BN Bank ASA

ANNUAL REPORT | 2013

Content

BN Bank - a simple, efficient and predictable specialist

The international financial crisis has caused many countries to incur huge costs. In a significant number of these countries, value added is still below 2008 levels and unemployment has remained stubbornly high. As a result of the crisis, more comprehensive and complex regulations were introduced within the finance sector. Our sector is by nature international, with over 30 per cent of the Norwegian finance market being served by foreign banks. It is therefore important that the authorities ensure the identical practising of the new regulations and as a result equal competitive conditions.

We have observed that these regulations are being interpreted and applied differently by the various financial authorities in the Nordic countries. For example, Swedish and Danish banks operating in Norway can use much lower risk weightings for commercial property loans than their Norwegian counterparts. It is important that the banks are adequately capitalised in order to survive crises, but to ensure equal framework operating conditions, it is important that Norwegian authorities work to ensure the harmonised practising of the capital adequacy regulations across national borders.

Norway has been "The Different Country" ever since the financial crisis, but we also observed the economy cooling towards the end of 2013. For example, house prices fell during the last four months of 2013. The opinions of analysts concerning the outlook vary, but we assume that economic growth and house prices will level off going forward. BN Bank has a loan-to-value ratio of less than 60 per cent in its residential mortgage portfolio. We will therefore have good collateral even in the event of a substantial down-turn in house prices.

BN Bank had an excellent operating year in 2013, with an improvement in its operating result before losses and non-recurring effects of no less than 92 per cent. We have a focus on continual improvement in all our processes, with the aim of being Norway's most efficient bank. In 2013, we delivered on the target of a KI of 31 per cent through a 14 per cent reduction in operating costs. This, combined with a 35 per cent increase in income, explains the improvement in the Bank's profit. However, the profit is reduced by losses which are primarily linked to two individual loans within Corporate Market, as well as losses within the Guarantee Portfolio. This meant that we did not achieve our target for return on capital of 9.6 per cent during 2013, but ended up at 7.3 per cent.

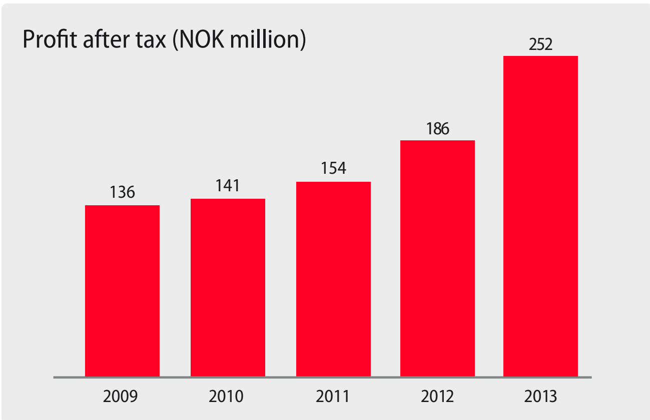
BN Bank aims to be known for good banking practice and low risk. We have therefore conducted a thorough evaluation of our losses with the aim of reducing the risk of future losses wherever possible. Our credit policy has recently been tightened up and processes our relating to credit have been improved as a result of the Bank's AIRB application. During the past year, the quality of the portfolio has improved and expected losses (EL) in the healthy portfolio are now right down at 0.054 per cent.

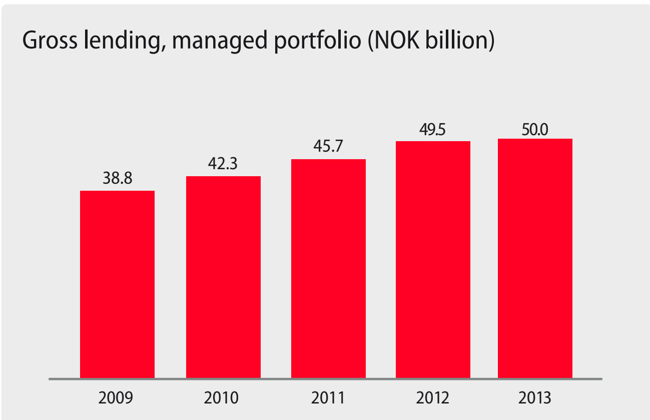
In the future, BN Bank will be refined further as a simple, efficient and predictable specialist within selected segments in the retail and corporate markets. We will therefore continue to implement the adopted strategy and improve the Bank to the benefit of our customers, owners, investors and staff alike.

