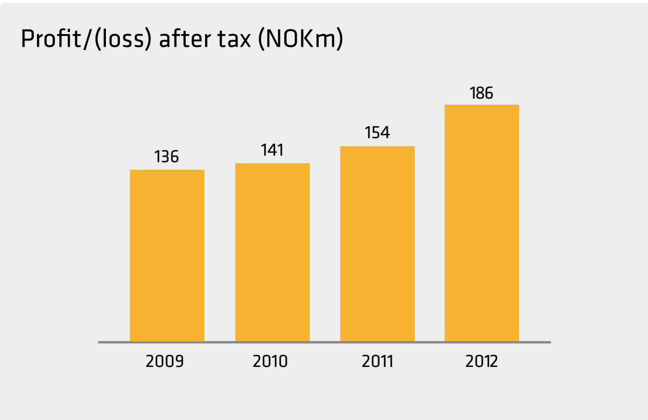
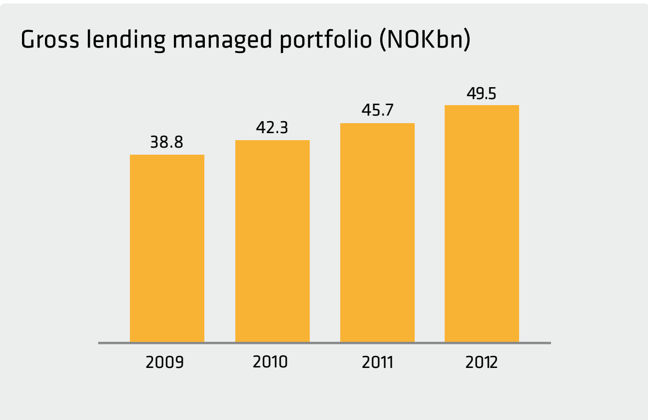
BN Bank ASA

ANNUAL REPORT | 2012

Highlights of 2012

- Profit after tax of NOK 186 million (2011: NOK 154 million)
- Profit after tax for core business of NOK 214 million (2011: NOK 117 million)
- Return on equity after tax was 5.8 per cent (2011: 5.0 per cent)
- Return on equity after tax for core business was 6.6 per cent (2011: 3.8 per cent)
- Growth in lending of NOK 3 801 million in the previous 12 months (2011: NOK 3 394 million)
- Amicable settlement with the former owner Glitnir hf. brought NOK 117 million recognised as income before tax
- Impairment losses on loans and advances totalled NOK 114 million (2011: NOK 62 million), with impairment losses of NOK 121 million in the Guarantee Portfolio
- Tier 1 capital ratio was 12.1 per cent (2011: 11.0 per cent)
- The "core" tier 1 capital ratio was 10.3 per cent (2011: 9.5 per cent)





History

BN Bank ASA is an independent bank which has its head office in Trondheim, Norway and a branch office for commercial property in Oslo. The Bank has a total of 115 employees.

BN Bank is owned by SpareBank 1 SMN, SpareBank 1 SR-Bank, SpareBank 1 SNN and Samarbeidende SpareBanker AS.

1961: The credit institution AS Næringskreditt is established in Trondheim by banks and insurance companies. The purpose of the company was to assist in financing business enterprises by arranging and providing loans with collateral security.

1983: Establishment of a branch office in Oslo.

1986: The business expands to include residential mortgage loans, whereupon the name is changed to Bolig- og Næringskreditt AS.

1989: The shares in Bolig- og Næringskreditt AS listed on Oslo Stock Exchange .

1992: The credit institution is converted into a bank and changes the name to Bolig- og Næringsbanken ASA (BNbank). The purpose of becoming a bank is to take advantage of the possibility of offering favourable deposit and saving products. This reduces the company's dependency on the securities market as s funding source.

1998: The credit institution Bolig- og Næringskreditt ASA (BNkreditt) is established as a fully owned subsidiary of BNbank. BNkreditt acquired BNbank's lending to business customers and housing co-operatives (joint liability loans). The aim of establishing the company is to strengthen the BNbank Group's competitive position in the corporate market.

2000: The range of products and services is expanded over the next few years. The purpose of the expansion is to create a better basis for growth and profitability, by becoming a more complete provider of financial products and services in selected customer segments.

2004: In December, the Icelandic bank Íslandsbankií presents an offer to purchase all the shares in BNbank. After Íslandsbanki's offer is accepted by the shareholders, and the necessary permits are in place, BNbank becomes part of the Íslandsbankí Group. The Bank's share is then removed from Oslo Børs. Íslandsbanki later changes its name to Glitnir hf.

2007: The credit institution BN Boligkreditt AS is established as a fully owned subsidiary of BNbank. The purpose of the company was to issue covered bonds with a basis in the Bank's well secured residential mortgage loans and to grant the Group access to this financing instrument. BN Boligkreditt acquires residential mortgage loans from BNbank.

2008: The owners merge BNbank with Glitnir Bank AS (formerly Kredittbanken in Ålesund) and the resulting bank takes the name Glitnir Bank ASA. In December a consortium of SpareBank 1 banks is granted a licence to purchase Glitnir Bank ASA, subsequent to the Icelandic parent bank being placed under public administration two months earlier. At the same time, Glitnir Bank ASA changes its name back to BNbank ASA.

2009: BNbank sells its loan portfolio in Ålesund to SpareBank 1 SMN. BN Bank provides guarantees for the credit risk in the portfolio during a transitional period. SpareBank 1 Næringskreditt AS is established and is granted a licence by the Financial Supervisory Authority of Norway to operate as a credit institution. The purpose of the company is to secure the banks in the consortium a source of stable, long-term financing of commercial property at competitive prices. SpareBank 1 Næringskreditt acquires loans secured on commercial property and issues covered bonds. In October BNbank ASA changes its name to BN Bank ASA and presents the new name with a new image.

2010: BN Bank's strategy up until 2016 is further sharpened and streamlined. In the Retail Market, BN Bank shall be a leading direct bank that provides complementary services to owner banks, while in the Corporate Market BN Bank shall continue as a specialist bank focused on financing commercial property. In November BN Bank moves its head office from Munkegata 21 to Søndre gate in Trondheim.

2011: BN Bank's old head office in Trondheim is sold. Gunnar Hovland is appointed as new Managing Director.

2012: BN Bank's strategy is revised and sharpened further. In the Retail Market, BN Bank shall be a specialist bank providing self-service solutions, simple products and competitive terms. In the Corporate Market, BN Bank shall be a specialist bank focusing on financing commercial property. SpareBank 1 SMN assumes the credit risk for the greater part of BN Bank's loan portfolio in Ålesund. It is resolved to wind up BN Boligkreditt and all loans and borrowings are being transferred to SpareBank 1 Boligkreditt.

Financial Ratios

		GROUP			
NOK MILLION	**REFERENCE**	**2012**	**2011**	**2010**	**2009**
Summary of results					
Net income from interest and credit commissions		343	385	380	359
Total other operating income		291	103	91	148
Total income		634	488	471	507
Total other operating expense		262	234	245	269
Operating profit before impairment losses		372	254	226	238
Impairment losses on loans and advances		114	62	32	20
Profit for the period before tax		258	192	194	218
Computed tax charge		72	44	52	63
Profit for the period, remaining entity		186	148	142	155
Profitability					
Return on equity	1	5.8 %	5.0 %	4.8 %	5.5 %
Net interest margin	2	0.8 %	0.9 %	0.9 %	0.7 %
Cost-income ratio	3	41.3 %	48.0 %	52.0 %	53.1 %
Balance sheet figures					
Gross lending		33 305	33 439	32 577	30 865
Customer deposits		16 910	15 959	16 395	15 592
Deposit-to-loan ratio	4	50.8 %	47.7 %	50.3 %	50.5 %
Increase/decrease in lending (gross) last 12 months		-0.4 %	2.6 %	5.5 %	-7.2 %
Increase/decrease in deposits last 12 months		6.0 %	-2.7 %	5.2 %	6.9 %
Average total assets (ATA)	5	40 770	40 887	43 552	51 095
Total assets		41 732	40 722	41 228	47 526
Balance sheet figures remaining entity inc. SpareBank 1 Næringskreditt and SpareBank 1 Boligkreditt					
Gross lending		49 464	45 663	42 269	38 824
Customer deposits		16 910	15 959	16 395	15 592
Increase/decrease in lending (gross) last 12 months		8.3 %	8.0 %	8.9 %	-7.9 %
Increase/decrease in deposits last 12 months		6.0 %	-2.7 %	5.2 %	7.6 %
Share of lending financed via deposits		34.2 %	34.9 %	38.8 %	39.4 %
Losses on loans and non-performing loans					
Loss ratio lending	6	0.35 %	0.19 %	0.10 %	0.05 %
Non-performing loans as a percentage of gross lending	7	1.19 %	0.59 %	0.43 %	1.46 %
Other doubtful commitments as a percentage of gross lending	7	1.57 %	1.87 %	2.39 %	1.05 %
Solvency					
Capital adequacy ratio		15.1 %	13.7 %	13.9 %	13.3 %
Core capital adequacy ratio		12.1 %	11.0 %	10.8 %	9.5 %
Tier 1 capital		3 722	3 644	3 448	3 025
Capital base		4 637	4 543	4 419	4 225
Offices and staffing					
Number of offices		2	2	2	2
Number of full-time equivalents	7	114	109	104	99
Shares					
Earnings per share for period (whole NOK) for remaining entity		13.90	11.39	11.47	12.50
Earnings per share for period (whole NOK) inc. discont. operations		13.90	11.86	11.39	11.00

Reference

1) Profit after tax as a percentage of average equity
2) Total net interest margin to date this year in relation to average total assets (ATA)
3) Total operating expense as a percentage of total operating income
4) Customer deposits as a percentage of lending to customers
5) Average total assets (ATA) are calculated as an average of quarterly total assets and as at 1 January and 31 December
6) Net loss as a percentage of gross lending to date this year
7) The figures disclosed include the Guarantee Portfolio

Vision

BN Bank's vision is to make banking simple and predictable for our customers.

Values

BN Bank's core values describe the most important qualities of the way in which we work to attain our vision.

OPENNESS

The culture in BN Bank shall be characterised by trust, honesty, mutual respect and openness – both internally in the organisation and externally in relation to customers. Communication shall be open and active.

COMMITMENT

The employees of BN Bank shall contribute and feel ownership of the work the Bank does. Employees shall seek challenges, take responsibility, think holistically and be able to respond quickly.

EFFICIENCY

The employees of BN Bank shall be positive and stand united as a team. They shall focuse on costs and endeavour to make things simple. Employees shall demonstrate initiative, a focus on seeking solutions, and a marked ability to carry things through and get things done. The organisation shall continuously seek opportunities and possibilities for improvement, both internally and in relation to provide service to customers.

Strategy

BN Bank's strategy is to be an efficient specialist bank within selected segments of the retail and corporate markets. Our aim is to provide our customers with competitive products, concepts and terms, and to deliver solid returns to our owners. BN Bank's activity is nationwide in Norway, although most of our customers are in Trondheim, Oslo and central Eastern Norway.

In the retail market, BN Bank is a specialist self-service bank for competent customers who expect simple, efficient and predictable banking services on competitive terms. As a result BN Bank is developing smart, efficient solutions for mobile banking, tablet banking and online banking. The combination of specialisation and self-service, is going to make BN Bank one of Norway's most cost-effective banks.

In the corporate market, BN Bank is a specialist bank focused on financing commercial property. We are an efficient, competent, quick and predictable partner of selected participants in the commercial property market, with the main focus on Oslo and central Eastern Norway. This strategy is designed to give our customers competitive terms and to deliver solid returns to our owners over time.

Managing Director

BN Bank shows strong profit performance in its core business

The dept crisis enhaced in Europe in 2012, with increased unemployment, reduced economic growth, and the economies of a number of countries receiving emergency aid. Norway, however, what contercurrent to most indicators, with a high-pressure economy, low unemployment, increased income levels, and property prices climbing by over 9 per cent to historically high levels. Experts argue as to whether Norway may be developing a housing bubble, and the authorities are concerned about the rising trend in house prices and the growth in lending to retail customers. As a result, just before Christmas the Norwegian authorities announced that they wished to substantially increase the capital requirements for Norwegian banks so as to make them more robust should a crisis occur. A robust financial sector is the heart of a functioning economy, and there is a broad agreement that banks must be sufficiently solvent to handle a potencial crisis. However, the financial sector is international, and about 30 per cent of the Norwegian financial market is served by foreign banks. Given these factors, it is important that the Norwegian authorities secure as equal competitive conditions as possible for all participants in the market. New regulatory requirements will increase governmental demands of the banks, and in 2013 BN Bank will prioritize increased profitability over increased growth. BN Bank is well positioned to deliver in response to the potentially more stringent requirements the authorities are considering imposing on the banking industry in Norway.

BN Bank had an excellent year of operations in 2012, the Bank's core business showing an improvement in profit performance of over 80 per cent. The improvement is attributable to BN Bank's solid banking skills and a great deal of hard work: a combination of 9 per cent lending growth during the year, and a successful cut in costs and increasing revenues. The results for 2012 are also affected by both negative and positive factors outside the core business. BN Bank sorted out the commitments in the Ålesund Portfolio, which had negative affected on profits in 2012, while also coming to an amicable settlement with the Bank's former owners, which resulted in an accounting gain of NOK 117 million in a dispute relating to offset in 2012.

BN Bank has been known throughout its history for its sound banking expertise and low risk profile. Our principal strategy is «back to basics», in keeping with our vision of being a simple, quick and efficient specialist bank within selected segments of retail and corporate banking. This will provide our customers with competitive products, concepts, terms and conditions, and providing our bond investors and owners with predictable returns.

In the retail market, BN Bank's focus is on delivering self-service banking for customers who want simple, efficient and predictable banking services on competitive terms, in order to do that we are developing smart, efficient solutions for mobile banking, tablet banking and online banking services. Specialisation and self-service solutions will make BN Bank one of Norway's most cost-efficient banks for retail customers, bringing customers competitive terms and a good return for our owners years ahead. In 2012 we launched a number of new customer solutions as well as we managed to turn negative financial results to positive. Our objective is to grow further in 2013 and to increase our profitability substantially through efficient operations.

In the corporate market, BN Bank is a specialist bank focused on financing commercial property. BN Bank is recognised as a simple, quick and long-term partner for our customers. Our experienced staff have excellent relations with our customers, proven by their high score in customer satisfaction surveys. It is a sign of quality that our customer advisors are frequently asked for advice by key players early on in the development process. We co-operate with competent property participants, mainly in Trondheim, Oslo and central Eastern Norway. Our corporate market business area has developed well in recent years in terms of volume, profitability and risk. In response to the stringant capital requirements given by the Norwegian authorities, we will reduce our growth ambitions in 2013. However, our corporate banking strategy of being a predictable and attractive partner for our business clients remains firm.

In order to maintain the efficiency for which BN Bank has been known historically, cost leadership will hereafter be an important fundament of our strategy. We succeeded with 9 per cent lending growth as well as we were able to cut costs substantially during the year. We are continuously implementing improvements in all our processes with the aim of once again become one of Norway's most efficient and cost-effective banks!

Since the Board of Directors adopted a new strategy for BN Bank in December 2010, we have made a great effort to strengthen the Bank's profile and to give our customers a simpler and better banking experience. In 2012, we demonstrated that BN Bank's strength is in delivering what we promise to customers and to our owners. In 2013 we are going to carry through a demanding strategy and to reinforce the trend of improving the bank for the benefit of our customers, owners, investors and staff.

Gunnar Hovland
Managing Director

The Board of Directors

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

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

Stig-Arne Engen
Director of Communications, SpareBank 1 Nord-Norge. First elected in 2009; term of office expires in 2014.

Harald Gaupen
Bank Administrative Manager, SpareBank 1 Buskerud-Vestfold. First elected in 2009; term of office expires in 2013.

Helene Jebsen Anker
Self-employed consultant. First elected in 2009; term of office expires in 2013.

Ella Skjørestad
Group Head of Marketing, Retail Market, Sparebank 1 SR-Bank. First elected in 2011; term of office expires in 2014.

Kristin Undheim
Self-employed and Assistant Professor in charge of Bachelor degree course in Creativity, Innovation and Business Development, Oslo School of Management. First elected in 2009; term of office expires in 2014.

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

Deputy members

Hans Olav Karde
Advicer

Vibeke Rosset Reimers
Bank General Manager, SpareBank 1 SMN

Inglen Haugland
Regional Director, SpareBank 1 SR-Bank

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

Executive Management

Gunnar Hovland | Managing Director

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

Svend Lund | Deputy managing Director

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

Trond Søraas | Finance and Treasury Director/CFO

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

Rune Rasmussen | Director Risk Management

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

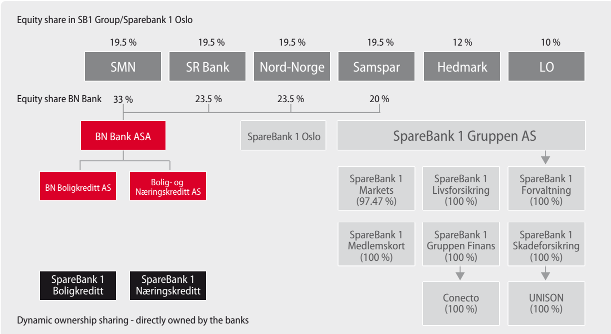
Eli Ystad | Director Retail Market

Eli Ystad (born in 1973) is Director Retail Market of BN Bank ASA. She came from the post as executive Director in SpareBank 1 SMN. She was previosly employed by CapGemini and Statoil. Ystad helds the degree Sivilingeniør (Graduate Civil Engineer) in Industrial ecconomy/business and Technology invest from NTNU.

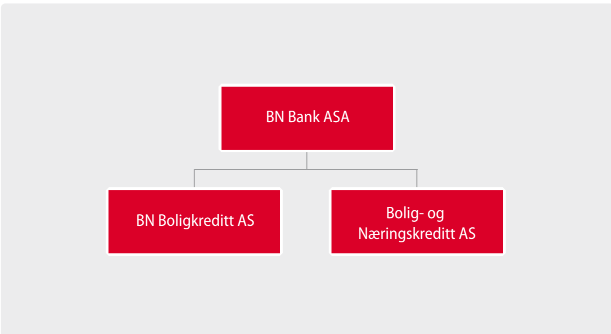
Business description

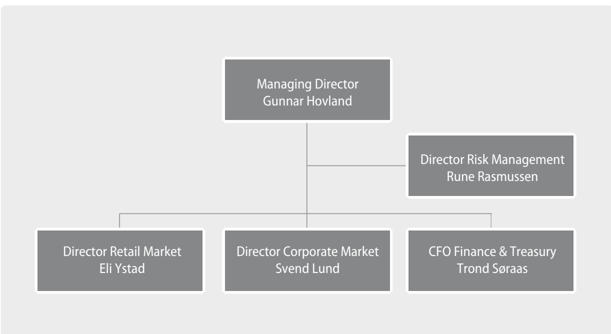
BN Bank is owned by a consortium of SpareBank 1 banks.

BN Bank's place in the SpareBank 1 consortium:



BN Bank's operations are nationwide and concentrated in the two core business areas of retail banking (Retail Market) and corporate banking (Corporate Market). BN Banks head office is in Trondheim with branch office in Oslo. The BN Bank Group is structured as follows:

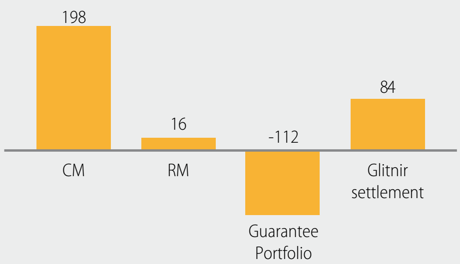




BN Boligkreditt is presently being wound up, and as at 31 December 2012 all the company's loans and borrowings had been transferred to SpareBank 1 Boligkreditt.

BN Bank's profits are allocated under Corporate Market, Retail Market and the Guarantee Portfolio. In addition, the amicable settlement with Glitnir hf. has been reported separately in 2012. Profit/(loss) after tax for 2012 for each business area is shown below:

Profit/(loss) after tax for 2012 (NOKm)



As the bar chart above shows, the corporate market was the strong profit driver in 2012, while the retail market results improved from a loss of NOK 25 million in 2011. The amicable settlement with Glitnir hf. contributed positively by NOK 84 million in 2012.

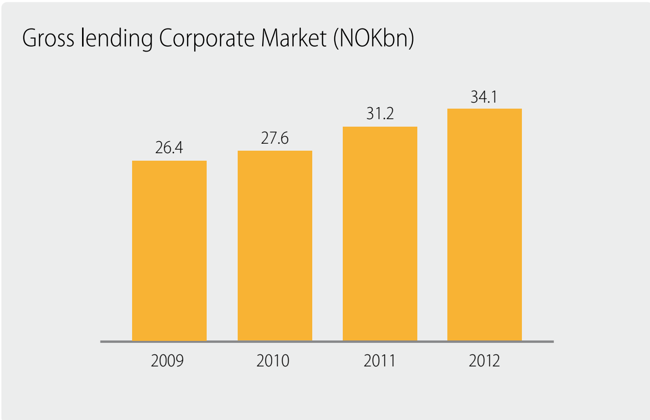
Corporate Market (CM)

In the Corporate Market, BN Bank shall be a specialist bank focused on financing commercial property. The Bank is an efficient, competent, quick and predictable partner to selected participants in the commercial property market with the main focus on Oslo and central Eastern Norway. This strategy is designed to give our customers competitive terms and to deliver solid returns to our owners over time.

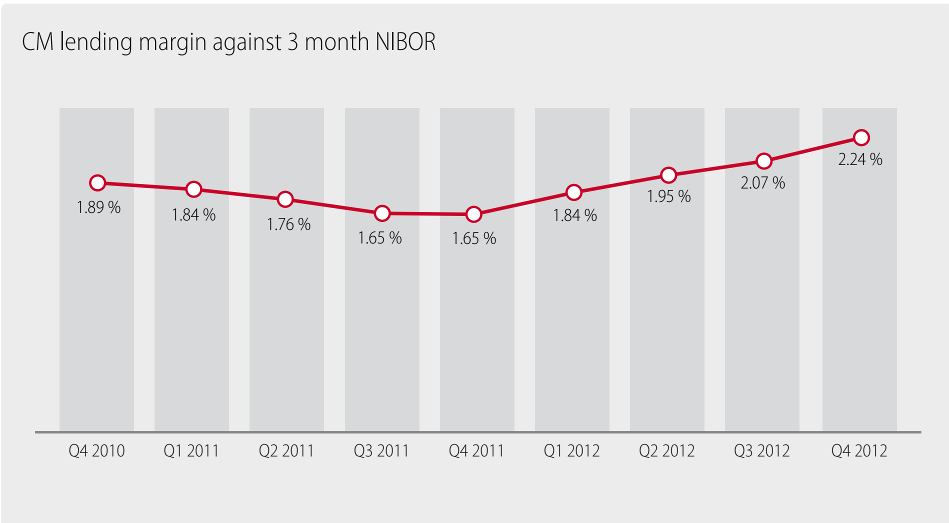
The Corporate Market posted a profit after tax of NOK 198 million for the year to 31 December 2012, giving a return on equity after tax of 7.3 per cent. Profits were up by NOK 56 million on 2011 and are attributable to increased lending margins, a higher volume of lending, lower operating costs, positive changes in the value of financial instruments, and a decrease in write-downs on loans. Profits would have been even higher had it not been for increased financing costs.

	CORPORATE MARKET	
NOK MILLION	2012	2011
Net interest from interest and credit commissions	**247**	**260**
Change in value fin instr carried at fair value	19	-13
Other operating income	121	104
Total other operating income	**140**	**91**
Salaries and general administrative expenses	-84	-96
Ordinary depreciation, amortisation and write-downs	-8	-7
Other operating expense	-14	-15
Total other operating expense	**-106**	**-118**
Operating profit/(loss) before impairment losses	**281**	**233**
Impairment losses on loans and advances	-5	-35
Operating profit/(loss) after impairment losses	**276**	**197**
Computed tax charge	-78	-55
Profit/(loss) for the year after tax, remaining entity	**198**	**142**
Lending (gross) including loans in covered bonds companies	34 097	31 163
Customer deposits and accounts payable to customers	1 477	1 576

The growth in lending increased by 9 percent in 2012. During the year NOK 2 billion net was transferred to SpareBank 1 Nærings-kreditt, which explains the decrease in net interest income and the increase in other operating expense. The figure below shows the trend in gross lending, including loans transferred to SpareBank 1 Næringskreditt:



The Corporate Market saw a positive trend in lending margins in 2012. The graph below shows the trend in lending margin[1] measured against 3 month NIBOR (Norwegian Interbank Offered Rate) in the past two years:



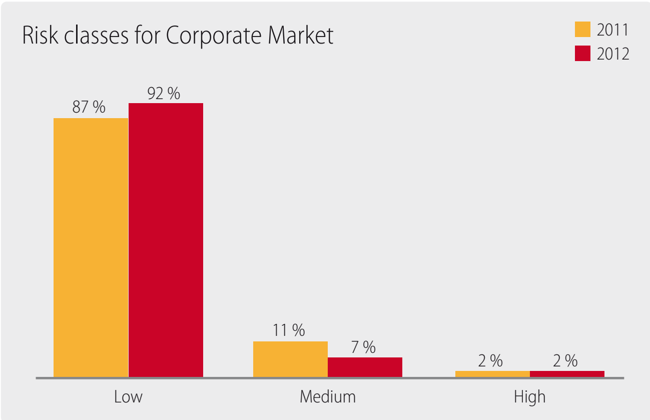
In 2012 the lending margin measured against 3 month NIBOR increased by 0.59 percentage points. This can partly be explained by a fall in 3 month NIBOR, although increased customer margins, as a result of higher borrowing costs and increased return requirements, also contributed positively.

