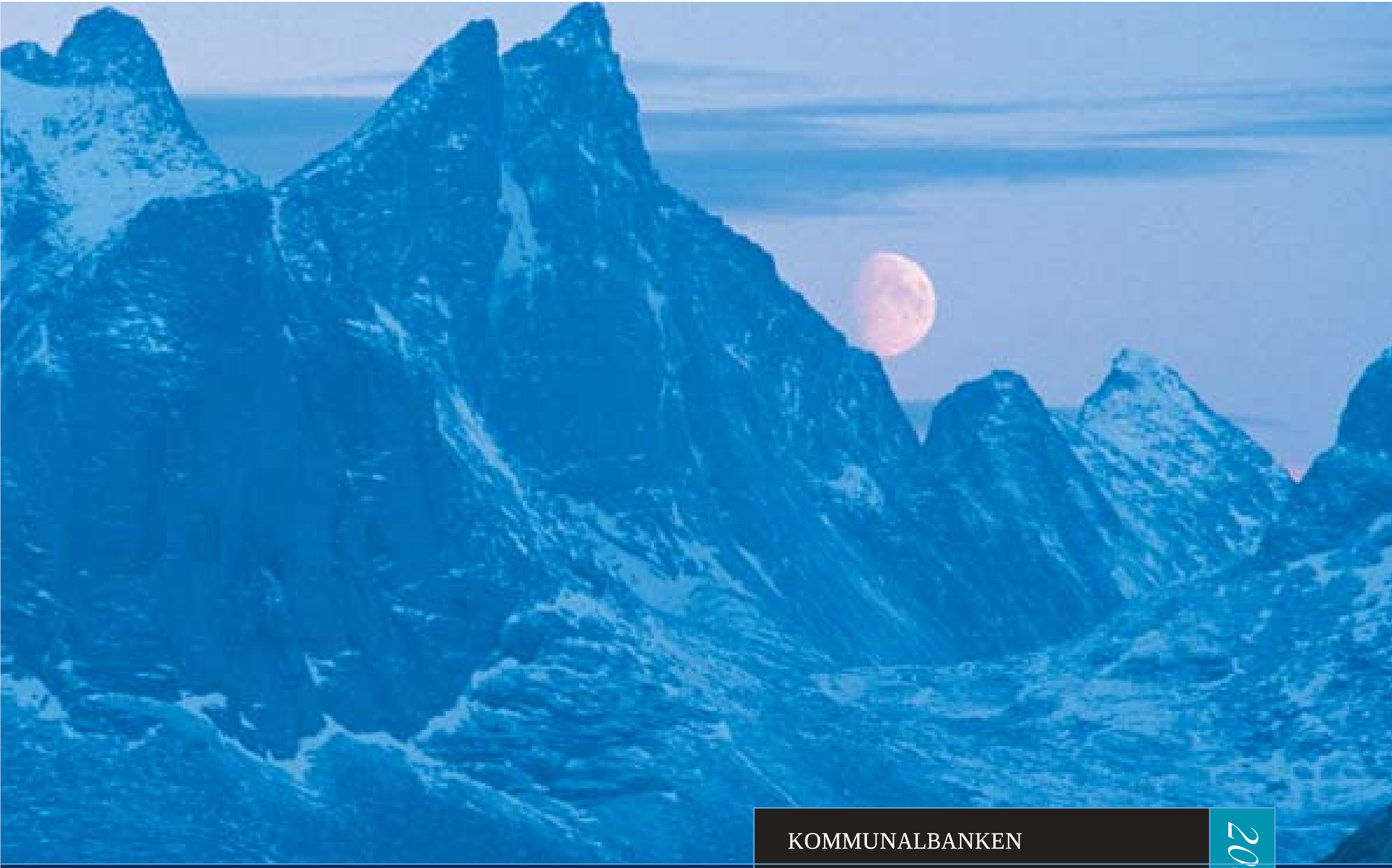


KOMMUNALBANKEN

ANNUAL REPORT AND ACCOUNTS

2002

Kommunalbanken
The Norwegian local government funding agency

INDEX

The history of Kommunalbanken

1927 Norges Kommunalbank was established as a state institution in order to provide funding for the Norwegian local government sector. The institution itself was to raise funds for its operations through the sale of bonds, the first of which were sold abroad.

1929 The institution was given a state guarantee for its borrowings.

1945 The institution was linked to the central authorities' economic policy.

1970 In addition to being a lender to municipalities, Norges Kommunalbank also became an important instrument in the authorities' foreign-exchange policy.

1986 Norges Kommunalbank's right to issue bonds abroad was repealed leaving it only entitled to borrow money in Norway.

1998 The Norwegian Parliament (Storting) decided to convert Norges Kommunalbank into a limited company so that the institution could have more freedom in its borrowing and lending operations.

1999 Kommunalbanken AS was established on 1 November 1999, with the Norwegian state owning all of its shares. Kommunalbanken was made subject to the general legislation applying to financial institutions and was once more granted the right to issue bonds abroad.

2000 The municipalities become co-owners through the National Local Government Pension Fund (KLP) buying 20 per cent of the Norwegian state's shares. Kommunalbanken achieved a rating of AAA/Aaa from Standard & Poor's and Moody's Investors Service.

2002 Kommunalbanken's lending volume exceeded NOK 45 billion. The annual amount borrowed by the institution was the largest ever at NOK 21 million spread over eight different currencies.

"The goal of the State as regards Kommunalbanken is the same as it has been throughout the institution's 75-year history: the institution is to contribute to giving municipalities and county councils loans at the lowest price possible. In my opinion, this can only take place through there being the best possible competition in this market. This is in accordance with the government's general competition policy. My impression is that Kommunalbanken contributes to this competition in a very positive fashion."

State Secretary Anders J. H. Eira of the Ministry of Local Government and Regional Development in the main speech given at the Kommunalbanken's 75-year jubilee in Oslo on 30 August 2002.

Profitable competition

The Norwegian local government sector now pays a lower rate of interest for their loans than ever before. The spread between the lenders' borrowing and lending rates is at a record low. This means that millions of Norwegian kroner that would otherwise have been spent on loan interest payments can now be used for the benefit of the municipalities' inhabitants. The interest-rate margin that Norwegian municipalities pay for their loans is actually one of the lowest in Europe – perhaps even the very lowest.

"The interest-rate margin that Norwegian municipalities pay for their loans is actually one of the lowest in Europe – perhaps even the very lowest."

Why is this? The answer can be given in one word – competition. The market is characterised by a few players, which are in strong competition with each other – winning some loans and losing others. This competition is a great asset to the municipalities.

We in Kommunalbanken place emphasis on all Norwegian municipalities having equal access to favourable loans. The prices of our loans are therefore not volume-dependent. In this way, the institution contributes to small and medium-sized municipalities getting just as good lending terms as the large municipalities.

Despite extraordinary loan redemptions by the county councils, we are pleased to state that the institution can also look back on good growth in lending in 2002. The institution's market share continued to grow in 2002 and we take this as a sign that our products are competitive.

The most important factor for Kommunalbanken's competitive ability is undoubtedly the rating it is given by the international rating agencies. Kommunalbanken's rating of AAA/Aaa is better than that of any other Norwegian financial institution. This rating helps give us entry to capital markets worldwide at the most favourable borrowing terms available.

"The most important factor for Kommunalbanken's competitive ability is undoubtedly the rating the institution is given by the international rating agencies."

Kommunalbanken's rating is based on the high percentage of its shares held by the public sector. Public ownership of the public sector's own lender can therefore safely be characterised as a profitable solution.

Petter Skouen
Managing Director & CEO

2002 – the year in brief

- County councils made extraordinary redemptions of more than NOK 6 billion during the first half-year in connection with the Norwegian state's takeover of Norway's hospitals.
- The municipalities' lending activities increased sharply in early summer and by June all major redemptions had been replaced by new loans.
- The growth in municipal borrowing continued during the autumn and consequently the institution's lending volume increased by a total of 7.3 per cent to NOK 45.6 billion in 2002.
- In June, Kommunalbanken gained its Uridashi shelf registration with sovereign status.
- Kommunalbanken established an internet-based customer information service providing financial information in approximate real time. 75% of municipalities in Norway are now connected to this service.
- The introduction of a new IT system for the institution's borrowing activities was completed.
- Kommunalbanken's 75-year jubilee was celebrated on 30 August with a conference, jubilee performance and a gala dinner. The event gathered more than 400 participants from Norway and abroad – customers, business associates and representatives of the Norwegian civil service, parliament and government.

Odvar Nordli, former prime minister of Norway, Kommunalbanken's Boards of Directors 1987-1999.

Sissel Kyrkjebø and accompanying artists.

From l. to r. Finn A. Hvistendahl, Chairman of the Board, Kredittilsynet[1] and Tore Lindholt, Managing Director, Folketrygdfondet[2].

1) Banking, Insurance and Securities Commission

2) The National Insurance Fund

From l. to r. present member of Kommunalbanken's audit committee, Britt Lund, CEO Hjartdal municipality and Kjell O. Hætta, former member of the audit committee.

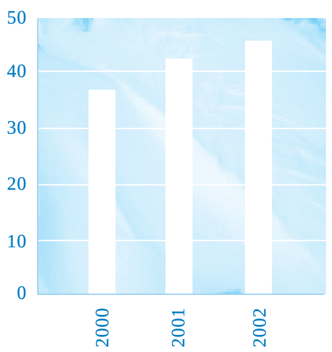
From l. to r. State Secretary Anders J. H. Eira, Ministry of Local Government and Regional Development and Petter Skouen, Kommunalbanken's Managing Director & CEO.

From l. to r. Svein Gjedrem, Governor of Bank of Norway and Arne Skauge, Managing Director of FNH (The Norwegian Financial Services Association) and former Minister of Finance.

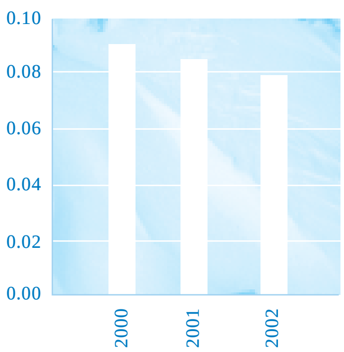
Summary financial figures

(NOK bn)	2002	2001	2000	1999	1998
Net interest and commission income	132.4	130.1	113.1	102.8	72.1
Foreign exchange gains/losses	4.2	2.1	-0.5	0.9	0.9
Other operating costs and extraordinary income	0.5	0.4	0.8	1.3	5.4
Staff costs and other operating costs	43.2	37.5	38.9	32.6	26.2
Profit before tax	93.9	95.1	74.5	72.4	52.2
Tax	26.4	26.7	21.0	0	0
Profit after tax	67.5	68.4	53.5	72.4	52.2
Total lending	45.6	42.4	36.8	30.0	27.1
Average total assets	58.2	50.2	38.6	34.8	35.1
Capital adequacy in %	12.04	11.46	13.74	8.9	9.1
Operating costs as a % of the total assets	0.079	0.085	0.09	0.1	0.1

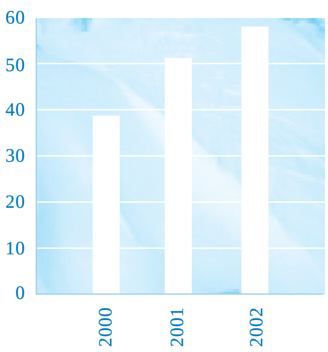
Total lending 2000-2002



Operating costs as a % of total assets 2000-2002



Average total assets 2000-2002



KOMMUNALBANKEN'S POSITION AS THE LARGEST AND MOST IMPORTANT PROVIDER OF LOANS TO THE LOCAL GOVERNMENT SECTOR WAS FURTHER CONSOLIDATED IN 2002.

