BNkreditt AS

ANNUAL REPORT | 2011

BN Bank

Financial Ratios

NOK MILLION	NOTE	2011	% OF ATA	2010	% OF ATA
Summary of results					
Net income from interest and credit commissions		186	1.11 %	194	1.29 %
Total other operating income		77	0.46 %	28	0.19 %
Total income		263	1.57 %	222	1.48 %
Total other operating expense		91	0.54 %	95	0.63 %
Operating profit/(loss) before impairment losses		172	1.03 %	127	0.84 %
Impairment losses on loans and advances		44	0.26 %	53	0.35 %
Profit/(loss) before tax		128	0.76 %	74	0.49 %
Computed tax charge		36	0.21 %	21	0.14 %
Profit/(loss) for the period, remaining entity		92	0.55 %	53	0.35 %

Profitability			
Return on equity	1	3.4 %	2.0 %
Net interest margin	2	1.11 %	1.36 %
Cost-income ratio	3	34.6 %	42.8 %
Balance sheet figures			
Gross lending		17 180	15 342
Increase/decrease in lending (gross) last 12 months		12.0 %	13.9 %
Average total assets (ATA)	4	16 775	15 040
Total assets		17 901	16 120
Balance sheet figures inc. SpareBank 1 Næringskreditt			
Gross lending inc. loans transferred to SpareBank 1 Næringskreditt AS		25 443	22 650
Increase/decrease in lending (gross) last 12 months		12.3%	5.7%
Losses on loans and non-performing loans			
Loss ratio lending	5	0.27 %	0.37 %
Non-performing loans as % of gross lending		0.73 %	0.44 %
Other doubtful commitments as % of gross lending		2.30 %	3.51 %
Solvency			
Capital adequacy ratio		17.7 %	19.5 %
Tier 1 capital ratio		15.1 %	16.6 %
Tier 1 capital		2 665	2 630
Capital base		3 116	3 081
Offices and staffing			
Number of offices		2	2
Number of full-time equivalents		50	50
Shares			
Earnings per share during the period (whole NOK)		15.33	8.83

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) Average total assets (ATA) are calculated as an average of quarterly total assets and as at 1 January and 31 December
5) Net loss as a percentage of average gross lending to date this year

Report of the Directors

Summary of 2011

Bolig- og Næringskreditt AS (BNkreditt) posted a profit after tax for 2011 of NOK 92 million, compared with a post-tax profit of NOK 53 million for 2010. The increase in profit is primarily attributable to positive changes in the value of financial instruments.

BNkreditt's funding situation is good and the Company has maintained its strong capitalisation.

As at 31 December 2011, non-performing loans were 0.73 per cent of gross lending, which is 0.29 percentage points higher than at the start of the year. The Company is working purposefully to reduce non-performing loans.

The Company's total assets were NOK 17.9 billion as at 31 December 2011, which is an increase of NOK 1.8 billion on the last 12 months. Lending totalled NOK 17.1 billion as at 31 December 2011, which is NOK 1.8 billion up on the past year. Loans for NOK 8.3 billion had been transferred to SpareBank 1 Næringskreditt as at 31 December 2011. Gross lending, including lending in SpareBank 1 Næringskreditt, has risen by NOK 2.8 billion in the past year.

Operations, objectives and strategy

The primary objective of BNkreditt's operations is to achieve optimum returns on equity within the guidelines of the Company's operations, current laws and other relevant parameters.

The Company aims to achieve this objective by maintaining cost-effective operations and low risk and by marketing a limited range of standardised products. By employing this strategy, BNkreditt shall serve as an attractive alternative in selected customer segments to financial groups offering a broad range of financial products and services.

BNkreditt's operations are nationwide. The Company has its head office in Trondheim and a branch office in Oslo.

BNkreditt provides long-term mortgage loans secured on real property. In addition, BNkreditt offers BN Bank's (the Parent Bank's) products to the corporate market. These consist of secured lines of credit, building loans, guarantees and deposit/payment facilities. Loans are also offered with security in shares in property companies through BN Bank. BNkreditt's lending business is funded primarily by issuing securities, through Sparebank 1 Næringskreditt and inter-company financing.

Financial developments

BNkreditt presents its separate financial statements in compliance with International Financial Reporting Standards (IFRS).

Profit performance for 2011

BNkreditt recorded a profit after tax of NOK 92 million for the year to 31 December 2011, compared with NOK 53 million for the year to 31 December 2010. The increase in profit is primarily attributable to positive changes in the value of financial instruments.

Total income for 2011 was NOK 263 million, compared with NOK 222 million for 2010. A decrease in net interest margin and in commission from Sparebank 1 Næringskreditt compared with 2010 was counterbalanced by positive changes in the value of financial instruments.

The Company's unrestricted funds (equity) have a short investment horizon, and rising short-term interest rates have provided increased returns on these funds.

The transfer of loans to SpareBank 1 Næringskreditt will have a positive effect overall on the Company's income. BNkreditt receives commission from SpareBank 1 Næringskreditt that is equal to the margin on the loans. The Company received NOK 75 million in commission income in 2011, as against NOK 82 million in 2010. As at 31 December 2011 loans had been transferred to the value of NOK 8.3 billion.

BNkreditt's derivatives and some bond borrowings are carried at fair value. Interest rate risk in the Company is low, and fluctuations in interest rates should have a limited net profit-and-loss effect. During periods when interest rate spreads between different instruments develop differently, P&L effects may arise. In 2011, there was a positive P&L effect of NOK 1 million, while the P&L effect in 2010 was negative by NOK 60 million. These effects will even out in the long term. For more information concerning changes in value, see Note 4.

Other operating expense for 2011 totalled NOK 91 million, which is NOK 4 million down on 2010. The Company purchases all its operation management services from BN Bank.

Non-performing loans as a percentage of gross lending was 0.73 per cent as at 31 December 2011, compared with 0.44 per cent as at 31 December 2010. Non-performing and doubtful loans, less individual write-downs, totalled NOK 462 million (2.69 per cent of gross lending) at the end of the fourth quarter 2011. As at 31 December 2010 the corresponding volumes were NOK 571 million (3.72 per cent of gross lending). BNkreditt will continue to focus closely on the quality of the portfolio and on following up doubtful loan commitments. See Note 11 for more information about non-performing and doubtful loans.

Impairment losses on loans and advances totalled NOK 44 million for 2011, compared with NOK 53 million for 2010. Collective write-downs were up by NOK 3 million on the last 12 months, totalling NOK 42 million as at 31 December 2011, which is 0.24 per cent of gross lending.

Balance sheet development

The loan portfolio as at 31 December 2011 was NOK 17.1 billion, compared with NOK 15.3 billion at the start of the year. Loans for NOK 8.3 billion had been transferred to SpareBank 1 Næringskreditt as at 31 December 2011.

The trend in gross lending for the year, including lending in SpareBank 1 Næringskreditt, is as follows:

NOK MILLION	Q4-11	Q3-11	Q2-11
BNkreditt	17.1	15.8	16.1
SpareBank 1 Næringskreditt	8.3	8.0	8.1
Gross lending	25.4	23.8	24.2

Gross lending, including loans to SpareBank 1 Næringskreditt, increased by NOK 2.8 billion in 2011. The transfer of loans to SpareBank 1 Næringskreditt will strengthen BNkreditt's liquidity situation, profitability and financial strength. BNkreditt has no equity interest in the company.

To strengthen the interests of the existing bond holders in BNkreditt, BN Bank has provided a guarantee that BNkreditt will have a capital adequacy ratio or junior financing of minimum 20 per cent. As at 31 December 2011, BNkreditt had a capital adequacy ratio of 17.7 per cent and a capital base of NOK 3.1 billion. BN Bank had ceded precedence in respect of its accounts receivable with BNkreditt for a total of NOK 407 million at the turn of the year. For more information see Notes 23 and 29.

BNkreditt had NOK 4.5 billion in securities borrowings as at 31 December 2011, which is NOK 1.8 billion less than at the start of the year. Other interest-bearing debt consists chiefly of debt to the Parent Bank.

Total assets increased by NOK 1.8 billion in 2011 and stood at NOK 17.9 billion at year-end. The increase is attributable to the growth in lending.

