Kommunalbanken Norway
Annual Report 2006

www.kommunalbanken.org

Kommunalbanken serves an important public policy function of providing low cost funding to Norwegian municipalities.

Contents

2006 – The year in brief

- Kommunalbanken's lending porfolio grew by NOK 10.8 billion to NOK 87.5 billion, an increase of 14.1 per cent.
- Kommunalbanken's market share for loans to municipalities increased from 33.4 to 36.4 per cent. For loans to municipalities and counties, the agency's market share increased from 40.7 to 43.6 per cent.
- Income after tax increased by over NOK 21.9 million to NOK 114.6 million.
- Kommunalbanken's owners and the Board of Directors have agreed to retain profit of NOK 88.1 million as equity capital.
- In a paper to Parliament relating to the government's company ownership policy, Kommunalbanken was classified as 'a company with both commercial and specifically defined goals'.
- The amount raised by Kommunalbanken in the capital markets increased by NOK 4.7 billion to NOK 38.4 billion. This comprised a new USD 1 billion benchmark transaction.
- Kommunalbanken launched KBNet, a web-based funding tool for its financial intermediaries. KBNet gives users access to Kommunalbanken's funding levels as well as a range of funding related information.

Summary financial figures

(Amounts in NOK million)	**2006**	**2005**	**2004**	**2003**	**2002**
Net interest and commission income	**212.8**	175.5	178.7	169.1	152.7
Foreign exchange gains / losses	**8.5**	8.5	2.0	0.6	4.2
Other operating costs and extraordinary income	**0.7**	0.8	0.5	0.5	0.5
Staff costs and other operating costs	**62.4**	55.4	51.9	48.9	44.5
Profit before tax	**159.6**	129.4	129.3	121.2	112.9
Tax	**45.0**	36.7	36.9	34.1	31.7
Profit after tax	**114.6**	92.7	92.4	87.1	81.2
Total lending*	**87.5**	77.0	66.5	52.8	45.8
Average total assets*	**118.8**	100	80.2	66.2	58.2
Capital adequacy in %	**10.95**	11.48	11.32	11.75	12.14
Operating costs as a % of total assets	**0.049**	0.05	0.058	0.068	0.073

* NOK billion

This is Kommunalbanken

- Kommunalbanken has an important public policy function of providing low cost funding to Norwegian municipalities.
- Kommunalbanken is the largest lender to the local government sector in Norway with a market share of 43.6 per cent, municipal companies excluded.
- Kommunalbanken can only lend to municipalities, counties, municipal enterprises and inter-municipal companies.
- 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 a joint stock company with ownership restricted to the public sector – the central government owns 80 per cent and the remaining 20 per cent is owned by the local government sector, through the National Local Government Pension Fund, KLP. The state's share is managed by the Norwegian Ministry of Local Government and Regional Development.
- Kommunalbanken has been assigned the highest possible credit ratings, Aaa/AAA, by the agencies Moody's Investor Services and Standard & Poor's respectively.
- Kommunalbanken has total assets of NOK 126.623 billion.

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 low interest rates on their investments in Kommunalbanken's debt. Kommunalbanken has built a solid base of high-quality investors worldwide.

Kommunalbanken has developed a diversified funding strategy with issuance divided among large public transactions, targeted at institutional investors, and smaller tailor-made transactions. Liquidity risk is minimised by investing in highly liquid assets which covers 12 months net debt redemptions plus budgeted new lending. Kommunalbanken is not exposed to any exchange rate or interest rate risk. All borrowing is hedged through swap agreements and matched against Kommunalbanken's loan portfolio.

As a result of the favourable funding levels it receives, Kommunalbanken can give quotes on all loan enquiries from the local government sector which are then awarded through competitive tender. 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 are invested in a portfolio of highly rated, liquid assets. Earnings from these investments also contribute to lowering the cost of borrowing from Kommunalbanken.

Key figures

(Amounts in NOK 1 000)	2006	2005	2004	2003	2002
Total lending 31.12.	**87 515 834**	76 685 609	66 470 193	52 765 568	45 594 250
Lending					
The year's appropriations	**19 713 300**	15 497 955	20 683 104	15 278 880	16 402 089
Unsettled allocations	**1 576 293**	1 128 318	3 115 770	2 504 933	1 012 924
Disbursements during the year	**19 226 778**	16 788 294	20 103 966	13 652 656	16 021 644
Principal payments on loans	**8 340 226**	6 614 824	6 341 976	6 533 944	12 856 754
Borrowings					
Borrowings in foreign currencies	**102 208 692**	89 277 305	64 128 019	47 174 823	31 184 794
Domestic bond issues	**16 114 552**	15 082 520	17 613 992	19 637 440	25 230 300
Domestic note issues	**0**	0	1 499 956	0	30 000
Key figures					
Average total assets	**118 786 244**	99 971 876	80 245 373	66 248 760	58 187 432
Return on equity before tax	**15.78%**	14.09%	15.65%	15.56%	15.33%
Dividend	**26 500**	0	21 500	40 500	38 500
Capital adequacy	**10.95%**	11.48%	11.32%	11.75%	12.14%
As a percentage of average total assets					
Interest and commission income	**3.42**	2.87	2.99	4.56	5.66
- Interest and borrowing costs	**3.19**	2.68	2.74	4.27	5.35
= Net interest and commission income	**0.23**	0.20	0.25	0.29	0.31
- Guarantee commission	**0.02**	0.02	0.03	0.04	0.05
+ Net foreign exchange gains/losses	**0.01**	0.01	0.00	0.00	0.01
- Staff costs	**0.03**	0.03	0.04	0.04	0.04
- Other operating expenses	**0.03**	0.03	0.03	0.04	0.04
= Operating profit	**0.16**	0.13	0.16	0.18	0.19

Profit analysis *(Amounts in NOK million)*					
Interest and commission income	**3 421.46**	2 872.87	2 398.86	3 021.72	3 292.77
– Interest and borrowing costs	**3 189.73**	2 677.38	2 198.61	2 828.96	3 111.30
= Net interest and commission income	**231.7**	195.5	200.2	192.8	181.5
– Guarantee commission and costs relating to banking services	**18.9**	20.0	21.6	23.7	28.8
+ Net foreign exchange gains/losses	**8.5**	8.5	2.0	0.6	4.2
+ Other operating revenue	**0.7**	0.8	0.5	0.5	0.5
– Staff costs	**31.0**	28.4	28.4	25.7	21.9
– Other operating expenses	**31.1**	26.9	23.5	23.2	22.6
= Operating profit	**159.6**	129.4	129.3	121.2	112.9
Profit for the year	**159.6**	129.4	129.3	121.2	112.9

Stability through renewal

Stability through renewal has been an important theme for Kommunalbanken through the years. By developing from a state administrative body to a joint stock company, and by introducing new lending and borrowing products and a series of other new activities, we have secured a stable base for our main task: To provide the municipal sector with the most attractive financing terms possible. Our market share of over 30 per cent for loans to local governments in Norway is a good indicator that we are succeeding.

We are now renewing ourselves with a new logo and profile. To understand the background leading up to this decision, one must look abroad. Over 90 per cent of Kommunalbanken's funding is done outside of Norway. At the same time, such activity is growing steadily, and in 2006, we executed over 400 funding transactions in a total of 14 currencies. With such a high level of activity, it becomes more important to have a shorter and more easily understandable name to go by. Profiling is just as important in the international capital markets as in other markets. For this reason, we believe that KBN will become three very important letters for Kommunalbanken's customers and clients.

At home, we will continue to go by the name Kommunalbanken. It is an important, prized and strong brand name that we do not wish to disturb, even if our business cards happen to have a new logo.

With regard to Parliament's decision regarding state ownership, the government determined again in 2006 that Kommunalbanken serves an important policy function by "providing low cost financing to the Norwegian local government sector". It goes on to say that "the state's stake in Kommunalbanken is part of a smoothly functioning lending market". We are very satisfied that the government is regardful that all the conditions for Kommunalbanken's operation are in place.

We are not quite as satisfied with the authorities' new capital ratio regulations, which preserve the same risk assessment for local government loan exposure as in the past. This implies that insufficient attention is being paid to the very low level of risk in the Norwegian local government sector, and that the risk assessment for local government loans is much stricter in Norway than in any other comparable country – to the detriment of Norwegian local governments.

Municipal revenues are currently growing significantly. Budgets and planning documentation clearly indicate that Norwegian local governments plan to borrow more and more money in the future. In order to maintain competitiveness in the lending market, it is therefore especially important that we at Kommunalbanken are able to assure lending capacity through continued expansion of equity. Stability through renewal is the theme here as well.

Petter Skouen
President & CEO

The Norwegian economy

Norway's strong economic performance continued in 2006, with official data pointing to growth across a range of key components in the economy.

A combination of an improving global economy, an increase in prices for Norwegian exports, low interest rates and low unemployment has led to another positive year for the Norwegian economy. For the third year in a row, GDP for mainland Norway increased by around 4.5 per cent.

Buoyant conditions

Since 2003, Norway's terms of trade, a measure of the trading prospects of a country in terms of the prices of its imports in relation to the price of its exports, have improved by 30 per cent. Prices for oil and gas have also strengthened the economy but this has also been mirrored by growth and investment in the supporting infrastructure.

Petroleum revenues continue to be invested in the Government Pension Fund – Global, which at the end of 2006 stood at approximately USD300 billion. This represents 100 per cent of GDP and is estimated to grow to 150 per cent of GDP by 2009.

The Norwegian government's fiscal policy is geared towards a gradual and sustainable increase in the use of petroleum revenues. Over time, the structural, non-oil central government budget deficit shall correspond to the expected real return on the Government Pension Fund – Global, estimated at 4 per cent.

Since the fiscal guidelines were established, the use of petroleum revenues has exceeded the expected real return on the Fund. The government now proposes a fiscal budget for 2007 with spending of petroleum revenues close to the expected 4 per cent real return on the Fund.

The balance of payments for 2006 is the strongest ever recorded, and as much as 17 per cent of GDP is attributed to the surplus on the current account balance.

