 387 080</b>
<b>Treasury bills, bonds and other interest-bearing securities with fixed yield</b>		
Issued by the public sector		
- Treasury bills and bonds	1 761 300 000	315 300 000
- Other interest-bearing securities	2 330 000 000	2 330 000 000
Issued by others		
- bonds, notes, etc. issued by the bank	0	0
<b>Total notes, bonds and other interest-bearing securities</b>	<b>4 091 300 000</b>	<b>2 645 300 000</b>
<b>Shares</b>		
Shares, units and primary capital certificates	100 000	100 000
Ownership interests in group companies		
Ownership interests in other group companies	0	5 000 000
<b>Fixed assets</b>		
Machinery, equipment and vehicles	5 515 313	1 845 590
<b>Other assets</b>		
Financial derivatives	118 604 781	70 875 053
Other assets	707 978	18 130
<b>Prepaid, not accrued costs and earned receivables</b>		
Earned receivables	520 911 873	414 785 941
Prepaid, not accrued costs		
Excess funding of pension funds	0	255 504
<b>Total prepaid, not accrued costs and earned receivables</b>	<b>520 911 873</b>	<b>415 041 445</b>
<b>TOTAL ASSETS</b>	<b>37 656 913 849</b>	<b>35 464 426 640</b>

Liabilities and capital	99-10-31	98-12-31
<b>Loans and deposits from credit institutions at agreed maturity</b>		
	0	188 532 630
<b>Borrowings by issuance of securities</b>		
Notes and other short-term paper	4 316 000 000	15 230 000 000
- non-amortised notes issued by the bank	0	(1 618 000 000)
Bond issues	29 091 570 000	19 996 410 000
- non-amortised bonds issued by the bank	0	(4 236 550 000)
- other long-term loans	1 962 060	3 376 750
<b>Total liabilities arising from securities issues</b>	<b>33 409 532 060</b>	<b>29 375 236 750</b>
<b>Other liabilities</b>		
Margin drawings and other outstanding accounts with customers	5 099 135	9 364 624
Other liabilities	1 024 758 083	2 488 660 698
<b>Total other liabilities</b>	<b>1 029 857 218</b>	<b>2 498 025 322</b>
Accrued expenses and prepaid revenues		
Accrued expenses and prepaid unearned revenues	574 402 886	797 479 073
Provisions for loans and costss		
Pension obligations	848 962	0
<b>Total liabilities</b>	<b>35 014 641 125</b>	<b>32 859 273 776</b>
<b>Capital funds</b>		
Basic Capital Fund	2 350 000 000	2 350 000 000
Undistributable reserves		
Reserve Fund	202 801 048	165 681 188
Contingency Fund	89 471 676	89 471 676
Total undistributable reserves	292 272 724	255 152 864
<b>Total capital</b>	<b>2 642 272 724</b>	<b>2 605 152 864</b>
<b>TOTAL LIABILITIES AND CAPITAL</b>	<b>37 656 913 849</b>	<b>35 464 426 640</b>

Oslo, 31 October 1999

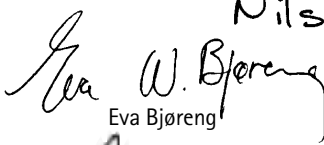
15 December 1999



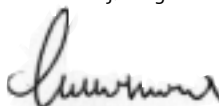
Odvar Nordli



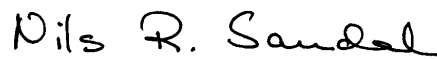
Asbjørn Haugstvedt



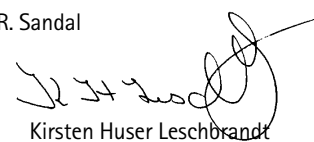
Eva Bjøreng



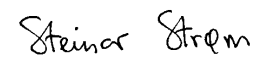
Petter Skouen  
Managing Director



Nils R. Sandal



Kirsten Huser Leschbrandt



Steinar Strøm  
Chief Accountant

## Auditor's Report

### Auditor's Report at 31 October 1999

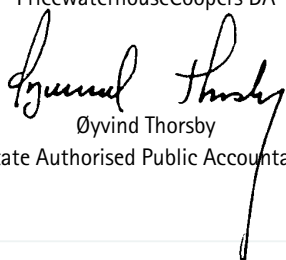
We have audited the financial statement at 31 October 1999 for Norges Kommunalbank, i.e. the date from which the bank was converted to a limited company, which shows a surplus of NOK 56,119,860. The financial statement, which comprises the Board's report, the profit and loss account and the balance sheet, has been presented by the bank's Board and Managing Director.

We have conducted our audit in accordance with existing law, regulations and generally accepted accounting principles. We have performed those audit procedures which we considered necessary to confirm that the closing financial statement is free of material misstatements.

The Board's proposal for the bank's final statement satisfies the statutory and regulatory requirements that apply to the bank.

In our opinion, the financial statement is consistent with the law and regulation applying to Norges Kommunalbank and fairly presents the financial position of the bank as at 31 October 1999 and of the result for the period in accordance with generally accepted accounting principles.

Oslo, 17 December 1999  
PricewaterhouseCoopers DA

  
Øyvind Thorsby  
State Authorised Public Accountant

## Audit Committee's statement

### Audit Committee's statement for the period 1 January–31 October 1999

In accordance with the instructions for the Audit Committee, we have:

- a) Examined the minutes of proceedings of the Board of Directors.
- b) Examined the auditor's records and ascertained that the audit is up to date.
- c) Inspected the bank's lending and funding activities.
- d) Ascertained that the auditors have conducted the necessary cash audit and audit of the bank's securities.
- e) Examined that bank's financial statement, which comprises the Board's report, the profit and loss account for the period 1 January–31 October 1999 and the balance sheet as at 31 October 1999.

The Audit Committee has no comments.

Oslo, 20 December 1999

  
Klemet O. Hætta

  
Kjell Samuelson

  
Ragnhild Skjerveggen

The Board deems that the foundation has been laid for continued growth in Kommunalbanken's activity.



Kommunalbanken AS

PO Box 1210 Vika

N-0110 Oslo

Offices: Munkedamsveien 45

Tel no: + 47 21 50 20 00

Fax no: + 47 21 50 20 01

[www.kommunalbanken.no](http://www.kommunalbanken.no)