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

Solvency

BNkreditt's capital base was NOK 3 116 million at the end of the period, equivalent to a capital adequacy ratio of 17.7 per cent. Tier 1 capital was NOK 2 665 million, equivalent to a tier 1 capital ratio of 15.1 per cent as at 31 December 2011. Risk-weighted assets were NOK 17 613 million at the same date. The Board deems the Company's capital adequacy to be good.

Fourth quarter 2011

BNkreditt posted a profit after tax of NOK 30 million for the fourth quarter of 2011, compared with a post-tax profit of NOK 18 million for the third quarter of the year. An increased volume of lending and positive changes in the value of financial instruments are the main cause of the increase in profits.

Total income for the fourth quarter was NOK 73 million, compared with NOK 59 million for the third quarter. The increase in total income is attributable to an increase in lending volume and positive changes in the value of financial instruments.

For the fourth quarter of 2011, other operating expense totalled NOK 22 million, which is NOK 1 million less than for third-quarter 2011.

The fourth-quarter trend in non-performing loans was positive, and as at 31 December the figure for non-performing loans as a percentage of gross lending was 0.73 per cent, which is a decrease of 0.52 percentage points from the third quarter of the year.

Impairment losses on loans totalled NOK 9 million for the fourth quarter of 2011, compared with NOK 11 million for third-quarter 2011. Collective write-downs were down by NOK 1 million in the quarter, standing at NOK 42 million as at 31 December 2011, which is 0.24 per cent of gross lending.

Gross lending in fourth-quarter 2011 increased by NOK 1 351 million (9 per cent).

Recommended allocation of profit for the year

The Board recommends that BNkreditt's profit for the year of NOK 92 million be allocated as follows (NOKm):

Group contribution to BN Bank ASA	92
Allocated from other reserves	0
Total allocations	92

Following the recommended allocation of profit, the Company's unrestricted equity totals NOK 928 million.

Risk management

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

BNkreditt has guidelines for managing all the relevant types of risk. These include risk tolerance limits, choice of risk monitoring method, and reporting requirements. The established risk management principles apply to the entire BN Bank Group.

BNkreditt has no stock market exposure.

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

An assessment of the most important risks is provided below.

Credit risk

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

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

In commercial real estate, BNkreditt finances for the most part fully developed properties, i.e. properties let to one or more tenants. BNkreditt's first line of defence against impairment losses (bad debts) 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 non-performing loans and impairment losses on commercial real estate loans is considered moderate.

Risk classification

BNkreditt employs a risk classification system for its loan commitments. The risk classification models used by the Company classify the loans both 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 analysis of risk in the loan portfolio, as well as the new capital adequacy rules, are described in more detail in Notes 23, 26 and 27.

Expected losses

The 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 0.35 per cent.

Impairment losses on loans for the year were 0.27 per cent of gross lending as at 31 December.

The level of losses over time in BNkreditt 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.

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

Liquidity risk

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

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

Interest rate risk and foreign exchange risk

BNkreditt's exposure to the interest rate and foreign exchange markets is limited. BNkreditt's borrowings shall have the same fixed interest rates as its loan portfolio, with any differentials equalised with the use of hedging instruments. In the same way, foreign exchange risk as a result of BNkreditt's currency borrowing and lending is reduced with hedging instruments.

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

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

Market risk

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

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

Operational risk

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

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

Working environment and organisation

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

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

BNkreditt's objective is to be a workplace where there is equality between women and men. There shall be no discriminatory treatment on grounds of gender.

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

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

Outlook

The situation with regard to the global economy is uncertain and may affect the price BN 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. BN Bank's funding situation is, however, good, and BN Bank fulfils by a good margin its self-imposed requirement to manage for more than 12 months without a new supply of funding.

An improved funding situation, owing amongst other things to access to the credit institutions in the SpareBank 1 consortium, low risk in the loan portfolio and strengthened capitalisation in 2010, all help make BNkreditt well positioned to withstand any further deterioration of the economy.

Further pressure is expected on margins in corporate lending in the time ahead. BNkreditt's cost levels are expected to remain stable.

Risk in the loan portfolio is considered to be low. BNkreditt'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. BNkreditt will continue to maintain a close focus on monitoring and following up loans and commitments.

A priority area for BNkreditt will be to make full use of the possibilities for issuing covered bonds.

Trondheim 27 February 2012
BNkreditt AS

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

Income Statement

NOK MILLION	NOTE	2011	2010
Interest and similar income	2	748	629
Interest expense and similar expense	3	562	435
Net income from interest and credit commissions		**186**	**194**
Change in value of financial instruments at fair value, gains & losses	4	1	-60
Other operating income	5	76	88
Total other operating income		**77**	**28**
Salaries and general administrative expenses	6, 7, 8, 9	70	74
Other operating expense	10	21	21
Total other operating expense		**91**	**95**
Operating profit/(loss) before impairment losses		**172**	**127**
Impairment losses on loans and advances	11	44	53
Operating profit/(loss) after impairment losses		**128**	**74**
Tax charge	12	36	21
Profit/(loss) for the year		**92**	**53**

Balance Sheet as at 31 December

NOK MILLION	NOTE	2011	2010
Assets			
Deferred tax assets	12	53	49
Repossessed properties	15	0	15
Loans and advances	11, 14, 24, 25, 26, 27	17 078	15 268
Financial derivatives	16, 24, 25, 26, 27	125	134
Short-term securities investments	17, 24, 25, 26, 27	525	520
Cash and balances due from credit institutions	13, 24, 25, 26, 27	120	134
Total assets		17 901	16 120
Equity and liabilities			
Share capital	22	600	600
Share premium reserve		1 000	1 000
Other reserves		1 117	1 079
Total equity		2 717	2 679
Subordinated loan capital	21, 24, 25, 26, 27	451	451
Liabilities to credit institutions	18, 24, 25, 26, 27	10 194	6 629
Debt securities in issue	19, 24, 25, 26, 27	4 473	6 286
Accrued expenses and deferred income	20	16	14
Tax payable	12	1	0
Financial derivatives	16, 24, 25, 27	49	61
Total liabilities		15 184	13 441
Total equity and liabilities		17 901	16 120

Trondheim 27 February 2012
BN Boligkreditt AS

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

Statement of Changes in Equity

NOK MILLION	SHARE CAPITAL	SHARE PREMIUM RESERVE	OTHER PAID-UP SHARE CAPITAL	OTHER RESERVES[1]	TOTAL EQUITY
Balance Sheet as at 1 January 2010	600	1 000	0	1 082	2 682
Group contribution rendered to Parent Bank	0	0	0	-56	-56
Result for the period	0	0	0	53	53
Balance Sheet as at 31 December 2010	**600**	**1 000**	**0**	**1 079**	**2 679**
Group contribution rendered to Parent Bank	0	0	0	-98	-98
Group contribution received from Parent Bank	0	0	44	0	44
Result for the period	0	0	0	92	92
Balance Sheet as at 31 December 2011	**600**	**1 000**	**44**	**1 073**	**2 717**

[1] The reserve for urealised gains is included in Other reserves. No provision was made as at 31 December 2011 or 31 December 2010.

Statement of Cash Flows

NOK MILLION	NOTE	2011	2010
Cash flows from operating activities			
Interest/commission received and fees received from customers		1 062	4 501
Interest received on other investments		22	-14
Interest paid on other loans		-593	-423
Receipts/disbursements (-) on loans to customers		-1 701	-5 435
Receipts/payments(-) on liabilities to credit institutions		3 120	1 362
Receipts/payments(-) on securities in issue and securities buy-back		-1 758	242
Receipts on written-off debt		9	6
Other receipts/payments		-57	-11
Payments to suppliers for goods and services		-49	-49
Payments to employees, pensions and social security expenses		-37	-41
Tax paid		0	0
Net cash flow from operating activities		**18**	**138**
Cash flows from investing activities			
Receipts/payments(-) on short-term securities investments		-4	0
Proceeds from sale of operating assets etc.		25	0
Net cash flow from investing activities		**21**	**0**
Cash flows from financing activities			
Group contribution/dividend paid		-53	-56
Net cash flow from financing activities		**-53**	**-56**
Net cash flow for the period		**-14**	**82**
Cash and balances due from credit institutions as at 1 January		134	52
Cash and balances due from credit institutions as at 31 December.		**120**	**134**

Notes

NOTE 1. ACCOUNTING POLICIES ETC.