These positive economic developments have in turn led to an increase in production and employment. In fact, the unemployment rate fell to 2.8 per cent at the end of 2006 and is forecast to remain under 3 per cent for the next four years. It is also worth noting the effect of supply of foreign labour to Norway after EU enlargement in 2004. Since then, foreign labour inflow has accounted for more than 30 per cent of growth in the Norwegian labour force.

Low interest rates have also given a boost to the economy and have led to an increase in household consumption and housing investment. Given the growth in this sector, the central bank has moved to increase interest rates, to 3.75 per cent, to keep any inflationary gains under control. Inflation at the end of 2006 was 0.8 per cent.

Outlook

At year-end 2005, Statistics Norway forecast a period of 'stabilisation', but in light of developments in 2006 this has not been realised and forecasts now point to a period of growth. Inflation is under control, employment is at an all time high and industry continues to benefit from investment and a buoyant export market. Should the global economy continue to prosper, the outlook for 2007 is bright.

Source: Statistics Norway and Norges Bank

The Norwegian local government sector

An asset class of exceptional quality

Norwegian local government rests on strong pillars. The high credit quality of the sector is largely derived from several factors; the economic and legislative framework that protect local authorities' status, responsibilities and finances, the strong equalisation system between municipalities that ensures minimum revenues, a high degree of central government transfers and a comprehensive system for meticulous central government supervision and control on the local government budgetary process.

The combined strengths of the system are fundamental to the low risk associated with Norwegian local governments as an asset class. Norwegian municipalities play a crucial role in providing vital services to the Norwegian public and a stable economic framework with access to low cost financing is considered important by the central government. The central government has a strong incentive to provide for a stable economic environment for local government financing, as volatility could lead to uncertainty, increase municipal borrowing expenses and prevent local governments delivering essential services to the population.

Kommunalbanken's mandate of providing the local government sector access to low cost financing contributes to protecting the stability of this system.

The Nordic model

The public sector in the Nordic region is effectively comprised of central and local governments. In Norway, Sweden and Denmark, the local government sector is made up of two tiers: counties and municipalities.

In Norway's case, the concept of municipal self-government is an important political principal, however in contrast to other Nordic and most European countries this self-government is not enshrined in the Norwegian constitution. However, the central government can at any time regulate the framework of municipal self-government and in principle this gives the national authorities great influence on the content of municipal activities.

The Norwegian local government sector has the responsibility for the provision of welfare state services. Municipalities' responsibilities cover education (primary schools), healthcare, care for the elderly, and the provision of drinking water and sewerage, while counties perform healthcare (hospitals), secondary education, and public transportation functions. The central government administers the transfer of funds through the public pension and social security system as well as controlling natural resources, defence, and the police.

Norway is divided into 19 counties and 433 municipalities, both having equal standing in terms of the formal framework for their responsibilities.

Supervision and control

Local governments hold an important position, being responsible for more than two thirds of public expenditure. The framework for the activities of the local government sector is laid down by Parliament through legislation and decisions regarding local government financing. Parliament determines the division of functions between the different levels of government, i.e. central government, counties and municipalities. The government can only assign new functions to local government by means of legislation or decisions made by Parliament.

Although the average population of a Norwegian local government is 10,000 (and Norway's population is 4.6 million) and the difference in size of local governments is vast, there exists a comprehensive regional development policy which compensates for the economic disparities between local governments. It is an aim of the central government to offer citizens a high level of public services with equal standards, wherever they live in the country. Therefore, there is a high degree of redistribution of income between municipalities and between counties. This is achieved through the General Purpose Grant Scheme. Redistribution of resources through the General Purpose Grant Scheme ensures both a fair distribution of income, and regional growth and development. This is essential to maintain an efficient and autonomous local government sector.

The local government sector relies on several sources of income, mainly taxes and transfers which account for 42 per cent and 42 per cent of revenues respectively. Municipalities collect most of their taxes from individual and corporate income and property tax. Counties on the other hand receive only income tax. The right of municipalities and counties to levy taxes is limited by maximum rates set annually by Parliament.

The legislative framework underlying the local government sector is laid out in the Local Government Act of 1992 which focuses on the key areas of monitoring and controlling local government budgets, regulating borrowing and the granting of guarantees, and provisions should a local government encounter financial difficulties.

Municipal budgets are regulated by the central government and each county or municipality's annual budget must be presented to the Ministry for Local Government and Regional Development.

Local government borrowing and granting of guarantees are regulated under the Local Government Act of September 1992 and municipalities are only permitted to raise debt for primary municipal investments, to convert existing debt and for temporary liquidity purposes.

Importantly, under the local government act, a local government cannot file for bankruptcy and cannot have bankruptcy proceedings filed against it.

If a local government does incur a budget deficit, the central government steps in to assure that the local government in question acts to provide a solution to correct its financial position. First, the local government is put on a publicly available 'watch-list'. The central government must then approve each of the local government's borrowings as well as a 'financial plan' for rectifying the problem within three years. At all times the central government has the power to edit the budget and/or the 'financial plan' to ensure a timely recovery for the relevant municipality.

Source: Statistics Norway and The Ministry of Local Government and Regional Development

KBN projects

The construction of the new E-18 motorway between Langåker and Bommestad is partly financed by a loan from Kommunalbanken.

A nursing home in Hemnesberget under construction.

Karasjok's new swimming baths under construction.

Toll charges lead to new roads into Bommestad

Toll charge financing secured by Vestfold county is contributing to the construction of the new E18 four-lane motorway. The construction of a new eight kilometre stretch between Langåker in Sandefjord municipality and Bommestad in Larvik municipality began in December 2006. The stretch of motorway will cost around NOK 1.5 billion. It will be ready for use by the end of 2009.

The project will improve traffic flow, road safety and the environment on the stretch of road. On average, in excess of 20,000 vehicles travel between Langåker and Bommestad on the E18 every day, which currently has a speed limit of 70 kilometres per hour.

The company in charge of levying toll charges, E18 Vestfold AS, has responsibility for the financing of the project and collection of the toll charges. The toll collection period will last for up to fifteen years.

The entire investment has been financed by loans, of which NOK 600 million was borrowed from Kommunalbanken. The loans will be repaid in pace with the payment of the toll charges.

Building flexible care homes

Flexibility has been a key word during the planning of new sheltered housing and care homes in the Hemnes municipality. The new sheltered housing is built in such a way that it can easily be converted into care homes if the need should arise.

The municipality is now in the process of investing NOK 175 million in improving care services for the elderly through the extensive expansion and conversion of two care homes. The care homes in Korgen and Hemnesberget will together provide 90 places in sheltered housing/care homes and four places for psychiatric patients. Together this will constitute an increase of 18 places. All building work will be completed in August 2007 after a construction period of 18 months.

Through the conversion and new construction, the municipality will have modernised old, unsuitable premises, created single rooms for residents and increased the number of places while achieving greater flexibility.

The whole investment has primarily been financed with loans, of which NOK 103 million was provided by Kommunalbanken.

New swimming facilities in Karasjok

After nearly five years without any swimming facilities the inhabitants of Karasjok are set to enjoy a completely new 25-metre pool. The new swimming facilities are being constructed adjacent to the town's junior school, as the first step in renovating and upgrading the Karasjok school building.

The old Karasjok swimming baths, with its 12.5 metre pool, was in such a state of disrepair that it had to be closed. It will later be converted into an assembly room for the school, which will now also be fitted with a new air conditioning system and other upgrades.

The cost of the swimming facilities and the renovations to the school is NOK 54 million, of which almost NOK 25 million was used in 2006. This portion was financed with loans from Kommunalbanken.

Karasjok municipality has two other school buildings which will also be modernised and upgraded in the years ahead. The total cost of these necessary renovations, including the swimming facilities, are estimated to be NOK 128 million.

The Cabin is an important cultural monument in Tolga.

The new nursery in Trøgstad is built in the shape of a star.

The installation of new wind turbines on Hundhammerfjellet.

Tolga's cabin returns after 130 years

Much of Tolga municipality's history is connected with the 'Tolga Cabin'. Tolga in Hedemark grew as a town after the Røros copper works constructed a smelter there in the 1660s, with the Cabin becoming an important communal centre. It contained, amongst other things, the administration offices of the copper works and a courtroom.

After over 130 years of alternative use in a neighbouring parish, the building was reopened in newly restored form in central Tolga. Work on moving and reconstructing the old timber building was carried out by the 'Tolga Cabin Trust'. The trust, which was formed through an initiative by Tolga municipality, has also taken financial responsibility for the building.

The 'Tolga Cabin' will not be an empty cultural monument, and the whole building has already been let to several small businesses and a tourist information centre. Costs for moving and restoring the building are around NOK 4.2 million. Of this, NOK 1.8 million has been financed through a loan from Kommunalbanken.

New modern nursery at Skjønhaug in Trøgstad

Trøgstad's youngsters will be able to romp around in a new, modern nursery from this autumn as Trøgstad municipality moves on with increasing nursery school provisions in the area.

The new nursery school will replace existing nursery schools that are currently run in old, unsuitable premises. The new building will be star-shaped with four departments built around a communal core area. The departments will be constructed so that if necessary they can be run in an expanded form with 24 places in each. Using this design, the various departments can be run as separate units whilst also achieving economies of scale.

The total price for the new nursery is NOK 10.6 million. The construction is financed mainly through a loan of NOK 9.5 million from Kommunalbanken.

New wind power in Nord-Trøndelag

The municipal company Nord-Trøndelag E-verk, NTE, is a market leader in the development of wind power technology in Norway. The company also has a concession to build one of Norway's biggest wind farms.

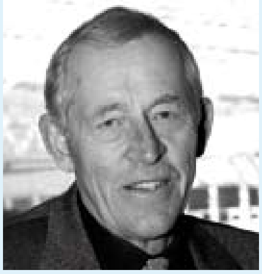
In order to contribute to the development of wind farm technology adapted to Norwegian coastal conditions, NTE took majority ownership of the wind turbine company ScandWind Group in 2003. Together the two companies have actively developed the technology and produced a larger wind turbine model which is now ready for use at NTE's wind farm at Hundhammerfjellet.

