Kommunalbanken

Annual report and accounts 2004

Light is inseparable from identity. Day and night change with the light, the seasons change with the light, life's rhythm changes with the light. At the same time light is a constant in all change.

AAA/
Aaa

S&P/
Moody's

Rating

Index

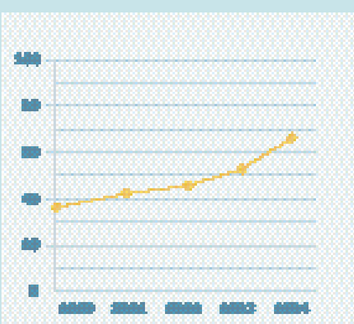
This is Kommunalbanken

- Kommunalbanken is the largest lender to the local government sector in Norway, with a market share of around 38 per cent. The loan portfolio reached NOK 66.5 billion in 2004, while total assets amounted to NOK 88.9 billion.
- Kommunalbanken is a sector political instrument for local government at all levels. Loans are granted to municipalities, counties, municipal enterprises and inter-municipal companies. It may also grant loans to other companies carrying out municipal services, provided there is a municipal guarantee.
- The principal objective is to secure local governments access to loans at favourable terms and at the same time ensure that the market for local government funds remains competitive.
- Kommunalbanken was established by an Act of Parliament in 1999, as a continuation of the state owned institution Norges Kommunalbank, established in 1927. The Norwegian state has an 80 per cent stake and KLP, the National Local Government Pension Fund, a 20 per cent stake. The state's shares are managed by the Norwegian Ministry for Local Government and Regional Affairs.
- Kommunalbanken and its predecessor Norges Kommunalbank have never suffered any losses in 78 years of operation.
- Kommunalbanken has been assigned the highest possible ratings, Aaa/AAA, from the international credit rating agencies Moody's Investors Service and Standard & Poor's. In Norway only the state has an equivalent rating, the favourable borrowing terms that this rating ensures are passed on to the local governments.
- Kommunalbanken is subject to the general legislation governing financial institutions.

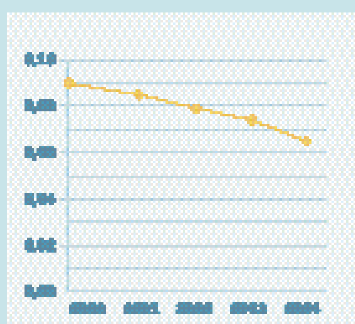
Summary financial figures

(NOK million)	**2004**	**2003**	**2002**	**2001**	**2000**
Net interest and commission income	**178.7**	169.1	152.7	130.1	113.1
Foreign exchange gains / losses	**2**	0.6	4.2	2.1	-0.5
Other operating costs and extraordinary income	**0.5**	0.5	0.5	0.4	0.8
Staff costs and other operating costs	**51.9**	48.9	44.5	37.5	38.9
Profit before tax	**129.3**	121.2	112.9	115.2	74.5
Tax	**36.9**	34.1	31.7	32.3	21
Profit after tax	**92.4**	87.1	81.2	82.9	53.5
Total lending*	**66.5**	52.8	45.8	42.4	36.8
Average total assets*	**80.2**	66.2	58.2	50.2	38.6
Capital adequacy in %	**11.32**	11.75	12.14	11.46	13.74
Operating costs as a % of total assets	**0.058**	0.068	0.079	0.085	0.09

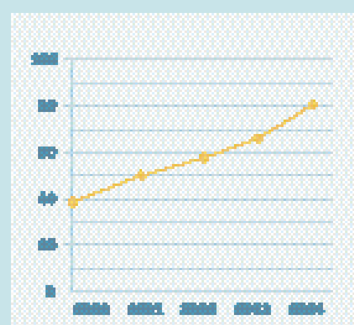
* NOK billion



Total lending 2000-2004
NOK bn



Operating costs as a percentage of total assets 2000-2004
NOK bn



Average total assets 2000-2004
NOK bn

2004 – the year in brief

- Kommunalbanken's overall lending reached NOK 66.5 billion, NOK 13.7 billion more than the previous year.
- Loan disbursements rose to NOK 20.1 billion.
- NOK 26.1 billion was borrowed through 416 new bond issues.
- 96 per cent of new debt was raised abroad, Japan being the most important market.
- Norwegian local governments' total demand for borrowing rose by NOK 15 billion, or around 13 per cent, to NOK 164 billion.
- It was decided to increase share capital via a targeted share issue of of NOK 21.5 million with Kommunalbanken's two shareholders, the state and KLP.
- The Board of Directors decided that Kommunalbanken will adopt the new international system for internal credit rating, Basel II, which is due to come into force in 2007.
- In line with the changes in the interest rate market, the Norwegian Parliament adopted a new three-year target return for Kommunalbanken. The new target is 5.23 per cent annually after tax.
- The three-month money market interest rate (NIBOR, the Norwegian interbank offered rate) stayed close to 2.0 per cent from February to December.

Serving local governments since 1927

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

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

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

1970 As well as being a lender to local government, Norges Kommunalbank also becomes an important instrument in the authorities' foreign exchange policy.

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

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

1999 Kommunalbanken AS is established on 1 November 1999, with the Norwegian state owning all of its shares. Kommunalbanken is founded as a direct continuation of Norges Kommunalbank, with the same tasks and staff. The institution regains its right to issue bonds abroad.

2000 Local government becomes an indirect co-owner following the National Local Government Pension Fund, KLP's acquisition of 20 per cent of the Norwegian state's shares.
Kommunalbanken is assigned AAA/Aaa rating from Standard & Poor's and Moody's Investors Service.

2003 A majority in the Storting's Standing Committee on Local Government determines that making changes to the state's stake in Kommunalbanken is not a relevant policy and that «the current structure of the credit market for local government safeguards competition between the market players, in the best interests of local government».

2004 The government proposes increasing the share capital in Kommunalbanken through targeted share issue with the institution's two shareholders, the state and KLP. Kommunalbanken's total assets reached NOK 88.9 billion.

A serious commitment

We consider our vision of being «the Local government's collaboration partner» to be a serious commitment. As well as securing local governments the best interest rates and access to all types of long-term loans, we aim to collaborate in a broader sense. This demands ongoing close two-way communication with local governments and useful, practical services on offer. At the same time we will always strive to offer new services to simplify and strengthen the work of local governments.

Kommunalbanken's new lending system is an example of such a service. Via the internet, local governments will be able to access all information regarding their loans with Kommunalbanken. The information is continuously updated on an automatic basis, for example, just by pressing a few keys it will be possible to simulate repayment plans or create reports concerning the municipality's loan management. We are convinced that this will make it easier both to acquire an overview over the loan portfolio and to free up resources for other local government initiatives.

An extensive survey undertaken by Kommunalbanken shows that local governments will require new loans of around NOK 20 billion in 2005, almost the same as in the record year 2004.

This amount highlights another important point: debt financing is, in practice, the means by which local governments finance long-term investments. With large borrowings required to finance important reforms and other essential initiatives, the local government sector's economy has, therefore, become more dependant on changing interest rates. The other terms and conditions pertaining to local government borrowing, e.g. type of loan chosen, have also become more important. It is therefore reassuring to be able to announce that Kommunalbanken fared well in international comparisons both in relation to loan prices and operating costs in 2004 as seen from the local government's point of view

Aside from being the largest participant in the market, in 2004 Kommunalbanken was also able to report largest lending growth in Norwegian kroner terms. However, it is not our aim to be growth leader.

Kommunalbanken achieved particularly good borrowing terms – first and foremost in Japan – in 2004. However we cannot expect to permanently retain such competitive advantages. It is therefore pleasing to have been able to pass on these particularly favourable borrowing terms to local governments in the past year.

As mentioned above, being «the Local government's collaboration partner» is a serious commitment, therefore, we consider it essential to keep abreast of developments in the local government sector. We also regard it as our duty to transfer as much financial expertise to our customers as possible. Essentially, we would like to occupy the same arena as local governments. Our vision is, therefore, extremely important to us, and we hope that this will characterise the institution and all those who work here.

Petter Skouen
President & CEO

● ● ● Light is energy that can partly be explained by formulas, but only partly.

