BN Bank ASA

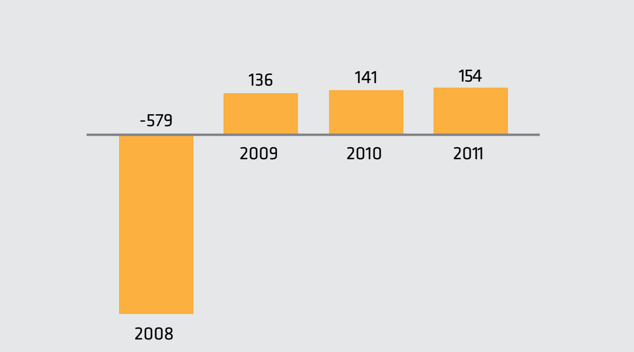
ANNUAL REPORT | 2011

BN Bank

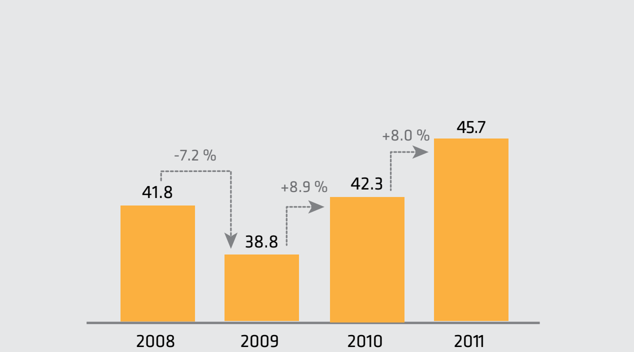
Highlights of 2011

- Profit after tax for the BN Bank Group totalled NOK 154 million (2010: NOK 141 million)
- Return on equity after tax was 5.0 per cent (2010: 4.8 per cent)
- 13 per cent growth in commercial property lending and 9 per cent growth in residential mortgage lending in the last 12 months
- BN Bank's former head office in Trondheim (Munkegata 21) was sold for a net profit of NOK 36 million.
- Tier 1 capital ratio was 11.0 per cent (2010: 10.8 per cent)
- Gunnar Hovland took up the appointment of Managing Director.

Profit after tax 2008 - 2011 (NOKm)



Gross lending 2008 - 2011 (NOKbn)



History

BN Bank ASA is an independent bank, which has its head office in Trondheim and a branch for commercial property in Oslo. In total, we have just over 100 employees. We serve customers across the country via our internet banking and telephone services.

BN Bank is owned by the SpareBank 1 banks and offers a broad spectrum of banking services to businesses and private individuals.

Within the private banking market, BN Bank is known as one of the best in Norway within savings products and we are also amongst the best as regards mortgage conditions. Within the business market, the bank possesses specialist expertise within commercial property.

1961: In 1961, the credit institution AS Næringskreditt was founded in Trondheim by banks and insurance companies. The company's object was to contribute to the financing of commercial activity by mediating and providing secured loans.

1986: As a result of the company's strong growth, a regional office was established in Oslo in 1983. In 1986, the business was expanded to cover mortgages and the name of the company was therefore changed to Bolig- og Næringskreditt AS.

1989: In 1989, the company was floated on Oslo Stock Exchange.

1992: In 1992, the credit institution was converted to a bank and renamed Bolig- og Næringsbanken ASA (BNbank). The principal aim of becoming a bank was the opportunity to offer favourable savings products. This reduced the company's dependence on the securities market as a source of financing.

1998: In 1998, the credit institution Bolig- og Næringskreditt ASA (BNkreditt) was established as a wholly owned subsidiary of BNbank.

BNkreditt took over BNbank's lending to the business market and housing cooperatives (joint debt). The aim of the establishment was to strengthen the Group's competitive position within the business market and reduce the guarantee fund charge.

2000: In 2000 and 2001, the range of products and services offered was expanded. The aim of this expansion was to provide a better basis for growth and profitability by becoming a more complete provider of financial products and services within selected customer segments.

2004: In December 2004, Íslandsbanki put forward an offer to purchase all shares in BNbank. Once Íslandsbanki had obtained the consent of the shareholders and the necessary permits, BNbank became part of the Íslandsbanki Group from 1 April 2005. The listing on Oslo Stock Exchange was then deleted. In 2006, Íslandsbanki was renamed Glitnir.

2007: In 2007, the credit institution BN Boligkreditt AS was established as a wholly owned subsidiary of BNbank. The company's strategy is to issue covered bonds based on the bank's well-secured mortgages and to give the Group access to this financing instrument.

BN Boligkreditt does not issue its own loans, but acquires mortgages from BNbank.

2008: In 2008, BNbank merged with Glitnir Bank AS (formerly Kredittbanken i Ålesund) and took the name Glitnir Bank ASA. In December 2008, a consortium of SpareBank 1 banks obtained a licence to purchase Glitnir Bank ASA after the Icelandic parent bank had been placed under public administration two months previously. Glitnir Bank ASA was renamed BNbank ASA at the same time.

2009: In June 2009, SpareBank 1 Næringskreditt AS was founded and is licensed by the Financial Supervisory Authority of Norway to operate as a credit institution. The aim of the credit institution is to secure the banks within the alliance stable and long-term financing of commercial property at competitive prices.

SpareBank 1 Næringskreditt acquires loans secured in commercial property and issues covered bonds. BN Bank can transfer loans to the institution, but has no assets.

In October 2009, BNbank ASA was renamed BN Bank ASA and presented the new name with a new profile.

2010: During 2010, the bank's strategy through to 2016 was further developed and refined. Within the private market, BN Bank aims to be a leading direct bank which complements the owner banks, whilst within the business market the bank will continue to operate as a specialist within the financing of commercial property.

In November 2010, the bank relocated its head office from Munkegata 21 in Trondheim to the new Sparebank block in Søndre gate.

2011: The old head office, Munkegata 21 in Trondheim, was sold in Q3.

Gunnar Hovland was appointed as new CEO, following Lisbeth K. Nærø.

Financial Ratios

NOK MILLION	NOTE	2011	2010	2009
Summary of results				
Net income from interest and credit commissions		385	380	359
Total other operating income		103	91	148
Total income		488	471	507
Total other operating expense		234	245	269
Operating profit/(loss) before impairment losses		254	226	238
Impairment losses on loans and advances		62	32	20
Profit/(loss) before tax		192	194	218
Computed tax charge		44	52	63
Profit/(loss) for the period, remaining entity		148	142	155
Profitability				
Return on equity	1	5.0 %	4.8 %	5.5 %
Net interest margin	2	0.9 %	0.9 %	0.7 %
Cost-income ratio	3	48.0 %	52.0 %	53.1 %
Balance sheet figures				
Gross lending		33 439	32 577	30 865
Customer deposits		15 959	16 395	15 592
Deposit-to-loan ratio	4	47.7 %	50.3 %	50.5 %
Increase/decrease in lending (gross) last 12 months		2.6 %	5.5 %	-7.2 %
Increase/decrease in deposits last 12 months		-2.7 %	5.2 %	6.9 %
Average total assets (ATA)	5	40 905	43 552	51 095
Total assets		40 722	41 228	47 526
Balance sheet figures remaining entity inc. SpareBank 1 Næringskreditt and SpareBank 1 Boligkreditt				
Gross lending		45 663	42 269	38 824
Customer deposits		15 959	16 395	15 592
Increase/decrease in lending (gross) last 12 months		8.0 %	8.9 %	-7.9 %
Increase/decrease in deposits last 12 months		-2.7 %	5.2 %	7.6 %
Share of lending financed via deposits		34.9 %	38.8%	39.4 %
Losses on loans and non-performing loans				
Loss ratio lending	6	0.19 %	0.10 %	0.05 %
Non-performing loans as a percentage of gross lending	8	0.59 %	0.43 %	1.46 %
Other doubtful commitments as a percentage of gross lending	8	2.02 %	2.39 %	1.05 %
Solvency				
Capital adequacy ratio		13.7 %	13.9 %	13.3 %
Tier 1 capital ratio		11.0 %	10.8 %	9.5 %
Tier 1 capital		3 644	3 448	3 025
Capital base		4 543	4 419	4 225
Offices and staffing				
Number of offices		2	2	2
Number of full-time equivalents	7	108	104	99
Shares				
Earnings per share for period (whole NOK) for remaining entity		11.39	11.47	12.5
Earnings per share for period (whole NOK) inc. discontinued operations		11.86	11.39	11.0

Note
1) Profit after tax as a percentage of average equity
2) Total net interest margin to date this year in relation to average total assets (ATA)
3) Total operating expense as a percentage of total operating income
4) Customer deposits as a percentage of lending to customers
5) Average total assets (ATA) are calculated as an average of quarterly total assets and as at 1 January and 31 December
6) Net loss as a percentage of average gross lending to date this year
7) Not including employees relating to divested operations
8) The figures disclosed include BN Bank's operations in Ålesund

Vision

A vision must bring the company together, describe the basis for its existence and give all stakeholders around the company a common understanding of direction.

BN Bank's vision is to make banking simple and predictable. This vision is the result of a long process to which all the bank's employees contributed. The vision forms a basis for making the bank unique and the preferred choice within the market.

Many consumers believe that dealing with banks is not easy. Services and products seem complicated and the balance of power between the institution and customer is considered to be distorted in favour of the bank. BN Bank will be the bank which makes the complicated comprehensible to the man or woman in the street. Our products and services will be simple to establish and use. The bank will be transparent, clear and predictable.

Our customer will find that they make their own choices and have control over their own personal finances and that the bank acts and responds as expected.

Values

The vision gives the bank's employees and other stakeholder groups a common direction, while the bank's values describe what will take us in this direction. The bank's values describe the key characteristics of the way in which we work in order to fulfil the vision.

BN Bank's values are Committed, Effective and Open.

BN Bank employees shall contribute and feel a sense of ownership towards the work of the bank. They must "lean forward" in relation to shared tasks and think holistically. Employees shall seek out challenges, take responsibility and be able to change quickly. BN Bank employees shall be positive and stand together as one team.

BN Bank employees shall share the load together and work smart across departments. They shall utilise the bank's tools and carry out their duties correctly first time. They must be cost-focussed and endeavour to do things simply. Employees shall show initiative, be solution-focussed and have a high capacity to deliver. The organisation shall continually seek out opportunities for improvement, both internally and for the customer.

The company's culture shall be characterised by trust, honesty, mutual respect and openness - both within the company and outwardly towards the company's customers. The communication will be open and active, even when mistakes have been made. BN Bank employees speak to and not about, and seek out the appropriate arena for different discussions.

Strategy

In December 2010, the board of directors of BN Bank adopted a new strategy for the bank. This new strategic plan is the result of a protracted process, during which the board and senior management worked together to define BN Bank's initiative areas in the future and the role of the bank within the SpareBank 1 alliance. The new strategic plan extends through to the end of 2016.

BN Bank aims to be a focussed niche bank which complements the owner banks and the SpareBank 1 alliance within the respective initiative areas.

Through specialist expertise within commercial property financing, BN Bank shall strengthen its position as a leading player within the financing of commercial property with low risk in the primary markets of Eastern Norway and Trøndelag.

Within the private market, BN Bank shall be a leading direct bank with an emphasis on self-service, simple products and competitive conditions. During the period covered by the strategy, the bank shall expand its product spectrum in order to meet demand for banking services within the primary target groups.

BN Bank shall be cost-effective, have low risk and be simple and predictable for its customers. The bank shall have a clear profile for PM and BM out in the market.

An offensive growth strategy has been adopted within both the private market and the market for loans for commercial property. This growth will take place without the provision of additional capital from the shareholders. The positive margin development, the developments within the various financing sources and the effective use of capital are vital parameters for the opportunities to realise the growth and the strategy.

BN Bank is back on the ball!

BN Bank celebrated its 50th anniversary as an independent bank in 2011. When Icelandic owners took over the bank in 2004, the then director of Norway's Financial Supervisory Authority described BN Bank as the «fillet steak in the Norwegian banking industry». We were known as a small, simple, efficient market player backed by a solid knowledge of our trade. After years of shifting ownership and management, our principal strategy for 2012 – 2016 is «back to basics». Our customers will once more find us to be an unpretentious and efficient bank, delivering simple, predictable and profitable banking services for their benefit. Our bond investors and owners will be able to rely on predictable returns from BN Bank because we will deliver on the back of a good, sound credit policy with low risk attached.

In the Corporate Market, our strategy is allied to that of our competent, simple, quick, solution-oriented and long-term partner in commercial property lending. Our experienced staff have excellent relations with long-term property owners, facilitators and transaction developers – and are often asked for advice by key players early on in the development process. A sign of quality indeed! Already in 2011, our strategy has borne fruit: we passed an all-time high in lending in November and have many exciting projects on the go in 2012.

In the Retail Market, our focus is on competent bank customers who want to manage their own accounts – and who have no need for customer advisors and in-branch services. BN Bank will be focused on good, simple, self-service solutions on digital surfaces. 2011 was a year of heavy investment to help realise this strategy, and we will shortly be launching new mobile banking, new tablet banking and new online banking services as well as new websites. We look forward to the day when a growing number of retail customers will discover that BN Bank delivers above all expectations!

To create the efficiency that BN Bank has been known for, cost leadership will be another important fundament of our strategy in the time ahead. We will therefore be implementing continual improvements in all our processes, with the aim of once more being one of Norway's most efficient banks.

Since our owners adopted a new strategy for BN Bank in 2010, a huge amount of hard work has been done to improve and streamline the Bank, both so as to give our customers a simpler banking experience and to ensure that our staff have a simple, efficient working day. And so BN Bank is back on the ball – and looking forward to another 50 years of serving the best interests of our customers, our owners, our investors and our staff.

Gunnar Hovland
Managing Director

The Board of Directors

Members at 31 December 2011

Finn Haugan, Chair
Managing Director, SpareBank 1 SMN. First elected in 2009; term of office expires in 2013.

Tore Medhus, Deputy chair
Executive Vice-President Corporate Market, SpareBank 1 SR-Bank. First elected in 2009; term of office expires in 2013.

Stig- Arne Engen
Executive Vice-President Retail Market, SpareBank 1 Nord-Norge. First elected in 2009; term of office expires in 2012.

Harald Gaupen
Bank Administrative Manager, SpareBank 1 Buskerud-Vestfold. First elected in 2009; term of office expires in 2012.

Helene Jebsen Anker
Self-employed consultant. First elected in 2009; term of office expires in 2012.

Ella Skjørestad
Group Head of Marketing, Sparebank 1 SR-Bank. First elected in 2011; term of office expires in 2012.

Kristin Undheim
Partner in Indianer AS. First elected in 2009; term of office expires in 2012.

Anita Finserås Bretun
Customer Service Officer, BN Bank. Employee representative. First elected in 2011; term of office expires in 2013.

Deputy members

Hans Olav Karde
Managing Director, SpareBank 1 Nord-Norge

Tor Dahle
Managing Director, SR-Investering.

Eli Ystad
Group CEO, SpareBank 1 SMN.

Tove Hassel
Secretary, BN Bank ASA, deputy for employee representative. First elected in 2009; term of office expires in 2013.

Executive Management

Gunnar Hovland | Managing Director

Gunnar Hovland (born 1965) is Managing Director of BN Bank ASA. Hovland holds the degree Cand Agric from the Agricultural University of Norway (now the University of Life Sciences) and has an MBA in Economics and Management from the Norwegian School of Economics. Gunnar Hovland comes to BN Bank ASA from the combined post of Managing Director of the energy company Trondheim Kraft and Deputy Managing Director of the energy company Fjordkraft. Hovland has also held management posts with the dairy co-operative Tine BA and has broad directorship experience from a range of industries.

Svend Lund | Deputy managing Director

Svend Lund (born 1970) is Deputy Managing Director of BN Bank ASA. His areas of responsibility also include Corporate Market and Operations. He was previously employed by Fokus Bank. Lund received his education in Accountancy and Auditing at Trondheim Business School and in Strategy and Management at BI Norwegian Business School.

Trond Søraas | Finance and Treasury Director/CFO

Trond Søraas (born 1968) is Finance and Treasury Director/CFO of BN Bank ASA. He comes from the post of Financial Manager at KLP Banken AS and KLP Kommunekreditt AS. Søraas holds the degree of Siviløkonom (Master's degree in Economics and Business Administration) from the Norwegian School of Economics and is also an authorised financial analyst from the same institution.

Rune Rasmussen | Director Risk Management

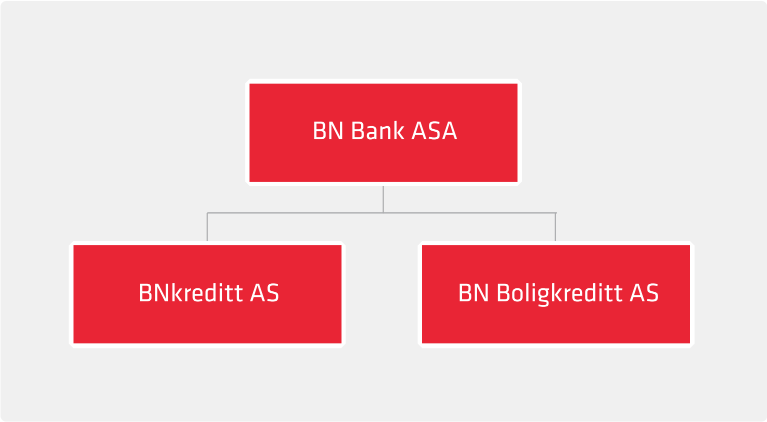
Rune Rasmussen holds a Master's degree in Statistics from the Norwegian University of Science and Technology in Trondheim and has also studied a variety of other subjects at BI Trondheim Business School. He was previously employed by the bank DnB NOR and as a guest lecturer (university lecturer) at BI Trondheim Business School.

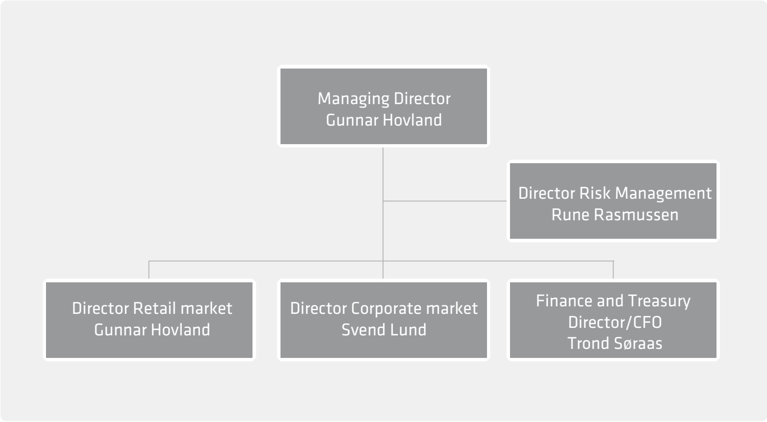
Business description

The vision of the BN Bank Group is to make banking simple and predictable. We believe that simplicity and predictability will secure the long-term profitability of BN Bank and make it an attractive employer. The overarching objective for BN Bank is to achieve optimum returns on equity within the business's parameters.

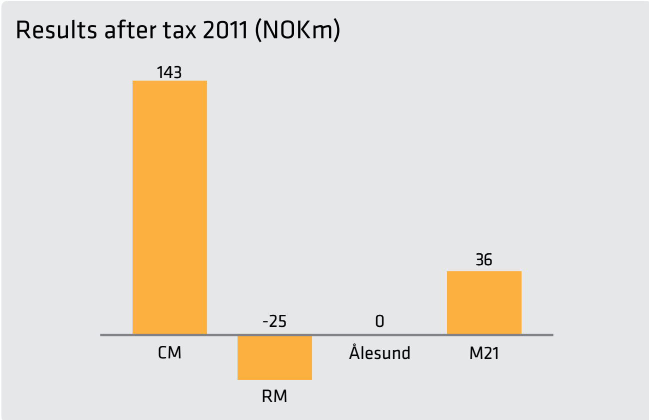
BN Bank's strategy is to be a focused niche bank and to provide complementary services to those of the owner banks within their strategic areas. In the corporate market the Bank shall be a leading specialist bank for financing commercial properties and in the retail market a leading direct bank with the focus on deposits and residential mortgage loans. In addition to these areas, the Bank will also eventually offer a variety of SpareBank 1 products. BN Bank shall have a low risk profile, and be cost-effective, simple and predictable.

BN Bank's activity is nationwide in Norway and concentrated in the two core business areas of retail banking and corporate banking. BN Bank has its head office in Trondheim and a branch office in Oslo. The BN Bank Group is structured as follows:





The Bank has a tripartite division into the business areas of Corporate Market, Retail Market and the Ålesund portfolio. In addition, the sale of Munkegata 21 was treated as a separate business area in 2011. The results after tax for each business area for 2011 are shown below:



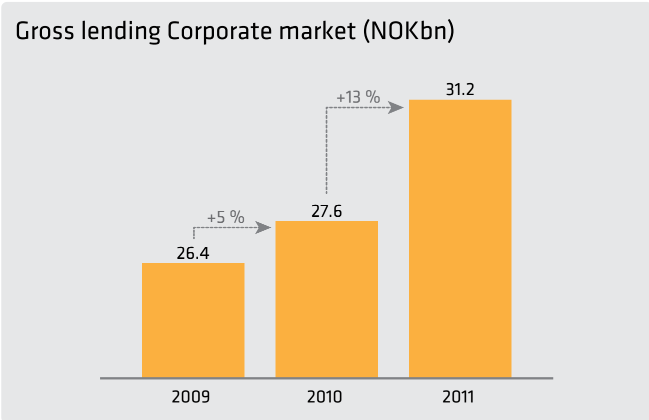
Corporate Market (CM)

Through cutting-edge expertise in commercial property, BN Bank aims to strengthen its position as a leading player in low-risk financing of commercial property.

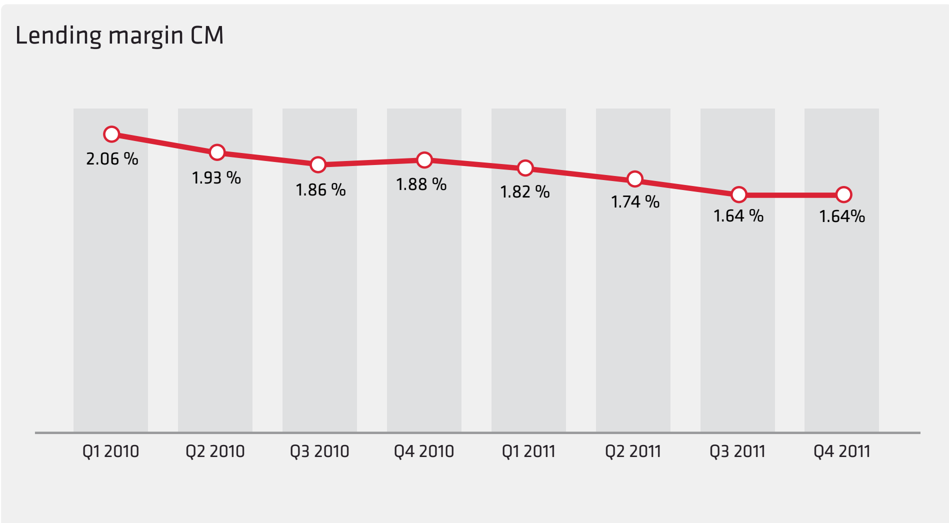
The Corporate Market posted a profit after tax of NOK 142 million for the year to 31 December 2011, giving a return on equity after tax of 5.5 per cent.

NOK MILLION	CM
Net interest from interest and credit commissions	260
Change in value fin instr carried at fair value	-13
Other operating income	104
Total other operating income	91
Salaries and general administrative expenses	-96
Ordinary depreciation, amortisation and write-downs	-7
Other operating expense	-15
Other expense, gains and losses	0
Total other operating expense	-118
Operating profit/(loss) before impairment losses	233
Impairment losses on loans and advances	-35
Operating profit/(loss) after impairment losses	197
Computed tax charge	-55
Profit/(loss) for the year after tax, remaining entity	142

There was 13 per cent gross growth in lending in 2011, with most of the growth in eastern Norway. Growth in lending in the past two years is shown below:



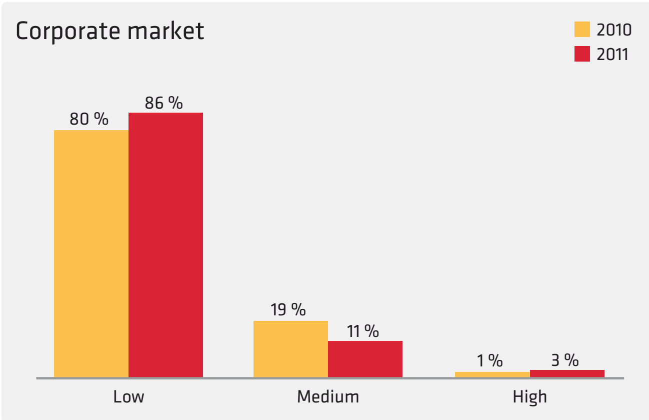
Tough competition has also brought about weakened interest margins on loans measured against 3-month NIBOR (Norwegian Interbank Offered Rate). The figure below illustrates the trend in lending margins[1] in the past couple of years:



[1] The lending margin is exclusive of commission on credit loans.

For the BN Bank Group, the figure for non-performing loans as a percentage of gross lending increased by 0.22 percentage points from 2010 and is now 0.55 per cent of gross lending. Including the loan portfolio in SpareBank 1 Næringskreditt, non-performing loans as a percentage of gross lending as at 31 December 2011 was 0.40 per cent, which is 0.16 percentage points up from 31 December 2010. BN Bank is highly focused on the quality of the portfolio and on monitoring and following up doubtful loans and commitments.

BN Bank's most important measurement of risk in the loan portfolio, so as to determine the underlying risk that borrowers will be unable to service their debt, is "Probability of Default" (PD). As at 31 December 2011, the PD for the commercial property portfolio in BN Bank and SpareBank 1 Næringskreditt was 2.4 per cent, which is 0.4 percentage points less than at year-end 2010. The Corporate Market expects PD to fall further in 2012. The trend as regards classes of risk[2] in the commercial property portfolio in 2011 was as follows:



The growth in commercial property lending was in loans with low PD and low class of risk, and there was positive migration in the portfolio's loss risk.

[2] The classes of risk are derived from PD ("Probability of Default") and LGD ("Loss Given Default").

Retail Market (RM)

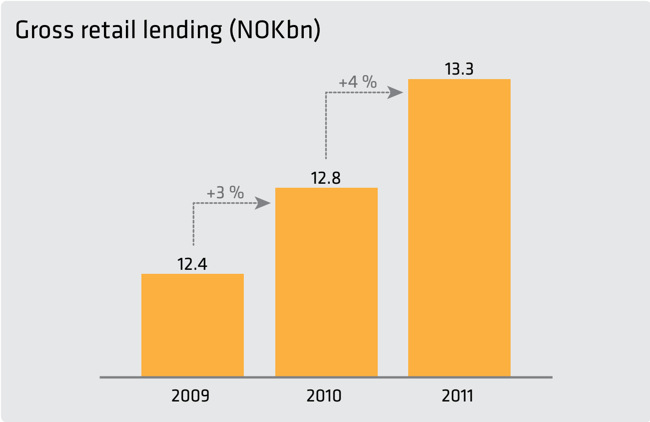
In the Retail Market, BN Bank shall be a leading direct bank with the emphasis on self-service solutions, simple products and competitive terms.

The objective for the Retail Market up until 2016 is growth in lending of NOK 17 billion and growth in deposits of NOK 4 billion. Growth will be realised by means of proactive customer relationship development, effectivisation of processes, investment in technology, and more visible and targeted marketing. The growth ambition will be continually assessed in relation to any uncertainty attached to funding, capitalisation and the macro-economy.

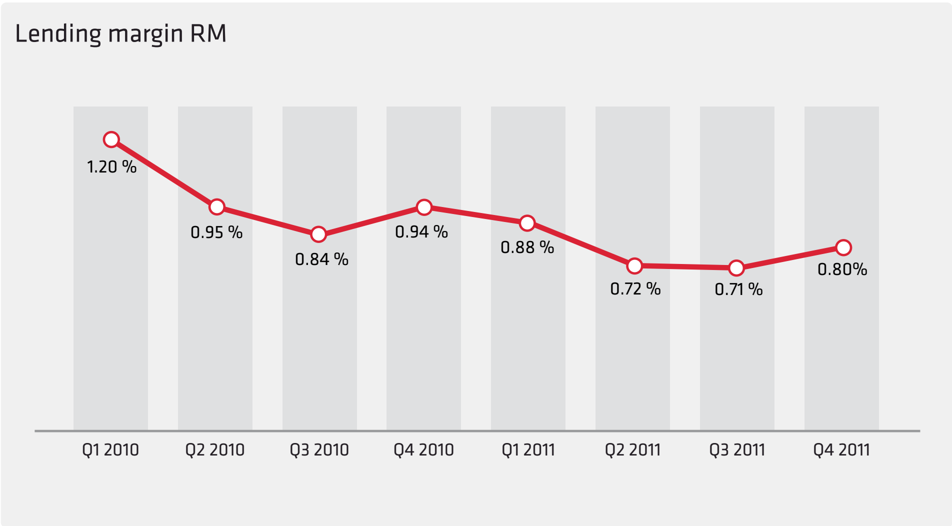
The result after tax for 2011 for the Retail Market was a loss of NOK 25 million, giving a return on equity of minus 5.7 per cent. The loss is attributable to strong competition in residential mortgage lending and to investment in connection with the implementation of BN Bank's new strategy.