The finished wind farm will consist of 17 wind turbines, of which 15 will be supplied by ScandWind, with a total output of 54 megawatts. The last part of the construction, which includes 11 newly developed wind turbines, will be ready for use in 2008. The cost of building these 11 wind turbines is approximately NOK 450 million. Of this, NOK 350 million will be financed with a loan from Kommunalbanken.

Ormen Lange Gas Field
The development of the giant gas field Ormen Lange off the coast of Møre and Romsdal in Norway is the largest industrial project ever carried out in Norway. Gas from Ormen Lange will be able to meet up to 20 percent of Britain's gas demand – for up to 40 years, and Norway will be joining the ranks of the world's largest exporters of natural gas.

The Board of Directors can once again report the best result in Kommunalbanken's history.


Else Bugge Fougner
Chairman of the Board


Per N. Hagen
Vice-Chairman of the Board


Jostein Aksdal
Member


Nanna Egidius
Member


Bjørn Kristoffersen
Member


Martha Takvam
Member


Petter Skouen
President & CEO

The Board of Directors can once again report the best result in Kommunalbanken's history. Loan demand has been high throughout the year. Demand in the first half of the year was somewhat stronger than during the same period of the previous year, while activity in the third quarter was correspondingly weaker. Loan demand then surged considerably in the fourth quarter, and December especially, saw an unusually high number of loan applications. In terms of both volume and number of loan requests, lending activity in 2006 was somewhat higher than in 2005. At the end of the year, the total lending portfolio amounted to NOK 87.5 billion. This implies lending growth of NOK 10.8 billion on 2005, or 14.1 per cent.

In total, loans granted by Kommunalbanken amounted to NOK 19.2 billion, as opposed to NOK 16.8 billion the year before.

The municipalities and counties increased their gross debt by NOK 11.9 billion, or 6.9 per cent. This is an increase of NOK 1.4 billion on the previous year. Kommunalbanken's lending volume directly to municipalities and counties grew by NOK 10.4 billion, or 14.7 per cent. The institution's market share of lending to counties and municipalities grew from 40.7 per cent at the end of 2005 to 43.6 per cent at the end of 2006. In terms of the entire local government sector, including municipal companies, Kommunalbanken's market share is currently 36.4 per cent, as opposed to 33.4 per cent at the end of 2005.

Growth in lending means that the institution can offer favourable loans at competitive rates. Kommunalbanken is the leading provider of credit in this sector. Since the institution was reorganised as a joint stock company approximately seven years ago, the lending portfolio has grown by NOK 59.6 billion.

It is Kommunalbanken's goal to maintain its status as a predictable, quality provider of loans to the local government sector, and at a lending margin that ensures adequate profit for the owners. Majority ownership by the central government is an important factor in Kommunalbanken attaining the highest credit rating, and thus also the institution's ability to offer attractive loan terms. This contributes to several hundred million Norwegian kroner in annual savings for the local government sector in Norway. In this way, the institution serves a policy function as described in "St. meld. nr. 13" (2006-2007), the paper relating to the government's company ownership policy presented to Parliament on 12 August 2006. In this report Kommunalbanken is categorised alongside other state-owned companies with both commercial goals and other specifically defined goals. The report refers to Kommunalbanken as such:

"The purpose of the state ownership of Kommunalbanken is to provide low cost loans to the Norwegian local government sector, as well as a return on invested capital to the central government. State ownership of Kommunalbanken contributes to a well functioning municipal lending market. The central government has no plans to change its ownership of Kommunalbanken."

In order to serve its important public policy function within the sector, it is vital that Kommunalbanken has sufficient equity capital. Activities must therefore be adapted to the institution's equity at any given time. The Board of Directors is constantly engaged with these issues.

As of 31 December 2006, Kommunalbanken had total core capital of NOK 1 262.5 million. The core capital ratio was 6.01 per cent.

Kommunalbanken's registered office is in Oslo.

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 dated 31 December 2006, provide an adequate description of the institution's financial position at year-end.

Net income interest stands at NOK 231.7 million and profit after tax at NOK 114.6 million.

Kommunalbanken recorded NOK 9.5 million in foreign exchange gains and changes in net market value of fixed-interest securities and a foreign exchange loss of NOK 1.0 million on currency and financial derivatives. Other revenues of NOK 0.7 million relate to consultancy fees.

Operating profit is equivalent to a return on adjusted shareholders' equity of 11.3 per cent. The figure for 2005 was 10.1 per cent.

Operating costs were also reduced in 2006, and now amount to 0.049 per cent of total assets. Compared to the corresponding figure for both Norwegian and international banks specialising in the local government sector, this is a very satisfying level.

Total equity and subordinated loan capital at the end of the year was NOK 2,299.2 million, of which total core capital made up NOK 1,262.5 million. The capital ratio at the end of the year decreased from 11.48 per cent in 2005 to 10.95 per cent in 2006. The core capital ratio was correspondingly reduced from 6.06 per cent to 6.01 per cent.

Lending

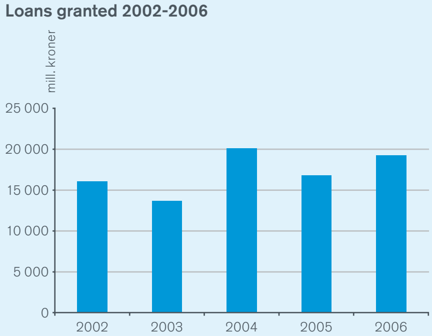
The total lending portfolio of NOK 87.5 billion is divided between NOK 81.3 billion for loans directly to local governments and NOK 6.2 billion for loans with municipal guarantees. 77 per cent of loans in the loan portfolio are floating rate with fixed rate loans making up the remaining 23 per cent.

Kommunalbanken's loans are evenly distributed among the Norwegian local government sector and all county municipalities have at least one loan with the institution. Kommunalbanken's favourable interest rates mean that both small and large municipalities benefit when turning to the institution as a lender. The pricing of loans at Kommunalbanken is made independently of loan size, which means that both large and small municipalities can benefit from the institution's favourable interest rates. Kommunalbanken considers it an important objective to offer equal terms to all Norwegian municipalities.

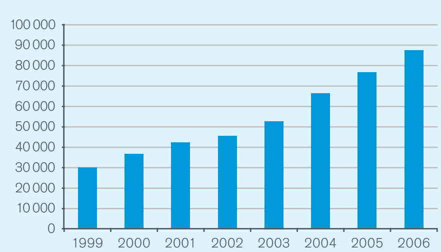
Most municipalities take out a single loan annually to cover investments in various municipal projects. Both municipalities and counties increased their investment in schools during 2006. Other prioritised projects included nursing homes, child care, water supply and treatment, renovations, as well as roads and other infrastructure.

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. As a result the institution does not make provisions for future losses.

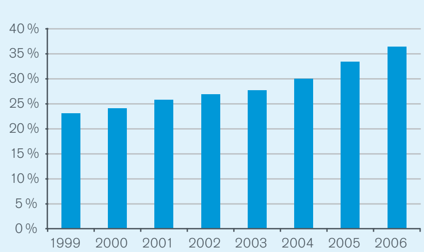
Loans granted 2002-2006



Development in loan portfolio 1999-2006



Kommunalbanken's share of total market 1999-2006

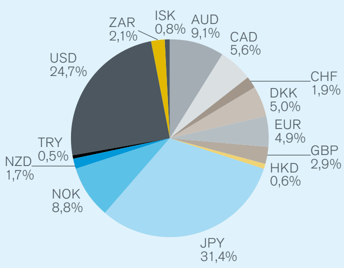


Kommunalbanken's consultancy work is closely linked to new loan proposals or to the review of municipal debt portfolios. Particular importance is put on evaluating the interest rate climate, the choice of interest rate product and assistance in constructing debt portfolios. Kommunalbanken also recognises the importance of developing services which assist customers in their assessment of borrowing opportunities. In addition, Kommunalbanken has created its own textbook designed to guide municipalities through the entire financing process.

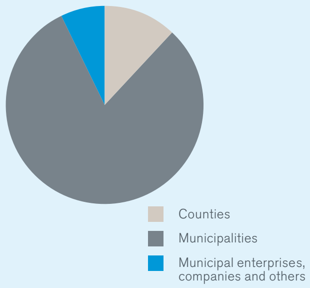
Kommunalbanken has introduced a new IT system for its lending operations which allows for more flexibility and user-friendliness. Customers have direct access to their own loan portfolios via Kommunalbanken's website, where they can access information relating to their loans. Many municipalities make use of this service.

The institution provides the municipalities with advice on entering into banking agreements and other banking services not offered by Kommunalbanken. 2006 saw demand for such services from both large and small municipalities. The regional healthcare co-operatives also used this service in 2006.

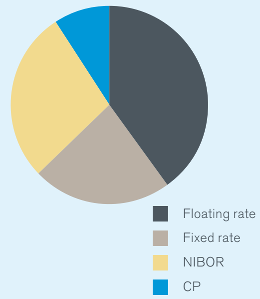
Funding currency split 2006



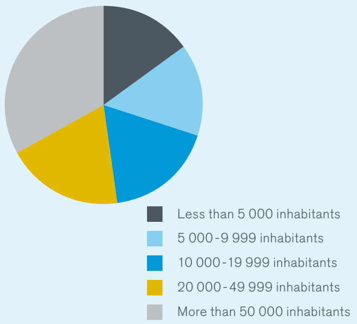
Loan volume by borrower as at 31.12.06



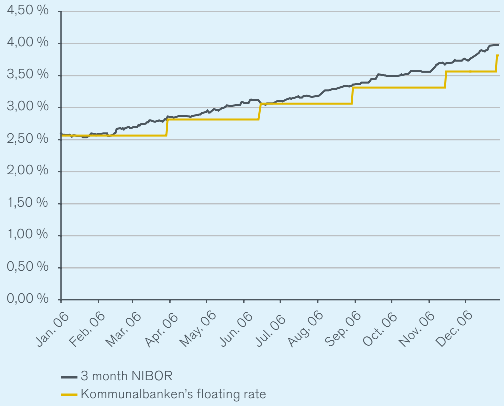
Loan volume by interest rate product as at 31.12.06



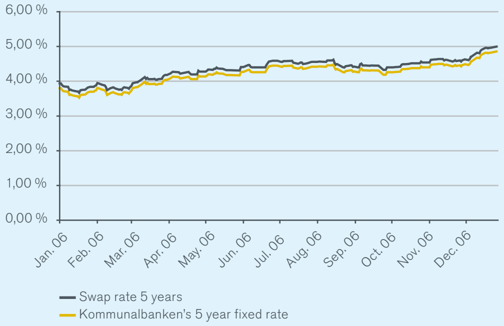
Loan volume by size of municipality as at 31.12.06



Development in Kommunalbanken's floating rate and 3 month NIBOR



Development in Kommunalbanken's 5 year fixed interest rate and 5 year swap rate



Marketing and information activities

In the autumn of 2006, Kommunalbanken conducted market research aimed at all of the institution's customer groups. Compared to the results of similar surveys in 2002 and 1999, the responses in 2006 were very positive.

