KOMMUNALBANKEN

ANNUAL REPORT AND ACCOUNTS

2003

Kommunalbanken

The Norwegian local government funding agency

This is
Kommunalbanken

- Kommunalbanken AS is a specialist lender to the municipal sector and was established in 1999, as a continuation of the state owned Norges Kommunalbank. It is owned 80 per cent by the state and 20 per cent by KLP, the Norwegian Local Government Pension Fund.
- Kommunalbanken is the largest lender to the municipal sector in Norway, with a market share of approximately 36 per cent. The loan portfolio reached NOK 54.1 billion in 2003 while total assets exceeded NOK 70 billion.
- Kommunalbanken's main role is to guarantee competition in the market for municipal loans and, thereby, ensuring its customers the best possible loan terms at all times.
- Kommunalbanken lends to 98 per cent of all Norwegian municipalities.
- Kommunalbanken has the highest possible ratings - Aaa/AAA - from the international ratings agencies Moody's and Standard & Poor's. These ratings are unequalled by any other Norwegian financial institution and help to lower the institution´s overall cost of funds.
- Kommunalbanken is subject to the general legislation governing financial institutions.

Competitive pressure *must* be maintained

The market for loans to Norwegian municipalities is increasingly characterised by two key players. The lending margins in this market are now so low that they are not considered to be of interest to institutions other than the two specialist lenders. A clearer expression of just how tough the competition is for loans to municipalities would be difficult to find, and obviously this is to the benefit of the various recipients of local-government borrowing. Another outcome of this level of competition is that many municipalities are now extremely active in their approach to managing their loan portfolios which may include refinancing packages.

"It is especially important for the public sector to have one participant whose sole function is to ensure competition for all loans to the municipal sector."

It is important that this competitive pressure is maintained so that Norwegian municipalities are not paying more than absolutely necessary for their funds. If there is to be genuine competition, there must be more than one specialist lender in the market. It is especially important for the public sector to have one participant whose sole function is to ensure competition for all loans to the municipal sector.

With a lending portfolio of over NOK 54 billion, Kommunalbanken is now starting to approach a capacity limit for loan volume in relation to equity, making the question of strengthening equity, in order to maintain the ability to compete for all municipal loans, an issue for the first time.

This issue will not be helped by the expected continued growth in the municipalities' demand for loans. From 1999 to 2003, the municipalities' gross debt increased by around NOK 50 billion to almost NOK 150 billion. Last year alone, total lending to the municipalities increased by over 15 per cent. A sound equity base is required in order to keep up with this rate of growth.

At Kommunalbanken we consider it extremely important to have a full presence in the municipal arena. Issues such as borrowing and other financial conditions are closely interwoven with the individual municipality's overall activities, so the institution needs to have a relationship with the municipal sector which goes well beyond merely providing loans. To this end, we are now in the process of implementing a number of measures to further strengthen our presence in the municipalities, and we hope these will be well received. We intend to be the municipalities' bank, not just the municipalities' lender.

Petter Skouen
Managing Director & CEO

2003 –
the year in brief

- In its Municipalities Bill, the Norwegian Ministry of Local Government and Regional Development stated that "the current structure of the municipal credit market safeguards competition between the market players, in the best interests of the municipalities". The majority of the Standing Committee on Local Government endorsed this view: "In order to guarantee the municipalities the cheapest possible loans, the majority of the Committee – the members from the Labour party, the Conservative Party, the Socialist Left Party, the Christian Democratic Party and the Centre Party – share the Ministry's view that it is not current policy to make changes to the state's ownership of Kommunalbanken."

- Kommunalbanken's total loan portfolio reached NOK 54.1 billion at year-end, equivalent to a lending growth of 18 per cent compared to 2002.

- Kommunalbanken's customers were given access to a newly developed internet-based loan management system.

- 58 per cent of borrowing for the year was raised in Japan.

- NIBOR, the Norwegian interbank offered rate, fell from 7.12 per cent to 2.66 per cent over the year.

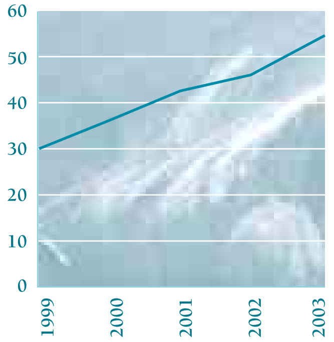
Summary financial figures

(NOK million)

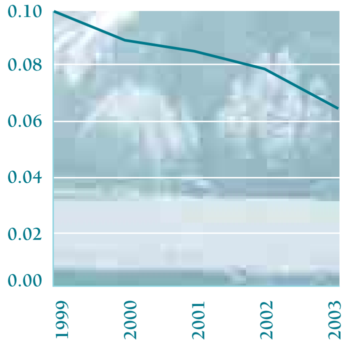
	2003	2002	2001	2000	1999
Net interest and commission income	**169.1**	152.7	130.1	113.1	102.8
Foreign exchange gains / losses	**0.6**	4.2	2.1	-0.5	0.9
Other operating costs and extraordinary income	**0.5**	0.5	0.4	0.8	1.3
Staff costs and other operating costs	**48.9**	44.5	37.5	38.9	32.6
Profit before tax	**121.2**	112.9	115.2	74.5	72.4
Tax	**34.1**	31.7	32.3	21.0	0
Profit after tax	**87.1**	81.2	82.9	53.5	72.4
Total lending *	**54.1**	45.8	42.4	36.8	30.0
Average total assets*	**66.2**	58.2	50.2	38.6	34.8
Capital adequacy in %	**11.75**	12.14	11.46	13.74	8.9
Operating costs as a % of total assets	**0.065**	0.079	0.085	0.09	0.1

* NOK billion

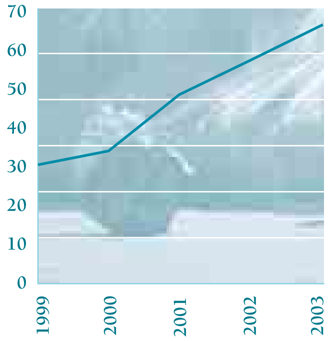
Total lending 1999-2003
NOK bn

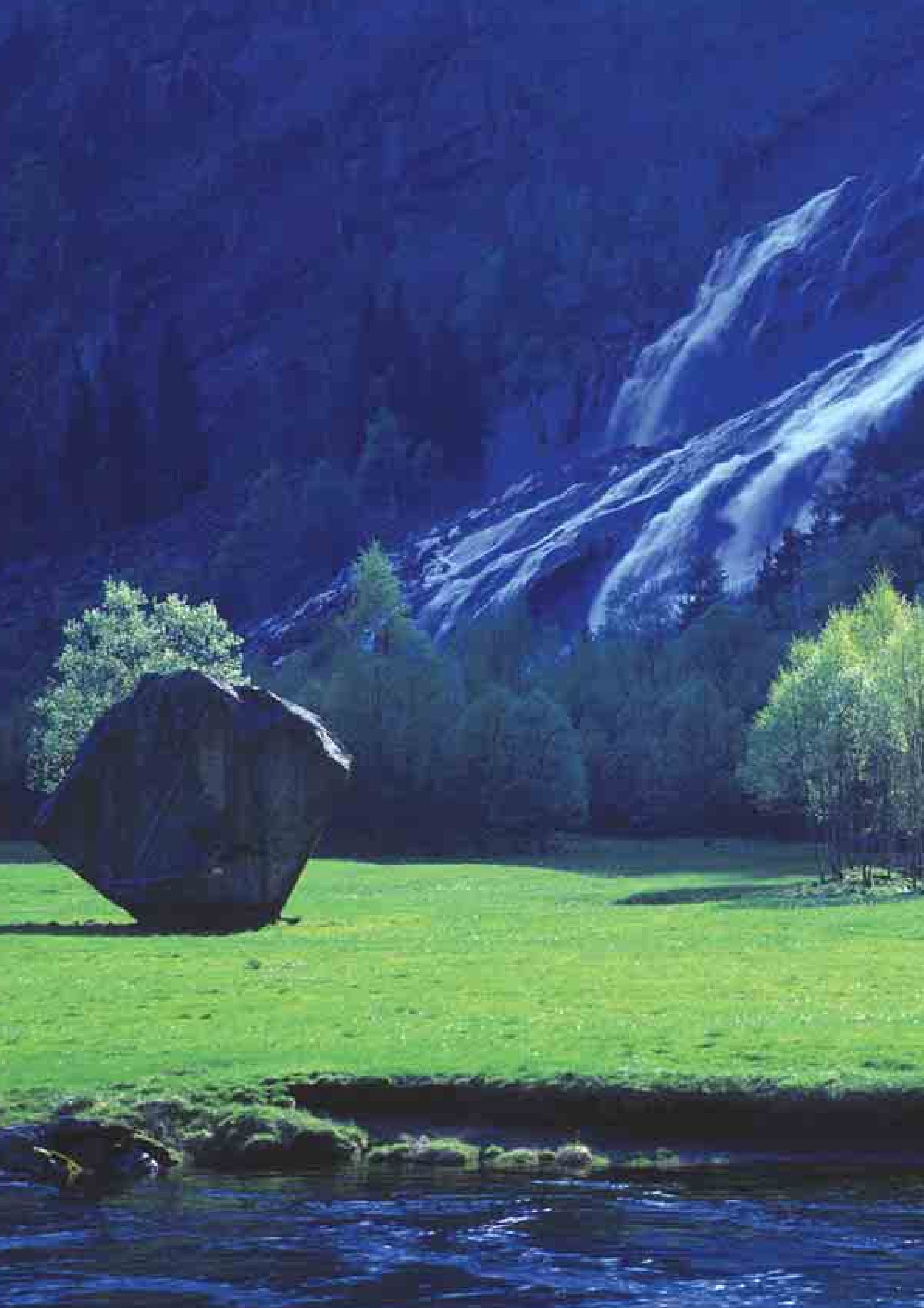


Operating costs as a percentage of total assets 1999-2003
NOK bn



Average total assets 1999-2003
NOK bn





Annual report 2003

Kommunalbanken's lending activities developed well throughout 2003. At year-end the total loan portfolio had reached NOK 54.1 billion; equivalent to a nominal lending growth of NOK 8.3 billion, or 18 per cent, compared with 2002.

Norges Bank's credit indicator shows that the municipalities' gross debt increased by 15.4 per cent between December 2002 and December 2003 and that total municipal debt was NOK 149 billion at year-end. With a lending volume of NOK 54.1 billion, Kommunalbanken accounted for 36.1 per cent of the total market for loans to Norwegian municipalities demonstrating its strong position in the market.