NOK MILLION	RM
Net interest from interest and credit commissions	126
Change in value fin instr carried at fair value	-7
Other operating income	0
Total other operating income	-7
Salaries and general administrative expenses	-126
Ordinary depreciation, amortisation and write-downs	-9
Other operating expense	-18
Other expense, gains and losses	0
Total other operating expense	-152
Operating profit/(loss) before impairment losses	-33
Impairment losses on loans and advances	-1
Operating profit/(loss) after impairment losses	-34
Computed tax charge	10
Profit/(loss) for the year after tax, remaining entity	-25

In 2011 there was gross growth in retail lending of 4 per cent over the entire portfolio, while growth in residential mortgage loans was 9.5 per cent. Growth in retail lending in the past two years is shown below:

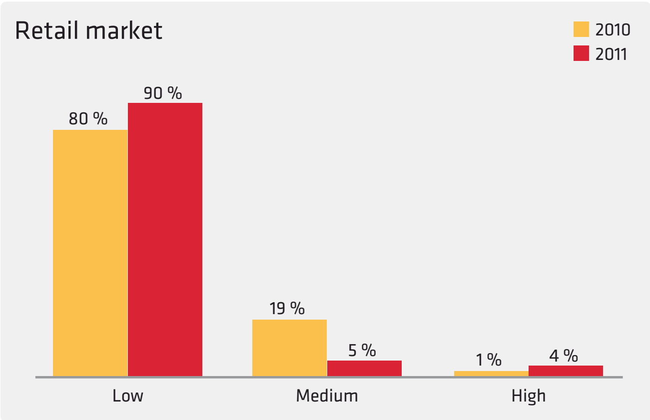


Strong competition has brought about weakened interest margins on loans measured against 3-month NIBOR (Norwegian Interbank Offered Rate). The figure below shows the trend in lending and deposit margins in the past couple of years:



For the BN Bank Group, the figure for non-performing loans as a percentage of gross lending increased by 0.04 percentage points from 2010 and is now 0.71 per cent of gross lending. Including the loan portfolio in SpareBank 1 Boligkreditt, non-performing loans as a percentage of gross lending as at 31 December 2011 was 0.50 per cent, which is 0.05 percentage points down from 31 December 2010. BN Bank is highly focused on the quality of the portfolio and on monitoring and following up doubtful loans and commitments.

The Bank's most important measurement of risk in the loan portfolio, so as to determine the underlying risk that borrowers will be unable to services their debt, is "Probability of Default" (PD). As at 31 December 2011, the PD for the residential mortgage portfolio in the BN Bank Group and SpareBank 1 Boligkreditt was 0.73 per cent, which is 0.17 percentage points less than at year-end 2010. The Retail Market expects PD to fall further in 2012. The trend as regards classes of risk in the residential mortgage portfolio in 2011 was as follows:



Report of the Directors

Summary of 2011

BN Bank ASA (BN Bank/the Bank) reported a consolidated profit for 2011 of NOK 154 million. This is equivalent to a 5 per cent return on equity after tax. Growth within the BN Bank Group's core areas was good, with 13 per cent growth in lending for commercial properties and 9 per cent growth in lending for residential properties. The position is good as regards BN Bank's solvency and funding. As at 31 December 2011, BN Bank had a "core" tier 1 capital ratio of 9.5 per cent.

As a result of higher borrowing costs for BN Bank and an increasingly competitive situation, especially in residential mortgage loans, lending margins declined in 2011. Margins on deposits did, however, improve. Adjusted for the sale of the Bank's former head offices, the level of costs was higher in 2011 than in 2010. BN Bank plans to reduce its cost levels in 2012.

Consolidated profit after tax for 2011 was NOK 154 million for the BN Bank Group, as against NOK 141 million for 2010. Compared with 2010, the Bank has had lower other operating expenses, reduced losses and higher total income in 2011.

Non-performing loans as a percentage of gross lending have increased by 0.16 percentage points compared with 2010 and the figure is now 0.59 per cent of gross lending[1]. The increase is mainly attributable to non-performing loans on commercial properties. The Bank will continue to focus closely on the quality of the loan portfolio and on monitoring and following up doubtful loan commitments.

BN Bank's funding situation is good. In 2011 the Bank issued ordinary senior bonds and certificates in the Norwegian bond market for a total of almost NOK 10 billion.

The Bank's capital adequacy ratio and tier 1 capital ratio were, respectively, 13.7 and 11.0 per cent as at 31 December 2011, compared with 13.9 and 10.8 per cent respectively at the start of 2011. The corresponding figures for the "core" tier 1 capital ratio were 9.5 and 9.4 per cent respectively.

BN Bank's total assets stood at NOK 40.7 billion as at 31 December 2011, which is NOK 0.5 billion down on the past 12 months. The decrease is largely attributable to the transfer to SpareBank 1 SMN in the past year of assets classified as held for sale. Gross lending[2] totalled NOK 45.7 billion as at 31 December 2011, which is NOK 3.4 billion (8 per cent) up on the past year. Of the increase in gross lending, corporate lending accounted for NOK 3.6 billion and retail lending for NOK 0.5 billion, while seller's credit to Sparebank 1 SMN accounted for a decrease of NOK 0.7 billion. Deposits as at 31 December 2011 totalled NOK 16.0 billion.

Operations, objectives and strategy

BN Bank's vision is to make banking simple and predictable. BN Bank's business concept is:

With good products and competent staff, BN Bank shall make banking services simple and predictable, in order to secure long-term profitability and make the Bank an attractive employer.

The Bank's core values are commitment, efficiency and openness.

BN Bank has put in place a future-oriented strategy based on the two-fold objective of being a direct bank serving the retail market and a specialist bank for commercial real estate serving the corporate market. In these areas, BN Bank aims to pursue a complementary activity to the operations of the owner banks. In the retail market, the Bank shall be a leading direct bank focused on competitive terms and self-service solutions. In the corporate market, the Bank shall be a leading bank for financing commercial real estate, with the main focus on Eastern Norway and Trøndelag (Central Norway). BN Bank shall have a low risk profile and be known for simplicity, predictability and cost-effectiveness.

BN Bank prepares a new funding strategy every year. Deposits, senior bonds issued in the Norwegian bond market and covered bonds from the SpareBank 1 consortium's credit institutions will be the Bank's most important sources of funding.

BN Bank's activity is nationwide in Norway and concentrated in the two core business areas of retail banking and corporate banking. BN Bank has its head office in Trondheim and a branch office in Oslo. In 2011, the Bank sold its old head office and has now relocated to premises better adapted to its operations in the new SpareBank 1 block in Trondheim.

[1] Including the Ålesund portfolio

[2] Gross lending is the sum total of corporate and retail lending in BN Bank, SpareBank 1 Næringskreditt, SpareBank 1 Boligkreditt and loans to SpareBank 1 SMN.

Financial developments

BN Bank presents its consolidated and separate financial statements in compliance with International Financial Reporting Standards (IFRS). See Note 1 for more information.

Profit performance for 2011

The results of the operations in Ålesund that were sold to Sparebank 1 SMN, but not transferred, are separated out in the financial statements in "Result of operations under divestment", so that "Profit/(loss) for period, remaining entity" reflects the results of the remaining entity (continuing operations) within commercial real estate, the retail market and the portfolio transferred to Sparebank 1 SMN, but where the loss guarantee lies with BN Bank. All activity in Ålesund is referred to as the "Ålesund portfolio".

Profit after tax for the remaining entity was NOK 148 million in 2011, compared with NOK 142 million in 2010. Consolidated profit after tax for the BN Bank Group was NOK 154 million for 2011, as against NOK 141 million in 2010, giving a return on equity of 5.0 per cent in 2011. The increase in post-tax profit including discontinued operations is attributable to the sale of the Bank's former head office, a reduction in losses, and an increase in total income in 2011 compared with 2010.

With respect to "operations under divestment", at the end of 2011 there still remained loans for NOK 101 million to be transferred from the original Ålesund portfolio of NOK 4.8 billion. These remaining customer loan accounts are expected to be converted during the first quarter of 2012. At the same point in time, the guarantee portfolio is valued at NOK 3.1 billion. The guarantee portfolio has remained virtually unchanged in the past year.

The result of the operations in Ålesund for 2011 was NOK 0 million, as compared to a loss of NOK 14 million for 2010.

Income

NOK MILLION	2011	2010	CHANGE
Total income	488	471	17
Margins and volumes, lending/deposits			-56
Commercial Banks' Guarantee Fund 2010			25
One-off accounting effects			15
Fees and sale of interest rate swaps			10
Value changes in financial instruments			-6
Return on unrestricted funds (equity)			25
Other			4

Total income in 2011 was NOK 488 million, compared with NOK 471 million in 2010.

Pressure on margins in both retail and corporate lending has led to a fall in lending margins compared to 2010. This was, however, mitigated by improved margins on deposits.

A payment of NOK 25 million to the Commercial Banks' Guarantee Fund was recognised as expense in 2010.

As a result of increased lending volumes, income from fees and commission on sales of interest rate swaps rose by NOK 10 million in 2011 compared with 2010.

BN Bank's unrestricted funds (equity) are invested in short-term debt schemes. Higher interest rates compared with 2010 led to a higher return on these funds during the year.

The transfer of loans to SpareBank 1 Næringskreditt and Sparebank 1 Boligkreditt has brought about a reduction in net interest income, although this has been compensated for by an increase in other income. BN Bank receives commission from these two companies that is equal to the margin on transferred loans.

BN Bank's derivatives, some bond borrowings and the entire liquidity portfolio are carried at fair value. The Bank's interest rate risk and exchange rate risk are both low, and fluctuations in interest rates and exchange rates should have a limited net profit-and-loss effect. During periods when interest rate spreads between different instruments develop differently, profit-and-loss effects may arise. The market situation and the substantial fluctuations in interest rates and exchange rates have previously caused increased fluctuations in the value of financial instruments and greater volatility in changes in value. To reduce the volatility, since 2010 the Bank has used hedge accounting on new fixed-rate borrowings. In 2011, value changes had a negative effect on operating income by NOK 20 million, which is a negative change of NOK 6 million compared with 2010. For more information concerning these value changes, see Note 4.

Operating expence

NOK MILLION	2011	2010	CHANGE
Operating expense	234	245	-11
Salaries and other personnel expenses			-3
Depreciation/amortisation			5
Consultancy assistance			12
Sale of Munkegata 21			-30
Other expense			5

Operating expense for 2011 totalled NOK 234 million, compared with 245 million in 2010. The decrease is mostly attributable to a net gain of NOK 30 million in 2011 in connection with the sale of Munkegata 21. The implementation of the Bank's new strategy did, however, increase the level of costs in 2011.

Costs as a percentage of average total assets in 2011 were 0.57 per cent, slightly up from 0.56 per cent in 2010. Adjusted for the gain on the sale of Munkegata 21, costs as a percentage of average total assets in 2011 were 0.65 per cent. These costs are considerably above the expected future level.

Results per company

The consolidated profit for the year for the BN Bank Group of NOK 154 million consists of NOK 92 million from BNkreditt, NOK 26 million from BN Boligkreditt, and NOK 36 million from the Parent Bank. In addition, NOK 59 million in group contribution after tax was rendered by BNkreditt and BN Boligkreditt in 2011.

Write-downs on loans

With deductions for individual write-downs, non-performing and doubtful loans totalled NOK 766 million at the end of the fourth quarter of 2011, which is down by NOK 98 million on 31 December 2010. This includes non-performing and doubtful loans in the Ålesund portfolio. Non-performing loans were 0.59 per cent of gross lending as at 31 December 2011 (including the Ålesund portfolio), compared with 0.43 per cent as at 31 December 2010. The increase is attributable to a higher rate of non-performing commercial property loans. The Bank will continue to focus closely on the quality of the portfolio and on monitoring and following up doubtful loan commitments. See Note 12 for more information about non-performing and doubtful loans.

For the remaining entity (continuing operations), impairment losses on loans and advances totalled NOK 62 million in 2011, compared with NOK 32 million in 2010. Impairment losses in 2011 comprised NOK 35 million in corporate lending (0.11 per cent of gross lending on commercial real estate[3]), NOK 1 million in retail lending (0.01 per cent of gross retail lending[4]), and NOK 26 million in the portfolio sold to SpareBank I SMN[5] (0.91 per cent of gross lending in the Ålesund portfolio). Impairment losses on loans and advances in the Ålesund portfolio totalled NOK 26 million in 2011, compared with NOK 38 million in 2010. For BN Bank as a whole, impairment losses on loans and advances totalled NOK 62 million, which is NOK 8 million less than in 2010.

Loan loss provisions for the remaining entity were NOK 179 million as at 31 December 2011. Of this sum, collective write-downs totalled NOK 85 million, which is 0.25 per cent of gross lending. Individual write-downs totalled NOK 94 million as at 31 December 2011. Loan loss provisions for the Ålesund portfolio as at 31 December 2011 totalled NOK 50 million, of which NOK 20 million were collective write-downs and NOK 30 million individual write-downs.

Recommended allocation of profit for the year

The Board of Directors recommends that the Parent Bank's profit for the period of NOK 95 million be allocated as dividends. The Board recommends an issue of shares for an equivalent amount.

The company's unrestricted equity after the recommended allocation for the period is NOK 603 million.

Balance Sheet

BN Bank's total assets were NOK 40.7 billion as at 31 December 2011, which is NOK 0.5 billion down on the past 12 months. The decrease is primarily owing to assets classified as held for sale being transferred in the past year to SpareBank 1 SMN.

During 2011, loans for NOK 1.6 billion were transferred to SpareBank 1 Boligkreditt and loans for NOK 1.0 billion to SpareBank 1 Næringskreditt.

Gross lending[6] totalled NOK 45.7 billion as at 31 December 2011, which is an increase of NOK 3.4 billion (8 per cent) in the past year.

NOK Bn	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Gross lending[6]	45.7	44.6	44.1	43.6
Change in quarter	1.1	0.5	0.5	1.3

As at 31 December 2011, loan portfolios worth NOK 8.3 billion and NOK 4.0 billion had been transferred to SpareBank 1 Næringskreditt and SpareBank 1 Boligkreditt respectively.

[3] Including lending in SpareBank 1 Næringskreditt.
[4] Including lending in SpareBank 1 Boligkreditt.
[5] BN Bank has provided guarantees for losses in this portfolio
[6] Invluding SpareBank 1 Næringskreditt, SpareBank 1 Boligkreditt and lendings to SpareBank 1 SMN.

Segmental breakdown of gross lending as at 31 December 2011:

NOKbn	31.12.11	31.12.10
Commercial real estate*	31.2	27.6
Retail market**	13.3	12.8
Loan to SpareBank 1 SMN	1.2	1.9

*Including loans transferred to SpareBank 1 Næringskreditt.

** Including loans transferred to SpareBank 1 Boligkreditt.

Growth in corporate lending in the past year was primarily in the Oslo region.

Gross lending in the BN Bank Group as at 31 December 2011 had the following sectoral exposure:

	31.12.11	31.12.10
Real estate operations	54 %	47 %
Retail market	30 %	34 %
Finacial industry	4 %	6 %
Other	12 %	13 %

The chief cause of the changes in portfolio composition is the transfer of loans to SpareBank 1 Boligkreditt and growth in commercial real estate lending. In addition, loans to SpareBank 1 SMN were reduced by NOK 0.7 billion in the past year.

Deposits totalled NOK 16.0 billion as at 31 December 2011, which is NOK 0.4 billion (2 per cent) down on the past year. The deposit-to-loan ratio for the remaining entity as at 31 December 2011 was 48 per cent, which is 2 percentage points less than as at 31 December 2010.

BN Bank's funding situation is good. The Bank has experienced increasing demand for its bonds in the past few years, a trend which continued through 2011. BN Bank issued certificates and bonds for a total of almost NOK 10 billion in 2011. The Bank also has access to funding via SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. Access to the covered bonds market via these companies is an important part of the Bank's funding strategy.

The Bank's Board of Directors has resolved that the Bank shall at all times have sufficient liquid funds to manage without accessing any new funding for a period of 12 months. At the end of the fourth quarter of 2011, this target had been met by a good margin.

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

Subsidiaries

The BN Bank Group comprises the bank BN Bank and the credit institutions Bolig- og Næringskreditt AS (BNkreditt) and BN Boligkreditt AS (BN Boligkreditt). In addition to these are the real estate companies Munkegata 21 AS and Collection Eiendom AS, which were both established in 2010.

BN Bank, BNkreditt and BN Boligkreditt present their separate financial statements in accordance with International Financial Reporting Standards (IFRS). The other companies present their financial statements in accordance with Norwegian Generally Accepted Accounting Principles (NGAAP). See Note 1 for more information.

Bolig- og Næringskreditt AS

BNkreditt provides low-risk mortgage loans on commercial real estate, and at the end of the fourth quarter 2011 had a gross loan portfolio totalling NOK 17.2 billion, compared with NOK 15.3 billion as at 31 December 2010. As at 31 December 2011, NOK 8.0 billion in loans had been transferred to SpareBank1 Næringskreditt.

The company posted a profit after tax of NOK 92 million for 2011, compared with NOK 53 million for 2010. The increase is owing to positive changes in the value of financial instruments.

Impairment losses on loans and advances totalled NOK 44 million for 2011, compared with NOK 53 million for 2010. Individual write-downs totalled NOK 60 million as at 31 December 2011. Collective write-downs were NOK 42 million as of the fourth quarter 2011, which is 0.24 per cent of gross lending.

At 31 December 2011, BNkreditt had outstanding bond debt totalling NOK 4.5 billion, compared with NOK 6.3 billion as at 31 December 2010.

BN Bank has provided a guarantee that BNkreditt will have a capital adequacy ratio or junior financing of minimum 20 per cent. BNkreditt's capital adequacy ratio and tier 1 capital ratio were, respectively, 17.7 per cent and 15.1 per cent as at 31 December 2011. BN Bank has ceded precedence for NOK 407 million as at 31 December 2011.

BN Boligkreditt AS

BN Boligkreditt is BN Bank's credit institution for issuance of covered bonds, and at the end of the fourth quarter 2011 the company had a residential mortgage portfolio totalling NOK 2.0 billion, which is NOK 0.8 billion down on 31 December 2010. During 2010 and 2011 loans were sold for NOK 4.0 billion to BN Bank for selling on to SpareBank 1 Boligkreditt.

The company posted a profit after tax of NOK 26 million for 2011, compared with NOK 19 million for 2010. The rise in profit is attributable to a decrease in other operating expense and positive changes in the value of financial instruments.

The company's capital adequacy ratio and tier 1 capital ratio were, respectively, 39.4 per cent and 31.5 per cent as at 31 December 2011.

BN Bank has entered into an agreement with SpareBank 1 Boligkreditt AS and will primarily use this company for financing home loans in the future.

Munkegata 21 AS and Collection Eiendom AS

Munkegata 21 was established in 2010 for the purpose of owning and letting the Bank's former head office property in Trondheim. The shares in Munkegata 21 were sold during the third quarter of 2011. The sale gave rise to a gain after tax of NOK 36 million in BN Bank's consolidated financial statements.

Collection Eiendom was established in 2010 for the purpose of owning and managing real estate. Collection Eiendom posted a zero result after tax as at 31 December 2011.

Fourth quarter 2011

The remaining entity (continuing operations) posted a profit after tax of NOK 32 million for the fourth quarter of 2011, compared with NOK 55 million for the third quarter. Profit after tax was NOK 26 million, compared with NOK 55 million for third-quarter 2011, giving a 3.3 per cent return on equity after tax for fourth-quarter 2011. The most important reason for the decrease in profit from the third quarter is the gain on the sale of Munkegata 21. The fourth-quarter result after tax for the Ålesund portfolio was a loss of NOK 3 million. The Ålesund portfolio also reported a loss of NOK 3 million in the third quarter 2011.

Total income for the fourth quarter was NOK 132 million, compared with NOK 111 million for the third quarter. The most important reason for the increase in operating income was one-off accounting effects on net interest margin and increased fees, totalling NOK 14 million in all.

BN Bank's lending and deposit margins decreased by NOK 2 million during the fourth quarter of 2011 compared with third-quarter 2011.

Operating expense was NOK 71 million in the fourth quarter, compared with NOK 28 million in third-quarter 2011. The most important reason for the decrease in other operating expense is that Munkegata 21 was sold during the third quarter at a gain of NOK 37 million.

The remaining entity had impairment losses on loans and advances of NOK 18 million in fourth-quarter 2011, compared with NOK 16 million in third-quarter 2011. Impairment losses in the fourth quarter of 2010 comprised NOK 11 million in corporate lending (commercial real estate), NOK 2 million in retail lending, and NOK 9 million in that part of the Ålesund portfolio that has been taken over by SpareBank 1 SMN and guaranteed by BN Bank.

Impairment losses on loans in the Ålesund portfolio in the fourth quarter of 2011 totalled NOK 17 million.

Gross lending increased by NOK 1.1 billion (2 per cent) in the fourth quarter of 2011, mostly in corporate lending in the Oslo region. As a result of competitive interest rates, the Bank has also seen growth in the retail mortgage market in the last quarter, although growth in retail lending was pulled down in the fourth quarter by a decrease in financing of capital-protected savings products.

Deposits were up in the fourth quarter by NOK 619 million, of which NOK 405 million was from retail customers and NOK 214 million from business customers.

Risk management

Part of BN Bank's strategy is to maintain a low risk profile in all its activities.

The Bank has adopted guidelines for controlling and managing all the relevant types of risk. These include risk tolerance, limits, choice of risk monitoring method, and reporting requirements. The principles established for risk management apply for the entire Group. The Board receives regular status reports on all relevant risks.

The Bank has no exposure to the stock market.

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. BN Bank aims to apply the advanced Internal Ratings-Based (IRB) method to the majority of its loan portfolio. There is an ongoing project within the Bank to apply during 2012 to the Financial Supervisory Authority of Norway for authorisation as an Advanced IRB Bank.

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 Bank in the event of default and subsequent realisation of the asset.

BN Bank's credit strategy contains targets and parameters for:

- Portfolio quality: measured as default probability, expected loss and actual default within each credit portfolio
- Portfolio concentration: number, size and quality of large commitments, and concentration in area types
- Portfolio growth
- Yield

Commercial real estate

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

For the most part, BN Bank finances fully developed commercial properties, i.e. properties let to one or more tenants. BN Bank's first line of defence against impairment losses is therefore the financial performance of a broadly composed portfolio of tenants. The general economic trend in Norway will therefore have an impact on the trend in non-performing loans.

The risk of an increase in non-performing loans and impairment losses on commercial real estate loans is deemed moderate.

The retail market

Owing to low interest rates, the financial position of Norwegian households in general is considered good, despite increased risk having arisen from the downturn in the Norwegian economy.

Most of the loans given to retail borrowers are secured by a mortgage on residential property. The Bank's credit policy requires the property to be centrally located.

House prices rose in 2011. The trend in 2012 will probably flatten out, with the risk of significant price falls 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. 70 per cent of the residential mortgage loan portfolio is secured by mortgages with up to a 60 per cent loan-to-value ratio viewed in relation to EAD[7].

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

The rest of the corporate market (the Ålesund portfolio)

In its revised strategy, BN Bank has decided that the Bank's credit exposure in the corporate market should be to borrowers with commercial real estate loans. However, following the merger with the former KredittBanken/Glitnir Bank, the Bank still has a credit portfolio with exposure to other types of businesses, primarily offshore service vessels, marine transport, seafood and industry.

In 2009, the Bank entered into an agreement with SpareBank1 SMN whereby the latter would take over this credit portfolio. Since then, BN Bank has provided guarantees for the credit risk attached to the portfolio. In February 2012 large parts of the portfolio were, however, finally taken over by SpareBank 1 SMN. See "Events after the reporting period" for more information.

[7] EAD is BN Bank's expected exposure to the borrower in Norwegian kroner at a hypothetical default date within one year.

Risk classification

BN Bank employs a risk classification system for its loan commitments. The risk classification models used by the Bank classify the loans in relation to the probability of default and the estimated loss which may arise from default. Different models are used, depending on what is considered the most significant risk factors relating to the loan. The models employ different quantitative methods, such as simulation and logistical regression. In the case of commercial real estate loans, quantitative methods are used in combination with qualitative analyses.

The risk classification system and the analysis of risk in the loan portfolio, as well as the new capital adequacy rules, are described in more detail in Notes 28, 31, 32 and 33.

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

Expected losses

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

At year-end 2011, the ratio of expected impairment losses in the entire loan portfolio was 0.23 per cent, of which 0.08 per cent was in retail lending, 0.18 per cent in commercial real estate, and 0.54 per cent in the Ålesund portfolio.

Impairment losses on loans in 2011 were 0.19 per cent of gross lending. Impairment losses as a percentage of managed gross lending were 0.01 per cent in retail lending, 0.11 per cent in commercial real estate lending, and NOK 0.91 per cent in the Ålesund portfolio.

Historically, losses on loans have been considerably lower than the estimates of expected losses, with the exception of 2008 when a single loan commitment not covered by the current credit strategy gave rise to a loss of NOK 205 million. Impairment losses within the traditional mortgage lending operations have been low.

The level of losses over time in BN Bank 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.

The Bank will continue to focus closely on the quality of the loan portfolio and on monitoring and following up doubtful loan commitments.

Liquidity risk

BN Bank has a slightly lower deposit-to-loan ratio than the average among Norwegian banks. The reason for this is that BN Bank has a shorter history as a bank authorised to accept deposits than as a credit institution. It means that BN Bank is, relatively speaking, more dependent on the money and securities markets as a source of finance than most other Norwegian banks.

The Board has adopted general guidelines for controlling liquidity risk, including setting requirements for measuring, monitoring and reviewing risk. The Bank has a 12-month survival target period in relation to liquidity. In addition, the Board has adopted a contingency plan for use in any liquidity emergency, and has also set limits for net funding requirements within given time horizons and limits/parameters for other liquidity indicators. The Group's liquidity position is reported monthly to the Board. Stress tests are also carried out to monitor the liquidity position.

In the Board's opinion, BN Bank's liquidity position is currently satisfactory.

Interest rate risk and foreign exchange risk

BN Bank's exposure to the interest rate and foreign exchange markets is limited. The Bank's borrowings shall have the same fixed interest rates as the Group's loan portfolio. Any differentials in fixed rate periods between borrowing and lending are equalised with the use of hedging instruments. In the same way, foreign exchange risk as a result of the Group's currency borrowing and lending is reduced with hedging instruments.

The Bank's unrestricted funds (equity) have a short investment horizon, and so the return on these funds will vary with short-term interest rates.

The Board has adopted guidelines and set limits for the Bank's interest rate and foreign exchange exposure. These exposures are reported monthly to the Board.

Market 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 deposits/funding and lending businesses, impairment losses and operating expense.

Operational risk

BN Bank seeks to keep operational risk low 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 within the Bank, and is also regularly updated on any significant operational disruption or deviation.

Board activities

The Board of Directors of BN Bank held 17 board meetings in 2011. The Board has appointed an audit committee and a remuneration committee, which act as preparatory and advisory executive committees for the Board.

For an overview of the members of the Board of Directors and the Group Executive Management, see Note 40 to the financial statements.

On 1 December 2011, the Board appointed Gunnar Hovland as the new Managing Director of BN Bank.

As a consequence of the fact that BN Bank ASA has bonds listed on the Oslo Stock Exchange's main list, the Board has prepared a statement of policy on corporate governance which satisfies the requirements demanded of bond issuers. The statement is posted on BN Bank's website at www.bnbank.no.

Working environment and organisation

The Board of Directors wishes to thank all the Group's employees for their hard work in 2011.

BN Bank employed 108 staff (108 full-time equivalents (FTEs)) as at 31 December 2011, which is an increase of four FTEs since the last year-end.

The Bank did not achieve the performance targets that were set for the bonus scheme for 2011, and so there will be no performance-related pay this year.

