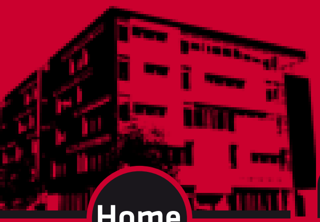
BN Boligkreditt AS

INTERIM REPORT 2nd QUARTER | 2011

BN Bank

Content



Summary of results for Q2 2011

- Profit of NOK 5 million (NOK 6 million: Q1 2011)
- Operating expense totalled NOK 2 million (NOK 2 million: Q1 2011)

Financial Ratios

NOK MILLION	NOTE	30.06.11	% OF ATA	30.06.10	% OF ATA	FULL YEAR 2010	% OF ATA
Summary of results							
Net income from interest and credit commissions		23	1.29 %	29	0.81 %	51	0.95 %
Total other operating income		-4	-0.22 %	3	0.08 %	-9	-0.17 %
Total income		19	1.07 %	32	0.90 %	42	0.78 %
Total other operating expense		4	0.22 %	14	0.39 %	18	0.33 %
Operating profit/(loss) before impairment losses		15	0.84 %	18	0.51 %	24	0.45 %
Impairment losses on loans and advances		0	0.00 %	-3	-0.08 %	-2	-0.04 %
Profit/(loss) before tax		15	0.84 %	21	0.59 %	26	0.48 %
Computed tax charge		4	0.22 %	6	0.17 %	7	0.13 %
Profit/(loss) for the period		11	0.62 %	15	0.42 %	19	0.35 %
Profitability							
Return on equity	1	7.7 %		9.7 %		6.4 %	
Net interest margin	2	1.29 %		0.81 %		0.95 %	
Cost-income ratio	2	21.1 %		43.8 %		42.9 %	
Balance sheet figures							
Gross lending		2 200		3 783		2 790	
Increase/decrease in lending (gross) last 12 months		-41.8 %		-45.3 %		-57.2 %	
Average total assets (ATA)	3	3 559		7 117		5 387	
Total assets		2 806		4 495		3 311	
Losses on loans and non-performing loans							
Loss ratio lending	4	0.00 %		-0.05 %		-0.05 %	
Non-performing loans as a percentage of gross lending		0.50 %		0.40 %		0.61 %	
Other doubtful commitments as a percentage of gross lending		0.00 %		0.00 %		0.00 %	
Solvency							
Capital adequacy ratio	6	35.0 %		22.8 %		29.7 %	
Tier 1 capital ratio	6	27.6 %		18.1 %		23.4 %	
Tier 1 capital	6	281		288		282	
Capital base	6	356		364		358	
Shares							
Earnings per share for the period (whole NOK)		24.44		33.33		42.22	

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

Directors´ Report

Summary of First-Half 2011

BN Boligkreditt AS (BN Boligkreditt) posted a profit of NOK 11 million after tax for the first half-year to 30 June 2011, compared with NOK 15 million for the same period of 2010. The decrease in profit is attributable to a lower volume of lending and negative changes in the value of financial instruments.

The funding situation for BN Boligkreditt is good, and the Company is well capitalised.

The figure for non-performing loans as a percentage of gross lending was 0.50 per cent for the first half of 2011, which is 0.11 percentage points lower than at the start of the year. BN Boligkreditt will continue to focus closely on monitoring and following up non-performing loans.

Operations, objectives and strategy

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

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

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

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

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

Financial developments

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

Profit performance for 1st Half-Year 2011

BN Boligkreditt recorded a profit after tax of NOK 11 million for the first half-year to 30 June 2011, compared with NOK 15 million for the same period of 2010. The decrease in profit is attributable to negative changes in the value of financial instruments.

Net interest income for first-half 2011 amounted to NOK 23 million, compared with NOK 29 million for first-half 2010. Net interest income was pulled down slightly by a lower volume of lending and falling lending margins.

In the first half of 2011, other operating income was down by NOK 7 million compared with first-half 2010. The Company's derivatives and some bond borrowings are carried at fair value. Interest rate risk in the Company is low, and fluctuations in interest rates should have a limited net profit-and-loss effect. During periods when interest rate spreads between different instruments develop differently, profit-and-loss effects may arise. For first-half 2011, this gave rise to a negative profit-and-loss effect of NOK 4 million, while the profit-and-loss effect for first-half 2010 was positive by NOK 3 million. These effects will even out in the long term.