During 2003 new loan disbursements from Kommunalbanken increased by NOK 13.7 billion. This relatively high volume, seen in relation to lending growth, shows that the municipalities are increasingly moving towards active management of their loan portfolios by moving loans between different lenders. The difference between loan disbursements and real lending growth reflects the high level of competition in the Norwegian market for loans to the municipalities.

In the 1990s, the municipal loans market was still fragmented, with a relatively large number of lenders competing with each other. The last few years have seen the commercial and savings banks in particular withdrawing from the market as direct lenders due to overly low margins. This has resulted in the market now being dominated by two specialist lenders with high credit ratings and low funding costs. One is owned predominantly by the major Norwegian commercial and savings banks and the other is Kommunalbanken, owned by the state and KLP, the Norwegian Local-Government Pensions Fund. The competition between these two institutions is the main ground for loan margins on lending to the municipal sector currently being lower in Norway than in most other European countries for short and long fixed-rate periods.

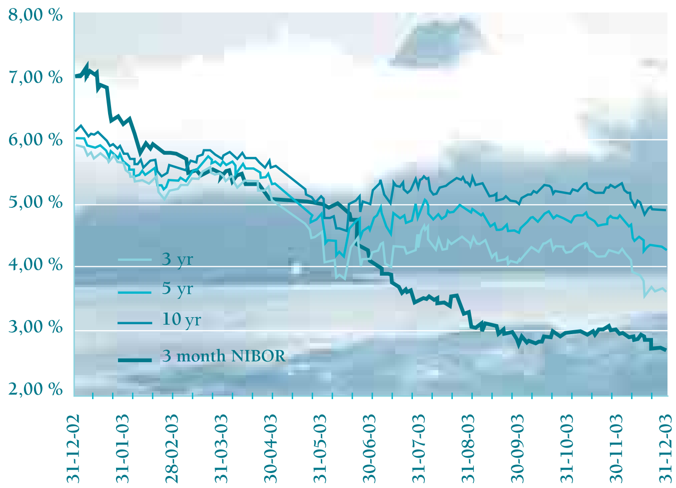
The Board of Directors emphasises that it is important for Kommunalbanken to occupy a position in the market which enables it to continue to compete for all types of long-term loans to the municipalities. The institution's main task is to ensure competition in the market for the provision of loans to the municipal sector.

In chapter 21 of the Municipalities Bill [Kommuneproposisjonen], no. 66 (2002-2003), the Norwegian Ministry of Local Government and Regional Development states that, "the current structure of the municipal credit market safeguards competition between the market players, in the best interests of the municipalities". This view is endorsed by the majority of the Standing Committee on Local Government in its report on this Municipalities Bill. The report concludes, "In order to guarantee the municipalities the cheapest possible loans, the majority of the Committee – the members from the Labour Party, the Conservative Party, the Socialist Left Party, the Christian Democratic Party and the Centre Party – share the Ministry's view that it is not current policy to make changes to the state's ownership of Kommunalbanken."

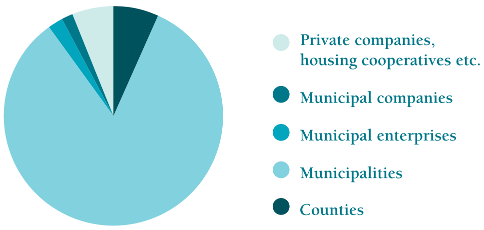
At the same time as the municipalities' demand for loans is growing steadily, Kommunalbanken is approaching a capacity limit for loan volume in relation to equity. In order for the institution to maintain sufficient weight in the market and to compete for all municipal loans, the Board of Directors considers that equity should be strengthened. With continued growth in the market, this issue will be closely linked to the institution's competitiveness – and thus also to overall competition in this important market.

After provision for a dividend payment of NOK 40.5 million, Kommunalbanken had book tier 1 capital of NOK

Development in fixed interest rates and NIBOR

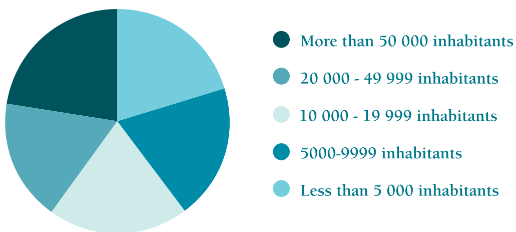


Loan volume by borrower as at 31.12.03



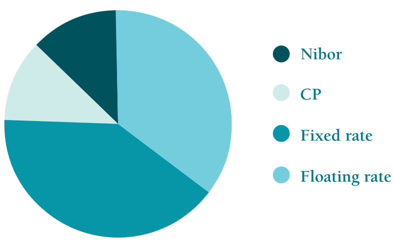
More than 90% of the loans go directly to municipalities and county municipalities.

Loan volume by number of inhabitants as at 31.12.03



Loans granted are evenly spread between municipalities of all sizes.

Loan volume by interest rate product as at 31.12.03



Fixed rate loans make up over 40% of the total loan volume.

825.9 million as at 31.12.2003. At year-end, the tier 1 capital ratio was 6.10 per cent.

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 account and the balance sheet and associated notes as at 31 December 2003 provide an accurate description of the institution's financial position at year-end.

The accounts show net interest income of NOK 192.7 million and profits after tax of NOK 87.1 million. In 2003 a correction was made for errors in the financial statements for 2001 and 2002, resulting in an overall increase of NOK 13.7 million in profits after tax. This amount has been posted directly against equity as at 31.12.2002. The amount has thus not been taken to income in 2003. Equivalent changes have been made to the profit and loss account, balance sheet and other financial summaries.

The institution recorded NOK 0.6 million in foreign exchange gains and changes in net market value. Other revenues of NOK 0.5 million relate to consultancy fees.

The operating profit after tax is equivalent to a return on adjusted shareholders' equity of 10.5 per cent. The corresponding corrected figure for 2002 was 10.2 per cent.

Calculated as a percentage of total assets, operating costs have been further reduced from 0.079 per cent in 2002 to 0.065 per cent in 2003. The increase in absolute terms from 2002 to 2003 is due to increased investments within risk management and in a new lending system.

Total equity and subordinated capital at year-end was NOK 1,864.7 million, of which tier 1 capital made up NOK 825.9 million. The capital ratio at year-end was 11.75 per cent.

LENDING ACTIVITIES

Kommunalbanken experienced significant lending growth in 2003. The portfolio, which was NOK 45.82 billion at the start of the year, grew by NOK 8.26 billion in the course of the year to NOK 54.08 billion at year end. This growth underlines the competitiveness of the institution's products.

Demand for loans was consistently high throughout the year, with clear peaks in the early summer and in the last two months of 2003. Total new lending in 2003 was NOK 15.3 billion, while total disbursements were NOK 13.7 billion. This is slightly below the level in 2002.

In 2003 Kommunalbanken was also able to offer a full range of loan products to both counties and municipalities, irrespective of size. New loans, like the total portfolio, are evenly distributed among municipalities and counties throughout Norway with emphasis placed on offering the smaller and medium-sized municipalities loan terms similar to those available to the larger municipalities. Margins for lending activities are now so low that even the largest municipalities are finding it advantageous to take out loans with the specialist lenders.

As in recent years, the largest single use of Kommunalbanken's lending in 2003 was for new nursing-home places and care facilities. Although the Norwegian parliament's "Action Plan for Care of the Elderly" is now in its end phase, Kommunalbanken expects building projects of this type to remain an important target of local-government borrowing in the years ahead. Construction of accommodation in connection with the Norwegian parliament's "Plan for Increased Provision in the Mental Health Sector" will be another important use of funds.

Construction of schools was another significant area of investment in 2003, and the government financing scheme offering interest compensation means that investments of this type will remain important in the future. The same is expected to be the case with the expansion of day-care centres. Most municipalities concentrate their borrowing in a single annual loan to cover all new investments, often simultaneously reducing the number of loans in line with their financial regulations. Kommunalbanken has seen an increasing flow of business from Municipalities choosing to refinance loans from other institutions on better terms.

As well as municipalities and counties, Kommunalbanken also provides loans to intermunicipal companies and other companies carrying out municipal services, against a municipal guarantee. In 2003 Kommunalbanken attached particular importance to providing funds to companies of this type within the care sector. With its limited lending framework, Husbanken, the Norwegian State Housing Bank, was not able to finance care facilities, which made funds from Kommunalbanken vital for these companies' building projects. In 2003 Kommunalbanken also provided funding, under a county guarantee, to road-expansion schemes.

Lending to municipalities, counties, intermunicipal companies and companies with a municipal guarantee involves a low level of risk, first and foremost because of the many safeguards and control features built into local-government legislation. Consequently, Kommunalbanken has not made any provision for future losses. Neither Kommunalbanken nor its predecessor, Norges Kommunalbank, has recorded losses on loans since establishment in 1927.

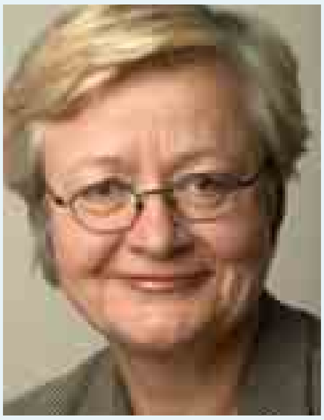
Kommunalbanken's consultancy work is closely linked to its lending activities. In 2003 there was a particular emphasis on developing internet-based customer services, first and foremost through the launch of a new loan-management system. This system significantly simplifies day-to-day management and follow-up of debt portfolios for clients.

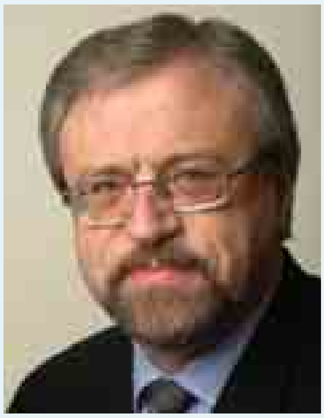
Kommunalbanken's lending department also offers consultancy in connection with clients' acquisition of new bank agreements. In 2003 this work took the form of paid consultancy assignments at a similar level to previous years.

FUNDING ACTIVITIES

Kommunalbanken raised NOK 22.2 billion in long-term financing in 2003. Funds were raised in eight different currencies, and more than 90 per cent of the total funding came from the international capital markets.