In 2011, BN Bank drew up a policy for salary and other benefits payable to the Managing Director and other senior executives in accordance with the Norwegian Public Limited Liability Companies Act, section 6-16a. Note 7 reflects the content of the Bank's policy.

The working relationship between management and employees is good. The Bank has a working environment and liaison committee, which consists of representatives from the group executive management and the salaried employees' association.

Sickness absence in the BN Bank Group was 3.80 per cent in 2011, compared with 4.80 per cent in the rest of the Norwegian finance industry (the last-mentioned figure applies to the first three quarters of 2011). Sickness absence in 2010 was 2.83 per cent. There were no significant injuries or accidents in 2011.

BN Bank's policy is to be an equal opportunities employer with gender equality between women and men. Of the company's 108 employees, 51 are women and 57 men. The Bank aims to achieve a balance between the numbers of male and female staff at all levels of the organisation, but there are still relatively few women in management positions within the Bank. There were no women in the group executive management team as at 31 December 2011. Out of a total of 12 departmental managers, five are women (42 per cent female participation). At year-end 2011, BN Bank's Board of Directors consisted of four women and four men, including one female employee representative. The target of 40 per cent shareholder-elected female representation on the Board has thus been fulfilled.

The Bank endeavours to ensure equal opportunities for all staff, irrespective of functional ability, and to prevent discrimination on grounds of impaired functional ability.

BN Bank's head office is environmentally certificated under the Miljøfyrtårn (Eco-Lighthouse) national certification programme. This includes certification in the areas of working environment, procurement/materials use, energy, transport, waste, emissions and discharges, and aesthetics.

BN Bank's activities impact on the external environment chiefly in the form of office operations and business travel. In November 2010, the Bank moved its Trondheim head office to a tenancy in a new commercial building with a low energy profile. The Bank has provided facilities for staff to use video-conferencing and other electronic communication as an alternative to business travel, in order to keep the Bank's carbon footprint down. The Bank is also focused on pre-separation of waste at source and on reducing the amount of waste at source.

Events after the reporting period

The Icelandic bank Glitnir banki hf, now Glitnir hf, sued BN Bank in 2011 for unlawful off-set of about NOK 240 million. At the end of January 2011, Oslo District Court gave judgment whereby BN Bank was ordered to pay Glitnir NOK 213 million plus interest. BN Bank had previously charged the off-set amount against income, so that the Court's decision has no accounting effect for the Bank. BN Bank will consider an appeal following close analysis of the judgment.

As part of the programme of adaptations to its new business strategy, BN Bank entered into an agreement with SpareBank 1 SMN on 1 February 2012 for the latter to assume the final credit risk for loans equivalent to NOK 2.4 billion of the remaining Ålesund portfolio of NOK 3.1 billion. In addition, the parties agreed a ceiling of 60 per cent for the credit risk attached to the remaining portfolio of NOK 0.7 billion. As a result of the agreement, BN Bank's exposure to this portfolio is considerably reduced and now accounts overall for less than 1 per cent of the Bank's lending.

Outlook

A good position in selected markets, a satisfactory funding situation and strong capitalisation all give BN Bank a sound basis for continuing to streamline its business as a cost-effective direct bank in the retail market and as a competitive niche player in commercial real estate.

The situation with regard to the global economy is uncertain and may affect the price the Bank will need to pay for its funding. Continuing turbulence in the financial markets may thus impact on growth and earnings in the time ahead. Against this background, lower growth and higher borrowing costs must be expected in 2012 than in 2011. BN Bank plans to implement a scheme in 2012 designed to cut costs compared to 2011, and expects to see cost levels fall in the weeks and months ahead. The Bank will focus particularly on consultancy costs, marketing and administrative costs.

The overall quality of the loan portfolio is considered good. BN Bank's commercial real estate portfolio is well diversified, with a variety of types of tenant and lease object. The economic downturn, increased vacancy rates and higher interest rates may impact negatively on the ability of borrowers to service their debts.

As a consequence of major regulatory changes, including the Basel III regulations, the banking industry is faced with strict requirements as regards capitalisation, funding and liquidity. With its sound levels of capitalisation and a satisfactory funding situation, BN Bank is well positioned to satisfy the new requirements.

Trondheim, 28 February 2012
The Board of Directors of BN Bank ASA

Finn Haugan
(Chair)

Tore Medhus
(Deputy Chair)

Stig Arne Engen

Harald Gaupen

Helene Jebsen Anker

Kristin Undheim

Anita Finserås Bretun
(Employee Representative)

Ella Skjørestad

Gunnar Hovland
(Managing Director)

Income Statement

		GROUP		PARENT BANK	
NOK MILLION	NOTE	2011	2010	2011	2010
Interest and similar income	2	1 639	1 465	1 168	902
Interest expense and similar expense	3	1 254	1 085	1 013	767
Net income from interest and credit commissions		385	380	155	135
Change in value of financial instruments at fair value, gains & losses	4	-20	-14	-20	55
Other operating income	5	123	105	52	34
Total other operating income		103	91	32	89
Salaries and general administrative expenses	6, 7, 8, 9	222	209	150	134
Ordinary depreciation, amortisation and write-downs	10	16	11	15	10
Other operating expense	11	33	25	5	7
Other gains and losses	10	-37	0	0	0
Total other operating expense		234	245	170	151
Operating profit/(loss) before impairment losses		254	226	17	73
Impairment losses on loans and advances	12	62	32	19	-19
Operating profit/(loss) after impairment losses		192	194	-2	92
Income from ownership interests in group companies	20	0	0	131	117
Profit/(loss) before tax		192	194	129	209
Computed tax charge	13	44	52	40	56
Profit/(loss) for the year, remaining entity		148	142	89	153
Result of operations under divestment	20	6	-1	6	-1
Profit/(loss) for the year including discontinued operations		154	141	95	152
Other Comprehensive Income					
Change in value of financial assets available for sale		0	0	0	0
Total P&L items recognised in equity		0	0	0	0
Total profit/(loss) for the year		154	141	95	152

Balance Sheet at 31 December

		GROUP		PARENT BANK	
NOK MILLION	NOTE	2011	2010	2011	2010
Assets					
Deferred tax assets	13	43	54	0	6
Intangible assets	10	20	16	20	16
Income from ownership interests in group companies	20	0	0	1 877	1 877
Own funds lending	19	0	15	527	542
Tangible fixed assets	10	23	80	23	22
Repossessed properties	16	0	15	0	0
Loans and advances	12, 15, 29, 30, 31, 32, 33	33 260	32 415	14 396	14 702
Prepayments and accrued income	21, 29, 30, 31, 32, 33, 34	70	97	70	148
Financial derivatives	17, 29, 30, 31, 32, 33	865	629	699	444
Short-term securities investments	18, 29, 30, 31, 32, 33	5 506	5 791	4 984	5 274
Cash and balances due from credit institutions	14, 29, 30, 31, 32, 33	814	1 012	10 886	7 504
Assets classified as held for sale	20	121	1 104	122	1 105
Total assets		40 722	41 228	33 604	31 640
Equity and liabilities					
Share capital	27	649	619	649	619
Share premium reserve		190	68	190	68
Other reserves		2 316	2 315	1 173	1 230
Total equity		3 155	3 002	2 012	1 917
Deferred tax	13	0	0	1	0
Subordinated loan capital	26, 29, 30, 31, 32, 33	1 451	1 686	1 451	1 686
Liabilities to credit institutions	22, 29, 30, 31, 32, 33	1 178	1 975	1 864	2 451
Debt securities in issue	24, 29, 30, 31, 32, 33	17 950	16 603	11 354	7 702
Accrued expenses and deferred income	9, 25, 29, 33, 34	131	128	114	111
Other current liabilities	29	11	35	12	37
Tax payable	13	37	2	36	0
Financial derivatives	17, 29, 30, 31, 32, 33	839	511	790	450
Customer deposits and accounts payable to customers	23, 29, 30, 31, 32, 33	15 959	16 395	15 959	16 395
Liabilities classified as held for sale	20	11	891	11	891
Total liabilities		37 567	38 226	31 592	29 723
Total equity and liabilities		40 722	41 228	33 604	31 640
Secured debt and guarantees	34				

Trondheim, 28 February 2012
The Board of Directors of BN Bank ASA

Finn Haugan
(Chair)

Tore Medhus
(Deputy Chair)

Stig Arne Engen

Harald Gaupen

Helene Jebsen Anker

Kristin Undheim

Anita Finserås Bretun
(Employee Representative)

Ella Skjørestad

Gunnar Hovland
(Managing Director)

Statement of Changes in Equity in 2010 and 2011

GROUP

NOK MILLION	SHARE CAPITAL	SHARE PREM. RESERVE	OTHER PAID-UP SHARE CAPITAL	OTHER RESERVES	TOTAL EQUITY
Balance Sheet as at 1 January 2010	619	68	0	2 174	2 861
Result for the period	0	0	0	141	141
Balance Sheet as at 31 December 2010	**619**	**68**	**0**	**2 315**	**3 002**
Result for the period	0	0	0	153	153
Dividend paid	0	0	0	-152	-152
Share capital increase	30	122	0	0	152
Balance Sheet as at 31 December 2011	**649**	**190**	**0**	**2 316**	**3 155**

PARENT BANK

NOK MILLION	SHARE CAPITAL	SHARE PREM. RESERVE	OTHER PAID-UP SHARE CAPITAL	OTHER RESERVES[1]	TOTAL EQUITY
Balance Sheet as at 1 January 2010	619	68	282	796	1 765
Result for the period	0	0	0	152	152
Balance Sheet as at 31 December 2010	**619**	**68**	**282**	**948**	**1 917**
Result for the period	0	0	0	95	95
Dividend paid	0	0	0	-152	-152
Share capital increase	30	122	0	0	152
Balance Sheet as at 31 December 2011	**649**	**190**	**282**	**891**	**2 012**

[1] The reserve for unrealised gains is included in Other reserves. Provision of NOK 193 million was made as at 31 December 2011, while provision of NOK 196 million was made as at 31 December 2010.

Statement of Cash Flows

	GROUP		PARENT BANK	
NOK MILLION	2011	2010	2011	2010
Cash flows from operating activities				
Interest/commission received and fees received from customers	2 353	7 735	1 114	2 983
Interest/commission paid and fees paid to customers	-433	-442	-450	-470
Interest received on other investments	300	192	320	290
Interest paid on other loans	-882	-609	-587	-280
Receipts/disbursements (-) on loans and advances to customers	-1 948	-2 488	-488	-602
Receipts/payments(-) on customer deposits and debt	-1 465	-371	-1 465	-370
Receipts/payments(-) on liabilities to credit institutions	-232	-5 481	-21	-6 339
Receipts/payments(-) on securities in issue and securities buy-back	1 395	-470	3 628	2 761
Receipts on written-off debt	44	14	35	7
Other receipts/payments	114	-27	178	-95
Payments to suppliers for goods and services	-152	-161	-100	-109
Payments to employees, pensions and social security expenses	-102	-86	-65	-45
Tax paid	-2	0	0	0
Net cash flow from operating activities	-1 010	-2 194	2 099	-2 269
Cash flows from investing activities				
Receipts/payments(-) on receivables from credit institutions	666	-1 895	-2 374	-2 031
Receipts/payments(-) on short-term securities investments	285	4 019	289	4 018
Receipts/payments(-) on long-term securities investments [1]	0	0	99	117
Proceeds from sale of operating assets etc.	25	0	0	58
Purchase of operating assets etc.	-65	-31	-20	-30
Proceeds from sale of subsidiaries	129	0	33	0
Net cash flow from investing activities	1 040	2 093	-1 973	2 132
Cash flows from financing activities				
Subordinated loan capital received	-228	228	-228	228
Net cash flow from financing activities	-228	228	-228	228
Net cash flow for the period	-198	127	-102	91
Cash and balances due from credit institutions as at 1 January	1 012	885	106	15
Cash and balances due from credit institutions as at 31 December [2]	814	1 012	4	106

[1] Investments relate mainly to investments in subsidiaries

[2] In the case of the Parent Bank, cash and balances consist of deposits in Norges Bank and the Parent Bank's cash in hand.

Notes

NOTE 1. ACCOUNTING POLICIES ETC.

Information about the company

BN Bank ASA (BN Bank) is a public limited company, established and domiciled in Norway, and with its registered office in Trondheim. BN Bank also has branch offices in Oslo.

BN Bank and SpareBank 1 SMN entered into an agreement in September 2009 for SpareBank 1 SMN to take over BN Bank's division in Ålesund. Under the terms of the agreement, SpareBank 1 SMN took over all 36 employees of BN Bank in Ålesund as well as all its customer accounts, which at 30 September comprised NOK 4.8 billion in lending and NOK 1.5 billion in deposits.

The loans and deposits in Ålesund are being transferred gradually to SpareBank 1 SMN. BN Bank will finance the loan portfolio and guarantee the credit risk. The guarantee and financing will be reduced gradually. If the guarantee has not been discontinued after three years, it may be renewed for a further two years at the most.

Within the framework of BN Bank's articles of association and subject to the legislation that is in force at any time, the Bank may carry on all business and perform all services that it is customary or natural for banks to perform.

Basis for preparation of the financial statements

BN Bank ASA presents the consolidated financial statements for the Group and the separate financial statements for the Parent Bank for 2010 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 Group, the Company'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 the Bank's loan and guarantee portfolio according to the regulations for valuing loans provided by the Financial Supervisory Authority of Norway.

The 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.

Fixed assets held-for-sale and discontinued operations

Assets that the Bank's Board have decided will be sold are treated under IFRS 5, when the criteria for doing this are fulfilled.

The business in Ålesund has been organisationally subordinate to SpareBank 1 SMN since the fourth quarter of 2009, and is treated under IFRS 5. The subsidiary Collection Eiendom AS has been established to take over shares in companies that have defaulted on their loans and commitments with us. The intention is to sell on the shares within one year, which will be treated under IFRS 5.

Pensions

The present value of recognised pension commitments depends on the determination of financial and actuarial assumptions. Changes in such assumptions will give rise to changes in recognised amounts for pension commitments and the pension cost.

Expected return is determined on the basis of historical return experience and how the pension assets in question are invested with a view to risk and the type of securities involved. The discount rate is determined on the basis of the interest rate on long-term Norwegian government bonds at the end of the reporting period. Other important assumptions for the pension commitments are annual wage growth, annual adjustment of pensions, and expected adjustment of the Norwegian national insurance basic amount (G). For such assumptions and for return and discount rate the management will have regard for the guidance and recommendations available at the end of the reporting period. In the case of demographic assumptions, estimates and discretion will be based on experience material available from the actuaries.

Period of use for tangible fixed assets and intangible assets with a limited useful life

Estimates are made of the expected residual value, useful life and related depreciation rates for tangible fixed assets and of amortisation rates for intangible assets with a limited useful life. The expected useful life and residual value are measured at least once a year.

Accounting policies

Consolidation

The consolidated financial statements comprise the Parent Bank BN Bank ASA (BN Bank), and the wholly owned subsidiaries Bolig- og Næringskreditt ASA (BNkreditt), BN Boligkreditt AS and Collection Eiendom AS.

Subsidiaries are all entities (including Special Purpose Entities) in which the Group has the power to control the entity's financial and operating strategy, normally by acquiring ownership of more than half of the entity's voting share capital. In determining whether control exists, the effect is included of potential voting rights which can be exercised or converted at the end of the reporting period. Subsidiaries are consolidated from the date control is transferred to the Group and are excluded from consolidation when control ends.

The acquisition method for business combinations has been considerably changed since 2010. For example, all consideration upon the purchase of a business shall be recognised at fair value at the date of acquisition. Contingent consideration is normally classified as debt and the subsequent changes in value are carried in profit or loss. For each acquisition, the Group may choose whether any non-controlling interests in the acquired company shall be measured at fair value or only at a share of the net assets excluding goodwill. All transaction costs shall be carried in profit or loss.

Subsidiaries which it has been decided to sell in the near future are classified as held-for-sale under IFRS 5.

Uniform accounting policies have been applied for all companies included in the consolidated financial statements.

The consolidated financial statements are required to show the assets and liabilities, financial position and results for the companies in the Group, as though they were a single economic entity. All inter-company accounts, share ownership, significant transactions and gains/losses arising on the transfer of existing assets, between the companies in the Group, have therefore been eliminated.

Subsidiaries

Subsidiaries are accounted for at cost in the Parent Bank's separate financial statements. Dividend is recognised as income when the dividend is finally adopted.

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 Bank.

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 Bank, 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.

All financial instruments in the investment portfolio that are not derivatives will be selected for measurement at fair value through profit or loss. Selection is done on the basis of these securities being followed up and managed on the basis of fair value. There is a documented investment strategy for the investment portfolio. The investment portfolio is the Bank's liquidity reserve and shall be invested in interest-bearing securities with low risk and good liquidity. After account has been taken of the securities' liquidity and investment portfolio risk, the objective is for the securities to make optimum contribution to the Bank's net interest income. The results of the investment portfolio are reported monthly to the management.

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, are accounted for 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

The Group 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 Group 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 Bank 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.

Repossessed properties

Properties which are repossessed through mortgage foreclosure as a result of non-performing loans, and where the Group does not intend to keep the property for long-term ownership or use, are presented on a separate line on the balance sheet. Repossessed properties are valued at the date of repossession at the lower of cost or estimated market value. In subsequent accounts the properties are valued at the lower of this purchase cost or estimated market value at the end of the reporting period. As at 1 January 2011 the Group has changed the accounting policy for classifying ongoing value changes and gains/losses on the sale of repossessed properties. These are now carried under impairment losses on loans if there is a close connection between the repossessed property and the original loan. When a plan is adopted for disposing of repossessed properties, the properties are presented as held for sale, on a separate line in the balance sheet.

Financial derivatives

Financial derivatives are obliged to be measured at fair value with changes in value carried through profit or loss. Where BN Bank is concerned, such financial instruments are equity options, equity-linked options, forward exchange contracts, future rate agreements (FRAs), interest rate swaps, and combined interest rate- and currency swaps.

Bonds and certificates – In general

Bonds and certificates issued by others consist of the investment portfolio and holdings acquired as a hedge against interest rate risk on the funding side. 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

Bonds and certificates issued by others are classified mainly as short-term investment securities. 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 – Measurement of investment portfolio

Bonds and certificates included in the investment portfolio are classified voluntarily at fair value with changes in value carried through profit or loss.

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 guarantees

Financial guarantees are measured at fair value with changes in value carried through profit or loss. Upon establishment of a contract, the commission for the entire contract period is measured. The guarantee is taken to income in correlation with earnings, and presented under the line "Other operating income, gains and losses".

Off-setting and net reporting

Financial assets and financial liabilities are off-set and reported net on the balance sheet when there is a legally enforceable right of set-off and the intention is either to settle the asset and liability on a net basis or to realise the asset and settle the liability simultaneously.

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 Bank 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 and securities in the investment portfolio, 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, derivatives and interest-bearing securities issued by others. In the case of borrowings and loans, this classification applies irrespective of whether the instrument is measured at amortised cost or fair value.

Tangible fixed assets

Tangible fixed assets are carried on the balance sheet at original cost less accumulated depreciation and write-downs. Ordinary depreciation is calculated on a straight-line basis over the expected useful life of the operating asset. If the fair value of an operating asset is substantially less than book value, and this is owing to circumstances that cannot be considered temporary, the operating asset is written down to fair value.

Intangible assets

Purchased computer systems and software are carried on the balance sheet at original cost (including the costs of making the software operative) and are amortised on a straight-line basis over the expected useful life of the asset.

Development or maintenance expenses are taken to expense as they accrue.

Pension costs and liabilities

The Group has different pension schemes. These pension schemes are funded through payments to insurance companies as determined by periodic actuarial calculations.

The Group has both defined contribution schemes and defined benefit schemes. A defined contribution scheme is a pension scheme where the Group pays fixed contributions into a separate legal entity (a fund). The Group has no legal or other constructive obligation to pay further contributions if the entity (fund) does not hold sufficient assets to pay all employee benefits related to employee service in the current and prior periods. Pension schemes that are not defined contribution schemes are defined benefit schemes. Typically, a defined benefit scheme is a scheme which defines an agreed pension benefit that an employee will receive upon retirement. The amount of the benefit will normally depend on one or more factors, such as age, the number of years of service, and pay.

In line with IAS 19, liabilities relating to group pension schemes with life insurance companies and unsecured liabilities are both included in the financial statements. The net pension cost for the year consists of the present value of the year's pension contributions and interest expense on the pension liability, less the anticipated yield on the pension assets and adjusted for the distributional effects of changes in pension plans, estimates and variance. The net pension cost is included in the item "Salaries and general administrative expenses".

Estimate variances are accounted for over the average remaining pension contribution period as long as the variance exceeds the higher of 10 per cent of the pension assets or 10 per cent of the pension liability.

In the event of changes to the cost of the pension scheme, effects relating to previous periods' pension contributions are taken to expense in the period in which the change arises, while the unpaid contributions are accrued over the remaining period of service.

Where defined contribution schemes are in operation, the Group pays contributions to privately managed pension insurance plans on a contractual basis. The Group has no further payment obligations after these contributions have been paid. The contributions are accounted for as wages and salaries concurrently with the obligation to pay contributions. Prepaid contributions are carried as an asset to the extent that the contribution can be refunded or reduce future contributions.

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 are reported in the same way as with internal reporting to the Bank's chief operating decision maker. The Bank'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

	GROUP		PARENT BANK	
NOK MILLION	2011	2010	2011	2010
Interest from financial instruments carried at amortised cost:				
Interest and similar income from loans to and balances due from credit institutions	53	25	387	212
Interest and similar income from loans to and receivables due from customers	1 297	1 112	552	438
Interest and similar income from certificates and bonds	65	106	47	91
Total interest from financial instruments carried at amortised cost	1 415	1 243	986	741
Interest from financial instruments selected for fair value carrying through profit or loss:				
Interest and similar income from receivables from subsidiaries	0	0	28	23
Interest and similar income from loans to and receivables from customers	99	110	29	26
Interest and similar income from certificates and bonds	125	112	125	112
Total interest from financial instruments selected for fair value carrying through profit or loss	224	222	182	161
Total interest and similar income	1 639	1 465	1 168	902

NOTE 3. INTEREST EXPENSE AND SIMILAR CHARGES

	GROUP		PARENT BANK	
NOK MILLION	2011	2010	2011	2010
Interest expense for financial instruments carried at amortised cost:				
Interest and similar charges on liabilities to credit institutions	36	15	36	1
Interest and similar charges on customer deposits and accounts payable to customers	406	339	423	367
Interest and similar charges on securities issued	360	248	241	145
Interest and similar charges on subordinated loan capital	77	58	77	58
Other interest expense and similar charges	0	25	0	25
Total interest expense for financial instruments carried at amortised cost	879	685	777	596
Interest expense for financial instruments selected for fair value carrying through profit or loss:				
Interest and similar charges on customer deposits and accounts payable to customers	23	19	23	19
Interest and similar charges on securities issued	340	368	201	139
Interest and similar charges on subordinated loan capital	12	13	12	13
Total interest expense for financial instruments selected for fair value carrying through profit or loss	375	400	236	171
Total interest expense and similar charges	1 254	1 085	1 013	767

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

	GROUP		PARENT BANK	
NOK MILLION	2011	2010	2011	2010
Change in value interest rate derivatives obliged to be carried at fair value through profit or loss [1, 3, 4]	-5	52	17	52
Change in value currency derivatives obliged to be carried at fair value through profit or loss [2]	-117	-252	-117	-252
Change in value combined int. rate & currency derivatives obliged to be carried at fair value through profit or loss [2]	0	70	0	69
Change in value equity-linked options and equity options obliged to be carried at fair value through profit or loss [1]	19	3	19	3
Total change in value of financial instruments obliged to be carried at fair value	-103	-127	-81	-128
Change in value deposits selected for fair value carrying through profit or loss [4]	-6	-1	-6	-1
Change in value borrowings selected for fair value carrying through profit or loss [4]	-5	-61	-61	-82
Change in value loans selected for fair value carrying through profit or loss [4]	-12	17	13	105
Change in value short-term financial investments selected for fair value carrying [3]	-1	4	-1	4
Total change in value of financial instruments selected for fair value carrying	-24	-41	-55	26
Change in value interest rate derivatives, hedging [5]	69	-10	53	-9
Change in value borrowings, hedged [5]	-70	10	-54	9
Total change in value of financial instruments for hedging	-1	0	-1	0
Total change in value of financial instruments carried at fair value	-128	-168	-137	-102
Realised gains/losses(-) bonds and certificates carried at amortised cost [6]	-10	-20	-6	-7
Realised gains/losses(-) borrowings and loans carried at amortised cost [6]	0	-1	0	-10
Exchange gains/losses borrowings and loans carried at amortised cost [2]	118	175	123	174
Total change in value of financial instruments carried at fair value, gains and losses	-20	-14	-20	55

[1] In connection with the sale and/or issue of the structured products, BN Bank has hedged exposure in the form of equity options, equity-linked options and interest rate swap agreements. The earlier turbulence in the financial markets caused the loss of some contractual counterparties and it was not possible to replace these hedging transactions. BN Bank is therefore partially exposed to the market development of a limited number of products. Changes in exposure are recognised in profit and loss immediately, and in 2011 NOK 8 million was carried to expense, compared with NOK 6 million in 2009.

[2] Exchange gains/losses on borrowings and loans carried at amortised cost are chiefly attributable to exchange gain/loss effects which arise when borrowing and lending in foreign currencies are translated at the current exchange rate. Forward exchange contracts and combined interest rate and currency derivatives are carried at fair value with changes in value carried through profit or loss. The net effect for the Group with regard to foreign exchange was income recognition of NOK 1 million in 2011 as against expense recognition of NOK 7 million in 2010. Exposure to exchange rate fluctuations is low.

[3] Changes in the value of financial investments selected for fair value carrying were NOK 1 million recognised as expense in 2011, compared with NOK 4 million recognised as income in 2010. The financial turbulence has caused big fluctuations in the value of these investments.

[4] The net effect of interest rate derivatives obliged to be carried at fair value and the change in the value of financial instruments selected for fair value carrying was expense recognition of NOK 1 million in 2011, compared with expense recognition of NOK 16 million in 2010.

[5] As of 2010 inclusive, BN Bank has used fair value hedges for new fixed-rate borrowings and related hedge instruments. The borrowings are hedged 1:1 through external contracts where the principal, interest stream, term and hedging transaction match. It is the interest rate risk that is hedged and the hedging transactions entered into are documented. With fair value hedges, the hedge instrument is accounted for at fair value, and the hedge object is accounted for at fair value for the hedged risk. Changes in these values from the opening balance sheet are carried in profit or loss. The credit risk is not hedged and therefore does not affect the valuations. The value of the hedging instruments as at 31 December 2011 was positive by NOK 86 million.

[6] Realised gains/losses on bonds, certificates and borrowings carried at amortised cost were recognised as expense for a total of NOK 10 million in 2011 as against NOK 21 million in 2010.

NOTE 5. OTHER OPERATING INCOME

	GROUP		PARENT BANK	
NOK MILLION	2011	2010	2011	2010
Guarantee commission	22	-2	22	-2
Commission income from payment services [1]	102	103	26	22
Total commission income and income from banking services	**124**	**101**	**48**	**20**
Commission charges on payment services and loan brokerage	-3	-6	-3	-6
Total commission charges and banking services expense	**-3**	**-6**	**-3**	**-6**
Net commission income / charges	**121**	**95**	**45**	**14**
Other operating income:				
Miscellaneous operating income	2	10	7	20
Other operating income	**2**	**10**	**7**	**20**
Total other operating income	**123**	**105**	**52**	**34**

[1] Commission income relating to management of the portfolio in SpareBank 1 Næringskreditt and SpareBank 1 Boligkreditt totalled NOK 72 million in 2011, as against NOK 82 million for 2010.

NOTE 6. SALARIES AND GENERAL ADMINISTRATIVE EXPENSES

	GROUP		PARENT BANK	
NOK MILLION	2011	2010	2011	2010
Salaries to employees and fees to elected officers	67	68	37	36
Performance-related pay [1]	0	6	0	4
Contracted labour	3	1	3	1
Net pension cost [2]	13	9	8	6
Payroll overhead	18	20	13	14
Salaries and other personnel costs	**101**	**104**	**61**	**61**
Computing costs	45	43	30	28
Postage and telephone	6	5	5	4
Office expenses	42	25	30	13
Travel expenses and entertainment	5	5	3	3
Marketing	23	27	21	25
General administrative expenses	**121**	**105**	**89**	**73**
Salaries and general administrative expenses	**222**	**209**	**150**	**134**
Number of full-time regular employees as at 31 December	100	90	79	70
Number of part-time regular employees as at 31 December	8	12	7	11
Number of temporary staff at 31 December	5	5	4	5
Number of full-time equivalents (FTEs) as at 31 December	108	104	86	80
Average number of FTEs during the year	109	103	88	81

[1] The Bank had a performance-related pay scheme in 2010. Performance-related pay is based on results, costs, defaults and growth in lending. The scheme includes all permanent staff except for the Managing Director. The cost in 2010 was NOK 6.3 million, not including employer's national insurance contributions. No employees were awarded performance-related pay in 2011.

