Kommunalbanken Norway

Annual Report 2013

Key figures
(Amounts in NOK 1 000 000)

	2013	2012
RESULTS		
Net interest income	1 634	2 032
Core earnings[1]	1 131	1 393
Profit before tax	1 496	2 604
Profit for the year	1 083	1 876
Return on equity after tax [2]	14.94 %	37.10 %
Return on equity after tax (core earnings) [2]	15.61 %	27.55 %
Return on assets after tax [2]	0.30 %	0.51 %
Return on assets after tax (core earnings) [2]	0.31 %	0.38 %
LENDING		
New disbursements	43 717	30 677
Outstanding loans [3]	240 863	219 255
LIQUIDITY PORTFOLIO [3]	102 358	98 938
BORROWINGS		
New long-term borrowings	162 539	98 192
Repurchase of own debt	4 910	2 344
Redemptions	148 390	85 848
Total borrowings [3]	326 470	312 867
TOTAL ASSETS	361 918	348 953
EQUITY		
Equity	8 216	7 395
Core capital adequacy ratio	12.39 %	12.27 %
Total capital adequacy ratio	14.91 %	14.97 %

1 Profit after tax adjusted for unrealised gains/losses on financial instruments
2 Annualised return on equity and return on assets as percentage of average equity and average assets
3 Principal amounts

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A balancing act

KBN delivered good financial results for 2013. The institution can report a sound capital base, good growth in lending to Norwegian municipalities and a return on equity that exceeds the target return set by our owner.

KBN worked over the course of 2013 on developing the institution's corporate vision and values. Based on the role we want to play for the local government sector, we identified our corporate vision as “A long-term partner for local welfare.” KBN's mandate is to provide financing to the local government sector on reasonable terms offering both large and small borrowers the same low interest rate. This makes for more robust municipalities enabling them to provide the most welfare for each krone available. Building expertise through the years KBN proves a valuable partner for the local government sector. As a state-owned institution with a clear mandate KBN has access to favourable funding globally. Low borrowing costs combined with low operating expenses enable KBN to maintain its role as an efficient public sector tool. We believe this is a win-win situation for both owner and customer.

KBN delivered good results in 2013. Through many years we have provided return on equity exceeding our owner's expectations. The target return set by our owner reflects that we shall offer customers cost-effective financing and ensure the owner a satisfactory return on capital. Annual profit corresponding to half of the target return is channelled through the government budget to increase local welfare production. Financing of the municipal sector is characterised by strong competition from among others the domestic bond market. KBN offers all municipalities the same interest rate, providing equal access to financing on competitive terms. Funds we lend out to the local government sector are raised mainly by issuing securities in the international capital markets accessing investors and important capital markets worldwide. Access to favourable funding results in low interest rates to our customers. A cost-efficient operation with low operating expenses.

Our objective is not simply to maximise profit. KBN is a wholly owned state instrumentality with a clearly defined public policy mandate. At the same time, we are subject to the same regulatory requirements as other financial institutions in Norway. New regulatory requirements mean that KBN must hold twice as much equity for every krone we lend than was the case just a few years ago. KBN is closely monitoring developments concerning regulatory requirements. Important decisions concerning future requirements are made outside of Norway's jurisdiction. KBN works closely with similar European institutions when in dialogue with European decision makers and supervisory authorities.

Increased capital requirements will act as guidelines for KBN's operations. One way to comply with these requirements would be to reduce lending sharply. However, given the continuing need for local government investments, this is not an alternative available to us. The alternative is to build up more equity by earning more money. This expresses our commitment to ensuring that the way we conduct our activities today must not be at the expense of our ability to meet our customers' needs in the future. Regardless of changing regulatory requirements and the state of the national economy, we must always be in a position to offer low borrowing costs for the local government sector reflecting the sector's strong credit standing.

With effect from 2013, there is now a legal requirement for Norwegian companies to report on corporate social responsibility. We have responded by taking the time to thoroughly analyse our activities and try to identify where and how our operations have the greatest effect on the world around us, and how we can improve our contribution to society as a whole.

We believe that the best contribution we can make is to help Norwegian municipalities achieve their climate action targets.

This is why we offer a 'green' lending product with a lower interest rate than our current normal rate that is available for projects that form part of municipal climate and energy action plans. There is growing global demand for socially responsible investments and climate-friendly projects. In 2013, we made our first public issue of green bonds in the market. Climate funds globally invested in KBN bonds. Our ambition is to issue green bonds on a regular basis used to fund lending to municipalities for climate and energy related projects.

The new Norwegian government has, quite rightly, announced its intention to reform the local government sector, with the objective of strengthening municipalities. The government wants to ensure that municipalities have the financial and professional resources to deliver high-quality services for their citizens. In addition, municipalities will take on some new areas of responsibility. We believe that the government's focus on building robust municipalities with wider responsibility is a positive development. KBN is committed to continuing to be the most important provider of financing for the local government sector. This we believe is to be expected from a long-term partner for local welfare.

Kristine Falkgård
President & CEO

Førde town hall

For almost a century Førde municpality has rented town hall facilities. In September 2013 Førde moved into its own town hall. KBN has granted loans totaling NOK 100 million.

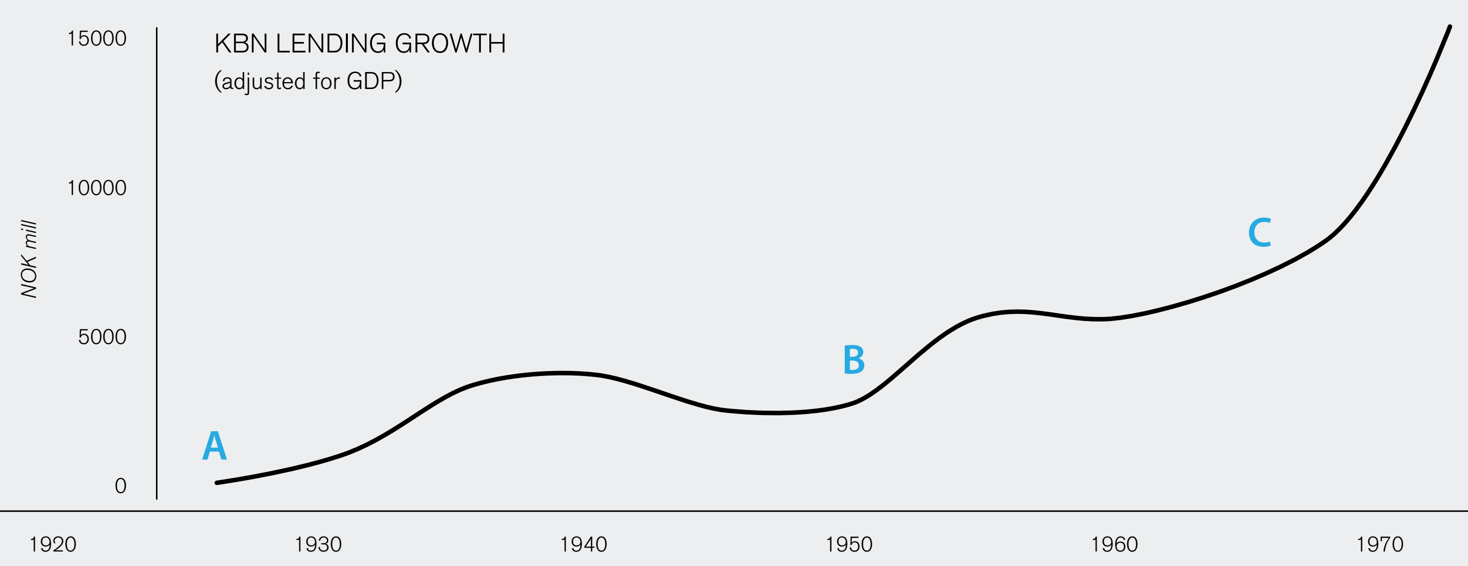
Tailor-made for local government borrowers

Financing for investments must meet the borrower's requirements. KBN has been providing financing to the local government sector for 87 years, and over this time the expectations and demands placed on local government welfare budgets have changed continuously.

There are two main reasons for local government borrowers to choose to borrow from KBN. Firstly, the institution is able to offer financing that meets borrowers' requirements, and secondly all borrowers benefit from the same low interest rate. KBN can offer loans for periods from three months to 40 years. As one of the largest funding operations in Norway, KBN is able to provide financing for both small and large projects at short notice. Norwegian municipalities vary considerably in size, ranging from under 1 000 residents to large municipalities with several hundred thousand residents. However, they all have the same wish to pay the lowest possible financing costs. KBN's mandate is to provide financing to the local government sector on reasonable terms. Accordingly, KBN offers both large and small borrowers the same low interest rate, subject to there being no difference in risk.

The scale of borrowing by the local government sector has grown steadily over a long period, and although the pace of growth is expected to slow somewhat, demand for financing is expected to remain high. The factors driving growth in local government borrowing include the significant scale of investment required to provide services in response to demographic changes, a backlog of maintenance requirements, the effect of climate change, and new requirements caused by changes in policy. In addition, the government intends to reform the public sector and extend its areas of responsibility.

Norway is seeing demographic changes in its population in several respects. The country is experiencing population growth due to greater life expectancy, a relatively high birth rate and a high level of immigration. The period to 2050 will also see an increase in the proportion of older people in the population. However, the change in the age composition of the population will be less dramatic than in some countries in southern Europe. Even so, the change will make it necessary for most municipalities to increase their investment in care for the elderly.



The health co-ordination reform carried out in 2012 transferred to municipalities much of the responsibility for caring for patients when they leave hospital. The reform provided incentives for municipalities to invest in preventative health measures. In the aftermath of the reform, and taking into account the expected increase in the proportion of older people in the population, many municipalities have invested in building local medical centres. One example of this is in the Valdres region, where six municipalities are jointly constructing a local medical centre with financing from KBN. The centre will be a connecting link between local healthcare and specialist health services. KBN is very pleased to be able to contribute to this kind of project.

The government administration reform of 2010 gave the local government sector greater responsibility for infrastructure. Municipalities and counties are now responsible for 88 % of the Norwegian road network. A survey carried out by Civitas in 2013 found that half of these authorities are experiencing increased maintenance requirements for municipal buildings and roads.

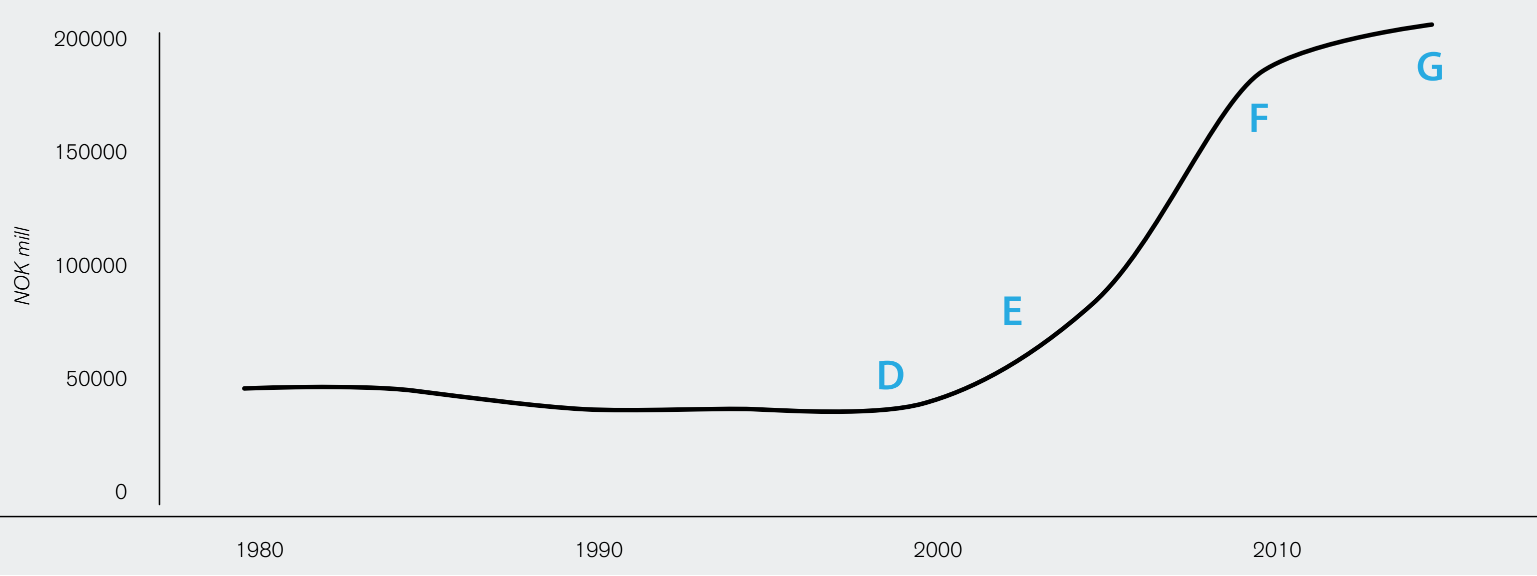
Over recent years, KBN has increased the scale of its lending for infrastructure projects. Recent projects have included the Hardanger Bridge, the Ryfast Tunnel and the Atlantic Ocean Road.

Climate change is causing more extreme weather conditions, and it is expected that increasing investment will be needed to manage the consequences, in Norway as elsewhere. Areas that will require investment include water management, drainage, and landslide risks. In addition, many municipalities and counties are committed to reducing their climate gas emissions and reducing energy consumption. All local authorities are required to have a climate and energy action plan, and these plans identify the measures needed to meet the authority's targets for energy efficiency, climate change and reduction in climate gas emissions. KBN has developed a green funding program that gives investors the opportunity to invest in green projects and offers municipalities and counties the opportunity of a lower interest rate on borrowing for projects that form part of their climate and energy action plans.

The new Norwegian government that came into power in 2013 stated in its political platform that it intends to reform the local government sector by transferring authority and responsibility to the municipalities and implementing a more robust municipal structure. The government's ambition is to implement the municipal reform during the current four-year parliamentary term. The reform may result in larger municipalities with greater responsibilities, and accordingly increased investment requirements. KBN has always adapted its activities in pace with changes in the local government sector's responsibilities and requirements, and will continue to do so.

Financing must reflect the nature of the investment being carried out. Investments carried out by local government borrowers are by their nature long-term investments, and therefore need long-term financing. KBN provides the long-term financing they need.

A 1927: Kommunalbanken was established in 1926
B 1950: Development of hydro electric power
C 1965: Social reforms
D 1999: KBN conversion into a limited company
E 2002: Kindergarten reform
F 2010: The government adminstration reform
G 2012: The health coordination reform



KBN in Japan

In the early 1970's, KBN was an active borrower in the Japanese long-term bond market. In 2013 Japan was KBN's main source of funding.

Big in Japan

KBN collects Norwegian municipalities' investment accessing main investors and important capital markets globally. Access to favourable funding resulting in low interest rates to our customers. One of KBN's main funding markets is Japan.

KBN differs from banks in that we do not take deposits. All the money that we lend out to the local government sector is raised by issuing securities in international capital markets. KBN is currently the largest Norwegian borrower on the international markets. The highest possible credit rating (Aaa/AAA) from Moody's and Standard & Poor's ensures that we achieve very low funding costs.

In order to be a stable source of financing for the local government sector, we have to avoid being dependent on market conditions in any particular market. KBN's funding program spreads its activities across all the continents and between different types of investors - everything from national central banks through to private accounts. One funding market has been extremely important for KBN over many years, namely Japan.

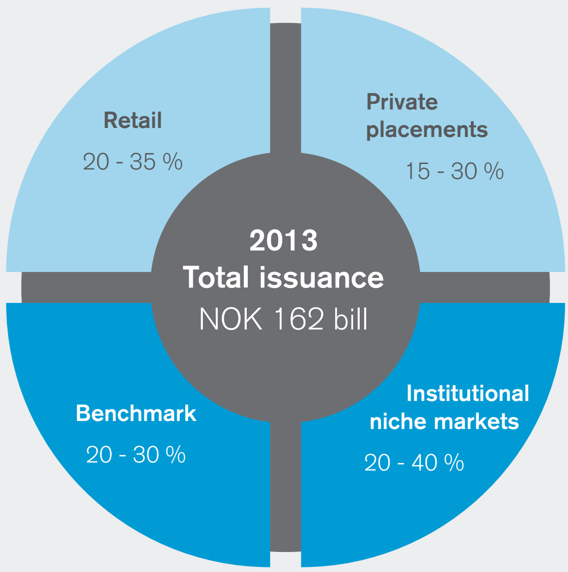
Uridashi and Samurai markets

KBN has a long history in Japan. Between the mid-1970s and the mid-1980s, KBN was an active borrower in the Japanese Samurai market, which is a market for long-term bonds intended for institutional investors. Following this period, the Ministry of Finance restricted KBN's funding to the Norwegian market until 1999.

Despite KBN's absence from the Japanese market for 15 years, it still had many contacts in Japan when it resumed borrowing activities in Japan in 2001. Over the last decade, extremely low or zero rates on bank deposits have created strong interest from Japanese households in finding alternative investment opportunities. Many small savers have chosen to invest their money in what are known as Uridashi bonds that typically have an element of FX or equity exposure and bought by Japanese household investors.

In recent years, KBN has built up its activity to become one of the largest names in the Uridashi market. This has a lot to

KBN FUNDING STRATEGY



do with our strong credit rating and the high quality of our balance sheet. Even after allowing for the cost of interest rate and currency hedging, Japan has been an important source of reasonably priced funding. This market has provided as much as 50% of the KBN's total funding requirements in some years. In 2013, the Japanese Uridashi market provided around 25% of the bank's new funding. In total, KBN raised 32% of its new funding in 2013 from the Japanese market.

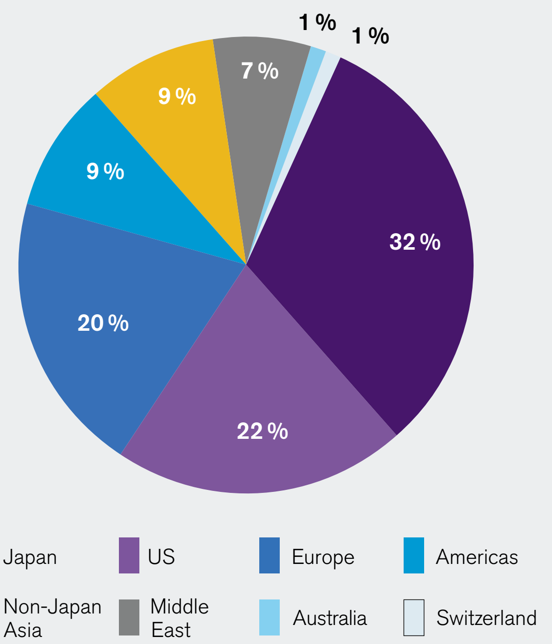
KBN's benchmark bond program

KBN has operated a USD benchmark bond program since 2005. What this means is that the bank has entered into a commitment to the market to issue a certain volume of bonds denominated in US dollar on a regular basis. Our benchmark bond program provides an important reference point for the pricing of bonds that KBN issues in other markets and currencies. The scale of the benchmark issues ensures that KBN has access to a wide investor base. With a minimum issue size of USD 1 billion and maturities typically between three and five years, the benchmark bond program represents the backbone of the institution's funding program. KBN is the only Norwegian financial institution that issues senior USD benchmark bonds.

Green bonds

KBN has issued green bonds since 2010. In the first couple of years, KBN's issuance of green bonds targeted Japanese household investors through the Uridashi market. In 2013, we saw the development of greater global interest in green bonds among institutional investors. KBN became one of the first European issuers of green bonds when it sold a USD 500 million three-year green bond issue with the funds earmarked for 'green' projects. The issue was a success, and was heavily oversubscribed.

2013 INVESTOR GEOGRAPHY



From foreign currency to Norwegian krone

KBN raises most of its funding outside Norway, by issuing bonds denominated in foreign currencies. As KBN provides financing to the local government sector in Norwegian kroner, there is a continuous need to convert cash flows from borrowings in foreign currency into lending in local currency.

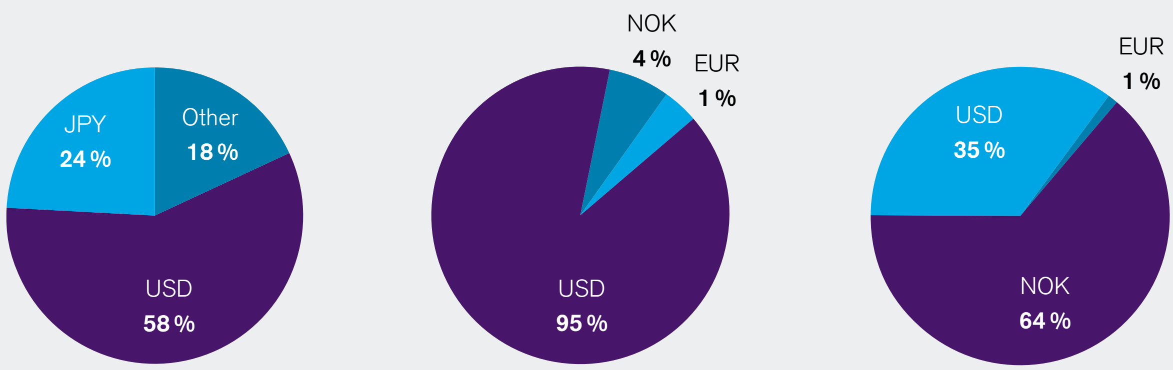
Depending on the market situation, KBN will normally raise funding by issuing bonds denominated in 10-15 different currencies over the course of a year, of which the majority is issued in US dollar, Japanese yen and Australian dollar. Other frequently used currencies include British pound, Swiss franc and Canadian dollar.

