Kommunalbanken Norway

Annual Report 2007

80 years
1927-2007

Kommunalbanken Norway

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

Contents

2007 – The year in brief

- KBN's lending porfolio grew by NOK 14.2 billion to NOK 101.7 billion, an increase of 16.2 per cent.
- KBN's market share for loans to municipalities increased from 36.2 to 38.5 per cent. For loans to municipalities and counties, the agency's market share increased from 43.6 to 45.1 per cent.
- Income after tax increased by over NOK 28.9 million to NOK 143.5 million.
- KBN's owners and the Board of Directors have agreed to retain profit of NOK 109.1 million as equity capital.
- Return on adjusted shareholders' equity increased from 11.3 per cent to 12.6 per cent after tax.
- In a paper to Parliament relating to the government's company ownership policy, KBN is classified as 'an entity with a predefined and important political function'.
- The amount raised by KBN in the capital markets increased by NOK 8.4 billion to NOK 46.8 billion. This comprised a new USD 1 billion benchmark transaction.

Summary financial figures

(Amounts in NOK million)	**2007**	**2006**	**2005**	**2004**	**2003**
Net interest and commission income	**265.3**	212.8	175.5	178.7	169.1
Foreign exchange gains/losses	**0.5**	8.5	8.5	2.0	0.6
Other operating costs and extraordinary income	**0.7**	0.7	0.8	0.5	0.5
Staff costs and other operating costs	**66.7**	62.4	55.4	51.9	48.9
Profit before tax	**199.8**	159.6	129.4	129.3	121.2
Tax	**56.3**	45.0	36.7	36.9	34.1
Profit after tax	**143.5**	114.6	92.7	92.4	87.1
Total lending*	**101.7**	87.5	77	66.5	52.8
Average total assets*	**134.5**	118.8	100	80.2	66.2
Capital adequacy in %	**10.64**	10.95	11.48	11.32	11.75
Operating costs as a % of total assets	**0.047**	0.049	0.05	0.058	0.068

* NOK billion

This is KBN

- KBN has an important public policy function of providing low cost funding to Norwegian municipalities.
- KBN is the largest lender to the local government sector in Norway with a market share of 45.1 per cent. For loans including municipalities and counties, the share of the market is 38,5 per cent.
- KBN can only lend to municipalities, counties, municipal enterprises and inter-municipal companies.
- KBN was established by an Act of Parliament in 1926 and reorganised pursuant to a conversion act in 1999 as a government agency.
- KBN 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.
- KBN has been assigned the highest possible credit ratings, Aaa/AAA, by the agencies Moody's Investor Services and Standard & Poor's respectively.
- KBN has total assets of NOK 142.422 billion.

How KBN operates

KBN 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 KBN's debt. KBN has built a solid base of high-quality investors worldwide.

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

As a result of the favourable funding levels it receives, KBN can give quotes on all loan enquiries from the local government sector which are then awarded through competitive tender. Regardless of the outcome, KBN serves its primary objective of keeping lending costs down. The institution also advises on alternative financial solutions.

KBN'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 KBN.

Key figures

(Amounts in NOK 1 000)	**2007**	**2006**	**2005**	**2004**	**2003**
Total lending 31.12.	**101 715 048**	87 515 834	76 685 609	66 470 193	52 765 568
Lending					
The year's appropriations	**22 570 172**	19 713 300	15 497 955	20 683 104	15 278 880
Unsettled allocations	**2 523 510**	1 576 293	1 128 318	3 115 770	2 504 933
Disbursements during the year	**21 408 073**	19 226 778	16 788 294	20 103 966	13 652 656
Principal payments on loans	**7 213 461**	8 340 226	6 614 824	6 341 976	6 533 944
Borrowings					
Borrowings in foreign currencies	**120 701 357**	102 208 692	89 277 305	64 128 019	47 174 823
Domestic bond issues	**15 571 130**	16 114 552	15 082 520	17 613 992	19 637 440
Domestic note issues	**0**	0	0	1 499 956	0
Key figures					
Average total assets	**134 523 151**	118 786 244	99 971 876	80 245 373	66 248 760
Return on equity before tax	**17.59%**	15.78%	14.09%	15.65%	15.56%
Dividend	**34 375**	0	0	21 500	40 500
Capital adequacy	**10.64%**	10.95%	11.48%	11.32%	11.75%
As a percentage of average total assets					
Interest and commission income	**4.94**	2.88	2.87	2.99	4.56
– Interest and borrowing costs	**4.74**	2.69	2.68	2.74	4.27
= Net interest and commission income	**0.21**	0.20	0.20	0.25	0.29
– Guarantee commission	**0.01**	0.02	0.02	0.03	0.04
+ Net foreign exchange gains/losses	**0.00**	0.01	0.01	0.00	0.00
– Staff costs	**0.03**	0.03	0.03	0.04	0.04
– Other operating expenses	**0.02**	0.03	0.03	0.03	0.04
= Operating profit	**0.15**	0.13	0.13	0.16	0.18
Profit analysis *(Amounts in NOK million)*					
Interest and commission income	**6 652.15**	3 421.46	2 872.87	2 398.86	3 021.72
– Interest and borrowing costs	**6 370.41**	3 189.73	2 677.38	2 198.61	2 828.96
= Net interest and commission income	**281.7**	231.7	195.5	200.2	192.8
– Guarantee commission and costs relating to	**16.4**	18.9	20.0	21.6	23.7
+ Net foreign exchange gains/losses	**0.5**	8.5	8.5	2.0	0.6
+ Other operating revenue	**0.7**	0.7	0.8	0.5	0.5
– Staff costs	**35.2**	31.3	28.4	28.4	25.7
– Other operating expenses	**31.5**	31.1	26.9	23.5	23.2
= Operating profit	**0**	0	0	0	0
Profit for the year	**199.8**	159.6	129.4	129.3	121.2

Trust as our guiding principle

Petter Skouen
President & CEO

Despite being in the midst of the worst financial crisis in decades, it is comforting to note that Kommunalbanken Norway – KBN – still stands on solid foundations. Our business model has without doubt passed the test.

In actual fact, we are pleased to announce the best ever results of our 80 year history. Our financial results, as well as lending growth and lending volume have never been so large.

Most gratifying is that this was attainable through KBN's normal activities, underpinned by a conservative risk attitude in all parts of our business. For us it is much more important to focus on KBN's core values and our basic foundations than to look elsewhere for supplementary profit. It is our capability of providing the municipal sector the best possible loan terms that is the yardstick by which we judge our success or failure.

KBN's core principles, which focus on funding growth via broad and varied markets, investment of surplus liquidity in short-dated, highly rated bonds and lending solely to the Norwegian municipal sector, are therefore unchanged. Underpinned by our status as a state instrumentality, these core principles help us keep our loan terms as competitive as possible, thereby saving the municipal sector hundreds of millions of Kroner every year.

It is in volatile and troubled markets that the value of our business model stands out. With the re-pricing of risk that we are now seeing in the financial markets, we are certain that credit exposure to Norwegian municipalities will become even more favourable.

Amid the credit crisis, a small number of Norwegian municipalities have discovered for themselves that CDO's, CDS's and their underlying components can have a large downside risk. Even though these eight municipalities' escapades will not affect the sector's solid credit profile, it should certainly lead to a thorough revision of financial regulations in many municipalities.

Regardless of how you present the case, it is not the municipalities' business to invest in speculative financial instruments, with or without advice from financial institutions. Investments that show abnormal returns should be scrutinized and ring the necessary alarm bells. More important than ever is a holistic approach to analyzing risk. A bond can be illiquid despite it having a high rating. The municipal sector needs to learn from market participants and re-evaluate their approach to risk.

For KBN, trust is at the core of our business – the trust of international investors, the trust of our customers and the trust of our owners that we remain a responsible and predictable partner. Our key objective therefore is, as always, to take the very best care of this trust bestowed upon us.

Petter Skouen
President & CEO

The Norwegian economy

Norway experienced another year of solid economic activity in 2007, the fourth consecutive year of above trend growth.

Strong output growth has continued and mainland GDP growth looks set to reach a 22-year high of 6 per cent in 2007. Domestic investment demand is strong, as is the export of traditional goods and services, expected to show annual growth of 8 per cent. Mainland business investment has continued its positive trend, maintaining the 40 per cent growth levels that have been experienced since 2003.

Employment growth is continuing on a similar positive path when compared to 2006. Due to strong economic growth and high capacity utilisation, the unemployment rate has continued to fall to approximately 2.5 per cent. EU enlargement has provided the labour market with a reserve of labour that has accounted for more than 30 per cent of growth in the Norwegian labour force.

A steady increase in investment in petroleum production and pipeline transport was visible in 2007 as well as new finds in the proximity of existing oil fields. High oil prices have also stimulated exploration. Petroleum revenues continue to be invested in the Government Pension Fund – Global, which at the end of 2007 stood at approximately USD 380 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. Such a annual expenditure will finance close to 20 per cent of public expenditure ten years ahead.

The central bank's monetary policy is focused on keeping inflation low and stable and this has been seen to have a marked effect during 2007 where the consumer price index decreased to 0,8 per cent. This level is expected to rise in 2008 to between 2 and 2.5 per cent. Late in 2007 saw a revision in the central bank's interest rate policy. From an international perspective interest rates are on a downward path and Norway's interest rate differential has widened in comparison. While the central bank has led a path of gradual tightening from 2 per cent in summer 2005 to the current 5.25 per cent, the expectation for a more measured one or two hikes in 2008 is seen to be a consensus view.