Annual report 2002

Kommunalbanken's lending volume to the municipal sector continued to increase strongly in 2002. The volume of new loans granted rose from NOK 10.7 billion in 2001 to a record level of NOK 16.0 billion, an increase of 49 per cent. At the same time, repayments on current loans were much higher than previously with approximately NOK 12.9 billion being received in repayments; primarily as a result of extraordinary repayments from the counties in connection with the state assuming responsibility for hospitals.

The end result of the extraordinarily high level of borrowing and repayments was an increase in the institution's lending of NOK 3.1 billion to NOK 45.6 billion. This is equivalent to growth in total lending of 7.3 per cent compared with the previous year.

The Board of Directors notes that Kommunalbanken's position as the largest and most important provider of loans to the local-government sector was further consolidated in 2002. The institution's market position and low operating costs imply that all prospective local government lenders must match the loan terms offered by Kommunalbanken in order to enter the market at all.

After provision for a dividend payment of NOK 38.5 million, Kommunalbanken had book equity of NOK 765.6 million as at 31.12.2002. With a loan volume of over NOK 45 billion, the institution is approaching a natural capacity limit for loan volume in relation to equity.

ANNUAL FINANCIAL STATEMENTS

The annual financial statements have been drawn up on the basis of the going concern principle. The Board of Directors considers that the profit and loss and the balance sheet plus associated notes as at 31 December 2002 provide an accurate description of the institution's financial position at year-end.

Kommunalbanken has net interest income of NOK 161.1 million and profits after tax of NOK 67.4 million. A correction has been made for an error in the financial statements for 2001, resulting in a debit against equity of NOK 14.5 million as at 01.01.02. Comparable figures have been amended accordingly.

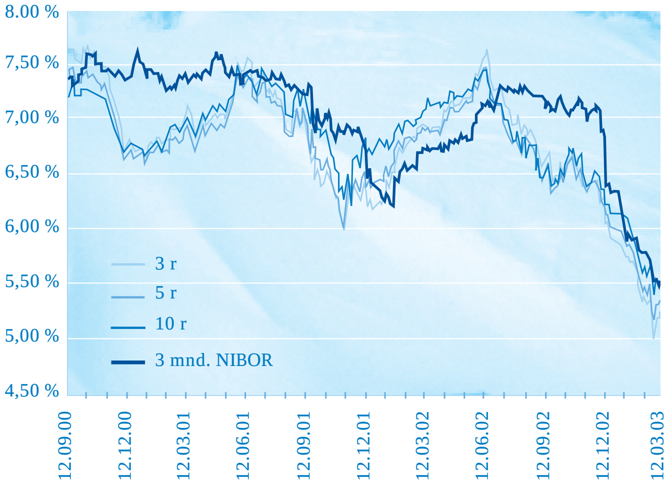
Kommunalbanken has charged NOK 18.9 million against income for guarantee fees to the government and NOK 1.7 million for stand-by fees to financial institutions. The institution has recorded NOK 4.1 million in currency gains and changes in net value.

Kommunalbanken has conservative policies for exchange-rate and interest-rate risk, and the total currency gains were within defined limits. Steps have also been taken during the year to further reduce the level of exposure, as a result of which the institution is expecting lower currency gains in the future.

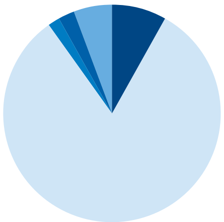
The operating profit after tax is equivalent to a return on adjusted shareholders' equity of 9.15 per cent. The corresponding corrected figure for 2001 was 9.70 per cent. The institution has thus been able to meet the government's target figure for return on equity of 9.38 per cent after tax for 2001 and 2002.

Calculated as a percentage of total assets, operating costs have been reduced from 0.085 per cent to 0.079 per cent in 2002. The increase in absolute operating costs in 2002 is linked, first and foremost, to a larger workforce, introduction of a new data system and costs associated with the institution's 75-year jubilee.
Total equity and subordinated capital at year-end was NOK 1 671.9 million, of which tier 1 capital made up NOK 900.7 million. The capital ratio at year-end was 12.04 per cent, with tier 1 capital accounting for 6.49 per cent of this.

Development in fixed interest rates and NIBOR

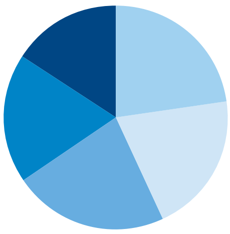


Loan volume by borrower as at 31.12.02



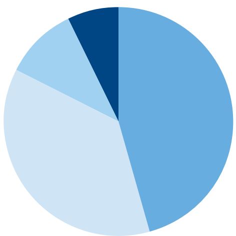
More than 90% of the loans go directly to municipalities and county municipalities.

Loan volume by number of inhabitants as at 31.12.02



Over 65% of loans are granted to municipalities with fewer than 20 000 inhabitants.

Loan volume by interest-rate product as at 31.12.02



Fixed-rate loans make up over 35% of the total loan volume.

LENDING ACTIVITIES

Since its establishment as Norges Kommunalbank in 1927, the institution's main objective has been securing access to reasonably priced loans for the municipalities and, as part of this, acting as a guarantor of competition in lending to the local-government sector. These are tasks which require the institution to have a not insignificant presence in the market. If Kommunalbanken is not able to compete over time in terms of both price and loan volume demanded, it will not be able to fulfil its objective.

To date, foreign financial institutions have not featured in the competition surrounding loans to the local-government sector in Norway. The explanation seems to be that foreign institutions have been unwilling to enter the Norwegian market because the margins are too low to achieve profitability.

In 2002 Kommunalbanken increased its share of the total market for loans to the local-government sector from 34 per cent to nearer 36 per cent. Some of the increase in market share was due to new loans to larger municipalities, which previously did not include Kommunalbanken in their competitive tendering to any significant degree. A good level of growth was also recorded in the demand for loans from small and medium-sized municipalities.

Competition in the local-government loan market is now dominated by two players which specialise in lending to the local-government sector. Given this situation, Kommunalbanken's role as price-level setter, and therefore guarantor of competition in the market, is particularly important to overall pricing in the sector.

Norwegian municipalities have a loan volume of approximately NOK 128 billion, and an interest rate differential of just 0.05 per cent on such an amount would amount to many tens of millions of kroner a year. A differential in the order of 0.20 per cent, which is often the difference between the terms offered by Kommunalbanken and those offered by the larger institutions, is equivalent to just under NOK 300 million per year.

In a customer-satisfaction survey carried out in 2002, the municipalities themselves gave a clear indication that Kommunalbanken makes a significant contribution to competition in the market, thus keeping interest rates low.

The trend in lending after the conversion from a state bank to a limited company in November 1999 shows that the institution's products have found a market. In just over three years, total lending has risen by NOK 17.6 billion, an increase of over 63 per cent.

At the start of 2002, the institution had a loan portfolio of NOK 42.4 billion. At this stage the Board of Directors did not expect the total portfolio volume to grow significantly in the course of the year because of the large amount of redemptions expected from the counties in connection with the state assuming responsibility for the county hospitals.

Although Kommunalbanken has financed many of the recent major hospital developments, total redemptions in 2002 were lower than initially expected, being approximately NOK 6 billion. The majority of this was repaid early in the year, such that the loan portfolio was significantly reduced in the first quarter.

By the end of June, however, lending had already regained the year-end level, i.e. approximately NOK 42.2 billion. Demand only really accelerated from the middle of May and particularly in June and continued throughout the second six months of the year, with a particular surge in November and December.

Total new lending in 2002 was NOK 16.402 billion, while total disbursements were NOK 16.009 billion. This is equivalent to a year-on-year increase of 59.2 and 49.0 per cent respectively. This growth was surprising, especially since the institution's market has been significantly reduced by the state taking over the running of hospitals. This step has meant that Kommunalbanken can no longer finance new hospital investments cf. the articles of association; Kommunalbanken is to be a specialist institution for the local-government sector.

Like the institution's outstanding loans, new lending in 2002 was evenly distributed among municipalities and counties throughout Norway. The Board of Directors also confirms that the institution's framework as a limited company provides a good basis for serving municipalities of different sizes. The larger municipalities have been steadily increasing their borrowing from Kommunalbanken since the conversion to a limited company, and this trend was further reinforced in 2002. For example, there are several large municipalities which are now taking up short-term money-market loans from Kommunalbanken instead of directly in the market. This shows that the institution can also be competitive vis-à-vis the largest municipalities.

However, the Board of Directors attaches importance to small and medium-sized municipalities being able to obtain interest terms as favourable as those available to the larger municipalities. Irrespective of the size of the loan, the terms must be as similar as possible, i.e. the pricing of loans is not volume-dependent.

Small and medium-sized municipalities account for approximately 65 per cent of the institution's loan volume. By benefiting from the joint creditworthiness of the Norwegian state and the municipalities, these municipalities are able to obtain terms on a par with those offered to the largest municipalities through Kommunalbanken. The trend in lending in 2002 shows that Kommunalbanken is making a major contribution to ensuring competition for loans in the local-government market as a whole, irrespective of the size of the municipality.

As in recent years, the largest single use of Kommunalbanken's lending in 2002 was for new nursing-home places and care facilities. Although the Norwegian parliament's Action Plan for Care of the Elderly is about to come to an end, Kommunalbanken assumes that building projects of this type will continue to be the most important object of local-government borrowing for the next year. Other important areas of municipal investment in 2002 were the construction of schools, the water supply and environmental measures. A growing demand for loans for building new day-care centres and schools and improving existing ones is expected in 2003 as a result of the government financing schemes for investments in day-care centres and schools.

Local-government borrowing is also characterised to an increasing degree by just one loan being taken up per year to cover all current investments. In 2002, a significant number of municipalities also refinanced loans on

THE BOARD OF DIRECTORS. *Standing, l. to r. Olav Rune Øverland, Petter Skouen, Unni Skaar Jahren and Annette Nielsen, Front, l. to r. Bjørn Kristoffersen, Else Bugge Fougner and Per N. Hagen.*

better terms. Many municipalities have also chosen to reduce the number of loans in order to rationalise loan administration.