[1] Lending margin is exclusive of fees and commission on building loans and lines of credit.

For the BN Bank Group, non-performing loans in the Corporate Market as a percentage of gross lending increased by 0.81 percentage points from 2011, and were 1.36 per cent of gross lending as at 31 December 2012. The figure is made up primarily of two non-performing loans, and the write-down of these loans is deemed sufficient taking into account the risk of loss.

The most important measurement of risk in BN Bank's loan portfolio, used to determine the underlying risk that borrowers will be unable to service their debts, is "Probability of Default" (PD). As at 31 December 2012, PD for the commercial property portfolio in the BN Bank Group and SpareBank 1 Næringskreditt was 1.38 per cent, which is 1.02 percentage points less than at year-end 2011. The improvement in PD is attributable to positive migration in the existing portfolio and lower PD on new loans.

The trend as regards classes of risk[2] in the commercial property portfolio in 2012 was as follows:



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

In response to the Norwegian authorities' more stringent capital requirements, BN Bank has reduced its growth ambitions for 2013. The Corporate Market's strategy of being a predictable and attractive partner for its customers remains as before.

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

Retail Market

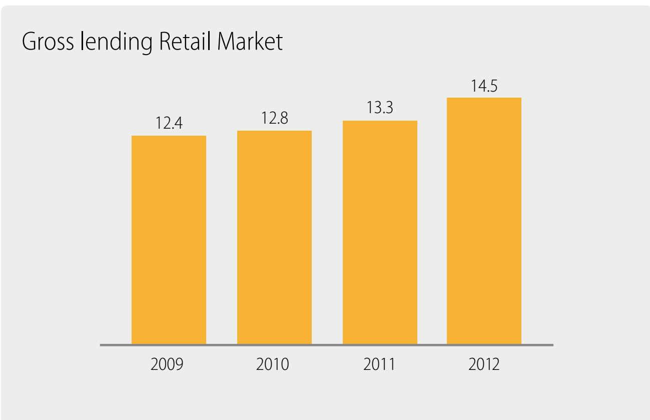
In the retail market BN Bank shall be a specialized self-service bank for customers who want simple, efficient and predictable banking services on competive terms, as either online banking or telephone banking.

BN Bank has an expansive growth strategy in retail banking in the current strategic period, with the aim of realising growth by means of proactive customer relationship development, effectivisation of processes, and target-oriented marketing. Overall, in terms of growth and profitability measures, BN Bank is one of the most cost-effective banks in the market. Our ambitions for annual growth will be continually assessed in relation to any uncertainty attached to funding, capitalisation and macroeconomic factors.

The Retail Market saw a post-tax profit of NOK 16 million for 2012, giving a return on equity of 3.6 per cent. Compared with 2011, profits improved by NOK 41 million, owing to an improved lending margin, increased volume of lending, positive changes in the value of financial instruments, and collective write-downs recognised as income.

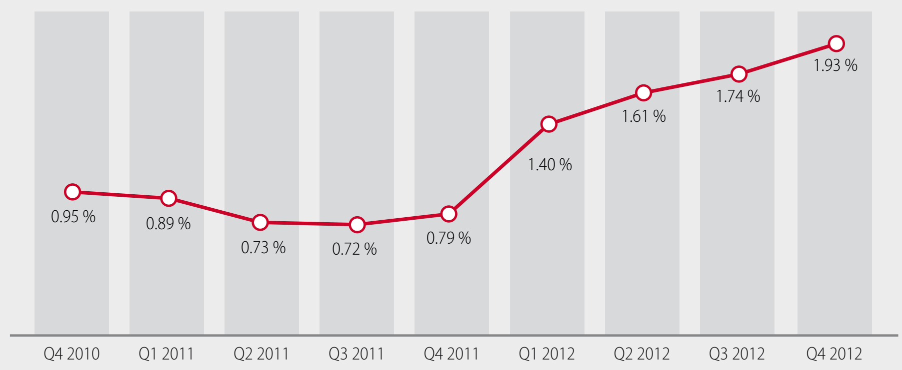
NOK MILLION	RETAIL MARKET	
	2012	2011
Net interest from interest and credit commissions	**131**	**126**
Change in value fin instr carried at fair value	10	-7
Other operating income	24	0
Total other operating income	**34**	**-7**
Salaries and general administrative expenses	-119	-126
Ordinary depreciation, amortisation and write-downs	-22	-9
Other operating expense	-15	-18
Total other operating expense	**-156**	**-152**
Operating profit before impairment losses	**9**	**-33**
Impairment losses on loans and advances	12	-1
Operating profit after impairment losses	**21**	**-34**
Computed tax charge	-5	10
Profit for the year after tax, remaining entity	**16**	**-25**
Lending (gross) including loans in covered bonds companies	14 456	13 286
Customer deposits and accounts payable to customers	15 433	14 383

In 2012, gross lending grew by 9 per cent in the Retail Market. Growth trends in gross retail lending, including loans transferred to SpareBank 1 Boligkreditt, is shown below:

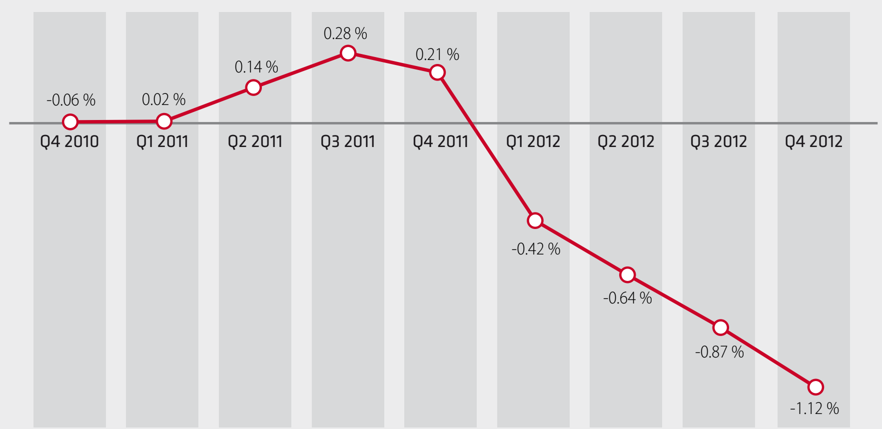


The Retail Market saw a positive trend in lending margins in 2012, although accompanied by a negative trend in deposit margins. The figures below show lending and deposit margins measured against 3 month NIBOR in the past two years:

RM lending margins against 3 month NIBOR

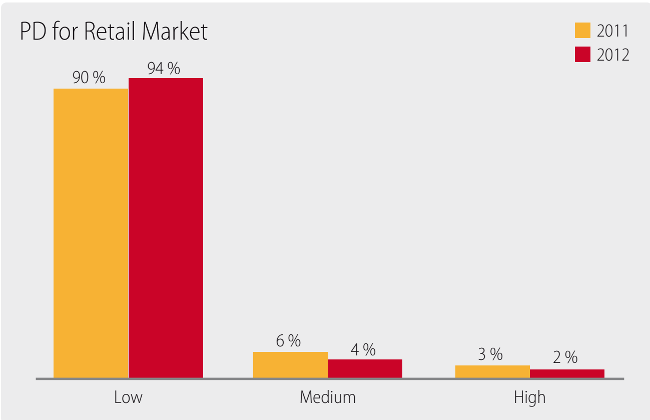


Deposit margins against 3 month NIBOR



For the BN Bank Group, non-performing retail loans as a percentage of gross lending rose by 0.06 percentage points from 2011, and were 0.77 per cent of gross lending as at 31 December 2012.

The Bank's most important measurement of risk in the loan portfolio, so as to determine the underlying risk that borrowers will be unable to service their debt, is "Probability of Default" (PD). As at 31 December 2012, PD for the residential mortgage portfolio in the BN Bank Group and SpareBank 1 Boligkreditt was 0.68 per cent, which is 0.05 percentage points down on year-end 2011. The trend as regards PD class for residential mortgage loans over the past year was as follows:



Guarantee Portfolio

BN Bank has previously sold its loan portfolio in Ålesund to SpareBank 1 SMN. By agreement BN Bank provides a guarantee for 60 per cent of the credit risk for portions of this portfolio (called the Guarantee Portfolio). As at 31 December 2012 the Guarantee Portfolio totalled NOK 571 million in loans, of which BN Bank is providing a guarantee for NOK 343 million. This figure is equivalent to 1.0 per cent of the Group's gross lending at the end of 2012. The 18 remaining loans in the portfolio are mainly in the offshore, shipping and fish farming sectors.

The result after tax for the Guarantee Portfolio in 2012 is a loss of NOK 112 million. The change in result compared with 2011 is negative by NOK 106 million.

NOK MILLION	GUARANTEE PORTFOLIO	
	2012	2011
Net interest from interest and credit commissions	**-35**	**-2**
Other operating income	0	20
Total other operating income	**0**	**20**
Total other operating expense	**0**	**0**
Operating profit/(loss) before impairment losses	**-35**	**18**
Impairment losses on loans and advances	-121	-26
Operating profit/(loss) after impairment losses	**-156**	**-8**
Computed tax charge	44	2
Profit/(loss) for the year after tax, remaining entity	**-112**	**-6**
Lending (gross)	911	1 214

The most important reason for the poorer result is an increase in impairment losses on loans in 2012. The write-downs are influenced by a negative trend in the shipping segment. In addition, collective write-downs rose by NOK 41 million in the fourth quarter of 2012 so as to make allowance for the negative trend in this segment.

Risk management and capital management

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

BN Bank has adopted guidelines for controlling and managing all relevant types of risk. This includes risk tolerance, limits and parameters, choice of risk monitoring method and reporting requirements. The principles established for risk management apply for the entire Group. The Board receives regular status reports on all relevant risks. The Risk Management & Compliance department, which is independent of the individual business areas within the group, is responsible for risk monitoring.

New capital adequacy rules for banks (Basel II) came into force with effect from 2007. Financial institutions with low credit risk and good risk management systems may be subject to a lower capital base requirement under the new rules. BN Bank aims to apply the advanced Internal Ratings-Based (IRB) method to the majority of its loan portfolio, and in May 2012 the Bank applied to the Financial Supervisory Authority of Norway for authorisation as an Advanced IRB Bank.

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

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

Responsibility for risk management and control

The BN Bank Group empasize importance to the principle of independence in all risk management. The responsibility for risk management is therefore divided among different groups, as shown in the chart below:

The Board of Directors is responsible to assure that the BN Bank Group has a satisfactory capital base given the risk profile adopted by the Bank and the regulatory requirements imposed by the authorities. The Board establishes the paramount objectives relating to risk profile and returns. Furthermore, the Board is responsible for establishing the overarching limits, parameters, authorisations and guidelines for risk management within the Group, as well as ethical rules designed to contribute to the maintenance of a high ethical standard.

The Managing Director is responsible for the paramount risk management. This means that the Managing Director is responsible for ensuring the implementation of effective risk management systems within the BN Bank Group and that risk exposure is monitored. Furthermore, the Managing Director is responsible for delegating authority and for reporting to the Board of Directors.

The business areas are each responsible for day-to-day risk management within their own area, and they shall at all times ensure that the risk management and risk exposure are within the limits and paramount steering principles determined by the Board of Directors or the Managing Director.

The Risk Management & Compliance department is organised independently of the line and support units and reports directly to the Managing Director. If necessary the department is also authorised to report directly to the Board of Directors. The department is further responsible for developing the framework for risk management, including risk models and risk management systems. The department is also responsible for independent follow-up and reporting of the overall risk picture, and for following up the Group's compliance with the relevant laws and regulations.

Internal audit is the Board of Directors' instrument for ensuring that the risk management is target-oriented, effective and functions as planned. The internal audit function is performed by an external supplier, which secures independence, competence and capacity. Internal audit reports to the Board of Directors. The Internal audit's reports and recommendations relating to improvements in the Group's risk management procedures are reviewed by the Board, which also determines whether they should be implemented.

The different control departments are organised independently of one another through a first, second and third line of defence. The division of roles between first and second lines of defence, and the securing of independence in line with current requirements and guidelines, is set out in the job descriptions for the key posts in the different control departments. The independence of the third line of defence is secured by outsourcing internal audit to an external supplier.

Capital management

BN Bank has a target-oriented capital management process which aims to the greatest possible extent to secure:

- Effective capital funding and investment in relation to the Group's strategic objectives
- Competitive returns
- Satisfactory capital adequacy on the basis of the Bank's chosen risk profile
- Competitive conditions and a good, long-term supply of borrowings in the capital markets
- That the Group as a minimum is able to maintain its current rating(s)
- Utilisation of growth opportunities in the Group's defined market area
- That no single event or incident is capable of damaging the Group's financial position to any serious extent

It is a long-term objective that within the Bank's adopted business strategy the Bank's risk-adjusted capital shall be allocated to the greatest possible extent to the areas that provide the highest risk-adjusted returns.

The capital management process shall build on the following main principles:

- The process is the Board of Directors' responsibility
- The Group's own methods and systems shall form the basis for assessing whether the risk level and capital requirement are appropriate for the institution's activity and risk profile
- The process shall be set out in formalised documents
- The process shall be proportionate with respect to the Group's size, risk profile and complexity
- The process shall be risk-driven and comprise all significant types of risk within the Group
- The process shall be an integral part of the Group's business strategy, governance process and decision-making structure
- The process shall be forward-looking with among other things the performance of stress tests
- The process shall be based on recognised and adequate methods and procedures for risk measurement
- The results of the process shall be reasonable and explicable
- The process shall be reviewed regularly and at least once annually by the Board of Directors

Based on the strategic target picture and the business plan, a forecast is prepared of the expected financial development over the next four years. In addition, a forecast is made of a potential situation with a serious economic setback. The purpose of the forecast is to calculate how the financial development in activities and the macroeconomy will impact on the Group's development, including return on equity, the funding situation and capital adequacy.

The following is an assessment of the most significant risks affecting BN Bank.

Credit risk

Credit risk in the loan portfolio is a product of two factors:

- The borrower's inability to pay.
- The value of the underlying asset being insufficient to cover the company's claim in the event of default and subsequent realisation of the asset.

For a loss to arise, both factors must be present.

BN Bank's credit strategy contains targets and parameters for

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

Commercial real estate

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

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

For the Corporate Market, the probability of default (PD) in the managed loan portfolio is 1.38 per cent.

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

The Retail Market

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

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

House prices increased in 2012. The trend in 2013 will probably flatten out, but the risk of significant price falls is believed to be slight as interest rates are expected to remain low and the supply of new properties is small. Historically, house prices are high in relation to consumer prices and rents, but moderate considered developments in households' disposable income.

For the Retail Market, the probability of default (PD) in the managed loan portfolio is 0.68 per cent.

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

The Guarantee Portfolio

BN Bank has previously sold its loan portfolio in Ålesund to SpareBank 1 SMN. By agreement BN Bank provides a guarantee for 60 per cent of the credit risk for portions of this portfolio (called the Guarantee Portfolio). As at 31 December 2012 the Guarantee Portfolio totalled NOK 571 million in loans, of which BN Bank is providing a guarantee for NOK 343 million.

The 18 remaining loans in the portfolio are mainly in the offshore, shipping and fish farming sectors.

Risk classification

BN Bank employs a risk classification system for its loan commitments. The risk classification models used by the Bank classify the loans in relation to the probability of default and the estimated loss which may arise from default. Depending on what is being the most significant risk factors relating to the loan, different models are used. 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 portfolio divided into classes of risk, and other relevant information from the system, is reported regularly to the Board of Directors.

Expected losses

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

At year-end 2012, the ratio of expected impairment losses in the managed portfolio and the Guarantee Portfolio was 0.22 per cent. Adjusted for loans for which loss provisions have been made, expected losses were 0.043 per cent. In 2012, individual write-downs on loans were 0.25 per cent in the managed portfolio and the Guarantee Portfolio. Expected losses and individual write-downs break down as follows:

FIGURES AS %	EXPECTED LOSS	EXPECTED LOSS, NOT DOUBTFUL	INDIVIDUAL WRITE-DOWNS
Corporate	0.31	0.06	0.13
Retail	0.08	0.006	0.01
Guarantee Portfolio	0.48	0.48	12.33
Total	0.22	0.043	0.25

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

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

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

Liquidity risk

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

The Board of Directors has adopted overall guidelines for controlling liquidity risk, including setting requirements for measuring, monitoring and reviewing risk. The Bank has a 12-month survival target period in relation to liquidity. In addition, the Board has adopted a contingency plan for use in any liquidity emergency. Furthermore, the Board has adopted limits for net funding requirements within given time horizons and limits/parameters for other liquidity indicators.

The Group's liquidity position is reported monthly to the Board. Stress tests are also carried out to monitor the liquidity position.

Market risk

Market risk is defined as the risk of loss owing to changes in observable market variables (interest rates, foreign exchange rates and securities).

BN Bank has no equity portfolio of its own, and where BN Bank is concerned market risk only arises as a result of interest rate and foreign exchange risk. BN Bank measures and controls its exposure to market risk according to clearly defined parameters. In the continual follow-up, market risk is quantified by the Risk Management department by means of ongoing measurements of exposure in relation to parameters.

Interest rate risk arises through BN Bank's funding activities and through the Bank's liquidity portfolio with interest-bearing securities, as well as through customer lending and deposits. Different fixed-interest periods for assets and liabilities are a source of market risk.

BN Bank's foreign exchange risk arises from customers being offered loan and deposit products in currencies with accompanying hedging of the foreign exchange risk. The Bank does not take speculative interest rate and currency positions.

The Board of Directors has established guidelines and parameters for the Bank's interest rate and foreign exchange risk exposure. The exposure is reported monthly to the Board.

BN Bank's earnings shall primarily be a product of its borrowing and lending activities, and market risk for the Bank is therefore low.

Operational risk

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

It is demanding for small banks to address the increasing and complex regulatory requirements faced by the industry given the scope, complexity and timetabling of the implementation measures that are required. The Board of Directors nevertheless believes that BN Bank is currently sufficiently well staffed to be able to comply with the requirements through its own organisation and access to expertise and competence, and collaboration with the SpareBank1 consortium.

The Board receives an annual review of operational risk in the Bank. The Board is also kept continuously updated on any significant disruptions to operations or any divergence from normal operations.

Staff and organisation

It is BN Bank's objective to be a preferred employer. This requires that we work actively to secure motivated and engaged employees who are driven by a desire to help the Bank achieve its goals.

In 2012, the Bank's focus was on mapping individual competencies among staff, and we introduced a method for promise-based management in order to continually follow up individual staff members' performance and targets. The method is used by managers and staff in implementing monthly performance interviews and annual staff appraisal interviews.

BN Bank employed 115 staff as at 31 December 2012, of whom 57 are women and 58 are men. The average age is 41. There are 43 per cent women in managerial positions.

The sickness absence rate in 2012 was 3.89 per cent, slightly up from 3.80 per cent in 2011. Sickness absence in the Norwegian financial industry as a whole was 4.63 per cent for the first three quarters of 2012. Long-term sickness absence accounts for a relatively large proportion of overall sickness absence.

BN Bank provides funding for staff who participate in company sports events and training. The aim of the support is to encourage staff to take part in physical activity which will result in better physical condition and a lower sickness absence rate.

BN Bank carries out an annual organisational survey, in collaboration with the SpareBank 1 consortium, which deals with matters relating to the working environment and the organisation. As a result of working in a target-oriented fashion on the improvement points outlined in the survey, positive developments have been generated by the survey in the past few years.

Report of the Directors

Summary of 2012

The figures in parentheses are for 2011.

The BN Bank Group reported a consolidated profit after tax for 2012 of NOK 186 million (NOK 154 million). This is equivalent to a return on equity for 2012 of 5.8 per cent (5.0 per cent).

The BN Bank Group's core business, the result of the Retail and Corporate Market activities, showed an increase in post-tax profit of NOK 97 million, up from NOK 117 million in 2011 to NOK 214 million in 2012.

Total income was NOK 634 million (NOK 488 million), an increase attributable to the amicable settlement with the previous owner Glitnir hf., an increase in lending margins, positive changes in the value of financial instruments, and reduced deposit margins.

Operating expenses totalled NOK 262 million (NOK 234 million). Adjusted for one-time events in 2011 and 2012, costs have been reduced by NOK 12 million compared with 2011.

Net losses on loans and guarantees were NOK 114 million (NOK 62 million) in 2012, of which there were losses of NOK 121 million in the Guarantee Portfolio.

Non-performing loans as at 31 December 2012 were 1.19 per cent of gross lending in the Group and the Guarantee Portfolio[1] (0.59 per cent).

On a 12-month basis there was 8 per cent growth in lending and 6 per cent growth in deposits in 2012.

The Bank's capital adequacy ratio and tier 1 capital ratio were 15.1 and 12.1 per cent respectively as at 31 December 2012 (2011: 13.7 and 11.0 per cent respectively). The corresponding figure for the "core" tier 1 capital ratio was 10.3 per cent (9.5 per cent).

BN Bank's total assets stood at NOK 41.7 billion as at 31 December 2012 (NOK 40.7 billion). Including loans transferred to SpareBank 1 Næringskreditt and SpareBank 1 Boligkreditt, total assets were NOK 57.9 billion (NOK 52.9 billion). Deposits totalled NOK 16.9 billion as at 31 December 2012 (NOK 15.9 billion).

As at 31 December 2012 the Bank's exposure to the Guarantee Portfolio was NOK 343 million (NOK 3 061 million). This exposure was 1.0 per cent of the Bank's gross lending at the end of 2012 (9.2 per cent).

By year-end 2012, BN Bank had transferred NOK 9.9 billion in loans to SpareBank 1 Næringskreditt. For loans transferred in 2012, BN Bank has contributed NOK 125 million in capital to SpareBank 1 Næringskreditt, which is equivalent to an equity stake of 9.58 per cent.

In the case of loans transferred before 2012, the owners put up capital on BN Bank's behalf.

Strategy

BN Banks vision is to make banking simple and predictable.

Corporate customers shall recognize BN Bank as a leading specialist bank focused on financing commercial real estate.

BN bank shall be a functional bank for retail customers who want simple and predictable banking services on competitive terms.

In these areas BN Bank shall be a complementary business and supplement to the services of the owner banks.

BN Bank has its head office in Trondheim, and a branch office in Oslo. Most customers are situated in these areas.

Accounting policies

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

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

Profit performance for 2012

For 2012, the BN Bank Group achieved a profit after tax of NOK 186 million (NOK 154 million). Increased lending margins, growth in lending, the amicable settlement with the former owner Glitnir hf. and changes in the value of financial instruments all contributed positively, while losses in the Guarantee Portfolio and lower deposit margins pulled profits down.

Income

Total income in 2012 was NOK 634 million (NOK 488 million).

NOKm	2012	2011	CHANGE
Total income	634	488	146
Margins and volumes, lending/deposits			25
Fees/commission			-22
Value changes in financial instruments			49
Settlement Glitnir hf.			117
Return on unrestricted funds (equity)			-16
Other			-7

[1] BN Bank has previously sold its loan portfolio in Ålesund to SpareBank 1 SMN. BN Bank provides a guarantee for 60 per cent of the credit risk for portions of this portfolio (referred to as the Guarantee Portfolio). As at 31 December 2012 the Guarantee Portfolio was valued at NOK 571 million, of which BN Bank guarantees NOK 343 million.

The most important reasons for the increase in income in 2012 compared with 2011 are the amicable settlement with Glitnir hf. and positive changes in the value of financial instruments. Increased lending margins and volumes in retail and business lending also contributed positively to profits in 2012.

The Bank's unrestricted funds (equity) are invested in short-term debt schemes. Lower interest rates compared with 2011 have reduced the return on these funds.

In 2012 changes in the value of financial instruments had a positive effect on operating income of NOK 29 million, which is a positive change of NOK 49 million compared with 2011. For more information concerning changes in value, see Note 4.

In 2012, BN Bank recognised to income the effect of an amicable settlement entered into with the former owner, Glitnir hf. Glitnir sued BN Bank in 2011 for alleged unlawful offset relating to various claims and counterclaims between the parties declared by BN Bank in November 2009. Oslo District Court passed judgment in January 2012, ordering BN Bank to pay back NOK 213 million plus interest to Glitnir. Following the court case negotiations took place between BN Bank and Glitnir hf, and in November 2012 the parties came to an amicable settlement whereby BN Bank would pay NOK 82 million to Glitnir hf. and Glitnir hf. accepted offset of the other disputed portion of NOK 135 million. BN Bank has previously reported the greater portion of the claims against Glitnir hf. as a loss. The profit and loss effect of the settlement before tax is recognised income of NOK 117 million.

Operating expense

Operating expense for 2012 totalled NOK 262 million (NOK 234 million).

NOKm	2012	2011	CHANGE
Operating expense	262	234	28
Gain on sale of head office in 2011			30
Salaries and other personnel expenses			14
Depreciation, amortisation & write-downs			14
Consultancy assistance			-20
Marketing			-15
Other expense			5

The increase in other operating expense is chiefly attributable to a net gain of NOK 30 million in 2011 in connection with the sale of the Bank's former head office. The gain was classified as a reduction in other operating expense.

Intangible assets were written down by NOK 11 million in 2012.

Adjusted for one-time events in 2011 and 2012, cost reductions for NOK12 million were made in 2012 compared with 2011.

Costs as a percentage of income in 2012 were 41 per cent (48 per cent). Adjusted for the settlement with Glitnir hf. and the write-down on intangible assets, the cost-income ratio was 49 per cent.

Impairment losses and write-downs

In 2012 impairment losses on loans and advances totalled NOK 114 million (NOK 62 million).

Impairment losses on loans in 2012 amounted to NOK 5 million in the Corporate Market, NOK 121 million in the Guarantee Portfolio and income recognition of NOK 12 million in the Retail Market.

Collective write-downs rose by NOK 17 million in 2012. The change is attributable to an increase in loss provisions in the Guarantee Portfolio of NOK 39 million, and a decrease in loss provisions in the retail and corporate loan portfolio of NOK 13 million and NOK 9 million respectively.

