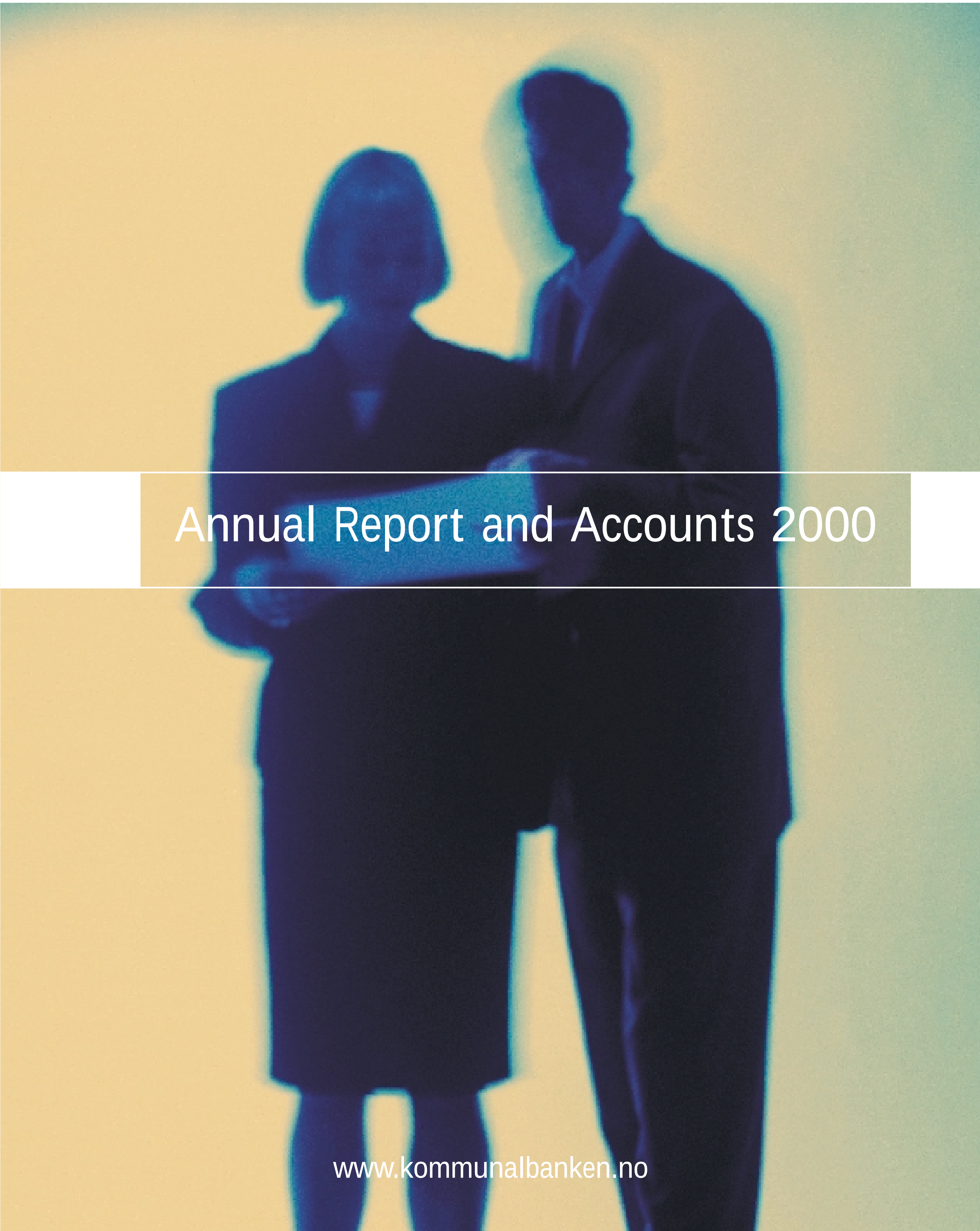
Kommunalbanken

The Norwegian local government funding agency



Annual Report and Accounts 2000

www.kommunalbanken.no

It would not be an overstatement to say that Kommunalbanken's loan terms have contributed to keeping the price of credit to local government at a low level to the satisfaction of all Norwegian municipalities.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A flying start

After one full year of operating as a limited company, Kommunalbanken notes that the conversion from a state bank to a limited company has been highly successful for municipalities, the state and the Bank itself.

Kommunalbanken recorded its strongest ever growth in lending last year. Total loans increased by more than 22 per cent, to NOK 36.8 billion. This performance was achieved in a market with intense competition. Competition for lending to municipalities was stronger in 2000 than in any previous year, and Kommunalbanken was a decisive source of stimulus to this competition thanks to its lending policy. It would not be an overstatement to say that Kommunalbanken's loan terms have contributed to keeping the price of credit to local government at a low level to the satisfaction of all Norwegian municipalities.

One of the Bank's main missions is in effect to be a price-setter for credit to municipalities. In order to fulfil this mission in society, the Bank must have a leading market position. The strong growth in lending last year further strengthened Kommunalbanken's position as the largest provider of credit to the local government sector. Our share of the market now exceeds 32 per cent. The removal of the stringent lending limits that applied to Kommunalbanken when it was a state bank have de facto resulted in less expensive loans to municipalities.

Some figures provide an illustration of the social gains associated with competition in the credit market: Norwegian local government long-term debt amounts to about NOK 115 billion. From a purely theoretical viewpoint, if all these loans were floating-rate loans, a one percentage point increase in interest rates would lead to an increase in interest expenditure of more than NOK 1.1 billion. This corresponds to almost 3 000 places in nursing homes. The expansion of care dwellings and nursing homes in connection with the reform of care for the elderly accounted for the bulk of the increase in lending growth last year.

In order to offer loans on favourable terms to the Norwegian local government sector, the Bank must have access to low funding costs. In the «start-up year», we placed particular emphasis on gaining a solid foothold in international capital markets. Foreign funding now accounts for almost 95 per cent of the Bank's total issues. With considerable competition amongst players in the top rated segment of the market, name recognition and awareness have been of vital importance. The Bank has thus been actively giving presentations to banks and investors world-wide. We expect our efforts will result in even better credit terms for our customers in the future.

Kommunalbanken is very pleased with the recognition we have received in the local government sector as a limited company. The strong growth in lending clearly reflects confidence and faith in the Bank's new form of business organisation.

For Kommunalbanken, 2001 will in many ways be a year of consolidation. A growth rate of more than 20 per cent cannot continue in the long run, and we will concentrate on securing the positions the Bank has achieved in its flying start year 2000. However, this does not imply that we will not strive to achieve further growth. If the Bank is to fulfil its role in society, lending growth must at least be in pace with market growth ahead – naturally in a way that is also profitable for its owners.

Petter Skouen
Managing Director

This is Kommunalbanken

- Kommunalbanken AS was established on 1 November 1999 to continue the business of the state bank Norges Kommunalbank. The State owns 80 per cent of the Bank and KLP Insurance (the National Local Government Pension Fund) owns 20 per cent.

- The Bank grants loans to municipalities, counties and inter-municipal companies or other companies that perform local government tasks – either against local government guarantees or other adequate security.

- Kommunalbanken is the largest provider of credit to the local government sector, with a loan portfolio of approximately NOK 37 billion, which corresponds to a market share of 32 per cent.

- An important mission for the Bank is to contribute to and create competition for loans to municipalities with a view to providing the local government sector with favourable loan terms.

- Kommunalbanken provides loans with up to 40 years maturity for all types of local government projects, including refinancing. Our borrowers can choose between various types of loan and interest rate structure.

- Small and medium-size municipalities account for the largest share of the Bank's loans outstanding, but counties and larger municipalities also constitute an important customer group for the Bank.

- The international rating agencies Moody's and Standard & Poor's have assigned the highest possible rating Aaa/AAA, to the Bank's long-term debt instruments. This has reduced the price of the Bank's funding and hence the cost of local government borrowing.

- Kommunalbanken is subject to the general legislation applying to financial institutions, which places the Bank on an equal footing with other financial undertakings in the credit market.

- In addition to its lending activity, the Bank provides municipalities with financial advisory services, including assistance with entering into bank contracts.

- Kommunalbanken's capital amounts to a total of NOK 1 387 million.

Key figures

In thousands of NOK	2000	Pro forma 1999	NKB 1998	NKB 1997	NKB 1996
Loans in foreign currency	0	0	248 209	460 670	685 223
Loans in cash	36 776 413	30 004 821	26 814 063	25 896 308	25 633 441
Loans in land purchase bonds	327	1 170	3 377	8 671	46 991
Total 31 December	36 776 740	30 005 991	27 065 649	26 365 655	26 365 655
Lending					
Allocations	10 102 850	6 265 463	4 244 606	3 647 366	2 592 934
Unsettled allocations	1 303 917	1 886 440	1 702 133	807 798	94 029
Disbursements	10 557 385	5 997 275	3 324 052	2 920 383	3 172 497
Principal payments on loans	3 815 302	2 813 933	2 626 666	2 938 183	2 572 827
Borrowings					
Borrowings in foreign currency	12 698 875	0	188 533	328 944	1 089 059
Domestic bond issues	28 680 193	28 566 068	15 758 860	13 211 270	10 405 950
Domestic note issues	585 333	3 764 520	13 612 000	16 474 000	16 260 000
Borrowings from the State	372	1 171	3 377	8 671	46 991
Key figures					
Average total assets	38 588 488	34 765 439	35 094 465	34 013 622	32 273 102
Return on equity before taxes	11.08%	18.55%	21.40%	20.02%	8.82%
Dividend	20 750	19 000	18 000	16 000	100 000
Capital adequacy	13.74%	8.90%	9.10%	8.07%	45.05%
In per cent of average total assets					
Interest and commission income	6.24	6.09	4.85	4.58	5.85
- Interest and borrowing costs	5.87	5.72	4.56	4.28	5.15
= Net interest and commission income	0.37	0.37	0.29	0.3	0.7
- Guarantee commission	0.08	0.08	0.07	0.11	0.11
+ Net exchange gains/losses	0	0	0	0	0.01
+ Other operating revenues	0	0	0	0.01	0.01
- Staff costs	0.04	0.04	0.04	0.04	0.04
- Other operating expenses	0.06	0.05	0.04	0.03	0.04
+ Extraordinary income	0	0	0.01	0	0
= Profit of the year	0.19	0.21	0.15	0.13	0.53
Analysis of results (in millions of NOK)					
Interest and commission income	2 406.8	2 118.9	1700.00	1 559	1 889.30
- Interest and borrowing costs	2 264.9	1 988.20	1 602.00	1 457.30	1 663.40
= Net interest and commission income	141.9	130.7	98	101.7	225.9
- Guarantee commission	28.8	27.9	25.8	36.5	34.1
+ Net exchange gains/losses	-0.5	0.9	0.9	0.2	1.7
+ Other operating revenues	0.8	1.3	1.4	2.6	4.6
- Staff costs	17.1	15.1	12.4	13.7	14.1
- Other operating expenses	21.8	17.5	13.7	11.6	12.4
+ Extraordinary income	0	0	4	0	0
= Operating profit	74.5	72.4	52.2	42.7	171.6
Profit of the year	**74.5**	**72.4**	**52.2**	**42.7**	**171.6**