Gunnar Hovland
Managing Director

Summary of 2013

- Profit after tax of NOK 252 million (NOK 186 million)
- Profit after tax from core business totalling NOK 269 million (NOK 215 million)
- Return on equity after tax of 7.3 per cent (5.8 per cent)
- Return on equity after tax from core business at 7.9 per cent (6.5 per cent)
- Growth in lending of NOK 561 million during the past 12 months (NOK 3,801 million)
- Impairment losses on loans and advances of NOK 129 million (NOK 114 million)
- Tier 1 capital ratio of 13.0 per cent (12.1 per cent)
- Core tier 1 capital ratio of 11.1 per cent (10.3 per cent)





Financial Ratios

		GROUP				
NOK MILLION	**REFERENCE**	**2013**	**2012**	**2011**	**2010**	**2009**
Summary of results						
Net income from interest and credit commissions		410	343	385	380	359
Total other operating income		283	291	103	91	148
Total income		**693**	**634**	**488**	**471**	**507**
Total other operating expense		**215**	**262**	**234**	**245**	**269**
Operating profit/(loss) before impairment losses		**478**	**372**	**254**	**226**	**238**
Impairment losses on loans and advances		129	114	62	32	20
Profit before tax		**349**	**258**	**192**	**194**	**218**
Computed tax charge		97	72	44	52	63
Profit from continuing operations		**252**	**186**	**148**	**142**	**155**
Profitability						
Return on equity	1	7.3 %	5.8 %	5.0 %	4.8 %	5.5 %
Net interest margin	2	1.0 %	0.8 %	0.9 %	0.9 %	0.7 %
Cost-income ratio	3	31.0 %	41.3 %	48.0 %	52.0 %	53.1 %
Balance sheet figures						
Gross lending		29 309	33 305	33 439	32 577	30 865
Customer deposits		15 169	16 910	15 959	16 395	15 592
Deposit-to-loan ratio	4	51.8 %	50.8 %	47.7 %	50.3 %	50.5 %
Increase/decrease in lending (gross) last 12 months		-12.0 %	-0.4 %	2.6 %	5.5 %	-7.2 %
Increase in deposits last 12 months		-10.3 %	6.0 %	-2.7 %	5.2 %	6.9 %
Average total assets (ATA)	5	39 463	40 770	40 887	43 552	51 095
Total assets		37 505	41 732	40 722	41 228	47 526
Balance sheet figures incl. SpareBank 1 Næringskreditt and SpareBank 1 Boligkreditt						
Gross lending		50 025	49 464	45 663	42 269	38 824
Customer deposits		15 169	16 910	15 959	16 395	15 592
Increase/decrease in lending (gross) last 12 months		1.1 %	8.3 %	8.0 %	8.9 %	-7.9 %
Increase in deposits last 12 months		-10.3 %	6.0 %	-2.7 %	5.2 %	7.6 %
Share of lending funded via deposits		30.3 %	34.2%	34.9%	38.8%	39.4%
Losses on loans and non-performing loans						
Loss ratio lending	6	0.41 %	0.35 %	0.19 %	0.10 %	0.05 %
Non-performing loans as % of gross lending	7	1.91 %	1.19 %	0.59 %	0.43 %	1.46 %
Other doubtful commitments as % of gross lending	7	2.25 %	1.57 %	1.87 %	2.39 %	1.05 %
Solvency						
Capital adequacy ratio		15.4 %	15.1 %	13.7 %	13.9 %	13.3 %
Tier 1 capital ratio		13.0 %	12.1 %	11.0 %	10.8 %	9.5 %
Core tier 1 capital ratio		11.1 %	10.3 %	9.3 %	9.2 %	8.7 %
Tier 1 capital		3 705	3 722	3 644	3 448	3 025
Capital base		4 393	4 637	4 543	4 419	4 225
Offices and staffing						
Number of offices		2	2	2	2	2
Number of full-time equivalents		111	114	109	104	99
Shares						
Earnings per share for the period (whole NOK) for continuing operations		17.85	13.90	11.39	11.47	12.50
Earnings per share for the period (whole NOK) incl. discontinued operations		17.85	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 relative 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 as of the last five quarters
6) Net loss as a percentage of average gross lending to date this year
7) The figures disclosed include the Guarantee Portfolio

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 126 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, hence the name is changed to Bolig- og Næringskreditt AS.