Individual and collective impairment losses on loans for 2012 break down as follows:

NOKm	INDIVIDUAL	COLLECTIVE
Corporate Market	14	-9
Retail Market	1	-13
Guarantee Portfolio	82	39

Non-performing and doubtful commitments, less individual write-downs, totalled NOK 808 million at year-end 2012 (NOK 766 million), equal to 2.39 per cent (2.10 per cent) of gross lending in the Group and the Guarantee Portfolio. See Note 13 for more information.

Loan loss provisions totalled NOK 113 million at the end of December 2012. Individual write-downs account for NOK 48 million and collective write-downs for NOK 65 million.

Total loan loss provisions as at December 2012 break down as follows:

	LOSS PROVISION (NOKm)	% OF GROSS LENDING GROUP
Corporate Market	99	0.39
Retail Market	14	0.17

In addition, a loss provision of NOK 119 million was made on the financial guarantee1 relating to the Guarantee Portfolio. This is 35 per cent of the guaranteed amount.

Recommended allocation of profit for the year

The Board of Directors recommends that the Parent Bank's profit for the year of NOK 187 million is allocated to pay dividends. The Board recommends an issue of shares for an equivalent amount.

Following the recommended allocation, the company's unrestricted equity for the period is NOK 623 million.

Balance Sheet

BN Bank's total assets were NOK 41.7 billion as at 31 December 2012, which is NOK 1.0 billion up on the past 12 months. The change is attributable to an increased liquidity portfolio and an increase in the volume of lending.

Gross managed lending[2] increased during the year by NOK 3.8 billion (NOK 3.4 billion), which is an 8 per cent rise in the past 12 months. Gross managed lending totalled NOK 49.5 billion at year-end 2012 (NOK 45.7 billion).

During 2012, loans for NOK 2.3 billion were transferred to SpareBank 1 Boligkreditt and loans for NOK 1.7 billion to SpareBank 1 Næringskreditt.

As at 31 December 2012, loan portfolios worth NOK 9.9 billion and NOK 6.2 billion had been transferred to SpareBank 1 Næringskreditt and SpareBank 1 Boligkreditt respectively. The Bank has transferred 32 per cent of commercial property loans and 48 per cent of residential mortgage loans to these two companies.

[2] Gross managed lending is the sum total of Retail Market and Corporate Market loans in BN Bank, SpareBank 1 Næringskreditt, SpareBank 1 Boligkreditt and loans to SpareBank 1 SMN

Segmental breakdown of gross managed lending as at 31 December 2012:

NOKbn	31.12.12	31.12.11
Retail Market	14.5	13.3
Corporate Market	34.1	31.2
Loans to SpareBank 1 SMN	0.9	1.2

Growth in corporate lending in the last 12 months was NOK 2.9 billion, or 9 per cent. Growth in retail lending in the past 12 months was NOK 1.2 billion, or 9 per cent. Residential mortgage lending grew by 13 per cent in 2012.

Gross lending in the BN Bank Group[3] had the following sectoral exposure at year-end:

FIGURES AS %	31.12.12	31.12.11
Real estate operations	62	58
Retail market	27	30
Financial industry	3	4
Other	8	8

The most important reasons for the change in portfolio composition are the transfer of loans to SpareBank 1 Næringskreditt, SpareBank 1 Boligkreditt and growth in commercial real estate lending.

Customer deposits have increased by NOK 1.0 billion in the last 12 months, and totalled NOK 16.9 billion as at 31 December 2012.

The deposit-to-loan ratio at year-end 2012 was 50.8 per cent, which is a 3.1 percentage point increase on the last 12 months.

The Bank's liquidity portfolio was NOK 6.1 billion at the end of 2012.

BN Bank issued certificates and bonds for a total of NOK 10.7 billion in 2012. The Bank's most important sources of funding are deposits, senior bonds issued in the Norwegian bonds market and covered bonds issued by the SpareBank 1 consortium's credit institutions, SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt.

The Bank's equity stakes in SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt as at 31 December 2012 were 3.90 per cent and 9.58 per cent respectively.

As a consequence of the fact that BN Bank ASA has bonds listed on the Oslo Børs Main List, the Board has prepared a corporate governance report which satisfies the requirements bond issuers must meet. The report may be found on the Bank's website at www.bnbank.no.

Corporate Market

For 2012 the Corporate Market business area posted a profit after tax of NOK 198 million (NOK 142 million). The improvement in profits is attributable to increased lending margins, positive changes in the value of financial instruments, and reduced impairment losses on loans. The Corporate Market achieved a return on equity of 7.3 per cent in 2012.

The lending margin[4] in 2012 was 2.03 per cent, while the deposit margin was -0.27 per cent.

In the last 12 months, growth in lending in the Corporate Market was 9 per cent while growth in deposits was negative, at -6 per cent.

Retail Market

For 2012 the Retail Market business area posted a profit after tax of NOK 16 million (2011: loss of NOK 25 million). The improvement in profits is attributable to increased lending margins, positive changes in the value of financial instruments, and income recognition of impairment losses on loans in 2012. The Retail Market achieved a 3.6 per cent return on equity in 2012.

The lending margin[4] in 2012 was 1.69 per cent, while the deposit margin was -0.83 per cent.

In the last 12 months, the Retail Market saw growth in lending of 9 per cent and growth in deposits of 7 per cent.

The risk attached to retail lending is low. Impairment losses and non-performing loans are at a low level. The retail loan portfolio is secured on residential property, and residential property values have remained good throughout 2012.

[3] Gross lending in the BN Bank Group is the sum total of the Corporate Market and Retail Market in BN Bank and loans to SpareBank 1 SMN.

[4] Margin is defined as the average interest rate to customers minus average three-month NIBOR.

Guarantee Portfolio

The Guarantee Portfolio comprises the Bank's previous loan portfolio in Ålesund which was sold to SpareBank 1 SMN, but where BN Bank provides a guarantee for 60 per cent of the credit risk.

The 18 remaining loans in the portfolio are mainly in the offshore, shipping and fish farming sectors.

The result after tax for the Guarantee Portfolio in 2012 is a loss of NOK 112 million (2011: loss of NOK 6 million). The change in result compared with 2011 is attributable to increased impairment losses on loans.

The Guarantee Portfolio has decreased by NOK 2.5 billion in the past year and totalled NOK 571 million as at 31 December 2012. The Bank's exposure to losses in the portfolio amounts to NOK 343 million.

Solvency

BN Bank's capital adequacy ratio, tier 1 capital ratio and "core" tier 1 capital ratio at year-end were:

FIGURES AS %	31.12.12	31.12.11
Capital adequacy ratio	15.1	13.7
Tier 1 capital ratio	12.1	11.0
"Core" tier 1 capital ratio	10.3	9.5

The Bank's target is to have a capital adequacy ratio of 12.5 per cent and a "core" tier 1 capital ratio of 10.5 per cent by the end of 2013.

In order to satisfy expected regulatory requirements as to capital adequacy in the Norwegian banking industry, the Bank is heading towards a "core" tier 1 capital ratio of 12.5 per cent by the end of 2015. The Bank employs standard methods of calculating capital adequacy.

See Note 30 for more details of capital adequacy and solvency.

Results per company

The consolidated profit for the year for the BN Bank Group of NOK 186 million consists of NOK 110 million from BNkreditt, NOK 7 million from BN Boligkreditt and NOK 69 million from the Parent Bank. In addition, NOK 119 million in group contribution after tax rendered by BNkreditt and BN Boligkreditt in 2012 was recognised in income by the Parent Bank.

Subsidiaries

The BN Bank Group comprises the bank BN Bank ASA and the credit institutions Bolig- og Næringskreditt AS (BNkreditt) and BN Boligkreditt AS (BN Boligkreditt). In addition to these is the real estate company Collection Eiendom AS.

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

Bolig- og Næringskreditt AS

BNkreditt provides low-risk mortgage loans on commercial real estate, and at the end of 2012 had a gross loan portfolio totalling NOK 18.2 billion, compared with NOK 17.2 billion as at 31 December 2011. As at 31 December 2012, a loan portfolio of NOK 9.9 billion had been transferred to SpareBank1 Næringskreditt.

The company posted a profit after tax of NOK 110 million for 2012 (NOK 92 million). The increase in profits is owing to a decrease in impairment losses on loans.

Impairment losses on loans and advances totalled NOK 4 million for 2012 (NOK 44 million). Collective write-downs were down by NOK 6 million in 2012, totalling NOK 36 million at year-end, which is 0.20 per cent of gross lending in the company as at 31 December 2012.

At 31 December 2012, BNkreditt had outstanding bond debt totalling NOK 4.2 billion (NOK 4.5 billion).

BN Bank has provided a guarantee that BNkreditt will have a capital adequacy ratio and junior financing from the Bank of minimum 20 per cent. BNkreditt's capital adequacy ratio and tier 1 capital ratio were, respectively, 16.4 per cent and 14.0 per cent as at 31 December 2012. BN Bank has therefore ceded precedence for NOK 676 million as at 31 December 2012.

BN Boligkreditt AS

BN Boligkreditt was BN Bank's credit institution for issuance of covered bonds. As at 31 December 2012, all borrowings and loans had been transferred to Sparebank 1 Boligkreditt and BN Boligkreditt is now in the process of being wound up.

The company posted a profit after tax of NOK 7 million for 2012 (NOK 26 million). The fall in profit is attributable to a decrease in the volume of lending and a decrease in positive changes in the value of financial instruments.

Collection Eiendom AS

Collection Eiendom was established in 2010 for the purpose of owning and managing real estate.

Collection Eiendom posted a zero result after tax as at 31 December 2012.

Risk management

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

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

Credit risk

The level of losses over time in BN Bank is closely linked to developments in the macroeconomy. The trend in the real economy and property prices will therefore influence the extent of the Bank's losses in the time ahead.

Credit risk in the loan portfolio is a product of two factors:

• The borrower's inability to pay.

• The value of the underlying asset being insufficient to cover the company's claim in the event of default and subsequent realisation of the asset.

Both factors must be present if a loss is to arise.

At year-end 2012, the ratio of expected impairment losses on loans in the managed portfolio and the Guarantee Portfolio was 0.22 per cent. Adjusted for loans for which loss provisions have been made, expected losses were 0.043 per cent. In 2012 individual write-downs on loans were 0.25 per cent in the managed portfolio and the Guarantee Portfolio.

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

Liquidity risk

In the Board´s opinion, BN Bank´s liquidity situation is satisfactory. The Bank´s target is to have at all times sufficient liquid funds to manage without accessing any new external funding for a period of 12 months. At the end of 2012, this target was met by good margin.

Market risk

BN Bank has no equity portfolio of its own, and market risk only arises as a result of interest rate and foreign exchange risk.

BN Bank's earnings shall primarily be a product of its borrowing and lending activities, and consequently the Bank has low risk limits for all types of market risk.

Working environment and organisation

BN Bank employed 114 full-time equivalents (FTEs) –115 staff in total – as at 31 December 2012, which is an increase of five FTEs since the end of 2011.

BN Bank complies with the current law and regulations for setting pay and other benefits payable to the Managing Director and other senior executives. See Note 8 for details.

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

The sickness absence rate in 2012 for the BN Bank Group as a whole was 3.89 per cent, compared with 4.63 per cent for the rest of the Norwegian finance industry (the last-mentioned figure applies to the first three quarters of 2012). The sickness absence rate in 2011 was 3.80 per cent. There were no significant work-related injuries or accidents in 2012.

BN Bank's policy is to be an equal opportunities employer with gender equality between women and men. Of the company's 115 employees, 57 are women and 58 men. The Bank aims to achieve a balance between the numbers of male and female staff at all levels of the organisation, but there are still relatively few women in management positions within the Bank. There was one woman in the group executive management team as at 31 December 2012 of a total of 13 departmental managers, five are women (38 per cent female participation). At year-end 2012, BN Bank's Board of Directors consisted of four women and five men, including one female staff representative.

The Bank endeavours to ensure equal opportunities for all staff. This means that there shall be no discrimination in areas such as recruitment, pay and working conditions, advancement and development opportunities.

BN Bank's activities impact on the external environment mainly in the form of office operations and business travel.

BN Bank's head office is in a commercial building with a low-energy profile. The head office also is environmentally certificated under the Miljøfyrtårn (Eco-Lighthouse) national certification programme, which includes certification in the areas of working environment, procurement/materials use, energy, transport, waste, emissions and discharges, and aesthetics.

The Bank provides facilities for, and encourages, staff to use video-conferencing and other electronic communication as an alternative to business travel.

Outlook

In the autumn of 2012, the Board of Directors resolved to revise the business strategy of BN Bank ASA due to among other things, increased capital adequacy requirements. While the main elements of the established strategy remain fixed, more stringent requirements in relation to solvency will give rise to lower growth and require the Bank to increase earnings in the time ahead.

The Bank has in the past two years shown a good improvement in profitability within the core business. The Board expects to see this trend strengthen further and will focus on pursuing healthy profitability in line with the adopted strategy.

Lower costs are an important part of achieving improved profitability, and the Bank has therefore initiated a cost-cutting programme aimed at reducing annual costs considerably in 2013.

To take account of the demanding market conditions in shipping, in the fourth quarter of 2012 the Bank increased collective write-downs in the Guarantee Portfolio by NOK 41 million. A number of market players and analysts believe that we are approaching the bottom of this market, and the Bank expects to see low losses in the Guarantee Portfolio in 2013.

Despite the fact that a great deal of uncertainty has been removed, the state of the international economy is still serious. The impact does also affect the Norwegian economy negatively, primarily through more challenging conditions for parts of the export industry. However, strong government finances, low unemployment and low interest rates are still contributing to a increased growth. Altogether, this indicates a low risk of loss within the Bank's business areas.

The Board of Directors wishes to thank all the Group's employees for their hard work in 2012.

Trondheim, 26 February 2013
The Board of Directors of BN Bank ASA

Tore Medhus
(Deputy Chair)

Stig Arne Engen

Finn Haugan
(Chair)

Harald Gaupen

Helene Jebsen Anker

Kristin Undheim

Anita Finserås Bretun
(Staff Representative))

Ella Skjørestad

Gunnar Hovland
(Managing Director)

Income Statement

		GROUP		PARENT BANK	
NOK MILLION	**NOTE**	**2012**	**2011**	**2012**	**2011**
Interest and similar income	2	1 614	1 639	1 249	1 168
Interest expense and similar charges	3	1 271	1 254	1 086	1 013
Net income from interest and credit commissions		343	385	163	155
Change in value of financial instruments at fair value, gains & losses	4	29	-20	50	-20
Other operating income	5	145	123	49	52
Amicable settlement	6	117	0	117	0
Total other operating income		291	103	216	32
Salaries and general administrative expenses	7, 8, 10	203	222	130	150
Ordinary depreciation, amortisation and write-downs	11	31	16	31	15
Other operating expense	12	28	33	7	5
Other gains and losses	11	0	-37	0	0
Total other operating expense		262	234	168	170
Operating profit before impairment losses		372	254	211	17
Impairment losses on loans and advances	13	114	62	116	19
Operating profit after impairment losses		258	192	95	-2
Income from ownership interests in group companies	22	0	0	164	131
Profit before tax		258	192	259	129
Tax charge	14	72	44	72	40
Profit for the year, remaining entity		186	148	187	89
Profit from operations under divestment	22	0	6	0	6
Profit for the year including discontinued operations		186	154	187	95
Other Comprehensive Income					
Changes in the value of financial assets available for sale		0	0	0	0
Comprehensive income for the year after tax		0	0	0	0
Total profit for the year		186	154	187	95

Balance Sheet as at 31 December

		GROUP		PARENT BANK	
NOK MILLION	**NOTE**	**2012**	**2011**	**2012**	**2011**
Assets					
Deferred tax assets	14	41	43	0	0
Intangible assets	11	10	20	10	20
Ownership interests in group companies		22	0	0	1 877
1 877					
Subordinated loans	21	0	0	451	527
Tangible fixed assets	11	18	23	18	23
Repossessed properties	18	29	0	0	0
Loans and advances	13, 16, 30, 31, 32, 33, 34, 35	33 193	33 260	15 043	14 396
Prepayments and accrued income	22, 30, 31, 32, 33, 34, 35	52	70	53	70
Financial derivatives	19, 30, 31, 32, 33, 34, 35	759	865	662	699
Short-term securities investments	20, 30, 31, 32, 33, 34, 35	6 135	5 506	5 612	4 984
Cash and balances due from credit institutions	15, 30, 31, 32, 33, 34, 35	1 495	814	12 860	10 886
Assets classified as held for sale	22	0	121	1	122
Total assets		**41 732**	**40 722**	**36 587**	**33 604**
Equity and liabilities					
Share capital	29	668	649	668	649
Share premium reserve		266	190	266	190
Other reserves		2 407	2 316	1 265	1 173
Total equity		**3 341**	**3 155**	**2 199**	**2 012**
Deferred tax	14	0	0	43	1
Subordinated loan capital	28, 30, 31, 32, 33, 34, 35	1 613	1 451	1 613	1 451
Liabilities to credit institutions	24, 31, 32, 33, 34, 35, 36	519	1 178	806	1 864
Debt securities in issue	26, 30, 31, 32, 33, 34, 35	18 369	17 950	14 123	11 354
Accrued expenses and deferred income	12, 27, 30, 34, 35	194	131	179	114
Other current liabilities	27	82	11	80	12
Tax payable	14	71	37	31	36
Financial derivatives	19, 30, 31, 32, 33, 34, 35	633	839	603	790
Customer deposits and accounts payble to customers	25, 31, 32, 33, 34, 35	16 910	15 959	16 910	15 959
Liabilities classified as held for sale	22	0	11	0	11
Total liabilities		**38 391**	**37 567**	**34 388**	**31 592**
Total equity and liabilities		**41 732**	**40 722**	**36 587**	**33 604**
Secured debt and guarantees		36			

Trondheim, 26 February 2013
The Board of Directors of BN Bank ASA

Tore Medhus (Deputy Chair) | Stig Arne Engen | Finn Haugan (Chair) | Harald Gaupen | Helene Jebsen Anker

Kristin Undheim | Anita Finserås Bretun (Staff Representative) | Ella Skjørestad | Gunnar Hovland (Managing Director)

Statement of Changes in Equity in 2011 and 2012

GROUP

NOK MILLION	SHARE CAPITAL	SHARE PREM. RESERVE	OTHER PAID-UP SHARE CAPITAL	OTHER RESERVES	TOTAL EQUITY
Balance Sheet as at 1 January 2011	619	68	0	2 315	3 002
Result for the period	0	0	0	153	153
Dividend paid	0	0	0	-152	-152
Share capital increase	30	122	0	0	152
Balance Sheet as at 31 December 2011	**649**	**190**	**0**	**2 316**	**3 155**
Result for the period	0	0	0	186	186
Dividend paid	0	0	0	-95	-95
Share capital increase	19	76	0	0	95
Balance Sheet as at 31 December 2012	**668**	**266**	**0**	**2 407**	**3 341**

PARENT BANK

NOK MILLION	SHARE CAPITAL	SHARE PREM. RESERVE	OTHER PAID-UP SHARE CAPITAL	OTHER RESERVES[1]	TOTAL EQUITY
Balance Sheet as at 1 January 2011	619	68	282	948	1 917
Result for the period	0	0	0	95	95
Dividend paid	0	0	0	-152	-152
Share capital increase	30	122	0	0	152
Balance Sheet as at 31 December 2011	**649**	**190**	**282**	**891**	**2 012**
Result for the period	0	0	0	187	187
Dividend paid	0	0	0	-95	-95
Share capital increase	19	76	0	0	95
Balance Sheet as at 31 December 2012	**668**	**266**	**282**	**983**	**2 199**

[1] The reserve for unrealised gains is included in Other reserves. Provision of NOK 174 million was made as at 31 December 2012, while provision of NOK 193 million was made as at 31 December 2011.

Statement of Cash Flows

	GROUP		PARENT BANK	
NOK MILLION	**2012**	**2011**	**2012**	**2011**
Cash flows from operating activities				
Interest/commission received and fees received from customers	1 850	2 353	805	1 114
Interest/commission paid and fees paid to customers	-455	-433	-475	-450
Interest received on other investments	283	300	255	320
Interest paid on other loans	-804	-882	-551	-587
Receipts/disbursements (-) on loans and advances to customers	-561	-1 948	-1 187	-488
Receipts/payments(-) on customer deposits and debt	1 211	-1 465	1 211	-1 465
Receipts/payments(-) on liabilities to credit institutions	-962	-232	-1 362	-21
Receipts/payments(-) on securities in issue and securities buyback	338	1 395	2 668	3 628
Receipts on written-off debt	7	44	3	35
Other receipts/payments	184	114	229	178
Payments to suppliers for goods and services	-110	-152	-60	-100
Payments to employees, pensions and social security expenses	-105	-102	-66	-65
Tax paid	-34	-2	-34	0
Net cash flow from operating activities	842	-1 010	1 436	2 099
Cash flows from investing activities				
Receipts/payments(-) on receivables from credit institutions	304	666	-731	-2 374
Receipts/payments(-) on short-term securities investments	-577	285	-578	289
Receipts/payments(-) on long-term securities investments [2]	0	0	164	99
Proceeds from sale of operating assets etc.	0	25	0	0
Purchase of operating assets etc.	-44	-65	-15	-20
Proceeds from sale of subsidiaries	0	129	0	33
Net cash flow from investing activities	-317	1 040	-1 160	-1 973
Cash flows from financing activities				
Subordinated loan capital received	156	-228	156	-228
Dividend paid	-95	-152	-95	-152
Changes in capital (share issue etc.)	95	152	95	152
Net cash flow from financing activities	156	-228	156	-228
Net cash flow for the period	681	-198	432	-102
Cash and balances due from credit institutions as at 1 January	814	1 012	4	106
Cash and balances due from credit institutions as at 31 Dec. [1]	1 495	814	436	4

1 For the Parent Bank, cash and balances consist of deposits in Norges Bank.
2 Investments relate mainly to investments in subsidiaries.

Notes

NOTE 1. ACCOUNTING POLICIES ETC.

Information about the company

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

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

The loans and deposits in Ålesund are being transferred gradually to SpareBank 1 SMN. BN Bank has financed the loan portfolio and guaranteed the credit risk. The guarantee and financing are being reduced gradually.

On 1 February 2012, the parties revised the agreement according to which SpareBank 1 SMN took over NOK 2.3 billion of the loan portfolio valued at NOK 3.1 billion. BN Bank now provides a guarantee for 60% of the credit risk for the remaining portfolio (called the Guarantee Portfolio) of NOK 571 million. BN Bank is providing a guarantee for losses in this portfolio for a period of 3-5 years from the inception of the original agreement.

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

Basis for preparation of the financial statements

BN Bank ASA presents the consolidated financial statements for the Group and the separate financial statements for the Parent Bank for 2012 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 2012

No new or amended IFRSs or IFRIC interpretations of relevance for the accounts came into effect in 2012 which had any material effect on the Group.

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

The following standards and amendments to, and interpretations of, existing standards have been published, and application will be obligatory for the Group in their consolidated and separate financial statements for the annual period beginning on 1 January 2013 or later, but without the Group having chosen early application:

IAS 1 "Presentation of Financial Statements" has been amended with the result that items in 'other comprehensive income' must be divided into two groupings and presented separately: those that would be reclassified to profit or loss at a future point in time and those that will never be reclassified. The amendment does not affect which items should be included in 'other comprehensive income'.

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). As a consequence of the amendments in IAS 19, there is a reduction in equity for the Group as at 1 January 2013 of just over NOK 7 million.

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 has not yet assessed the entire impact of the standard on the financial statements, but 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. The Group will also look at the consequences of the remaining phases of IFRS 9 when they have been finalised by IASB.

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.

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 yet considered the full effect of IFRS 12.

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, but will apply the standard for the 2013 financial year.

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 recent period.

Discretionary measurements, estimates and assumptions

In applying the accounting policies for the Group, the Company's management have in some areas exercised discretion and based the accounting on estimates and assumptions regarding future events. Naturally there will 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 being discussed below.

Fair value of financial instruments

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

Write-downs on loans

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

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

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

Fixed assets held-for-sale and discontinued operations

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

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

Pensions

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

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

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

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

Accounting policies

Consolidation

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

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

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

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

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

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

Subsidiaries

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

Recognition of income and expenditure

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

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

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

Financial instruments – Classification etc.

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

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

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

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

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

Financial instruments measured using fair value hedge accounting

The Group employs 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 converted into Norwegian kroner at the banks' middle rates for currencies at the end of the reporting period. Forward-exchange contracts are measured at fair value with changes in value carried through profit or loss.

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

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

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

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

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

Non-performing loans

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

Write-offs

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

Loans and impairment losses measured at fair value

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

Repossessed properties

Properties which are repossessed through mortgage foreclosure as a result of non-performing loans, and where the Group does not intend to keep the property for long-term ownership or use, are presented on a separate line on the balance sheet. Repossessed properties are valued at the date of repossession at the lower of cost or estimated market value. In subsequent accounts the properties are valued at the lower of this purchase cost or estimated market value at the end of the reporting period. On 1 January 2011 the Group changed its 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.

Transfer of loans

BN Bank has entered into an agreement for the judicial sale to SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS of high collateral loans secured by real property. In accordance with the management agreement between BN Bank and the credit institution, BN Bank is responsible for managing the loans and maintaining customer contact. BN Bank receives consideration in the form of commission for the duties that follow from managing the loans. There is a remaining involvement connected with transferred loans with possible limited settlement of loss against commission. Under the terms of the management agreement with BN Bank, the credit institutions can sell on the loans purchased from BN Bank while at the same time BN Bank's right to manage the customers and receive commission follows the sale. BN Bank has thus neither retained nor transferred the most material risk and return attached to the transferred loans. BN

Bank accounts for the amount relating to the remaining involvement as an asset or liability. BN Bank moreover reports as a liability the fair value of the remaining credit risk attached to transferred loans, which is reckoned to be very slight. On the basis of a materiality assessment, BN Bank has not accounted for any amount for the remaining involvement in the transferred loans.