In 2003 Kommunalbanken pursued a strategy with emphasis on the private placement market,with issues in Japanese yen, US dollar, Euro, Swiss franc, Canadian, Australian and New Zealand dollar, and Norwegian krone. Although issue volumes were small from an international perspective, Kommunalbanken, with its established name in these markets, was able to take advantage of favourable funding opportunities as they arose and generate a very satisfactory overall cost of funds.





THE BOARD OF DIRECTORS

FIRST ROW FROM THE LEFT: *Else Bugge Fougner, Per N. Hagen and Bjørn Kristoffersen*

MIDDLE ROW: *Olav Rune Øverland and Unni Skaar Jahren*

BELOW: *Annette Nielsen and Petter Skouen*




Plans for future funding activities may also involve taking up funding in the major benchmark currencies when market conditions allow.

Efforts to develop a global investor base for Kommunalbanken's securities continued in 2003 and, to this end, investor presentations were arranged in a number of countries in Europe, Asia and Oceania.

As in previous years, the Japanese investor base was the most important for the institution's funding in 2003. A total of JPY 221.9 billion was raised in Japan in 2003, equivalent to 58 per cent of borrowing for the year.

In 2003 the institution's outstanding volume of bonds, certificates and other borrowing rose from NOK 56.4 billion to NOK 68.7 billion. An upper tier II issue of NOK 180 million was launched in the autumn of 2003 to boost the institution's capital ratio.

Kommunalbanken issues most of its international funding off its "Medium Term Note Programme". In January of 2004 Kommunalbanken increased this programme from EUR 8 billion to EUR 10 billion, which represents a five-fold increase since its inception in 2000.

Kommunalbanken has maintained its AAA/Aaa rating from Standard & Poor's and Moody's Investors Service respectively. The rating reflects both the low risk associated with the institution's activities and it's unique position and function in the public sector.

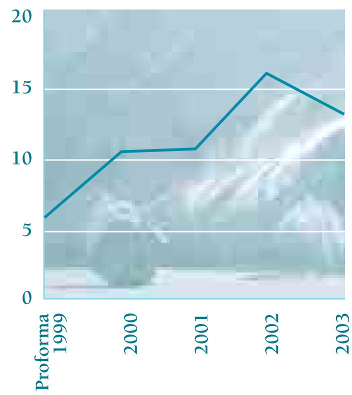
LIQUIDITY MANAGEMENT

Kommunalbanken has a policy of maintaining net cash balances equivalent to at least 12 months' net cash requirements. In a given situation, this means that the institution can cover its obligations for the next 12 months without having to access the market. Surplus liquidity is managed on the basis of a conservative investment policy, both in terms of credit and market risk. It can be invested in liquid securities with a maturity of up to five years issued by financial institutions with a high credit rating. In the case of long term contracts, the counterparty must have a minimum rating of AA-/Aa3 and for short-term contracts, the rating must be A1/P1. The majority of the portfolio falls due within two years and there is no inte-

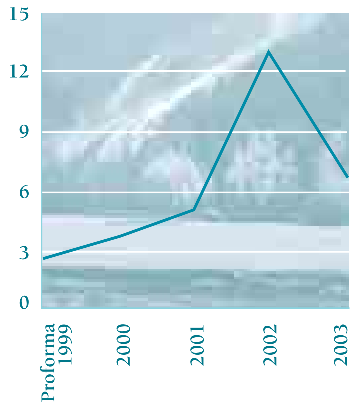
Loan volume by county as at 31.12.03

NOK bn	
Østfold	3.6
Akershus	5.5
Oslo	0.7
Hedmark	2.2
Oppland	1.6
Buskerud	2.6
Vestfold	2.7
Telemark	1.9
Aust-Agder	1.4
Vest-Agder	2.1
Rogaland	4.2
Hordaland	4.7
Sogn og Fjordane	2.4
Møre og Romsdal	3.4
Sør-Trøndelag	4.2
Nord-Trøndelag	2.9
Nordland	4.0
Troms	2.5
Finnmark	1.5
Total	**54.1**

Loans granted 1999 - 2003 NOK bn



Payments on loans 1999 - 2003 NOK bn



rest rate or currency risk. Maturity dates are matched to the underlying funding.

RISK MANAGEMENT

Section 55 of the Local Government Act [Kommuneloven] states that Norwegian municipalities cannot go bankrupt. Kommunalbanken's asset portfolio credit risk is, therefore, minimal. The only risk in this connection is that repayments may be delayed.

All parties to swap agreements and investments must meet strict criteria in order to be accepted as a counterparty. Swap counterparties must have a minimum long-term rating of AA-/Aa3 and short-term investments require a rating of A1/P1. Credit exposure for each individual counterparty is monitored on an ongoing basis. Kommunalbanken uses its own credit model to set limits for credit exposure vis-à-vis the individual counterparty.

Both interest-rate and currency risk are managed on a portfolio basis. Interest-rate and currency risk are measured by calculating the sensitivity of any mismatch between asset and liability cash flows.

ORGANISATION AND WORKING ENVIRONMENT

The number of staff at year-end was 33.1 full-time equivalents; one more than on the same date in 2002. There have not been any major organisational changes in the year under review.

Absence due to illness rose from 2.1 per cent in 2002 to 3.2 per cent in 2003. This increase occurred in the second six months of the year; absence in the first six months of the year was 1.7 per cent. No occupational injuries were reported in 2003.

Products which promote and influence health, safety and the overall working environment are assessed favourably as part of the institution's purchasing policy.
Kommunalbanken's premises form part of a larger environmental unit, with heating and ventilation being controlled centrally. There is no impact on the external environment. The institution indirectly exerts a positive influence on the external environment through its lending activities, by providing loans for environmental projects in the municipalities.

EQUALITY IN BUSINESS

At the end of 2003, 17 of Kommunalbanken's 33 employees were women. Four women and one man work part-time.

The Board of Directors comprises seven persons, three of whom are women including the Chairman of the Board of Directors. The institution's senior management comprises three men, while middle management is made up of five women and three men. 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. In 2003 the average salary for female middle managers was 4.2 per cent below that for middle managers overall, or 11.2 per cent below the average salary for male middle managers.

Kommunalbanken has its own playroom for the children of employees.

IT

The main focus of the institution's IT activities in 2003 has been the purchase and development of a new lending system. The agreement has the potential to generate sales revenues if the system is sold to other financial institutions. The system will go into operation during 2004 and considerable resources have been set aside to better integrate the new system with the accounting system. The most important issues relating to the new financing system appear to have been resolved towards the end of the year.

The collaboration with Kommuninvest AB in Sweden concerning the jointly owned IT company Administrative Solutions AB has been strengthened. Other collaborations have also been considered, including in the IT area with equivalent institutions in Finland and Denmark.

APPLICATION OF NET PROFITS

The Board of Directors proposes that the net profits of NOK 87.16 million be applied as follows: NOK 40.5 million to be applied to payment of dividends, cf. the Government's dividend proposal in the state budget for 2004, and NOK 46.66 million to be transferred to retained earnings. Further to the above application, Kommunalbanken has distributable reserves of NOK 163.77 million.

FUTURE DEVELOPMENT

Medium term interest rate projections indicate that rates will remain at their current low levels for the next 2-3 years. Experiences from other countries show that the public sector is making increasing use of low interest rate levels and generally low building costs to carry out major infrastructure projects. The Board of Directors expects the municipalities' demand for loans to continue to increase in the future.

The Board of Directors has budgeted for lower profits in 2004 since lower market interest rates will result in a lower direct return on equity investments. In a financial institution such as Kommunalbanken, return on equity makes a not insignificant contribution to net interest income. The reduced contribution from return on equity is reflected in correspondingly lower forecasts of returns. The interest rate level also has an impact on the institution's loan margins, but to a lesser degree.

It is reasonable to expect that competition between the main lenders in the market for municipal loans, i.e. Kommunalbanken and the major commercial and savings banks through their jointly owned company Eksportfinans, will continue in the next few years. The commercial paper and bond markets have sometimes been able to offer attractive terms, but the majority of new loans and refinancing have been provided by one of the main lenders. Foreign financial institutions are also periodically assessing the possibility of entering the Norwegian market but have considered margins to be too low, thereby confirming the competitive nature of this market.

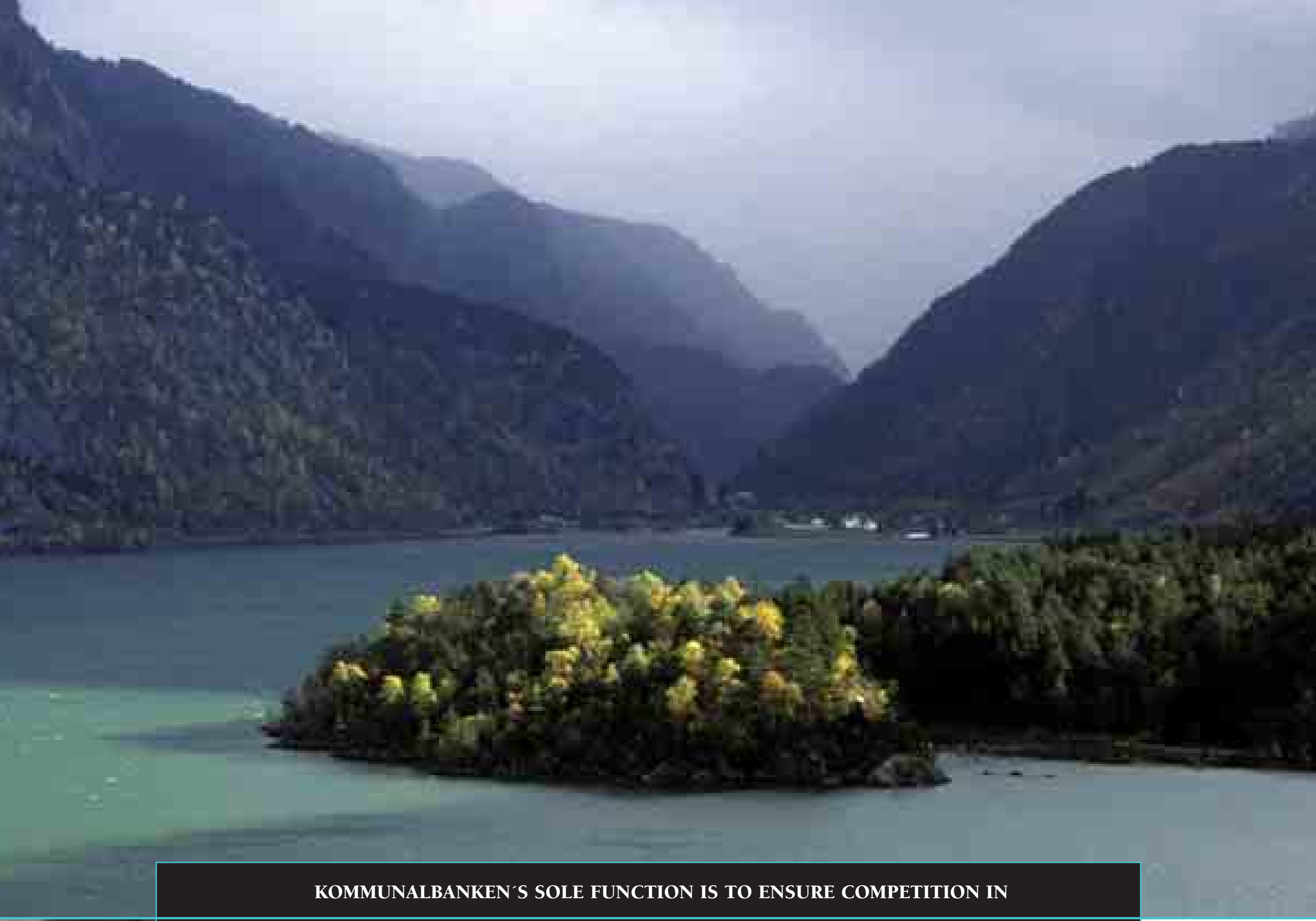
In Kommunalbanken, the public sector has a tool which guarantees competition in the market and inexpensive funding to the municipalities.