As well as loans to local and regional authorities, Kommunalbanken also provides loans to intermunicipal companies and to other companies carrying out municipal services, against a municipal guarantee. These companies may include private day-care centres and care facilities and companies which are separate from the municipality but which are responsible for water, sewage and refuse collection and disposal.

Many municipalities have chosen to organise development and running of care facilities in separate companies and, in line with the Action Plan for Care of the Elderly, Kommunalbanken has considered it important to also prioritise these companies in its lending activities in 2003. As a result of restricted borrowing limits, Husbanken, the Norwegian State Housing Bank, has had to turn down many applications of this type, with the result that lending from Kommunalbanken, for example to housing co-operatives, has been crucial to these important social projects.

Lending to local and regional authorities and companies with a municipal guarantee entails a low degree of risk, first and foremost because of all the safeguards and control orders built into Norwegian local-government legislation. Kommunalbanken has therefore not made any provision for future losses. Neither Kommunalbanken nor its predecessor Norges Kommunalbank has recorded losses on lending since the institution was established in 1927.

FUNDING ACTIVITIES

Kommunalbanken raised NOK 21 billion in long-term financing in 2002, almost NOK 5 billion more than the year before. This is the highest annual funding figure ever recorded by Kommunalbanken. Financing was raised in eight different currencies, and 85 per cent of the total funding came from international capital markets.

Rating, quality of outstanding loans and the institutional investors' confidence in the lending institution are crucial to the cost of funding. In current market conditions, more favourable terms can be achieved in the retail segment than from large institutional investors, which mainly operate in US dollars and Euros. In 2002 Kommunalbanken achieved the best interest-rate terms by issuing small to medium-sized issues targeted at private individuals and institutional investors in currencies such as the Japanese yen, British pound, Swiss franc, Canadian, Australian and New Zealand dollars and Norwegian krone. Issue volumes which are moderate from an international perspective enable Kommunalbanken to switch borrowing quickly as favourable funding situations arise in different currencies.

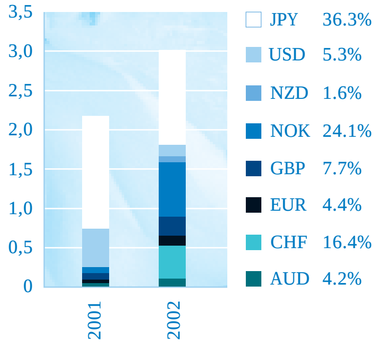
Efforts to develop a broad global investor base for Kommunalbanken's securities were continued in 2002 and, in this connection, the institution arranged investor presentations in a number of countries in Europe and Asia. As a result of several years of marketing activities of this type, Kommunalbanken is steadily becoming an established name in the international capital markets.

Institutional investors in the Norwegian market also showed increasing interest in the institution's bonds in 2002. This contributed to the percentage of financing raised on the domestic krone market rising from 5 to 15 percentage points.

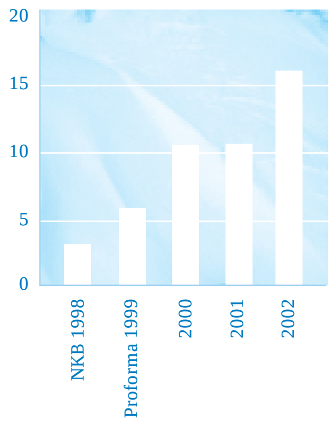
Kommunalbanken has maintained its AAA/Aaa ratings from Standard & Poor's and Moody's Investors Service respectively. These ratings reflect both the low risk associated with the institution's activities and Kommunalbanken's unique position and function in society.

As in previous years, Japan was the most important market for the institution's funding in 2002. A total of JPY 154 billion (NOK 8.9 billion) was raised in Japan in

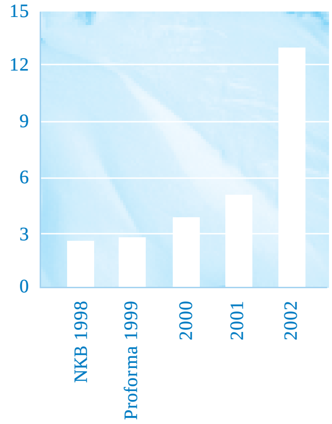
Borrowing 2002, broken down by currency



Loans granted 1998-2002



Repayments on loans 1998-2002



2002, equivalent to 36 per cent of borrowing for the year. In July 2002, Kommunalbanken was granted a Uridashi shelf registration with “sovereign status” in Japan. Kommunalbanken used the shelf to launch five issues in the private market in Japan, and the institution expects to raise further amounts in this segment in 2003.

Alongside Japanese yen, the major currencies in which funds were raised in 2002 were the Norwegian krone, the Swiss franc and the British pound, with smaller amounts in US dollars, Australian dollars, euros and New Zealand dollars. Borrowing in US dollars and euros made up less than 10 per cent of the volume. From a cost perspective, the institution did not consider it expedient to attach greater importance to these two currencies in 2002.

The institution’s outstanding volume of bonds, certificates and other borrowing rose in 2002 from NOK 52 227 million to NOK 57 559 million.

Kommunalbanken uses a “Medium Term Notes” facility for its foreign borrowing. This is a form of standardised loan documentation which simplifies and safeguards the loan process for both the lender and borrower. This programme for the issuance of debt instruments is now EUR 8 billion (NOK 64 billion), having increased fourfold in the three years since establishment.

LIQUIDITY MANAGEMENT

Kommunalbanken has a policy of maintaining net cash balances equivalent to at least 12 months’ net capital requirements. In a given situation, this means that the institution can cover all its obligations without additional borrowing.

Surplus liquidity is managed on the basis of a conservative investment policy, both in terms of credit risk and market risk. In the medium term, cash balances cannot exceed 25 per cent of the balance sheet total. Should this figure be exceeded in the short term, the excess may only be invested in government securities. No interest-rate or currency risks are to be taken.

RISK MANAGEMENT

The institution’s loan customers, the municipalities, do not present a credit risk since, pursuant to Norwegian law, they cannot go into liquidation. The only risk in this connection is that a repayment may be temporarily delayed.

All counterparties on the borrowing and investment side must meet strict criteria in order to be accepted. Counterparties in swap agreements must have a long-term rating of at least AA-/Aa3. Short-term investments require a rating of A1/P1.

Both interest-rate and currency risk are hedged on a transaction by transaction basis. Measurement of these risks is carried out by comparing the cash flows on the asset and liability sides of the institution’s overall balance sheet.

MARKETING AND INFORMATION ACTIVITIES

As a support function for the institution’s specialist departments, marketing and information activities are developed and implemented in line with the objectives applicable to the institution’s lending and funding activities.

The most important marketing and information activity of the year was Kommunalbanken’s 75-year jubilee, which was celebrated in August with a conference, jubilee performance and dinner, meeting with an extremely good response from both owners and customers.

In 2002 Kommunalbanken also set up Business Watch, an Internet-based service for its customers featuring financial information in approximate real time. This has received extremely positive feedback from customers and almost 75 per cent of all Norwegian municipalities are now linked to the service. Last year also saw the creation of a dedicated “Local-government finance corner” on Kommunalbanken’s Web site, offering a wide selection of articles on current economic issues.

ADVISORY SERVICES

Kommunalbanken’s expertise is available to the institution’s customers on an ongoing basis as part of the service offered in connection with local-government borrowing. One example of this would be advising on the structuring of a municipality’s loan portfolio to achieve the lowest possible interest cost over time, relative to its interest-rate risk.

Assistance in the acquisition of new banking agreements continues to be provided as a paid consultancy service. More comprehensive and complicated acts and regulations governing public purchasing mean that an increasing number of large municipalities and county municipalities are also seeking this form of assistance.

ORGANISATION AND WORKING ENVIRONMENT

In 2002, Kommunalbanken gained a new board member, Unni Skaar Jahren, municipal executive of Askim municipality. She has replaced Bodil P. Hollingsæter, who resigned from the Board of Directors as her new position in the banking industry was incompatible with her seat on the Board of Kommunalbanken. Fund manager Kristian Semmen resigned from the Board at year-end, also since his move to a new position in the financial services industry was incompatible with a seat on the Board of Kommunalbanken. He has been replaced by Olav Rune Øverland, general manager of Wassum Investment Consulting.

No major changes have been made to the organisational structure. The workforce has been stable, with one employee leaving and three new ones joining. At year-end, the number of staff was 30.1 full-time equivalents. The three new employees were appointed to strengthen the IT area, settlements and finance. The Middle Office is at planned strength, thanks to the appointment of an analyst, who will take up the position at the start of 2003.

Employees who can document a need for further training within subject-related areas are given financial support to do this in their own time or on a day-release scheme. Continuous development and upgrading of employees' IT skills within the individual's area of responsibility and in connection with the introduction of new IT systems is addressed on an ongoing basis.

Absence due to illness increased from 1.7 per cent in 2001 to 2.1 per cent in 2002. No occupational injuries were reported in 2002.

Products which promote and influence the efforts to improve health, safety and the environment in a positive way are assessed as part of the institution's purchasing policy.

Kommunalbanken rents its premises in Vika Atrium, and is thus part of a larger environmental unit which, among other things, undertakes sorting of waste at source. Smoking is forbidden in the institution's premises. The institution indirectly exerts a positive influence on the external environment through its lending activities by providing loans for environmental measures in the municipalities.

EQUALITY IN THE BUSINESS

At the end of 2002, 17 of Kommunalbanken's 31 employees were women. The gender distribution in the organisation is as follows:
The Board of Directors comprises 7 members, 3 of whom are women. The Chairman of the Board of Directors is a woman. The institution's senior management comprises three men and there are 9 middle managers: 5 women and 4 men. The average salary for female middle managers is 5.3 per cent below the average salary for middle managers overall.

Via its remuneration policy, Kommunalbanken is striving to create a situation where the salary profile is independent of whether a position is occupied by a male or female employee. Wage setting is carried out on an individual basis and is dependent on range of responsibilities, competence and contribution.

The institution has fitted out a crèche to enable parents of small children to take their child to work when there are planning days at the school or nursery or during holidays.

IT

In 2002 Kommunalbanken's IT unit further developed the institution's new finance system and raised its level of user competence. At the same time, a project group assessed a new IT system for the institution's lending activities.

The IT unit was also responsible for installation, operation and maintenance of Kommunalbanken's new Internet-based information service, Business Watch.

The collaboration with Kommuninvest AB in Sweden concerning the jointly owned IT company Administrative Solutions AB has worked well and benefited both parties.

APPLICATION OF NET PROFITS

The Board of Directors proposes that the net profits of NOK 67.449 million be applied as follows: NOK 38.500 million to be applied to payment of dividends, cf. the Government's dividend proposal in the state budget for

2003, and NOK 28.949 million to be transferred to retained earnings. Further to the above application, Kommunalbanken has distributable reserves of NOK 105.612 million.

FUTURE DEVELOPMENT

The Board of Directors expects competition in the next few years to continue to be dominated on the one hand by the private banking sector, via Eksportfinans, the Norwegian Export Credit Agency, and its subsidiary company Kommunekreditt, and on the other by Kommunalbanken under public ownership.