See the description in Note 17.

Financial derivatives

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

Bonds and certificates – In general

Bonds and certificates issued by others consist of the investment portfolio and holdings acquired as a hedge against interest rate risk on the funding side. In the case of own bonds and certificates, a distinction is drawn between acquisition for refinancing purposes and the purchase/sale of own bonds in connection with the market promotion included in the investment portfolio.

Bonds and certificates – Classification

Bonds and certificates issued by others are classified mainly as short-term investment securities. Bond loans where the decision to acquire the bonds is taken on the basis of ordinary lending criteria are classified as loans. The accounting treatment of bond loans is thus analogous with that of ordinary loans. Own bonds and certificates are deducted from the bond debt and certificate debt respectively.

Bonds and certificates – Measurement of investment portfolio

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

Bonds and certificates – Estimation of gains/losses

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

Financial guarantees

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

Off-setting and net reporting

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

Financial instruments measured at fair value

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

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

Financial instruments – Classification of accrued interest

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

Tangible fixed assets

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

Intangible assets

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

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

Pension costs and liabilities

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

According to 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, the time value of money is taken into account 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 are reported in the same way as with internal reporting to the Bank's chief operating decision maker. The Bank's chief operating decision maker, who is responsible for allocating resources for and assessing performance in the operating segments, has been identified as the Group Executive Management.

NOTE 2. INTEREST AND SIMILAR INCOME

	GROUP		PARENT BANK	
NOK MILLION	**2012**	**2011**	**2012**	**2011**
Interest from financial instruments carried at amortised cost:				
Interest and similar income from loans to and balances due from credit institutions	53	53	505	387
Interest and similar income from receivables from subsidiaries	0	0	26	28
Interest and similar income from loans to and receivables due from customers	1 284	1 297	524	552
Interest and similar income from certificates and bonds	64	65	46	47
Total interest from financial instruments carried at amortised cost	1 401	1 415	1 101	1 014
Interest from financial instruments selected for fair value carrying through profit or loss:				
Interest and similar income from loans to and receivables due from customers	96	99	30	29
Interest and similar income from certificates and bonds	117	125	118	125
Total interest from financial instruments selected for fair value carrying through profit or loss	213	224	148	154
Total interest and similar income	1 614	1 639	1 249	1 168

NOTE 3. INTEREST EXPENSE AND SIMILAR CHARGES

	GROUP		PARENT BANK	
NOK MILLION	**2012**	**2011**	**2012**	**2011**
Interest expense for financial instruments carried at amortised cost:				
Interest and similar charges on liabilities to credit institutions	19	36	19	36
Interest and similar charges on customer deposits and accounts payable to customers	432	406	451	423
Interest and similar charges on securities issued	384	360	301	241
Interest and similar charges on subordinated loan capital	71	77	71	77
Total interest expense for financial instruments carried at amortised cost	906	879	842	777
Interest expense for financial instruments selected for fair value carrying through profit or loss:				
Interest and similar charges on customer deposits and accounts payable to customers	49	23	49	23
Interest and similar charges on securities issued	304	340	183	201
Interest and similar charges on subordinated loan capital	12	12	12	12
Total interest expense for financial instruments selected for fair value carrying thro profit or loss	365	375	244	236
Total interest expense and similar charges	1 271	1 254	1 086	1 013

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

	GROUP		PARENT BANK	
NOK MILLION	**2012**	**2011**	**2012**	**2011**
Change in value interest rate derivatives obliged to be carried at fair value through profit or loss [1, 3, 4]	4	-5	18	17
Change in value currency derivatives obliged to be carried at fair value through profit or loss [2]	54	-117	54	-117
Change value equity-linked options & equity options oblig carried fair value thro profit or loss [1]	5	19	5	19
Total change in value of financial instruments obliged to be carried at fair value	63	-103	77	-81
Change in value of deposits selected for fair value carrying through profit or loss [4]	-12	-6	-11	-6
Change in value of borrowings selected for fair value carrying through profit or loss [4]	-42	-5	-37	-61
Change in value of loans selected for fair value carrying through profit or loss [4]	38	-12	-9	13
Change in value of short-term financial investments selected for fair value carrying [3]	45	-1	45	-1
Total change in value of financial instruments selected for fair value carrying	29	-24	-12	-55
Change in value of interest rate derivatives, hedging [5]	64	69	53	53
Change in value of borrowings, hedged [5]	-64	-70	-53	-54
Total change in value of financial instruments for hedging	0	-1	0	-1
Total change in value of financial instruments carried at fair value	92	-128	65	-137
Realised gains/losses(-) bonds and certificates carried at amortised cost	-11	-10	-3	-6
Realised gains/losses(-) borrowings and loans carried at amortised cost	-1	0	-1	0
Exchange gains/losses borrowings and loans carried at amortised cost [2]	-51	118	-11	123
Total change in value of financial instruments carried at fair value, gains and losses	29	-20	50	-20

[1] In connection with the sale and/or issue of the structured products, BN Bank has hedged exposure in the form of equity options, equity-linked options and interest rate swap agreements. The earlier turbulence in the financial markets caused the loss of some contractual counterparties and it was not possible to replace these hedging transactions. BN Bank is therefore partially exposed to the market development of a limited number of products. Changes in exposure are recognised in profit and loss immediately, and in 2012 NOK 5 million was recognised as income, compared with NOK 8 million recognised as expense in 2011.

[2] Exchange/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 converted at the current exchange rate. Forward exchange contracts and combined interest rate and currency derivatives are carried at fair value with changes in value carried through profit or loss. The net effect for the Group with regard to foreign exchange was NOK 3 million recognised as income in 2012 as against NOK 1 million in 2011. Exposure to exchange rate fluctuations is low.

[3] Change in the value of financial investments selected for fair value carrying were NOK 45 million recognised as income in 2012, as against NOK 1 million recognised as expense in 2011. The financial turbulence has caused big fluctuations in the value of these investments.

[4] The net effect of interest rate derivatives obliged to be carried at fair value and the change in the value of financial instruments selected for fair value carrying was NOK 12 million recognised as expense in 2012, compared with NOK 1 million in 2011.

[5] BN Bank uses fair value hedges for new fixed-rate borrowings and related hedge instruments. The borrowings are hedged 1:1 through external contracts where the principal, interest stream, term and hedging transaction match. It is the interest rate risk that is hedged and the hedging transactions entered into are documented. With fair value hedges, the hedge instrument is accounted for at fair value, and the hedge object is accounted for at fair value for the hedged risk. Changes in these values from the opening balance sheet are carried in profit or loss. The credit risk is not hedged and therefore does not affect the valuations. The value of the hedging instruments as at 31 December 2012 was positive by NOK 192 million for the Group and by NOK 117 million for the Parent Bank.

[6] Realised gains/losses on bonds, certificates and borrowings carried at amortised cost were recognised as expense for a total of NOK 12 million in 2012 as against NOK 10 million recognised as expense for 2011.

NOTE 5. OTHER OPERATING INCOME

	GROUP		PARENT BANK	
NOK MILLION	**2012**	**2011**	**2012**	**2011**
Guarantee commission	1	22	1	22
Commission income from payment services [1]	152	102	51	26
Total commission income and income from banking services	153	124	52	48
Commission charges on payment services and loan brokerage	-12	-3	-11	-3
Total commission charges and banking services expense	-12	-3	-11	-3
Net commission income / charges	141	121	41	45
Other operating income:				
Miscellaneous operating income	4	2	8	7
Other operating income	4	2	8	7
Total other operating income	145	123	49	52

[1] Commission income relating to management of the portfolio in SpareBank 1 Næringskreditt and SpareBank 1 Boligkreditt totalled NOK 127 million in 2012, as against NOK 72 million for 2011.

NOTE 6. AMICABLE SETTLEMENT

Amicable settlement with Glitnir banki hf, Iceland

Glitnir banki hf, now Glitnir hf, sued BN Bank ASA in 2011 for what Glitnir claimed was an unlawful offset of about NOK 240 million relating to claims and counter-claims between the parties declared by BN Bank ASA in November 2009. Oslo District Court gave judgment in the case in January 2012, according to which BN Bank ASA was ordered to pay back Glitnir hf approximately NOK 213 million plus interest.

Since the court case there have been negotiations between BN Bank ASA and the Winding Up Board for Glitnir hf. The parties have now come to an amicable settlement whereby BN Bank ASA will pay NOK 81.8 million to Glitnir hf and Glitnir hf accepts offset of the other disputed portion of about NOK 135.2 million.

BN Bank ASA has previously reported the greater portion of the claims against Glitnir which were used for offset as a loss and not as settled by means of offset. The P&L effect of the amicable settlement before tax will therefore be NOK 117 million recognised as income.

Structured products

In connection with the sale and/or issue of structured products, BN Bank has hedged exposure in the form of equity options, equity-linked options and interest rate swap agreements. The turbulence in the financial markets in 2008 caused the loss of some contractual counterparties, and it has not been possible to replace all these hedging transactions. The liquidator of one of the contractual counterparties filed a counter-claim in 2011 for NOK 12 million, which BN Bank disputed. This counter-claim lapsed in the fourth quarter of 2012 and the position is now reversed, such that BN Bank now has a claim against the debtor in liquidation of NOK 0.6 million.

NOTE 7.SALARIES AND GENERAL ADMINISTRATIVE EXPENSES

	GROUP		PARENT BANK	
NOK MILLION	**2012**	**2011**	**2012**	**2011**
Salaries to employees and fees to elected officers	75	67	45	37
Performance-related pay [1]	4	0	4	0
Contracted labour	4	3	3	3
Net pension cost [2]	13	13	9	8
Payroll overhead	19	18	14	13
Salaries and other personnel costs	115	101	75	61
IT expenses	47	45	31	30
Postage and telephone	6	6	5	5
Office expenses	22	42	10	30
Travel expenses and representation	4	5	2	3
Marketing	9	23	7	21
General administrative expenses	88	121	55	89
Salaries and general administrative expenses	203	222	130	150
Number of full time permanent employees as at 31 December	109	101	84	80
Number of part-time permanent employees as at 31 December	6	9	2	5
Number of temporary staff as at 31 December	11	8	11	7
Number of full-time equivalents (FTEs) as at 31 December	114	109	86	86
Average number of FTEs during the year	110	102	82	79

[1] The Bank has had a performance-related pay scheme in 2012. Performance-related pay is triggered if returns exceed a given level. The scheme includes all permanent staff except for the Group Managing Director. The cost in 2012 was NOK 3.7 million, exclusive of employer's national insurance contributions. Few employees were awarded performance-related pay in 2011.

[2] See Note 10 for more details.

NOTE 8. RELATED PARTY DISCLOSURES

BN Bank has entered into transactions with related parties, as described in this note, and in Note 9. In addition, there are transactions with related parties as subsidiaries; see Note 22. Transactions with subsidiaries are eliminated in the consolidated financial statements. BN Bank's shareholders are listed in Note 29. Apart from loans given on special terms to employees and others, all transactions with related parties are entered into on commercial terms. Apart from the transactions identified in this note and Note 9, and eliminated transactions within the BN Bank Group, there are no transactions or outstanding matters of significance with related parties.

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

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

	FEES	SALARIES	PERFORMANCE-RELATED PAY [1, 2]	NON-CASH & OTHER TAXABLE BENEFITS	PENSION PREMIUMS PAID	TOTAL PAY AND RENUME-RATION	LOANS AND SECURITY
Former Senior Executives							
Olav Isak Sjøflot, Director Business Support [3, 5]	0	1 241 744	0	78 603	27 309	1 347 656	1 119 000
Erlend Drilsvik, Dir. Retail Market and Communication [3,5]	0	1 163 598	0	96 935	34 399	1 294 932	3 469 000
Senior Executives							
Gunnar Hovland, Managing Director [3,5]	0	1 647 545	0	176 122	88 332	1 911 999	4 559 000
Svend Lund, Deputy Managing Director [3,5]	0	1 776 877	150 000	156 258	126 914	2 210 049	2 313 000
Trond Søraas, Director Accounts and Treasury [3,5]	0	1 138 609	0	101 185	42 114	1 281 908	3 700 000
Rune Rasmussen, Director Risk Management [3,5]	0	1 037 721	0	141 118	51 029	1 229 868	2 208 000
Eli Ystad, Director Retail Market [4, 5, 6]	0	458 333	0	75 500	5 922	539 755	5 520 000
Board of Directors							
Finn Haugan, Chair	266 000	0	0	0	0	266 000	0
Tore Medhus, Deputy Chair	232 000	0	0	0	0	232 000	0
Other Board members	1 007 000	382 873	0	3 966	9 781	1 403 620	2 077 000
Control Committee							
Members	416 000	0	0	0	0	416 000	0
Total	**1 921 000**	**6 441 958**	**150 000**	**654 149**	**324 092**	**12 133 787**	**24 965 000**

[1] See Note 7 for more details.

[2] The note states performance-related pay and bonuses paid during the financial year, earned in prior years. The conditions for provision for bonuses for 2012 have been fulfilled.

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

[4] If the Bank terminates the employment contract, pay conditions are maintained for up to 6 months (contractual termination payment) in addition to the standard period of notice. Income from other sources during the period is deducted in its entirety from the termination payment. Any costs relating to termination payment are charged as an expense in their entirety at the date of agreed dismissal. Provision for termination payment not yet disbursed is included under Non-cash and other taxable benefits.

[5] The costs of these pensions are included in the pension cost; see Note 10 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 9).

[6] Appointed during 2012

"Since 2011, BN Bank has elected to employ a bonus solution for senior executives which is within the limits of the Norwegian Financial Supervisory Authority's regulations governing remuneration schemes. The principles for distributing bonus to employees who come within the scope of the new regulations are that the bonus is not set discretionarily at the level of the individual, that it does not exceed 1.5 times the monthly salary, and that the size of the bonus pot is calculated equally as for the other employees. Performance-related pay disclosed in this note is bonus paid in 2012 but earned in the prior periods.
The group of employees affected by the new regulations have been identified and comprise the Group Executive Management as well as some other staff within the credit area, treasury and in control functions.

Fees to appointed Auditor

	GROUP		PARENT BANK	
NOK 1 000	**2012**	**2011**	**2012**	**2011**
Fees to appointed Auditor				
Ordinary audit fees for statutory audit [1]	1 251	1 061	926	692
Tax advice	127	118	86	79
Other attestation services [2]	317	288	106	64
Fees for other assistance	180	78	180	78
Total fees paid to appointed Auditor (inclusive of VAT)	**1 875**	**1 545**	**1 298**	**913**

The ordinary audit fees for the Group were NOK 917,726 for the 2012 financial year and NOK 768,113 for the 2011 financial year. The equivalent figures for the Parent Bank were NOK 685,226 for the 2012 financial year and NOK 498,113 for the 2011 financial year.

[1] This includes fees for auditing the Group's quarterly financial statements totalling NOK 333,044 in 2012 and NOK 293,125 in 2011. The equivalent figures for the Parent Bank were NOK 241,169 in 2012 and NOK 193,750 in 2011.

[2] Other attestation services in 2012 comprised chiefly: Reports, and fees in connection with the job as independent auditor of BN Boligkreditt's loan portfolio.
Other attestation services in 2011 comprised chiefly: Reports, and fees in connection with the job as independent auditor of BN Boligkreditt's loan portfolio.

Income, expenses, receivables and commitments with related parties

		GROUP	
NOK MILLION		**2012**	**2011**
Interest income			
SpareBank 1 SMN	SpareBank 1 Alliance	156	174
SpareBank 1 SR-Bank	SpareBank 1 Alliance	7	5
SpareBank 1 Nord-Norge	SpareBank 1 Alliance	2	0
Other income			
SpareBank 1 SMN	SpareBank 1 Alliance	6	43
Interest expense			
SpareBank 1 SMN	SpareBank 1 Alliance	4	17
SpareBank 1 SR-Bank	SpareBank 1 Alliance	1	-15
SpareBank 1 Nord-Norge	SpareBank 1 Alliance	2	5
Other expense			
SpareBank 1 SMN	SpareBank 1 Alliance	0	2
Receivables as at 31 December			
SpareBank 1 SMN	SpareBank 1 Alliance	942	1 029
SpareBank 1 SR-Bank	SpareBank 1 Alliance	0	251
SpareBank 1 Nord-Norge	SpareBank 1 Alliance	279	301
Liabilities as at 31 December			
SpareBank 1 SMN	SpareBank 1 Alliance	27	24
SpareBank 1 SR-Bank	SpareBank 1 Alliance	0	0

Income, expenses, receivables and commitments with related parties

		PARENT BANK	
NOK MILLION		**2012**	**2011**
Interest income			
BN Boligkreditt AS	Subsidiary	10	12
Bolig og Næringskreditt AS	Subsidiary	469	349
SpareBank 1 SMN	SpareBank 1 Alliance	156	174
SpareBank 1 SR-Bank	SpareBank 1 Alliance	7	5
SpareBank 1 Nord-Norge	SpareBank 1 Alliance	2	0
Other income			
BN Boligkreditt AS	Subsidiary	5	5
SpareBank 1 SMN	SpareBank 1 Alliance	6	43
Interest expense			
BN Boligkreditt AS	Subsidiary	48	18
Bolig og Næringskreditt AS	Subsidiary	0	0
SpareBank 1 SMN	SpareBank 1 Alliance	4	17
SpareBank 1 SR-Bank	SpareBank 1 Alliance	1	2
SpareBank 1 Nord-Norge	SpareBank 1 Alliance	2	5
Other expense			
BN Boligkreditt AS	Subsidiary	0	0
Bolig og Næringskreditt AS	Subsidiary	0	0
SpareBank 1 SMN	SpareBank 1 Alliance	0	2
Receivables as at 31 December			
BN Boligkreditt AS	Subsidiary	1	287
Bolig og Næringskreditt AS	Subsidiary	11 968	10 645
Collection Eiendom AS	Subsidiary	1	1
SpareBank 1 SMN	SpareBank 1 Alliance	942	1 029
SpareBank 1 SR-Bank	SpareBank 1 Alliance	0	251
SpareBank 1 Nord-Norge	SpareBank 1 Alliance	279	301
Liabilities as at 31 December			
BN Boligkreditt AS	Subsidiary	287	684
Bolig og Næringskreditt AS	Subsidiary	0	0
SpareBank 1 SMN	SpareBank 1 Alliance	27	24
SpareBank 1 SR-Bank	SpareBank 1 Alliance	0	0

BN Bank had a credit facility against SpareBank 1 SR-Bank of NOK 1.5 billion at the end of 2011, which was terminated in 2012.

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

Income, expenses, receivables and commitments with related parties

	GROUP		PARENT BANK	
NOK MILLION	**2012**	**2011**	**2012**	**2011**
Nominal value of deducted loans risk-mitigated by SpareBank 1 Samspar	284	0	210	0
Nominal value of deducted loans risk-mitigated by SpareBank 1 SR-bank	275	0	126	0
Nominal value of deducted loans risk-mitigated by SpareBank 1 SMN	245	404	0	0
Nominal value of deducted loans risk-mitigated from related parties	**803**	**404**	**336**	**0**

NOTE 9. LOANS TO EMPLOYEES AND ELECTED OFFICERS

	GROUP		PARENT BANK	
NOK ´000	**2012**	**2011**	**2012**	**2011**
Loans to employees as at 31 December	228 891	188 780	165 758	144 754
Loans to elected officers as at 31 December	4 279	4 433	4 279	4 433
Loans to companies where elected officers had controlling influence as at 31 December	0	0	0	0
Interest subsidy on loans to employees[1]	**0**	**0**	**0**	**0**

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

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

Loans to the Chair of the Supervisory Board, the Chair of the Control Committee, the Board of Directors and Senior Executives

NAME	OFFICE/POSITION	PRINCIPAL
Anita Finserås Bretun	Staff representative on Board of Directors	2 077 000
Gunnar Hovland	Managing Director	4 559 000
Svend Lund	Deputy Managing Director	2 313 000
Trond Søraas	Director	3 700 000
Eli Ystad	Director	5 520 000
Rune Rasmussen	Director	2 208 000

NOTE 10. PENSION COSTS AND COMMITMENTS

The Group has a group pension scheme which secures most staff a pension of 70% of ordinary pay at retirement date. The pension schemes are invested in a unit trust scheme through a life assurance company. The defined benefit pension scheme is closed to new members as of 1 January 2011. From 2011, BN Bank has offered a defined contribution pension scheme. The premiums for the defined contribution scheme are recognised as expense from the moment 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).

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.

A former senior executive had a contractual retirement age of 60. This person signed 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. The 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.

In the Group's opinion, the Norwegian market for covered bonds satisfies the requirements in IAS 19 as being high-quality bonds and the market for them is also sufficiently deep. This interest has therefore been used as the basis for the pension calculations as at 31 December 2012.

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.

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

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

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

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

%	2012	2011
Discount rate	3.8	3.3
Expected pay adjustments	3.5	4.0
Expected adjustment of current pensions	0.2	0.7
Expected adjustment of national insurance basic amount (G)	3.3	3.8
Expected on return pension assets	4.0	4.8
Voluntary exit for employees under 40	2.0	2.0
Voluntary exit for employees over 40	2.0	2.0
Demographic disability assumptions	IR02	IR02
Demographic mortality assumptions	K2005 + 10/15	K2005

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

[1] The discount rate for 2012 is set with reference to the interest rate on high quality corporate bonds. For 2011 the government bond interest rate was used as discount rate.

Composition of net pension cost

	GROUP		PARENT BANK	
NOK MILLION	**2012**	**2011**	**2012**	**2011**
Present value of the year's pension contributions, group schemes	8	8	5	5
Present value of the year's pension contributions, unsecured schemes	1	1	0	1
Interest expense on accrued pension commitments group schemes	4	3	2	2
Interest expense on accrued pension commitments unsecured schemes	1	0	1	0
Amortisation of estimation loss/gain(-) group schemes	1	1	1	1
Costs of administering pension scheme	1	1	0	0
Expected return on pension assets	-4	-3	-2	-2
Accrued employer's contributions	1	1	1	1
Net pension cost	13	13	8	8

Specification of net recognised defined benefit pension commitment

	GROUP		PARENT BANK	
NOK MILLION	**2012**	**2011**	**2012**	**2011**
Present value of contributory pension commitment for defined benefit plans in secured schemes	97	105	62	67
Fair value of pension assets	-76	-70	-49	-45
Net pension commitment for defined benefit plans in secured schemes	21	35	13	23
Present value of contributory pension commitm. for defined benefit plans in unsecured schemes	21	27	13	17
Costs of prior-period pension contributions not recognised in the balance sheet	-7	-30	-4	-19
Employer's contribution	6	9	4	6
Net pension commitment recognised in the balance sheet	41	41	26	26

Movements in defined benefit pension commitment - secured scheme

	GROUP		PARENT BANK	
NOK MILLION	**2012**	**2011**	**2012**	**2011**
Gross pension commitment as at 1 January	105	97	67	62
Present value of pension contribution	8	8	5	5
Interest expense	4	3	3	2
Actuarial losses (gains) on the commitment	-19	-1	-12	-1
Benefits paid out	-1	-1	-1	-1
Gross pension commitment as at 31 December	97	105	62	67

Movements in defined benefit pension commitment - unsecured scheme

	GROUP		PARENT BANK	
NOK MILLION	**2012**	**2011**	**2012**	**2011**
Gross pension commitment as at 1 January	26	28	17	18
Present value of pension contribution	1	1	0	0
Interest expense	1	1	1	1
Actuarial losses (gains) on the commitment	-4	-1	-3	0
Benefits paid out	-2	-2	-1	-2
Gross pension commitment as at 31 December	21	26	14	17
Total pension commitments secured and unsecured schemes as at 1 January	132	125	84	80
Total pension commitments secured and unsecured schemes as at 31 December	118	132	76	84

Movements in fair value of pension assets - secured scheme

	GROUP		PARENT BANK	
NOK MILLION	**2012**	**2011**	**2012**	**2011**
Fair value of pension assets as at 1 January	70	64	45	41
Expected return on pension assets	4	3	3	2
Actuarial losses (gains) on pension assets	-5	-3	-3	-2
Total contribution	8	7	5	4
Benefits paid out	-1	-1	-1	-1
Fair value of pension assets as at 31 December	76	70	49	45

Pension scheme members

	GROUP		PARENT BANK	
	2012	**2011**	**2012**	**2011**
Economically active members	120	118	77	76
Pensioners and disabled members	17	16	11	10
Total number of pension scheme members	137	134	88	86

Investment of pension assets as at 31 December

			PARENT BANK	
NOK MILLION	**2012 AMOUNT**	**%**	**2011 AMOUNT**	**%**
Equity instruments	8	10.2	7	10.4
Debt instruments	53	69.8	49	70.3
Real estate	14	18.6	13	18.1
Other investments	1	1.4	1	1.2
Total pension assets	76	100	70	100

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

Expected payment of premium to defined benefit pension schemes in 2012 is NOK 9 million for the Group, and NOK 6 million for the Parent Company.

