BN Boligkreditt AS

ANNUAL REPORT | 2011

BN Bank

Financial Ratios

NOK MILLION	NOTE	2011	% OF ATA	2010	% OF ATA
Summary of results					
Net income from interest and credit commissions		44	1.48 %	51	0.95 %
Total other operating income		-2	-0.07 %	-9	-0.17 %
Total income		**42**	**1.41 %**	**42**	**0.78 %**
Total other operating expense		**6**	**0.20 %**	**18**	**0.33 %**
Operating profit/(loss) before impairment losses		**36**	**1.21 %**	**24**	**0.45 %**
Impairment losses on loans and advances		0	0.00 %	-2	-0.04 %
Profit/(loss) before tax		**36**	**1.21 %**	**26**	**0.48 %**
Computed tax charge		10	0.34 %	7	0.13 %
Profit/(loss) for the period		**26**	**0.87 %**	**19**	**0.35 %**
Profitability					
Return on equity	1	8.9 %		6.4 %	
Net interest margin	2	1.48 %		0.95 %	
Cost-income ratio	3	14.3 %		42.9 %	
Balance sheet figures					
Gross lending		2 008		2 789	
Increase/decrease in lending (gross) last 12 months		-28 %		-57.2 %	
Average total assets (ATA)	4	2 982		5 387	
Total assets		2 727		3 311	
Losses on loans and non-performing loans					
Loss ratio lending	5	0.00 %		-0.05 %	
Non-performing loans as a percentage of gross lending		0.75 %		0.61 %	
Other doubtful commitments as a percentage of gross lending		0.00 %		0.00 %	
Solvency					
Capital adequacy ratio		39.4 %		29.7 %	
Tier 1 capital ratio		31.5 %		23.4 %	
Tier 1 capital		303		282	
Capital base		379		358	
Shares					
Earnings per share for the period (whole NOK)		57.78		42.22	

Note

1) Profit after tax as a percentage of average equity
2) Total net interest margin to date in relation to average total assets (ATA)
3) Total operating expense as a percentage of total operating income
4) Average total assets (ATA) are calculated as an average of quarterly total assets and as at 1 January and 31 December
5) Net loss as a percentage of average gross lending to date this year

Report of the Directors

Summary of 2011

BN Boligkreditt posted a profit after tax of NOK 26 million for the year to 31 December 2011, compared with a post-tax profit of NOK 19 million for the year to 31 December 2010. The increase in profit is attributable to a decrease in other operating expense and positive changes in the value of financial instruments.

The financing situation in BN Boligkreditt AS (BN Boligkreditt) is good, and the Company is well capitalised.

The figure for non-performing loans as a percentage of gross lending is 0.75 per cent, which is 0.14 percentage points higher than at the start of 2011. The Company will retain a strong focus on monitoring and following up non-performing loans.

BN Boligkreditt's total assets were NOK 2.7 billion as at 31 December 2011, which is 0.6 billion down on the past 12 months. Lending totalled NOK 2.0 billion as at 31 December 2011, which is NOK 0.8 billion down on the past year.

Operations, objectives and strategy

BN Boligkreditt is licensed as a mortgage credit institution by the Financial Supervisory Authority of Norway. BN Boligkreditt is BN Bank's company for the issuance of covered bonds.

The Company's strategy is to issue covered bonds on the basis of BN Bank's well-secured residential mortgage loans and to provide the BN Bank Group with access to this financing instrument. The objective is to facilitate effective and more diversified funding of the Group's businesses.

BN Boligkreditt does not provide loans itself, but procures residential mortgage loans from BN Bank. The Company procures loans that qualify for the issuance of covered bonds. The maximum loan disbursed at the date of acquisition is 75 per cent loan-to-value ratio. The loan portfolio consists of residential mortgage loans and variable-rate credit lines secured on dwellings.

BN Boligkreditt was established in 2007 and acquired its first loan portfolio in January 2008.

BN Boligkreditt's head office is in Trondheim. The Company's borrowers are geographically spread, but concentrated in the largest Norwegian towns and cities.

Financial developments

BN Boligkreditt presents its financial statements in compliance with International Financial Reporting Standards (IFRS).

Profit performance for 2011

BN Boligkreditt recorded a profit after tax of NOK 26 million for the year to 31 December 2011, compared with NOK 19 million for the year to 31 December 2010. The increase in profit is attributable to a decrease in other operating expense and positive changes in the value of financial instruments.

Net interest income for 2011 amounted to NOK 44 million, compared with NOK 51 million for 2010. The decrease in net interest income is attributable to a lower volume of lending and to falling interest margins on loans.

In 2011, other operating income increased by NOK 7 million compared with 2010. The Company's derivatives and some bond borrowings are carried at fair value. Interest rate risk in the Company is low, and fluctuations in interest rates should have a limited net profit-and-loss effect. During periods when interest rate spreads between different instruments develop differently, P&L effects may arise. For 2011 as a whole, this gave rise to a negative P&L effect of NOK 2 million, while the P&L effect for 2010 was negative by NOK 9 million. In the long term, these effects will even out.

Operating expense for 2011 totalled NOK 6 million, which is a decrease of NOK 12 million compared with 2010. The Company purchases all its operation management services from BN Bank.

Non-performing loans totalled NOK 15 million at the end of the fourth quarter of 2011. The corresponding volume at the start of the year was NOK 17 million. The figure for non-performing loans as a percentage of gross lending increased by 0.14 percentage points in 2011, to 0.75 percentage points as at 31 December 2011.

Impairment losses on loans were NOK 0 million in 2011, as against NOK 2 million recognised as income in 2010. The changes in loan loss provisions relate in their entirety to collective write-downs, and there were no individual write-downs as at 31 December 2011. Collective write-downs totalled NOK 6 million as at 31 December 2011, which is 0.30 per cent of gross lending. Given the low risk attached to the Company's mortgage loan operations, the current loan loss provisions are considered adequate.

Balance Sheet

The loan portfolio totalled NOK 2.0 billion as at 31 December 2011, compared with NOK 2.8 billion at the end of 2010.

As a result of borrowings falling due, liabilities were reduced by NOK 4.6 billion in 2010. The bond debt was further reduced in 2011 by NOK 491 million. The prices of the Company's remaining bonds are competitive.

Solvency

BN Boligkreditt's capital base at the end of the period was NOK 379 million, giving a capital adequacy ratio of 39.4 per cent. Tier 1 capital was NOK 303 million, giving a tier 1 capital ratio of 31.5 per cent as at 31 December 2011. Risk-weighted assets totalled NOK 962 million at the same date. The Board of Directors considers that the relationship between BN Boligkreditt AS' solvency and relevant risks is satisfactory.

Fourth quarter 2011

For the fourth quarter of 2011 BN Boligkreditt posted a profit after tax of NOK 7 million, compared with a post-tax profit of NOK 8 million for the third quarter of 2011.

Fourth-quarter total income was NOK 12 million, compared with NOK 11 million for third-quarter 2011. A decrease in net interest margin has been compensated for by positive changes in the value of financial instruments.

The trend in non-performing loans was negative in the fourth quarter, and as at 31 December the figure for non-performing loans as a percentage of gross lending was 0.75 per cent, which is 0.38 percentage points up on the third quarter of 2011.

Impairment losses on loans were NOK 1 million in the fourth quarter, as against NOK 1 million recognised as income in the third quarter. Collective write-downs on loans increased by NOK 1 million during the quarter, and stood at NOK 6 million as at 31 December 2011, which is 0.30 per cent of gross lending.

The financial statements give a true and fair view of the Company's assets and liabilities, financial position and results. The financial statements are based on the assumption that the entity is a going concern.

Recommended allocation of profit for the year

The Board recommends that the Company's profit for the year of NOK 26 million be allocated as follows:

Allocated to other reserves	26
Group contribution to BN Bank ASA	0
Total allocations	26

The Company's unrestricted equity, following the recommended allocation for the year, is NOK 1 million.

Risk management

It is part of BN Boligkreditt's business strategy to maintain a low risk profile in all its activities. This policy remained unchanged through 2011.

BN Boligkreditt has guidelines for managing all the relevant types of risk. These include risk tolerance, limits, choice of risk monitoring method, and reporting requirements. The Board receives regular status reports on all relevant risks.

The Company has no stock market exposure.

New capital adequacy rules for banks (Basel II) came into force with effect from 2007. Financial institutions with low credit risk and good risk management systems may be subject to a lower capital base requirement under the new rules. It is BN Boligkreditt's ambition to apply the advanced Internal Ratings-Based (IRB) method to its loan portfolio.

An assessment of the most important risks is provided below.

Credit risk

Credit risk in the loan portfolio is a product of two factors, both of which must be present if a loss is to arise. One factor is the possibility that the borrower will be unable to repay the loan. The other is that the value of the underlying asset will be insufficient to cover the amount owed to BN Boligkreditt in the event of default and subsequent realisation of the asset.

Creditworthiness assessments place emphasis generally on the borrower's financial position, financial results/cash flow, ability and willingness to pay, amount of equity, and collateral.

Owing to low interest rates on mortgages, the financial position of Norwegian households is considered good overall, despite an increase in risk as a result of the downturn in the Norwegian economy and rising unemployment.

House prices increased in 2011, a trend that is expected to continue in 2012. The risk of significant price falls is believed to be slight as interest rates are expected to remain low and the supply of new properties is small. Historically, house prices are high in relation to consumer prices and rents, but more moderate viewed in the light of developments in households' disposable income. 75 per cent of the loans in the residential mortgage portfolio are secured by mortgages with up to a 60 per cent loan-to-value ratio at the time the loan is granted. At year-end 2011 the average loan disbursed had a 47 per cent loan-to-value ratio.

The risk of non-performing loans and impairment losses on loans is considered low.

Risk classification

BN Boligkreditt has a risk classification system for residential mortgage loans. The risk classification model used by the Company classifies the loans in relation to the probability of default and the estimated loss which may arise from default. The model uses quantitative methods such as logistical regression.

The risk classification system and analysis of risk in the loan portfolio, as well as the new capital adequacy rules, are described in more detail in Notes 17, 20 and 21.

The portfolio divided into classes of risk, and other relevant information from the system, is reported to the Board.

Expected losses

The Company's risk classification system estimates expected losses in the various portfolios. Expected impairment losses on loans express an expectation of the size of the annual average loss over an economic cycle.

At the end of 2011, expected impairment losses on loans in the entire portfolio was 0.10 per cent.

In 2011, impairment losses and write-downs on loans were equivalent to 0 per cent of gross lending as at 31 December 2011.

The level of losses over time in BN Boligkreditt is closely linked to macroeconomic trends. The trend in the real economy and property prices will therefore influence the extent of losses in the time ahead.

BN Boligkreditt will continue to maintain its close focus on the quality of the loan portfolio and on monitoring and following up doubtful loans and commitments.

Liquidity risk

The Board has adopted general guidelines for controlling liquidity risk, including setting requirements for measuring, monitoring and reviewing risk. In addition, the Board has adopted a contingency plan for use in any liquidity emergency, and has also set limits for net financing requirements within given time horizons. The Company's liquidity position is reported to the Board.

Interest rate risk and foreign exchange risk

BN Boligkreditt's exposure to the interest rate market is limited, and the Company has no foreign exchange exposure. Differentials in fixed interest rate periods between BN Boligkreditt's borrowing and lending are equalised with the use of hedging instruments.