Oslo, 31 December 2003
9 March 2004

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*



KOMMUNALBANKEN´S SOLE FUNCTION IS TO ENSURE COMPETITION IN THE MARKET FOR MUNICIPAL LOANS.

KEY FIGURES

Amounts in NOK 1 000	2003	2002	2001	2000	Pro forma 1999
Loans in NOK	**52 765 568**	45 594 250	42 412 893	36 776 413	30 004 821
Loans in land acquisition bonds	**0**	0	138	327	1 170
Other loans	**1 314 276**	228 751	196 111	10 986	696
Total lending 31.12.	**54 079 844**	45 823 001	42 432 642	36 787 726	30 006 687
LENDING					
The year's appropriations	**15 278 880**	16 402 089	10 304 729	10 102 850	6 265 463
Unsettled allocations	**2 504 933**	1 012 924	654 621	1 303 917	1 886 440
Disbursements during the year	**13 652 656**	16 021 644	10 743 630	10 557 385	5 997 275
Principal payments on loans	**6 533 944**	12 856 754	5 117 243	3 815 302	2 813 933
BORROWINGS					
Borrowings in foreign currencies	**47 174 823**	31 184 794	25 403 187	12 698 875	0
Domestic bond issues	**19 637 440**	25 230 300	25 957 577	28 680 193	28 566 068
Domestic note issues	**0**	30 000	45 000	585 333	3 764 520
Borrowings from the State	**0**	0	138	372	1171
KEY FIGURES					
Average total assets	**66 248 760**	58 187 432	50 217 157	38 588 488	34 765 439
Return on equity before tax	**15.56%**	15.33%	13.49%	11.08%	18.55%
Dividend	**40 500**	38 500	36 500	20 750	19 000
Capital adequacy	**11.75%**	12.14%	11.46%	13.74%	8.90%
AS A PERCENTAGE OF AVERAGE TOTAL ASSETS					
Interest and commission income	**4.56**	5.66	6.64	6.24	6.09
- Interest and borrowing costs	**4.27**	5.35	6.32	5.87	5.72
= Net interest and commission income	**0.29**	0.31	0.32	0.37	0.37
- Guarantee commission	**0.04**	0.05	0.06	0.08	0.08
+ Net foreign exchange gains / losses	**0.00**	0.01	0.00	0	0
+ Other operating revenues	**0.00**	0.00	0.00	0	0
- Staff costs	**0.04**	0.04	0.04	0.04	0.04
- Other operating expenses	**0.04**	0.04	0.04	0.06	0.05
+ Extraordinary income	**0**	0	0	0	0
= Operating profit	**0.18**	0.19	0.19	0.19	0.21
Profit analysis *(Amounts in NOK million)*					
Interest and commission income	**3 021.72**	3 292.77	3 334.31	2 406.80	2 118.90
- Interest and borrowing costs	**2 828.96**	3 111.30	3 171.89	2 264.90	1 988.20
= Net interest and commission income	**192.8**	181.5	162.4	141.9	130.7
- Guarantee commission and costs relating to banking services	**23.7**	28.8	32.3	28.8	27.9
+ Net foreign exchange gains / losses	**0.6**	4.2	2.1	-0.5	0.9
+ Other operating revenue	**0.5**	0.5	0.4	0.8	1.3
- Staff costs	**25.7**	21.9	18.9	17.1	15.1
- Other operating expenses	**23.2**	22.6	18.6	21.8	17.5
+ Extraordinary income	**0**	0	0	0	0
= Operating profit	**121.2**	112.9	95.1	74.5	72.4
Profit for the year	**121.2**	112.9	95.1	74.5	72.4

Upturn in Norwegian economy continues

The current upturn in the Norwegian economy is expected to continue for the next few years.

Between December 2002 and January 2004, Norwegian base rates fell by 5 per cent, which played a considerable role in the stimulation of consumer spending. This, combined with a 20 per cent weakening of the Norwegian krone versus the Euro in 2003 as well as the beginnings of an international economic recovery, has laid the foundations for an upswing in industry. Overall growth of 3.6 per cent this year and 2.8 per cent in 2005 is expected for mainland Norway, after modest growth of 0.7 per cent in 2003.

The underlying rate of inflation is extremely low, first and foremost as a result of low imported inflation, but moderate wage inflation and relatively high productivity growth also contribute to the low increase in prices. The impacts of the strong krone rate for most of 2003, low international price inflation and increased imports from low-price countries are keeping imported inflation down. The weakening of the krone rate is expected to contribute to a rise in price inflation to around two per cent by the end of the year. Given that inflationary impulses are expected to remain moderate, it is also estimated that interest rates will remain low for the next few years. Since inflation is low as a result of factors linked to import prices and increased competition in the domestic market, leading economists are not concerned that the Norwegian economy is heading for deflation.

Low real interest, increased employment and good real wage growth as a result of the low level of inflation mean that consumer spending will continue to be the most important growth factor in the Norwegian economy for the next two years, which is estimated to increase by more than five per cent in both 2004 and 2005.

Industry has undergone major efficiency improvements as a result of the strong krone rate of the last few years, leading to higher earnings. At the same time, industry's debt burden has been significantly reduced. These positive factors are, therefore, providing the right incentives for new borrowing and investments in industry.

It is estimated that the domestic economic recovery coupled with a continuing relatively high cost level in Norway will contribute to a continuation of the growth in imports seen in recent years, albeit at a slower rate. Imports from Asia rose strongly in 2003, while imports from Europe fell. This is partly due to the marked deterioration in the Norwegian krone against European currencies and its appreciation against the US dollar.

Norway's balance of payments is considered extremely solid. The current account balance showed a surplus of 12.9 per cent of GNP in 2003. Despite assumptions of slightly lower oil prices and continuing high levels of imports, an improvement in the interest and transfers balance, as a result of ever higher net foreign assets, will help to keep the current account surplus at roughly the same level, i.e. 12.9 per cent in 2004 and 12.3 per cent in 2005. Net foreign assets are estimated at 78 per cent of GNP in 2006, compared with 50 per cent in 2003.

What are the Norwegian economy's main strengths?

In recent decades, Norway has been at the forefront of OECD growth performance. The OECD pinpoints in its "Economic Survey – Norway 2004" these factors as the Norwegian economy's main strengths besides increasing oil revenues:

- Stability-oriented macroeconomic policies that have prevented oil wealth from being gradually depleted.
- Efficiency gains from past liberalisations in a number of service sectors
- Direct impacts and spill-overs from the capital intensive, technologically sophisticated, and booming oil sector
- A high-performing labour market, in which a brisk rise in employment has accompanied strong growth of productivity
- Norway's traditionally high social cohesiveness and solidarity have ensured that the utilisation of oil wealth benefits individuals at all levels of society, and will continue to benefit future generations well after the oil itself is depleted. The challenge will be to maintain this good performance going forward.

MAIN ECONOMIC INDICATORS 2003-2006

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

		Accounts		Forecasts	
	2003 USD bn	2003	2004	2005	2006
Household consumption	103.1	3.7	5.2	5.1	4.2
General government consumption	50.4	1.3	2.4	1.8	1.6
Gross fixed investment	37.8	-2.5	3.4	2.9	1.5
Exports	92.4	0.1	1.9	1.8	1.6
Imports	61.8	1.8	5.1	5.9	4.0
Gross domestic product	224.3	0.3	2.8	2.3	2.0
Mainland Norway	178.2	0.7	3.6	2.8	2.3
Gross domestic product per capita. USD 1000	49.1				
Wages per standard man-year		3.8	3.7	3.8	4.0
Consumer price index (CPI)		2.5	0.7	1.7	2.3
Current account balance account (per cent of GDP)		12.9	12.3	11.3	10.9
Household saving ratio (level)		7.5	5.7	3.4	2.2
Importweighted krone exchange rate (44 countries)1		1.3	5.9	-0.9	0.3

1) Increasing index implies depreciation

Source: Statistics Norway

More than 60% of municipalities' costs are spent on meeting

state requirements

Most public welfare services in Norway are carried out by the municipalities. Services such as kindergartens, primary / lower secondary schools, nursing care and other social services, health services, cultural measures and various infrastructure investments are all wholly or partially municipal tasks. More than 60 per cent of the costs of these tasks are so-called "tied costs", necessary to meet minimum standards and carry out statutory tasks.

It is a clear political goal that the inhabitants of each municipality have access to equal services wherever they live in Norway. To achieve this, the Norwegian state has established a scheme involving an income and cost equalisation subsidy. The income equalisation subsidy is intended to counteract differences arising from varying municipal tax bases, while the cost equalisation subsidy is intended to counteract differences arising from varying responsibilities and cost levels. The subsidy schemes do not, however, lead to a complete equalisation of income. Some important revenues, such as from power generation, are not included in these calculations and municipalities with resulting high revenues are on the whole allowed to keep these. In addition, all municipalities receive so-called earmarked subsidies, which are to be used for specific purposes.