GROUP

NOK MILLION	2012	2011	2010	2009	2008	2007	2006
Present value of pension contribution	118	132	125	97	112	114	93
Fair value of pension assets	76	70	64	51	63	61	60
Deficit/(surplus)	**-42**	**-62**	**-61**	**-45**	**-49**	**-53**	**-33**
Experience-based adjustments to pension commitm.	-23	-2	20	-29	-18	13	-13
Experience-based adjustments to pension assets	-5	-3	3	-20	-14	-2	-1

PARENT BANK

NOK MILLION	2012	2011	2010	2009	2008	2007	2006
Present value of pension contribution	76	84	80	62	71	75	59
Fair value of pension assets	49	45	41	33	40	42	39
Deficit/(surplus)	**-27**	**-39**	**-39**	**-29**	**-31**	**-33**	**-20**
Experience-based adjustments to pension commitm.	-15	-1	12	-19	-12	7	-8
Experience-based adjustments to pension assets	-3	-2	2	-13	-9	-2	-1

NOTE 11. IMMATERIELLE EIENDELER OG VARIGE DRIFTSMIDLER

GROUP 2012

NOK MILLION	DEVELOPMENT IT SYSTEMS	OTHER INTANGIBLE ASSETS	INTANGIBLE ASSETS	MACHINERY, FIXT & TRANSPORT	BUILDINGS, REAL PROPERTY[1]	TANGIBLE FIXED ASSETS
Original cost including revaluations as at 1.01.12	70	0	70	56	7	63
Additions	13	0	13	3	0	3
Disposals at original cost	0	0	0	-2	0	-2
Write-downs	-31	0	-31	-29	0	-29
Original cost including revaluations as at 31.12.12	**52**	**0**	**52**	**28**	**7**	**35**
Accumulated depreciation, amort. & write-downs as at 1.01.12	50	0	50	40	0	40
Disposals	0	0	0	-1	0	-1
Ordinary depreciation/amortisation charge for the year	14	0	14	6	0	6
Write-downs for the year	-22	0	-22	-28	0	-28
Accumu. depreciation, amort. & write-downs as at 31.12.12	**42**	**0**	**42**	**17**	**0**	**17**
Book value as at 31.12.12	**10**	**0**	**10**	**11**	**7**	**18**

DEPRECIATION/AMORTISATION METHOD	STRAIGHT-LINE		STRAIGHT-LINE	STRAIGHT-LINE
Useful life	4 years	Indefinite useful life	3 - 5 years	100 years

PARENT BANK 2012

NOK MILLION	DEVELOPMENT IT SYSTEMS	OTHER INTANGIBLE ASSETS	INTANGIBLE ASSETS	MACHINERY, FIXT & TRANSPORT	BUILDINGS, REAL PROPERTY[1]	TANGIBLE FIXED ASSETS
Original cost including revaluations as at 1.01.12	70	0	70	56	7	63
Additions	13	0	13	3	0	3
Disposals til original cost	0	0	0	-2	0	-2
Write-downs	-31	0	-31	-29	0	-29
Original cost including revaluations as at 31.12.12	**52**	**0**	**52**	**28**	**7**	**35**
Accumulated depreciation, amort. & write-downs as at 1.01.12	50	0	50	40	0	40
Disposals	0	0	0	-1	0	-1
Ordinary depreciation/amortisation charge for the year	14	0	14	6	0	6
Write-downs for the year	-22	0	-22	-28	0	-28
Accumulated depreciation, amort. & write-downs as at 31.12.12	**42**	**0**	**42**	**17**	**0**	**17**
Book value as at 31.12.12	**10**	**0**	**10**	**11**	**7**	**18**

DEPRECIATION/AMORTISATION METHOD	STRAIGHT-LINE		STRAIGHT-LINE	STRAIGHT-LINE
Useful life	4 years	Indefinite useful life	3 - 5 years	100 years

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

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

GROUP 2011

NOK MILLION	DEVELOPMENT IT SYSTEMS	OTHER INTANGIBLE ASSETS	INTANGIBLE ASSETS	MACHINERY, FIXT & TRANSPORT	BUILDINGS, REAL PROPERTY[1]	TANGIBLE FIXED ASSETS
Original cost including revaluations as at 1.01.11	57	0	57	49	66	115
Additions	13	0	13	7	27	34
Disposals at original cost	0	0	0	0	-86	-86
Original cost including revaluations as at 31.12.11	**70**	**0**	**70**	**56**	**7**	**63**
Accumulated depreciation, amort. & write-downs as at 1.01.11	40	0	40	34	1	35
Disposals	0	0	0	0	-1	-1
Ordinary depreciation/amortisation charge for the year[1]	10	0	10	6	0	6
Accumulated depreciation, amort. & write-downs as at 31.12.11	**50**	**0**	**50**	**40**	**0**	**40**
Book value as at 31.12.11	**20**	**0**	**20**	**16**	**7**	**23**

DEPRECIATION/AMORTISATION METHOD	STRAIGHT-LINE		STRAIGHT-LINE	STRAIGHT-LINE
Useful life	4 years	Indefinite useful life	3 - 5 years	100 years

PARENT BANK 2011

NOK MILLION	DEVELOPMENT IT SYSTEMS	OTHER INTANGIBLE ASSETS	INTANGIBLE ASSETS	MACHINERY, FIXT & TRANSPORT	BUILDINGS, REAL PROPERTY[1]	TANGIBLE FIXED ASSETS
Original cost including revaluations as at 1 January 2011	57	0	57	49	7	56
Additions	13	0	13	7	0	7
Disposals at original cost	0	0	0	0	0	0
Accumulated depreciation, amort. & write-downs as at 1.01.11	**70**	**0**	**70**	**56**	**7**	**63**
Accumulated depreciation, amort. & write-downs as at 1.01.11	41	0	41	34	0	34
Disposals	0	0	0	0	0	0
Ordinary depreciation/amortisation charge for the year [1]	9	0	9	6	0	6
Accumulated depreciation, amort. & write-downs as at 31.12.11	**50**	**0**	**50**	**40**	**0**	**40**
Book value as at 31.12.11	**20**	**0**	**20**	**16**	**7**	**23**

DEPRECIATION/AMORTISATION METHOD	STRAIGHT-LINE		STRAIGHT-LINE	STRAIGHT-LINE
Useful life	4 years	Indefinite useful life	3 - 5 years	100 years

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

Statement of cash flows relating to the sale of Munkegata 21:

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

NOTE 12. OTHER OPERATING EXPENSE

	GROUP		PARENT BANK	
NOK MILLION	**2012**	**2011**	**2012**	**2011**
Operating expense real property [1]	12	12	-2	-2
Miscellaneous operating expense	16	21	9	7
Other operating expense	28	33	7	5

[1] Provision has been made for future obligations relating to sub-letting the lease. 100% of the floor space is let and taken into account in the future obligations.
See also Note 27.

NOTE 13. 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 90 days after the due date. However, the group can gain access to revenue as a first mortgage lender, 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 and current changes in value and gains/losses on the sale of repossessed properties.

	GROUP		PARENT BANK	
NOK MILLION	**2012**	**2011**	**2012**	**2011**
Write-offs in excess of prior-year write-downs	20	23	13	19
Write-offs on loans without prior write-downs	0	8	0	0
Write-downs for the period:				
Change in collective write-downs related to the Guarantee Portfolio	-20	2	-8	-1
Change in collective write-downs related to the Guarantee Portfolio	40	1	40	1
Total change in collective write-downs	20	3	32	0
Increase in loans with prior-year write-downs [1]	26	28	11	7
Provision against loans without prior write-downs	68	24	68	9
Decrease in loans with prior-year write-downs	-18	-9	-6	-10
Total change in individual write-downs	76	43	73	6
Gross impairment losses	116	77	118	25
Recoveries on previous write-offs [2]	-2	-15	-2	-6
Impairment losses	114	62	116	19
Revenue recognition of interest on written-down loans	6	10	3	2

[1] Write-downs related to repossessed properties in 2012 totalled NOK 10 million.
[2] NOK 9 million relates to the book profit on the sale of a previously repossessed property in Tromsø in 2011.

	GROUP		PARENT BANK	
NOK MILLION	**2012**	**2011**	**2012**	**2011**
Individual write-downs to cover impairment losses as at 1 January	94	78	34	43
Write-offs covered by prior-year individual write-downs	-40	-23	-3	-19
Write-downs for the period:				
Increase in loans with prior-year individual write-downs	12	14	5	3
Write-downs on loans without prior individual write-downs	0	15	0	0
Decrease in loans with prior-year individual write-downs	-18	-6	-6	-9
Transferred assets classified as held for sale	0	16	0	16
Individual write-downs to cover impairment losses as at 31 December	**48**	**94**	**30**	**34**
Collective write-downs to cover impairment losses as at 1 January	85	83	37	38
Collective write-downs for the period to cover impairment losses	-20	2	-8	-1
Collective write-downs to cover impairment losses as at 31 December	**65**	**85**	**29**	**37**

	GROUP		PARENT BANK	
NOK MILLION	**2012**	**2011**	**2012**	**2011**
Individ. write-downs to cover loss on financial guar. related to Guarantee Portfolio at 1 January	28	26	28	26
Write-offs covered by prior-year individual write-downs	-27	-7	-27	-7
Write-downs for the period:				
Increase in loans with prior-year individual write-downs	3	4	3	4
Write-downs on loans without prior individual write-downs	68	9	68	9
Decrease in loans with prior-year individual write-downs	0	-4	0	-4
Individ. write-downs to cover loss on financial guar. related to Guarantee Portfolio at 31 Dec. [1]	**72**	**28**	**72**	**28**
Collective write-downs to cover loss related to Guarantee Portfolio as at 1 January	20	19	20	19
Collective write-downs for the period to cover loss related to Guarantee Portfolio	27	1	27	1
Collective write-downs to cover loss related to Guarantee Portfolio as at 31 December [1]	**47**	**20**	**47**	**20**
Individual write-downs related to Guarantee Portfolio classified as held for sale	**0**	**2**	**0**	**2**
Total loss provisions related to Guarantee Portfolio	**119**	**50**	**119**	**50**

[1] BN Bank has previously entered into an agreement with SpareBank1 SMN for the latter to take over the Bank's Ålesund Portfolio. The parties revised the agreement on 1 February 2012 according to which SpareBank1 SMN took over NOK 2.3 billion of the portfolio valued at NOK 3.1 billion. BN Bank now provides guarantees for 60% of the credit risk for this portfolio (referred to as the Guarantee Portfolio) of NOK 571 million. The Bank's maximum exposure is thus reduced to NOK 343 million, which at 31 December 2012 was 1.0% of the Bank's total lending. The total provision for losses in the Guarantee Portfolio was NOK 119 million at 31 December 2012. BN Bank will provide guarantees for losses in the Guarantee Portfolio for a period of 3-5 years from the inception of the original agreement. The loss provision is classified under Accrued expenses and deferred income.

Loans past due more than 3 months as at 31 December

	GROUP				PARENT BANK			
NOK MILLION	**2012**	**2011**	**2010**	**2009**	**2012**	**2011**	**2010**	**2009**
Gross principal	404	213	193	566	117	73	110	405
Individual write-downs	3	40	39	71	3	14	39	67
Net principal	**401**	**173**	**154**	**495**	**114**	**59**	**71**	**338**

Other loans with individual write-downs as at 31 December

	GROUP				PARENT BANK			
NOK MILLION	**2012**	**2011**	**2010**	**2009**	**2012**	**2011**	**2010**	**2009**
Gross principal	524	678	793	407	460	282	254	350
Individual write-downs	117	85	83	125	99	51	48	108
Net principal	**407**	**593**	**710**	**282**	**361**	**231**	**206**	**242**

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

GROUP

NOK MILLION	**GROSS OUTSTANDING 2012**	**%**	**GROSS OUTSTANDING 2011**	**%**	**GROSS OUTSTANDING 2010**	**%**
Corporate Market	341	1.36	126	0.55	67	0.33
Retail Market	63	0.77	66	0.71	70	0.67
Divested portfolio	0	0	21	0.74	56	1.53
Total	**404**	**1.19**	**213**	**0.59**	**193**	**0.43**

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

PARENT BANK

NOK MILLION	**GROSS OUTSTANDING 2012**	**%**	**GROSS OUTSTANDING 2011**	**%**	**GROSS OUTSTANDING 2010**	**%**
Corporate Market	54	0.78	0	0.00	0	0.00
Retail Market	63	0.77	51	0.70	54	0.71
Divested portfolio	0	0	21	0.74	56	1.53
Total	**117**	**1.33**	**72**	**0.82**	**110**	**0.60**

NOTE 14. TAX

Computation of tax payable

	GROUP		PARENT BANK	
NOK MILLION	**2012**	**2011**	**2012**	**2011**
Profit/(loss) before tax	258	201	259	138
Permanent P&L differences:				
Income from ownership interests in associates	0	0	-164	45
Non-deductible expenses	1	2	1	2
Non-taxable income	-2	-33	-2	-33
Changes in temporary P&L differences relating to:				
Current assets/short-term liabilities	-74	-159	-121	-120
Fixed assets/long-term liabilities	70	123	138	113
Other items recognised in equity				
Taxable income	253	134	111	145
Tax payable (28 %)	71	37	31	41
28% of the previous year's group contribution, recognised this year	0	0	0	-40
28% of the year's group contribution	0	0	0	36
Tax payable on the balance sheet	71	37	31	36

The Parent Bank has a taxable profit in 2012. The Parent Bank has NOK 31 million tax payable in 2012. The subsidiaries BNkreditt and BN Boligkreditt have, respectively, NOK 38 million and NOK 2 million tax payable in 2012.

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

The subsidiary BNkreditt had NOK 1 million tax payable in 2011.

	GROUP		PARENT BANK	
NOK MILLION	**2012**	**2011**	**2012**	**2011**
Tax payable	71	37	31	41
Income tax effect of group contribution	0	0	46	0
Change in deferred tax	1	10	-5	2
Tax charge relating to divested operations	0	-3	0	-3
Tax charge	72	44	72	40

Reconciliation from nominal to actual tax rate (28%)

	GROUP		PARENT BANK	
NOK MILLION	**2012**	**2011**	**2012**	**2011**
Profit/(loss) before tax	258	201	259	138
Expected income tax at nominal rate (28%)	72	56	73	39
Excess/insufficient tax provision last year	0	-9	-1	4
Income tax effect of permanent differences	0	-3	0	-3
Tax charge	72	44	72	40
Effective tax rate	28%	22%	28%	29%

Computation of deferred tax/ deferred tax assets

	GROUP		PARENT BANK	
NOK MILLION	**2012**	**2011**	**2012**	**2011**
Tax-adding temporary differences:				
Profit and loss account	5	6	0	0
Short-term securities investments [1]	75	0	52	0
Long-term investments [1]	311	371	311	301
Total tax-adding temporary differences	391	377	363	301
Tax-deducting temporary differences:				
Buildings and other fixed assets	6	4	6	4
Short-term liabilities [1]	1	107	0	268
Long-term liabilities [1]	489	380	177	0
Net pension commitment	40	40	26	26
Total tax-deducting temporary differences	536	531	209	298
Tax base for computing deferred tax(+)/deferred tax assets (-)	-145	-154	154	3
Computed deferred tax(+)/deferred tax assets (-) (28% of computation base)	-41	-43	43	1

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

	GROUP		PARENT BANK	
NOK MILLION	**2012**	**2011**	**2012**	**2011**
Deferred tax as at 1 January	-43	-54	1	-6
Change in deferred tax in income statement	1	2	-5	2
Income tax effect of group contribution	0	9	46	5
Correction 2011	1	0	1	0
Deferred tax as at 31 December	-41	-43	43	1

[1] Temporary difference relates mainly to financial instruments.

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

NOTE 15. CASH AND BALANCES DUE FROM CREDIT INSTITUTIONS

	GROUP		PARENT BANK	
NOK MILLION	**2012**	**2011**	**2012**	**2011**
Cash and balances due from credit institutions carried at amortised cost:				
Cash and balances at central banks	436	4	436	4
Undated loans and balances due from credit institutions	876	682	874	682
Receivables from related parties	183	128	33	9
Receivables from subsidiaries	0	0	11 517	9 896
Cash and balances due from credit institutions carried at amortised cost	1 495	814	12 860	10 591
Cash and balances due from credit institutions selected for fair value carrying:				
Receivables from subsidiaries	0	0	0	295
Cash and balances due from credit institutions selected for fair value carrying	0	0	0	295
Total cash and balances due from credit institutions	1 495	814	12 860	10 886

NOTE 16. LOANS AND ADVANCES

	GROUP		PARENT BANK	
NOK MILLION	**2012**	**2011**	**2012**	**2011**
Loans carried at amortised cost:				
Lines of credit	3 511	4 792	3 511	4 178
Building loans	568	654	568	654
Amortised loans	27 887	25 934	10 443	8 847
Total loans carried at amortised cost	31 966	31 380	14 522	13 679
Loans selected for fair value carrying through profit or loss:				
Amortised loans	1 227	1 880	521	717
Total loans and advances	33 193	33 260	15 043	14 396

Overview of gross lending in managed portfolio

	GROUP		PARENT BANK	
NOK MILLION	**2012**	**2011**	**2012**	**2011**
Loans Corporate Market and Retail Market, Group	32 394	32 225	14 191	13 253
Vendor financing	911	1 214	911	1 214
Loans in remaining entity (continuing operations)	33 305	33 439	15 102	14 467
Loans transferred to SpareBank 1 Næringskreditt (SP1NK)	9 919	8 263	0	0
Loans transferred to SpareBank 1 Boligkreditt (SP1BK)	6 240	3 961	6 240	3 961
Total loans including loans transferred to SB1NK and SB1BK	49 464	45 663	21 342	18 428
Divested portfolio	13	101	13	101

NOTE 17. TRANSFER OF LOANS TO SPAREBANK 1 NÆRINGSKREDITT AND SPAREBANK 1 BOLIGKREDITT

Transfer of loans to SpareBank 1 Næringskreditt

SpareBank1 Næringskreditt AS was established in 2009 and is licensed 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. BN Bank has a 9.58% shareholding in the company at 31 December 2012 (0.00% at 31 December 2011). The purpose of the company is to secure for the consortium banks a source of stable, long-term financing of commercial real estate at competitive rates. SpareBank 1 Næringskreditt acquires 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. Loans transferred to Sparebank 1 Næringskreditt AS are secured by mortgages on commercial properties for up to 60 per cent of the appraised value. Transferred loans are legally owned by Sparebank 1 Næringskreditt AS, and BNkreditt has, apart from the management right and the right to take over fully or partially written-down loans, no right to the use of these loans. As at 31 December 2012, the book value of transferred loans was NOK 9.9 billion (NOK 8.3 billion at 31 December 2011). 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.

BN Bank has put up guarantees for the transferred loan commitments where they exceed 25 per cent of SpareBank 1 Næringskreditt's capital base. As at 31 December 2012, these guarantees totalled NOK 165 million (NOK 409 million as at 31 December 2011).

The loans transferred to SpareBank 1 Næringskreditt AS are very well secured and there is only a very slight probability of loss. BNkreditt has a remaining involvement in the form of a possible settlement against the commission it receives. Should there arise accounting credit losses or a fall in margin relating to one or more transferred loans, SpareBank 1 Næringskreditt AS can reduce the commission BNkreditt receives with the loss. A reduction in commission for BNkreditt is limited to the total commission for the calendar year and if SpareBank 1 Næringskreditt AS subsequently has its loss covered, the commission will be paid back to BNkreditt. The maximum amount which BNkreditt can be required to pay back has been calculated, but is not material and is thus not recorded on the balance sheet. The fair value of the expected reduction in commission has been calculated and deemed immaterial. A possible settlement against the commission has therefore had no effect on the balance sheet or the result during the period.

The consideration received for loans transferred from BNkreditt to SpareBank 1 Næringskreditt AS is equal to the nominal value of transferred loans and is measured as virtually concurrent with the fair value of the loans as at 31 December 2012 and as at 31 December 2011.

Guarantee provided by BN Bank to BNkreditt

In connection with the transfer of loans to Sparebank 1 Næringskreditt, BN Bank guaranteed that BNkreditt will have a capital adequacy ratio of at least 20 per cent at all times, in order to attend to the interests of existing bond holders. 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 2012, BNkreditt's capital adequacy ratio was 16.4 per cent (17.7 per cent as at 31 December 2011). The amount the Parent Bank is ceding precedence for stood at NOK 676 million as at 31 December 2012 (NOK 407 million as at 31 December 2012).

Transfer of loans to SpareBank 1 Boligkreditt

SpareBank1Boligkreditt is owned by the savings banks that form the SpareBank 1 consortium and is co-located with SpareBank 1 Næringskreditt AS in Stavanger. BN Bank had a 3.90% shareholding in the company as at 31 December 2012 (2.63% as at 31 December 2011). The purpose of the company is to secure for the banks within the consortium a source of stable, long-term financing of residential mortgage loans at competitive rates. The company's bonds have ratings of Aaa and AAA from Moody's and Fitch respectively. SpareBank 1 Boligkreditt procures loans with mortgages on residential properties and issues covered bonds within the regulations governing such bonds established in 2007. As part of the consortium, BN Bank may transfer loans to SpareBank 1 Boligkreditt and, as part of the Bank's funding strategy, loans have been transferred to the company. Loans transferred to SpareBank 1 Boligkreditt AS are secured by mortgages on residential properties for up to 75 per cent of the appraised value. Transferred loans are legally owned by SpareBank 1 Boligkreditt AS, and BN Bank has, apart from the management right and the right to take over fully or partially written-down loans, no right to the use of these loans. At 31 December 2012, the book value of transferred loans was NOK 6.2 billion (NOK 4.0 billion as at 31 December 2011). 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.

BN Bank has, in conjunction with the other owners of SpareBank 1 Boligkreditt AS, entered into agreements to establish a liquidity facility for SpareBank 1 Boligkreditt AS. This means that the owner banks have undertaken to purchase covered bonds in the case that SpareBank 1 Boligkreditt AS is unable to refinance its business in the market. The purchase is limited to the total value of the maturities in the company at any time in the next twelve months.

Previous purchases under this agreement are deducted from future purchase obligations. Each owner is principally liable for his share of the refinancing need, alternatively for the double of what the primary liability may be in accordance with the same agreement. The bonds can be deposited in Norges Bank and thus give rise to no material increase in risk for BN Bank. According to its own internal policy, SpareBank 1 Boligkreditt AS maintains its liquidity for the next 12 months' maturities. This is deducted when the banks' liability is measured. It is therefore only in the event that SpareBank 1 Boligkreditt AS no longer has sufficient liquidity for the next 12 months' maturities that BN Bank will report any commitment here with regard to capital adequacy or major commitments.

BN Bank has also entered into a shareholder agreement with the shareholders of SpareBank 1 Boligkreditt AS. Among other things, this means that BN Bank will contribute to SpareBank 1 Boligkreditt AS having a tier 1 capital ratio of at least 9.0 per cent, and if required inject tier 1 capital if it falls to a lower level. SpareBank 1 Boligkreditt AS has internal guidelines stipulating a tier 1 capital ratio of at least 10.0 per cent. Based on a concrete assessment, BN Bank has chosen not to hold capital for this obligation because the risk of BN Bank being compelled to contribute is considered very slight. Reference is also made in that connection to the fact that there are a number of alternative courses of action which may be relevant should such a situation arise.

The loans transferred to SpareBank 1 Boligkreditt AS are very well secured and there is only a very slight probability of loss. BN Bank has a remaining involvement in the form of a possible settlement against the commission it receives. Should there arise accounting credit losses or a fall in margin relating to one or more transferred loans, SpareBank 1 Boligkreditt AS can reduce the commission BN Bank receives with the loss. A reduction in commision for BN Bank is limited to the total commission for the calendar year and if SpareBank 1 Boligkreditt AS subsequently has its loss covered, the commission will be paid back to BN Bank. The maximum amount which BN Bank can be required to pay back has been calculated, but is not material and is thus not recorded on the balance sheet. The fair value of the expected reduction in commission has been calculated and deemed immaterial. A possible settlement against the commission has therefore had no effect on the balance sheet or the result during the period.

The consideration received for loans transferred from BN Bank to SpareBank 1 Boligkreditt AS is equal to the nominal value of transferred loans and is measured as virtually concurrent with the fair value of the loans as at 31 December 2012 and as at 31 December 2011.

NOTE 18. REPOSSESSED PROPERTIES

Group:

As at 31 December 2012, the Group had a repossessed property with a book value of NOK 29 million.

NOTE 19. FINANCIAL DERIVATIVES

ASSETS	GROUP		PARENT BANK	
NOK MILLION	**2012**	**2011**	**2012**	**2011**
Interest rate derivatives	706	808	609	643
Currency derivatives	52	43	52	43
Equity-linked options and equity options	1	14	1	13
Total financial derivatives, assets	**759**	**865**	**662**	**699**

LIABILITIES	GROUP		PARENT BANK	
NOK MILLION	**2012**	**2011**	**2012**	**2011**
Interest rate derivatives	586	747	556	698
Currency derivatives	47	92	47	92
Total financial derivatives, liabilities	**633**	**839**	**603**	**790**

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

NOTE 20. SHORT-TERM SECURITIES INVESTMENTS

	GROUP		PARENT BANK	
NOK MILLION	**2012**	**2011**	**2012**	**2011**
Short-term investments avaliable for sale:				
Shares	420	178	420	178
Total short-term investments avaliable for sale	420	178	420	178
Short-term investments carried at amortised cost:				
Certificates and bonds issued by the Norwegian government	992	992	992	992
Certificates and bonds issued by others	1 553	1 151	1 030	804
Total short-term investments carried at amortised cost	2 545	2 143	2 022	1 796
Short-term investments selected for fair value carrying through profit or loss:				
Certificates and bonds issued by the Norwegian government	56	0	56	0
Certificates and bonds issued by others	3 114	3 185	3 114	3 188
Total short-term investments selected for fair value carrying through profit or loss	3 170	3 185	3 170	3 188
Short-term securities investments	6 135	5 506	5 612	5 162

NOTE 21. SUBORDINATED LOANS

	GROUP		PARENT BANK	
NOK MILLION	**2012**	**2011**	**2012**	**2011**
Subordinated loans carried at amortised cost:				
Subordinated loans made to subsidiaries	0	0	451	527
Total subordinated loans carried at amortised cost	0	0	451	527

NOTE 22. OWNERSHIP INTERESTS IN GROUP COMPANIES

Group companies

NOK MILLION	SUBSIDIARY´S SHARE CAPITAL	SHARE HOLDING [1]	BOOK VALUE AT 1.1.2012	CAPITAL INCREASE ETC.	WRITE-DOWN	BOOK VALUE AT 31.12.12	RESULTS FOR YEAR 2012	RESULTS FOR YEAR 2011
Bolig- og Næringskreditt AS, Trondheim	600	100%	1 600	0	0	1 600	110	92
BN Boligkreditt AS, Trondheim	101	100%	277	0	0	277	7	26
Collection Eiendom AS, Trondheim	0	100%	0	0	0	0	0	0
Shares in subsidiary			**1 877**	**0**	**0**	**1 877**		

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

The Parent Bank received group contribution from its subsidiaries in 2011 for a total of NOK 144 million, and rendered group contribution to subsidiaries for NOK 45 million. For 2012 no group contribution was rendered among the group companies.