The Company's unrestricted funds (equity) have a short investment horizon. This means that the return on these funds will vary with short-term interest rates.

The Board has adopted guidelines and set limits for the Company's interest rate and foreign exchange exposure. Interest rate and foreign exchange exposure is reported to the Board.

Market risk

Market risk is defined as the risk of loss owing to changes in external conditions such as the market situation or the authorities' regulatory decisions. The definition also includes reputation risk.

The most important factors that can be affected by changes in the market situation or the authorities' regulatory decisions are volume and margins in the funding and lending businesses, impairment losses on loans and operating expenses.

Operational risk

The Company seeks to keep operational risk at a low level through the use of standardised products and services, the maintenance of a small, flexible organisation with clear division of responsibilities, and good working procedures and management and control systems.

The Board receives an annual review of operational risks in BN Boligkreditt, and is also regularly updated on any significant operational disruption or deviation.

Working environment and organisation

BN Boligkreditt's administration is staffed by employees of BN Bank and the Company also employs group functions in its operations.

The BN Bank Group has a Working Environment and Liaison Committee, which consists of representatives from group management and the salaried employees' association. The working relationship between management and employees is good. There were no significant work-related accidents or injuries in 2011.

The Company's objective is to be an equal opportunities workplace where there is equality between women and men. There shall be no discriminatory treatment on grounds of gender.

The Company aims to ensure equal opportunities for all, irrespective of functional ability, and to prevent discrimination on grounds of impaired functional ability.

BN Boligkreditt uses no products or energy sources in its operations that have a significant adverse impact on the environment. The Company's operations are therefore not of such a nature as to pollute the external environment.

Outlook

The situation with regard to the global economy is uncertain and may affect the price the BN Bank Group will need to pay for its funding. Continuing turbulence in the financial markets may thus impact on growth and earnings in the time ahead.

An improved funding situation (owing amongst other things to access to the credit institutions in the SpareBank 1 consortium), low risk in the loan portfolio and strengthened capitalisation in 2011, all help make BN Boligkreditt well positioned to withstand any further deterioration of the economy.

A priority area for BN Boligkreditt will be to make full use of the possibilities for issuing covered bonds. The work will continue to determine whether further development and coordination of the operations of BN Boligkreditt and Sparebank 1 Boligkreditt can strengthen the financing of the operations of BN Bank and the banking consortium.

Trondheim 27 February 2012
BN Boligkreditt AS

Kjell Fordal (Deputy Chair)	Svend Lund (Chair of the Board)	Trond Søraas (Managing Director)
Arve Austestad	Tove Kolbjørnsen Kulseng	Lars Bjarne Tvete

Income Statement

NOK MILLION	NOTE	2011	2010
Interest and similar income	2	101	170
Interest expense and similar charges	3	57	119
Net income from interest and credit commissions		44	51
Change in value of financial instruments at fair value, gains & losses	4	-2	-9
Total other operating income		-2	-9
Salaries and general administrative expenses	5, 6, 7	6	18
Total other operating expense		6	18
Operating profit/(loss) before impairment losses		36	24
Impairment losses on loans and advances	8	0	-2
Operating profit/(loss) after impairment losses		36	26
Computed tax charge	9	10	7
Profit/(loss) for the period		26	19

Balance Sheet as at 31 December

NOK MILLION	NOTE	2011	2010
Assets			
Loans and advances	11, 18, 19, 20, 21	2 002	2 784
Financial derivatives	12, 18, 19, 20, 21	40	51
Cash and balances due from credit institutions	10, 18, 19, 20, 21	685	476
Total assets		2 727	3 311
Equity and liabilities			
Share capital	16	101	101
Share premium reserve		174	174
Other reserves		28	7
Total equity		303	282
Deferred tax	9	9	1
Subordinated loan capital	15, 18, 19, 20, 21	76	76
Liabilities to credit institutions	13, 18, 19, 20, 21	211	332
Debt securities in issue	14, 18, 19, 20, 21	2 127	2 618
Accrued expenses and deferred income		1	0
Tax payable	9	0	2
Total liabilities		2 424	3 029
Total equity and liabilities		2 727	3 311

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Statement of Changes in Equity

NOK MILLION	SHARE CAPITAL	SHARE PREMIUM RESERVE	OTHER PAID-UP SHARE CAPITAL	OTHER RESERVES[1]	TOTAL EQUITY
Balance Sheet as at 1 January 2010	101	174	0	16	291
Group contribution rendered to Parent Bank	0	0	0	-28	-28
Result for the period	0	0	0	19	19
Balance Sheet as at 31 December 2010	101	174	0	7	282
Group contribution rendered to Parent Bank	0	0	0	-6	-6
Result for the period	0	0	0	27	27
Balance Sheet as at 31 December 2011	101	174	0	28	303

[1] The reserve for unrealised gains is included in Other reserves. As at 31 December 2011 no provision had been made. (No provision was made as at 31 December 2010.)

Statement of Cash Flows

NOK MILLION	2011	2010
Cash flows from operating activities		
Interest/commission received and fees received from customers	85	151
Interest received on other investments	18	5
Interest paid on other loans	-63	-122
Receipts/disbursements (-) on loans to customers	780	3 717
Receipts/payments(-) on customer deposits and debt	0	-1
Receipts/payments(-) on liabilities to credit institutions	-122	103
Receipts/payments(-) on securities in issue and securities buy-back	-476	-3 473
Other receipts/payments	0	-1 192
Payments to suppliers for goods and services	-6	-18
Tax paid	-2	0
Net cash flow from operating activities	214	-830
Cash flows from investing activities		
Net cash flow from investing activities	0	0
Cash flows from financing activities		
Group contribution paid	-5	-28
Net cash flow from financing activities	-5	-28
Net cash flow for the period	209	-858
Cash and balances due from credit institutions as at 1 January	476	1 334
Cash and balances due from credit institutions as at 31 December	685	476

Notes

NOTE 1. ACCOUNTING POLICIES ETC.

Information about the company

BN Boligkreditt AS is a limited liability company, established and domiciled in Norway, and with its registered office in Trondheim. The credit institution BN Boligkreditt is part of the BN Bank Group. Within the framework of BN Boligkreditt's articles of association and subject to the legislation that is in force at any time, the Company may carry on all business and perform all services that it is customary or natural for credit institutions to perform.

Basis for preparation of the financial statements

BN Boligkreditt presents its annual financial statements for 2011 in compliance with International Financial Reporting Standards (IFRS), as approved by the EU.

New and amended standards applied in the BN Bank Group with effect in 2011

There are no new or amended IFRSs or IFRIC interpretations of relevance for the accounts which came into effect in 2011 which are considered to have or are expected to have any material effect on the Group.

Standards and amendments to, and interpretations of, existing standards that are not yet effective and where the Group has not chosen early application

The following standards and amendments to, and interpretations of, existing standards have been published, and application will be obligatory for the Group in their consolidated and separate financial statements for the annual period beginning on 1 January 2012 or later, but without the Group having chosen early application:

IAS 19 "Employee Benefits" was amended in June 2011. As a result of the amendments, all estimate variances are carried in 'other comprehensive income' as they arise (no corridor), there is immediate recognition through profit or loss of the costs of all past benefits earned, and interest expense and expected return on pension assets is replaced with a net amount of interest which is calculated using the discounted rate on the net pension obligation (asset). The Group has not yet finished analysing the consequences of the amendments in IAS 19.

IFRS 9 "Financial Instruments" regulates the classification and measurement of, and accounting for, financial assets and financial liabilities. IFRS 9 was published in November 2009 and October 2010, and replaces the parts of IAS 39 that deal with the classification and measurement of, and accounting for, financial instruments. According to IFRS 9, financial assets shall be divided into two categories according to the method of measurement: those measured at fair value and those measured at amortised cost. Classification is made at the time the asset is initially recognised. The classification will depend on the company's business model for handling its financial instruments and on the characteristics of the contractual cash flows arising from the instrument. For financial liabilities, the requirements are essentially the same as under IAS 39. The main change, in those cases where fair value measurement has been chosen for financial liabilities, is that that amount of a change in the fair value that is attributable to changes in the company's own credit risk of the liability is presented through 'other comprehensive income' rather than through profit or loss, unless this would create an accounting mismatch in profit or loss. The Group is planning to adopt IFRS 9 when the standard takes effect and is approved by the EU. The standard will become effective for annual periods commencing on or after 1 January 2015.

IFRS 10 "Consolidated Financial Statements" is based on the current principles of using the concept of control as the decisive criterion for determining whether a company should be included in the parent company's consolidated financial statements. The standard provides comprehensive guidance for assessing whether control is present in those cases where this is difficult to determine. The Group has not considered all the possible consequences that follow from IFRS 10. The Group plans to apply the standard for annual periods commencing on or after 1 January 2013.

IFRS 12 "Disclosures of Interest in Other Entities" contains the disclosure requirements for interests in subsidiaries, joint arrangements, associates, Special Purpose Entities (SPEs) and other off-balance sheet activities. The Group has not considered the full effect of IFRS 12. The Group plans to apply the standard for annual periods commencing on or after 1 January 2013.

IFRS 13 "Fair Value Measurement" defines what is meant by fair value when the term is used in IFRS, provides a uniform description of how fair value should be determined under IFRS, and defines which additional disclosures should be provided when fair value is used. The standard does not broaden the scope of fair value accounting but provides guidance concerning the method of application where the use of fair value is obligatory or permitted in other IFRSs. The Group used fair value as a measurement criterion for certain assets and liabilities. The Group has not considered the full effect of IFRS 13. The Group plans the (early) application of IFRS 13 for annual periods commencing on or after 1 January 2012.

Amendment to IAS 1 "Other Comprehensive Income": In the presentation of items within 'other comprehensive income', a distinction must be made between the items that will later be reversed in profit or loss and those that will not be reversed in profit or loss. The amendment is mandatory as at 1 July 2012.

There are otherwise no other IFRSs or IFRIC interpretations that have not become effective that are expected to have a material effect on the financial statements.

Comparative figures

All amounts stated in the income statement, balance sheet, statement of cash flows and disclosures are given with one year's comparative figures. Comparative figures are prepared on the basis of the same principles as figures for the most recent period.

Discretionary measurements, estimates and assumptions

In applying the accounting policies for the Company, BN Boligkreditt's management have in some areas exercised discretion and based the accounting on estimates and assumptions regarding future events. There will naturally be an inherent uncertainty associated with accounting items based on discretionary estimates and assumptions regarding future events. In exercising discretion and determining assumptions concerning future events, the management will have regard for the available information at the end of the reporting period, historical experience with similar valuations, and market and third-party assessments of the matters in question. However, although the management use their best discretion and build on the best available estimates, in some cases the actual outcome may differ significantly from what the accounting was based on. Measurements, estimates and assumptions that represent a significant risk of material change in the capitalised value of assets and liabilities during the next financial year, are discussed below.

Fair value of financial instruments

The fair value of financial instruments is based partly on assumptions that are not observable in the market. This applies particularly to setting a relevant premium for credit risk when determining the fair value of fixed-rate securities in the form of borrowing, lending and securities issued by others. In such cases, the management have based their measurements on the information available in the market, combined with their best discretionary estimates. Information of this kind will include credit evaluations made by other credit institutions.