Kommunalbanken can only give loans to Norwegian local and regional authorities or companies carrying out municipal services with a municipal guarantee. In many ways, loans provided by Kommunalbanken therefore constitute a closed circle: They are taken up by the public sector, paid by the public sector and only used by the public sector. The state and municipalities have a creditworthiness with which no private financial institution can compete. As the main shareholder in Kommunalbanken, the state uses Kommunalbanken as a tool for lowering the cost level in the public sector by ensuring maximum competition for loans at all times.

Oslo, 31 December 2002

14 March 2003

The Board of Directors of Kommunalbanken AS

Else Bugge Fougner	Per N. Hagen	Unni Skaar Jahren	Bjørn Kristoffersen
Chairman of the Board	*Vice-Chairman of the Board*	*Member*	*Member*

Annette Nielsen	Olav Rune Øverland	Petter Skouen
Member	*Member*	*Managing Director & CEO*

KEY FIGURES

(Amounts in NOK 1000)	2002	2001	2000	1) Pro forma 1999	2) NKB 1998
Loans in foreign currencies	0	0	0	0	248 209
Loans in NOK	45 594 250	42 412 893	36 776 413	30 004 821	26 814 063
Loans in land acquisition bonds	0	138	327	1 170	3 377
Total lending 31.12.	45 594 250	42 413 031	36 776 740	30 005 991	27 065 649
LENDING					
The year's allocations	16 402 089	10 304 729	10 102 850	6 265 463	4 244 606
Unsettled allocations	1 012 924	654 621	1 303 917	1 886 440	1 702 133
Disbursements during the year	16 021 644	10 743 630	10 557 385	5 997 275	3 324 052
Principal payments on loans	12 856 754	5 117 243	3 815 302	2 813 933	2 626 666
BORROWINGS					
Borrowings in foreign currencies	31 184 794	25 403 187	12 698 875	0	188 533
Domestic bond issues	25 230 300	25 957 577	28 680 193	28 566 068	15 758 860
Domestic note issues	30 000	45 000	585 333	3 764 520	13 612 000
Borrowings from the State	0	138	372	1 171	3 377
KEY FIGURES					
Average total assets	58 187 432	50 217 157	38 588 488	34 765 439	35 094 465
Return on equity before tax	12.74 %	13.49 %	11.08 %	18.55 %	21.40 %
Dividend	38 500	36 500	20 750	19 000	18 000
Capital adequacy	12.04 %	11.46 %	13.74 %	8.90 %	9.10 %
AS A PERCENTAGE OF AVERAGE TOTAL ASSETS					
Interest and commission income	5.66	6.64	6.24	6.09	4.85
- Interest and borrowing costs	5.38	6.32	5.87	5.72	4.56
= Net interest and commission income	0.28	0.32	0.37	0.37	0.29
- Guarantee commission	0.05	0.06	0.08	0.08	0.07
+ Net foreign exchange gains/losses	0.01	0.00	0	0	0
+ Other operating revenues	0.00	0.00	0	0	0
- Staff costs	0.04	0.04	0.04	0.04	0.04
- Other operating expenses	0.04	0.04	0.06	0.05	0.04
+ Extraordinary income	0	0	0	0	0,01
= Operating profit	0.16	0.19	0.19	0.21	0.15
Profit analysis *(Amounts in NOK million)*					
Interest and commission income	3 292.77	3 334.31	2 406.80	2 118.90	1 700.00
- Interest and borrowing costs	3 131.60	3 171.89	2 264.90	1 988.20	1 602.00
= Net interest and commission income	161,2	162,4	141,9	130,7	98
- Guarantee commission and costs relating to banking services	28.8	32.3	28.8	27.9	25.8
+ Net foreign exchange gains/losses	4.2	2.1	-0.5	0.9	0.9
+ Other operating revenue	0.5	0.4	0.8	1.3	1.4
- Staff costs	20.6	18.9	17.1	15.1	12.4
- Other operating expenses	22.6	18.6	21.8	17.5	13.7
+ Extraordinary income	0	0	0	0	4
= Operating profit	93.9	95.1	74.5	72.4	52.2
Profit for the year	93.9	95.1	74.5	72.4	52.2

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

KOMMUNALBANKEN'S MAIN FUNCTION IS TO HELP ENSURE COMPETITION IN THE MARKET FOR LOANS TO NORWEGIAN MUNICIPALITIES.

Norwegian municipalities – an integral part of public finance and administration

"One of the strongest local government sectors of any country rated by Standard & Poor's." This was how Standard & Poor's described the Norwegian Local Government System in June 2002. The global credit rating agency concluded its summary by saying: "Norway's local government sector is characterized by very strong credit qualities, including low debt levels, a generous state grants and support system, and close central government monitoring. No Norwegian local government is known to have defaulted." In a rating report Moody's Investors Service also highlights the strength of this sector and the "inherent checks and balances that underline the credit quality of local governments in Norway".

Norway has a tripartite system of government, consisting of central government, counties and municipalities, each with their respectively assigned tasks. The framework for the activities of the counties and municipalities is laid down by the parliament (Stortinget) through legislation and decisions regarding local government financing. The central government can only assign new tasks to the local government by means of legislation or decisions made by Stortinget. However, it is an important principle that counties and municipalities may assume tasks that have not been assigned to others by law. Thus, the present distribution of tasks is partly the result of decisions made by Stortinget and partly of initiatives taken by local government.

SOCIAL WELFARE AND EDUCATION

The municipalities' main mandatory obligations include primary education, kindergartens, health care (excluding hospitals), care of the elderly, social care, and the provision of drinking water and sewage. More than 70 per cent of the municipalities' operating expenses are incurred from social welfare, health and education. As of today there are no firm plans to change the municipalities´ main tasks.

County tasks are mainly secondary education, public transportation, roads, environment and local planning. Previously, counties were also responsible for the country's hospitals. This responsibility was transferred to the State in 2002 following a decision made by Stortinget.

In total Norway has 434 municipalities and 19 geographically overlapping counties, including the City of Oslo, which is both a municipality and a county. The municipalities vary significantly in terms of size, topography and population. More than half of them have less than 5000 inhabitants and only ten have a population of more than 50.000.

The municipal sector accounts for about 20 per cent of GNP and around 25 per cent of total employment in Norway. The level of activity in the sector has increased considerably over the past decade due to reforms initiated by Parliament as well as local initiatives. This level of activity is expected to continue to increase.

ELECTED COUNCILS

Both counties and municipalities are regulated by the Local Government Act, which was last modified in May 1998. They are both locally governed by elected councils whose members are elected every four years. The next election will take place in September 2003.

Around 44 per cent of local government revenues are generated by taxes, namely income tax and property tax. The setting of tax rates is however largely restricted by the central government. Transfers from the state account for around 47 per cent of total revenues with the balance largely made up of fees.

INCOME EQUALISATION

The local governments´ financial position is significantly influenced by a state-supported system for extensive income- and cost equalisation. This system ensures that income and expenditure is shared evenly between the municipalities in all parts of the country. The system includes the distribution of both income from taxes and direct transfers from the government.

TIGHTLY CONTROLLED

The Local Government Act gives the central government considerable authority over the individual municipalities and counties. Moody's Investors Service characterises the State´s manner of control in this way: "… of all the Nordic countries' local authorities, those of Norway are probably the most tightly controlled." Standard & Poor's points out the following: "The Norwegian State closely controls and monitors the local government sector and its interests. State supportiveness for the sector is high, support has been promptly exercised when needed, and control mechanisms are constantly tuned to provide against events that could result in financial deterioration in the sector."

Given the strict supervision of the municipal sector, it is difficult – perhaps impossible – for a municipality or county in Norway to become insolvent. The Local Government Act in fact states that they cannot go bankrupt.

LONG-TERM FINANCIAL PLANS

The control system includes state approval of local government budgets and long-term financial plans. All local authorities have to present an annual four-year revolving financial plan that includes a forecast of probable revenues and anticipated expenditure, including debt, guaranty obligations, interest payments and debt repayments. A deficit in one year has to be covered in the following year's budget.

If, however, a local government cannot manage to meet its long-term budget estimates or to follow the state authority's rules for budgeting and financial administration, then it will be entered in a special "Register for State Review" and placed under the select control of the state authorities. Should a municipality, despite these precautionary measures, still not be able to fulfil its financial obligations, it can receive direct monetary support from central government funds set aside for this purpose. For 2003, the sum of NOK 2 177 million has been assigned for this. For a municipality in difficulty, the central government also has the option to pay transfers in advance.

To sum up: All Norwegian local governments are closely monitored and supported by the state. This ensures high asset quality in all loans to Norwegian municipalities, county municipalities and intermunicipal companies.

Stable economy

- Good growth in consumer spending
- Low and stable inflation
- Large surplus on current balance
- Large overall surplus on the government budget

These are some of the current trends in the Norwegian economy. Although the outlook for the economy in 2003 and 2004 points to weaker growth overall, these trends allow Norwegian authorities considerable freedom in terms of economic policy.

High wage increases and cuts in direct and indirect taxes resulted in growth of almost five per cent in household real income in 2002. Lower wage increases and weaker employment growth will contribute to a reduction in this growth in 2003 and 2004, while lower rates of interest will have the opposite effect. Overall, consumer spending is expected to grow by approximately three per cent over the next two years, meaning that consumer spending now represents the strongest stimulus to growth in the Norwegian economy. At the same time, only a small reduction in the household savings ratio is expected.

Moderate growth in public spending and investments is expected over the next year, in line with previously adopted guidelines for budget policy. These guidelines have been introduced by means of a parliamentary resolution to enable Norway's oil revenues to be phased into the economy as a whole and involve the use of oil revenues in the government budget being equivalent over time to the expected real return on the Government Petroleum Fund. The return is estimated at four per cent per annum. The rule means that use of oil revenues in the government budget will be able to increase in pace with the performance of the Government Petroleum Fund. All of the fund is invested abroad and is expected to be worth at least NOK 780 billion at the end of 2003.

A weaker trend on the international stock exchanges and a stronger exchange rate for the krone in 2002 mean that the oil revenues will be phased in more gradually than originally assumed. The authorities can nevertheless anticipate a surplus on current balance of well over ten per cent for the next few years. The overall surplus on the government budget is also expected to be over ten per cent.

In line with the guidelines for budget policy, the government has also laid down guidelines for monetary policy, in the form of an inflation target. Based on an overall assessment, the central bank, Norges Bank, sets the guideline rate of interest so as to keep inflation at 2.5 per cent for the next two years. This has resulted in a significant fall in Norwegian interest rates in 2003. According to forecasters, a continued fall in interest rates and a slight weakening of the Norwegian krone exchange rate – and with it a strengthening of the competitiveness of Norwegian industry – could generate stronger growth in the Norwegian economy than has been assumed in the forecasts.

MAIN ECONOMIC INDICATORS 2002-2005

Accounts and forecasts. Percentage change from previous year unless otherwise noted.