IDENTICAL TAX RATES

The subsidy schemes provide, on average, around 47 per cent of municipal income. Most of the remainder of the income comes from taxes; income tax, wealth tax and property tax. Some municipalities also receive tax from power stations, however, taxation is subject to state control in the form of maximum tax rates, and all municipalities in practice operate with the same rates of income and wealth tax. In total, taxes make up around 44 per cent of municipal income. The remainder of the income consists of various charges and other operating revenues, such as from the municipalities' own companies.

DEBT-FINANCED INVESTMENTS

A considerable part of tied costs can be related to "tied investments", which the municipalities are obliged to make in connection with the implementation of reforms and plans of action agreed on by state authorities, such as the Senior Citizen Reform. The state has determined that a large part of these investments are to be debt financed by the individual municipality, however, the state does give full or partial compensation for interest and repayments on such loans over a long period. The strong growth in municipal borrowing must be seen in this light (see diagram on next page).

TIED COSTS FOR NURSING, CARE AND EDUCATION

Almost half of municipal administration costs are tied costs and in fact more than half of the municipalities' tied costs are spent on nursing, care and education. In practice, these tied costs also comprise a very large part of the amount that the municipalities actually spend on these areas. As regards social services, almost 88 per cent of the costs relate to meeting requirements set by the central authorities. For education, the corresponding share is more than 73 per cent. The municipalities have the greatest freedom of action as regards how they use their money in relation to culture and infrastructure.

All the figures stated here are average figures taken from Statistics Norway's research project entitled "KOMMODE II", see the table on the next page.

Statistics Norway's research results show that the distribution within the individual municipality can vary considerably from the average figures shown in the table, both in terms of the share of total tied costs as well as the distribution across individual service sectors. Research results show, among other things, that municipalities with larger, more densely populated towns, have particularly high costs relating to social services, while many small municipalities have relatively low expenses in this area. Several of the municipal services are also aimed at a specific age group, so that the age composition of the municipality's inhabitants has a great effect on tied costs. The more children there are under school age, the more money has to be spent on kindergartens and health checks, and the more elderly there are, the higher the costs relating to nursing measures and care of the elderly.

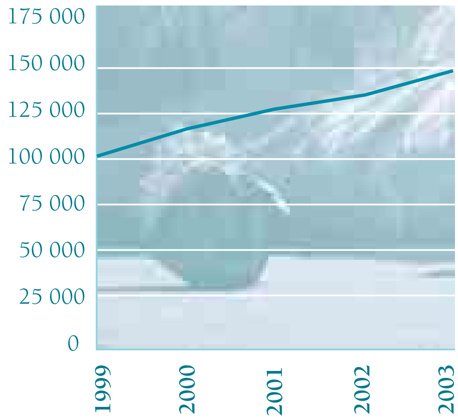
HIGH TIED COSTS IN SMALL MUNICIPALITIES

The Statistics Norway researchers also looked at the link between the size of the municipality and the level of tied costs. The conclusion of these surveys is that there is quite a clear link between the size of the municipality and the level of tied costs. The small municipalities have on the whole higher tied costs than large municipalities do. None of the smallest municipalities have low tied costs, while none of the largest municipalities have high tied costs.

SPEND MOST ON NURSING AND SCHOOLS

The research memo also provides an overview of actual municipal spending across the various sectors. This shows that the shares of the total budget that are spent on the individual objectives vary considerably from municipality to municipality. On average, however, by far the most is spent on nursing, care and education; more than 55 per cent of the average budget. Infrastructure, a sector with low tied costs, is the third largest area, followed by administration expenses while social services receive the smallest share.

Norwegian municipalities' gross debt NOK mm



Amounts borrowed by Norwegian municipalities rose strongly from 1999 to 2003. Source: Norges Bank

MUNICIPAL TIED COSTS
Share of total costs in percentage

Administration	48.5
Education	73.2
Kindergartens /day-care centres	54.4
Health services	46.2
Social services	87.5
Nursing and care	68.2
Culture	34.2
Infrastructure	33.1
Total	**60.2**

aSource: Statistics Norway, KOMMODE II.

MUNICIPAL EXPENDITURE
Share of expenses in the services sector

	Minimum	Maximum	Average
Administration	3.4%	25.4%	8.5%
Education	15.3%	38.9%	25.5%
Kindergartens/day-care centres	2.2%	18.7%	8.0%
Health care	0.2%	28.2%	4.8%
Social services	0.2%	12.8%	4.2%
Nursing and care	8.3%	56.2%	29.9%
Culture	1.5%	9.1%	4.8%
Infrastructure	0.2%	34.8%	14.2%

Source: Statistics Norway

KOMMUNALBANKEN IS THE LARGEST LENDER TO

THE NORWEGIAN MUNICIPAL SECTOR.

PROFIT AND LOSS ACCOUNT

(Amounts in NOK 1000)	Notes	2003	2002
Interest and related income on loans to and deposits with credit institutions		**34 926**	60 417
Interest and related income on loans to and receivables due from customers		**2 568 454**	2 783 962
Interest and related income on notes, bonds and other fixed income securities		**417 938**	448 197
Other interest and related income		**404**	197
Total interest and related income		**3 021 722**	3 292 773
Interest and related expenses on debt to credit institutions		**34 681**	20 692
Interest and related expenses on issued securities		**2 746 567**	3 048 751
Interest and related expenses on subordinated debt		**47 713**	41 498
Other interest and related expenses		**0**	381
Total interest and related expenses		**2 828 961**	3 111 322
Net interest income		**192 761**	181 451
Dividends and other income from securities with variable yield		**1**	1
Government guarantee fees / stand-by fees		**15 036**	20 594
Other fees and commission costs		**8 671**	8 179
Total commission costs and costs of banking services	19	**23 707**	28 773
Net gains / losses on notes, bonds and other fixed income securities		**4 999**	1 000
Net gains / losses on foreign currency and financial derivatives		**-4 358**	3 175
Total gains / losses on foreign currency and securities		**641**	4 175
Other operating income		**475**	506
Salaries	1	**19 339**	16 667
Pensions	2	**2 327**	1 766
Social security costs		**4 065**	3 453
Administrative costs		**10 371**	11 618
Total salaries and general administrative expenses		**36 102**	33 504
Depreciation etc. on fixed assets	8	**1 788**	2 083
Real estate operating expenses	3	**5 289**	5 019
Other operating expenses		**5 755**	3 846
Total other operating expenses		**11 044**	8 865
Net income before taxes		121 237	112 908
Tax on ordinary income	9	**34 081**	31 750
Net income after taxes		**87 156**	81 158
Dividends		**40 500**	38 500
Transferred to retained earnings	22	**46 656**	42 658
Total allocations		**87 156**	81 158

BALANCE SHEET

(Amounts in NOK 1000)

ASSETS	Notes	31.12.03	31.12.02
Cash and deposits with Central Bank of Norway		2	2
Loans to and deposits with credit institutions without agreed maturity or notice period		0	42 479
Loans to and deposits with credit institutions with agreed maturity or notice period		300 000	345 101
Total net loans and deposits with credit institutions	4	300 000	387 590
Instalment loans	5	52 765 568	45 594 250
Other loans	1	1 314 276	228 751
Total net loans and claims on customers		54 079 844	45 823 001
Government issuers, notes and bonds		639 037	4 171
Other issuers, notes and bonds		14 160 520	14 112 787
Total notes, bonds and other fixed income securities	6	14 799 557	14 116 958
Shares	7	553	554
Deferred taxes	9	2 210	0
Machinery, equipment and vehicles	8	9 372	3 240
Financial derivatives		1 922 571	0
Other assets		772	2 679
Accrued income		378 692	664 160
Total prepaid, non accrued expenses		2 519	3 255
Total prepaid, non accrued expenses and accrued income		381 211	667 415
TOTAL ASSETS	13,17	**71 496 092**	61 001 429

BALANCE SHEET

LIABILITIES AND EQUITY		31.12.03	31.12.02
Loans from and deposits from institutions without fixed term		869	0
Loans from and deposits from institutions with fixed term		1 890 225	1 154 665
Total loans from and deposits from institutions		1 891 094	1 154 665
Bond issues		66 812 263	56 445 094
Financial derivatives		0	1 032 904
Margin requirements and other customer accounts		20 141	21 400
Other debt	11	85 554	67 024
Total other debt	10	105 695	1 121 327
Accrued expenses and prepaid unearned income		714 141	594 742
Pension cost	2	0	0
Subordinated debt	12, 21	1 001 619	771 172
Hybrid Tier 1 Capital Instruments		145 303	135 108
Total liabilities		70 670 115	60 222 108
Share capital		660 000	660 000
Other equity capital		165 977	119 321
Total equity capital	21, 22	825 977	779 321
TOTAL LIABILITIES AND EQUITY	13, 17	**71 496 092**	61 001 429

Oslo, 31 December 2003
9 March 2004
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