Information about the company

Bolig- og Næringskreditt AS (BNkreditt) is a limited company in the form of a credit institution established and domiciled in Norway, and with its registered office in Trondheim. The Company also has a branch office in Oslo. BNkreditt is part of the BN Bank Group. Within the framework of the Company's articles of association and subject to the legislation that is in force at any time, the Company may carry on all business and perform all services that it is customary or natural for credit institutions to perform.

Basis for preparation of the financial statements

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

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

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

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

The following standards and amendments to, and interpretations of, existing standards have been published, and application will be obligatory for the BN Bank 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 uses 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 Company's accounting policies, 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 BN Bank's loan and guarantee portfolio according to the regulations for valuing loans provided by the Financial Supervisory Authority of Norway.

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

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 experiential material available from the actuaries.

Accounting policies

Recognition of income and expenditure

Interest earned from variable-rate loans, including loans with a rolling fixed-rate period, is taken to income over the term of the loan using the loan's effective interest rate. Income from fees and commissions is included in the calculation of effective interest. Interest 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 or assets as 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 BNkreditt.

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 BNkreditt, 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 BNkreditt's own issued securities and fixed-rate lending. In this context, all securities that have a fixed rate of interest over the entire term will be reckoned as fixed-rate securities. Securities that have a fixed rate on a rolling basis will not be reckoned as fixed-rate securities. Fixed-rate securities are selected for measurement at fair value through profit or loss in order to avoid what would otherwise be accounting asymmetry through the related interest rate hedging instruments being recognised at fair value. In that fair value recognition avoids the most material parts of this accounting asymmetry, the criteria for recognising the instruments at fair value are regarded as fulfilled.

Financial instruments other than those measured at fair value with value changes carried through profit or loss and available-for-sale at fair value with the change in value carried in equity, will be recognised at amortised cost using the effective interest 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 BN Bank 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 Company capitalises loans on the balance sheet at fair value plus direct costs 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 Company, 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 write-offs. These include losses where the Company has lost its claim against the debtor as a result of bankruptcy or insolvency, affirmed voluntary arrangement, unsuccessful execution proceedings, final and enforceable judgment, or debt relief. This also applies in those cases where the Company has in some other way stopped enforcement of payment or waived its claim for payment of some of the loan or the entire loan.

Loans and impairment losses measured at fair value

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

Bonds and certificates – In general

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

Bonds and certificates – Classification

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

Bonds and certificates – Estimation of gains/losses

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

Financial instruments measured at fair value

Financial instruments which are sold in an active market are valued at observed market prices. Financial instruments which are not sold in an active market are measured 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, BNkreditt will calculate a customer-specific margin on each individual customer commitment, and this margin will be included in all subsequent valuations, so that what might otherwise have given risen to a day-one gain or a day-one loss will be amortised over the entire term of the loan. In the case of borrowings, the result of the valuation is checked against the transaction price, and where there are not immaterial differences a specific supplement will be calculated in the discount rate per contract that is added to the discount rate in all subsequent valuations, so that the day-one gain or day-one loss is amortised over the entire term of the security.

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 – Classification of accrued interest

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

Pension costs and liabilities

The BN Bank Group has different pension schemes. These pension schemes are in general 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 off-set 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 statement of cash flows is presented using the direct method, which provides information about important classes of receipts and payments.

Segment reporting

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

NOTE 2. INTEREST AND SIMILAR INCOME

NOK MILLION	2011	2010
Interest from financial instruments carried at amortised cost:		
Interest and similar income from loans to and receivables from customers	660	531
Interest and similar income from certificates and bonds	18	15
Total interest from financial instruments carried at amortised cost	678	546
Interest from financial instruments selected for fair value carrying through profit or loss:		
Interest and similar income from loans to and receivables from customers	70	83
Total interest from financial instruments selected for fair value carrying thro profit or loss	70	83
Total interest and similar income	748	629

NOTE 3. INTEREST EXPENSE AND SIMILAR CHARGES

NOK MILLION	2011	2010
Interest expense for financial instruments carried at amortised cost:		
Interest and similar charges on liabilities to credit institutions	324	179
Interest and similar charges on securities issued	62	63
Interest and similar charges on subordinated loan capital	25	20
Total interest expense for financial instruments carried at amortised cost	411	262
Interest expense for financial instruments selected for fair value carrying through profit or loss:		
Interest and similar charges on securities issued	151	173
Total interest expense for fin instruments selected for fair value carrying thro profit or loss	151	173
Total interest expense and similar charges	562	435

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

NOK MILLION	2011	2010
Change in value interest rate derivatives obliged to be carried at fair value thro profit or loss [1]	-11	1
Total change in value of financial instruments obliged to be carried at fair value	-11	1
Change in value of borrowings selected for fair value carrying through profit or loss [1]	42	17
Change in value of loans & adv. selected for fair value carrying through profit or loss [1]	-25	-87
Total change in value of financial instruments selected for fair value carrying	17	-70
Change in value of interest rate derivatives, hedged [3]	16	-1
Change in value of borrowings, hedged [3]	-16	1
Total change in value of financial instruments for hedging	0	0
Total change in value of financial instruments carried at fair value	6	-69
Realised gains/losses(-) bonds and certificates carried at amortised cost [1, 3, 4]	0	-1
Realised gains/losses(-) borrowings and loans carried at amortised cost [4]	0	9
Exchange gains/losses borrowings and loans carried at amortised cost [2]	-5	1
Total change in value of financial instruments carried at fair value, gains and losses	1	-60

[1] The P&L effect in 2011 consists mainly of income recognition of interest rate hedge instruments and related hedge objects (fixed-rate lending and borrowing) totalling NOK 1 million, as compared with expense recognition of NOK 59 million in 2010. This effect is owing to changes in the fair value of financial instruments relating to changes in the credit risk.

[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. Exposure to exchange rate fluctuations is low.

[3] As of 2010 inclusive, BNkreditt is using 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 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 48 million.

[4] Realised gains/losses on bonds, certificates and borrowings carried at amortised cost had no P&L effect in 2011, as against income recognition of NOK 8 million in 2010.

NOTE 5. OTHER OPERATING INCOME

NOK MILLION	2011	2010
Commission income from payment services [1]	76	82
Total commission income and income from banking services	76	82
Total commission charges and banking services expenses	0	0
Net commission income / charges	76	82
Other operating income:		
Miscellaneous operating income	0	6
Other operating income	0	6
Total other operating income	76	88

[1] Commission income from managing the portfolio of SpareBank 1 Næringskreditt was NOK 75 million as at 31 December 2011 and NOK 82 million as at 31 December 2010.

NOTE 6. SALARIES AND GENERAL ADMINISTRATIVE EXPENSES

NOK MILLION	2011	2010
Salaries to employees and fees to elected officers	28	30
Performance-related pay [1]	0	2
Contract labour	1	1
Net pension cost [2]	5	3
Payroll overhead	5	7
Salaries and other personnel costs	39	43
Computing costs	15	15
Postage and telephone	1	1
Office expenses	11	11
Business travel and entertainment	2	2
Marketing	2	2
General administrative expenses	31	31
Salaries and general administrative expenses	70	74
Number of permanent full-time employees as at 31 December	21	22
Number of permanent part-time employees as at 31 December	1	1
Number of temporary staff as at 31 December	1	0
Number of full-time equivalents (FTEs) as at 31 December	22	23
Average number of FTEs during the year	22	21
FTEs including share of shared group functions as at 31 December	50	50

[1] The BN Bank Group had a performance-related pay scheme in 2011. 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

BNkreditt has entered into transactions with related parties, as described in this Note, and in Note 8. In addition, there are transactions with related parties such as the parent company; cf. Note 8. All transactions with related parties are entered into on commercial terms. Apart from the transactions identified in this Note and Note 8, there are no transactions or outstanding matters of significance with related parties.

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

Salaries and other remuneration are paid in the Parent Bank. A relative share of wages and salaries is charged to Bolig og Næringskreditt AS. The total remuneration is disclosed below.

