

Annual Report and Accounts 2001

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Securing a competitive environment

Kommunalbanken has been at the service of Norwegian municipalities for 75 years. Even though the organisation and operation of the institution have been significantly changed during these years, its main task is still the same. The role of the institution is to ensure that the municipal sector receives the best possible loan terms available in the market. Thus Kommunalbanken is a policy tool the authorities use to achieve specific objectives.

For Kommunalbanken to succeed in this task, the institution must be of a size and importance sufficient to enable it to influence the interest rate level for the whole market for municipal loans. Increased municipal loan growth implies that Kommunalbanken's lending volume must also grow – to enable the institution to maintain its position as the price-setter. When Kommunalbanken's lending volume increases in step with the market, we contribute to the maintenance of real competition for all loans to Norwegian municipalities.

The growth in lending volume in 2001 was higher than expected. After the lending volume increased by 22 percent in 2000, we expected far more moderate growth last year. The result was a growth in lending volume of 16 percent, to NOK 42.4 billion.

Ever since its foundation 75 years ago, Kommunalbanken has emphasised the priorities of the authorities in its credit policy. In recent years this has resulted in loans for care facilities weighing most heavily in our loan portfolio. In line with the new school reform, school loans will now become a larger item. However, during 2002 we will experience greater redemptions from the county administrations in connection with the central government's take-over of hospitals. This way, lending funds will be released for use in other areas of the municipal sector.

Kommunalbanken is today a highly sought after borrower abroad. Last year we were able to double our total funding volume, to NOK 23 billion, after a comprehensive marketing and information effort in foreign capital markets.

In our anniversary year we will continue our investments in a new IT system, to enable the institution to be even more customer oriented. During the first quarter, municipalities will be able to log onto the institution's web site to obtain continuously updated financial information from the Norwegian and international markets. At the same time, our customers will be able to use calculators to calculate municipal exposure to changes in interest rates. In order to simplify the lending process further, later this year the institution anticipates being able to offer the municipalities direct access to their loan accounts through a separate Internet solution. The modernisation of the institution is therefore ongoing and as we celebrate our 75th anniversary we feel well equipped to face the challenges of modern-day competitive financing.



Petter Skouen
Managing Director



This is Kommunalbanken

- Kommunalbanken is the Norwegian local government funding agency, a specialised lender to Norwegian local governments. Kommunalbanken was established in 1999 by a special act to continue the activities of Norges Kommunalbank (NKB) established in 1927 and is owned 80 percent by the Norwegian central government and 20 percent by the National Local Government Pension Fund (KLP).
- Kommunalbanken is an important tool for the central government to limit the cost of public finances. An important function for the institution is to secure competitive lending to Norwegian municipalities. Kommunalbanken is a major contributor in reducing the overall financial costs to the sector.
- Kommunalbanken's 75 years of experience enables it to offer high quality financial advisory services, which are an additional important service for the institution.
- Future ownership of Kommunalbanken is restricted to the Norwegian central and local government sectors.
- Neither Kommunalbanken nor NKB has experienced loan losses since establishment in 1927.
- The international rating agencies Moody's and Standard & Poor's have assigned the highest possible rating – Aaa/AAA – to Kommunalbanken's long-term debt instruments.
- Kommunalbanken grants loans directly to Norwegian municipalities, counties, and inter-municipal companies or other companies that perform local government tasks against a local government guarantee.
- Since 1999 Kommunalbanken's lending portfolio has grown by 52 percent.
- Kommunalbanken is the largest provider of credit to the local government sector, with a loan portfolio of approximately NOK 42 billion. This corresponds to a market share of approximately 34 percent.
- The members of Kommunalbanken's governing bodies, such as the Supervisory Board, the Board of Directors and the Audit Committee, are appointed by the Norwegian Ministry for Local Government and Regional Development.
- Small and medium-size municipalities account for the largest share of Kommunalbanken's loans outstanding, but counties and larger municipalities also constitute an important customer group.
- Kommunalbanken practises strict risk management discipline with respect to all financial risks. All risk management policies are reviewed and approved by the Board of Directors, which monitors compliance with approved limits.
- Kommunalbanken's capital amounts to a total of NOK 1 433 million.

Key figures

In thousands of NOK	2001	2000	1) Proforma 1999	2) NKB 1998	2) NKB 1997
Loans in foreign currency	0	0	0	248 209	460 670
Loans in NOK	42 412 893	36 776 413	30 004 821	26 814 063	25 896 308
Loans in land purchase bonds	138	327	1 170	3 377	8 671
Total 31 December	42 413 031	36 776 740	30 005 991	27 065 649	26 365 655

Lending

Allocations	10 304 729	10 102 850	6 265 463	4 244 606	3 647 366
Unsettled allocations	654 621	1 303 917	1 886 440	1 702 133	807 798
Disbursements	10 743 630	10 557 385	5 997 275	3 324 052	2 920 383
Principal payments on loans	5 117 243	3 815 302	2 813 933	2 626 666	2 938 183

Borrowings

Borrowings in foreign currency	26 409 546	12 698 875	0	188 533	328 944
Domestic bond issues	25 957 577	28 680 193	28 566 068	15 758 860	13 211 270
Domestic note issues	45 000	585 333	3 764 520	13 612 000	16 474 000
Borrowings from the State	138	372	1 171	3 377	8 671

Key figures

Average total assets	52 585 948	38 588 488	34 765 439	35 094 465	34 013 622
Return on equity before taxes	16.35%	11.08%	18.55%	21.40%	20.02%
Dividend	36 500	20 750	19 000	18 000	16 000
Capital adequacy	11.62 %	13.74 %	8.90 %	9.10 %	8.07 %

As a percentage of average total assets

Interest and commission income	6.34	6.24	6.09	4.85	4.58
- Interest and borrowing costs	5.99	5.87	5.72	4.56	4.28
= Net interest and commission income	0.35	0.37	0.37	0.29	0.3
- Guarantee fee	0.05	0.08	0.08	0.07	0.11
+ Net exchange gains/losses	0.00	0	0	0	0
+ Other operating revenues	0.00	0	0	0	0.01
- Staff costs	0.04	0.04	0.04	0.04	0.04
- Other operating expenses	0.05	0.06	0.05	0.04	0.03
+ Extraordinary income	0	0	0	0.01	0
	0.22	0.19	0.21	0.15	0.13

Analysis of results (in millions of NOK)

Interest and commission income	3 334.31	2 406.80	2 118.90	1 700.00	1 559.00
- Interest and borrowing costs	3 151.71	2 264.90	1 988.20	1 602.00	1 457.30
= Net interest and commission income	182.6	141.9	130.7	98	101.7
- Guarantee fee	25.8	28.8	27.9	25.8	36.5
+ Net exchange gains/losses	2.1	- 0.5	0.9	0.9	0.2
+ Other operating revenues	0.4	0.8	1.3	1.4	2.6
- Staff costs	18.9	17.1	15.1	12.4	13.7
- Other operating expenses	25.2	21.8	17.5	13.7	11.6
+ Extraordinary income	0	0	0	4	0
= Operating profit	115.3	74.5	72.4	52.2	42.7
Profit for the year	115.3	74.5	72.4	52.2	42.7

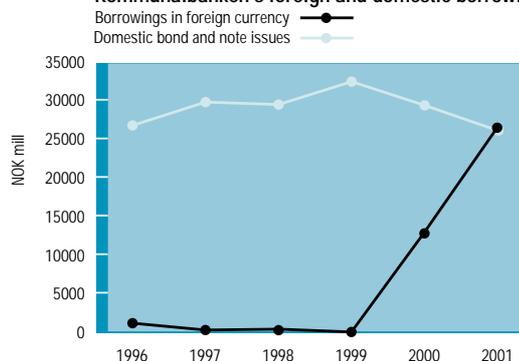
1) Norges Kommunalbank was converted to Kommunalbanken AS on 1 November 1999.

2) NKB = Norges Kommunalbank

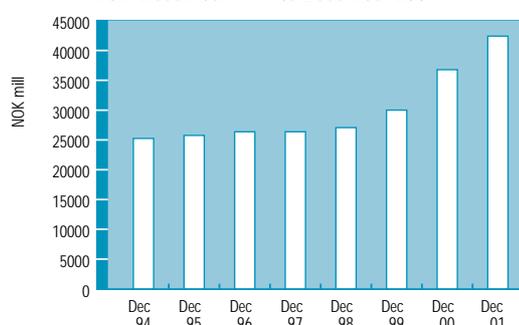
2001 – The year in brief

- Kommunalbanken's loan portfolio increased by 16 per cent in 2001, from NOK 36.8 billion to NOK 42.4 billion
- Net interest income was NOK 182.6 million in 2001, after provisions for the Government guarantee fee of NOK 24.5 million
- Operating profit for 2001 was NOK 115.2 million before tax. This is equivalent to a pre-tax return on net asset value of 16.35 per cent
- Loans were granted for a total of NOK 10.3 billion disbursements came to NOK 10.75 billion
- In co-operation with the Norwegian Ministry of Foreign Affairs, Kommunalbanken signed a global loan agreement of NOK 1 billion with Council of Europe Development Bank (CEB)
- Kommunalbanken issued an equivalent of over USD 2.3 billion in long term debt; more than 95% of this was done in the international markets
- The outstanding volume of bonds, notes and other issues increased from NOK 42.7 billion to NOK 52.4 billion
- Kommunalbanken increased its Euro Medium-term Note Programme (EMTN) to EUR 5 billion
- Total capital increased to NOK 1.43 billion

Kommunalbanken's foreign and domestic borrowings 1996-2001



Growth in loans to customers from December 1994 to December 2001





Annual Report 2001



Kommunalbanken's lending volume to the municipal sector increased by approximately 16 percent in 2001, from NOK 36.8 billion to NOK 42.4 billion. The institution had net interest income of NOK 182.6 million and profits after taxes of NOK 82.9 million.