[2] See Note 9 for more details.

NOTE 7. RELATED PARTY DISCLOSURES

BN Bank has entered into transactions with related parties, as described in this note, and in Note 8. In addition, there are transactions with related parties as subsidiaries; see Note 20. Transactions with subsidiaries are eliminated in the consolidated financial statements. BN Bank's shareholders are listed in Note 40. Apart from loans given on special terms to employees and others, all transactions with related parties are entered into on commercial terms. Apart from the transactions identified in this note and Note 8, and eliminated transactions within the BN Bank Group, there are no transactions or outstanding matters of significance with related parties.

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

The Group Executive Management consists of senior executives employed by the Bank.

	FEES	SALARIES	PERFORMANCE-RELATED PAY[1, 2]	NON-CASH & OTHER TAXABLE BENEFITS	PENSION PREMIUMS PAID	TOTAL PAY AND REMUN-ERATION	LOANS AND SECURITY
Former Senior Executives							
Lisbet K. Nærø, Managing Director [4, 5]	0	1 542 669	375 000	971 547	116 327	3 005 543	0
Unni Irene Tenold, Director Credit Management [3, 5]	0	1 018 465	110 000	1 114 026	239 463	2 481 954	0
Senior Executives							
Gunnar Hovland, Managing Director [3, 5, 6]	0	150 000	0	1 013	16 144	167 157	0
Svend Lund, Deputy Managing Director [3, 5]	0	1 910 250	250 000	132 902	241 767	2 534 919	1 740 576
Trond Søraas, Director Accounts and Treasury [3, 5]	0	981 742	25 000	133 577	145 203	1 285 522	1 642 576
Olav Isak Sjøflot, Director Business Support [3, 5]	0	1 193 355	170 000	174 454	163 314	1 701 123	4 979 379
Erlend Drilsvik, Director Retail Market and Communication [3, 5]	0	1 138 669	165 000	133 450	112 713	1 549 832	2 704 258
Rune Rasmussen, Director Risk Management [3, 5]	0	995 810	135 000	83 439	141 701	1 355 950	2 405 781
Former Board of Directors							
Other Board members	300 000	0	0	0	0	300 000	
Board of Directors							
Finn Haugan, Chair	272 000	0	0	0	0	272 000	
Tore Medhus, Deputy Chair	242 000	0	0	0	0	242 000	
Other Board members	895 000	339 485	24 898	9 412	32 279	1 301 074	2 193 544
Control Committee							
Members	416 000	0	0	0	0	416 000	
Total	2 125 000	9 270 445	1 254 898	2 753 820	1 208 911	16 613 074	15 666 114

[1] See Note 6 for more details.

[2] No bonuses were earned for the 2011 financial year. The note states the amount of performance-related pay disbursed during the financial year that was earned in prior years.

[3] If the Bank terminates the employment contract, the pay conditions will be maintained for up to 12 months (contractual termination payment) in addition to the standard period of notice. Income from other sources during the period will be deducted in its entirety from the termination payment. Any costs relating to termination payment will be charged as an expense in their entirety at the date of agreed dismissal. Provision for termination payment not yet disbursed is included under Non-cash and other taxable benefits.

[4] Lisbet K. Nærø's previous unsecured pension agreements have been terminated. The present value of her pension benefits earned was in 2011 paid out in the amount of NOK 860 000, and is included in Non-cash and other taxable benefits. Unsecured pension agreements are included in the pension cost; see Note 9.

[5] The costs of these pensions are included in the pension cost; see Note 9 for more information. All senior executives appointed after 1 January 2011 are members of the Bank's defined contribution pension scheme. Loans to senior executives are provided on standard terms as for other employees (see Note 8).

[6] Appointed during 2011.

BN Bank has since 2011 chosen a bonus solution for senior executives which is within the limits of the Norwegian Financial Supervisory Authority's regulations governing remuneration schemes. The principles for distributing bonus to employees who come within the scope of the new regulations are that the bonus is not set discretionarily at the level of the individual, that it does not exceed 1.5 x the monthly salary, and that the size of the bonus pot is calculated equally as for the other employees. Performance-related pay disclosed in this note is bonus paid out in 2011 but earned in the prior periods, when the new policy was not in force.

The group of employees affected by the new regulations have been identified and comprise the Group Executive Management as well as some other staff within the credit area, Treasury and in control functions.

Fees to appointed Auditor

	GROUP		PARENT BANK	
NOK ´000	2011	2010	2011	2010
Fees to appointed Auditor				
Ordinary audit fees for statutory audit [1]	1 061	1 477	692	1 173
Tax advice	118	101	79	66
Other attestation services [2]	288	204	64	84
Fees for other assistance [3]	78	435	78	435
Total fees paid to appointed Auditor (including VAT)	1 545	2 217	913	1 758

The ordinary audit fees for the Group were NOK 768,113 for the 2011 financial year and NOK 1,082,539 for the 2010 financial year. The equivalent figures for the Parent Bank were NOK 498,113 for the 2011 financial year and NOK 820,039 for the 2010 financial year.

[1] This includes fees for auditing the Group's quarterly financial statements totalling NOK 293,125 in 2011 and NOK 434,119 in 2010. The equivalent figures for the Parent Bank were NOK 193,750 in 2011 and NOK 352,869 in 2010.

[2] Other attestation services in 2011 comprised chiefly: Reports, and fees in connection with the job as independent auditor of BN Boligkreditt's loan portfolio.
Other attestation services in 2010 comprised chiefly: Reports, and fees in connection with the job as independent auditor of BN Boligkreditt's loan portfolio.

[3] Other assistance in 2011 comprised chiefly: Various assistance.
Other assistance in 2010 comprised chiefly: Assistance mainly relating to the restructuring of the Group.

Income, expenses, receivables and commitments with related parties

		GROUP	
NOK MILLION		2011	2010
Interest income			
SpareBank 1 SMN	SpareBank 1 consortium	174	5
SpareBank 1 SR-Bank	SpareBank 1 consortium	5	0
Other income			
SpareBank 1 SMN	SpareBank 1 consortium	43	8
Interest expense			
SpareBank 1 SMN	SpareBank 1 consortium	17	2
SpareBank 1 SR-Bank	SpareBank 1 consortium	-15	-12
SpareBank 1 Nord-Norge	SpareBank 1 consortium	5	2
Other expense			
SpareBank 1 SMN	SpareBank 1 consortium	2	0
Receivables as at 31 December			
SpareBank 1 SMN	SpareBank 1 consortium	1 029	445
SpareBank 1 SR-Bank	SpareBank 1 consortium	251	0
SpareBank 1 Nord-Norge	SpareBank 1 consortium	301	0
Liabilities as at 31 December			
SpareBank 1 SMN	SpareBank 1 consortium	24	0
SpareBank 1 SR-Bank	SpareBank 1 consortium	0	0

Income, expenses, receivables and commitments with related parties

		PARENT BANK	
NOK MILLION		2011	2010
Interest income			
BN Boligkreditt AS	Subsidiary	12	24
Bolig og Næringskreditt AS	Subsidiary	349	186
SpareBank 1 SMN	SpareBank 1 consortium	174	5
SpareBank 1 SR-Bank	SpareBank 1 consortium	5	0
Other income			
BN Boligkreditt AS	Subsidiary	5	17
SpareBank 1 SMN	SpareBank 1 consortium	43	8
Interest expense			
BN Boligkreditt AS	Subsidiary	18	27
Bolig og Næringskreditt AS	Subsidiary	0	0
SpareBank 1 SMN	SpareBank 1 consortium	17	2
SpareBank 1 SR-Bank	SpareBank 1 consortium	2	-12
SpareBank 1 Nord-Norge	SpareBank 1 consortium	5	2
Other expense			
BN Boligkreditt AS	Subsidiary	0	0
Bolig og Næringskreditt AS	Subsidiary	0	0
SpareBank 1 SMN	SpareBank 1 consortium	2	0
Receivables as at 31 December			
BN Boligkreditt AS	Subsidiary	287	415
Bolig og Næringskreditt AS	Subsidiary	10 645	7 080
Collection Eiendom AS	Subsidiary	1	1
SpareBank 1 SMN	SpareBank 1 consortium	1 029	445
SpareBank 1 SR-Bank	SpareBank 1 consortium	251	0
SpareBank 1 Nord-Norge	SpareBank 1 consortium	301	0
Liabilities as at 31 December			
BN Boligkreditt AS	Subsidiary	684	479
Bolig og Næringskreditt AS	Subsidiary	0	0
SpareBank 1 SMN	SpareBank 1 consortium	24	0
SpareBank 1 SR-Bank	SpareBank 1 consortium	0	0

BN Bank had a credit facility against SpareBank 1 SR-Bank of NOK 1.5 billion at the end of 2011.

BN Bank has syndicated loans to other parties both through the establishment of standard syndicate loans and bilateral risk mitigation agreements. The agreements are designed such that the loans qualify for deduction from the balance sheet and income statement in respect of the risk mitigation/syndicated portion of the loans. The scope of such deducted loans risk-mitigated from/syndicated to related parties is given below.

Income, expenses, receivables and commitments with related parties

	GROUP		PARENT BANK	
	2011	2010	2011	2010
Nominal value of deducted loans risk-mitigated by SpareBank 1 SMN	404	1 001	0	855
Nominal value of deducted loans risk-mitigated from related parties	404	1 001	0	855

NOTE 8. LOANS TO EMPLOYEES AND ELECTED OFFICERS

	GROUP		PARENT BANK	
NOK ´000	2011	2010	2011	2010
Loans to employees as at 31 December	188 780	158 695	144 754	127 497
Loans to elected officers as at 31 December	4 433	3 999	4 433	3 999
Loans to companies where elected officers had controlling influence as at 31 December	0	0	0	0
Interest subsidy on loans to employees [1]	0	0	0	0

[1] This subsidy cost is not shown in the income statement because the interest income from loans to employees is booked 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 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, Chair of the Control Committee, Board of Directors and Senior Executives

NAME	OFFICE/POSITION	PRINCIPAL
Anita Finserås Bretun	Employee Representative on the Board of Directors	2 193 544
Svend Lund	Deputy Managing Director	1 740 576
Trond Søraas	Director	1 642 576
Olav Isak Sjøflot	Director	4 979 379
Erlend Drilsvik	Director	2 704 258
Rune Rasmussen	Director	2 405 781

NOTE 9. PENSION COSTS AND COMMITMENTS

The Group has a group pension scheme which secures most staff a pension of 70% of ordinary pay at retirement date. The pension schemes are invested in a unit trust scheme through a life assurance company. From 1 January 2011 the defined benefit pension scheme is closed to new members. As of 2011, BN Bank is offering a defined contribution pension scheme. The premiums for the defined contribution scheme are recognised as expense on an ongoing basis as they accrue. The cost of the defined contribution scheme is included in the actuarially calculated pension cost below. The pension schemes satisfy the requirements for Norwegian mandatory occupational pension schemes (OTP).

The former unsecured State earnings-related early retirement pension scheme (AFP) was dissolved in 2010 and recognised as income in the amount of NOK 6.5 million in 2010. The premiums for the new AFP scheme are recognised as expense on an ongoing basis as they accrue.

Spouse's pension and salary in excess of 12G were removed from the group scheme in 2007. Pensions for salary in excess of 12G are covered through a separate defined contribution pension scheme from 2007 inclusive.

Former Director Gunnar Jerven had a contractual retirement age of 60. He entered into a new agreement with BN Bank in 2010 to become a party to that retirement agreement at age 57 on the same conditions. The effect of the change was charged as expense in 2010 in the amount of NOK 5.5 million. His pension is 70% per cent of normal salary at retirement date, and will be adjusted annually in accordance with increases in the national insurance scheme basic amount (G). Pension from age 67 is secured through the Group's group pension schemes up to 12G, while pension over 12G and pension before this date is unsecured and covered through the Group's operational expenditure.

When measuring the accrued pension commitments, the estimated commitment on the accounts closing day is applied. The future pension benefits are based on the number of contributory years and final salary at retirement date. The Gorups group pension schemes relating to the defined benefit schemes are net pension schemes, while the unsecured pension commitments are gross pension schemes. The estimated commitment is adjusted annually in accordance with a statement from the life assurance company of the accrued pension commitment.

When valuing pension assets, the estimated value on the accounts closing day is applied. This estimated value is adjusted each year in accordance with a statement from the life assurance company of the transfer value of the pension assets.

The accumulated effect of changes in the underlying financial and actuarial ratios, as a result of which the value of the pension assets and pension commitments has changed, is allocated to profit or loss systematically over the average remaining contributory period.

Actuarial calculations are made each year by an approved actuary, based on information provided by the Group.

The Group's legal obligation is not affected by the accounting treatment.

Calculations of the pension commitment for all years are based on the following assumptions:

%	2011	2010
Discount rate	3,3	3,2
Expected pay adjustments	4,0	4,0
Expected adjustment of current pensions	0,7	0,5
Expected adjustment of national insurance basic amount (G)	3,8	3,8
Expected return on pension assets	4,8	4,6
Voluntary exit for employees aged under 40	2,0	2,0
Voluntary exit for employees aged over 40	2,0	2,0
Demographic disability assumptions	IR02	IR02
Demographic mortality assumptions	K2005	K2005

The financial assumptions are measured in a long-term time horizon.

Composition of net pension cost

	GROUP		PARENT BANK	
NOK MILLION	2011	2010	2011	2010
Present value of the year's pension contributions, group schemes	8	6	5	4
Present value of the year's pension contributions, unsecured schemes	1	1	1	1
Interest expense on accrued pension commitments, group schemes	3	3	2	2
Interest expense on accrued pension commitments, unsecured schemes	0	1	0	1
Amortisation of phasing out of schemes, prior error, change to cost of scheme	0	-1	0	-1
Amortisation of estimation loss/gain(-) group schemes	1	1	1	0
Costs of administering pension scheme	1	0	0	0
Expected return on pension assets	-3	-3	-2	-2
Accrued employer's contributions	1	1	1	1
Net pension cost	13	9	8	6

Specification of net recognised defined benefit pension commitment

	GROUP		PARENT BANK	
NOK MILLION	2011	2010	2011	2010
Present value of contributory pension commitment for defined benefit plans in secured schemes	105	97	67	62
Fair value of pension assets	-70	-64	-45	-41
Net pension commitment for defined benefit plans in secured schemes	35	33	23	21
Present value of contributory pension commitment for defined benefit plans in unsecured schemes	27	29	17	18
Costs of prior-period pension contributions not recognised in the balance sheet	-30	-30	-19	-19
Accrued employer's contribution	9	9	6	6
Net pension commitment recognised in the balance sheet	41	40	26	25

Movements in defined benefit pension commitment - secured scheme

	GROUP		PARENT BANK	
NOK MILLION	2011	2010	2011	2010
Gross pension commitment as at 1 January	97	73	62	47
Present value of pension contributions	8	6	5	4
Interest expense	3	3	2	2
Actuarial losses (gains) on the commitment	-1	17	-1	11
Cost of prior-period pension contributions	0	0	0	0
Takeover/acquisition/transfer of members	0	0	0	0
Benefits paid out	-1	-1	-1	-1
Gross pension commitment as at 31 December	105	97	67	62

Movements in defined benefit pension commitment - unsecured scheme

	GROUP		PARENT BANK	
NOK MILLION	2011	2010	2011	2010
Gross pension commitment as at 1 January	28	24	18	15
Present value of pension contributions	1	1	0	1
Interest expense	1	1	1	1
Actuarial losses (gains) on the pension commitment	-1	3	0	2
Cost of prior-period pension contributions	0	0	0	0
Takeover/acquisition/transfer of members	0	0	0	0
Benefits paid out	-2	-1	-2	-1
Gross pension commitment as at 31 December	26	28	17	18
Total pension commitments, secured and unsecured schemes as at 1 January	125	97	80	62
Total pension commitment, secured and unsecured schemes as at 31 December	132	125	84	80

Movements in fair value of pension assets - secured scheme

	GROUP		PARENT BANK	
NOK MILLION	2011	2010	2011	2010
Fair value of pension assets as at 1 January	64	51	41	33
Expected return on pension assets	3	3	2	2
Actuarial losses (gains) on pension assets	-3	3	-2	2
Total contribution	7	8	4	5
Benefits paid out	-1	-1	-1	-1
Takeover/acquisition/transfer of members	0	0	0	0
Fair value of pension assets as at 31 December	70	64	45	41

Pension scheme members

	GROUP		PARENT BANK	
NOK MILLION	2011	2010	2011	2010
Economically active members	118	103	76	66
Pensioners and disabled members	16	17	10	11
Total number of pension scheme members	134	120	86	77

Investment of pension assets as at 31 December

	GROUP			
NOK MILLION	2011 AMOUNT	%	2010 AMOUNT	%
Equity instruments	7	10.4	10	15.6
Debt instruments	49	70.3	40	62.3
Real estate	13	18.1	10	16.1
Other investments	1	1.2	4	6.0
Total pension assets	70	100	64	100

Pension assets are not invested in own financial instruments or other assets in the company. The pension assets are managed by the insurance company.

Expected payment of premium to defined benefit pension schemes in 2012 is NOK 8 million for the Group, and NOK 5 million for the Parent Company.

GROUP

NOK MILLION	2011	2010	2009	2008	2007	2006
Present value of pension contributions	132	125	97	112	114	93
Fair value of pension assets	70	64	51	63	61	60
Deficit/(surplus)	-62	-61	-45	-49	-53	-33
Experience-based adjustments to pension commitments	-2	20	-29	-18	13	-13
Experience-based adjustments to pension assets	-3	3	-20	-14	-2	-1

PARENT BANK

NOK MILLION	2011	2010	2009	2008	2007	2006
Present value of pension contributions	84	80	62	71	75	59
Fair value of pension assets	45	41	33	40	42	39
Deficit/(surplus)	-39	-39	-29	-31	-33	-20
Experience-based adjustments to pension commitments	-1	12	-19	-12	7	-8
Experience-based adjustments to pension assets	-2	2	-13	-9	-2	-1

NOTE 10. INTANGIBLE ASSETS AND TANGIBLE FIXED ASSETS

GROUP 2011

NOK MILLION	DEVELOPMENT IT SYSTEMS	OTHER INTANG. ASSETS	INTANGIBLE ASSETS	MACHINERY, FIXT. & TRANSPORT	BUILDINGS, REAL PROPERTY[1]	TANGIBLE FIXED ASSETS
Original cost including revaluations as at 01.01.2011	57	0	57	49	66	115
Additions	13	0	13	7	27	34
Additions from acquisitions	0	0	0	0	0	0
Disposals at original cost	0	0	0	0	-86	-86
Original cost including revaluations as at 31.12.2011	**70**	**0**	**70**	**56**	**7**	**63**
Accumulated depreciation, amortisation and write-downs as at 01.01.2011	40	0	40	34	1	35
Disposals	0	0	0	0	-1	-1
Write-downs for the year	0	0	0	0	0	0
Ordinary depreciation/amortisation charge for the year	10	0	10	6	0	6
Accumulated depreciation, amortisation and write-downs as at 31.12.2011	**50**	**0**	**50**	**40**	**0**	**40**
Book value as at 31 December 2011	**20**	**0**	**20**	**16**	**7**	**23**
Depreciation/amortisation method	STRAIGHT-LINE			STRAIGHT-LINE	STRAIGHT-LINE	
Useful life	4 years	Indefinite		3 - 5 years	100 years	

PARENT BANK 2011

NOK MILLION	DEVELOPMENT IT SYSTEMS	OTHER INTANG. ASSETS	INTANGIBLE ASSETS	MACHINERY, FIXT. & TRANSPORT	BUILDINGS, REAL PROPERTY[1]	TANGIBLE FIXED ASSETS
Original cost including revaluations as at 01.01.2011	57	0	57	49	7	56
Additions	13	0	13	7	0	7
Additions from acquisitions	0	0	0	0	0	0
Disposal at original cost	0	0	0	0	0	0
Original cost including revaluations at 31.12.2011	**70**	**0**	**70**	**56**	**7**	**63**
Accumulated depreciation, amortisation and write-downs as at 01.01.2011	41	0	41	34	0	34
Disposals	0	0	0	0	0	0
Ordinary depreciation/amortisation charge for the year	9	0	9	6	0	6
Accumulated depreciation, amortisation and write-downs as at 31.12.2011	**50**	**0**	**50**	**40**	**0**	**40**
Book value as at 31 December 2011	**20**	**0**	**20**	**16**	**7**	**23**
Depreciation/amortisation method	STRAIGHT-LINE			STRAIGHT-LINE	STRAIGHT-LINE	
Useful life	4 years	Indefinite		3 - 5 years	100 years	

[1] At the beginning of 2011, the Group owned Kongensgt. 18 and Munkegt. 21 at Torvet (the main square) in Trondheim. The property had a book value of NOK 58 million as at 31 December 2010 and a total gross floor area of 4,690 sq.m. The property was separated out in 2010 into a subsidiary, Munkegata 21 AS. Following extensive rehabilitation of the property in 2011, the shares in Munkegt. 21 AS were sold on 15 September 2011 with an accounting gain for the Group of NOK 37 million.

BN Bank moved to premises in Søndre Gate in Trondheim in November 2010.

Development of IT systems is classed as in-house developed intangible assets.

The depreciation/amortisation schedule reflects the assumed useful life of the asset.

Statement of cash flows relating to the sale of Munkegata 21

	GROUP 2011
Book value of the building at date of sale	91
Debt and other items	-95
Net equity	**-4**
Sale profit to the company	37
Inter-company debt settled	96
Total proceeds from sale of subsidiary	**129**

GROUP 2010

NOK MILLION	DEVELOPMENT IT SYSTEMS	OTHER INTANG. ASSETS	INTANGIBLE ASSETS	MACHINERY, FIXT. & TRANSPORT	BUILDINGS, REAL PROPERTY[1]	TANGIBLE FIXED ASSETS
Original cost including revaluations as at 1 January 2010	41	0	41	40	60	100
Additions	16	0	16	9	6	15
Additions from acquisitions	0	0	0	0	0	0
Disposals at original cost	0	0	0	0	0	0
Original cost including revaluations as at 31 December 2010	**57**	**0**	**57**	**49**	**66**	**115**
Accumulated depreciation, amortisation and write-downs as at 01.01.2010	36	0	36	29	24	53
Disposals	0	0	0	0	-24	-24
Write-downs for the year	0	0	0	0	0	0
Ordinary depreciation/amortisation charge for the year [1]	5	0	5	5	1	6
Accumulated depreciation, amortisation and write-downs as at 31.12.2010	**41**	**0**	**41**	**34**	**1**	**35**
Book value as at 31 December 2010	**16**	**0**	**16**	**15**	**65**	**80**
Depreciation/amortisation method	STRAIGHT-LINE			STRAIGHT-LINE	STRAIGHT-LINE	
Useful life	4 years	Indefinite useful life		3 - 5 years	100 years	

PARENT BANK 2010

NOK MILLION	DEVELOPMENT IT SYSTEMS	OTHER INTANG. ASSETS	INTANGIBLE ASSETS	MACHINERY, FIXT. & TRANSPORT	BUILDINGS, REAL PROPERTY[1]	TANGIBLE FIXED ASSETS
Original cost including revaluations as at 1 January 2010	41	0	41	40	84	124
Additions	16	0	16	9	6	15
Additions from acquisitions	0	0	0	0	0	0
Disposals at original cost	0	0	0	0	-83	-83
Original cost including revaluations as at 31 December 2010	**57**	**0**	**57**	**49**	**7**	**56**
Accumulated depreciation, amortisation and write-downs as at 01.01.2010	36	0	36	29	24	53
Disposals	0	0	0	0	-24	-24
Ordinary depreciation/amortisation charge for the year [1]	5	0	5	5	0	5
Accumulated depreciation, amortisation and write-downs as at 31.12.2010	**41**	**0**	**41**	**34**	**0**	**34**
Book value as at 31 December 2010	**16**	**0**	**16**	**15**	**7**	**22**
Depreciation/amortisation method	STRAIGHT-LINE			STRAIGHT-LINE	STRAIGHT-LINE	
Useful life	4 years	Indefinite useful life		3 - 5 years	100 years	

[1] The Group owns Kongensgt. 18 and Munkegt. 21 at Torvet (the main square) in Trondheim. The property had a book value of NOK 58 million as at 31 December 2010 and a total gross floor area of 4,690 sq.m. The building was separated out in 2010 into a subsidiary, Munkegata 21 AS.
BN Bank moved to premises in Søndre Gate in Trondheim in November 2010.

NOTE 11. OTHER OPERATING EXPENSE

	GROUP		PARENT BANK	
NOK MILLION	2011	2010	2011	2010
Operating expense real property [1]	12	7	-2	-4
Miscellaneous operating expense	21	18	7	11
Other operating expense	**33**	**25**	**5**	**7**

[1] Provision has been made for future obligations relating to sub-letting the lease. As of 2010, 100% of the floor space was let, which was taken into account in the future obligations. See also Note 25.

NOTE 12. 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 not serviced under the loan agreement for 3 months or more. As a first mortgage lender, the Group 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.

	GROUP		PARENT BANK	
NOK MILLION	2011	2010	2011	2010
Write-offs in excess of prior-year write-downs	23	65	19	38
Write-offs on loans without prior write-downs	8	0	0	0
Write-offs transferred to divested operations	0	-22	0	-22
Write-downs for the period:				
Change in collective write-downs	2	-15	-1	-13
Change in collective write-downs related to the Ålesund portfolio	1	0	1	0
Change in collective write-downs transferred to divested operations	0	11	0	11
Total change in collective write-downs	**3**	**-4**	**0**	**-2**
Increase in loans with prior-year write-downs	28	35	7	12
Provision against loans without prior write-downs	24	21	9	7
Decrease in loans with prior-year write-downs	-9	-36	-10	-25
Change in individual write-downs transferred to divested operations	0	-25	0	-25
Total change in individual write-downs	**43**	**-5**	**6**	**-31**
Gross impairment losses	77	34	25	-17
Recoveries on previous write-offs [1]	-15	-2	-6	-2
Impairment losses	**62**	**32**	**19**	**-19**
Revenue recognition of interest on written-down loans	10	2	2	-4

[1] NOK 9 millon relates to the accounting gain on the sale of the previously repossessed property in Tromsø in the second quarter of 2011.

	GROUP		PARENT BANK	
NOK MILLION	2011	2010	2011	2010
Individual write-downs to cover impairment losses as at 1 January	78	114	43	93
Write-offs covered by prior-year individual write-downs	-23	-94	-19	-88
Write-downs for the period:				
Increase in loans with prior-year individual write-downs	14	29	3	12
Write-downs on loans without prior individual write-downs	15	21	0	7
Decrease in loans with prior-year individual write-downs	-6	-56	-9	-45
Transferred assets classified as held for sale	16	64	16	64
Individual write-downs to cover impairment losses as at 31 December	94	78	34	43
Collective write-downs to cover impairment losses as at 1 January	83	87	38	40
Collective write-downs for the period to cover impairment losses	2	-4	-1	-2
Collective write-downs to cover impairment losses as at 31 December	85	83	37	38

	GROUP		PARENT BANK	
NOK MILLION	2011	2010	2011	2010
Individual write-downs to cover loss on financial guarantee related to the Ålesund portfolio as at 1 January	26	0	26	0
Write-offs covered by prior-year individual write-downs	-7	0	-7	0
Write-downs for the period:				
Increase in loans with prior-year individual write-downs	4	26	4	26
Write-downs on loans without prior individual write-downs	9	0	9	0
Decrease in loans with prior-year individual write-downs	-4	0	-4	0
Individual write-downs to cover loss on financial guarantee related to the Ålesund portfolio as at 31.12 [1]	28	26	28	26
Collective write-downs to cover loss related to the Ålesund portfolio as at 1 January	19	30	19	30
Collective write-downs for the period to cover loss related to the Ålesund portfolio	1	-11	1	-11
Collective write-downs to cover loss related to the Ålesund portfolio as at 31 December [1]	20	19	20	19
Individual write-down related to the Ålesund portfolio classified as held for sale	2	18	2	18
Total loss provisions related to the Ålesund portfolio	50	63	50	63

[1] BN Bank has entered into an agreement with SpareBank1 SMN to take over the Ålesund portfolio. BN Bank will however provide guarantees for losses in the portfolio for a period of 3-5 years from the agreement's inception. The loss provision is classified under accrued expenses and deferred income. See Note 36 concerning events after the reporting period.