The shares in the company Munkegata 21 AS were sold in the third quarter of 2011, with a resultant accounting gain of NOK 32 million

The operations in Ålesund, which deal chiefly in lending to the corporate market, have been organisationally subordinate to SpareBank 1 SMN since Q4 2009. As of Q3 2009, the operations have been measured and reported as discontinued operations under IFRS 5. The separation from BN Bank started in Q4 2009 and was largely completed in Q2 2012. For that reason there are no P&L effects classified as discontinued operations in 2012.

P&L effects related to the Guarantee Portfolio, which are referred to below, are classified under remaining entity.

Specification of results of divested operations

	GROUP/PARENT BANK	
NOK MILLION	**2012**	**2011**
Net income from interest and credit commissions	0	4
Total other operating income	0	1
Total other operating expense	0	-3
Impairment losses on loans and advances	0	-1
Pre-tax profit of operations under divestment	**0**	**9**
Computed tax charge	0	3
Profit after tax of operations under divestment	**0**	**6**

Statement of cash flows relating to divested operations

	GROUP/PARENT BANK	
NOK MILLION	**2012**	**2011**
Cash flow from operating activities	0	8
Cash flow from investing activities	0	0
Cash flow from financing activities	0	0
Net cash flow for the period	**0**	**8**

Specification of results of divested operations and Guarantee Portfolio, last four quarters

					GROUP/PARENT BANK
NOK MILLION	**Q1 2012**	**Q2 2012**	**Q3 2012**	**Q4 2012**	**FULL-YEAR 2012**
Net income from interest and credit commissions	-10	-8	-9	-8	-35
Total other operating income	2	-1	-1	0	0
Operating profit before impairment losses	**-8**	**-9**	**-10**	**-8**	**-35**
Impairment losses on loans and advances	20	9	18	74	121
Pre-tax profit from remaining entity	**-28**	**-18**	**-28**	**-82**	**-156**
Computed tax charge	-8	-5	-8	-23	-44
Profit after tax from remaining entity	**-20**	**-13**	**-20**	**-59**	**-112**

Other assets classified as held for sale

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

NOTE 23. PREPAYMENTS AND ACCRUED INCOME

	GROUP		PARENT BANK	
NOK MILLION	**2012**	**2011**	**2012**	**2011**
Accrued unpaid income and prepaid unaccrued expenses	52	70	53	70
Prepayments and accrued income	**52**	**70**	**53**	**70**

NOTE 24. LIABILITIES TO CREDIT INSTITUTIONS

	GROUP		PARENT BANK	
NOK MILLION	**2012**	**2011**	**2012**	**2011**
Liabilities to credit institutions carried at amortised cost:				
Loans and deposits from credit institutions	519	1 178	806	1 864
Liabilities to credit institutions carried at amortised cost	**519**	**1 178**	**806**	**1 864**
Liabilities to credit institutions carried at fair value:				
Loans and deposits from credit institutions, selected for fair value carrying	0	0	0	0
Liabilities to credit institutions	**519**	**1 178**	**806**	**1 864**

NOTE 25. CUSTOMER DEPOSITS AND ACCOUNTS PAYABLE TO CUSTOMERS

	GROUP		PARENT BANK	
NOK MILLION	**2012**	**2011**	**2012**	**2011**
Customer deposits and accounts payable to customers carried at amortised cost:				
Customer deposits and accounts payable to customers without maturity date	14 643	13 465	14 643	13 465
Customer deposits and accounts payable to customers with maturity date	316	632	316	632
Customer deposits and accounts payable to customers carried at amortised cost	**14 959**	**14 097**	**14 959**	**14 097**
Customer deposits and accounts payable to customers selected for fair value carrying:				
Customer dep. and accounts payable to cust. with maturity date, selected for fair value carrying	1 951	1 862	1 951	1 862
Total customer deposits and accounts payable to customers	**16 910**	**15 959**	**16 910**	**15 959**

NOTE 26. DEBT SECURITIES IN ISSUE

Face values

	GROUP		PARENT BANK	
NOK MILLION	**2012**	**2011**	**2012**	**2011**
Face value of certificates	3 629	2 735	3 429	2 735
Face value of own certificates	-395	-89	-345	-89
Net face value of certificates	**3 234**	**2 646**	**3 084**	**2 646**
Face value of bonds	15 711	17 955	11 717	10 064
Face value of own bonds	-884	-2 904	-857	-1 449
Net face value of bonds	**14 827**	**15 051**	**10 860**	**8 615**
Net face value of debt securities in issue	**18 061**	**17 697**	**13 944**	**11 261**

Recognised values

	GROUP		PARENT BANK	
NOK MILLION	**2012**	**2011**	**2012**	**2011**
Certificates carried at amortised cost	0	1 250	0	1 250
Certificates selected for fair value carrying	3 285	1 420	3 131	1 420
Total recognised value of certificates	3 285	2 670	3 131	2 670
Bonds carried at amortised cost	10 028	10 010	8 192	7 073
Bonds carried at amortised cost (secured debt)	3 932	2 074	2 581	1 300
Bonds selected for fair value carrying	1 124	3 196	219	311
Total recognised value of bonds	15 084	15 280	10 992	8 684
Total recognised value of debt securities in issue	18 369	17 950	14 123	11 354

NOTE 27. ACCRUED EXPENSES AND DEFERRED INCOME

	GROUP		PARENT BANK	
NOK MILLION	**2012**	**2011**	**2012**	**2011**
Accrued not due expenses/payments received in advance of period	17	30	17	28
Provision for liabilities	17	12	17	12
Financial guarantees	119	48	119	48
Net pension commitment (see Note 10)	41	41	26	26
Accrued expenses and deferred income	194	131	179	114

Provision for liabilities - legal obligations

	GROUP		PARENT BANK	
NOK MILLION	**2012**	**2011**	**2012**	**2011**
Opening balance	12	21	12	21
New provision in the period	14	10	14	10
Expenses charged to provision	-9	-19	-9	-19
Closing balance	17	12	17	12

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

NOTE 28. SUBORDINATED LOAN CAPITAL

Subordinated loans carried at amortised cost:

	2012		2011		GROUP AND PARENT BANK	
ISIN-NUMBER	**RECOGNISED VALUE 31.12.12 [3]**	**NOMINAL (NOKm)**	**RECOGNISED VALUE 31.12.11 [3]**	**NOMINAL (NOKm)**	**CURRENCY**	**MAURITY**
1023144.2 [2]	84	85	84	85	NOK	Perpetual
1041777.7 [1]	155	156	298	300	NOK	22.02.18
1059357.7 [2]	397	400	397	400	NOK	Perpetual
1056663.1 [1]	498	500	498	500	NOK	16.04.20
1066329.7 [1]	299	300	0	0	NOK	12.12.22
Subordinated loans carried at amortised cost	1 434	1 441	1 277	1 285		

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

	2012		2011		GROUP AND PARENT BANK	
ISIN-NUMBER	**RECOGNISED VALUE 31.12.12 [3]**	**NOMINAL (NOKm)**	**RECOGNISED VALUE 31.12.11 [3]**	**NOMINAL (NOKm)**	**CURRENCY**	**MAURITY**
1023143.4 [2]	168	165	161	165	NOK	Perpetual
Subordinated loans selected for fair value carrying	168	165	161	165		
Subordinated loan capital	1 601	1 606	1 438	1 450		

[1] The interest rate is adjusted every three months. The interest rate on loans 1041777.7, 1056663.1 and 1066329.7 is set at 3-month NIBOR (Norwegian Interbank Offered Rate) plus 2.40, 2.75 and 3.00 percentage points respectively in arrears for the first 5 years, and thereafter at 3-month NIBOR plus 3.15, 3.50 and 3.00 percentage points respectively in arrears for the last 5 years. The loans can be fully or partially redeemed after 5 years, subject to the consent of the Financial Supervisory Authority of Norway. The interest rates on loans 1041777.7, 1056663.1 and 1066329.7 as at 31 December 2012 were, respectively, 4.37%, 4.70% and 4.88%. All three loans are included in their entirety in the capital base; see Note 30.

[2] The Bank had three issues of perpetual subordinated capital securities as at 31 December 2012. The interest rate on loan 1023143.4 is fixed at 7.14% until 25 August 2014, thereafter at 3-month NIBOR plus 3.00 percentage points in arrears. The interest rate on loan 1023144.2 is fixed at 3-month NIBOR plus 2.00 percentage points for the first 10 years, and thereafter at 3-month NIBOR plus 3.00 percentage points. At 31 December 2012 the interest rate was 3.87%. The interest rate on loan 1059357.7 is fixed at 3-month NIBOR plus 3.90 percentage points for the first 10 years, and thereafter at 3-month NIBOR plus 4.90 percentage points. At 31 December 2012 the interest rate was 5.73%.The loans may be fully or partially redeemed after 10 years, subject to the consent of the Financial Supervisory Authority of Norway. All the loans are included in their entirety in the Bank's tier 1 capital; see Note 30.

[3] Figures are stated net of accrued interest.

NOTE 29. SHAREHOLDER STRUCTURE AND SHARE CAPITAL

Shareholders as at 31 December

	2012		2011	
NAME	**SHAREHOLDING**	**NO. OF SHARES**	**SHAREHOLDING**	**NO. OF SHARES**
SpareBank 1 SMN	33.0 %	4 411 549	33.0 %	4 286 149
SpareBank 1 SR-Bank	23.5 %	3 141 558	23.5 %	3 052 258
SpareBank 1 Nord-Norge	23.5 %	3 141 558	23.5 %	3 052 258
Samarbeidende Sparebanker Bankinvest AS	20.0 %	2 673 666	20.0 %	2 597 666
Total	100 %	13 368 331	100 %	12 988 331

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

Share capital as at 31 December 2012

13,368,331 shares at NOK 50 each have been issued. The General Meeting has not authorised any increase in share capital or the purchase of own shares. There are no outstanding debt instruments with share conversion rights, nor have any form of share options been issued which may lead to an increase in the number of shares.

The 2012 Annual General Meeting of the Parent Bank also adopted the resolution to distribute a dividend of NOK 95 million. An extraordinary General Meeting passed a corresponding capital increase of NOK 95 million.

380,000 new shares were issued.

NOTE 30. CAPITAL ADEQUACY

Process for assessing the capital adequacy requirement

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

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

Rules and regulations

General

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

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

According to the rules, the capital base consists of two main components:

1. Tier 1 capital: Equity capital (share capital, share premium reserve and other reserves) and perpetual subordinated 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:

1. The original term of the loan shall be at least 5 years. Fixed-term subordinated loan capital reduces proportionally over the last 5 years to maturity by 20 per cent annually.
2. The sum total of the items included in tier 2 capital may not exceed more than 100% of the tier 1 capital, and fixed-term subordinated loan capital may not exceed 50% of the tier 1 capital.

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

Capital adequacy requirements for the Group

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

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

Capital adequacy

	GROUP		PARENT BANK	
NOK MILLION	**2012**	**2011**	**2012**	**2011**
Share capital	668	649	668	649
Other reserves	2 673	2 506	1 531	1 363
Perpetual subordinated capital (perpetual subordinated capital securities borrowings [1]	559	647	365	647
Deductions for:				
Perpet. subord. capital (perpet. subord. cap. securities borrowings) that cannot be included [1, 2]	-121	-95	-121	-296
Intangible assets	-10	-20	-10	-20
Deferred tax assets	-40	-43	0	0
Tier 1 capital	**3 729**	**3 644**	**2 433**	**2 343**
Fixed-term subordinated loan capital	1 053	899	1 248	1 100
Deductions for:				
Fixed-term subordinated loan capital that cannot be included	0	0	-214	-104
Other deductions in tier 2 capital	-121	0	-121	0
Net tier 2 capital	**932**	**899**	**913**	**996**
Total subordinated loan capital	**4 661**	**4 543**	**3 346**	**3 339**
Risk-weighted assets	30 923	33 171	16 921	19 131
Tier 1 capital ratio (%)	12.1	11.0	14.4	12.2
Capital adequacy ratio (%)	**15.1**	**13.7**	**19.8**	**17.5**

[1] For more details, see Note 28.

[2] 50% of shareholdings in excess of 2% in other financial institutions.

Specification of risk-weighted assets

GROUP

NOK MILLION RISK-WEIGHT	2012 RECOGNISED AMOUNT	WEIGHTED AMOUNT	2011 RECOGNISED AMOUNT	WEIGHTED AMOUNT
0 %	1 486	0	1 004	0
10 %	2 094	209	1 503	150
20 %	5 056	1 011	4 725	945
35 %	9 289	3 251	9 560	3 346
50 %	3	2	420	210
75 %	91	68	345	259
100 %	26 381	26 381	28 261	28 261
Investments included in the trading portfolio	0	0	0	0
Tradeable debt instruments included in the trading portfolio	0	0	0	0
Total risk-weighted assets	44 400	30 923	45 818	33 171
Capital adequacy ratio (%)		15.1		13.7

Specification of risk-weighted assets

PARENT BANK

NOK MILLION RISK-WEIGHT	2012 RECOGNISED AMOUNT	WEIGHTED AMOUNT	2011 RECOGNISED AMOUNT	WEIGHTED AMOUNT
0 %	1 486	0	1 004	0
10 %	2 094	209	1 504	150
20 %	16 243	3 249	14 915	2 983
35 %	8 935	3 127	6 986	2 445
50 %	0	0	419	210
75 %	76	57	345	259
100 %	10 279	10 279	13 084	13 084
Investments included in the trading portfolio	0	0	0	0
Tradeable debt instruments included in the trading portfolio	0	0	0	0
Total risk-weighted assets	39 113	16 921	38 257	19 131
Capital adequacy ratio (%)		19.8		17.5

NOTE 31. FINANCIAL INSTRUMENTS BY CATEGORY

As at 31 December 2012

GROUP

NOK MILLION	FAIR VALUE	VOLUNTARILY CLASSIFIED AT FAIR VALUE	AVALIABLE FOR SALE	LOANS, RECEIVABLES & OTHER LIABILITIES AT AMORTISED COST[1]	HOLD TO MATURITY	TOTAL
Loans and advances	0	1 226	0	31 967	0	33 193
Prepayments and accrued income	0	0	0	52	0	52
Financial derivatives, assets	759	0	0	0	0	759
Short-term securities investments	0	3 170	420	2 545	0	6 135
Cash and balances due from credit institutions	0	0	0	1 495	0	1 495
Total financial instruments, assets	**759**	**4 396**	**420**	**36 059**	**0**	**41 634**
Subordinated loan capital	0	-172	0	-1 441	0	-1 613
Liabilities to credit institutions	0	0	0	-519	0	-519
Debt securities in issue	0	-4 409	0	-13 960	0	-18 369
Accrued expenses and deferred income	0	0	0	-119	0	-119
Other short-term liabilities	0	0	0	-1	0	-1
Financial derivatives, liabilities	-633	0	0	0	0	-633
Customer deposits and accounts payable to customers	-1	-1 950	0	-14 959	0	-16 910
Total financial instruments, liabilities	**-634**	**-6 531**	**0**	**-30 999**	**0**	**-38 164**

[1] Includes secured debt.

As at 31 December 2011

GROUP

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

[1] Includes secured debt.

As at 31 December 2012

PARENT BANK

NOK MILLION	FAIR VALUE	VOLUNTARILY CLASSIFIED AT FAIR VALUE	AVALIABLE FOR SALE	LOANS, RECEIV-ABLES & OTHER LIABILITIES AT AMORTISED COST[1]	HOLD TO MATURITY	TOTAL
Subordinated loans	0	0	0	451	0	451
Loans and advances	0	521	0	14 522	0	15 043
Prepayments and accrued income	0	0	0	53	0	53
Financial derivatives, assets	662	0	0	0	0	662
Short-term securities investments	0	3 170	420	2 022	0	5 612
Cash and balances due from credit institutions	0	0	0	12 860	0	12 860
Assets classified as held for sale	0	0	0	1	0	1
Total financial instruments, assets	**662**	**3 691**	**420**	**29 909**	**0**	**34 682**
Subordinated loan capital	0	-172	0	-1 441	0	-1 613
Liabilities to credit institutions	0	0	0	-806	0	-806
Debt securities in issue	0	-3 350	0	-10 773	0	-14 123
Accrued expenses and deferred income	0	0	0	-119	0	-119
Other short-term liabilities	0	0	0	-1	0	-1
Financial derivatives, liabilities	-603	0	0	0	0	-603
Financial derivatives, liabilities	-1	-1 950	0	-14 959	0	-16 910
Total financial instruments, liabilities	**-604**	**-5 472**	**0**	**-28 099**	**0**	**-34 175**

[1] Includes secured debt.

As at 31 December 2011

PARENT BANK

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

[1] Includes secured debt.

NOTE 32. FAIR VALUE OF FINANCIAL INSTRUMENTS

Methods of determining fair value

Interest swap agreements, currency swap agreeements and forward exchange contracts

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

Interest swap agreements with credit spread

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

Certificates and bonds

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

Loans and advances

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

Borrowings selected for fair value carrying

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

Hedged borrowing/funding

Borrowings included in fair value hedges are measured using a valuation technique and discounting of expected future cash flows. The risk-free interest rate is read from the market through the interest rate on loans between especially creditworthy banks (interest-rate swap curve). We have discounted by the interest-rate swap curve with premium for the original credit spread on the borrowing to eliminate the effects of the credit risk. It is the interest rate risk that is hedged.

Deposits

For deposits measured at fair value, the valuation is performed using a valuation technique where expected future cash flows are discounted to present values. The risk-free interest rate is read from the market through the interest rate on loans between especially creditworthy banks (interest-rate swap curve). The premium for credit risk is determined on the basis of other market players' ongoing assessments of the Bank's creditworthiness. The premium for margins is determined on the basis of the original margin, but with subsequent adjustment of margin in correlation with margin changes in the market.

Options

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

Division into measurement levels

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

- Level 1: Quoted price in an active market for an identical asset or liability
- Level 2: Measurement is performed using a valuation technique and discounting of expected future cash flows. The risk-free interest rate is read from the market through the interest rate of loans between especially creditworthy banks (interest-rate swap curve). The premium for credit risk is determined on the basis of other market players' ongoing assessments of the Bank's creditworthiness.
- Level 3: Measurement based on factors not taken from observable markets nor which have observable assumptions as input to the valuation.

The Group's assets and liabilities measured at fair value as at 31 December 2012

				GROUP
NOK MILLION	**LEVEL 1**	**LEVEL 2**	**LEVEL 3**	**TOTAL**
Loans and advances	0	0	1 226	1 226
Financial derivatives, assets [1]	0	759	0	759
Short-term securities investments	29	3 141	420	3 590
Total assets	29	3 900	1 646	5 575
Subordinated loan capital	0	-172	0	-172
Debt securities in issue	0	-4 409	0	-4 409
Financial derivatives, liabilities [1]	0	-633	0	-633
Customer deposits and accounts payable to customers	0	-1 951	0	-1 951
Total liabilities	0	-7 165	0	-7 165

[1] The value of the hedge instruments earmarked for fair value hedging as at 31 December 2012 was positive by NOK 192 million.

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

				GROUP
NOK MILLION	**LEVEL 1**	**LEVEL 2**	**LEVEL 3**	**TOTAL**
Loans and advances	0	0	1 880	1 880
Financial derivatives, assets [1]	0	865	0	865
Short-term securities investments	373	2 812	178	3 363
Total assets	373	3 677	2 058	6 108
Subordinated loan capital	0	-165	0	-165
Debt securities in issue	0	-4 616	0	-4 616
Financial derivatives, liabilities [1]	0	-839	0	-839
Customer deposits and accounts payable to customers	0	-1 862	0	-1 862
Total liabilities	0	-7 482	0	-7 482

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

The Parent Bank's assets and liabilities measured at fair value as at 31 December 2012

	PARENT BANK			
NOK MILLION	**LEVEL 1**	**LEVEL 2**	**LEVEL 3**	**TOTAL**
Loans and advances	0	0	521	521
Financial derivatives, assets [1]	0	662	0	662
Short-term securities investments	29	3 141	420	3 590
Total assets	29	3 803	941	4 773
Subordinated loan capital	0	-172	0	-172
Debt securities in issue	0	-3 350	0	-3 350
Financial derivatives, liabilities [1]	0	-603	0	-603
Customer deposits and accounts payable to customers	0	-1 951	0	-1 951
Total liabilities	0	-6 076	0	-6 076

[1] The value of the hedge instruments earmarked for fair value hedging as at 31 December 2012 was NOK 117 million.

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

	PARENT BANK			
NOK MILLION	**LEVEL 1**	**LEVEL 2**	**LEVEL 3**	**TOTAL**
Loans and advances	0	0	717	717
Financial derivatives, assets [1]	0	699	0	699
Short-term securities investments	373	2 815	178	3 366
Total assets	373	3 514	895	4 782
Subordinated loan capital	0	-165	0	-165
Debt securities in issue	0	-1 731	0	-1 731
Financial derivatives, liabilities [1]	0	-790	0	-790
Customer deposits and accounts payable to customers	0	-1 862	0	-1 862
Total liabilities	0	-4 548	0	-4 548

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

The Group's financial instruments measured at fair value, Level 3, as at 31 December 2012

GROUP

NOK MILLION	LOANS	SHORT-TERM SECURITIES INVESTMENTS	TOTAL
Opening balance	1 880	178	2 058
Investments in the period/new agreements	54	242	296
Matured	-703	0	-703
Net gain on financial instruments	-5	0	-5
Closing balance	1 226	420	1 646

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

GROUP

NOK MILLION	LOANS	SHORT-TERM SECURITIES INVESTMENTS	TOTAL
Opening balance	2 002	125	2 127
Investments in the period/new agreements	380	53	433
Matured	-453	0	-453
Net gain on financial instruments	-49	0	-49
Closing balance	1 880	178	2 058

The Parent Bank's financial instruments measured at fair value, Level 3, as at 31 December 2012

PARENT BANK

NOK MILLION	LOANS	SHORT-TERM SECURITIES INVESTMENTS	TOTAL
Opening balance	717	178	895
Investments in the period/new agreements	28	242	270
Matured	-230	0	-230
Net gain on financial instruments	6	0	6
Closing balance	521	420	941

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

PARENT BANK

NOK MILLION	LOANS	SHORT-TERM SECURITIES INVESTMENTS	TOTAL
Opening balance	538	125	663
Investments in the period/new agreements	297	53	350
Matured	-99	0	-99
Net gain on financial instruments	-19	0	-19
Closing balance	717	178	895

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 34 which shows a sensitivity analysis for the Group as a whole.

Fair value compared with recognised value

GROUP

	2012		2011	
NOK MILLION	FAIR VALUE	RECOGNICED VALUE	FAIR VALUE	RECOGNICED VALUE
Loans and advances	33 193	33 193	33 260	33 260
Prepayments and accrued income	52	52	65	65
Financial derivatives, assets [1]	759	759	865	865
Short-term securities investments	6 144	6 135	5 515	5 506
Cash and balances due from credit institutions	1 495	1 495	814	814
Assets classified as held for sale	0	0	121	121
Subordinated loan capital	-1 605	-1 613	-1 427	-1 451
Liabilities to credit institutions	-519	-519	-1 180	-1 178
Debt securities in issue [1]	-18 465	-18 369	-17 895	-17 950
Accrued expenses and deferred income	-119	-119	0	0
Other short-term liabilities	-1	-1	1	1
Financial derivatives, liabilities [1]	-633	-633	-839	-839
Customer deposits and accounts payable to customers [1]	-16 910	-16 910	-15 959	-15 959
Liabilities classified as held for sale	0	0	-11	-11
Total	3 391	3 470	3 330	3 244

PARENT BANK

	2012		2011	
NOK MILLION	FAIR VALUE	RECOGNICED VALUE	FAIR VALUE	RECOGNICED VALUE
Subordinated loans	453	451	533	527
Loans and advances	15 043	15 043	14 397	14 396
Prepayments and accrued income	53	53	64	64
Financial derivatives, assets [1]	662	662	699	699
Short-term securities investments	5 620	5 612	4 990	4 984
Cash and balances due from credit institutions	12 860	12 860	10 886	10 886
Assets classified as held for sale	1	1	122	122
Subordinated loan capital	-1 605	-1 613	-1 427	-1 451
Liabilities to credit institutions	-806	-806	-1 866	-1 864
Debt securities in issue [1]	-14 217	-14 123	-11 332	-11 354
Accrued expenses and deferred income	-119	-119	0	0
Other short-term liabilities	-1	-1	1	1
Financial derivatives, liabilities [1]	-603	-603	-790	-790
Customer deposits and accounts payable to customers [1]	-16 910	-16 910	-15 959	-15 959
Liabilities classified as held for sale	0	0	-11	-11
Total	431	507	307	250

[1] Regarding the sale and/or issuance of the structured products, BN Bank hedged its exposure in the form of equity options, equity-linked options and interest swap agreements. The previous turbulence in the financial markets caused a number of contractual counterparties to fail, and at the time it was not possible to replace these hedging transactions. As a result, BN Bank is partly exposed to market developments on a limited number of products. The change in exposure is taken to profit or loss immediately, and in 2012 NOK 5 million was recognised as income, compared with NOK 8 million recognised as expense in 2011.