The lending volume constitutes approximately 34 percent of the total Norwegian municipal credit market, which is sufficient to give Kommunalbanken a significant influence on the price level for municipal credit. As such, Kommunalbanken is an important factor in ensuring low cost borrowing for the municipal sector.

There is today strong competition for loans to Norwegian municipalities which ensures efficient market conditions. In the other Nordic countries, in most countries in Western Europe, American states and Canadian provinces, municipal banks are state owned. This has proven to be the appropriate arrangement for ensuring that the market remains competitive.

Annual financial statement

In accordance with the Accounting Act § 3-3 we confirm that the Financial Statements have been prepared under the assumption of going concern. It is the opinion of the Board of Directors that the operating statement and the balance sheet, with its associated notes, as of 31 December 2001 provide an accurate description of the institution's financial position at year end.

As a specialised institution for municipal financing, operating income is dependent on the net margin between the loan and funding portfolios. Of the total NOK 42.4 billion loan portfolio, approximately 66 percent are floating rate.

In 2001 the institution had net interest income of NOK 182.6 million. This is an increase of 28.7 percent compared to the previous year. A relatively stable interest rate environment and increased volumes are behind the improved interest margin coupled with greater volume and better margins in the management of surplus liquidity. Kommunalbanken has made provisions of NOK 25.7 million for guarantee fees to the government and stand-by fees to financial institutions. The institution has recorded capital gains of NOK 2.2 million referring to the repurchase of its own bonds.

In absolute terms the operating cost is higher than budgeted for 2001. However, as a percentage of total assets, operating cost has been somewhat reduced, from 0.09 percent in 2000 to 0.08 percent in 2001. The increase in the absolute operating cost is associated partially with areas that are a direct result of financial activities, such as stock exchange fees, registration of securities, rating agency fees and bank and trustee fees. The purchase of a new financial system has also contributed to the cost increase. For Kommunalbanken, this represents the biggest investment for several years to come.

Total equity and subordinated capital at the end of the year was NOK 1 432.6 million, of which tier 1 capital amounted to NOK 751.2 million. The capital ratio at the end of the year was 11.62 percent.

Kommunalbanken's operating profit before taxes was NOK 115.2 million. This corresponds to a return on value adjusted equity capital of 16.3 percent. Profit after taxes was NOK 82.9 million, corresponding to a return of 11.76 percent. Corresponding figures for 2000 were NOK 74.5 million before taxes and NOK 53.6 million after taxes respectively, which represented a return of 11.08 percent before taxes and 7.98 percent after taxes. The Board of Directors is satisfied with the annual profits for 2001.

Lending activities

After the establishment of Kommunalbanken (previously Norges Kommunalbank) a little over two years ago, Kommunalbanken has experienced a growth in lending volume of NOK 14.5 billion, corresponding to a percentage increase for the period of over 50 percent. This illustrates that the institution's position as the biggest and most important lender to the municipal sector has been further strengthened, at the same time as showing that the timing of the conversion to its current structure (local government funding agency) was the right one for both the municipalities and the institution. It is now clear that as a government administrative body, Kommunalbanken would not have had the opportunity now available to develop and thereby provide the best possible service to the sector. In the opinion of the Board of Directors, growth in lending volume is not in itself of vital importance for the operation of the institution. The growth in lending

volume does however show that the institution fulfils its important social role, setting the level for municipal credits as it is supposed to do, and that the customers, in the opinion of the Board of Directors, have confidence in the business.

The demand for loans for new investments in the first months of 2001 was, as in prior years, relatively modest compared to developments for the year as a whole. Activity picked up significantly during the month of May and demand was heavy during the rest of the second quarter and throughout the whole second half of 2001. The demand for loans was particularly heavy during November and December. During 2001, new loans corresponding to NOK 10.3 billion were granted, whereas total disbursements were NOK 10.75 billion. These levels are somewhat higher than in previous years.

With a reasonable degree of certainty, the demand for loans in 2002 may be expected to be lower than the previous year, even though Kommunalbanken expects a continued high level of activity in 2002. Kommunalbanken will therefore experience a reduction in the loan portfolio during the year. This is due to the central government assuming responsibility for the county hospitals in 2002, and as a result the county administrations will redeem large loan amounts. Over the years, Kommunalbanken has prioritised loans for hospital development and is therefore holding a significant share of the county administration debt associated with hospitals. The estimate for total redemptions is in the area of NOK 6.5 billion.

Kommunalbanken's loans are evenly distributed geographically to municipalities and county administrations



THE BOARD OF DIRECTORS

Standing, l. to r.:

Kristian Semmen
Member

Petter Skouen
Managing Director

Else Bugge Fougner
Chairman

Bjørn Kristoffersen
Member

Per N.Hagen
Vice-Chairman

Front, l. to r.:

Bodil P. Hollingsæter
Member

Annette Nielsen
Member

across the country. In addition, the institution provides loans to inter-municipal companies and loans against a municipal guarantee to companies providing municipal services. Kommunalbanken has seen it as particularly important to prioritise loans to companies within the care sector in both 2000 and 2001. In order to meet the requirements laid down in the governmental action plan for the care of the elderly, many municipalities have chosen to use such companies for the development of new care facilities. The State Housing Bank has not been able to grant all loans for this purpose within its lending limits. Loan financing from Kommunalbanken, for example to housing co-operatives, has therefore been of vital importance to the financing of these highly prioritised social projects.

The Board of Directors of Kommunalbanken recognises the importance of the whole customer base being

offered the most favourable financing terms, regardless of the size of the municipality and its regional location. Smaller municipalities make up the biggest share of the institution's total loan portfolio. Unlike municipalities with significantly larger borrowing requirements, these smaller units do not have the same opportunities for obtaining financing in the note and bond markets. This enables these small municipalities to avoid having to use far more expensive bank credits. However, the current flexible and modern regulatory framework does at the same time enable Kommunalbanken to bid competitively on all major borrowings, also in the form of notes for those municipalities and county administrations who prefer this. A not insignificant share of the loan volume in 2001 was channelled to medium and large municipalities. This demonstrates the institution's dedication to keeping the whole market competitive, and to keeping down interest rates, regardless of municipality size.



Current developments are showing a tendency towards municipalities borrowing an annual amount to cover all planned investments in the course of the year. At the same time, many municipalities choose to reduce the number of outstanding loans. The greatest single purpose for which loans from Kommunalbanken have been used in 2001 has, as in the past few years, been loan financing of new nursing home beds and care facilities. Even though the governmental action plan for the care of the elderly is about to be concluded, such construction projects will continue to be the most prioritised municipal borrowing target in 2002. Approvals and disbursements are otherwise evenly distributed over several important municipal investment areas, such as school construction, water supply and environmental protection measures. During 2001 the

municipalities have also, to a great extent, made use of the opportunity to refinance loans at more favourable terms.

As a consequence of the governmental financing scheme, Kommunalbanken expects increasing demand for loans for new construction and improvement of school buildings from both county administrations and municipalities in 2002.

It is difficult to imagine that the institution in the future will be exposed to credit risk when lending to the municipal sector. Kommunalbanken has not made provisions for future bad loans as neither Kommunalbanken, nor its predecessor, Norges Kommunalbank, have ever recorded loan losses.



LENDING DEPARTMENT'S LOAN MANAGERS

Lise Schie Berntsen, Helge Salseng (Director),
Børge Daviknes, Terje Rognvik and Marit Ødegård

Approved and disbursed loans in 2001

(NOK)

	Approved	Disbursed
	31.12.2001	31.12.2001
Electric power stations and power grid	1 100 000	1 100 000
Water supply	150 743 807	144 642 666
Harbour development	98 966 934	101 633 574
Site development	13 940 110	17 397 110
Hospitals, nursing homes etc.	1 850 388 288	2 054 172 547
Municipal buildings	132 346 198	166 062 573
Church buildings	7 920 000	15 650 000
Schools	253 217 541	244 644 591
Roads and bridges	105 918 580	81 309 980
Other	5 172 309 125	5 450 559 780
Infrastructure investments	8 587 090	13 232 090
Land acquisition	6 000 000	10 319 125
Environmental protection measures	241 967 729	259 367 100
Refinancing	2 261 323 323	2 183 538 451
Total	10 304 728 725	10 743 629 587

Loans distributed by county in 2001

(NOK)

	31.12.2001
Østfold	627 246 710
Akershus	927 721 750
Oslo	322 192 479
Hedmark	281 452 525
Oppland	595 327 403
Buskerud	790 886 651
Vestfold	408 722 895
Telemark	206 462 781
Aust-Agder	91 537 900
Vest-Agder	318 100 118
Rogaland	952 864 849
Hordaland	1 811 953 315
Sogn og Fjordane	287 198 966
Møre og Romsdal	934 796 054
Sør-Trøndelag	537 769 461
Nord-Trøndelag	446 490 500
Nordland	610 442 496
Troms	460 961 614
Finnmark	131 501 120
Total	10 743 629 587



Funding activities

Kommunalbanken maintained a high level of funding activity in 2001. Over 95 percent of Kommunalbanken's long term funding was arranged through the international capital markets in 2001 and the efforts to develop the global investor base for Kommunalbanken issues have been ongoing. Investor presentations have been arranged in a number of countries in Europe and Asia, as well as in Australia.

A major condition for obtaining inexpensive foreign funding is that the borrower has a credit rating from one or more of the generally recognised rating agencies. Kommunalbanken has a rating of AAA and Aaa from

Standard & Poor's and Moody's Investor Service respectively. These reflect both the low risk associated with the institution's business, its zero loan loss history and its particular function in society.

During 2001 Kommunalbanken established itself in the Japanese capital market. A total of JPY 164 billion (NOK 11 billion) was borrowed in Japan. In 2001 the institution was for the first time active in the Japanese retail market and the Japanese Ministry of Finance last year assigned Kommunalbanken "Sovereign status".

The biggest public bond issue in 2001 amounted to USD 500 million (NOK 4.5 billion). The issue was mainly placed

in the Asian market. As the first Norwegian borrower for many years, Kommunalbanken also placed a bond issue of AUD 200 million (NOK 900 mill) in the Australian domestic market. The issue was well received and the fact that a Norwegian borrower used this market to gain funding for Norwegian municipalities, was most unusual.