First-half operating expense totalled NOK 4 million, which is a decrease of NOK 10 million compared with first-half 2010. The Company purchases all its operation management services from BN Bank.

Non-performing loans as a percentage of gross lending fell by 0.11 percentage points in the first half of 2011 and the figure now stands at 0.50 per cent.

There were no impairment losses on loans in first-half 2011. Collective write-downs totalled NOK 6 million at 30 June, which is 0.27 per cent of gross lending. Given the low risk attached to the Company's mortgage loan operations, the current loan loss provisions are considered adequate.

Balance Sheet

The loan portfolio stood at NOK 2.2 billion at 30 June 2011, compared with NOK 3.8 billion at the end of the second quarter of 2010. During the past year, a loan portfolio valued at NOK 1.3 billion was sold to BN Bank to be sold on to SpareBank 1 Boligkreditt. The book value of transferred loans as at 30 June 2011 was NOK 3.2 billion.

As a result of borrowings falling due, debt was reduced by NOK 4.6 billion in 2010. The bond debt was further reduced by NOK 400 million in first-half 2011. The prices of the Company's remaining bonds are competitive.

Solvency

BN Boligkreditt's capital base at the end of the period was NOK 356 million, giving a capital adequacy ratio of 35.0 per cent. Tier 1 capital was NOK 281 million, giving a tier 1 capital ratio of 27.6 per cent at 30 June 2011. Risk-weighted assets were NOK 1 018 million at the same date. The Board of Directors deems the relationship between BN Boligkreditt AS' capital adequacy and relevant risks to be satisfactory.

Outlook

A satisfactory funding situation, a good-quality loan portfolio and strengthened capitalisation all help make BN Boligkreditt well positioned to face any future challenges. Risk in the loan portfolio is considered low, and the Company will remain highly focused on monitoring and following up loans and commitments.

A priority area for BN Boligkreditt will be to make full use of the possibilities for issuing covered bonds. The work will continue to determine whether further developing and coordinating the operations of BN Boligkreditt and Sparebank 1 Boligkreditt can help strengthen the funding of BN Bank's operations.

The Board of Directors
Trondheim, 8 August 2011

Income Statement

NOK MILLION	NOTE	Q2 2011	Q2 2010	30.06 2011	30.06 2010	FULL YEAR
Interest and similar income		26	50	52	110	170
Interest expense and similar charges		15	35	29	81	119
Net income from interest and credit commissions		11	15	23	29	51
Change in value financial instruments at fair value, gains and losses	2	-3	1	-4	3	-9
Total other operating income		-3	1	-4	3	-9
Salaries and general administrative expenses		2	6	4	14	18
Total other operating expense		2	6	4	14	18
Operating profit/(loss) before impairment losses		6	10	15	18	24
Impairment losses on loans and advances	4	0	-2	0	-3	-2
Profit/(loss) before tax		6	12	15	21	26
Calculated tax charge		1	3	4	6	7
Profit/(loss) for the period		5	9	11	15	19

Balance Sheet

NOK MILLION	NOTE	30.06.11	30.06.10	FULL YEAR
Assets				
Deferred tax assets		1	5	0
Loans and advances	4, 8	2 194	3 778	2 784
Financial derivatives	10	22	53	51
Cash and balances due from credit institutions		589	639	476
Total assets		2 806	4 475	3 311
Equity and liabilities				
Share capital		101	101	101
Retained earnings	3, 10	186	177	181
Total equity		287	278	282
Deferred tax		0	0	1
Subordinated loan capital		76	76	76
Liabilities to credit institutions		217	614	332
Debt securities in issue	5	2 219	3 501	2 618
Accrued expenses and deferred income		7	6	0
Tax payable		0	0	2
Total liabilities		2 519	4 197	3 029
Total equity and liabilities		2 806	4 475	3 311