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

1992: The credit institution is converted into a bank and renamed 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 a 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 wholly 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 transferred to SpareBank 1 Boligkreditt.

2013: BN Boligkreditt AS is liquidated. The BN Bank Group comprises the Parent Bank BN Bank ASA and the subsidiary Bolig- og Næringskreditt AS.

Vision

BN Bank's vision is to make banking simple, efficient 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 focus 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 located 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.

Board of Directors

Finn Haugan, Chair
Managing Director, SpareBank 1 SMN. First elected in 2009, term of office expires in 2015.

Tore Medhus, Deputy Chair
Executive Vice-President Corporate Market, SpareBank 1 SR-Bank ASA First elected in 2009, term of office expires in 2015.

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 BV. First elected in 2009, term of office expires in 2015.

Helene Jebsen Anker
Self-employed consultant. First elected in 2009, term of office expires in 2014.

Ella Skjørestad
Group Head of Marketing, Sparebank 1 SR-Bank ASA. 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.

Jannike Lund
Finance consultant at BN Bank. Deputy member, employees' representative First elected in 2013, term of office expires in 2015.

Deputy members

Jan-Frode Janson
CEO, SpareBank 1 Nord-Norge

Vibeke Rosset Reimers
Bank General Manager, SpareBank 1 SMN

Inglen Haugland
Regional Director, SpareBank 1 SR-Bank ASA

Executive Management

Gunnar Hovland | Managing Director

Gunnar (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 (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 (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

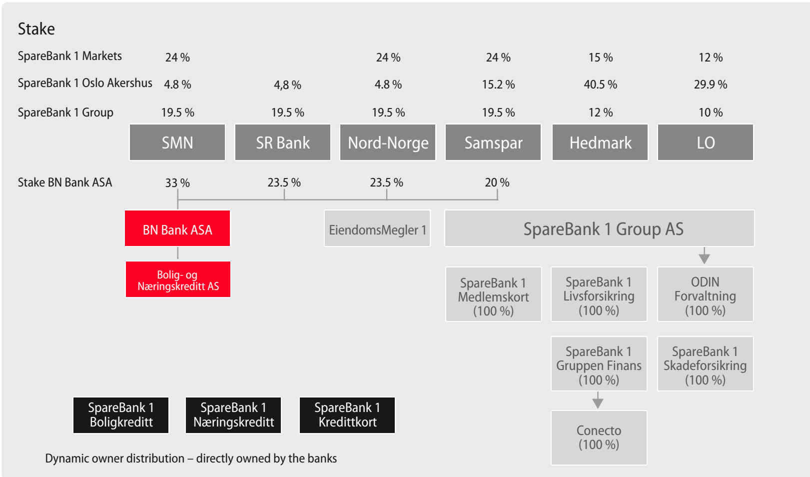
Rune holds a Master's degree in Statistics from the Norwegian University of Science and Technology in Trondheim and has also studied a variety of other subjects at BI Trondheim Business School. He was previously employed by the bank DnB NOR and as a guest lecturer (university lecturer) at BI Trondheim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