In co-operation with the Norwegian Ministry of Foreign Affairs, Kommunalbanken signed a global loan agreement of NOK 1.0 billion with The Council of Europe Development Bank (CEB). The funds will be channelled to the Norwegian municipal sector to be used for investments within health-care, education, environmental protection and preservation of cultural heritage.

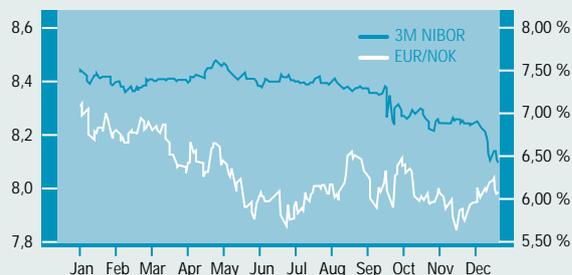
The institution's outstanding volume of bonds, notes and other borrowings increased by NOK 10.4bn to NOK 52.4bn.

FINANCE DEPARTMENT

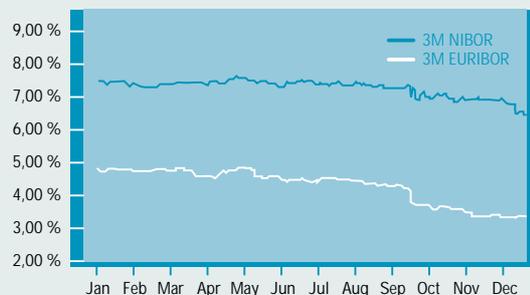
From l. to r.: Portfolio Manager Terje Fronth-Pedersen, Treasurer Siv Felling Galligani, Senior Portfolio Manager Cato Gaustad, Head of international Funding Kristine Falkgård and Finance Director Thomas Møller.



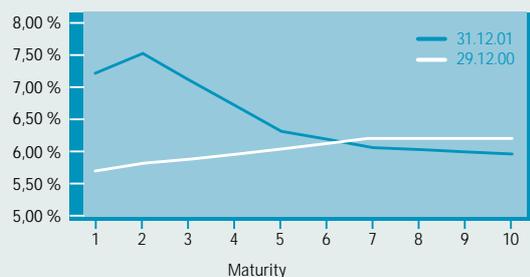
3M NIBOR and EUR/NOK 2001



3M NIBOR and 3M EURIBOR 2001



Norwegian Treasury yield curve 2001



Kommunalbanken Annual Report 2001

For foreign borrowings, Kommunalbanken uses its Debt Issuance Programme (EMTN) which has been increased to EUR 5bn (NOK 35bn).

Liquidity management

It is Kommunalbanken's policy to maintain a net liquidity level that corresponds to its net capital requirement for a minimum of 12 months. This entails that the institution in any given situation will be able to cover all obligations for the following 12 months without further funding from the capital markets. Surplus liquidity is managed according to prudent guidelines, both regarding credit and market risk. Investments are made in interest bearing instruments of high credit quality.

Risk management

The Board of Directors considers the monitoring of financial risks as extremely important. Limits have therefore been approved for the institution's exposure towards the different forms of market and credit risks. These risks are monitored on a continuous basis.

Marketing and information activities

An increasingly more competitive market situation faces Kommunalbanken bringing with it new challenges in its marketing and information activities. The objective is increased visibility both in the media and in the market place. This must be combined with a high level of service and fast loan application turnaround to ensure that the institution's customers are satisfied and that expectations are met. As in the fall of 1999, the institution will conduct a survey in the spring of 2002 to map customer satisfaction.

In 2001 the institution launched a newsletter that is sent to all mayors, chief officers and municipal finance managers in the country. The feedback on the information effort is positive.

Advisory services

As part of the service in connection with municipal borrowings, the skills of Kommunalbanken in the financial area are available on a continuous basis to the institution's customers.

An example of such advisory services is the structuring of a municipality's loan portfolio to achieve the lowest possible interest cost over time, relative to its interest rate exposure and sensitivity to changes in interest rates.

This year there have been many enquiries in connection with the preparation of municipal funding strategies and general information enquiries from the administration and politicians within most areas of financial planning and municipal finances. Assistance in the acquisition of new banking agreements for municipalities are still rendered as paid consultancy assignments. More comprehensive and complicated laws and regulations regarding public purchasing seem to have resulted in an increasing number of large municipalities and county administrations requesting such assistance.

Organisation

At the end of 2001 the number of staff was 28.1 full time equivalents. Four employees have started and three left during the year. Kommunalbanken has not implemented any major organisational changes during 2001.

The greatest challenge faced by the organisation has been associated with the implementation of a new finance system. This has required affected employees to adjust routines and acquire new skills. This has taken place simultaneously with the implementation of the new system. Future challenges will be associated with organisational adjustments required by the introduction of the new finance system.

Absence due to illness last year reflects the organisational and environmental conditions in the institution. It went down from 2.4% in 2000 to 1.7% in 2001.

IT

During 2001 much attention has been devoted to the installation and implementation of a new computer system for the funding and accounting functions. The system was acquired in co-operation with Kommuninvest in Sweden. A development group has been established to continuously manage co-operation between the two operations and system development. This co-operation is formally

organised in the jointly owned IT company, Administrative Solutions AB.

External environment

The activities of Kommunalbanken do not have negative effects on the external environment.

Future development

The Board of Directors expects the competitive situation to intensify. Since the central government has taken over the county hospitals, and the responsibility to finance future investments from the county administrations, a large and important market for financial institutions has been removed. Therefore, there will be increased struggle for share in a smaller market.

A reduction in the short term of the institution's portfolio in connection with the government take-over of the county hospitals will, however, release capital for other important municipal projects. Kommunalbanken's objective for 2002 is to continue to offer competitive terms and to

increase its share of the total lending volume, in order to further strengthen the institution's position as the leading financial institution for the municipal sector.

The Board of Directors of Kommunalbanken is satisfied with the institution's ownership structure, and the regulatory framework is stable. These are important factors for both future competitiveness and for the institutions ability to service the municipal sector in the best possible manner. In a period when other financial institutions are expecting great structural changes and further changes in ownership, Kommunalbanken's core framework is fixed.

Application of net profits

The Board of Directors proposes that the net profits of NOK 82.917 million be applied as follows: NOK 36.5 million to be applied to payment of dividends with reference to the Government's dividend proposal in the state budget for 2002, and that NOK 46.417 million be transferred to retained earnings. Kommunalbanken has distributable reserves of NOK 89.971 million.

Oslo, 31 December 2001
8 March 2002

The Board of Directors of Kommunalbanken AS

Else Bugge Fougner
Chairman

Per N. Hagen
Vice-Chairman

Bodil P. Hollingsæter
Board member

Bjørn Kristoffersen
Board member

Kristian Semmen
Board member

Annette Nielsen
Board member

Petter Skouen
Managing Director

Local authority infrastructure requires significant investment and maintenance

Kommunalbanken expects steady demand for loans to fund local-authority investments for the foreseeable future. A new financing scheme for building and improving schools will allow major new investments in the school sector. At the same time, there is still a great need for even more nursing-home places. A survey has also revealed a major need to improve local-authority buildings and in addition, proposals have now been put forward to spend a considerable amount on the maintenance of cultural monuments.

When setting the government budget for 2002, the Norwegian parliament decided to introduce a state financing scheme whereby local authorities and county councils will be compensated for their interest expenses relating to the building of new schools and the renovation of old ones. This financing scheme enables the local-authority sector to raise up to NOK 15 billion in interest-free loans, which have a five-year grace period from capital repayments and a term for each loan of 20 years. The scheme will run for an eight-year period. The investment limit for 2002 is NOK 2 billion. The state will cover the interest costs for the entire 20-year period, calculated based on an equivalent floating rate loan from the Norwegian State Housing Bank (Husbanken).

5 000 new nursing-home places

Unlike the scheme mentioned above to assist with the cost of the building and renovation of school buildings, the Norwegian parliament's "Action Plan for the Care of the Elderly" (Handlingsplan for eldreomsorgen) does not seem to cover the need for the renovation of sheltered housing and nursing homes. This plan is due to have been carried out by the end of 2004. More than 30 000 new sheltered homes and nursing-home places will by then have been built in order to meet some of the increased

demand that will arise when the large numbers of children born before and after the Second World War retire in the years to come. But despite the fact that there are now 5 000 new nursing-home places, only 19% of the elderly over the age of 80 are offered such a place. MPs are now indicating a need for a further 5 000 nursing-home places by the year 2005.

Lack of building maintenance

A report prepared by ECON Centre for Economic Analysis and Multiconsult on behalf of the Ministry of Local Government and Regional Development states that the amount spent by local authorities on maintaining their buildings is about half of that required for proper maintenance. This report, entitled "The maintenance of local-authority buildings" (Vedlikehold av kommunale bygninger), was submitted at the beginning of 2001.

According to this report, the local authorities and county councils themselves believe that 40 percent of their buildings are poorly maintained, ie, that they have some or many major faults or defects. Poor maintenance implies that the building capital is not being efficiently utilised. ECON and Multiconsult state that they have not managed to identify many factors that can explain why some local authorities are worse at maintaining their buildings than others. For instance there is no clear link between a local-authority's revenues and the state of its buildings.

The local-authority and county-council buildings amount to a total of almost 35 million square metres with a technical value estimated at NOK 280-360 billion. Local-authority buildings comprise around 29 percent of all the commercial-building floor space in Norway.

The survey showed that local authorities spent NOK 46 per square metre on maintaining their buildings, while the county councils spent NOK 65 per square metre. On

the whole, it can be assumed that NOK 1.6 billion was spent on this type of maintenance in 1999, only half of the amount required.