Loans past due more than 3 months as at 31 December

	GROUP				PARENT BANK			
NOK MILLION	2011	2010	2009	2008	2011	2010	2009	2008
Gross principal	213	193	566	1 092	73	110	405	359
Individual write-downs	40	39	71	34	14	39	67	9
Net principal	**173**	**154**	**495**	**1 058**	**59**	**71**	**338**	**350**

Other loans with individual write-downs as at 31 December

	GROUP				PARENT BANK			
NOK MILLION	2011	2010	2009	2008	2011	2010	2009	2008
Gross principal	678	793	407	820	282	254	350	820
Individual write-downs	85	83	125	381	51	48	108	381
Net principal	**593**	**710**	**282**	**439**	**231**	**206**	**242**	**439**

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

GROUP

NOK MILLION	GROSS OUTSTANDING 2011	%	GROSS OUTSTANDING 2010	%	GROSS OUTSTANDING 2009	%
Corporate market	126	0.55	67	0.33	340	1.85
Retail market	66	0.71	70	0.67	105	0.84
Divested portfolio	21	0.74	56	1.53	121	2.66
Total	**213**	**0.59**	**193**	**0.43**	**566**	**0.54**

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

PARENT BANK

NOK MILLION	GROSS OUTSTANDING 2011	%	GROSS OUTSTANDING 2010	%	GROSS OUTSTANDING 2009	%
Corporate market	0	0.00	0	0.00	208	4.15
Retail market	51	0.70	54	0.71	76	1.27
Divested portfolio	21	0.74	56	1.53	121	2.66
Total	**72**	**0.82**	**110**	**0.60**	**405**	**2.60**

NOTE 13. TAX

Computation of tax payable

	GROUP		PARENT BANK	
NOK MILLION	2011	2010	2011	2010
Profit/(loss) before tax	201	191	138	207
Permanent P&L differences:				
Income from ownership interests in associates	0	0	0	0
Income from ownership interests in group companies	0	0	45	0
Non-deductible expenses	2	5	2	5
Non-taxable income	-33	-1	-33	-1
Changes in temporary P&L differences relating to:				
Current assets/short-term liabilities	-159	95	-120	210
Fixed assets/long-term liabilities	123	-283	113	-291
Other items recognised in equity				
Taxable income	134	7	145	130
Tax payable (28%)	37	2	41	36
28% of the previous year's group contribution, recognised this year	0	0	-40	-76
28% of the year's group contribution	0	0	36	40
Tax payable on the balance sheet	37	2	36	0

The Parent Bank has a loss carry-forward and therefore no tax payable in 2010. The subsidiaries render group contribution chiefly equivalent to the taxable profit. The subsidiary BN Boligkreditt has tax payable totalling NOK 2 million in 2010.

The Parent Bank has a taxable profit in 2011 after the subsidiaries have rendered group contribution with tax effect. The Parent Bank has tax payable totalling NOK 36 million in 2011 .

The subsidiary BNkreditt has tax payable of NOK 1 million in 2011.

	GROUP		PARENT BANK	
NOK MILLION	2011	2010	2011	2010
Tax payable	37	2	41	36
Excess/insufficient tax provision last year	0	-3	0	-3
Change in deferred tax	10	53	2	23
Tax charge relating to divested operations	-3	0	-3	0
Tax charge	44	52	40	56

Reconciliation from nominal to actual tax rate (28%)

	GROUP		PARENT BANK	
NOK MILLION	2011	2010	2011	2010
Profit/(loss) before tax	201	191	138	207
Expected income tax at nominal rate (28%)	56	53	39	58
Excess/insufficient tax provision last year	0	-3	0	-3
Income tax effect of permanent differences	-9	1	4	1
Tax charge related to divested operations	-3	0	-3	0
Tax charge	44	52	40	56
Effective tax rate	22%	27%	29%	27%

Computation of deferred tax/deferred tax assets

	GROUP		PARENT BANK	
NOK MILLION	2011	2010	2011	2010
Tax-adding temporary differences:				
Building and other fixed assets	0	14	0	14
Profit and loss account	6	7	0	0
Long-term investments [1]	371	393	301	318
Total tax-adding temporary differences	377	414	301	332
Tax-deducting temporary differences:				
Building and other fixed assets	4	6	4	6
Short-term liabilities	107	160	268	304
Long-term liabilities [1]	380	401	0	16
Net pension commitment	40	40	26	26
Adjustment opening balance 2009	0	0	0	0
Total tax-deducting temporary differences	531	607	298	352
Tax base for computing deferred tax (+)/deferred tax assets (-)	-154	-193	3	-20
Computed deferred tax (+)/deferred tax assets (-) (28% of computation base)	-43	-54	1	-6

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

	GROUP		PARENT BANK	
NOK MILLION	2011	2010	2011	2010
Deferred tax as at 1 January	-54	-104	-6	-62
Change in deferred tax in income statement	2	9	2	23
Early repayment of tax	0	0	0	0
Income tax effect of group contribution	9	41	5	33
Deferred tax from acquisitions	0	0	0	0
Deferred tax as at 31 December	-43	-54	1	-6

[1] Temporary difference relates mainly to financial instruments

Deferred tax assets are capitalised on the balance sheet when it is probable that the Group can apply them against future taxable profit.

NOTE 14. CASH AND BALANCES DUE FROM CREDIT INSTITUTIONS

	GROUP		PARENT BANK	
NOK MILLION	2011	2010	2011	2010
Cash and balances due from credit institutions carried at amortised cost:				
Cash and balances at central banks	4	106	4	106
Undated loans and balances due from credit institutions	682	770	682	764
Dated loans and balances due from credit institutions	0	0	0	0
Receivables from related parties	128	136	9	8
Receivables from subsidiaries	0	0	9 896	6 359
Short-term loans on sale and repurchase agreements	0	0	0	0
Cash and balances due from credit institutions carried at amortised cost	814	1 012	10 591	7 237
Cash and balances due from credit institutions selected for fair value carrying:				
Receivables from subsidiaries	0	0	295	267
Cash and balances due from credit institutions selected for fair value carrying	0	0	295	267
Total cash and balances due from credit institutions	814	1 012	10 886	7 504

NOTE 15. LOANS AND ADVANCES

	GROUP		PARENT BANK	
NOK MILLION	2011	2010	2011	2010
Loans carried at amortised cost:				
Lines of credit	4 792	4 787	4 178	4 223
Building loans	654	624	654	624
Amortised loans	25 934	25 002	8 847	9 318
Total loans carried at amortised cost	31 380	30 413	13 679	14 164
Loans selected for fair value carrying through profit or loss:				
Amortised loans	1 880	2 002	717	538
Total loans and advances	33 260	32 415	14 396	14 702

Overview of gross lending in managed portfolio

	GROUP		PARENT BANK	
NOK MILLION	2011	2010	2011	2010
Loans Corporate Market and Retail Market, Group	32 225	30 700	13 253	12 906
Seller's credit	1 214	1 877	1 214	1 877
Loans in remaining entity (continuing operations)	33 439	32 577	14 467	14 783
Loans transferred to SB1NK	8 263	7 308	0	0
Loans transferred to SB1BK	3 961	2 384	3 961	2 384
Total loans including loans transferred to SB1NK and SB1BK	45 663	42 269	18 428	17 167
Divested portfolio	101	665	0	665

NOTE 16. REPOSSESSED PROPERTIES

Group:
As at 31 December 2010, the Group had two repossessed properties with a book value of NOK 15 million and NOK 3 million respectively. The property valued at NOK 3 million was repossessed in 2008 and classified as held for sale as part of the Ålesund portfolio in 2009. The same applied for 2010. Both properties were sold in 2011. For more information about repossessed properties, see Notes 1 and 12.

NOTE 17. FINANCIAL DERIVATIVES

ASSETS	GROUP		PARENT BANK	
NOK MILLION	2011	2010	2011	2010
Interest rate derivatives	808	444	643	258
Currency derivatives	43	140	43	141
Combined interest rate and currency derivatives	0	13	0	13
Equity-linked options and equity options	14	32	13	32
Total financial derivatives, assets	865	629	699	444

LIABILITIES	GROUP		PARENT BANK	
NOK MILLION	2011	2010	2011	2010
Interest rate derivatives	747	425	698	364
Currency derivatives	92	73	92	73
Combined interest rate and currency derivatives	0	13	0	13
Total financial derivatives, liabilities	839	511	790	450

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

NOTE 18. SHORT-TERM SECURITIES INVESTMENTS

	GROUP		PARENT BANK	
NOK MILLION	2011	2010	2011	2010
Short-term investments carried at amortised cost:				
Certificates and bonds issued by the Norwegian government	992	989	992	989
Certificates and bonds issued by subsidiaries	0	0	0	0
Certificates and bonds issued by others	1 329	1 170	804	650
Total short-term investments carried at amortised cost	2 321	2 159	1 796	1 639
Short-term investments selected for fair value carrying through profit or loss:				
Certificates and bonds issued by the Norwegian government	0	0	0	0
Certificates and bonds issued by others	3 185	3 632	3 188	3 635
Total short-term investments selected for fair value carrying through profit or loss	3 185	3 632	3 188	3 635
Short-term securities investments	5 506	5 791	4 984	5 274

NOTE 19. SUBORDINATED LOANS

	GROUP		PARENT BANK	
NOK MILLION	2011	2010	2011	2010
Subordinated loans carried at amortised cost:				
Subordinated loans made to others	0	15	0	15
Subordinated loans made to subsidiaries	0	0	527	527
Total subordinated loans carried at amortised cost	**0**	**15**	**527**	**542**

NOTE 20. OWNERSHIP INTERESTS IN GROUP COMPANIES

GROUP COMPANIES

NOK MILLION	SUBSIDIARY´S SHARE CAPITAL	SHARE-HOLDING[1]	BOOK VALUE AS AT 1.1.2011	CAPITAL-INCREASE M.M	WRITE-DOWN	BOOK VALUE AS AT 31.12.11	RESULT FOR YEAR 2011	RESULT FOR YEAR 2010
Bolig- og Næringskreditt AS, Trondheim	600	100%	1 600	0	0	1 600	92	53
BN Boligkreditt AS, Trondheim	101	100%	277	0	0	277	26	19
Collection Eiendom AS, Trondheim	0	100%	0	0	0	0	0	0
Shares in subsidiaries			**1 877**	**0**	**0**	**1 877**		

[1] The shareholding is equal to the voting share.

The Parent Bank has received group contribution from its subsidiaries in 2011 for a total of NOK 144 million, and has rendered group contribution to subsidiaries for NOK 45 million. The shares in the company Munkegata 21 AS were sold in the third quarter of 2011, with a resultant accounting gain of NOK 32 million.

The operations in Ålesund, which deal chiefly in lending to the corporate market, were organisationally subordinate to SpareBank 1 SMN from the fourth quarter of 2009.
The separation from BN Bank started in the fourth quarter of 2009 and is expected to be completed by the end of the first quarter of 2012.
As of the third quarter of 2009, the operations have been measured and reported as discontinued operations under IFRS 5.

Specification of results of divested operations

	GROUP/PARENT BANK	
NOK MILLION	2011	2010
Net income from interest and credit commissions	4	35
Total other operating income	1	5
Total other operating expense	-3	5
Impairment losses on loans and advances	-1	36
Income from ownership interests in group companies	0	0
Pre-tax result of operations under divestment	**9**	**-1**
Computed tax charge	3	0
Result after tax of operations under divestment	**6**	**-1**

Statement of cash flows relating to divested operations

	GROUP/PARENT BANK	
NOK MILLION	2011	2010
Cash flow from operating activities	8	35
Cash flow from investing activities	0	0
Cash flow from financing activities	0	0
Net cash flow for the period	**8**	**35**

Specification of results of divested operations, last four quarters

NOK MILLION	Q1 2011	Q2 2011	Q3 2011	Q4 2011	FULL-YEAR 2011
Net income from interest and credit commissions	2	1	1	0	4
Total other operating income	1	0	0	0	1
Total other operating expense	-3	0	0	0	-3
Operating profit/(loss) before impairment losses	**6**	**1**	**1**	**0**	**8**
Impairment losses on loans and advances	-4	-6	2	7	-1
Pre-tax profit/(loss) from remaining entity	**10**	**7**	**-1**	**-7**	**9**
Computed tax charge	3	2	-1	-1	3
Profit/(loss) after tax from remaining entity	**7**	**5**	**0**	**-6**	**6**

Specification of results of divested operations and guarantee portfolio, last four quarters

NOK MILLION	Q1 2011	Q2 2011	Q3 2011	Q4 2011	FULL-YEAR 2011
Net income from interest and credit commissions	0	-3	-3	2	-4
Total other operating income	5	10	14	21	50
Total other operating expense	-3	-3	-3	-3	-12
Operating profit/(loss) before impairment losses	**8**	**10**	**14**	**26**	**58**
Impairment losses on loans and advances	4	1	9	0	14
Pre-tax profit/(loss) from remaining entity	**4**	**9**	**5**	**26**	**44**
Computed tax charge	1	3	2	0	6
Profit/(loss) after tax from remaining entity	**3**	**6**	**3**	**26**	**38**

Other assets classified as held for sale

In connection with the default on a loan in 2010, the Bank took over 100% of the shares in a company. The Bank intends to sell the business.

NOTE 21. PREPAYMENTS AND ACCRUED INCOME

	GROUP		PARENT BANK	
NOK MILLION	2011	2010	2011	2010
Accrued unpaid income and prepaid unaccrued expenses	70	97	70	148
Financial guarantees	0	0	0	0
Prepayments and accrued income	70	97	70	148

NOTE 22. LIABILITIES TO CREDIT INSTITUTIONS

	GROUP		PARENT BANK	
NOK MILLION	2011	2010	2011	2010
Liabilities to credit institutions carried at amortised cost:				
Loans and deposits from credit institutions	1 178	1 975	1 864	2 451
Loans from SpareBank 1 SMN	0	0	0	0
Liabilities to credit institutions carried at amortised cost	1 178	1 975	1 864	2 451
Liabilities to credit institutions carried at fair value:				
Loans and deposits from credit institutions, selected for fair value carrying	0	0	0	0
Liabilities to credit institutions	1 178	1 975	1 864	2 451

NOTE 23. CUSTOMER DEPOSITS AND ACCOUNTS PAYABLE TO CUSTOMERS

	GROUP		PARENT BANK	
NOK MILLION	2011	2010	2011	2010
Customer deposits and accounts payable to customers carried at amortised cost:				
Customer deposits and accounts payable to customers without agreed maturity date	13 465	14 112	13 465	14 112
Customer deposits and accounts payable to customers with agreed maturity date	632	356	632	356
Deposits from subsidiaries without agreed maturity date	0	0	0	0
Customer deposits and accounts payable to customers carried at amortised cost	14 097	14 468	14 097	14 468
Customer deposits and accounts payable to customers selected for fair value carrying:				
Customer deposits and accounts payable to customers with agreed maturity date, selected for fair value carrying	1 862	1 927	1 862	1 927
Total customer deposits and accounts payable to customers	15 959	16 395	15 959	16 395

NOTE 24. DEBT SECURITIES IN ISSUE

Face values

	GROUP		PARENT BANK	
NOK MILLION	2011	2010	2011	2010
Face value of certificates	2 735	3 110	2 735	2 553
Face value of own certificates	-89	0	-89	0
Net face value of certificates	2 646	3 110	2 646	2 553
Face value of bonds	17 955	14 458	10 064	5 414
Face value of own bonds	-2 904	-1 250	-1 449	-310
Net face value of bonds	15 051	13 208	8 615	5 104
Net face value of debt securities in issue	17 697	16 318	11 261	7 657

Recognised values

	GROUP		PARENT BANK	
NOK MILLION	2011	2010	2011	2010
Certificates carried at amortised cost	1 250	296	1 250	296
Certificates carried at amortised cost (secured debt)	0	0	0	0
Certificates selected for fair value carrying	1 420	2 863	1 420	2 296
Total recognised value of certificates	2 670	3 159	2 670	2 592
Bonds carried at amortised cost	10 010	7 185	7 073	3 575
Bonds carried at amortised cost (secured debt)	2 074	1 350	1 300	592
Bonds selected for fair value carrying	3 196	4 909	311	943
Toltal recognised value of bonds	15 280	13 444	8 684	5 110
Total recognised value of debt securities in issue	17 950	16 603	11 354	7 702

NOTE 25. ACCRUED EXPENSES AND DEFERRED INCOME

	GROUP		PARENT BANK	
NOK MILLION	2011	2010	2011	2010
Accrued not due expenses/payments received in advance of period	30	41	28	39
Provision for liabilities	12	21	12	21
Financial guarantees	48	26	48	26
Net pension commitment (see Note 9)	41	40	26	25
Accrued expenses and deferred income	131	128	114	111

Provision for liabilities - legal obligations

	GROUP		PARENT BANK	
NOK MILLION	2011	2010	2011	2010
Opening balance	21	21	21	21
New provision in the period	10	17	10	17
Expenses charged to provision	-19	-17	-19	-17
Reversal of unused provision	0	0	0	0
Effect of time value	0	0	0	0
Closing balance	12	21	12	21

Provisions relate to performance-related pay and holiday pay for employees, and other contractual payments to employees.

NOTE 26. SUBORDINATED LOAN CAPITAL

Subordinated loans carried at amortised cost:

	2011		2010		GROUP AND PARENT BANK	
ISIN-NUMBER	RECOGNISED VALUE 31.12.11[4]	NOMINAL (NOKm)	RECOGNISED VALUE 31.12.10[4]	NOMINAL (NOKm)	CURRENCY	MATURITY
1030287.0 [2]	0	0	199	199	NOK	16.03.16
1023144.2 [3]	84	85	84	85	NOK	Perpetual
1041777.7 [1]	298	300	297	300	NOK	22.02.18
1059357.7 [3]	397	400	400	400	NOK	Perpetual
1056663.1 [1]	498	500	498	500	NOK	16.04.20
Subordinated loans carried at amortised cost	1 277	1 285	1 478	1 484		

Subordinated loans selected for fair value carrying through profit or loss:

	2011		2010		GROUP AND PARENT BANK	
ISIN-NUMBER	RECOGNISED VALUE 31.12.11[4]	NOMINAL (NOKm)	RECOGNISED VALUE 31.12.10[4]	NOMINAL (NOKm)	CURRENCY	MATURITY
1030292.0 [2]	0	0	30	30	NOK	16.03.16
1023143.4 [3]	161	165	185	165	NOK	Perpetual
Subordinated loans selected for fair value carrying	161	165	215	195		
Subordinated loan capital	1 438	1 450	1 692	1 679		

[1] The interest rate is adjusted every three months. The interest rate on loans 1041777.7 and 1056663.1 is set at 3-month NIBOR (Norwegian Interbank Offered Rate) plus 2.40 and 2.75 percentage points respectively in arrears for the first 5 years, and thereafter at 3-month NIBOR plus 3.15 and 3.50 percentage points respectively in arrears for the last 5 years. The loans can be fully or partially redeemed after 5 years, subject to the consent of the Financial Supervisory Authority of Norway. The interest rate on loans 1041777.7 and 1056663.1 as at 31 December 2011 were, respectively, 5.61% and 5.83%. All three loans are included in their entirety in the capital base; see Note 28.

[2] The loan was redeemed after 5 years, i.e. in 2011.

[3] The Bank had three issues of perpetual subordinated loan capital securities as at 31 December 2011. The interest rate on loan 1023143.4 is fixed at 7.14% until 25 August 2014, thereafter at 3-month NIBOR plus 3.00 percentage points in arrears. The interest rate on loan 1023144.2 is fixed at 3-month NIBOR plus 2.00 percentage points for the first 10 years, and thereafter at 3-month NIBOR plus 3.00 percentage points. At 31 December 2011 the interest rate was 4.93%. The interest rate on loan 1059357.7 is fixed at 3-month NIBOR plus 3.90 percentage points for the first 10 years, and thereafter at 3-month NIBOR plus 4.90 percentage points. At 31 December 2011 the interest rate was 6.81%.The loans may be fully or partially redeemed after 10 years, subject to the consent of the Financial Supervisory Authority of Norway. All the loans are included in their entirety in the Bank's tier 1 capital; see Note 28.

[4] Figures are stated net of accrued interest.

NOTE 27. SHAREHOLDER STRUCTURE AND SHARE CAPITAL

Shareholders as at 31 December 2011

NAME	SHAREHOLDING	NO. OF SHARES
SpareBank 1 SMN	33.0 %	4 286 149
SpareBank 1 SR-Bank	23.5 %	3 052 258
SpareBank 1 Nord-Norge	23.5 %	3 052 258
Samarbeidende Sparebanker Bankinvest AS	20.0 %	2 597 666
Total	100 %	12 988 331

The governance structure for the SpareBank 1 consortium is regulated in an agreement among the shareholders, who classify their participation in BN Bank ASA as investment in a jointly controlled entity and measure it using the equity method.

Share capital as at 31 December 2011

12,988,331 shares at NOK 50 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.

The 2011 Annual General Meeting of the Parent Bank also adopted the resolution to distribute a dividend of NOK 152 million. An extraordinary General Meeting passed a corresponding capital increase of NOK 152 million. 608,000 new shares were issued.

NOTE 28. CAPITAL ADEQUACY

Process for assessing the capital adequacy requirement

BN Bank 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 capital adequacy requirement includes assessing the size, composition and distribution of the capital base adapted to the level of risks that the Bank is or may be exposed to. The assessments are risk-based and forward-looking. 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.

BN Bank has carried out the assessments for 2012 with accompanying reporting to the Financial Supervisory Authority of Norway. The main conclusions are that the Bank's risk, capital and liquidity situation improved during the past year, that governance and control within the Bank are considered satisfactory, and that in the Board of Directors' opinion the Bank is sufficiently capitalised in relation to the Bank's level of risk.

Rules and regulations

General

Under 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 the Group does not trade in financial instruments as these are defined in the regulations, these rules have no significance for the Group's capital adequacy.

According to the rules, the the capital base consists of two main components:
1. Tier 1 capital: Equity capital (share capital, share premium reserve) 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 reduces proportionally over the last 5 years to maturity by 20% annually.
- The sum total of the items included in tier 2 capital may not exceed more than 100% of the tier 1 capital, and fixed-term subordinated loan capital may not exceed 50% of the tier 1 capital.

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

Capital adequacy requirement for the Group
The capital adequacy rules also apply on a consolidated basis. FIA section 2a-9 states that, under the capital adequacy rules, consolidation must take place if the institution has an interest in another financial institution representing 20% or more of the capital. The consolidated accounts must be used as a basis, i.e. intercompany transactions must be eliminated when calculating capital adequacy on a consolidated basis.

When calculating the Parent Bank's capital adequacy, shareholdings in subsidiaries are weighted by 100%.

Capital adequacy

	GROUP		PARENT BANK	
NOK MILLION	2011	2010	2011	2010
Share capital	649	619	649	619
Other reserves	2 506	2 383	1 363	1 298
Proposed provision for group contribution	0	0	0	0
Perpetual subordinated loan capital (perpetual subordinated loan capital borrowings) [1]	552	516	351	334
Deductions for:				
Intangible assets	-20	-16	-20	-16
Deferred tax assets	-43	-54	0	-6
Tier 1 capital	**3 644**	**3 448**	**2 343**	**2 229**
Fixed-term subordinated loan capital	899	971	1 100	1 154
Deductions for:				
Fixed-term subordinated loan capital that cannot be included	0	0	-104	-206
Net Tier 2 capital	**899**	**971**	**996**	**948**
Total subordinated loan capital	**4 543**	**4 419**	**3 339**	**3 177**
Risk-weighted assets	33 171	31 881	19 131	17 935
Tier 1 capital ratio (%)	11.0	10.8	12.2	12.4
Capital adequacy ratio (%)	**13.7**	**13.9**	**17.5**	**17.7**

[1] For more details, see Note 26.

Specification of risk-weighted assets

GROUP

NOK MILLION	2011		2010	
RISK-WEIGHTING	RECOGNICED AMOUNT	WEIGHTED AMOUNT	RECOGNICED AMOUNT	WEIGHTED AMOUNT
0 %	1 004	0	1 843	0
10 %	1 503	150	1 203	120
20 %	4 725	945	6 405	1 281
35 %	9 560	3 346	9 668	3 384
50 %	420	210	646	323
75 %	345	259	1 120	840
100 %	28 261	28 261	25 933	25 933
Investments included in the trading portfolio	0	0	0	0
Tradeable debt instruments included in the trading portfolio	0	0	0	0
Total risk-weighted assets	45 818	33 171	46 818	31 881
Capital adequacy ratio (%)		13.7		13.9

Specification of risk-weighted assets

PARENT BANK

NOK MILLION	2011		2010	
RISK-WEIGHTING	RECOGNICED AMOUNT	WEIGHTED AMOUNT	RECOGNICED AMOUNT	WEIGHTED AMOUNT
0 %	1 004	0	1 843	0
10 %	1 504	150	1 203	120
20 %	14 915	2 983	13 194	2 639
35 %	6 986	2 445	7 196	2 519
50 %	419	210	641	321
75 %	345	259	1 120	840
100 %	13 084	13 084	11 496	11 496
Investments included in the trading portfolio	0	0	0	0
Tradeable debt instruments included in the trading portfolio	0	0	0	0
Total risk-weighted assets	38 257	19 131	36 693	17 935
Capital adequacy ratio (%)		17.5		17.7

NOTE 29. FINANCIAL INSTRUMENTS BY CATEGORY

As at 31 December 2011

GROUP

NOK MILLION	FAIR VALUE	VOLUNTARILY CLASSIFIED AT FAIR VALUE	AVAILABLE FOR SALE	LOANS, RECEIVABLES & OTHER LIABILITIES AT AMORTISED COST[1]	HOLD TO MATURITY	TOTAL
Subordinated loans	0	0	0	0	0	0
Loans and advances	0	1 880	0	31 380	0	33 260
Prepayments and accrued income	0	0	0	65	0	65
Financial derivatives, assets	865	0	0	0	0	865
Short-term securities investments	0	3 185	178	2 143	0	5 506
Cash and balances due from credit institutions	0	0	0	814	0	814
Assets classified as held for sale	0	0	0	121	0	121
Total financial instruments, assets	865	5 065	178	34 523	0	40 631
Subordinated loan capital	0	-165	0	-1 286	0	-1 451
Liabilities to credit institutions	0	0	0	-1 178	0	-1 178
Debt securities in issue	0	-4 616	0	-13 334	0	-17 950
Accrued expenses and deferred income	0	0	0	-37	0	-37
Other short-term liabilities	0	0	0	1	0	1
Financial derivatives, liabilities	-839	0	0	0	0	-839
Customer deposits and accounts payable to customers	-13	-1 849	0	-14 097	0	-15 959
Liabilities classified as held for sale	0	0	0	-11	0	-11
Total financial instruments, liabilities	-852	-6 630	0	-29 942	0	-37 424

[1] Includes secured debt.

As at 31 December 2010

GROUP

NOK MILLION	FAIR VALUE	VOLUNTARILY CLASSIFIED AT FAIR VALUE	AVAILABLE FOR SALE	LOANS, RECEIVABLES & OTHER LIABILITIES AT AMORTISED COST[1]	HOLD TO MATURITY	TOTAL
Subordinated loans	0	0	0	15	0	15
Loans and advances	0	2 002	0	30 413	0	32 415
Prepayments and accrued income	0	0	0	91	0	91
Financial derivatives, assets	629	0	0	0	0	629
Short-term securities investments	0	3 632	125	2 034	0	5 791
Cash and balances due from credit institutions	0	0	0	1 012	0	1 012
Assets classified as held for sale	415	0	0	689	0	1 104
Total financial instruments, assets	1 044	5 634	125	34 254	0	41 057
Subordinated loan capital	0	-200	0	-1 486	0	-1 686
Liabilities to credit institutions	0	0	0	-1 975	0	-1 975
Debt securities in issue	0	-7 772	0	-8 831	0	-16 603
Accrued expenses and deferred income	0	0	0	0	0	0
Other short-term liabilities	0	0	0	-13	0	-13
Financial derivatives, liabilities	-511	0	0	0	0	-511
Customer deposits and accounts payable to customers	-31	-1 896	0	-14 468	0	-16 395
Liabilities classified as held for sale	-415	0	0	-476	0	-891
Total financial instruments, liabilities	-957	-9 868	0	-27 249	0	-38 074

[1] Includes secured debt.