Eli Ystad | Director Retail Market

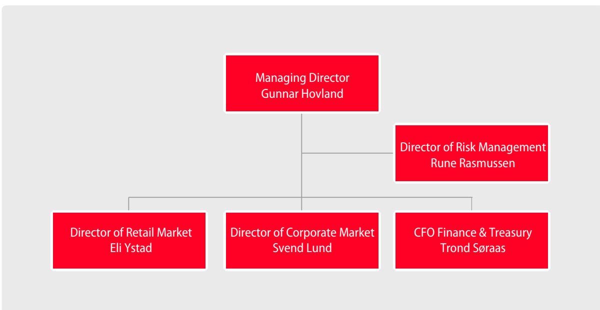
Eli (born in 1973) is Director Retail Market of BN Bank ASA. She came from the post as executive Director in SpareBank 1 SMN. She was previosly employed by CapGemini and Statoil. Ystad helds the degree Sivilingeniør (Graduate Civil Engineer) in Industrial ecconomy/business and Technology invest from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

Business description

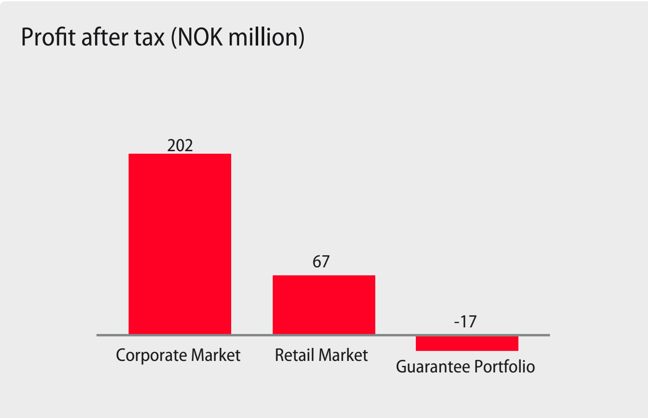
BN Bank is owned by a consortium of SpareBank 1 banks. BN Bank's place in the SpareBank 1 consortium: The companies SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt are used to finance parts of the collective loan portfolio that is managed by BN Bank.



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



BN Bank's profits are allocated under Corporate Market, Retail Market and the Guarantee Portfolio. Profit/(loss) after tax for 2013 for each business area is shown below:



The profit recorded for Corporate Market is approximately on a par with 2012 (NOK 198 million), while Retail Market recorded a substantial increase from NOK 16 million in 2012 to NOK 67 million in 2013. The profit for the Guarantee Portfolio improved from NOK -112 million in 2012 to NOK -17 million in 2013.

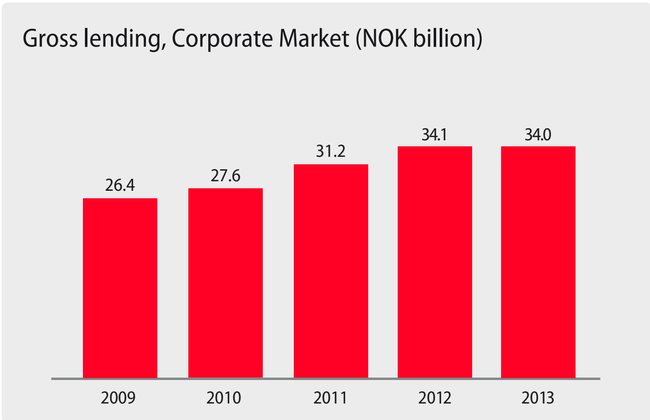
Corporate Market

In the Corporate Market, BN Bank is 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 202 million for the year to 31 December 2013, giving a return on equity after tax of 6.9 per cent. Income was up by 25% in 2013 compared with 2012, primarily as a result of increased lending margins and a higher volume of lending. As part of the Bank's cost reduction programme, costs were reduced by 9%. Profit before write-downs therefore improved by NOK 105 million (37%) to NOK 386 million in 2013. The profit was reduced considerably as a result of two special loans.