Key figures

(Amounts in NOK 1 000)	2004	2003	2002	2001	2000
Loans in NOK	**66 470 193**	52 765 568	45 594 250	42 412 893	36 776 413
Loans in land acquisition bonds	**0**	0	0	138	327
Total lending 31.12.	**66 470 193**	52 765 568	45 594 250	42 413 031	36 776 740
Lending					
The year's appropriations	**20 683 104**	15 278 880	16 402 089	10 304 729	10 102 850
Unsettled allocations	**3 115 770**	2 504 933	1 012 924	654 621	1 303 917
Disbursements during the year	**20 103 966**	13 652 656	16 021 644	10 743 630	10 557 385
Principal payments on loans	**6 341 976**	6 533 944	12 856 754	5 117 243	3 815 302
Borrowings					
Borrowings in foreign currencies	**64 128 019**	47 174 823	31 184 794	25 403 187	12 698 875
Domestic bond issues	**17 613 992**	19 637 440	25 230 300	25 957 577	28 680 193
Domestic note issues	**1 499 956**	0	30 000	45 000	585 333
Borrowings from the State	**0**	0	0	138	372
Key figures					
Average total assets	**80 245 373**	66 248 760	58 187 432	50 217 157	38 588 488
Return on equity before tax	**15.65 %**	15.56 %	15.33 %	13.49 %	11.08 %
Dividend	**21 500**	40 500	38 500	36 500	20 750
Capital adequacy	**11.32 %**	11.75 %	12.14 %	11.46 %	13.74 %
As a percentage of average total assets					
Interest and commission income	**2.99**	4.56	5.66	6.64	6.24
– Interest and borrowing costs	**2.74**	4.27	5.35	6.32	5.87
= Net interest and commission income	**0.25**	0.29	0.31	0.32	0.37
– Guarantee commission	**0.03**	0.04	0.05	0.06	0.08
+ Net foreign exchange gains/losses	**0.00**	0.00	0.01	0.00	0
+ Other operating revenues	**0.00**	0.00	0.00	0.00	0
– Staff costs	**0.04**	0.04	0.04	0.04	0.04
– Other operating expenses	**0.03**	0.04	0.04	0.04	0.06
+ Extraordinary income	**0**	0	0	0	0
= Operating profit	**0.16**	0.18	0.19	0.19	0.19
Profit analysis *(Amounts in NOK million)*					
Interest and commission income	**2 398.86**	3 021.72	3 292.77	3 334.31	2 406.80
– Interest and borrowing costs	**2 198.61**	2 828.96	3 111.30	3 171.89	2 264.90
= Net interest and commission income	**200.3**	192.8	181.5	162.4	141.9
– Guarantee commission and costs relating to banking services	**21.6**	23.7	28.8	32.3	28.8
+ Net foreign exchange gains/losses	**2.0**	0.6	4.2	2.1	-0.5
+ Other operating revenue	**0.5**	0.5	0.5	0.4	0.8
– Staff costs	**28.4**	25.7	21.9	18.9	17.1
– Other operating expenses	**23.5**	23.2	22.6	18.6	21.8
+ Extraordinary income	**0**	0	0	0	0
= Operating profit	**129.3**	121.2	112.9	95.1	74.5
Profit for the year	**129.3**	121.2	112.9	95.1	74.5

Robust growth in the Norwegian economy

The Norwegian economy is currently strong. Growth in 2005 is expected to be the highest since 1998, with an upturn in GDP for mainland Norway of 3.8 per cent. At the same time, the current account balance is expected to show a new record surplus.

The upswing in the economy is largely attributable to domestic factors. Extremely low nominal interest rates – the money market interest rate has remained at around two per cent since March 2004 – have resulted in robust growth in household consumption and in housing investments. Increased petroleum investments are another important growth factor. Greater investment and healthy productivity growth in industry as a whole are also predicted in 2005.

EXTREMELY LOW INFLATION Norwegian inflation is now at a record low. In 2004, the consumer price index rose by only 0.4 per cent. This is the lowest rise for over 40 years, and may be explained in part by the fall in prices of imported consumer goods. Consumer prices are expected to increase in 2005, due both to domestic factors and slightly higher import prices. However price inflation is expected to remain well below Norges Bank's inflation target of 2.5 per cent both in 2005 and 2006.

MODERATE INTEREST RATE RISE It is assumed that price inflation, although this will still be weak, will lay the foundation for a moderate interest rate rise during the course of 2005. Statistics Norway is anticipating that the base rate will rise by 0.5 per cent in the second half of the year, with a money market rate of 2.5 per cent as a consequence, and that the rate will remain at this level for the next couple of years. Other players are anticipating a slightly higher interest rate rise in the course of this period.

Employment is also picking up, having stagnated at the start of the recovery period. Continuing strong growth in demand and an increasing capacity utilisation in industry mean that rising employment is predicted for both 2005 and 2006.

SUBSTANTIALLY IMPROVED TERMS OF TRADE 2004 saw the prices of Norway's key export products, oil prices in particular, rise by far more than the prices of the most important imported goods; this substantially improved the balance of trade, so that domestic value creation was worth even more than indicated by the changes in volume figures. According to Statistics Norway, the development in the balance of trade contributed to an eight per cent increase in overall real disposable income in 2004, more than twice as much as the GDP growth for mainland Norway. Moreover strong consumer demand in China and other Asian countries means that the price of oil and other raw materials is expected to remain high in the future, whilst the prices of processed industrial goods will remain virtually unchanged.

SUBSTANTIAL CURRENT ACCOUNT SURPLUS The substantial rise in the price of oil also contributed to a substantial current account surplus in 2004, constituting almost 14 per cent of GDP. In nominal values, the current account surplus in this year was the world's fifth largest with only Japan, Germany, Russia and Saudi Arabia being able to point to larger absolute surpluses.

The surplus is expected to increase to a new nominal record level of over NOK 246 billion in 2005, representing the same share of GDP as in the previous year.

ACCOUNTS AND FORECASTS
Percentage change from previous year unless otherwise noted

		Accounts	Forecasts		
	2004 USD bn	2004	2005	2006	2007
Household consumption	121,2	4.3	4.5	4.2	3.9
General government consumption	58,0	2.0	1.7	1.8	1.9
Gross fixed investment	48,6	8.9	10.8	1.6	-3.0
Exports	106,5	1.3	3.3	1.7	1.0
Imports	77,0	9.0	7.1	4.4	2.6
Gross domestic product	260,2	2.9	3.7	2.0	1.3
GDP Mainland Norway	209,7	3.5	3.8	2.4	1.5
Gross domestic product per capita. USD 1000	**60.2**				
Unemployment rate (level)		4.5	4.1	3.8	4.2
Wages per standard man-year		3.8	3.8	3.7	3.7
Consumer price index (CPI)		0.4	1.4	2.1	2.2
Current account balance (per cent of GDP)		13.7	13.7	11.2	10.5
Household saving ratio (level)		10.2	9.1	3.3	1.5
Money market rate (level)		2.0	2.2	2.5	2.5
Import weighted krone exchange rate (44 countries)[1]		3.0	-1.7	0.2	0.1

[1)] *Increasing index implies depreciation* *Source: Statistics Norway*

The Government Petroleum Fund exceeded NOK 1 trillion in 2004

The Norwegian Government Petroleum Fund is one of the world's largest funds. In 2004 it exceeded a symbolic milestone of NOK 1 trillion (USD 170 billion). In comparison, overall GDP for mainland Norway was NOK 1300 (USD 215 billion) in 2004, ranking Norway as one of the countries with most accumulated funds in relation to its total economy. Furthermore, the Fund is expected to increase substantially in the next few years, to over NOK 1.8 trillion (USD 300 billion) in 2010.

The Fund represents a redistribution of wealth, from oil reserves below the seabed to international investments. It was established to prudently manage major revenues from a relatively short production period so as to ensure that subsequent generations might benefit from oil wealth. This has been achieved by allowing only the return on the Fund to be utilised in annual national budgets. The return is set at four per cent over time, and the largest political parties are in full agreement with this principle. In 2004 this return corresponded to around 6.6 per cent of the overall expenditure of the national budget.

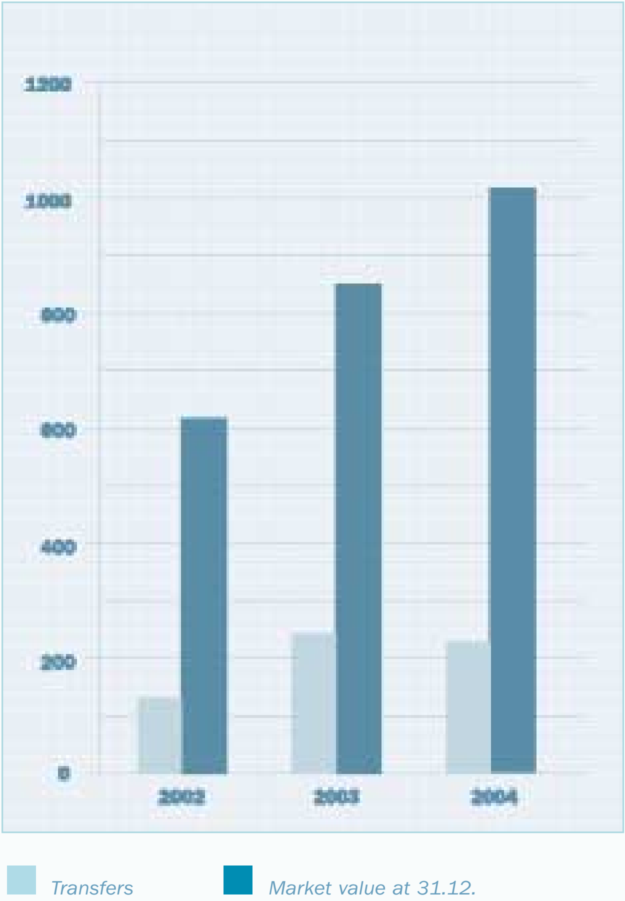
In Norway the bulk of oil and gas revenues goes to the state because of the state's substantial shareholding in the two largest Norwegian oil companies and because the state owns direct shares in production while also receiving revenue from taxes and duties. Estimates for 2005 predict net government oil revenues of NOK 204 billion; around two thirds of which are earmarked for the Petroleum Fund.

Norges Bank is responsible for managing the fund. Investments are managed on an active basis and can only be made outside Norway. Around 40 per cent is invested in equities, with the remainder being invested in various interest-bearing securities. A benchmark portfolio has been set up, which largely specifies the distribution of shares and bonds in the individual markets. This portfolio is so composed that the funds are divided between several different smaller investments in a large number of countries, in order to minimise investment risk. The Fund's managers nevertheless have the opportunity to deviate from the benchmark portfolio within clearly defined limits.

The Fund now has shareholdings in some 3,200 companies. The average holding in European companies was 0.5 per cent in 2004. At the same time, the share of the European Government Bond market totalled 0.64 per cent.