		Accounts	Forecasts		
	2002 NOK bn	2002	2003	2004	2005
Consumption in households	683.5	3.3	3.0	2.9	2.4
General government consumption	336.6	4.5	1.6	1.8	2.6
Gross fixed investment	258.5	-3.3	-0.3	-0.3	0.2
Exports	640.7	-0.5	-2.3	1.2	0.8
Imports	415.1	1.7	1.5	1.3	1.7
Gross domestic product	1 531.2	1.0	0.1	1.7	1.5
Mainland Norway	1 205.9	1.3	0.7	2.3	2.5
Unemployment rate (level)		3.9	4.3	4.8	4.6
Wages per standard man-year		5.3	4.6	4.6	4.4
Consumer price index (CPI)		1.3	3.2	1.3	2.3
Current balance (per cent of GDP)		13.8	11.3	9.9	9.4
Household saving ratio (level)		7.4	5.8	7.0	7.4
Importweighted krone exchange rate (44 countries)[1]		-8.5	0.6	3.2	0.5

1) Increasing index implies depreciation.
Source: Statistics Norway

KOMMUNALBANKEN'S AIM IS TO OFFER BOTH SMALL AND LARGE MUNICIPALITIES THE SAME INTEREST TERMS. MOST OF THE LOANS ARE USED FOR SOCIAL PROJECTS.

PROFIT AND LOSS ACCOUNT

(Amounts in NOK 1000)	Notes	2002	2001
Interest and related income on loans to and deposits with credit institutions		60 417	73 299
Interest and related income on loans to and receivables due from customers		3 171 679	2 862 079
Interest and related income on notes, bonds and other fixed income securities		60 480	381 131
Other interest and related income		197	17 803
Total interest and related income		3 292 773	3 334 313
Interest and related expenses on debt to credit institutions		20 692	45 604
Interest and related expenses on issued securities		3 069 029	3 084 124
Interest and related expenses on subordinated debt		41 498	41 904
Other interest and related expenses		381	261
Total interest and related expenses		3 131 600	3 171 893
Net interest income		161 173	162 420
Dividends and other income from securities with variable yield		1	11
Government guarantee fees/stand-by fees		20 594	25 775
Other fees and commision costs		8 179	6 542
Total commission costs and costs of banking services	19	28 773	32 317
Net gains/losses on notes, bonds and other fixed income securities		1 000	2 210
Net gains/losses on foreign currency and financial derivatives		3 175	-110
Total gains/losses on foreign currency and securities		4 175	2 100
Other operating income		506	367
Salaries	1	15 604	14 285
Pensions	2	1 766	1 677
Social security costs		3 278	2 927
Administrative costs		11 618	9 219
Total salaries and general administrative expenses		32 266	28 108
Depreciation etc. on fixed assets	8	2 083	2 428
Real estate operating expenses	3	5 019	4 803
Other operating expenses		3 846	2 175
Total other operating expenses		8 865	6 978
Net income before taxes		93 868	95 067
Tax on ordinary income	9	26 419	26 685
Net income after taxes		67 449	68 382
Dividends		38 500	36 500
Transferred to retained earnings	22	28 949	31 882
Total transfers and allocations		67 449	68 382

BALANCE SHEET

(Amounts in NOK 1000)

ASSETS	Notes	31.12.02	31.12.01
Cash and deposits with Central Bank of Norway		2	2
Loans to and deposits with credit institutions without agreed maturity or notice period		42 479	45 254
Loans to and deposits with credit institutions with agreed maturity or notice period		345 101	299 003
Total net loans and deposits with credit institutions	4	387 580	344 257
Instalment loans	5	45 594 250	42 413 031
Other loans	1	228 751	19 611
Total net loans and claims on customers		45 823 001	42 432 642
Government issuers, notes and bonds		4 171	614 870
Other issuers, notes and bonds		14 112 787	11 238 030
Total notes, bonds and other fixed income securities	6	14 116 958	11 852 900
Shares	7	554	554
Deferred taxes	9	0	6 880
Fixed assets	8	3 240	4 221
Other assets		2 679	210
Accrued income		664 160	729 945
Total prepaid, none accrued expenses		3 255	1 824
Total prepaid, not accrued expenses and accrued income		667 415	731 769
TOTAL ASSETS	13, 17	61 001 429	55 373 435

BALANCE SHEET

LIABILITIES AND EQUITY	Notes	31.12.02	31.12.01
Loans from and deposits from institutions with fixed term		1 154 665	822 225
Notes and other short term debt		0	405 046
Bond issues		56 445 094	51 000 718
Other long term debt		0	138
Total liabilities established through issuance of securities	10	56 445 094	51 405 902
Financial derivatives		1 032 903	1 007 238
Margin requirements and other customer accounts		21 400	9 538
Other debt	11	60 455	75 452
Total liabilities		1 114 758	1 092 228
Accrued expenses and prepaid unearned income		615 020	633 346
Pension cost	2	0	491
Tier two subordinated debt	12, 21	771 172	682 580
Hybrid Tier 1 Capital Instruments		135 108	0
Total liabilities		60 235 817	54 636 772
Share capital		660 000	660 000
Other equity capital		105 612	76 663
Total equity capital	21, 22	765 612	736 663
TOTAL LIABILITIES AND EQUITY	13,17	61 001 429	55 373 435

Oslo, 31 December 2002

14 March 2003

The Board of Directors of Kommunalbanken AS

Else Bugge Fougner
Chairman of the Board

Per N. Hagen
Vice-Chairman of the Board

Unni Skaar Jahren
Member

Bjørn Kristoffersen
Member

Annette Nielsen
Member

Olav Rune Øverland
Member

Petter Skouen
Managing Director & CEO

CASH FLOW STATEMENT

(Amounts in NOK 1000)	2002	2001
Interest rate receipts	2 850 585	2 624 382
Interest rate payments	2 755 630	2 511 950
Other receipts	4 681	2 466
Operating payments	61 724	67 402
Net cashflow from operations	37 912	47 496
Increase in loans	3 181 220	5 636 291
Increase in other claims	147 253	106 428
Increase in short-term securities	2 264 058	5 285 078
Increase/decrease in investments in credit institutions	43 323	-636 824
Net cashflow from current financial operations	5 635 854	10 390 973
Increase in other fixed assets	1 102	1 854
Net cashflow from investments	1 102	1 854
Increase in loans, issuance of securities	5 371 632	10 383 454
Increase/decrease in other debt	227 413	-38 133
Net cashflow from long-term financial operations	5 599 045	10 345 321
Net change in liquid assets	0	0
Liquid assets, 01.01.02	2	2
Liquidity assets, 31.12.02	2	2

ACCOUNTING PRINCIPLES

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

All figures in the notes are given in NOK 1 000 corresponding to the figures in the operating statement and the balance sheet.

SECURITIES

Kommunalbanken's holding of interest-bearing securities is part of the guarantee portfolio. The accruals principle is applied to the difference between cost price and face value (the premium or discount) over the remaining term to maturity. The trading portfolio is valued at actual value. Holdings of own bonds that are part of ordinary activities are entered net against bond liabilities in the balance sheet.

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

FINANCIAL INSTRUMENTS

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

In the case of Kommunalbanken, financial instruments in the balance sheet 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 specific periods. Kommunalbanken is authorised to enter into the following types of contract: forward exchange contracts, interest rate and currency swaps, interest rate options, equity options, equity swaps, forward rate agreements (FRAs) and listed interest rate futures.

For accounting purposes, a distinction is made between the purchase and sale of financial instruments as part of the institution's trading portfolio and transactions undertaken as part of the management of ordinary activities. Each transaction is classified on the commencement date of the contract either 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. Both derivatives and borrowing are valued at market value.
Kommunalbanken uses securities and derivatives to hedge its interest rate position. A financial instrument is classified as a hedging contract if the following conditions are satisfied:

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

The accruals principle is applied to gains and losses on financial derivatives that are part of banking operations in accordance with the associated balance sheet items.

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

PREMIUMS AND DISCOUNTS ON 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 or, 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-back of own bonds are recorded in the operating statement at the time of the transaction.

LOAN LOSS PROVISIONS

Kommunalbanken's lending is valued at nominal value. All the loans are granted to local and regional authorities, inter-municipal companies and other companies with a municipal guarantee. Kommunalbanken has no holdings of non-performing or doubtful loans, which is why no specific or non-specific loss provisions have been made.

ASSETS AND LIABILITIES IN FOREIGN CURRENCIES

Kommunalbanken's assets and liabilities in foreign currencies are classified as cash items and are converted at the market rates prevailing on the balance sheet date.

PENSION COSTS AND OBLIGATIONS

Kommunalbanken has a pension scheme for its employees. For accounting purposes, the pension scheme is treated in accordance with the Norwegian Accounting Standard for pension costs, according to which Kommunalbanken's pension scheme is treated as a defined-benefit plan. Traditional earnings profile and expected final salary are used to determine entitlements.

The net pension costs for the period are included in "salary and salary-related costs" and comprise the sum of earned entitlements for the period, interest cost of the estimated obligation and expected return on the pension funds. The pension funds are computed as the difference between the actual value of the pension funds and the present value of the estimated pension obligations, and are entered in the balance sheet as a long-term asset/liability.

FIXED ASSETS

Fixed assets are recorded in the balance sheet at acquisition cost, minus accumulated ordinary depreciation. In the case of loss of value, which is assumed to be non-transitory, the value of the asset is written down to its estimated actual value.

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

- Office equipment: 25%
- Computer equipment: 33.3 %
- Fixtures and fittings: 20%
- Cars: 20%

TAX COSTS

Taxes are entered as a cost as they accrue, i.e. the tax cost is linked to the accounting profit/loss before tax. Corrections for temporary and permanent differences are made before determining taxes payable for the year. Deferred tax and tax advantages are estimated on the basis of temporary differences between values for accounting and tax purposes at the end of the financial year. Nominal tax rates are used in the calculations. Differences that increase or reduce tax are offset during the same time period. The tax cost comprises taxes payable (tax on the year's taxable profit) and change in net deferred taxes.

ACCRUAL ACCOUNTING

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

ACCRUAL OF INTEREST AND FEES

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

ASSETS AND LIABILITIES IN FOREIGN CURRENCIES

Kommunalbanken's assets and liabilities in foreign currencies are classified as cash items and are converted at the market rates prevailing on the balance sheet date. Subordinated loan capital, Hybrid Tier 1 Capital Instruments and associated hedging items are entered at historical costs.

COMPARISON FIGURES

With effect from 1 January 2002 the institution has made a number of changes linked to principles for classification of the operating statement and balance sheet accounts. The comparison figures in the operating statement and the balance sheet have been revised in accordance with the new principles. The comparison figures in the cashflow analysis have not been revised. The figures are therefore not comparable.