As at 31 December 2011 PARENT BANK

NOK MILLION	FAIR VALUE	VOLUNTARILY CLASSIFIED AT FAIR VALUE	AVAILABLE FOR SALE	LOANS, RECEIV-ABLES & OTHER LIABILITIES AT AMORTISED COST[1]	HOLD TO MATURITY	TOTAL
Subordinated loans	0	0	0	527	0	527
Loans and advances	0	717	0	13 679	0	14 396
Prepayments and accrued income	0	0	0	64	0	64
Financial derivatives, assets	699	0	0	0	0	699
Short-term securities investments	0	3 188	178	1 618	0	4 984
Cash and balances due from credit institutions	0	0	0	10 886	0	10 886
Assets classified as held for sale	0	0	0	122	0	122
Total financial instruments, assets	699	3 905	178	26 896	0	31 678
Subordinated loan capital	0	-165	0	-1 286	0	-1 451
Liabilities to credit institutions	0	0	0	-1 864	0	-1 864
Debt securities in issue	0	-1 731	0	-9 623	0	-11 354
Accrued expenses and deferred income	0	0	0	-36	0	-36
Other short-term liabilities	0	0	0	1	0	1
Financial derivatives, liabilities	-790	0	0	0	0	-790
Customer deposits and accounts payable to customers	-13	-1 849	0	-14 097	0	-15 959
Liabilities classified as held for sale	0	0	0	-11	0	-11
Total financial instruments, liabilities	-803	-3 745	0	-26 916	0	-31 464

[1] Includes secured debt.

As at 31 December 2010 PARENT BANK

NOK MILLION	FAIR VALUE	VOLUNTARILY CLASSIFIED AT FAIR VALUE	AVAILABLE FOR SALE	LOANS, RECEIV-ABLES & OTHER LIABILITIES AT AMORTISED COST[1]	HOLD TO MATURITY	TOTAL
Subordinated loans	0	0	0	542	0	542
Loans and advances	0	538	0	14 164	0	14 702
Prepayments and accrued income	0	0	0	143	0	143
Financial derivatives, assets	444	0	0	0	0	444
Short-term securities investments	0	3 635	125	1 514	0	5 274
Cash and balances due from credit institutions	0	0	0	7 504	0	7 504
Assets classified as held for sale	415	0	0	690	0	1 105
Total financial instruments, assets	859	4 173	125	24 557	0	29 714
Subordinated loan capital	0	-200	0	-1 486	0	-1 686
Liabilities to credit institutions	0	0	0	-2 451	0	-2 451
Debt securities in issue	0	-3 239	0	-4 463	0	-7 702
Accrued expenses and deferred income	0	0	0	0	0	0
Other short-term liabilities	0	0	0	-11	0	-11
Financial derivatives, liabilities	-450	0	0	0	0	-450
Customer deposits and accounts payable to customers	-31	-1 896	0	-14 468	0	-16 395
Liabilities classified as held for sale	-415	0	0	-476	0	-891
Total financial instruments, liabilities	-896	-5 335	0	-23 355	0	-29 586

[1] Includes secured debt.

NOTE 30. FAIR VALUE OF FINANCIAL INSTRUMENTS

METHODS OF DETERMINING FAIR VALUE

Interest swap agreements, currency swap agreeements and forward exchange contracts

The measurement of interest swap agreements at fair value is performed using a valuation technique where future cash flows are discounted to present values. The calculation of expected cash flows and the discounting of these cash flows 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).

Interest swap agreements with credit spread

The measurement of interest swap agreements with credit spread at fair value is performed using a valuation technique where future cash flows are discounted to present values. The calculation of expected cash flows and the discounting of these cash flows is performed using observed market interest rates for the various currencies (interest-rate swap curve) with premium for the original credit spread on the interest swap agreement.

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 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 market players' assessments of the creditworthiness of the issuer.

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 in correlation with changes in the market pricing of risk, the borrowers' credit ratings and margin changes in the market.

Borrowings selected for fair value carrying

Where borrowing/funding is measured at fair value, quoted borrowings will be 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 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 market players' ongoing assessments of the Bank's creditworthiness.

Hedged borrowing/funding

Borrowings included in fair value hedges are measured 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). We have discounted by the interest-rate swap curve with premium for the original credit spread on the borrowing to eliminate the effects of the credit risk. It is the interest rate risk that is hedged.

Deposits

For deposits 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 is determined on the basis of other market players' ongoing assessments of the Bank's creditworthiness. The premium for margins is determined on the basis of the original margin, but with subsequent adjustment of margin in correlation with margin changes in the market.

Options

The measurement of equity options and equity-linked options at fair value is performed by obtaining market prices from the facilitators of the structured financial products.

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 Group's assets and liabilities measured at fair value as at 31 December 2011

GROUP				
NOK MILLION	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Loans and advances	0	0	1 880	1 880
Prepayments and accrued income	0	0	0	0
Financial derivatives assets [1]	0	865	0	865
Short-term securities investments	373	2 812	0	3 185
Assets classified as held for sale	0	0	0	0
Total assets	373	3 677	1 880	5 930
Subordinated loan capital	0	-165	0	-165
Liabilities to credit institutions	0	0	0	0
Debt securities in issue	0	-4 616	0	-4 616
Accrued expenses and deferred income	0	0	0	0
Financial derivatives, liabilities [1]	0	-839	0	-839
Customer deposits and accounts payable to customers	0	-1 862	0	-1 862
Liabilities classified as held for sale	0	0	0	0
Total liabilities	0	-7 482	0	-7 482

[1] The value of the hedge instruments earmarked for fair value heding as at 31 December 2011 was positive by NOK 86 million.

The Group's assets and liabilities measured at fair value as at 31 December 2010

GROUP				
NOK MILLION	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Loans and advances	0	0	2 002	2 002
Prepayments and accrued income	0	0	0	0
Financial derivatives, assets [1]	0	629	0	629
Short-term securities investments	365	3 267	0	3 632
Assets classified as held for sale	0	415	0	415
Total assets	365	4 311	2 002	6 678
Subordinated loan capital	0	-200	0	-200
Liabilities to credit institutions	0	0	0	0
Debt securities in issue	0	-7 772	0	-7 772
Accrued expenses and deferred income	0	0	0	0
Financial derivatives, liabilities [1]	0	-511	0	-511
Customer deposits and accounts payable to customers	0	-1 927	0	-1 927
Liabilities classified as held for sale	0	-415	0	-415
Total liabilities	0	-10 825	0	-10 825

The value of the hedge instruments earmarked for fair value hedging as at 31 December 2010 was positive by NOK 28 million.

The Parent Bank's assets and liabilities measured at fair value as at 31 December 2011

				PARENT BANK
NOK MILLION	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Loans and advances	0	0	717	717
Prepayments and accrued income	0	0	0	0
Financial derivatives, assets [1]	0	699	0	699
Short-term securities investments	373	2 815	0	3 188
Assets classified as held for sale	0	0	0	0
Total assets	373	3 514	717	4 604
Subordinated loan capital	0	-165	0	-165
Liabilities to credit institutions	0	0	0	0
Debt securities in issue	0	-1 731	0	-1 731
Accrued expenses and deferred income	0	0	0	0
Financial derivatives, liabilities [1]	0	-790	0	-790
Customer deposits and accounts payable to customers	0	-1 862	0	-1 862
Liabilities classified as held for sale	0	0	0	0
Total liabilities	0	-4 548	0	-4 548

[1] The value of the hedge instruments earmarked for fair value hedging as at 31 December 2011 was positive by NOK 38 million.

The Parent Bank's assets and liabilities measured at fair value as at 31 December 2010

				PARENT BANK
NOK MILLION	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Loans and advances	0	0	538	538
Prepayments and accrued income	0	0	0	0
Financial derivatives, assets [1]	0	444	0	444
Short-term securities investments	365	3 270	0	3 635
Assets classified as held for sale	0	415	0	415
Total assets	365	4 129	538	5 032
Subordinated loan capital	0	-200	0	-200
Liabilities classified as held for sale	0	0	0	0
Debt securities in issue	0	-3 239	0	-3 239
Accrued expenses and deferred income	0	0	0	0
Financial derivatives, liabilities [1]	0	-450	0	-450
Customer deposits and accounts payable to customers	0	-1 927	0	-1 927
Liabilities classified as held for sale	0	-415	0	-415
Total liabilities	0	-6 231	0	-6 231

[1] The value of the hedge instruments earmarked for fair value hedging was negative by NOK 4 million as at 31 December 2010.

The Group's financial instruments measured at fair value, Level 3, as at 31 December 2011

	GROUP
NOK MILLION	LOANS
Opening balance	2 002
Investments in the period/new agreements	380
Sale in the period (at book value)	0
Matured	-453
Transferred from Level 1 or 2	0
Transferred to Level 1 or 2	0
Net gain on financial instruments	-49
Closing balance	1 880

The Group's financial instruments measured at fair value, Level 3, as at 31 December 2010

	GROUP
NOK MILLION	LOANS
Opening balance	0
Investments in the period/new agreements	52
Sale in the period (at book value)	0
Matured	-362
Transferred from Level 1 or 2	2 312
Transferred to Level 1 or 2	0
Net gain on financial instruments	0
Closing balance	2 002

The Parent Bank's financial instruments measured at fair value, Level 3, as at 31 December 2011

	PARENT BANK
NOK MILLION	LOANS
Opening balance	538
Investments in the period/new agreements	297
Sale in the period (at book value)	0
Matured	-99
Transferred from Level 1 or 2	0
Transferred to Level 1 or 2	0
Net gain on financial instruments	-19
Closing balance	717

The Parent Bank's financial instruments measured at fair value, Level 3, as at 31 December 2010

	PARENT BANK
NOK MILLION	LOANS
Opening balance	0
Investments in the period/new agreements	17
Sale in the period (at book value)	0
Matured	-123
Transferred from Level 1 or 2	644
Transferred to Level 1 or 2	0
Net gain on financial instruments	0
Closing balance	538

Sensitivity analysis Level 3

In order to show the sensitivity in fixed-rate loans, the discounted rate can be changed by 10 basis points. Since fixed-rate loans are hedged, we will have a correponding change with the sign reversed on the hedge instruments. For this reason, we have chosen not to show the sensitivity analysis in isolation for fixed-rate loans, but refer to Note 32 which shows a sensitivity analysis for the Group as a whole.

Fair value compared with recognised value

GROUP

	2011		2010	
NOK MILLION	FAIR VALUE	RECOGNISED VALUE	FAIR VALUE	RECOGNISED VALUE
Subordinated loans	0	0	15	15
Loans and advances	33 260	33 260	32 415	32 415
Prepayments and accrued income	65	65	91	91
Financial derivatives, assets [1]	865	865	629	629
Short-term securities investments	5 515	5 506	5 798	5 791
Cash and balances due from credit institutions	814	814	1 012	1 012
Assets classified as held for sale	121	121	1 104	1 104
Subordinated loan capital	-1 427	-1 451	-1 699	-1 686
Liabilities to credit institutions	-1 180	-1 178	-1 970	-1 975
Debt securities in issue [1]	-17 895	-17 950	-16 634	-16 603
Accrued expenses and deferred income	0	0	0	0
Other short-term liabilities	1	1	-13	-13
Financial derivatives, liabilities [1]	-839	-839	-511	-511
Customer deposits and accounts payable to customers [1]	-15 959	-15 959	-16 395	-16 395
Liabilities classified as held for sale	-11	-11	-891	-891
Total	3 330	3 244	2 951	2 983

PARENT BANK

	2011		2010	
NOK MILLION	FAIR VALUE	RECOGNISED VALUE	FAIR VALUE	RECOGNISED VALUE
Subordinated loans	533	527	510	542
Loans and advances	14 397	14 396	14 702	14 702
Prepayments and accrued income	64	64	143	143
Financial derivatives assets [1]	699	699	444	444
Short-term securities investments	4 990	4 984	5 280	5 274
Cash and balances due from credit institutions	10 886	10 886	7 504	7 504
Assets classified as held for sale	122	122	1 105	1 105
Subordinated loan capital	-1 427	-1 451	-1 699	-1 686
Liabilities to credit institutions	-1 866	-1 864	-2 446	-2 451
Debt securities in issue [1]	-11 332	-11 354	-7 722	-7 702
Accrued expenses and deferred income	0	0	0	0
Other short-term liabilities	1	1	-11	-11
Financial derivatives, liabilities [1]	-790	-790	-450	-450
Customer deposits and accounts payable to customers [1]	-15 959	-15 959	-16 395	-16 395
Liabilities classified as held for sale	-11	-11	-891	-891
Total	307	250	74	128

[1] In connection with the sale and/or issuance of the structured products, BN Bank hedged its exposure in the form of equity options, equity-linked options and interest swap agreements. The previous turbulence in the financial markets caused a number of contractual counterparties to fail, and it was not possible at the time to replace these hedging transactions. As a result, BN Bank is partly exposed to market developments on a limited number of products. The change in exposure is taken to profit or loss immediately, and in 2011 there was a net charge against income of NOK 8 million, compared with NOK 6 million in 2010.

In the case of short-term financial instruments, the recognised amount will normally always be a good approximation of fair value. Financial derivatives and short-term securities investments are carried in their entirety at fair value, and consequently no difference will be 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	GROUP		PARENT BANK	
NOK MILLION	2011	2010	2011	2010
Change in fair value during the period as a result of changed credit risk	-25	-34	-22	-7
Change in fair value accumulated as a result of changed credit risk	-248	-223	-93	-71

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	GROUP		PARENT BANK	
NOK MILLION	2011	2010	2011	2010
Change in fair value during the period as a result of changed credit risk	4	-49	2	-11
Change in fair value accumulated as a result of changed credit risk	65	61	34	32

The accumulated change in the 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]

GROUP

	2011		2010	
NOK MILLION	FAIR VALUE	PAYMENT OBLIGATION[2]	FAIR VALUE	PAYMENT OBLIGATION[2]
Subordinated loan capital	1 451	1 463	1 686	1 692
Liabilities to credit institutions	1 178	1 178	1 975	1 975
Debt securities in issue	17 950	17 832	16 603	16 494
Customer deposits and accounts payable to customers	15 959	15 948	16 395	16 397
Total	36 538	36 421	36 659	36 558

Fair value and contractual payment obligations at maturity [1]

PARENT BANK

	2011		2010	
NOK MILLION	FAIR VALUE	PAYMENT OBLIGATION[2]	FAIR VALUE	PAYMENT OBLIGATION[2]
Subordinated loan capital	1 451	1 463	1 686	1 692
Liabilities to credit institutions	1 864	1 864	2 451	2 451
Debt securities in issue	11 354	11 312	7 702	7 715
Customer deposits and accounts payable to customers	15 959	15 948	16 395	16 397
Total	30 628	30 587	28 234	28 255

[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 26 and Debt securities in issue in Note 24.

NOTE 31. RISK IN FINANCIAL INSTRUMENTS - QUALITATIVE DESCRIPTION

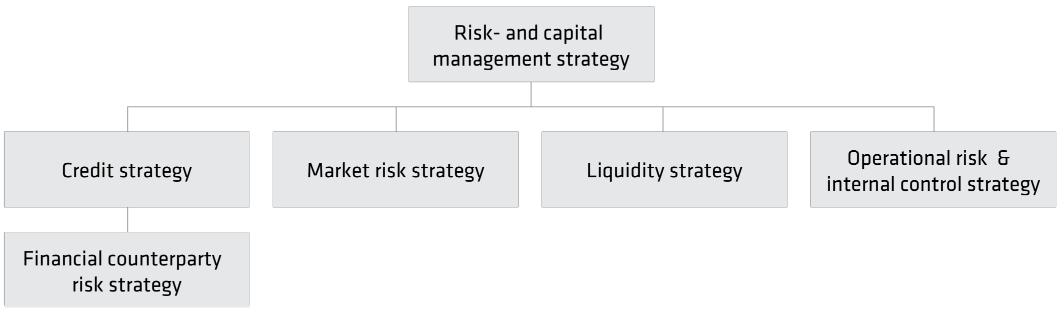
Risk management in BN Bank
It is part of the Group's corporate strategy to maintain a low risk profile in all its activities.

The chapter on risk management is part of the supplementary disclosures on financial instruments contained in the consolidated financial statements. See Notes 32 and 33 for more information about risk relating to financial instruments.

Organisation

The Board of Directors
The Board of Directors has adopted the Bank's risk strategies. These include a set of principles designed to give the organisation an understanding of the type of risk profile the Bank wishes to have and of the measures that are taken to control risk. The risk strategies also define the Bank's risk tolerance. The risk tolerance says something about the Bank'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. The risk strategies contain a combination of limits that must be explicitly complied with and targets to steer towards. The risk strategies are updated annually.

The chart below shows which risk strategies the Bank's Board of Directors has adopted and the relationship between them.



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, controls and examinations of the Bank's internal control and management processes in order to assess whether they are functioning appropriately and satisfactorily.

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

The Managing Director has delegated tasks in accordance with the formal responsibility for internal control and risk management. The responsibility for implementing the annual assessment of the risk situation and capital adequacy requirement is delegated to the Risk Management unit. This risk analysis performed by the unit shall be co-ordinated and integrated with the Bank'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 Bank has its own 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

The Bank has in place satisfactory and appropriate strategies and processes for risk management and assessing capital adequacy and how this can be maintained. The collective term for this is ICAAP (Internal Capital Adequacy Assessment Process). In order to structure the framework, BN Bank's ICAAP is divided into five stages:

I) Identification of risk

An analysis has been made of the risks the Bank is exposed to. There is a suitable system of risk monitoring for 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 in any existing, or establishment of, new products or business areas.

II) Quantification of risk and equity

In order to analyse the Bank'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 Bank is obliged to satisfy the regulatory requirements for capital base with a given probability. Calculations are also made for other confidence levels and time horizons. The level of capital is furthermore adapted to the Bank's business plans and growth ambitions, developments in framework conditions, capital planning and contingency planning. Calculations are also made of economic capital for different confidence levels and time horizons.

IV) Setting limits (ex ante control)

All significants risks have a limit.

V) Risk monitoring and ex post control

Procedures have been established for dealing with breaches of limit. 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. Relevant measures include risk mitigation, a change of limits (reallocation of risk capital) or increased 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 Bank distinguishes between the following categories of risk:

Credit risk

Credit risk is defined as the risk of loss that arises if the Group's counterparties or customers fail to meet their payment obligations to BN Bank. Credit risk concerns all receivables from counterparties/customers, mainly loans and advances, but also liability in accordance with other issued credits, guarantees, 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 give 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 the amount owed to BN Bank 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 at least once annually for businesses and quarterly for retail customers.

Credit risk is a significant risk for the Bank, 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 Bank uses credit rating models to analyse credit risk within commercial real estate, other business activity and 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.

The credit rating models differ from one another as regards what are considered the most significant risk factors relating to the loan. In the case of property companies, the focus is on the level and uncertainty of the cash flows generated from the properties that are being risk-classified for finance relative to the probability of default. For other types of enterprise, there is a greater focus on previous results/cash flow, the market situation, the management, etc. For classification in relation to impairment losses arising from default, the focus is on value and the uncertainty of the value of the properties that serve as security for the loan. For retail borrowers, the focus is 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 and migration between the classes. In Notes 32 and 33 an assessment is provided of the Bank's credit risk at the end of 2010 and 2011 respectively.

Liquidity risk

Liquidity risk is defined as the risk that the Bank 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 Bank wishes to use do not function (market liquidity). Liquidity risk is a significant risk for the Bank. The desired exposure shall be moderate and in line with the average in the market. 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 liquidity risk in relation to limits and targets. See Notes 32 and 33 for an analysis of the Group's liquidity risk at the end of 2010 and 2011 respectively.

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. Market risk is defined as a significant risk. The desired exposure shall be moderate. The Group monitors market 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 deposit/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 Bank is exposed if the fixed-interest periods for the Bank's commitments and receivables both on and off the balance sheet do not match. Interest rate risk is defined as a risk with some significance. The desired exposure shall be low. The Bank'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 is monitored 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 side 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 Notes 32 and 33.

Foreign exchange risk

Foreign exchange risk is defined as the total earnings-related risk to which the Bank is exposed when foreign exchange rates change. Foreign exchange risk is defined as a non-significant risk for the Bank. The desired exposure shall be 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 on- and off-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. An analysis of foreign exchange risk at the end of 2010 and 2011 respectively is provided in Notes 32 and 33.

Operational risk

Operational risk is defined as the risk to which the Group is exposed in the event of inadequacy or failure of internal procedures, people, systems or external events. Operational risk includes fraud risk. Fraud risk consists of several types of undesired events, including money-laundering, corruption, criminal deception, 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 for the Bank. The desired exposure shall be moderate. Operational risk is monitored by means of regular qualitative analyses.

Ownership risk

Ownership risk is the risk that BN Bank will suffer a negative result from shareholdings in strategically owned companies, or that the Bank will need to inject fresh equity capital into strategically owned companies, whether this is due to strong growth or to keep the company operating as a result of deficit.
SpareBank1 Boligkreditt AS and SpareBank1 Næringskreditt AS are included in the calculation of ownership risk. Capital requirements relating to real estate companies which have been taken over because of default are dealt with under risk of impaired value of real property. Where other companies are concerned, there is considered to be limited risk and so risk-adjusted capital has not been calculated for these.

Reputation risk

Reputation risk is the risk of loss as a result of damage to business reputation. This includes loss of revenue and access to capital because of a loss of trustworthiness and reputation in the market, i.e. in relation to customers, counterparties, primary capital certificate holders and authorities.
The banking business is dependent on trust, both in the market and in relation to regulatory authorities. Events that have a negative impact on the Bank's reputation can damage liquidity and commercial opportunities.

Compliance risk

Compliance risk is the risk that the Group will incur public sanctions, fines, financial loss or loss of reputation as a result of failure to comply with laws and regulations.

Strategic risk

Strategic risk is the risk of loss or failure of revenue because of poor strategic business decisions, including those relating to growth ambitions, entry into new markets, and/or acquisitions.

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

Frequently, the risk associated with financing commercial property is in actual fact the exposure to the tenants in the buildings. If a large proportion of the buildings in our loan portfolio are leased to large individual tenants or if a large proportion of the tenants are connected with a particular trade or business, this also implies a type of concentration risk. We call this tenant 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 type of concentration risk is known as sector concentration or geographical concentration.

Extra risk as a result of debtor concentration is present, as the Bank sees it, but does not represent a significant risk for the Bank. This is because, when one takes into account the quality of the collateral, exposure is actually low. Similar reasoning can be applied in relation to tenant concentration.

BN Bank has a concentrated loan portfolio as a result of its strategy of specialising in financing real estate in Norway, and this sector makes up about 58% of the total credit portfolio. Sector concentration is therefore the most important kind of concentration in BN Bank's portfolio. Consequently, a considerable share of the portfolio will be exposed to risk factors that affect property companies specifically. These risk factors are primarily vacancy, rental prices and interest rates. The last-mentioned is a general macrovariable, but property companies are more heavily exposed to interest rates than many other industries owing to the high proportion of loans and because property is an asset with a long life.

On the level of individual loans, there will be big variations in relation to the sensitivity of the loan to these factors and therefore in how the loan contributes to the portfolio's concentration risk. This will depend on lease conditions, the location of the property, the type of building, and so on. The debtor's financial situation will also be very important. This will vary a great deal with differences in the amount borrowed and the debtor's ability to service the debt.

BN Bank has limited possibilities for reducing the 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 Bank to do this.

Hedging instruments

The Group 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

• FRAs – forward rate agreements – contracts to exchange an agreed interest rate for a future fixed rate for a specific nominal sum for a specific period.

• Equity-linked options and share- and interest rate swaps – in this context contracts to receive the yield on one or more shares, share indexes or funds at a fixed future date against payment of a premium when the contract is made (equity-linked options), or against payment of a variable current interest rate over the term of the option (share- and interest-rate swaps). The contracts are made at the same time as borrowing in the form of equity-linked bonds or equity-linked term deposits. The contracts are designed so as to give BN Bank no net exposure in equity instruments.

• Forward exchange contracts – contracts for the purchase or sale of foreign currency with settlement at a specific future date.

The object of using interest-rate, currency and equity instruments is to hedge future interest rates or to counteract the effect of exchange rate fluctuations.

NOTE 32. RISK IN FINANCIAL INSTRUMENTS - QUANTITATIVE DESCRIPTION - GROUP

Market risk

Interest rate risk

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

GROUP

NOK MILLION	TOTAL RECOGNISED VALUE	UNDEFINED [1]	UP TO 1 MONTH	FROM 1 MONTH TO 3 MONTH	FROM 3 MONTHS TO 1 YEAR	FROM 1 YEAR TO 5 YEARS	OVER 5 YEARS
Loans and advances	33 260	1	23 336	8 293	328	1 160	142
Loans and advances, divested operations	101	0	101	0	0	0	0
Subordinated loans	0	0	0	0	0	0	0
Financial derivatives	21 766	0	722	5 421	10 139	4 432	1 053
Short-term securities investments	5 506	188	1 560	2 024	1 145	479	110
Cash and balances due from credit institutions	814	0	814	0	0	0	0
Total	61 447	189	26 533	15 738	11 612	6 071	1 305
Subordinated loan capital	1 451	1	500	785	0	165	0
Liabilities to credit institutions	1 178	7	371	800	0	0	0
Debt securities in issue	17 950	253	0	10 603	3 742	2 638	714
Financial derivatives	21 766	0	71	10 585	7 653	2 783	674
Customer deposits and accounts payable to customers	15 959	29	1 523	13 617	597	194	0
Deposits, divested operations	9	0	7	0	2	0	0
Total	58 313	290	2 472	36 390	11 994	5 780	1 388
Net = gap	3 134	-101	24 061	-20 652	-382	291	-83

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

GROUP

NOK MILLION	TOTAL RECOGNISED VALUE	UNDEFINED [1]	UP TO 1 MONTH	FROM 1 MONTH TO 3 MONTH	FROM 3 MONTHS TO 1 YEAR	FROM 1 YEAR TO 5 YEARS	OVER 5 YEARS
Loans and advances	32 415	5	20 414	10 314	116	1 045	521
Loans and advances, divested operations	665	0	665	0	0	0	0
Subordinated loans	15	0	0	15	0	0	0
Financial derivatives	22 375	0	560	7 956	4 964	8 013	882
Short-term securities investments	5 791	136	787	2 942	1 398	379	150
Cash and balances due from credit institutions	1 012	0	1 012	0	0	0	0
Total	62 274	141	23 439	21 227	6 478	9 437	1 553
Subordinated loan capital	1 686	7	500	1 014	0	165	0
Liabilities to credit institutions	1 975	6	1 169	800	0	0	0
Debt securities in issue	16 603	284	365	7 445	4 031	3 964	514
Financial derivatives	22 375	0	92	12 019	4 620	4 573	1 070
Customer deposits and accounts payable to customers	16 395	13	1 309	14 637	431	5	0
Deposits, divested operations	432	0	432	0	0	0	0
Total	59 465	310	3 867	35 915	9 082	8 707	1 584
Net = gap	2 809	-169	19 571	-14 688	-2 604	730	-31

[1] Undefined at repricing date (gap) for assets and liabilities consists of excess/shortfall in value 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 date 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 after six weeks for retail customers. Under the Financial Contracts Act, interest rate increases on personal and home loans 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 Group employs hedging instruments to manage interest rate risk; see Note 32. To arrive at a correct picture of the interest rate risk, these instruments must be viewed 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 changes in earnings resulting from the change in interest rates. The timing of these changes in earnings in the accounts cannot be gleaned from this analysis.

It is assumed when calculating the stated interest sensitivity that the interest rate on deposits and variable-rate loans will be changed with two weeks' notice for 30% of the volume of deposits and loans and with six weeks' notice for 70% of the volume. As regards other interest-bearing asset and liability items, it is assumed that interest will run up until the date of the next interest rate adjustment. In the case of securities with return sale and repurchase clauses it is likewise assumed that interest will run up until the next possible exercise date. It is also assumed that no interest rate risk is attached to non-interest-bearing items.

The Group's policy as regards interest rate risk is that the value of the Group's equity shall be as little sensitive as possible to interest rate changes.

