

Kommunalbanken Norway

Annual Results 2008

Significantly higher revenues give Kommunalbanken Norway (KBN) a solid result for 2008

Pre-tax profit amounted to NOK 543.04 million, and the net annual result after tax is NOK 389.95 million, compared with NOK 153.2 million in 2007. This result is equivalent to a return on value-adjusted equity of 27.2 percent after tax.

KBN had net interest revenue of NOK 507.7 million including interest income from management of surplus liquidity and repurchase of structured issues.

The annual results must be regarded as positive, taking into account the uncertainty in the financial markets. KBN's total market share increased from 37.1 percent in 2007 to 40.8 percent in 2008. Lending increased by NOK 16.3 billion from NOK 101.7 billion at year-end 2007 to NOK 118 billion at the end of 2008.

The institution's assets at year-end amounted to NOK 216.2 billion.

KBN's President & CEO Petter Skouen said: "I am satisfied with the annual results and lending figures. The past year has been marked by accelerating turbulence in the financial markets. This means that there are currently fewer financial institutions which are able to compete for loans to the municipal sector. For much of the autumn, KBN has been the sole player in the market.

"We have, however, followed our primary objective of being a predictable and reliable provider of credit. Our focus is on securing loans for the local government sector on reasonable terms. At the same time we have to take into account the institution's earnings in order to ensure that we continue to be a good financial partner for the municipal sector in the future."

The special conditions in financial markets have meant that certain types of KBN's structured bond issues have a significantly increased expected duration. The combination of a long remaining life and a general increase in credit premiums has led to significant gains in the repurchase of such bonds.

KBN benefits from the highest possible credit rating, AAA/Aaa from the two leading credit rating agencies, Standard & Poor's and Moody's. "The Norwegian government being a majority owner contributes to a great extent to KBN's creditworthiness," adds Skouen.

More than 90 percent of KBN's funding is raised outside Norway. Japan is still the most important market. In 2008, KBN issued NOK 67.9 billion in 12 different currencies, which is an increase of NOK 21.1 billion on the previous year.

KBN's Board of Directors proposes that NOK 43.75 million of its surplus for the year is allocated for dividend, and that NOK 346.2 million is transferred to other equity.

In June, KBN's share capital was increased by NOK 165 million. At the end of December, the share capital was increased by a further NOK 300 million. This increase allows KBN to lend a further NOK 20 billion to the local government sector and is part of the central government's stimulus package, an important element of which is increased public sector activity. KBN is fully government owned – 80 per cent directly by the Kingdom of Norway and 20 per cent by the local government sector, through the National Local Government Pension Fund, KLP.

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(Amounts in NOK 1 000)

Profit and Loss Account	2008	2007
Interest and related income on claims on credit institutions	105 561	123 898
Interest and related income on loans to customers	6 401 230	4 311 786
Interest and related income on interest-bearing securities	2 354 188	2 121 112
Other interest and related income	136 806	100 287
Total interest and related income	8 997 785	6 657 083
Interest and related expenses on liabilities to credit institutions	89 547	96 591
Interest and related expenses on issued securities	6 095 070	6 892 660
Interest and related expenses on subordinated debt	70 405	64 929
Other interest and related expenses	2 217 586	-679 670
Total interest and related expenses	8 472 608	6 374 510
Net interest and related income	525 177	282 573
Commission costs and costs of banking services	17 446	16 429
Net gain/(loss) on financial instruments at fair value	-2 304	8 090
Net gain/(losses) from repurchase of issued securities	115 211	5 577
Other operating income	802	691
Salaries	33 561	25 212
Pensions	6 796	5 579
Social security costs	5 955	4 882
Administrative expenses	14 789	15 609
Total salaries and administrative expenses	61 101	51 283
Depreciation on fixed assets	4 983	4 862
Other operating expenses	12 320	11 031
Profit before tax	543 036	213 326
Income tax	153 083	60 109
Net profit for the year	389 953	153 217
Earnings per share (amounts in NOK)	465	213

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Balance sheet

ASSETS	2008	2007
Cash and balances with central banks	2	2
Claims on credit institutions	3 900 393	188 642
Instalment loans	120 935 063	104 672 457
Notes, bonds and other interest-bearing securities	73 018 430	37 312 467
Financial derivatives	18 369 243	1 510 443
Deferred tax benefit	1 056	600
Intangible assets	512	459
Fixed assets	8 449	12 280
Other assets	1 229	876
Prepaid non-accrued expenses and accrued income	1 454	1 578
TOTAL ASSETS	216 235 831	143 699 804
LIABILITIES AND EQUITY		
Liabilities to credit institutions	1 922 231	2 016 270
Senior securities issued	200 087 489	133 785 752
Financial derivatives	10 239 659	5 149 478
Other liabilities	167 658	67 226
Pension liability	19 915	15 904
Accrued expenses and prepaid unearned income	11 163	29 077
Subordinated debt	1 253 414	1 140 179
Hybrid Tier 1 capital instruments	329 309	146 502
TOTAL LIABILITIES	214 030 838	142 350 388
Share capital	1 220 625	755 000
Retained earning	984 368	594 416
TOTAL EQUITY	2 204 993	1 349 416
TOTAL LIABILITIES AND EQUITY	216 235 831	143 699 804