The conversion of foreign currency denominated funding to Norwegian krone is normally carried out in two stages as shown in the chart below. In the first stage, all currency borrowing is hedged into floating US dollar, euro or Norwegian krone exposure. For liquidity purposes, KBN also holds a portfolio of assets in euro and US dollar.

In the second stage, KBN converts the cash flows from floating rate funding denominated in dollar or euro into floating rate Norwegian krone cash flows. When loans are made to the Norwegian local government sector, KBN does not exchange these flows via the FX spot market. Instead, the bank converts the demand for Norwegian krone by entering into a swap agreement for a fixed period.

This conversion can be carried out through short term FX swaps, or by using basis swaps for longer periods. The market price of the swaps will accordingly affect KBN's net funding cost in Norwegian krone, expressed as a margin relative to the Norwegian interbank offered rate (NIBOR).

CONVERTING FROM FOREIGN CURRENCY TO NOK



KBN raises funding in foreign currencies

All funding is hedged against USD, EUR or NOK

Amounts borrowed are managed in currencies and converted into NOK to fund loans to the local government sector

Return to normalised market conditions

Historically, the market price of these swaps has been close to zero, representing a low structural credit and liquidity premium. This indicates that the spread against the reference rate to NIBOR after hedging was similar to the initial spread against US Libor. In the wake of the financial crisis and during the European debt crisis, when dollar liquidity was a scarcity, it became very favourable to convert cash flows from dollar into Norwegian krone. This was reflected as a negative margin on USD/NOK basis swaps (see chart). The USD/NOK swap is closely correlated with movements in the swap between euro and dollar cash flows. The attractive levels seen earlier for EUR/USD and USD/NOK swaps were driven during the financial crisis by strong demand for dollar, which resulted in a dollar premium. This premium has reduced over time as a result of shrinking balance sheets in the financial sector, greater dollar liquidity created by the Federal Reserve's quantitative easing, as well as an increase in the supply of USD denominated bonds issued by borrowers from non-US entities.

The reduction in the dollar premium was for some time replaced by a 'euro discount' driven by the European debt crisis and the measures implemented by the European Central Bank to improve euro liquidity. This resulted in swaps converting dollar to kroner again trading at historically low levels. In pace with the successive withdrawal of these liquidity measures, the margin on basis swaps between EUR/NOK and USD/NOK has successively reduced. Additionally, improving global economic conditions have reduced the proportion of foreigners issuing NOK denominated bonds, as the need for a safe haven, which Norway represents, is reduced.

Liquidity management

KBN holds a liquidity portfolio in order to ensure sufficient liquidity at all times. In accordance with the financial guidelines the liquidity portfolio should, over time, be equivalent to 12 months' net cash requirement allowing for growth in lending, and this typically means that liquidity accounts for around 30% of the total balance sheet.

The liquidity portfolio is invested in fixed income securities denominated in Norwegian krone and foreign currencies. In the same way as funding, the liquidity portfolio's holdings are mainly denominated in foreign currencies. Since funding cash flows denominated in US dollar and euro are also used to finance the liquidity portfolio, not all funding cash flows from international bond issuance are converted into Norwegian krone cash flows.

The guidelines for liquidity management permit investment in bonds issued by OECD states, state-guaranteed entities, state-related undertakings, regional authorities, financial institutions and credit institutions, as well as supranationals.

PRICING OF USD/NOK BASIS SWAPS AND FX SWAPS 2008- 2013

Basis swap prices for 1 and 5 years. The level of FX swap prices represents a rolling weighted average of transactions on a monthly basis. (Source: Bloomberg LP)

The Hardanger Bridge

The bridge is the tenth longest suspension bridge in the world spanning the fiord between Valvik in Ulvik and Bu in Ullensvang. It replaces a previous ferry connection. The bridge was officially opened 17 August 2013. KBN has granted loans totaling NOK 1.6 billion.

An update on the Norwegian economy

Through financially turbulent times Norwegian economy has held a unique position compared to most other countries. In 2014 the forecasts is that mainland GDP in Norway will grow by around two per cent.

2013 was a year of cautious optimism on the economic prospects for Europe. Economic conditions in the euro area were largely in line with expectations, although the way ahead remains uncertain. A number of countries implemented comprehensive structural reforms, but it will take some time before these make a contribution to stronger economic growth. Despite a range of exceptional monetary policy measures, including historically low interest rates, unemployment remains high in many European countries.

The situation in Norway

The Norwegian economy has maintained its strong position. The OECD estimates for 2013 estimate that the general government financial balance was equivalent to 12.3 % of GDP. The Norwegian Ministry of Finance estimates a current account balance for 2014 is equivalent to 10.6% of GDP.

The size of the Government Pension Fund - Global exceeded NOK 5 000 billion in 2013. The fund is an instrument for general state saving, and in contrast to traditional pension funds it is not earmarked for any particular obligations. A separate fiscal rule applies to the fund, which sets a limit to the proportion of retained revenue from the petroleum industry that can be allocated to the annual government budget. The fiscal rule stipulates that a maximum of 4 % of the fund's value can be allocated in this way, but the rule does allow some flexibility to adjust the amount that can be allocated in response to the state of the economic cycle in order that allocations from the fund have a counter-cyclical effect.

Norges Bank, the Norwegian central bank, forecasts that GDP for mainland Norway will grow by around 2 % in 2014 and 2.5 % in 2015. The Norwegian krone exchange rate weakened over the course of 2013. It seems likely that this was a result of some weak economic figures and fall in the level the market expects for the Norwegian key policy interest rate. Exports may grow somewhat more rapidly as result of the weaker exchange rate, and may also benefit from stronger international economic growth over the next few years.

The Ministry of Finance considers that, in overall terms, GDP growth for Norway's trade partners was 1 % in 2013 and will be double that in 2014. Weaker economic conditions in Norway, combined with low growth in costs for our trading partners, may have an impact on the annual wages settlement over the next few years. In addition, it seems likely that economic immigration will also serve to hold back growth in wages in Norway.

NORWAY AND THE NORWEGIAN ECONOMY

- Norway, officially the Kingdom of Norway, is a Scandinavian unitary constitutional monarchy. Norway has a total area of 385,252 square kilometres and a population of 5.1 million.
- The Kingdom of Norway (AAA /Aaa) is one of the strongest economies in the world, with sound economic fundamentals and a highly developed industrial base.
- Norway's GDP per capita is among the highest in the world, and Norway has the highest standard of living in the world in terms of the United Nations Human Development Index.
- Norway had a budget surplus in 2013 equivalent to approximately 16.0% of GDP, representing an increase from 15.2% of GDP in 2012.
- The most important trading partners for Norway's exports are Great Britain, Germany and the Netherlands, while the major sources of imports are Sweden, Germany and China.

Growth in population

On average, 69 700 Norwegians were registered as unemployed in 2013. This is equivalent to 2.6% of the workforce, representing a 0.1 percentage point increase from 2012. After a number of years of strong growth in employment, growth has slowed somewhat and one result of this has been a reduction in net immigration. However, it remains the case that Norway's population growth rate is one of the highest in Europe. Population growth in 2013 was 1.2%. Growth in population and changes in the age distribution will contribute to the need for the local government sector to maintain a high level of investment in the future.

Petroleum sector

The Norwegian petroleum sector is experiencing a high level of activity and strong optimism. The authorities are focusing on increased extraction rates from fields that are already in production, development of commercially viable finds, and exploration activity including opening up new areas for exploration. The petroleum industry is Norway's largest industry. In 2012 the petroleum sector accounted for 23% of value creation in Norway, and 30% of government revenue. Other important industries are power generation, maritime activities, seafood production and ICT.

High level of activity in the local government sector

The level of activity in the local government sector has grown almost without interruption since 2004 as a result of expansion of the services provided by the sector. This period has been characterised by relatively strong growth in income and strong population growth. Government initiatives have accounted for a large part of the growth in activity, including areas such as services for children and young people, care for the elderly, and physical infrastructure.

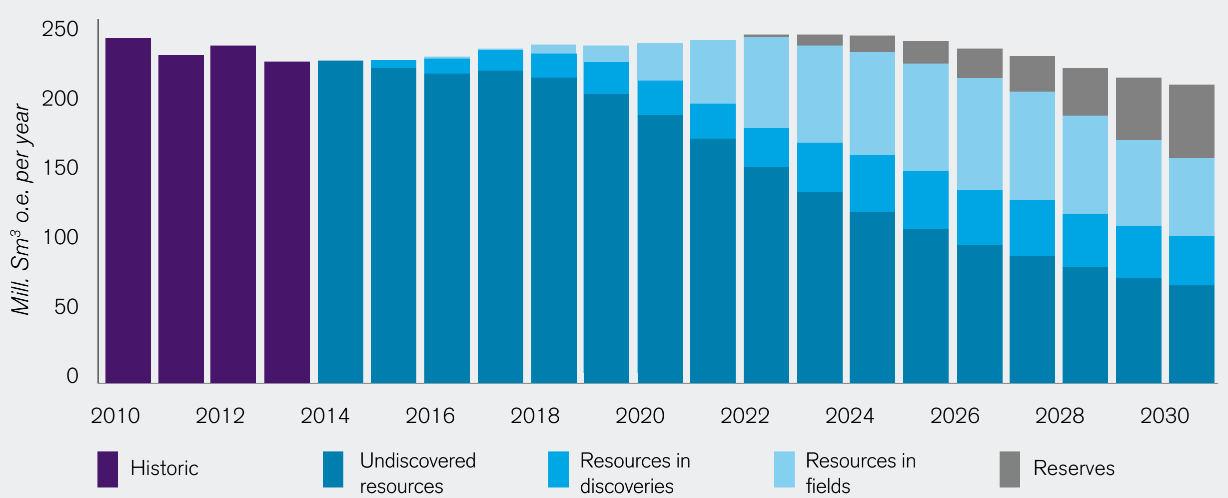
The local government sector administers a sizeable proportion of the Norwegian economy's resources. The local government sector's income is equivalent to around 18% of GDP for mainland Norway. The National Budget for 2014 estimates that growth in real terms of the local government sector's total revenues in 2013 was 1.8%. Over recent years, the sector's net surplus has on average been equivalent to 3% of revenue. According to figures published by the Norwegian Association of Local and Regional Authorities (KS), the local government sector is planning investment spending in the order of NOK 55 billion in 2014. More than half of this investment will be in schools, nurseries, health and social care.

New government

A new minority government came into power in Norway in 2013, made up of the Conservative Party and the Progress Party. In its inaugural address to the Norwegian Parliament, the new government declared that it is committed to making only prudent use of the investment return from oil revenues in accordance with the guidelines for fiscal policy. The government's amendment to the National Budget for 2014 included measures to strengthen investment in knowledge, health services and transport infrastructure, as well as introducing a number of tax cuts. The government has also announced that it intends to start work on a reform of municipalities.

PETROLEUM PRODUCTION 2010 - 2030

(source: NPD)



The Norwegian local government sector as an investment case

The sound financial position of the Norwegian local government sector and the strict financial framework within which it operates make the sector a creditworthy borrower.

The local government sector accounts for a large proportion of public sector services production in Norway, and with the help of a government system of revenue transfers is able to offer a unified standard of services throughout the country. The Norwegian local government sector is made up of borrowers that represent extremely low risk. This is a result of factors including the sector's sound financial position and a robust framework that defines the duties and responsibilities of local government authorities and imposes strict limits for their financial conduct. This includes clearly defined restrictions on what activities municipalities and counties are permitted to finance by borrowing. Local government borrowers principally take up loans to finance investment in delivering welfare services such as schools, nurseries and sheltered housing for the elderly, as well as the provision of services for drinking water, sewage and waste collection. The local government sector receives a large proportion of its revenue from central government transfers. The objective of the system is to compensate for differences between municipalities in order to ensure a unified service delivery throughout the country. Municipalities and counties are responsible for areas including education, primary health care, public transport and infrastructure.

Organisational structure of the public sector

The public sector in the Nordic region is made up of local government authorities and central government authorities. In Norway, Sweden and Denmark, the local government authorities comprise two levels: counties and municipalities. This means that there are three levels of public administration charged with providing for the needs of the population at the local, regional and national level.

In Norway, the principle of local democracy is considered to be very important, but in contrast to several other European countries, this principle is not enshrined in the Norwegian constitution. The legal framework for local government is laid down by the Norwegian Parliament through legislation and decisions, and Parliament decides on the division of duties between the levels of local government authorities. In addition, the government can impose new duties on municipalities and counties by legislation or Parliamentary decisions. This means that Norway has more comprehensive centralised control of local government authorities than is the case in many other European countries.

NORWEGIAN COUNTIES AND MUNICIPALITIES

- Norway is divided into 19 counties, which are split up into 428 municipalities.
- More than half of the municipalities have fewer than 5 000 residents. 13 municipalities have over 50 000 residents.
- The total revenue of the local government sector was estimated in the National Budget for 2012 to be NOK 374 billion. This is equivalent to around 17.8 % of GDP for mainland Norway.
- The local government sector employs 19.3 % of the country's workforce.
- The local government sector is responsible for welfare services such as health care, education, transport and infrastructure.
- Municipalities and counties are subject to strict central government control, regulation and supervision.
- Municipalities and counties are not permitted to declare themselves insolvent.

Municipalities and counties have an important position in Norwegian society, and account for a large proportion of public sector services production. Measured in terms of working hours in the Norwegian economy as a whole, the local government sector accounted for 15.5 % of employment in 2013.

Relationship between central government and local government

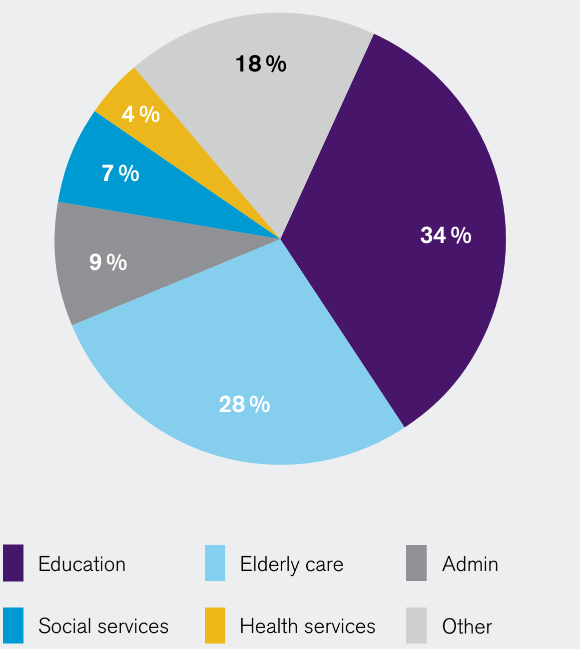
The accounting and budgeting processes of municipalities and counties are subject to extensive control by the central authorities. The state's administration of the local government sector aims to balance national interests and the principle of local democracy. This involves giving municipalities and counties scope to prioritise and adapt services in response to local conditions and needs. The Ministry of Local Government and Modernisation is responsible for implementing policy in the local government sector. The Ministry is also the owner of KBN.

The legislative framework for the local government sector is stipulated in the Local Government Act. The purpose of this legislation is to facilitate functional municipality and county democracy, with efficient and effective management of municipality and county duties with a view to sustainable development. The Local Government Act stipulates that local government authorities are not permitted to declare themselves insolvent. In addition, the legislation gives central government the authority to make changes to a local government authority's budget and financial plan in order to ensure that its activities are on a financially sound basis within a reasonable time. The Local Government Act stipulates that a municipality or county authority that is in 'financial imbalance' must be put onto a publicly available watch list. 'Financial imbalance' may mean that the authority is budgeting for a deficit in its annual budget or in a four-year financial plan. All municipalities and counties that are on the list, known as the Robek list, must seek approval from the Ministry of Local Government and Modernisation for all borrowings and for their financial plan.

It is extremely unlikely that a municipality or county could experience difficulties in meeting its liabilities, but in such a situation central government would intervene to appoint a supervisory board. KBN has not incurred a loss on its lending at any time in the 87 years that it has been in existence.

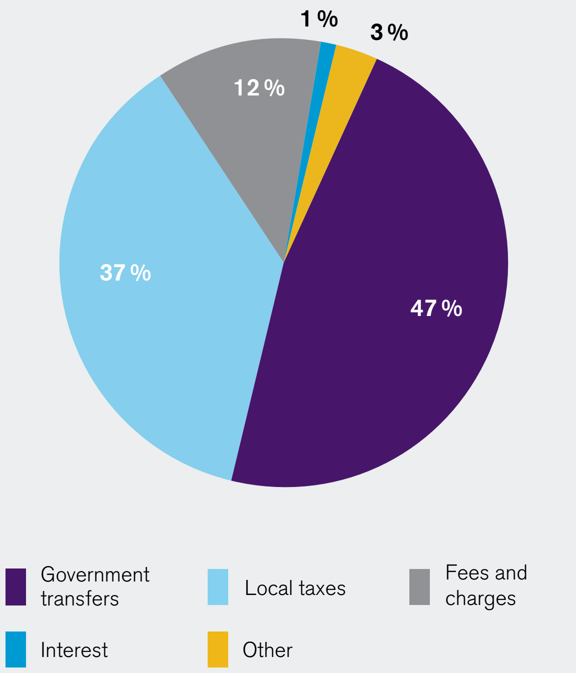
MUNICIPALITY EXPENDITURES

(source: Statistics Norway)



MUNICIPALITY REVENUES

(source: Statistics Norway)



Corporate social responsibility

KBN recognises its responsibility to contribute to sustainable social development and long-term value creation by operating its business in a responsible way that pays proper attention to environmental, ethical and social issues.

KBN carried out an extensive program of work over the course of 2013 to identify and prioritise its focus areas in relation to social responsibility, based on an assessment of which aspects of its business activities represent material risk or have particular commercial significance in relation to social responsibility. The program has addressed the following tasks:

- Understanding what KBN's stakeholders expect in relation to social responsibility
- Identifying risks and opportunities
- Prioritising specific areas of focus on social responsibility

On the basis of this review, the following areas have been identified as particularly relevant for KBN:

- Ethical conduct and prevention of corruption and money laundering
- Climate change and the environment

The table on the next page shows the measures that KBN intends to implement in these two areas, and the targets set for 2014.

Improving financial skills

KBN wishes to play a role in improving the level of expertise in accounting and finance in the local government sector. As part of this, KBN seeks to collaborate on a broad basis with the major organisations in the local government sector. KBN's assistance includes financial support, sharing expertise and providing technical support for events. KBN enters into detailed annual agreements with its major partners in this area.

In order to encourage the development of expertise in this area, KBN has established an annual award for the "Local government finance manager of the year" as well as an annual student scholarship.

Eco-friendly operations at KBN

The activities carried out by KBN do not have any adverse effect on the external environment other than the effect of normal office operations. KBN's office premises provide good opportunities for energy efficiency. Energy consumption is monitored by a network of sensors for power, cooling and heating. Detailed recording and monitoring of energy consumption provides a unique opportunity to control and reduce KBN's energy consumption. Measures have been implemented for recycling, waste reduction and systems to reduce energy consumption, and these will continue to operate.

Due to the nature of its operations, KBN's direct effect on total greenhouse gas emissions and environmental impact are minimal. KBN prepares an annual environmental report which details performance in relation to a range of established criteria. The presentation of performance measures is based on the climate calculator for companies provided by Klimaløftet, which is the national governmental campaign for awareness on climate change.

The Eco-Lighthouse Foundation re-certificated KBN's operations as environmentally sustainable in 2012. KBN is also a Grønn Punkt Norge (Green Dot Norway) member. Green IT is implemented by using virtualisation of all servers, and workstations have been replaced by ultra-thin clients. KBN also has an eco-friendly travel and transport plan intended to make employees' journeys to and from work and business travel as environmentally friendly as possible.

Suppliers

KBN applies environmental criteria for its suppliers of goods and services, and the bank actively prefers suppliers that have environmental certification.