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

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

LOANS AND ADVANCES	GROUP		PARENT BANK	
NOK MILLION	**2012**	**2011**	**2012**	**2011**
Change in fair value during the period as a result of changed credit risk	35	-25	15	-22
Change in fair value accumulated as a result of changed credit risk	-43	-78	-17	-32

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.

Finansielle forpliktelser utpekt til virkelig verdi over resultat - kredittrisiko

BORROWING/FUNDING	GROUP		PARENT BANK	
NOK MILLION	**2012**	**2011**	**2012**	**2011**
Change in fair value during the period as a result of changed credit risk	-43	4	-19	2
Change in fair value accumulated as a result of changed credit risk	48	91	15	34

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

Fair value and contractual payment obligations at maturity [1]

GROUP

	2012		2011	
NOK MILLION	**FAIR VALUE**	**PAYMENT OBLIGATION [2]**	**FAIR VALUE**	**PAYMENT OBLIGATION [2]**
Subordinated loan capital	1 613	1 617	1 451	1 463
Liabilities to credit institutions	519	519	1 178	1 178
Debt securities in issue	18 369	18 216	17 950	17 832
Customer deposits and accounts payable to customers	16 910	16 889	15 959	15 948
Total	37 411	37 241	36 538	36 421

Fair value and contractual payment obligations at maturity [1]

PARENT BANK

	2012		2011	
NOK MILLION	**FAIR VALUE**	**PAYMENT OBLIGATION [2]**	**FAIR VALUE**	**PAYMENT OBLIGATION [2]**
Subordinated loan capital	1 613	1 617	1 451	1 463
Liabilities to credit institutions	806	806	1 864	1 864
Debt securities in issue	14 123	14 033	11 354	11 312
Customer deposits and accounts payable to customers	16 910	16 889	15 959	15 948
Total	33 452	33 345	30 628	30 587

[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 28 and Debt securities in issue in Note 26.

NOTE 33. RISK IN FINANCIAL INSTRUMENTS - QUALITATIVE DESCRIPTION

Risk management in BN Bank

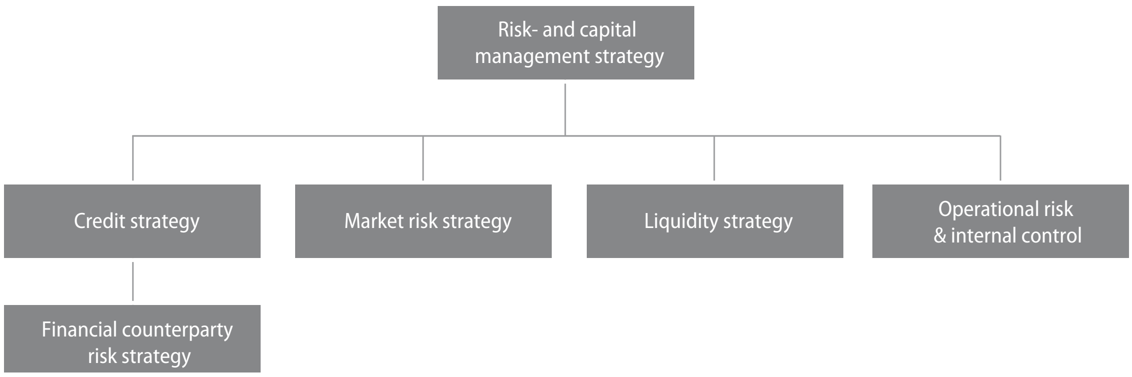
Part of the Group's corporate strategy is to maintain a low risk profile in all its activities.

The chapter on risk management is part of the supplementary disclosures on financial instruments contained in the consolidated financial statements. See Notes 34 and 35 for more information regarding risk related to financial instruments.

The Board of Directors

The Board of Directors has adopted risk strategies for BN Bank. These include a set of principles designed to give the organisation an understanding of the type of risk profile the Bank wishes to have and of the measures that are taken to control risk. The risk strategies also define the Bank's risk tolerance. The risk tolerance indicates something about the Bank's willingness to assume risk, and is determined with the aid of relevant and both general and quantified objectives. This risk tolerance is necessary in order to set consistent limits for risk and to select suitable systems for monitoring risk. The risk strategies contain a combination of limitations that must be explicitly complied with aims to steer towards. The risk strategies are updated annually.

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



Internal auditor

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

The Bank's executive management

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

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

Administration
The Bank has its own Risk Management unit, which covers the entire Group and which does not carry out activities that the control function is intended to monitor. This unit is instructed to identify, measur and assess all risks.

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

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

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

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

IV) Limit-setting (ex ante control)
All significants risks have a limit.

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

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

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

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

The credit rating models differ from one another as regards what are considered the most significant risk factors relating to the loan. In the case of property companies, the focus is on the level and uncertainty of the cash flows generated from the properties that are being risk-classified for finance relative to the probability of default. For other types of enterprise, there is a greater focus on previous results/cash flow, the market situation, the management, etc. For classification in relation to impairment losses arising from default, the focus is on value and the uncertainty of the value of the properties that serve as security for the loan. For retail borrowers, the focus is on the debtor's income and property in addition to various behaviour variables. As well as in the case of LGD calculations, the key element is the security offered for the loan and the value of the mortgaged asset in relation to the size of the loan.

The management are provided with regular credit risk reports based on the risk classification system. A key element in this connection is the trend in loans divided into different classes of risk and migration between the classes. In Notes 34 and 35 an assessment is provided of the Bank's credit risk at the end of 2011 and 2012 respectively.

Liquidity risk

Liquidity risk is defined as the risk that the Bank will be unable to finance growth in lending and to discharge its commitments as they fall due (refinancing risk). Liquidity risk also includes the risk that financial markets which the Bank wishes to use do not function (market liquidity). Liquidity risk is a significant risk for the Bank. The desired exposure shall be moderate and in line with the average in the market. Liquidity risk monitoring is done by controlling exposure in relation to set limits and by control of qualitative requirements. The management receive regular reports of liquidity risk in relation to limits and targets. See Notes 34 and 35 for an analysis of the Group's liquidity risk at the end of 2011 and 2012 respectively.

Market risk

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

Interest rate risk

Interest rate risk is defined as the total earnings-related risk to which the Bank is exposed if the fixed-interest periods for the Bank's commitments and receivables both on and off the balance sheet do not match. Interest rate risk is defined as a risk with some significance. The desired exposure shall be low. The Bank's equity shall in principle be exposed to short-term interest rates. This shall be achieved by commitments and receivables with a fixed interest rate of more than one year virtually neutralising one another. Interest rate risk is monitored by controlling exposure in relation to set limits for interest sensitivity. Interest sensitivity analysis has been chosen as the basis for setting limits because of the ability of this key indicator to quantify interest rate risk. The other important tool for managing risk is the gap analysis, which compares fixed interest periods on the assets and liabilities side for each period and includes both on- and off-balance sheet items. The management receive regular reports of these connections. An analysis of interest rate risk at the end of 2011 and 2012 respectively is provided in Notes 34 and 35.

Foreign exchange risk

Foreign exchange risk is defined as the total earnings-related risk to which the Bank is exposed when foreign exchange rates change. Foreign exchange risk is defined as a non-significant risk for the Bank. The desired exposure shall be low. Foreign exchange risk is monitored by controlling exposure in relation to set limits. Reports are drawn up showing the net position in each currency. This analysis contains all currency items on- and off-balance sheet (interest and principals), as well as agreements entered into with foreign exchange risk that are not yet recorded. The management receive regular reports of this analysis. An analysis of foreign exchange risk at the end of 2011 and 2012 respectively is provided in Notes 34 and 35.

Operational risk

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

Ownership risk

Ownership risk is the risk that BN Bank will suffer a negative result from shareholdings in strategically owned companies, or that the Bank will need to inject fresh equity capital into strategically owned companies, whether this is due to strong growth or to keep the company operating as a result of deficit.

SpareBank1 Boligkreditt AS and SpareBank1 Næringskreditt AS are included in the calculation of ownership risk. Capital requirements relating to real estate companies which have been taken over because of default are dealt with under risk of impaired value of real property. Where other companies are concerned, risk is considered to be limited and so risk-adjusted capital has not been calculated for these.

Reputation risk

Reputation risk is the risk of loss as a result of damage to business reputation. This includes loss of revenue and access to capital because of a loss of trustworthiness and reputation in the market, i.e. in relation to customers, counterparties, primary capital certificate holders and authorities.

The banking business is dependent on trust, both in the market and in relation to regulatory authorities. Events that have a negative impact on the Bank's reputation can damage liquidity and commercial opportunities.

Compliance risk

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

Strategic risk

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

Concentrations of risk

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

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

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

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

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

BN Bank has a concentrated loan portfolio as a result of its strategy of specialising in financing real estate in Norway, and this sector makes up about 59% of the total credit portfolio. Sector concentration is therefore the most important kind of concentration in BN Bank's portfolio. Consequently, a considerable share of the portfolio will be exposed to risk factors that affect property companies specifically. These risk factors are primarily vacancy, rental prices and interest rates. The last-mentioned is a general macrovariable, but property companies are more heavily exposed to interest rates than many other industries owing to the high proportion of loans and because property is an asset with a long life.

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

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

Hedging instruments

The Group employs the following hedging instruments:

- Interest rate swaps contracts to exchange interest-rate conditions for a fixed nominal sum over a fixed number of periods.
- FRAs – forward rate agreements contracts to exchange an agreed interest rate for a future fixed rate for a specific nominal sum for a specific period.
- Equity-linked options and share- and interest rate swaps – in this context contracts to receive the yield on one or more shares, share indexes or funds at a fixed future date against payment of a premium when the contract is made (equity-linked options), or against payment of a variable current interest rate over the term of the option (share- and interest-rate swaps). The contracts are made at the same time as borrowing in the form of equity-linked bonds or equity-linked term deposits. The contracts are designed so as to give BN Bank no net exposure in equity instruments.
- Forward exchange contracts – contracts for the purchase or sale of foreign currency with settlement at a specific future date.

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

NOTE 34. RISK IN FINANCIAL INSTRUMENTS - QUANTITATIVE DESCRIPTION - GROUP

Market risk

Interest rate risk

Repricing date (gap) for assets and liabilities as at 31 December 2012

GROUP

NOK MILLION	TOTAL RECIGNISED VALUE	UNDEFINED [1]	UP TO 1 MONTH	FROM 1 MONTH TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	FROM 1 YEAR TO 5 YEARS	OVER 5 YEARS
Loans and advances	33 193	108	18 117	12 378	1 072	1 403	114
Financial derivatives	14 458	0	545	3 946	4 294	4 246	1 428
Short-term securities investments	6 135	480	1 959	2 210	1 000	276	210
Cash and balances due from credit institutions	1 495	0	1 495	0	0	0	0
Total	**55 281**	**588**	**22 116**	**18 533**	**6 366**	**5 926**	**1 752**
Subordinated loan capital	1 613	8	500	941	0	165	0
Liabilities to credit institutions	519	1	518	0	0	0	0
Debt securities in issue	18 369	308	934	9 110	3 332	3 498	1 188
Financial derivatives	14 458	0	3 196	6 533	1 865	2 234	630
Customer deposits & accounts payable to cust.	16 910	62	4 046	11 498	1 282	21	0
Total	**51 869**	**379**	**9 194**	**28 082**	**6 479**	**5 918**	**1 818**
Net = gap	3 412	210	12 922	-9 548	-113	8	-66

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

GROUP

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

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

Repricing date for assets and liabilities shows the term up to the next agreed/likely interest rate adjustment date for all interest-bearing asset and liability items. It is assumed that loans with variable interest rates and customer deposits and accounts payable to customers excluding fixed-term deposits will be repriced after two weeks for business customers and two months for deposits and after six weeks for loans to retail customers. Under the Financial Contracts Act, section 18, interest rate increases on personal and home loans must be notified to borrowers with at least two months' notice. Under section 50 of the Act, interest rate increases on loans to retail customers must be notified to borrowers with at least six weeks' notice.

The Group employs hedging instruments to manage interest rate risk; see Note 32. To arrive at a correct picture of the interest rate risk, these instruments must be viewed together with the asset and liability items, and they are therefore included in the note.

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

Interest sensitivity

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

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

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

Foreign exchange risk

Currency breakdown, assets and liabilities as at 31 December 2012

GROUP

NOK MILLION	TOTAL RECOG. VALUE	NOK	EUR	DKK	SEK	CHF	JPY	USD	ISK	OTHER
Loans and advances	33 193	30 426	610	460	620	82	161	849	-19	4
Prepayments and accrued income	52	52	0	0	0	0	0	0	0	0
Short-term securities investments	6 315	6 315	0	0	0	0	0	0	0	0
Cash and balances due from credit institutions	1 495	1 027	447	2	1	1	0	13	0	3
Total	**41 056**	**37 821**	**1 057**	**462**	**621**	**83**	**161**	**862**	**-19**	**8**
Subordinated loan capital	1 613	1 613	0	0	0	0	0	0	0	0
Liabilities to credit institutions	519	515	0	3	0	0	0	1	0	0
Debt securities in issue	18 369	18 369	0	0	0	0	0	0	0	0
Customer deposits & accounts payable to customers	16 910	16 906	3	0	0	0	0	2	0	0
Total	**37 411**	**37 403**	**3**	**3**	**0**	**0**	**0**	**2**	**0**	**0**
Financial derivatives	0	-3 245	1 055	458	625	83	161	857	0	7
Net currency exposure	**3 645**	**3 663**	**0**	**1**	**-3**	**0**	**0**	**2**	**-19**	**1**

Currency breakdown, assets and liabilities as at 31 December 2011

GROUP

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

Sensitivity analysis of change in market prices - partial analysis

				GROUP
		2012		2011
NOK MILLION	EFFECT P&L	EFFECT EQUITY	EFFECT P&L	EFFECT EQUITY
Interest +/- 1 percentage points	10	0	-9	0
Exchange rates +/- 10 % [1]	0	0	0	0

[1] Calculated on the absolute position as at 31 December 2012.

Sensitivity analysis - Description of model and assumptions

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

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

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

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

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

Credit risk

Expected loss as at 31 December 2012

GROUP

EXPECTED LOSS (%)	RETAIL MARKET	CORPORATE MARKET	GUARANTEE PORTFOLIO	TOTAL
0 – 0.01	90 %	30 %	59 %	47 %
0.01 – 0.05	9 %	45 %	19 %	35 %
0.05 – 0.20	1 %	17 %	3 %	12 %
0.20 – 0.50	0 %	4 %	0 %	3 %
> 0.50	0 %	3 %	19 %	3 %

Expected loss as at 31 December 2011

GROUP

EXPECTED LOSS (%)	RETAIL MARKET	CORPORATE MARKET	GUARANTEE PORTFOLIO	TOTAL
0 – 0.01	58 %	16 %	56 %	30 %
0.01 – 0.05	11 %	46 %	6 %	34 %
0.05 – 0.20	25 %	22 %	8 %	21 %
0.20 – 0.50	1 %	10 %	16 %	8 %
> 0.50	4 %	6 %	14 %	7 %

Individual write-downs totalled NOK 120 million as at 31 December 2012, of which NOK 72 million related to the Guarantee Portfolio. Collective write-downs totalling NOK 112 million as at 31 December 2012, of which NOK 47 million related to the Guarantee Portfolio, are not distributed among the various classes of risk.

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

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

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

Loans and advances fallen due and written down as at 31 December 2012

GROUP

		FALLEN DUE, NOT WRITTEN DOWN							
NOK MILL.	NOT FALLEN DUE, NOT WRITTEN DOWN	<30 DAYS	30-60 DAYS	60-90 DAYS	>90 DAYS	GROSS LENDING	INDIVIDUAL WRITE-DOWNS	COLLECTIVE WRITE-DOWNS	NET LOANS[2]
Retail Market	7 870	256	29	8	49	8 216	-2	-11	8 203
Corporate Market	23 977	538	8	2	345	25 089	-45	-54	24 990
Guarantee Portfolio	312	0	0	0	0	571	-73	-47	451
Loans and advances	32 159	794	37	10	394	33 876	-120	-112	33 644

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

GROUP

		FALLEN DUE, NOT WRITTEN DOWN							
NOK MILL.	NOT FALLEN DUE, NOT WRITTEN DOWN	<30 DAYS	30-60 DAYS	60-90 DAYS	>90 DAYS	GROSS LENDING	INDIVIDUAL WRITE-DOWNS	COLLECTIVE WRITE-DOWNS	NET LOANS[2]
Retail Market	8 970	235	44	16	60	9 325	-3	-24	9 298
Corporate Market	23 812	252	1	49	0	24 114	-92	-61	23 961
Ålesund Portfolio[1]	2 827	0	0	0	21	2 848	-30	-20	2 798
Loans and advances	35 609	487	45	65	81	36 287	-125	-105	36 057

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.

[1] The Ålesund Portfolio is the sum total of the divested portfolio and the portfolio that is guaranteed by BN Bank.

[2] Net loans consists here of both loans and advances, divested portfolio and that part of the Ålesund Portfolio that is guaranteed by BN Bank.

Geographic breakdowns of gross lending at 31 December

GROUP

NOK MILLION	2012	2011
Oslo/Akershus	22 133	21 894
Rest of Sør-/Østlandet	2 255	2 335
Vestlandet	2 130	2 820
Sør-Trøndelag	5 463	5 269
Nord-Trøndelag and Nord-Norge	541	615
Other countries	783	506
Loans and advances	33 305	33 439

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

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

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

Maximum exposure to credit risk

	GROUP	
NOK MILLION	**2012**	**2011**
On balance sheet:		
Loans and advances	33 193	33 260
Prepayments and accrued income	52	70
Financial derivatives	759	865
Short-term securities investments	6 135	5 506
Cash and balances due from credit institutions	1 495	814
Assets classified as held for sale	0	121
Off balance sheet:		
Financial guarantees	102	178
Financial guarantees SpareBank 1 SMN	1 343	4 170
Financial guarantees SpareBank 1 Næringskreditt	165	409
Undrawn loan commitments, facilities and credits	2 820	2 178
Maximum credit risk	**46 064**	**47 571**

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

Liquidity risk
Remaining maturity for assets and liabilities as at 31 December 2012

							GROUP
NOK MILLION	**TOTAL**	**UNDEFINED**	**UP TO 1 MONTH**	**FROM 1 MONTH TO 3 MONTHS**	**FROM 3 MONTHS TO 1 YEAR**	**FROM 1 YEAR TO 5 YEARS**	**OVER 5 YEARS**
Loans and advances	38 698	3 484	298	290	1 609	8 897	24 120
Short-term securities investments	6 130	0	17	474	1 117	3 759	763
Cash and balances due from credit institutions	1 495	1 495	0	0	0	0	0
Total	46 323	4 979	316	764	2 725	12 656	24 883
Subordinated loan capital	1 956	0	6	167	61	1 252	470
Liabilities to credit institutions	520	19	501	0	0	0	0
Debt securities in issue	20 179	0	8	796	3 949	13 843	1 583
Financial derivatives	-204	0	0	-29	11	-157	-29
Customer deposits & accounts payable to cust.	16 910	15 216	83	315	1 274	22	0
Total	39 361	15 235	598	1 249	5 294	14 960	2 024

Remaining maturity for assets and liabilities as at 31 December 2011

GROUP

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

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

The sum total of asset and liability items shows considerable variation within each time band. This is because loan agreements normally have a term of 20 to 30 years, while borrowings have shorter terms.

Management of liquidity risk is described in the section on the Bank's risk management systems; see Note 33.

NOTE 35. RISK IN FINANCIAL INSTRUMENTS - QUANTITATIVE DESCRIPTION - PARENT BANK

Market risk
Interest rate risk

Repricing date (gap) for assets and liabilities as at 31 December 2012

PARENT BANK

NOK MILLION	TOTAL RECIGNISED VALUE	UNDEFINED [1]	UP TO 1 MONTH	FROM 1 MONTH TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	FROM 1 YEAR TO 5 YEARS	OVER 5 YEARS
Loans and advances	15 043	-10	4 907	9 219	466	454	7
Subordinated loans	451	1	450	0	0	0	0
Financial derivatives	14 458	0	545	3 946	4 294	4 246	1 428
Short-term securities investments	5 612	477	939	2 075	1 636	276	210
Cash and balances due from credit institutions	12 861	0	12 861	0	0	0	0
Exposure interest rate risk BNkreditt [2]	2 611	0	1 915	-124	459	304	57
Total	51 036	468	21 617	15 115	6 854	5 280	1 702
Subordinated loan capital	1 613	8	500	941	0	165	0
Liabilities to credit institutions	806	0	806	0	0	0	0
Debt securities in issue	14 123	179	934	7 258	3 084	1 481	1 188
Financial derivatives	14 458	0	3 196	6 533	1 865	2 234	630
Customer deposits & accounts payable to cust.	16 910	62	4 046	11 498	1 282	21	0
Total	47 910	248	9 482	26 229	6 231	3 901	1 818
Net = gap	3 126	219	12 135	-11 114	622	1 379	-116

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

PARENT BANK

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

[1] Undefined at repricing date (gap) for assets and liabilities consists of excess/shortfall as a result of fair value calculations, and accrued interest at the end of the reporting period.
[2] Interest rate risk is identified and managed at group level. There is an internal agreement between BN Bank and BNkreditt that adjusts any gap between the companies.

Repricing date for assets and liabilities shows the term up to the next agreed/likely interest rate adjustment date for all interest-bearing asset and liability items. It is assumed that loans with variable interest rates and customer deposits and accounts payable to customers excluding fixed-term deposits will be repriced after two weeks for business customers and two months for deposits and after six weeks for loans to retail customers. According to the Financial Contracts Act, section 18, interest rate increases on loans to retail customers must be notified to borrowers with at least two months' notice. Under section 50 of the Act, interest rate increases on loans to retail customers must be notified to borrowers with at least six weeks' notice.

The Group employs hedging instruments to manage interest rate risk; see Note 33. To arrive To create a complete image of the interest rate, these instruments must be viewed together with the asset and liability items, and they are therefore included in the note.

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

Interest sensitivity

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

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

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

Foreign exchange risk

Currency breakdown, assets and liabilities as at 31 December 2012

PARENT BANK

NOK MILLION	TOTAL RECOG. VALUE	NOK	EUR	DKK	SEK	CHF	JPY	USD	ISK	OTHER
Loans and advances	15 043	13 200	300	187	296	70	156	849	-19	4
Subordinated loans	451	451	0	0	0	0	0	0	0	0
Prepayments and accrued income	53	53	0	0	0	0	0	0	0	0
Short-term securities investments	5 612	5 612	0	0	0	0	0	0	0	0
Cash and balances due from credit institutions [1]	13 788	12 396	757	275	325	13	5	13	0	3
Total	34 946	31 712	1 057	462	621	83	161	862	-19	7
Subordinated loan capital	1 613	1 613	0	0	0	0	0	0	0	0
Liabilities to credit institutions	806	803	0	3	0	0	0	1	0	0
Debt securities in issue	14 123	14 123	0	0	0	0	0	0	0	0
Customer deposits & accounts payable to cust.	16 910	16 909	3	-3	0	0	0	2	0	0
Total	33 452	33 447	3	0	0	0	0	2	0	0
Financial derivatives	0	-3 245	1 055	458	625	83	161	857	0	7
Net currency exposure	1 494	1 509	0	4	-3	0	0	2	-19	0

Currency breakdown, assets and liabilities as at 31 December 2011

PARENT BANK

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

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

Sensitivity analysis of change in market prices - partial analysis

				PARENT BANK
		2012		2011
NOK MILLION	**EFFECT P&L**	**EFFECT EQUITY**	**EFFECT P&L**	**EFFECT EQUITY**
Interest +/- 1 percentage point	10	0	-9	0
Exchange rates +/- 10 % [1]	0	0	0	0

[1] Calculated on the absolute position as at 31 December 2012.

Sensitivity analysis - Description of model and assumptions

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

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

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

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

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

Credit risk

Expected loss as at 31 December 2012

PARENT BANK

EXPECTED LOSS (%)	RETAIL MARKET	CORPORATE MARKET	GUARANTEE PORTFOLIO	TOTAL
0 – 0.01	83 %	8 %	59 %	49 %
0.01 – 0.05	15 %	57 %	19 %	36 %
0.05 – 0.20	2 %	17 %	3 %	7 %
0.20 – 0.50	0 %	11 %	0 %	4 %
> 0.50	0 %	7 %	19 %	3 %

Expected loss as at 31 December 2011

PARENT BANK

EXPECTED LOSS (%)	RETAIL MARKET	CORPORATE MARKET	GUARANTEE PORTFOLIO	TOTAL
0 – 0.01	58 %	2 %	56 %	37 %
0.01 – 0.05	11 %	43 %	6 %	22 %
0.05 – 0.20	26 %	32 %	8 %	24 %
0.20 – 0.50	1 %	19 %	16 %	11 %
> 0.50	4 %	4 %	14 %	6 %

Individual write-downs totalled NOK 102 million as at 31 December 2012, of which NOK 72 million relate to the Guarantee Portfolio. Collective write-downs totalling NOK 76 million as at 31 December 2012, of which NOK 47 million relate to the Guarantee Portfolio, are not distributed among the various classes of risk.

As the models are currently calibrated, the expected annual impairment loss on loans is approximately 0.22% of the exposure. This applies to that portion of the loan portfolio covered by the risk classification system, and expresses an expectation of the size of the annual average loss over an economic cycle. Expected loss is an expression of "financial loss" (which differs slightly from accounting loss) and the estimates for PD and LGD are forward-looking and conservative.