Desire to maintain cultural monuments

The Ministry of the Environment recently presented a report, NOU 1/2002 "The past shapes the future – the challenges posed by a new cultural-monument policy" ("Fortid former framtid – Utdringer i en ny kulturminnepolitikk"). The committee responsible for this report supports the Central Office of Historic Monuments' proposal that there is a need to spend NOK 475 million in each of the coming four years in addition to the current grant of around NOK 120 million in order to maintain cultural monuments.

Full kindergarten coverage by 2003

The remaining investment required to achieve the government's goal of full kindergarten coverage by 2003 is rather more uncertain. According to the Ministry of Children and Family Affairs, 62 percent of those aged between 1 and 5 years had a place in a kindergarten at the end of 2000, while the goal of full coverage, defined as 80 percent, had been achieved for all 4 and 5 year olds. If there is a majority in parliament for reducing the amount paid by parents to NOK 1 500 per month, the demand for kindergarten places may increase significantly.

Norway

Macro-economic indicators

Accounts and forecasts

(1997 Prices)

			accounts 2001	% change from previous year	
			NOK bn	2001 actual	2002 forecast
Household consumption incl. non-profit organisations			575.8	2.2%	3.0%
General Government consumption			240.8	1.5%	1.7%
Gross fixed investment			238.3	-5.9%	0.8%
	of which:	Petroleum	50.2	-3.1%	-3.8%
		Business sector, mainland Norway	110.8	-4.8%	-3.0%
Exports			499.4	5.3%	3.7%
	of which:	Crude oil and natural gas	180.1	7.3%	5.4%
		Traditional goods	189.7	3.0%	2.1%
Imports			400.3	0.3%	3.7%
	of which:	Traditional goods	269.0	3.1%	3.5%
(Market Prices)					
Gross Domestic Product			1 472.0	1.4%	2.3%
	of which:	Mainland Norway	960.9	1.0%	1.6%
Memorandum items:					
Consumer price inflation				3.0%	1.1%
Wages growth				4.9%	4.3%
Employment growth				0.4%	0.4%
Unemployment rate				3.6%	3.8%
Private savings, % of net disposable income (savings ratio)				7.4%	9.3%
Current account of the balance of payments:					
		NOK billion		217.7	170.9
		% of GDP		14.8%	11.6%

Source: Statistics Norway



Annual accounts and notes



Profit and loss account

Kommunalbanken AS

(amounts in NOK 1000)

	Notes	2001	2000
Interest and related income			
Interest and related income on loans to and deposits with credit institutions		73 299	41 820
Interest and related income on loans to and receivables due from customers		2 862 079	2 090 307
Interest and related income on notes, bonds and other fixed income securities		381 131	238 632
Other interest and related income		17 803	36 005
Total interest and related income		3 334 313	2 406 764
Interest and related expenses			
Interest and related expenses on debt to credit institutions		45 604	31 048
Interest and related expenses on issued securities		3 063 936	2 207 106
Interest and related expenses on subordinated debt		41 904	26 651
Other interest and related expenses		261	90
Total interest and related expenses		3 151 705	2 264 895
Net interest income		182 607	141 868
Dividends and other income from securities with variable yield			
Income from shares and other securities with variable yield		11	18
Total dividends and other income from securities with variable yield		11	18
Commission costs and costs of banking services			
Government guarantee fee/stand-by fees	19	25 775	28 725
Total commission costs and costs of banking services		25 775	28 725
Net gains/losses on foreign currency and securities held as current assets			
Net gains/losses on notes, bonds and other fixed income securities		2 210	17
Net gains/losses on foreign currency		-110	-544
Total gains/losses on foreign currency and securities		2 100	-527
Other operating income			
Other operating income		367	752
Total other operating income		367	752
Salaries and general administrative expenses			
Salaries	1	14 285	13 714
Pensions	2	1 677	233
Social security costs		2 927	3 092
Administrative costs		13 268	11 481
Total salaries and general administrative expenses		32 156	28 520
Depreciation etc. on fixed assets			
Ordinary depreciation	8	2 428	2 112
Total depreciation etc. on fixed assets		2 428	2 112
Other operating expenses			
Real estate operating expenses	3	4 804	4 640
Other operating expenses		4 667	3 568
Total other operating expenses		9 471	8 208
Tax on ordinary income	9	32 338	20 966
Net income after taxes		82 917	53 580
Transfers and allocations			
Allocations			
Dividends		36 500	20 750
Transferred to retained earnings	22	46 417	32 830
Total allocations		82 917	53 580

Balance sheet

Kommunalbanken AS

(amounts in NOK 1000)

ASSETS	Notes	31.12.01	31.12.00
Cash and deposits with Central Bank of Norway		2	2
Loans to and deposits with credit institutions			
Loans to and deposits with credit institutions without agreed maturity or notice period		45 174	14 121
Loans to and deposits with credit institutions with agreed maturity or notice period		299 003	966 880
TOTAL NET LOANS TO AND DEPOSITS WITH CREDIT INSTITUTIONS	4	344 177	981 001
Loans to and claims on customers			
Instalment loans	5	42 413 031	36 776 740
Other loans	1	19 611	10 986
TOTAL NET LOANS AND CLAIMS ON CUSTOMERS		42 432 642	36 787 726
Notes, bonds and other fixed income securities			
Government issuers notes and bonds		614 871	769 330
Other issuers notes and bonds		11 241 731	5 802 194
TOTAL NOTES, BONDS AND OTHER FIXED INCOME SECURITIES	6	11 856 602	6 571 524
Shares			
Shares	7	554	100
Intangible assets			
Deferred taxes	9	1 227	0
Fixed assets			
Machinery, equipment and vehicles	8	4 221	5 136
Other assets			
Financial derivatives		0	0
Other assets		210	8
TOTAL OTHER ASSETS		210	8
Prepaid non-accrued expenses and accrued income			
Accrued income		811 158	714 916
Total prepaid, non-accrued expenses		1 824	465
TOTAL PREPAID NON-ACCRUED EXPENSES AND ACCRUED INCOME		812 982	715 381
TOTAL ASSETS	13,17	55 452 617	45 060 879

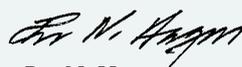
LIABILITIES AND EQUITY	Notes	31.12.01	31.12.00
Due to credit institutions			
Loans from and deposits from institutions with fixed term		822 225	822 225
Debt established through the issuance of securities			
Notes and other short term debt		405 046	585 353
Bonds issued		52 007 077	41 443 082
Other long term debt		138	372
TOTAL LIABILITIES ESTABLISHED THROUGH ISSUANCE OF SECURITIES	10	52 412 261	42 028 807
Other liabilities			
Financial derivatives		0	6 303
Margin requirements and other customer accounts		9 538	7 510
Other debt	11	75 452	57 240
TOTAL OTHER LIABILITIES		84 990	71 053
Accrued expenses and prepaid unearned income		698 872	751 114
Provisions for accrued costs and liabilities			
Pension costs	2	491	318
Subordinated debt			
Tier two subordinated debt	12,21	682 580	682 580
TOTAL LIABILITIES		54 701 419	44 356 097
Paid-up equity capital			
Share capital		660 000	660 000
Retained earnings			
Other equity capital		91 198	44 781
TOTAL EQUITY CAPITAL	21,22	751 198	704 781
TOTAL LIABILITIES AND EQUITY	13,17	55 452 617	45 060 879

Oslo, 31 December 2001

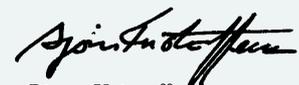
8 March 2002

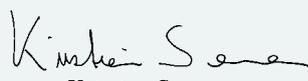
The Board of Directors of Kommunalbanken AS

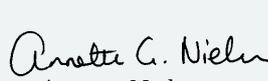

Else Bugge Fougner
Chairman

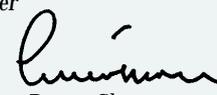

Per N. Hagen
Vice-Chairman


Bodil P. Hollingsæter
Board member


Bjørn Kristoffersen
Board member


Kristian Semmen
Board member


Annette Nielsen
Board member


Petter Skouen
Managing Director


Bjørn Ove Nyvik
Chief Accountant

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Accounting principles

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 to the figures in the profit and loss account and the balance sheet.

SECURITIES

Kommunalbanken's holding of interest-bearing securities is part of the hedging portfolio. The difference between cost price and face value (the premium or discount) is recorded on an accrual basis for the residual maturity. Holdings of own bonds that are part of ordinary banking activities are recorded on a net basis against bond liabilities in the balance sheet.

Shares classified as long-term investments are valued at purchase price.

FINANCIAL INSTRUMENTS

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

In the balance sheet, financial instruments primarily comprise bonds and notes. Financial derivatives are contracts agreed with financial institutions in order to establish financial values in the form of interest terms and exchange rates for certain periods. Kommunalbanken is authorised to enter into the following types of contracts: forward exchange contracts, interest rate and currency swaps, interest rate options, share options, forward rate agreements (FRA's) and listed interest rate futures.

For accounting purposes, a distinction is drawn between the purchase and sale of financial instruments as part of investment activities and transactions undertaken as part of the management of ordinary activities. Transactions in the former category constitute 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. Financial derivatives are valued at market value. Kommunalbanken uses securities and derivatives to hedge its interest position. A financial instrument is classified as a hedging contract when the following conditions are satisfied:

- The transaction must be identified and be suitable as a hedge at the time of the transaction.
- The item to be hedged must entail currency or interest rate risk.
- There must be a high degree of correlation between the value of the hedged item and the hedging instrument.

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

Sale and repurchase agreements for bonds (Repos) are not treated as bond trading, but the equivalent value is considered an asset or a liability. Revenues and costs associated with repos are recorded as interest income and expenses.

Accounting principles

PREMIUMS AND DISCOUNTS ON ISSUED BONDS AND NOTES

Bonds and notes are recorded in the balance sheet at face value with premiums added and discounts deducted.

Premiums are recorded as income and discounts as costs as part of a planned adjustment of current interest expenses up to the maturity of the notes/bonds, alternatively up to the time of the first call provision for bondholders or the first interest rate adjustment.

Premiums or discounts in connection with the purchase and sale of government bonds and notes are classified as part of banking operations and are accrued accordingly.