Exchange rate risk

Currency breakdown, assets and liabilities as at 31 December 2011

GROUP

NOK MILLION	TOTAL RECOG. VALUE	NOK	EUR	DKK	SEK	CHF	JPY	USD	ISK	OTHER
Loans and advances	33 260	30 174	601	603	673	101	191	935	-22	5
Loans and advances, divested operations	101	3	0	0	0	0	0	98	0	0
Subordinated loans	0	0	0	0	0	0	0	0	0	0
Prepayments and accrued income	70	70	0	0	0	0	0	0	0	0
Short-term securities investments	5 506	5 506	0	0	0	0	0	0	0	0
Cash and balances due from credit institutions	814	173	573	10	15	-4	5	19	20	3
Total	39 751	35 926	1 174	613	688	97	196	1 052	-2	8
Subordinated loan capital	1 451	1 451	0	0	0	0	0	0	0	0
Liabilities to credit institutions	1 178	1 178	0	0	0	0	0	0	0	0
Debt securities in issue	17 950	17 950	0	0	0	0	0	0	0	0
Customer deposits & accounts payable to customers	15 959	15 941	0	3	0	0	0	14	0	0
Deposits, divested operations	9	0	0	0	0	0	0	5	0	5
Total	36 547	36 520	0	3	0	0	0	19	0	5
Financial derivatives	0	-3 721	1 175	612	695	97	197	939	0	6
Net currency exposure	3 204	3 126	-2	-2	-7	0	-1	94	-2	-3

Currency breakdown, assets and liabilities as at 31 December 2010

GROUP

NOK MILLION	TOTAL RECOG. VALUE	NOK	EUR	DKK	SEK	CHF	JPY	USD	ISK	OTHER
Loans and advances	32 415	28 800	712	647	949	101	181	1 023	-23	24
Loans and advances, divested operations	665	348	0	5	0	0	0	312	0	0
Subordinated loans	15	15	0	0	0	0	0	0	0	0
Prepayments and accrued income	97	97	0	0	0	0	0	0	0	0
Short-term securities investments	5 791	5 791	0	0	0	0	0	0	0	0
Cash and balances due from credit institutions	1 012	306	618	5	2	-9	14	51	20	5
Total	39 996	35 358	1 330	656	951	93	195	1 386	-2	29
Subordinated loan capital	1 686	1 686	0	0	0	0	0	0	0	0
Liabilities to credit institutions	1 975	1 975	0	0	0	0	0	0	0	0
Debt securities in issue	16 603	16 603	0	0	0	0	0	0	0	0
Customer deposits & accounts payable to customers	16 395	16 369	2	7	2	0	0	14	0	1
Deposits, divested operations	432	310	37	0	0	0	0	65	0	20
Total	37 091	36 944	38	7	2	0	0	79	0	20
Financial derivatives	-97	-4 587	1 292	655	954	94	196	1 311	0	-11
Net currency exposure	3 002	3 001	0	-6	-5	-1	0	-4	-2	20

Sensitivity analysis for change in market prices - partial analysis

GROUP

NOK MILLION	2011		2010	
	EFFECT P & L	EFFECT EQUITY	EFFECT P & L	EFFECT EQUITY
Interest +/- 1 percentage point	-9	0	-7	0
Exchange rates +/- 10 % [1]	0	0	0	0

[1] Calculated on the absolute position as at 31 December 2011.

Sensitivity analysis - Description of model and assumptions

Exposure to market risk is measured here by means of partial analyses, where we look one by one at the variations in market variables and their effect in P&L and equity.

Where financial instruments are carried at fair value, measurements are made using alternative assumptions, and effects on fair value as a result of changed assumptions are reported as an effect in P&L and equity respectively, depending on whether the instrument's fair value changes are otherwise to be treated by carrying them in P&L or in equity. In the case of fixed-rate instruments measured at amortised cost, changes in interest rates will not give rise to changes in either P&L or equity. For interest-bearing securities with variable interest rates, the effect in P&L is calculated as though alternative interest rates had been used through the year on the loan principals that are represented in the balance sheet at the end of the reporting period.

Intervals for changes in market variables are set so that the determined interval will with reasonably high probability cover the market variable's actual outcome within the coming year, having regard for the average term of the instruments concerned that are included in the analysis.

Partial analysis is carried out for the market variables whose variation is significant for P&L and equity. The sensitivity analysis is thus not exhaustive in relation to the total number of market variables that affect the recognition of financial instruments.

All effects in P&L and equity are presented net after tax.

Credit risk

Expected loss as at 31 December 2011

GROUP

EXPECTED LOSS (%)	RETAIL MARKET	CORPORATE MARKET	DIVESTED OPERATIONS	TOTAL
0 – 0,01	58 %	16 %	56 %	30 %
0,01 – 0,05	11 %	46 %	6 %	34 %
0,05 – 0,20	25 %	22 %	8 %	21 %
0,20 – 0,50	1 %	10 %	16 %	8 %
> 0,50	4 %	6 %	14 %	7 %

Expected loss as at 31 December 2010

GROUP

EXPECTED LOSS (%)	RETAIL MARKET	CORPORATE MARKET	DIVESTED OPERATIONS	TOTAL
0 – 0,01	57 %	15 %	25 %	28 %
0,01 – 0,05	11 %	37 %	9 %	26 %
0,05 – 0,20	27 %	21 %	23 %	23 %
0,20 – 0,50	1 %	19 %	23 %	14 %
> 0,50	5 %	8 %	20 %	9 %

Individual write-downs totalled NOK 124 million as at 31 December 2011, of which NOK 30 million related to divested operations. Collective write-downs totalling NOK 105 million as at 31 December 2011, of which NOK 20 million related to divested operations, are not distributed among the various classes of risk

All loans to business customers are priced individually, based among other things on risk, the profitability requirement, and the competitive situation. The pricing therefore reflects, among other things, the risk in the loan and the margins attained.

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's Report for a more detailed analysis.

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

GROUP

		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	8 970	235	44	16	60	9 325	-3	-24	9 298
Corporate market	23 813	252	1	49	0	24 115	-92	-61	23 962
Ålesund portfolio*	2 827	0	0	0	21	2 848	-30	-20	2 798
Total loans and advances	35 610	487	45	65	81	36 288	-125	-105	36 058

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

GROUP

		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	10 087	236	30	17	70	10 440	-7	-18	10 415
Corporate market	21 189	95	0	121	67	21 472	-72	-65	21 335
Ålesund portfolio*	3 405	195	0	0	56	3 656	-18	-19	3 619
Total loans and advances	34 681	526	30	138	193	35 568	-97	-102	35 369

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.

* The Ålesund portfolio is the sum total of the divested portfolio and the portfolio that is guaranteed by BN Bank.
** Net loans consists here of both loans and advances, divested portfolio and that part of the Ålesund portfolio that is guaranteed by BN Bank.

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

	GROUP	
NOK MILLION	2011	2010
Oslo/Akershus	21 715	20 740
Rest of South/East Norway	2 335	2 503
West Norway	2 820	2 461
South Trøndelag (Central Norway)	5 269	5 278
North Trøndelag and North Norway	615	471
Foreign countries	506	962
Total loans and advances	33 260	32 415

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] Geograpical breakdown based on the borrower's residential/business address. The figures are for the remaining entity (continuing operations).

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

	GROUP	
NOK MILLION	2011	2010
On balance sheet:		
Loans and advances	33 260	32 415
Prepayments and accrued income	70	97
Financial derivatives	865	629
Short-term securities investments	5 506	5 791
Cash and balances due from credit institutions	814	1 012
Assets classified as held for sale	121	1 104
Off balance sheet:		
Financial guarantees	178	165
Financial guarantees SpareBank 1 SMN	4 170	3 975
Financial guarantees SpareBank 1 Næringskreditt	409	850
Undrawn loan commitments, facilities and credits	2 178	2 041
Maximum credit risk	47 571	48 079

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

Liquidity risk

Remaining maturity for assets and liabilities as at 31 December 2011

GROUP

NOK MILLION	TOTAL	UNDEFINED	UP TO 1 MONTH	FROM 1 MONTH TO 3 MONTH	FROM 3 MONTHS TO 1 YEAR	FROM 1 YEAR TO 5 YEARS	OVER 5 YEARS
Loans and advances	40 151	1 726	321	259	2 005	8 599	27 241
Loans and advances, divested operations	104	101	0	0	2	0	1
Subordinated loans	0	0	0	0	0	0	0
Short-term securities investments	5 940	0	122	52	1 133	3 831	802
Cash and balances due from credit institutions	814	810	4	0	0	0	0
Total	47 009	2 637	447	311	3 140	12 430	28 044
Subordinated loan capital	1 870	0	7	12	71	1 269	511
Liabilities to credit institutions	1 190	361	10	511	7	301	0
Debt securities in issue	19 572	0	0	805	6 985	10 957	825
Financial derivatives	-14	0	-1	-5	29	-33	-4
Customer deposits and accounts payable to customers	15 959	14 766	66	329	601	197	0
Deposits, divested operations	9	7	0	0	2	0	0
Total	38 586	15 134	82	1 652	7 695	12 691	1 332

Remaining maturity for assets and liabilities as at 31 December 2010

GROUP

NOK MILLION	TOTAL	UNDEFINED	UP TO 1 MONTH	FROM 1 MONTH TO 3 MONTH	FROM 3 MONTHS TO 1 YEAR	FROM 1 YEAR TO 5 YEARS	OVER 5 YEARS
Loans and advances	39 789	3 855	278	298	2 500	8 313	24 546
Loans and advances, divested operations	25	22	0	0	0	2	1
Subordinated loans	15	0	0	0	15	0	0
Short-term securities investments	6 196	0	-148	466	2 039	3 193	646
Cash and balances due from credit institutions	1 012	906	106	0	0	0	0
Total	47 037	4 783	236	765	4 554	11 507	25 193
Subordinated loan capital	2 163	0	7	242	66	1 315	533
Liabilities to credit institutions	2 010	669	500	10	14	817	0
Debt securities in issue	18 272	0	-801	865	4 945	11 968	1 296
Financial derivatives	42	0	2	0	0	46	-6
Customer deposits and accounts payable to customers	16 347	15 281	143	486	431	5	0
Deposits, divested operations	432	432	0	0	0	0	0
Total	39 265	16 382	-149	1 603	5 456	14 151	1 823

Remaining maturity for assets and liabilities shows the remaining term to maturity on all interest-bearing asset and liability items, including stipulated interest. Customer deposits and accounts payable to customers excluding fixed-term deposits are classified with an undefined remaining maturity. With regard to loans and advances, lines of credit, credit lines secured on dwellings and building loans are classified with an undefined remaining maturity.

The sum total of asset and liability items shows considerable variation 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 the Bank's risk management systems; see Note 31.

NOTE 33. RISK IN FINANCIAL INSTRUMENTS - QUANTITATIVE DESCRIPTION - PARENT BANK

Market risk

Interest rate risk

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

PARENT BANK

NOK MILLION	TOTAL RECOGNISED VALUE	UNDEFINED [1]	UP TO 1 MONTH	FROM 1 MONTH TO 3 MONTH	FROM 3 MONTHS TO 1 YEAR	FROM 1 YEAR TO 5 YEARS	OVER 5 YEARS
Loans and advances	14 396	-37	7 434	6 320	140	505	34
Loans and advances, divested operations	101	0	101	0	0	0	0
Subordinated loans	527	2	75	450	0	0	0
Financial derivatives	18 161	0	722	4 607	9 398	2 435	999
Short-term securities investments	4 984	186	1 040	2 024	1 145	479	110
Cash and balances due from credit institutions	10 886	0	10 886	0	0	0	0
Exposure interest rate risk BNkreditt [2]	2 605	-1 887	8 165	-4 228	220	593	-257
Total	51 660	-1 736	28 423	9 173	10 903	4 012	885
Subordinated loan capital	1 451	1	500	785	0	165	0
Liabilities to credit institutions	1 864	7	1 057	800	0	0	0
Debt securities in issue	11 354	92	0	7 673	2 032	1 118	439
Financial derivatives	18 161	0	71	6 625	8 153	2 783	529
Customer deposits and accounts payable to customers	15 959	29	1 523	13 617	597	194	0
Deposits, divested operations	9	0	7	0	2	0	0
Total	48 798	129	3 158	29 500	10 784	4 260	968
Net = gap	2 862	-1 865	25 265	-20 327	119	-248	-83

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

PARENT BANK

NOK MILLION	TOTAL RECOGNISED VALUE	UNDEFINED [1]	UP TO 1 MONTH	FROM 1 MONTH TO 3 MONTH	FROM 3 MONTHS TO 1 YEAR	FROM 1 YEAR TO 5 YEARS	OVER 5 YEARS
Loans and advances	14 702	-37	6 631	7 580	56	378	94
Loans and advances, divested operations	665	0	665	0	0	0	0
Subordinated loans	542	2	0	465	75	0	0
Financial derivatives	17 120	0	560	7 098	4 432	4 232	799
Short-term securities investments	5 274	138	787	2 422	1 398	379	150
Cash and balances due from credit institutions	7 504	0	7 504	0	0	0	0
Exposure interest rate risk BNkreditt [2]	2 556	-1 538	8 505	-3 873	-1 221	593	90
Total	48 363	-1 435	24 652	13 691	4 740	5 582	1 133
Subordinated loan capital	1 686	7	500	1 014	0	165	0
Liabilities to credit institutions	2 451	6	1 645	800	0	0	0
Debt securities in issue	7 702	44	180	4 222	2 409	608	239
Financial derivatives	17 120	0	92	7 600	4 430	4 073	925
Customer deposits and accounts payable to customers	16 395	13	1 309	14 637	431	5	0
Deposits, divested operations	432	0	432	0	0	0	0
Total	45 786	71	4 158	28 272	7 269	4 852	1 164
Net = gap	2 577	-1 506	20 494	-14 581	-2 530	730	-30

[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.

[2] Interest rate risk is identified and managed at group level. There is an internal agreement between BN Bank and BNkreditt that adjusts any gap between the companies.

Repricing date for assets and liabilities shows the term up to the next agreed/likely interest rate adjustment date 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 Group employs hedging instruments to manage interest rate risk; see Note 31. To arrive at a correct picture of the interest rate risk, these instruments must be viewed together with the asset and liability items, and they are therefore included in the note.

Gap isdefined 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 changes in profits resulting from the change in interest rates. The timing of these changes in profits in the accounts cannot be gleaned from this analysis.

It is assumed when calculating the stated interest sensitivity that the interest rate on deposits and on variable-rate loans will be changed with two weeks' notice for 30% of the volume of deposits and loans, and with six weeks' notice for 70% of the volume. As regards other interest-bearing asset and liability items, it is assumed that interest will run up until the date of the next interest rate adjustment. In the case of securities with return sale and repurchase clauses it is likewise assumed that interest will run up until the next possible exercise date. It is also assumed that no interest rate risk is attached to non-interest-bearing items.

The Group's policy as regards interest rate risk is that the value of the Group's equity shall be as little sensitive as possible to interest rate changes.

Foreign exchange risk

Currency breakdown, assets and liabilities as at as at 31 December 2011

PARENT BANK

NOK MILLION	TOTAL RECOG. VALUE	NOK	EUR	DKK	SEK	CHF	JPY	USD	ISK	OTHER
Loans and advances	14 396	12 262	323	313	317	78	185	935	-22	5
Loans and advances, divested operations	101	3	0	0	0	0	0	98	0	0
Subordinated loans	527	527	0	0	0	0	0	0	0	0
Prepayments and accrued income	70	70	0	0	0	0	0	0	0	0
Short-term securities investments	4 984	4 984	0	0	0	0	0	0	0	0
Cash and balances due from credit institutions [1]	10 886	9 293	851	299	371	19	11	19	20	3
Total	30 964	27 139	1 174	612	688	97	196	1 052	-2	8
Subordinated loan capital	1 451	1 451	0	0	0	0	0	0	0	0
Liabilities to credit institutions	1 864	1 864	0	0	0	0	0	0	0	0
Debt securities in issue	11 354	11 354	0	0	0	0	0	0	0	0
Customer deposits & accounts payable to customers	15 959	15 941	0	3	0	0	0	14	0	0
Deposits, divested operations	9	0	0	0	0	0	0	5	0	5
Total	30 637	30 610	0	3	0	0	0	19	0	5
Financial derivatives	0	-3 721	1 175	612	695	97	197	939	0	6
Net currency exposure	327	250	-2	-3	-7	0	-1	94	-2	-3

Currency breakdown, assets and liabilities as at 31 December 2010

PARENT BANK

NOK MILLION	TOTAL RECOG. VALUE	NOK	EUR	DKK	SEK	CHF	JPY	USD	ISK	OTHER
Loans and advances	14 702	12 351	426	322	326	77	175	1 023	-23	24
Loans and advances, divested operations	665	348	0	5	0	0	0	312	0	0
Subordinated loans	542	542	0	0	0	0	0	0	0	0
Prepayments and accrued income	148	148	0	0	0	0	0	0	0	0
Short-term securities investments	5 274	5 274	0	0	0	0	0	0	0	0
Cash and balances due from credit institutions [1]	7 504	5 534	904	330	625	15	20	51	20	5
Total	28 835	24 198	1 330	656	951	93	195	1 386	-2	29
Subordinated loan capital	1 686	1 686	0	0	0	0	0	0	0	0
Liabilities to credit institutions	2 451	2 451	0	0	0	0	0	0	0	0
Debt securities in issue	7 702	7 702	0	0	0	0	0	0	0	0
Customer deposits & accounts payable to customers	16 395	16 369	2	7	2	0	0	14	0	1
Deposits, divested operations	432	310	37	0	0	0	0	65	0	20
Total	28 666	28 519	38	7	2	0	0	79	0	20
Financial derivatives	-97	-4 587	1 292	655	954	94	196	1 311	0	-11
Net currency exposure	267	265	0	-6	-5	-1	0	-4	-2	20

[1] Foreign exchange risk is identified and managed at group level. There is an internal agreement between BN Bank and BNkreditt that adjusts any gap between the companies.

Sensitivity analysis for change in market prices - partial analysis

PARENT BANK

NOK MILLION	2011		2010	
	EFFECT P & L	EFFECT EQUITY	EFFECT P & L	EFFECT EQUITY
Interest +/- 1 percentage point	-9	0	-7	0
Exchange tates +/- 10 % [1]	0	0	0	0

[1] Calculated on the absolute position as at 31 December 2011.

Sensitivity analysis - Description of model and assumptions

Exposure to market risk is measured here by means of partial analyses, where we look one by one at the variations in market variables and their effect in P&L and equity.

Where financial instruments are carried at fair value, measurements are made using alternative assumptions, and effects on fair value as a result of changed assumptions are reported as an effect in P&L and equity respectively, depending on whether the instrument's fair value changes are otherwise to be treated by carrying them in P&L or in equity. In the case of fixed-rate instruments measured at amortised cost, changes in interest rates will not give rise to changes in either P&L or equity. For interest-bearing securities with variable interest rates, the effect in P&L is calculated as though alternative interest rates had been used through the year on the loan principals that are represented in the balance sheet at the end of the reporting period.

Intervals for changes in market variables are set so that the determined interval will with reasonably high probability cover the market variable's actual outcome within the coming year, having regard for the average term of the instruments concerned that are included in the analysis.

Partial analysis is carried out for the market variables whose variation is significant for P&L and equity. The sensitivity analysis is thus not exhaustive in relation to the total number of market variables that affect the recognition of financial instruments.

All effects in P&L and equity are presented net after tax.

Credit risk

Expected loss as at 31 December 2011

PARENT BANK

EXPECTED LOSS (%)	RETAIL MARKET	CORPORATE MARKET	DIVESTED OPERATIONS	TOTAL
0 – 0,01	58 %	2 %	56 %	37 %
0,01 – 0,05	11 %	43 %	6 %	22 %
0,05 – 0,20	26 %	32 %	8 %	24 %
0,20 – 0,50	1 %	19 %	16 %	11 %
> 0,50	4 %	4 %	14 %	6 %

Expected loss as at 31 December 2010

PARENT BANK

EXPECTED LOSS (%)	RETAIL MARKET	CORPORATE MARKET	DIVESTED OPERATIONS	TOTAL
0 – 0,01	54 %	6 %	25 %	32 %
0,01 – 0,05	11 %	35 %	9 %	17 %
0,05 – 0,20	29 %	30 %	23 %	28 %
0,20 – 0,50	1 %	22 %	23 %	13 %
> 0,50	5 %	6 %	20 %	10 %

Individual write-downs totalled NOK 65 million as at 31 December 2011, of which NOK 30 million relate to divested operations. Collective write-downs totalling NOK 57 million as at 31 December 2011, of which NOK 20 million relate to divested operations, are not distributed among the various classes of risk.

As the models are currently calibrated, the expected annual impairment loss on loans is approximately 0.16% of the exposure. This applies to that portion of the loan portfolio covered by the risk classification system, and expresses an expectation of the size of the annual average loss over an economic cycle. Expected loss is an expression of "financial loss" (which differs slightly from accounting loss) and the estimates for PD and LGD are forward-looking and conservative.

All loans to business customers are priced individually, based among other things on risk, the profitability requirement, and the competitive situation. The pricing therefore reflects, among other things, the risk in the loan, and the margins attained are generally higher with higher risk.

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 Report of the Directors for a more detailed analysis of the risk of impairment losses.

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

PARENT BANK

		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	7 063	176	25	8	45	7 317	-3	-18	7 296
Corporate market	7 111	39	1	0	0	7 151	-32	-19	7 100
Ålesund portfolio*	2 827	0	0	0	21	2 848	-30	-20	2 798
Loans and advances	17 001	215	26	8	66	17 316	-65	-57	17 194

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

PARENT BANK

		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**
Personmarked	7 408	163	14	12	54	7 651	-6	-16	7 629
Bedriftsmarked	6 313	33	0	121	0	6 467	-37	-22	6 408
Ålesundportefølje*	3 406	195	0	0	55	3 656	-18	-19	3 619
Utlån	17 127	391	14	133	109	17 774	-61	-57	17 656

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.

* The Ålesund portfolio is the sum total of the divested portfolio and the portfolio that is guaranteed by BN Bank.
** Net loans consist here of both loans and advances, divested portfolio and that part of the Ålesund portfolio that is guaranteed by BN Bank.

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

PARENT BANK

NOK MILLION	2011	2010
Oslo/Akershus	9 354	8 359
Rest of South/East Norway	1 108	1 280
West Norway	1 545	1 490
South Trøndelag (Central Norway)	1 232	3 169
North Trøndelag and North Norway	476	195
Foreign countries	681	208
Loans and advances	14 396	14 702

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. The figures are for the remaining entity (continuing operations).

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

	PARENT BANK	
NOK MILLION	2011	2010
On the balance sheet:		
Subordinated loans	527	542
Loans and advances	14 396	14 702
Prepayments and accrued income	70	148
Financial derivatives	699	444
Short-term securities investments	4 984	5 274
Cash and balances due from credit institutions	10 886	7 504
Assets classified as held for sale	122	1 105
Off the balance sheet:		
Financial guarantees	178	165
Financial guarantees SpareBank 1 SMN	4 170	3 975
Financial guarantees SpareBank 1 Næringskreditt	409	850
Undrawn loan commitments, facilities and credits	1 726	1 772
Maximum credit risk	38 167	36 481

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 security.

Liquidity risk

Remaining maturity for assets and liabilities as at 31 December 2011

PARENT BANK

NOK MILLION	TOTAL	UNDEFINED	UP TO 1 MONTH	FROM 1 MONTH TO 3 MONTH	FROM 3 MONTHS TO 1 YEAR	FROM 1 YEAR TO 5 YEARS	OVER 5 YEARS
Loans and advances	13 043	1 465	102	165	1 235	2 607	7 468
Loans and advances, divested operations	104	101	0	0	2	0	1
Subordinated loans	630	0	1	6	22	522	79
Short-term securities investments	5 365	0	117	52	1 118	3 276	802
Cash and balances due from credit institutions	10 886	10 882	4	0	0	0	0
Total	30 028	12 448	224	223	2 377	6 405	8 350
Subordinated loan capital	1 870	0	7	12	71	1 269	511
Liabilities to credit institutions	1 876	1 047	10	511	7	301	0
Debt securities in issue	12 343	0	0	739	4 089	6 982	533
Financial derivatives	56	0	-1	11	42	15	-11
Customer deposits and accounts payable to customers	15 959	14 766	66	329	601	197	0
Deposits, divested operations	9	7	0	0	2	0	0
Total	32 113	15 820	82	1 602	4 812	8 764	1 033

Remaining maturity for assets and liabilities as at 31 December 2010

PARENT BANK

NOK MILLION	TOTAL	UNDEFINED	UP TO 1 MONTH	FROM 1 MONTH TO 3 MONTH	FROM 3 MONTHS TO 1 YEAR	FROM 1 YEAR TO 5 YEARS	OVER 5 YEARS
Loans and advances	14 932	3 021	113	191	1 679	3 208	6 720
Loans and advances, divested operations	25	22	0	0	0	2	1
Subordinated loans	652	0	1	5	33	530	82
Short-term securities investments	5 660	0	-148	463	1 507	3 193	646
Cash and balances due from credit institutions	7 504	7 398	106	0	0	0	0
Total	28 774	10 441	72	659	3 220	6 933	7 449
Subordinated loan capital	2 163	0	7	242	66	1 315	533
Liabilities to credit institutions	2 486	1 145	500	10	14	817	0
Debt securities in issue	8 515	0	-886	801	2 751	5 548	301
Financial derivatives	81	0	-2	17	22	51	-7
Customer deposits and accounts payable to customers	16 347	15 281	143	486	431	5	0
Deposits, divested operations	432	432	0	0	0	0	0
Total	30 023	16 858	-237	1 555	3 285	7 736	826

Remaining maturity for assets and liabilities shows the remaining term to maturity on all interest-bearing asset and liability items, including stipulated interest. Customer deposits and accounts payable to customers excluding fixed-term deposits are classified with an undefined remaining maturity. With regard to loans and advances, lines of credit, credit lines secured on dwellings and building loans are classified with an undefined remaining maturity.

The sum total of asset and liability items shows considerable variation 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 the Bank's risk management systems; see Note 31.

NOTE 34. SECURED DEBT AND GUARANTEES AS AT 31 DECEMBER

	GROUP		PARENT BANK	
NOK MILLION	2011	2010	2011	2010
Secured debt				
Book value of securities as collateral for day-to-day loans	3 948	2 596	3 948	2 596
Collateral provided in bonds for credit facility from Norges Bank	3 948	2 596	3 948	2 596
Day-to-day loans from Norges Bank	0	0	0	0
Guarantees				
Loan guarantees	0	0	0	0
Contractual guarantees	135	142	135	142
Payment guarantees	43	78	43	78
Other guarantees	0	0	0	0
Guarantee given to SpareBank 1 Næringskreditt [1]	409	850	409	850
Guarantee given to SpareBank 1 SMN [2]	4 170	3 975	4 170	3 975
Transferred assets classified as held for sale	0	-58	0	-58
Total guarantees	4 757	4 987	4 757	4 987

[1] See Note 38 for more information on the transfer of loans to SpareBank 1 Næringskreditt.

[2] Of this, NOK 3.5 billion relates to a guarantee given to SpareBank 1 SMN in respect of the credit risk in the divested portfolio.

NOTE 35. PROPOSED, NOT ADOPTED DIVIDEND

	PARENT BANK	
NOK MILLION	2011	2010
Total proposed dividend	95	152
Proposed dividend per share	7	12
Number of shares	12 988 331	12 380 332

The proposed dividend for 2011 will be given back upon an equivalent issue of NOK 95 million made by the owners.

NOTE 36. EVENTS AFTER THE REPORTING PERIOD

Contingent liabilities

Sale of structured products

BN Bank was sued in a group action over structured savings products in 2008. The Supreme Court ruled in February 2010 that group litigation is not appropriate for assessing this type of product. The group action against BN Bank has thus been brought to a conclusion.

Three customers then sued the Bank individually in the District Court, but the Court's decision of 8 July 2011 went against them. The decision was appealed to the Borgarting Court of Appeal, and the appeal will be heard in March 2013. The total loan commitment involved as at 31 December 2011 was NOK 4 million.

BN Bank has also provided loans to finance Artemis structured products. BN Bank is now being sued by seven customers, three of whom are limited companies, with the total loan financing on these products amounting to NOK 126 million. The amounts in dispute are interest payments.

In connection with the sale and/or issue of the structured products, BN Bank has hedged exposure in the form of equity options, equity-linked options and interest rate swap agreements. The turbulence in the financial markets in 2008 caused the loss of some contractual counterparties, and it has not been possible to replace all these hedging transactions. The liquidator of one of the contractual counterparties filed a counter-claim in 2011, which BN Bank disputes. The outcome is unclear, and litigation is underway. The total claim amounts to NOK 12 million.

Bankruptcy dividend/offset against Glitnir banki hf, Iceland

BN Bank has filed a claim for NOK 225 million against the assets in liquidation of Glitnir banki hf, Iceland. The bankruptcy dividend is still unclarified and, of the NOK 225 million claim, NOK 205 million was written down in BN Bank's accounts in 2008.

BN Bank has offset the claim, but Glitnir's winding-up board has contested it and is suing BN Bank for the offset. The winding-up board is also claiming NOK 12 million in interest.

The court case was ongoing in fourth-quarter 2011 and judgment was pronounced at the end of January 2012. It is currently uncertain as to whether the judgment will be appealed. The present judgment will not have any significant accounting effect for the Bank.