Ethical conduct, and prevention of corruption and money laundering

Measures	*Progress indicators*	*2014 target*
Education and training for managers and employees in ethical conduct and challenges	Numbers participating in workshops Awareness of ethical guidelines in response to employee survey questions No breaches of the rules on own-account trading	Revise and formalise the ethical guidelines Annual workshop for all employees Systematic reporting on own initiative of any benefits offered or received
Establish KBN's corporate vision and values	Implementation of KBN's corporate vision and values	Meetings for employees to communicate and implement the bank's corporate vision and values, together with training in handling dilemmas
Increase awareness of corruption and money-laundering, and minimise the risk that KBN might be linked to such issues		Identify the risk of corruption and money-laundering in relation to key business processes and agreements with other parties (Membership of Transparency International)

Climate and the environment

Measures	*Progress indicators*	*2014 target*
Lending product with favourable interest rate for climate-friendly investments by municipalities and counties	Volume of green lending	Increase the volume of green lending
Increase awareness and knowledge of the bank's green loans product	Range of marketing activities to raise the profile of the bank's green loans product Participation in conferences and seminars	More advertising of the green loans product Presence at important conferences and seminars Separate climate-awareness session at KBN's annual conference
Issuing Green bonds	Volume of Green bonds in the funding portfolio	Issue new Green bonds in 2014
Environmentally-friendly operations at KBN	As an Eco-Lighthouse certificated enterprise, KBN publishes a separate environment report providing environmental performance scores	Achieve the performance targets set in the environment report for 2014

The Northern Lights Cathedral

The church is not just an ordinary church. It is meeting point with a youth cafe and an arena for cultural events. The Northern Lights Cathedral is situated in the center of Alta and was consecrated on 10 February 2013. KBN has granted loans totaling NOK 83 million.

The Board of Directors' Annual Report 2013

Kommunalbanken Norway ("the Company" or "KBN")'s vision is to be a long-term partner to the local government sector and its financing of local welfare. As a state-owned institution with a clear mandate KBN has access to favourable funding. Low borrowing costs combined with low operating expenses enable KBN to maintain its role as an efficient public sector tool. During 2013 KBN granted 670 loans, amounting to NOK 43.7 billion in total.

KBN's lending grew by 9.9 per cent in 2013. Population growth and government reforms continue to cause considerable demand for investments in the local government sector. KBN finances a wide variety of local welfare investments, including schools, kindergartens and projects related to municipal climate and energy action plans. KBN is an important source of financing for road projects following the introduction of the administrative reforms in 2010.

Profit for the year was NOK 1 083 million, compared to NOK 1 876 million in 2012. Return on equity after tax was 14.9 per cent compared to 37.1 per cent in 2012. Financial results are influenced by lower interest rate margins owing to more stable financial markets.

KBN is well capitalized and meets current regulatory Core Tier 1 capital requirements. KBN is closely monitoring developments concerning regulatory requirements and will continue to adapt to the new requirements.

KBN's total assets were NOK 361.9 billion at year-end 2013. Loans to Norwegian municipalities and counties amounted to NOK 240.9 billion. KBN's liquidity portfolio amounted at year-end to NOK 102.4 billion.

The Central Government, represented by the Ministry of Local Government and Modernisation, is the sole owner of KBN. KBN's registered office is in Oslo.

Annual accounts

The Board of Directors confirms, in accordance with the Norwegian Accounting Act § 3-3a, that KBN's ability to continue as a going concern remains unchanged, and the financial statements (of 2013) are prepared on a going concern basis. The Board of Directors considers that the financial statements for as at 31 December 2013 provide an adequate description of KBN's financial position at year-end. The annual accounts have been prepared in accordance with International Financial Reporting Standards, IFRS, as adopted by EU.

Profit for the year 2013 was NOK 1 083 million, a decrease of NOK 793 million compared to 2012. Net interest income on lending and liquidity management amounted to NOK 1 634 million in 2013, compared to NOK 2 032 million in 2012. Normalisation of the market for hedging instruments led to increased funding costs in Norwegian kroner. Interest rate margins from securities held in the liquidity portfolio were also reduced in time with lower spreads in the bond market.

Net trading income (from repurchase of own debt and sale of securities in the liquidity portfolio) totaled NOK 58 million in 2013, up from NOK 29 million in 2012.

The results were to a lesser degree influenced by fluctuations in the market value of financial instruments. Net unrealised loss on financial instruments amounted to NOK 68 million in

2013. In 2012 net unrealised gain on financial instruments amounted to NOK 671 million.

Total operating expenses were NOK 106 million in 2013, a marginal decrease from NOK 107 million in 2012. Total operating expenses amount to 0.03 per cent of total assets.

Total assets as of 31 December 2013 amounted to NOK 361.9 billion, compared to NOK 349.0 billion at year-end 2012.

KBN's total eligible capital as of 31 December 2013 amounted to NOK 9.3 billion, of which NOK 7.7 billion was Core Tier 1 capital. KBN's core capital consists of share capital and retained earnings. Core Tier 1 capital ratio was 12.39 per cent at year-end 2013 and total capital ratio 14.91 per cent.

Lending

KBN granted 670 new loans and cases of debt refinancing in 2013, NOK 43.7 billion in total. By year-end the loan portfolio amounted to NOK 240.9 billion, an annual increase of 9.9 per cent. KBN's market share remained around 49 per cent.

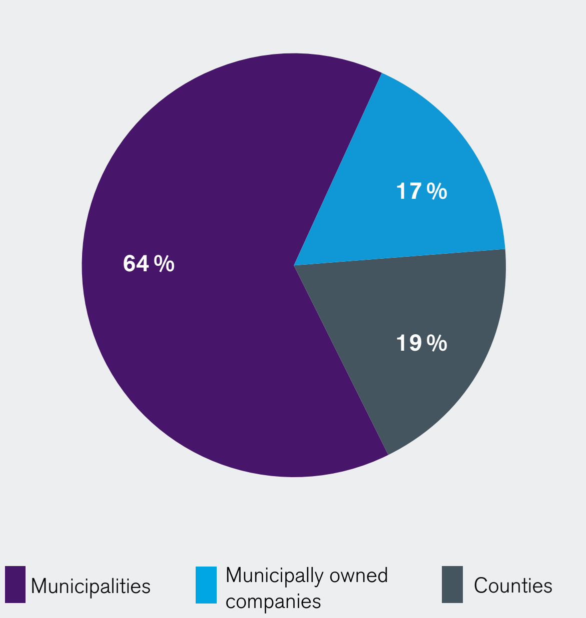
At year-end 2013 all counties, 98 per cent of Norway's 428 municipalities as well as Longyearbyen Local Council serviced loans in KBN, in addition to municipally owned companies. Loans to limited liability companies require municipal or county guarantee, primarily through the issuance of an unconditional guarantee of payment.

Population growth and changes in age distribution have resulted in a substantial and continuous demand for investments in the local government sector. A major share of new loans has been transferred to schools, kindergartens, nursery homes and water supply and sanitary projects. At year-end 2013 KBN had disbursed loans to toll road companies amounting to NOK 34 billion, an increase of 70 per cent since the government administration reform came into effect in 2010.

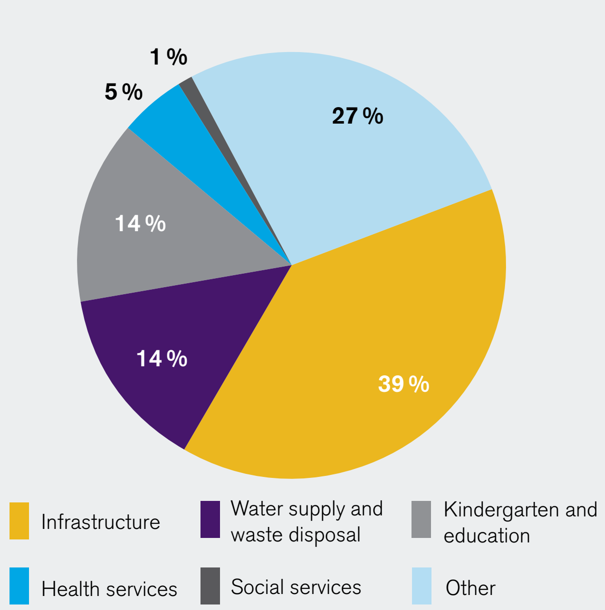
The municipal sector is characterised by strong competition from among others the domestic bond market. KBN offers all municipalities the same interest rate, providing equal access to financing on competitive terms.

KBN continued its focus on customer relationships through

2013 LOAN VOLUME BY BORROWER



2013 NEW LOANS BY SECTOR



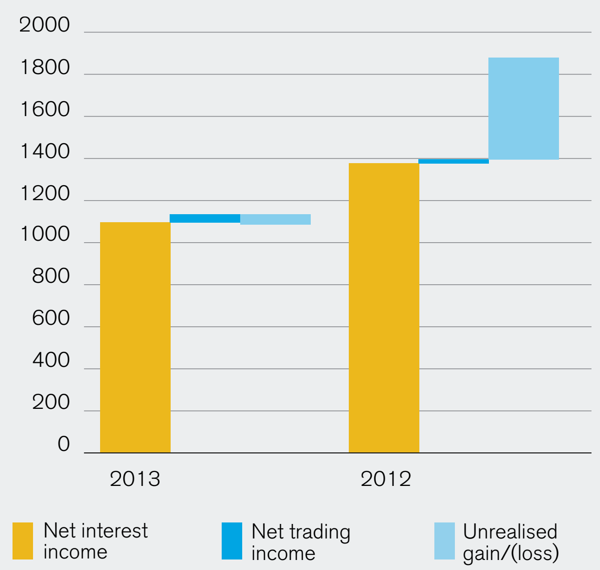
activities such as customer meetings and seminars with current topics relevant to the sector. KBN offers real-time financial information and access to the municipality's own loan portfolio via KBN's web site, as well as a loan administration tool aimed at facilitating municipalities on the liability side.

KBN has had no loan losses in 2013. No defaults or payment problems among customers underpin expectations of no losses in 2014.

According to law of public procurement municipalities are supposed to tender banking agreements. As a neutral part KBN offers to assist municipalities when asking for offers for payment services, and carried through 11 such negotiations in 2013.

Green funding and green lending
KBN is committed to environmental sustainability. To follow up on its commitment, KBN offers an interest rate product aimed at local climate-friendly investments. KBN's green floating rate is 0.1 per cent lower than the ordinary interest rate and is offered to projects rooted in the municipal climate and energy action plan. NOK 8.6 billion had been disbursed in loans with green floating interest rate at year-end 2013.

PROFIT AFTER TAX
(amounts in NOK mill)



There is an increasing demand worldwide for sustainable and responsible investments and projects with a climate benefit. KBN launched its first public green bond in 2013. The 500 million US dollars bond issue was substantially oversubscribed. The Norwegian government established research center, CICERO, was enlisted to carry out an independent assessment of KBN's green bond framework. KBN plans to become a regular issuer of green bonds to finance municipal climate and energy related projects.

Funding
KBN maintains its AAA/Aaa rating with stable outlook and its bonds are regarded as attractive investments. Strong creditworthiness is related to the creditworthiness of its customers, state ownership, Norway's solid fiscal position and KBN's public policy mandate to provide low cost funding to the Norwegian local government sector.

KBN has established a funding strategy based on four building blocks/key segments: Benchmark funding, issuance in institutional niche markets, private placements to institutional investors and retail issues. Focusing on a variety of funding markets, KBN has established stable access to funding markets on favourable terms and through a well-diversified investor base. New long-term borrowings amounted to NOK 162.5 billion in 2013, an increase of more than NOK 60 billion compared to 2012. Japanese investors continue to be KBN's main source of funding. KBN does however see a continued trend towards a more diversified investor base with growth in markets such as the US, Europe and South-America.

Bond issues were done in 14 currencies in 2013. A total of five billion US dollars were sold in benchmark loans throughout the year.

Total borrowings increased from NOK 312.9 billion in 2012 to NOK 326.5 billion in 2013.

Liquidity
In line with KBN's financial policies the liquidity level should be equivalent to 12 months' net capital requirements, including

lending growth. In any given situation KBN is able to meet all obligations over the next 12 months without any new borrowing.

Management of the liquidity portfolio is to ensure that KBN at any time has sufficient liquidity to meet its obligations. Surplus liquidity is managed with a low-risk investment strategy, both in terms of credit and market risk. The liquidity portfolio is invested in liquid fixed income securities issued by governments, states, regional governments, multilateral development banks and financial institutions, with high credit ratings. No interest rate risk or cross currency risk is taken.

Risk management and internal control

Risk management shall ensure responsible management of KBN's capital and the maintenance of the KBN's AAA/Aaa credit rating. KBN follows regulation on risk management and internal control as set by Financial Supervisory Authority in Norway. The Board of Directors determines annually financial guidelines and risk limits, guidelines for lending and approves purchase of financial instruments. The Board of Directors has determined financial guidelines for internal control and considers the administration's evaluation of internal control annually. To further increase efficiency in internal workflow, KBN will implement a new IT system in 2015.

The Audit Committee is a preparatory body for the Board of Directors in its monitoring of risk management and internal control. The Board of Directors determines annual audit plans. The internal auditor functions as an independent supervisory body in the Board of Directors' monitoring of the institution. The Board of Directors discusses the risk evaluation and accident report from the administration quarterly as an integrated part of the activity reporting of the institution.

Credit risk represents KBN's single largest risk. Governing, monitoring and evaluation of KBN's credit exposure are of great importance and are carried out on a continual basis.

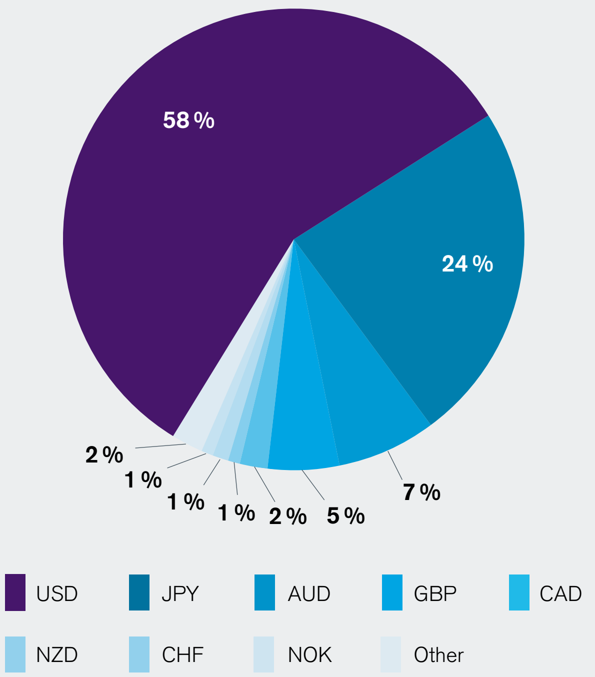
Credit risk in the lending portfolio is limited to payment deferment as payment obligations cannot be eliminated. The provisions of the Local Government Act do not permit local and regional authorities to file for bankruptcy. The Local Government Act also provides the procedures to be followed if payment deferral must be implemented. The state, through the Ministry for Local Government and Modernisation takes over the management of a municipality if the municipality fails to fulfil its payment obligations. This gives loan providers protection against any loss of accumulated debt and accrued interest.

Credit risk arising from KBN's liquidity management and hedging operations is low due to strict policies on entering into financial agreements. The framework for liquidity management approved by the Board of Directors, requires rating of at least A2 / A from the rating institutions Moody's and Standard and Poor's, maturity, instrument type, type of counterparty and the counterparty's home country.

Derivative trades are subject to standard ISDA agreements and the establishment of collateral agreements, including cash collateral with derivative counterparties.

Procedures and processing for managing credit risk are es-

2013 DEBT PORTFOLIO



tablished. All counterparties are reviewed regularly and the Board of Directors is kept informed about KBN's counterparty risk. An extended market update is given quarterly.

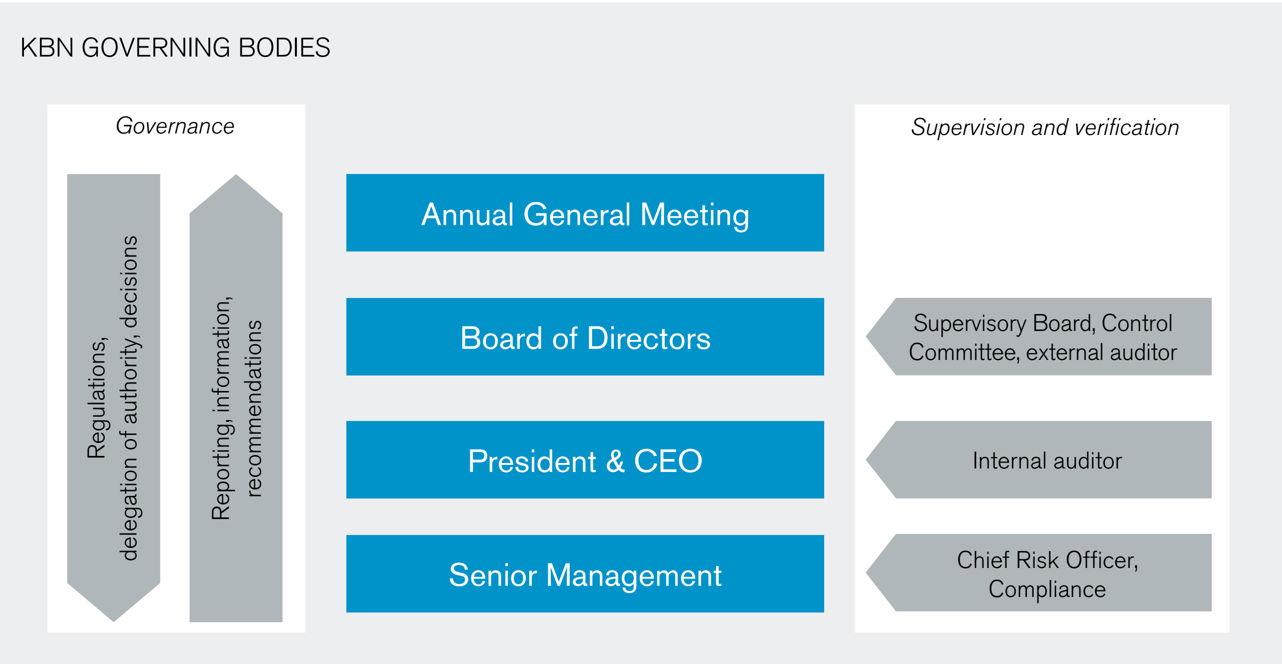
Market risk consists primarily of interest rate and currency risk. KBN's financial policies allow minimal exposure to interest rate and currency fluctuations. Interest rate and currency risk are managed by ensuring that KBN's assets and liabilities are balanced at any time.

Liquidity risk is minimized by the fact that the liquidity portfolio over time will equal 12-month net capital requirements. The portfolio, moreover, is invested in liquid securities of high credit quality and short duration.

Operational risk is present in all areas of KBN's operations. KBN minimizes operational risk through a continuous effort to ensure good internal controls, ethical behaviour and well skilled employees. The Board of Directors is regularly informed about KBN's operational risk.

Corporate governance
KBN complies with Norwegian recommendations for corporate governance in areas relevant to KBN's organisational and ownership structure. The purpose of the recommendations is to ensure that companies practice corporate governance clarifying the distribution of roles between shareholders, the Board of Directors and the management, in addition to specifications in applicable legislation. The recommendations are intended to strengthen confidence in companies and contribute the greatest possible wealth creation over time, to the benefit of the shareholders, customers, employees and other stakeholders.

KBN's governing bodies are organized in accordance with the provisions of the Companies Act and KBN's Articles of Association. The Annual General Meeting elects the Board of Directors, the Supervisory Board and the Control Committee. The Supervisory Board shall supervise KBN's business to ensure that the institution's objectives are being promoted in accordance with law, regulation, memorandum and Articles of Association, elect a state-authorised public accountant to act as auditor and adopt instructions for the Control Committee. The Control Committee shall supervise the business of



KBN, the transactions of the Board of Directors included. The Board of Directors is responsible for managing KBN's business, appointing the CEO, granting loans and delegate authority, make decisions and grant authority for new loans raised and electing the internal auditor. The Board of Directors has established two sub-committees with the members chosen by and among the members of the Board of Directors; the Audit Committee and the Remuneration Committee.The CEO is responsible for the day-to-day management of KBN and its business in accordance with the instructions laid down by the Board of Directors and approved by the Supervisory Board. Internal control is carried out by head of risk management and head of governance, support and compliance, both reporting to the CEO.

KBN's internal control shall ensure that risk analysis and risk monitoring is carried out, and that operations are conducted in accordance with approved policies and guidelines. Internal control is an integral part of KBN's management and planning process. Status and risk is monitored at departmental level and reported to the CEO and the Board of Directors. Internal control on financial reports ensures reliable accounting information in the monthly, quarterly and annual reports. Internal control systems and risk analysis is evaluated ongoing by KBN's auditor, Audit Committee and Board of Directors.

Corporate communication

The Board of Directors' aim is to increase the understanding of KBN's framework conditions among stakeholders.

