# Kommunalbanken

Annual report 2005

# INDEX



«Solid as a rock» – a description for something with firm foundations. This is also a characteristic of Kommunalbanken, proven by its Aaa/AAA credit rating from Moody's and Standard and Poor's respectively, the most highly regarded stamp of approval an international lender can attain. Solid, you might say, as the Norwegian mountains themselves.

*Smørstabreen, Jotunheimen*

*Stetind, Tysfjord*

# 2005 – the year in brief

- Kommunalbanken's lending portfolio grew by NOK 10.2 billion to NOK 76.7 billion, an increase of 15.3 per cent.
- Gross lending to municipalities and counties increased by 6.7 per cent to NOK 174.3 billion.
- Kommunalbanken's market share increased from 37.4 per cent to 40.6 per cent.*
- Kommunalbanken's owners and Board of Directors agreed that the entire profit for 2005 should be transferred to retained earnings in order to strengthen the capital base.
- Return on adjusted shareholders' equity was higher than government guidelines.
- Kommunalbanken issued a USD 1 billion (NOK 6.769 billion) benchmark transaction in September 2005, the institution's largest bond issue ever. In total, Kommunalbanken raised a total of NOK 33.7 billion in the capital markets, through over 400 transactions in 13 different currencies.
- A Human Resources development plan was initiated.
- The three-month money market interest rate (NIBOR) rose from close to 2 per cent in January to around 2.5 per cent in December.
- Both Kommunalbanken's leadership and press scholarships were established.

* Excluding Kommunalbanken loans to municipal companies

# Summary financial figures

| *(NOK million)* | **2005** | **2004** | **2003** | **2002** | **2001** |
|---|---|---|---|---|---|
| Net interest and commission income | **175.5** | 178.7 | 169.1 | 152.7 | 130.1 |
| Foreign exchange gains/losses | **8.5** | 2.0 | 0.6 | 4.2 | 2.1 |
| Other operating costs and extraordinary income | **0.8** | 0.5 | 0.5 | 0.5 | 0.4 |
| Staff costs and other operating costs | **55.4** | 51.9 | 48.9 | 44.5 | 37.5 |
| Profit before tax | **129.4** | 129.3 | 121.2 | 112.9 | 95.0 |
| Tax | **36.7** | 36.9 | 34.1 | 31.7 | 26.7 |
| Profit after tax | **92.7** | 92.4 | 87.1 | 81.2 | 68.3 |
| | | | | | |
| Total lending* | **77.0** | 66.5 | 52.8 | 45.8 | 42.4 |
| Average total assets* | **100.0** | 80.2 | 66.2 | 58.2 | 50.2 |
| | | | | | |
| Capital adequacy in % | **11.48** | 11.32 | 11.75 | 12.14 | 11.46 |
| Operating costs as a % of total assets | **0.050** | 0.058 | 0.068 | 0.073 | 0.068 |

* NOK billion

# This is Kommunalbanken

- Kommunalbanken is the largest lender to the local government sector in Norway with a market share of more than 40 per cent, municipal companies excluded.
- Kommunalbanken is a state instrumentality with the principal objective of securing local governments access to loans at favourable terms and at the same time ensuring that the market for local government funding remains competitive.
- Kommunalbanken lends to municipalities, counties, municipal enterprises and inter-municipal companies. It may also grant loans to other companies carrying out municipal tasks provided the loans carry a municipal guarantee. Lending is limited to the Norwegian local government sector.
- Kommunalbanken was established by an Act of Parliament in 1926 and reorganised pursuant to a conversion act in 1999 as a government agency. Kommunalbanken is fully government owned – 80 per cent directly by the Kingdom of Norway and 20 per cent by the local government sector, through the National Local Government Pension Fund, KLP. The state's shares are managed by the Norwegian Ministry of Local Government and Regional Development.
- Kommunalbanken has never suffered a loan loss in its 80-year history.
- Kommunalbanken has been assigned the highest possible credit ratings, Aaa/AAA, by the agencies Moody's Investors Service and Standard & Poor's respectively. Only the Kingdom of Norway has been granted the equivalent rating. The favourable borrowing terms that this rating ensures are passed on to the local government sector.
- Kommunalbanken, as a state instrumentality, is subject to the general legislation governing financial institutions.

# How Kommunalbanken operates

Kommunalbanken uses its Aaa/AAA credit rating to raise funds by issuing bonds in international markets. The security implied by this rating means that international investors accept lower interest rates on their investments in Kommunalbanken's debt. Kommunalbanken has built a solid base of high-quality investors worldwide.

Kommunalbanken is not exposed to any exchange rate or interest rate risk. All borrowing is hedged through swap agreements and matched against our loan portfolio.

Kommunalbanken gives quotes on loans required for local government investments, which are granted mainly by competitive tender. The loan is then awarded to Kommunalbanken or another party offering a lower rate. Regardless of the outcome, Kommunalbanken serves its primary objective of keeping lending costs down. The institution also advises on alternative financial solutions.

Kommunalbanken's excess liquidity reserves – from any borrowing not immediately distributed to the municipal sector – are invested in a portfolio of highly rated, liquid assets. Related earnings from these investments also contribute to lowering the cost of borrowing from Kommunalbanken.

# A profitable vehicle for local government

Last year Kommunalbanken's lending portfolio increased at a significantly higher rate (15.3 per cent) than annual local government borrowing (6.7 per cent). The institution's market share in the total local government sector increased to over 30 per cent. As a result, Kommunalbanken's leading position in the local government loan market was further strengthened in 2005.

Kommunalbanken's prime objective is to secure the best possible borrowing terms for the local government sector. The consequence of having a strong player in the market affects the margins available to all lenders operating within the sector. These margins are the lowest in the Nordic region and are among the lowest in Europe. Norwegian municipalities make considerable savings through the state's policy of engaging Kommunalbanken as a state instrumentality to secure the availability of favourable borrowing terms for the sector.

In addition to having the highest credit rating, Kommunalbanken must also have an on-going dialogue with our customers in order to fulfil our important objective. We need to follow market developments closely and adapt to new demand, while at all times be driven by our goal to be local government sector's partner of choice. At the same time we also hope to contribute to the development of the sector itself through initiatives of our own.

As a result, we are now developing a new plan to expand the skills base among Kommunalbanken employees. Our aim is to supplement our long experience as both borrower and lender with new knowledge and expertise, both within our own field and within public administration management. Expertise from which we hope our customers will benefit.

The way selected local government tasks are being restructured will also mean the adoption of new competencies and will be important to Kommunalbanken. Many municipalities are increasingly opting to assign tasks to municipal companies which raise debt without a local government guarantee. In doing so, these companies, in areas such as building management or water and sewage treatment for example, may take on more independent responsibility.

**Petter Skouen**
*President & CEO*

«Norway's local government sector is characterized by very strong credit quality»

*Standard & Poor's June 2005*

*Lyngsalpene, Troms*

# Key figures

| *(Amounts in NOK 1 000)* | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| Loans in NOK | **76 685 609** | 66 470 193 | 52 765 568 | 45 594 250 | 42 412 893 |
| Loans in land acquisition bonds | **0** | 0 | 0 | 0 | 138 |
| Total lending at year-end | **76 685 609** | 66 470 193 | 52 765 568 | 45 594 250 | 42 413 031 |
| **Lending** | | | | | |
| The year's appropriations | **15 497 955** | 20 683 104 | 15 278 880 | 16 402 089 | 10 304 729 |
| Unsettled allocations | **1 128 318** | 3 115 770 | 2 504 933 | 1 012 924 | 654 621 |
| Disbursements during the year | **16 788 294** | 20 103 966 | 13 652 656 | 16 021 644 | 10 743 630 |
| Principal payments on loans | **6 614 824** | 6 341 976 | 6 533 944 | 12 856 754 | 5 117 243 |
| **Borrowings** | | | | | |
| Borrowings in foreign currencies | **89 277 305** | 64 128 019 | 47 174 823 | 31 184 794 | 25 403 187 |
| Domestic bond issues | **15 082 520** | 17 613 992 | 19 637 440 | 25 230 300 | 25 957 577 |
| Domestic note issues | **0** | 1 499 956 | 0 | 30 000 | 45 000 |
| Borrowings from the State | **0** | 0 | 0 | 0 | 138 |
| **Key figures** | | | | | |
| Average total assets | **99 971 876** | 80 245 373 | 66 248 760 | 58 187 432 | 50 217 157 |
| Return on equity before tax | **14.09 %** | 15.65 % | 15.56 % | 15.33 % | 13.49 % |
| Dividend | **0** | 21 500 | 40 500 | 38 500 | 36 500 |
| Capital adequacy | **11.48 %** | 11.32 % | 11.75 % | 12.14 % | 11.46 % |
| **As a percentage of average total assets** | | | | | |
| Interest and commission income | **2.87** | 2.99 | 4.56 | 5.66 | 6.64 |
| – Interest and borrowing costs | **2.68** | 2.74 | 4.27 | 5.35 | 6.32 |
| = Net interest and commission income | **0.20** | 0.25 | 0.29 | 0.31 | 0.32 |
| – Guarantee commission | **0.02** | 0.03 | 0.04 | 0.05 | 0.06 |
| + Net foreign exchange gains/losses | **0.01** | 0.00 | 0.00 | 0.01 | 0.00 |
| + Other operating revenues | **0.00** | 0.00 | 0.00 | 0.00 | 0.00 |
| – Staff costs | **0.03** | 0.04 | 0.04 | 0.04 | 0.04 |
| – Other operating expenses | **0.03** | 0.03 | 0.04 | 0.04 | 0.04 |
| + Extraordinary income | **0** | 0 | 0 | 0 | 0 |
| = Operating profit | **0.13** | 0.16 | 0.18 | 0.19 | 0.19 |
| **Profit analysis** *(Amounts in NOK million)* | | | | | |
| Interest and commission income | **2 872.87** | 2 398.86 | 3 021.72 | 3 292.77 | 3 334.31 |
| – Interest and borrowing costs | **2 677.38** | 2 198.61 | 2 828.96 | 3 111.30 | 3 171.89 |
| = Net interest and commission income | **195.5** | 200.3 | 192.8 | 181.5 | 162.4 |
| – Guarantee commission and costs relating to banking services | **20.0** | 21.6 | 23.7 | 28.8 | 32.3 |
| + Net foreign exchange gains/losses | **8.5** | 2.0 | 0.6 | 4.2 | 2.1 |
| + Other operating revenue | **0.8** | 0.5 | 0.5 | 0.5 | 0.4 |
| – Staff costs | **28.4** | 28.4 | 25.7 | 21.9 | 18.9 |
| – Other operating expenses | **26.9** | 23.5 | 23.2 | 22.6 | 18.6 |
| + Extraordinary income | **0** | 0 | 0 | 0 | 0 |
| = Operating profit | **129.4** | 129.3 | 121.2 | 112.9 | 95.1 |
| Profit for the year | **129.4** | 129.3 | 121.2 | 112.9 | 95.1 |