Write-downs on loans

Write-downs for impairment losses are made when there is objective evidence that a loan or group of loans is impaired. The write-down is calculated as the difference between the capitalised balance sheet value and the net present value of estimated future cash flows discounted by the effective interest rate.

Impairment losses on loans and advances are based on a review of BN Bank's loan and guarantee portfolio according to the regulations for valuing loans provided by the Financial Supervisory Authority of Norway.

BN Bank specifically determines all impairment losses on loans and guarantees at the end of every quarter. Non-performing loans and doubtful commitments are followed up with continuous assessments.

Accounting policies

Recognition of income and expenditure

Interest earned from variable-rate loans, including loans with a rolling fixed-rate period, is taken to income over the term of the loan using the loan's effective interest rate. Income from fees and commissions is included in the calculation of effective interest. Interest (nominal) earned from fixed-rate loans is recognised as interest income as it is earned, and changes in the fair value of expected future cash flows are carried in the income statement through the line for changes in the value of financial instruments carried at fair value.

Interest (nominal) from financial instruments measured at fair value is taken to income or carried to expense as it is earned as income or accrued as expense.

Fees, commissions etc., which are not included in the effective interest rate calculation for borrowings or loans, are recognised in the income statement as they are earned as income or accrued as expense.

Financial instruments – Classification etc.

On initial recognition on the balance sheet, financial instruments will be assigned to a class of financial instruments described in IAS 39. The various classes defined in IAS 39 are *Financial instruments at fair value with value changes carried through profit or loss, Loans and receivables at amortised cost, Liabilities at amortised cost, Held-to-maturity investments at amortised cost and Available-for-sale financial assets with value changes carried in other comprehensive income.* The two last-mentioned classes are normally not relevant for BN Boligkreditt.

Within the class *Financial instruments at fair value with value changes carried through profit or loss,* assigning the asset to a class may be obligatory, or the assignment can be voluntary if other specific criteria are fulfilled. In BN Boligkreditt, all derivatives are obliged to be measured at fair value with value changes carried through profit or loss. In addition, all fixed-rate securities in the bank portfolio will be selected for measurement at fair value through profit or loss, including the Bank's own issued securities and fixed-rate borrowing and lending. In this context, all securities that have a fixed rate of interest over the entire term will be reckoned as fixed-rate securities. Securities that have a fixed rate on a rolling basis will not be reckoned as fixed-rate securities. Fixed-rate securities are selected for measurement at fair value through profit or loss in order to avoid what would otherwise be accounting asymmetry through the related interest rate hedging instruments being recognised at fair value. In that fair value recognition avoids the most material parts of this accounting asymmetry, the criteria for recognising the instruments at fair value are regarded as fulfilled.

Financial instruments, other than those measured at fair value with value changes carried through profit or loss or available-for-sale at fair value with value changes carried in equity, will be recognised at amortised cost using the effective interest rate method.

All financial instruments are recognised initially on the trading date of the instrument (and not the settlement date).

Financial instruments measured using fair value hedge accounting

In 2010 the Group began using fair value hedges on new issued securities and related hedge instruments. The Group measures and documents the effectiveness of the hedge, both at initial classification and on a continuous basis. With a fair value hedge the hedge instrument is accounted for at fair value and the hedge object accounted for at fair value for the hedged risk, and changes in these values from the opening balance are recognised in profit or loss.

If the hedge relationship is ended or it cannot be verified that the hedge is sufficiently effective, the value change relating to the hedge object is amortised over the remaining term.

Currency

Income and expenditure in foreign currencies is translated into Norwegian kroner according to the rate of exchange at the time of the transaction.

Balance sheet items in foreign currencies are mainly hedged by corresponding items on the opposite side of the balance sheet or by hedge transactions. Forward-exchange contracts are used only as hedges and are entered into in order to hedge identified items. Assets and liabilities in foreign currencies are translated into Norwegian kroner at the banks' middle rates for currencies at the end of the reporting period. Forward-exchange contracts are measured at fair value with changes in value carried through profit or loss.

Loans, impairment losses and provisions for impairment losses measured at amortised cost

BN Boligkreditt capitalises loans on the balance sheet at cost at the date of establishment. Cost includes the principal of the loan, as well as fees and any direct costs.

In subsequent periods, loans are measured at amortised cost, and interest income is recognised as income according to the effective interest rate method. The effective interest rate is the rate by which the loan's cash flows are discounted over the expected term of the loan at the amortised cost of the loan at the date of establishment. The effective interest rate method also means that interest on written-down loans is recognised as income. For such loans, the internal rate of interest at the date of establishment is adjusted for changes in interest rate up until the date of write-down. Interest is recognised as income based on the written-down value of the loan.

Write-downs for impairment losses are made when there is objective evidence that a loan or a group of loans has become impaired. The write-down is calculated as the difference between the balance sheet value and the net present value of estimated future cash flows discounted by the effective interest rate.

In the income statement, the item "Impairment losses on loans and advances" consists of write-offs, changes in write-downs on loans and provisions for guarantees, as well as recoveries on previous write-offs.

Non-performing loans

Non-performing loans are defined as loans where the borrower defaults on the loan agreement for reasons not due to normal delays or other chance circumstance affecting the borrower. Loans that are not serviced 90 days after the due date are in all events considered as non-performing loans. Doubtful commitments where bankruptcy or debt settlement proceedings have been instituted, debt recovery has been instituted through the courts, distress has been levied, the debtor's assets have been attached, or where there are other circumstances such as a failure of liquidity or solvency or breach of other clause of the loan agreement with the Bank, are also defined as non-performing loans. Renegotiated loans are treated as doubtful loans as they are loans that could otherwise become non-performing loans.

Write-offs

Write-offs are impairment losses on loans which are considered final and which are booked as being written off. These include losses where the Company has lost its claim against the debtor as a result of bankruptcy or insolvency, affirmed voluntary arrangement, unsuccessful execution proceedings, final and enforceable judgment, or debt relief. This also applies in those cases where the Company has in some other way stopped enforcement of payment or waived its claim for payment of some of the loan or the entire loan.

Loans and impairment losses measured at fair value

Fixed-rate loans are capitalised on the balance sheet at fair value with changes in value carried through profit or loss. With measurement at fair value, losses are expressed through changes in the credit risk premium in the discount rate, and through adjustments of expected cash flows on which the discount is based. The objective evidence of a decline in value or impairment, which forms the basis for writing down the loan to amortised cost, is the same type of event which forms the basis for changed assessments of credit risk and expected cash flows at fair value estimations in the case of loans measured at fair value. Impairment losses connected with loans measured at fair value are presented as part of the fair value change in loans.

Financial derivatives

Financial derivatives are obliged to be measured at fair value with changes in value carried through profit or loss. Where BN Boligkreditt is concerned, such financial instruments are interest rate swaps.

Bonds and certificates – In general

In the case of own bonds and certificates, a distinction is drawn between acquisition for refinancing purposes and the purchase/sale of own bonds in connection with the market promotion included in the investment portfolio.

Bonds and certificates – Classification

Bond loans where the decision to acquire the bonds is taken on the basis of ordinary lending criteria are classified as loans. The accounting treatment of bond loans is thus analogous with that of ordinary loans. Own bonds and certificates are deducted from the bond debt and certificate debt respectively.

Bonds and certificates – Estimation of gains/losses

When estimating gains/losses on the sale of bonds and certificates, the opening value is set as the weighted average purchase cost of the entire holding of the bonds/certificates in question.

Financial instruments measured at fair value

Financial instruments which are sold in an active market are valued at observed market prices. Financial instruments which are not sold in an active market are assessed using a valuation technique. Valuation techniques are based on recent transactions between independent parties, reference to instruments with approximately the same content, or discounted cash flows. As far as possible, valuations are based on externally observable parameter values. All loans, borrowings and deposits which are measured at fair value are valued on the basis of discounted cash flows.

Where the measurement of financial instruments at fair value is performed using a valuation technique, the valuation can potentially give rise to a gain or a loss on day one if the fair value according to the valuation model differs from the transaction price. Such gains and losses cannot be recognised in the accounts on day one. When measuring loans at fair value, BN Boligkreditt will calculate a customer-specific margin on each customer commitment, and this margin will be included in all subsequent valuations, so that what might otherwise have given risen to a day-one gain or a day-one loss will be amortised over the entire term of the loan. In the case of borrowings, the result of the valuation is checked against the transaction price, and where there are not immaterial differences a specific supplement will be calculated in the discount rate per contract that is added to the discount rate in all subsequent valuations, so that the day-one gain or day-one loss is amortised over the entire term of the security.

Financial instruments – Classification of accrued interest

Accrued interest is shown throughout together with the value of the related financial instruments, both for borrowings, loans and derivatives. In the case of borrowings and loans, this classification applies irrespective of whether the instrument is measured at amortised cost or fair value.

Tax

Tax is accrued as an expense irrespective of the date it is paid. The tax charge thus reflects the year's tax and future tax payable as a result of the year's activity. Tax which it is estimated will be assessed on the year's profit is included in the tax charge for the year and designated as tax payable.

Deferred tax is calculated on the basis of differences between reported accounting and taxable profits that will be offset in the future. Tax-adding and tax-deducting temporary differences within the same interval of time are measured against one another. Any net deferred tax asset is stated as an asset on the balance sheet when it is probable that the tax-deducting temporary differences will be realised.

Presentation of dividend

The proposed distribution of dividend is presented as equity until a final resolution to distribute the dividend has been passed. Distributed dividend is then presented as provision for dividend until the dividend has been paid.

Provisions, contingent assets and contingent liabilities

A provision is recognised only if it is a present obligation (legal or constructive) resulting from a past event, it is probable that an outflow of resources from the enterprise embodying economic benefits would be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are recognised in the amount that expresses the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Where the effect is material, account is taken of the time value of money when calculating the amount of provision.

There is no recognition of contingent assets or contingent liabilities.

Cash

The line for cash includes cash in hand and deposits with and balances due from credit institutions and central banks.

The cash flow statement is presented using the direct method, which provides information about important classes of receipts and payments.

Segment reporting

Operating segments at group level are reported in the same way as with internal reporting to the Company's chief operating decision maker. The Company's chief operating decision maker, who is responsible for allocating resources for and assessing performance in the operating segments, has been identified as the Group Executive Management.