NOTE 1

SALARIES AND OTHER REMUNERATION

(Amounts in NOK 1 000)

	2002	2001
Salaries and other remuneration	16 950	16 025
of which salary and remuneration payable to Man. Director	1 153	1 024
of which directors' fees	450	435
of which fees to members of the audit committee	90	90
of which fees to members of the supervisory board	49	43

Pursuant to the Norwegian Financial Enterprises Act, the Managing Director is a member of the Board of Directors but does not receive a director's fee. He has an agreement concerning payment of a benefit of one year's salary in the event of death, including after termination of employment. The position has a mandatory retirement age of 65 years.

LOANS TO EMPLOYEES

(Amounts in NOK 1 000)	Balance as at 31.12.02	Balance as at 31.12.01
Short-term loans to staff	563	370
Of which loan to the Man. Director	37	55
Home mortgages	14 901	13 279
Of which mortgage loan to the Man. Director	1 287	979
Total loans to employees	15 464	13 649
Interest rate subsidies in the period	94	24

Interest rate subsidies are calculated as the difference between the lending rate and the interest rate that is treated as a taxable benefit. The mortgage loans are subsidised by employees being given a mortgage rate which is 1% lower than the institution's borrowing rate. Security for the loans is approved by the audit committee.

Fee for audit of the annual accounts	341
Fee for other financial audit	151
Total audit fees	492
Fee for other services and support	149

All amounts are inclusive of VAT.

NOTE 2

PENSIONS – COLLECTIVE SCHEME

(Amounts in NOK 1 000)

Kommunalbanken's pension obligations are covered by the scheme operated by Kommunal Landspensjonskasse (KLP, the National Municipal Pension Fund) and include ordinary contractual service pensions applicable to local and regional authority enterprises. The pension benefits are co-ordinated with those paid from the Norwegian National Insurance programme.

Kommunalbanken has a pension scheme which covers all its employees. The scheme provides defined future benefits which, in principle, are dependent on number of years of service, salary level at age of retirement and the level of benefits payable from national insurance. The obligations are covered via KLP. Kommunalbanken also has a scheme linked to the contractual pension (AFP).
This is unsecured and is covered via the company's operations.

CONTRACTUAL PENSION (AFP)

Benefits in the form of contractual pensions for those in the 62-66 age group are payable in addition 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. This scheme is included in the calculation of pension obligations.
The financial conditions underlying the calculation of pension obligations are:

Annual return	7.0%
Discount rate	7.0%
Annual growth in salary	3.5%
Annual growth in base amount	3.5%

PENSION COSTS	2002
Annual accruals	1 728
Interest expense	179
Gross pension costs	1 907
Expected return	- 145
Administrative costs	3
Net pension costs	1 766

PENSION LIABILITY	31.12.2002
Gross accrued liability	2 718
Pension funds	3 501
Net accrued liability	- 783
Net liability transferred to balance sheet	- 783

SALARIES OVER 12G

Kommunalbanken has an additional scheme for salaries over 12G. (G = National Insurance base amount)

NOTE 3

OTHER OPERATING EXPENSES

Kommunalbanken has office premises at Munkedamsveien 45, Vika Atrium, Oslo. 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 31.08.2009. Rent paid in 2002 was NOK 3 795 000. The landlord may adjust the rent on 15 October each year in accordance with and in proportion to changes in the consumer price index as calculated by Statistics Norway.

NOTE 4

LOANS TO CREDIT INSTITUTIONS

(Amounts in NOK 1000)

	2002	2001
Loans to and deposits with credit institutions, without agreed maturity	42 479	45 254
Loans to and deposits with credit institutions, with agreed maturity	345 101	299 003
Total loans to and deposits with credit institutions	387 580	344 257

NOK 1 853 has been deposited in a separate tax-withholding account.

NOTE 5

LOANS TO CUSTOMERS MATURE AS FOLLOWS:

(Amounts in NOK 1000)

Time to maturity	Up to 3 m.	3 m. to 1 year	1 year to 5 years	Over 5 years	Total
Floating-rate loans	590 223	1 118 601	5 732 057	16 627 791	24 068 672
Fixed-rate loans	3 106 771	2 592 529	4 465 669	11 360 609	21 525 578
Loans against land acquisition bonds					0
Total	3 696 994	3 711 130	10 197 726	27 988 400	45 594 250

LOANS BY COUNTY	31.12.02	31.12.01
Østfold	2 910 704	1 939 043
Akershus	4 271 192	2 510 629
Oslo	548 695	452 296
Hedmark	2 206 363	1 690 046
Oppland	1 238 926	1 540 709
Buskerud	2 140 076	2 160 556
Vestfold	2 033 482	1 313 891
Telemark	1 796 691	2 089 812
Aust-Agder	973 057	911 618
Vest-Agder	1 816 852	2 270 358
Rogaland	3 665 626	3 410 634
Hordaland	4 001 062	4 725 399
Sogn og Fjordane	2 248 333	1 997 174
Møre og Romsdal	2 764 686	2 827 439
Sør-Trøndelag	3 652 889	3 274 280
Nord-Trøndelag	2 716 468	2 604 530
Nordland	3 706 075	3 291 857
Troms	1 725 634	2 408 210
Finnmark	1 177 439	994 550
Total	45 594 250	42 413 031

NOTE 6

HOLDINGS OF NOTES, BONDS AND OTHER INTEREST-BEARING SECURITIES

(Amounts in NOK 1 000)

	Book value
Trading portfolio	4 765 562
Other current assets	9 351 397
Total notes and bonds	14 116 959

	Book value	Acquisition cost	Actual value	Av. eff. int. rate	Listed
Government and government-guaranteed notes					
- domestic (weighted 0%)	0	0	0	0	0
Government-guaranteed bonds					
- domestic (weighted 0%)	10 372	10 465	10 000	5.50	10 372
Government and government-guaranteed notes					
- foreign (weighted 0%)	1 042 142	1 019 082	1 065 774	5.33	1 042 142
Government-guaranteed bonds					
- foreign (weighted 0%)	2 981 889	2 978 158	2 981 722	1.74	2 981 889
Notes issued by financial institutions					
- domestic (weighted 20%)	2 786 283	2 782 129	2 797 815	5.55	2 229 026
Notes issued by financial institutions					
- foreign (weighted 20%)	7 296 273	7 283 578	7 340 519	3.58	5 837 042
Total	14 116 959	14 073 412	14 195 830		

Kommunalbanken's holdings of interest-bearing 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 remaining time to maturity.

Of which trading portfolio:

Currency	Market value	Book value
USD	2 411 709	2 411 709
EUR	787 682	787 682
NOK	1 566 171	1 566 171
Total	4 765 562	4 765 562

NOTE 7

SHARES

The share portfolio comprises:

1 000 shares in Norsk Vekst ASA with a cost price of NOK 100 per share. The face value of the shares is NOK 88.
The company's total share capital is NOK 600 million. The shares are entered at cost price. The market value is NOK 6.70 per share.

1 000 shares in Norsk Vekst Forvaltning ASA with a cost price of NOK 0 per share. The face value of the shares is NOK 2.
The company's total share capital is NOK 13 333 000. The shares are entered at cost price. The market value is NOK 2.80 per share.

500 shares in Administrative Solutions NLGFA AB with a cost price of NOK 907.30 per share. The face value of the shares is SEK 1 000.

The company's total share capital is SEK 1 000 000. The shares are entered at cost price.

NOTE 8

MACHINERY, EQUIPMENT, ETC.

(Amounts in NOK 1 000)

	Office equipment	Computer equipment	Furniture	Cars	Art	Total
(Depreciation period, linear)	(4 years)	(3 years)	(5 years)	(5 years)	(not depreciated)	
Acquisition cost as at 01.01.02	497	5 232	3 242	400	177	9 548
Acquisitions 2002 at cost price	65	1 000	22	0	15	1 102
Cost price as at 31.12.02	562	6 232	3 264	400	192	10 650
Accumulated depreciation as at 01.01.02	235	3 604	1 355	133		5 327
Depreciation for the year	127	1 226	650	80		2 083
Accumulated depreciation as at 31.12.02	362	4 830	2 005	213		7 410
Book value as at 31.12.02	200	1 402	1 259	187	192	3 240

The tax value of fixed assets is NOK 4 738 entailing a negative temporary difference of NOK 1 499 as at 31.12.02.

NOTE 9

TAXES *((Amounts in NOK 1 000)*

	2002	2001
The tax cost for the period comprises:	2002	2001
Taxes payable	19 399	35 937
Changes in deferred taxes	7 020	-9 252
Total tax cost	26 419	26 685
Taxes payable on the balance sheet comprise:		
Taxes payable on profit for the year	19 399	35 937
Total taxes payable	19 399	35 937
Calculation of the tax base for the period:		
Profit before taxes	93 868	95 067
Permanent differences	485	237
Changes in temporary differences	-25 071	12 710
Other adjustments	-	20 177
Tax base for the period	69 282	128 191
Summary of temporary differences:	31.12.02	31.12.01
Fixed assets	-1 499	-861
Hedging instruments	1 218	-3 030
Other temporary differences	-	-20 188
Pensions	783	-491
Total	502	-24 570
28% deferred tax/deferred tax benefit (-)	140	-6 880
Explanation of why tax cost for the year is not 28% of profit before taxes:		
28% tax on profit before taxes	26 283	26 619
Permanent differences (28%)	136	66
Estimated tax cost	26 419	26 685

NOTE 10

DOMESTIC NOTE ISSUES AND OTHER SHORT-TERM ISSUES

(Amounts in NOK 1 000)

	2002	Average interest
Loans and deposits from credit institutions with agreed maturity	1 154 665	2.91
Bond debt in NOK	25 260 300	6.01
Bond debt in foreign currencies	31 184 794	4.19
Notes and bond debt	56 445 094	

Average interest rate has been calculated using weighted nominal interest rate as at 31.12.02
Note and bond debt broken down by currency is described in Note 17 (Currency risk)

NOTE 11

OTHER LIABILITIES

(Amounts in NOK 1 000)

	2002	2001
Allocated dividend	38 500	36 500
Taxes payable	19 399	35 937
Other liabilities	2 556	3 015
Other liabilities	60 455	75 452

NOTE 12

SUBORDINATED LOAN CAPITAL AND HYBRID TIER 1 CAPITAL INSTRUMENTS

(Amounts in NOK 1 000)

	2002	2001
Ordinary subordinated loan capital – expires 2010 (EUR 40 million)		
(Interest rate is adjusted every 3 months. Current rate 3.672%)	321 680	321 680
Perpetual subordinated loan capital (EUR 45 million) (Fixed rate 6.95%)	360 900	360 900
Ordinary subordinated loan capital – expires 2012 (EUR 10 million)		
(Interest rate is adjusted every 3 months. Current rate 3.659%)	76 300	0
Ordinary subordinated loan capital – expires 2012 (EUR 2 042 358) (Fixed rate 6.29%)	12 292	0
Ordinary subordinated loan capital – expires 2012 (EUR 17 957 642) (Fixed rate 6.29%) 1)	135 108	0
Subordinated loan capital and Hybrid Tier 1 Capital Instruments	906 280	682 580

1) Hybrid Tier 1 Capital Instruments are approved as an element in the Tier 1 capital within a framework of 15% of total Tier 1 capital.