Norwegian economy

# Solid fundamentals lead to continued growth

The Norwegian economy put in another strong performance in 2005, on the back of two years of firm growth. Mainland GDP grew by 3.7 per cent for the year.

Increased activity in the petroleum sector and solid output growth in domestically-oriented manufacturing led to a positive year for Norwegian industry.

Major petroleum projects such as the Kristin, Ormen Lange and Snøhvit field developments, increased exploration and international production activity have contributed to robust growth in the petroleum sector. Higher international demand for other goods and services produced by Norway, including the fishing, shipping, pharmaceutical and engineering industries boosted activity and strengthened the economy. The growing service sector has also seen an increase in its share of the Norwegian economy, with growing demand in 2005 for business consulting, IT, architecture and advertising services.

Economic growth has also been stimulated by two years of expansionary fiscal policy through tax reductions and by a very low real interest rate level. The consumer price index stood at 1.6 per cent at the end of 2005.

In 2005, the rate of unemployment was quoted in the Labour Force Survey as 4.6 per cent, and this rate is expected to fall to 3.8 per cent in 2006, and down to 3.4 per cent in 2009.

Low interest rates and high real wage growth led to an increase in household consumption and housing investment, with Norges Bank predicting an average increase in household real disposable income of 2.25 per cent per year until 2008.

## OIL PRICE EFFECTS

Norway is the third largest oil exporter after Saudi Arabia and Russia and the rising price of oil in 2005 meant that Norway's current account surplus increased to approximately 17 per cent of GDP. Since 1995, the surplus from petroleum revenues has been invested directly into the government controlled Petroleum Fund, renamed in 2005 as the Government Pension Fund - Global.

At the end of 2005, the fund stood at US$210 billion, amounting to 80 per cent of GDP, a figure expected to grow to 120 per cent by 2008, depending on oil price development. Oil industry activity looks set to increase further in 2006, with associated industries showing solid expansion.

The Norwegian government manages for the gradual phasing in of the oil revenues by means of a fiscal rule, or in pace with the expected real return on the Government Pension Fund Fund - Global, estimated at four per cent. In a situation of high activity, such as in 2005, this can be tightened accordingly, while a downturn would mean an increase in the use of oil revenues.

## POLITICAL MOVEMENTS

2005 saw a change in government in Norway with a «red-green» coalition of the Labour Party, the Socialist Left Party and the Centre Party winning a majority of seats in the general election on 12 September.


Grane field in the North Sea © Norsk Hydro.

The Norwegian local government sector

# A provider of vital services

Their manifesto in relation to the local government sector promises a renewed and strengthened regional level of government. According to the government, in 2006 the non-earmarked funds provided to municipalities will be increased by NOK 5.4 billion (US$857.7m), a substantial increase on 2005.
The new coalition aims to focus more public spending towards health and education and to a programme of employment creation in the public sector.

**OUTLOOK**

For 2006, GDP growth is forecast by Statistics Norway to decrease to 2.3 per cent and although the economic outlook remains positive, a period of stabilisation is expected. However, a somewhat rosier outlook for the global economy will stimulate the Norwegian economy and continued oil price levels will lead to a marked increase in The Government Pension Fund - Global. At the same time, the government's solid macroeconomic framework, most notably fiscal and monetary policies, which have been successful so far in shielding the Norwegian economy from excessive fluctuations, need to be adhered to in order to secure future stability.

*Source: Statistics Norway and Norges Bank*

Norway is divided into 19 counties (fylke), 18 of which are broken down into 432 municipalities (kommune).

The municipal sector is a provider of vital services to the Norwegian public, accounting for about 20 per cent of Norwegian GNP and 24 per cent of total employment. The systems used to govern the sector are strong and according to Moody's Investors Service, are among the most regulated and supervised in Europe.

Despite the Kingdom of Norway's financial health and wealth, the local government sector raises debt to finance its investments independently. Kommunalbanken is established by the central government as a state instrumentality to finance such municipal investments on favourable terms.

The central government stringently monitors the financial health of local governments, and only certain investments qualify for debt financing. By international standards, general government gross debt levels in the Nordic region are low.

The level of municipal activity has been growing during the last decade due to reforms initiated by Parliament and by changes in local conditions. This has led to large investments in pre-school care, the introduction of school sector reforms and reforms for those with learning disabilities.
In addition, significant resources have been directed towards investments in hospital care and in projects for the elderly.

In 2005 the sector performed well, showing a steady increase in activity and a rise in operating income. Due to the increase in non-earmarked funds to be provided to municipalities in 2006, the local government sector is again forecast to operate at a surplus.

*Source: Statistics Norway and Norges Bank*

# Annual Report 2005

2005 was another good year for Kommunalbanken. Demand for loans was strong throughout the year, peaking in November and December. Total lending at year-end amounted to NOK 76.7 billion[1], which corresponds to growth of NOK 10.2 billion (15.4 per cent) compared to 2004.

Norges Bank's credit (K2) indicator shows that local government gross debt increased by 6.7 per cent (NOK 10.9 billion) in 2005, which is a lower growth rate than in the previous year. Total municipal debt was NOK 174.3 billion at year-end. Lending to municipalities and counties increased by NOK 9.7 billion, raising Kommunalbanken's market share to 40.6 per cent, compared with 37.4 per cent in 2004. However, the institution's market share within the entire municipal sector, including municipal companies, stands at 30.4 per cent.

Loans granted by Kommunalbanken amounted to NOK 16.8 billion, NOK 3.3 billion down on 2004.

The market for local government lending continues to be dominated by two main players. Competition between the two institutions, which both have a high credit rating and favourable funding costs, has resulted in competitive pricing on lending to the municipal sector in Norway which translates to annual savings of several hundred million kroner for Norwegian municipalities. The Norwegian state's majority ownership has a significant bearing on Kommunalbanken's triple-A credit rating, which helps to create favourable funding conditions. It is the Board's opinion that Kommunalbanken must continue to strengthen its position, thus ensuring effective competition for loans to municipalities.

*«The Norwegian state's majority ownership has a significant bearing on Kommunalbanken's triple-A credt rating, which helps to create favourable funding conditions»*

Following the decision by the owners to waive dividend payments in order to strengthen Kommunalbanken's capital base, the Board has recommended that the profit for the year is to be retained as an increase in equity capital, an important factor in determining future development. Increased demand for loans puts pressure on total lending capacity due to the restrictive capital base. The Board anticipates an improved situation from 2007, when the authorities are likely to implement new capital adequacy rules. This will give Kommunalbanken more flexibility in its lending activities.

At 31 December 2005, Kommunalbanken had total core capital of NOK 1,170.2 million. The core capital ratio ended the year at 6.06 per cent.

Kommunalbanken's registered office is in Oslo.

**PERFORMANCE AND TARGETS** All of the strategic targets defined for 2005 have been achieved. The return on equity is well above the Government's target guidelines. Kommunalbanken's AAA/Aaa credit ratings are unchanged and its position as market leader has been maintained. Continued growth in Kommunalbanken's core capital was also achieved.

**ANNUAL FINANCIAL STATEMENTS** The annual financial statements have been prepared on the basis of the going concern principle. It is the opinion of the Board that the profit and loss account, balance sheet and associated notes provide an accurate description of the institution's financial position at year-end.

Net interest income stands at NOK 195.5 million and profit after tax at NOK 92.7 million.

Kommunalbanken recorded NOK 3.4 million in foreign exchange gains and changes in net market value of fixed-interest securities, and a foreign exchange gain of NOK 5.1 million on foreign currency and financial derivatives. Other revenues of NOK 0.8 million relate to consultancy fees.

*[1]Instalment loans, excluding other loans.*

Operating profit after tax is equivalent to a return on adjusted shareholders' equity of 10.1 per cent. The corresponding figure for 2004 was 11.2 per cent.