Losses and gains on buy-backs and resale of own bonds are accrued over their residual maturity.

LOAN LOSS PROVISIONS

Kommunalbanken's lending is valued at nominal value. All loans are granted to municipalities, county administrations, intermunicipal companies and to other companies with a municipal guarantee. Kommunalbanken has no holdings of non-performing or doubtful loans. For this reason, no specific or general loss provisions have been made.

ASSETS AND LIABILITIES IN FOREIGN CURRENCIES

Kommunalbanken's assets and liabilities held in foreign currencies are classified as cash items and are translated on the basis of market rates prevailing on the balance sheet date.

PENSION COSTS AND PENSION OBLIGATIONS

Kommunalbanken has a pension scheme for its employees. In the accounting of its pension scheme, the institution applies the Norwegian Accounting Standard for pension costs. According to this standard, Kommunalbanken's pension scheme is treated as a defined-benefit scheme. The traditional earning profile and expected final salary are used to determine entitlements.

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 the 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 obligations exceed the pension funds, this is recorded as a long-term liability in the balance sheet.

Accounting principles

FIXED ASSETS

Fixed assets are recorded in the balance sheet at original cost with the deduction of accumulated ordinary depreciation. In the case of loss of value assumed not to be temporary, the value of the asset is written down to its estimated fair value.

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

Office equipment:	25 %
Computer equipment:	33.3 %
Fixtures and furniture:	20 %
Cars:	20 %

TAX COST

Taxes are expensed as they accrue, i.e. the tax cost is related to the financial 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 differences between financial and tax-related values at the end of the financial year. Nominal tax rates are used in the calculations. Differences that reduce and increase taxes are off-set during the same time period. The tax cost consists of payable taxes (tax on the year's taxable profit) and the change in net deferred taxes.

RECOGNITION OF INCOME AND EXPENSES

Income is recorded in the operating statement as it accrues. Expenses are matched with income so that expenses are charged to the operating statement in the same accounting period as the related income.

ACCRUAL OF INTEREST AND FEES

Interest and commission income are recognized in the operating statement as they accrue as income or are incurred as costs.

INVESTMENT IN SHORT-TERM SECURITIES

The trading portfolio comprises short-term investments in securities intended for resale to take short-term advantage of price and interest rate variations. The securities held in the trading portfolio are traded on an exchange or on a regulated market. The trading portfolio is valued at market value. The portfolio includes derivatives used in risk management as well as funding. Both derivative and funding positions are valued at market value.

Notes

NOTE 1

Remuneration (amounts in NOK)

At the end of the year Kommunalbanken had 29 full time employees plus one on an hourly based short-term contract. Total cost of salaries and other benefits to Kommunalbanken's employees and officers was NOK 16 024 568. Of this, NOK 1 023 960 was salary and other remuneration to the Managing Director. Directors' fees totaled NOK 435 000. Members of the audit committee received NOK 90 000 and members of the supervisory board NOK 43 000. As stipulated by the Norwegian Financial Enterprise Act, the Managing Director is a member of the board, but does not receive a director's fee. The position has a mandatory retirement age of 65 years.

In 2001 the auditor was paid NOK 321 590 for auditing services. In addition, NOK 175 655 was paid in fees to the auditor for extended audits and further assistance.

Kommunalbanken provides a scheme whereby all employees may be granted a home mortgage. The home mortgages are subsidized by providing the employees with loans at an interest rate that is one percentage point below the institution's funding rate. At the end of 2001, the interest rate was 6%. The collateral for the loans is approved by the Supervisory Committee.

	Balance at	Balance at
Loans to employees	31.12.01	31.12.00
Short term personal loans	369 967	708 292
of which loans to the Managing Director	55 221	12 500
Home mortgages	13 278 680	10 277 694
of which loans to the Managing Director	979 165	
Total loans to employees	13 648 647	10 985 986
Interest rate subsidies in the period	24 052	36 684

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

NOTE 2

Pensions (amounts in NOK)

At the start of 2001 Kommunalbanken AS transferred the coverage for all employees from Statens Pensjonskasse (Norwegian Government Employees Pension Fund) to Kommunal Landspensjonskasse (KLP – National Municipal Pension Fund).

Collective scheme

Kommunalbanken's pension obligations regarding ordinary contractual service pensions are covered through a pension scheme managed by KLP. This scheme provides a defined benefit related to the collective bargaining agreement in the municipal sector. Because the actuarial risk is spread over all the companies, municipalities and county administrations that participate in the scheme, it satisfies the criteria for what is called a "Multi employer plan".

Notes

Currently there are no calculations available that provide a basis for reporting the institution's proportional share of the net pension obligations/pension funds in accordance with IAS 19. In line with international practice, the recorded annual pension cost in 2001 is therefore equal to (net) payments to the pension scheme, i.e. NOK 1 172 139.

Future premiums will be affected by risk related surpluses or deficits on current and prior Kommunalbanken employees and of other municipalities/companies that are part of the scheme. The premium will also be affected by investment returns, wage growth and the development of the base amount for the Norwegian National Insurance program.

Contractual pension (AFP)

Benefits in the form of contractual pensions for the 62 to 66 age group, are additional to the ordinary service pension. AFP after the age of 65 is covered by the same percentage subsidy of the pension entitlement for all employers regardless of employer organisation, and is part of the (net) accrued pension premium described in the introduction.

AFP before the age of 65 is for Kommunalbanken's own account. In the balance sheet, the pension liability related to AFP as of 31 December 2001 is NOK 186 794. Paid-up premiums in 2001 amount to NOK 134 797.

Salaries over 12G

In addition, Kommunalbanken has a pension scheme for salaries over 12G (G = the National Insurance base amount):

Composition of pension costs for the period

	2001
Present value of this year's accruals	215 000
Interest expense	- 3 000
Gross pension cost	212 000
Return on investments	6 000
Net pension costs	206 000

Balance sheet

	31.12.01	31.12.00
Pension liability	147 000	0
Pension funds	161 000	0
Net pension funds	- 14 000	0

NOTE 3

Other operating expenses (amounts in NOK)

Kommunalbanken has office premises at Munkedamsveien 45, Vika Atrium. The building complex is owned by Olav Thon Eiendomsselskap ASA and Kommunalbanken has leased 1 378 square metres. The lease carries a fixed rent and is irrevocable until 31 August 2009. Rent paid in 2001 was NOK 3 541 000. The landlord may adjust the rent on 15 October each year, consistent and proportional with changes in the consumer price index as calculated by Statistics Norway.

Notes

NOTE 4

Loans to credit institutions

	2001	2000
Loans to and deposits with credit institutions without agreed maturity	45 174	14 121
Loans to and deposits with credit institutions with agreed maturity	299 003	966 880
Total net loans to and deposits with credit institutions	344 177	981 001

NOK 1736 has been deposited in a separate tax withholding account.

NOTE 5

Loans to and claims on customers (amounts in NOK)

Loans to customers mature as follows:

Maturity	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
Floating rate loans	730 971 121	1 240 446 242	7 062 567 688	16 431 449 919	25 465 434 970
Fixed rate loans	2 632 572 463	1 520 640 584	3 990 446 631	8 803 797 987	16 947 457 665
Loans against land acquisition bonds		102 880	35 230		138 110
	3 363 543 584	2 761 189 706	11 053 049 549	25 235 247 906	42 413 030 745

LOANS BY COUNTY

	31.12.01	31.12.00
Østfold	1 939 043	1 780 364
Akershus	2 510 629	1 892 324
Oslo	452 296	148 670
Hedmark	1 690 046	1 594 182
Oppland	1 540 709	1 371 060
Buskerud	2 160 556	1 489 122
Vestfold	1 313 891	1 040 459
Telemark	2 089 812	2 014 618
Aust-Agder	911 618	994 202
Vest-Agder	2 270 358	2 131 556
Rogaland	3 410 634	2 867 437
Hordaland	4 725 399	3 428 967
Sogn og Fjordane	1 997 174	1 958 543
Møre og Romsdal	2 827 439	2 401 536
Sør-Trøndelag	3 274 280	3 100 768
Nord-Trøndelag	2 604 530	2 326 901
Nordland	3 291 857	3 004 070
Troms	2 408 210	2 173 013
Finnmark	994 550	1 058 948
	42 413 031	36 776 740

Notes

NOTE 6

Holdings of notes, bonds and other fixed income securities

	Book value
Trading portfolio	5 604 655
Other current assets	6 251 947
Total notes and bonds	11 856 602

	Book value	Acquisition cost	Fair value	Average effective interest rate	Listed
Sovereign and government-guaranteed notes (weighted 0%)	199 857	191 960	191 553	6,60	199 857
Government-guaranteed bonds (weighted 0%)	415 014	414 202	416 946	6,58	415 014
Sovereign and government-guaranteed notes (weighted 0%)	90 024	89 786	90 044	2,29	90 024
Government-guaranteed bonds - foreign (weighted 0%)	989 410	988 088	989 222	5,03	989 410
Notes issued by credit institutions (weighted 20%)	2 132 008	2 138 429	2 143 705	7,13	1 705 606
Notes issued by credit institutions - foreign (weighted 20 %)	8 030 289	8 039 474	8 051 168	4,01	6 424 231
Total	11 856 602	11 861 939	11 882 638		

Kommunalbanken's holdings of fixed interest securities are included in the hedging portfolio.

The difference between cost price and face value (the premium or discount) is recorded on an accrual basis for the residual maturity.

Of which trading portfolio:

Foreign currency	Market value	Acquisition cost	Difference
EUR	221 906	298 642	-76 736
NOK	1 785 380	1 778 229	7 151
SEK	213 478	212 568	910
USD	3 383 891	3 286 841	97 050
Total	5 604 655	5 576 280	28 375

NOTE 7

Shares (amounts in NOK)

The equity portfolio consists of:

1 000 shares in Norsk Vekst ASA with a cost price of NOK 100 per share. Face value of the shares is NOK 88. The total share capital of the company is NOK 600 million. The shares are carried at cost price. The market value is NOK 39.60 per share.