NOTE 2. INTEREST AND SIMILAR INCOME

NOK MILLION	2011	2010
Interest from financial instruments carried at amortised cost:		
Interest and similar income from loans to and balances due from credit institutions	17	27
Interest and similar income from loans to and receivables from customers	84	143
Total interest from financial instruments carried at amortised cost	101	170
Interest from financial instruments selected for fair value carrying through profit or loss:		
Total interest from fin. instruments selected for fair value carrying thro profit or loss	0	0
Total interest and similar income	101	170

NOTE 3. INTEREST EXPENSE AND SIMILAR CHARGES

NOK MILLION	2011	2010
Interest expense for financial instruments carried at amortised cost:		
Interest and similar charges on liabilities to credit institutions	9	21
Interest and similar charges on securities issued	56	84
Interest and similar charges on subordinated loan capital	3	3
Total interest expense for financial instruments carried at amortised cost	68	108
Interest expense for financial instruments selected for fair value carrying through profit or loss:		
Interest and similar charges on securities issued	-11	11
Total interest exp. for fin. instruments selected for fair value carrying thro profit/loss	-11	11
Total interest expense and similar charges	57	119

NOTE 4. CHANGE IN VALUE OF FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE, GAINS AND LOSSES

NOK MILLION	2011	2010
Change in value interest rate derivatives oblig carried at fair value thro profit or loss	-11	0
Change in value borrowings selected for fair value carrying through profit or loss	13	4
Total change in value of financial instruments carried at fair value	**2**	**4**
Realised exchange gains/losses(-) on bonds and certificates carried at amortised cost	-4	-13
Total change in value of financial instruments carried at fair value, gains and losses	**-2**	**-9**

NOTE 5. SALARIES AND GENERAL ADMINISTRATIVE EXPENSES

NOK MILLION	2011	2010
Salaries to employees and fees to elected officers [1]	1	1
Total salaries and other personnel costs	**1**	**1**
Office expenses	5	17
Total general administrative expenses	**5**	**17**
Total salaries and general administrative expenses	**6**	**18**
Number of permanent full-time employees as at 31 December	0	0
Number of permanent part-time employees as at 31 December	3	3
Number of temporary staff as at 31 December	0	0
Number of full-time equivalents (FTEs) as at 31 December	1	1
Average number of FTEs during the year	1	1
FTEs including share of shared group functions as at 31 December	1	1

[1] The Company's employees have a shared employment relationship between BN Bank ASA and BN Boligkreditt AS. Salaries are paid by the Parent Bank, which charges these expenses to BN Boligkreditt AS. Pension commitments are discharged by BN Bank ASA.

NOTE 6. RELATED PARTY DISCLOSURES

BN Boligkreditt has entered into transactions with related parties, as described in this note, and in Note 7. In addition, there are transactions with related companies such as the parent company, cf. Note 7. All transactions with related parties are entered into on commercial terms. Apart from the transactions identified in this note and Note 7, there are no transactions or outstanding matters of significance with related parties.

Remuneration to the Managing Director, Elected Officers and appointed Auditor
Remuneration to Senior Executives

	FEES	SALARIES	PERFORMANCE-RELATED PAY [1, 2]	NON-CASH & OTHER TAXABLE BENEFITS	PENSION PREMIUMS PAID	TOTAL PAY AND REMUN-ERATION	LOANS AND SECURITY
Senior Executives							
Trond Søraas, Managing Director [3]	0	981 742	25 000	133 577	145 203	1 285 522	1 642 576
Board of Directors							
Svend Lund, Chair of Board [4]	0	1 910 250	250 000	132 902	241 767	2 534 919	1 740 576
Other Board members	142 500	0	0	0	0	142 500	0
Control Committee							
Members	0	0	0	0	0	0	0
Total	142 500	2 891 992	275 000	266 479	386 970	3 962 941	3 383 152

[1] See Note 5 for more details.
[2] The note refers to performance-related pay and bonus paid out in the financial year, accrued in previous years. No bonus accrued for the 2011 financial year.
[3] The Managing Director is also employed as the parent company's Finance and Treasury Director . A proportion of the salary is charged to the company. The note shows the total amount of pay received in the BN Bank Group.
[4] The Chair of the Board is also employed as the Deputy Managing Director of the parent company. The note shows the total pay received in the BN Bank Group.

Loans to Senior Executives are provided on the same terms as to other employees.

Fees to appointed Auditor

NOK ´000	2011	2010
Fees to appointed Auditor		
Normal audit fees for statutory audit [1]	176	105
Tax advice	18	16
Other attestation service [2]	224	120
Fees for other assistance	0	0
Total fees paid to appointed Auditor (including VAT)	418	241

[1] Of this sum, fees for audits of the quarterly financial statements for 2011 and 2010 totalled NOK 51 250 and NOK 28 750 respectively. Normal audit fees were NOK 125 000 for the 2011 financial year and NOK 76 250 for the 2010 financial year.

[2] Other attestation services comprise fees in connection with the job as independent auditor of the loan portfolio.

Income, expenses, receivables and commitments with related companies

NOK MILLION		2011	2010
Interest income			
BN Bank	Parent company	18	27
Interest expense			
BN Bank	Parent company	12	24
Other expense			
BN Bank	Parent company	5	17
Receivables as at 31 December			
BN Bank	Parent company	684	479
Liabilities as at 31 December			
BN Bank	Parent company	287	415

NOTE 7. LOANS TO EMPLOYEES AND ELECTED OFFICERS

NOK ´000	2011	2010
Loans to employees as at 31 December	6 108	6 315
Loans to elected officers as at 31 December	0	0
Loans to companies where elected officers had controlling influence as at 31 December	0	0
Interest subsidy on loans to employees [1]	0	0

[1] This subsidy cost is not shown in the income statement, because the interest income from loans to employees is entered at the actual agreed interest.

The criteria for making loans to employees, including senior executives, are the same as for ordinary retail customers, i.e. all employees are subject to the same creditworthiness and borrowing amount assessment as other customers. The only difference is that the employees receive a subsidised interest rate on loans up to NOK 3 million. The interest rate on these loans is set equal to the standard rate. Loans to companies where elected officers are board members and/or have a controlling influence, are provided on normal customer terms.

Loans to the Chair of the Supervisory Board, the Chair of the Control Committee, the Board of Directors, and the Executive Management

NAME	OFFICE/POSITION	PRINCIPAL
Trond Søraas	Managing Director	1 642 576
Svend Lund	Chair of the Board of Directors	1 740 576

NOTE 8. IMPAIRMENT LOSSES AND WRITE-DOWNS ON LOANS CARRIED AT AMORTISED COST

The various elements included in impairment losses and write-downs on loans are set out in Note 1. Loans past due more than 3 months are defined as loans that have not been serviced under the loan agreement for 3 months or more. As a first mortgage lender, the Company can however gain access to revenue, either through the courts or by some voluntary solution. Impairment losses and write-downs on loans described in this note apply to loans carried at amortised cost.

NOK MILLION	2011	2010
Write-offs in excess of prior-year write-downs	0	0
Write-offs on loans without prior write-downs	0	0
Write-downs for the period:		
Change in collective write-downs	0	-2
Increase in loans with prior-year write-downs	0	0
Provision against loans without prior write-downs	0	0
Decrease in loans with prior-year write-downs	0	0
Total change in individual write-downs	0	0
Gross impairment losses	0	-2
Recoveries on previous write-offs	0	0
Impairment losses on loans and advances	0	-2
Revenue recognition of interest on written-down loans	0	0

NOK MILLION	2011	2010
Individual write-downs to cover impairment losses as at 1 January	0	0
Write-offs covered by prior-year individual write-downs	0	0
Write-downs for the period:		
Increase in loans with prior-year individual write-downs	0	0
Write-downs on loans without prior individual write-downs	0	0
Decrease in loans with prior-year individual write-downs	0	0
Individual write-downs to cover impairment losses as at 31 December	0	0
Collective write-downs to cover impairment losses as at 1 January	6	8
Collective write-downs for the period to cover impairment losses	0	-2
Collective write-downs to cover impairment losses as at 31 December	6	6

Loans past due more than 3 months as at 31 December

NOK MILLION	2011	2010
Gross principal	15	17
Individual write-downs	0	0
Net principal	15	17

Other loans with individual write-downs as at 31 December

NOK MILLION	2011	2010
Gross principal	0	0
Individual write-downs	0	0
Net principal	0	0

Loans past due more than 3 months by sector and as a percentage of loans

NOK MILLION	GROSS OUTSTANDING 2011	%	GROSS OUTSTANDING 2010	%
Retail market	15	0.75	17	0.61

NOTE 9. TAX

Computation of tax payable

NOK MILLION	2011	2010
Profit/(loss) before tax	36	26
Changes in temporary P&L differences relating to:		
Current assets/short-term liabilities	-2	-12
Other items recognised in equity		
Taxable income	**34**	**14**
Tax payable (28%)	**10**	**4**

The company has rendered group contribution equivalent to the portions of the taxable profit in 2010, and the taxable profit in 2011.
The tax effect in 2011 (2010) relating to the proposed group contribution is 10 (2).

NOK MILLION	2011	2010
Tax payable	10	4
Change in deferred tax	1	3
Tax charge	**10**	**7**
Reconciliation from nominal to actual tax rate (28%)		
Profit/(loss) before tax	36	26
Expected income tax at nominal rate (28%)	10	7
Tax charge	**10**	**7**
Effective tax rate	28%	28%
Computation of deferred tax/deferred tax assets		
Tax-adding temporary differences:		
Short-term securities investments	18	28
Total tax-adding temporary differences	**18**	**28**
Tax-deducting temporary differences:		
Long-term debt	20	33
Total tax-deducting temporary differences	**20**	**33**
Base for computing deferred tax (+)/deferred tax assets (-)	-2	-5
Computed deferred tax (+)/deferred tax assets (-) (28% of computation base)	**-1**	**-1**

Deferred tax (+)/deferred tax assets (-) in the balance sheet

NOK MILLION	2011	2010
Deferred tax as at 1 January	1	6
Change in deferred tax in P&L	1	3
Tax effect of group contribution	7	-8
Deferred tax as at 31 December	**9**	**1**

NOTE 10. CASH AND BALANCES DUE FROM CREDIT INSTITUTIONS

Financial assets carried at amortised cost

NOK MILLION	2011	2010
Receivables from sister companies/parent company	685	476
Total cash and balances due from credit institutions carried at amortised cost	685	476

Financial assets carried at fair value

NOK MILLION	2011	2010
Total cash and balances due from credit institutions selected for fair value carrying	0	0
Total cash and balances due from credit institutions	685	476

NOTE 11. LOANS AND ADVANCES

NOK MILLION	2011	2010
Loans carried at amortised cost:		
Amortised loans	2 002	2 784
Total loans carried at amortised cost	2 002	2 784
Loans selected for fair value carrying through profit or loss:		
Amortised loans	0	0
Total loans and advances	2 002	2 784

NOTE 12. FINANCIAL DERIVATIVES

ASSETS

NOK MILLION	2011	2010
Interest rate derivatives	40	51
Total financial derivatives, assets	40	51

LIABILITIES

NOK MILLION	2011	2010
Interest rate derivatives	0	0
Total financial derivatives, liabilities	0	0

All financial derivatives are obliged to be carried at fair value through profit or loss.

NOTE 13. LIABILITIES TO CREDIT INSTITUTIONS

All financial assets included here are carried at amortised cost

NOK MILLION	2011	2010
Liabilities to Parent Bank	211	332
Total liabilities to credit institutions	**211**	**332**

NOTE 14. DEBT SECURITIES IN ISSUE

FACE VALUES

NOK MILLION	2011	2010
Face value of certificates	0	0
Face value of own certificates	0	0
Net face value of certificates	**0**	**0**
Face value of bonds	3 438	3 438
Face value of own bonds	-1 362	-885
Net face value of bonds	**2 076**	**2 553**
Total net face value of debt securities in issue	**2 076**	**2 553**

RECOGNISED VALUES

NOK MILLION	2011	2010
Certificates carried at amortised cost	0	0
Certificates selected for fair value carrying	0	0
Total recognised value of certificates	**0**	**0**
Bonds carried at amortised cost	1 318	1 757
Bonds selected for fair value carrying	809	861
Total recognised value of bonds	**2 127**	**2 618**
Total recognised value of debt securities in issue	**2 127**	**2 618**

NOTE 15. SUBORDINATED LOAN CAPITAL

Subordinated loans carried at amortised cost:

NOK MILLION	2011		2010			
LOAN DESIGNATION	RECOG. VALUE AT 31.12.11[1]	NOMINAL VALUE	RECOG. VALUE AT 31.12.10[1]	NOMINAL VALUE	CURRENCY	MATURITY
Subordinated loan	75	75	75	75	NOK	04.01.18
Subordinated loans carried at amortised cost	75	75	75	75		

[1] Figures are stated net of accrued interest.