Turbulence in international markets has had a moderate effect on the Norwegian economy. Norwegian banks are in a strong position due to the relative strength of both Norwegian homeowners and businesses with regard to debt service. The low level of loan losses compared with the rest of Europe is testament to this fact. With satisfactory capital adequacy, estimated to be 11.2 per cent in Q3 2007 for Norwegian banks as a whole, the sector is well equipped to cope with a period of turbulence.

Outlook

After five years of strong growth the Norwegian economy in 2008 looks set to experience a more moderate development. The main reasons behind the forecast moderation is firstly the decline in international economic conditions, particularly among Norway's trading partners, but also a stronger Norwegian kroner and the interest rate differential between Norway and many other developed economies. The record GDP growth seen in 2007 is set to stabilise along with a slight pick up in inflation, towards 1.8 per cent. However, with oil prices forecast to remain high for the coming years, 2008 could be the first year that Norway's trade surplus exceeds NOK 400 billion (USD 80 billion).

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.

KBN's public mandate of offering 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. 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 (county hospitals), secondary education, and some public transportation functions. The central government controls 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 430 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 central government 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. Today, all municipalities and counties apply the maximum rate.

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.

Should the extremely unlikely situation arise that a local government does experience financial difficulties the central government appoints a supervisory board for the relevant local government and the board then approves all payments and the order in which any claims shall be met. However, it is a testament to the high level of control and supervision of the municipal sector that this measure has never had to be impemented.

Atlanten
high school

KBN funds local solutions

KBN projects

Photo: Petter Ingeberg

Atlanten high school, Kristiansund

Atlanten high school in Kristiansund is a modern institution built according to an open-plan design where each school grade has its own cloakroom and teaching area. Teachers for each grade have their own working space in the open plan area. Both teachers and students are satisfied with the new building.

The school was opened for the 2005-2006 school year and is situated in an area of great natural beauty near the Folkeparken in Kirklandet, next door to the municipality's largest sports ground. Furthermore, the school is near the coast and even has its own boathouse.

Atlanten high school has approximately 340 students aged from 14 to 16. The building also houses Kristiansund's 'Kulturskolen', where young people from Kristiansund and Frei can gain tuition in music and theatre. The school works closely with Kristiansund Opera and holds concerts with choirs and orchestras many times a year.

The school was financed by a NOK 130 million loan from KBN.

Photo: Per Tormod Nilsen

Fræna nursing home and care centre

The condition of the original nursing home in Fræna no longer complied with official building requirements and after 30 years was in need of major renovation. The municipality chose therefore to build a brand new nursing home.

The new nursing home and care centre opened on 28 January after a two year construction period. The project is the municipality's largest ever investment and in total amounts to NOK 91 million.

The building will have capacity for 44 people, including six rooms for rehabilitation or short-stay. There are also seven additional residential apartments as well as a day centre for non-residents. There are also rooms for a hairdresser, foot-care specialist, a doctor and a launderette. The main focus has been that the building is well organised for patients, residents, relatives and employees.

The total loan taken up for the project was NOK 82 million, of which NOK 42 million came from KBN.

Photo: Aurora kino, Alta

Aurora cinema, Alta

Aurora cinema is a new and modern three-screen cinema complex in the 'Kunnskapsparken' in Alta. The cinema opened on 24 August and quickly became the largest and most popular cinema in Finnmark county. The total number of visits among the Alta population increased as a result by 50 per cent when in the same time period the country as a whole experienced a reduction of 20 per cent. Three screens with a total capacity of 334 people can also be used for seminars, meetings and conferences, with or without films.

The cinema building had a cost framework of NOK 23 million and NOK 5 million for the technical equipment. Both were financed with a loan from KBN.

Photo: Grimstad mun./Åse Dømbe

Storgaten 51 – A nursing home project

The project is part of Grimstad's urban renewal and focuses on the demolition of an old concrete building to create space for the new nursing home. The building has bright open areas and is designed in line with the city's urban renewal programme. Additionally the centre is situated close to other health services. The construction process was initiated in February 2004 and finalized in January 2005 with a total budget of NOK 36.75 million.

The project was financed through a loan from KBN.

Photo: Valdres Koomunale Renovasjon

Valdres Kommunale Renovasjon, Nord-Aurdal municipality

Valdres Kommunale Renovasjon is an inter-municipal company which has invested in a new compost installation in 2007. The plant collects waste from the six municipalities in Valdres: Vang, Vestre Slidre, Øystre Slidre, Etnedal, Nord-Aurdal and Sør-Aurdal. The waste is routed through each of the municipalities' treatment plans and then mixed with bark and garden waste to help the compost process. After a short maturation period the compost is then stored.

The compost is used in agriculture as a fertilizer and as a turf roof covering mostly used on cabins due to its short setting period. The new plant has been built to meet future demand, doubling the old plant's production capacity of 3500 cubic metres. The plant was opened in October 2007.

The total cost of the plant was NOK 11 million, financed in full by a loan from KBN.

Photo: Ola Kristian Dille

Holt nursing homes, Kragerø

Kragerø municipality has worked together with the Kragerø municipal housing company to build a number of nursing homes that offer round-the-clock nursing care. The Holt nursing homes are the most recently completed buildings.

The Holt nursing homes are situtated in a residential area in Sannidal, approximately 10 kilometres from the centre of Kragerø. The building was constructed under the management of the Kragerø municipal housing company but also involved the local housing association. The building was completed in January 2008.

The building comprises four residential apartments, including a shared area and staffroom. There are also four storage areas. Younger residents, from 18 years and upwards, who require care will be moved in over time. Kragerø municipality will take responsibility for staff and supervision of the residents.

The building was financed with a NOK 6.8 million loan from KBN.

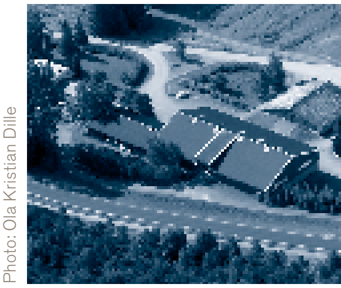


Photo: Eskil Følstad

Stiklestad National Culture Centre: Museum storage depot

In the summer of 2006, Stiklestad Nasjonale Kultursenter AS (Stiklestad National Culture Centre) acquired Stiklestad Planteskole, a facility which will be converted to a municipal record office and a museum storage depot for Nord-Trøndelag municipality.

The municipality invited Stiklestad National Culture Centre engage in the daily running of the facility, which will act as a modern and secure storage facility for the photographs, pictures and documents of the entire county's museums, galleries, companies and committees. Stiklestad Nasjonal Kultursenter is responsible for the daily operations of the depot but receives an annual subsidy from the county.

The purchase of the building was financed through a loan from KBN where Nord-Trøndelag county acted as the guarantor.

KBN projects

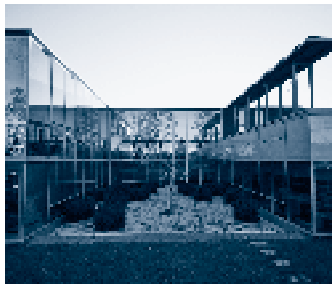


Photo: Wilhelm Egeland, Frogn VGS

Photo: Lindås municipality

Photo: Spangereid school

Frogn college, Akershus

In 2004, Akershus county began building work on the first college in Frogn municipality. The building was finished in summer 2006 and was operational from the autumn, catering for 580 students.

The college was financed with a loan from KBN.

Juvikstølen kindergarten, Lindås municipality

Juvikstølen kindergarten's building preparations were initiated in the spring of 2006. The development group began by looking at various kindergartens and involved the architect from day one.

The kindergarten is beginning to take shape and is set to become an exciting and modern building. It is architect-designed, and constructed with the help of an interior and landscape designer.

The kindergarten is located in a scenic area near Juvikstølen in Knarvik.

The building process started in March 2007 and is expected to be completed in June 2008. The kindergarten has capacity for 144 children divided among 6 classes.

The project was financed through a loan from KBN.

Spangereid school

The construction of the new school began in 2006 and was completed in 2007. The school has capacity for 180 students and 25 staff.

The school has become a new activity centre for the Spangereid community. In the building there is a public library, practice rooms for musicians as well as a sports-hall.

Construction of the school had a budget of NOK 60 million and was financed by a loan from KBN.

Photo: Eid municipality

Photo: André Hagen, Avisa Knutepunkt

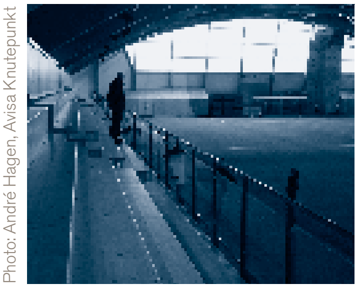


Photo: Terje Sivertsen

Culture building, cinema and library in Eid Municipality

The project is a collaboration between Sogn and Fjordane county and Eid municipality. The county is building a new department for the technical college as well as a new teacher's area and is also renovating the existing building. Going forward the canteen, communal area and cloakrooms will also be renovated.

The project was financed by a loan from KBN.

Ferry harbour reconstruction, Kristiansand

Kristiansand Harbour Company is currently in the midst of reconstructing a ferry harbour in the town. The reason behind the reconstruction is ferry company Color Line's decision to launch the new 'Superspeed' ferry on the Hirtshals route. 'Superspeed' is larger than the ferries that currently use the harbour and necessitates some structural changes to ensure the harbour can accommodate both the new and old ferries.