Petter Skouen
Managing Director

IT

Financial Control

Accounting

LENDING

Helge Salseng
Director

- Lending
- Loan Administration and Back Office
- Advisory Services

FINANCE

Thomas Møller
Director

- Funding
- Treasury

MARKETING/ COMMUNICATION AND ADMINISTRATION

Tor Christian Hansen
Director

- Marketing
- Corporate Communication
- Advisory Services
- Personnel

Lending activities

Kommunalbanken grants loans to municipalities, counties and inter-municipal companies and loans against local government guarantees to other companies that provide local government services. Substantial loans were both approved and disbursed in 2000, i.e. NOK 10.103 billion and 10.557 billion respectively. The largest share of both approved and disbursed loans were for projects in the health and social sector, with approved amounts totalling NOK 3.6 billion. The bulk of this amount was used to finance the expansion of nursing homes, municipal care dwellings and care dwellings established by housing co-operatives. Kommunalbanken has assigned high priority to this objective. Municipalities have also taken extensive advantage of the opportunities for refinancing loans on more favourable terms. After the Bank's conversion to a limited company, municipalities have noted with satisfaction that refinancing loans are given the same priority as loan for new investments.

The Bank's customers can choose between various types of floating rate loans, including interest rate linked to 1 - 12-months NIBOR, and fixed rates up to 10 years. Demand for short-term variable rate loans was highest in 2000. These loans follow developments in short-term money market rates. Short-term variable rate loans accounted for about NOK 18 billion of the Bank's total loan portfolio of NOK 36.777 billion at year-end. In keeping with our overriding strategy of maintaining our position as interest-rate setter for local government credit, we have placed particular emphasis on keeping this interest rate at a competitive level. Many municipalities prefer loans to be paid out in tranches and short-term floating rate loans are often used to financing building projects.

Fixed rate loans have maturities ranging from 3 months to 10 years. This portfolio came to about NOK 10 billion at year-end. However, since the end of 2000 the Bank has seen increased demand for a fixed interest rate on new loans and increased demand for converting variable rate loans to fixed rate loans. In the fixed rate area, municipalities have shown a clear preference for the 3 to 5 year periods.

Lending department's Loan Managers:

Marit Ødegård
Lise Schie Berntsen
Børge Daviknes
Jan Inge Aas Eidem

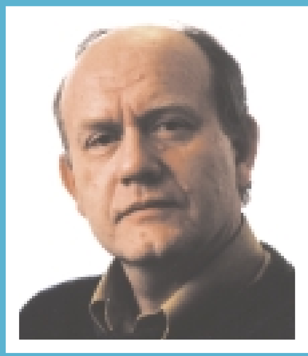
Helge Salseng
Director Lending Department

Operations Manager and Financial Controller Vigdis Ormevik, Notodden Municipality

- Kommunalbanken is generally competitive in tenders. In addition, we are very satisfied with the Bank's administrative procedures; it is flexible, effective and well organised. Kommunalbanken is also a competent adviser.

Financial Controller Ole Martin Alfstad, Øystre Slidre Municipality

- Kommunalbanken accounts for well above 50 per cent of our loans. When selecting a lender, the most important factors for us are price, confidence and service – with price as the most important. Kommunalbanken's terms have proved to be absolutely competitive while it has always been easy to deal with the Bank. The Bank's lending services have been impeccable. In addition, it is reassuring that the Bank has inside knowledge of the local government sector and a prudent attitude.

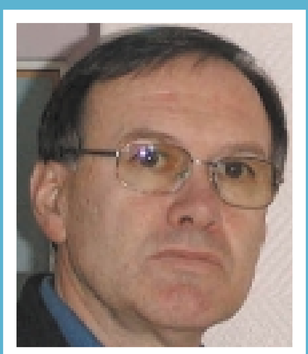


Chief Administrative Office Helge Thorsen, Meland Municipality

- Our cooperation with Kommunalbanken is very good. The Bank is market-oriented allowing it to respond quickly to our needs. Furthermore, we have dealt with the same contact person for several years, which facilitates the loan work for both parties. All this has led us to concentrate all of our larger loans in Kommunalbanken. After the conversion of the Bank to a limited company, it is even more like a bank. Earlier, it was in many ways an administrative enterprise – even though many normal banks could also have been described as such. I would also like to mention how much we appreciate the Bank's weekly Market Report, which provides a brief and succinct overview of important economic issues.

Mayor Hans Jacobsen, Askim Municipality

- We tender most of our loans, and Kommunalbanken has been highly competitive in this connection. Kommunalbanken has also proved to be a service-minded and serious operator in the market so that our overall impression of the Bank is highly favourable.



Mayor Martin Rolness, Tranøy Municipality

- Even though Kommunalbanken is located at quite a distance from our city, it is still close. Kommunalbanken is the municipalities' own bank and we have had good contact with the Bank for many years. It knows what is happening in the municipalities, and is accommodating and "easy" to deal with. We have also noted that its employees come from different areas of the country, which is an advantage. Moreover, the Bank is good at reaching out. The most important thing is that the Bank is also competitive in terms of prices.

Kommunalbanken made a strong bid for the Action Plan for Care for the Elderly

The Action Plan for Care for the Elderly was presented to the Storting (Norwegian parliament) in Report no. 50 (1996-1997) and its implementation started already on 1 January 1998. The four-year action plan (1998-2001) includes concrete measures to promote a coherent social and care programme that will meet users' needs and enable the local government sector to accommodate the growing need for social and care services associated with the ageing of the population ahead. This implies an expansion of home-help services, care dwellings, institutional accommodation and an increase in the number of single rooms for those who prefer. The authorities attach particular importance to providing users with equal services nation-wide with a view to eliminating disparities among municipalities.

In order to enable municipalities to implement this extensive and important reform in the period to 2001, the central government established a number of financing arrangements. It was decided to expand the number of nursing home places and care dwellings by 24 400 during the plan period. The central government's financing arrangements comprise a lump-sum grant (start-up grant) and a grant to cover interest and principal payments on loans (compensation grant). The start-up grant for care dwellings was set at NOK 175 000 for each new care dwelling and the grant for new nursing home places at NOK 375 000 per place. The compensation grant covers local government interest and principal payments on a variable rate serial loan in the State Housing Bank with a maturity of 30 years.

The elderly care reform has been marked by positive experiences. The Government is satisified with the implementation of the action plan in keeping with the framework adopted by the Storting, and is also satisfied with the considerable interest and efforts shown by municipalities so far in the plan period. The number of new nursing home places and care dwellings is in full keeping with the goals adopted, and most municipalities throughout the country, irrespective of their financial position, have planned and started to expand social and care services for the elderly. The distribution between nursing homes and care dwellings is in line with the distribution that was used as technical assumption in the calculations, and the share of nursing home place is on the increase.

The experience with the start-up grant prior to the adoption of action plan for care services for the elderly shows that municipalities with a strong financial position used the arrangements more actively than municipalities with weak finances. The central government grant arrangements established in connection with the reform and administered by the State Housing Bank seem to have enabled municipalities with weak finances to expand the capacity of nursing homes and care dwellings to the same extent as municipalities with a stronger financial position. In relation to local government revenue levels, it would seem that the investment grants are having the intended effect of reducing disparities in the level of services. This means that the elderly care reform can contribute to enhancing services in the municipalities that had the least favourable starting point.

The work on this important reform is coordinated by the Ministry of Health and Social Affairs in close cooperation with the Ministry of Local Government and Regional Development. The county governors and county physicians have together with the Housing Bank played a central role in the work on reviewing and assessing municipalities' plans and results, providing the basis for allocating earmarked grants. They have also been engaged in the work on assessing applications for building and improving care dwellings and nursing homes. These expert bodies provide municipalities with professional advice and guidance in connection with the planning, running and project development of new buildings. The use of this pooled expertise is of decisive importance to the implementation of the action plan for care for the elderly.

Due to its limited lending quotas, the Housing Bank has not been in a position to finance the extensive reform with loans for care dwellings and nursing homes. However, Kommunalbanken works in close cooperation with the Housing Bank to ensure that also companies such as housing cooperatives have access to debt-financing at competitive interest rates. This cooperation will continue until this important social reform is completed. The action plan will be followed up in 2001 as planned, with investments for 5 800 new nursing home places and care dwellings. The Government has also proposed to expand the action plan to provide for a further 5 000 places in 2002, i.e. an increase from 24 400 to 29 400 units. The Government will give priority ahead to nursing homes and care dwellings that are designed for institutional accommodation, increasing the number of single rooms and the modernisation of old buildings rather than the general building of care dwellings.

Tasta nursing home in Stavanger municipality is financed by Kommunalbanken.