From 2007, Kommunalbanken has a new logo and visual profile.

Funding

Kommunalbanken issued a total of NOK 38.4 billion in 2006 via 14 different currencies, which is NOK 4.7 billion more than in 2005.

During 2006, Kommunalbanken strengthened its position as an attractive and recurrent borrower in the international capital markets. In line with its investor relations strategy, investor presentations were arranged in a variety of European and Asian countries, as well as in Australia, the US and Canada.

Kommunalbanken has maintained a funding strategy established on four building blocks: USD Benchmark issuance; issuance in the public niche markets of Australia, Switzerland, Great Britain and Canada; structured private placements; and retail issues.

The largest funding market for Kommunalbanken in 2006, as in previous years, was Japan. In total, the institution raised over JPY225 billion (approx. NOK 12 billion), equivalent to 34 per cent of all new issues. Issues in other currencies other than yen were also sold to Japanese investors.

Kommunalbanken established itself as one of the market's most active issuers of Uridashi loans in 2006. Uridashi loans are sold direct to retail investors in Japan, where Kommunalbanken is classified as a sovereign borrower by the Japanese government. Kommunalbanken's issuance in this market more than quadrupled in 2006. In all, the institution issued 26 Uridashis, totalling NOK 8.4 billion. This was equal to more than 20 per cent of all funding.

In 2006, the institution continued its USD 'Benchmark' programme. A new USD1 billion, 5-year issue was successfully placed in Europe and Asia, and acts as another valuable reference bond for Kommunalbanken across a wide range of markets. Kommunalbanken was able to price the deal at an improved level to the previous year's debut transaction, underlying its solid development in this market. The institution's strategy for benchmark transactions will continue in 2007.

Less than 5 per cent of Kommunalbanken's total funding comes from Norway.

In 2007, Kommunalbanken continues to follow its diversified funding strategy across a broad range of products. The institution's outstanding debt portfolio rose from NOK 104.4 billion to NOK 118.3 billion in 2006.

Kommunalbanken uses its EUR20 billion Programme for the Issuance of Debt Instruments for nearly all its international borrowing.

Liquidity management

Kommunalbanken has a policy of maintaining net cash balances equivalent to a minimum of 12 months' net debt redemptions. This means that in a given situation, the institution can cover all its debt obligations for the next 12 months without additional borrowing. Surplus liquidity is managed using a conservative investment policy, both in terms of credit and market risk and can be invested in liquid securities issued by governments and financial institutions with a high credit rating. The majority of the portfolio has a maturity of less than two years. Kommunalbanken is not exposed to any interest or currency risk, and the maturity profile is adapted to underlying borrowing redemptions.

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.

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 and the Audit Committee. In addition, the institution is subject to internal and external audit.

Kommunalbanken is made up of two commercial areas with associated staff and support functions. The institution's management team consists of the President & CEO along with the managers of these sections.

The institution's internal audits are intended to ensure that risk analysis and monitoring is carried out, and that operations are conducted in accordance with approved policies and guidelines. Internal audits are also an integral part of the institution's management and planning process. Risk analysis in the audit process is followed up at departmental level and is reported to the President & CEO and the Board of Directors.

Risk management

Risk management and risk exposure are subject to a strict oversight to ensure that the institution incurs no losses. Credit risk assessment is subject to strict quality controls. Kommunalbanken is exposed to a very limited amount of interest and currency risk. The liquidity risk is low and all risk limits and trading in new financial instruments must be approved by the Board.

Credit risk represents Kommunalbanken's exposure to municipal lending, liquidity management and counterparties for hedging instruments.

Credit risk in the lending portfolio is minimal as a result of the stringent regulation and legal framework with which the local government sector must comply. The credit risk for local government loans only relates to potential late payment of interest and instalments.

Credit risk arising from Kommunalbanken's funding portfolio and liquidity management operations is low due to strict policies on entering into financial contracts. Long-term investments and counterparties must have a rating of at least A/A2. Short-term investments require a short-term rating of A-1/P-1 or above. The institution conducts financial transactions with financial institutions, governments or special purpose vehicles with a high rating.

Credit risk is managed by ensuring that all use of derivatives must be documented under ISDA agreements. Collateral agreements are used as additional credit enhancement for those institutions that do not fulfil the institution's rating and documentation requirements.

Clear procedures and processes have been established for managing potential credit risk. All new lines of credit are established by the institution's finance committee and are reviewed regularly. Credit risk is managed on the basis of credit risk models. The size of the credit line is determined chiefly by available risk capital and the counterparty's credit rating.

Market risk consists mainly of interest and foreign exchange risk. Kommunalbanken's financial policies only permit minimal exposure to interest rates and exchange rate risks. Interest rates and exchange rate risk is managed by ensuring that Kommunalbanken's positions are hedged at all times.

Liquidity risk is minimised by investing in highly liquid assets that cover 12 months net debt redemptions. In addition, the total liquidity portfolio is invested in liquid assets of high credit quality.

Operational risk exists potentially throughout Kommunalbanken's business. The institution seeks to minimise operational risk by focusing on good internal control, sound ethics and a high level of expertise among its employees.

Organisation and working environment

As of 31 December 2006 the institution had 37 employees, as opposed to 34 at the end of 2005. The additional employees were added to the accounting, middle office and finance divisions.

The human resources plan that is currently in place was established to provide an environment for continual training and development. The purpose of the plan is to ensure that the institution has sufficient personnel with the competence required for the tasks and ambitions established in Kommunalbanken's planning and strategy policies. The plan is reviewed annually.

Sick leave increased from 1.95 per cent in 2005 to 3.21 per cent in 2006. The increase in sick leave occurred in the fourth quarter, when two employees on long-term sick leave impacted the statistics. No workplace injuries were reported last year.

As part of an internal audit, a questionnaire was distributed to all employees with regard to Kommunalbanken's ethics and management culture. The questionnaire shows that the institution and its employees have a clear focus and a high level of consciousness with regard to these issues. Kommunalbanken is able to point to results that are better than average for Norwegian financial institutions. The questionnaire also demonstrated that Kommunalbanken employees like their working environment.

Kommunalbanken's office is housed in a large office complex in which heating and ventilation are controlled centrally. There is no pollution of the external environment.

Equality in business

It is Kommunalbanken's goal to have equality between women and men. The institution does not discriminate on the basis of gender in areas such as salary, career development and recruitment. Of the institution's employees, 19 are women and 18 are men.

There is a 43 per cent female representation on the Board of Directors and the Chairman of the Board is a woman.

Women comprise 38 per cent of the senior management group, while at middle management level the figure is 57 per cent. Women are well represented in senior positions. Female senior managers received an average salary increase of 8.6 per cent, compared with 6.9 per cent for male senior management.

Through its salary and personnel policy, Kommunalbanken strives to recruit and train highly qualified employees, based on its needs at a given time. The institution is strongly committed to the equal pay principal which means equal pay for work of equal value.

Application of net profits

The Board of Directors proposes that the net profits of NOK 114.6 million be applied as follows: NOK 26.5 million to be applied to payment of dividends, in line with the central government's dividend proposal in the national budget 2007, and NOK 88.1 million to be transferred to other equity capital.

After this application of net profits, Kommunalbanken has distributable reserves of NOK 416.822 million.

The future

The Board of Directors believes that due to the new capital adequacy regulations of 14 December 2006, Kommunalbanken may be required to increase its share capital in 2007 in order to maintain its lending growth strategy. Without additional share capital the level of the institution's current core capital would make it necessary to curtail its lending growth. This would weaken competition and entail negative consequences for new loan opportunities at the local government level. A sufficient core capital ratio is important to secure future lending growth.

Following a lower growth rate in loans taken out by municipalities over the past few years, the figure rose in 2006 on a year-on-year basis from 6.5 per cent to 7.1 per cent. Strong revenue growth in the local government sector in 2006 is linked to increased borrowing activity. Revenue growth will also be high in 2007, and budget forecasts show that the municipalities have larger investment plans. The largest municipalities, which include over half the country's population, indicate in their budgets that in 2007, the sector will for the first time invest over NOK 30 billion. The budgets also show that lending will increase by a third between now and 2010. This is in line with the results of Kommunalbanken's market research in 2006, which showed that 63 per cent of respondents believe that their need for loans will grow over the next three to five years. The Board of Directors therefore anticipates that loan demand will continue to be high in the years to come.

The Board of Directors would like to state that the new IFRS accounting rules will take effect in 2008 or 2009. Kommunalbanken is currently preparing for the transition, and focus remains on planning for reporting results in a stable and predictable way under the new rules. In the future, results will remain in line with Kommunalbanken's risk profile, meaning that the main elements in risk evaluation will be the high quality of the municipal loan portfolios, as well as strict financial guidelines that limit exposure to market risks.

Competition in the market for local government lending will continue. Margins are low, and the municipalities benefited especially in 2006 from strong competition between the larger institutions that are dominating the market. Foreign lenders and foreign buyers of municipal debt are not present as a result of the low margins on municipal debt in Norway, and also due to the fact that the debt is denominated in Norwegian kroner which is of limited demand to international investors.