The reconstruction was financed through a loan from KBN.

Mjøndalen Sport & Culture Centre, Nedre Eiker municipality

Mjøndalen Sport & Culture Centre AS was established in March 2001 and is jointly owned by Nedre Eiker municipality and Mjøndalen Sports Association.

The new facility 'Mjøndalshallen', covers an area of 9000m² and contains two sports halls; one for football training, measuring 70 x 45m, with artificial turf and a tartan running track; the other a multi-purpose 50x25m hall with synthetic flooring. There is also space for up to 450 spectators. The facility also houses a 16m high climbing wall, a gym, a municipal kindergarten and after-school facilities.

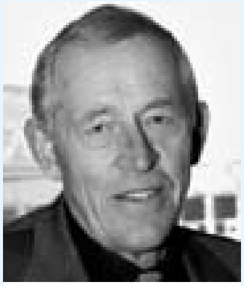
'Mjøndalshallen' can be used for football, handball and hockey training and tournaments. There are also gymnastics competitions and national and international judo tournaments. The facility is predominantly used by sports clubs in Nedre Eiker municipality but reams from neighbouring municipalities are also important tenants. Mjøndalen Sports Association has 34 football teams, 5 handball teams and a handball school with 60 students. Students from Mjøndalen municipality's schools are also frequent hall users.

The NOK 61.5 million facility was partly financed through a loan from KBN.

During 2007, KBN strengthened its position as an attractive and recurrent borrower in the international capital markets, an essential measure in order to secure the institution access to the best possible funding levels.

Annual Report 2007


Else Bugge Fougner
Chairman


Per N. Hagen
Vice-Chairman


Svein Blix
Member


Nanna Egidius
Member


Martin Spillum
Member


Iver Lund
Member


Martha Takvam
Member

2007 marked the 80th anniversary of the establishment of Norges Kommunalbank.

In the same year Kommunalbanken Norway – KBN – established another milestone: In mid-December the total loan portfolio surpassed NOK 100 billion. The year can be summarised as follows:

- Strong financial results – the best in KBN's history. Profit after tax is NOK 143.5 million.
- Solid market position. KBN strengthened its position as the leading credit provider to the municipal sector. The total lending portfolio grew by NOK 14.2 billion from NOK 87.5 billion at year-end 2006 to NOK 101.7 billion at the close of 2007.
- Good risk management. 2007 was marked by particular turbulence in the financial markets. This has only affected KBN to a minor degree and does not have any consequences on the institution's financial results. Funding and liquidity management operations are satisfactory. KBN has no investments in US ABS structures, CDO's or in the sub-prime market.

The municipalities and counties increased their gross debt by NOK 17.6 billion, or 9.4 per cent. This is an increase of NOK4.4 billion on the previous year and is evidence of the municipal sector's increased investment needs. KBN's lending volume directly to municipalities and counties grew by NOK 11.3 billion, or 13.9 per cent. The institution's market share of lending to counties and municipalities grew from 43.6 per cent at the end of 2006 to 45.1 per cent at the end of 2007. In terms of the entire local government sector, including municipal companies, KBN's market share is currently 38.5 per cent, as opposed to 36.2 per cent at the end of 2006.

Loan demand has been strong. In the fourth quarter, particularly in December, there was a marked influx of loans. Total loan growth in this month alone reached NOK 4.7 billion. Compared with the previous year there has a marked increase in the demand for larger loans. Total disbursement of new loans was NOK 21.4 billion compared with NOK 19.2 billion the year before.

Last year's growth in lending means that the institution offers favourable loans at competitive rates. Since the institution was reorganised as a joint stock company approximately eight years ago, the lending portfolio has grown by NOK 73.8 billion.

It is KBN's main objective to maintain its status as a predictable provider of favourable loans to the local government sector, with lending margins that ensure adequate profit for the owners. Majority ownership by the central government is an important factor in KBN 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 KBN serves a policy function as described in the white paper relating to the government's ownership policy.

As of 31 December 2007, KBN had total core capital of NOK 1, 464.7 million. The core capital ratio was 6.04 per cent

KBN's registered office is in Oslo.

Frogn college

KBN funds local solutions

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 2007, provide an adequate description of the institution's financial position at year-end. 2007 is the final year that KBN will report according to NGAAP. From 2008, KBN will follow IFRS accounting principles.

Net income interest stands at NOK 281.7 million and profit after tax at NOK 143.5 million.

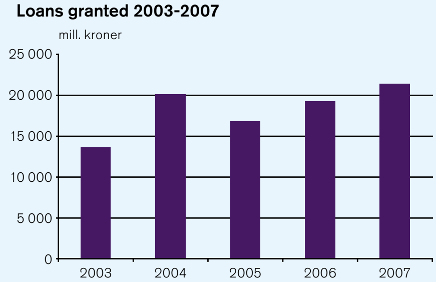
KBN has recorded a NOK 5.9 million unrealised loss on its liquidity portfolio and made a NOK 5.6 million realised gain on buybacks of its own issues. KBN has also recorded a foreign exchange loss of NOK 5.1 million as a result of balance sheet currency adjustments. Other revenues of NOK 0.7 million relate to consultancy fees.

Operating profit is equivalent to a return on adjusted shareholders' equity of 12.6 per cent. The figure for 2006 was 11.3 per cent.

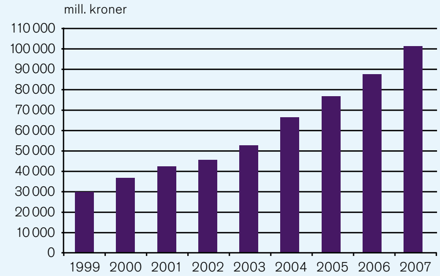
Operating costs now amount to 0.047 per cent of total assets. The corresponding figure in 2006 was 0.049 per cent. Compared to the corresponding figure for both Norwegian and international banks specialising in the local government sector, this is a very satisfying result. Larger lending volumes will enable the institution to further reduce this figure.

Total equity and subordinated loan capital at the end of the year was NOK 2 581 million, of which total core capital made up NOK 1,464.7 million. The capital ratio at the end of the year decreased from 10.95 per cent in 2006 to 10.64 per cent in 2007. The core capital ratio increased correspondingly from 6.01 per cent to 6.04 per cent.

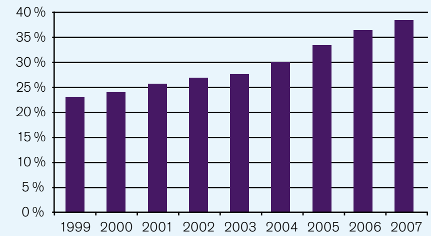
Loans granted 2003-2007



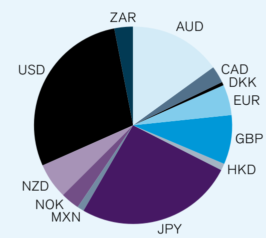
Development in loan portfolio 1999-2007



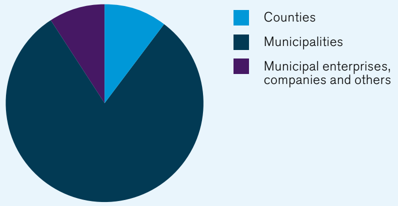
KBN's share of total market 1999-2007



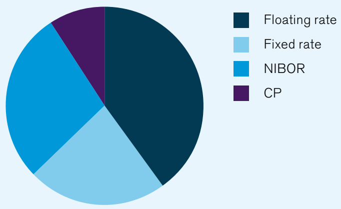
Funding currency split 2007



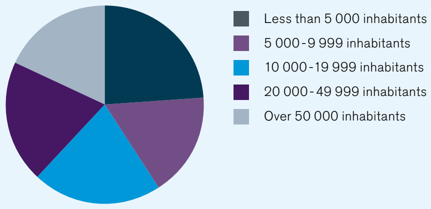
Loan volume by borrower as at 31.12.07



Loan volume by interest rate product as at 31.12.07



Loan volume by size of municipality as at 31.12.07



Lending

The total lending portfolio of NOK 101.7 billion is divided between NOK 92.5 billion for loans directly to local governments and NOK 9.2 billion for loans with municipal guarantees. 78 per cent of loans in the loan portfolio are floating rate with fixed rate loans making up the remaining 22 per cent.

KBN's loans are evenly distributed among the Norwegian local government sector and all counties, and close to all municipalities have loans with the institution. KBN'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 KBN is made independently of loan size, and in line with KBN's important goal of offering both large and small municipalities favourable interest rates.

Most municipalities take out a single loan annually to cover their annual investments. Both municipalities and counties increased their loan demand for investments in schools during 2007. 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. The Municipal Act states that a municipality cannot go bankrupt. Should a municipality experience financial difficulties, the central government would assume control of the municipality until it is able to meet its payment obligations. Neither KBN, nor its predecessor Norges Kommunalbank, have suffered loan losses since operations began in 1927. The institution does not make provisions for future losses.

When municipalities undertake ordinary banking agreements – an area in which KBN does not operate – KBN offers advice. There has been an increase in demand for such sevices. KBN has also assisted the regional health authorities in this way.

As part of KBN's regular customer service, the institution advises customers on evaluating the interest rate climate, the choice of interest rate product and assistance in constructing debt portfolios. KBN also recognises the importance of developing services which assist customers in their assessment of borrowing opportunities. An example is its web-based financial information system. Customers have direct access to their own loan portfolios via KBN's website, where they can access information relating to their loans.