Finance Department


Siv Felling Galligani, Treasurer


Terje Fronth-Pedersen, Portfolio Manager


Cato Gaustad, Senior Portfolio Manager and Kristine Falkgård, Head of International Funding


Thomas Møller, Finance Director

Funding and treasury activities

In 2000, Kommunalbanken had a large funding requirement due to strong lending growth and the establishment of a liquidity portfolio. The Bank's main focus was on the international capital market to take advantage of its AAA/Aaa rating. The rating was assigned to the Bank in connection with its conversion to a limited company and is the same as for the Kingdom of Norway. Top rating provides Kommunalbanken with favourable funding terms, which are passed on to Norwegian municipalities and counties. Debt instruments issued in 2000 feature maturities ranging from 1 month to 20 years and have been placed with investors worldwide. Kommunalbanken has developed close contact with a large number of foreign intermediaries and investors during 2000.

Kommunalbanken practises strict risk management discipline with respect to all risks. All risk management policies are reviewed and approved by the Bank's Board of Directors, which monitors compliance with such limits. Kommunalbanken seeks to eliminate to the extent possible all foreign exchange and interest rate risk. All foreign currency exposure is hedged, and interest rate risk is eliminated by matching the interest rate term on assets and liabilities. Credit exposure associated with derivatives is limited to institutions with high creditworthiness. Kommunalbanken will keep a high liquidity reserve to cover future net cash requirements. Investments in government securities, securities issued by highly rated entities and bank deposits form the core of Kommunalbanken's portfolio of liquid assets.

The Norwegian economy

Norway recorded buoyant economic growth from the second half of 1993 until the end of 1998. Growth in mainland GDP (excluding the petroleum and shipping sector) averaged about 3.5 per cent these years. In the last two years mainland GDP has displayed more moderate growth, averaging at about 1.3 per cent. Even though growth is projected[1] to be lower in 2001 than in the period 1993-1998, activity is increasing in a situation where capacity utilisation in the Norwegian economy is high.

Consumer price inflation was moderate at 2.3 per cent in 1998 and 1999, but higher oil prices contributed to a pick-up in 2000. Consumer price inflation was 3.1 per cent in 2000 and is estimated at 2¾ per cent in 2001. The year on year growth in consumer prices was 3.4 per cent in January 2001, up from 3.0 per cent in December, mainly due to a 1 percentage point increase in VAT from January 2001. Wage inflation surged to 6.2 per cent in 1998, which was considerably higher than among Norway's trading partners. Annual wage growth fell to 4.9 per cent in 1999 and 4½ per cent in 2000, and is estimated at 4 per cent in 2001. The phasing in of four additional holidays over the years 2001 and 2002, implies that the growth in labour costs will be higher than annual wage growth.

After some volatility in financial markets in 1998 and 1999, developments have since been more stable. The krone has firmed slightly against the euro to 8.2, and depreciated slightly in trade weighted terms[2]. The central bank raised its key deposit rate by 1.5 percentage points in 2000 to 7 per cent. The interest rate differential against the euro is about 2.6 percentage points for the three-month money market rates, and about 1.2 percentage points against the German ten-year government bond rate.

[1] The macroeconomic estimates presented below are from the National Budget 2001, published in October 2000.

[2] Financial market data as of 21 February 2001.

The macroeconomic estimates for 2001 indicate moderate growth in the Norwegian mainland economy. In the 2001 National Budget proposal (published in October 2000) mainland GDP is seen to grow by 1.8 per cent in 2001, the same as in 2000. Unemployment is expected to remain low at 3¼ per cent in 2001.

The labour market situation is still tight with low unemployment and a high participation rate, in addition demographics imply a limited growth in the labour force in the years to come. On this background the growth capacity of the mainland economy seems limited. Developments in the labour supply and productivity will be of decisive importance to the growth capacity of the economy in the period ahead. A weaker growth in labour supply than projected will tighten the labour market further and add pressures to price- and cost developments. This is a main risk to the economic outlook.

Recent information indicates a somewhat slower growth in economic activity in the second half of 2000. According to preliminary national accounts figures mainland GDP fell by 0.2 per cent seasonally adjusted from the third to the fourth quarter of last year, following zero growth in the third quarter. Private consumption and petroleum investments declined towards the end of last year, while most other main demand components displayed moderate growth from the third quarter. As a consequence of increased petroleum production, total GDP grew slightly from the third to the fourth quarter.

Economic Policy

Fiscal policy

Fiscal policy is subject to two important constraints. Fiscal policy shall contribute to stable economic growth, avoiding excessive cyclical fluctuations. In a situation where the economy is near full capacity utilisation and the labour market is tight, public expenditure and revenues must be kept at a level that is consistent with a growth in aggregate demand that does not

Kommunalbanken received MTN Week's "Best new Euro-MTN borrower 2001" award at "The Euromoney Annual MTN Conference" in London, March 2001, in competition with 135 other new borrowers in this market. Kommunalbanken's Ms Kristine Falkgård, Head of International Funding, received the award on behalf of the Bank. From left to right Mr Padraic Fallon, Chairman, Euromoney Institutional Investor PLC, Ms Falkgård and Ms Bija Knowles, Editor, MTN Week.

trigger rising price and cost inflation. Furthermore, fiscal policy must be sustainable in a longer term perspective. Over the next ten years, the Fiscal Budget will most likely show sizeable surpluses on account of high petroleum revenues, which are to be transferred to the Government Petroleum Fund. However, the Norwegian economy is faced with considerable challenges as a result of growing expenditures on pensions and health services due to the ageing of the population. These expenditures are estimated to rise from the current 7 per cent of GDP to 15 per cent of GDP in 2030.

The main features of fiscal policy in 2001 are:

- A neutral fiscal policy stance, measured by the change in the non-oil, cyclically adjusted budget surplus net of interest payments. Real underlying growth in Fiscal Budget expenditure from 2000 to 2001 is about 2½ per cent.

- The non-oil Fiscal Budget deficit is estimated at NOK 12 billion in 2001, while the total budget surplus (including the Petroleum Fund) is estimated at NOK 192 billion. The general government budget surplus (net lending) is estimated at NOK 176 billion, or 12.5 per cent of GDP.

The Government Petroleum Fund

Norges Bank is responsible for management of the Petroleum Fund, on behalf of the Ministry of Finance. The fund is invested in financial instruments abroad, where 60 per cent of the portfolio is allocated to fixed income instruments and 40 per cent to equities. The fund is very diversified, with a geographical split of 50 per cent in Europe, 30 per cent in America and 20 per cent in Asia/Oceania. Within the regions, the equity portfolio is distributed between countries according to market capitalisation weights, while the fixed income portfolio is distributed according to the countries' GDP weights. The Petroleum Fund has grown rapidly since its inception in 1995 to NOK 386 billion at the end of 2000. Projections indicate that the fund may grow to more than NOK 1000 billion at the end of 2004, or more than 70 per cent of GDP.

Monetary policy

Monetary policy is aimed at maintaining a stable krone exchange rate against European currencies. However, the experience of both the period before the fixed exchange rate regime was abandoned in 1992 and later implies that there are limitations to the scope for managing the exchange rate in the short term. It is nevertheless important that monetary policy contributes to stable exchange rate expectations.

Balanced economic growth, with low price and cost inflation, is a precondition for achieving exchange rate stability over time. Monetary policy instruments must thus be oriented, together with the other instruments of economic policy, towards fulfilling this precondition. With this aim, Norges Bank assesses the use of instruments in light of developments in the foreign exchange market and the situation in the Norwegian economy.
Norges Bank has raised its key rates by a total of 1.5 percentage points in 2000. Norges Bank's sight deposit rate now stands at 7 per cent.

Source: Norwegian Ministry of Finance (February 2001)

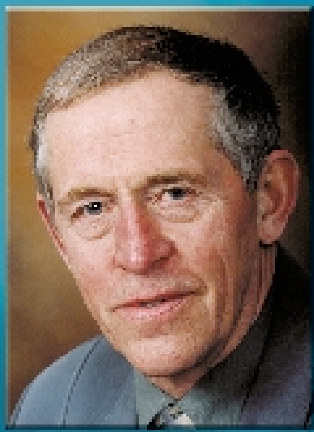
Main economic indicators

Key projections. Volume change from previous year in per cent			2000 NOK billion 1997-prices	2000	2001
Private consumption			562.3	2.1	2.4
Public consumption			236.0	1.4	2.4
Gross fixed investment			244.8	-2.7	-3.2
	Of which:	Petroleum	48.1	-26.6	-15.9
		Business sector. Mainland Norway	109.2	2.9	-1.0
Exports			469.7	2.8	6.0
	Of which:	Crude oil and nataural gas	167.8	6.4	6.9
		Traditional goods	184.6	3.0	4.7
Imports			392.6	1.2	2.6
	Of which:	Traditional goods	260.7	2.4	3.2
Gross Domestic Product			1 152,5	2.2	2.6
	Of which:	Mainland Norway	946.8	1.8	1.8
Memorandum items:					
Consumer price inflation				3.1	2 3/4
Wage growth				4.3	4
Employment growth				0.4	0.6
Unemployment rate				3.4	3.3
Private savings, % of net disposable income (savings ratio)				6.3	6.4
Current account of the balance of payments, NOK billion				169.6	159.9
	As percentage of GDP			13.9	11 1/4

Source: Statistics Norway and Ministry of Finance

Board of Directors

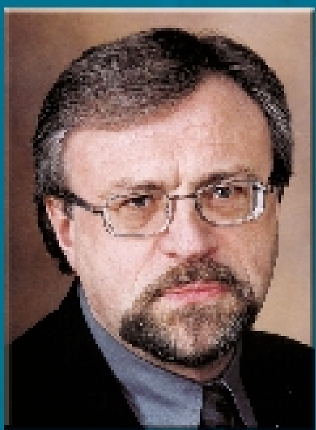
Else Bugge Fougner
Chairman



Per N. Hagen
Vice-Chairman

Eva Bjøreng
Member

Bodil P. Hollingsæter
Member



Bjørn Kristoffersen
Member

Jan Inge Aas Eidem
Member

Petter Skouen
Managing Director

Annual Report 2000

The year 2000 has been an exciting year for Kommunalbanken and the challenges have been many. The transition from state bank to a limited company on 1 November 1999 took place at a time when competition in the credit market was perhaps at its strongest.