In 2004 the Fund had an overall return of 8.9 per cent. Since 1997 it has had an annual real yield of just over four per cent after the deduction of management costs.

THE GOVERNMENT PETROLEUM FUND, MARKET VALUE
(NOK billion)




● ● ● the long evening the blue hour the twilight and the half-darkness

before dawning in the east recreates the day

Annual Report 2004

INTRODUCTION 2004 saw the institution's best results ever. Lending developed positively throughout the year, reaching a total of NOK 66.5 billion by year end. This represents an increase in loans of NOK 13.7 billion, or around 26 per cent, since 2003. Since conversion to a limited company in 1999, lending growth has exceeded expectations at 138 per cent.

Norges Bank's credit indicator shows that, in 2004, the municipalities' gross debt rose by over NOK 15 billion, or around 13 per cent representing a lower growth rate than in the previous year. Overall, local government debt reached NOK 164 billion of which Kommunalbanken has a market share of around 38 per cent, up from 36 per cent the previous year.

The institution's loan disbursements totalled NOK 20.1 billion, an increase of more than 47 per cent compared to 2003. The large volume of payments indicates an active approach on the part of local government, for example in the form of extensive refinancing.

«The dominance of two credit institutions in the market for local government lending….even more apparent in 2004.»

The dominance of two credit institutions in the market for local government lending became even more apparent in 2004. The commercial and savings banks are not competitive in this particular credit market whereas specialist credit institutions with high credit ratings and low borrowing costs continue to increase their market share. Competition between these institutions coupled with favourable borrowing costs are the two main reasons why loan margins for local government credit are low in Norway in relation to most other European countries. An illustration of the importance of competition in the sector is the fact that a 0.25 per cent reduction in interest rates equates to an annual saving of approximately NOK 400 million for municipal Norway. The Board of Directors recognises the importance of Kommunalbanken maintaining its dominant position, thus safeguarding healthy competition on loans to the local government sector.

The increasing demand for loans has resulted in the institution approaching a capacity limit for lending in relation to equity. The Board of Directors believes that equity must be strengthened in order to secure competition in the future. Kommunalbanken's owners, the Kingdom of Norway and the National Local Government Pension Fund, KLP, have therefore decided to increase share capital by an amount equivalent to the financial year 2004 dividend payment.

After provision for a dividend payment of NOK 21.5 million, as at 31 December 2004, the institution had book tier 1 capital of NOK 1054.4 million. At year-end, core capital adequacy was 5.79 per cent, prior to the increase in share capital.

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 with associated notes as at 31 December 2004 provide an accurate description of the institution's financial position at year-end.

The accounts show net interest income of NOK 200.3 million and profits after tax of NOK 92.4 million.

The institution recorded NOK 3.4 million in interest rate gains and net increases in mark-to-market value on interest-bearing paper and foreign exchange losses of NOK 1.4 million on foreign currency positions and financial derivatives. Added to this is income of NOK 0.5 million from consulting activities.

The operating profit after tax is equivalent to a return on adjusted shareholders' equity of 10.3 per cent, compared with 10.5 per cent in 2003.

Operating costs fell from 0.068 per cent in 2003 to 0.058 per cent in 2004, an excellent result compared with the results in other Norwegian as well as international credit institutions specialising in the local government sector.

Total equity and subordinated loan capital at year-end totalled NOK 2,059.5 million, of which tier 1 capital made up NOK 1054.4 million. The capital ratio at year-end was reduced from 11.75 per cent in 2003 to 11.32 per cent in 2004. Core capital adequacy was equivalently reduced from 6.10 per cent to 5.79 per cent before the share issue with settlement on 31 January 2005.

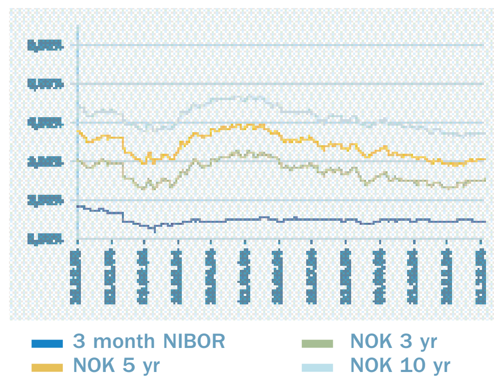
LENDING ACTIVITIES The Board of Directors considers that, once again in 2004, Kommunalbanken fulfilled its objective of ensuring competition in the market for local government funds. Following the institution's conversion to a limited company a little over five years ago, total lending has increased by NOK 38.6 billion. The substantial changes made to the institution's policies following conversion have contributed to the results the authorities were expecting. It has become easier to acquire a loan for necessary investments and there is now fierce competition in the local government loan market, which has resulted in lower prices.

Once again in 2004, Kommunalbanken strived to offer all levels of local government a satisfactory level of service, irrespective of size. This is illustrated by the very broad range in size of new loans which range from NOK 200 000 to NOK 1.3 billion. Both new and existing loans are evenly distributed between municipalities and counties nationwide.

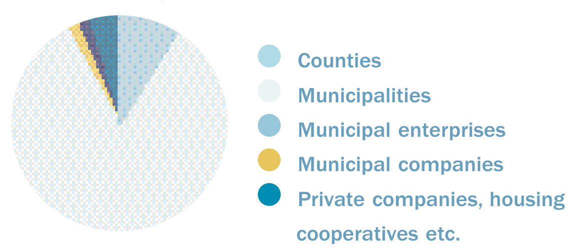
The pricing of loans is not volume dependent, and an important objective is to offer the smaller and medium-sized municipalities equally as good terms as larger municipalities and counties. Nevertheless, 2004 has seen an increasing demand from the largest municipalities.

The majority of municipalities raise one single loan annually to cover investments in various local government objectives. These loans often also entail refinancing of existing loans so as to achieve better interest terms overall. The largest single use of funds, although to a lesser extent than in recent years, continues to be nursing-home places and care facilities. The other major use of funds, both for municipalities and counties, is the

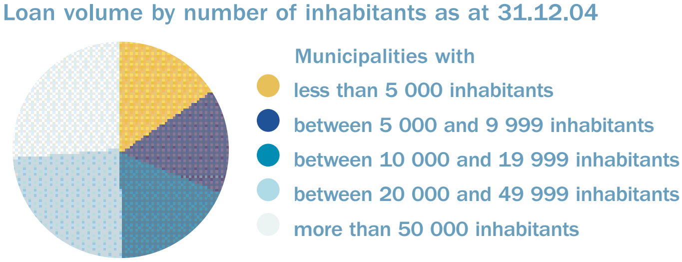
Development in fixed interest rates and NIBOR



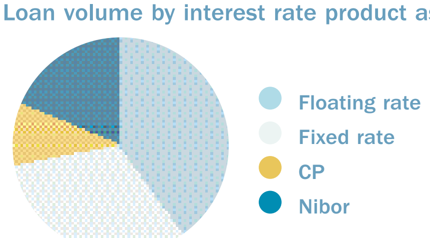
Loan volume by borrower as at 31.12.04



Loan volume by number of inhabitants as at 31.12.04



Loan volume by interest rate product as at 31.12.04



construction of schools. A government investment scheme offering interest compensation for primary and secondary education is expected to result in substantial loans being raised for such investments also in the years ahead.

The largest lenders to municipalities and counties are credit institutions (60 per cent), followed by the bond and CP market (21 per cent), loans from government lending institutions (Husbanken, the Norwegian State Housing Bank) and life assurance companies (KLP).

Market share by credit source as at 31.12.04

Source of funds:	NOK billion	%-share
Bonds	28 638	17
CP	5 027	3
Government lending institutions	19 645	12
Banks	2 832	2
Credit institutions	98 525	60
Finance companies	1 555	1
Life assurance companies	7 474	5
Pension funds	81	0
Total domestic sources	**163 777**	**100**

Source: Norges Bank

In addition to local and regional authorities, Kommunalbanken also grants loans to municipal enterprises and inter-municipal companies. Others who carry out municipal services may also be granted loans, against a municipal guarantee. Once again in 2004, it has been important to the institution to provide funding for such companies within the care sector since Husbanken, owing to its strict lending policies, cannot finance the construction of care facilities. Moreover, Kommunalbanken's terms have proven to be competitive compared with Husbanken's terms. Kommunalbanken has also provided loans for the construction of roads, managed by publicly owned toll companies. Such loans are granted against a county council guarantee.

Lending to local and regional authorities, inter-municipal companies and companies with a municipal guarantee carries a very low level of risk. Neither Kommunalbanken nor its predecessor Norges Kommunalbank has suffered loan losses since establishment in 1927 and the institution does not make provisions for future losses.

Kommunalbanken's consultancy work is closely linked to its lending activities. This activity is based on a continuous assessment of the interest rate environment, fixed rate options and advice on the re-structuring of portfolios. The institution also recognises the importance of developing services which assist the municipalities in their assessment of borrowing opportunities. The municipalities have shown considerable interest in both the institution's internet-based financial information and loan management system.

The institution also saw high demand for its consultancy services within the area of acquisition of new banking agreements in 2004.

MARKETING AND INFORMATION ACTIVITIES Kommunalbanken's public relations strategy has formed the basis for a number of new initiatives with the key goal of being seen as an active and listening partner to the local government sector. To this end, we are now working closely with several central organisations within the local government sector. In addition, the institution has, over the past year, become more visible in the media.