KBN works closely with a number of organisations within the local government sector. As a major provider of loans to the sector KBN is present in forums where important local government finance issues are discussed. KBN organizes various conferences and seminars primarily aimed at municipal CEO and CEO's staff.

During 2013 KBN has developed a new vision and new values for its activities.

A new visual design will be launched in 2014.

Ethics and corporate social responsibility

KBN's social responsibility role is described in the Ownership Report, No. 13 (2010-2011):

"KBN's sector policy function as a reliable supplier of credit to local government with the best possible loan terms, is the core of KBN's social responsibility."

With close to 50 per cent market share for loans to the local government sector, KBN is a significant market participant. KBN is a long-term financial partner providing funds enabling municipalities, counties and municipal companies to achieve their social welfare objectives. To be a long-term partner implies that KBN shall act responsibly and contribute to sustainable social development.

KBN considers each loan application individually so that lending is in line with municipal council decisions as well as current internal and external regulatory requirements related to loan agreements. The local government sector is governed by comprehensive regulations to ensure that investments are carried through in accordance with the current laws and regulations.

KBN cooperates with counterparties in financial markets in connection with borrowing, hedging transactions and liquidity management. KBN's procedures for approval of counterparties include demands for licenses from relevant supervisory authority in an OECD country, as well as satisfactory transparency concerning counterparty ownership structure. Counterparties used for placing of surplus liquidity are sovereigns, local and regional governments, multilateral development banks or institutions guaranteed by any of the above, as well as financial institutions meeting KBN's guidelines.

Corporate Social Responsibility - in areas according to priority

The Board of Directors has not laid down common rules of conduct for corporate social responsibility as defined in the Accounting Act § 3-3 c. The Board has approved provisions in guidelines for KBN's business activities in which the guide of conduct is included.

Reporting on KBN's corporate social responsibility, based on contributions from KBN's own organisation as well as external stakeholders, the following areas have been given priority:

- Ethical conduct
- Anti-corruption and anti-money laundering
- Climate change and environmental protection

Ethical conduct: The codes of conduct shall promote an attitude to ethical problems among employees. Various activities will be carried out to increase employees' awareness of codes of conduct and anti-corruption.

Anti-corruption and anti-money laundering: The Board of Directors passes guidelines setting up anti-corruption and anti-money laundering measures concerning KBN business activities. Please read "Corporate Social Responsibility", page 22 in this annual report.

Climate change and environmental protection: The Board of Directors is of the opinion that it is by facilitating climate friendly projects in the local government sector KBN can make a difference. Since 2010 KBN has offered an interest rate product aimed at local climate-friendly investments. To fund Norwegian climate projects KBN issues green bonds in the international financial markets, contributing to the development of sustainable and responsible capital markets.

Organisation

Human resources

KBN is the largest provider of credit to local authorities in Norway. As a finance institution KBN is governed by a number of regulatory requirements. Recruitment and competence development are to ensure continuous access to necessary competence in the organisation. In 2013 the organisational structure was changed to increase efficiency. Following the reorganisation CEO's management team consists of all departmental heads. By year-end 2013 KBN had 56 employees, compared to 54 by year-end 2012.

Diversity and gender equality

In KBN gender equality and diversity are important values. KBN's policy is to give women and men the same opportunities with regard to salary, promotion, personal and professional development. KBN's recruitment guidelines state that the best qualified candidate will be hired, regardless of gender, age, ethnicity or disability. Five employees are of non-Norwegian origin. Flexible working hours is offered to simplify care responsibilities.

Gender distribution is even. Average age for women is 45 and for men 38. Ten employees were under 30 years of age. Of the entire management team 40 per cent are women and 60 per cent men. The female percentage in the Board of Directors is 44.4 per cent and the chairman of the Board of Directors is a woman.

Health, safety and environment

KBN's goal is to secure good working conditions for all employees. The Working Environment Committee monitors the working environment. Working closely with KBN's various activity groups regular health-promoting and social activities are on offer. The Working Environment Committee assesses the working environment at KBN as positive. An employee survey will be carried out in 2014.

No accidents or serious injuries have been registered during working hours, in connection with travels to and from work or traveling on business. KBN has not reported accidents or injuries to the Norwegian Labour Inspection Authority Management. HR and employees have worked together to launch an online personnel and health, safety and environment (HSE) manual.

Sick leave was 4.3 per cent in 2013 compared to 2.08 per cent in 2012. The increase is owing to long-term absence not related to KBN's working environment. KBN works continuously with HSE, prevention and follow-up of sick leave, and works to secure that employees return to work as soon as possible.

Application of profits

The Board of Directors proposes the following distribution of the profit for the fiscal year 2013: NOK 357 million is to be paid out as ordinary dividend to the owner and NOK 716 million is to be transferred to retained earnings.

Future prospects

The moderate upturn in the world economy continues. Norwegian economy maintains its strong position. Developments indicate a more moderate growth in the times ahead. Norwegian mainland-GNP is estimated to grow by approximately two per cent in 2014 and the Ministry of Finance expects a national budget surplus of 10.6 per cent.

A new government was appointed following the parliamentary election in September 2013. A municipal reform, greater emphasis on infrastructure and new forms of financing have been proclaimed. Demographic growth and government initiated reforms will demand further investing in welfare services. Neglected maintenance of buildings and infrastructure will demand investments. With this in mind KBN expects that demand for loans will remain strong. During the last few years debt growth in the sector has been well above growth in income. Looking ahead it is anticipated that these variables will follow the same growth pattern.

KBN will ensure that municipal investments are financed on competitive terms in the years to come. KBN must attract and develop employees with the right kind of competence, attitudes and values. KBN operations' main focus is customer requirements and owner expectations. To ensure access to cost effective financing the institution will continue its diversified funding strategy. KBN's aim is to maintain its satisfactory liquidity buffer.

KBN is well capitalized, and follows developments in regulatory requirements and adapts its capital structure according to government requirements. Considering expected future capital requirements margins will be a more important target than lending growth. KBN's main objective is to guarantee the local government sector low lending costs reflecting the sector's low risk. KBN is to provide stable, long-term financing through all economic cyclical movements.

The accounts for 2013 show satisfactory results and KBN is well positioned for long-term financing of local government welfare services in the years ahead. The Board of Directors would like to thank KBN's employees for a job well done.

Oslo, 31 December 2013
21 March 2014

The Board of Directors of Kommunalbanken AS

Else Bugge Fougner
Chairman

Nils R. Sandal
Vice Chairman

Frode Berge
Board Member

Martha Takvam
Board Member

Nanna Egidius
Board Member

Rune Sollie
Board Member

Martin Skancke
Board Member

Trine Tafjord
Board Member

Roald Fischer
Board Member

Kristine Falkgård
President & CEO

The Board of Directors









Else Bugge Fougner
Chairman since 1999

Bachelor of Law

Chair, KBN Compensation Committee

Partner, Advokatfirmaet Hjort DA

Chairman, Eksportkreditt Norge AS

Member of the Board, Aberdeen Eiendomsfond Norge II ASA, Aker Kværner Holdning ASA and Protector Forsikring ASA

Nils R. Sandal
Vice Chairman since 2010

Member, KBN Compensation Committee

Former mayor Sogn og Fjordane county

Chairman of the Board, Norsk Kulturskoleråd, Stryn Betong A/S, Knutepunktfestivalen Norsk Countrytreff, Norsk Kvernsteinsenter

Member of the Board, Fjord 1

Frode Berge
Member of the Board since 2009

Master of Arts, European Politics

Member, KBN Compensation Committee

Development Manager, Stavanger Chamber of Commerce & Industry

Former State secretary, Ministry of Trade and Industry

Former Leader of Rogaland Arbeiderparti

Martha Takvam
Member of the Board since 2005

Master of Business and MBA in finance, NHH

Member, KBN Audit Committee

Director Group Internal Audit, Telenor ASA

Former Head of Group Treasury, Telenor ASA

Nanna Egidius
Member of the Board since 2004

Master of Business

Member, KBN Audit Committee

Director of Strategic Planning and Development, Lillehammer municipality

General manager Stiftelsen Lillehammer Etterbruksfond. Member of the Board Ikomm IKS/AS and Vice-Chairman of the Board of Directors, Norsk Luftambulanse AS

Rune Sollie
Member of the Board since 2011

State Authorised Public Accountant

Chairman, KBN Audit Committee

CFO, Norske Skogindustrier ASA

Martin Skancke
Member of the Board since 2013

Master of Business, MSc

Owner and general manager, Skancke Consulting

Former Director general department for asset management, Ministry of Finance

Trine Tafjord
Employee representative since 2012

Master of Economics and Econometrics

Portfolio Manager in Kommunalbanken

Personal alternate is Marit Urmo Harstad

Roald Fischer
Employee representative since 2011

Master, International Business Management

Head of Documentation and Back Office Kommunalbanken

Personal alternate is Jarle Byre

Financial statements 2013

Notes to the financial statement

Income statement

Balance

Risk management

INCOME STATEMENT

(Amounts in NOK 1 000 000)	**Note**	**2013**	**2012**
Interest income		5 776	6 871
Interest expense		4 142	4 839
NET INTEREST INCOME	**1**	**1 634**	**2 032**
Fees and commission expenses	**2**	22	21
Net unrealised gain/(loss) on financial instruments	**3**	(68)	671
Net trading income	**4**	58	29
TOTAL OTHER OPERATING INCOME		**(32)**	**679**
Salaries and administrative expenses	**5,6,7**	82	84
Depreciation on fixed assets		4	4
Other expenses	**9**	20	19
TOTAL OPERATING EXPENSES		**106**	**107**
PROFIT BEFORE TAX		**1 496**	**2 604**
Income tax	**8**	414	728
PROFIT FOR THE YEAR		**1 083**	**1 876**

STATEMENT OF COMPREHENSIVE INCOME

(Amounts in NOK 1 000 000)	**Note**	**2013**	**2012**
Profit for the year		1 083	1 876
Other comprehensive income			
Items which will not be reclassified in profit or loss			
Actuarial gain/(loss) on defined benefit plan		(13)	18
Of which is tax		(3)	5
Total other comprehensive income		**(10)**	**13**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1 073**	**1 889**

STATEMENT OF FINANCIAL POSITION

(Amounts in NOK 1 000 000)	Note	2013	2012
ASSETS			
Deposits with credit institutions	**10,12,14,21**	5 257	5 940
Instalment loans	**10,11,12,15**	243 114	221 996
Notes, bonds and other interest-bearing securities	**10,11,12,13,16**	101 696	102 223
Financial derivatives	**10,12,13,20**	11 806	18 780
Other assets	**17**	44	15
TOTAL ASSETS		**361 918**	**348 953**
LIABILITIES AND EQUITY			
Loans from credit institutions	**10,12,18,21**	3 656	6 041
Commercial paper	**10,12**	0	363
Senior securities issued	**10,11,12,13,19**	329 139	317 108
Financial derivatives	**10,12,13,20**	18 559	15 568
Other liabilities		36	33
Current tax liabilities	**8**	440	576
Deferred tax liabilities	**8**	139	168
Pension liabilities	**7**	48	32
Subordinated debt	**10,12,22**	1 687	1 670
TOTAL LIABILITIES		**353 702**	**341 558**
Share capital	**23**	2 145	2 145
Retained earnings		6 071	5 251
TOTAL EQUITY		**8 216**	**7 395**
TOTAL LIABILITIES AND EQUITY		**361 918**	**348 953**

STATEMENT OF CHANGES IN EQUITY

2013

(Amounts in NOK 1 000 000)	**Note**	**Share capital**	**Retained earnings**	**Total equity**
Equity as of 1 January 2013		2 145	5 251	7 395
Profit for the year		0	1 083	1 083
Total other comprehensive income		0	(10)	(10)
Issue of share capital		0	0	0
Dividends		0	(253)	(253)
Equity as of 31 December 2013	**23**	**2 145**	**6 071**	**8 216**

2012

(Amounts in NOK 1 000 000)	**Note**	**Share capital**	**Retained earnings**	**Total equity**
Equity as of 1 January 2012		1 221	3 362	4 583
Profit for the year		0	1 876	1 876
Total other comprehensive income		0	13	13
Issue of share capital		924	0	924
Dividends		0	0	0
Equity as of 31 December 2012	**23**	**2 145**	**5 251**	**7 395**

STATEMENT OF CASH FLOWS

(Amounts in NOK 1 000 000)	Note	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		5 844	7 158
Interest paid		(4 036)	(5 051)
Fees and commissions paid		(23)	(21)
Receipts from repurchase of issued securities		58	29
Cash payments to employees and suppliers		(102)	(103)
Income taxes paid		(576)	(442)
Net disbursement of loans to customers		(21 641)	(11 666)
Net (increase)/decrease in deposits with credit institutions		(1 840)	(8 928)
Net (increase)/decrease in notes, bonds and other interest-bearing securities		6 530	8 974
Net (increase)/decrease in other assets		(1)	0
Net increase/(decrease) in other liabilities		6	(17)
NET CASH FLOWS FROM OPERATING ACTIVITIES		**(15 781)**	**(10 067)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Net (purchase)/sales of property and equipment		(33)	(4)
NET CASH FLOWS FROM INVESTING ACTIVITIES		**(33)**	**(4)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of commercial paper		0	362
Repayment of commercial paper		(359)	0
Proceeds from issuance of debt securities		162 514	98 195
Repayment of debt securities		(153 387)	(87 783)
Repayment of other borrowed funds		0	(478)
Repayment of subordinated debt		(7)	(944)
Dividends paid		(253)	0
Paid in share capital		0	924
NET CASH FLOWS FROM FINANCING ACTIVITIES		**8 508**	**10 277**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(7 306)**	**206**
Effects of foreign exchange differences		7 342	(362)
Cash and cash equivalents at 1 January		(6)	150
Net change in cash and cash equivalents		35	(156)
Cash and cash equivalents at 31 December		**29**	**(6)**
Deposits with credit institutions without agreed period of notice	**14**	*29*	*0*
Loans from credit institutions without agreed period of notice	**18**	*0*	*(6)*

ACCOUNTING POLICIES

REPORTING ENTITY

Kommunalbanken AS (”the Company” or “KBN”) is a limited company providing loans to counties, municipalities, intermunicipal companies and other companies that carry out tasks at a municipal level. KBN's registered office is in Haakon VIIs gate 5B, Oslo. The financial statements for the year ended 31 December 2013 were approved by the Board of Directors on 21 March 2014.

BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by EU. The financial statements are presented on a historical cost basis, except for:

- Financial instruments held for trading
- Financial instruments at fair value through profit or loss
- Financial instruments classified as Loans and Receivables or Other liabilities that are hedged items and the carrying value is adjusted for fair value changes attributable to the risks that are being hedged

FOREIGN CURRENCY TRANSLATION

The Company's functional and presentational currency is the Norwegian kroner (NOK). Assets and liabilities denominated in a foreign currency are translated into NOK at the exchange rate on the reporting date. Revenues and expenses denominated in a foreign currency are translated into NOK at the exchange rate at the transaction date. The financial statements are presented in NOK and rounded to the nearest million kroner, except in notes 6 and 7 that are presented in NOK thousand.

SIGNIFICANT ESTIMATES AND ACCOUNTING JUDGEMENTS

The preparation of financial statements in accordance with IFRS requires management to make judgements and use estimates when value of assets and liabilities cannot be measured reliably at the reporting date. Those estimates and accounting judgements can affect carrying values of assets and liabilities, and revenues and expenses. Assumptions made about future development may change due to market changes, and actual results may deviate from the estimates. The most significant judgements and estimates used in the preparation of the financial accounts are:

Fair value measurement

The fair value of financial instruments that are not traded in an active market, or do not have available quoted prices at the reporting date, is determined using valuation techniques. The valuation requires the management to make assumptions and use estimates when considering credit risk and liquidity risk. Even if the assumptions and estimates are based to the greatest possible extent on actual market conditions prevailing at the reporting date, they involve judgement and may add to the degree of uncertainty in valuations. Assumptions and judgements may apply to the allocation of financial instruments measured at fair value in the IFRS 13 hierarchy (Level 1, 2 or 3).

FINANCIAL INSTRUMENTS

Recognition and derecognition

Financial assets and liabilities are recognised in the statement of financial position when KBN becomes a party to the contractual provisions of the instrument. On initial recognition all financial assets and liabilities are measured at fair value. For financial assets that are not carried at fair value through profit or loss, the value at initial recognition includes transaction costs that are directly attributable to acquisition. For regular way purchase of financial assets the value changes of the asset are recognised from the trade date.

Financial assets are derecognised when the contractual rights to the cash flows expire or are transferred. Financial liabilities are derecognised when the contractual obligation has been discharged, cancelled or expired. Repurchases of issued debt securities result in derecognition of financial liabilities. Any difference between settlement amount and carrying value of the liability is recognised in the income statement as gain or loss at the date of transaction.

Designation and measurement

Categorisation of financial instruments takes place at initial recognition and determines the subsequent measurement according to IAS 39. The designation of financial instruments is determined by the character of the instruments and the management's intention at acquisition.

Financial assets held for trading

Included in this category are bonds and notes in the trading portfolio. Financial assets held for trading are measured at fair value through profit or loss.

Financial assets designated at fair value through profit or loss (FVO)

Financial assets classified in this category include selected bonds and notes in the liquidity portfolio, fixed rate loans and NIBOR-indexed loans to customers, which are hedged with interest rate and/or cross-currency derivatives. Application of the Fair Value Option to these assets helps to achieve consistent treatment with associated derivatives or financial liabilities which are measured at fair value through profit or loss.

Financial assets held to maturity

Financial assets in this category are primarily investments in senior bond debt, and asset-backed securities, that have been acquired with the intention to hold to maturity, and selected securities that became illiquid as a result of the financial crisis in 2008 and have been reclassified from “Held for trading” to “Held to maturity”-category as of 1 July 2008. Financial assets held to maturity are measured at amortised cost using the effective interest rate method.

Loans and Receivables

Included in this category are loans and advances to customers, and bonds and notes not quoted in an active market. Financial assets designated as Loans and Receivables are measured at amortised cost using the effective interest rate method.

Hedge accounting may apply to bonds and notes classified as Loans and Receivables. When the criteria for fair value hedge are met, the change in the fair value that is attributable to the risk hedged is recorded as a part of carrying value under “Notes, bonds and other interest-bearing securities”, and is also recognised in the income statement as “Net unrealised gain/(loss) on financial instruments”.

Financial liabilities designated at fair value through profit or loss (FVO)

Fair Value Option is applied to the majority of issued debt securities, where market risk exposure is hedged with derivative contracts. The financial liabilities and corresponding derivative contracts are evaluated on a fair value basis and managed in accordance with the Company's risk management policy that allows only limited exposure to interest rate and FX-risk in liabilities.

Financial liabilities at amortised cost

Financial liabilities measured at amortised cost are public benchmark loans that are designated as hedged items and meet criteria for fair value hedges. Changes in fair value of these loans that are attributable to the risk hedged are recorded as a part of the carrying value under "Senior securities issued" and are recognised in the income statement as "Net unrealised gain/(loss) on financial instruments".

Financial derivatives

Financial derivatives are classified as Held for trading, with the exception of contracts designated as hedging instruments in fair value hedges. All financial derivatives are measured at fair value through profit or loss and are presented as assets when the value is positive, and as liabilities—when the value is negative.

Fair value of financial instruments

All financial instruments for which the fair value is disclosed are categorised into fair value hierarchy, based on the lowest level input that is significant to the fair value measurement.

Level 1

Securities traded in an active market with frequent market observations are recorded at quoted prices in active markets at the reporting date. Quoted prices are provided by international vendors (Reuters/Bloomberg). Quoted prices provided by vendors are classified as Level 1-inputs when they represent actual market transactions. Currency basis on USD-NOK, EUR-USD and EUR-NOK basis swaps, that are quoted in an active market are classified as Level 1-inputs.

Level 2

Level 2 includes financial instruments that are not traded in an active market and where fair value can be determined using quoted prices on identical or similar instruments, or using valuation techniques where significant inputs are based on observable market data.

Level 2-inputs might include:

- Observable interest rate yield curves, FX-rates, equity indices and commodity indices
- Quoted prices and credit spreads at the reporting date for similar instruments issued by the same issuer but with a different tenor, so that an adjustment for maturity is necessary
- Quoted prices and credit spreads at the reporting date for similar instruments issued by the same issuer but denominated in a different currency, so that an adjustment for currency is necessary
- Actual market transactions in identical instruments before or after reporting date, so that an adjustment for events between the date of transaction and the reporting date is necessary
- More liquid instruments issued by the same issuer with identical maturity, but an adjustment for liquidity risk is necessary
- Prices on potential new issues in similar instruments from the same issuer

Level 3

Level 3 includes financial instruments that are not traded in an active market. Fair value of these instruments is determined using valuation techniques where significant inputs are not based on observable market data. Financial instruments classified as Level 3 include notes and bonds with low liquidity, fixed-rate loans to customers, issued debt securities not traded in an active market and most OTC-derivatives.