The loan was provided in its entirety by the Parent Bank. The interest rate is adjusted every three months, and is set at 3-month NIBOR (Norwegian Interbank Offered Rate) plus 1.50 percentage points in arrears for the first 5 years, thereafter plus 2.25 percentage points in arrears for the last 5 years. The loan may be fully or partially redeemed after 5 years. Redemption requires the consent of the Financial Supervisory Authority of Norway. The interest rate on the loan as at 31 December 2011 was 4.53 per cent. The loan is included in BN Boligkreditt's capital base as supplementary capital (tier 2 capital), see Note 17.

NOTE 16. SHAREHOLDER STRUCTURE AND SHARE CAPITAL

Shareholders as at 31 December 2011

BN Bank owns 100% of the shares in BN Boligkreditt AS, and the Company is included in BN Bank's consolidated financial statements, which are available at www.bnbank.no.

Share capital as at 31 December 2011

450,000 shares at NOK 225 each have been issued. The General Meeting has not authorised any increase in share capital or the purchase of own shares. There are no outstanding debt instruments with share conversion rights, nor have any form of share options been issued which may lead to an increase in the number of shares.

NOTE 17. CAPITAL ADEQUACY

Process for assessing the capital adequacy requirement

The BN Bank Group has established a strategy and process for risk management and assessment of the capital adequacy requirement and how capital adequacy can be maintained. The collective term for this is ICAAP (Internal Capital Adequacy Assessment Process). Assessing the requirement includes assessing the size, composition and distribution of the capital base adapted to the level of risks that BN Bank is or may be exposed to. The assessments are risk-based and forward-looking. The risk areas assessed in addition to the Pillar 1 risks are concentration risk in the credit portfolio, interest rate and foreign exchange risk in the bank portfolio, liquidity risk, market risk, owner's risk and reputation risk. ICAAP is not focused on a single method or a single figure, but presents a set of calculations including different time horizons, confidence levels and assumptions.

The capital adequacy assessments for BN Boligkreditt are part of the overall assessments made by BN Bank's Board of Directors for the entire Group. The assessments for 2011 have been made and reported to the Financial Supervisory Authority of Norway. The main conclusions are that the Group's risk, capital and liquidity situation improved in 2011, that governance and control within the Group are deemed satisfactory, and that in the Board's opinion the Group is sufficiently capitalised in relation to the Bank's level of risk.

Rules and regulations

General

Under the provisions of section 21 of the Commercial Banks Act (CBA) and section 3-17 of the Financial Institutions Act (FIA), the Norwegian Ministry of Finance has issued regulations for calculating capital base and has set minimum requirements for capital adequacy in financial institutions. The requirement is that the capital base must be at least 8% of risk-weighted assets. The capital adequacy requirements apply to commercial banks, savings banks and financial institutions, including credit institutions and insurance companies.

The Ministry of Finance has also issued regulations on minimum capital adequacy requirements relating to market risks etc. for credit institutions and securities firms. As BN Boligkreditt does not trade in financial instruments as these are defined in the regulations, these rules have no significance for the Company's capital adequacy.

According to the rules, the capital base consists of two main components:
1. Tier 1 capital: Equity capital (share capital, share premium reserve and other reserves) and perpetual subordinated loan capital securities.
2. Tier 2 capital: Perpetual and fixed-term subordinated loan capital

Intangible assets are deducted from the tier 1 capital.

Fixed-term subordinated loan capital is included as tier 2 capital according to the following rules:
- The original term of the loan shall be at least 5 years. Fixed-term subordinated loan capital is reduced proportionally over the last 5 years to maturity by 20% per annum.
- The sum total of the items included in tier 2 capital may not exceed 100% of the tier 1 capital, and fixed-term subordinated loan capital may not exceed 50% of the tier 1 capital.

Ownership interests in other financial institutions in excess of certain limits are deducted from the capital base.

Capital adequacy

NOK MILLION	2011	2010
Share capital	101	275
Other reserves	202	7
Capital base [1]	0	0
Deductions for:		
Intangible assets	0	0
Deferred tax assets	0	0
Proposed provision for group contribution	0	0
Tier 1 capital	**303**	**282**
Fixed-term subordinated loan capital [1]	76	76
Net tier 2 capital	**76**	**76**
Total capital base	**379**	**358**
Risk-weighted assets	962	1 206
Tier 1 capital ratio (%)	31.5	23.4
Capital adequacy ratio (%)	**39.4**	**29.7**

[1] For more details, see Note 15.

Specification of risk-weighted assets

NOK MILLION		2011
RISK-WEIGHTING	RECOGNISED AMOUNT	WEIGHTED AMOUNT
0 %	0	0
10 %	0	0
20 %	722	144
35 %	2 060	721
50 %	0	0
75 %	0	0
100 %	97	97
Investments included in the trading portfolio	0	0
Tradeable debt instruments included in the trading portfolio	0	0
Total risk-weighted assets	2 879	962
Capital adequacy ratio (%)		39.4

Specification of risk-weighted assets

NOK MILLION		2010
RISK-WEIGHTING	RECOGNISED AMOUNT	WEIGHTED AMOUNT
0 %	0	0
10 %	0	0
20 %	543	109
35 %	2 826	989
50 %	0	0
75 %	0	0
100 %	108	108
Investments included in the trading portfolio	0	0
Tradeable debt instruments included in the trading portfolio	0	0
Total risk-weighted assets	3 477	1 206
Capital adequacy ratio (%)		29.7

NOTE 18. FINANCIAL INSTRUMENTS CLASSIFIED BY CATEGORY

As at 31 December 2011

NOK MILLION	FAIR VALUE	VOLUNTARILY CLASSIFIED AT FAIR VALUE	AVAILABLE FOR SALE	LOANS, RECEIV-ABLES & OTHER LIABILITIES AT AMORTISED COST	HOLD TO MATURITY	TOTAL
Loans and advances	0	0	0	2 002	0	2 002
Financial derivatives, assets	40	0	0	0	0	40
Cash and balances due from credit institutions	0	0	0	685	0	685
Total financial instruments, assets	**40**	**0**	**0**	**2 687**	**0**	**2 727**
Subordinated loan capital	0	0	0	-76	0	-76
Liabilities to credit institutions	0	0	0	-211	0	-211
Debt securities in issue	0	-809	0	-1 318	0	-2 127
Total financial instruments, liabilities	**0**	**-809**	**0**	**-1 605**	**0**	**-2 414**

As at 31 December 2010

NOK MILLION	FAIR VALUE	VOLUNTARILY CLASSIFIED AT FAIR VALUE	AVAILABLE FOR SALE	LOANS, RECEIV-ABLES & OTHER LIABILITIES AT AMORTISED COST	HOLD TO MATURITY	TOTAL
Loans and advances	0	0	0	2 784	0	2 784
Financial derivatives, assets	51	0	0	0	0	51
Cash and balances due from credit institutions	0	0	0	476	0	476
Total financial instruments, assets	**51**	**0**	**0**	**3 260**	**0**	**3 311**
Subordinated loan capital	0	0	0	-76	0	-76
Liabilities to credit institutions	0	0	0	-332	0	-332
Debt securities in issue	0	-861	0	-1 757	0	-2 618
Total financial instruments, liabilities	**0**	**-861**	**0**	**-2 165**	**0**	**-3 026**

NOTE 19. FAIR VALUE OF FINANCIAL INSTRUMENTS

METHODS OF DETERMINING FAIR VALUE

Interest swap agreements, currency swap agreements and forward exchange contracts

The measurement of interest swap agreements at fair value is performed using a valuation technique where expected future cash flows are discounted to present values. The calculation of expected cash flows and their discounting is performed using observed market interest rates for the various currencies (interest-rate swap curve) and observed exchange rates (from which forward exchange rates are derived).

Certificates and bonds

Certificates are measured at quoted prices where such are available, and the securities are liquid. In the case of other securities, measurement is performed using a valuation technique and discounting of future cash flows. The risk-free interest rate is read from the market through the interest rate on loans between especially creditworthy banks (interest-rate swap curve). The premium for credit risk is determined on the basis of market players' assessments of the issuer's credit rating.

Loans and advances

For loans measured at fair value, the valuation is performed using a valuation technique where expected future cash flows are discounted to present values. The risk-free interest rate is read from the market through the interest rate on loans between especially creditworthy banks (interest-rate swap curve). The premium for credit risk and margins is determined on the basis of the original premium for credit risk and margin, but with subsequent adjustment of these premiums at a pace with changes in the market pricing of risk, the borrowers' credit ratings and margin changes in the market.

Borrowing/funding

Where borrowing/funding is measured at fair value, quoted borrowings are measured at quoted prices where such are available, and the securities are liquid. For other securities, valuation is performed using a valuation technique and discounting of expected future cash flows. The risk-free interest rate is read from the market through the interest rate on loans between especially creditworthy banks (interest-rate swap curve). The premium for credit risk is determined on the basis of other market players' continuous assessments of BN Bank's credit rating.

Division into measurement levels

Financial instruments measured at fair value at the end of the reporting period are divided into the following levels of fair value measurement:

- Level 1: Quoted price in an active market for an identical asset or liability.

- Level 2: Measurement is performed using a valuation technique and discounting of expected future cash flows. The risk-free interest rate is read from the market through the interest rate of loans between especially creditworthy banks (interest-rate swap curve). The premium for credit risk is determined on the basis of other market players' ongoing assessments of the Bank's creditworthiness.

- Level 3: Measurement based on factors not taken from observable markets nor which have observable assumptions as input to the valuation.

The following table presents the Group's assets and liabilities measured at fair value as at 31 December 2011

NOK MILLION	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial derivatives, assets	0	40	0	40
Total assets	**0**	**40**	**0**	**40**
Debt securities in issue	0	-809	0	-809
Total liabilities	**0**	**-809**	**0**	**-809**

BN Boligkreditt had no Level 3 assets or liabilities measured at fair value as at 31 December 2011.

The following table presents the Group's assets and liabilities measured at fair value as at 31 December 2010

NOK MILLION	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial derivatives assets	0	51	0	51
Total assets	**0**	**51**	**0**	**51**
Debt securities in issue	0	-861	0	-861
Total liabilities	**0**	**-861**	**0**	**-861**

BN Boligkreditt had no Level 3 assets or liabilities measured at fair value as at 31 December 2010.