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

Kommunalbanken has two functions of particular importance. The Bank is to run a profitable business while ensuring the maintenance of necessary competition for credit to the Norwegian local government sector. An important precondition for achieving these goals is to maintain the Bank's high rating assigned to it last year, i.e. AAA/Aaa from Standard & Poor's and Moody's. This provides the basis for favourable funding terms.

In accordance with Odelsting Proposition 44/99 on the conversion of the Bank, Kommunalbanken now has two shareholders as the State sold 20 per cent of its shares in April 2000 to KLP Insurance (the National Local Government Pension Fund), the mutual life insurance company which is owned by more than 90% by the Norwegian local government sector. For the municipalities, the KLP Insurance shareholdings should be regarded as an important strategic ownership stake. There are however no plans to reduce the State's shareholdings further.

In connection with the central government budget for 2001, the Storting (Norwegian parliament) decided that the State as owner should under normal conditions expect a return that is 3 per cent above the yield on 3-year government bonds after post-tax net asset value. The government bond yield in the return requirement for the next 3 years was set on 2 January 2001. Kommunalbanken has undertaken investments to secure the level of the risk-free portion of the return requirement.
The central government budget set out a dividend policy for Kommunalbanken that shall apply for 3-5 years where the dividend is set at 5 per cent of net asset value, with an upper limit of 75 per cent of profits after tax. The Board is of the view that the framework and principles applying to the Bank's operations will lay the basis for a stable and predictable development of the Bank's activities to the benefit of municipalities.

Annual accounts

The annual accounts are drawn up in accordance with the going-concern principle. The Board is of the view that the profit and loss account and the balance sheet, with accompanying notes, of 31 December 2000, provide an accurate picture of the Bank’s financial position at year-end.

The Bank's net interest income came to NOK 141.8 million in 2000, after provisions for the guarantee fee to the State of NOK 28.7 million. The Bank's operating profit for 2000 came to NOK 74.5 million before tax and NOK 53.6 million after tax.

The margin between lending and borrowing is decisive for the Bank's financial performance. Other income does not influence Kommunalbanken's performance to any significant extent.

Operating expenses have shown a higher-than-expected increase, which reflects the one-off costs associated with the rating process and the procurement of a new business system. The increase in the work on international marketing through the year also contributed to the increase in costs. In addition, higher-than-expected operating expenses were recorded in areas that are a direct function of activities relating to the Bank's financial operations, fees to the Norwegian Central Securities Depository, rating and banking fees.

The profit for the year is equivalent to a return on net asset value of 11.08 per cent before tax or 7.98 per cent after tax.

Lending activity

Kommunalbanken's loan portfolio amounted to NOK 36 777 million at 31 December 2000. At the beginning of the year, the portfolio stood at NOK 30 006 million. This represents an increase of NOK 6 771 million in loans outstanding through the year. From the time of the conversion on 1 November 1999, loans outstanding have increased by NOK 8 823 million, i.e. an increase of about 32 per cent in the first 14 months of operating as a limited company. For purposes of comparison, Kommunalbanken recorded approximately zero growth in lending in its last years as a state bank, which reflects the Bank's increased scope for providing favourable loans to municipalities.

As a state bank, the Bank was subject to framework conditions that prevented growth in its loan portfolio and restricted the Bank's scope for providing loan offers and granting loans to the local government sector. With appropriate operating parameters, and without the previous lending regulations, the Bank's role of setting interest rates for local government credit has been substantially strengthened. Interest expenditure for the local government as a whole would have been higher if Kommunalbanken AS had continued operating as a state bank. As a state bank, the Bank would not have had the necessary flexibility and loan volume to compete for all types of loans.

As in previous years, loan demand for new investments in the first three months of the year was relatively moderate compared with the remainder of the year. Activity picked up considerably after Easter and demand for debt-financing was high through the remainder of the

Approved and disbursed loans in 2000 (NOK)

	Approved 2000	Disbursed 2000
Electric power stations and power grid	52 550 080	52 550 080
Water supply	167 170 240	210 949 490
Harbour development	111 899 923	118 569 922
Site development	11 145 000	6 880 800
Hospitals, nursing homes etc.	2 005 566 374	1 770 759 763
Municipal buildings	191 746 135	168 153 135
Church buildings	1 150 000	2 150 000
Schools	198 023 169	198 485 568
Roads and bridges	102 188 895	103 671 745
Other	4 009 836 956	4 306 331 086
Infrastructure investments	33 149 180	51 689 180
Land aquisition	5 430 000	2 245 000
Environmental protection measures	68 622 550	227 378 452
Refinancing	3 144 371 142	3 337 571 142
Total	10 102 849 644	10 557 385 363

year. In 2000, loans were granted for a total of NOK 10 103 million. Disbursements came to NOK 10 557 million. Kommunalbanken expects lower growth in the volume of loans in 2001.

Kommunalbanken's loans outstanding are evenly distributed among municipalities and counties nationwide. Loans are also granted to inter-municipal companies and loans are extended against municipal guarantees to other companies that supply local government services. Substantial loans have been granted in particular to companies for the purpose of building care dwellings that are established as housing co-operatives.

It is highly unlikely that the agency will be exposed to credit risk in connection with its loans to the local government sector. Kommunalbanken has not made any provisions for future losses. Neither Kommunalbanken nor its predecessor, Norges Kommunalbank, has ever recorded any losses on loans.

Loans distributed by county (NOK)

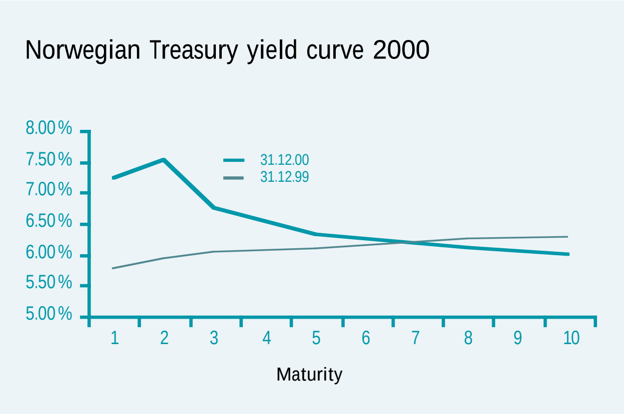
	31.12.00
Østfold	799 495 600
Akershus	528 033 000
Oslo	13 200 000
Hedmark	839 518 450
Oppland	501 068 502
Buskerud	334 726 449
Vestfold	227 308 000
Telemark	915 108 672
Aust-Agder	468 040 466
Vest-Agder	275 112 000
Rogaland	979 563 972
Hordaland	1 189 363 415
Sogn og Fjordane	256 572 249
Møre og Romsdal	759 982 686
Sør-Trøndelag	435 630 767
Nord-Trøndelag	453 205 641
Nordland	758 441 539
Troms	567 172 983
Finnmark	255 840 972
Total	10 557 385 363

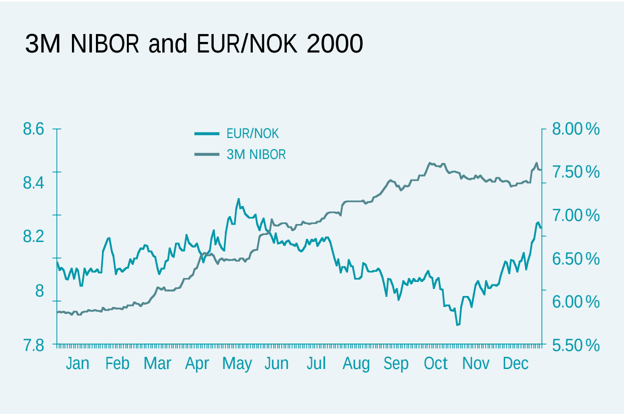
Kommunalbanken's strategy as a state bank, with limited lending quotas, was to give priority to small and medium-size municipalities in its provision of debt-financing. These municipalities tend to have insufficient loan amounts to enable them to use the notes and bond market as a source of financing. Without the existence of Kommunalbanken, these small and medium-size municipalities would be left with more expensive bank credit. After the conversion of Norges Kommunalbank to a limited company, the Bank has continued to give priority to providing favourable credit terms to this important customer group. With the same framework conditions as other financial undertakings, the Bank has also been able to provide competitive terms to larger municipalities and counties with substantial borrowing requirements in 2000. In keeping with our own overriding objective, Kommunalbanken has thereby been able to make a substantial contribution to intensifying competition in the local government market.

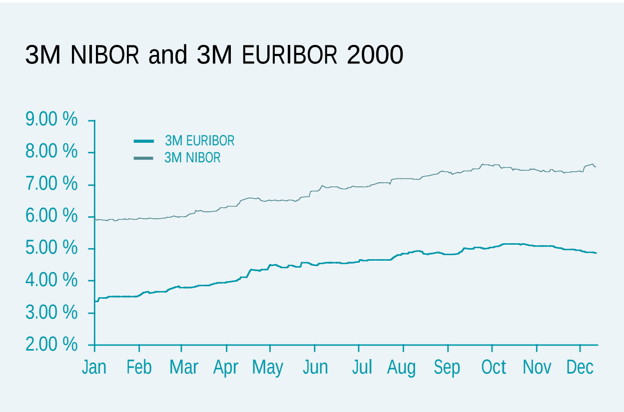
Most municipalities raise one single loan to finance all types of investments. As in the previous year, the bulk of the loans have been used to finance the expansion of nursing homes and care dwellings in accordance with the government's action plan for care for the elderly. Kommunalbanken expects continued high demand for loans to finance additional building projects in this area in 2001. Loans for other major local government projects are fairly evenly distributed, with school building and water supply projects accounting for the largest share. Since the conversion of the Bank, municipalities have also made widespread use of the possibility of refinancing current loans to obtain more favourable terms.

Borrowing activity

The Bank's borrowing activity was extensively restructured in 2000. Prior to the conversion to a limited company, the Bank's borrowings were confined to the Norwegian notes and bond market. Kommunalbanken is now in a position







to finance its activities in the market with the lowest funding costs.