The Board of Directors expects Kommunalbanken to continue its operations with an emphasis on predictability and stable, positive results. Kommunalbanken's goal is to be able to offer the local government sector the best loan terms and the best service, through competitiveness, and at the same time secure an adequate profit for our owners.

Oslo, 31 December 2006
15 March 2007

The Board of Directors of Kommunalbanken AS

Else Bugge Fougner
Chairman of the Board

Per N. Hagen
Vice-Chairman

Jostein Aksdal
Member

Nanna Egidius
Member

Bjørn Kristoffersen
Member

Martha Takvam
Member

Petter Skouen
Chairman & CEO

Profit and loss account

(Amount in NOK 1 000)	Notes	13.12.2006	31.12.2005
Interest and related income on loans and deposits with credit institutions		**30 680**	25 375
Interest and related income on loans to and receivables due from customers		**2 662 496**	2 072 983
Interest and related income on notes, bonds and other fixed income securities		**728 189**	774 451
Other interest and related income		**98**	59
Total interest and related income		**3 421 463**	2 872 868
Interest and related expenses on debt to credit institutions		**77 874**	51 552
Interest and related expenses on issued securities		**3 060 132**	2 587 516
Interest and related expenses on subordinated debt		**51 725**	38 307
Total interest and related expenses		**3 189 731**	2 677 375
Net interest income		**231 732**	195 493
Government guarantee fees /stand-by fees	19	**6 088**	7 428
Other fees and commission costs		**12 853**	12 535
Total commission costs and costs of banking services		**18 941**	19 963
Net gains / losses on notes, bonds and other fixed income securities		**9 490**	3 420
Net gains / losses on foreign currency and financial derivatives		**- 971**	5 072
Total gains / losses on foreign currency and securities that are current assets		**8 519**	8 492
Other operating income		**667**	756
Salaries	1	**23 413**	21 233
Pensions	2	**3 733**	3 227
Social security costs		**4 195**	3 988
Administrative costs		**13 998**	13 285
Total salaries and general administrative expenses		**45 339**	41 733
Depreciation etc. on fixed assets	8	**4 522**	2 399
Real estate operating expenses	3	**5 694**	5 582
Other operating expenses		**6 832**	5 643
Total other operating expenses		**12 526**	11 225
Net income before taxes		**159 590**	129 421
Tax on ordinary income	9	**44 942**	36 693
Profit for the accounting period after tax		**114 648**	92 728
Dividends		**26 500**	
Transferred to retained earnings	21	**88 148**	92 728
Total transfers and allocations		**114 648**	92 728

Balance sheet

Assets *(Amounts in NOK 1 000)*	**Notes**	**31.12.2006**	**31.12.2005**
Cash and deposits with Central Bank of Norway		**2**	2
Net loans and deposits with credit institutions without agreed maturity or period of notice		**98 982**	35 850
Net loans and deposits with credit institutions with agreed maturity or period of notice		**770 911**	50 000
Total net loans and claims on credit institutions	4	**869 893**	85 850
Instalment loans	5	**87 515 834**	76 685 609
Other loans	1	**26 979**	276 050
Total net loans and claims on customers		**87 542 813**	76 961 659
Government issuers, notes and bonds		**10 194**	47 406
Other issuers, notes and bonds		**37 503 781**	32 887 866
Total notes, bonds and other fixed income securities	6	**37 513 975**	32 935 272
Shares, parts and primary capital certificates	7	**750**	454
Intangible assets, deferred tax benefit	9	**911**	622
Fixed assets	8	**15 122**	14 960
Financial derivatives	2	**0**	484 388
Other assets		**2 126**	533
Total other assets		**2 126**	484 921
Accrued income		**675 792**	461 374
Prepaid, non-accrued expenses		**2 006**	3 983
Total prepaid, non-accrued expenses and accrued income		**677 798**	465 357
Total assets	13, 17	**126 623 390**	110 949 097

Liabilities and Equity *(Amounts in NOK 1 000)*	**Notes**	**31.12.2006**	**31.12.2005**
Loans from and deposits from credit institutions with fixed term		**2 154 415**	1 836 489
Total liabilities to credit institutions	10	**2 154 415**	1 836 489
Bond issues		**118 323 244**	104 359 825
Total liabilities established through issuance of securities	10	**118 323 244**	104 359 825
Financial derivatives		**2 242 359**	0
Margin requirements and other customer accounts		**39 403**	5 118
Other debt	11	**77 156**	1 160 806
Total other liabilities		**2 358 918**	1 165 924
Accrued expenses and prepaid unearned income		**1 484 711**	1 356 082
Pension cost	2	**1 987**	852
Subordinated debt	12, 20	**1 036 673**	1 059 140
Hybrid Tier 1 Capital Instruments		**164 209**	159 700
Total liabilities		**125 524 157**	109 938 012
Share capial		**681 500**	681 500
Other equity capital		**417 733**	329 585
Total equity capital	20, 21	**1 099 233**	1 011 085
Total liabilities and equity	13, 17	**126 623 390**	110 949 097

Oslo, 31 December 2006
15 March 2007

The Board of Directors of Kommunalbanken AS

Else Bugge Fougner
Chairman of the Board

Per N. Hagen
Vice-Chairman

Jostein Aksdal
Member

Nanna Egidius
Member

Bjørn Kristoffersen
Member

Martha Takvam
Member

Petter Skouen
Chairman & CEO

Cash flow statement

(Amounts in NOK 1 000)	**2006**	**2005**
Interest rate receipts	3 421 463	2 935 542
Interest rate payments	3 265 984	2 790 877
Other receipts	9 186	9 248
Operating payments	76 805	60 385
Net cashflow from operations	**87 860**	**93 528**
Increase in loans	10 581 154	10 461 491
Increase / decrease (-) in other claims	-270 354	- 638 237
Increase in short-term securities	4 578 704	12 107 050
Increase / decrease (-) in investments in credit institutions	784 043	23 206
Net cashflow from current financial operations	**15 673 547**	**21 953 510**
Increase in other fixed assets	458	947
Net cashflow from investments	**458**	**947**
Increase / decrease in loans, issues of securities	14 281 345	20 692 074
Increase / decrease in other debt	1 304 800	1 168 855
Net cashflow from long-term financial activities	**15 586 145**	**21 860 929**
Net change in liquid assets	**0**	**0**
Liquid assets, 01.01	2	2
Liquid assets, 31.12	2	2

Accounting principles

The accounts have been drawn up in accordance with the Norwegian Accounting Act, the accounting regulation issued by the Norwegian Banking, Insurance and Securities Commission and Norwegian Generally Accepted Accounting Principles. All the figures in the notes are given in NOK 1 000 corresponding to the figures in the profit and loss account and the balance sheet.

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

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

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

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

For accounting purposes, a distinction is made between the purchase and sale of financial instruments as part of the institution's trading portfolio and transactions undertaken as part of the management of ordinary activities. Each transaction is classified on the commencement date of the contract either as part of the trading portfolio or as part of banking activities, depending on the purpose of the transaction.

The trading portfolio comprises negotiable securities and interest rate derivatives, and is valued at market value. Both derivatives and borrowing are valued at market value. Kommunalbanken uses securities and derivatives to hedge its interest position.
A financial instrument is classified as a hedging contract if the following conditions are satisfied:

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

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

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

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

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

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

Losses and gains on buy-back of own bonds are recorded in the profit and loss account at the time of the transaction.

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

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

Pensions 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%
IT 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)

Wage costs	2006	2005
Salaries	23 413	21 233
Employer's national insurance contribution	3 481	3 356
Pension costs	3 733	3 227
Other payments	714	632
Total	**31 341**	**28 448**

Remuneration to senior management	Salary	Remuneration/Bonus
Salary, remuneration and bonus to the President & CEO		
Petter Skouen	1 320	342
Salary, remuneration and bonus to Head of Lending		
Helge Salseng	753	185
Salary, remuneration and bonus to the Chief Financial Officer		
Thomas Møller	1 100	222
Salary, remuneration and bonus to the Head of Middle Office		
Ove Bjerkan	875	155
EVP Marketing & Corporate Communications		
Kjell Pettersen	823	116
Head of Funding & Investor Relations		
Kristine Falkgård	753	86
Head of Treasury		
Siv Felling Galligani	716	86
Deputy Director Lending & Loan Manager		
Marit Ødegård	600	68

Pension premiums	2006
Pension premium for President & CEO*	924
Pension premium for Head of Lending	329
Pension premium for Chief Financial Officer	335
Pension premium for Head of Middle Office	188
EVP Marketing & Corporate Communications	345
Head of Funding & Investor Relations	184
Head of Treasury	177
Deputy Director Lending & Loan Manager	84

* Additional payments in relation to previous pension obligations.

	2006	2005
Average number of employees	36.1	33.1

The President & CEO is member of the Board of Directors according to the Finance Act, but does not receive a director's fee. He has an agreement concerning payment of a cash benefit of one year's salary following termination of employment. Other senior management have a period of notice of 3 months and no salary following termination.

Bonus is fixed at a maximum of 3 months salary. Employees can receive 0 per cent, 50 per cent or 100 per cent of estimated bonus. Bonus payments not realised are retained. Employees are considered eligible for bonus if the annual profit after tax is higher than the agreed bonus threshold.

The mandatory retirement age of Kommunalbanken's President & CEO is 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, based on 30 years' contribution.

Kommunalbanken also has a pension scheme for those receiving salaries of more than 12 G (G = the Norwegian National Insurance Scheme's basic amount).

Fees to the members of the Board of Directors, the audit committee and the supervisory board

Board of Directors' fees:	511.5	514
The Board consists of 7 members:		
Chairman Else Bugge Fougner	165	
Vice-Chairman Per N. Hagen	82.5	
Member Bjørn Kristoffersen	66	
Member Martha Takvam	66	
Member Nanna Egidius	66	
Previous member (employee rep.) Åse Kristensen (01.01.-30.06.)	33	
Member (employee rep.) Jostein Aksdal (30.06.-31.12.)	33	
Member, President & CEO Petter Skouen	0	

Fees to the audit committee:	99	99
The audit committee has 3 members and 1 alternate member:		
Audit committee Chairman Svein Blix	44	
Audit committee member Britt Lund	27.5	
Audit committee member Kristine Stray Ryssdal	27.5	
Dep. member audit committee Kristina Nilssen	0	

Fee to deputy member Kristina Nilssen is NOK 3 000 per attended meeting.