FUNDING ACTIVITIES Kommunalbanken raised NOK 26.1 billion through 416 new debt issues in 2004. This is the highest issue volume to date, and must largely be viewed against the strong growth in lending. Funds where raised in ten different currencies, with 96 per cent of the total coming from the international capital markets.

As in previous years, the institution achieved the most favourable levels by issuing smaller private placements in Japanese Yen, US dollars and Norwegian kroner, and also by developing its strategic niche markets in Australia, Switzerland and the UK. Over the last year, the institution has also been an active borrower in Hong Kong, Canadian and New Zealand dollars.

An increasing number of key investors worldwide now have approval to invest in Kommunalbanken paper. This trend continued in 2004, further establishing Kommunalbanken as a high quality international issuer with an extensive and diversified investor base. Although bond issues are primarily targeted at institutional investors, the institution also regularly issues retail targeted notes particularly in the non-core dollar currencies.

Efforts to further develop a broad global investor base for Kommunalbanken's securities continued and in 2004, investor presentations were arranged in a number of countries in Europe, Asia and Australia.

In 2004, as in previous years, Japan was an extremely important market for the institution's funding. A total of JPY 176.2 billion (NOK 10 billion) was raised in Japanese Yen, equivalent to 40 per cent of borrowing for the year.

Since 2002, the institution has had a Sovereign Status Uridashi shelf registration in Japan. This shelf provides the framework for Japanese retail targeted bond issues and since 2003 Kommunalbanken has launched 20 such issues.

Alongside JPY, the major currencies in which funds were raised were AUD and USD. The domestic Australian «Kangaroo» market was particularly attractive in 2004, resulting in two larger bond issues targeted at domestic institutional investors.

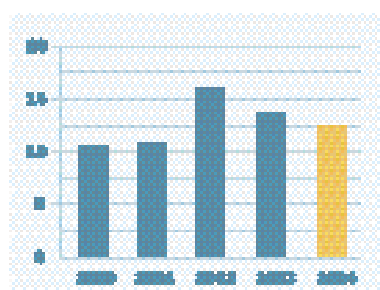
The institution's outstanding debt portfolio rose from NOK 66.8 billion in 2003 to NOK 83.6 billion.

The institution uses a «Medium Term Note» programme for foreign debt issuance. This is a form of standardised loan documentation that simplifies and safeguards the debt issuance process both for the investor and issuer. In 2005, Kommunalbanken will increase its lending programme from EUR 10 billion to EUR 15 billion; equivalent to an increase from NOK 82 to NOK 123 billion.

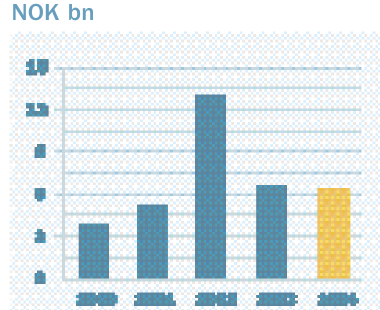
Loan volume by county as at 31.12.04

Østfold	4,3
Akershus	7,7
Oslo	1,0
Hedmark	2,5
Oppland	2,1
Buskerud	3,6
Vestfold	3,1
Telemark	2,9
Aust-Agder	1,2
Vest-Agder	3,0
Rogaland	4,8
Hordaland	5,3
Sogn og Fjordane	2,6
Møre og Romsdal	3,6
Sør-Trøndelag	4,4
Nord-Trøndelag	4,5
Nordland	4,8
Troms	3,3
Finnmark	1,7
Totalt	**66,5**

Loans granted 2000-2004 NOK bn



Payments on loans 2000-2004 NOK bn



LIQUIDITY MANAGEMENT The institution has a policy of maintaining net cash balances equivalent to at least 12 months' net capital requirements. In a given situation, this means that the institution can cover its obligations for the next 12 months without additional borrowing. Cash balances should not exceed 25 per cent of the total balance sheet.

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 investments in international securities that have over one year to maturity, 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 has a maturity of less than two years with no outright interest rate or currency risk. Maturity dates are matched to the underlying funding.

«Credit risk for loans to local government…..relates to potential late payment of interest and instalments.»

OWNERSHIP CONTROL The institution's objective is to ensure that the market for local government funding remains competitive, so that local governments achieve fair loan terms. At the same time, the institution aims for a Central government defined return on equity. Both of these objectives must be met in accordance with Norwegian legislation, the institution's articles of association and ethical guidelines.

Corporate governance at Kommunalbanken is organised in accordance with the provisions of the Companies Act (Norway); that is through its Annual General Meeting, Supervisory Board, Board of Directors, Audit Committee, internal and external auditors and President & CEO. The institution is split into two business areas with associated staff and support functions. The appointed managers together with the President & CEO constitute Kommunalbanken's administrative management.

The institution's internal control area ensures that appropriate risk analysis and monitoring are carried out, and that operations are conducted in accordance with approved policies and guidelines. Internal control is an integral part of the institution's management and planning process. Positions versus established limits are followed up at departmental level and reported to the President & CEO and the Board of Directors.

RISK MANAGEMENT Credit risk in the institution's lending portfolio is only minimal due to the stringent regulation and legal framework the municipalities are subject to. Credit risk for loans to local government effectively only relate to potential late payment of interest and instalments.

Credit risk arising from the institution's funding portfolio and liquidity management operations is kept to a minimum through very stringent policies on entering into financial contracts. Long-term investments and counterparties on hedging transactions must have a minimum rating of AA-/Aa3. Short-term investments require a short-term rating above A1/P1.

Clear procedures and processes have been established for managing credit risk. Internal credit lines are established by the institution's finance committee and reassessed regularly - at least once a year. Credit risk is managed on the basis of, amongst other things, the institution's own credit risk models. The size of the credit line is set on the basis of Kommunalbanken's risk capital and the counterparty's credit rating.

Market risk in Kommunalbanken is minimal and consists primarily of interest rate and foreign exchange risk. Balance sheet exposure to these risks is calculated by measuring the sensitivity of asset and liability cashflows to movements in the relevant interest or exchange rates. Internal guidelines only permit minimum exposure to movements in these rates.

ORGANISATION AND WORKING ENVIRONMENT At year-end, Kommunalbanken had 34 employees, equating to

33.1 full-time equivalents. The number of employees and full-time equivalents remained the same as at the end of 2003. During the course of 2004, two employees left and two new employees joined the institution.

At the beginning of the year, the position of Marketing Director was created. In the autumn, the accounts section and Middle Office were merged to form the Risk Management and Financial Control department and, in conjunction with this, the position of Financial Controller became the position of Executive Vice President, Head of Risk Management and Financial Control.

Absence due to illness fell from 3.2 per cent in 2003 to 2.16 per cent in 2004 and no occupational injuries were reported.

The working environment at Kommunalbanken is considered good and every effort is made to ensure a good and healthy working environment for each individual.

The external environment is not polluted. The institution indirectly exerts a positive influence on the external environment through its lending activities by providing loans for environmental measures in the municipalities.

EQUALITY IN BUSINESS 17 of the institution's 34 employees are women and 17 are men.

The Board of Directors comprises seven members, three of whom are women including the Chairman of the Board. The institution's senior management comprises six people, one of whom is a woman, while middle management is made up of five women and two men.

Through its remuneration policy, the institution is striving to create a situation where salary level is independent of whether a position is occupied by a male or a female employee. In conjunction with the publication of the 2003 annual report, the remuneration structure was reviewed. In 2003, the average salary for female middle managers was 4.2 per cent below the average salary for middle managers overall and 11.2 per cent below the average salary for male middle managers. From 2003 to 2004, this picture has changed in that the average salary for female middle managers is now 1.26 per cent above that for middle managers overall and 2.57 per cent above that for male middle managers.

IT A new lending system has been developed, which will become operational in 2005, together with a web module that enables customers to search for information on their loan portfolios in Kommunalbanken.

In order to adapt the institution's operations to the new international requirements for capital allocation, Basel II, and the new international accounting regulations, IFRS, from 2007, project groups were established to identify necessary changes to internal routines.

IT security received a high priority and initiatives were also implemented to further raise employees' expertise in the institution's ICT systems.

The collaboration with Kommuninvest AB in Sweden concerning the jointly owned IT company Administrative Solutions AB was further developed in the area of ICT solutions and information services.

APPLICATION OF NET PROFITS The Board of Directors proposes that the net profits of NOK 92.4 million be applied as follows: NOK 21.5 million to be applied to payment of dividends, in line with the Government's dividend proposal in the state budget for 2005, and NOK 70.9 million to be transferred to retained earnings.

Further to the above application, Kommunalbanken has distributable reserves of NOK 236.857 million.

SHARE ISSUE Under the current capital weighting regulations, a prerequisite for Kommunalbanken to be able to maintain its position as a central and competitive credit provider to the local government sector is that core capital is strengthened in the years ahead.

Sitting, from left: Else Bugge Fougner and Per N. Hagen.
Standing, from left: Petter Skouen, Olav Rune Øverland, Bjørn Kristoffersen, Nanna Egidius and Åse Kristensen.

In October 2004, the Board of Directors decided to propose an increase in share capital in 2005 by an amount equal to the dividend for the accounting year 2004. At the same time, it was decided that the issue should not affect the ownership structure.

At the extraordinary general meeting in December 2004, it was decided to increase share capital by a total of NOK 21.5 million through a share issue targeted towards the institution's two shareholders, the Norwegian State and KLP, in the ratio 80/20, corresponding to the subscription of 21 500 shares with payment in January 2005.