	FEES	SALARIES	PERFORMANCE-RELATED PAY[1, 2]	NON-CASH & OTHER TAXABLE BENEFITS	PENSION PREMIUMS PAID	TOTAL PAY AND REMUN-ERATION	LOANS AND SECURITY
Senior Executives							
Trond Søraas, Director Accounts and Treasury [3, 5]	0	981 742	25 000	133 577	145 203	1 285 522	1 642 576
Former Board of Directors							
Lisbet K. Nærø, former Chair of Board of Directors [4, 5]	0	2 402 669	375 000	111 547	116 327	3 005 543	0
Board of Directors							
Svend Lund, Chair of Board of Directors [3, 5]	0	1 910 250	250 000	132 902	241 767	2 534 919	1 740 576
Other Board members	142 500	0	0	0	0	142 500	0
Control Committee							
Members	0	0	0	0	0	0	0
Total	142 500	5 294 661	650 000	378 026	503 297	6 968 484	3 383 152

[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 dismissal.

[4] Lisbet K. Nærø's previous unsecured pension agreements have been terminated.

[5] The costs of these pensions are included in the pension cost; see Note 9 for more information. All senior executives have standard pension agreements. 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).

Fees to appointed Auditor

NOK ´000	2011	2010
Fees to appointed Auditor		
Normal audit fes for statutory audit [1]	193	199
Tax advice	21	19
Other attestation services	0	0
Fees for other assistance	0	0
Total fees paid to appointed Auditor (including VAT)	214	218

[1] This includes fees for auditing the quarterly financial statements in the amount of NOK 48 125 in 2011 and NOK 52 500 in 2010. The statutory audit fees were NOK 145 000 for the 2011 financial year and NOK 146 250 for the 2010 financial year.

Income, expenses, receivables and commitments with related companies

NOK MILLION		2011	2010
Interest income			
BN Bank	Parent company	0	0
Other income			
BN Bank	Parent company	0	0
Interest expense			
BN Bank	Parent company	349	186
SpareBank 1 SR-Bank	SpareBank 1 consortium	-17	-14
Other expense			
BN Bank	Parent company	0	0
Receivables as at 31 December			
BN Bank	Parent company	0	0
Liabilities as at 31 December			
BN Bank	Parent company	10 645	7 080

BNkreditt 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

NOK MILLION	2011	2010
Nominal value of deducted loans risk-mitigated by SpareBank 1 SMN	404	146
Nominal value of deducted loans risk-mitigated from related parties	404	146

NOTE 8. LOANS TO EMPLOYEES AND ELECTED OFFICERS

NOK MILLION	2011	2010
Loans to employees as at 31 December	38 658	31 150
Loans to elected officers as at 31 December	0	0
Loans to companies were elected officers had controlling influence as at 31 December	0	0
Interest subsidy on loans to employees [1]	**0**	**0**

[1] This subsidy cost is not shown in the income statement because the interest income from loans to employees is 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 were elected officers are board members and/or have a controlling influence are provided on normal customer terms.

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

NAME	OFFICE / POSITION	PRINCIPAL
Trond Søraas	Managing Director	1 642 576

NOTE 9. PENSION COSTS AND COMMITMENTS

The BN Bank 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 Group's 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.

When measuring the accrued pension commitments, the estimated commitment on the accounts closing day is applied. The estimated commitment is adjusted annually in accordance with a statement from the life assurance company of the accrued pension commitment.

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.

The pension scheme is administered in the Parent Bank. A relative share of pension costs and commitments is charged to Bolig og Næringskreditt AS. The Company's share is disclosed below.

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 scheme 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

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

Specification of net recognised defined benefit pension commitment

NOK MILLION	2011	2010
Present value contrib. pension commitment for defined benefit plans in secured schemes	38	35
Fair value of pension assets	-25	-23
Net pension commitment for defined benefit plans in secured schemes	13	12
Present value contrib. pension commitment for defined benefit plans in unsecured schemes	10	10
Costs of prior-period pension contributions not recognised in the balance sheet	-11	-11
Accrued employer’s contribution	3	3
Net pension commitment recognised in the balance sheet	15	14

Movements in defined benefit pension commitment - secured scheme

NOK MILLION	2011	2010
Gross pension commitment as at 1 January	35	26
Present value of pension contributions	3	2
Interest expense	1	1
Actuarial losses (gains) on the pension commitment	0	6
Costs of prior-period pension contributions	0	0
Takeover/acquisition/transfer of members	0	0
Benefits paid out	0	0
Increase in commitment with new subsidiary	0	0
Gross pension commitment as at 31 December	38	35

Movements in defined benefit pension commitment - unsecured scheme

NOK MILLION	2011	2010
Gross pension commitment as at 1 January	10	7
Present value of pension contributions	0	0
Interest expense	0	0
Actuarial losses (gains) on the pension commitment	0	3
Costs of prior-period pension contributions	0	0
Takeover/acquisition/transfer of members	0	0
Benefits paid out	-1	0
Increase in commitment with new subsidiary	0	0
Gross pension commitment as at 31 December	10	10
Total pension commitment, secured and unsecured schemes as at 1 January	45	33
Total pension commitment, secured and unsecured schemes as at 31 December	48	45

Movements in fair value of pension assets - secured scheme

NOK MILLION	2011	2010
Fair value of pension assets as at 1 January	23	18
Expected return on pension assets	1	1
Actuarial losses (gains) on pension assets	-1	1
Total contribution	2	3
Benefits paid out	0	0
Takeover/acquisition/transfer of members	0	0
Fair value of pension assets as at 31 December	25	23

Pension scheme members

NOK MILLION	2011	2010
Economically active members	42	37
Pensioners and disabled members	6	6
Total number of pension scheme members	48	43

Investment of pension assets as at 31 December

NOK MILLION	2011 AMOUNT	%	2010 AMOUNT	%
Equity instruments	3	10.4	4	15.6
Debt instruments	18	70.3	14	62.3
Real estate	5	18.1	4	16.1
Other investments	0	1.2	1	6.0
Total pension assets	25	100.0	23	100.0

Pension assets are not invested in own financial instruments or other assets in the Company.
Expected payment of premium to defined benefit pension schemes in 2011 is NOK 3 million for the Company.

NOK MILLION	2011	2010	2009	2008	2007	2006
Present value of pension contributions	48	45	35	40	36	33
Fair value of pension assets	25	23	18	23	19	22
Deficit/(surplus)	-23	-22	-16	-17	-17	-11
Experience-based adjustments to pension commitments	-1	6	-11	-6	5	5
Experience-based adjustments to pension assets	-1	1	-7	-5	-1	0

NOTE 10. OTHER OPERATING EXPENSE

NOK MILLION	2011	2010
Operating expense real property	14	14
Miscellaneous operating expense	7	7
Other operating expense	21	21

NOTE 11. 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.

NOK MILLION	2011	2010
Write-offs in excess of prior-year write-downs	4	27
Write-offs on loans without prior write-downs	8	0
Write-downs for the period:		
Change in collective write-downs	3	0
Total change in collective write-downs	**3**	**0**
Increase in loans with prior-year write-downs	26	23
Provision against loans without prior write-downs	14	14
Decrease in loans with prior-year write-downs	-2	-11
Total change in individual write-downs	**38**	**26**
Gross impairment losses	53	53
Recoveries on previous write-offs [1]	-9	0
Impairment losses on loans and advances	**44**	**53**
Revenue recognition of interest on written-down loans	8	6

[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.