Access to foreign funding requires a rating from a recognised rating agency. The ratings assigned to the Bank by Standard & Poor's and Moody's are the highest one can obtain and reflect both the low risk linked to the Bank's activities and Kommunalbanken's special position and function in society. The rating gives Kommunalbanken access to low funding costs that can be passed on to municipalities in the form of favourable loan terms.

The bulk of the Bank's loans were raised in foreign markets in 2000. The Bank has actively worked to establish a diversified and global investor base. Investor presentations have been made in a number of European and Asian countries, and were met with a positive response.

The Bank's outstanding volume of bonds, notes and other issues increased from NOK 32 300 million to NOK 42 700 million. Of the Bank's total loans, 94 per cent were raised outside of Norway. In order to simplify issuance abroad, the Bank established a EUR 2 000 million Medium-Term Note Programme on 1 January 2000. The Bank's long-term issues are primarily launched under this programme. Other international issues include a bond issue in the amount of CHF 200 million, which is listed on the stock market in Switzerland. The European Investment Bank (EIB) granted the Bank a global infrastructure loan in the amount of USD 95 million in June 2000. The loan has been channelled to the Bank's customers for investments in infrastructure, environmental and energy projects.

The Bank wishes to maintain access to the domestic market and issued a listed ten-year bond in May 2000.

The Bank established a USD 500 million US Commercial Paper Programme in autumn 2000 for short-term issues. The Bank was also active in the Norwegian commercial paper market in 2000.

The Bank raised one fixed-term and one perpetual subordinated loan in 2000, amounting to a total of EUR 85 million. Total subordinated capital came to NOK 1 387 million at year-end, of which core capital accounted for NOK 704 million. The Bank's capital adequacy ratio was 13.74 per cent at end-2000.

The Bank has a policy of maintaining net cash holdings equivalent to a minimum of 12 months' net capital requirement. This implies that the Bank in any given situation can meet all its commitments 12 months ahead without borrowing in the market.

Surplus cash is managed in keeping with prudent guidelines, both with regard to credit risk and market risk. This capital is invested in interest-bearing instruments with high creditworthiness and a maturity of up to 2 years.

Risk management

The Board has adopted limits on the Bank's exposure to different market risks. The Board receives continuous information concerning interest-rate risk and counterparty risk. The Board considers risk-monitoring to be satisfactory.

Market and information activity

The conversion of Kommunalbanken to a limited company and the change in the competition situation have placed new demands on the Bank's market profile and corporate communications. It is important for the Bank to be more visible in the media and out in the market, and the Bank is continuously testing new approaches for doing so. Representatives of the Bank make frequent visits to municipalities to inform them about various options in today's competitive market. The Bank's new profile has gained a firm foothold.

After the amendments to the Local Government Act were implemented in 2000, which require municipalities to draw up a financial strategy, increased focus has been placed on financial issues. Kommunalbanken participated actively in this process, providing input as to the various options open to individual municipalities in the management of their debt portfolios.

Organisation

At the end of 2000, the Bank's staff numbered 29 employees. The transition from being subject to the Civil Servants Act to falling within the scope of the Working Environment Act and the Labour Dispute Act has taken place without any significant problems. Kommunalbanken is now a member of the employers' association NAVO.

Sickness absence amounted to 182 days, or 2.4 per cent, in 2000. The low figure suggests that the Bank's employees are satisfied with the Bank's new role. The structural changes that have been necessary to adapt the Bank's organisation to the Bank's new role have been implemented without any substantial problems. The primary challenge for the organisation as a whole is a continuous strengthening of the Bank's overall expertise and skills in fast-developing professional fields.

IT cooperation with Kommuninvest in Sweden AB

At the beginning of 2000, Kommunalbanken and Kommuninvest signed a cooperation agreement for the procurement of a new IT business system. In February 2001, an agreement was concluded with the US software company SunGard Systems International. The new system will be installed in the coming year, and is expected to be operational in November/December 2001. The cooperation concerning a joint business system is being undertaken by a Swedish company where Kommunalbanken and Kommuninvest own 50% each. The company, Administrative Solutions AB, will own and operate the new system and supply all the administrative services on behalf of the owners.

External environment

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

Outlook

Competition for loans to the local government sector is currently dominated by a few providers of credit. Norwegian savings banks and commercial banks channel loans to the public sector through the jointly owned Kommunekreditt. The issuance of municipal notes has shown some decline, but the domestic bond market has also been a competitive credit source for the local government sector.

In Norway, competition from foreign financial institutions has been limited. This is primarily because of a previous requirement that issues be denominated in NOK. As a result, many of the major foreign municipal banks have avoided

Norway because the requirement meant that the lender must hold Norwegian kroner in his books. The recently introduced changes in the regulations on local government financial management makes it possible to raise loans in foreign currency on the proviso that the currency risk is hedged. This will increase foreign interest in this market.

The main challenge for Kommunalbanken is to adapt to changes in market conditions. The Board is of the view that the conditions are in place and that the Bank's activities will continue to expand.

Application of profits

The Board proposes that the profit of NOK 53.580 million be distributed as follows: NOK 20.750 million are set aside for dividend payments, c.f. the Government's dividend proposal in the central government budget for 2001, and NOK 32.830 million be transferred to other equity capital. Kommunalbanken has set aside NOK 40.180 million as available capital for dividend payments. The amount includes NOK 20.750 million set aside from the profit for the year.

Oslo, ~~31 December 2000~~ 14 March 2001

Board of Directors, Kommunalbanken AS

Else Bugge Fougner
Chairman

Per N. Hagen
Vice-Chairman

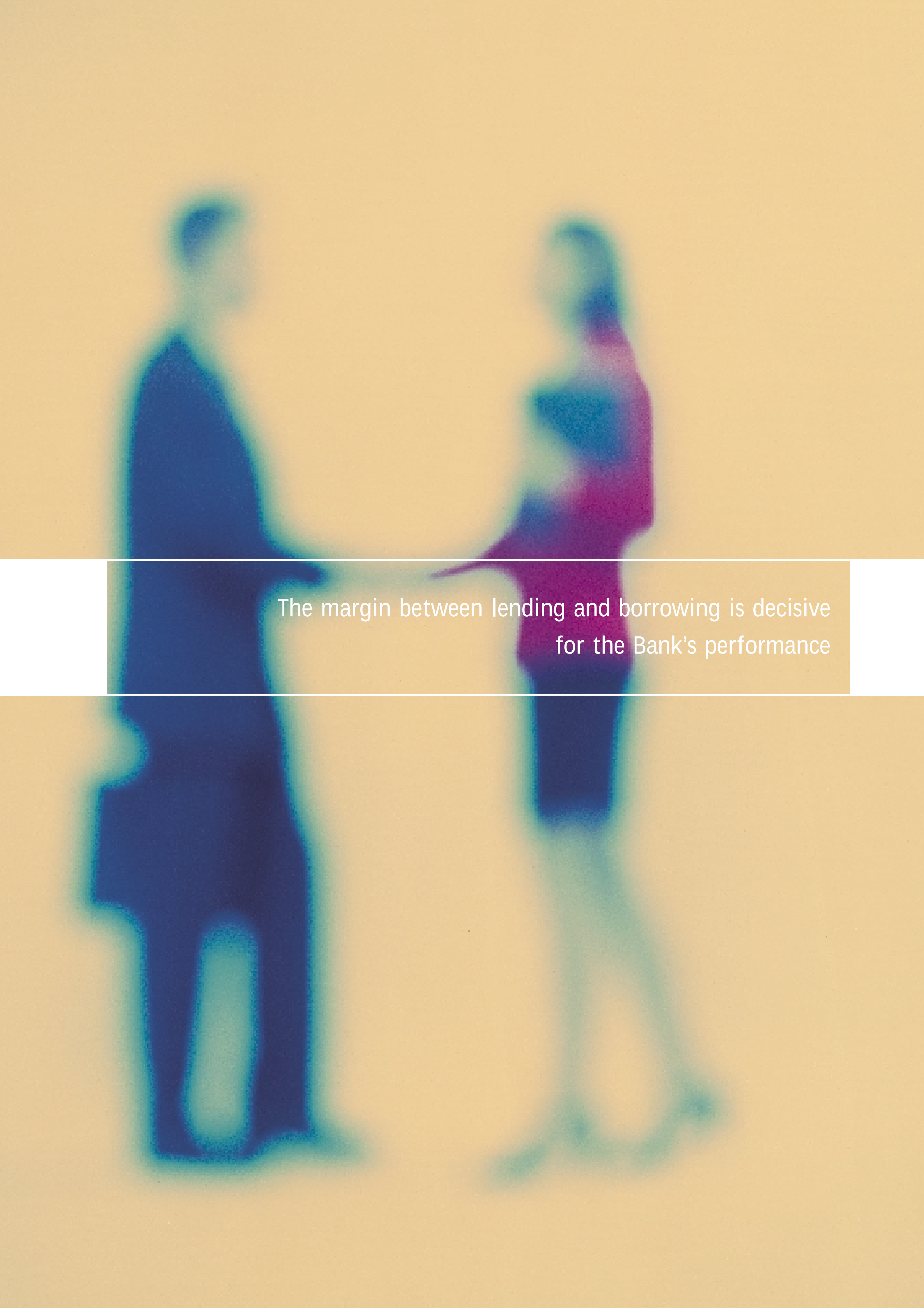
Eva Bjøreng
Member

Bodil P. Hollingsæter
Member

Bjørn Kristoffersen
Member

Jan Inge Aas Eidem
Member

Petter Skouen
Managing Director



The margin between lending and borrowing is decisive
for the Bank's performance

Profit and loss account for Kommunalbanken AS

for the period 1 January-31 December 2000

(in thousands of NOK)