NOK MILLION	CORPORATE MARKET	
	2013	2012
Net income from interest and credit commissions	291	247
Change in value of fin. instr. carried at fair value	27	19
Other operating income	164	121
Total other operating income	191	140
Salaries and general administrative expenses	-79	-84
Ordinary depreciation, amortisation and write-downs	-6	-8
Other operating expenses	-11	-14
Total other operating expenses	-96	-106
Operating profit before impairment losses	386	281
Impairment losses on loans	-106	-5
Operating profit after impairment losses	280	276
Computed tax charge	-78	-78
Profit from continuing operations after tax	202	198
Lending (gross) incl. loans in OMF companies	34 014	34 097
Customer deposits and accounts payable to customers	1 115	1 477

The volume of lending is unchanged relative to 2012. During the year, the net amount of NOK 2.5 billion was transferred to SpareBank 1 Næringskreditt. The trend in gross lending, including loans transferred to SpareBank 1 Næringskreditt, is shown below:



In 2013, the lending margin measured against the 3-month NIBOR increased by 0.45 percentage points compared with 2012. This change in margin can be explained by falling borrowing rates and interest rate changes on loans. For the BN Bank Group, non-performing loans in the Corporate Market as a percentage of gross lending rose by 0.97 percentage points from 2012, and represented 2.33 per cent of gross lending as at 31 December 2013. The figure is primarily made up of two non-performing loans, and the write-down of these loans is deemed sufficient taking into account the risk of loss.

The portfolio risk is measured through "Probability of Default"; expected losses and unexpected losses have shown a positive trend in recent years. This is explained as a result of the fact that the growth in lending within commercial property has taken place within low-risk loans and the positive migration in the portfolio's loss risk.

Due to the stricter capital requirements imposed by the authorities and the resultant need to strengthen capital adequacy, Corporate Market in BN Bank has no growth ambitions in 2014. Corporate Market's strategy to be a predictable and attractive partner for its customers remains as before. Normalised write-downs and reduced risk weightings through the approval of the Bank's AIRB application will help to further boost earnings and the yield during 2014.

Retail Market

In the retail market, BN Bank shall be the best choice for self-service customers who want simple, efficient and predictable banking services, in the form of either online banking or telephone banking. BN Bank meets customers on their own terms by offering cost-effective and user-friendly products and solutions. BN Bank is simple and efficient, giving the customer competitive terms over time.

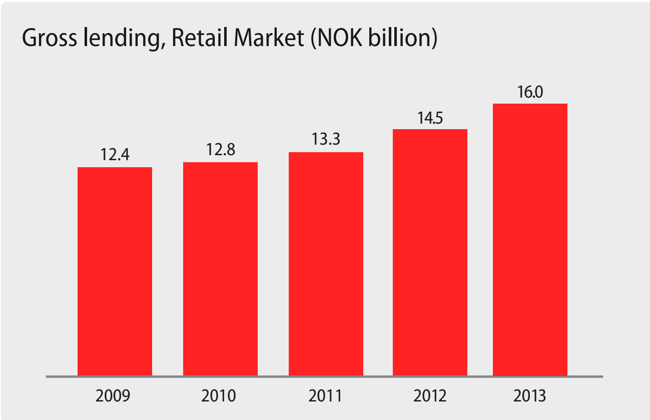
A sharp, web-based concept, combined with cost-effective distribution and customer service, gives BN Bank a clear position as a leader in terms of costs in the Norwegian banking market. This position will be reinforced further through the further development of web-based services and the automation of manual processes and tasks.

BN Bank will strengthen its position in the retail market through raising the profile of the brand, increasing brand awareness and pursuing an expansive growth strategy. Provision has been made for growth in income through more channels than previously, including insurance, credit cards and fee income through the Roomy leasing service. The launch of the first Norwegian mobile payment solution mCASH will help boost brand awareness and added income, and provide a firmer foundation for growth.

Retail Market posted a profit after tax of NOK 67 million for the year to 31 December 2013, giving a return on equity after tax of 13.4 per cent (3.6 per cent). The improvement in profit compared with 2012 amounts to NOK 51 million. This improvement can be explained by better margins, an increase in lending volume, lower costs and positive changes in the value of financial instruments.