Calculated as a percentage of total assets, operating costs were further reduced to 0.050 per cent in 2005. This is a satisfactory result in comparison to figures reported by both Norwegian and international local government lenders.

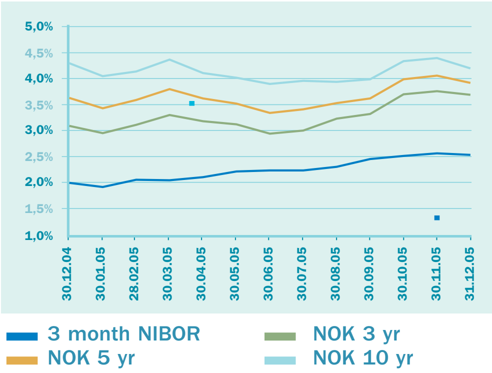
Total equity and subordinated loan capital at year-end was NOK 2,214.7 million, of which total core capital made up NOK 1,170.2 million. The capital ratio at year-end increased from 11.32 per cent in 2004 to 11.48 per cent in 2005. Core capital adequacy increased from 5.79 per cent to 6.06 per cent, due largely to the targeted share issue launched on 31 January 2005, corresponding to the allocated dividend for the accounting year 2004, and the fact that no dividend was allocated for the accounting year 2005. Another factor was the reclassification of loans with municipal guarantees.

**LENDING ACTIVITIES** Kommunalbanken's total loan portfolio of NOK 76.7 billion is divided between NOK 70.9 billion for local governments and NOK 5.8 billion for guaranteed loans to inter-municipal companies. At 31 December 2005, floating rate loans made up for 75 per cent of Kommunalbanken's loan portfolio, with fixed rate loans making up the remaining 25 per cent.

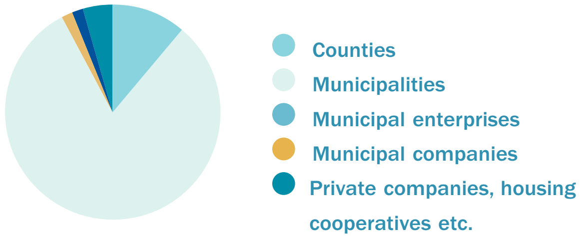
Lending activity in the local government sector was reduced in 2005, both in terms of volume and in the number of enquiries. New loan disbursements amounted to NOK 16.8 billion, compared with NOK 20.1 billion the previous year.

Kommunalbanken's loans are evenly distributed among the Norwegian local government sector. Only a limited number of municipalities do not have loans with Kommunalbanken, including wealthier power-producing municipalities that do not require debt financed invest-

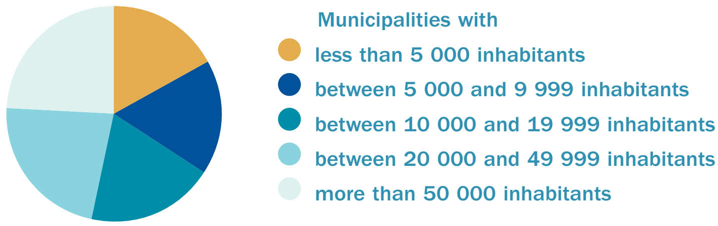
**Development in fixed interest rates and NIBOR**



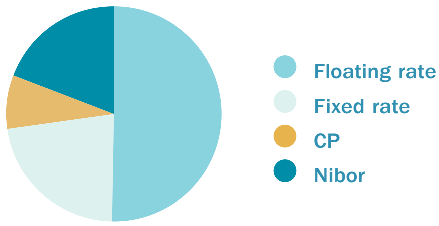

**Loan volume by borrower as at 31.12.05**




**Loan volume by number of inhabitants as at 31.12.05**




**Loan volume by interest rate product as at 31.12.05**



ments. The pricing of loans is not dependent on size, and an important objective is to offer equally good terms to all.

The majority of municipalities take out a single loan annually to cover investments they make through the course of the year. The biggest single source of funds is education. Municipalities also continue to have major financing requirements in the nursing and elderly care sector.

Lending to the Norwegian local government sector carries a very low level of risk. Neither Kommunalbanken nor its predecessor Norges Kommunalbank have suffered loan losses since operations began in 1927 and as a result 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 regular analysis of the interest rate environment, lending rate assessment and advice on the restructuring of portfolios. Kommunalbanken also recognises the importance of developing services which assist customers in their assessment of borrowing opportunities. There has been considerable interest in the institution's new internet-based financial information and loan management system.

Kommunalbanken introduced a new lending system in May 2005. Great care has been taken to ensure that the system is sufficiently advanced to allow the flexibility required in today's local government loan market, while also user-friendly. By visiting Kommunalbanken's website, customers now have direct access to their loan portfolios.

The institution also provides consultancy services on setting up new banking agreements. There was considerable interest for these services in 2005, both from large and small municipalities.

**MARKETING AND INFORMATION ACTIVITIES** Public relations and marketing activities are conducted in accordance with the institution's vision, goals and strategy. Kommunalbanken is committed to organising activities in close contact with our key partners. The aim is to be perceived as the local government sector's key financial partner. With this in mind, the institution has made it a priority to communicate its business profile. Ethical guidelines in respect of customers and suppliers have been formulated for the institution's employees and governing bodies.

**FUNDING ACTIVITIES** Kommunalbanken raised its largest ever loan volume of NOK 33.7 billion in 2005, an increase of NOK 26.1 billion on 2004, attributable mainly to strong lending growth. Funds were raised in 13 different currencies.

As in previous years, Kommunalbanken achieved its most favourable funding by issuing smaller private placements in Japanese Yen, US dollars and Norwegian kroner, and also by strengthening its position in niche markets in Australia, Canada, Switzerland and the UK. In doing so, Kommunalbanken confirmed its position as a recurrent borrower in international capital markets. Efforts to develop a broad global investor base continued in 2005, with investor presentations arranged in a number of countries in Europe, Asia, the Middle East, and also in Canada.

Kommunalbanken maintained its AAA/Aaa credit rating from Standard & Poor's and Moody's Investors Service respectively. This rating reflects the low risk associated with the institution's activities, its state ownership and its unique position and function in the public sector.

As in previous years, the largest market for Kommunalbanken's funding was Japan. A total of JPY 200 billion (NOK 12 billion) was raised, equivalent to 36 per cent of all new issues.

The institution also actively pursued its strategy of being a frequent borrower in the Japanese Uridashi market, with the Japanese authorities conferring sovereign status upon Kommunalbanken. A total of 7 new issues were made in this market in 2005.

On the back of strong and consistent lending growth in recent years and in line with its long-term strategy of securing favourable funding terms, Kommunalbanken issued a USD 1 billion benchmark transaction in September 2005. This was the institution's largest issue ever and the first of a planned programme of annual benchmark transactions. This gave Kommunalbanken access to many of the world's largest investor groups with close to half of the transaction taken up by central banks and government institutions.

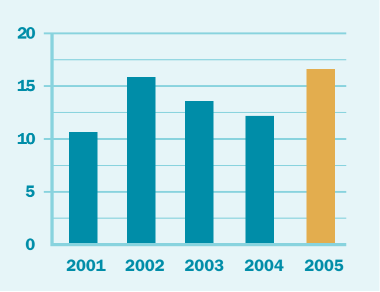
Kommunalbanken launched over 400 individual transactions in 2005, a record number, 97 per cent of which was issued outside of Norway. 2005 also saw Kommunalbanken's first ever placements in Czech koruna, Turkish lira, Icelandic krona and South African rand. A high level of funding activity is also expected in 2006, with the focus firmly on diversified funding in a broad range of markets. Kommunalbanken's funding strategy is executed with the aim of providing municipalities with the lowest possible borrowing costs. The institution's outstanding debt portfolio rose from NOK 83.2 billion to NOK 104.4 billion.

Kommunalbanken uses the EUR 15 billion Programme for the Issuance of Debt Instruments for most of its international borrowing, and plans to increase this to EUR 20 billion during 2006.

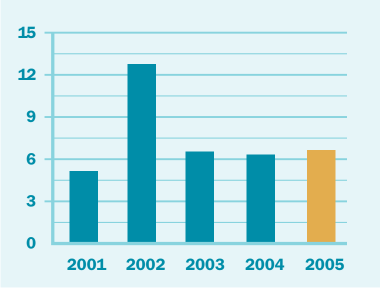
**LIQUIDITY MANAGEMENT** The institution has a policy of maintaining net cash balances equivalent to at least 12 months' net debt redemptions. In a given situation, this means that Kommunalbanken can cover its obligations for the next 12 months without additional borrowing. Surplus liquidity is managed on the basis of a conservative investment policy, both in terms of credit and market risk, and can be invested in liquid securities issued by financial institutions with a high credit rating. The majority of the portfolio has a maturity of less than two years, with no outright interest rate or currency risk.

**OWNERSHIP CONTROL** Kommunalbanken's main objective is to ensure that the market for local government loans remains competitive, so that local governments benefit from the best possible borrowing terms. At the same time, the institution aims for a return on equity set by the central government. These tasks are completed in line with Norwegian legislation, the institution's articles of association and ethical guidelines.