Fees to the supervisory board:	47	46

The supervisory board has 12 members and 5 alternate members.
The Chairman of the supervisory board is Oddvar Flæte.

Fee to the Chairman of the supervisory committee is:	16.5

Fees to the supervisory board's other members are NOK 2 200 per each attended meeting.

Loans to employees

(Amounts in NOK 1 000)	Balance as at 31.12.06	Balance as at 31.12.05
Short-term loans to employees	496	443
of which loan to the President & CEO	0	
of which loan to the Head of Lending	10	
of which loan to the Chief Financial Officer	0	
of which loan to the Head of Middle Office	0	
of which loan to EVP Marketing & Corporate Communications	11	
of which loan to Head of Funding & Investor Relations	0	
of which loan to Head of Treasury	0	
of which loan to Deputy Director Lending & Loan Manager	0	
Home mortgages	22 841	21 651
of which loan to the President & CEO	1 521	1 598
of which loan to the Head of Lending	0	
of which loan to the Chief Financial Officer	1 800	
of which loan to Head of Middle Office	1 797	
of which loan to EVP Marketing & Corporate Communications	1 633	
of which loan to Head of Funding & Investor Relations	1 119	
of which loan to Head of Treasury	933	
of which loan to Deputy Director Lending & Loan Manager	862	
Total loans to employees	**23 337**	**22 094**
Interest rate subsidies in the period	83	116

The home mortgage loan to the President & CEO consists of two loans: One loan with a balance of NOK 1 079 as at 31 January, fixed rate 5 per cent. The second loan with a balance of NOK 442, interest rate 4 per cent. The loans are paid off during a 20 year period.

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.

	2006	2005
Fee for the audit of the annual accounts	375	375
Fee for other financial auditing	335	255
Fee for other authorisation services	111	420
Total, exclusive of VAT	**821**	**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 37 employees at the end of 2006. 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
Pension costs / **Salary over 12 G**

2005	2006		2006	2005
2 489	2 609	Pension rights accrued for the year	479	428
605	720	Interest expense on accrued pension rights	115	100
3 094	3 329	Gross pension costs	594	528
-451	-550	Expected return	-128	-90
77	106	Administration cost	13	11
57	118	Recorded change in estimates/deviation	0	0
2 777	**3 003**	**Net pension costs**	**479**	**450**

Pension obligations

2005	2006		2006	2005
12 713	15 121	Gross accrued liability	2 417	1 767
8 954	10 822	Pension funds	2 610	1 658
3 759	4 300	Net accrued liability	-193	108
-2 989	-2 837	Unrecorded change in estimates/deviation	61	-26
770	**1 463**	**Net liability transferred to balance sheet**	**-132**	**83**

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

Financial assumptions (2006):

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. Owing to the SPK Scheme being a Multi Employer plan which is not based on fund reserves, gross contractual obligations for this contribution is not 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 Eiendomgsselskap 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 2006 was NOK 4 115 compared to NOK 4 110 in 2005. 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)*	**2006**	**2005**
Loans to and deposits with credit institutions, without agreed maturity	98 982	35 850
Loans to and deposits with credit institutions, with agreed maturity	770 911	50 000
Total loans and deposits with credit institutions	**869 893**	**85 850**

NOK 2 367 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 31.12.06

Time to maturity	**Up to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Total**
Floating rate loans	948 535	2 727 704	12 950 302	43 107 048	59 733 589
Fixed rate loans	5 498 738	3 659 087	5 039 903	13 584 517	27 782 245
Total	**6 447 273**	**6 386 791**	**17 990 205**	**56 691 565**	**87 515 834**

Loans by county	**31.12.2006**	**31.12.2005**
Østfold	5 589 262	4 957 226
Akershus	10 541 617	8 638 281
Oslo	1 681 983	1 627 626
Hedmark	3 801 519	3 190 427
Oppland	3 092 544	2 677 962
Buskerud	4 536 502	4 113 854
Vestfold	3 716 491	3 541 066
Telemark	4 957 006	3 824 930
Aust-Agder	2 830 819	1 661 254
Vest-Agder	4 318 863	3 529 086
Rogaland	5 716 379	5 537 259
Hordaland	5 377 519	5 301 719
Sogn og Fjordane	2 740 448	2 676 857
Møre og Romsdal	4 769 396	4 186 417
Sør-Trøndelag	5 466 628	4 949 764
Nord-Trøndelag	4 952 658	4 475 779
Nordland	6 304 667	5 469 986
Troms	4 630 998	4 280 044
Finnmark	2 466 082	2 027 880
Svalbard	24 453	18 192
Total	**87 515 834**	**76 685 609**

Note 6

Holdings of notes, bonds and other interest- bearing securities
(Amounts in NOK 1 000)

2006	Book value	Acquis. costs	Actual value	Avg. eff. interest rate	Listed
Government-guaranteed bonds (weighted 0%)	10 194	10 651	10 143	5.51%	10 194
Government-guaranteed bonds - foreign (weighted 0%)	16 660 641	16 722 305	16 567 020	3.54%	16 660 641
Bonds issued by financial institutions (weighted 10%)	43	547	0	2.00%	39
Bonds issued by financial institutions - foreign (weighted 10%)	365 582	368 873	364 445	4.19%	329 023
Notes issued by financial institutions (weighted 20%)	225 000	224 950	224 640	3.50%	180 000
Notes issued by financial institutions - foreign (weighted 20%)	426 942	426 612	427 371	2.95%	341 554
Bonds issued by financial institutions (weighted 20%)	2 682 185	2 685 455	2 669 556	1.50%	2 145 748
Bonds issued by financial institutions - foreign (weighted 20%)	17 143 388	17 156 799	16 754 692	4.44%	13 714 710
Total	**37 513 975**	**37 595 192**	**37 017 867**		

2005	Book value	Acquis. cost	Actual value	Avg. eff. interest rate	Listed
Government-guaranteed bonds (weighted 0%)	47 406	47 723	47 857	1.19%	47 406
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
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**		

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 31.12.2006.

Trading portfolio:	2006		2005	
Currency	**Market value**	**Book value**	**Market value**	**Book value**
USD	3 105 522	3 103 511	4 833 781	4 836 410
EUR	7 270 805	7 267 986	5 005 968	5 005 320
SEK	15 503	15 502	55 298	55 285
PLN	0	0	41 424	41 493
ZAR	197 725	202 244	0	0
TRY	98 129	99 100	0	0
NOK	2 911 749	2 912 437	8 939 198	8 939 111
Total	**13 599 433**	**13 600 780**	**18 875 669**	**18 877 619**

The trading portfolio includes negotiable debt instruments.

Note 7

Shares and parts

The share and part portfolio comprises:

- 500 shares in Administrative Solutions NLGFA AB with a cost price of NOK 907.30 per share. The share's notional value is SEK 1 000. The company has a total share capital of SEK 1 000 000. The shares are booked at cost price.
- 100 shares in Kommunepartner AS with a cost price of NOK 1 000 per share. The share's notional value is NOK 1 000. The company has a total share capital of NOK 100 000. The shares are booked at cost price.
- Equity capital in the National Local Pension Fund, KLP, at a cost price of NOK 195 983. The company's total equity capital as at 31.12.05 was NOK 5 094 mill. Equity capital is booked at cost price.

Note 8

Machinery, equipment, etc
(Amounts in NOK 1 000)

	Office equipment	Computer equipment	Computer equipment	Furniture	Cars	Art	Total
(Depreciation period, linear)	**(4 years)**	**(3 years)**	**(5 years**	**(5 years)**	**(5 years)**	**not dep.**	
Acquisition cost as at 01.01.06	690	7 948	14 241	3 715	695	452	27 741
Acquisitions 2006 at cost price/scrap value		2 636	1 126	906		16	4 684
Cost price as at 31.12.06	690	10 584	15 367	4 621	695	468	32 425
Acc. depreciation as at 01.01.06	597	7 264	1 390	3 441	89		12 781
Depreciation for the year	41	1 191	2 957	194	139		4 522
Acc. depreciation as at 31.12.06	638	8 455	4 347	3 635	228		17 303
Book value as at 31.12.06	**52**	**2 129**	**11 020**	**986**	**467**	**468**	**15 122**

The tax value of fixed assets is NOK 16 389 entailing a negative temporary difference of NOK 1 267 as at 31.12.06.