FUTURE DEVELOPMENT The institution has carried out a review of the local and regional governments' budgets for 2005. On the basis of this, the overall borrowing requirement is estimated at a little over NOK 20 billion. The construction of schools appears to be one of the most important objectives, however projects within the health and social sector, the water supply and sewage sector as well as measures to increase the number of nursery school places are also on the local government sector's investment programme.

There is considerable uncertainty surrounding interest rate developments. The market is anticipating a slight increase in the course of the year, however forecasts are shrouded in considerable uncertainty. Irrespective of whether or not there is a slight adjustment upwards, there is every indication that medium-term interest rates will remain at a relatively moderate level for a long time to come.

On the basis of the assessments made, the Board is anticipating a not insubstantial demand for loans from the local government in the years ahead, even though it is reasonable to expect a degree of levelling off.

Competition between the main players in the market for local government funds will undoubtedly continue in the next few years. Provided no major changes occur in the credit market, there is every reason to assume that the majority of new funding will continue to be raised through these players. There is little to suggest that foreign lenders represent any mentionable threat since margins are low and loans small compared with foreign institutions' usual activities.

The institution will further develop its marketing and public relations work, and concentrate on being seen as a serious financial partner for the local government sector.

Funding from diversified sources will continue in 2005. The relatively large number of new issues may decrease slightly as a result of expected larger benchmark-size issues.

In order to sustain a competitive market, the Board of Directors recognises the importance of maintaining a satisfactory core capital level and to this end, regular dialogue with the authorities is maintained.

«Kommunalbanken is an effective tool.....in safeguarding a competitive market in the provision of inexpensive funding for local government.»

In the Board of Director's opinion, Kommunalbanken is an effective tool for the public sector in safeguarding a competitive market in the provision of inexpensive funding for local government.

Oslo, 31 December 2004
15 March 2005

The Board of Directors of Kommunalbanken AS

Else Bugge Fougner
Chairman of the Board

Per N. Hagen
Vice-Chairman of the Board

Nanna Egidius
Member

Bjørn Kristoffersen
Member

Åse Kristensen
Member

Olav Rune Øverland
Member

Petter Skouen
President & CEO

● ● ● It is in the lingering light and shadows

I feel at home

Profit and loss account

(Amounts in NOK 1 000)	Notes	2004	2003
Interest and related income on loans to and deposits with credit institutions		**7 773**	34 926
Interest and related income on loans to and receivables due from customers		**1 977 788**	2 568 454
Interest and related income on notes, bonds and other fixed income securities		**413 096**	417 938
Other interest and related income		**201**	404
Total interest and related income		**2 398 858**	3 021 722
Interest and related expenses on debt to credit institutions		**41 008**	34 681
Interest and related expenses on issued securities		**2 124 872**	2 746 567
Interest and related expenses on subordinated debt		**32 470**	47 713
Other interest and related expenses		**255**	0
Total interest and related expenses		**2 198 605**	2 828 961
Net interest income		**200 253**	192 761
Dividends and other income from securities with variable yield		**0**	1
Government guarantee fees / stand-by fees	19	**10 947**	15 036
Other fees and commission costs		**10 621**	8 671
Total commission costs and costs of banking services		**21 568**	23 707
Net gains / losses on notes, bonds and other fixed income securities		**3 368**	4 999
Net gains / losses on foreign currency and financial derivatives		**-1 418**	-4 358
Total gains / losses on foreign currency and securities that are current assets		**1 950**	641
Other operating income		**523**	475
Salaries	1	**21 452**	19 339
Pensions	2	**2 609**	2 327
Social security costs		**4 360**	4 065
Administrative costs		**11 757**	10 371
Total salaries and general administrative expenses		**40 178**	36 102
Depreciation etc. on fixed assets	8	**1 586**	1 788
Real estate operating expenses	3	**5 339**	5 289
Other operating expenses		**4 795**	5 755
Total other operating expenses		**10 134**	11 044
Net income before taxes		**129 260**	121 237
Tax on ordinary income	9	**36 880**	34 081
Profit for the accounting period after tax		**92 380**	87 156
Dividends		**21 500**	40 500
Transferred to retained earnings	22	**70 880**	46 656
Total transfers and allocations		**92 380**	87 156

Balance sheet

ASSETS *(Amounts in NOK 1 000)*	**NOTES**	**31.12.04**	**31.12.03**
Cash and deposits with Central Bank of Norway		**2**	2
Net loans and deposits with credit institutions	4	**62 644**	300 000
Instalment loans	5	**66 470 193**	52 765 568
Other loans	1	**29 975**	23 526
Total net loans and claims on customers		**66 500 168**	52 789 094
Government issuers, notes and bonds		**10 295**	639 037
Other issuers, notes and bonds		**20 817 927**	15 451 271
Total notes, bonds and other fixed income securities	6	**20 828 222**	16 090 308
Shares	7	**454**	553
Intangible assets, deferred tax benefit	9	**636**	2 210
Fixed assets	8	**14 013**	9 372
Financial derivatives		**1 220 755**	1 922 571
Other assets	2	**22 436**	772
Total other assets		**1 243 191**	1 923 343
Accrued income		**344 122**	378 692
Prepaid, non-accrued expenses		**1 202**	2 519
Total prepaid, non-accrued expenses and accrued income		**345 324**	381 211
Total assets	13, 17	**88 994 654**	71 496 092

Balance sheet

LIABILITIES AND EQUITY	NOTES	31.12.04	31.12.03
Loans from and deposits from credit institutions without fixed term		**7 981**	869
Loans from and deposits from credit institutions with fixed term		**2 254 292**	1 890 225
Total liabilities to credit institutions	10	**2 262 273**	1 891 094
Notes and other short-term borrowings		**1 499 956**	0
Bond issues		**81 742 011**	66 812 263
Total liabilities established through issuance of securities	10	**83 241 967**	66 812 263
Margin requirements and other customer accounts		**7 962**	20 141
Other debt	11	**62 878**	85 554
Total other liabilities		**70 840**	105 695
Accrued expenses and prepaid unearned income		**981 769**	714 141
Pension cost	2	**66**	0
Subordinated debt	12, 21	**1 354 702**	1 001 619
Hybrid Tier 1 Capital Instruments		**164 680**	145 303
Total liabilities		**88 076 297**	70 670 115
Share capital		**660 000**	660 000
Called in, unpaid share capital		**21 500**	0
Total equity capital deposited		**681 500**	660 000
Other equity capital		**236 857**	165 977
Total equity capital	21, 22	**918 357**	825 977
Total liabilities and equity	13, 17	**88 994 654**	71 496 092

Oslo, 31 December 2004
15 March 2005
The Board of Directors of Kommunalbanken AS

Else Bugge Fougner
Chairman of the Board

Per N. Hagen
Vice-Chairman of the Board

Nanna Egidius
Member

Bjørn Kristoffersen
Member

Åse Kristensen
Member

Olav Rune Øverland
Member

Petter Skouen
President & CEO

Cash flow statement

(Amounts in NOK 1 000)	**2004**	**2003**
Interest rate receipts	2 628 782	2 707 030
Interest rate payments	2 474 455	2 585 855
Other receipts	2 473	1 117
Operating payments	61 260	62 183
Net cashflow from operations	**95 540**	**60 109**
Increase in loans	13 711 074	8 256 843
Increase / decrease (-) in other claims	-716 038	2 667 362
Increase in short-term securities	4 737 914	682 598
Increase / decrease (-) in investments in credit institutions	-237 356	-87 580
Net cashflow from current financial operations	**17 495 594**	**11 519 223**
Increase in other fixed assets	6 128	8 086
Net cashflow from investments	**6 128**	**8 086**
Increase / decrease in loans, issues of securities	16 800 883	11 103 597
Increase / decrease in other debt	605 299	363 603
Net cashflow from long-term financial activities	**17 406 182**	**11 467 200**
Net change in liquid assets	0	0
Liquid assets, 01.01.04	2	2
Liquid assets, 31.12.04	2	2

● ● ● It is this northern light

which made me who I am

Accounting principles

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 profit and loss account and the balance sheet.

SECURITIES Kommunalbanken's holding of interest-bearing securities is either part of a hedge portfolio or a 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, and is valued at market value. 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 profit and loss account 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 or cash equivalent 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 deferred 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), change in net deferred taxes and insufficient/ excess provision for tax payable previous year.

ACCRUAL ACCOUNTING Income is entered in the profit and loss account as it accrues. Expenses are matched with income so that the expenses are charged to the profit and loss account in the same accounting period as the related income.

ACCRUAL OF INTEREST AND FEES Interest and commission are entered in the profit and loss account as income or costs as they accrue.

COMPARISON FIGURES With effect from 1 January 2004 the institution has made a number of changes linked to principles for classification of balance sheet accounts. The comparison figures in the balance sheet have been revised in accordance with the new principles. The comparison figures in the cash flow statement have not been revised and are not comparable.

Notes

NOTE 1

SALARIES AND OTHER REMUNERATION

(Amounts in NOK 1 000)

	2004	2003
Salaries and other remuneration	21 452	19 339
of which salary and remuneration payable to the President & CEO	1 479	1 443
of which directors' fees	455	465
of which fees to members of the audit committee	118	90
of which fees to members of the supervisory board	32	51
of which a profit-related bonus to employees	1 766	988

Pursuant to the Norwegian Financial Enterprises Act, the President & CEO 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 President & CEO 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).

LOANS TO EMPLOYEES

	Balance as at 31.12.04	Balance as at 31.12.03
Short-term loans to staff	523	451
of which loan to the President & CEO	0	0
Home mortgages	21 229	15 449
of which mortgage loan to the President & CEO	1 675	1 235
Total loans to employees	21 752	15 900
Interest-rate subsidies in the period	91	177

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 percentage point lower than the institution's borrowing rate. Security for the loans is approved by the audit committee.