**Loans granted 2001-2005**
**NOK bn**




**Payments on loans 2001-2005**
**NOK bn**



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

Appropriate risk management and internal control 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. Risk analysis in the control process is followed up at departmental level and reported to the President & CEO and the Board of Directors.

*«Kommunalbanken's main objective is to ensure that the market for local government loans remains competitive»*

**RISK MANAGEMENT** To protect its rating, Kommunalbanken's risk management is subject to strict oversight. Liquidity risk is low and all risk limits and trading in new financial instruments are subject to the Board's approval.

**Credit risk** in Kommunalbanken's lending portfolio is minimal due to the stringent regulation and legal framework with which the local government sector must comply. Credit risk for loans to local government only relate to potential late payment of interest and instalments.

Credit risk arising from Kommunalbanken's funding portfolio and liquidity management operations is kept to a minimum through stringent policies on entering into financial contracts. Long-term investments and counterparties in hedging transactions must have a minimum rating of AA-/Aa3. Short-term investments require a short-term rating of A1/P1 or above. The institution only conducts financial transactions with financial institutions, governments or special enterprises (special purpose vehicles) with high ratings.

Credit risk is managed by ensuring that all trading in derivatives is documented under ISDA agreements. Collateral agreements are used as additional credit enhancement for several counterparties.

Clear procedures and processes have been established for managing credit risk. All new credit lines are established by the institution's finance committee and reassessed regularly. Credit risk is managed on the basis of Kommunalbanken's credit risk models and the size of the credit line is set on the basis of a thorough analysis as well as available risk capital and the counterparty's credit rating.

**Market risk** in Kommunalbanken consists primarily of interest rate and foreign exchange risk. The institution's financial policies only permit minimum exposure to interest rates and exchange rate risk. Interest rate and foreign exchange risk is managed by ensuring that the institution's positions are hedged at all times.

**Liquidity risk** is minimised by investing in highly liquid assets which covers 12 months net debt redemptions. The total liquidity portfolio is invested in liquid assets of high credit quality.

**Operational risk** exists potentially throughout Kommunalbanken's operations. Kommunalbanken seeks to minimise operational risk by focusing on good internal control, sound ethics and a high level of expertise among its employees, as well as an effective crisis management plan for its IT activities.

**ORGANISATION AND WORKING ENVIRONMENT** Staff numbers remained unchanged in 2005. The number of employees at the end of the year was 34. Some organisational changes were made during 2005. The IT section was transferred to the risk management and financial control department, with the financial controller heading the whole department. The human resources and administration section was transferred to the marketing department, and the marketing director made head of department.

Efforts to develop employee competence include formulating a more structured and comprehensive development programme. This is well underway, with several measures set to be implemented during 2006. The idea is for the programme to be incorporated into the main strategic plan for 2007.

In order to exploit the institution's expertise, cross-departmental development work is underway. This has been instrumental in generating positive attitudes and developing the institution's corporate culture.

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

Absence through sickness fell from 2.16 per cent in 2004 to 1.95 per cent in 2005 and no occupational injuries were reported, as with previous years.

The working environment at Kommunalbanken is considered good and every effort is made to ensure a pleasant and healthy working environment for each individual. The institution endeavours to accommodate the wishes and needs of individual employees as far as possible.

Kommunalbanken's offices are housed within a large office complex in which heating and ventilation are controlled centrally. There is no pollution of the external environment. 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** It is Kommunalbanken's goal to have equality between men and women. The institution does not discriminate on the basis of gender in areas such as salary, career development and recruitment. 16 of the institution's 34 employees are women and 18 are men.

There is a 58 per cent female representation on the Board of Directors and the Chairman of the Board is a woman.

The senior management group has a 38 per cent female representation, while at middle management level the figure is 60 per cent. Women are well represented in senior positions. The female senior managers received an average salary increase of 5.75 per cent, compared with 5.54 per cent for senior male management.

The institution's salary and personnel policy involves recruiting and training highly qualified employees, based on its needs at any given time. The institution is strongly committed to the equal pay principle, which means equal pay for work of equal value.

The institution's working hours are the same for all employees, regardless of gender. The proportion of part-time employees is higher among women, while the amount of overtime worked is the same for men and women.

**APPLICATION OF NET PROFITS** The Board of Directors proposes that the net profits of NOK 92.7 million be transferred to retained earnings.

Further to the above, Kommunalbanken has distributable reserves of NOK 329.0 million.

*The Board of Directors of Kommunalbanken. From left: Åse Kristensen, Per N. Hagen, Martha Takvam, Else Bugge Fougner, Petter Skouen, Bjørn Kristoffersen and Nanna Egidius.*

**FUTURE DEVELOPMENT** The growth rate for loans to municipalities slowed by 30 per cent compared with 2004. However, the need for new investments has not declined and demand for loans is expected to increase in the future.

Planning documents at county level indicate that county municipal debt will double between now and 2010, due to investment in the construction of upper secondary schools.

Work is underway on a report on the local government sector's long-term funding needs. The institution has engaged consultancy firm 'ECON Analyse' to prepare this report.

There has been an increase in incidences of municipalities preferring to organise municipal tasks through companies. The institution has received enquiries about funding projects in areas such as water and sanitation, land development, IT and infrastructure.

2006 is the final year before the new capital adequacy regulations (Basel II) come into force on 1 January 2007. The risk weighting of the local government sector is expected to be reduced. If this reduction becomes a reality, the available tier 1 capital will enable the institution to continue its lending activities to the benefit of the entire public sector. It is the Board's opinion that the capital weighting must be reduced, both for municipal loans and municipal-guaranteed loans, in order to align the Norwegian regulations as far as possible with the regulations that apply to most other European countries.

To coincide with the introduction of the new capital adequacy regulations, Kommunalbanken also intends to convert its financial reporting to the new IFRS standard with effect from 1 January 2007.

The Board expects continued competition in the market for local government funding. Due to the low margins, the Board does not expect the emergence in Norway of international lenders. However, increased competition is expected from the capital markets directly.

Kommunalbanken anticipates that such low margins will persist over the coming year and that foreign lenders will not find the Norwegian market attractive. Specialist institutions can also expect to encounter tougher competition from the capital markets. Norwegian and foreign institutional investors may find it more advantageous to buy municipal securities to achieve a greater degree of risk diversification.

*«... demand for loans is expected to increase»*

The Board expects Kommunalbanken to continue its operations with the emphasis on predictability and stable results. Norwegian interest rate trends and fluctuations in exchange rates will only have a minimal effect on the institution's results, as open exposure to these markets is not permitted. The Board believes that it must remain Kommunalbanken's goal to offer the best loan terms and service, through improved competitiveness and increased dialogue with customers.

**Oslo, 31 December 2005**
15 March 2006

*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*

**Martha Takvam**
*Member*

**Petter Skouen**
*President & CEO*

● ● ● «No Norwegian local government is known to have defaulted, and Kommunalbanken has consequently never suffered a credit loss in its 78 years of operation»

*Standard & Poor's June 2005*

*From the Narvik area*

# Profit and loss account

| *(Amounts in NOK 1 000)* | Note | 2005 | 2004 |
|---|---|---|---|
| Interest and related income on loans and deposits with credit institutions | | **25 375** | 7 773 |
| Interest and related income on loans to and receivables due from customers | | **2 072 983** | 1 977 788 |
| Interest and related income on notes, bonds and other fixed income securities | | **774 451** | 413 096 |
| Other interest and related income | | **59** | 201 |
| Total interest and related income | | **2 872 868** | 2 398 858 |
| Interest and related expenses on debt to credit institutions | | **51 552** | 41 008 |
| Interest and related expenses on issued securities | | **2 587 516** | 2 124 872 |
| Interest and related expenses on subordinated debt | | **38 307** | 32 470 |
| Other interest and related expenses | | **0** | 255 |
| Total interest and related expenses | | **2 677 375** | 2 198 605 |
| **Net interest income** | | **195 493** | 200 253 |
| Income from shares and other securities with variable yield | | **0** | 0 |
| Government guarantee fees/stand-by fees | 19 | **7 428** | 10 947 |
| Other fees and commission costs | | **12 535** | 10 621 |
| Total commission costs and costs of banking services | | **19 963** | 21 568 |
| Net gains/losses on notes, bonds and other fixed income securities | | **3 420** | 3 368 |
| Net gains/losses on foreign currency and financial derivatives | | **5 072** | -1 418 |
| Total gains/losses on foreign currency and securities that are current assets | | **8 492** | 1 950 |
| Other operating income | | **756** | 523 |
| Salaries | 1 | **21 233** | 21 452 |
| Pensions | 2 | **3 227** | 2 609 |
| Social security costs | | **3 988** | 4 360 |
| Administrative costs | | **13 285** | 11 757 |
| Total salaries and general administrative expenses | | **41 733** | 40 178 |
| Depreciation etc. on fixed assets | 8 | **2 399** | 1 586 |
| Real estate operating expenses | 3 | **5 582** | 5 339 |
| Other operating expenses | | **5 643** | 4 795 |
| Total other operating expenses | | **11 225** | 10 134 |
| **Net income before taxes** | | **129 421** | 129 260 |
| Tax on ordinary income | 9 | **36 693** | 36 880 |
| **Profit for the accounting period after tax** | | **92 728** | 92 380 |
| Dividends | | | 21 500 |
| Transferred to retained earnings | 21 | **92 728** | 70 880 |
| Total transfers and allocations | | **92 728** | 92 380 |