Funding

KBN issued a total of NOK 46.8 billion in 2007 via 12 different currencies, compared with NOK 38.4 billion in 2006.

During 2007, KBN strengthened its position as an attractive and recurrent borrower in the international capital markets, an essential measure in order to secure the institution access to the best possible funding levels. In line with KBN's strategy of accessing broad funding sources, investor presentations were arranged in a variety of European and Asian countries, as well as in Australia, the US and Canada.

KBN has maintained a funding strategy established on four building blocks: USD Benchmark issuance; issuance in public niche markets; structured private placements; and retail issues. Such a diversified approach to funding means that KBN can benefit from favourable terms. Japan is still the largest source of funds (34 per cent of new loans) but USD Benchmark funding, issuance in Australia, Canada and the UK, as well as private placements have seen strong demand. 2007 also saw KBN's first domestically placed issues in Mexico and New Zealand.

In 2007, KBN increased issuance in the Japanese Uridashi market. Uridashi loans are sold direct to retail investors in Japan, where KBN is classified as a sovereign borrower by the Japanese government. Strong demand for KBN's name has meant Uridashi volume has doubled in 2007 when compared with the previous year. KBN issued a total of 50 Uridashi transactions in 2007, equivalent to a total of USD 2.7 billion or 30 per cent of total funding.

KBN also issued a USD 1 billion 'benchmark' transaction with a maturity of five years. KBN was able to price the deal at an improved level to the previous year's transaction, underlying the continuous efforts in establishing KBN as an internationally recognised issuer.

KBN's outstanding debt portfolio rose from NOK 118.3 billion to NOK 136.3 billion in 2007.

In 2008, KBN will continue to follow its diversified funding strategy across a broad range of markets so that these cost efficiencies can in turn be passed back to the municipal sector.

KBN uses its 'Programme for the Issuance of Debt Instruments' for nearly all it international borrowing. This is a standard document which not only simplifies but provides security for both lender and borrower. The Programme has an issuance limit of EUR 20 billion.

Liquidity management

Through consultation with the ratings agencies, KBN has a policy maintaining net cash balances equivalent to 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 one year. KBN is not exposed to any interest or currency risk, and the maturity profile is adapted to underlying borrowing redemptions.

Risk management

Risk management and risk exposure are subject to strict oversight to ensure that KBN secures its AAA rating and that it is able to access the most attractive funding markets. Credit risk assessment is subject to strict quality controls. KBN is not exposed to interest and currency risk. Liquidity risk is low and all risk limits and trading in new financial instruments must be approved by the Board.

Credit risk represents KBN's single largest risk. Consequently the control and monitoring of KBN's credit exposure is given great focus and is done so on a continual basis.

Credit risk in the lending portfolio is confined to potential late payment of interest and instalments, not to potential failure of payment obligations. This is stated in the Municipal Act. Neither municipalities nor counties can file for bankruptcy. There is also a clause in the Municipal Act relating to the procedure for late payment scenarios. According to this clause, the state in the form of the Ministry of Local Government and Regional Development, steps in to manage the financial obligations of the municipality should it be unable to meet these obligations. This gives loan providers protection against any loss of accumulated debt and accrued interest.

Credit risk arising from KBN'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 from Moody's and Standard & Poor's. The size of exposure within each rating bracket varies according to the particular rating and is largest for those entities with the highest rating. Short-term investments require a short-term rating of A1/P1.

Credit risk is managed by ensuring that all use of derivatives must be documented under ISDA agreements and enhanced to a large extent through collateral agreements.

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. KBN's financial policies only permit minimal exposure to interest rates and exchange rate risks. Interest rate and exchange rate risk is managed by ensuring that KBN'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 and short maturity.

Operational risk exists potentially throughout KBN'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.

Marketing and information activities

From 2007, KBN adopted a new logo and visual profile. The abbreviation KBN is now used throughout the institution's international marketing operations and to some extent in Norway. This change was led by a desire for KBN to profile itself as a modern and forward-thinking organisation. The positive associations that are linked to the Kommunalbanken name are still a point of focus and will be maintained in the lending business and in the domestic profile. KBN's new logo has been positively received.

In the spring of 2007, KBN conducted market research aimed evaluating the business' standing among its customer base. As with the previous year's results of a similar survey the responses were very positive.

Ownership control

KBN'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. This is done under Norwegian law, KBN's Articles of Association and its ethical guidelines.

KBN is organised in accordance with the provisions of the Companies Act (Norway). The institution's governing bodies are the Annual General Meeting, the Supervisory Board, the Board of Directors, the Audit Committee, internal and external auditors and the President & CEO. KBN is made up of two operating areas with associated staff and support functions.

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.

Following a change in the legal framework, the President & CEO is no longer a member of the Board of Directors. Svein Blix, CEO of Bodø municipality, and Iver Lund, acting Group Chief Executive of KLP, were elected Board members. Chairman Else Bugge Fougner, Vice Chairman Per N Hagen and Board member Martha Takvam were re-elected to the Board.

Organisation and working environment

As of 31 December 2007 the institution had 41 employees, as opposed to 37 at the end of 2006. The additional employees were added to the accounting division's middle office and IT sections.

The human resources plan that is currently in place has a three year time horizon and is evaluated annually. 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 KBN's planning and strategy policies. The resources used for training and HR are growing.

Health, safety and diversity at KBN

KBN considers it of importance to recruit international employees. This helps to give the institution greater competence in the areas that are central to KBN's business. 10 per cent of KBN's employees are of non-Nordic origin.

Sick leave increased from 3.2 per cent in 2006 to 3.7 per cent in 2007. 2.4 per cent of sick leave relates to long-term sick leave. No workplace injuries were reported in 2007.

All employees benefit from an annual health check and optional occupational therapy advice. In 2007, the President & CEO attended a compulsory workplace environment seminar. There are formulated routines for internal control within KBN.

A working environment committee was established, even though the number of employees at KBN makes the institution exempt of this requirement in the Health and Safety at Work act.

KBN'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 KBN's goal to offer equal opportunities at the workplace. The institution does not discriminate on the basis of gender in areas such as salary, career development and recruitment. Of the institution's employees, 21 are women and 20 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 executive management group, while at middle management level the figure is 57 per cent. Women are better represented in KBN's different sections and management levels than in previous years.

Through its salary and personnel policy, KBN 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.

Attained results

KBN attained financial results that were above budget and well above the central government's guidelines. KBN's Aaa/AAA rating is unchanged as is its position as the leading loan provider to the municipal sector.

Application of net profits

The Board of Directors proposes that the net profits of NOK 143.493 million be applied as follows: NOK 34.375 million to be applied to payment of dividends, in line with the central government's dividend proposal in the national budget 2008, and NOK 109.118 million to be transferred to other equity capital.

After this application of net profits, KBN has distributable reserves of NOK 551.343 million.

The future

2008 looks to be a year with continued uncertainty in the credit and equity markets. The problems with the US housing market have led to fear of how a recession in the world's largest economy might affect global economic growth. Many of the world's largest banks have or are in the throes of carrying out considerable write-downs on their exposure to defaulted mortgages and associated structured products. It is not inconceivable that in the course of 2008 other sectors also become a source of concern for financial institutions. A fundamental re-pricing pf credit to financial institutions has occurred and as a result their funding costs have increased.

It is more likely that the world economy will face the ramifications of this change before the turbulence in the market dies out.

KBN will continue to focus on low risk investments in its liquidity portfolio. There is no indication that KBN will have to undertake significant provisions for unrealised losses on its liquidity portfolio. The high creditworthiness of the Norwegian municipal sector is unchanged, reflecting their indisputably important role in the public sector in Norway. As a triple-A rated issuer of bonds in many different markets the world over, it is of the utmost importance that KBN upholds its prime function: to offer the best possible loan terms to the municipal sector and thereby reduce the financial costs of the sector as a whole.

The municipal sector's annual investment plans show signs of increased activity. Some investments have been postponed as a result of a boom in the building and construction industry. It is therefore likely to assume that the level of investment in 2008 and beyond will remain high. According to a white paper to Parliament (St. meld. Nr. 25 (2005-2006)), greater resources are to be used towards nursing and elderly care over the coming years. Provisional figures show a growth in municipal investments of around NOK 30 billion. The majority of this will be debt financed.

Sufficient capitalisation is a crucial factor for KBN to perform its public policy mandate in line with the objectives of the institution's owners. In recent years, KBN has introduced various measures to improve its capital adequacy. Further measures within current regulations are not possible, so it is therefore important for the Board that the institution undertakes an equity issue in 2008 so that KBN's capital base allows for future lending growth.

The Board will work for a change in the regulations relating to the risk weighting of Norwegian municipalities. A reduction from the 20 per cent risk weighting used today will have an immediate positive effect on the core capital situation. If the risk weighting of Norwegian municipalities was in line with neighbouring countries, the Norwegian local government could enjoy considerable cost savings.

KBN is the guarantor of competition in the market for lending to the Norwegian municipal sector. Over the past few years, the market has been dominated by two key players. The possibility that foreign municipal lenders may enter the market has increased. With the use of advanced IRB methodology, large foreign institutions may apply a lower risk weighting to local government debt and consequently become more competitive.

The Board of Directors would like KBN to continue its operations with an emphasis on predictability and stable, positive results. KBN is an institution that exists for the benefit of Norwegian municipalities and counties. KBN's goal is unchanged: to offer the local government sector the best loan terms and the best service.