Fee for audit of the annual accounts	375
Fee for other financial audit work	210
Total audit fees	585
Fee for other services and assistance	96

All amounts relating to the audit fee are exclusive 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 Local Government 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 institution had 34 employees at the end of 2004. The scheme provides defined future benefits which, in principle, are dependent on the 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 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's basic amount). The table below shows one column for the collective scheme and one for salaries of more than 12 G.

Collective scheme			Salaries of more than 12 G	
Pension costs				
2003	**2004**		**2004**	**2003**
1 848	2 019	Pension rights accrued for the year	357	287
263	350	Interest expense on accrued pension rights	75	54
2 111	2 369	Gross pension costs	432	341
-186	-255	Expected return	-70	0
60	50	Recorded change in estimates (deviation)	0	0
1 985	**2 165**	**Net pension costs**	**362**	**341**
Pension obligations				
4 315	6 188	Gross accrued liability	1 333	895
3 640	5 046	Pension funds	1 347	861
675	1 142	Net accrued liability	-14	34
-1 061	-1 094	Unrecorded change in estimates/deviation	32	0
-386	**48**	**Net liability transferred to balance sheet**	**18**	**34**

The table above shows accrued liability and pension funds in KLP.

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 institution 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 2004. The last actuarial calculations obtained from SPK show a net pension obligation of NOK 318 and the net pension cost was calculated to be NOK 541.

NOTE 3

OTHER OPERATING EXPENSES

(Amounts in NOK 1 000)

Kommunalbanken has office premises at Munkedamsveien 45, Vika Atrium in Oslo. The building complex is owned by Olav Thon Eiendomsselskap ASA and Kommunalbanken has leased 1 378 square metres. The lease carries a fixed rent and is irrevocable until 31.08.2009. Rent including service charges in 2004 was NOK 3 918 compared to NOK 3 864 in 2003. The landlord may adjust the rent each year in accordance with and in proportion to changes in the consumer price index as calculated by Statistics Norway on 15 October each year.

NOTE 4

LOANS TO CREDIT INSTITUTIONS

(Amounts in NOK 1 000)

	2004	2003
Loans to and deposits with credit institutions, with agreed maturity	62 644	300 000
Total loans to and deposits with credit institutions	**62 644**	300 000

NOK 1 966 has been deposited in a separate tax-withholding account.

NOTE 5

LOANS TO AND CLAIMS ON CUSTOMERS

(Amounts in NOK 1 000)

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	703 520	1 950 224	8 603 654	27 851 239	39 108 637
Fixed rate loans	4 422 566	3 034 262	5 349 866	14 554 862	27 361 556
Total	**5 126 086**	**4 984 486**	**13 953 520**	**42 406 101**	**66 470 193**

Loans by county	31.12.04	31.12.03
Østfold	4 279 091	3 344 537
Akershus	7 693 874	5 398 096
Oslo	1 031 768	680 930
Hedmark	2 458 279	2 158 689
Oppland	2 084 022	1 503 056
Buskerud	3 587 946	2 614 478
Vestfold	3 102 705	2 718 779
Telemark	2 896 397	1 920 507
Aust-Agder	1 229 958	1 249 657
Vest-Agder	3 042 996	1 998 149
Rogaland	4 835 482	4 227 543
Hordaland	5 325 428	4 582 147
Sogn og Fjordane	2 558 231	2 406 005
Møre og Romsdal	3 600 773	3 287 221
Sør-Trøndelag	4 378 645	4 073 909
Nord-Trøndelag	4 500 945	2 898 945
Nordland	4 824 491	3 927 414
Troms	3 328 946	2 447 010
Finnmark	1 710 216	1 328 496
Total	**66 470 193**	**52 765 568**

NOTE 6

HOLDINGS OF NOTES, BONDS AND OTHER INTEREST-BEARING SECURITIES

(Amounts in NOK 1 000)

2004

	Book value	Acquisition cost	Actual value	Average effective interest rate	Listed
Government-guaranteed bonds (weighted 0%)	309 063	305 290	309 810	1.99	309 063
Government and governm.-guaranteed notes - foreign (weighted 0%)	575 823	572 380	575 726	4.25	575 823
Government-guaranteed bonds - foreign (weighted 0%)	5 740 277	5 800 194	5 745 664	2.00	5 740 277
Notes issued by financial institutions (weighted 20%)	4 878 872	4 880 086	4 882 195	2.09	3 903 098
of which notes issued by municipalities	*1 134 475*	*1 134 595*	*1 134 696*		
Notes issued by financial institutions - foreign (weighted 20%)	9 324 187	9 354 257	9 343 827	2.87	7 459 526
Total	20 828 222	20 912 207	20 857 222		

2003

	Book value	Acquisition cost	Actual value	Average effective interest rate	Listed
Government-guaranteed bonds (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 (weighted 20%)	4 054 869	4 049 888	4 057 562	2.71	3 246 050
of which notes issued by municipalities	*1 290 751*	*1 290 883*	*1 290 071*		
Notes issued by financial institutions - foreign (weighted 20%)	8 953 742	8 977 621	8 982 614	2.61	7 084 772
Total	16 090 308	16 128 519	16 128 334		

The institution's holdings of interest-bearing securities are included in the hedge portfolio or the trading 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 31.12.2004.

Trading portfolio:

	2004		2003	
Currency	**Market value**	**Book value**	**Market value**	**Book value**
USD	2 225 008	2 222 169	2 536 286	2 530 167
EUR	2 793 017	2 791 259	2 426 896	2 427 717
SEK	133 552	133 293	78 297	77 586
DKK	219 669	219 675	67 895	67 839
NOK	10 763 624	10 743 000	8 164 759	8 173 596
Sum	16 134 870	16 109 396	13 274 133	13 276 905

The trading portfolio includes negotiable debt instruments.

NOTE 7

SHARES

The share portfolio comprises:

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 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 01.01.04	586	13 520	3 464	414	352	**18 336**
Acquisitions 2004 at cost price	46	5 645	236	300		**6 227**
Cost price as at 31.12.04	632	19 165	3 700	714	352	**24 563**
Acc. depreciation as at 01.01.04	483	5 751	2 668	62		**8 964**
Depreciation for the year	57	834	602	93		**1 586**
Acc. depreciation as at 31.12.04	540	6 585	3 270	155		**10 550**
Book value as at 31.12.04	92	12 580	430	559	352	**14 013**

The tax value of fixed assets is NOK 3 707 entailing a negative temporary difference of NOK 1 209 as at 31.12.04.

NOTE 9

TAXES *(Amounts in NOK 1 000)*

The tax cost for the period comprises:	**2004**	**2003**
Taxes payable	35 152	36 431
Changes in deferred taxes	1 574	-2 350
Insufficient provision for taxes payable previous year	154	0
Total tax cost	**36 880**	34 081
Taxes payable on the balance sheet comprise:		
Taxes payable on profit for the year	35 152	36 431
Payable tax on items adjusted against equity	0	5 331
Total taxes payable	**35 152**	41 762
Calculation of the tax base for the period:		
Profit before taxes	129 260	121 237
Permanent differences	1 905	480
Changes in temporary differences	-5 622	8 395
Tax base for the period	**125 544**	130 113
Summary of temporary differences:	**31.12.04**	**31.12.03**
Fixed assets	-1 209	-1 241
Hedging instruments	-1 112	-7 005
Pensions	48	352
Total	**-2 273**	-7 894
28% deferred tax/deferred tax benefit (-)	-636	-2 210
Explanation of why tax cost for the year is not 28% of profit before taxes:		
28% tax on profit before taxes	36 192	33 946
Permanent differences (28%)	534	135
Insufficient provision for taxes payable previous year	154	0
Estimated tax cost	**36 880**	34 081

NOTE 10

SPECIFICATION OF DEBT TO CREDIT INSTITUTIONS AND ISSUED SECURITIES

(Amounts in NOK 1 000)

	2004		2003	
	Book value	Average interest	Book value	Average interest
Loans and deposits from credit institutions with agreed maturity	2 262 273	2.52	1 891 094	2.05
Notes debt in NOK	1 499 956	1.88	-	-
Bond debt in NOK	17 613 992	5.58	19 628 040	5.98
Bond debt in foreign currencies	64 128 018	2.81	47 184 223	3.80
Notes and bond debt	**83 241 967**		66 812 263	

Average interest rate has been calculated using weighted nominal interest rate as at 31.12.04
Notes and bond debt broken down by currency is described in a separate note. See Currency risk.