NOTE 13

MATURITY STRUCTURE FOR INTEREST-SENSITIVE ASSETS AND LIABILITIES

AMOUNTS BY REMAINING TIME TO MATURITY	Total principal	Up to 1 month Total	Of which foreign currency	1-3 months Total	Of which foreign currency
ASSETS:					
Deposits with other financial institutions	387 582	387 582	347 240		
Instalment loans	45 594 250	708 545		2 280 025	
Securities	14 116 959	876 495	784 351	3 886 089	3 678 788
Other short-term loans	228 751	102 348		103 430	
Financial derivatives	0				
Prepaid expenses	3 255	432		1 959	
Accrued income	664 160	391 855	53 535	272 306	37 202
Other assets	6 472	2 679			
Total	61 001 429	2 469 935		6 543 809	
LIABILITIES:					
Loans to credit institutions	1 154 665				
Notes and other short-term debt	0				
Bond debt	56 445 094	3 022	3 022	4 996 808	9 746
Financial derivatives	1 032 904	122 235	122 235	394 217	394 217
Other debt	81 856	32 403		38 502	
Accrued costs and provisions	615 020	67 444	49 844	134 041	130 535
Subordinated loan capital	771 172				
Hybrid Tier 1 Capital Instruments	135 108				
Equity capital	765 612				
Total	61 001 429	225 103		5 563 567	
Net liquidity exposure, balance sheet items	-387 582	1 857 249		980 242	

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 financial institutions	387 582	387 582	347 240		
Instalment loans	45 594 250	8 828 686		19 562 072	
Securities	14 116 959	3 707 157	3 274 906	7 756 744	6 512 504
Other short-term loans	228 751	102 348		103 430	
Financial derivatives	0				
Prepaid expenses	3 255	432		1 959	
Accrued income	664 160	391 855	53 535	272 306	37 202
Other assets	6 472	2 679			
Total	61 001 429	13 420 737		27 696 511	
LIABILITIES:					
Loans to credit institutions	1 154 665			1 154 665	
Notes and other short-term debt	0				
Bond debt	56 445 094	4 176 547	3 041 611	10 693 039	5 243 381
Financial derivatives	1 032 904	122 235	122 235	394 217	394 217
Other debt	81 856	32 403		38 502	
Accrued costs and provisions	615 020	67 444	49 844	134 041	130 535
Subordinated loan capital	771 172	410 272	410 272		
Hybrid Tier 1 Capital Instruments	135 108	135 108	135 108		
Equity capital	765 612				
Total	61 001 429	4 944 009		12 414 463	
Net interest rate exposure, balance sheet items		8 476 729		15 282 047	
Net interest rate exposure, fin. derivatives		-5 128 130		-17 498 615	
Total interest rate exposure		3 348 598		-2 216 568	

	3-12 months Total	Of which foreign currency	1-5 years Total	Of which foreign currency	Over 5 years Total	Of which foreign currency	Without maturity	Of which foreign currency
	2 017 184		1 652 197		38 936 300			
	2 519 550	2 187 092	6 717 223	5 513 441	117 602			
	258		188		22 528			
	864							
					554		3 240	
	4 537 856		8 369 607		39 076 983		3 240	
					1 154 665			
	518 363	84 541	22 893 023	8 302 185	28 033 878	22 785 300		
	93 305	93 305	146 389	146 389	276 759	276 759		
	10 951							
	413 535	291 755						
					410 272	410 272	360 900	360 900
					135 108	135 108		
							765 612	
	1 036 154		23 039 411		30 010 681		1 126 512	
	3 501 702		-14 669 804		9 066 302		-1 123 273	

	3-12 months Total	Of which foreign currency	1-5 years Total	Of which foreign currency	Over 5 years Total	Of which foreign currency	Without maturity	Of which foreign currency
	3 714 463		11 822 183		1 666 847			
	768 383	666 693	1 767 074	1 709 568	117 602			
	5 156		10 188		7 630			
	864							
					554		3 240	
	4 488 865		13 599 444		1 792 632		3 240	
	7 532 720	7 399 676	21 596 268	8 302 185	12 446 520	7 197 941		
	93 305	93 305	146 389	146 389	276 759	276 759		
	10 951							
	413 535	291 755						
					360 900	360 900		
							765 612	
	8 050 511		21 742 656		13 084 178		765 612	
	-3 561 645		-8 143 212		-11 291 546		-762 373	
	4 214 416		6 801 457		11 610 872		0	
	652 771		-1 341 755		319 326		-762 373	

NOTE 14

VOLUMES OF VARIOUS FINANCIAL DERIVATIVES

(Amounts in NOK 1 000)

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

The agreements relate to Kommunalbanken's funding and investment activities and at the end of 2002 they comprised:

Type of agreement	Purchased	Sold	Net
Forward rate agreements (FRA)	1 244 000	1 175 000	69 000
Forward exchange agreements	2 534 388	0	2 534 388
Swaps	20 296 217	86 181 451	-65 885 234
of which interest-rate swaps	18 176 625	35 991 953	- 17 812 328
of which currency swaps	2 116 259	50 189 498	-48 072 906
Total	24 074 605	87 356 451	-63 281 846

NOTE 15

INTEREST RATE RISK

Interest rate risk occurs in connection with Kommunalbanken's lending and funding activities and arises from the different interest-rate periods for the bank's assets and liabilities and the fact that incoming and outgoing payments are due at different times. As part of the management of interest rate risk on assets and liabilities, Kommunalbanken actively purchases and sells securities issued by banks and governments and enters into derivative contracts, mainly FRA contracts and currency swaps.

Kommunalbanken has maintained its strategy of adapting its funding activities to its various types of loan, which has resulted in the institustion's funding and lending activities having virtually identical interest-rate periods. Kommunalbanken has divided loans and funding into various portfolios. Management of interest-rate risk is carried out by means of matching the duration of the various funding portfolios with that of the various lending portfolios. A portfolio's duration is defined as the weighted average duration of each individual funding/lending transaction included in the portfolio. Individual loans/funding transactions are weighted by their market value in comparison to the market value of the portfolio. The repayment profile for lending is also matched to the repayment profile for funding.

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 %. As at 31.12.2002 the total exposure was NOK -5.35 million for a 1 percentage point increase in the interest rate and NOK 5.36 million for a 1 percentage point fall in the interest rate.

NOTE 16

COUNTERPARTY RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS

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

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

Some agreements are structured with a view to reducing Kommunalbanken's counterparty risk. This is achieved by entering into netting agreements, taking of collateral, payment in advance or repayment in instalments.

Credit risk as at 31.12.2002 relates to the following instruments

Forward rate agreements (FRA)	5 866 907
Currency futures and currency swaps	2 504 193 508
Interest-rate swaps	1 330 146 841

The market value has been calculated using the market-value method (cf. the provisions on capital adequacy). The counterparties have been factored into the calculations such that negative credit exposure to a counterparty does not reduce the total. The resulting value is not weighted but all exposures are assigned a weight of 20 per cent.

NOTE 17

CURRENCY RISK

(Amounts in NOK 1 000)

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

Assets	Total	NOK	Foreign currency	of which USD	JPY
Cash and deposits with central banks	2	2	-	-	-
Loans to and deposits with credit institutions	387 580	387 580	-	534	4
Loans to and receivables from customers	45 823 001	45 823 001	-	-	-
Notes, bonds and other fixed-income interest-bearing securities	14 116 959	1 951 024	12 165 935	7 641 795	175 621
Shares	554	100	454	-	-
Fixed assets	3 240	3 240	-	-	-
Other assets	2 679	2 679	-	-	-
Prepaid, non-accrued expenses and accrued income	667 415	579 632	87 784	46 005	146
Total assets	61 001 429	48 747 256	12 254 173	7 687 800	175 766
Liabilities and equity capital					
Debts to credit institutions	1 154 665	2 309 329	-1 154 664	-660 678	-
Debt established through issuance of securities	56 445 094	87 275 765	-30 830 671	-5 446 473	-14 575 314
Other debt	1 114 759	1 114 759	-	-	-
Accrued expenses and prepaid unearned income	615 020	936 120	-321 101	-165 042	-1 119
Provisions for accrued expenses and liabilities	-	-	-	-	-
Subordinated loan capital	771 172	1 477 300	-706 128	-	-
Hybrid Tier 1 Capital Instruments	135 108	135 108		-	-
Equity capital	765 612	765 464	148	-	148
Total liabilities and equity capital	61 001 429	94 013 845	-33 012 416	-6 272 192	-14 576 284
Net currency exposure, balance-sheet items			45 266 589	1 415 608	-14 400 518
Net currency exposure, financial derivatives			20 538 208	-1 419 167	14 400 562
Net currency exposure as at 31.12.02			-4 782	-3 560	44

	-1 419 167	14 400 562
Net financial derivatives in NOK	-1 419 167 469,34	14 400 561 607,90
Net financial derivatives in foreign currencies	-204 064 630	245 935 000 000
Exchange rate	6,9545	0,05855434

EURO	CHF	DKK	GBP	SEK	HKD	AUD	NZD
-	-	-	-	-	-	-	-
183 160	202	9	33	163 215	-	83	-
-	-	-	-	-	-	-	-
3 693 901	222 141	220 710	-	182 901	-	28 867	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
27 924	3 273	8 824	-	1 141	-	471	-
3 904 986	225 414	229 533	-	347 257	-	29 338	-
-493 987	-	-	-	-	-	-	-
-1 041 271	-4 481 959	-	-3 590 183	-	-191 731	-1 503 741	-363 249
-	-	-	-	-	-	-	-
-35 896	-24 308	-8 930	-33 611	-1 188	-	-51 008	-2 489
-	-	-	-	-	-	-	-
-706 128	-	-	-	-	-	-	-
-130 669	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-2 407 950	-4 506 266	-8 930	-3 623 794	-1 188	-191 731	-1 554 749	-365 738
1 497 036	-4 280 852	220 603	-3 623 794	346 070	-191 731	-1 525 411	-365 738
-1 500 359	4 280 792	-220 603	3 623 799	-344 069	191 731	1 525 524	365 738
-3 323	-61	0	4	2 001	-	113	0
-1 500 359	4 280 792	-220 603,47	3 623 798,70	-344 069,04	191 731,42	1 525 524,04	365 737,57
-1 500 359 242,80	4 280 791 567,00	-220 603 473,00	3 623 798 701,25	-344 069 044,57	191 731 422,69	1 525 524 035,69	365 737 570,00
-206 192 622	855 970 000	-225 000 000	325 000 000	-432 751 734	215 000 000	387 695 000	100 000 000
7,27649335	5,0011	0,98045988	11,15014985	0,795072596	0,891774059	3,9348561	3,6573757

NOTE 18

KOMMUNALBANKEN'S LIQUIDITY RISK

Liquidity risk is the risk that Kommunalbanken may be unable to meet its obligations on the agreed 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 large issues, such that the liquidity risk can be viewed as extremely limited. In addition, Kommunalbanken has access to long-term financing with a short fixed interest period through interest-rate swaps. Kommunalbanken has very high credit ratings of AAA and Aaa from Standard & Poor's and Moody's respectively enabling access to capital in both good and bad times.