NOK MILLION	2011	2010
Individual write-downs to cover impairment losses as at 1 January	35	21
Write-offs covered by prior-year individual write-downs	-4	-6
Write-downs for the period:		
Increase in loans with prior-year individual write-downs	17	17
Write-downs on loans without prior individual write-downs	14	14
Decrease in loans with prior-year individual write-downs	-2	-11
Individual write-downs to cover impairment losses as at 31 December	**60**	**35**
Collective write-downs to cover impairment losses as at 1 January	**39**	**39**
Collective write-downs for the period to cover impairment losses	3	0
Collective write-downs to cover impairment losses as at 31 December	**42**	**39**

Loans past due more than 3 months as at 31 December

NOK MILLION	2011	2010	2009	2008	2007
Gross principal	126	67	132	678	26
Individual write-downs	26	0	4	25	0
Net principal	100	67	128	653	26

Other loans with individual write-downs as at 31 December

NOK MILLION	2011	2010	2009	2008	2007
Gross principal	396	539	57	0	0
Individual write-downs	34	35	17	0	0
Net principal	362	504	40	0	0

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

NOK MILLION	GROSS OUTSTANDING 2011	%	GROSS OUTSTANDING 2010	%	GROSS OUTSTANDING 2009	%	GROSS OUTSTANDING 2008	%
Corporate market	126	0.73	67	0.44	132	0.98	678	3.25

NOTE 12. TAX

Computation of tax payable

NOK MILLION	2011	2010
Profit/(loss) before tax	128	74
Permanent P&L differences:		
Non-deductible expenses	0	0
Non-taxable income	0	0
Changes in temporary P&L differences relating to:		
Current assets/short-term liabilities	-5	54
Fixed assets/long-term liabilities	10	8
Other items recognised in equity		
Taxable income	133	136
Tax payable (28%)	**37**	**38**

The Company has rendered group contribution equivalent to the taxable profit in 2010 and portions of the taxable profit in 2011.
The tax effect in 2011 relating to the proposed group contribution is NOK 36 million.

NOK MILLION	2011	2010
Tax payable	37	38
Change in deferred tax	-1	-17
Tax charge	**36**	**21**
Reconciliation from nominal to actual tax rate (28%)		
Profit/(loss) before tax	128	74
Expected income tax at nominal rate (28%)	36	21
Tax effect of permanent differences	0	0
Tax charge	**36**	**21**
Effective tax rate	28%	28%

Computation of deferred tax/deferred tax assets

NOK MILLION	2011	2010
Tax-adding temporary differences:		
Profit and loss account	6	7
Short-term securities investments	52	47
Total tax-adding temporary differences	58	54
Tax-deducting temporary differences:		
Short-term liabilities	1	0
Long-term liabilities [1]	360	352
Net pension commitment	14	14
Total tax-deducting temporary differences	375	366
Tax base for computing deferred tax (+)/deferred tax assets (-)	-317	-312
Computed deferred tax (+)/deferred tax assets (-) (28% of computation base)	89	-87

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

NOK MILLION	2011	2010
Deferred tax as at 1 January	-49	-48
Excess/insufficient tax provision last years	0	0
Change in deferred tax in P&L	-1	-17
Tax effect of group contribution	-2	16
Change in deferred tax recognised in equity	0	0
Deferred tax as at 31 December	-53	-49

[1] Temporary difference mainly related to financial instruments.

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

NOTE 13. CASH AND BALANCES DUE FROM CREDIT INSTITUTIONS

NOK MILLION	2011	2010
Financial assets carried at amortised cost		
Receivables from related parties	120	134
Cash and balances due from credit institutions carried at amortised cost	120	134
Financial assets carried at fair value		
Cash and balances due from credit institutions selected for fair value carrying	0	0
Cash and balances due from credit institutions	120	134

NOTE 14. LOANS AND ADVANCES

NOK MILLION	2011	2010
Loans carried at amortised cost:		
Amortised loans	15 915	13 804
Total loans carried at amortised cost	15 915	13 804
Loans selected for fair value carrying through profit or loss:		
Amortised loans	1 163	1 464
Total loans	17 078	15 268

Overview of gross lending in managed portfolio

NOK MILLION	2011	2010
Gross loans	17 180	15 342
Loans transferred to SpareBank 1 Næringskreditt	8 263	7 308
Total loans including loans transferred to SpareBank 1 Næringskreditt	25 443	22 650

NOTE 15. REPOSSESSED PROPERTIES

As at 31 December 2010, the Company had one repossessed property at a book value of NOK 15 million. This property was sold in 2011 at an accounting gain of NOK 9 million.

For further information about repossessed properties, please refer to Notes 1 and 11.

NOTE 16. FINANCIAL DERIVATIVES

Assets

NOK MILLION	2011	2010
Interest rate derivatives	125	134
Total financial derivatives, assets	**125**	**134**

Liabilities

NOK MILLION	2011	2010
Interest rate derivatives	49	61
Total financial derivatives, liabilities	**49**	**61**

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

NOTE 17. SHORT-TERM SECURITIES INVESTMENTS

NOK MILLION	2011	2010
Short-term investments carried at amortised cost:		
Certificates and bonds issued by others	525	520
Total short-term investments carried at amortised cost	**525**	**520**
Short-term investments selected for fair value carrying through profit or loss:		
Total short-term investments selected for fair value carrying through profit or loss	**0**	**0**
Short-term securities investments	**525**	**520**

NOTE 18. LIABILITIES TO CREDIT INSTITUTIONS

NOK MILLION	2011	2010
Liabilities to credit institutions carried at amortised cost:		
Liabilities to Parent Bank	9 899	6 362
Liabilities to credit institutions selected for fair value carrying through profit or loss:		
Liabilities to Parent Bank	295	267
Liabilities to credit institutions	10 194	6 629

NOTE 19. DEBT SECURITIES IN ISSUE

Face values

NOK MILLION	2011	2010
Face value of certificates	0	557
Face value of own certificates	0	0
Net face value of certificates	0	557
Face value of bonds	4 453	5 606
Face value of own bonds	-94	-55
Net face value of bonds	4 360	5 551
Net face value of debt securities in issue	4 360	6 108

Recognised values

NOK MILLION	2011	2010
Certificates selected for fair value carrying	0	567
Total recognised value of certificates	0	567
Bonds carried at amortised cost	1 620	1 853
Bonds carried at amortised cost (secured debt)	774	758
Bonds selected for fair value carrying	2 079	3 108
Total recognised value of bonds	4 473	5 719
Total recognised value of debt securities in issue	4 473	6 286

NOTE 20. ACCRUED EXPENSES AND DEFERRED INCOME

NOK MILLION	2011	2010
Accrued not due expenses/payments carried in advance of period	1	0
Net pension commitment (see Note 9)	15	14
Accrued expenses and deferred income	16	14

Provisions relate to performance-related pay for employees. See more information in Note 6.

NOTE 21. SUBORDINATED LOAN CAPITAL

Subordinated loans carried at amortised cost:

		2011		2010			
ISIN-NUMBER	LOAN DESIGNATION	RECOG. VALUE AT 31.12.11[1]	NOMINAL VALUE (NOKm)	RECOG. VALUE AT 31.12.10[1]	NOMINAL VALUE (NOKm)	CURRENCY	MATURITY
	2010/2020	450	450	450	450	NOK	20.03.20
Subordinated loans carried at amortised cost		450	450	450	450		

[1] Figures are stated net of accrued interest.

The loan is provided in its entirety by the Parent Bank. The interest rate is adjusted every three months. Interest is set at 3-month NIBOR (Norwegian Interbank Offered Rate) plus 2.75 percentage points in arrears for the first 5 years, and thereafter plus 3.50 percentage points in arrears for the last 5 years The loan may be fully or partially redeemed after 5 years. Redemption requires the consent of the Financial Supervisory Authority of Norway. Interest on the loans as at 31 December 2011 was 5.68%. The loan forms part of BNkreditt's capital base as tier 2 capital; see Note 23.

NOTE 22. SHAREHOLDER STRUCTURE AND SHARE CAPITAL

Shareholders as at 31 December 2011

BN Bank owns 100% of the shares in BNkreditt. BNkreditt is included in the consolidated financial statements of BN Bank, which are available at www.bnbank.no.

Share capital as at 31 December 2011

6 000 000 shares at NOK 100 each have been issued. The General Meeting has not authorised any increase in share capital or the purchase of own shares. There are no outstanding debt instruments with share conversion rights, nor have any form of share options been issued which may lead to an increase in the number of shares.

NOTE 23. CAPITAL ADEQUACY

Process for assessing the capital adequacy requirement

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

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

Rules and regulations

General

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

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

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

Intangible assets are deducted from the tier 1 capital.