NOTE 11

OTHER LIABILITIES *(Amounts in NOK 1 000)*

	2004	2003
Allocated dividend	21 500	40 500
Taxes payable	35 152	41 762
Other liabilities	6 226	3 292
Other liabilities	**62 878**	**85 554**

NOTE 12

SUBORDINATED LOAN CAPITAL AND HYBRID TIER 1 CAPITAL INSTRUMENTS

(Amounts in NOK 1 000)

	2004	2003
Perpetual subordinated loan capital *(NOK 180 million, fixed rate 5.16%)*	180 000	180 000
Perpetual subordinated loan capital *(EUR 45 million, fixed rate 6.95%)*	370 531	378 361
Ordinary subordinated loan capital - expires 2012 *(EUR 20 million, fixed rate 6.29%)* [1]	164 680	168 160
Ordinary subordinated loan capital - expires 2012 *(EUR 10 million. Interest rate is adjusted every 3 months. Current rate 2.552%)*	82 340	84 080
Ordinary subordinated loan capital - expires 2010 *(EUR 40 million. Interest rate is adjusted every 3 months. Current rate 2.546%)*	329 361	336 321
Ordinary subordinated loan capital - expires 2014 *(USD 65 million. Interest rate is adjusted every 3 months. Current rate 2.69%)*	392 470	-
Subordinated loan capital and hybrid tier 1 capital instruments	**1 519 382**	1 146 922

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

NOTE 13

MATURITY STRUCTURE FOR INTEREST RATE 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	62 646	62 646	61 042		
Instalment loans	66 470 193	1 032 998		3 171 895	
Securities	20 828 222	3 311 585	2 255 197	3 760 694	2 325 812
Other short-term loans	29 975	52		78	
Financial derivatives	1 220 755	23 626	23 626	111 926	111 926
Prepaid expenses	1 202	781		361	
Accrued income	344 122	89 551	51 122	135 918	59 643
Other assets	37 538	23 072		-	
Total	**88 994 654**	**4 544 311**		**7 180 872**	
Liabilities:					
Loans to credit institutions	2 262 273	457 981			
Notes and other short-term debt	1 499 956			1 499 956	
Bond debt	81 742 010			3 549 143	
Other debt and pension obligations	70 906	8 057		37 016	
Accrued costs and provisions	981 769	83 097		229 892	42 708
Subordinated loan capital	1 354 702				
Hybrid Tier 1 Capital Instruments	164 680				
Equity capital	918 357				
Total	**88 994 654**	**549 135**		**5 316 007**	
Net liquidity exposure, balance sheet items	0	3 995 176		1 864 866	

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	62 646	62 646	61 042		
Instalment loans	66 470 193	15 214 571		30 263 431	
Securities	20 828 222	6 042 617	4 472 083	8 064 766	5 720 764
Other short-term loans	29 975	11 281		78	
Financial derivatives	1 220 755	274 745	274 745	335 633	335 633
Prepaid expenses	1 202	781		361	
Accrued income	344 122	89 551	51 122	135 918	59 643
Other assets	37 538	23 072		-	
Total	88 994 654	21 719 264		38 800 186	
Liabilities:					
Loans to credit institutions	2 262 273	1 518 424	1 060 443	573 610	573 610
Notes and other short-term debt	1 499 956			1 499 956	
Bond debt	81 742 010	4 593 737	3 739 827	16 162 552	12 067 705
Other debt and pension obligations	70 906	8 057		37 016	
Accrued costs and provisions	981 769	83 097		229 892	42 708
Subordinated loan capital	1 354 702	329 361	329 361	474 810	474 810
Hybrid Tier 1 Capital Instruments	164 680				
Equity capital	918 357				
Total	**88 994 654**	**6 532 676**		**18 977 836**	
Net interest rate exposure, balance sheet items	**0**	**15 186 587**		**19 822 350**	
Net interest rate exposure, fin. derivatives	0	-15 916 706		-19 157 815	
Total interest rate exposure	0	-730 119		664 535	

	3-12 months Total	Of which foreign currency	1-5 years Total	Of which foreign currency	Over 5 years Total	Of which foreign currency	Without maturity	Of which foreign currency
	3 189 417		3 779 815		55 296 068			
	4 431 365	2 483 404	9 324 579	8 575 187				
	157		235		29 452			
	168 438	168 438	576 687	576 687	340 078	340 078		
	60							
	118 653	63 304						
	-		-		454		14 013	
	7 908 090		**13 681 316**		**55 666 052**		**14 013**	
			1 634 053	1 634 053	170 238	170 238		
	2 610 963	1 762 046	33 248 234	22 193 545	42 333 671	40 172 428		
	25 834							
	668 780	355 386						
			329 361	329 361	474 810	474 810	550 531	370 531
					164 680	164 680		
							918 357	
	3 305 577		**35 211 648**		**43 143 400**		**1 468 888**	
	4 602 513		-21 530 332		12 522 652		-1 454 875	

	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
	6 159 004		12 139 178		2 694 009			
	1 703 207	728 129	5 017 633	4 718 625				
	157		10 235		8 223			
	254 598	254 598	232 710	232 710	123 069	123 069		
	60							
	118 653	63 304						
	-			-	454		14 013	
	8 235 680		17 399 756		2 825 755		14 013	
					170 238	170 238		
	19 478 271	18 629 354	31 816 386	22 161 312	9 691 063	7 529 820		
	25 834							
	668 780	355 386						
			550 531					
					164 680	164 680		
							918 357	
	20 172 886		**32 366 917**		**10 025 982**		**918 357**	
	-11 937 206		**-14 967 160**		**-7 200 227**		**-904 344**	
	13 580 131		14 059 175		7 435 215		0	
	1 642 925		-907 985		234 988		-904 344	

NOTE 14

VOLUMES OF THE VARIOUS FINANCIAL DERIVATIVES *(Amounts in NOK 1 000)*

Kommunalbanken has entered into interest rate, currency and equity-related contracts to hedge interest rate and currency risks that may arise as a result of the institution's activities.

Interest rate-related derivatives comprise

- Interest rate swaps, which involve swapping the interest terms for a certain amount for a fixed period.
- Forward rate agreements (FRAs), which fix the interest rate for a nominal amount for a future period.

Currency-related derivatives comprise

- Currency swaps, which involve swapping the currency amount at a set rate for a fixed period.
- Currency futures, which are the purchase and sale of a currency amount at a set rate at a future time.

Equity-related derivatives comprise

- Derivatives that have equity instruments as the underlying instrument, or that relate to the price or level of specific equity instruments or share indices.

	Gross nominal values 31.12.04	**Positive market values 31.12.04**	**Negative market values 31.12.04**
Financial derivatives:			
Interest rate-related derivatives	62 670 454	2 105 842	2 006 955
Currency-related derivatives [1)]	106 518 172	6 571 311	6 468 968
Equity-related derivatives	1 724 500	9 847	142 044
Financial derivatives in trading portfolio:			
Interest rate-related derivatives	899 946	66	3 065
Currency-related derivatives	1 065 828	-	199 720
Total financial instruments	**170 913 126**	**8 687 000**	**8 617 967**
Netting			
Effect of netting agreements		**(5 562 743)**	

[1)] Currency-related derivatives also include currency-swaps where interest rate terms are swapped.

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 institution'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. The institution has divided loans and funding into various portfolios. Management of interest-rate risk is carried out by means of matching the duration of the various funding portfolios with that of the various lending portfolios. A portfolio's duration is defined as the weighted average duration of each individual funding/lending transaction included in the portfolio. Individual loans/funding transactions are weighted by their market value in comparison to the market value of the portfolio. The repayment profile for lending is also matched to the repayment profile for funding.

In the interest rate sensitive portfolios, the 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 December 2004, the total exposure was NOK 5.36 million for a 1-percentage point increase 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 Aa3/AA- 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, taking of collateral, payment in advance or repayment in instalments.

Credit risk relates to the following instruments:

	2004	**2003**
Forward rate agreements (FRA)	42	11 427
Equity-linked contracts	1 651	20 146
Currency futures and currency swaps	1 650 836	3 616 644
Interest rate swaps	2 046 688	2 653 267

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

NOTE 17

CURRENCY RISK *(Amounts in NOK 1 000)*

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

ASSETS	Total	NOK	Foreign currency	of which USD	JPY
Cash and deposits with central banks	2	2	-	-	-
Loans to and deposits with credit institutions	62 644	-	62 644	-	-
Loans to and receivables from customers	66 500 168	66 500 168	-	-	-
Notes, bonds and other fixed-income interest-bearing securities	20 828 222	5 185 591	15 642 632	6 782 754	85 636
Shares	454	-	454	-	-
Fixed assets	14 013	14 013	-	-	-
Other assets	1 243 826	1 243 042	784	-	-
Prepaid, non-accrued expenses and accrued income	345 324	299 672	45 652	33 540	-
Total assets	**88 994 654**	**73 242 487**	**15 752 167**	**6 816 294**	**85 636**
Liabilities and equity capital					
Debts to credit institutions	2 262 273	456 379	(1 805 894)	(577 120)	4
Issued securities	83 241 967	19 113 948	(64 128 018)	(8 376 210)	(30 491 667)
Other debt	70 906	70 906	-	-	-
Accrued expenses and prepaid unearned income	981 769	250 897	(730 872)	(192 027)	(2 933)
Provisions for accrued expenses and liabilities		-	-	-	-
Subordinated loan capital	1 354 702	180 000	(1 174 702)	(392 470)	-
Hybrid Tier 1 Capital Instruments	164 680	(0)	(164 680)	-	-
Deposited equity capital	660 000	660 000	-	-	-
Called in, unpaid share capital	21 500	21 500	-	-	-
Earned equity capital	236 857	236 857	-	-	-
Total liabilities and equity capital	**88 994 654**	**20 990 487**	**(68 004 167)**	**(9 537 826)**	**(30 494 596)**
Net currency exposure, balance sheet items			(52 252 000)	(2 721 532)	(30 408 960)
Net currency exposure, financial derivatives			52 256 639	2 729 956	30 408 964
Net currency exposure as at 31.12.04			**4 638**	**8 423**	**4**