The Board of Directors
Trondheim, 8 August 2011

Statement of Changes in Equity

NOK MILLION	SHARE CAPITAL	SHARE PREMIUM RESERVE	PAID-UP SHARE CAPITAL	OTHER RESERVES	TOTAL EQUITY
Balance Sheet as at 1 January 2010	101	174	0	16	291
Group contribution paid to Parent Bank	0	0	0	-28	-28
Result for the period	0	0	0	15	15
Balance Sheet as at 30 June 2010	101	174	0	3	278
Result for the period	0	0	0	4	4
Balance Sheet as at 31 December 2010	101	174	0	7	282
Group contribution paid to Parent Bank	0	0	0	-6	-6
Result for the period	0	0	0	11	11
Balance Sheet as at 30 June 2011	101	174	0	12	287

The Board of Directors
Trondheim, 8 August 2011

Statement of Cash Flows

NOK MILLION	30.06.2011	30.06.2010	FULL YEAR
Cash flows from operating activities			
Interest/commission received and fees received from customers	46	99	151
Interest received on other investments	26	15	5
Interest paid on other loans	-57	-102	-122
Receipts/disbursements (-) on loans and advances to customers	587	2 727	3 717
Receipts/payments on customer deposits and accounts payable to customers	0	0	-1
Receipts/payments (-) on liabilities to credit institutions	-122	404	103
Receipts/payments (-) on securities in issue	-364	-2 582	-3 473
Other receipts/payments	5	-1212	-1 192
Payments to suppliers for goods and services	-3	-15	-18
Net cash flow from operating activities	118	-666	-830
Cash flows from investing activities			
Net cash flow from investing activities	0	0	0
Cash flow from financing activities			
Dividend/group contribution paid	-5	-28	-28
Net cash flow from financing activities	-5	-28	-28
Net cash flow for the period	113	-694	-858
Cash and balances due from central banks as at 1 January	476	1 333	1 334
Cash and balances due from central banks as at 30 June	589	639	476

Notes

NOTE 1. ACCOUNTING POLICIES

The half-yearly interim financial statements to 30 June 2011 have been prepared in compliance with IFRS, including IAS 34 Interim Financial Reporting. A description of the accounting policies on which the interim financial statements are based is provided in the Annual Report for 2010.

NOTE 2.CHANGE IN VALUE OF FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

NOK MILLION	Q2 2011	Q2 2010	30.06.11	30.06.10	FULL YEAR 2010
Change in value int. rate deriv. obliged carried at fair value thro profit/loss	-2	1	-11	4	0
Change in value borrowings selected for fair value carrying thro profit/loss	2	1	10	2	4
Total change in value of financial instruments carried at fair value	0	2	-1	6	4
Realised exch. gains/losses(-) bonds & certificates at amortised cost	-3	-1	-3	-3	-13
Total change in value of financial instruments	-3	1	-4	3	-9

NOTE 3. CHANGES IN EQUITY

The Annual General Meeting has resolved to render group contribution to the Parent Bank of NOK 8 million before tax.

NOTE 4. 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 to the Annual Report for 2010. 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 Company can however gain access to revenue.

NOK MILLION	Q2 2011	Q2 2010	30.06.11	30.06.10	FULL YEAR 2010
Write-offs in excess of prior-year write-downs	0	0	0	0	0
Write-offs on loans without prior write-downs	0	0	0	0	0
Write-offs for the period:					
Change in collective write-downs	0	-2	0	-3	-2
Increase in loans with prior-year write-downs	0	0	0	0	0
Provisions against loans without prior write-downs	0	0	0	0	0
Decrease in loans with prior-year write-downs	0	0	0	0	0
Total change in individual write-downs	0	0	0	0	0
Gross impairment losses	0	-2	0	-3	-2
Recoveries on previous write-offs	0	0	0	0	0
Impairment losses on loans and advances	0	-2	0	-3	-2
Revenue recognition of interest on written-down loans	0	0	0	0	0