The same input might be used to determine fair value of notes and bonds classified as Level 2 and Level 3. In these cases presentation depends on whether adjustments that are done to the observable market data are considered to be significant (Level 3) or not (Level 2). Other inputs used in determination of fair value might include:

- Indicative prices and estimates for similar instruments provided by other market participants
- Market indices, both bonds and credit default swap indices, for similar instruments
- Non-binding price quotes from different sources
- Historical or implied volatilities

Fair value disclosures

For financial instruments measured at fair value on recurring basis a reconciliation of movements between the levels is done at the end of each reporting period. The methods for calculating the fair value of financial instruments categorised in Level 2 or Level 3 of the fair value hierarchy is determined based on the instruments' features. Fair value of financial instruments without embedded derivatives is determined using the discounted cash flows method, where discount rates are derived from the relevant observable money market interest rates and other factors that may significantly affect the fair value of the instruments. When such factors cannot be reliably observed at a reporting date, the management could make assumptions and use estimates when determining the fair value.

Fair value of financial instruments with embedded derivatives is determined using option pricing models with observable market data and estimates as parameters. The most significant non-observable parameters used in the valuation of Level 2 and Level 3 are related to the credit premium for financial instruments not traded in an active market.

Offsetting of financial assets and liabilities

KBN does not offset any financial assets and liabilities in the Statement of Financial Position. Standard master netting agreements do not qualify for offsetting, therefore, the related assets and liabilities are presented gross in the Statement of Financial Position. Cash collateral received or pledged as additional security for derivative exposure is subject to ISDA-agreements that give right to offsetting of assets and liabilities in event of default, but do not qualify for offsetting under IAS 32. Cash collateral is presented gross in the Statement of Financial Position.

Impairment of financial assets

Financial instruments categorised as Loans and Receivables or Held to maturity are measured in accordance with IAS 39. When there is objective evidence of value loss, the assets are impaired.

Individual impairments

When there is objective evidence that a loss has been incurred, the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows. The loss is recognised in the income statement. When commitments are assessed for individual impairments, the following loss events may be taken into consideration:

- Significant financial difficulty of the issuer or obligor
- Payment default or breach of contract
- Delinquency in interest or principal payments or renegotiation of loan terms as a result of debtors' financial distress

Group impairments

Financial assets are tested for impairment at a group level, based on the division of the assets into groups with similar risk characteristics.

Assets are impaired if the observable data indicates a reduction in future cash flows from the group as a result of negative changes to debtors' creditworthiness and/or changes in economic environment that correlate with defaults in the group.

Loans to customers are assessed as a uniform group, based on the provisions of the Local Government Act that rates all Norwegian municipalities equally with regard to risk to the lender. Securities carried at amortised cost are split into groups according to the issuer's risk, underlying exposure and geographical spread. The impairment loss is calculated per risk group, based on expectations to the macroeconomic conditions that can impact on the counterparty's ability to pay, and the loss history for the various risk groups. Under current legislation limiting the municipalities' possibility of going bankrupt, the Company does not expect any impairments on its instalment loans.

Hedge Accounting

Interest rate swaps and cross currency swaps are used to manage market risk in the portfolio of notes and bonds classified as Loans and Receivables and senior securities issued classified as Other liabilities. Hedge relationship between a bond and a swap is treated as fair value hedge. Hedge relationship is established and documented at a transaction level, and hedge effectiveness is measured on an on-going basis using Dollar-offset method. Any ineffective part of hedge is recognised in the income statement. Hedging instruments are measured at fair value through profit or loss, and carrying amounts are adjusted accordingly. The change in fair value on the hedged items, that is attributable to the risk hedged, is recorded as a part of carrying value of the item and is recognised in the income statement as "Net unrealised gain/(loss) on financial instruments".

STATEMENT OF CASH FLOWS

Statement of Cash Flows is prepared using the direct method and presents cash flows classified by activity. Cash and cash equivalents include cash on hand, demand deposits and short-term deposits with credit institutions without agreed period of notice.

RECOGNITION OF INCOME AND EXPENSES

Interest and commissions are recognised in the income statement as they are earned or accrued. Interest income for assets and liabilities carried at amortised cost is recognised in the income statement using the effective interest method. Unrealised gains and losses on financial instruments at fair value and value changes on hedged items under hedge accounting are recognised in income statement under "Net unrealised gain/(loss) on financial instruments". Other commission expenses and charges are recognised as expenses in the period when the service is provided.

FIXED ASSETS

Fixed assets are carried at cost with the deduction of accumulated depreciation and write-downs. Ordinary depreciation, based on cost price, is calculated using a straight line method over the estimated useful life, and the disposal value of the assets is assumed to be zero.

INTANGIBLE ASSETS

A domain name is classified as an intangible asset with an indefinite useful life and is not depreciated. Assets are tested for impairment annually. If there is an indication that the assets are impaired, the value of the assets is written down, and the difference between the carrying amount and the recoverable amount is recognised in profit or loss. KBN has acquired a new portfolio system, which is classified as an intangible asset. Upon completion of the implementation process, the acquisition cost will be amortised over the license period.

PENSIONS

The Company has an employee pension scheme. The pension scheme is treated as a defined benefit plan. A linear profile of benefits earned and expected final salary are used to determine entitlements. The net pension cost for the period is included in "Salaries and administrative expenses" and consists of the sum of the period's service costs and interest costs on the calculated liability. Value of net pension liabilities is calculated based on economic and actuarial assumptions.

LEASES

A lease that does not transfer substantially all the risks and rewards incidental to ownership of the asset is classified as an operating lease. Leases that are not operating are classified as finance leases.

Lease payments under an operating lease are recognised on a straight -line basis over the lease term. Under finance leases, assets and liabilities are recognised in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payment.

TAXES

Taxes are recognised as they accrue, i.e. the income tax is based on the profit before tax. It is adjusted for temporary and permanent differences before the year's tax base for current taxes is calculated. Deferred tax liabilities and deferred tax assets are calculated on the basis of temporary differences between the accounting and tax values at the financial year end. The nominal tax rate is used for this calculation. Tax increasing and tax-reducing differences within the same period are offset. Income tax consists of current taxes (tax on the taxable profit or loss for the year), changes in net deferred tax and adjustment to taxes payable in respect of previous years. The corporate income tax rate in Norway is reduced from 28 per cent to 27 per cent effective from 1 January 2014.

EQUITY

The Company's equity consists of share capital and retained earnings. Dividends are classified as equity until approved by the Annual General Meeting.

SEGMENT INFORMATION

The Company has one operating segment: lending to the Norwegian municipalities and municipal companies. The Company does not provide separate segment reporting other than disclosures on the lending portfolio and the business as a whole.

IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

IFRS 13 *Fair Value Measurement* is implemented in the financial statements from 1 January 2013. The application of IFRS 13 does not lead to any changes in valuation principles and does not affect KBN's financial position or results. IFRS 13 requires detailed disclosures about fair value measurement that replace disclosure requirements in IFRS 7 *Financial Instruments - Disclosure.*

The amendments to the disclosure requirements in IFRS 7 *Financial Instruments - Disclosure* require information about all recognised financial instruments that are set off. The new disclosure requirements are effective from 1 January 2013. KBN does not offset any financial assets and liabilities in the Statement of Financial

Position. The amended standard has therefore no effect on the presentation of the financial statements or disclosures.

CHANGES IN ACCOUNTING POLICIES

The accounting standards applied to the financial statements are consistent with those used in the previous year. In 2013 IASB has not implemented any changes in accounting standards that could have significant impact on KBN's financial statements.

IAS 19 *Employee Benefits* is amended and effective from 1 January 2013. The option to defer recognition of actuarial gains and losses is eliminated. The amended standard requires immediate recognition of all actuarial gains and losses in other comprehensive income. The amended IAS 19 *Employee Benefits* is implemented from 1 January 2013 with full retrospective application, which lead to an NOK 2 million increase in KBN's equity at 31 December 2012. The retrospective application means further that the comparative amounts for 2012 are calculated based on the revised standard. The equity at 1 January 2012 is reduced by NOK 11 million, and total actuarial gains and losses for 2012, amounting to NOK 13 million, are recognised in other comprehensive income.

ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

IFRS 9 *Financial Instruments*, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 *Financial instruments: Recognition and Measurement* and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The second phase intends to expand IFRS 9 to new requirements for impairment of financial assets measured at amortised cost. The effective date for IFRS 9 will be set when the projects are completed, which is expected on or after 1 January 2018. KBN is assessing the effect of the adoption of IFRS 9 and will present a comprehensive picture when the final standard is issued.

IAS 32 *Financial Instruments*: *Presentation* is amended and clarifies the meaning of "currently has a legally enforceable right to set-off", and that some gross settlement systems may be considered equivalent to net settlement. The amendments are effective for annual periods beginning on or after 1 January 2014.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 NET INTEREST INCOME

(Amounts in NOK 1 000 000)

2013	Total	At fair value through profit or loss					
		FVO	Held for trading	Fair value hedge	Held to maturity	Loans and Receivables	Other liabilities
Deposits with credit institutions	**27**	27	0	0	0	0	0
Instalment loans	**5 792**	3 560	0	0	0	2 232	0
Notes, bonds and other interest-bearing securities	**2 153**	1 711	0	0	42	399	0
Financial derivatives	**(2 196)**	0	(1 938)	(257)	0	0	0
Total interest income	**5 776**	**5 298**	**(1 938)**	**(257)**	**42**	**2 632**	**0**
Loans from credit institutions	**2**	2	0	0	0	0	0
Senior securities issued	**8 874**	7 240	0	0	0	0	1 634
Financial derivatives	**(4 756)**	0	(3 633)	(1 123)	0	0	0
Subordinated debt and Hybrid Tier 1 capital instruments	**22**	22	0	0	0	0	0
Total interest expenses	**4 142**	**7 264**	**(3 633)**	**(1 123)**	**0**	**0**	**1 634**
Net interest income	**1 634**	**(1 966)**	**1 695**	**866**	**42**	**2 632**	**(1 634)**

2012	Total	At fair value through profit or loss					
		FVO	Held for trading	Fair value hedge	Held to maturity	Loans and Receivables	Other liabilities
Deposits with credit institutions	**38**	37	0	0	0	1	0
Instalment loans	**6 244**	3 830	95	0	0	2 319	0
Notes, bonds and other interest-bearing securities	**2 460**	1 810	55	0	148	447	0
Financial derivatives	**(1 870)**	0	(1 584)	(286)	0	0	0
Total interest income	**6 871**	**5 677**	**(1 435)**	**(286)**	**148**	**2 767**	**0**
Loans from credit institutions	**4**	4	0	0	0	0	0
Senior securities issued	**9 326**	7 867	0	0	0	0	1 459
Financial derivatives	**(4 530)**	0	(3 577)	(953)	0	0	0
Subordinated debt and Hybrid Tier 1 capital instruments	**39**	39	0	0	0	0	0
Total interest expenses	**4 839**	**7 910**	**(3 577)**	**(953)**	**0**	**0**	**1 459**
Net interest income	**2 032**	**(2 234)**	**2 142**	**668**	**148**	**2 767**	**(1 459)**

NOTE 2 FEES AND COMMISSION EXPENSES

(Amounts in NOK 1 000 000)

	2013	2012
Expenses of banking services	12	12
Other transaction costs	11	9
Other income	0	0
Total fees and commission expenses	**22**	**21**

NOTE 3 NET UNREALISED GAIN/(LOSS) ON FINANCIAL INSTRUMENTS

(Amounts in NOK 1 000 000)

2013	Total	At fair value through profit or loss			Loans and	Other
		FVO	Held for trading	Fair value hedge	Receivables	liabilities
Instalment loans	**(529)**	(529)	0	0	0	0
Notes, bonds and other interest-bearing securities	**(862)**	(657)	0	0	(204)	0
Financial derivatives	**(327)**	0	978	(1 305)	0	0
Loans from credit institutions	**0**	0	0	0	0	0
Senior securities issued	**1 645**	186	0	0	0	1459
Subordinated debt and Hybrid Tier 1 capital instruments	**6**	6	0	0	0	0
Net unrealised gain/(loss) on financial instruments	**(68)**	**(995)**	**978**	**(1 305)**	**(204)**	**1 459**

2012	Total	At fair value through profit or loss			Loans and	Other
		FVO	Held for trading	Fair value hedge	Receivables	liabilities
Instalment loans	**395**	401	(5)	0	0	0
Notes, bonds and other interest-bearing securities	**181**	158	1	0	21	0
Financial derivatives	**6 762**	0	6 679	83	0	0
Loans from credit institutions	**4**	4	0	0	0	0
Senior securities issued	**(6 701)**	(6 690)	0	0	0	(10)
Subordinated debt and Hybrid Tier 1 capital instruments	**29**	29	0	0	0	0
Net unrealised gain/(loss) on financial instruments	**671**	**(6 098)**	**6 675**	**83**	**21**	**(10)**

Unrealised gain/(loss) on financial instruments include value changes on financial instruments designated at fair value through profit or loss, as well as fair value adjustments on financial instruments in fair value hedges.

Changes in fair value are the result of changes in underlying market parameters and risk factors, such as interest rates, FX-rates, credit spreads and basis swap spreads. Changes in fair value are recorded as part of the carrying values of financial instruments and in the income statement. Unrealised gains/(losses) are reversed over contracts' remaining lifetime when the instruments are held to maturity and are settled at contract terms. If the instruments are redeemed before maturity and any gain or loss is realised, the amount is reclassified to ”Net trading income”.

Financial derivatives in fair value hedges are measured at fair value through profit or loss. The hedged items include NOK 14.9 billion in “Notes, bonds and other interest-bearing securities” and NOK 103.3 billion in “Senior securities issued”, that are classified as Loans and Receivables and Other liabilities and are measured at amortised cost. Changes in fair value attributable to the hedged risk are recorded as part of the carrying value of the hedged item and are also recognised in the income statement as “Net unrealised gain/(loss) on financial instruments”.

NOTE 4 NET TRADING INCOME

(Amounts in NOK 1 000 000)

	2013	2012
Gain/(loss) from repurchase of securities issued	58	74
Gain/(loss) from sale of notes and bonds	0	(45)
Net trading income	**58**	**29**

NOTE 5 SALARIES AND ADMINISTRATIVE EXPENSES

(Amounts in NOK 1 000 000)

	2013	2012
Salaries	46	46
Employer contributions	7	7
Pension costs	9	11
Other personnel benefits	2	1
Administrative expenses	19	19
Total salaries and administrative expenses	**82**	**84**
Average number of employees	*53*	*50*

NOTE 6 REMUNERATION

(Amounts in NOK 1 000)

The Company's remuneration policy is designed in accordance with the Regulation on remuneration in the financial service industry, and State's guidelines on remuneration for senior executives in state-owned companies. The remuneration policy aims at attracting, motivating and retaining talented professionals. The remuneration policy aligns the Company's values and low risk tolerance with individual performance goals.

The Board of Directors evaluates and approves remuneration policy annually. The Board in KBN has established a compensation committee, that prepares matters concerning remuneration for the Board's consideration.

Total remuneration consists of fixed salary, variable salary, pension benefit plans and other benefits. KBN has no share-based or option-based programs for the employees.

KBN maintains competitive remuneration level in accordance with the Company's requirements for professional knowledge and experience. Fixed salary constitutes the main part of the total remuneration package.

The variable salary is based on a profit-sharing scheme and requires the achievement of the Company's overall financial targets in 2013. The profit-sharing scheme applies to all employees and can be at a maximum of 1.5 of the base month salary. The executives are subject to the same remuneration policy with regard to variable salary. Based on the actual results there is no provision for variable salary accrued in 2013.

The pension plan is a defined benefit plan with a service period of 30 years and a retirement pension of 66 per cent of base salary and a supplemental retirement plan covering salaries over 12xBase amount. The defined benefit plan covering salaries over 12xBase amount has been closed as of 1 April 2011.

2013

Remuneration to senior executives	**Fixed salary**	**Variable salary accrued in 2012**	**Other benefits**	**Pension costs**
Kristine Falkgård (President & CEO)[1]	1 778	0	122	135
Martin Spillum (COO)[2]	2 125	294	97	360
Karina Folvik (CFO)	1 467	175	20	259
Tor Ole Steinsland (Head of Corporate Communication)	1 106	134	29	127
Frank Øvrebø (CRO)	1 188	136	13	138
Total remuneration to senior executives	**7 663**	**739**	**281**	**1 019**
Total remuneration to employees whose professional activities affect the risk position of the institution	**18 701**	**1 826**	**581**	**2 711**
Total remuneration to the employees in the independent control functions	**4 853**	**420**	**214**	**644**

[1]*President & CEO* from 01.03.13

[2]*Acting President & CEO in the period 1 December 2012—28 February 2013.*

2012

Remuneration to senior executives	**Fixed salary**	**Variable salary accrued in 2011**	**Other benefits**	**Pension costs**
Petter Skouen (President & CEO)	2 066	274	181	602
Martin Spillum (Acting President & CEO)	1 956	249	20	789
Siv F. Galligani (Deputy CEO)	1 655	225	110	576
Anette Berg (Head of Lending)	1 347	133	78	304
Karina Folvik (Head of Accounting and Financial Reporting)	1 463	178	22	435
Tor Ole Steinsland (Head of Corporate Communication)	950	0	15	122
Total remuneration to senior executives	**9 437**	**1 058**	**426**	**2 827**
Total remuneration to employees whose professional activities affect the risk position of the institution	**17 147**	**1 880**	**541**	**2 803**
Total remuneration to the employees in the independent control functions	**5 000**	**475**	**188**	**688**

The senior executives have a period of notice of three months. The President & CEO has the same pension plan as the other employees with a benefit level of 66 per cent of base salary (limited to 12xBase amount). The pension costs include incurred expenses of the defined benefit plan.

Lending to employees has the same terms for senior executives as for the other employees.

Remuneration to Board of Directors	2013	2012
Chairman Else Bugge Fougner[1]	240	226
Vice-chairman Nils R. Sandal[1]	123	126
Board member Frode Berge[1]	102	100
Board member Nanna Egidius[2]	153	150
Board member Åmund T. Lunde[1 2] (until 18.06.13)	111	216
Board member Martha Takvam[2]	153	150
Board member Rune Sollie[2]	179	150
Board member Martin Skancke (from 18.06.13)	52	0
Board member employees' representative Ellen Eskedal Scavenius (until 21.06.12)	0	50
Board member employees' representative Trine Tafjord	102	50
Board member employees' representative Roald Fischer	102	100
Alternate Board member employees' representative Jarle Byre	10	0
Total remuneration to Board of Directors	**1 324**	**1 317**

[1]Member of compensation committee

[2]Member of audit committee

Remuneration to Control Committee	2013	2012
Chairman Britt Lund	53	53
Committee member Kjell Inge Skaldebø	33	33
Committee member Anne-Ma Tostrup Smith	33	33
Committee alternate member Roy Jevard	46	10
Total remuneration to Control Committee	**165**	**128**

Remuneration to Supervisory Board	2013	2012
Chairman Elin Eidsvik	21	21
Board members	66	59
Total remuneration to Supervisory Board	**87**	**80**

Fees to the statutory auditor	2013	2012
Statutory audit fees	894	829
Other financial audit and attestation services	957	935
Tax services	8	0
Other services not related to audit	57	21
Total fees excl. VAT	**1 915**	**1 785**

NOTE 7 PENSIONS

(Amounts in NOK 1 000)

KBN has a defined benefit plan that covers all employees and is administered through Kommunal Landspensjonskasse (KLP). The pension benefits cover retirement benefits, disability and death and survivor pensions. Pension benefits complement benefits from the National Insurance Scheme. The defined benefit plan is compliant with the requirements of the Norwegian Mandatory Service Pension Act.

Full pension benefit requires a service period of 30 years and gives the right to a retirement pension of 66 per cent of base salary including the National Insurance Scheme. KBN also has a contractual pension plan (AFP). The plan is included in the calculation of pension liabilities. The defined benefit plan covering salaries over 12xBase amount has been closed as of 1 April 2011. The employer contributions to the defined benefit plan are recognised as expense. The defined benefit plan is administrated through a public sector occupational pension scheme and asset composition cannot be specified.

IAS 19 *Employee Benefits* is implemented from 1 January 2013 with full retrospective application. The revised standard no longer permits deferred recognition of actuarial gains/losses in profit or loss. All actuarial gains/losses are recognised immediately in other comprehensive income and retained earnings. The retrospective application means that the comparative amounts for 2012 are calculated based on the revised standard. The equity at 1 January 2012 is reduced by NOK 11 million, and total actuarial gains and losses for 2012, amounting to NOK 13 million, are recognised in other comprehensive income. Net effect of implementing revised IAS 19 increased the equity with NOK 2 million.