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

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

Capital adequacy

NOK MILLION	2011	2010
Share capital	600	600
Other reserves	2 118	2 079
Perpetual subordinated loan capital (perpetual subord. loan capital funding)	0	0
Deduction for:		
Intangible assets	0	0
Deferred tax assets	-53	-49
Proposed provision for group contribution	0	0
Tier 1 capital	**2 665**	**2 630**
Fixed-term subordinated loan capital [1]	451	451
Deduction for:		
Reductions last 5 years	0	0
Net tier 2 capital	**451**	**451**
Total capital base	**3 116**	**3 081**
Risk-weighted assets	17 613	15 818
Tier 1 capital ratio (%)	15.1	16.6
Capital adequacy ratio (%)	**17.7**	**19.5**

[1] For more details, see Note 21.

Specification of risk-weighted assets

NOK MILLION		2011
RISK-WEIGHTING	RECOGNISED AMOUNT	WEIGHTED AMOUNT
0 %	0	0
10 %	0	0
20 %	706	141
35 %	562	197
50 %	0	0
75 %	0	0
100 %	17 275	17 275
Investments included in the trading portfolio	0	0
Tradeable debt instruments included in the trading portfolio	0	0
Total risk-weighted assets	18 543	17 613
Capital adequacy ratio (%)		17.7

Specification of risk-weighted assets

NOK MILLION		2010
RISK-WEIGHTING	RECOGNISED AMOUNT	WEIGHTED AMOUNT
0 %	0	0
10 %	0	0
20 %	756	151
35 %	362	127
50 %	0	0
75 %	0	0
100 %	15 540	15 540
Investments included in the trading portfolio	0	0
Tradeable debt instruments included in the trading portfolio	0	0
Total risk-weighted assets	16 658	15 818
Capital adequacy ratio (%)		19.5

NOTE 24. FINANCIAL INSTRUMENTS CLASSIFIED BY CATEGORY

As at 31 December 2011

NOK MILLION	FAIR VALUE	VOLUNTARILY CLASSIFIED AT FAIR VALUE	AVAILABLE FOR SALE	LOANS, RECEIV-ABLES & OTHER LIABILITIES AT AMORTISIED COAST[1]	HOLD TO MATURITY	TOTAL
Loans and advances	0	1 163	0	15 915	0	17 078
Financial derivatives, assets	125	0	0	0	0	125
Short-term securities investments	0	0	0	525	0	525
Cash and balances due from credit institutions	0	0	0	120	0	120
Total financial instruments, assets	125	1 163	0	16 560	0	17 848
Subordinated loan capital	0	0	0	-451	0	-451
Liabilities to credit institutions	0	0	0	-10 194	0	-10 194
Debt securities in issue	0	-2 079	0	-2 394	0	-4 473
Accrued expenses and deferred income	0	0	0	-1	0	-1
Financial derivatives, liabilities	-49	0	0	0	0	-49
Total financial instruments, liabilities	-49	-2 079	0	-13 040	0	-15 168

[1] Includes secured debt.

As at 31 December 2010

NOK MILLION	FAIR VALUE	VOLUNTARILY CLASSIFIED AT FAIR VALUE	AVAILABLE FOR SALE	LOANS, RECEIV-ABLES & OTHER LIABILITIES AT AMORTISIED COAST	HOLD TO MATURITY	TOTAL
Loans and advances	0	1 464	0	13 804	0	15 268
Financial derivatives assets	134	0	0	0	0	134
Short-term securities investments	0	0	0	520	0	520
Cash and balances due from credit institutions	0	0	0	134	0	134
Total financial instruments, assets	134	1 464	0	14 458	0	16 056
Subordinated loan capital	0	0	0	-451	0	-451
Liabilities to credit institutions	0	0	0	-6 629	0	-6 629
Debt securities in issue	0	-3 675	0	-2 611	0	-6 286
Financial derivatives, liabilities	-61	0	0	0	0	-61
Total financial instruments, liabilities	-61	-3 675	0	-9 691	0	-13 427

NOTE 25. FAIR VALUE OF FINANCIAL INSTRUMENTS

METHODS OF DETERMINING FAIR VALUE

Interest swap agreements, currency swap agreements and forward exchange contracts

The measurement of interest swap agreements at fair value is performed using a valuation technique where 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' on-going assessments of the Company'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.

Division into measurement levels

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

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

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

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

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

NOK MILLION	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Loans and advances	0	0	1 163	1 163
Financial derivatives, assets [1]	0	126	0	126
Total assets	0	126	1 163	1 289
Debt securities in issue	0	-2 079	0	-2 079
Financial derivatives, liabilities [1]	0	-49	0	-49
Total liabilities	0	-2 128	0	-2 128

[1] The value of the hedge instruments earmarked for fair value heding as at 31 December 2011 was positive by NOK 48 million.

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

NOK MILLION	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Loans and advances	0	0	1 464	1 464
Financial derivatives, assets [1]	0	134	0	134
Total assets	0	134	1 464	1 598
Debt securities in issue	0	-3 675	0	-3 675
Financial derivatives, liabilities	0	-61	0	-61
Total liabilities	0	-3 736	0	-3 736

[1] The value of the hedge instruments earmarked for fair value heding as at 31 December 2011 was positive by NOK 32 million.

Financial instruments at fair value, Level 3, as at 31 December 2011

NOK MILLION	LOANS
Opening balance	1 464
Investments in the period/new agreements	83
Sale in the period (at book value)	0
Matured	-353
Transferred from Level 1 or 2	0
Transferred to Level 1 or 2	0
Net gain on financial instruments	-31
Closing balance	1 163

Financial instruments at fair value, Level 3, as at 31 December 2010

NOK MILLION	LOANS
Opening balance	0
Investments in the period/new agreements	35
Sale in the period (at book value)	0
Matured	-239
Transferred from Level 1 or 2	1 668
Transferred to Level 1 or 2	0
Net gain on financial instruments	0
Closing balance	1 464

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 to the annual financial statements for BN Bank which shows a sensitivity analysis for the Group as a whole.

Fair value compared with recognised value

	2011		2010	
NOK MILLION	FAIR VALUE	RECOGNISED VALUE	FAIR VALUE	RECOGNISED VALUE
Loans and advances	17 078	17 078	15 268	15 268
Financial derivatives, assets	126	126	134	134
Short-term securities investments	528	525	521	520
Cash and balances due from credit institutions	120	120	134	134
Subordinated loan capital	-458	-451	-426	-451
Liabilities to credit institutions	-10 194	-10 194	-6 629	-6 629
Debt securities in issue	-4 431	-4 473	-6 275	-6 286
Financial derivatives, liabilities	-49	-49	-61	-61
Total	2 720	2 682	2 666	2 629

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

NOK MILLION	2011	2010
Change in fair value during the period as a result of changed credit risk	-3	-27
Change in fair value cccumulated as a result of changed credit risk	-155	-152

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

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

BORROWING/FUNDING

NOK MILLION	2011	2010
Change in fair value during the period as a result of changed credit risk	4	-32
Change in fair value accumulated as a result of changed credit risk	26	22

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]

	2011		2010	
NOK MILLION	FAIR VALUE	PAYMENT OBLIGATION [2]	FAIR VALUE	PAYMENT OBLIGATION [2]
Subordinated loan capital	451	451	451	451
Debt securities in issue	4 473	4 413	6 286	6 192
Total	4 924	4 864	6 737	6 643

[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 21 and Debt securities in issue in Note 19.

NOTE 26. RISK IN FINANCIAL INSTRUMENTS - QUALITATIVE DESCRIPTION

Risk management in BNkreditt

It is part of BNkreditt'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 financial statements. See Note 27 for more information about risk relating to financial instruments.

Organisation

Board of Directors

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

Internal auditor

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

BNkreditt's management

The Managing Director is responsible for overall risk management within the Company. The Managing Director receives regular reports of the Company'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 policy and strategy within the Company must always be presented to the risk management group for discussion and decisions. The risk management group deals at least once annually with an assessment of the risk situation and the associated capital adequacy requirement. 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 Company's other planning and strategy work. Control tasks are furthermore delegated to the individual line managers within the framework of adopted principles, instructions and authorisations.

Administration

The BN Bank Group has 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

There are 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, BNkreditt's ICAAP is divided into five stages.

I) Identification of risk
An analysis has been made of the risks the Company is exposed to. There is a suitable system 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 Company's risk-bearing capacity, all risks are quantified and aggregated.