At the end of 2002 Kommunalbanken had government-guaranteed debt of NOK 17.5 billion, all taken up prior to the conversion to a limited company.

NOTE 19

GUARANTEE FEE TO THE STATE

Kommunalbanken pays an annual guarantee fee to the state of 0.10% of that part of the funding portfolio with government guarantees. The amount in 2002 was NOK 18.9 million compared to NOK 24.5 million in 2001.

NOTE 20

GUARANTEE LIABILITIES

Kommunalbanken has provided guarantees for loans taken up by municipalities for financing of school construction. As at 31 December 2002, the guarantees amounted to NOK 1 455 510. Guarantee liabilities have been reduced by NOK 1 490 600 during 2002.

NOTE 21

CAPITAL ADEQUACY *(Amounts in NOK 1 000)*

Supplementary capital cannot exceed 100 per cent of Tier 1 capital. Kommunalbanken's equity and subordinated loan capital satisfies the capital adequacy requirements. Kommunalbanken's equity and subordinated loan capital comprises the following elements:

TIER 1 CAPITAL:	31.12.2002	31.12.2001
Share capital	660 000	660 000
Other equity capital	105 612	76 663
Equity capital	765 612	736 663
Hybrid Tier 1 Capital Instruments	135 108	0
Deferred tax benefit entered in balance sheet	0	-6 879
Total Tier 1 capital	900 720	729 784
SUPPLEMENTARY CAPITAL:		
Subordinated debt	410 272	321 680
Perpetual equity and subordinated loan capital	360 900	360 900
Total supplementary capital	771 172	682 580
Total equity and subordinated loan capital	1 671 892	1 412 364

Equity and subordinated loan capital is entered at historical cost.

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

	2002		2001	
RISK WEIGHTING	Book value	Weighted amount	Book value	Weighted amount
0 %	4 034 405	0	1 694 307	0
20 %	46 493 715	9 298 743	46 284 784	9 256 956
50 %	15 461	7 731	13 648	6 824
100 %	2 563 311	2 563 311	1 776 041	1 776 041
Items that are part of the trading portfolio	4 765 562	395 325	5 604 655	664 780
Negotiable debt instruments that are part of the trading portf.	3 128 975	312 692		
Non-balance sheet items that are not part of the trading portf.		1 303 149		622 547
Total risk-weighted balance		13 880 951		12 327 148
Capital adequacy		12,04		11,46

NOTE 22

EQUITY CAPITAL *(Amounts in NOK 1 000)*

	Share capital	Other equity capital	Total equity capital
CORRECTION OF COMPARISON FIGURES			
Equity capital as at 31.12.01	660 000	91 198	751 198
Net error in last year's annual accounts		-14 535	-14 535
Equity capital as at 01.01.02	660 000	76 663	736 663
ANNUAL CHANGE IN EQUITY CAPITAL			
Profit for the accounting period		67 449	67 449
Dividend		38 500	-38 500
Equity capital as at 31.12.02	660 000	105 612	765 612

The Norwegian government owns 80% of the shares and KLP 20%. Face value per share is NOK 1000 and the number of shares is 660 000. Errors in last year's annual accounts relate to the transition to a new computer system in the last quarter of 2001 and the subsequent discovery that a number of derivative transactions had not been processed correctly. Errors in last year's annual accounts were entered directly against equity capital. Comparison figures in the operating statement and balance sheet have been amended.

To the Annual Shareholders' Meeting of Kommunalbanken AS

AUDITOR'S REPORT FOR 2002

We have audited the annual financial statements of Kommunalbanken AS as of 31 December 2002, showing a profit of NOK 67 449 000. We have also audited the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of profit. The financial statements comprise the balance sheet, the statements of income and cash flows and the accompanying notes. These financial statements are the responsibility of the Company's Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

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

In our opinion,

- the financial statements have been prepared in accordance with law and regulations and present the financial position of the Company as of 31 December 2002, and the results of its operations and its cash flows for the year then ended, in accordance with accounting standards, principles and practices generally accepted in Norway
- the Company's management has fulfilled its duty to properly register and document the accounting information as required by law and accounting standards, principles and practices generally accepted in Norway
- the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and comply with law and regulations.

Oslo, 14 March 2003
ERNST & YOUNG AS

Tor Steenfeldt-Foss

Tor Steenfeldt-Foss
State Authorised Public Accountant

Note: The translation to English has been prepared for information purposes only.

AUDIT COMMITTEE'S STATEMENT

The Audit Committee has examined Kommunalbanken AS' annual report and accounts as well as the Auditor's report for 2002.

The Audit Committee recommends that the annual report and accounts presented be approved as Kommunalbanken's accounts for 2002 and that the application of profits is adopted by the Annual General Meeting in accordance with the Board's proposals.

Oslo, 17 March 2003
Audit Committee for Kommunalbanken AS

Aage Rundberget
Chairman

Britt Lund

Svein Blix

SUPERVISORY COMMITTEE'S STATEMENT

In accordance with § 15 in Kommunalbanken's Articles of Association, the annual accounts and report for 2002 have been examined by the Supervisory Board.

The Supervisory Board recommends that the Board of Director's proposals for the operating statement and balance sheet, as well as the application of profit, NOK 67 449 000, is adopted by the Annual General Meeting.

Oslo, 27 March 2002
Supervisory Committee for Kommunalbanken AS

Oddvar Flæte
Chairman

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 procurationem
5. Lay the annual accounts and directors' report before the Annual General Meeting
6. Make recommendations to the Annual General Meeting with respect to alterations to the Articles of Association
7. Fix the managing director's salary

§ 11 The chairman of the Board, the managing director or two members of the Board jointly shall sign for the Company.

§ 12 The managing director shall be responsible for the day-to-day management of the Company and its business in accordance with the instructions laid down by the Board and approved by the Supervisory Board.

CHAPTER IV – SUPERVISORY BOARD

§ 13 The Supervisory Board shall consist of twelve members and four deputy members. The Supervisory Board should be composed of as broad a range of members as possible, so as to ensure that the various districts and interest groups affected by the Company's business are fairly represented.

A member of the Board of Directors cannot also be a member of the Supervisory Board.

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

The members of the Supervisory Board shall be elected for two-year terms. One third of the members shall retire each year. Members elected by the shareholders shall be elected for two years. A minimum of one third of the members shall be elected annually. Following the first year one third of the members shall be elected by the drawing 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.

The Supervisory Board shall:

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

CHAPTER V – ANNUAL GENERAL MEETING

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

An extraordinary General Meeting shall be held if called for by shareholders representing minimum a tenth of the share capital, two members of the Supervisory Board, the Board of Directors, the Audit Committee or the Company's auditor.

The Board of Directors shall call the Annual General Meeting.

The Annual General Meeting shall transact the following business:

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

CHAPTER VI – AUDIT COMMITTEE

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

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

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

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

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

CHAPTER VII – AUDITOR

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

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

CHAPTER VIII

§ 19 The Company shall raise funds for lending by issuing bonds, certificates or other 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.

Kommunalbanken's governing bodies

BOARD OF DIRECTORS

Else Bugge Fougner, Chairman
Barrister-at-law (Supreme Court), partner and Chairman of the Board in the law firm Hjort DA. Minister of Justice 1989-90. Chairman of the Board in Norsk Lotteridrift ASA and member of the Board of the Norwegian Broadcasting Corporation (Norsk Rikskringkasting AS). She also has seats on the boards of several other Norwegian companies and institutions.

Per N. Hagen, Vice-Chairman
Farmer. State Secretary in the Ministry of Local Government and Regional Development 1989-90 and 1997-99. Mayor of Tynset municipality 1972-87. Former member of Hedmark county council and county executive board, leader of the Storting's Committee for the Monitoring of Intelligence, Surveillance and Security Services. Various positions on boards, councils and committees, Member of the Board of SIVA, Chairman of the Board of Østlendingen AS and Daldata AS, plus business interests.

Unni Skaar Jahren
Chief Administrative Officer of Askim municipality. Skaar Jahren is an agricultural economist, with specialist training in economics and planning. She has many years of experience in various management positions in municipalities and in the county governor's office, and of board positions in private companies.

Bjørn Kristoffersen
Chief Executive Officer of KLP since 1994. Kristoffersen is a graduate marine engineer and business economist. He had previous management experience in Aker and Storebrand before joining KLP in 1994.

Annette Nielsen
Head of Loan Administration and Back Office at Kommunalbanken. Nielsen is a graduate of the Norwegian School of Management in Oslo, where she specialised in law governing security deposits and loans.

Olav Rune Øverland
General Manager of and partner in Wassum Investment Consulting AS. Øverland is a graduate in economics and business economics and an authorised financial analyst (AFA). He was previously Managing Director of Skandia Kapitalforvaltning ASA, bank manager in DnB Privatbank and chief analyst in DnB Markets.

Petter Skouen
Managing Director. Graduate in business economics. Skouen has had a number of management positions within the banking and finance sector both in Norway and abroad, including with Christiania Bank and Kreditkasse in Oslo and Luxembourg, Nordic Investment Bank in Helsinki, Hambros Bank Ltd in London and Midland Montagu AS in Oslo. He joined Norges Kommunalbank in 1992 and has been Managing Director since 1998.

SUPERVISORY BOARD

- Oddvar Flæte, County Governor, Sogn og Fjordane county, Chairman
- Anne Katrine Slungård, Mayor, Trondheim municipality, Vice-Chairman

- Thor Bernstrøm, Assistant Director General, Ministry of Local Government and Regional Development
- May Griff Bye, Special advisor, Sør-Varanger municipality
- Kristine Falkgård, Head of Funding, Kommunalbanken, employee representative
- Trond Lesjø, Chief Administrative Officer, Østre Toten municipality
- Gerd Opdal, Chief Administrative Officer, Vindafjord municipality
- Kjell Pettersen, Chief Administrative Officer, Nittedal municipality
- Harald Røed, Director of Department of Education and Cultural Affairs, Fjell municipality
- Ragnhild Skjerveggen, Principal, Voss
- Anne Stenhammer, Director of Education, the National Education Office, Nordland county
- Arne Øren, Chief Administrative Officer, Østfold county

ALTERNATES TO THE SUPERVISORY BOARD

- Elisabeth Enger, Chief Administrative Officer, Bærum municipality
- Asbjørn Gundersen, Head of Personnel, Kommunalbanken, employee representative
- 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

AUDIT COMMITTEE

- Aage Rundberget, Presiding Judge, Frostating Court of Assize, Chairman
- Britt Lund, Chief Executive Officer, Hjartdal municipality
- Svein Blix, Chief Executive Officer, Bodø municipality

AUDITORS

- Ernst & Young AS
  Tor Steenfeldt-Foss, State Authorised Public Accountant

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