Economic estimates used in calculation of pension costs and defined benefit obligation	**31.12.2013**	**31.12.2012**
Discount rate	4.00%	3.90%
Estimated wage growth	3.75%	3.50%
Estimated growth in Base amount	3.50%	3.25%
Expected growth in benefit levels	2.72%	2.48%

The economic estimates are based on the recommendation of the Norwegian Accounting Standard Board for 2013. Mortality rate is adjusted in 2013 based on K2013 statistics.

Pension costs		**Funded plan**		**Unfunded plan**
	2013	**2012**	**2013**	**2012**
Net periodic pension cost	6 088	7 180	996	1 742
Net interest	798	326	446	324
Service cost	277	240	0	0
Employer contributions	1 010	1 092	203	291
Total pension cost recognised in income statement	**8 173**	**8 838**	**1 645**	**2 357**
Actuarial gain/(loss) recognised in other comprehensive income	11 024	(15 319)	2 432	(2 414)
Net pension costs	**19 196**	**(6 480)**	**4 077**	**(57)**

Pension liabilities		**Funded plan**		**Unfunded plan**
	2013	**2012**	**2013**	**2012**
Defined benefit obligation	75 904	58 752	13 801	10 824
Plan assets	(47 658)	(42 252)	0	0
Employer contributions	3 983	2 946	1 946	1 339
Net pension liabilities	**32 229**	**19 446**	**15 747**	**12 163**

Movement in pension liabilities		**Funded plan**		**Unfunded plan**
	2013	**2012**	**2013**	**2012**
Net pension liabilities as of 1 January	19 446	32 673	12 163	12 264
Net pension costs	19 196	(6 480)	4 077	(57)
Contribution to the pension scheme	(6 413)	(6 747)	(493)	(44)
Net pension liabilities as of 31 December	**32 229**	**19 446**	**15 747**	**12 163**

Movement in the fair value of plan assets	Funded plan	
	2013	2012
Fair value of plan assets as of 1 January	42 252	32 643
Net interest	1 742	1 452
Actuarial gain/(loss)	(1 172)	2 625
Service cost	(277)	(240)
Contribution to the pension scheme	5 621	5 913
Benefits paid	(508)	(140)
Fair value of plan assets as of 31 December	**47 658**	**42 252**

NOTE 8 TAX

(Amounts in NOK 1 000 000)

The corporate income tax rate in Norway is reduced from 28 per cent to 27 per cent effective from 1 January 2014.

	2013	2012
Current taxes	440	576
Changes in deferred taxes	(26)	154
Total income tax	**414**	**729**

Current taxes	2013	2012
Current tax payable	440	576
Total current taxes	**440**	**576**

Reconciliation of effective income tax rate	2013	2012
Profit before tax	1 496	2 604
Calculated income tax (28 %)	419	729
Effect of changes in corporate income tax rate	(5)	0
Tax expense	**414**	**729**
Effective income tax rate	27.7%	28.0%

Deferred tax liability/(asset)	2013	2012
Deferred tax liability/(asset) as of 1 January	167	14
Changes in deferred tax	(26)	153
Changes in deferred tax on items recognised in other comprehensive income	(3)	1
Deferred tax liability/(asset) as of 31 December (27%)	**139**	**167**

Temporary differences	2013	2012
Fixed assets	1	(1)
Pension liabilities	(37)	(48)
Provisions	(3)	(7)
Financial derivatives	383	392
Fair value changes	180	248
Total	**524**	**585**
Actuarial gain/(loss) recognised in other comprehensive income	(10)	13
Total temporary differences	**514**	**598**
Deferred tax liability/(asset) (28 %)	**139**	**167**

NOTE 9 LEASES

(Amounts in NOK 1 000 000)

Future minimum lease payments	2013	2012
Under 1 year	6	6
Between 1 and 5 years	24	24
Over 5 years	11	17
Total future minimum lease payments	**41**	**48**
Lease payments recognised as an expense in the period	**6**	**6**

Property rental in Haakon VIIs gate in Oslo comprise the main part of the operating leases where KBN is a lessee.

NOTE 10 DESIGNATION OF FINANCIAL INSTRUMENTS

(Amounts in NOK 1 000 000)

2013	Total	At fair value through profit or loss			Held to	Loans and	Other
		FVO	Held for trading	Fair value hedge	maturity	Receivables	liabilities
Deposits with credit institutions	**5 257**	704	0	0	0	4 553	0
Instalment loans	**243 114**	141 341	0	0	0	101 773	0
Notes, bonds and other interest-bearing securities	**101 696**	85 773	0	0	931	14 992	0
Financial derivatives	**11 806**	0	9 999	1 807	0	0	0
Total financial assets	**361 873**	**227 818**	**9 999**	**1 807**	**931**	**121 318**	**0**
Loans from credit institutions	**3 656**	0	0	0	0	0	3 656
Commercial paper	**0**	0	0	0	0	0	0
Senior securities issued	**329 139**	225 790	0	0	0	0	103 349
Financial derivatives	**18 559**	0	16 999	1 559	0	0	0
Subordinated debt	**1 687**	1 687	0	0	0	0	0
Total financial liabilities	**353 040**	**227 477**	**16 999**	**1 559**	**0**	**0**	**107 005**

2012	Total	At fair value through profit or loss			Held to	Loans and	Other
		FVO	Held for trading	Fair value hedge	maturity	Receivables	liabilities
Deposits with credit institutions	**5 940**	1 030	0	0	0	4 910	0
Instalment loans	**221 996**	123 776	0	0	0	98 220	0
Notes, bonds and other interest-bearing securities	**102 223**	82 819	74	0	4 388	14 942	0
Financial derivatives	**18 780**	0	16 129	2 651	0	0	0
Total financial assets	**348 939**	**207 625**	**16 203**	**2 651**	**4 388**	**118 072**	**0**
Loans from credit institutions	**6 041**	391	0	0	0	0	5 650
Commercial paper	**363**	363	0	0	0	0	0
Senior securities issued	**317 108**	245 594	0	0	0	0	71 514
Financial derivatives	**15 568**	0	14 336	1 232	0	0	0
Subordinated debt	**1 670**	1 670	0	0	0	0	0
Total financial liabilities	**340 749**	**248 017**	**14 336**	**1 232**	**0**	**0**	**77 164**

NOTE 11 FINANCIAL INSTRUMENTS MEASURED AT AMORTISED COST

(Amounts in NOK 1 000 000)

	2013		2012	
	Carrying amount	Fair value	Carrying amount	Fair value
Instalment loans	101 773	101 708	98 220	98 170
Notes, bonds and other interest-bearing securities classified as Loans and Receivables	14 992	15 045	14 942	15 081
Notes, bonds and other interest-bearing securities classified as Held to Maturity	931	931	4 388	4 410
Total financial assets measured at amortised cost	**117 696**	**117 684**	**117 551**	**117 661**
Senior securities issued	103 349	103 637	71 514	71 642
Total financial liabilities measured at amortised cost	**103 349**	**103 637**	**71 514**	**71 642**

Level of the fair value hierarchy for financial instruments measured at amortised cost, but for which the fair value is disclosed

2013	**Level 1**	**Level 2**	**Level 3**	**Total**
Instalment loans	0	85 656	16 052	101 708
Notes, bonds and other interest-bearing securities classified as Loans and Receivables	8 787	4 560	1 698	15 045
Notes, bonds and other interest-bearing securities classified as Held to Maturity	0	931	0	931
Total financial assets measured at fair value	**8 787**	**91 146**	**17 751**	**117 684**
Senior securities issued	0	0	103 637	103 637
Total financial liabilities measured at fair value	**0**	**0**	**103 637**	**103 637**

2012	**Level 1**	**Level 2**	**Level 3**	**Total**
Instalment loans	0	87 388	10 781	98 170
Notes, bonds and other interest-bearing securities classified as Loans and Receivables	1 214	13 355	513	15 081
Notes, bonds and other interest-bearing securities classified as Held to Maturity	0	4 375	35	4 410
Total financial assets measured at fair value	**1 214**	**105 118**	**11 330**	**117 661**
Senior securities issued	0	0	71 642	71 642
Total financial liabilities measured at fair value	**0**	**0**	**71 642**	**71 642**

Fair value of financial instruments

The fair value hierarchy applied to determination of fair value of financial instruments has three levels:

Level 1—Quoted prices in active markets for identical assets and liabilities

Level 2—Observable inputs other than quoted prices

Level 3—Other inputs that are not based on observable market data.

Valuation techniques used for determination of fair value of financial instruments in Level 2 and 3 include discounted cash flows, based on observable market data as well as estimates.

Instalment loans

Level 2: Include p.t. loans and Nibor-loans with fixed interest rate margin (maturity within 1 year). Pricing of these loan products is subject to competition from other lenders and is benchmarked to the market levels.

Level 3: Nibor-loans with fixed interest rate margin (maturity over 1 year) are disbursed based on bilateral agreements between KBN and a loan customer, and are not traded in an active market. There is therefore less reliable evidence of a market price for these types of loans. A significant valuation input for fixed rate loans is credit value adjustment, which is estimated at each reporting date. Credit risk is considered to be the same for all municipalities. As observable market data for credit risk is not available, the management has to make assumptions and estimate relevant adjustments for credit risk based on current lending levels and any additional loan security.

Notes and bonds

The best estimate of fair value is price quotations in an active market with many willing buyers and sellers at the reporting date. Level 1 inputs for notes and bonds include quoted prices provided by international vendors (Reuters/Bloomberg). The price quotes used in valuation represent actual transactions in an active market.

Fair value of notes and bonds that do not have available market quotes at the reporting date is calculated using the discounted cash flow method, where discount rates are derived from current interest rate yield curves. Discount rates are adjusted for credit risk and liquidity risk of the issuer, based on observable market data. When applying credit/liquidity value adjustments to discount rates, the assets are grouped based on the issuer's credit rating, currency, time to maturity, underlying exposure and geographic position. Management may make assumptions when determining the level of the fair value hierarchy at the reporting date.

Senior securities issued

The funding portfolio is split into four main groups, based on the funding product and loan documentation used. Debt issuances measured at amortised cost include benchmark loans and loans in public niche markets. These issuances are mainly public syndicated loans in various currencies, where the size of the loan forms the primary difference between the two groups. Fair value of these loans is based on quoted prices of existing issues, prices on new issues and price information obtained from different sources. When those prices represent actual market transactions sufficiently close to the reporting date, they will be classified as Level 1 input in fair value hierarchy. When no observable market transactions exist in close proximity to the reporting date, the fair value of the loans is determined using the discounted cash flows with discount rates based on other observable market data (Level 2). KBN might also acquire non-binding price indications from brokers. Those are classified as Level 3 input, unless the price indications are supported by actual market transactions. As of 31 December 2013 all senior securities issued were classified into Level 3. Fair value of the portfolio is calculated using the discounted cash flow method.

NOTE 12 FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

(Amounts in NOK 1 000 000)

2013	Level 1	Level 2	Level 3	Total
Deposits with credit institutions	0	704	0	**704**
Instalment loans	0	94 817	46 524	**141 341**
Notes, bonds and other interest-bearing securities	47 470	34 314	3 989	**85 773**
Financial derivatives	732	8 705	2 369	**11 806**
Total financial assets measured at fair value	**48 202**	**138 540**	**52 882**	**239 624**
Loans from credit institutions	0	0	0	**0**
Commercial paper	0	0	0	**0**
Senior securities issued	0	0	225 790	**225 790**
Financial derivatives	2 204	8 104	8 251	**18 559**
Subordinated debt	0	0	1 687	**1 687**
Total financial liabilities measured at fair value	**2 204**	**8 104**	**235 727**	**246 035**

There were no significant transfers between Level 1 and Level 2 in the reporting period.

2012	Level 1	Level 2	Level 3	Total
Deposits with credit institutions	0	1 030	0	**1 030**
Instalment loans	0	72 224	51 552	**123 776**
Notes, bonds and other interest-bearing securities	41 703	39 574	1 616	**82 892**
Financial derivatives	171	14 473	4 135	**18 780**
Total financial assets measured at fair value	**41 874**	**127 301**	**57 303**	**226 478**
Loans from credit institutions	0	391	0	**391**
Commercial paper	0	363	0	**363**
Senior securities issued	0	0	245 594	**245 594**
Financial derivatives	2 446	9 732	3 390	**15 568**
Subordinated debt	0	0	1 670	**1 670**
Total financial liabilities measured at fair value	**2 446**	**10 485**	**250 653**	**263 585**

There were no significant transfers between Level 1 and Level 2 in the reporting period.

Reconciliation of movements in Level 3	2012	Purchase	Redemption	Gain/(loss)	Transfers	2013
Instalment loans	51 552	2 214	(3 153)	(313)	(3 776)	46 524
Notes, bonds and other interest-bearing securities	1 616	3 181	(1 801)	32	961	3 989
Financial derivatives	4 135	0	(398)	(1 375)	7	2 369
Total financial assets at fair value in Level 3	**57 303**	**5 395**	**(5 352)**	**(1 656)**	**(2 808)**	**52 882**
Senior securities issued	245 594	106 560	(127 051)	686	0	225 790
Financial derivatives	3 390	0	(255)	5 117	0	8 251
Subordinated debt	1 670	0	0	17	0	1 687
Hybrid Tier 1 capital instruments	0	0	0	0	0	0
Total financial liabilities at fair value in Level 3	**250 653**	**106 560**	**(127 306)**	**5 820**	**0**	**235 728**

	2011	Purchase	Redemption	Gain/(loss)	Transfers	2012
Instalment loans	48 510	7 887	(5 024)	439	(259)	51 552
Notes, bonds and other interest-bearing securities	17 129	281	(9 334)	(59)	(6 400)	1 616
Financial derivatives	6 548	209	(1 929)	(690)	(3)	4 135
Total financial assets at fair value in Level 3	**72 187**	**8 377**	**(16 287)**	**(311)**	**(6 662)**	**57 303**
Senior securities issued	278 251	66 987	(86 868)	(12 776)	0	245 594
Financial derivatives	4 686	764	(340)	(1 863)	144	3 390
Subordinated debt	2 080	0	(313)	(97)	0	1 670
Hybrid Tier 1 capital instruments	663	0	(657)	(6)	0	0
Total financial liabilities at fair value in Level 3	**285 680**	**67 751**	**(88 179)**	**(14 742)**	**144**	**250 653**

As a result of the changes in liquidity in bond markets during 2013 notes and bonds amounting to NOK 929 million were transferred from Level 1 to Level 3, and NOK 665 million—from Level 2 to Level 3. Transfers from Level 3 to Level 1 amounted to NOK 36 million, and transfers from Level 3 to level 2—NOK 597 million. The main reason for transfers in the fair value hierarchy is the variation in access to observable market prices and other market parameters during the reporting period. There was no change in valuation inputs for instalment loans in 2013. All transfers between the levels are therefore a result of refinancing and change of products in the portfolio.

All gains/(losses) on financial instruments in Level 3 are recognised in the income statement under "Net interest income", "Net unrealised gain/(loss) on financial instruments" or "Net trading income". Unrealised loss on financial instruments recognised at 31 December 2013 amounts to NOK 1 821 million is recognised in "Net unrealised gain/(loss) on financial instruments" and "Net interest income".

Impact of changes in key assumptions	2013		2012	
	Carrying amount	**Effect of changes in key assumptions**	**Carrying amount**	**Effect of changes in key assumptions**
Instalment loans	46 524	(141)	51 552	(140)
Notes, bonds and other interest-bearing securities	3 989	(1)	1 616	(1)
Financial derivatives	(5 881)	(322)	745	13
Senior securities issued	225 790	298	245 594	101
Subordinated debt	1 687	4	1 670	5
Hybrid Tier 1 capital instruments	0	0	0	0
Total	**272 109**	**(162)**	**301 177**	**(23)**

The changes in key assumptions are defined as a 10 bp change in the unobservable inputs that are material for determining fair value of assets and liabilities.

Fair value of financial instruments

The fair value hierarchy applied to determination of fair value of financial instruments has three levels:

Level 1—Quoted prices in active markets for identical assets and liabilities

Level 2—Observable inputs other than quoted prices

Level 3—Other inputs that are not based on observable market data.

Valuation techniques used for determination of fair value of financial instruments in Level 2 and 3 include discounted cash flows and option pricing models with inputs from observable market data and unobservable inputs. All changes in fair value of financial instruments are recorded as part of the carrying value of assets and liabilities, and recognised in the income statement as “Net unrealised gain/(loss) on financial instruments” or “Net trading income”.

Deposits with credit institutions

Deposits with credit institutions that are carried at fair value include cash time deposits with other credit institutions. Because of their short-term nature the fair value of these instruments is approximately equal to the notional amount.

Instalment loans

Level 2 includes short-term debt certificates issued by municipalities and loans with floating Nibor-indexed interest rate. The customers have more flexibility in refinancing these types of loans with other lenders when market conditions change. As a result, these types of loans are subject to greater competition from lenders and have observable prices that can be used as Level 2 input when the fair value is determined.

Level 3 includes fixed rate loans to customers that are not traded in an active market and do not have observable market prices after initial recognition. A significant valuation input for fixed rate loans is credit value adjustment, that is estimated at each reporting date. Credit risk is considered to be the same for all municipalities. As observable market data for credit risk is not available, the management has to make assumptions and estimate relevant adjustments for credit risk based on current lending levels and any additional loan security.

Notes and bonds

The best estimate of fair value is price quotations in an active market with many willing buyers and sellers at the reporting date. Level 1 inputs for notes and bonds include quoted prices provided by international vendors (Reuters/Bloomberg). The price quotes used in valuation represent actual transactions in an active market.

Fair value of notes and bonds that do not have available market quotes at the reporting date is calculated using the discounted cash flow method, where discount rates are derived from current interest rate yield curves. Discount rates are adjusted for credit risk and liquidity risk of the issuer, based on observable market data. When applying credit/liquidity value adjustments to discount rates, the assets are grouped based on the issuer’s credit rating, currency, time to maturity, underlying exposure and geographic position. For more detailed description of inputs in fair value determination, see “Accounting policies.”

Senior securities issued

The funding portfolio is split into four main groups, based on the funding product and loan documentation used. The four main categories are benchmark loans, loans in public niche markets, private placements and retail loans. The two first groups are characterised by public syndicated loans in various currencies, where the size of the loan forms the primary difference between the two groups. Fair value of these loans is based on quoted prices of existing issues, prices on new issues and price information obtained from different sources. When those prices represent actual market transactions sufficiently close to the reporting date, they will be classified as Level 1 input in fair value hierarchy. Group three is private placements and is characterised by non-public loans where the loan terms are specially adapted for a single investor. The final main group is retail loans, i.e. loans sold to retail investors. These loans are normally not traded in the secondary market and do not have available price quotes. The portfolio is therefore classified as Level 3 in fair value hierarchy. The choice of valuation models and input depends on the structure of each loan. The fair value of the bonds without embedded options is determined using the discounted cash flow method with inputs based on current interest rate yield curves and credit spreads estimated from prices on new issues. The fair value of structured bonds with option elements is calculated using option pricing models that use both interest rates, FX-rates and historical volatilities as parameters.

Financial derivatives

All financial derivatives are OTC-contracts used only in financial hedges. Basis swaps (USD-NOK, USD-EUR and EUR-NOK) are recorded at market prices quoted in an active market. The fair value of plain vanilla interest rate and cross currency swaps is determined using the discounted cash flow method with discount rates derived from observable swap interest rates. Equity and commodity linked derivatives with embedded options are valued using the same valuation models as corresponding loans and are classified as Level 3.

Valuation methods

For financial instruments measured at fair value on recurring basis a reconciliation of movements between the levels is done at the end of each reporting period. The methods for calculating the fair value of financial instruments categorised in Level 3 of the fair value hierarchy is determined based on the instruments’ features. Fair value of financial instruments without embedded derivatives is determined using the discounted cash flows method, where discount rates are derived from the relevant observable money market interest rates and other factors that may significantly affect the fair value of the instruments. When such factors cannot be reliably observed at a reporting date, the management could make assumptions and use estimates when determining the fair value.

Fair value of financial instruments with embedded derivatives is determined using option pricing models with observable market data and estimates as parameters. The most significant non-observable parameters used in the valuation at Level 3 are related to the credit premium for financial instruments not traded in an active market.

Significant non-observable inputs in fair value measurement

The most significant estimates used as input in fair value measurement include spreads over swap interest rates, reflecting credit and liquidity risk in assets and liabilities. Credit spreads measured against USD 3M Libor used in valuation at 31 December 2013 vary from –41 bp to +16 bp for debt issuances and from –6 bp to + 10 bp for notes and bonds. Non-observable valuation inputs might be sensitive to changes in credit risk, liquidity risk and market risk in relevant currencies. Such changes are reflected in fair value measurement of financial instruments. For more information on sensitivity to non-observable inputs, see table “Impact of changes in key assumptions”.