	Note	2000	01.11-31.12.99	Pro forma 1999
Interest income and similar income				
Interest income and similar income on loans to and claims on credit institutions		41 820	29 033	168 937
Interest income and similar income on loans to and claims on customers		2 090 307	287 246	1 800 896
Interest income and similar income on Treasury bills, bonds and other fixed income securities		238 632	27 763	148 059
Other interest income and similar income		36 005	965	1 040
Total interest income and similar income		2 406 764	345 007	2 118 932
Interest and similar costs				
Interest and similar costs on debt to credit institutions		31 048	0	0
Interest and similar costs on issued securities		2 207 106	318 148	1 869 020
Interest and similar costs on subordinated capital		26 651	0	0
Other interest and similar costs		90	66	119 244
Total interest expenses and similar costs		2 264 895	318 214	1 988 264
Net interest and commission income		141 868	26 793	130 668
Dividends and other income from securities with variable yield				
Income on shares and other securities with variable yield		18	0	508
Total dividends and other income from securities with variable yield		18	0	508
Commission costs and costs of banking services				
Guarantee fee to the state	19	28 725	5 145	27 864
Total commission costs and costs of banking services		28 725	5 145	27 864
Net gains/losses on foreign currency and securities used as current assets				
Net gains/losses on Treasury bills, bonds and other fixed income securities		17	21	1 005
Net gains/losses on foreign currency		-544	16	-82
Total gains/losses on securities and foreign currency		-527	37	923
Other operating revenues				
Other operating revenues		752	481	855
Total other operating revenues		752	481	855
Salaries and general administrative costs				
Salaries etc				
Salaries	1	13 714	2 249	11 373
Pensions	2	233	94	1 694
Social security etc		3 092	430	2 153
Administrative costs		11 481	1 849	9 715
Total salaries and general administrative costs		28 520	4 622	24 935
Depreciation etc. on fixed assets				
Ordinary depreciation		2 112	357	1 294
Total depreciation etc of fixed assets		2 112	357	1 294
Other operating expenses				
Operating expenses real property		4 640	563	3 709
Other operating expenses		3 568	365	2 771
Total other operating expenses		8 208	928	6 480
Tax on ordinary profit	9	20 966	4 548	0
Profit for the year		53 580	11 713	72 381
Transfers and allocations				
Allocations				
Dividend		20 750	0	
Retained earnings	22	32 830	11 713	
Total allocations		53 580	11 713	

Balance sheet

as at 31 December 2000

(in thousands of NOK)

ASSETS	Note	31-12-2000	31-12-1999
Cash and deposits with Bank of Norway		2	51 190
Loans to and claims on credit institutions			
Loans to and claims on credit institutions without agreed maturities or notice period	4	14 121	331 455
Loans to and claims on credit institutions with agreed maturities	4	966 880	594 000
Total loans to and claims on credit institutions	4	981 001	925 455
Loans to and claims on customers			
Instalment loans	5	36 776 740	30 005 991
Other loans	1	10 986	696
Total net loans and claims on customers		36 787 726	30 006 687
Treasury bills, bonds and other fixed income securities			
Issued by the public sector			
- Treasury bills and bonds		769 093	975 683
Issued by others			
- Fixed income securities		5 802 194	1 294 772
Total notes, bonds and other fixed income securities	6	6 571 287	2 270 455
Shares, units and primary capital certificates			
Shares	7	100	100
Intangible assets			
Deferred tax benefits		0	1 352
Fixed assets			
Machinery, equipment and vehicles	8	5 136	5 793
Other assets			
Financial derivatives		1 799	1 980
Other assets		8	11 758
TOTAL OTHER ASSETS		1 807	13 738
Prepaid, not accrued costs and receivables			
Accrued receivables		1 221 789	790 838
Prepaid, not accrued costs		465	843
Total prepaid, not accrued costs and receivables		1 222 255	791 681
TOTAL ASSETS		45 569 314	34 066 452

LIABILITIES AND CAPITAL	Note	31-12-2000	31-12-1999
Due to credit institutions			
Loans and deposits from credit institutions at agreed maturity		822 225	0
Borrowings by issuance of debt instruments			
Commercial paper and other short-term notes		585 333	3 764 520
Bond issues		41 379 068	28 566 068
Other long term loans		372	1 171
Total liabilities from issuance of debt instruments	10	41 964 773	32 331 758
Other liabilities			
Financial derivatives		6 542	0
Margin account and other customer accounts		7 510	35 275
Other liabilities		57 240	286 979
Total other liabilities	11	71 292	322 254
Accrued expenses and prepaid unearned revenues		1 323 344	739 652
Provisions for accrued costs			
Pension obligations	2	318	836
Subordinated capital			
Tier two subordinated capital	12,21	682 580	0
Total liabilities		44 864 533	33 394 501
Equity	21, 22	660 000	660 000
Retained earnings	21, 22	44 781	11 951
Total equity		704 781	671 951
Total liabilities and equity		45 569 314	34 066 452

Oslo, 31 December 2000
14 March 2001

Board of Directors, Kommunalbanken AS

Else Bugge Fougner
Chairman

Per N. Hagen
Vice-Chairman

Eva Bjøreng
Member

Bodil P. Hollingsæter
Member

Bjørn Kristoffersen
Member

Jan Inge Aas Eidem
Member

Petter Skouen
Managing Director

Notes to the accounts for 2000

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.

All amounts in the notes are in thousands of NOK, unless otherwise indicated, corresponding with the figures in the profit and loss account and the balance sheet.

PRO FORMA AND COMPARABLE FIGURES

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

The activity of Kommunalbank 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.

SECURITIES

The Bank's holdnings of interest-bearing securities are included in the hedging portfolio. The difference between cost price and nominal (premium and discount) are recorded on an accruual basis for the remaining naturity. 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 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 the agency's 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. The agency uses securities and derivatives to hedge its 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

The agency's loans are valued at nominal value. All loans are provided 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 agency has 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

The agency's 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

The agency has a pension scheme for its employees. The agency applies the Provisional Norwegian Accounting Standard to its pension obligations. In accordance with this standard, the agency's 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

Accounting policies

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	33.3%
Fixtures, fittings, etc	20%
Cars	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. 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.

Notes

NOTE 1

Remuneration (amounts in NOK)

The agency's staff numbered 29 at year-end. Total salaries and other remuneration to the agency's employees and officers amounted to NOK 14 444 601. This sum includes the Managing Director's salary and other remuneration of NOK 989 093.

Directors' fees came to NOK 482 500, fees to the audit committee NOK 90 000 and fees to the supervisory board NOK 45 000. The Managing Director is a board member according to the Financial Services Act, but is not entitled to a director's fee. The age of retirement for the agency's Managing Director is 65.

The auditor's fee - NOK 358 000 - is charged as an expense. In addition NOK 323 000 has been charged as an expense for extra services rendered.

As from February 2000, the Bank offers all employees access to a home loan facility. The home loans are subsidised in that the mortgage interest rate is set at 1 percentage point below tha Bank's borrowing rate. The current mortgage interest rate is set at 6 per cent. The collateral for the loans is approved by the Supervisoty Committee.

Loans to employees	Balance at 31.12.00	Balance at 31.12.99
Short term loans	708 292	696 158
Incl loans to the Managing Director	12 500	42 500
Mortgages	10 277 694	
Total loans to employees	10 985 986	696 158
Interest rate subsidies in the period *)	36 684	20 066

*) 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 continued its collective pension fund in the Norwegian Public Service Pension Fund in 2000. However, the agency has decided to discontinue the pension scheme in the Public Service Pension Fund and its employees are now all members of the National Local Government Pension Fund (KLP) with effect from 1 January 2001. Current pensions are unaffected by the change in pension insurance funds as the Norwegian Public Service Pension Fund and the KLP have concluded an agreement on the transfer and coordination of pension rights.

The threshold – at 8 x the basic amount in the National Insurance Fund – was removed by amendment to the Act relating to the Norwegian Public Service Pension Fund with effect from 1 May 2000. This had an effect on the rights for pensionable service prior to 1 May 2000 for those employed. The one-off cost is recorded on an accrual basis over the remaining pensionable period. If Kommunalbanken had continued its membership in the Norwegian Public Service Pension Fund the one-off effect would have been compensated for over time through the current premium.

The setting of premiums and the calculation of the value of the pension obligations for the Norwegian Public Service Pension Fund 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 pension scheme is treated in the accounts using the accounting standard for pension costs. In keeping with this accounting standard the pension scheme is a defined-benefit pension scheme.

	2000	1999
Present value of the year's pensionable earnings	444 900	544 990
Interest expenses for pension obligations	776 400	622 959
Return on pension funds	-779 600	-732 757
Administrative expenses	17 700	
Amortising scheme changes	81 800	447 589
Recorded estimated deviation		720 423
Net pension costs	541 200	1 603 204

	2000	1999
Accrued pension obligations at 31.12.	13 439 400	10 755 609
Estimated pension obligations at 31.12.	13 439 400	10 755 609
Pensions funds (at market value) at 31.12.	11 419 200	9 919 357
Unrecorded scheme changes	(1 145 200)	
Unrecorded effect of estimated deviation	(556 700)	
Net pension obligations	318 300	836 252

Economic assumptions:	2000	1999
Discount rate	6.0%	6.0%
Expected annual wage growth	3.3%	3.3%
Expected annual basic adjustment	2.9%	2.9%
Expected return on pension funds	7.0%	7.0%
Expected annual retirement	0.0%	0.0%

NOTE 3

Other operating expenses (amounts in NOK)

The agency's office premises is in the Vika Atrium building in Munkedamsveien 45. The building is owned by Olav Thon Eiendomsselskap ASA and Kommunalbanken signed a lease for 1 378 sq.m in the autumn of 1999. The lease runs on a continuous and non-terminable basis up to 31 August 2009. The 2000 rent came to NOK 3 479 400. 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 adjusted each year on 15 October.

NOTE 4

Loans to credit institutions

		2000	1999
Loans to and claims on credit institutions without agreed maturity	NOK	14 121	331 455
Loans to and claims on credit institutions with agreed maturity	NOK	966 880	594 000
Total deposits in and loans to credit institutions	NOK	981 001	925 455

NOK 1 620 has been deposited in a separate tax withholding account.