EUR	CAD	CHF	DKK	GBP	SEK	HKD	AUD	NZD
-	-	-	-	-	-	-	-	-
62 644	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
6 760 751	-	506 959	503 520	144 887	465 177	-	309 474	83 474
-	-	-	-	-	454	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	784	-	-	-
12 117	-	-	(0)	-	(4)	-	-	-
6 835 512	**-**	**506 959**	**503 520**	**144 887**	**466 411**	**-**	**309 474**	**83 474**
(1 230 633)	(5)	1 102	11	99	688	(0)	101	(142)
(1 348 070)	(1 497 045)	(6 113 381)	-	(3 927 760)	-	(511 580)	(9 336 180)	(2 526 125)
-	-	-	-	-	-	-	-	-
(85 036)	(6 815)	(45 142)	(6 390)	(32 902)	(8 335)	(215 930)	(119 468)	(15 893)
-	-	-	-	-	-	-	-	-
(782 232)	-	-	-	-	-	-	-	-
(164 680)	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
(3 610 651)	**(1 503 865)**	**(6 157 422)**	**(6 379)**	**(3 960 564)**	**(7 647)**	**(727 511)**	**(9 455 547)**	**(2 542 159)**
3 224 861	(1 503 865)	(5 650 463)	497 141	(3 815 677)	458 765	(727 511)	(9 146 073)	(2 458 685)
(3 233 376)	1 503 861	5 651 638	(497 111)	3 815 947	(455 530)	727 508	9 146 241	2 458 539
(8 515)	**(5)**	**1 176**	**30**	**270**	**3 235**	**(3)**	**168**	**(146)**

Note 18

KOMMUNALBANKEN'S LIQUIDITY RISK

Liquidity risk is the risk that the institution 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 uses interest-rate swaps to hedge the duration of long-term fixed rate funding. Kommunalbanken has the highest credit ratings of AAA from Standard & Poor's and Aaa from Moody's, enabling access to capital in both good and bad times.

At the end of 2004, Kommunalbanken had government-guaranteed debt of NOK 10.1 billion, all taken up prior to the conversion to a limited company. The corresponding figure at the end of 2003 was NOK 11.8 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 2004 was NOK 10.5 million compared to NOK 13.6 million in 2003.

Note 20

GUARANTEE LIABILITIES

Kommunalbanken has provided guarantees for loans taken up by municipalities for financing of school construction. As at 31 December 2004, the guarantees amounted to NOK 0.

Guarantee liabilities have been reduced by NOK 346 000 during 2004.

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:

	31.12.2004	31.12.2003
Tier 1 capital:		
Share capital	660 000	660 000
Other equity capital	236 857	165 977
Equity capital	896 857	825 977
Hybrid Tier 1 Capital Instruments	158 157	145 303
Overfinancing of pension obligations	-	-386
Deferred tax benefit entered in balance sheet	- 636	-2 210
Total Tier 1 capital	1 054 378	968 684
Supplementary capital:		
Subordinated debt	448 111	411 690
Perpetual equity and subordinated loan capital	557 055	484 342
Total supplementary capital	1 005 166	896 032
Total equity and subordinated loan capital	2 059 544	1 864 716

Subordinated loan capital in foreign currencies has been converted at the current exchange rate on the balance sheet date.

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

		2004		2003
Risk weighting	**Book value**	**Weighted amount**	**Book value**	**Weighted amount**
0 %	6 315 341	-	3 090 755	0
10 %	82 757	8 276	-	0
20 %	63 264 682	12 652 936	52 135 672	10 427 134
50 %	24 194	12 097	15 896	7 948
100 %	3 172 174	3 172 174	2 976 862	2 976 862
Items that are part of the trading portfolio	9 659 856	790 220	6 951 443	756 277
Negotiable debt instruments that are part of the trading portfolio	6 475 014	519 829	6 325 464	504 184
Non-balance sheet items that are not part of the trading portfolio		1 040 727		1 199 257
Total risk-weighted balance		**18 196 259**		**15 871 662**
Capital adequacy		11.32		11.75

NOTE 22

EQUITY CAPITAL *(Amounts in NOK 1 000)*

	Share capital	Other equity capital	Total equity capital
Equity capital as at 01.01.04	660 000	165 977	825 977
Profit for the accounting period		92 380	92 380
Dividend		-21 500	-21 500
Called in unpaid share capital	21 500		21 500
Equity capital as at 31.12.04	681 500	236 857	918 357

The Norwegian government owns 80 per cent of the shares and KLP 20 per cent. Face value per share is NOK 1 000 and the number of shares is 660 000. In 2004, the government subscribed for 17 200 new shares and KLP for 4 300 new shares at a price of NOK 1 000. This gives a total increase in share capital of NOK 21 500. The amount must be paid by 31.01.05. Following the increase in share capital, the state still owns 80 per cent of the shares and KLP 20 per cent.

To the Annual Shareholders' Meeting of Kommunalbanken AS

AUDITOR'S REPORT FOR 2004

We have audited the annual financial statements of Kommunalbanken AS as of 31 December 2004, showing a profit of NOK 92.380.000. We have also audited the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of 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 the President & CEO. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

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

In our opinion,

- the financial statements have been prepared in accordance with law and regulations and present the financial position of the Company as of 31 December 2004, 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 complies with law and regulations.

Oslo, 15 March 2005
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 2004.

The Audit Committee recommends that the annual report and accounts presented be approved as Kommunalbanken's accounts for 2004 and that the application of profits is adopted by the Annual Shareholders' Meeting in accordance with the Board's proposals.

Oslo, 11 March 2005

Audit Committee for Kommunalbanken AS

Svein Blix

Chairman

Britt Lund **Kristine E. Stray Ryssdal**

SUPERVISORY COMMITTEE'S STATEMENT

In accordance with § 15 in Kommunalbanken's Articles of Association, the annual accounts and report for 2004 have been examined by the Supervisory Board.

The Supervisory Board recommends that the Board of Directors' proposals for the operating statement and balance sheet, as well as the application of profit, NOK 92.380 million, is adopted by the Annual Shareholders' Meeting.

Oslo, 6 April

Supervisory Committee for Kommunalbanken AS

Oddvar Flæte

Chairman


● ● ● Light makes all things visible.


Without light everything is darkness.
No shape, no colour.

Articles of Association of Kommunalbanken AS

(Latest change December 15 2004)

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 681,500,000 (six hundred and eighty one million five hundred thousand Norwegian kroner) divided into 681,500 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 ar 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. The Supervisory Board shall elect a chairman and vice-chairman from amongst its members to serve for a term of one year.

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

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

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

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

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

The Supervisory Board shall:

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

CHAPTER V – ANNUAL GENERAL MEETING

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

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

The Board of Directors shall call the Annual General Meeting.

The Annual General Meeting shall transact the following business:

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

CHAPTER VI – AUDIT COMMITTEE

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

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

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

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

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

CHAPTER VII – AUDITOR

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

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

CHAPTER VIII

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

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

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

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

CHAPTER IX
ANNUAL REPORT AND ACCOUNTS

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

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

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

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

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

CHAPTER X – AGE OF RETIREMENT

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

CHAPTER XI – ENTRY INTO FORCE

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

CHAPTER XII – ALTERATIONS TO THE ARTICLES OF ASSOCIATION

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

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

Kommunalbanken's governing bodies

(as at 1 March 2005)

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. She has seats on the boards of several Norwegian companies and institutions.

Per N. Hagen, Vice-Chairman
Farmer. State Secretary 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 Daldata AS, plus business interests.

Nanna Egidius
Director of Strategic Planning and Development, Lillehammer municipality. Egidius is a graduate in economics and business economics from the Norwegian School of Economics and Business Administration. Previous department head of division Ministry of Petroleum and Energy. Member of the Board in Norsk Luftambulanse AS.

Bjørn Kristoffersen
Cheif Executive Officer at 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 Chairman of the Board of The Norwegian Financial Services Association (FNH) in 2003.

Åse F. Kristensen
Assistant Manager, employee representative, Kommunalbanken. Kristensen has been with Kommunalbanken since 1978.

Olav Rune Øverland
General Manager 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
President 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 President & CEO since 1998.

Alternate to the employee representative:
Kristine Falkgård, Head of Funding and Investor Relations

SUPERVISORY BOARD

- **Oddvar Flæte**, County Governor, Sogn og Fjordane, Chairman
- **Gerd Ingunn Opdal**, Chief Executive Officer, Vindafjord municipality, Vice-Chairman
- **Jostein Aksdal**, Loan Manager, Kommunalbanken, employee representative
- **Thor Bernstrøm**, Assistant Director General, Ministry of Local Government and Regional Development
- **Elin Eidsvik**, Chief Executive Officer, Hamarøy municipality
- **Elisabeth Enger**, Chief Executive Officer, Bærum municipality
- **Sylvi Graham***, Mayor, Oppegård municipality
- **Trond Lesjø**, Chief Executive Officer, Gjøvik 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
- **Knut Wille**, Chief Executive Officer, Skien municipality
- **Arne Øren**, Chief Administrative Officer, Østfold county

ALTERNATES TO THE SUPERVISORY BOARD

- **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

ALTERNATE TO THE EMPLOYEE REPRESENTATIVE

- **Martin Spillum**, International Funding

AUDIT COMMITTEE

- **Svein Blix**, Chief Executive Officer, Bodø municipality, Chairman
- **Britt Lund**, Chief Executive Officer, Tinn municipality, Vice-Chairman
- **Kristine E. Stray Ryssdal**, lawyer, Norsk Hydro ASA

DEPUTY MEMBER

- **Kristina Nilssen**, Chief Executive Officer, Nesodden municipality

AUDITOR

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

* *Leave of absence. MS Graham was appointed State Secretary, Ministry of Foreign Affairs in August 2004.*

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