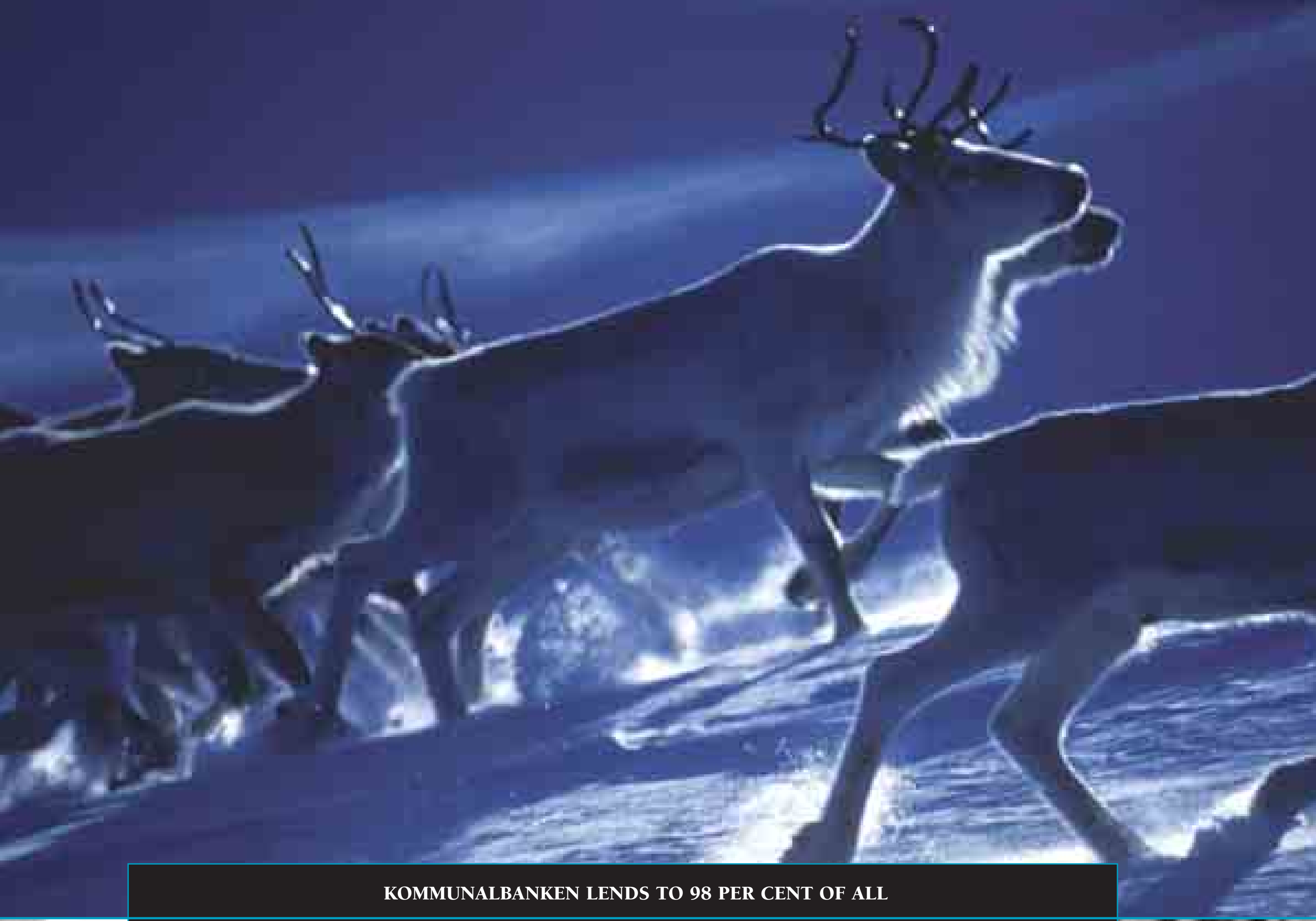
Olav Rune Øverland
Member

Petter Skouen
Managing Director &CEO

CASH FLOW STATEMENT

(Amounts in NOK 1 000)

	2003	2002
Interest rate receipts	2 707 030	2 850 585
Interest rate payments	2 585 855	2 755 630
Other receipts	1 117	4 681
Operating payments	62 183	61 724
Net cashflow from operations	60 109	37 912
Increase in loans	8 256 843	3 181 220
Increase in other claims	2 667 362	147 253
Increase in short-term securities	682 598	2 264 058
Increase in investments in credit institutions	-87 580	43 323
Net cashflow from current financial operations	11 519 223	5 635 854
Increase in other fixed assets	8 086	1 102
Net cashflow from investments	8 086	1 102
Increase / decrease in loans, issue of securities	11 103 597	5 371 632
Increase / decrease in other debt	363 603	227 413
Net cashflow from long-term financial activities	11 467 200	5 599 045
Net change in liquid assets	0	0
Liquid assets, 01.01.03	2	2
Liquidity assets, 31.12.03	2	2



KOMMUNALBANKEN LENDS TO 98 PER CENT OF ALL NORWEGIAN MUNICIPALITIES.

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 the 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 or trading 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 banking 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 fix 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, share options, 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 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, intermunicipal 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 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)

	2003	2002
Salaries and other remuneration	19 339	16 667
Of which salary and remuneration payable to Managing Director	1 443	1 153
Of which directors' fees	465	450
Of which fees to members of the audit committee	90	90
Of which fees to members of the supervisory board	51	49
Of which a profit-related bonus to employees and the Managing Director	988	-

Pursuant to the Norwegian Financial Institutions 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 cash benefit of one year's salary in addition to that payable during the period of notice following termination of employment. The position has a mandatory retirement age of 65 years. The pension scheme for the Managing Director is the same as that for the other employees, with a benefit level of 66 per cent. Kommunalbanken also has a pension scheme for those receiving salaries of more than 12 G (G = the Norwegian National Insurance Scheme's basic amount).

In 2003, the Bank's Board of Directors agreed on an incentive scheme for the employees provided agreed profit targets were achieved. This scheme applies as from the 2002 accounting year and disbursed payments for the first time in 2003.

LOANS TO EMPLOYEES

(Amounts in whole NOK 1 000)	**Balance as at 31.12.03**	**Balance as at 31.12.02**
Short-term loans to staff	451	563
Of which loan to the Man. Director	0	37
Home mortgages	15 449	14 901
Of which a mortgage to the Man. Director	1 235	1 287
Total loans to employees	15 900	15 464
Interest-rate subsidies during the period	177	94

Interest rate subsidies are calculated as the difference between the lending rate and the interest rate that is treated as a taxable benefit. Mortgages are subsidised in that the staff are given a mortgage rate that is one per cent lower than the Bank's borrowing rate. Security for the loans is approved by the audit committee.

Fee for the audit of the annual accounts	375
Fee for other financial audit work	167
Total audit fee	542
Fee for other services and assistance	90

All amounts relating to the audit fee are inclusive of VAT.

NOTE 2

PENSION COSTS AND OBLIGATIONS

(Amounts in NOK 1 000)

Kommunalbanken's pension obligations are covered by a 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 under the Norwegian National Insurance Scheme. Kommunalbanken has a pension scheme which covers all its employees. The bank had 33 employees at the end of 2003. 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 under the National Insurance Scheme. The obligations are covered via KLP.

Kommunalbanken also has a scheme linked to the contractually agreed early retirement pension scheme (AFP). This is unsecured and is covered via the bank's operations. 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.

Kommunalbanken also has a pension scheme for those receiving a salary of more than 12 G (G = the National Insurance Scheme basic amount). The table below shows one column for the collective scheme and one for salaries of more than 12 G.

COLLECTIVE SCHEME

Pension costs			Salaries of more than 12 G
2002	2003		2003
1 729	1 848	Pension rights accrued for the year	287
179	263	Interest expense on accrued pension rights	54
1 908	2 111	Gross pension costs	341
- 145	- 186	Expected return	0
0	60	Recorded change in estimates (deviation)	0
1 766	**1 985**	**Net pension costs**	**341**

Overfinanced pension obligations			**Pension obligations**
2 718	4 315	Gross accrued liability	895
3 501	3 640	Pension funds	861
- 783	674	Net accrued liability	34
0	- 1 061	Unrecorded change in estimates/deviation	0
- 783	**- 386**	**Net liability transferred to balance sheet**	**34**

Financial assumptions:	
Annual rate of return	7.0%
Discount rate	6.5%
Annual increase in salaries	4.0%
Annual increase in National Insurance Scheme basic amount	4.0%

Kommunalbanken was a member of Statens Pensjonskasse (SPK) until 31 December 2000, when the bank transferred its group pension scheme and registered all its employees with a KLP pension scheme. The pension obligation from SPK has not been entered on the balance sheet as at 31 December 2003. The last actuarial calculations obtained from SPK show a net pension obligation of NOK 318 000 and the net pension cost was calculated to be NOK 541 000.

NOTE 3

OTHER OPERATING EXPENSES

(Amounts in NOK 1 000)

Kommunalbanken has office premises at Munkedamsveien 45, Vika Atrium. The building complex is owned by Olav Thon Eiendomsselskap ASA and Kommunalbanken has leased 1 378 square metres. The lease carries a fixed rent and is irrevocable until 31.08.2009. Rent paid in 2003 was NOK 3 864 000 compared to NOK 3 795 000 in 2002. 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 1 000)	**2003**	**2002**
Loans to and deposits with credit institutions, without agreed maturity	0	42 479
Loans to and deposits with credit institutions, with agreed maturity	300 000	345 101
Total loans to and deposits with credit institutions	**300 000**	387 580

NOK 1 999 has been deposited in a separate tax-withholding account.

NOTE 5

(Amounts in NOK 1 000)

LOANS TO AND CLAIMS ON CUSTOMERS

Loans to customers mature as follows:

Time to maturity	**Up to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Total**
Floating rate loans	533 316	973 359	6 202 049	18 268 682	25 977 405
Fixed rate loans	3 937 782	1 998 107	5 414 996	15 437 277	26 788 163
Total	4 471 098	2 971 466	11 617 045	33 705 959	52 765 568

LOANS BY COUNTY	**31.12.03**	**31.12.02**
	3 622 707	2 910 704
Østfold	5 518 544	4 279 283
Akershus	695 930	563 695
Oslo	2 158 689	2 206 363
Hedmark	1 644 081	1 305 276
Oppland	2 614 478	2 140 076
Buskerud	2 718 779	2 033 482
Vestfold	1 920 507	1 796 691
Telemark	1 398 666	1 003 057
Aust-Agder	2 068 153	1 850 852
Vest-Agder	4 240 092	3 665 626
Rogaland	4 740 167	4 001 062
Hordaland	2 406 005	2 248 333
Sogn og Fjordane	3 352 232	2 764 686
Møre og Romsdal	4 200 923	3 679 889
Sør-Trøndelag	2 918 948	2 716 468
Nord-Trøndelag	3 981 419	3 706 075
Nordland	2 447 010	1 725 634
Troms	1 432 504	1 225 749
Finnmark		
	54 079 844	45 823 001

NOTE 6

HOLDINGS OF NOTES, BONDS AND OTHER INTEREST-BEARING SECURITIES

(Amounts in NOK 1 000)

2003	Book value	Acquistion cost	Actual value	Average effective interest rate	Listed
Government and governm.-guaranteed notes - domestic (weighted 0%)	639 099	637 305	631 358	3.35	639 099
Government and governm.-guaranteed notes - foreign (weighted 0%)	429 457	428 487	429 250	3.99	429 457
Government-guaranteed bonds - foreign (weighted 0%)	2 013 141	2 035 218	2 027 550	4.52	2 013 141
Notes issued by financial institutions - domestic (weighted 20%)	2 764 118	2 759 005	2 767 491	2.71	2 211 694
Notes issued by financial institutions - foreign (weighted 20%)	8 953 742	8 977 621	8 982 614	2.61	7 084 772
Total	**14 799 557**	**14 837 636**	**14 838 263**		

2002	Book value	Acquistion cost	Actual value	Average effective interest rate	Listed
Government-guaranteed bonds (weighted 0%)	10 372	10 465	10 000	5.50	10 372
Government and governm.-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 (weighted 20%)	2 786 283	2 782 129	2 797 815	5.55	2 229 026
Notes issued by financial institutions - foreign (weighted 20%)	7 296 272	7 283 578	7 340 519	3.58	5 837 042
Total	**14 116 958**	**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. Average interest rate is based on weighted yield as at 31.12.2003.