And for its owners, KBN remains focused on its core principles, namely to contribute to cost savings for the sector and at the same time deliver a financial return in line with government guidelines.

Oslo
31 December 2007
7 March 2008

The Board of Directors,
Kommunalbanken AS

Else Bugge Fougner
Chairman of the Board

Per N. Hagen
Vice-Chairman

Svein Blix
Member

Nanna Egidius
Member

Iver Lund
Member

Martin Spillum
Member

Martha Takvam
Member

Petter Skouen
President & CEO

Kristiansand
harbour

KBN funds
local solutions

Profit and loss account

(Amounts in NOK 1 000)	Notes	**2007**	2006
Interest and related income on loans and deposits with credit institutions		**123 898**	30 680
Interest and related income on loans to and receivables due from customers		**4 311 786**	2 662 496
Interest and related income on notes, bonds and other fixed income securities		**2 115 176**	728 189
Other interest and related income		**101 296**	98
Total interest and related income		**6 652 156**	3 421 463
Interest and related expenses on debt to credit institutions		**96 591**	77 874
Interest and related expenses on issued securities		**6 208 760**	3 060 132
Interest and related expenses on subordinated debt		**64 929**	51 725
Total interest and related expenses		**6 370 414**	3 189 731
Net interest income		**281 742**	**231 732**
Government guarantee fees /stand-by fees	19	**5 842**	6 088
Other fees and commission costs		**10 587**	12 853
Total commission costs and costs of banking services		**16 429**	18 941
Net gains/losses on notes, bonds and other fixed income securities		**5 577**	9 490
Net gains/losses on foreign currency and financial derivatives		**-5 106**	-971
Total gains/losses on foreign currency and securities that are current assets		**471**	8 519
Other operating income		**691**	667
Salaries	1	**25 212**	23 413
Pensions	2	**5 059**	3 733
Social security costs		**4 882**	4 195
Administrative costs		**15 609**	13 998
Total salaries and general administrative expenses		**50 762**	45 339
Depreciation etc. on fixed assets	9	**4 862**	4 522
Real estate operating expenses	3	**5 847**	5 694
Other operating expenses		**5 184**	6 832
Total other operating expenses		**11 031**	12 526
Net income before taxes		**199 820**	**159 590**
Tax on ordinary income	10	**56 327**	44 942
Profit for the accounting period after tax		**143 493**	**114 648**
Dividends		**34 375**	26 500
Transferred to retained earnings	21	**109 118**	88 148
Total transfers and allocations		**143 493**	**114 648**

Balance sheet

Assets *(Amounts in NOK 1 000)*	**Notes**	**2007**	**2006**
Cash and deposits with Central Bank of Norway		**2**	2
Net loans and deposits with credit institutions without agreed maturity or period of notice		**111 461**	98 982
Net loans and deposits with credit institutions without agreed maturity or period of notice		**77 181**	770 911
Total net loans and claims on credit institutions	4	**188 642**	869 893
Instalment loans	5	**101 715 049**	87 515 834
Other loans	1	**2 381 042**	26 979
Total net loans and claims on customers		**104 096 091**	87 542 813
Government issuers, notes and bonds		**10 080**	10 194
Other issuers, notes and bonds		**37 013 414**	37 503 781
Total notes, bonds and other fixed income securities	7	**37 023 494**	37 513 975
Shares, parts and primary capital certificates	8	**787**	750
Deferred tax benefit	10	**1 549**	911
Domain names		**459**	0
Total intangible assets		**2 008**	911
Fixed assets	9	**12 280**	15 122
Other assets	2	**410**	2 126
Total other assets		**410**	**2 126**
Accrued income		**1 097 620**	675 792
Prepaid, non-accrued expenses		**1 578**	2 006
Total prepaid, non-accrued expenses and accrued income		**1 099 198**	677 798
Total assets	13, 14	**142 422 912**	**126 623 390**

Liabilities and equity *(Amounts in NOK 1 000)*	**Note**	**2007**	**2006**
Loans and deposits from credit institutions with fixed term		**2 002 823**	2 154 415
Total liabilities to credit institutions	11	**2 002 823**	2 154 415
Bond issues		**136 272 487**	118 323 244
Total liabilities established through issuance of securities	11, 18	**136 272 487**	118 323 244
Financial derivatives		**145 497**	2 242 359
Margin requirements and other customer accounts		**0**	39 403
Other debt	12	**99 689**	77 156
Total other liabilities		**245 186**	2 358 918
Accrued expenses and prepaid unearned income		**1 315 466**	1 484 711
Pension cost	2	**3 590**	1 987
Subordinated debt	6, 20	**1 116 378**	1 036 673
Hybrid Tier 1 Capital Instruments	6	**158 631**	164 209
Total liabilities		**141 114 561**	125 524 157
Share capial		**755 000**	681 500
Other equity capital		**553 351**	417 733
Total equity capital	20, 21	**1 308 351**	1 099 233
Total liabilities and equity	13, 14	**142 422 912**	126 623 390

Oslo
31 December 2007
7 March 2008

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Kommunalbanken AS

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Chairman of the Board

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Member

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Member

Iver Lund
Member

Martin Spillum
Member

Martha Takvam
Member

Petter Skouen
President & CEO

Cash flow statement

(Beløp i 1 000 kroner)	2007	2006
Interest rate receipts	6 652 156	3 421 463
Interest rate payments	6 370 414	3 265 984
Other receipts	1 162	9 186
Operating payments	83 085	76 805
Net cashflow from operations	**199 819**	**87 860**
Increase in loans	16 553 277	10 581 164
Increase / decrease (-) in other claims	482 178	-270 354
Increase in short-term securities	- 490 481	4 578 704
Increase / decrease (-) in investments in credit institutions	- 681 251	784 043
Net cashflow from current financial operations	**15 863 723**	**15 673 547**
Increase in other fixed assets	2 517	458
Net cashflow from investments	**2 517**	**458**
Increase/decrease in loans, issues of securities	17 797 651	14 281 345
Increase/decrease in other debt	-2 207 247	1 304 800
Increase / decrease in equity capital	**73 500**	**-**
Net cashflow from long-tgerm financial activities	**15 663 904**	**15 586 145**
Net change in liquid assets	**-**	**-**
Liquid assets 01.01.	2	2
Liquid assets 31.12.	**2**	**2**

Valdres compost processing plant

KBN funds local solutions

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

KBN's holding of interestbearing 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 KBN, 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.

KBN 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. KBN 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

KBN'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. KBN has no holdings of non-performing or doubt-ful loans, which is why no specific or non-specific loss provisions have been made.

Assets and liabilities in foreign currencies

KBN'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

KBN 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 KBN'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.

Contingent liabilities

Contingent liabilities are recognised in accordance with NRS 13. Uncertain liabilities where it is unlikely that the liability will ever occur are not recognized in the balance sheet. Contingent liabilities are included in the notes, as is their composition and effect on the profit and loss account and the balance sheet.

Note 1

Salaries and other renumeration
(Amounts in NOK 1 000)

Wage costs	2007	2006
Salaries	25 212	23 413
Employer's national insurance contribution	3 973	3 481
Pension costs	5 059	3 733
Other payments	909	714
Total	**35 153**	**31 341**

Senior management	Wages	Remuneration/Bonus
President & CEO	1 425	315
Director, Head of Lending	728	201
Executive Vice President & CFO	1 102	256
Head of Middle Office & Risk Management	835	201

Pension premiums	2007	2006
Pension premium for President & CEO	131	924
Pension premium for Director, Head of Lending	120	329
Pension premium for Executive Vice President & CFO	114	335
Pension premium for Head of Middle Office & Risk Management	106	188

	2007	2006
Average number of employees	38.7	36.1

The President & CEO has an agreement concerning payment of a cash benefit of one year's salary following termination of employment.
Other senior management have a notice period of 3 months and no salary following termination.

Bonuses are fixed at a maximum of 3 months salary. Employees can receive 0 per cent, 50 per cent or 100 per cent of the estimated bonus.
Bonus payments not realised are retained. Employees are considered eligible for the 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.

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

	2007	2006
Board of Directors' fees	557.2	511.5
The Board consists of 7 members:		
Chairman Else Bugge Fougner	168.5	165.0
Vice-Chairman Per N. Hagen	84.2	82.5
Member Bjørn Kristoffersen (01.01.-30.05.)	22.0	66.0
Member Martha Takvam	67.5	66.0
Member Nanna Egidius	67.5	66.0
Member Iver Lund (30.05.-31.12.)	45.5	0
Member Svein Blix (30.06.-31.12.)	34.5	0
Member (employee rep.) Jostein Aksdal (01.01.-30.05.)	27.5	33.0
Member (employee rep.) Martin Spillum (01.06.-31.12.)	40.0	0
Member, President & CEO Petter Skouen (01.01.-30.06.)	0	0
Member (employee rep.) Åse Kristensen (01.01.06-30.06.06)	0	33
Fees to the audit committee	**116.5**	**99.0**
The audit committee has 3 members and 1 alternate member:		
Audit committee Chairman Svein Blix (01.01.-30.06.)	22.0	44.0
Audit committee Chairman Britt Lund (30.06.-31.12.)	36.8	27.5
Audit committee member Kristine Stray Ryssdal	28.2	27.5
Audit committee member Kjell I. Skaldebø (30.06.-31.12.)	14.5	0
Alternate member Kristina Nilssen (01.01.-30.06.	12.0	0
Alternate member Roy Jevard (30.06.-31.12.)	3.0	0

Fee to alternate member NOK 3 000 per attended meeting.