NOTE 5

Loans to and claims on customers

Loans to customers mature as follows:

Period to maturity	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Floating rate loans	707 830	1 498 428	7 446 280	17 097 618	26 750 156
Fixed rate loans	494 297	690 647	2 481 277	6 360 036	10 026 257
Loans against land acquisition bonds		189	138		327
Total	1 202 127	2 189 264	9 927 695	23 457 654	36 776 740

The agency has not made any loss provisions in 2000 and the agency has never recorded any loan losses. Loans distributed by geographical area:

Counties	Amount 00-12-31	Amount 99-12-31
Østfold	1 780 364	1 361 951
Akershus	1 892 324	1 520 345
Oslo	148 670	156 981
Hedmark	1 594 182	894 043
Oppland	1 371 060	962 386
Buskerud	1 489 122	1 440 209
Vestfold	1 040 459	896 937
Telemark	2 014 618	1 236 764
Aust-Agder	994 202	643 675
Vest-Agder	2 131 556	2 191 590
Rogaland	2 867 437	2 054 804
Hordaland	3 428 967	2 511 134
Sogn og Fjordane	1 958 543	1 883 436
Møre og Romsdal	2 401 536	2 105 461
Sør-Trøndelag	3 100 768	2 867 930
Nord-Trøndelag	2 326 901	2 000 207
Nordland	3 004 070	2 487 444
Troms	2 173 013	1 910 612
Finnmark	1 058 948	880 082
Total	36 776 740	30 005 991

NOTE 6

Holdings of notes, bonds and other interest-bearing securities

	Book value	Acquisition cost	Fair value	Average yield	Listed
Government and government-guaranteed notes (weighted 0%)	580 186	580 112	580 184	7.33	580 186
Government and government-guaranteed bonds (weighted 0%)	188 906	227 515	198 339	6.76	188 906
Notes issued by domestic financial institutions (weighted 20%)	2 414 342	2 414 322	2 413 797	7.67	0
Notes issued by non-domestic financial institutions (weighted 20%)	3 387 853	3 411 021	3 400 902	5.83	39 994
Total	6 571 287	6 632 970	6 593 222		

The agency'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.

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 88. The company's total share capital is NOK 600 million. The shares are recorded at cost price. The market value is NOK 125 per share.

NOTE 8

Machinery and equipment

(Depreciation period, linear)	Office machinery 4 yrs	IT 3 yrs	Furniture 5 yrs	Cars 5 yrs	Art not deprec.	Total
Acquisition cost at 1 Jan. 2000	348	3 062	2 732	0		6 142
+ Acquisitions 2000 at cost price	89	397	468	400	100	1 454
- Disposals 2000 at cost price	0	0	0	0		0
Cost price at 31 Dec. 2000	437	3 459	3 200	400	100	7 596
Acc. depreciation at 1 Jan. 2000	17	251	81	0		349
+ Depreciation in 2000	112	1 362	584	53		2 111
- Acc. depreciation of disposals of fixed assets 2000	0	0	0	0		0
Acc. depreciation at 31 Dec. 2000	129	1 613	665	53		2 460
Book value at 31 Dec. 2000	308	1 841	2 535	347	100	5 136

The tax value of fixed assets is NOK 4 891 entailing a positive temporary difference of NOK 245 at 31 December 2000.

NOTE 9

Tax

Tax expenses for the period are broken down on:

	2000	01.11-31.12.99
Payable taxes	17 223	5 662
Changes in deferred taxes	3 723	-1 114
Correction from last year	6	-
Total tax expenses	20 966	4 548

Estimated tax base for the period:		
Profit before tax expenses	74 547	16 261
Permanent differences *	310	-17
Changes in temporary differences	- 13 298	3 978
Tax base for the period	61 559	20 222

Temporary differences:	31 Dec 2000	31 Dec 1999
Fixed assets	245	1 163
Share option premium	1 323	-559
Notes	0	-80
Own securities	7 211	-4 515
Pensions	- 308	-836
Total	8 471	-4 827
28% deferred tax	2 372	-1 352

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	20 873	4 553
Permanent differences (28%)	87	-5
Estimated tax expenses	20 960	4 548

* Includes: non-deductible costs, such as representation.

NOTE 10

Domestic note issues and other short-term issues at 31 December 2000

	2000	Average yield
Loans to and claims on credit institutions with agreed maturity	822 225	6.50
Debt raised by issuing NOK denominated commercial paper	585 333	7.39
Debt raised by issuing NOK denominated bonds	28 680 193	7.18
Debt raised by issuing bonds in foreign currency	12 698 875	6.79
Other long term debt	372	10.63
Total debt raised by issuing securities	41 964 773	

NOTE 11

Other debt

Dividends	20 750
Taxes payable	17 237
Other debt	33 305
Total	71 292

NOTE 12

Subordinated debt

Subordinated debt with fixed maturity (EUR 40 m, maturity 2010)	321 680
Perpetual subordinated debt	360 900
Total	682 580

NOTE 13

Maturity structure for interest-sensitive assets and liabilities

Amount by residual maturity

	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
Assets:							
Deposits in other financial institutions	981 003	981 003					
Loans outstanding	36 776 740	0	1 202 128	2 189 265	9 927 695	23 457 652	
Securities	6 571 287	2 191 347	2 129 022	2 084 626	124 835	41 457	
Other short-term loans	10 986				2 197	8 789	
Financial derivatives	1 799		1 799				
Prepaid expenses	465	155	310				
Interest accrued	1 221 790	840 790	304 800	76 200			
Other assets	5 244	8				100	5 136
Total	45 569 314	4 013 303	3 638 059	4 350 091	10 054 727	23 507 998	5 136

Liabilities:							
Loan from financial institutions	822 225					822 225	
Short term debt	585 333		101 098	444 985	39 250		
Bonds issued	41 379 440	1 173 621	2 968 567	2 687 561	22 586 929	11 962 762	
Financial derivatives	6 542		3 942	2 600			
Other debt	64 751	3 213	28 725	32 812			
Accrued costs	1 323 662	1 044 037	227 850	51 775			
Subordinated debt	682 580					321 680	360 900
Shareholders capital	704 781						704 872
Total	45 569 314	2 220 871	3 330 182	3 219 733	22 626 179	13 106 667	1 065 772
Net liquidity exposure balance sheet items	0	1 792 432	307 877	1 130 358	-12 571 452	10 401 331	-1 060 636

Amount by interest rate adjustment date:

	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
Assets:							
Deposits in other financial institutions	981 003	981 003					
Loans outstanding	36 776 649	5 552 977	22 322 644	395 009	7 008 975	1 497 045	
Securities	6 571 378	2 015 168	3 249 076	1 169 335	99 800	38 000	
Other short-term loans	10 986				2 197	8 789	
Financial derivatives	1 799		1 799				
Prepaid expenses	465	155	310				
Interest accrued	1 221 790	840 789	304 800	76 200			
Other assets	5 244	8				100	5 136
Total	45 569 314	9 390 100	25 878 629	1 640 544	7 110 972	1 543 934	5 136
Liabilities:							
Loan from financial institutions	822 225		822 225				
Short term debt	546 083		101 098	444 985			
Bonds issued	41 379 440	2 668 340	4 470 346	2 257 093	24 598 151	7 426 614	
Financial derivatives	6 542		3 942	2 600			
Other debt	64 751	3 213	28 725	32 812			
Accrued costs	321 809	1 062 933	207 100	51 775			
Subordinated debt	682 580	321 680				360 900	
Shareholders capital	704 781						704 872
Total	45 569 314	4 056 166	5 633 436	2 789 265	24 598 151	7 787 514	704 872
Net interest rate exposure balance sheet items		5 333 934	20 245 192	- 1 148 721	-17 487 179	- 6 243 580	- 699 736
Off balance sheet items		- 8 708 399	- 15 270 910	- 140 907	17 853 715	6 266 501	
Total interest rate exposure		-3 374 466	4 974 283	- 1 289 629	366 536	22 921	- 699 736

NOTE 14

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 concrete risks.

The contracts are linked to the agency's funding, and comprised at the end of 2000:

	Nominal value		
Type of agreement	Bought	Sold	Net
FRAs	1 320 000	3 871 256	-2 551 250
....of which trading portfolio	*100 000*	*100 000*	*0*
FX forwards	5 375 297	463 857	4 911 440
Swaps	2 503 668	38 743 888	-36 240 220
Total	3 823 668	42 615 144	-38 791 476

NOTE 15

Interest rate risk

Interest rate risk is associated with the agency's lending and borrowing activity and arises from the difference in the fixed-interest rate period for the agency's assets and liabilities and that ingoing and outgoing payments occur at different times. As part of the agency's interest rate risk management, the agency 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.

The agency has continued its strategy of adapting the agency's various types of loans to the Bank's borrowings so that the fixed-interest period for lending is virtually the same as for borrowing. The Bank 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.

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

For the portfolios that are interest rate sensitive, the limit for maximum exposure for an interest rate change of 1 percentage point is set at a total of NOK 12 million. This limit applies to the investment portfolio and the fixed rate portfolios. At 31 December 2001, total exposure was NOK 6.11 million for a 1 percentage point increase and NOK 5.54 million for a 1 percentage point decline in interest rates.

NOTE 16

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 agency's interest rate risk committee and the Board at each board meeting.

Some contracts are structured with a view to reducing the agency's 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:	31.12.2000
Forward rate agreements	- 88 084 575
Currency futures and cross currency swaps	145 065 247
Interest rate swaps	177 362 448

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 weight of 20 per cent.

NOTE 17

The table below shows foreign exchange positions as defined by the Central Bank of Norway. Kommunalbanken's financial guidelines do not permit net foreign exchange positions. All foreign exchange transactions are hedged.