# Balance sheet

| **ASSETS** *(Amounts in NOK 1 000)* | **NOTE** | **31.12.05** | **31.12.04** |
|---|---|---|---|
| Cash and deposits with Central Bank of Norway | | **2** | 2 |
| Net loans and deposits with credit institutions without agreed maturity or period of notice | | **35 850** | 0 |
| Net loans and deposits with credit institutions with agreed maturity or period of notice | | **50 000** | 62 644 |
| Total net loans and claims on credit institutions | 4 | **85 850** | 62 644 |
| Instalment loans | 5 | **76 685 609** | 66 470 193 |
| Other loans | 1 | **276 050** | 29 975 |
| Total net loans and claims on customers | | **76 961 659** | 66 500 168 |
| Government issuers, notes and bonds | | **47 406** | 10 295 |
| Other issuers, notes and bonds | | **32 887 866** | 20 817 927 |
| Total notes, bonds and other fixed income securities | 6 | **32 935 272** | 20 828 222 |
| Shares, parts and primary capital certificates | 7 | **454** | 454 |
| Intangible assets, deferred tax benefit | 9 | **622** | 636 |
| Fixed assets | 8 | **14 960** | 14 013 |
| Financial derivatives | | **484 388** | 1 220 755 |
| Other assets | 2 | **533** | 22 436 |
| Total other assets | | 484 921 | 1 243 191 |
| Accrued income | | **461 374** | 344 122 |
| Prepaid, non-accrued expenses | | **3 983** | 1 202 |
| Total prepaid, non-accrued expenses and accrued income | | **465 357** | 345 324 |
| **Total assets** | 13, 17 | **110 949 097** | 88 994 654 |

# Balance sheet

| LIABILITIES AND EQUITY | NOTE | 31.12.05 | 31.12.04 |
|---|---|---|---|
| Loans from and deposits from credit institutions without fixed term | | | 7 981 |
| Loans from and deposits from credit institutions with fixed term | | **1 836 489** | 2 254 292 |
| Total liabilities to credit institutions | 10 | **1 836 489** | 2 262 273 |
| Notes and other short-term borrowings | | **0** | 1 499 956 |
| Bond issues | | **104 359 825** | 81 742 011 |
| Total liabilities established through issuance of securities | 10 | **104 359 825** | 83 241 967 |
| Margin requirements and other customer accounts | | 5 118 | **7 962** |
| Other debt | 11 | **1 160 806** | 62 878 |
| Total other liabilities | | **1 165 924** | 70 840 |
| Accrued expenses and prepaid unearned income | | **1 356 082** | 981 769 |
| Pension cost | 2 | **852** | 66 |
| Subordinated debt | 12, 20 | **1 059 140** | 1 354 702 |
| Hybrid Tier 1 Capital Instruments | | **159 700** | 164 680 |
| Total liabilities | | **109 938 012** | 88 076 297 |
| Share capial | | **681 500** | 660 000 |
| Called in, unpaid share capital | | | 21 500 |
| Total equity capital deposited | | **681 500** | 681 500 |
| Other equity capital | | **329 585** | 236 857 |
| Total equity capital | 20, 21 | **1 011 085** | 918 357 |
| **Total liabilities and equity** | 13, 17 | **110 949 097** | 88 994 654 |

**Oslo, 31 December 2005**
15 March 2006
*The Board of Directors of Kommunalbanken AS*

Else Bugge Fougner
Per N. Hagen
Nanna Egidius
Bjørn Kristoffersen

**Else Bugge Fougner** — *Chairman of the Board*
**Per N. Hagen** — *Vice-Chairman of the Board*
**Nanna Egidius** — *Member*
**Bjørn Kristoffersen** — *Member*

Åse Kristensen
Martha Takvam
Petter Skouen

**Åse Kristensen** — *Member*
**Martha Takvam** — *Member*
**Petter Skouen** — *President & CEO*

# Cash flow statement

| *(Amounts in NOK 1 000)* | **2005** | **2004** |
|---|---|---|
| Interest rate receipts | 2 935 542 | 2 628 782 |
| Interest rate payments | 2 790 877 | 2 474 455 |
| Other receipts | 9 248 | 2 473 |
| Operating payments | | |
| | 60 385 | 61 260 |
| **Net cashflow from operations** | **93 528** | **95 540** |
| Increase in loans | 10 461 491 | 13 711 074 |
| Increase/decrease (-) in other claims | -638 237 | -716 038 |
| Increase in short-term securities | 12 107 050 | 4 737 914 |
| Increase/decrease (-) in investments in credit institutions | 23 206 | -237 356 |
| **Net cashflow from current financial operations** | **21 953 510** | **17 495 594** |
| Increase in other fixed assets | 947 | 6 128 |
| **Net cashflow from investments** | **947** | **6 128** |
| Increase/decrease (-) in loans, issues of securities | 20 692 074 | 16 800 883 |
| Increase/decrease (-) in other debt | 1 168 855 | 605 299 |
| **Net cashflow from long-term financial activities** | **21 860 929** | **17 406 182** |
| Net change in liquid assets | 0 | 0 |
| Liquid assets, 01.01.05 | 2 | 2 |
| Liquid assets, 31.12.05 | 2 | 2 |

● ● ● «Excellent asset quality»

*Moody's September 2005*

*Stetind in Tysfjord, Nordland*

# 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 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% |
| IT-lending system | 20% |
| 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.

# Notes

## NOTE 1

### SALARIES AND OTHER REMUNERATION

*(Amounts in NOK 1 000)*

| | 2005 | 2004 |
|---|---|---|
| **Wage costs** | | |
| Salaries | 21 233 | 21 452 |
| Employer's national insurance contribution | 3 356 | 3 533 |
| Pension costs | 3 227 | 2 609 |
| Other payments | 632 | 827 |
| Total | 28 448 | 28 421 |
| | | |
| **Remuneration to the President & CEO and the Board of Directors** | | |
| Salary, remuneration and profit-related bonus to the President & CEO | 1 699 | 1 479 |
| Board of Directors' fees | 514 | 455 |
| Fees to the members of the audit committee | 95 | 118 |
| Fees to members of the supervisory board | 46 | 32 |
| Pension premium for the President & CEO | 347 | 346 |
| | | |
| Average number of employees | 34 | 34 |

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 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**

*(Amounts in NOK 1 000)*

| | Balance as at 31.12.05 | Balance as at 31.12.04 |
|---|---|---|
| Short-term loans to staff | 443 | 523 |
| of which loan to the President & CEO | 0 | 0 |
| Home mortgages | 21 651 | 21 229 |
| of which mortgage loan to the President & CEO | 1 598 | 1 675 |
| Total loans to employees | 22 094 | 21 752 |
| Interest-rate subsidies in the period | 116 | 91 |

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 auditing | 255 |
| Fee for other authorization services | 238 |
| Tax councelling | 25 |
| Other non-audit services | 157 |
| Total, exclusive of VAT | 1 050 |

## 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 2005. 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** | | | | |
| **2004** | **2005** | | **2005** | **2004** |
| 2 019 | 2 489 | Pension rights accrued for the year | 428 | 357 |
| 350 | 605 | Interest expense on accrued pension rights | 100 | 75 |
| 2 369 | 3 094 | Gross pension costs | 528 | 432 |
| -255 | -451 | Expected return | -90 | -71 |
| 72 | 77 | Administration cost | 12 | 11 |
| 51 | 57 | Recorded change in estimates (deviation) | 0 | 0 |
| **2 237** | **2 777** | **Net pension costs** | **450** | **372** |
| **Pension obligations** | | | | |
| 6 188 | 12 713 | Gross accrued liability | 1 766 | 1 334 |
| 5 047 | 8 954 | Pension funds | 1 658 | 1 348 |
| 1 142 | 3 759 | Net accrued liability | 108 | -14 |
| -1 094 | -2 989 | Unrecorded change in estimates/deviation | -26 | 32 |
| **48** | **770** | **Net liability transferred to balance sheet** | **82** | **18** |

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

Financial assumptions (2005):
Annual rate of return 6.0%
Discount rate 5.0%
Annual increase in salaries 3.0%
Annual increase in National Insurance Scheme basic amount 3.0%

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.

Through a coordination agreement with KLP, Statens Pensjonskasse is committed to cover Kommunalbanken's pension earnings in SPK before transfer to KLP. The SPK Scheme is a Multi Employer plan which is not based on fund reserves. Gross contractual obligations for this contribution is shown in the statement above. Estimated undercoverage in connection with transfer to KLP is entered in the balance sheet.

# 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 2005 was NOK 4 110 compared to NOK 3 918 in 2004. 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)*

| | 2005 | 2004 |
|---|---|---|
| Loans to and deposits with credit institutions, without agreed maturity | 35 850 | |
| Loans to and deposits with credit institutions, with agreed maturity | 50 000 | 62 644 |
| | | |
| **Total loans and deposits with credit institutions** | **85 850** | 62 644 |

NOK 2 305 has been deposited in a separate tax-withholding account.