NOK MILLION	Q2 2011	Q2 2010	30.06.11	30.06.10	FULL YEAR 2010
Individual write-downs to cover impairment losses at start of the period	0	0	0	0	0
Write-offs covered by prior-year individual write-downs	0	0	0	0	0
Write-offs for the period:					
Increase in loans with prior-year individual write-downs	0	0	0	0	0
Write-downs on loans without prior individual write-downs	0	0	0	0	0
Decrease in loans with prior-year individual write-downs	0	0	0	0	0
Individual write-downs to cover impairment losses at end of the period	0	0	0	0	0
Collective write-downs to cover impairment losses at start of the period	6	7	6	8	8
Collective write-downs for the period to cover impairment losses	0	-2	0	-3	-2
Collective write-downs to cover impairment losses at end of the period	6	5	6	5	6

Loans past due more than 3 months

NOK MILLION	30.06.2011	30.06.2010	FULL YEAR 2010
Gross principal	11	15	17
Individual write-downs	0	0	0
Net principal	11	15	17

Other loans with individual write-downs

NOK MILLION	30.06.2011	30.06.2010	FULL YEAR 2010
Gross principal	0	0	0
Individual write-downs	0	0	0
Net principal	0	0	0

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

NOK MILLION	GROSS OUTSTANDING 30.06.11	%	GROSS OUTSTANDING 30.06.10	%	GROSS OUTSTANDING 2010	%
Retail market	11	0.50	15	0.40	17	0.61

NOTE 5. BORROWING (FUNDING)

Debt securities in issue

The Company had issued no bonds or certificates as at 30 June 2011.
Fixed-rate loans are carried in the balance sheet at fair value, while variable-rate loans are carried at amortised cost.

NOK MILLION	CERTIFICATES	BONDS	TOTAL
Net debt (face value) as at 1 January 2011	0	2 553	2 553
New issues	0	0	0
Increase in existing issues	0	0	0
Purchase and maturity of existing issues	0	0	0
Net debt (face value) as at 31 March 2011	0	2 553	2 553
New issues	0	0	0
Increase in existing issues	0	0	0
Purchase and maturity of existing issues	0	-365	-365
Net debt (face value) as at 30 June 2011	0	2 188	2 188

Recognised values

NOK MILLION	30.06.2011	30.06.2010	FULL YEAR 2010
Bonds carried at amortised cost	1 392	2 263	1 757
Bonds selected for fair value carrying	827	1 238	861
Total recognised value of bonds	2 219	3 501	2 618
Total recognised value of debt securities in issue	2 219	3 501	2 618

NOTE 6. CAPITAL ADEQUACY

Process for assessing the capital adequacy requirement

The capital adequacy assessments for BN Boligkreditt are part of the overall assessments made by BN Bank's Board of Directors for the entire Group.

NOK MILLION	30.06.2011	30.06.2010	FULL YEAR 2010
Share capital	101	101	101
Other reserves	180	187	181
Tier 1 capital	281	288	282
Fixed-term subordinated loan capital	76	76	76
Less:			
Deferred tax assets	-1	0	0
Fixed-term subordinated loan capital that cannot be included	0	0	0
Net tier 2 capital	75	76	76
Total capital base	356	364	358
Risk-weighted assets	1 018	1 594	1 206
Tier 1 capital ratio (%)	27,6	18,1	23,4
Capital adequacy ratio (%)	35.0	22.8	29.7

Specification of risk-weighted assets

NOK MILLION		30.06.2011		FULL YEAR 2010
RISK-WEIGHTING	RECOGNISED AMOUNT	WEIGHTED AMOUNT	RECOGNISED AMOUNT	WEIGHTED AMOUNT
0 %	0	0	0	0
10 %	0	0	0	0
20 %	622	124	543	109
35 %	2 243	785	2 826	989
50 %	0	0	0	0
75 %	0	0	0	0
100 %	109	109	108	108
Investments included in the trading portfolio	0	0	0	0
Negotiable debt instruments included in the trading portfolio	0	0	0	0
Total risk-weighted assets	2 974	1 018	3 477	1 206
Capital adequacy ratio (%)		35.0		29.7

NOTE 7. CONTINGENT OUTCOMES, EVENTS AFTER THE REPORTING PERIOD

There are no assets or liabilities to which contingent outcomes are attached and where those outcomes could have a significant impact on the Company's financial position and results. There were no significant events after the reporting period.