Note 9

Taxes
(Amounts in NOK 1 000)

The tax for the period comprises:	**2006**	**2005**
Taxes payable	45 222	36 679
Changes in deferred taxes	- 289	14
Insufficient provision for taxes payable previous year	8	0
Total tax cost	**44 941**	**36 693**

Taxes payable on the balance sheet comprise:		
Taxes payable on profit for the year	45 222	36 679
Witholding tax	-1 303	- 634
Total taxes payable	43 919	36 045
Calculation of the tax base for the period:		
Profit before taxes	159 590	129 421
Permanent differences	886	1 623
Changes in temporary differences	1 031	- 50
Tax base for the period	**161 507**	**130 995**

Summary of temporary differences	**31.12.06**	**31.12.05**
Fixed assets	-1 267	-1 453
Hedging instruments	0	0
Pensions	-1 987	- 770
Total	**-3 254**	**-2 223**
28 % deferred tax/deferred tax benefit (-)	- 911	- 622

Explanation of why tax cost for the year is not 28 % of profit before taxes:		
28 % tax on profit before taxes	44 685	36 238
Permanent differences (28 %)	248	454
Insufficient provision for taxes payable previous year	8	0
Estimated tax cost	**44 941**	**36 692**

Note 10

Specification of debt to credit institutions and issued securities
(Amounts in NOK 1 000)

	2006 Book value	Avg. interest rate	2005 Book value	Avg. interest rate
Loans and deposits from credit institutions with agreed maturity	2 154 415	3.94%	1 836 489	3.24%
Notes debt in NOK	0	0	0	-
Bond debt in NOK	16 114 552	4.34%	0	-
Bond debt in foreign currencies	102 208 692	5.18%	104 359 825	5.41%
Notes and bond debt	**118 323 244**		**104 359 825**	

Average interest rate has been calculated using weighted nominal interest rate as at 31.12.06.
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)

	2006	2005
Allocated dividend	26 500	0
Taxes payable	45 222	36 045
Repos	0	1 120 147
Other liabilities	5 434	4 614
Other liabilities	**77 156**	**1 160 806**

Note 12

Subordinated loan capital and hybrid tier 1 capital instruments
(Amounts in NOK 1 000)

	2006	2005
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%)	369 469	359 325
Ordinary subordinated loan capital - expires 2012 (EUR 20 million, fixed rate 6.29%) [1]	164 209	159 700
Ordinary subordinated loan capital - expires 2012 (EUR 10 million) *(Interest rate is adjusted every 3 months. Current rate is 3.57%)*	82 104	79 850
Ordinary subordinated loan capital - expires 2014 (USD 65 million) *(Interest rate is adjusted every 3 months. Current rate 5.59%)*	405 099	439 965
Subordinated loan capital and hybrid Tier 1 Capital Instruments	**1 200 881**	**1 218 840**

[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.
All funding proceeds are hedged through swap transactions so that Kommunalbanken has no currency exposure.

Note 13

Maturity structure for interest rate sensitive assets and liabilities
(Amounts in NOK 1 000)

Amounts by remaining time to maturity

	Total principal	Up to 1 month Total	of which foreign currency	1-3 months Total	of which foreign currency
Assets					
Deposits with other financial institutions	869 895	869 895	125 493		
Instalment loans	87 515 835	1 137 211		4 740 572	
Securities	37 513 976	1 727 296	932 275	9 674 348	9 216 237
Other short-term loans	26 979	49		75	
Financial derivatives					
Prepaid expenses	2 006	167		501	
Accrued income	675 791	128 708	56 688	366 926	178 478
Other assets	18 908	3 037			
Total	**126 623 390**	**3 866 363**		**14 782 422**	
Liabilities					
Loans to credit institutions	2 154 415				
Notes and other short-term debt					
Bond debt	118 323 244	62 313	62 313	2 719 969	1 965 454
Financial derivatives	2 242 359	70 350	70 350	336 483	336 483
Other debt and pension obligations	118 546	43 429		47 268	
Accrued costs and provisions	1 484 711	658 260	611 473	510 080	410 067
Subordinated loan capital	1 036 673				
Hybrid Tier 1 Capital Instruments	164 209				
Equity capital	1 099 233				
Total	**126 623 390**	**834 352**		**3 613 800**	
Net liquidity exposure, balance sheet items		-3 032 010		-11 168 623	

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	869 895	869 895	125 493		
Instalment loans	87 515 835	25 387 669		39 234 296	
Securities	37 513 976	5 818 682	4 728 614	21 843 674	20 021 422
Other short-term loans	26 979	2 285		3 426	
Financial derivatives					
Prepaid expenses	2 006	167		501	
Accrued income	675 791	128 708	56 688	366 926	178 478
Other assets	18 908	3 037			
Total	**126 623 390**	**32 210 443**		**61 448 823**	
Liabilities					
Loans to credit institutions	2 154 415	1 562 346	1 562 347	592 069	592 069
Notes and other short-term debt					
Bond debt	118 323 244	7 306 341	5 051 679	26 264 172	24 452 332
Financial derivatives	2 242 359	347 949	347 950	788 118	788 118
Other debt and pension obligations	118 546	43 429		47 268	
Accrued costs and provisions	1 484 711	658 260	611 473	510 080	410 067
Subordinated loan capital	1 036 673			487 204	487 204
Hybrid Tier 1 Capital Instruments	164 209				
Equity capital	1 099 233				
Total	**126 623 390**	**9 918 325**		**28 688 911**	
Net interest rate exposure, balance sheet items		**22 292 118**		**32 759 912**	
Net interest rate exposure, fin. derivatives		-21 938 454		-33 087 056	
Total interest rate exposure		353 664		- 327 144	

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
3 926 385		5 248 016		72 463 651			
9 949 085	8 269 970	15 983 770	15 221 325	179 477	179 475		
148		223		26 484			
1 338							
180 157	57 395						
				749		15 122	
14 057 113		**21 232 009**		**72 670 361**		**15 122**	
557 390	557 390	1 597 025	1 597 025				
5 598 589	5 115 792	48 785 160	38 223 785	61 157 213	57 379 810		
202 099	202 099	884 107	884 107	749 320	749 320		
27 849							
312 106	258 083			4 265	4 265		
				487 204	487 204	549 469	369 469
				164 209	164 209		
						1 099 233	
6 698 033		**51 266 292**		**62 562 211**		**1 648 702**	
-7 359 081		30 034 284		-10 108 151		1 633 580	

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
5 928 840		12 530 313		4 434 717			
4 514 516	4 394 464	5 337 104	4 674 782				
6 852		10 278		3 643		495	
1 338							
180 157	57 395						
				749		15 122	
10 631 703		**17 877 695**		**4 439 109**		**15 617**	
22 938 229	22 455 432	46 602 001	37 918 706	15 212 501	12 869 005		
248 775	248 775	495 656	495 656	361 861	361 861		
27 849							
312 106	258 083			4 265	4 265		
		549 469	369 469				
				164 209	164 209		
						1 099 233	
23 526 959		**47 647 126**		**15 742 836**		**1 099 233**	
-12 895 256		**-29 769 431**		**-11 303 727**		**-1 083 616**	
11 515 800		31 888 354		11 621 356			
-1 379 456		2 118 923		317 629		-1 083 616	

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

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

Equity-related derivatives comprise
i) 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* 31.12.2006	**Positive market values 31.12.2006**	**Negative market values 31.12.2006**
Financial derivatives:			
Interest rate-related derivatives	73 913 741	1 801 748	831 994
Currency-related derivatives	169 872 447	3 256 325	5 173 732
Equity-related derivatives	1 446 234	14 727	362 233
Financial derivatives in trading portfolio:			
Interest rate-related derivatives	2 930 659	1 043	13 381
Currency-related derivatives	577 153	26 317	30 492
Total financial instruments	**248 740 234**	**5 100 160**	**6 411 831**
Netting			
Effect of netting agreements		**-3 827 352**	

*The trading portfolio includes negotiable debt instruments.

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 2006, the total exposure was NOK 1.2 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 in 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 A2/A- 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:

	2006	2005
Forward rate agreements (FRA)	197	0
Equity-linked contracts	147 674	169 727
Currency futures and currency swaps	3 960 535	5 103 202
Interest rate swaps	1 107 186	1 679 523

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	DKK
Cash and deposits with central banks	2	2	0	0	0	0	0	0	0
Loans to and deposits with credit institutions	869 893	121 170	748 724	665 972	- 26	80 408	- 15	1 058	82
Loans to and receivables from customers	87 542 813	87 542 813	0	0	0	0	0	0	0
Notes, bonds and other fixed-income interest-bearing securities	37 513 976	3 704 130	33 809 846	9 171 173	118 731	15 260 990	276 295	197 187	5 014 255
Shares	750	296	454	0	0	0	0	0	0
Fixed assets	15 122	15 122	0	0	0	0	0	0	0
Other assets	2 126	2 126	0	0	0	0	0	0	0
Prepaid, non-accrued expenses and accrued income	677 798	527 511	150 287	138 652	697	11 457	1 687	- 3 262	- 12 320
Deferred tax benefit	911	911	0	0	0	0	0	0	0
Total assets	**126 623 390**	**91 914 080**	**34 709 310**	**9 975 797**	**119 401**	**15 352 855**	**277 968**	**194 983**	**5 002 017**

Liabilities and equity capital	Total	NOK	Foreign currency	of which USD	JPY	EUR	CAD	CHF	DKK
Debts to credit institutions	2 154 415	- 0	-2 154 415	- 592 069	0	-1 562 347	0	0	0
Issued securities	118 323 244	16 114 551	-102 208 693	-21 034 369	-38 224 149	-1 691 433	-3 704 687	-7 890 431	-1 981 778
Other debt	2 358 918	2 358 918	0	0	0	0	0	0	0
Accrued expenses and prepaid unearned income	1 484 711	374 560	-1 110 152	- 509 282	2 446	- 68 999	- 41 007	- 18 557	- 15 498
Provisions for accrued expenses and liablities	1 987	1 987	0	0	0	0	0	0	0
Subordinated loan capital	1 036 673	180 000	- 856 673	- 405 100	0	- 451 574	0	0	0
Hybrid Tier 1 Captial Instruments	164 209	0	- 164 209	0	0	- 164 209	0	0	0
Deposited equity capital	681 500	681 500	0	0	0	0	0	0	0
Earned equity capital	417 733	417 733	0	0	0	0	0	0	0
Total liabilities and equity capital	**126 623 390**	**20 129 248**	**-106 494 142**	**-22 540 819**	**-38 221 703**	**-3 938 560**	**-3 745 694**	**-7 908 988**	**-1 997 276**
Net currency exposure, balance sheet items			-71 790 746	-12 570 936	-38 102 302	11 414 295	-3 467 726	-7 714 005	3 004 741
Net currency exposure, financial derivatives			71 732 225	12 515 445	38 103 955	-11 422 679	3 467 710	7 715 744	-3 004 374
Net currency exposure as at 31.12.06			**(58 521)**	**(55 492)**	**1 653**	**(8 384)**	**(16)**	**1 739**	**367**