1 000 shares in Norsk Vekst Forvaltning ASA with a cost price of NOK 0 per share. Face value of the shares is NOK 2. The total share capital of the company is NOK 13 333 000. The shares are carried at cost price. The market value is NOK 5.00 per share.

500 shares in Administrative Solutions NLGFA AB with a cost price of NOK 907.30 per share. Face value of the shares is SEK 1 000. Total share capital of the company is SEK 1 000 000. The shares are carried at cost price.

Notes

NOTE 8

Machinery, equipment, etc.

(Depreciation period, linear)	Office equipment (4 years)	Computer equipment (3 years)	Furniture (5 years)	Cars (5 years)	Art not depreciated	Total
Acquisition cost as of 01/01/01	437	3 952	3 242	400	100	8 131
Acquisitions 2001 at cost price	60	1 280	0	0	77	1 417
Disposals 2001 at cost price - scrapped	0	0	0	0		0
Cost price as of 31/12/01	497	5 232	3 242	400	177	9 548
Accumulated depreciation as of 01/01/01	129	2 106	707	53		2 995
Depreciation for the year	106	1 498	648	80		2 332
Accumulated depreciation of disposed fixed assets 2001	0	0	0	0		0
Accumulated depreciation as of 31 Dec. 2001	235	3 604	1 355	133		5 327
Book value as of 31 Dec. 2001	262	1 628	1 887	267	177	4 221

The tax value of fixed assets is NOK 5 083 entailing a positive temporary difference of NOK 861 as of 31 Dec. 2001.

NOTE 9

Taxes

The tax cost for the period consists of:	2001	2000
Income taxes payable	35 937	17 237
Change in deferred taxes	-3 599	3 723
Insufficient appropriation previous year		6
Total tax cost	32 338	20 966

Calculation of the tax base for the period

Profit before taxes	115 255	74 547
Permanent differences	237	310
Changes in temporary differences	12 710	-13 298
Other adjustments	-11	
Tax base for the period	128 190	61 559

Summary of temporary differences	31.12.01	31.12.00
Fixed assets	-861	245
Hedging instruments	-3 030	1 323
Repurchase own securities	-	7 211
Pensions	-491	-308
Total	-4 382	8 471

28% deferred tax/deferred tax advantage (-)	-1 227	2 372
---	--------	-------

Explanation of why tax cost for the year is not 28% of profit before taxes

28% tax on profit before taxes	32 271	20 873
Permanent differences (28%)	66	87
Estimated tax cost	32 338	20 960

Notes

NOTE 10

Domestic note issues and other short-term issues at 31 December 2001

	2001	Average interest
Loans to and claims on credit institutions with agreed maturity	822 225	1.79
Debt raised by issuing NOK denominated commercial paper	405 046	1.88
Debt raised by issuing NOK denominated bonds	25 957 576	6.23
Debt raised by issuing bonds in foreign currency	26 049 501	4.19
Other long term debt	138	10.00
Total debt raised by issuing securities	52 412 261	

Average interest rate has been calculated on weighted nominal interest rate per 31.12.01
Note and bond debt distributed by foreign currency is described in note 17 (Currency risk).

NOTE 11

Other debt

	2001	2000
Allocated dividend	36 500	20 750
Income taxes payable	35 937	17 237
Other liabilities	3 015	19 253
Other liabilities	75 452	57 240

NOTE 12

Subordinated debt

	2001	2000
Ordinary subordinated debt - expires 2010 (EUR 40 million). (Interest rate reset every 3 months. Current rate 3.923%).	321 680	321 680
Perpetual subordinated debt (EUR 45 million) (Fixed rate 6.95%).	360 900	360 900
Subordinated debt	682 580	682 580

Notes

NOTE 13 Part 1

Maturity structure for interest-sensitive assets and liabilities

Amounts by residual maturity

	Total principal	Up to 1 month Total	Of which foreign currency	1 - 3 months Total	Of which foreign currency
Assets:					
Deposits with other credit institutions	344 177	344 177			
Instalment loans	42 413 031	0		3 363 544	
Securities	11 856 602	640 950	473 195	1 404 130	911 704
Other short term loans	19 611				
Financial derivatives	0				
Prepaid expenses	1 824	95		1 729	
Accrued income	811 158	519 141		292 017	
Other assets	6 212	1 438			
Total	55 452 617	1 505 801		5 061 419	
Liabilities:					
Loans to credit institutions	822 225				
Notes and other short-term debt	405 046				
Bond issues	52 007 215	195 000		5 490 798	1 372 960
Financial derivatives	0				
Other debt	84 990	36 000		32 885	
Accrued costs and provisions	699 363	174 718		419 814	
Subordinated debt	682 580				
Equity capital	751 198				
Total	55 452 617	405 718		5 943 497	
Net liquidity exposure, balance sheet items	0	1 100 083		-882 078	

3 -12 months Total	Of which foreign currency	1-5 years Total	Of which foreign currency	More than 5 years Total	Of which foreign currency	Without maturity
2 761 190		11 053 050		25 235 248		
4 713 125	4 299 124	4 641 397	3 196 397	457 000		
		4 902		14 709		
				554		4 221
7 474 315		15 699 349		25 707 510		4 221
				822 225		
405 046						
1 618 459		17 857 846	3 964 653	26 845 112	19 851 628	
16 105						
104 831						
				321 680		360 900
						704 872
2 144 441		17 857 846		27 989 017		1 065 772
5 329 874		-2 158 498		-2 281 507		-1 061 551

Notes

NOTE 13 Part 2

Amounts by interest rate reset

	Total principal	Up to 1 month Total	Of which foreign currency	1 - 3 months Total	Of which foreign currency
Assets:					
Deposits with other credit institutions	344 177	344 177			
Instalment loans	42 413 031	7 735 582		21 910 077	
Securities	11 856 602	4 749 553	3 831 169	3 527 319	3 092 505
Other short-term loans	19 612				
Financial derivatives	0			0	
Prepaid expenses	1 824	95		1 729	
Accrued income	811 158	519 141		292 017	
Other assets	6 213	1 438			
Total	55 452 617	13 349 986		25 731 142	
Liabilities:					
Loans to credit institutions	822 225			822 225	
Notes and other short-term debt	405 046				
Bonds issued	52 007 215	4 792 316	356 970	3 415 770	3 157 808
Financial derivatives	0				
Other debt	84 990	36 000		32 885	
Accrued costs and provisions	699 363	174 718		419 814	
Subordinated debt	682 580	321 680			
Equity capital	751 198				
Total	55 452 617	5 324 714		4 690 695	
Net interest rate exposure, balance sheet items		8 025 273		21 040 448	
Net interest exposure, financial derivatives		-5 641 422		-16 680 429	
Total interest rate exposure		2 383 851		4 360 018	

3 -12 months Total	Of which foreign currency	1-5 years Total	Of which foreign currency	More than 5 years Total	Of which foreign currency	Without maturity
1 512 011		8 231 811		3 023 550		
2 680 438		457 000		442 291		
		4 902		14 709		
				554		4 221
4 192 449		8 693 713		3 481 104		4 221
405 046						
11 381 706	4 627 749	22 716 773	13 697 848	9 700 651	3 078 867	
16 105						
104 831				360 900		
						751 198
11 907 688		22 716 773		10 061 551		751 198
-7 715 239		-14 023 060		-6 580 446		-746 977
3 993 510		11 771 867		6 556 475		0
-3 721 729		-2 251 193		-23 971		-699 736

Notes

NOTE 14

Volumes of various financial derivatives (amounts in NOK)

Kommunalbanken has entered into interest rate swaps, which are used to swap the interest terms for a certain amount for a fixed period, FRAs that fix the interest rate for a nominal amount for a future period and interest rate options that ensures the buyer a fixed interest rate on an agreed amount. The purpose of these agreements is to hedge against specific risk factors.

The agreements are related to Kommunalbanken's funding and investment activities and at the end of 2001 they comprised:

Type of agreement	Purchased	Sold	Net
Forward rate agreements (FRA)	4 577 000	3 325 000	1 252 000
Forward exchange agreements	3 553 739 805	0	3 553 739 805
Swaps	12 475 142 507	67 265 472 564	-54 790 330 057
- of which interest rate swaps	10 910 131 192	30 782 333 239	-19 872 202 047
- of which currency swaps	1 565 011 315	36 483 139 325	-34 918 128 010
Total	16 033 459 312	67 268 797 564	-51 235 338 252

NOTE 15

Interest rate risk

Interest rate risk occurs as a result of the institution's lending and funding activities and arises from different interest rate periods for Kommunalbanken's assets and liabilities, as well as the timing mismatch of incoming and outgoing payments. As part of the management of its total interest rate risk, the institution actively purchases and sells bonds and notes, as well as certain interest rate derivatives, mainly FRA's, interest rate futures and swaps.

The institution has continued its strategy of adapting its various types of loans to its funding so that the interest periods are, to all intents and purposes, matched. Lending and funding activities are split between various portfolios. Interest rate risk is managed by duration matching the funding portfolios with those on the lending side. The duration of a portfolio is defined as the weighted average duration of each individual loan/funding activity in the portfolio. Individual loans/funding activities are weighted by their market value in comparison to the market value of the portfolio. In addition, the repayment profile for lending is matched with the repayment profile for funding.

Kommunalbanken manages the duration of its assets and liabilities through the purchase and sale of securities issued by banks and governments as well as by entering into derivative agreements. Derivatives are described above.

In the interest rate sensitive portfolios, the interest rate risk limit is set at NOK 12 million; the maximum allowable loss should interest rates shift by 1%. This limit applies for the investment portfolio and the fixed interest portfolios. As of 28 December 2001, the total risk was NOK -3.75 million with a one percentage point increase in the interest rate and NOK 3.74 million with a one percentage point decline.

Notes

NOTE 16

Counterparty risk associated with financial instruments (amounts in NOK)

Counterparty risk is the risk that the counterparty to an agreement may be unable to honour commitments at the time of settlement.