III) Assessment of capital adequacy requirement
The calculations are based on the requirement that the Company is obliged to satisfy the regulatory 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 Company'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 significant 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, BNkreditt distinguishes between the following categories of risk:

Credit risk

Credit risk is defined as the risk of loss that arises if BNkreditt's counterparties or customers fail to meet their payment obligations to the Company. 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 gives rise to counterparty risk. In the loan portfolio, credit risk is a product of two events, both of which must occur if a loss is to arise. One risk is the possibility that the borrower will be unable or unwilling to pay. The other is that the value of the underlying mortgaged asset will be insufficient to cover the amount owed to BNkreditt in the event of default and subsequent realisation of the asset. Loans are risk-classified before a decision is made to grant credit. The classification is updated at least once annually.

Credit risk is defined as a significant risk for the Company. The desired exposure is low. Monitoring of credit risk is based on an internal risk classification system (Internal Ratings-Based or IRB system). BNkreditt uses a credit rating model to analyse credit risk within commercial real estate. The model assigns 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.

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 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.

The management are provided with regular credit risk reports based on the risk classification system. A key element in this connection is the trend in loans divided into different classes of risk. In Note 27 an assessment is provided of the Company's credit risk at the end of 2010 and 2011 respectively.

Liquidity risk

Liquidity risk is defined as the risk that the Company will be unable to finance growth in lending and to discharge its commitments as they fall due (refinancing risk). Liquidity risk also includes the risk that financial markets that the Company wishes to use do not function (market liquidity). Liquidity risk is defined in the risk policy as a significant risk. 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 expected payments made and received. See Note 27 for an analysis of the Company'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. The risk definition also includes reputation risk. Market risk is defined as a significant risk. The desired exposure shall be moderate. The Company 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 funding businesses, impairment losses on loans, and operating expenses.

Interest rate risk

Interest rate risk is defined as the total earnings-related risk to which the Company is exposed if the fixed-interest periods for the Company'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 Company's equity shall in principle be exposed to short-term interest rates. This shall be achieved by commitments and receivables with a fixed interest rate of more than one year virtually neutralising one another. Interest rate risk monitoring is done by controlling exposure in relation to set limits for interest sensitivity. Interest sensitivity analysis has been chosen as the basis for setting limits because of the ability of this key indicator to quantify interest rate risk. The other important tool for managing risk is the gap analysis, which compares fixed interest periods on the assets and liabilities 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 Note 27.

Foreign exchange risk

Foreign exchange risk is defined as the total earnings-related risk to which the Company is exposed when foreign exchange rates change. Foreign exchange risk is defined as a non-significant risk. 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 Note 27.

Operational risk

Operational risk is defined as the risk to which the Company is exposed in the event of inadequacy or failure of internal procedures, people, system 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. The desired exposure shall be moderate. Operational risk is monitored by means of regular qualitative analyses.

Concentrations of risk

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

The Company encounters different types of risk concentration. If individual borrowers or groups of related 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 form of risk concentration is called debtor concentration.

The risk associated with financing commercial property is in actual fact frequently 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 form of concentration risk. We call this tenant concentration.

Another form 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 form of concentration risk is known as sector concentration.

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

BNkreditt has a concentrated loan portfolio as a result of its strategy of specialising in financing real estate in Norway. Sector concentration is therefore the most important kind of concentration in BNkreditt's portfolio. Consequently, a considerable share of the portfolio will be exposed to risk factors that affect property companies specifically. These risk factors are first and foremost 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.

BNkreditt 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 Company to do this.

Hedging instruments

The BN Bank Group employs the following hedging instruments:

• Interest swap agreements (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 and equity instruments is to hedge future interest rates or to counteract the effect of exchange rate fluctuations.

NOTE 27. RISK IN FINANCIAL INSTRUMENTS - QUANTITATIVE DESCRIPTION

Market risk

Interest rate risk

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

NOK MILLION	TOTAL RECOGNISED VALUE	UNDEFINED [1]	UP TO 1 MONTH	FROM 1 TO 3 MONTH	FROM 3 MONTH TO 1 YEAR	FROM 1 YEAR TO 5 YEARS	OVER 5 YEARS
Loans and advances	17 078	40	15 901	186	188	655	109
Financial derivatives	3 805	0	0	814	1 324	1 614	54
Short-term securities investments	525	5	520	0	0	0	0
Cash and balances due from credit institutions	120	0	120	0	0	0	0
Total	21 528	45	16 541	1 000	1 511	2 269	163
Subordinated loan capital	451	1	0	450	0	0	0
Liabilities to credit institutions	10 194	1 818	8 376	0	0	0	0
Interest rate risk exposure BNkreditt [2]	2 605	-1 887	8 165	-4 228	220	593	-257
Debt securities in issue	4 473	113	0	1 618	1 292	1 176	275
Financial derivatives	3 805	0	0	3 160	0	500	145
Total	21 528	45	16 541	999	1 512	2 269	163
Net = gap	0	0	0	0	0	0	0

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

NOK MILLION	TOTAL RECOGNISED VALUE	UNDEFINED [1]	UP TO 1 MONTH	FROM 1 TO 3 MONTH	FROM 3 MONTH TO 1 YEAR	FROM 1 YEAR TO 5 YEARS	OVER 5 YEARS
Loans and advances	15 268	42	13 783	289	60	667	427
Financial derivatives	4 455	0	0	858	533	2 981	83
Short-term securities investments	520	0	0	520	0	0	0
Cash and balances due from credit institutions	134	0	134	0	0	0	0
Total	20 377	42	13 917	1 667	593	3 648	510
Subordinated loan capital	451	1	0	450	0	0	0
Liabilities to credit institutions	6 629	1 402	5 227	0	0	0	0
Interest rate risk exposure BNkreditt [2]	2 556	-1 538	8 505	-3 873	-1 221	593	90
Debt securities in issue	6 286	178	185	1 470	1 623	2 556	275
Financial derivatives	4 455	0	0	3 620	191	499	145
Total	20 377	43	13 917	1 667	593	3 648	510
Net = gap	0	0	0	0	0	0	0

[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.

[2] Interest rate risk is identified and managed at Group level. There is an internal agreement between BN Bank and BNkreditt that equalises 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 variable-rate business loans will be repriced after two weeks and variable-rate retail loans after six weeks. Under the Financial Contracts Act, interest rate increases on retail 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 Company employs hedging instruments to manage interest rate risk; see Note 26. 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

Renterisiko styres på konsernnivå, og avtale mellom morbank og BNkreditt innebærer at all renterisiko som oppstår i BNkreditt overføres til morbank. Det vises til note 26 for beskrivelse av risikostyring i konsernet.

Exchange rate risk

Currency breakdown, assets and liabilities as at 31 December 2011

NOK MILLION	TOTAL RECOGNISED VALUE	NOK	EUR	DKK	SEK	CHF	JPY	USD
Loans and advances	17 078	16 126	278	289	356	23	6	0
Short-term securities investments	525	525	0	0	0	0	0	0
Cash and balances due from credit institutions	120	120	0	0	0	0	0	0
Total	17 723	16 771	278	289	356	23	6	0
Subordinated loan capital	451	451	0	0	0	0	0	0
Liabilities to credit institutions	10 194	9 242	278	289	356	23	6	0
Debt securities in issue	4 473	4 473	0	0	0	0	0	0
Total	15 118	14 166	278	289	356	23	6	0
Financial derivatives	0	0	0	0	0	0	0	0
Net currency exposure	2 605	2 605	0	0	0	0	0	0

Currency breakdown, assets and liabilities as at 31 December 2010

NOK MILLION	TOTAL RECOGNISED VALUE	NOK	EUR	DKK	SEK	CHF	JPY	USD
Loans and advances	15 268	14 004	286	325	623	24	6	0
Short-term securities investments	520	520	0	0	0	0	0	0
Cash and balances due from credit institutions	134	134	0	0	0	0	0	0
Total	15 922	14 658	286	325	623	24	6	0
Subordinated loan capital	451	451	0	0	0	0	0	0
Liabilities to credit institutions	6 629	5 365	286	325	623	24	6	0
Debt securities in issue	6 286	6 286	0	0	0	0	0	0
Total	13 366	12 102	286	325	623	24	6	0
Financial derivatives	61	61	0	0	0	0	0	0
Net currency exposure	2 495	2 495	0	0	0	0	0	0

Sensitivity analysis for change in market prices - partial analysis

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

Sensitivity analysis - Description of model and assumptions

Exchange rate risk

Exchange rate risk is managed at Group level, and pursuant to an agreement between the Parent Bank and BNkreditt all exchange rate risk arising in BNkreditt is transferred to the Parent Bank. See Note 31 to BN Bank's 2011 financial statements for a description of risk management in the Group. The equivalent in BNkreditt's financial statements is Note 26.