NOTE 13 HEDGE ACCOUNTING

(Amounts in NOK 1 000 000)

KBN applies fair value hedge to transactions in selected economic hedges of interest rate and cross-currency risk. Fair value hedge is applied at individual transaction level where hedging instrument is explicitly linked to the hedged item (”micro hedge”), and hedge relationship is properly documented. Hedge effectiveness is measured on an ongoing basis and all ineffectiveness is recognised under ”Net unrealised gain/(loss) on financial instruments”.

Carrying value of financial instruments in fair value hedges	**2013**	**2012**
Notes, bonds and other interest-bearing securities	14 992	14 942
Senior securities issued	103 349	71 514
Financial derivatives	247	1 419
Total	**118 588**	**87 875**

Fair value changes on financial instruments in fair value hedges	**2013**	**2012**
Notes, bonds and other interest-bearing securities	(204)	21
Senior securities issued	1 459	(10)
Financial derivatives	(1 305)	83
Total	**(50)**	**94**

Fair value changes are a result of changes in underlying risk factors, such as interest rates and currency basis swap spreads.

NOTE 14 DEPOSITS WITH CREDIT INSTITUTIONS

(Amounts in NOK 1 000 000)

	2013	**2012**
Deposits with credit institutions without agreed period of notice	29	0
Deposits with credit institutions with agreed period of notice	704	1 030
Cash collateral pledged	4 524	4 910
Total deposits with credit institutions	**5 257**	**5 940**

NOTE 15 INSTALMENT LOANS

(Amounts in NOK 1 000 000)

	2013	2012
Principal amount	240 808	219 204
Accrued interest	1 138	1 099
Adjustment for fair value	1 113	1 642
Total loans to customers	**243 059**	**221 945**
Other loans	55	51
Total instalment loans	**243 114**	**221 996**

Geographic distribution	**2013**	**2012**
Østfold	10 773	11 715
Akershus	21 881	19 965
Oslo	4 475	4 167
Hedmark	10 202	8 665
Oppland	7 412	7 167
Buskerud	23 031	18 489
Vestfold	8 069	7 527
Telemark	9 679	8 235
Aust-Agder	6 091	5 625
Vest-Agder	12 349	11 875
Rogaland	19 381	15 821
Hordaland	29 096	26 884
Sogn og Fjordane	7 320	6 940
Møre og Romsdal	16 823	15 118
Sør-Trøndelag	11 966	12 019
Nord-Trøndelag	10 787	10 397
Nordland	14 796	13 343
Troms	10 323	9 420
Finnmark	6 308	5 778
Svalbard	46	53
Loans to customers	**240 808**	**219 204**

NOTE 16 NOTES, BONDS AND OTHER INTEREST-BEARING SECURITIES

(Amounts in NOK 1 000 000)

Assets by issuer	**2013**	**2012**
Domestic		
Issued by other borrowers	3 704	2 470
Non-domestic		
Issued by public bodies[1]	74 870	80 319
Issued by other borrowers	23 123	19 435
Total notes, bonds and other interest-bearing securities	**101 696**	**102 223**

[1]Issued by or guaranteed by sovereigns, central banks, regional authorities and multilateral development banks.

Assets by maturity	**2013**	**2012**
Under 1 year	54 140	56 523
1-5 years	47 556	45 700
Total notes, bonds and other interest-bearing securities	**101 696**	**102 223**

NOTE 17 OTHER ASSETS

(Amounts in NOK 1 000 000)

	2013	2012
Intangible assets	34	1
Fixed assets	7	11
Other assets	1	1
Prepaid, non-accrued expenses and accrued income	3	2
Total other assets	**44**	**15**

NOTE 18 LOANS FROM CREDIT INSTITUTIONS

(Amounts in NOK 1 000 000)

	2013	2012
Loans from credit institutions without agreed period of notice	0	6
Loans from credit institutions with agreed period of notice	0	391
Cash collateral received	3 656	5 644
Total loans from credit institutions	**3 656**	**6 041**

NOTE 19 SENIOR SECURITIES ISSUED

(Amounts in NOK 1 000 000)

	2013	2012
Senior securities issued (nominal amounts) at 1 January	**312 867**	**338 615**
New issuance	162 539	98 192
Redemptions	(153 300)	(88 192)
Amortisation	(88)	409
Translation differences	4 451	(36 157)
Senior securities issued (nominal amounts) at 31 December	**326 470**	**312 867**
Accrued interest	1 953	1 880
Adjustment for fair value	716	2 361
Total senior securities issued	**329 139**	**317 108**
Gain/(loss) from adjustment for fair value as a result of change in own credit risk	*(135)*	*(21)*

There was no breach in debt covenants as of 31 December 2013.

Adjustments to fair value as a result of the Company's credit risk is a part of the change in fair value not attributable to changes in parameters associated with market risk. It is assumed that the market risk in senior securities issued is limited to changes in observable money market interest rates. Changes in fair value attributable to changes in credit risk in senior securities issued are calculated as the difference between the discounted values applying:

A. Relevant money market interest rates at the reporting date adjusted for the credit risk at time of recognition; and

B. Relevant money market interest rates at the reporting date adjusted for the credit risk at the reporting date.

NOTE 20 FINANCIAL DERIVATIVES

(Amounts in NOK 1 000 000)

KBN uses financial derivatives solely for hedging against exposure to interest rate and currency risks arising in the Company's business activities. KBN enters into swap contracts with counterparties with high credit rating and all derivative exposure is subject to risk limits approved by the Board. Bond debt denominated in foreign currency is hedged with interest rate and cross-currency swaps so that KBN only has limited exposure against changes in 3-month money market interest rates in NOK, USD and EUR. Swap contracts linked to the commodity index or equity index are used to hedge risk in borrowing where the return is linked to such indices.

Borrowings in foreign currency are converted to Norwegian kroner through basis swaps in which KBN receives interest payments in foreign currency and pays the interest in Norwegian kroner. Interest rate risk arising from fixed interest rate on loans to customers is hedged with interest rate swaps and FRA. Interest rate and currency swaps are also used to hedge against market risk in the liquidity portfolio. The Company has no credit derivatives in the portfolio.

Counterparty risk arising from derivative contracts is mitigated by using standard ISDA-agreements that give the right to offset liabilities and assets in the case of default. In addition, the Company enters into collateral agreements with all new swap counterparties. Derivative exposure is monitored on an ongoing basis.

	2013			2012		
	Notional Amount	**Assets**	**Liabilities**	**Notional Amount**	**Assets**	**Liabilities**
Held for trading:						
Interest rate derivatives	112 024	665	2 115	94 662	1 242	2 187
Currency derivatives	395 576	8 646	13 885	384 611	10 984	10 333
Equity-related derivatives	26 352	669	991	73 285	3 891	1 747
Commodity-related derivatives	259	19	8	941	11	68
	534 211	**9 999**	**16 999**	**553 498**	**16 129**	**14 336**
Fair value hedges:						
Interest rate derivatives	95 382	1 128	835	65 129	1 751	50
Currency derivatives	20 351	679	724	17 609	900	1 182
	115 732	**1 807**	**1 559**	**82 738**	**2 651**	**1 232**
Total financial derivatives	**649 943**	**11 806**	**18 559**	**636 236**	**18 780**	**15 568**

Most financial derivatives are accounted for as "Held for trading", with the exception of contracts designated as hedging instruments in fair value hedges. As standard master netting agreements do not give a currently enforceable legal right to offset the recognised amounts, the financial derivatives are presented gross in statement of financial position: as assets when present value is positive, and as liabilities when present value is negative. All financial derivatives are measured at fair value through profit or loss.

NOTE 21 COLLATERAL

(Amounts in NOK 1 000 000)

	2013	**2012**
Cash collateral received	3 656	5 644
Cash collateral pledged	(4 524)	(4 910)
Total cash collateral	**(868)**	**734**

Credit Support Annex is required for all counterparties in derivative agreements. KBN accepts only cash collateral in USD or EUR. Cash collateral received or pledged as additional security for derivative exposure is presented as cash received or cash paid respectively, with a relevant liability or asset item. Collateral is a part of KBN's cash management.

Items covered by netting agreements, but not qualified for offsetting in the statement of financial position.

(Amounts in NOK 1 000 000)	**2013**	**2012**
Financial derivatives	11 806	18 780
Total assets	**11 806**	**18 780**
Financial derivatives	18 559	15 568
Total liabilities	**18 559**	**15 568**

Financial derivative contracts are covered by ISDA Master Netting Agreements and qualify for netting of exposure at default.

NOTE 22 SUBORDINATED DEBT

(Amounts in NOK 1 000 000)

	Currency	Nominal amount in CCY	Redemption right	Interest rate	Nominal amount in NOK 2013	2012
Perpetual subordinated loan capital	NOK	8 million			0	8
Ordinary subordinated loan capital	CAD	275 million	2016	3.74%	1 571	1 542
Total subordinated debt					**1 571**	**1 550**

NOTE 23 SHARE CAPITAL

	2013		2012	
	Number of shares	Share in %	Number of shares	Share in %
The Kingdom of Norway	2 144 625	100	2 144 625	100

NOTE 24 RISK MANAGEMENT

State ownership, customer base and social responsibility imply that KBN maintains low risk in all operations. Risk limits are set in accordance with the requirements of the Board of Directors, shareholders and supervisory authorities. The risk limits reflect the Company's risk tolerance measured by potential impact on profits and regulatory capital.

Risk management and internal control are established to systematically identify, assess and monitor the risk in all operations. Risk management and internal control are an integral part of KBN's strategy and business processes. Risk management activities are adapted to the nature and scope in the risk exposure.

Organisation of risk management

Board of Directors. The Board of Directors in KBN determines the long-term risk strategy through a sustainable risk policy, predefined risk limits and delegation of authority. All risks are subject to internal limits.

Delegation of authority. General authorisation defines the authority to approve loans to customers, and take risk positions in all financial operations.

Responsibility. The President & CEO has an overall responsibility for risk taking and risk management in the Company.

Risk management. The Board of Directors determines the risk policies and limits, including transactions in new products. The Board reviews financial risk policy at least twice a year. Lending policies are reviewed at least annually. The Board assesses the capital situation and approves KBN's principles for capital management annually.

Risk controlling. Risk controlling entities are independent from the operational departments: Lending, Funding and Treasury. KBN portfolio and risk management system is Adaptiv360 delivered by Sungard. Internal audit is performed by KPMG and reported to the Board of Directors.

Risk exposure

All material risks of the Company are identified and monitored to ensure that they are within the conservative internal risk framework aiming to ensure KBN's credit rating and access to the interbank markets. Credit risk and liquidity risk are generally low. The Company takes no open risk positions in interest rates or foreign currencies.

The following risk factors are identified as the most important for KBN's goal achievement:

Credit risk and counterparty risk

- Loss on loans granted to customers
- Counterparty default – derivative transactions
- Counterparty default – liquidity portfolio
- Spread risk

Market risk

- Interest rate and cross currency risk

Capital level

Liquidity risk

Operational risk

Credit risk

KBN's assets consist of loans to municipalities and a liquidity portfolio of bonds and notes issued by or guaranteed by sovereigns, regional authorities, multilateral development banks, covered bonds and financial institutions with high credit rating.

Framework for credit risk management. The credit risk in loans granted is based on the economic assessment of municipalities. The analysis takes into account quantitative and qualitative key performance indicators, including operating conditions, regulatory framework, financial standing, debt profile, management and an overall economic assessment of the geographic region. The rating estimates based on the internal credit ranking corresponds to the range between AA- and AA+.

All financial transactions in bonds, notes and derivatives are subject to the conservative risk policy. The lowest acceptable rating for investments in bonds and notes is A2/A from Moody's and Standard and Poor's.

The credit risk in derivative transactions is managed by using standard ISDA agreements. In addition, KBN enters into collateral agreements with all new swap counterparties.

Credit risk management consists of a set of tasks and processes aimed to monitor and control credit risk on an ongoing basis. The management assesses and approves all new limits and counterparties, based on KBN's internal credit risk models, available risk capital, counterparties' external ratings, types of financial instruments and tenor. The Board of Directors annually approves the credit policy for municipal lending, and all special exposures are assessed by the management.

Credit risk assessment. KBN's client base is the local government sector, which has high creditworthiness. The credit risk in loans granted is limited to payment delays. The local Government Act states that a municipality cannot go bankrupt. Should a municipality face payment difficulties, the central government would assume control of the municipality until it's able to meet its payment obligations.

KBN enters into derivative transactions with financial institutions to hedge exposure to interest rates and FX-rates. All new transactions are subject to strict rating requirements and also require an ISDA agreement and a collateral agreement with the counterparty.

Credit risk related to the liquidity portfolio is low. An average rating of the portfolio is AA+ (based on the lowest of S&P and Moody's), and 69 per cent of the portfolio is invested into securities with a BIS-weight of zero per cent. Average maturity of the portfolio was under 1 year as of 31 December 2013. The spread risk in the portfolio is managed at a counterparty level and is limited due to the portfolio's short maturity.

Market risk

Market risk occurs in the form of interest rate risk and currency risk. KBN's risk policy allows only low exposure to changes in interest rates and FX-rates. The interest rate and currency risk are managed through matching of assets and liabilities as well as through economic hedges with derivative instruments.

Capital management

KBN is subject to the Capital Adequacy requirements and minimum standards for regulatory capital. In addition the Company assesses its capital level taking into account all substantial risks the Company is exposed to. The Board of Directors discusses the capital level and assesses all the risks annually to ensure that the Company's capital level is sufficient based on the actual and expected risk exposure.

In the process of capital assessment, the management identifies and measures all the risks the Company may be exposed to and estimates the capital level necessary to cover all external and internal risks. The following risks are assessed separately: credit risk, market risk, liquidity risk and operational risk. In addition the management considers concentration risk, key personnel risk, strategic risk, business risk, reputation risk, risk of changes in regulatory framework and compliance risk.

The Board pays special attention to the risk of changes in regulatory framework. The impending changes to CRD IV and to the national capital requirements increase the Company's capital charge.

KBN's Core Tier 1 capital ratio is 12.39 per cent. KBN is compliant with all regulatory capital requirements.

Liquidity risk

Liquidity risk is managed by matching maturity profiles and interest rate reset periods for assets and liabilities. Liquidity portfolio is maintained at a level that over time equals a minimum of 12 months' net debt redemptions, and the lowest allowed limit of 10 months' net debt redemptions. Short average time to maturity ensures that KBN's liquidity requirements can be met without selling assets. Surplus liquidity is invested in liquid bonds and notes with high credit rating and short time to maturity. Liquidity reserves should constitute between 25 and 35 per cent of total assets. KBN also aims to have duration of the liabilities equal or exceeding that of the assets.

Operational risk

Operational risk arises from all functions and is minimised by effective internal control, high professional level and focus on ethical behaviour. The management reports to the Board on the operational risk and loss or near-loss events.

NOTE 25   CREDIT RISK

(Amounts in NOK 1 000 000)

KBN has exposure to municipal sector, as well as sovereigns, financial institutions, local authorities, multilateral development banks and covered bonds within the OECD. Loans given to municipalities may have maturities of up to 50 years, and the credit limits are regulated by Large Exposure regulation. Credit exposures to financials must have a rating of A or above.

KBN grants loans to public sector entities that carry out work for local and regional authorities. The conditions for such loans are that local or regional authorities provide guarantees that have been approved by the government, represented by the County Governor or the Ministry of Local Government and Modernisation. In addition, the loans are secured by collateral in the entities' assets. KBN has had no losses on loans to customers in 2013. There is no evidence of impairment as at 31 December 2013. KBN does not issue financial guarantees.

Amounts in the table below represent actual credit exposure

2013

Maturity	< 1 year			> 1 year					
Risk class	**A-3**	**A-1/A-1+**	**Not rated**	**A-**	**A**	**AA**	**AAA**	**Not rated**	**Total**
Sovereigns and central banks	0	7 292	0	0	0	3 059	2 112	0	**12 462**
Regional authorities [1]	0	14 603	22 628	0	0	11 398	10 340	223 512	**282 481**
Multilateral development banks	0	9 241	0	0	0	673	13 126	0	**23 040**
Financial institutions	0	11 898	0	0	143	799	0	0	**12 840**
Securitisation	0	128	0	0	0	0	0	0	**128**
Covered bond	0	10 021	0	0	0	0	3 837	0	**13 858**
Total	**0**	**53 184**	**22 628**	**0**	**143**	**15 929**	**29 414**	**223 512**	**344 810**

[1] Including loans to municipal sector of NOK 243.1 billion.

Undisbursed loan commitments amount to NOK 7.38 billion as at 31 December 2013.

Credit exposure by country

2013

Maturity	< 1 year			> 1 year					
Risk class	**A-3**	**A-1/A-1+**	**Not rated**	**A-**	**A**	**AA**	**AAA**	**Not rated**	**Total**
Australia	0	230	0	0	0	578	0	0	**808**
Belgium	0	959	0	0	0	0	0	0	**959**
Canada	0	649	0	0	0	41	0	0	**691**
Denmark	0	4 208	81	0	0	0	3 361	0	**7 650**
Finland	0	1 366	420	0	0	0	456	253	**2 495**
France	0	9 320	0	0	0	3 059	0	0	**12 378**
Japan	0	419	0	0	0	0	0	0	**419**
Netherlands	0	2 659	0	0	0	0	0	0	**2 659**
Norway	0	2 638	21 672	0	143	0	923	221 442	**246 818**
Austria	0	544	0	0	0	0	0	0	**544**
Spain	0	17	0	0	0	0	0	0	**17**
Supranational	0	9 241	0	0	0	673	13 126	0	**23 040**
Switzerland	0	3 074	0	0	0	1 133	576	144	**4 926**
Germany	0	15 080	455	0	0	10 445	7 822	1 673	**35 475**
United Kingdom	0	2 780	0	0	0	0	3 150	0	**5 931**
Total	**0**	**53 183**	**22 628**	**0**	**143**	**15 929**	**29 414**	**223 512**	**344 810**

2012

Maturity	< 1 year			> 1 year					
Risk class	**A-3**	**A-1/A-1+**	**Not rated**	**A-**	**A**	**AA**	**AAA**	**Not rated**	**Total**
Sovereigns and central banks	232	6 300	0	0	0	5 475	2 472	0	**14 479**
Regional authorities [1]	0	22 858	8 932	0	0	15 534	7 234	214 630	**269 187**
Multilateral development banks	0	7 634	0	0	0	1 870	9 093	0	**18 597**
Financial institutions	0	7 305	119	0	45	0	64	0	**7 532**
Securitisation	0	143	0	0	0	0	0	0	**143**
Covered bond	0	10 259	1 102	0	0	388	2 479	0	**14 229**
Total	**232**	**54 499**	**10 152**	**0**	**45**	**23 268**	**21 342**	**214 630**	**324 168**

[1] Including loans to municipal sector of NOK 221.9 billion.

Undisbursed loan commitments amount to NOK 7.06 billion as at 31 December 2012.

Credit exposure by country

2012

Maturity	**< 1 year**			**> 1 year**					
Risk class	**A-3**	**A-1/A-1+**	**Not rated**	**A-**	**A**	**AA**	**AAA**	**Not rated**	**Total**
Australia	0	237	0	0	0	0	32	0	**269**
Belgium	0	1 982	0	0	0	0	0	0	**1 982**
Canada	0	1 243	0	0	0	0	0	0	**1 243**
Denmark	0	3 788	0	0	0	0	614	36	**4 437**
Finland	0	490	399	0	0	0	452	593	**1 935**
France	0	4 500	0	0	0	5 863	276	0	**10 639**
Luxembourg	0	675	0	0	0	0	0	0	**675**
Netherlands	0	1 680	0	0	0	0	64	0	**1 744**
Norway	0	1 204	9 581	0	45	0	0	213 585	**224 415**
Austria	0	44	0	0	0	0	0	0	**44**
Spain	232	18	0	0	0	0	0	0	**250**
Supranational	0	7 634	0	0	0	1 870	9 093	0	**18 597**
Sweden	0	4 459	172	0	0	915	1 367	0	**6 912**
Germany	0	20 604	0	0	0	14 619	7 683	416	**43 323**
United Kingdom	0	5 848	0	0	0	0	1 762	0	**7 610**
USA	0	93	0	0	0	0	0	0	**93**
Total	**232**	**54 499**	**10 152**	**0**	**45**	**23 268**	**21 342**	**214 630**	**324 168**

NOTE 26 INTEREST RATE RISK

(Amounts in NOK 1 000 000)

Interest rate risk occurs as a result of the differences in the interest rate periods for assets and liabilities, and the fact that incoming and outgoing payments are due at different times. As part of interest risk management, the Company actively buys and sells securities issued by financial institutions and sovereigns and enters into derivative contracts—interest rate swaps and FRA.

The Company's assets and liabilities are denominated in several currencies, but all interest risk is hedged perfectly at a transaction level for all currencies except NOK, USD and EUR. The interest risk in these three currencies is hedged using interest rate swaps, so that the Company only has exposure to changes in 3 month money market interest rates. Interest rate sensitivity is measured as a change in fair value of assets and liabilities with 100 basis points change in interest rates (parallel shift).