## NOTE 5

### LOANS TO AND CLAIMS ON CUSTOMERS

*(Amounts in NOK 1 000)*

Payment of loans as of 31.12.05

| **Time to maturity** | **Up to 3 months** | **3 months to 1 year** | **1 year to 5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|---|
| Floating rate loans | 1 014 175 | 2 178 906 | 11 563 484 | 35 654 630 | 50 411 195 |
| Fixed rate loans | 5 168 070 | 3 255 669 | 4 651 109 | 13 199 566 | 26 274 414 |
| **Total** | **6 182 245** | **5 434 575** | **16 214 593** | **48 854 196** | **76 685 609** |

| **Loans by county** | **31.12.05** | **31.12.04** |
|---|---|---|
| Østfold | 4 957 226 | 4 279 091 |
| Akershus | 8 638 281 | 7 693 874 |
| Oslo | 1 627 626 | 1 031 768 |
| Hedmark | 3 190 427 | 2 458 279 |
| Oppland | 2 677 962 | 2 084 022 |
| Buskerud | 4 113 854 | 3 587 946 |
| Vestfold | 3 541 066 | 3 102 705 |
| Telemark | 3 824 930 | 2 896 397 |
| Aust-Agder | 1 661 254 | 1 229 958 |
| Vest-Agder | 3 529 086 | 3 042 996 |
| Rogaland | 5 537 259 | 4 835 482 |
| Hordaland | 5 301 719 | 5 325 428 |
| Sogn og Fjordane | 2 676 857 | 2 558 231 |
| Møre og Romsdal | 4 186 417 | 3 600 773 |
| Sør-Trøndelag | 4 949 764 | 4 378 645 |
| Nord-Trøndelag | 4 475 779 | 4 500 945 |
| Nordland | 5 469 986 | 4 824 491 |
| Troms | 4 280 044 | 3 328 946 |
| Finnmark | 2 027 880 | 1 710 216 |
| Svalbard | 18 192 | |
| **Total** | **76 685 609** | **66 470 193** |

## NOTE 6

### HOLDINGS OF NOTES, BONDS AND OTHER INTEREST- BEARING SECURITIES

*(Amounts in NOK 1 000)*

**2005**

| | Book value | Acquisition costs | Actual value | Average effective interest rate | Listed |
|---|---|---|---|---|---|
| Government-guaranteed bonds (weighted 0%) | 47 406 | 47 723 | 47 857 | 1.19 | 47 406 |
| Government and govt.-guaranteed notes - foreign (weighted 0%) | - | - | - | - | - |
| Government-guaranteed bonds - foreign (weighted 0%) | 14 925 767 | 15 024 818 | 14 893 004 | 3.41 | 14 925 767 |
| Notes issued by financial institutions (weighted 20%) | 1 727 620 | 1 728 423 | 1 730 471 | 2.40 | 1 382 097 |
| *of which notes issued by municipalities* | *0* | *0* | *0* | | |
| Notes issued by financial institutions - foreign (weighted 20%) | 16 234 479 | 16 255 296 | 16 153 581 | 2.79 | 12 987 583 |
| Total | 32 935 272 | 33 056 260 | 32 824 913 | | |

**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 govt.-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 | | |

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 31.12.2005.

**Trading portfolio:**

| | 2005 | | 2004 | |
|---|---|---|---|---|
| **Currency** | **Market value** | **Book value** | **Market value** | **Book value** |
| USD | 4 833 781 | 4 836 410 | 2 225 008 | 2 222 169 |
| EUR | 5 005 968 | 5 005 320 | 2 793 017 | 2 791 259 |
| SEK | 55 298 | 55 285 | 133 552 | 133 293 |
| DKK | - | - | 219 669 | 219 675 |
| PLN | 41 424 | 41 493 | - | - |
| NOK | 8 939 198 | 8 939 111 | 10 763 624 | 10 743 000 |
| Total | 18 875 669 | 18 877 619 | 16 134 870 | 16 109 396 |

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)*

| (Depreciation period, linear) | Office equipment (4 years) | Computer equipment (3 years) | Computer equipment (5 years) | Furniture (5 years) | Cars (5 years) | Art not depreciated | Total |
|---|---|---|---|---|---|---|---|
| Acquisition cost as at 01.01.05 | 632 | 7 651 | 11 514 | 3 700 | 714 | 352 | **24 563** |
| Acquisitions 2005 at cost price/scrap value | 58 | 297 | 2 727 | 15 | 395 | 100 | **3 592** |
| Disposals 2005 at cost price - scrapped | | | | | -414 | | -414 |
| **Cost price as at 31.12.05** | 690 | 7 948 | 14 241 | 3 715 | 695 | 452 | **27 741** |
| Acc. depreciation as at 01.01.05 | 540 | 6 585 | 0 | 3 270 | 155 | | **10 550** |
| Depreciation for the year | 57 | 679 | 1 390 | 171 | 100 | | **2 397** |
| Acc. depreciation of fixed assets sold/scrapped 05 | | | | | -166 | | -166 |
| **Acc. depreciation as at 31.12.05** | 597 | 7 264 | 1 390 | 3 441 | 89 | | **12 781** |
| **Book value as at 31.12.05** | 93 | 684 | 12 851 | 274 | 606 | 452 | **14 960** |

The tax value of fixed assets is NOK 12 413 entailing a negative temporary difference of NOK 1 453 as at 31.12.05.

## NOTE 9

### TAXES *(Amounts in NOK 1 000)*

| **The tax for the period comprises:** | **2005** | **2004** |
|---|---|---|
| Taxes payable | 36 679 | 35 152 |
| Changes in deferred taxes | 14 | 1 574 |
| Insufficient provision for taxes payable previous year | - | 154 |
| **Total tax cost** | **36 693** | 36 880 |
| **Taxes payable on the balance sheet comprise:** | | |
| Taxes payable on profit for the year | 36 679 | 35 152 |
| Withholding tax | -634 | - |
| **Total taxes payable** | **36 045** | 35 152 |
| **Calculation of the tax base for the period:** | | |
| Profit before taxes | 129 421 | 129 260 |
| Permanent differences | 1 623 | 1 905 |
| Changes in temporary differences | -50 | -5 622 |
| **Tax base for the period** | **130 995** | 125 544 |
| **Summary of temporary differences** | **31.12.05** | **31.12.04** |
| Fixed assets | -1 453 | -1 209 |
| Hedging instruments | - | -1 112 |
| Pensions | -770 | 48 |
| **Total** | **-2 223** | -2 273 |
| 28 % deferred tax/deferred tax benefit (-) | -622 | -636 |
| **Explanation of why tax cost for the year is not 28 % of profit before taxes:** | | |
| 28 % tax on profit before taxes | 36 238 | 36 192 |
| Permanent differences (28 %) | 454 | 534 |
| Insufficient provision for taxes payable previous year | - | 154 |
| **Estimated tax cost** | **36 692** | 36 880 |

# NOTE 10

## SPECIFICATION OF DEBT TO CREDIT INSTITUTIONS AND ISSUED SECURITIES

*(Amounts in NOK 1 000)*

| | 2005 | | 2004 | |
|---|---|---|---|---|
| | Book value | Average interest rate | Book value | Average interest rate |
| Loans and deposits from credit institutions with agreed maturity | 1 836 489 | 3.24 | 2 262 273 | 2.52 |
| Notes debt in NOK | - | - | 1 499 956 | 1.88 |
| Bond debt in NOK | - | - | 17 613 992 | 5.58 |
| Bond debt in foreign currencies | 104 359 825 | 5.41 | 64 128 018 | 2.81 |
| **Notes and bond debt** | **104 359 825** | | 83 241 967 | |

Average interest rate has been calculated using weighted nominal interest rate as at 31.12.05
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)*

| | 2005 | 2004 |
|---|---|---|
| Allocated dividend | 0 | 21 500 |
| Taxes payable | 36 045 | 35 152 |
| Repos | 1 120 147 | 0 |
| Other liabilities | 4 614 | 6 226 |
| **Other liabilities** | **1 160 806** | **62 878** |

# NOTE 12

## SUBORDINATED LOAN CAPITAL AND HYBRID TIER 1 CAPITAL INSTRUMENTS

*(Amounts in NOK 1 000)*

| | 2005 | 2004 |
|---|---|---|
| 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%) | 359 325 | 370 531 |
| Ordinary subordinated loan capital - expires 2012 (EUR 20 million, fixed rate 6.29%) [1)] | 159 700 | 164 680 |
| Ordinary subordinated loan capital - expires 2012 (EUR 10 million) | 79 850 | 82 340 |
| *(Interest rate is adjusted every 3 months. Current rate is 2.664%)* | | |
| Ordinary subordinated loan capital - (EUR 40 million) | - | 329 361 |
| Ordinary subordinated loan capital - expires 2014 (USD 65 million) | 439 965 | 392 470 |
| *(Interest rate is adjusted every 3 months. Current rate 4.69%)* | | |
| **Subordinated loan capital and hybrid Tier 1 Capital Instruments** | **1 218 840** | 1 519 382 |