Fees to the supervisory board	66.2	47.0

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 board	17.2	16.5

Fees to the supervisory board's other members are NOK 2 300 per attended meeting.
All fees adjusted by 4 per cent as of June 30 2007.

Loans to employees

(Amounts in NOK 1 000)	**Balance as at 31.12.07**	**Balance as at 31.12.06**
Short-term loans to employees	1 035	496
of which loan to the President & CEO	137	0
of which loan to Director, Head of Lending	0	10
of which loan to Executive Vice President & CFO	0	0
of which loan to Head of Middle Office & Risk Management	87	0
Home mortgages	28 147	22 841
of which mortgage loan to the President & CEO	1 027	1 521
of which mortgage loan to the Director, Head of Lending	0	0
of which mortgage loan to the Executive Vice President & CFO	1 800	1 800
of which mortgage loan to the Head of Middle Office & Risk Management	1 787	1 797
Total loans to employees	**29 182**	**23 337**
Interest rate subsidies in the period	172	83

As of 31.12.07 the mortgage loan to the President & CEO had a value NOK 1 027 with a interest rate of 4.25%. The loan's maturity is 20 years.

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.

	2007	**2006**
Fee for the audit of the annual accounts	385	375
Fee for other financial auditing	345	335
Fee for other authorisation services	125	111
Other consulting services	85	0
Total, exclusive of VAT	**940**	**821**

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 41 employees at the end of 2007. 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.

Kommunalbanken also has a scheme linked to the contractually agreed early retirement pension scheme (AFP). This scheme is included in the calculation of pension obligations.

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

Collective scheme			**Salaries of more than 12 G**	
2006	**2007**		**2007**	**2006**
2 609	3 147	Pension rights accrued for the year	597	479
720	1 167	Interest expense on accrued pension rights	81	115
3 329	4 314	Gross pension costs	678	594
- 550	- 678	Expected return	0	-157
106	118	Administration cost	0	13
118	285	Recorded change in estimates (deviation)	128	0
3 003	**4 038**	**Net pension costs**	**806**	**449**

Pension obligations

2006	**2007**		**2007**	**2006**
15 121	22 386	Gross accrued liability	1 554	2 417
10 822	13 728	Pension funds	0	3 605
4 300	8 658	Net accrued liability	1 554	-1 187
-2 837	- 5 790	Unrecorded change in estimates/deviation	-1 875	61
1 463	**2 867**	**Net liability transferred to balance sheet**	**-321**	**1 127**

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

Financial assumptions (2007)	
Annual rate of return	5.60%
Discount rate	4.50%
Annual increase in salaries	4.50%
Annual increase in National Insurance Scheme basic amount	4.25%

Kommunalbanken was a member of Statens Pensjonskasse (SPK) until 31 December 2000, when the institution transferred its group pension scheme and registered all its employees with a KLP pension scheme.

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

Note 3

Other operating expenses
(Amounts in NOK 1 000)

Kommunalbanken has office premises at Munkedamsveien 45, Vika Atrium, Oslo.
The building complex is owned by Olav Thon Eiendomsselskap ASA and Kommunalbanken has leased 1 378 square metres.
The lease carries a fixed rent and is irrevocable until 31.08.2009. Rent including service charges in 2006 was NOK 4 115 compared to NOK 4 338 in 2007.
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)*	**2007**	**2006**
Loans to and deposits with credit institutions, without agreed maturity	111 461	98 982
Loans to and deposits with credit institutions, with agreed maturity	77 181	770 911
Total loans and deposits with credit institutions	**188 642**	**869 893**

NOK 2 626 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 31.12.2007

	0-3 months	**3 months-1 year**	**1 year-5 years**	**Over 5 years**	**Total**
Floating rate loans	822 776	3 474 418	15 579 223	52 365 926	72 242 344
Fixed rate loans	5 203 535	2 942 767	5 654 162	15 672 241	29 472 705
Total	**6 026 311**	**6 417 185**	**21 233 385**	**68 038 168**	**101 715 049**

Loans by county	**31.12.2007**	**31.12.2006**
Østfold	6 408 158	5 589 262
Akershus	12 712 423	10 541 617
Oslo	1 530 334	1 681 983
Hedmark	4 073 246	3 801 519
Oppland	3 545 135	3 092 544
Buskerud	5 688 512	4 536 502
Vestfold	4 152 644	3 716 491
Telemark	6 005 437	4 957 006
Aust-Agder	3 264 970	2 830 819
Vest-Agder	5 296 214	4 318 863
Rogaland	7 530 254	5 716 379
Hordaland	6 261 467	5 377 519
Sogn og Fjordane	3 120 778	2 740 448
Møre og Romsdal	5 560 559	4 769 396
Sør-Trøndelag	6 073 622	5 466 628
Nord-Trøndelag	5 369 615	4 952 658
Nordland	6 833 713	6 304 667
Troms	5 587 221	4 630 998
Finnmark	2 678 074	2 466 082
Svalbard	22 673	24 453
Total	**101 715 049**	**87 515 834**

Note 6

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

	2007	**2006**
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%)	356 920	369 469
Perpetual subordinated loan capital (JPY 3 bn, fixed rate 1.605%)	146 098	-
Ordinary subordinated loan capital - expires 2012 (EUR 20 million, fixed rate 6.29%) 1)	158 631	164 209
Ordinary subordinated loan capital - expires 2012 (EUR 10 million)	-	82 104
Ordinary subordinated loan capital - expires 2017 (NOK 80 million) (Interest rate is adjusted every 3 months. Current rate 5.78%)	80 000	-
Ordinary subordinated loan capital - expires 2014 (USD 65 million) (Interest rate is adjusted every 3 months. Current rate 5.19%)	353 360	405 099
Subordinated loan capital and hybrid Tier 1 Capital Instruments	**1 275 009**	**1 200 881**

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 7

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

2007	Book value	Acquis. costs	Actual value	Avg. eff. interest rate	Listed
Government-guaranteed bonds (weighted 0%)	10 080	10 465	9 987	5.50%	10 080
Government-guaranteed bonds – foreign (weighted 0%)	12 743 642	12 726 533	12 720 921	4.48%	12 743 642
Bonds issued by financial institutions (weighted 10%)	-	-	-	0.00%	-
Bonds issued by financial institutions - foreign (weighted 10%)	165 059	157 797	165 059	3.50%	132 047
Notes issued by financial institutions (weighted 20%)	1 299 055	1 299 421	1 299 055	5.66%	1 039 244
Notes issued by financial institutions (weighted 20%)	2 641 661	2 621 961	2 647 653	4.69%	2 113 329
Bonds issued by financial institutions (weighted 20%)	2 615 724	2 636 365	2 600 233	5.47%	2 092 579
Bonds issued by financial institutions - foreign (weighted 20%)	17 548 273	17 540 687	17 528 679	4.92%	14 038 618
Total	**37 023 494**	**36 993 229**	**36 971 587**		

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	16 603 979	3.54%	16 660 641
Bonds issued by financial institutions (weighted 10%)	43	547	-	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 (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	17 110 872	4.44%	13 714 710
Total	**37 513 975**	**37 596 192**	**37 411 006**		

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 31.12.2007.

Trading portfolio	**2007**		**2006**	
Currency	**Market value**	**Book value**	**Market value**	**Book value**
USD	8 745 132	8 747 399	3 105 522	3 103 511
EUR	9 255 100	9 260 073	7 270 805	7 267 986
AUD	419 946	422 708		
CAD	705 795	706 811		
SEK			15 503	15 502
ZAR			197 725	202 244
TRY			98 129	99 100
NOK	10 051 132	10 055 086	10 178 765	10 185 592
Total	**29 177 105**	**29 192 077**	**20 866 449**	**20 873 935**

The trading portfolio includes negotiable debt instruments.

Note 8

Shares and parts

The shares and parts portfolio comprises:

- 500 shares in Administrative Solutions NLGFA AB with a cost price of NOK 907.30 per share. The face value of the share is SEK 1 000. The company's total share capital is SEK 1 000 000. The shares are entered at cost price.
- 100 shares in Kommunepartner AS with a cost price of NOK 1 000 per share. The face value of the share is NOK 1 000. The company's total share capital is NOK 100 000. The shares are entered at cost price.
- Equity capital in the National Local Pension Fund, KLP, at a cost price of NOK 233 495. The company's total share capital as at 31.12.06 was NOK 5 836 million. Equity capital is booked at cost price.

Note 9

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 depreciated**	
Acquisition cost as at 01.01.07	690	10 584	15 367	4 621	695	452	32 425
Acquisitions 2007 at cost price/scrap value		884	1 071	65			2 020
Cost price as at 31.12.07	690	11 468	16 438	4 686	695	468	34 445
Acc. depreciation as at 01.01.07	638	8 455	4 347	3 635	228		17 303
Depreciation for the year	27	1 181	3 233	282	139		4 862
Acc. depreciation as at 31.12.07	665	9 636	7 580	3 917	367		22 165
Book value as at 31.12.07	**25**	**1 832**	**8 858**	**769**	**328**	**468**	**12 280**

The tax value of fixed assets is NOK 13 624 entailing a negative temporary difference of NOK 1 344 as at 31.12.07.