Events after the reporting period

BN Bank put up a guarantee in respect of the divested Ålesund portfolio to SpareBank 1 SMN for about NOK 3.1 billion. NOK 2.4 billion of this guarantee has now been settled towards SpareBank 1 SMN with effect from 1 February 2012. For the remaining portfolio of NOK 0.7 billion, BN Bank is guaranteeing 60% of the credit risk.

The portfolio takeover will have no accounting effect for BN Bank in 2012. The parties have also agreed to work towards a full takeover or termination of the remaining portfolio within the agreement period of three years.

Contingent outcomes, events after the reporting period

Apart from the matters mentioned in the note above, there are no assets or liabilities to which contingent outcomes are attached and where those outcomes could have a significant impact on the Group's financial position and results. There were no significant events after the reporting period.

NOTE 37. TRANSFER OF LOANS TO SPAREBANK 1 NÆRINGSKREDITT AND SPAREBANK 1 BOLIGKREDITT

Transfer of loans to SpareBank 1 Næringskreditt

SpareBank 1 Næringskreditt AS was established in 2009 and granted a licence by the Financial Supervisory Authority of Norway to operate as a credit institution. The company's bonds have an Aa3 rating from Moody's. The company is owned by the savings banks that form the SpareBank 1 consortium and is co-located with SpareBank 1 Boligkreditt AS in Stavanger. The same banks own SpareBank 1 Næringskreditt as own BN Bank. The purpose of the company is to secure for the banks within the consortium a source of stable, long-term financing of commercial real estate at competitive rates. SpareBank 1 Næringskreditt procures loans with mortgages on commercial 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 have been transferred from BNkreditt. At the end of December 2011, the book value of transferred loans was NOK 8.3 billion. BN Bank is responsible for managing the transferred loans and BNkreditt receives a commission based on the net return on the loans transferred by the Bank and the costs to the company.

In order to attend to the interests of existing bond holders, in connection with the transfer BN Bank guaranteed that BNkreditt will have a capital adequacy ratio of at least 20 per cent at all times. Should the capital adequacy ratio fall below 20%, the Parent Bank will cede precedence with respect to its accounts receivable with BNkreditt and/or provide a guarantee. As at 31 December 2011, BNkreditt's capital adequacy ratio was 17.7%. The amount the Parent Bank is ceding precedence for was NOK 407 million as at 31 December 2011.

BN Bank has put up guarantees for the transferred loan commitments to the extent they exceed 25 per cent of SpareBank 1 Næringskreditt's capital base. As at 31 December 2011, these guarantees totalled NOK 409 million.

Transfer of loans to SpareBank 1 Boligkreditt

SpareBank 1 Boligkreditt is owned by the savings banks that form the SpareBank 1 consortiumand 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 38. DISCLOSURES CONCERNING OPERATING SEGMENTS

Segment reporting is regularly reviewed with the management. The management have elected to divide up the reporting segments according to the underlying business areas.

GROUP

NOK MILLION	CORPORATE MARKET	RETAIL MARKET	GUARANTEE PORTFOLIO SMN	MUNKEGT. 21	TOTAL 2011
Net income from interest and credit commissions	260	126	-2	0	385
Change in value financial instr carried at fair value	-13	-7	0	0	-20
Other operating income	104	0	20	0	123
Total other operating income	91	-7	20	0	103
Salaries and general administrative expenses	-96	-126	0	0	-222
Ordinary depreciation, amortisation & write-downs	-7	-9	0	0	-16
Other operating expense	-15	-18	0	0	-33
Other expenses, gains and losses	0	0	0	37	37
Total other operating expense	-118	-152	0	37	-234
Operating profit/(loss) before impairment losses	233	-33	18	37	254
Impairment losses on loans and advances	-35	-1	-26	0	-62
Operating profit/(loss) after impairment losses	197	-34	-8	37	192
Computed tax charge	-55	10	2	-1	-44
Profit/(loss) after tax	142	-25	-6	36	148

GROUP

NOK MILLION	CORPORATE MARKET	RETAIL MARKET	GUARANTEE PORTFOLIO SMN	MUNKEGT. 21	TOTAL 2011
Balance Sheet					
Loans (gross) managed portfolio	31 164	13 286	0	0	44 450
Customer deposits & accounts payable to customers	1 576	14 383	0	0	15 959

NOK MILLION	CORPORATE MARKET	RETAIL MARKET	GUARANTEE PORTFOLIO SMN	GROUP TOTAL 2010
Net income from interests and credit commissions	214	175	-9	380
Change in value financial instr carried at fair value	-9	-5	0	-14
Other operating income	108	4	-7	105
Total other operating income	99	-1	-7	91
Salaries and general administrative expenses	-92	-117	0	-209
Ordinary depreciation, amortisation & write-downs	-6	-5	0	-11
Other operating expense	-15	-11	0	-25
Other expenses, gains and losses	0	0	0	0
Total other operating expense	-113	-133	0	-245
Operating profit/(loss) before impairment losses	200	42	-16	226
Impairment losses loans and advances	-29	0	-3	-32
Operating profit/(loss) after impairment losses	170	42	-19	194
Computed tax charge	-46	-11	5	-52
Profit/(loss) after tax	124	30	-13	142

NOK MILLION	CORPORATE MARKET	RETAIL MARKET	GUARANTEE PORTFOLIO SMN	GROUP TOTAL 2010
Balance Sheet				
Loans (gross) managed portfolio	27 580	12 812	0	40 392
Customer deposits & accounts payable to customers	1 293	15 102	0	16 395

The Group operates in a geographically limited area and reporting on geographical segments provides little additional information. See however Note 32 for a geographical breakdown of lending.

NOTE 39. INCOME STATEMENT FOR THE FOUR LAST QUARTERS

Specification of results of remaining entity

GROUP

NOK MILLION	Q1 2011	Q2 2011	Q3 2011	Q4 2011	FULL-YEAR 2011
Net income from interest and credit commissions	91	95	93	106	385
Total other operating income	20	39	18	26	103
Total other operating expense	62	73	28	71	234
Operating profit/(loss) before impairment losses	49	61	83	61	254
Impairment losses on loans and advances	35	-7	16	18	62
Pre-tax profit/(loss) from remaining entity	14	68	67	43	192
Computed tax charge	4	17	12	11	44
Profit/(loss) after tax for remaining entity	10	51	55	32	148

Specification of results of remaining entity

GROUP

NOK MILLION	Q1 2010	Q2 2010	Q3 2010	Q4 2010	FULL-YEAR 2010
Net income from interest and credit commissions	95	88	95	102	380
Total other operating income	9	18	11	53	91
Total other operating expense	56	64	59	66	245
Operating profit/(loss) before impairment losses	48	42	47	89	226
Impairment losses and advances	12	11	5	4	32
Pre-tax profit/(loss) from remaining entity	36	31	42	85	194
Computed tax charge	10	9	11	22	52
Profit/(loss) after tax from remaining entity	26	22	31	63	142

NOTE 40. ELECTED OFFICERS AND GROUP 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 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 Bank.

Control Committee

MEMBERS	OCCUPATION/RESIDENCE
Former members in 2011	
Dag Nafstad	Court of Appeal Judge, Hålogaland Court of Appeal, Tromsø
Members 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

Election Committee

MEMBERS	OCCUPATION/RESIDENCE
Members at 31 December 2011	
Kjell Fordal	Executive Vice-President Finance, SpareBank 1 SMN
Hans Olav Karde	Managing Director, SpareBank 1 SNN
Tore Haarberg	Executive Vice-President Retail Market and Deputy Managing Director, SpareBank 1 SMN
Gro Tveit	Chief Financial Officer, SpareBank 1 SR-Bank
Tom Skundberg [1]	Assistant Director Corporate Market, BN Bank ASA

[1] One election committee is elected by the Supervisory Board and one by the Annual General Meeting. The committees are identical with the exception of the employee representative, who only sits on the committee elected by the Supervisory Board.

None of the members of the Control Committee or Election Committees owns shares in BN Bank.

External Auditor	NUMBER OF SHARES
PricewaterhouseCoopers AS, in the person of Rune Kenneth S. Lædre, State Authorised Public Accountant	0

Board of Directors

MEMBERS	
Former members in 2011	
Elin Bue	Advisor, Sparebank 1 SR-Bank. First elected in 2010; term of office expires in 2013.
Frank Homo	Employee representative. First elected in 2010; term of office expires in 2013.
Members at 31 December 2011	
Finn Haugan, Chair	Managing Director, SpareBank 1 SMN. First elected in 2009; term of office expires in 2013.
Tore Medhus, Deputy chair	Executive Vice-President Corporate Market, SpareBank 1 SR-Bank. First elected in 2009; term of office expires in 2013.
Stig- Arne Engen	Executive Vice-President Retail Market, SpareBank 1 Nord-Norge. First elected in 2009; term of office expires in 2012.
Harald Gaupen	Bank Administrative Manager, SpareBank 1 Buskerud-Vestfold. First elected in 2009; term of office expires in 2012.
Helene Jebsen Anker	Self-employed consultant. First elected in 2009; term of office expires in 2012.
Ella Skjørestad	Group Head of Marketing, Sparebank 1 SR-Bank. First elected in 2011; term of office expires in 2012.
Kristin Undheim	Partner in Indianer AS. First elected in 2009; term of office expires in 2012.
Anita Finserås Bretun	Customer Service Officer, BN Bank. Employee representative. First elected in 2011; term of office expires in 2013.
Deputy members	
Hans Olav Karde	Managing Director, SpareBank 1 Nord-Norge
Tor Dahle	Managing Director, SR-Investering.
Eli Ystad	Group CEO, SpareBank 1 SMN.
Tove Hassel	Secretary, BN Bank ASA, deputy for employee representative. First elected in 2009; term of office expires in 2013.

None of the members of the Board of Directors owns shares in BN Bank.

Group Executive Management

NAME	NO. OF YEARS WITH THE GROUP	POSITION	MAIN AREA(S) OF RESPONSIBILITY
Former Exec. Mngment in 2011			
Lisbet K. Nærø	2	Managing Director	
Unni Tenold	1	Director	Credit Management
Exec. Mngment at 31.12.2011			
Gunnar Hovland		Managing Director	
Svend Lund	17	Deputy Man. Dir.	Corporate Market and HR/Strategy
Trond Søraas	15	Director	Accounts & Treasury
Olav Isak Sjøflot	15	Director	Business Support
Erlend Drilsvik	15	Director	Retail Market and Communication
Rune Rasmussen	2	Director	Risk Management

None of the members of the Group Executive Management team owns shares in BN Bank. Information on remuneration to senior executives and members of the Board of Directors appears in Note 7. Information on loans to Group Executive Management, Elected Officers and members of the Board of Directors is provided in Note 8.

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, 28 February 2012
The Board of Directors of BN Bank ASA

Finn Haugan
(Chair)

Tore Medhus
(Deputy Chair)

Stig Arne Engen

Harald Gaupen

Helene Jebsen Anker

Kristin Undheim

Anita Finserås Bretun
(Employee Representative)

Ella Skjørestad

Gunnar Hovland
(Managing Director)

To the Supervisory Board and the Annual Shareholders' Meeting of BN Bank ASA

Independent auditor's report

Report on the Financial Statements

We have audited the accompanying financial statements of BN Bank ASA, which comprise the financial statements of the parent company and the financial statements of the group. The financial statements of the parent company and the financial statements for of group 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements are prepared in accordance with the law and regulations and present fairly, in all material respects, the financial position for the parent company and the group BN Bank ASA 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 as adopted by EU.

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 and statement of corporate governance principles and practices

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 and statement of corporate governance principles and practices 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, 28 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 Bank ASA 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 Deputy Managing Director/Acting Managing Director or Chief Financial Officer has attended all the committee's meetings. The Chairman of the board has participated in one meeting. 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)	[illegible] (Deputy Chair)	[illegible]	[illegible]

Articles of association of BN Bank ASA

Chap. 1 Company name. Registered office. Objects.

§ 1-1 The Company's name is BN Bank ASA. The Company's business address is in the municipality of Trondheim. BNbank can within the parameters of the legislation that is in force at any time, carry on all business and provide all services that it is customary or natural for a bank.

Chap. 2 Share capital. Capital base. Shares

§ 2-1 The Bank's share capital is NOK 649 416 550 divided into 12 988 331 shares of NOK 50 each, all fully paid.

§ 2-2 The Bank's shares shall be registered with the Norwegian Central Securities Depository. Any transfer of shares shall be notified immediately to the Depository.

The acquisition of shares by transfer (sale, gift) is subject to the consent of the Bank's Board of Directors, which shall not be unreasonably withheld. Written justification can be demanded for any such refusal.

The acquirer of a share may only exercise the rights of a shareholder once the acquisition has been entered in the register of shareholders, or when the acquisition has been notified and approved without any impediment arising under the provisions of the Companies Act, §§ 4-16 to 4-23. This does not however apply to the right to receive a dividend and other distributions and the entitlement new shares in the event of an increase in capital.

Chap. 3 Board of Directors

§ 3-1 The Board of Directors shall consist of between five and nine members elected by the Supervisory Board.

At least half the Board members must reside in Norway, unless the King makes exemption in a particular case. The residency requirement does not apply to nationals of a State that is party to the EEA Agreement and who reside in that State.

At least one of the Board's elected members shall be an employee of the Bank. Personal deputies shall be elected for these employee representatives, who shall be entitled to attend and speak at board meetings.

Up to three deputy members may be elected for the other elected Board members.

The Supervisory Board shall elect separately the Chair and Deputy Chair of the Board.

Elected Board members shall hold office for two years. Each year those members who have held office longest shall retire from the Board. On the first occasion approximately half the members shall retire in accordance with lots drawn by the Election Committee.

Deputies shall be elected to serve for two years.

To replace a Board member who retires before his or her term of office expires, a new member shall be elected at the first opportunity to hold office for the remainder of the term.

§ 3-2 The election of Board members shall be organised by an Election Committee consisting of the Chair of the Supervisory Board and four members elected by the Supervisory Board. The Committee shall have members from both groups represented on the Supervisory Board; see Commercial Banks Act, § 11(4) and (5). The Chair of the Supervisory Board shall serve as the Chair of the Election Committee. The Board members to be elected from among the Bank's employees and their personal deputies shall be nominated only by the employee representative on the Election Committee.

The Election Committee shall also organise the election of members of district boards and district councils; see Chapter 5 below.

§ 3-3 Meetings of the Board of Directors shall be convened by the Chair not less than once a month or otherwise as often as the operations of the Bank require, or whenever demanded by a Board member.

The Board forms a quorum when more than half of all members are present or participating in discussing an item of business. However, no resolution may be adopted by the Board unless all the members have as far as possible been given an opportunity to participate in the item of business under discussion. In the absence of a Board member, his or her deputy shall be invited to attend the meeting.

All resolutions require the supporting votes of a majority of those present or those participating in discussion of an item of business, and in the event of a tie the presiding Chair has the casting vote. However, no resolution will be valid unless at least half of all the Board members have voted in favour thereof.

Absent Board members shall acquaint themselves with resolutions adopted in their absence.

§ 3-4 The Board shall administer the Bank's affairs, including making decisions on individual credit applications. The Board shall ensure that the Bank's operations are organised satisfactorily and that accounting and capital management are subject to adequate controls.

The Board shall issue instructions for the Bank's district boards; see notwithstanding § 5-1, last sentence.

§ 3-5 The Board shall appoint and dismiss the employees of the Bank and stipulate their conditions of employment. The Board may delegate this authority in respect of employees other than the Managing Director and his or her deputy.

§ 3-6 The Chair of the Board or the Managing Director singly, or any two elected Board members jointly, may sign for the Bank. The Board may authorise designated employees to sign for the Bank. The Board may moreover grant power of procuration and special powers of attorney.

§ 3-7 The Managing Director shall be responsible for the day-to-day conduct of the Bank's operations in accordance with general instructions issued by the Supervisory Board and approved by the General Meeting, and the guidelines and orders issued by the Board.

Chap. 4 Supervisory Board

§ 4-1 The Supervisory Board shall consist of 15 members.

The Supervisory Board should represent a variety of interests and include members from different districts and business sectors that are affected by the activities of the Bank.

The Chair of the Supervisory Board and at least half the members and deputy members must reside in Norway unless the King makes exemption in a particular case. The residency requirement does not apply to nationals of a State that is party to the EEA Agreement and who reside in that State.

No member of the Board of Directors, or observer, or the Managing Director, may be a member of the Supervisory Board.

The General Meeting shall elect 11 members and six deputy members. The members and deputy members shall be elected from among the Bank's shareholders. The election shall be organised by an Election Committee of four members elected by the General Meeting.

Four members and two deputy members shall be elected by and from among the Bank's employees. The King issues rules for such elections.

The members of the Supervisory Board shall each year elect a Chair and Deputy Chair from among their number.

The members and deputy members of the Supervisory Board are elected for terms of two years.

Of those members first elected to the Supervisory Board by the General Meeting, half shall be selected by lot to retire after one year. Thereafter each year those who have served longest shall retire. Lots shall be drawn by the Election Committee.

A member of the Supervisory Board is entitled to resign before his or her term of office expires if there are special reasons for so doing. The Supervisory Board and the person or body who elected the member shall be given reasonable notice in advance. A member of the Supervisory Board can be removed by the person or body who elected the member. This does not apply to members elected by the Bank's employees; see fifth paragraph above.

To replace a member of the Supervisory Board who resigns before his or her term of office expires, a new member shall be elected at the earliest opportunity to serve for the remainder of the term.

§ 4-2 The Chair shall convene meetings of the Supervisory Board as often as may be necessary and otherwise whenever so required by the Board of Directors, the Control Committee or at least one sixth of the members of the Supervisory Board.

The members of the Board of Directors, the Control Committee and the Auditor shall be called to meetings of the Supervisory Board. Unless otherwise decided by the Supervisory Board in any particular case, the members of the Board of Directors and Control Committee are entitled to attend and to speak at meetings of the Supervisory Board. The Chair of the Board of Directors and the Managing Director are obliged to attend such meetings, unless it is obviously unnecessary for them to do so or they have a valid excuse. In the latter event a deputy shall be appointed.

§ 4-3 The remuneration to members of the Supervisory Board shall be set by the General Meeting. No member of the Supervisory Board may in connection with his or her work for the Board accept remuneration from anyone other than the Bank. This also applies to remuneration which another contracting party or his or her representative has reserved for themselves from the Bank.

Any remuneration which is agreed or received in contravention of the prohibition in the first paragraph above shall fall to the Bank. This also applies to any return on assets or assets given in lieu of remuneration.

The prohibition in the first paragraph shall not hinder a member of the Supervisory Board, who does not take part in the day-to-day management, from acting as a middleman in relation to the company in return for the customary middleman remuneration if:

1. the member of the Supervisory Board does not also represent the Bank, and
2. the transaction is part of the middleman activity operated as a business by the Supervisory Board member.

§ 4-4 Members of the Supervisory Board shall not act in any way liable to give certain shareholders or others an unreasonable advantage at the expense of other shareholders or the Bank.

The Supervisory Board shall not comply with any decision of the General Meeting or any other corporate body if the decision is contrary to the law or the Bank's Articles of Association.

§ 4-5 The Supervisory Board forms a quorum when more than half of all its members are present. However, the Supervisory Board may not adopt any resolution unless all members have been given an opportunity to participate in considering the item of business under discussion. If a member is absent, his or her deputy shall be invited to attend.

Resolutions of the Supervisory Board shall be adopted by a majority of the attending members and in the event of a tie the presiding Chair has the casting vote. However, no resolution will be valid unless more than one third of all the board members have voted in favour thereof.

§ 4-6 The Supervisory Board shall:

1. supervise the management and administration of the Bank by the Board of Directors and the Managing Director and ensure that the Bank's objects are promoted in accordance with the law, the Articles of Association and the resolutions adopted by the General Meeting and the Supervisory Board, and adopt guidelines for the Bank's operations. The guidelines shall take the form of general instructions for the Bank's management and administration, and shall be presented to the General Meeting for approval.
2. elect the elected members and deputy members of the Board of Directors; see notwithstanding § 3-1(3).
3. elect the members of the Election Committee; see § 3-2.
4. appoint an auditor or auditing firm.
5. receive reports on the Bank's operations and examine extracts from the accounts and reports from the Control Committee. Each member is entitled at meetings of the Supervisory Board to demand information regarding the Bank's operations to the extent he or she deems necessary. The Supervisory Board may institute its own investigation or appoint a committee to do so.
6. examine the Bank's annual financial statements, annual report and Auditor's report, and make a report to the General Meeting on the Board of Directors' recommendations regarding the annual financial statements and the appropriation of profit or covering of loss. The Board of Directors' recommendations and the Auditor's report shall be sent to the Supervisory Board members no later than one week before the matter is to be discussed.
7. adopt resolutions on the remuneration of the Bank's elected officers and Auditor and the remuneration/salary of the Managing Director.

8. make decisions in respect of district boards and district councils in accordance with § 5-1 and § 5-2.

9. make pronouncements on matters concerning the Bank which are presented to it by the Board of Directors or the Control Committee.

The Supervisory Board may make recommendations to the Board of Directors on any matter.

The Supervisory Board shall not make a decision on any matter which according to § 3-4 above falls under the Board of Directors.

§ 4-7 Following proposals from the Board of Directors, the Supervisory Board shall adopt resolutions to:

1. establish or close a branch or district office in municipalities in which the Bank does not have its head office or a branch or district office.

2. declare any dividends to be distributed to shareholders and the amount thereof subject to the maximum amount stipulated by the Board. The meeting shall decide at the same time the date from which the declared dividends are payable.

§ 4-8 Minutes shall be kept of Supervisory Board meetings under the responsibility of the presiding Chair. The minutes shall be approved and signed by all the participants at the meeting or by the Chair and two other participants elected at the meeting.

Chap. 5 District boards and district councils

§ 5-1 The Supervisory Board may decide that a district office outside the municipality in which the Bank has its head office shall have its own board with between five and seven members.

If the district office has 15 or more employees, one member shall be elected by and from among the employees at that office. The election shall be by majority vote in accordance with the regulations provided by the King in respect of the election of employee members to the Supervisory Board, to the extent that the regulations are relevant. The other members of the district board shall be elected by the Supervisory Board.

The elected offices are for terms of two years.

The Bank's main Board of Directors shall issue instructions for the district board. The instructions shall be approved by the Supervisory Board and be presented to the General Meeting.

§ 5-2 The Supervisory Board may decide that a branch or district office shall have an advisory district council. The members of the council shall be elected by the Supervisory Board, in the event following nominations from the district board.

A district council may serve as a joint advisory council for a number of branch or district offices.

Chap. 6 Control Committee

§ 6-1 The Control Committee consists of between one and six members and between one and two deputy members.

Members of the Control Committee must satisfy the eligibility requirements for election to the Supervisory Board. One member must meet the qualifications of judges under the Courts of Justice Act of 13 August 1915, § 54(2).

The election of this member is subject to the approval of the Financial Supervisory Authority of Norway. The Authority may grant dispensation from the provisions of the two preceding points. No member or deputy member of the Board of Directors, Auditor or officer of the Bank may be elected a member or deputy member of the Control Committee. Nor may any person be elected thereto who is legally incompetent or who is an associate, subordinate, dependant, spouse or relative by blood or marriage in direct line of ascent or descent or in the first collateral line, of any member or deputy member of the Board of Directors, Auditor or senior officer of the Bank. Nor may any person be elected who has been made bankrupt or initiated debt settlement proceedings or is under private administration. If any circumstance arises which causes a member no longer to be eligible, he or she shall resign from the Control Committee. To replace a resigning member, a new member shall be elected at the earliest opportunity to serve for the remainder of the term.

The elected offices are for terms of two years.

Where a district office has its own board, the General Meeting may elect a local control committee, with members nominated by the Bank's main Control Committee, to carry out local controls under the supervision of the main Control Committee.

§ 6-2 The Control Committee shall meet whenever considered necessary in order to ensure sufficient supervision. It shall keep a record of its deliberations, in a form authorised by the Financial Supervisory Authority of Norway, and shall each year submit a report to the Supervisory Board, General Meeting and Financial Supervisory Authority of Norway on its activities and the Bank's position.

The Supervisory Board shall adopt instructions for the Committee, which shall be approved by the Financial Supervisory Authority of Norway.

Chap. 7 General Meeting

§ 7-1 The shareholders acting through the General Meeting exercise the highest authority in the Bank, unless authority has been vested exclusively in one of the Bank's other bodies by special statutory provision. At the General Meeting each share has one vote; see notwithstanding § 7-6(3). All resolutions shall be passed by a simple majority, unless otherwise provided by the law or the Articles of Association.

An ordinary General Meeting shall be held at the Bank's head office before the end of April each year.

The Chair of the Supervisory Board convenes General Meetings.

The Board of Directors, members of the Control Committee and the Auditor shall be called to General Meetings. The members of the Board of Directors and Control Committee are entitled to attend and to speak at General Meetings. The Managing Director and the Chair of the Supervisory Board are obliged to attend General Meetings unless it is obviously unnecessary for them to attend or they have a valid excuse. In the latter event, deputies shall be appointed.

Notice shall be given to the Financial Supervisory Authority of Norway in good time, and not later than the last date for lawful notice to the shareholders, of the business to be transacted at the General Meeting. A copy of the minutes of the meeting shall be sent immediately to the Financial Supervisory Authority of Norway.

§ 7-2 The annual financial statements, annual report, Auditor's report and Supervisory Board report, see § 4-6 (6), shall be presented at the Annual General Meeting and be distributed to those shareholders who have not had the documents sent them in advance.

§ 7-3 The Chair of the Supervisory Board shall open the General Meeting and chair the proceedings until a presiding chair is elected.

§ 7-4 The Annual General Meeting shall:

1. elect a person to chair the meeting from among the shareholders in attendance.
2. elect 11 members and six deputies to the Supervisory Board from among the Bank's shareholders, and elect members to the Control Committee
3. elect an Election Committee to organise the election of members and deputy members to the Supervisory Board and Control Committee at the next Annual General Meeting.
4. adopt the annual financial statements, including the appropriation of profit or covering of loss.
5. transact any other business which according to law or the Articles of Association falls under the General Meeting.

§ 7-5 When the General Meeting has been convened, the Chair shall draw up a list of the attending shareholders and proxies stating the number of shares and votes which each of them represents. This list shall be employed until it requires to be altered by the General Meeting.

§ 7-6 Votes shall be cast in writing if all those present at the meeting are unable to agree to another form of voting.

The Chair shall ensure that minutes are kept of the General Meeting's proceedings. The minutes shall record all resolutions passed by the General Meeting and state the outcome of voting. The list of attending shareholders and proxies shall be entered in or attached to the minutes. The minutes shall be signed by the Chair and at least one other person appointed by the General Meeting from among the participants. The minutes shall be held in safekeeping and made available to the shareholders.

Chap. 8 Auditor

§ 8-1 The Auditor shall comply with the instructions and orders that the Supervisory Board shall give, save where they conflict with provisions set by or pursuant to law or with the Bank's Articles of Association or generally accepted auditing principles.

The Auditor shall submit his or her comments and reports through the Control Committee to the Supervisory Board. The Auditor's report shall be submitted at least two weeks before the meeting of the Supervisory Board which shall consider the financial statements.

Chap. 9 Conditions relating to deposits

§ 9-1 The Board shall set the terms and conditions for receiving and paying deposits in accordance with any rules drawn up by the Financial Supervisory Authority of Norway.

Chap. 10 Annual Financial Statements and Annual Report

§ 10-1 The financial year shall coincide with the calendar year.

For each financial year the Board shall submit annual financial statements and an annual report.

The financial statements and annual report shall be placed at the disposal of the Auditor at least one month before the Annual General Meeting. The Control Committee and Supervisory Board shall examine the audited financial statements and annual report before they are presented to the General Meeting.

The General Meeting shall adopt the financial statements no later than the end of April.

Chap. 11 Retirement age. Term of service

§ 11-1 The maximum age of retirement for permanent employees is 70 years.

§ 11-2 An elected member or Chair of the Bank's Board of Directors, Supervisory Board or Control Committee may not hold such office for a consecutive period of more than 12 years or for periods which combined exceed 20 years. In computing these periods, only that period for which the person concerned has held elected office in the Bank since 1 January 1978 will be included. A person may not be elected/re-elected to any of these offices if, under the provisions of this paragraph, he or she would not be entitled to serve the full term for which he or she was elected.

Chap. 12 Amendments to these Articles of Association

§ 12-1 A resolution to amend the Articles shall be passed by the General Meeting. The resolution requires the approval of at least two-thirds of the votes given and the share capital represented at the General Meeting.

Any proposal to amend the Articles must be submitted to the Chair of the Board at least four weeks before the General Meeting shall consider the proposal.

Chap. 13 Entry into force

§ 13-1 These Articles of Association shall enter into force when they receive approval in accordance with the Commercial Banks Act, § 4(3).

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