Fair value compared with recognised value

	2011		2010	
NOK MILLION	FAIR VALUE	RECOGNISED VALUE	FAIR VALUE	RECOGNISED VALUE
Loans and advances	2 002	2 002	2 784	2 784
Financial derivatives, assets	40	40	51	51
Cash and balances due from credit institutions	685	685	476	476
Subordinated loan capital	-75	-76	-69	-76
Liabilities to credit institutions	-212	-211	-331	-332
Debt securities in issue	-2 136	-2 127	-2 639	-2 618
Total	**304**	**313**	**272**	**285**

In the case of short-term financial instruments, the recognised amount will normally always be a good approximation of fair value. Financial derivatives are carried in their entirety at fair value, and consequently no difference is presented in the balance sheet between fair value and recognised value.

Loans and receivables selected for fair value carrying through profit or loss - credit risk

LOANS AND ADVANCES

NOK MILLION	2011	2010
Change in fair value in the period as a result of changed credit risk	0	0
Change in fair value accumulated as a result of changed credit risk	0	0

The accumulated change in the fair value of loans and receivables as a result of a change in credit risk is calculated at the end of the reporting period for securities that are still held. Accumulated change is calculated by comparing the fair value of the securities at the end of the reporting period with the value the securities would have had if an alternative valuation had been made using the credit risk that existed when the security was initially recognised at fair value. Change in fair value during the period as a result of changed credit risk is calculated as the difference between accumulated change in fair value as a result of changed credit risk at the beginning and end of the year respectively.

Financial liabilities selected for fair value carrying through profit or loss - credit risk

BORROWING/FUNDING

NOK MILLION	2011	2010
Change in fair value in the period as a result of changed credit risk	-2	-6
Change in fair value accumulated as a result of changed credit risk	5	7

The accumulated change in fair value of obligations as a result of a change in credit risk is calculated at the end of the reporting period for securities that are still held. Accumulated change is calculated by comparing the fair value of the securities at the end of the reporting period with the value the securities would have had if an alternative valuation had been made using the credit risk that existed when the security was initially recognised at fair value. Change in fair value during the period as a result of changed credit risk is calculated as the difference between accumulated change in fair value as a result of changed credit risk at the beginning and end of the year respectively.

Fair value and contractual payment obligations at maturity [1]

	2011		2010	
NOK MILLION	FAIR VALUE	PAYMENT OBLIGATION [2]	FAIR VALUE	PAYMENT OBLIGATION [2]
Subordinated loan capital	75	75	76	76
Debt securities in issue	2 127	2 109	2 618	2 588
Total	2 202	2 184	2 694	2 664

[1] The difference between fair value and payment obligations for financial instruments carried at fair value is the difference between the clean value and the nominal value of the contracts. With respect to financial instruments carried at amortised cost, the statement shows the difference between the amortised cost and the nominal value of the contracts.

[2] The Payment obligation column in this statement consists of the nominal payment obligation including accrued interest at the measurement date. Payment obligations in accordance with this note do not therefore correspond with the nominal values of, respectively, Subordinated loan capital in Note 15 and Debt securities in issue in Note 14.

NOTE 20. RISK IN FINANCIAL INSTRUMENTS - QUALITATIVE DESCRIPTION

Risk management in BN Boligkreditt AS

It is part of BN Boligkreditt's business strategy to maintain a low risk profile in all its activities.

This chapter on risk management is part of the supplementary disclosures of financial instruments contained in the consolidated financial statements for the BN Bank Group. See Note 21 for more information about risk relating to financial instruments.

Organisation

Board of Directors
The Board of Directors has adopted the Company's risk policy. This includes a set of principles designed to give the organisation an understanding of the type of risk profile the Company wishes to have, and of the measures taken to control risk. The risk policy also defines the Company's risk tolerance. The risk tolerance says something about the Company's willingness to assume risk, and is determined with the aid of relevant and both general and quantified objectives. This risk tolerance is necessary in order to set consistent limits for risk, and to select suitable systems for monitoring risk.

Internal auditor
The Board has appointed an outside internal auditor, whose duty is to perform a monitoring function which, independently of the administration in general, carries out risk assessments, checks and examinations of the Company's internal control and management processes to assess whether they are functioning appropriately and satisfactorily.

The Company's management
The Managing Director is responsible for overall risk management within the Company. The Managing Director receives regular reports of risk exposure and the status of the internal control work. The Managing Director has established a risk management group that meets regularly. Matters concerning changes to policy or implementation of new policy and strategies within the Company must always be presented to the risk management group for discussion and decisions. The risk management group deals at least once annually with an analysis of the risk situation and the associated capital adequacy requirement. This analysis is then presented to the Board of Directors.

The Managing Director delegates tasks in accordance with the formal responsibility for internal control and risk management. The responsibility for implementing the annual analysis of the risk situation and associated capital adequacy requirement is delegated to the Risk Management unit. The risk analysis performed by the unit shall be co-ordinated and integrated with the Company's other planning and strategy work. Control tasks are furthermore delegated to the individual line managers within the framework of adopted principles, instructions and authorisations.

Administration
The BN Bank Group has a Risk Management unit which covers the entire Group and which does not carry out activities that the control function is intended to monitor. This unit is charged with identifying, measuring and assessing all risks.

The risk management process

There are satisfactory and appropriate strategies and processes in place for risk management and assessment of the capital adequacy requirement, and how this may be maintained. The collective term for this is ICAAP (Internal Capital Adequacy Assessment Process). To structure the risk management framework, the ICAAP is divided into five stages:

I) Identification of risk
An analysis has been made of the risks the Company is exposed to. There is a suitable system for monitoring all risks. There is also a process for identifying changes to existing risks and any exposure to new risks. The latter applies especially in connection with changes to existing products or business areas or the establishment of new products or business areas.

II) Quantification of risk and equity
In order to analyse the Company's risk-bearing capacity, all risks are quantified and aggregated.

III) Assessment of capital adequacy requirement
The calculations are based on the requirement that the Company is obliged to satisfy the regulatory capital base requirement with a given probability. Calculations are also made for other confidence levels and time horizons. The level of capital is furthermore adapted to the Company's business plans and growth ambitions, developments in framework conditions, capital planning and contingency planning. Economic capital is also calculated for different confidence levels and time horizons.

IV) Setting limits (ex ante control)
All significant risks have a limit.

V) Risk monitoring and ex post control
Procedures have been established for dealing with breaches of limits. In cases where risk is not quantifiable, the object of the risk monitoring is to check process-related requirements or qualitative requirements. Reporting of risk monitoring follows a fixed frequency and provides a full picture of the situation. In cases where risk exposure arises quickly or unexpectedly, ad hoc reports are to be prepared. Ex post control means that if the risk monitoring uncovers real exposure that is greater than the desired level of exposure, measures shall be taken to deal with it. Relevant measures include risk mitigation, a change of limits (reallocation of risk capital) or increase of equity. Ex post control can be viewed as the last stage of the risk management process and at the same time the starting point for a new process.

Risk categories

For risk management purposes, BN Boligkreditt distinguishes between the following categories of risk:

Credit risk

Credit risk is the risk of loss that arises if the Company's counterparties or customers fail to meet their payment obligations to BN Boligkreditt. Credit risk relates to all receivables from counterparties/customers, mainly loans and advances, but also liability in accordance with other issued credits, securities, credit granted but not drawn on, and the counterparty risk that arises through derivatives and forward exchange contracts. Settlement risk, which arises in connection with payment services as a result of the fact that not all transactions take place in real time, also gives rise to counterparty risk. In the loan portfolio, credit risk is a product of two events, both of which must occur if a loss is to arise. One risk is the possibility that the borrower will be unable or unwilling to pay. The other is that the value of the underlying mortgaged asset will be insufficient to cover BN Boligkreditt's claim in the event of default and subsequent realisation of the asset. Loans to business and retail customers are risk-classified before a decision is made to grant credit. The classification is updated quarterly.

Credit risk is a significant risk for the Company, and the desired exposure is low. Monitoring of credit risk is based on an internal risk classification system (Internal Ratings-Based or IRB system). BN Boligkreditt uses credit rating models to analyse credit risk within the retail market. These models assign to every debtor a PD (Probability of Default) class and an LGD (Loss Given Default) class. The PD classification indicates the probability that a loan will be defaulted on, while the LGD classification gives an estimate of the loss rate (in relation to the size of the exposure) given that the loan is defaulted on. The product of the PD and LGD that are assigned to an individual loan gives the expected loss on the loan as a percentage of the size of exposure.

PD classification in the credit rating model relates to retail borrowers with the focus on the debtor's income and property in addition to various behaviour variables. In the case of LGD calculations, here, too, the key element is the security offered for the loan and the value of the mortgaged asset in relation to the size of the loan.

The management are provided with regular credit risk reports based on the risk classification system. A key element in this connection is the trend in loans divided into different classes of risk. In Note 21 an assessment is provided of the Company's credit risk at the end of 2010 and 2011 respectively.

Liquidity risk

Liquidity risk is defined as the risk that the Company will be unable to finance growth in lending and to discharge its commitments as they fall due (refinancing risk). Liquidity risk also includes the risk that financial markets that the Company wishes to use do not function (market liquidity). Liquidity risk is a significant risk for BN Boligkreditt. The desired exposure is moderate and in line with the market average. Liquidity risk monitoring is done by controlling exposure in relation to set limits and by control of qualitative requirements. The management receive regular reports of expected payments made and received. See Note 21 for an analysis of the Company's liquidity risk at the end of 2010 and 2011 respectively.

Market risk

Market risk is the risk of loss owing to changes in external conditions such as the market situation or the authorities' regulatory decisions. The risk definition also includes reputation risk. Market risk is defined as a significant risk. The desired exposure is moderate. The Company monitors commercial risk by means of qualitative and quantitative analyses of various factors. The most important factors that can be impacted by changes in the market situation or the authorities' regulatory decisions are volume and margins in the lending and funding businesses, impairment losses on loans and operating expense.

Interest rate risk

Interest rate risk is defined as the total earnings-related risk to which the Company is exposed if the fixed-interest periods for its commitments and receivables, both on- and off balance sheet, do not match. Interest rate risk is defined as a risk with some significance. The desired exposure is low. The Company's equity shall in principle be exposed to short-term interest rates. This shall be achieved by commitments and receivables with a fixed interest rate of more than one year virtually neutralising one another. Interest rate risk monitoring is done by controlling exposure in relation to set limits for interest sensitivity. Interest sensitivity analysis has been chosen as the basis for setting limits because of the ability of this key indicator to quantify interest rate risk. The other important tool for managing risk is the gap analysis, which compares fixed interest periods on the assets and liabilities sides for each period and includes both on- and off-balance sheet items. The management receive regular reports of these connections. An analysis of interest rate risk at the end of 2010 and 2011 respectively is provided in Note 21.

Foreign exchange risk

Foreign exchange risk is defined as the total earnings-related risk the Company is exposed to when foreign exchange rates change. Foreign exchange risk is defined as a non-significant risk. The desired exposure is low. Foreign exchange risk is monitored by controlling exposure in relation to set limits. Reports are drawn up showing the net position in each currency. This analysis contains all currency items both on and off the balance sheet (interest and principals), as well as agreements entered into with foreign exchange risk that are not yet entered in the books. The management receive regular reports of this analysis. See Note 21 for an analysis of foreign exchange risk at the end of 2010 and 2011.