[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**

| Assets | Total principal | Up to 1 month Total | Of which foreign currency | 1-3 months Total | Of which foreign currency |
|---|---|---|---|---|---|
| Deposits with other financial institutions | 85 852 | 85 852 | | | |
| Instalment loans | 76 685 609 | 1 054 704 | | 4 265 090 | |
| Securities | 32 935 272 | 3 511 822 | 3 040 773 | 4 598 716 | 4 199 826 |
| Other short-term loans | 276 050 | 250 576 | | 67 | |
| Financial derivatives | 484 388 | 1 137 | 24 | 33 498 | 112 |
| Prepaid expenses | 3 983 | 2 589 | | 1 195 | |
| Accrued income | 461 374 | 90 157 | 60 316 | 209 092 | 119 521 |
| Other assets | 16 569 | 1 155 | | | |
| **Total** | **110 949 097** | **4 997 992** | | **9 107 658** | |
| | | | | | |
| **Liabilities** | | | | | |
| Loans to credit institutions | 1 836 489 | | | | |
| Notes and other short-term debt | | | | | |
| Bond debt | 104 359 825 | | | 2 856 638 | 2 117 483 |
| Other debt and pension obligations | 1 166 776 | 1 123 905 | | 39 235 | |
| Accrued costs and provisions | 1 356 082 | 380 926 | 10 840 | 498 982 | 308 420 |
| Subordinated loan capital | 1 059 140 | | | | |
| Hybrid Tier 1 Capital Instruments | 159 700 | | | | |
| Equity capital | 1 011 085 | | | | |
| **Total** | **110 949 097** | **1 504 831** | | **3 394 855** | |
| Net liquidity exposure, balance sheet items | 0 | 3 493 161 | | 5 712 802 | |

| 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 | 85 852 | 85 852 | 85 852 | | |
| Instalment loans | 76 685 609 | 23 660 240 | | 32 994 746 | |
| Securities | 32 935 272 | 8 773 500 | 7 606 451 | 12 095 738 | 11 475 179 |
| Other short-term loans | 276 050 | 260 135 | | 67 | |
| Financial derivatives | 484 388 | 100 139 | 100 132 | 142 055 | 142 055 |
| Prepaid expenses | 3 983 | 2 589 | | 1 195 | |
| Accrued income | 461 374 | 90 157 | 60 316 | 209 092 | 119 521 |
| Other assets | 16 569 | 1 155 | | | |
| **Total** | 110 949 097 | 32 973 767 | | 45 442 893 | |
| | | | | | |
| **Liabilities** | | | | | |
| Loans to credit institutions | 1 836 489 | 1 028 372 | 1 028 372 | 643 027 | 643 027 |
| Bond debt | 104 359 825 | 6 745 287 | 4 897 403 | 13 001 399 | 11 716 471 |
| Other debt and pension obligations | 1 166 776 | 1 123 905 | | 39 236 | |
| Accrued costs and provisions | 1 356 082 | 380 926 | 10 840 | 498 982 | 308 420 |
| Subordinated loan capital | 1 059 140 | | | 519 815 | 519 815 |
| Hybrid Tier 1 Capital Instruments | 159 700 | | | | |
| Equity capital | 1 011 085 | | | | |
| **Total** | **110 949 097** | **9 278 490** | | **14 702 459** | |
| **Net interest rate exposure, balance sheet items** | **0** | **23 695 277** | | **30 740 432** | |
| | | | | | |
| Net interest rate exposure, fin. derivatives | | -23 307 115 | | -33 128 419 | |
| Total interest rate exposure | 0 | 388 162 | | -2 387 987 | |

| 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 |
|---|---|---|---|---|---|---|---|
| 3 297 741 | | 4 822 602 | | 63 245 472 | | | |
| 10 585 795 | 9 940 077 | 14 205 096 | 13 065 875 | 33 843 | 33 844 | | |
| 134 | | 200 | | 25 073 | | | |
| 107 662 | 168 | 231 879 | 577 | 110 212 | 340 | | |
| 199 | | | | | | | |
| 162 125 | 102 428 | | | | | | |
| | | | | 454 | | 14 960 | |
| **14 153 656** | | **19 259 777** | | **63 415 054** | | **14 960** | |
| | | | | | | | |
| | | 1 671 399 | 1 671 399 | 165 090 | 165 090 | | |
| | | | | | | | |
| 6 139 364 | 5 128 832 | 40 638 574 | 30 204 921 | 54 725 249 | 51 826 068 | | |
| 3 636 | | | | | | | |
| 476 174 | 295 622 | | | | | | |
| | | | | 519 815 | 519 815 | 539 325 | 359 325 |
| | | | | 159 700 | 159 700 | | |
| | | | | | | 1 011 085 | |
| **6 619 174** | | **42 309 973** | | **55 569 854** | | **1 550 410** | |
| 7 534 482 | | -23 050 197 | | 7 845 201 | | -1 535 450 | |

| 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 |
|---|---|---|---|---|---|---|---|
| 5 290 978 | | 11 304 399 | | 3 435 246 | | | |
| 6 563 045 | 6 497 325 | 5 343 274 | 4 541 724 | 159 715 | 159 716 | | |
| 134 | | 8 713 | | 7 001 | | | |
| 90 905 | 90 905 | 98 080 | 98 080 | 53 209 | 53 209 | | |
| 199 | | | | | | | |
| 162 125 | 102 428 | | | | | | |
| | | | | 454 | | 14 960 | |
| 12 107 386 | | 16 754 466 | | 3 655 625 | | 14 960 | |
| | | | | | | | |
| | | | | 165 090 | 165 090 | | |
| 31 258 444 | 30 247 911 | 38 184 431 | 30 144 437 | 15 170 264 | 12 271 082 | | |
| 3 635 | | | | | | | |
| 476 174 | 295 622 | | | | | | |
| | | 539 325 | 359 325 | | | | |
| | | | | 159 700 | 159 700 | | |
| | | | | | | 1 011 085 | |
| **31 738 253** | | **38 723 756** | | **15 495 054** | | **1 011 085** | |
| **-19 630 867** | | **-21 969 289** | | **-11 839 428** | | **-996 125** | |
| | | | | | | | |
| 21 199 803 | | 22 826 992 | | 12 408 739 | | | |
| 1 568 936 | | 857 703 | | 569 311 | | -996 125 | |

# 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* 31.12.05 | Positive market values 31.12.05 | Negative market values 31.12.05 |
|---|---|---|---|
| **Financial derivatives:** | | | |
| Interest rate-related derivatives | 68 013 817 | 2 236 941 | 1 528 383 |
| Currency-related derivatives | 153 810 708 | 3 851 833 | 2 613 714 |
| Equity-related derivatives | 1 764 050 | 14 163 | 310 694 |
| **Financial derivatives in trading portfolio:** | | | |
| Interest rate-related derivatives | 1 902 883 | 2 766 | 1 360 |
| Currency-related derivatives | 816 292 | 16 856 | 10 555 |
| **Total financial instruments** | **226 307 750** | **6 122 559** | **4 464 706** |
| **Netting** | | | |
| **Effect of netting agreements** | | **(3 170 448)** | |

*Nominal value reported in capital adequacy report.

## 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 loans, 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 2005, the total exposure was NOK 1.455 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-á-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:

| | 2005 | 2004 |
|---|---|---|
| Forward rate agreements (FRA) | 0 | 42 |
| Equity-linked contracts | 169 727 | 1 651 |
| Currency futures and currency swaps | 5 103 202 | 1 650 836 |
| Interest rate swaps | 1 679 523 | 2 046 688 |

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 | EUR | CAD | CHF |
|---|---|---|---|---|---|---|---|---|
| Cash and deposits with central banks | 2 | 2 | - | - | - | - | - | - |
| Loans to and deposits with credit institutions | 85 850 | 77 612 | 8 238 | 594 | 2 | 1 443 | (6) | 1 063 |
| Loans to and receivables from customers | 76 961 659 | 76 961 659 | - | - | - | - | - | - |
| Notes, bonds and other fixed-income interest-bearing securities | 32 935 272 | 2 664 354 | 30 270 918 | 11 648 847 | 72 079 | 10 824 196 | 161 953 | 409 675 |
| Shares | 454 | - | 454 | - | - | - | - | - |
| Fixed assets | 14 960 | 14 960 | - | - | - | - | - | - |
| Other assets | 484 921 | 484 612 | 309 | - | - | - | - | - |
| Prepaid, non-accrued expenses and accrued income | 465 357 | 318 039 | 147 318 | 126 239 | - | 21 079 | - | - |
| Deferred tax benefit | 622 | 622 | - | - | - | - | - | - |
| **Total assets** | **110 949 097** | **80 521 860** | **30 427 237** | **11 775 680** | **72 081** | **10 846 718** | **161 947** | **410 738** |
| **LIABILITIES AND EQUITY CAPITAL** | | | | | | | | |
| Debts to credit institutions | 1 836 489 | - | (1 836 489) | (643 027) | - | (1 193 462) | - | - |
| Issued securities | 104 359 825 | 15 082 520 | (89 277 305) | (16 830 334) | (36 339 801) | (1 051 947) | (2 898 991) | (7 172 230) |
| Other debt | 1 165 924 | 1 165 924 | - | - | - | - | - | - |
| Accrued expenses and prepaid unearned income | 1 356 082 | 252 363 | (1 103 719) | (400 140) | (4 316) | (113 334) | (5 467) | (35 691) |
| Provisions for accrued expenses and liablities | 852 | 852 | - | - | - | - | - | - |
| Subordinated loan capital | 1 059 140 | 180 000 | (879 140) | (439 965) | - | (439 175) | - | - |
| Hybrid Tier 1 Captial Instruments | 159 700 | - | (159 700) | - | - | (159 700) | - | - |
| Deposited equity capital | 681 500 | 681 500 | - | - | - | - | - | - |
| Earned equity capital | 329 585 | 329 585 | - | - | - | - | - | - |
| **Total liabilities and equity capital** | **110 949 097** | **17 692 744** | **(93 256 353)** | **(18 313 466)** | **(36 344 117)** | **(2 957 618)** | **(2 904 458)** | **(7 207 921)** |
| Net currency exposure, balance sheet items | | | (62 829 116) | (6 537 786) | (36 272 036) | 7 889 100 | (2 742 511) | (6 797 183) |
| Net currency exposure, financial derivatives | | | 62 830 511 | 6 552 728 | 36 272 219 | (7 909 577) | 2 742 505 | 6 798 291 |
| **Net currency exposure as at 31.12.05** | | | **1 395** | **14 942** | **183** | **(20 477)** | **(6)** | **1 108** |