Note 10

Taxes

(Amounts in NOK 1 000)

The tax for the period comprises:	**2007**	**2006**
Taxes payable	56 965	45 222
Changes in deferred taxes	-638	- 289
Insufficient provision for taxes payable previous year	0	8
Total tax cost	**56 327**	**44 941**
Taxes payable on the balance sheet comprise:		
Taxes payable on profit for the year	56 965	45 222
Witholding tax	-1 085	-1 303
Total taxes payable	55 880	43 919
Calculation of the tax base for the period:		
Profit before taxes	199 820	159 590
Permanent differences	1 347	886
Changes in temporary differences	2 279	1 031
Tax base for the period	203 447	161 507
Summary of temporary differences:	**31.12.07**	**31.12.06**
Fixed assets	-1 344	-1 267
Hedging instruments	0	0
Pensions	-3 590	-1 987
Accounting provisions	-600	
Total	**-5 534**	**-3 254**
28 % deferred tax/deferred tax benefit (-)	-1 549	-911
Explanation of why tax cost for the year is not 28 % of profit before taxes:		
28 % tax on profit before taxes	55 950	44 685
Permanent differences (28 %)	377	248
Insufficient provision for taxes payable previous year	-	8
Estimated tax cost	**56 327**	**44 941**

Note 13

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							
Loans to and deposits with credit institutions	188 642	157 929	30 713	27 332	- 41	2 070	- 15	1 014	82
Loans to and receivables from customers	104 096 091	104 096 091							
Notes, bonds and other fixed-income interest-bearing securities	37 023 494	3 925 777	33 097 717	14 467 496	161 316	15 126 492	706 821	96 367	
Shares	787	787							
Fixed assets	12 280	12 280							
Intangible assets	459	459							
Other assets	410	410							
Prepaid, non-accrued expenses and accrued income	1 099 198	896 030	203 168	121 689	1 742	79 737			
Deferred tax benefit	1 549	1 549							
Total assets	**142 422 912**	**109 091 314**	**33 331 598**	**14 616 517**	**163 017**	**15 208 299**	**706 806**	**97 381**	**82**
Liabilities and equity capital									
Debts to credit institutions	2 002 823		- 2 002 823	- 516 449		- 1 486 374			
Issued securities	136 272 487	15 571 130	- 120 701 357	- 30 970 890	- 36 998 012	- 3 306 043	- 4 890 143	- 7 426 202	- 1 967 684
Other debt	245 186	- 75 264	- 320 450	69 827	- 2 603	- 24 651	- 40 855	- 11 964	
Accrued expenses and prepaid unearned income	1 315 466	632 368	- 683 098	- 604 914		- 78 184			
Provisions for accrued expenses and accrued income	3 590	3 590							
Subordinated loan capital	1 116 378	260 000	- 856 378	- 353 360	- 146 098	- 356 920			
Hybrid Tier 1 Capital Instruments	158 631		- 158 631			- 158 631			
Deposited equity capital	755 000	755 000							
Earned equity capital	553 351	553 351							
Total liabilities and equity capital	**142 422 912**	**17 700 175**	**- 124 722 737**	**- 32 375 786**	**- 37 146 713**	**- 5 410 803**	**- 4 930 998**	**- 7 438 166**	**- 1 967 684**
Net currency exposure, balance sheet items			- 91 391 139	- 17 759 269	- 36 983 696	9 797 496	- 4 224 192	- 7 340 785	- 1 967 602
Net currency exposure, financial derivatives			91 397 062	17 755 213	36 985 589	- 9 790 717	4 224 185	7 341 812	1 967 684
Net currency exposure as at 31.12.2007			**5 923**	**- 4 056**	**1 893**	**6 779**	**- 7**	**1 027**	**82**

Note 11

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

	2007		2006	
	Book value	**Average interest rate**	**Book value**	**Average interest rate**
Loans and deposits from credit institutions with agreed maturity	2 002 823	4.64%	2 154 415	3.94%
Notes debt in NOK	0	0	0	0
Bond debt in NOK	15 571 130	5.11%	16 114 552	4.34%
Bond debt in foreign currencies	120 701 357	5.02%	102 208 692	5.18%
Notes and bond debt	**136 272 487**		**118 323 244**	

The average interest rate has been calculated using the weighted nominal interest rate as at 31.12.07.
Notes and bond debt broken down by currency is described in a separate note. See Currency Risk.

Note 12

Other liabilities
(Amounts in NOK 1 000)

	2007	2006
Allocated dividend	34 375	26 500
Taxes payable	55 880	45 222
Other liabilities	9 434	5 434
Other liabilities	**99 689**	**77 156**

GBP	SEK	HKD	AUD	CZK	TRY	ISK	PLN	HUF	MXN	ZAR	NZD
74	1	10	- 77		191			6	17	3	46
			1 230 508				51 456		80 154	118 821	1 058 286
74	**1**	**10**	**1 230 431**		**191**		**51 456**	**6**	**80 171**	**118 824**	**1 058 332**
- 11 455 839		- 992 740	- 13 075 587	- 223 193	- 811 777	- 258 883			-498 949	-2 872 525	-4 952 890
- 44 162		- 249 893	- 32 004	- 1 089	- 2 458	- 895			-322	-3 684	24 303
- 11 500 001		**- 1 242 633**	**- 13 107 591**	**- 224 282**	**- 814 235**	**- 259 778**			**-499 271**	**-2 876 209**	**-4 928 587**
- 11 499 927	1	- 1 242 623	- 11 877 160	- 224 282	- 814 044	- 259 778	51 456	6	- 419 100	- 2 757 385	- 3 870 255
11 500 001		1 242 633	11 877 063	224 282	814 235	259 779	- 51 456		419 117	2 757 389	3 870 253
74	**1**	**10**	**- 97**		**191**	**1**		**6**	**17**	**4**	**- 2**

Note 14

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

	Total principal	Up to 1 month Total	of which foreign currency	1-3 months Total	of which foreign currency	3-12 months Total
Amounts by remaining time to maturity						
Assets						
Deposits with other financial institutions	188 642	188 642	30 714			
Instalment loans	101 715 049	662 968		4 545 057		3 562 848
Securities	37 023 494	5 959 400	5 502 408	5 633 240	4 002 978	9 170 128
Other short-term loans	2 381 042	2 348 598		155		311
Financial derivatives						
Prepaid expenses	1 578	132		395		1 052
Accrued income	1 097 620	157 294	44 094	511 261	132 281	429 065
Other assets	15 487	1 960				
Total	**142 422 912**	**9 318 994**		**10 690 108**		**13 163 404**
Liabilities						
Loans to credit institutions	2 002 823			483 032	483 032	
Notes and other short-term debt						
Bond debt	136 272 487	998 937		5 055 324	1 601 299	8 905 898
Financial derivatives	145 497	5 524	5 524	22 079	22 078	13 225
Other debt and pension obligations	99 689	4 015		1 677		93 996
Accrued costs and provisions	1 319 056	578 978	556 618	125 738	48 945	566 305
Subordinated loan capital	1 116 378			180 000		
Hybrid Tier 1 Capital Instruments	158 631					
Equity capital	1 308 351					
Total	**142 422 912**	**1 587 454**		**5 867 850**		**9 579 424**
Net liquidity exposure, balance sheet items		-7 731 540		-4 822 258		-3 583 980
Amounts by interest rate reset						
Assets						
Deposits with other financial institutions	188 642	188 642	30 714			
Instalment loans	101 715 049	1 199 376		75 951 357		6 207 082
Securities	37 023 494	12 825 036	11 745 378	15 039 970	12 882 182	4 689 305
Other short-term loans	2 381 042	2 351 412		4 377		8 755
Financial derivatives						
Prepaid expenses	1 578	132		395		1 052
Accrued income	1 097 620	157 294	44 094	511 261	132 281	429 065
Other assets	15 487	1 960				
Total	**142 422 912**	**16 723 852**		**91 507 360**		**11 335 259**
Liabilities						
Loans to credit institutions	2 002 823	970 823	970 823	1 032 000	1 032 000	
Notes and other short-term debt						
Bond debt	136 272 487	8 510 899	5 608 987	37 067 283	33 228 668	21 963 661
Financial derivatives	145 497	30 130	30 130	22 764	22 764	20 015
Other debt and pension obligations	99 689	4 015		1 677		93 996
Accrued costs and provisions	1 319 056	578 978	556 618	125 738	48 945	566 305
Subordinated loan capital	1 116 378	80 000		533 360	353 360	
Hybrid Tier 1 Capital Instruments	158 631					
Equity capital	1 308 351					
Total	**142 422 912**	**10 174 845**		**38 782 822**		**22 643 977**
Net liquidity exposure, balance sheet items		6 549 007		52 724 538		-11 308 718
Net interest rate exposure, financial derivatives		29 221 856		-47 627 207		13 536 792
Total interest rate exposure		-22 672 849		5 097 331		2 228 074

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
	7 417 929		85 526 246			
8 737 262	15 966 808	14 563 038	293 918	293 758		
	466		31 513	3 643		
88 187						
			787		12 740	
	23 385 203		**85 852 464**		**12 740**	
	1 519 791	1 519 791				
8 486 344	56 476 490	48 376 110	64 835 838	62 237 604		
13 225	62 167	62 167	42 502	42 502		
485 981			48 035	44 496		
	503 018	503 018	433 360	353 360		
	158 631	158 631				
					1 308 351	
	58 720 097		**65 359 735**		**1 308 351**	
	35 334 894		-20 492 729		1 295 611	
	11 886 596		6 470 638			
4 512 618	4 175 265	3 665 509	293 918	293 758		
	13 132		3 365	3 365		
88 187						
			787		12 740	
	16 074 993		**6 768 708**		**12 740**	
21 963 661	53 577 517	45 861 728	15 153 127	14 038 313		
20 015	58 400	58 400	14 188	14 188		
485 981			48 035	44 496		
	503 018	503 018				
	158 631	158 631				
					1 308 351	
	54 297 566		**15 215 350**		**1 308 351**	
	-38 222 573		-8 446 642		-1 295 611	
	41 042 462		22 269 809			
	2 819 889		13 823 167		-1 295 611	

Note 15

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* 31.12.07	Positive market values 31.12.07	Negative market values 31.12.07
Financial derivatives:			
Interest rate-related derivatives	88 261 540	1 577 694	604 764
Currency-related derivatives	182 998 498	939 908	5 802 077
Equity-related derivatives	10 175 856	52 817	368 209
Financial derivatives in trading portfolio:			
Interest rate-related derivatives	3 153 607	1 185	608
Currency-related derivatives	1 445 918	5 216	0
Total financial instruments	**286 035 419**	**2 576 820**	**6 775 658**
Netting			
Effect of netting agreements		**-5 099 877**	

*Nominal value reported in accordance with the capital requirement directive

Note 16

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.