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

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

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

Loans and advances fallen due and written down as at 31 December 2012

PARENT BANK

NOK MILL.	NOT FALLEN DUE, NOT WRITTEN DOWN	FALLEN DUE, NOT WRITTEN DOWN <30 DAYS	30-60 DAYS	60-90 DAYS	>90 DAYS	GROSS LENDING	INDIVIDUAL WRITE-DOWNS	COLLECTIVE WRITE-DOWNS	NET LOANS[2]
Retail Market	7 870	256	29	8	49	8 216	-2	-11	8 203
Corporate Market	6 558	103	8	2	58	6 886	-27	-18	6 841
Guarantee Portfolio	312	0	0	0	0	571	-73	-47	451
Loans and advances	14 740	359	37	10	107	15 673	-102	-76	15 495

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

PARENT BANK

NOK MILL.	NOT FALLEN DUE, NOT WRITTEN DOWN	FALLEN DUE, NOT WRITTEN DOWN <30 DAYS	30-60 DAYS	60-90 DAYS	>90 DAYS	GROSS LENDING	INDIVIDUAL WRITE-DOWNS	COLLECTIVE WRITE-DOWNS	NET LOANS[2]
Retail Market	7 063	176	25	8	45	7 317	-3	-18	7 296
Corporate Market	7 110	39	1	0	0	7 150	-32	-19	7 099
Ålesund Portfolio [1]	2 827	0	0	0	21	2 848	-30	-20	2 798
Loans and advances	17 000	215	26	8	66	17 315	-65	-57	17 193

Individual write-downs shall be made when there is an objective evidence that a loan is impaired. If objective indicators of impairment are identified for an individual engagement, 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.

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

Geographical breakdown[1] of gross lending as at 31 December

PARENT BANK

NOK MILLION	2012	2011
Oslo/Akershus	8 919	9 425
Rest of Sør-/Østlandet	1 166	1 108
Vestlandet	1 259	1 545
Sør-Trøndelag	2 807	1 232
Nord-Trøndelag and Nord-Norge	489	476
Other countries	462	681
Loans and advances	15 102	14 467

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

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

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

Maximum exposure to credit risk

	PARENT BANK	
NOK MILLION	**2012**	**2011**
On balance sheet:		
Subordinated loans	451	527
Loans and advances	15 043	14 396
Prepayments and accrued income	53	70
Financial derivatives	662	699
Short-term securities investments	5 612	4 984
Cash and balances due from credit institutions	12 860	10 886
Assets classified as held for sale	1	122
Off balance sheet:		
Financial guarantees	102	178
Financial guarantees SpareBank 1 SMN	1 343	4 170
Financial guarantees SpareBank 1 Næringskreditt	165	409
Undrawn loan commitments, facilities and credits	2 161	1 726
Maximum credit risk	**38 453**	**38 167**

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

Liquidity risk
Remaining maturity for assets and liabilities at 31 December 2012

PARENT BANK

NOK MILLION	TOTAL	UNDEFINED	UP TO 1 MONTH	FROM 1 MONTH TO 3 MONTHS	FROM 3 MONTHS TO 1 YEAR	FROM 1 YEAR TO 5 YEARS	OVER 5 YEARS
Loans and advances	16 271	4 159	76	233	604	2 614	8 585
Subordinated loans	498	0	1	5	16	477	0
Short-term securities investments	5 585	0	14	474	1 106	3 228	763
Cash and balances due from credit institutions	12 861	12 861	0	0	0	0	0
Total	**35 215**	**17 020**	**91**	**712**	**1 725**	**6 318**	**9 348**
Subordinated loan capital	1 956	0	6	167	61	1 252	470
Liabilities to credit institutions	807	306	501	0	0	0	0
Debt securities in issue	15 472	0	8	744	3 588	9 549	1 583
Financial derivatives	-122	0	0	-3	5	-95	-29
Customer deposits & accounts payable to cust.	16 910	15 216	83	315	1 274	22	0
Total	**35 023**	**15 522**	**598**	**1 224**	**4 928**	**10 728**	**2 024**

Remaining maturity for assets and liabilities as at 31 December 2011

PARENT BANK

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

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

The total of asset and liability items shows considerable variation within each time band. This is related to the fact that loan agreements usually have a term of 20 to 30 years, while borrowings have shorter terms.

Management of liquidity risk is described in the section on the Bank's risk management systems; see Note 33.

NOTE 36. SECURED DEBT AND GUARANTEES AS AT 31 DECEMBER

	GROUP		PARENT BANK	
NOK MILLION	**2012**	**2011**	**2012**	**2011**
Secured debt				
Book value of securities as collateral for day-to-day loans	3 826	3 948	3 826	3 948
Collateral provided in bonds for credit facility from Norges Bank	3 826	3 948	3 826	3 948
Day-to-day loans from Norges Bank	0	0	0	0
Guarantees				
Loan guarantees	0	0	0	0
Contractual guarantees	56	135	56	135
Payment guarantees	46	43	46	43
Other guarantees	0	0	0	0
Guarantees given to SpareBank 1 Næringskreditt [1]	165	409	165	409
Guarantees given to SpareBank 1 SMN [2]	1 343	4 170	1 343	4 170
Total guarantees	**1 610**	**4 757**	**1 610**	**4 757**

[1] See Note 17 for more information on the transfer of loans to SpareBank 1 Næringskreditt.

[2] Of this, NOK 3.5 billion relates to a guarantee given to SpareBank 1 SMN regarding to the credit risk in the divested portfolio as at 31 December2011. As at 31 December2012, the guarantee relating to creditrisk in the divested portfolio amounted to NOK 343 million.

NOTE 37. PROPOSED, NOT ADOPTED DIVIDEND

	PARENT BANK	
NOK MILLION	**2012**	**2011**
Total proposed dividend	187	95
Proposed dividend per share	14	7
Number of shares	13 368 331	12 988 331

The proposed dividend for 2012 will be given back upon an equivalent share issue totalling NOK 187 million from the owners.

NOTE 38. EVENTS AFTER THE REPORTING PERIOD

Events after the reporting period

Sale of structured products

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

Three customers then sued the Bank individually in the District Court, but the Court's decision of 8 July 2011 ruled against them. The decision was appealed to the Borgarting Court of Appeal, and the appeal will be heard in March 2013. The total loan commitment involved as at 31 December 2012 was NOK 4 million.

BN Bank has also provided loans to finance Artemis structured products. BN Bank is now being sued by six customers, three of whom are limited companies, with the total loan financing of these products amounting to NOK 106 million. The amounts in dispute are interest payments.

Contingent outcomes, events after the reporting period

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

NOTE 39. DISCLOSURES CONCERNING OPERATING SEGMENTS

The segment report is regularly reviewed with the management. The management have chosen to divide up the reporting segments according to the underlying business areas.

GROUP 2012

NOK MILLION	CORPORATE MARKET	RETAIL MARKET	GUARANTEE PORTFOLIO SMN	AMICABLE SETTLEMENT	TOTAL
Net income from interest and credit commissions	247	131	-35	0	343
Change in value fin instruments carried at fair value	19	10	0	0	29
Other operating income	121	24	0	0	145
Amicable settlement	0	0	0	117	117
Total other operating income	140	34	0	117	291
Salaries and general administrative expenses	-84	-119	0	0	-203
Ordinary depreciation, amortisation & write-downs	-8	-22	0	0	-30
Other operating expense	-14	-15	0	0	-29
Other expense, gains and losses	0	0	0	0	0
Total other operating expense	-106	-156	0	0	-262
Operating profit before impairment losses	281	9	-35	117	372
Impairment losses on loans and advances	-5	12	-121	0	-114
Operating profit after impairment losses	276	21	-156	117	258
Computed tax charge	-78	-5	44	-33	-72
Profit after tax	198	16	-112	84	186

GROUP 2012

NOK MILLION	CORPORATE MARKET	RETAIL MARKET	GUARANTEE PORTFOLIO SMN	AMICABLE SETTLEMENT	TOTAL
Balance Sheet					
Loans (gross) managed portfolio	34 097	14 456	911	0	49 464
Customer deposits & accounts payable to cust.	1 477	15 433	0	0	16 910

GROUP 2011

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

GROUP 2011

NOK MILLION	CORPORATE MARKET	RETAIL MARKET	GUARANTEE PORTFOLIO SMN	MUNKEGT. 21	TOTAL
Balance Sheet					
Loans (gross) managed portfolio	31 163	13 286	1 214	0	45 663
Customer deposits & accounts payable to cust.	1 576	14 383	0	0	15 959

The Group operates in a geographically limited area and reporting on geographical segments provides little additional information. See however Note 34 for a geographical breakdown of lending.

NOTE 40. INCOME STATEMENTS FOR THE LAST FOUR QUARTERS

Specification of results of remaining entity

GROUP

NOK MILLION	Q1 2012	Q2 2012	Q3 2012	Q4 2012	YEAR 2012
Net income from interest and credit commissions	84	85	89	85	343
Total other operating income	43	31	38	179	291
Total other operating expense	67	62	62	71	262
Operating profit before impairment losses	**60**	**54**	**65**	**193**	**372**
Impairment losses on loans and advances	9	14	13	78	114
Pre-tax profit from remaining entity	**51**	**40**	**52**	**115**	**258**
Computed tax charge	14	11	14	33	72
Profit after tax from remaining entity	**37**	**29**	**38**	**82**	**186**

Specification of results of remaining entity

GROUP

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

Specification of results of remaining entity

PARENT BANK

NOK MILLION	Q1 2012	Q2 2012	Q3 2012	Q4 2012	YEAR 2012
Net income from interest and credit commissions	37	40	47	39	163
Total other operating income	28	24	13	151	216
Total other operating expense	44	38	38	48	168
Operating profit before impairment losses	**21**	**26**	**22**	**142**	**211**
Impairment losses on loans and advances	7	14	21	74	116
Income from ownership interests in group companies	0	164	0	0	164
Pre-tax profit from remaining entity	**14**	**176**	**1**	**68**	**259**
Computed tax charge	4	48	0	20	72
Profit after tax from remaining entity	**10**	**128**	**1**	**48**	**187**

Specification of results of remaining entity

PARENT BANK

NOK MILLION	Q1 2011	Q2 2011	Q3 2011	Q4 2011	YEAR 2011
Net income from interest and credit commissions	31	36	42	46	155
Total other operating income	9	21	0	2	32
Total other operating expense	39	42	42	47	170
Operating profit before impairment losses	**1**	**15**	**0**	**1**	**17**
Impairment losses on loans and advances	2	2	5	10	19
Income from ownership interests in group companies	0	99	32	0	131
Pre-tax profit from remaining entity	**-1**	**112**	**27**	**-9**	**129**
Computed tax charge	0	43	0	-3	40
Profit after tax from remaining entity	**-1**	**69**	**27**	**-6**	**89**

NOTE 41. ELECTED OFFICERS AND GROUP EXECUTIVE MANAGEMENT

The shareholders exercise the highest authority in the BN Bank Group through the General Meeting. Of the 15 members of the Supervisory Board, 11 are elected by the shareholders, while four are elected by and from among the employees of the BN Bank Group. The General Meeting also elect 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 of the companies have the same auditor.

Supervisory Board

MEMBERS	OCCUPATION/RESIDENCE
Elected by and from among the shareholders	
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	SpareBank 1 Nøtterøy - Tønsberg
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	Samarbeidende Sparebanker AS
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	
Einar Arnstad	BN Bank, Trondheim
Hege Brattbakk	BN Bank, Trondheim
Martin Meier	BN Bank, Oslo
Marianne Røise Sørlie	BN Bank, Oslo
Deputy members	
Inger Langeng	BN Bank, Trondheim
Torleif Lia	BN Bank, Trondheim

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

Control Committee

MEMBERS	OCCUPATION/RESIDENCE
Knut Ro	Lawyer ans partner, Ro Sommers advokatfirma, Oslo
Rolf Røkke	Lawyer, Trondheim
Odd Broshaug	Skatteetaten, Håvik
Rigmor Abel	HR-manager, Norges sjømatråd Tromsø
Attending deputy member	
Ivar Listerud	SpareBank 1 Østfold Akershus

Election Commitee

MEMBERS	OCCUPATION/RESIDENCE
Kjell Fordal	Executive Vice President Treasuring SpareBank 1 SMN
Hans Olav Karde	Adviser
Tore Haarberg	Executive Vice President Retail market and Deputy Managing Director SpareBank 1 SMN
Gro Tveit	Accounts Director SpareBank 1 SR-Bank
Tom Skundberg [1]	Deputy 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 staff 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

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

Board of Directors

MEMBERS	
Finn Haugan, Chair	Managing Director, SpareBank 1 SMN. First elected in 2009; term of office expires in 2013.
Tore Medhus, Deputy Chair	Executive Vice-President Corporate Market, SpareBank 1 SR-Bank. First elected in 2009; term of office expires in 2013.
Stig-Arne Engen	Director of Communications, SpareBank 1 Nord-Norge. First elected in 2009; term of office expires in 2014.
Harald Gaupen	Bank Administrative Manager, SpareBank 1 Buskerud-Vestfold. First elected in 2009; term of office expires in 2013.
Helene Jebsen Anker	Self-employed consultant. First elected in 2009; term of office expires in 2013.
Ella Skjørestad	Group Head of Marketing, Retail Market, Sparebank 1 SR-Bank. First elected in 2011; term of office expires in 2014.
Kristin Undheim	Self-employed and Assistant Professor in charge of Bachelor degree course in Creativity, Innovation and Business Development, Oslo School of Management. First elected in 2009; term of office expires in 2014.
Anita Finserås Bretun	Customer Service Officer, BN Bank. Staff representative. First elected in 2011; term of office expires in 2013.
Deputy members	
Hans Olav Karde	Adviser
Vibeke Rosset Reimers	Bank General Manager, SpareBank 1 SMN
Inglen Haugland	Regional Director, SpareBank 1 SR-Bank
Tove Hassel	Secretary, BN Bank ASA, deputy for staff rep. First elected in 2009; term of office expires in 2013.

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

Group Executive Management

NAME	NUMBER OF YEARS WITH TE COMPANY	POSITION	MAIN AREA(S) OF RESPONSIBILITY
Former Exec. Mngment 2012			
Olav Isak Sjøflot	16	Director	Business Support
Erlend Drilsvik	16	Director	Retail Market and Communications
Exec. Management 31.12.2012			
Gunnar Hovland	1	Group MD	
Svend Lund	18	Group Deputy MD	Corporate Market
Trond Søraas	16	Director	Accounts & Treasury
Rune Rasmussen	3	Director	Risk Management and Compliance
Eli Ystad	0	Director	Retail Market

Loans to Group Executive Management, Elected Officers and members of the Board of Directors are disclosed in Note 8.

Statement of Compliance by the Board of Directors and the Managing Director

We hereby confirm that the Company's financial statements and the Group's consolidated financial statements for 2012 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, 26 February 2013
The Board of Directors of BN Bank ASA

Tore Medhus
(Deputy Chair)

Stig Arne Engen

Finn Haugan
(Chair)

Harald Gaupen

Helene Jebsen Anker

Kristin Undheim

Anita Finserås Bretun
(Staff Representative)

Ella Skjørestad

Gunnar Hovland
(Managing Director)

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

Independent auditor's report

Report on the Financial Statements

We have audited the accompanying financial statements of BN Bank ASA, which comprise the financial statements of the parent company and the financial statements of the group. The financial statements of the parent company and the financial statements for of group comprise the balance sheet as at 31 December 2012, income statement, changes in equity and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements are prepared in accordance with the law and regulations and present fairly, in all material respects, the financial position for the parent company and the group BN Bank ASA as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

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

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report and statement of corporate governance principles and practices

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

Opinion on Registration and Documentation

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

Trondheim, 26 February 2013
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 2012

The Control Committee of BN Bank ASA held five meetings during the course of the year, of which two in Trondheim and three in Oslo. The Committee examined the minute book of the Board of Directors at each meeting.

The Deputy Managing Director/Acting Managing Director or Chief Financial Officer has attended all the committee's meetings. The Chairman of the board has participated in one meeting. Other representatives of the Group`s management have been present in connection with the discussion of any business where the Committee deemed it desirable.

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

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

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

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

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

Oslo, 26 February 2013

Knut Ro (Chair)
Rolf Bakke (Deputy Chair)
Odd Broshaug
Rigmor Abel

Articles of association of BN Bank ASA

Chap. 1 Company name. Registered office. Objects.

§ 1-1 The Company's name is BN Bank ASA. The Company's registered office is in the municipality of Trondheim. The Bank may within the framework of the legislation that is in at force at any given time carry on all business and provide all services which it is customary or natural for banks to carry on or provide.

Chap. 2 Share capital. Capital base. Shares.

§ 2-1 The Bank's share capital is NOK 668 416 550 divided into 13 368 331 shares of NOK 50 each, fully paid.

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

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

Any person who acquires a share is only entitled to exercise the rights of a shareholder when he has been entered in the register of shareholders, or when the acquisition has been notified and accepted, without there being any hindrance in the provisions of Allmennaksjeloven (Public Limited Liability Companies Act), sections 4-16 to 4-23. Notwithstanding this does not apply to the right to receive a dividend and other distributions and the right to acquire new shares by an increase in share capital.

Chap. 3 Board of Directors.

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

At least half the Board members must reside in Norway, unless the King grants exemption in individual cases. The residence requirement does not apply to nationals of a State which is party to the EEA Agreement and who reside in that State.

At least one of the Board's elected members shall be an employee of the Bank. A personal deputy shall be elected for each staff representative on the Board, who shall have the right to attend and to speak at board meetings.

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

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

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

Deputies shall be elected to serve for two years.

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

§ 3-2 The election of Board members shall be prepared and organised by an Election Committee consisting of four members, elected by the Supervisory Board. The Election Committee shall have members from both groups represented on the Supervisory Board; see Forretningsbankloven (Commercial Banks Act), section 11, fourth and fifth paragraphs. The Chair of the Election Committee shall be elected separately. The Board member to be elected from among the Bank's employees and his personal deputy shall be nominated solely by the staff representative on the Election Committee.

The Election Committee also prepares and organises elections of members of branch office boards and regional councils, see Chapter 5.

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

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

All resolutions require the supporting votes of a majority of those members present, or of those who have participated in the matter under discussion, who have voted in favour of the resolution, or where the presiding Chair has used his casting vote in favour of the resolution in the event of a tie. However, in order for a resolution to be valid, at least half of all the Board members must have voted in favour thereof.

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

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

The Board issues instructions and rules of procedure for the Bank's branch office boards, see however § 5-1 last sentence.

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

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

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

Chap. 4 Supervisory Board.

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

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

The Chair of the Supervisory Board and not less than half of the Supervisory Board's members must reside in Norway, unless the King grants exemption in individual cases. The residence requirement does not apply to nationals of a State which is party to the EEA Agreement and who reside in that State.

Members of the Board of Directors, observers and the Managing Director may not be a member of the Supervisory Board.

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

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

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

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

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

Any member of the Supervisory Board has the right to resign before his term of office expires, if there are special reasons for so doing. The Supervisory Board and those who have elected the member concerned shall in that case be given reasonable notice in advance. Any member of the Supervisory Board may be removed by those who elected the member concerned. This does not apply to members elected by the Bank's employees, cf. fifth paragraph of this article.

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

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

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

§ 4-3 Remuneration to the members of the Supervisory Board shall be determined by the General Meeting. A member of the Supervisory Board may not by virtue of his work for the Supervisory Board accept remuneration from any other source than the Bank. This also applies to remuneration which another party to a contract or his or her representative has stipulated from the Bank.

Any remuneration which has been agreed upon or received contrary to the prohibition in the first paragraph above shall fall to the Bank. The same also applies to returns from assets and assets given in the place of remuneration.

The prohibition in the first paragraph is not a barrier to a member of Supervisory Board, who does not participate in the day-to-day management of the Bank, acting as an intermediary or agent vis-à-vis the company against payment of the usual fees payable to an intermediary or agent, if:

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

§ 4-4 Members of the Supervisory Board may not undertake any action liable to give certain shareholders or others an unreasonable advantage at the expense of other shareholders or the Bank.

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

§ 4-5 The Supervisory Board forms a quorum when more than half of all its members are present. However, no resolution may be adopted by the Supervisory Board unless all the members have been given the opportunity to participate in considering the matter under discussion. In the absence of a Board member, his deputy shall be invited to attend.

All resolutions require the supporting votes of a majority of those members present and in the event of a tie the presiding Chair has the casting vote. However, in order for a resolution to be valid at least one-third of all the Board members must have voted in favour thereof.

§ 4-6 The Supervisory Board shall:

1. Supervise the Board of Directors' and the Managing Director's administration and management of the Bank and ensurethat the Bank's objects are advanced in accordance with the legislation, the Articles of Association and the separate resolutions of the General Meetings and the Supervisory Board, and also issue guidelines for the Bank's operations.

   The guidelines shall be general instructions for the Bank's governance and administration and shall be presented to the General Meeting for approval.
2. Elect the elected members and deputy members of the Board of Directors; see however § 3-1 third paragraph.
3. Elect the members of the Election Committee; see § 3-2.
4. Appoint an Auditor or auditing firm.
5. Receive reports on the operations of the Bank and examine summaries or extracts of the accounts and reports from the Control Committee. Every member is entitled at meetings of the Supervisory Board to demand information concerning the company's operations to the extent the member deems necessary. The Supervisory Board may itself or by appointing a committee initiate such enquiries.
6. Examine the Bank's annual financial statements, annual report and Auditor's report, and make a report to the General Meeting on the Board of Directors' recommendations regarding the annual financial statements, and the Board of Directors' recommendations regarding the allocation of profit or covering of losses. The Board of Directors' recommendations and the Auditor's report shall be sent to the members of the Supervisory Board no later than one week before the Board is to consider the matter.
7. Adopt resolutions regarding remuneration of the Bank's elected officers and Auditor and the remuneration/salary of the Managing Director.
8. Pass resolutions concerning branch office boards and regional councils in accordance with § 5-1 and § 5-2.
9. Make pronouncements on matters concerning the Bank presented by the Board of Directors or the Control Committee.

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

   The Supervisory Board may not pass a resolution regarding any matter of business which under § 3-4 falls under the Board of Directors.

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

1. Establish or close a branch or branch office in municipalities in which the Bank does not have its head office or other branch or branch office.
2. Declare any dividends and the amount thereof which may be distributed to shareholders within the maximum amount determined by the Board of Directors and the date from which the declared dividends are payable.

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

Chap. 5 Branch office boards and regional councils.

§ 5-1 The Supervisory Board may decide that a branch office outside of the municipality in which the Bank's head office is situated shall have a board consisting of between four and seven members.

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

Members of the branch office board shall be elected to serve for two years.

The main Board of Directors shall issue instructions and rules of procedure for the branch office board. The instructions and rules of procedure shall be approved by the Supervisory Board and presented to the General Meeting.

§ 5-2 The Supervisory Board can decide that a branch or branch office shall have a consultative regional council. The members of the regional council shall be elected by the Supervisory Board, in that case after nominations from the branch board.

A regional council can serve as a joint council for several branches or branch offices.

Chap. 6 Control Committee.

§ 6-1 The Control Committee shall consist of up to six members and up to two deputy members.

Members of the Control Committee must satisfy the eligibility requirements for election to the Supervisory Board. One member must meet the qualifications of judges under Section 54, second paragraph of Domstolsloven (Courts of Justice Act) of 13 August 1915. The election of this member is subject to the approval of the Financial Supervisory Authority of Norway. The Authority may grant dispensation from the provisions of the two preceding sentences. A Board member, deputy Board member, Auditor or officer of the Bank may not be elected a member or deputy member of the Control Committee. Nor may any person be elected thereto who is legally incompetent or who is an associate, subordinate, dependant, spouse or relative by blood or marriage in direct line of ascent or descent or in the first collateral line, of any Board member, deputy member, Auditor or senior officer of the Bank. Nor may any person be elected who has been made bankrupt or initiated debt settlement proceedings or is under private administration. If any circumstance arises which causes a member no longer to be eligible, he shall resign from the Control Committee. To replace a resigning member, a new member shall be elected at the earliest opportunity to serve for the remainder of the term.

The elected offices are for terms of two years.

Where branch offices have their own board, the General Meeting may after nominations from the Control Committee (main Control Committee) elect local control committees to undertake local controls under the supervision of the main Control Committee.

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

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

Chap. 7 The General Meeting.

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

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

The General Meeting shall be convened by the Chair of the Supervisory Board.

The Board of Directors, members of the Control Committee and the Auditor shall be called to attend General Meetings. The members of the Board of Directors and Control Committee are entitled to attend and to speak at General Meetings. The Chair of the Board of Directors and the Managing Director are obliged to attend General Meetings unless they have a valid excuse, in which case a substitute shall be appointed.

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

§ 7-2 The annual financial statements, annual report, Auditor's report and report of the Supervisory Board, see § 4-6 no. 6, shall be presented to the General Meeting and to those shareholders who have not had the documents sent to them in advance.

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

§ 7-4 The ordinary General Meeting shall:

1. Elect a person to chair the meeting from among the shareholders in attendance.
2. Elect 11 members and six deputy members to the Supervisory Board from among the

Bank's shareholders as well as the members of the Control Committee.

3. Elect an Election Committee to prepare and organise the election of members and deputy members to the Supervisory Board and Control Committee at the next General Meeting.
4. Adopt the annual financial statements of the Bank, including the allocation of profit or covering of loss.
5. Transact any other business which according to law or the Articles of Association falls under the General Meeting.

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

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

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

Chap. 8 Auditor.

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

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

Chap. 9 Conditions relating to deposits.

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

Chap. 10 Annual financial statements and annual report.

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

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

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

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

Chap. 11 Retirement age. Term of service.

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

§ 11-2 An elected member or Chair of the Board of Directors, a branch office board, the Supervisory Board or Control Committee may not hold elected office for a consecutive period of more than 12 years, or hold such office for periods which combined exceed 20 years. In calculating these periods of office, only such periods shall be included during which the person concerned has been an elected officer of the Bank since 1 January 1978. A person may not be elected or re-elected to any of these offices if, under the provisions of this paragraph, he would not be entitled to serve the full term for which he was elected.

Chap. 12 Amendments to these Articles.

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

Any proposal to amend the Articles must be submitted to the Chair of the Board of Directors no later than four weeks before the General Meeting shall consider the proposal.

Chap. 13 Entry into force

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

BN Bank

www.bnbank.no