Kommunalbanken has an extremely conservative policy concerning agreements where the institution assumes counterparty risk. Kommunalbanken has set limits for maximum exposure against each counterparty. These counterparties may only be solid Norwegian or international financial institutions with a minimum Aa3/AA rating from Moody's or Standard & Poor's respectively. Exposure is continuously monitored and reported weekly to Kommunalbanken's interest rate risk committee and to the Board of Directors at each board meeting.

Some agreements are structured with a view to reducing Kommunalbanken's counterparty risk. This is achieved by means of netting agreements, demanding collateral, up-front payments or repayment in instalments.

Credit risk is associated with the following instruments:

31.12.2001

Forward rate agreements (FRA)	2 143 861
Currency futures and cross currency swaps	492 741 210
Interest rate swaps	1 204 410 319

The market value has been computed based on the mark to market method (ref. capital adequacy regulations). The counterparties have been factored into the calculations 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 percent.

Notes

NOTE 17

Currency risk

The table below shows currency positions according to definitions provided by the Central Bank of Norway (Norges Bank). In its financial guidelines, Kommunalbanken has decided that the institution will not have net currency positions. All currency transactions are hedged.

Assets	Totalt	NOK	Foreign currency	of which USD	of which JPY
Cash and deposits with Central Bank of Norway	2	2			
Loans to and deposits with credit institutions	344 177	100 904	243 272	230 004	77
Loans to and receivables due from customers	42 432 642	42 432 643	0		
Notes, bonds and other fixed income securities	11 865 602	2 536 391	9 320 210	5 567 395	205 746
Shares	554	100	454		
Fixed assets	4 221	4 221	0		
Other assets	1 437	1 437	0		
Prepaid, non-accrued expenses and accrued income	812 982	749 839	63 143	39 090	42
Total assets	55 452 617	45 825 538	9 627 079	5 836 488	205 865
Liabilities and equity capital					
Payable to credit institutions	822 225	0	822 225	822 225	
Debt established through the issue of securities	52 412 260	26 748 668	25 663 593	7 124 510	13 358 901
Other debt	84 990	84 990	0		
Accrued expenses and prepaid unearned income	698 872	263 297	435 575	146 772	213 105
Provisions for accrued costs and liabilities	491	491	0		
Subordinated debt	682 580	0	682 580		
Equity capital	751 198	751 198	0		
Total liabilities and equity capital	55 452 617	27 848 644	27 603 973	8 093 507	13 572 006
Net currency exposure, balance sheet items			-17 976 894	-2 257 018	-13 366 141
Net currency exposure, financial derivatives			17 945 126	2 246 377	13 358 901
Net currency exposure as of 31 Dec 2001			-31 768	-10 642	-7 240

NOTE 18

Kommunalbanken's liquidity risk

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

Kommunalbanken 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 institution has access to long-term financing with a short fixed-interest period through interest rate swaps.

Moody's assigned a rating of Aaa to Kommunalbanken in December 1999. Standard & Poor's assigned a rating of AAA in March 2000.

Kommunalbanken had by year-end government guaranteed debt for an amount of NOK 22.9 billion.

NOTE 19

Guarantee fee to the state

The Storting decided that Kommunalbanken shall pay a guarantee fee of 0.10% to the state on the part of the funding portfolio that carries government guarantees.

NOTE 20

Guarantee liabilities

Kommunalbanken has provided guarantees for loans raised by municipalities for financing of school construction.

As of 31 Dec. 2001, the guarantees amount to NOK 2 946 110.

Guarantee liabilities have been reduced by NOK 2 742 065 during 2001.

Notes

NOTE 21

Capital adequacy

Supplementary capital cannot exceed 100% of Tier-1 capital. Kommunalbanken's equity and subordinated loan capital satisfy the capital adequacy requirements. The institution's equity and subordinated loan capital comprise the following elements:

	31.12.2001	31.12.2000
Tier-1 capital:		
Share capital	660 000	660 000
Other supplementary capital	91 198	44 781
Deferred tax benefit recorded in balance sheet	-1 227	0
Total Tier-1 capital	749 971	704 781
Supplementary capital:		
Subordinated debt	321 680	321 680
Perpetual subordinated debt	360 900	360 900
Total supplementary capital	682 580	682 580
Total equity and subordinated loan capital	1 432 551	1 387 361

The risk-weighted amount for calculating capital adequacy is as follows:

Risk weighted	2001	2001	2000	2000
	Book value	Weighted amount	Book value	Weighted amount
0%	1 694 307	-	749 465	-
20%	46 363 965	9 272 793	43 691 271	8 738 254
50%	13 648	6 824	3 919	1 960
100%	1 776 041	1 776 041	1 124 659	1 124 659
Items that are part of the trading portfolio	5 604 655	664 726	-	-
Off-balance sheet items that are not part of the trading portfolio		612 528		234 343
Total risk-weighted items		12 332 912		10 099 216
Capital adequacy		11.62		13.74

NOTE 22

Changes in equity capital

	Share capital	Other equity capital	Total equity capital
1 January 2001	660 000	44 781	704 781
Profit for the accounting period		82 917	82 917
Dividend		-36 500	-36 500
31 December 2001	660 000	91 198	751 198

The Norwegian government owns 80% and KLP 20% of the shares. Face value per share is NOK 1 000 and the number of outstanding shares is 600 000.

Cash flow statement

CASH FLOW STATEMENT

(in thousands of NOK)

	2001	2000
Interest rate receipts	2 624 382	2 027 169
Interest rate payments	2 511 950	1 754 578
Other receipts	2 466	225
Operating payments	67 402	65 110
Net cash flow from operations	47 496	207 706
Increase/decrease in loans	5 636 291	6 781 039
Increase/decrease in other claims	106 428	418 643
Increase/decrease in short-term securities	5 285 078	4 300 832
Increase/decrease in investments in credit institutions	-636 824	55 546
Net cash flow from long-term financial operations	10 390 972	11 556 060
Increase/decrease in other fixed assets	1 845	1 454
Disposals of fixed assets	0	0
Net cash flow from long-term financial operations	1 845	1 454
Increase/decrease in loans, issuance of securities	10 383 454	10 455 240
Increase/decrease in capital	0	0
Increase/decrease in other debt	-38 133	891 660
Net cash flow from long-term financial operations	10 345 322	11 346 900
Net change in liquid assets	0	-51 188
Liquid assets 1 January 2001	2	51 190
Liquid assets 31 December 2001	2	2

To the Annual Shareholders' Meeting of Kommunalbanken AS

Auditor's report for 2001

We have audited the annual financial statements of Kommunalbanken AS as of 31 December 2001, showing a profit of NOK 82 917 000. We have also audited the information in the Board of 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 income and cash flow statements and the accompanying notes. These financial statements are the responsibility of the Company's Board of Directors and the Managing Director. Our responsibility is to express an opinion on the financial statements and on other information as required by the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and generally accepted auditing principles in Norway. These principles 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 the significant estimates made by Management, as well as evaluating the overall financial statement presentation. To the extent required by law and generally accepted auditing principles, 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 are prepared in accordance with Norwegian law and regulations and present fairly, in all material respects, the financial position of the Company as of 31 December 2001, and the results of its operations and cash flows for the year then ended, in accordance with generally accepted accounting principles in Norway
- the company's management fulfilled its duty to properly register and document the accounting information in accordance with Norwegian law and generally accepted accounting principles in Norway
- the information in the Board of 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 Norwegian law and regulations.

Oslo, 8. mars 2002
ERNST & YOUNG AS



Leiv Aschehoug
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 2001.

The Audit Committee recommends that the annual report and accounts presented be approved as Kommunalbanken's accounts for 2001 and that the application of profits is adopted by the Annual General Meeting in accordance with the Board's proposals.

Oslo, 8 March 2002

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

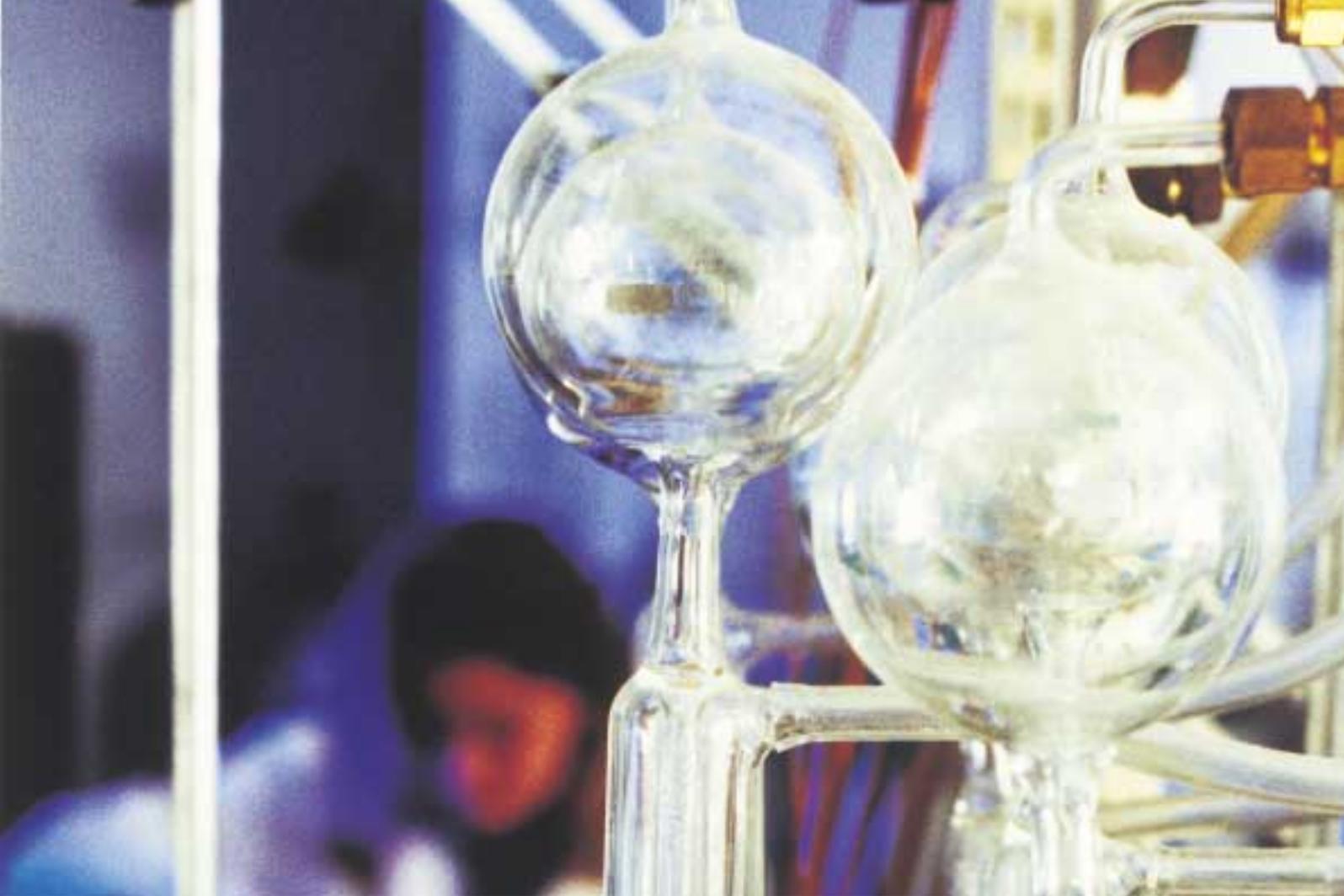
In accordance with § 15 in Kommunalbanken's Articles of Association, the annual accounts and report for 2001 have been examined by the Supervisory Board.