In the interest rate sensitive portfolios; the investment portfolio and the fixed-rate portfolios, sensitivity is measured as a one per cent change in interest rates (parallel shift). Maximum exposure is set at NOK 12 million. As at 31 December 2007, the total exposure was NOK 3.5 million for a 1-percentage point increase in the interest rate.

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.

Note 17

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, requiring collateral, payment in advance or repayment in instalments.

Credit risk relates to the following instruments:

	2007	2006
Forward rate agreements (FRA)	**507**	**197**
Equity-linked contracts	**1 591 388**	**147 674**
Currency futures and currency swaps	**5 094 887**	**3 960 535**
Interest rate swaps	**1 277 976**	**1 107 186**

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 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 2007, Kommunalbanken had government-guaranteed debt of NOK 5.8 billion, all issued prior to the conversion to a limited company. The corresponding figure at the end of 2006 was NOK 5.9 billion.

Note 19

Guarantee fee to the state

Kommunalbanken pays an annual fee to the state of 0.10% of that part of the funding portfolio with a government guarantee.
The amount in 2007 was NOK 5.8 million compared to NOK 6.0 million in 2006.

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:

	12.31.2007	12.31.2006
Tier 1 capital:		
Share capital	755 000	681 500
Other equity capital	**553 351**	**417 733**
Equity capital	**1 308 033**	**1 099 233**
Hybrid Tier 1 Capital Instruments	158 631	164 209
Overfinancing of pension obligations	-321	0
Deferred tax benefit entered in balance sheet	-1 549	- 911
Goodwill	**-459**	**-**
Total Tier 1 capital	**1 464 653**	**1 262 531**
Supplementary capital:		
Subordinated debt	433 360	487 204
Perpetual equity and subordinated loan capital	**683 018**	**549 469**
Total supplementary capital	**1 116 378**	**1 036 673**
Total equity and subordinated loan capital	**2 581 031**	**2 299 204**

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:

	2007		2006	
Risk weighting	**Book value**	**Weighted amount**	**Book value**	**Weighted amount**
0 %	13 806 829	-	19 284 029	-
10 %	-	-	365 625	36 563
20 %	98 221 499	19 644 300	84 927 230	16 985 446
50 %	625 425	219 043	670 963	335 482
100 %	350 421	350 421	502 043	502 043
Items that are part of the trading portfolio	22 411 449	1 861 514	13 599 434	1 410 993
Negotiable debt instruments that are part of the trading portfolio	6 765 655	220 977	7 273 155	687 769
Non-balance sheet items that are not part of the trading portfolio		1 538 384		1 042 007
Operational risk		420 769		
Total risk-weighted balance	142 181 278	24 255 408	126 622 479	21 000 302
Capital adequacy		10.64		10.95

Note 21

Equity capital
(Amounts in NOK 1 000)

	Share capital	Other equity capital	Total equity capital
Equity capital as at 01.01.07	681 500	417 733	1 099 233
New equity capital 2007	73 500	-	73 500
Retained dividend as of 31.12.07	-	26 500	26 500
Profit for the accounting period	-	143 493	143 493
Dividend	-	-34 375	-34 375
Equity capital as at 31.12.07	**755 000**	**553 351**	**1 308 351**

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 755 000.

Auditor's report for 2007

To the annual shareholders' meeting of Kommunalbanken AS

We have audited the annual financial statements of Kommunalbanken AS as of 31 December 2007, showing a profit of NOK 143 493 000. 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 2007, 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, 10 March 2008
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 2007.

The Audit Committee recommends that the annual report and accounts presented be approved as Kommunalbanken's accounts for 2007 and that the application of profits is adopted by the Annual Shareholders' Meeting in accordance with the Board's proposals.

Oslo, 13 March 2008
Audit Committee for Kommunalbanken AS

Britt Lund
Leder

Kristine E. Stray Ryssdal

Kjell Inge Skaldebø

Roy Jevard

Supervisory Committee's statement

In accordance with § 15 in Kommunalbanken's Articles of Association, the annual accounts and report for 2007 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 143 493 000, is adopted by the Annual Shareholders' Meeting.

Oslo, 17 April 2008
Supervisory Committee for Kommunalbanken AS

Oddvar Flæte
Chairman

Aurora cinema, Alta

KBN funds local solutions

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 755 000 000 divided into 755 000 shares of NOK 1 000.

§ 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. Recruit Managing Director
8. 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:

- Appoint the managing director, and approve the instructions for the managing director as laid down by the Board
- Elect a state-authorised public accountant to act as auditor
- 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
- Scrutinise the directors' report, the auditor's report and the Audit Committee's report
- Adopt instructions for the Audit Committee
- 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:

- 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.
- 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.
- Elections of members and deputy members of the Audit Committee in accordance with § 17 of the Articles of Association.
- 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 2008)

The Board of Directors

Else Bugge Fougner, Chairman (63)
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 (72)
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.

Svein Blix (63)
Chief Executive Officer, Bodø municipality. Msc in Economics. Blix has also worked at the Ministry of Finance, in Tromsø municipality's finance department and as head of Bodø Sparebank and later Sparebanken Nordland.

Nanna Egidius (48)
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.

Iver Lund (63)
Acting Group Chief Executive, KLP until 01.01.08. Law graduate from University of Oslo 1971. Joined KLP in 1993 from Oppland county where he was head of administration.

Martin Spillum (32)
Employee representative. Head of Treasury. KBN employee since 2003.

Martha Takvam (51)
Group Treasurer, Telenor Group.

Alternate to the Employee Representative
Knut Andresen (36), Head of Middle Office & IT

Directors

- Petter Skouen, President & CEO
- Siv F. Galligani, Deputy CEO

Section heads

- Helge Salseng, Lending
- Thomas Møller, Finance
- Kristine Falkgård, Funding
- Kjell Pettersen, Marketing
- Karina Follvik, Accounting
- Knut Andresen, Middle Office
- Annette Nielsen, Back Office
- Martin Spillum, Treasury
- Frank Øvrebø, Credit Analysis

Supervisory board

- Oddvar Flæte (Chairman)
  County Governor
  Sogn and Fjordane
- Elin Eidsvik (Vice Chairman)
  CEO
  Hamarøy municipality
- Thor Bernstrøm
  Assistant Director General
  Ministry of Local Government and Regional Development
- Arne Øren
  Chief Administrative Officer
  Østfold county
- Berit Flåmo
  CEO
  Frøya municipality
- Elisabeth Enger
  CEO
  Bærum municipality
- Karen Marie Hjelmeseter
  Mayor
  Sogndal municipality
- Knut Wille
  CEO
  Skien municipality
- Trond Lesjø
  CEO
  Gjøvik municipality
- Aud Mork
  Municipal board representative
  Aukra municipality
- Arne Johansen
  CEO
  Harstad municipality
- Børge Daviknes
  (employee representative)
  Portfolio manager

Alternates to the supervisory board

- Anne Nafstad Lyftingsmo
  Deputy Secretary
  Ministry of Local Government and Regional Development
- Nils R. Sandal
  Chief Administrative Officer
  Sogn and Fjordane county
- Hanne Braathen
  Mayor
  Storfjord municipality
- Rune Øygard
  Mayor
  Vågå municipality

Alternate to the employee representative

- Åse Kristensen
  Assistant Manager,
  Loan Administration

Audit Committee

- Britt Lund (Chairman)
- Kjell Inge Skaldebø
  (Vice Chairman)
  CEO
  Åfjord municipality
- Kristine E. Stray Ryssdal
  Lawyer
  Norsk Hydro ASA

Deputy member

- Roy Jevard
  CEO
  Melhus municipality

Auditor

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

Internrevisor

- KPMG AS
  Stein-Ragnar Noreng
  State Authorised
  Public Accountant

Graphic Design
Virtual Garden Design

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

Photos
Page 9 – Petter Ingeberg
Page 14 – Michio Hoshino/Scanpix.no
Page 17 – Wilhelm Egeland, Frogn VGS
Page 24 – André Hagen, Avisa Knutepunkt
Page 29 – Valdres Kommunale Renovasjon
Page 43 – Aurora kino, Alta

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