The Board has adopted a total limit for interest rate risk of NOK 24 million. The interest rate sensitivity is measured assuming 50 days to an adjustment of the floating rate on the lending portfolio, and the lowest value is reported. The interest rate sensitivity in the main currencies is shown in the table below:

Effect of 100 bp change in interest rate	**Net interest rate risk**	**Gross interest rate risk**
NOK	(21.9)	21.9
USD	(2.6)	2.6
EUR	0.9	0.9
Total	**(23.6)**	**25.5**

Interest rate sensitivity can affect the income statement during the next three month period.

NOTE 27 CURRENCY RISK

(Amounts in NOK 1 000 000)

Currency risk is defined as the risk of loss in market value as a result of fluctuations in FX-rates. The currency risk occurs as a result of the Company's funding mainly being in foreign currency, while lending is provided in NOK. The Company's risk policy requires hedging of all currency risk in the assets and liabilities. However, short-term net positions in the income statement items may occur in EUR and USD. The currency risk is hedged both at transaction level and portfolio level. The limit for currency risk is set to NOK 12 million for a 10 per cent absolute change in all currencies.

	2013		**2012**	
Currency	**Net position**	**10 % change in FX-rate**	**Net position**	**10 % change in FX-rate**
USD	16	1.6	(1)	0
EUR	5	0.5	(1)	0
Other currencies	4	0.4	3	1
Total	**25**	**2.5**	**1**	**1**

The table above shows an absolute effect on the income statement of a 10 per cent change in FX-rates relative to NOK. The amount is calculated based on assets and liabilities denominated in foreign currencies at 31 December 2013. Sensitivity analysis does not take into account correlation between FX-rates and other market risk factors.

NOTE 28 LIQUIDITY RISK

(*Amounts in NOK 1 000 000*)

Liquidity risk is defined as a risk for the Company not being able to meet its commitments and/or finance lending demand without significant extra costs being incurred in the form of value loss in assets that have to be sold, or in the form of more expensive funding.

Liquidity risk is monitored and managed through internal control and financial policy. KBN's financial policy requires to maintain net cash balances over time equivalent to a minimum 12 months' net debt redemptions with the lowest allowed limit of 10 months' net debt redemptions. This means that in any given situation the Company can cover all its debt obligations for the next 12 months without new borrowing.

The liquidity portfolio is managed using a conservative investment policy to keep both credit risk and market risk low. Surplus liquidity is invested in notes and bonds issued by sovereigns, sub-sovereigns, regional authorities, multilateral development banks and financials with a high credit rating. Most of the portfolio matures within 12 months. Liquidity risk is further reduced by matching maturities on assets and liabilities. The Company also has a short-term funding programme and a credit line with DNB to manage short-term liquidity.

2013

Exposure by maturity	**Total**	**< 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**>5 years**	**Without maturity**
Deposits with credit institutions	**5 257**	5 257	0	0	0	0	0
Instalment loans	**240 863**	3 701	10 577	6 511	18 446	201 627	0
Notes, bonds and other interest-bearing securities	**100 616**	7 543	17 530	28 410	47 133	0	0
Total assets	**346 736**	**16 501**	**28 107**	**34 922**	**65 579**	**201 627**	**0**
Loans from credit institutions	**3 656**	3 656	0	0	0	0	0
Senior securities issued	**326 473**	844	24 495	44 653	219 703	36 777	0
Other liabilities	**662**	7	244	225	139	0	48
Subordinated debt	**1 569**	0	0	0	1 569	0	0
Total liabilities	**332 360**	**4 507**	**24 739**	**44 878**	**221 410**	**36 777**	**48**
Financial derivatives	**(6 354)**	**743**	**(814)**	**(376)**	**(7 093)**	**1 185**	**0**
Net liquidity exposure	**8 022**	**12 737**	**2 555**	**(10 332)**	**(162 925)**	**166 035**	**(48)**

2013

Exposure by interest rate reset	**Total**	**< 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**>5 years**	**Without maturity**
Deposits with credit institutions	**5 257**	5 257	0	0	0	0	0
Instalment loans	**240 863**	90 928	98 527	17 634	27 053	6 721	0
Notes, bonds and other interest-bearing securities	**100 616**	18 013	36 059	21 973	24 571	0	0
Total assets	**346 736**	**114 198**	**134 586**	**39 607**	**51 624**	**6 721**	**0**
Loans from credit institutions	**3 656**	3 656	0	0	0	0	0
Senior securities issued	**326 473**	26 262	86 800	53 649	139 972	19 790	0
Other liabilities	**662**	7	244	225	139	0	48
Subordinated debt	**1 569**	0	0	0	1 569	0	0
Total liabilities	**332 360**	**29 924**	**87 044**	**53 874**	**141 680**	**19 790**	**48**
Financial derivatives	**(6 354)**	**(63 843)**	**(69 159)**	**22 852**	**90 307**	**13 490**	**0**
Net liquidity exposure	**8 022**	**20 431**	**(21 618)**	**8 585**	**251**	**421**	**(48)**

2012

Exposure by maturity	Total	< 1 month	1-3 months	3-12 months	1-5 years	>5 years	Without maturity
Deposits with credit institutions	**5 940**	5 940	0	0	0	0	0
Instalment loans	**221 996**	609	2 881	6 152	20 081	192 273	0
Notes, bonds and other interest-bearing securities	**102 223**	11 555	19 955	25 013	45 700	0	0
Total assets	**330 159**	**18 104**	**22 836**	**31 166**	**65 781**	**192 273**	**0**
Loans from credit institutions	**6 041**	6 035	0	0	0	0	6
Commercial paper	**362**	362	0	0	0	0	0
Senior securities issued	**317 108**	8 757	20 560	40 102	203 037	44 651	0
Other liabilities	**811**	8	18	583	167	0	35
Subordinated debt	**1 670**	0	0	0	1 670	0	0
Total liabilities	**325 992**	**15 163**	**20 578**	**40 685**	**204 875**	**44 651**	**41**
Financial derivatives	**3 212**	**(826)**	**(374)**	**498**	**(1 157)**	**5 070**	**0**
Net liquidity exposure	**7 379**	**2 115**	**1 884**	**(9 021)**	**(140 251)**	**152 692**	**(41)**

2012

Exposure by interest rate reset	Total	< 1 month	1-3 months	3-12 months	1-5 years	>5 years	Without maturity
Deposits with credit institutions	**5 940**	5 940	0	0	0	0	0
Instalment loans	**221 996**	90 746	72 808	17 131	34 761	6 551	0
Notes, bonds and other interest-bearing securities	**102 223**	15 847	34 107	22 587	29 682	0	0
Total assets	**330 159**	**112 533**	**106 914**	**39 718**	**64 443**	**6 551**	**0**
Loans from credit institutions	**6 041**	6 035	0	0	0	0	6
Commercial paper	**362**	362	0	0	0	0	0
Senior securities issued	**317 108**	36 101	87 214	53 357	125 041	15 395	0
Other liabilities	**811**	8	18	583	167	0	35
Subordinated debt	**1 670**	0	0	0	1 670	0	0
Total liabilities	**325 992**	**42 506**	**87 232**	**53 940**	**126 878**	**15 395**	**41**
Financial derivatives	**3 212**	**(22 248)**	**(71 632)**	**25 831**	**62 448**	**8 812**	**0**
Net liquidity exposure	**7 379**	**47 779**	**(51 949)**	**11 609**	**13**	**(32)**	**(41)**

NOTE 29 CAPITAL ADEQUACY AND CAPITAL MANAGEMENT

(Amounts in NOK 1 000 000)

The Company's capital consists of share capital, retained earnings, Hybrid Tier 1 capital and supplementary capital. A healthy capital level is regarded as essential to maintain the Company's AAA rating and ensure efficient market competition. The Board assesses the capital situation on an ongoing basis and approves KBN's principles for capital management.

The Company is subject to Capital Adequacy Requirements and shall have a sufficient capital level for its risk profile and current market situation. Capital level is measured as core capital ratio and total capital ratio relative to the risk-weighted assets. KBN's capital situation is assessed in relation to risk in day-to-day market conditions and through stress tests. Regulatory requirements for Core Tier 1 capital ratio is set to 9 per cent including buffer. KBN is compliant with all regulatory capital requirements as of 31 December 2013.

In order to maintain a sufficient capital level, the Company can, depending on the market situation, reduce or increase its total assets or enter into a dialog with the shareholder to change the Company's capital structure through dividend policy or share capital.

The Core Tier 1 capital requirements including buffer increases from 9 per cent to 10 per cent from 1 July 2014, and to 11 per cent from 1 July 2015. The corresponding total capital requirement including buffer increases from 12.5 per cent to 13.5 per cent from 1 July 2014, and to 14.5 per cent from 1 July 2015. In addition the requirements to countercyclical capital buffers can be changed and will affect KBN's capital requirements. The minimum requirements to Core Tier 1 capital and total capital are 4.5 per cent and 8.0 per cent. KBN is well capitalised, and follows developments in regulatory requirements and adapts its capital structure according to regulatory requirements.

	2013			2012		
	Book value	**Risk-weighted assets**	**Minimum capital requirements**	**Book value**	**Risk-weighted assets**	**Minimum capital requirements**
Credit risk						
Sovereigns and central banks	6 797	218	20	7 796	116	9
Regional governments and local authorities	287 672	52 485	4 724	274 010	47 972	3 838
Of which are Norwegian municipalities	*243 061*	*52 122*	*4 691*	*221 974*	*47 824*	*3 826*
Public sector entities	6 300	30	3	8 233	0	0
Multilateral development banks	23 040	0	0	18 597	0	0
Financial institutions	27 789	4 917	443	29 271	4 868	389
Of which counterparty exposure on derivatives	*8 153*	*990*	*89*	*14 515*	*1 917*	*153*
Corporates	0	0	0	319	64	5
Claims secured by residential property	53	53	5	49	49	4
Covered bonds	13 858	1 386	125	14 229	1 423	114
Other assets	11	11	1	14	14	1
Securitisation	128	48	4	143	45	4
Total credit risk	**365 647**	**59 147**	**5 323**	**352 662**	**54 551**	**4 364**
Market risk				**74**	**2**	**0**
Operational risk—Basic Indicator Approach		**3 207**	**289**		**2 946**	**236**
Minimum capital requirements		**62 354**	**5 612**		**57 499**	**4 600**
Total capital ratio			**14.91 %**			**14.97 %**
Core capital ratio			**12.39 %**			**12.27 %**

Supplementary capital cannot exceed 100 per cent of Tier 1 capital. KBN's capital satisfies the capital adequacy requirements. KBN's capital comprises the following elements:

	2013	**2012**
Core capital:		
Share capital	2 145	2 145
Retained earnings	6 071	5 251
Total equity	**8 216**	**7 395**
Hybrid Tier 1 capital instruments	0	0
Deferred tax asset	0	0
Intangible assets	(34)	(1)
Allocated to dividend	(357)	(253)
Unrealised gains on liabilities attributable to changes in own credit risk	(97)	(83)
Total Tier 1 capital	**7 727**	**7 057**
Supplementary capital:		
Ordinary subordinated debt	1 571	1 542
Perpetual subordinated debt	0	8
Total supplementary capital	**1 571**	**1 550**
Total capital	**9 299**	**8 607**

Subordinated capital has been calculated pursuant to the Regulation governing calculation of subordinated capital for financial institutions. Unrealised gain/loss on liabilities that are due to changes in own credit risk include both non-derivative and derivative liabilities.

Control Committee’s and Supervisory Board’s statements

Control Committee’s statement

The Control Committee has examined Kommunalbanken AS’ annual report and accounts as well as the Auditor’s report for 2013.

The Control Committee recommends that the annual report and accounts presented be approved as Kommunalbanken’s accounts for 2013 and that the application of profits is adopted by the Annual Shareholders’ Meeting in accordance with the Board of Directors’ proposals.

Oslo, 26 March 2014
Control Committee for Kommunalbanken AS

Britt Lund
Chairman

Anne-Ma Tostrup Smith

Kjell Inge Skaldebø
Vice Chairman

Roy Jevard

Supervisory Board’s statement

To the Annual Shareholder’s Meeting of Kommunalbanken AS

In accordance with § 15 in Kommunalbanken’s Articles of Association, the annual accounts and report for 2013 have been examined by the Supervisory Board.

The Supervisory Board recommends that the Board of Directors’ proposals for the income statement and the statement of financial position as well as the application of profit, NOK 1 072 846 730 is adopted by the Annual Shareholders’ Meeting.

With reference to KBN’s good 2013 results, the Supervisory Board would like to thank KBN management and employees for a job well done.

Oslo, 4 April 2014
Supervisory Board for Kommunalbanken AS

Elin Eidsvik
Chairman

Auditor's report

To the Annual Shareholders' Meeting of Kommunalbanken AS

Report on the financial statements
We have audited the accompanying financial statements of Kommunalbanken AS, which comprise the statement of financial position as at 31 December 2013, the income statement, statements of comprehensive income, changes in equity and cash flows for the year then ended, a summary of significant accounting policies and other explanatory information.

The Board of Directors' and President & CEO's responsibility for the financial statements
The Board of Directors and President & CEO are responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as adopted by the EU, and for such internal control as the Board of Directors and President & CEO determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements of Kommunalbanken AS have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company as at 31 December 2013 and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU.

Report on other legal and regulatory requirements
Opinion on the Board of Directors' report and the statement on corporate social responsibility
Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Directors' report and in the statement on corporate social responsibility concerning the financial statements, the going concern assumption and the proposal for the allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on registration and documentation
Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that the Board of Directors and President & CEO have fulfilled their duty to ensure that the Company's accounting information is properly recorded and documented as required by law and generally accepted bookkeeping practice in Norway.

Oslo, 21 March 2014
ERNST & YOUNG AS

Eirik Tandrevold
State Authorised Public Accountant (Norway)

(This translation from Norwegian has been made for information purposes only.)

Articles of Association of KBN

The Articles of Association were last changed by the Annual General Meeting 21 June 2012, and approved by the Financial Supervisory Authority of Norway 12 July 2012

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 may be assigned to municipalities, counties, intermunicipal companies and municipal pension funds. Such assignment will 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 2,144,625,000 (two billion, one hundred and forty-four million, six hundred and twenty five thousand Norwegian kroner) divided into 2,144,625 shares of NOK 1,000 (one thousand Norwegian kroner) each.

§ 6 The acquisition of shares is conditional on the consent of the Company's Board of Directors. Consent can only be withheld on grounds of fact.

§ 7 Pre-emption rights given to shareholders under section 4-19 of the Norwegian Companies Act can also be claimed for shares which have changed owner.

Chapter III - Board of Directors

§ 8 The Company's Board of Directors shall comprise of between five (5) and nine (9) members. Two (2) of the elected members of the Board shall be elected by and from amongst the Company's employees. For these members two (2) personal deputies 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.

§ 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. Appoint the managing director
8. Fix the managing director's salary
9. Prepare statements on remuneration policy.

§ 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 five 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 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 Control 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 Control 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 Control Committee are entitled to be present at the meetings of the Supervisory Board with the right to speak and the right of initiative. The Ministry of Local Government and Regional Development can participate in the Supervisory Board meeting with up to two observers.

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

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

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

The Supervisory Board shall:

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

The Ministry of Local Government and Regional Development shall call the Annual General Meeting.

The Annual General Meeting shall transact the following business:

1. The consideration and adoption of the Company's annual report and accounts, including the application of profit or covering of loss for the year, and the declaration of dividend.
2. The fixing of remuneration of the members of the Supervisory Board and the Board of Directors, the members of the Control Committee and the auditor.
3. Elections of members to the Board of Directors in accordance with § 8.
4. Elections of members and deputy members of the Control Committee in accordance with § 17 of the Articles of Association.
5. The Board of Director's statement on remuneration policy.
6. 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 - Control Committee

§ 17 The Control 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 Financial Supervisory Authority of Norway ("Finanstilsynet").

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 Control 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 Control Committee.

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

The Control 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 Control 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 Financial Supervisory Authority of Norway ("Finanstilsynet"), and shall annually deliver a report on its work to the Supervisory Board, the Annual General Meeting and The Financial Supervisory Authority of Norway ("Finanstilsynet").

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 Control 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 67 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

Board of Directors

Else Bugge Fougner, Barrister-at-law, chairman
Nils R. Sandal, former mayor, Sogn og Fjordane county, vice chairman
Frode Berge, Development Manager, Stavanger Chamber of Commerce & Industry
Martha Takvam, Director, Telenor ASA
Nanna Egidius, Director of Strategic Planning and Development, Lillehammer municipality
Rune Sollie, CFO, Norske Skogindustrier ASA
Martin Skancke, Consultant, and former Head of Asset Management Department of the Norwegian Ministry of Finance
Roald Fischer, employee representative, Head of Documentation, KBN
Trine Tafjord, employee representative, Treasury, KBN

Alternates to the Employee Representatives
Jarle Byre, Loan Manager, KBN
Marit Urmo Harstad, Loan Manager, KBN

Supervisory Board

Elin Eidsvik, CEO, Hamarøy municipality, Chairman
Knut Wille, CEO, Skien municipality, Vice Chairman
Svein Ludvigsen, County Governor, Troms county
Hanne Braathen, Former Mayor, Storfjord municipality
Tore Sirnes, Former CEO, Sandnes municipality
Berit Flåmo, Mayor, Frøya municipality
Karen Marie Hjelmeseter, County chairman of Sogn og Fjordane Sp
Bjørn Skjelstad, Mayor, Verran municipality
Anita Orlund, Former Mayor, Skedsmo municipality
Arne Johansen, Former CEO, Harstad municipality
Lene Conradi, Mayor, Asker municipality
Bjørn Ove Nyvik, employee representative, Accounting, KBN

Alternates to the supervisory board
Berit Koht, CFO, Troms county
Hans Seierstad, Mayor, Østre Toten municipality
Cecilie Hansen, Mayor, Sør-Varanger municipality
Johnny Stiansen, CFO, Hordaland county
Torger M. Jonasen, Loan Manager, KBN

The Ministry of Local Government and Modernisation, Observers to the Supervisory Board
Sølve Monica Steffensen, Director General, Ministry of Local Government and Modernisation
Thor Bernstrøm, Assistant Director General, Ministry of Local Government and Modernisation

Control Committee

Britt Lund, former CEO, Tinn municipality, Chairman
Kjell Inge Skaldebø, CEO, Åfjord municipality, Vice Chairman
Anne-Ma Tostrup Smith, lawyer, Statoil ASA

Alternate to the control committee
Roy Jevard, CEO, Melhus municipality

Auditor

Ernst & Young AS
Eirik Tandrevold, State Authorised Public Accountant

Internal auditor

KPMG AS
Are Jansrud, State Authorised Public Accountant

Organisation
(as of 1 March 2014)

Management
Kristine Falkgård,
President & CEO

Operations and Markets
Martin Spillum

Funding & IR
Thomas Møller
Andreas Aleström
Chinatsu Kashiwa
Kristine Henriksen Lien
Evan Rodger Morgan
Marius Ruud

Lending
Lars Maurits Bekkelund
Jarle Byre
Terje Christer Dalby
Børge Daviknes
Marit Urmo Harstad
Torger Magnus Jonasen
Lars Ludvigsen

Treasury
Ellen Eskedal Scavenius
Fredrik Almroth
Trine Tafjord
May-Iren Walstad

Risk Management
Frank Øvrebø

Middle Office
Geir Brust
Marit Helde
Morten Nitteberg
Martin Stabæk

Documentation & Back Office
Roald Fischer
Åse Kristensen
Anita S. Kullberg
Bergljot S. Leganger
Kristin Lorentzen
Torill Lund
Annette G. Nielsen
Kristine Hordnes Solberg
Tove Storberget

Corporate Communications and Public Relations
Tor Ole Steinsland
Julian Farner-Calvert
Sissel Johnsen Lie
Therese Murberg

Accounting and Financial Reporting
Karina Folvik

Financial Analysis
Svein Tore Hollseter
Torben Lindstad

Accounting
Espen Gluva
Bjørn Ove Nyvik
Jorunn Svae

Governance, Support and Compliance
Ilse Bache

IT
Knut Andresen
Bård Dørum
Ingebjørg Heggedal
Roger Solmyr
Erik Aasheim Walter
Waqas Khan

HR
Hilde Jordfald
Majken Danielsen
Trine Lunden

Compliance
Ole-Christian Langerud

Internal Control
Anna Aanstad
Jan Eirik Bøe

Home services go electric

Oppegård municipality has invested in electric cars for its home care services. The investment is included in the municipal climate and energy action plan. The municipality has installed 46 charging stations for electric cars. KBN has granted NOK 85 million.

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Kilden Performing Arts Centre

Kilden is located at Odderøya in Kristiansand, and is home to Agder Regional Theatre, Kristiansand Symphony Orchestra and Opera Sør (the regional opera company). Kilden opened in 2012 and is partially funded by KBN.

KBN Kommunalbanken Norway

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