| DKK | GBP | SEK | HKD | AUD | CZK | ISK | PLN | TRY | HUF | ZAR | NZD |
|---|---|---|---|---|---|---|---|---|---|---|---|
| - | - | - | - | - | - | - | - | - | - | - | - |
| 11 | 71 | 4 993 | 30 | 116 | - | (2) | - | - | 5 | 3 | (85) |
| - | - | - | - | - | - | - | - | - | - | - | - |
| 4 365 518 | - | 1 030 841 | - | 752 674 | - | - | 41 424 | - | 238 376 | 404 124 | 321 211 |
| - | - | 454 | - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - | - | - | - |
| - | - | 309 | - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - | - | - | - |
| **4 365 529** | **71** | **1 036 597** | **30** | **752 790** | **-** | **(2)** | **41 424** | **-** | **238 381** | **404 127** | **321 126** |
| - | - | - | - | - | - | - | - | - | - | - | - |
| - | (7 407 609) | - | (1 068 817) | (10 714 362) | (204 725) | (319 435) | - | (1 374 077) | - | (1 271 350) | (2 623 627) |
| - | - | - | - | - | - | - | - | - | - | - | |
| 1 753 | (44 915) | 5 367 | (395 086) | (90 720) | (1 971) | (1 878) | - | (5 826) | - | 568 | (12 063) |
| - | - | - | - | - | - | - | - | - | - | - | |
| - | - | - | - | - | - | - | - | - | - | - | |
| - | - | - | - | - | - | - | - | - | - | - | |
| - | - | - | - | - | - | - | - | - | - | - | |
| - | - | - | - | - | - | - | - | - | - | - | |
| **1 753** | **(7 452 524)** | **5 367** | **(1 463 903)** | **(10 805 082)** | **(206 696)** | **(321 313)** | **-** | **(1 379 903)** | **-** | **(1 270 782)** | **(2 635 690)** |
| 4 367 282 | (7 452 453) | 1 041 964 | (1 463 873) | (10 052 292) | (206 696) | (321 315) | 41 424 | (1 379 903) | 238 381 | (866 655) | (2 314 564) |
| (4 367 272) | 7 452 526 | (1 036 198) | 1 463 872 | 10 052 174 | 206 696 | 321 313 | (41 424) | 1 379 903 | (238 376) | 866 658 | 2 314 473 |
| **10** | **73** | **5 766** | **(1)** | **(118)** | **-** | **(2)** | **-** | **-** | **5** | **3** | **(91)** |

## 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 2005, Kommunalbanken had government-guaranteed debt of NOK 6.6 billion, all taken up prior to the conversion to a limited company. The corresponding figure at the end of 2004 was NOK 10.1 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 2005 was NOK 7.3 million compared to NOK 10.5 million in 2004.

## Note 20

### 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 satsfies the capital adequacy requirements.

**Kommunalbanken's equity and subordinated loan capital comprises the following elements:**

| | **31.12.05** | **31.12.04** | |
|---|---|---|---|
| Tier 1 capital | | | |
| Share capital | 681 500 | 660 000 | |
| Other equity capital | 329 585 | 236 857 | |
| Equity capital | 1 011 085 | 896 857 | |
| Hybrid Tier 1 Capital Instruments | 159 700 | 158 157 | |
| Overfinancing of pension obligations | | - | - |
| Deferred tax benefit entered in balance sheet | (622) | (636) | |
| **Total Tier 1 capital** | 1 170 163 | 1 054 378 | |
| | | | |
| **Supplementary capital:** | | | |
| Subordinated debt | 505 232 | 448 111 | |
| Perpetual equity and subordinated loan capital | 539 325 | 557 055 | |
| **Total supplementary capital** | 1 044 557 | 1 005 166 | |
| | | | |
| **Total equity and subordinated loan capital** | 2 214 720 | 2 059 544 | |

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:**

| | | **2005** | | **2004** |
|---|---|---|---|---|
| **Risk weighting** | **Book value** | **Weighted amount** | **Book value** | **Weighted amount** |
| 0 % | 16 191 608 | - | 6 315 341 | - |
| 10 % | 80 373 | 8 037 | 82 757 | 8 276 |
| 20 % | 73 096 123 | 14 619 225 | 63 264 682 | 12 652 936 |
| 50 % | 2 219 216 | 1 109 608 | 24 194 | 12 097 |
| 100 % | 554 869 | 554 869 | 3 172 174 | 3 172 174 |
| Items that are part of the trading portfolio | 11 675 380 | 920 481 | 9 659 856 | 790 220 |
| Negotiable debt instruments that are part of the trading portfolio | 7 130 906 | 693 610 | 6 475 014 | 519 829 |
| Non-balance sheet items that are not part of the trading portfolio | | 1 390 490 | | 1 040 727 |
| **Total risk-weighted balance** | 110 948 475 | 19 296 320 | | 18 196 259 |
| | | | | |
| Capital adequacy | | 11.48 | | 11.32 |

## NOTE 21

### EQUITY CAPITAL *(Amounts in NOK 1 000)*

| | **Share capital** | **Other equity capital** | **Total equity capital** |
|---|---|---|---|
| Equity capital as at 01.01.05 | 660 000 | 236 857 | 896 857 |
| Called in unpaid share capital 01.01.05 | 21 500 | | 21 500 |
| Profit for the accounting period | | 92 728 | 92 728 |
| **Equity capital as at 31.12.05** | 681 500 | 329 585 | 1 011 085 |

The State through the Royal Norwegian Ministry of Local Government and Regional Development, owns 80 % of the shares and KLP owns 20 %. Face value per share is NOK 1 000 and the number of shares is 681 500.

# Auditor's report for 2005

## TO THE ANNUAL SHAREHOLDERS' MEETING OF KOMMUNALBANKEN AS

We have audited the annual financial statements of Kommunalbanken AS as of 31 December 2005, showing a profit of NOK 92 728 000. 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. The regulations of the Accounting Act and accounting standards, principles and practices generally accepted in Norway have been applied in the preparation of the financial statements. These financial statements and the Directors' report are the responsibility of the Company's Board of Directors and 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 laws, regulations and auditing standards and practices generally accepted in Norway, including the auditing standards adopted by the Norwegian Institute of Public Accountants. 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 laws and regulations and present fairly, in all material respects the financial position of the Company as of 31 December 2005, 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 record and document the accounting information as required by law and generally accepted bookkeeping practice in Norway
- the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and comply with law and regulations.

**Oslo, 15 March 2006**
*ERNST & YOUNG AS*

Tor Steenfeldt-Foss

**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 2005.

The Audit Committee recommends that the annual report and accounts presented be approved as Kommunalbanken's accounts for 2005 and that the application of profits is adopted by theAnnual Shareholders' Meeting in accordance with the Board's proposals.

**Oslo, 17 March 2006**
*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 2005 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 92.728 million, is adopted by the Annual Shareholders' Meeting.

**Oslo, 27 April 2006**
*Supervisory Committee for Kommunalbanken AS*

**Oddvar Flæte**
*Chairman*

# Articles of Association of Kommunalbanken AS

*(Latest change 15 December 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 admnis-trative 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 a 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 2006)*

BOARD OF DIRECTORS

**Else Bugge Fougner, Chairman**
Minister of Justice 1989-90. Barrister-at-law (Supreme Court) and partner in the law firm Hjort DA. She has seats on the boards of several Norwegian companies and institutions.

**Per N. Hagen, Vice-Chairman**
Former 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.

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

**Bjørn Kristoffersen**
Chief Executive Officer at KLP (Kommunal Pensjonskasse) since 1994. Kristoffersen is a marine engineering graduate and business economist. He has had previous management positions in Aker group and Storebrand before joining KLP in 1994.

**Åse F. Kristensen**
Employee representative, Assistant Manager, Trust department. Kristensen has been with Kommunalbanken since 1978.

**Martha Takvam**
Group Treasurer, Telenor Group.

**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
- **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
- **Berit Flåmo,** Chief Executive Officer, Frøya municipality
- **Trond Lesjø,** Chief Executive Officer, Gjøvik municipality
- **Ulla Nævestad,** Mayor, Lier municipality
- **Harald Rød,** Director of Department of Education and Cultural Affairs, Fjell municipality
- **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

- **Arne Johansen,** Chief Executive Officer, Harstad municipality
- **Anne Nafstad Lyftingsmo,** Deputy Secretary, Ministry of Local Government and Regional Development
- **Aud Mork,** Mayor, Aukra municipality
- **Nils R. Sandal,** County Mayor, Sogn og Fjordane county

ALTERNATE TO THE EMPLOYEE REPRESENTATIVE

- **Martin Spillum**, Senior Vice President 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


*Veslebjørn, Jotunheimen*

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Kommunalbanken
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