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, is adopted by the Annual General Meeting.

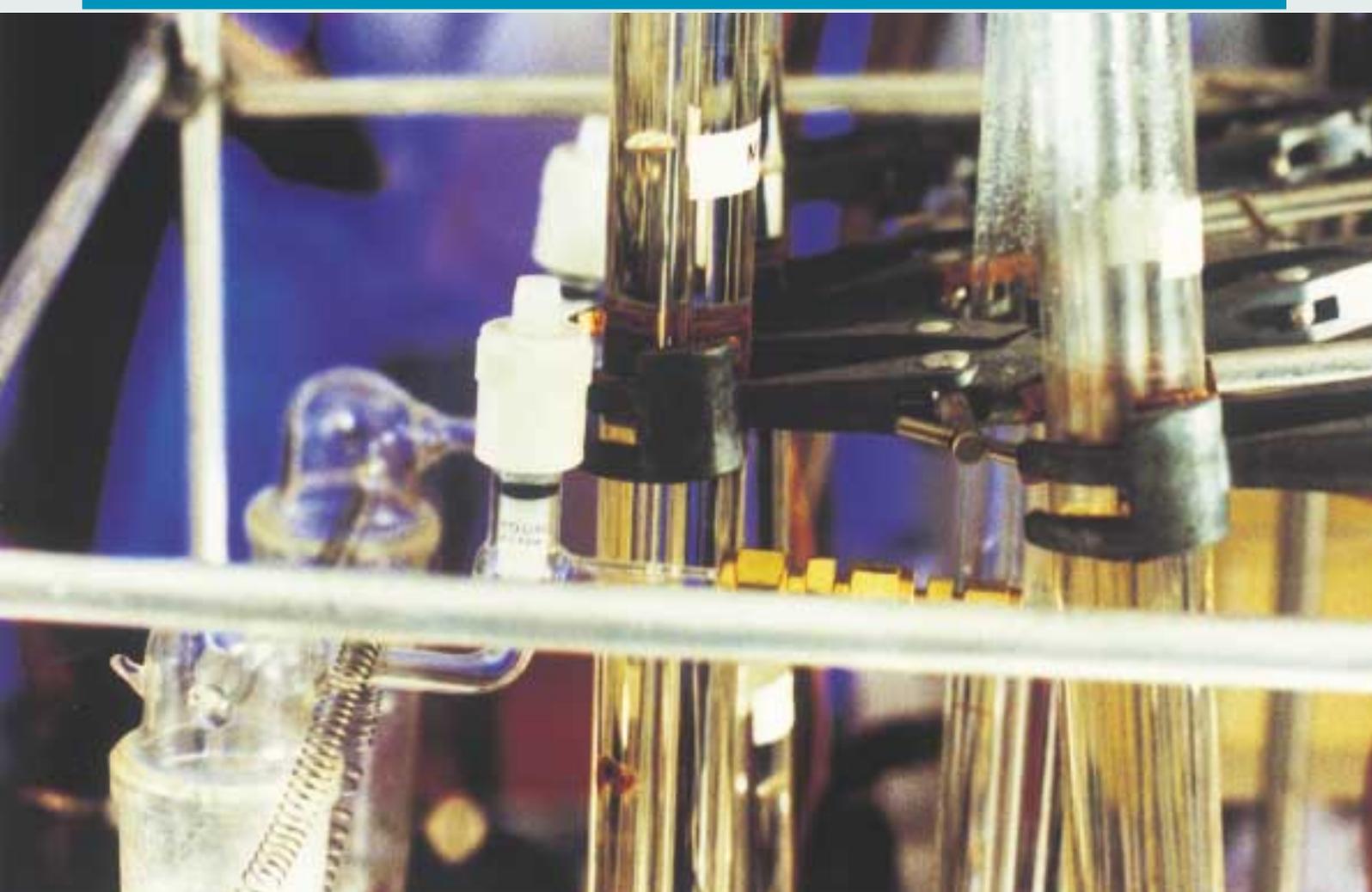
Oslo, 22 March 2002
Supervisory Committee for
Kommunalbanken AS



Ragnhild Skjerveggen
Chairman



Articles of Association



Articles of Association of Kommunalbanken AS

Chapter I

Company, objectives, registered office

- § 1 The Company's name is Kommunalbanken AS.
- § 2 The Company is a direct continuation of the enterprise carried out by the government administrative body, Norges Kommunalbank. The State's shares will gradually be assigned to the local government sector (local governments, counties, intermunicipal companies, municipal pension funds and Kommunal Landspensjonskasse (KLP)). Such assignment shall be done in accordance with the Company's aim of maintaining highest possible creditworthiness.
- § 3 The Company's objectives are to provide loans to local governments, counties, intermunicipal companies and other companies that carry out local government tasks against either a municipal guarantee, government guarantee, or other satisfactory security.
- The Company can also undertake other tasks appropriate to the Company's business.
- § 4 The Company's registered office is 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 not exceed five (5). The Company's managing director shall be a member of the Board. One (1) of the elected members of the Board shall be elected by and from amongst the Company's employees. For this member one (1) personal deputy shall be elected with the right to be present and to speak at board meetings.
- The other members shall be elected by the Annual General Meeting for two-year terms, so that at least two (2) 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 procuracionem
 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 of 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.

Articles of Association of Kommunalbanken AS

The Supervisory Board shall:

1. Appoint the managing director, and approve the instructions for the managing director as laid down by the Board
2. Elect a state-authorized public accountant to act as auditor
3. Provide a statement to the Annual General Meeting in respect of the Board of Directors' proposals for the profit and loss account and balance sheet, including any consolidated profit and loss account and consolidated balance sheet, and the Board's proposals for the application of profit or covering of loss for the year
4. Scrutinise the 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-authorized public accountant and shall be elected by the Supervisory Board.

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

Chapter VIII

§ 19 The Company shall raise funds for lending by issuing bonds, certificates or other forms of loan notes or by entering into loan agreements.

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

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

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

Chapter IX

Annual Report and Accounts

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

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

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

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

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

Chapter X

Age of retirement

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

Chapter XI

Entry into force

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

Chapter XII

Alterations to the Articles of Association

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

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, Former State Secretary, Vice-Chairman
- Bodil P. Hollingsæter, Comptroller, Møre og Romsdal County
- Bjørn Kristoffersen, Group Managing Director, KLP Insurance
- Kristian Semmen, Portfolio Manager, Norges Bank Investment Management
- Annette Nielsen, Head of Loan Administration and Back Office, Kommunalbanken (elected by the employees)
- Petter Skouen, Managing Director, Kommunalbanken

Supervisory Board

- Ragnhild Skjerveggen, Principal, Chairman
- Oddvar Flæte, County Governor, Sogn og Fjordane County, Vice-Chairman
- Elisabeth Aspaker, Political Adviser, Ministry of Education and Research *
- Thor Bernstrøm, Assistant Director General, Ministry of Local Government and Regional Development
- Trond Lesjø, Chief Administrative Officer, Østre Toten Municipality
- Eva Nilsen, Member of the Norwegian Parliament (the Storting)
- Kjell Pettersen, Chief Administrative Officer, Nittedal Municipality
- Harald Røed, Director of Department of Education and Cultural Affairs, 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, Kommunalbanken (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, Kommunalbanken, (elected by the employees)

Audit Committee

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

Auditor

- Ernst & Young AS
- Leiv Aschehoug, State Authorised Public Accountant

* Leave of absence

Management

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

Lending

- Lise Schie Berntsen, Deputy Director & Loan Manager
- Børge Daviknes, Loan Manager
- Terje Rognvik, Loan Manager
- Marit Ødegård, Loan Manager

Treasury

- Siv Felling Galligani, Treasurer
- Kristine Falkgård, Head of International Funding/Investor Relations
- Cato Gaustad, Senior Portfolio Manager
- Terje Fronth Pedersen, Portfolio Manager
- Martine Mills Hagen, MTN Documentation

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

- Bjørn Ove Nyvik, Chief Accountant
- Espen Gluva, Accounting Officer
- Jorunn Svae, Accounting Officer

Control/Middle Office

- Ove G. Bjerkan, Financial Controller
- Bengt Johansen, Assistant Controller

Marketing/Corporate Communication

- Sissel Johnsen Lie, Corporate Communications Consultant
- Hilde Fagerslett, Corporate Communications 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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