Of which Repos in NOK	Book value	Acquisition cost	Actual value
Repos in NOK	414 330 411	412 440 000	412 219 512

Of which trading portfolio:

	2003		2002	
Currency	Market value	Book value	Market value	Book value
USD	2 536 286	2 530 167	2 411 709	2 411 709
EUR	2 426 896	2 427 717	787 682	787 682
SEK	78 297	77 586	0	0
DKK	67 895	67 839	0	0
NOK	8 164 759	8 173 596	1 566 171	1 566 171
Total	13 274 133	13 276 905	4 765 562	4 765 562

The trading portfolio includes tradeable debt securities.

NOTE 7

SHARES

The share portfolio comprises:

1 000 shares in Norsk Vekst ASA with a cost price of NOK 99 per share. The face value of the shares is NOK 10.
The company's total share capital is NOK 85 185 180. The shares are entered at cost price. The market value is NOK 27.90 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 0.15.
The company's total share capital is NOK 1 000 000. The shares are entered at cost price. The market value is NOK 4.51 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 01.01.03	562	6 232	3 264	400	192	**10 650**
Acquisitions 2003 at cost price	24	7 288	200	414	160	**8 086**
Disposals 2003 at cost price - scrapped				-400		**-400**
Cost price as at 31.12.03	586	13 520	3 464	414	352	**18 336**
Accumulated depreciation as at 01.01.03	362	4 830	2 005	213		**7 410**
Depreciation for the year	121	921	664	82		**1 788**
Accumulated depreciation of fixed assets sold/scrapped 2003					-234	**-234**
Accumulated depreciation as at 31.12.02	483	5 751	2 669	61		**8 964**
Book value as at 31.12.03	103	7 769	795	353	352	**9 372**

The tax value of fixed assets is NOK 4 197 entailing a negative temporary difference of NOK 1 241 as at 31.12.03.

NOTE 9

TAXES *(Amounts in NOK 1 000)*

The tax cost for the period comprises:	**2003**	**2002**
Taxes payable	36 431	24 730
Changes in deferred taxes	-2 350	7 020
Total tax cost	**34 081**	31 750
Taxes payable on the balance sheet comprise:		
Taxes payable on profit for the year	36 431	24 730
Payable tax adjusted on items adjusted against equity	5 331	-
Total taxes payable	**41 762**	24 730
Calculation of the tax base for the period:		
Profit before taxes	121 237	112 908
Permanent differences	480	485
Changes in temporary differences	8 395	-25 072
Other adjustments	-	-
Tax base for the period	**130 113**	88 322
Summary of temporary differences:	**31.12.03**	**31.12.02**
Fixed assets	-1 241	-1 499
Hedging instruments	-7 005	1 218
Other temporary differences	352	783
Pensions		
Total	**-7 894**	502
28% deferred tax / deferred tax benefit (-)	-2 210	140
Explanation of why tax cost for the year is not 28% of profit before taxes:		
28% tax on profit before taxes	33 946	31 614
Permanent differences (28%)	135	136
Estimated tax cost	**34 081**	31 750

NOTE 10

DOMESTIC NOTE ISSUES AND OTHER SHORT-TERM ISSUES

(Amounts in NOK 1 000)

	2003		2002	
		Average interest		**Average interest**
Loans and deposits from credit institutions with agreed maturity	1 891 094	2.05	1 154 665	2.91
Bond debt in NOK	19 628 040	5.98	25 260 300	6.01
Bond debt in foreign currencies	47 184 223	3.80	31 184 794	4.19
Notes and bond debt	**66 812 263**		56 445 094	

Average interest rate has been calculated using weighted nominal interest rate as at 31.12.03

Note and bond debt broken down by currency is described in Note 17 (Currency risk)

NOTE 11

OTHER LIABILITIES

(Amounts in NOK 1 000)

	2003	2002
Allocated dividend	40 500	38 500
Taxes payable	41 762	24 730
Other liabilities	3 292	3 794
Other liabilities	**85 554**	**67 024**

NOTE 12

SUBORDINATED LOAN CAPITAL AND HYBRID TIER 1 CAPITAL INSTRUMENTS

(Amounts in NOK 1 000)

	2003	2002
Perpetual subordinated loan capital (EUR 45 million) (Fixed rate 6.95%)	378 361	360 900
Perpetual subordinated loan capital (NOK 180 million) (Fixed rate 5.19%)	180 000	0
Ordinary subordinated loan capital - expires 2012 (EUR 20 million) (Fixed rate 6.29%) 1	168 160	147 400
Ordinary subordinated loan capital - expires 2010 (EUR 40 million) (Interest rate is adjusted every 3 months. Current rate 2.519%)	336 321	321 680
Ordinary subordinated loan capital expires 2012 (EUR 10 million) (Interes rate is adjusted every 3 months. (Current rate 2.521%)	84 080	76 300
Subordinated loan capital and Hybrid Tier 1 Capital Instruments	**1 146 922**	**906 280**

1) Hybrid Tier 1 Capital Instruments are a capital instrument 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 in NOK 1 000)

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	300 002	300 002	4 223		
Instalment loans	52 765 568	914 388		2 720 999	
Securities	14 799 557	1 272 860	773 467	1 851 509	792 631
Other short-term loans	1 314 276	469 060		700 799	
Financial derivatives	1 922 571			88 084	88 084
Prepaid expenses	2 519	1 638		756	
Accrued income	378 692	302 953	94 866	75 738	23 717
Other assets	12 906	2 595			
Total	**71 496 092**	**3 263 496**		**5 437 886**	
Liabilities:					
Loans to credit institutions	1 891 094				
Notes and other short-term debt	0				
Bond debt	66 812 263			1 714 869	51 540
Financial derivatives	0				
Other debt	105 695	8 871		83 170	
Accrued costs and provisions	714 141	19 452		317 871	
Subordinated loan capital	1 001 619				
Hybrid Tier 1 Capital Instruments	145 303				
Equity capital	825 977				
Total	**71 496 092**	**28 323**		**2 115 909**	
Net liquidity exposure, balance sheet items	0	3 235 174		3 321 976	

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	300 002	300 002	4 223		
Instalment loans	52 765 568	10 428 666		20 258 736	
Securities	14 799 557	4 998 235	4 045 583	6 383 530	4 594 362
Other short-term loans	1 314 276	474 505		700 799	
Financial derivatives	1 922 571	514 869	514 869	446 416	446 416
Prepaid expenses	2 519	1 638		756	
Accrued income	378 692	302 953	94 866	75 738	23 717
Other assets	12 906	2 595			
Total	**71 496 092**	**17 023 463**		**27 865 975**	
Liabilities:					
Loans to credit institutions	1 891 094			1 891 094	
Notes and other short-term debt	0				
Bond debt	66 812 263	4 367 887	3 513 309	10 491 430	8 666 782
Financial derivatives	0				
Other debt	105 695	8 871		83 170	
Accrued costs and provisions	714 141	19 452		317 871	
Subordinated loan capital	1 001 619	336 321	336 321	84 080	84 080
Hybrid Tier 1 Capital Instruments	145 303				
Equity capital	825 977				
Total	**71 496 092**	**4 732 531**		**12 867 645**	
Net interest rate exposure, balance sheet items	**0**	**12 290 933**		**14 998 331**	
Net interest rate exposure, fin. derivatives	0	-13 336 090		-11 563 032	
Total interest rate exposure	0	-1 045 157		3 435 299	

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
1 192 477		2 474 140		45 463 564			
3 035 572	1 907 090	8 639 616	8 042 232				
121 139		203		23 076			
209 509	209 509	1 126 893	1 126 893	498 085	498 085		
126							
				939		9 372	
4 558 823		**12 240 852**		**45 985 664**		**9 372**	
		1 082 852		808 242			
2 596 654	1 346 772	31 785 675	16 862 959	30 715 066	28 922 952		
13 654							
376 819							
				443 258	263 258	558 361	558 361
				145 303	145 303		
						825 977	
2 987 126		**32 868 527**		**32 111 869**		**1 384 338**	
1 571 697		-20 627 675		13 873 795		-1 374 966	

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
4 630 928		16 685 219		762 019			
959 245	641 827	2 458 548	2 233 648				
121 139		10 203		7 630			
410 451	410 451	359 307	359 307	191 528	191 528		
126							
				939		9 372	
6 121 888		**19 513 277**		**962 116**		**9 372**	
15 897 350	14 647 468	30 683 210	16 776 392	5 372 386	3 580 272		
13 654							
376 819							
		180 000		401 218	401 218		
				145 303	145 303		
						825 977	
16 287 822		**30 863 210**		**5 918 908**		**825 977**	
-10 165 934		**-11 349 933**		**-4 956 791**		**-816 605**	
10 631 451		9 306 741		4 960 929		0	
465 517		-2 043 192		4 138		-816 605	

NOTE 14

VOLUMES OF THE VARIOUS FINANCIAL DERIVATIVES

(Amounts in NOK 1 000)

Kommunalbanken has entered into interest rate and currency swaps, which involve swapping the currency and interest terms for a set amount for a fixed period, equity-related contracts which are based on specific equity indices and FRAs which fix the interest rate for a nominal amount for a future period. The purpose of these agreements is to hedge against specific risk factors.

The agreements relate to Kommunalbanken's borrowing and investment activities and at the end of 2003 they comprised:

Type of agreement	Purchased	Sold	Net
Forward rate agreements (FRA)	923 000	660 000	263 000
Forward exchange agreements	3 663 720	-	3 663 720
Swaps	24 093 992	109 586 709	-85 492 717
of which interest-rate swaps	20 804 764	38 015 581	-17 210 817
of which currency swaps	3 289 228	70 012 658	-66 723 430
of which equity-related swaps	-	-1 558 470	-1 558 470
Total	28 680 711	110 246 709	-81 565 997

Market value of financial derivatives

Type of agreement	Gross nominal amount	Positive market values	Negative market values
Forward rate agreements (FRA)	1 583 000	11 428	2 101
Forward exchange agreements	3 663 720	3 488	83 663
Swaps	133 680 700	6 289 718	4 762 560
of which interest-rate swaps	58 820 344	2 653 269	1 701 079
of which currency swaps	73 301 886	3 616 303	2 910 886
of which equity-related swaps	1 558 470	20 147	150 595
Total	**138 927 420**	**6 304 634**	**4 848 324**

Netting			
Effect of netting agreements 1)		-2 525 108	

1) Only includes contracts where there are legally binding agreements with customers regarding offsetting.