Operational risk

Operational risk is defined as the risk the Company is exposed in the event of inadequacy or failure of internal procedures, people or systems, or owing to external events. Operational risk includes fraud risk. Fraud risk consists of several types of undesired events, including money-laundering, corruption, criminal deception and internal fraud (embezzlement, misappropriation of funds, theft and the like). The last-mentioned actions fall under the term economic crime. Operational risk is defined as a risk with some significance. The desired exposure is moderate. Operational risk is monitored by means of regular qualitative analyses.

Concentrations of risk

Concentrations of financial risk arise when financial instruments with the same characteristics are affected uniformly by changes in economic or other factors. Identifying these concentrations of risk includes making discretionary assessments.

The Company encounters different kinds of risk concentration. If individual borrowers or groups of associated debtors make up a considerable share of the loan portfolio, this will represent a type of concentration risk since the portfolio will contain company-specific or unsystematic risk. This type of risk concentration is called debtor concentration.

Another type of risk concentration is as a result of high exposure to certain sectors or geographical areas. Some sectors and geographical areas may have different economic cycles, and any failure to spread the exposure over different sectors means that we may miss out on diversification opportunities. This kind of concentration is termed sector concentration.

BN Boligkreditt has a concentrated portfolio as a consequence of its strategy of specialising in the financing of residential real estate in Norway. Sector concentration nationally and within certain geographical areas is therefore the most important kind of concentration in BN Boligkreditt's portfolio. Consequently, the entire portfolio is exposed to risk factors that affect property values and the capacity of private individuals to service their debts. The Company has no debtor concentration of significance.

BN Boligkreditt has limited possibilities for reducing its portfolio risk by diversifying into other geographical areas and sectors. From a risk analysis and risk management perspective, it is therefore important to be consistently aware of this element of the portfolio risk. The IRB system permits the Company to do this.

Hedging instruments

The Company employs the following hedging instruments:

• Interest rate swaps - contracts to exchange interest-rate conditions for a fixed nominal sum over a fixed number of periods.

The object of using interest-rate instruments (swaps) is to secure future interest-rate conditions.

NOTE 21. RISK IN FINANCIAL INSTRUMENTS – QUANTITATIVE DESCRIPTION

Market risk

Interest rate risk

Repricing date (gap) for assets and liabilities as at 31 December 2011

NOK MILLION	TOTAL RECOGNISED VALUE	UNDEFINED [1]	UP TO 1 MONTH	FROM 1 TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	FROM 1 YEAR TO 5 YEARS	OVER 5 YEARS
Loans and advances	2 002	-1	0	2 003	0	0	0
Financial derivatives	800	0	0	0	572	228	0
Cash and balances due from credit institutions	685	0	685	0	0	0	0
Total	3 487	-1	685	2 003	572	228	0
Subordinated loan capital	76	1	75	0	0	0	0
Liabilities to credit institutions	211	1	0	210	0	0	0
Debt securities in issue	2 127	51	0	1 313	535	228	0
Financial derivatives	800	0	0	800	0	0	0
Total	3 214	53	75	2 323	535	228	0
Net = gap	273	-54	610	-320	37	0	0

Repricing date (gap) for assets and liabilities as at 31 December 2010

NOK MILLION	TOTAL RECOGNISED VALUE	UNDEFINED [1]	UP TO 1 MONTH	FROM 1 TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	FROM 1 YEAR TO 5 YEARS	OVER 5 YEARS
Loans and advances	2 784	0	0	2 784	0	0	0
Financial derivatives	800	0	0	0	0	800	0
Cash and balances due from credit institutions	476	0	476	0	0	0	0
Total	4 060	0	476	2 784	0	800	0
Subordinated loan capital	76	1	0	0	75	0	0
Liabilities to credit institutions [1]	332	1		332	0	0	0
Debt securities in issue	2 618	65	0	1 753	0	800	0
Financial derivatives	800	0	0	800	0	0	0
Total	3 826	66	0	2 885	75	800	0
Net = gap	234	-66	476	-101	-75	0	0

[1] Undefined at repricing date (gap) for assets and liabilities consists of excess/shortfall as a result of fair value calculations, and accrued interest at the end of the reporting period.

Repricing date for assets and liabilities shows the term up to the next agreed/likely interest rate adjustment for all interest-bearing asset and liability items. It is assumed that loans with variable interest rates and customer deposits and accounts payable to customers excluding fixed-term deposits will be repriced after two weeks for business customers and six weeks for retail customers. Under the Financial Contracts Act, interest rate increases on loans to retail customers must be notified to borrowers with at least six weeks' notice, although a shorter period of notice is permissible if there is a significant increase in money market interest rates.

The Company employs hedging instruments to manage interest rate risk. To arrive at a correct picture of the interest rate risk, these instruments must be vi-ewed together with the asset and liability items, and they are therefore included in the note.

Gap is defined as the difference between liabilities and receivables on and off the balance sheet for which interest rates must be fixed within each time band.

Interest sensitivity

The interest sensitivity of equity capital shows the financial exposure to changes in interest rates. The financial exposure is the present value of all future P&L changes resulting from the change in interest rates. The timing of these P&L changes in the accounts cannot be read from this analysis.

Exchange rate risk

Currency breakdown, assets and liabilities as at 31 December 2011

NOK MILLION	TOTAL PRINCIPAL	NOK	EUR	DKK	SEK	CHF	JPY	USD
Loans and advances	2 002	2 002	0	0	0	0	0	0
Cash and balances due from credit institutions	685	685	0	0	0	0	0	0
Total	2 687	2 687	0	0	0	0	0	0
Subordinated loan capital	76	76	0	0	0	0	0	0
Liabilities to credit institutions	211	211	0	0	0	0	0	0
Debt securities in issue	2 127	2 127	0	0	0	0	0	0
Total	2 414	2 414	0	0	0	0	0	0
Financial derivatives	0	0	0	0	0	0	0	0
Net currency exposure	273	273	0	0	0	0	0	0

Currency breakdown, assets and liabilities as at 31 December 2010

NOK MILLION	TOTAL PRINCIPAL	NOK	EUR	DKK	SEK	CHF	JPY	USD
Loans and advances	2 784	2 784	0	0	0	0	0	0
Cash and balances due from credit institutions	476	476	0	0	0	0	0	0
Total	3 260	3 260	0	0	0	0	0	0
Subordinated loan capital	76	76	0	0	0	0	0	0
Liabilities to credit institutions	332	332	0	0	0	0	0	0
Debt securities in issue	2 618	2 618	0	0	0	0	0	0
Total	3 026	3 026	0	0	0	0	0	0
Financial derivatives	0	0	0	0	0	0	0	0
Net currency exposure	233	233	0	0	0	0	0	0

Sensitivity analysis for change in market prices - partial analysis

NOK MILLION	2011		2010	
	EFFECT P&L	EFFECT EQUITY	EFFECT P&L	EFFECT EQUITY
Interest +/- 1 percentage point	-0.1	0	0.1	0
Exchange rates +/- 10 % [1]	0	0	0	0

[1] BN Boligkreditt had no currency exposure as at 31 December 2011.

Credit risk

Expected losses as at 31 December 2011

EXPECTED LOSSES (%)	RETAIL MARKET
0 – 0.01	61 %
0.01 – 0.05	12 %
0.05 – 0.20	23 %
0.20 – 0.50	0 %
> 0.50	5 %

Expected losses as at 31 December 2010

EXPECTED LOSSES (%)	RETAIL MARKET
0 – 0.01	63 %
0.01 – 0.05	11 %
0.05 – 0.20	21 %
0.20 – 0.50	0 %
> 0.50	4 %

There were no individual write-downs at 31 December 2011. Collective write-downs totalling NOK 6.0 million at 31 December are not distributed among the various risk classes.

As the models are currently calibrated, the expected annual impairment loss on loans is approximately 0.10 per cent of the exposure. This expresses an expectation of the size of the annual average loss over an economic cycle.

Residential mortgage loans are priced on the basis of a price matrix dependent on a risk classification reflecting both the amount of the loan disbursed and the estimated probability of default.

There is uncertainty attached to assessing the risk of future impairment losses on loans and guarantees. See the Directors' Report for a more detailed assessment of the risk of impairment losses on loans.

Loans and advances fallen due and written down as at 31 December 2011

		FALLEN DUE, NOT WRITTEN DOWN							
NOK MILLION	NOT FALLEN DUE, NOT WRITTEN DOWN	<30 DAYS	30-60 DAYS	60-90 DAYS	> 90 DAYS	GROSS LOANS	INDIVIDUAL WRITE-DOWNS	COLLECTIVE WRITE-DOWNS	NET LOANS
Retail market	1 907	59	19	8	15	2 008	0	-6	2 002
Loans and advances	1 907	59	19	8	15	2 008	0	-6	2 002

Loans and advances fallen due and written down as at 31 December 2010

		FALLEN DUE, NOT WRITTEN DOWN							
NOK MILLION	NOT FALLEN DUE, NOT WRITTEN DOWN	<30 DAYS	30-60 DAYS	60-90 DAYS	> 90 DAYS	GROSS LOANS	INDIVIDUAL WRITE-DOWNS	COLLECTIVE WRITE-DOWNS	NET LOANS
Retail market	2 681	72	15	5	17	2 790	0	-6	2 784
Loans and advances	2 681	72	15	5	17	2 790	0	-6	2 784

Individual write-downs shall be made when there is objective evidence that a loan is impaired. If objective indicators of impairment are identified for an individual loan, a write-down shall be calculated on the loan if the capitalised balance sheet value is greater than the present value of estimated future cash flows discounted by the effective interest rate. In the estimated cash flow, the value of the collateral is determined on the basis of the assumed net realisable value.

Geographical breakdown[1] of outstanding loans and advances as at 31 December

NOK MILLION	2011	2010
Oslo/Akershus	1 253	1 741
Rest of South/East Norway	227	298
West Norway	224	270
Sør-Trøndelag (Central Norway)	252	391
Nord-Trøndelag and North Norway	40	60
Foreign countries	6	24
Loans and advances	2 002	2 784

Rest of South/East Norway: the counties of Aust-Agder, Vest-Agder, Telemark, Vestfold, Østfold, Buskerud, Hedmark, and Oppland.
West Norway: the counties of Rogaland, Hordaland, Sogn og Fjordane, and Møre og Romsdal.
North Norway: the counties of Nordland, Troms, and Finnmark.

[1] Geographical breakdown based on the borrower's residential/business address.

As risk and return do not vary significantly between the various business areas, segments and geographical areas, no segment information is reported according to business area, sector or geographical area.

Maximum exposure to credit risk

NOK MILLION	2011	2010
On balance sheet:		
Loans and advances	2 002	2 784
Financial derivatives	40	51
Cash and balances due from credit institutions	685	476
Off balance sheet:		
Undrawn loan commitments, facilities and credits	260	269
Maximum credit risk	2 987	3 580

Maximum credit risk is reduced for some of the financial assets. All loans, and undrawn loan commitments etc., are secured through the provision of real property collateral.