NOTE 8. TRANSFER TO SPAREBANK 1 BOLIGKREDITT

SpareBank 1 Boligkreditt is owned by the savings banks that form the SpareBank 1 consortium and is co-located with SpareBank 1 Næringskreditt AS in Stavanger. The purpose of the company is to secure for the banks within the consortium a source of stable, long-term financing of residential mortgage loans at competitive rates. SpareBank 1 Boligkreditt procures loans with mortgages on residential properties and issues covered bonds within the regulations governing such bonds established in 2007. As part of the consortium, BN Bank may transfer loans to the company and, as part of the Bank's funding strategy, loans were transferred from BN Boligkreditt in 2010 and 2011. At the end of June 2011, the book value of transferred loans was NOK 3.2 billion. BN Bank is responsible for managing the transferred loans and receives a commission based on the net return on the loans transferred by the Bank and the costs to the company.

NOTE 9. INCOME STATEMENTS FOR THE LAST FIVE QUARTERS

NOK MILLION	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010
Interest and similar income	26	26	27	33	50
Interest expense and similar charges	15	14	16	22	35
Net income from interest and credit commissions	11	12	11	11	15
Change in value of financial instruments at fair value, gains & losses	-3	-1	8	-20	1
Total other operating income	-3	-1	8	-20	1
Salaries and general administrative expenses	2	2	2	2	6
Other operating expense	0	0	0	0	0
Total other operating expense	2	2	2	2	6
Operating profit/(loss) before impairment losses	6	9	17	-11	10
Impairment losses on loans and advances	0	0	0	1	-2
Operating profit/(loss) after impairment losses	6	9	17	-12	12
Profit/(loss) before tax	6	9	17	-12	12
Computed tax charge	1	3	4	-3	3
Profit/(loss) for the period	5	6	13	-9	9

NOTE 10. ADJUSTMENT OF OPENING BALANCE SHEET AS AT 1 JANUARY 2010

BN Boligkreditt's derivatives and most other financial instruments with a maturity of more than one year are reported at fair value. Financial instruments traded in an active market are valued at observed market prices. Financial instruments that are not traded in an active market are assessed using valuation techniques. 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 observed parameter values.

BN Boligkreditt adopted IFRS at the start of 2007, and these valuation techniques were established at that time in collaboration with the Company's auditors, PwC.

In the second half of 2010 it was discovered that the valuation technique on a specific financial instrument was based on assumptions that chiefly overvalued the instrument. As at 1 January 2010 and 1 January 2009 this overvaluation was estimated net at NOK 18 million after tax. The Company therefore wrote down the value of the instrument and the equity by this amount as at 1 January 2010 and 1 January 2009 in accordance with IAS 8, as an adjustment in the second half-year viewed in isolation was deemed significant. BN Boligkreditt is for that reason obliged to present the restated balance sheet as at 1 January 2009 and 31 December 2009.

Statement in accordance with the Norwegian Securities Trading Act section 5-6

We certify that, to the best of our belief, the Company's half-yearly interim financial statements for the period 1 January to 30 June 2011 have been prepared in compliance with IAS 34 Interim Financial Reporting, and that the disclosures in the half-yearly financial statements give a true and fair view of the Company's assets, liabilities, financial position and performance as a whole.

To the best of our belief, the half-yearly financial statements give a true and fair view of important events during the accounting period and their effect on the half-yearly accounts, and a description of the most significant risks and uncertainty factors facing the Company in the next accounting period.

Trondheim, 8 August 2011
The Board of Directors of BN Boligkreditt AS

Arve Ausestad	Lisbet K. Nærø (Chair)	Svend Lund (General Manager)
Tove Kolbjørnsen Kulseng	Lars Bjarne Tvete	Kjell Fordal (Deputy Chair)

Auditor`s Report

PricewaterhouseCoopers AS
Brattørkaia 17 B
NO-7492 Trondheim
Telefon 02316

To the Board of Directors of BN Boligkreditt AS

Report on Review of Interim Financial Information

Introduction

We have reviewed the accompanying balance sheet of BN Boligkreditt AS as of 30 June 2011 and the related statements of income, changes in equity and cash flows for the six-month period then ended. Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with standards on auditing adopted by Den Norske Revisorforening, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

Trondheim, 9 August 2011
PricewaterhouseCoopers AS

Rune Kenneth S. Lædre
State Authorised Public Accountant

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

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