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 swaps.

Kommunalbanken has maintained its strategy of adapting its funding activities to its various types of loan, which has resulted in the institution'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 portfolios which are sensitive to movements in interest rates, the investment portfolio and the fixed-rate portfolios, the exposure limit in connection with a change in interest rates of 1 per cent is NOK 12 million. As at 31.12.2003 the total exposure was NOK -10.3 million for a 1 percentage point increase in the interest rate and NOK -10.3 million for a 1 percentage point fall in the interest rate. As at 31.12.2002 the total exposure was NOK -5.4 million for a 1 percentage point increase in the interest rate and NOK 5.4 million for a 1 percentage point fall in the interest rate.

NOTE 16

COUNTERPARTY RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS

(Amounts in NOK 1 000)

Counterparty risk is the risk that the counterparty to an agreement may be unable to honour its commitments in the future.

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 Moody's or Standard & Poor'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, requiring collateral, payment in advance or repayment in instalments.

Credit risk relates to the following instruments:

	2003	**2002**
Forward rate agreements (FRA)	11 427	5 866
Equity linked contracts	20 146	0
Currency futures and currency swaps	3 616 644	2 504 193
Interest rate swaps	2 653 267	1 330 146

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. All exposures arise from transactions with 20% BIS-weighted counterparties.

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 institution will not have net currency positions. All currency positions 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	300 000	295 785	4 215	359	-18
Loans to and receivables from customers	54 079 844	54 079 844	-	-	-
Notes, bonds and other fixed-income interest-bearing securities	14 799 557	2 623 037	12 176 520	6 993 621	-
Shares	553	132	420	-	-
Fixed assets	9 372	9 372	-	-	-
Other assets	1 925 553	1 925 553	-	-	-
Prepaid, non-accrued expenses and accrued income	381 211	262 629	118 582	54 280	-
Total assets	**71 496 092**	**59 196 354**	**12 299 738**	**7 048 261**	**-18**
Liabilities and equity capital					
Debts to credit institutions	1 891 094	869	-1 890 224	-633 536	-
Debt established through issue of securities	66 812 263	19 433 860	-47 378 404	-6 148 590	-23 299 722
Other debt	105 695	105 695	-	-	-
Accrued expenses and prepaid unearned income	714 141	382 323	-331 818	-9 315	-2 090
Provisions for accrued expenses and liabilities	-	-	-	-	-
Subordinated loan capital	1 001 619	185 685	-815 934	-	-
Hybrid Tier 1 Capital Instruments	145 303	-5685	-150 988	-	-
Equity capital	825 977	825 977	-	-	-
Total liabilities and equity capital	**71 496 092**	**20 928 724**	**-50 567 368**	**-6 772 812**	**-23 301 812**
Net currency exposure, balance-sheet items			-38 267 630	275 449	-23 301 829
Net currency exposure, financial derivatives			**36 172 277**	**-248 665**	**23 301 814**
				-	
Net currency exposure as at 31.12.03			**30 494**	**26 784**	**-15**

EURO	CHF	DKK	GBP	SEK	HKD	AUD	NZD	CAD
-	-	-	-	-	-	-	-	-
2 974	219	11	347	209	-	114	-	-
-	-	-	-	-	-	-	-	-
3 650 934	330 721	394 731	218 850	469 028	-	118 636	-	-
-	-	-	-	420	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
23 725	7 025	12 131	14 035	5 271	-	2 115	-	-
3 677 633	**337 965**	**406 873**	**233 231**	**474 927**	**-**	**120 865**	**-**	**-**
-1 256 688	-	-	-	-	-	-	-	-
-1 345 814	-6 988 892	-	-3 714 128	-	-184 710	-3 554 170	-1 084 297	-1 058 081
-	-	-	-	-	-	-	-	-
-51 683	-43 414	-18 284	-53 020	-17 624	-	-171 578	-8 719	25 279
-	-	-	-	-	-	-	-	-
-815 934	-	-	-	-	-	-	-	-
-150 988	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-3 621 108	**-7 032 306**	**-18 284**	**-3 767 147**	**-17 624**	**-184 710**	**-3 725 748**	**-1 093 016**	**-1 032 801**
56 525	-6 694 341	388 588	-3 533 916	457 304	-184 710	-3 604 883	-1 093 016	-1 032 801
-54 615	**6 694 588**	**-388 575**	**3 534 284**	**-456 143**	**184 710**	**3 604 879**	**1 093 016**	**1 032 801**
1 910	**247**	**14**	**368**	**1 161**	**-**	**-4**	**-**	**-**

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 the highest 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 2003 Kommunalbanken had government-guaranteed debt of NOK 11.8 billion, all taken up prior to the conversion to a limited company. Comparable figure at the end of 2002 was NOK 17.5 billion.

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 2003 was NOK 13.6 million compared to NOK 18.9 million in 2002.

NOTE 20

GUARANTEE LIABILITIES

Kommunalbanken has provided guarantees for loans taken up by municipalities for financing of school construction. As at 31 December 2003, the guarantees amounted to NOK 346 000.

Guarantee liabilities have been reduced by NOK 1 111 000 during 2003.

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:	**31.12.2003**	**31.12.2002**
Share capital	660 000	660 000
Other equity capital	165 977	119 321
Equity capital	825 977	779 321
Hybrid Tier 1 Capital Instruments	145 303	135 108
Overfinancing of pension obligations	-386	0
Deferred tax benefit entered in balance sheet	-2 210	0
Total Tier 1 capital	968 684	914 429
Supplementary capital:		
Subordinated debt	411 690	410 272
Perpetual equity and subordinated loan capital	484 342	360 900
Total Tier II supplementary capital	896 032	771 172
Total equity and subordinated loan capital	**1 864 716**	**1 685 601**

EQUITY AND SUBORDINATED LOAN CAPITAL IS ENTERED AT HISTORICAL COST.

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

	2003		**2002**	
Risk weighting	**Book value**	**Wighted amount**	**Book value**	**Weighted amount**
0 %	3 090 755	0	4 034 405	0
20 %	52 135 672	10 427 134	46 493 715	9 298 743
50 %	15 896	7 948	15 461	7 731
100 %	2 976 862	2 976 862	2 563 311	2 563 311
Items that are part of the trading portfolio	6 951 443	756 277	4 757 762	395 325
Negotiable debt instruments that are part of the trading port.	6 325 464	504 184	3 125 610	312 692
Non balance sheet items that are not part of the trading port.		1 199 257		1 303 149
Total risk-weighted balance		**15 871 662**	**13 880 951**	**13 881 426**
Capital adequacy		**11.75**		12.14

NOTE 22

EQUITY CAPITAL *(Amounts in NOK 1 000)*

	Share capital	**Other**	**Total equity capital**
CORRECTION OF COMPARISON FIGURES			
Equity capital as at 31.12.02	660 000	105 612	765 612
Net error in last year's annual accounts		13 709	13 709
Equity capital as at 01.01.03	660 000	119 321	779 321
ANNUAL CHANGE IN EQUITY CAPITAL			
Profit for the accounting period		87 156	87 156
Dividend		-40 500	-40 500
Equity capital as at 31.12.03	660 000	165 977	825 977

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 zero coupon instruments 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

ERNST & YOUNG

To the Annual Shareholders' Meeting of
Kommunalbanken AS

Auditor's report for 2003

We have audited the annual financial statements of Kommunalbanken AS as of 31 December 2003, showing a profit of NOK 87 156 00. We have also audited the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit. The financial statements comprise the balance sheet, the statements of income and cash flows and the accompanying notes. These financial statements and the Directors' report 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. These 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 2003, 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, 9 March 2004
ERNST & YOUNG AS

Tor Steenfeldt-Foss
State Authorised Public Accountant (Norway)

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 2003.

The Audit Committee recommends that the annual report and accounts presented be approved as Kommunalbanken's accounts for 2003 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 2003 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 87.156 million, is adopted by the Annual General Meeting.

Oslo, 25 March 2003
Supervisory Committee for Kommunalbanken AS

Oddvar Flæte
Chairman

Articles of Association
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) and partner in the law firm Hjort DA. Minister for Justice 1989-90. 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 Executive Officer of Askim municipality. Skaar Jahren is an agricultural economist, with specialist education in economics and management. She has many years of experience in various management positions in municipalities and in the county governor's office, and of board positions with Østfold College, the healthcare company Sykehus Østfold and 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. Kristoffersen was elected as Chairman of the Board of the Norwegian Financial Services Association (FNH) in 2003.

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 securities, 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 chief analyst in DnB Markets ASA and Managing Director of Skandia Kapitalforvaltning ASA.

Petter Skouen
Managing Director and CEO. Graduate in business economics. Skouen has had a number of management positions within the banking and financial sector both in Norway and abroad. He joined Norges Kommunalbank in 1992 and has been Managing Director and CEO since 1998.

SUPERVISORY BOARD

- Oddvar Flæte, County Governor, Sogn og Fjordane county, Chairman

- Thor Bernstrøm, Assistant Director General, Ministry of Local Government and Regional Development
- Kristine Falkgård, Head of Funding, Kommunalbanken, employee representative
- Sylvi Graham, Mayor, Oppegård municipality
- May Griff Bye, Special advisor, Sør-Varanger municipality
- Trond Lesjø, Chief Executive Officer, Gjøvik municipality
- Gerd Ingunn Opdal, Chief Executive Officer, Vindafjord municipality
- Kjell Pettersen, Chief Executive Officer, Nittedal municipality
- Harald Rød, 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 Executive Officer, Bærum municipality
- Asbjørn Gundersen, Head of Administration, 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, Tinn municipality
- Svein Blix, Chief Executive Officer, Bodø municipality

DEPUTY MEMBER

- Kristina Nilsen, Chief Executive Officer, Nesodden municipality

AUDITOR

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

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Kommunalbanken AS
Munkedamsveien 45A, Box 1210 Vika, 0110 Oslo, telephone: +47 21 50 20 00, facsimile: + 4721 50 20 01
www.kommunalbanken.com