Liquidity risk

Remaining maturity for assets and liabilities as at 31 December 2011

NOK MILLION	TOTAL	UNDEFINED	UP TO 1 MONTH	FROM 1 TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	FROM 1 YEAR TO 5 YEARS	OVER 5 YEARS
Loans and advances	2 171	261	5	28	106	526	1 245
Cash and balances due from credit institutions	684	684	0	0	0	0	0
Total	2 855	945	5	28	106	526	1 245
Subordinated loan capital	97	0	1	0	3	14	79
Liabilities to credit institutions	218	-5	0	2	221	0	0
Debt securities in issue	2 223	0	0	14	1 585	625	0
Financial derivatives	-38	0	0	8	-34	-12	0
Total	2 499	-5	1	23	1 775	626	79

Remaining maturity for assets and liabilities as at 31 December 2010

NOK MILLION	TOTAL	UNDEFINED	UP TO 1 MONTH	FROM 1 TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	FROM 1 YEAR TO 5 YEARS	OVER 5 YEARS
Loans and advances	3 756	833	7	42	149	787	1 940
Cash and balances due from credit institutions	476	476	0	0	0	0	0
Total	4 232	1 309	7	42	149	787	1 940
Subordinated loan capital	98	0	1	0	2	12	82
Liabilities to credit institutions	340	-6	0	2	344	0	0
Debt securities in issue	2 799	0	0	15	91	2 694	0
Financial derivatives	-67	0	0	6	-27	-46	0
Total	3 170	-6	1	23	410	2 660	82

Remaining maturity for assets and liabilities shows the remaining term of maturity on all interest-bearing asset and liability items including stipulated interest. The sum total of asset and liability items shows considerable variations within each time band. This is because loan agreements normally have a term of 20 to 30 years, while borrowings have shorter terms.
Management of liquidity risk is described in the section on risk management systems; see Note 20.

NOTE 22. EVENTS AFTER THE REPORTING PERIOD

There were no special events after the reporting period.

NOTE 23. TRANSFER OF LOANS TO SPAREBANK 1 BOLIGKREDITT

SpareBank 1 Boligkreditt is owned by the savings banks that form the SpareBank 1 consortium and is co-located with SpareBank 1 Næringskreditt AS in Stavanger. The purpose of the company is to secure for the banks within the consortium a source of stable, long-term financing of residential mortgage loans at competitive rates. The company's bond's have a rating of Aaa and AAA from Moody's and from Fitch respectively. SpareBank 1 Boligkreditt procures loans with mortgages on residential properties and issues covered bonds within the regulations governing such bonds established in 2007. As part of the consortium, BN Bank may transfer loans to the company and, as part of the Bank's funding strategy, loans were transferred from BN Boligkreditt in 2010 and 2011. At the end of December 2011, the book value of transferred loans was NOK 4 billion. BN Bank is responsible for managing the transferred loans and receives a commission based on the net return on the loans transferred by the Bank and the costs to the company.

NOTE 24. SPECIFICATION OF QUARTERLY RESULTS

Specification of results 2011

NOK MILLION	Q1 2011	Q2 2011	Q3 2011	Q4 2011	FULL-YEAR 2011
Net income from interest and credit commissions	12	11	11	10	44
Total other operating income	-1	-3	0	2	-2
Total other operating expense	2	2	1	1	6
Operating profit/(loss) before impairment losses	**9**	**6**	**10**	**11**	**36**
Impairment losses on loans and advances	0	0	-1	1	0
Pre-tax profit/(loss)	**9**	**6**	**11**	**10**	**36**
Computed tax charge	3	1	3	3	10
Profit/(loss) after tax	**6**	**5**	**8**	**7**	**26**

Specification of results 2010

NOK MILLION	Q1 2010	Q2 2010	Q3 2010	Q4 2010	FULL-YEAR 2010
Net income from interest and credit commissions	14	15	11	11	51
Total other operating income	2	1	-20	8	-9
Total other operating expense	8	6	2	2	18
Operating profit/(loss) before impairment losses	**8**	**10**	**-11**	**17**	**24**
Impairment losses on loans and advances	-1	-2	1	0	-2
Pre-tax profit/(loss)	**9**	**12**	**-12**	**17**	**26**
Computed tax charge	3	3	-3	4	7
Profit/(loss) after tax	**6**	**9**	**-9**	**13**	**19**

NOTE 25. ELECTED OFFICERS AND EXECUTIVE MANAGEMENT

The shareholders exercise the highest authority in the BN Bank Group through the General Meeting. Of the 15 members of the Supervisory Board, 11 are elected by the shareholders, while four are elected by and from among the employees of the BN Bank Group. The General Meeting also elects the Control Committee. The Supervisory Board appoints the external auditor and the Board of Directors. BN Bank, BNkreditt and BN Boligkreditt have had an identical Supervisory Board and Control Committee since 13 March 2009. All the companies have the same auditor.

Supervisory Board

MEMBERS	OCCUPATION/RESIDENCE
Elected by and from among the shareholders	
Members as at 31 December 2011	
Tore Haarberg	SpareBank 1 SMN
Gro Tveit	SpareBank 1 SR-Bank
Stig Horsberg Eriksen	SpareBank 1 SR-Bank
Elisabeth Utheim	SpareBank 1 Nord-Norge
Bjørn Reidar Engaas	Nøtterøy Sparebank
Odd Einar Folland	SpareBank 1 Nordvest
Unni Pedersen	SpareBank 1 Nord-Norge
Truls Lindberg	SpareBank 1 Nord-Norge
Kjersti Hønstad	SpareBank 1 SMN
Vegard Helland	SpareBank 1 SMN
Arne Nypan	SpareBank 1 SMN
Deputy members:	
Anne Beth Høivik	SpareBank 1 SR-Bank
Rolf Einar Hermansen	SamSpar
Merete Hauge	SpareBank 1 Nord-Norge
Inge Grøntvedt	SpareBank 1 SMN
Evy Heia	SpareBank 1 SMN
Atle Håvarstein Nilsen	SpareBank 1 SR-Bank
Elected by and from among the employees	
Ove Rinnan	BN Bank, Trondheim
Harald Kierulf	BN Bank, Trondheim
Berit Granan	BN Bank, Oslo
Ellen- Merethe Garnes	BN Bank, Trondheim
Deputy members	
Lise Faksnes	BN Bank, Trondheim
Jørn Aleksandersen	BN Bank, Oslo

None of the members of the Supervisory Board owns shares in BN Boligkreditt.

Control Committee

MEMBERS	OCCUPATION/RESIDENCE
Former members in 2011	
Dag Nafstad	Court of Appeal Judge, Hålogaland Court of Appeal, Tromsø
Members as at 31 December 2011	
Knut Ro	Lawyer and partner, Ro Sommers advokatfirma, Oslo
Rolf Røkke	Head of Trondheim Municipal Treasurer's Office, Trondheim
Odd Broshaug	Tax Authority, Håvik
Rigmor Abel	HR Director and Environmental Director, Norwegian Seafood Export Council, Tromsø
Attending deputy member	
Ivar Listerud	Rygge Våler SpareBank

External Auditor

PricewaterhouseCoopers AS, in the person of Rune Kenneth S. Lædre, State Authorised Public Accountant

Board of Directors

MEMBERS	YEAR FIRST ELECTED	YEAR LAST RE-ELECTED	TERM OF OFFICE EXPIRES
Former members in 2011			
Lisbet K. Nærø, Chair Former Managing Director of BN Bank	2009	2009	2012
Members as at 31 December 2011			
Svend Lund, Chair Deputy Managing Director of BN Bank	2011	2011	2012
Kjell Fordal Executive Vice-President Finance SpareBank 1 SMN and Deputy Chair of the Board of BNkreditt AS	2009	2009	2012
Arve Austestad Managing Director of SpareBank 1 Boligkreditt AS	2009	2011	2013
Tove Kolbjørnsen Kulseng Estate agent, Eiendomsmegler 1 Midt-Norge AS	2010	2011	2013
Lars Bjarne Tvete Investor in Pilar Management AS	2010	2011	2013
Deputy member			
Endre Jo Reite Credit Manager, Sparebank 1 SMN	2010	2011	2013

Executive Management of BN Boligkreditt

NAME (AGE AT 31 DECEMBER 2011)	NO. OF YEARS WITH BN BOLIGKREDITT	POSITION
Members as at 31 December 2011		
Trond Søraas (43)	2	Managing Director

None of the members of the Executive Management of BN Boligkreditt owns shares in BN Boligkreditt.
Information on remuneration to the Managing Director and Board of Directors is disclosed in Note 6, while information on loans to the Managing Director, Elected Officers and members of the Board of Director appears in Note 7.

Declaration by the Board of Directors and Managing Director

We confirm that the Company's financial statements and the Group's consolidated financial statements for 2011 have, to the best of our belief, been prepared in compliance with International Financial Reporting Standards (IFRS) as approved by the EU, and that the disclosures in the separate financial statements and consolidated financial statements give a true and fair picture of the Company's and the Group's assets, liabilities, financial position and results as a whole.

The Annual Report and Report of the Directors provide, to the best of our belief, a true and fair overview of the development, results and position of the Company and of the Group, and an outline of the most significant risk and uncertainty factors facing the Company and the Group in the next financial period.

Trondheim, 27 February 2012
BN Boligkreditt AS

Kjell Fordal (Deputy Chair)	Svend Lund (Chair of The Board)	Trond Søraas (Managing Director)
Arve Austestad	Tove Kolbjørnsen Kulseng	Lars Bjarne Tvete

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To the Supervisory Board and the Annual Shareholders' Meeting of BN Boligkreditt AS

Independent auditor's report

Report on the Financial Statements

We have audited the accompanying financial statements of BN Boligkreditt AS, which comprise the balance sheet as at 31 December 2011, income statement, changes in equity and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Board of Directors and the Managing Director's Responsibility for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by EU, and for such internal control as The Board of Directors and the Managing Director 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 company'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 are prepared in accordance with the law and regulations and present fairly, in all material respects, the financial position of BN Boligkreditt AS as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers AS, Brattørkaia 17 B, NO-7492 Trondheim
T: 02316, www.pwc.no
Org.no.: 987 009 713 MVA, Medlem av Den norske Revisorforening

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors report concerning the financial statements and the going concern assumption, and the proposal for the allocation of the profit 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 management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Trondheim, 27 February 2012
PricewaterhouseCoopers AS

Rune Kenneth S. Lædre
State Authorised Public Accountant (Norway)

Note: This translation from Norwegian has been prepared for information purposes only.

Control Committee`s report for 2011

The Control Committee of BN Boligkreditt AS held six meetings during the course of the year, of which two in Trondheim and four in Oslo. The Committee examined the minute book of the Board of Directors at each meeting.

The Managing Director or the Chairman of the board has attended all the committee's meetings. Other representatives of the Group`s management have been present in connection with the discussion of any business where the Committee deemed it desirable.

The Committee has at all times been presented with the material requested and has also received satisfactory answers and infor¬mation in relation to the matters discussed.

In the opinion of the Committee, there is a good working relationship between the Committee and the external and internal auditors.

The Committee has performed its control function in accordance with current legislation, the Articles of Association, given instructions and its own work plan. The Committee is of the opinion that the Mortgage company`s operations are conducted in a sound and appropriate manner and in accordance with current laws, regulations, the Articles of Association and the instructions given by the Supervisory Board.

The Committee has examined the Board of Directors´ recommendations with regard to the financial statements, annual report and auditor`s report. The Committee deems the Board`s assessment of the Mortgage company`s financial position to be satisfactory.

The Committee recommends that the financial statements and annual report be approved.

Oslo, 29 February 2012

Knut Ro (Chair)	Bill [illegible] (Deputy Chair)	Odd [illegible]	Ragnar [illegible]

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