Exchange rate risk

Assets	Totalt	NOK	Foreign curency	of which USD
Cash and deposits with Bank of Norway	2	2	0	
Loans to and claims on credit institutions	981 001	272 693	708 308	708 112
Loans to and claims on customers	36 787 726	36 787 726	0	
Treasury bills, bonds and other fixed income securities	6 571 287	3 183 435	3 387 852	2 438 926
Shares	100	100	0	
Fixed assets	5 136	5 136	0	
Other assets	1 807	1 807	0	
Prepaid, not accrued costs and receivables	1 222 255	1 182 020	40 235	34 110
Total assets	45 569 314	41 432 918	4 136 395	3 181 148
Liabilities and capital				
Due to credit institutions	822 225	0	822 225	822 225
Borrowings by issuance of debt instruments	41 964 773	29 265 899	12 698 874	4 816 041
Other liabilities	71 292	71 292	0	
Accrued expenses and prepaid unearned revenues	1 323 344	1 159 917	163 427	156 448
Provisions for accrued costs	318	318	0	
Subordinated capital	682 580	0	682 580	
Shareholders capital	704 781	704 872	0	
Total liavilities and capital	45 569 314	31 202 298	14 367 106	5 794 714
Net on balance currency exposure			-10 230 711	-2 613 566
Off balance sheet items			10 237 640	2 621 116
Net currency exposure 31 Dec 2000			6 929	7 550

NOTE 18

The agency's refinancing risk

Refinancing risk is the risk that the agency 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 26.4 billion in 2000. This guarantee secured the agency 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 19

Guarantee fee to the State

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

NOTE 20

Guarantee liabilities

Kommunalbanken has provided guarantees for loans raised by municipalities for financing school buildings. The guarantees total NOK 5 688 175 at 31 December 2000. The guarantee liability was reduced by NOK 4 479 940 in 2000.

NOTE 21

Capital adequacy

Supplementary capital cannot exceed 100% of core capital The agency's capital satisfies the capital adequacy requirements.
The agency's eligible capital is composed of the following elements:

Core capital:	2000	1999
Share capital	660 000	660 000
Other capital	44 781	11 951
Total core capital	704 781	671 951
Supplementary capital		
Subordinated debt	321 680	0
Perpetual subordinated debt	360 900	0
Deferred tax benefit recorded in balance sheet	0	0
Total supplementary capital	682 580	0
Total capital	1 387 361	670 599

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

	2000		1999	
Risk weight	Book	Weighted	Book	Weighted
0 %	749 465		1 057 662	0
20 %	43 691 271	8 738 254	31 136 078	6 227 216
50 %	3 919	1 960	1 256 613	628 306
100 %	1 124 659	1 124 659	614 829	614 829
Off-balance sheet items which are not included in the trading portfolio		89 278		60 970
Credit and market risk (foreign exchange items in the trading portfolio)		145 065		
Sum of risk-weighted items		10 099 216	34 065 181	7 531 320
Capital ratio		13.74		8.90

NOTE 22

Change in capital

	Share capital	Other capital	Total capital
1 January 2000	660 000		660 000
Deferred tax benefit recorded in balance sheet	238		238
Application of the profit for the year	11 713	32 830	44 543
31 December 2000	671 951	32 830	704 781

The State owns 80 % of the shares and KLP owns 20 %. The nominal price per share is NOK 1 000 and the number of shares is 660 000.

Cash flow statement

(in thousands of NOK)	2000	01.11.99–31.12.99	Pro forma 1999
Interest rate inpayments	2 027 169	198 287	1 789 152
Interest rate outpayments	1 754 578	70 553	1 695 560
Other inpayments	225	518	2 286
Operating outpayments	65 110	5 550	57 248
Net cash flow from operations	207 706	122 702	38 630
Increase loans	6 781 039	2 052 164	2 937 300
Increase other claims	418 643	166 309	320 838
Increase short-term securities	4 300 832	464 434	1 955 155
Increase investments in credit institutions	55 546	55 339	897 335
Net cash flow from current financial operations	11 556 060	2 738 246	6 110 628
Increase other fixed assets	1 454	707	5 317
Disposals fixed assets	0	66	66
Net cash flow from long-term financial operations	1 454	773	5 383
Increase (- reduction) loans, issuance of securities	10 455 240	-1 280 701	2 767 988
Increase capital	0	0	384 848
Increase (- reduction) other debt	891 660	-808 472	-2 263 770
Net cash flow from long-term financial operations	11 346 900	-2 089 173	889 066
	0	-4 703 944	-5 177 549
Net change in liquid assets	-51 188	-4 703 944	-5 177 549
Liquid assets 1 January 2000	51 190	4 755 134	5 228 739
Liquid assets 31 December 2000	2	51 190	51 190

To the General Meeting of Kommunalbanken AS

Auditor's report for 2000

We have audited the annual financial statements of Kommunalbanken AS as of 31 December 2000, showing a profit of NOK 53 580 351. We have also audited the information in the directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit. The financial statements comprise the balance sheet, the statements of income and cash flows and the accompanying notes. These financial statements are the responsibility of the Company's Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and auditing standards and practices generally accepted in Norway. Those standards and practices require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and auditing standards an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- the financial statements have been prepared in accordance with the law and regulations and present the financial position of the Company as of December 31, 2000, and the results of its operations and its cash flows for the year then ended, in accordance with accounting standards, principles and practices generally accepted in Norway
- the company's management has fulfilled its duty to produce a proper and clearly set out registration and documentation of accounting information as required by law and accounting standards, principles and practices generally accepted in Norway
- the information given in the directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit are consistent with the financial statements and comply with the law and regulations.

Oslo, 14 March, 2001

PricewaterhouseCoopers DA

Øyvind Thorsby

State Authorised Public Accountant (Norway)

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

The Audit Committee has examined Kommunalbanken AS' annual report and accounts as well as the Auditor's report for 2000.

The Audit Committee recommends that the annual report and accounts presented be approved as the agency's accounts for 2000 and that the application of profits is adopted by the Annual General Meeting in accordance with the Board's proposals.

Oslo, 16 March 2001

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 2000 have been examined by the Supervisory Board.

The Supervisory Board recommends that the Board of Director's proposals for the profit and loss account and balance sheet, as well as the application of profit, NOK 53 580 351, is adopted by the Annual General Meeting.

Oslo, 29 March 2001

Supervisory Committee for Kommunalbanken AS

Ragnhild Skjerveggen

Chairman

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 to be 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 notexceed 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) shall be elected annually, but no more than three (3) of the elected members. 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. Members elected by the shareholders shall be elected for two years. A minimum of one third of the members shall be elected annually. Following the first year one third of the members shall be elected by the drawing og lots. 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 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-authorised 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 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 shareholders representing minimum a tenth of the share capital, two members of the Supervisory Board, the Board of Directors, the Audit Committee or the Company's auditor.

The Board of Directors shall call the Annual General Meeting.

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-authorised 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 form 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.

The Articles of Association were adopted at the meeting of the Company's foundation on 1 November 1999.

Governing bodies and organisation

Board of Directors

Else Bugge Fougner, Barrister-at-law (Supreme Court), Chairman
Per N. Hagen, Farmer, Vice-Chairman
Eva Bjøreng, Director, Corporate Communications
Bodil P. Hollingsæter, Comptroller, Møre and Romsdal County
Bjørn Kristoffersen, Group Managing Director, KLP Inurance
Petter Skouen, Managing Director
Jan Inge Aas Eidem, Loan Manager, Lending Department (elected by the employees)

Alternate to the Board of Directors

Annette Nielsen, Head of Loan Administration and Back Office (elected by the employees)

Supervisory Board

Ragnhild Skjerveggen, Principal, Chairman, Voss Municipality
Oddvar Flæte, County Governor, Vice-Chairman, Sogn og Fjordane County
Elisabeth Aspaker, Teacher, Harstad Municipality
Thor Bernstrøm, Assistant Director General, Ministry of Local Government and Regional Development
Trond Lesjø, Chief Administrative Officer, Gausdal Municipality
Eva Nilsen, Mayor, Alta Municipality
Kjell Pettersen, Chief Administrative Officer, Nittedal Municipality
Harald Røed, Principal, Fjell Municipality
Anne Katrine Slungård, Mayor, Trondheim Municipality
Anne Stenhammer, Director of Education, The National Educational Office, Nordland County
Arne Øren, County Mayor, Østfold County
Cato Gaustad, Senior Portfolio Manager (elected by the employees)

Alternates to the Supervisory Board

Elisabeth Enger, Chief Administrative Officer, Bærum Municipality
Christine Hjortland, Assistant Director General, Ministry of Local Government and Regional Development
Nils R. Sandal, County Mayor, Sogn og Fjordane County
Roy Waage, Mayor, Skjervøy Municipality
Asbjørn Gundersen, Head of Personnel (elected by the employees)

Audit Committee

Aage Rundberget, Presiding Judge, Chairman, Frostating Court of Assize
Britt Lund, Chief Administrative Officer, Hjartdal Municipality
Svein Blix, Chief Administrative Officer, Bodø Municipality

Auditor

PricewaterhouseCoopers DA
Øyvind Thorsby, State Authorised Public Accountant

Management

Petter Skouen, Managing Director
Helge Salseng, Director Lending Department
Thomas Møller, Finance Director
Tor Christian Hansen, Director Marketing, Communication and Administration Dept.

Lending

Lise Schie Berntsen, Deputy Director & Loan Manager
Børge Daviknes, Loan Manager
Jan Inge Aas Eidem, Loan Manager
Marit Ødegård, Loan Manager

Treasury

Siv Felling Galligani, Treasurer
Kristine Falkgård, Head of International Funding
Cato Gaustad, Senior Portfolio Manager
Terje Fronth Pedersen, Portfolio Manager

Loan Administration and Back Office

Annette Nielsen, Head of Loan Administration and Back Office
Kristin Lorentzen, Manager Back Office
Åse Kristensen, Assistant Manager of Loan Administration
Anita Sabel Kullberg, Assistant Manager of Loan Administration
Torill Lund, Assistant Manager of Back Office

Accounting

Gro Tveten, Chief Accountant
Espen Gluva, Accounting Officer
Jorunn Svae, Accounting Officer

Controller

Knut Nordenhaug, Financial Controller
Bengt Johansen, Assistant Controller

Marketing/Corporate Communication

Sissel Johnsen Lie, Corporate Communication Manager
Hilde Fagerslett, Corporate Communication Consultant

IT

Ingebjørg Heggedal, IT Adviser
Roger Solmyr, IT Adviser

Administration

Asbjørn Gundersen, Head of Personnel
Majken Danielsen, Archivist
Aud Holm, Receptionist

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