With regard to the sensitivity analysis of change in market prices, see Note 32 to BN Bank's 2011 financial statements.

Credit risk

Expected losses as at 31 December 2011

EXPECTED LOSSES (%)	CORPORATE MARKET
0 – 0,01	21 %
0,01 – 0,05	46 %
0,05 – 0,20	19 %
0,20 – 0,50	7 %
> 0,50	7 %

Expected losses as at 31 December 2010

EXPECTED LOSSES (%)	CORPORATE MARKET
0 – 0,01	18 %
0,01 – 0,05	38 %
0,05 – 0,20	19 %
0,20 – 0,50	18 %
> 0,50	8 %

Individual write-downs totalled NOK 60 million at 31.12.2011. Collective write-downs totalling NOK 42 million at 31.12.2010 are not distributed among the various classes of risk.

As the models are currently calibrated, the expected annual impairment losses on loans is approximately 0.35% of the exposure. This figure expresses an expectation of the size of the annual average losses over an economic cycle.

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 higher with higher risk.

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

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

		FALLEN DUE, NOT WRITTEN DOWN							
NOK MILLION	NOT FALLEN DUE, NOT WRITTEN DOWN	<30 DAYS	30-60 DAYS	60-90 DAYS	> 90 DAYS	GROSS LOANS	INDIVIDUAL WRITE-DOWNS	COLLECTIVE WRITE-DOWNS	NET LOANS
Corporate market	16 918	213	0	49	0	17 180	-60	-42	17 078
Loans and advances	16 918	213	0	49	0	17 180	-60	-42	17 078

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

		FALLEN DUE, NOT WRITTEN DOWN							
NOK MILLION	NOT FALLEN DUE, NOT WRITTEN DOWN	<30 DAYS	30-60 DAYS	60-90 DAYS	> 90 DAYS	GROSS LOANS	INDIVIDUAL WRITE-DOWNS	COLLECTIVE WRITE-DOWNS	NET LOANS
Corporate market	15 214	62	0	0	67	15 343	-36	-39	15 268
Loans and advances	15 214	62	0	0	67	15 343	-36	-39	15 268

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

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

NOK MILLION	2011	2010
Oslo/Akershus	12 076	11 702
Rest of South/East Norway	958	925
West Norway	1 050	701
Sør-Trøndelag (Central Norway)	2 885	1 718
Nord-Trøndelag and North Norway	99	215
Foreign countries	10	8
Loans and advances	17 078	15 268

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

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

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

Maximum exposure to credit risk

NOK MILLION	2011	2010
On balance sheet:		
Loans and advances	17 078	15 268
Financial derivatives	125	134
Short-term securities investments	525	520
Cash and balances due from credit institutions	120	134
Off balance sheet:		
Financial guarantees	0	0
Undrawn loan commitments, facilities and credits	452	0
Maximum credit risk	18 300	16 056

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

Liquidity risk

Remaining maturity for assets and liabilities as at 31 December 2011

NOK MILLION	TOTAL	UNDEFINED	UP TO 1 MONTH	FROM 1 TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	FROM 1 YEAR TO 5 YEARS	OVER 5 YEARS
Loans and advances	25 166	0	214	68	886	5 468	18 531
Short-term securities investments	575	0	5	0	15	555	0
Cash and balances due from credit institutions	120	120	0	0	0	0	0
Total	25 861	120	219	68	901	6 023	18 531
Subordinated loan capital	534	0	0	6	19	509	0
Liabilities to credit institutions	10 194	10 194	0	0	0	0	0
Debt securities in issue	5 005	0	0	53	1 311	3 350	292
Financial derivatives	-31	0	0	-23	22	-36	7
Total	15 703	10 194	0	36	1 352	3 823	299

Remaining maturity for assets and liabilities as at 31 December 2010

NOK MILLION	TOTAL	UNDEFINED	UP TO 1 MONTH	FROM 1 TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	FROM 1 YEAR TO 5 YEARS	OVER 5 YEARS
Loans and advances	21 446	0	158	67	1 016	4 318	15 886
Short-term securities investments	536	0	0	4	532	0	0
Cash and balances due from credit institutions	134	134	0	0	0	0	0
Total	22 116	134	158	71	1 548	4 318	15 886
Subordinated loan capital	539	0	0	5	16	518	0
Liabilities to credit institutions	6 629	6 629	0	0	0	0	0
Debt securities in issue	6 958	0	85	49	2 102	3 726	996
Financial derivatives	-57	0	0	-23	6	-51	13
Total	14 069	6 629	85	31	2 124	4 192	1 008

Remaining maturity for assets and liabilities shows the remaining term to maturity for all interest-bearing asset and liability items including stipulated interest. Summen 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 risk management systems; see Note 26.

NOTE 28. EVENTS AFTER THE REPORTING PERIOD

There were no special events after the reporting period.

NOTE 29. 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 per cent, 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 per cent. The amount the Parent Bank has ceded preference 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.

NOTE 30. SPECIFICATION OF QUARTERLY RESULTS

Specification of results 2011

NOK MILLION	Q1 2011	Q2 2011	Q3 2011	Q4 2011	FULL-YEAR 2011
Net income from interest and credit commissions	48	48	41	49	186
Total other operating income	14	21	18	24	77
Total other operating expense	22	24	23	22	91
Operating profit/(loss) before impairment losses	**40**	**45**	**36**	**51**	**172**
Impairment losses on loans and advances	33	-9	11	9	44
Pre-tax profit/(loss)	**7**	**54**	**25**	**42**	**128**
Computed tax charge	2	15	7	12	36
Profit/(loss) after tax	**5**	**39**	**18**	**30**	**92**

Specification of results 2010

NOK MILLION	Q1 2010	Q2 2010	Q3 2010	Q4 2010	FULL-YEAR 2010
Net income from interest and credit commissions	51	48	51	44	194
Total other operating income	27	-6	10	-3	28
Total other operating expense	22	23	23	27	95
Operating profit/(loss) before impairment losses	**56**	**19**	**38**	**14**	**127**
Impairment losses on loans and advances	7	15	6	25	53
Pre-tax profit/(loss)	**49**	**4**	**32**	**-11**	**74**
Computed tax charge	14	1	9	-3	21
Profit/(loss) after tax	**35**	**3**	**23**	**-8**	**53**

NOTE 31. ELECTED OFFICERS AND EXECUTIVE MANAGEMENT

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

Supervisory Board

MEMBERS	OCCUPATION/RESIDENCE
Elected by and from among the shareholders	
Members as at 31 Dec. 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 BNkreditt.

Control Comittee

MEMBERS	OCCUPATION/RESIDENCE
Former members in 2011	
Dag Nafstad	Court of Appeal Judge, Hålogaland Court of Appeal, Tromsø
Members as at 31 Dec. 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

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

Board of Directors

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

Executive Management of BNkreditt

NAME	NO. OF YEARS WITH BNKREDITT	POSITION	MAIN AREA(S) OF RESPONSIBILITY
Management as at 31 Dec. 2011			
Trond Søraas	15	Director	Accounts and Treasury

Information on remuneration to the executive management and Board of Directors is disclosed in Note 7, while information on loans to senior executives, elected officers and members of the Board of Directors appears 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 27 February 2012
BNkreditt AS

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

To the Supervisory Board and the Annual Shareholders' Meeting of Bolig- og Næringskreditt AS

Independent auditor's report

Report on the Financial Statements

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

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

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements are prepared in accordance with the law and regulations and present fairly, in all material respects, the financial position of Bolig- og Næringskreditt AS as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors report concerning the financial statements and the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements ISAE 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information", it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Trondheim, 27 February 2012
PricewaterhouseCoopers AS

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

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

Control Committee`s report for 2011

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

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

The Committee has at all times been presented with the material requested and has also received satisfactory answers and information 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

(Chair) (Deputy Chair)

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