GBP	SEK	HKD	AUD	CZK	TRY	ISK	PLN	HUF	MXN	ZAR	NZD
0	0	0	0	0	0	0	0	0	0	0	0
101	979	- 0	- 17	0	156	0	0	6	24	- 17	14
0	0	0	0	0	0	0	0	0	0	0	0
1 187 229	15 500	0	1 480 262	0	99 100	0	50 030	249 128	93 116	334 405	262 448
0	454	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0
4 061	- 17	0	9 561	0	0	0	0	282	- 1 013	0	501
0	0	0	0	0	0	0	0	0	0	0	0
1 191 390	**16 915**	**- 0**	**1 489 806**	**0**	**99 256**	**0**	**50 030**	**249 415**	**92 126**	**334 389**	**262 963**
0	0	0	0	0	0	0	0	0	0	0	0
-9 000 114	0	-1 036 743	-12 073 078	- 222 091	-1 206 340	- 524 517	0	0	0	-1 501 181	-2 117 785
0	0	0	0	0	0	0	0	0	0	0	0
- 30 912	0	- 325 380	- 81 138	- 1 610	- 4 884	- 1 268	0	0	0	- 5 039	- 9 024
0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0
-9 031 026	**0**	**-1 362 122**	**-12 154 216**	**- 223 701**	**-1 211 224**	**- 525 785**	**0**	**0**	**0**	**-1 506 219**	**-2 126 809**
-7 839 635	16 915	-1 362 123	-10 664 411	- 223 701	-1 111 969	- 525 785	50 030	249 415	92 126	-1 171 831	-1 863 846
7 839 788	- 15 483	1 362 134	10 664 245	223 701	1 112 124	525 785	- 50 030	- 249 410	- 92 103	1 171 817	1 863 856
152	**1 432**	**11**	**(166)**	**0**	**156**	**0**	**0**	**6**	**24**	**(14)**	**10**

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 2006, Kommunalbanken had government-guaranteed debt of NOK 5.9 billion, all taken up prior to the conversion to a limited company. The corresponding figure at the end of 2005 was NOK 6.6 billion.

Note 19

Guarantee fee to the state

Kommunalbanken pays an annual to the state of 0.10% of that part of the funding portfolio with government guarantees. The amount in 2006 was NOK 6.0 million compared to NOK 7.3 million in 2005.

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 satisfies the capital adequacy requirements.

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

	31.12.2006	31.12.2005
Tier 1 capital		
Share capital	681 500	681 500
Other equity capital	417 733	329 585
Equity capital	1 099 233	1 011 085
Hybrid Tier 1 Capital Instruments	164 209	159 700
Overfinancing of pension obligations	0	0
Deferred tax benefit entered in balance sheet	- 911	- 622
Total Tier 1 capital	**1 262 530**	**1 170 163**
Supplementary capital:		
Subordinated debt	549 469	505 232
Perpetual equity and subordinated loan capital	487 204	539 325
Total supplementary capital	**1 036 673**	**1 044 557**
Total equity and subordinated loan capital	**2 299 204**	**2 214 720**

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:

	2006		2005	
Risk weighting	**Book value**	**Weighted amount**	**Book value**	**Weighted amount**
0%	19 284 029	0	16 191 608	0
10%	365 625	36 562	80 373	8 037
20%	84 927 230	16 985 446	73 096 123	14 619 225
50%	670 963	335 481	2 219 216	1 109 608
100%	502 043	502 043	554 869	554 869
Items that are part of the trading portfolio	13 599 434	1 410 993	11 675 380	920 481
Negotiable debt instruments that are part of the trading portfolio	7 273 155	687 769	7 130 906	693 610
Non-balance sheet items that are not part of the trading portfolio	0	1 042 007	0	1 390 490
Total risk-weighted balance	126 622 478	21 000 302	110 948 475	19 296 320
Capital adequacy		10.95		11.48

Note 21

Equity capital
(Amounts in NOK 1 000)

	Share capital	Other equity capital	Total equity capital
Equity capital as at 31.12.06	681 500	329 585	1 011 085
Profit for the accounting period		88 148	88 148
Equity capital as at 31.12.06	681 500	417 733	1 099 233

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.

The Atlantic Road, Storseisund Bridge (Møre og Romsdal county)

The Atlantic Road connects the island of Averøy to Vevang, Eide, on the mainland.

Construction work on the road started in 1983, with the opening taking place on 7 July 1989. During this period there were no less than 12 hurricanes in the area. The 8.3 km long road is built on several small islands and skerries, and is spanned by eight bridges and several landfills.

Atlanterhavsveien was voted "Norwegian Construction of the Century" on 27 September 2005, and is currently Norway's second most visited scenic road after Trollstigen (also in Møre og Romsdal). Atlanterhavsveien's sharp turns and wild nature have ranked it first on The Guardian's list of the world's best road trips, in sharp competition with world renowned attractions such as Northern Ireland's Antrim coast road and the Himalayas.

Auditor's report for 2006

To the annual shareholders' meeting
of Kommunalbanken AS

We have audited the annual financial statements of Kommunalbanken AS as of 31 December 2006, showing a profit of NOK 114 648 000. 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 2006, 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 2007
Ernst & Young AS

Tor Steenfeldt-Foss
State Authorised Public Accountant (Norway)

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

Audit Committee's statement

The Audit Committee has examined Kommunalbanken AS' annual report and accounts as well as the Auditor's report for 2006.

The Audit Committee recommends that the annual report and accounts presented be approved as Kommunalbanken's accounts for 2006 and that the application of profits is adopted by the Annual Shareholders' Meeting in accordance with the Board's proposals.

Oslo, 23 March 2007
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 2006 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 114.648 million, is adopted by the Annual Shareholders' Meeting.

Oslo, 19 April 2007
Supervisory Committee for Kommunalbanken AS

Oddvar Flæte
Chairman

A summer scene from Lote in Nordfjord. In the background is Hundviksfjord.

Articles of Association of Kommunalbanken AS

Chapter I
Company, objectives, registered office

§1 The Company's name is Kommunalbanken AS.

§2 The Company is a direct continuation of the enterprise carried out by the government administrative body, Norges Kommunalbank. The State's shares will gradually be assigned to the local government sector (local governments, counties, intermunicipal companies, municipal pension funds and Kommunal Landspensjonskasse (KLP). Such assignment shall be done in accordance with the Company's aim of maintaining highest possible creditworthiness.

§3 The Company's objectives are to provide loans to local governments, counties, intermunicipal companies and other companies that carry out local government tasks against either a municipal guarantee, government guarantee, or other satisfactory security.

The Company can also undertake other tasks appropriate to the Company's business.

§4 The Company's registered office is to be situated in Oslo.

Chapter II
Equity and subordinated loan capital – shares

§5 The Company's share capital is NOK 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 more than one-third 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. Present the annual accounts and directors' report to the Annual General Meeting
6. Make recommendations to the Annual General Meeting with respect to alterations to the Articles of Association
7. Fix the managing director's salary.

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

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

Chapter IV
Supervisory Board

§13 The Supervisory Board shall consist of twelve members and four deputy members. The Supervisory Board should be composed of as broad a range of members as possible, so as to ensure that the various districts and interest groups affected by the Company's business are fairly represented. A member of the Board of Directors cannot also be a member of the Supervisory Board.

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

The members of the Supervisory Board shall be elected for two-year terms. One third of the members shall retire each year. Members elected by the shareholders shall be elected for two years. A minimum of one third of the members shall be elected annually. Following the first year one third of the members shall be up for election by drawing lots. The Supervisory Board shall elect a chairman and vice-chairman from amongst its members to serve for a term of one year.

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

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

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

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

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

The Supervisory Board shall:

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

Chapter V
Annual General Meeting

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

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

The Board of Directors shall call the Annual General Meeting.

The Annual General Meeting shall transact the following business:

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

Governing bodies and management

(as at 1 March 2007)

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. 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 Landspensjonskasse) 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.

Martha Takvam
Group Treasurer, Telenor Group.

Jostein Aksdal
Employee representative, Loan Manager. Aksdal has been with Kommunalbanken since 2003.

Petter Skouen
President & 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
Martin Spillum, Deputy Head of Funding.

Supervisory Board

- Oddvar Flæte
  County Governor
  Sogn og Fjordane county
  Chairman
- Elin Eidsvik
  Chief Executive Officer
  Hamarøy municipality
  Vice-Chairman
- Thor Bernstrøm
  Assistant Director General
  Ministry of Local Government
  and Regional Development
- Arne Øren
  Chief Administrative Officer
  Østfold county
- Berit Flåmo
  Chief Executive Officer
  Frøya municipality
- Elisabeth Enger
  Chief Executive Officer
  Bærum municipality
- Harald Rød
  Director of Department of
  Education and Cultural Affairs
  Fjell municipality
- Karen Marie Hjelmeseter
  Mayor
  Sogndal municipality
- Knut Wille
  Chief Executive Officer
  Skien municipality
- Trond Lesjø
  Chief Executive Officer
  Gjøvik municipality
- Ulla Nævestad
  Mayor
  Lier kommune
- Børge Daviknes
  Portfolio Manager
  Employee Representative

Alternates to the Supervisory Board

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

Alternate To The Employee Representative

- Åse Kristensen
  Assistant Manager
  Trust department

Audit Committee

- Svein Blix
  Chief Executive Officer
  Bodø municipality
  Chairman
- Britt Lund
  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

Management

- Petter Skouen
  President & CEO
- Helge Salseng
  Director Lending
- Marit Ødegård
  Deputy Director Lending
  & Loan Manager
- Thomas Møller
  Executive Vice President & CFO
- Siv Galligani
  Head of Treasury
- Kristine Falkgård
  Director
  Head of Funding & Investor Relations
- Ove G. Bjerkan
  Head of Middle Office & Risk
  Management
- Kjell Pettersen
  Executive Vice President Marketing
  & Corporate Communications

Graphic design
Virtual Garden Design

Paper
Cover – Highland Offset 300gsm
Text – Highland Offset 150gsm

Photos
Page 10-11 – Ormenlange.com
Page 20 – Kjell Germeten
Page 25, 41 and 44-45 – Scanpix.no

Kommunalbanken AS
PO Box 1210 Vika
N-0110 Oslo Norway

Telephone +47 2150 2000
Facsimile +47 2150 2001
post@kommunalbanken.no

KBN Kommunalbanken Norway