NOK MILLION	RETAIL MARKET	
	2013	2012
Net income from interest and credit commissions	**123**	**131**
Change in value of fin. instr. carried at fair value	14	10
Other operating income	76	24
Salaries and general administrative expenses	**90**	**34**
Ordinary depreciation, amortisation and write-downs	-98	-119
Other operating expenses	-6	-22
Other gains and losses	-15	-15
Total other operating expenses	**-119**	**-156**
Operating profit before impairment losses	**94**	**9**
Impairment losses on loans	-1	12
Operating profit after impairment losses	**93**	**21**
Computed tax charge	-26	-5
Profit from continuing operations after tax	**67**	**16**
Lending (gross) incl. loans in OMF companies	16 011	14 456
Customer deposits and accounts payable to customers	14 054	15 433

The trend in loans and advances has been in line with the plan for 2013, and growth in gross lending is 11 per cent. The trend in gross lending, including loans transferred to SpareBank 1 Boligkreditt, is shown below:



Lending to retail customers is consistently low risk, as reflected by the continuing very low losses. Losses on loans and non-performing loans are expected to remain at a low level. The loan portfolio is secured on residential property. The average loan-to-value in the portfolio is below 60% and the trend in the value of residential properties has been satisfactory. However, we observed a healthy correction in the residential market during the last four months of 2013. The trend in the residential market is continually monitored and any measures relating to credit policy are considered on the basis of this. In the future, we expected house prices to level out and extraordinary measures are not currently considered to necessary.

Guarantee Portfolio

BN Bank has previously sold its portfolio in Ålesund to SpareBank 1 SMN. BN Bank provides guarantees for 60 per cent of the credit risk for portions of this portfolio (called the Guarantee Portfolio). As at 31 December 2013, the Guarantee Portfolio stood at NOK 417 million, of which BN Bank is providing a guarantee for NOK 250 million. This figure is equivalent to 0.9 per cent of the Bank's gross lending at the end of 2013. The 15 remaining loans in the portfolio are mainly in the offshore, shipping and fish farming sectors. A provision of NOK 133 million has been allocated for losses linked to the Guarantee Portfolio. This is equivalent to 53 per cent of the guaranteed amount.

The result after tax for the Guarantee Portfolio is a loss of NOK 17 million. The change in result compared with 2012 is positive by NOK 95 million.

NOK MILLION	GUARANTEE PORTFOLIO	
	2013	2012
Net income from interest and credit commissions	**-4**	**-35**
Total other operating income	**2**	**0**
Total other operating expenses	**0**	**0**
Operating profit before impairment losses	**-2**	**35**
Impairment losses on loans	-22	-121
Operating profit after impairment losses	**-24**	**-156**
Computed tax charge	7	44
Profit from continuing operations after tax	**-17**	**-112**
Lending (gross)	0	911

The change in result from 2012 is explained through reduced impairment losses.

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.

The Bank has established a system for the mapping of individual competencies and a method for promise-based management in order to continually follow up individual staff members' performances and targets. The method is used by managers and staff in implementing monthly performance interviews and annual staff appraisal interviews.

BN Bank employed 126 staff as at 31 December 2013, of whom 63 are women and 63 are men. The sickness absence rate in 2013 was 6.4 per cent. In 2012, sick absence was 3.9 per cent. Sickness absence in the Norwegian financial industry as a whole was 4.4 per cent for the first three quarters of 2013. Long-term sickness absence of individuals accounts for this discrepancy, with the main reason appearing to be job-related.

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 conducts 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. BN Bank's target is to exceed 800 points and the Bank posted a score in 2013 of 842 points out of 1000. This is above average within the consortium and is considered to be satisfactory.

Risk Management

BN Bank aims to maintain a low risk profile in all its activities and to monitor risk in a way which ensures that no individual events can cause significant harm to the Bank's financial position. This is reflected in the Bank's conservative credit policy and in our routines which we monitor closely, partly through the AIRB processes.

The Bank has established guidelines for the management of all relevant risks. These encompass risk tolerance, limits, choice of monitoring method and reporting requirements. The principles established for risk management apply to the entire Group. The Board of Directors regularly receives status reports for all relevant risks. The Bank places great emphasis on identifying, measuring, managing and monitoring key risks to ensure that the Group develops in line with the adopted risk profile and strategies.

The risk management within the Group must support the Group's strategic objectives and ensure financial stability and responsible asset management. This will be achieved through:

- a strong organisational culture characterised by a high level of awareness of risk management
- a sound understanding of the risks that drive earnings and risk costs
- creating a better basis for decisions
- endeavouring to ensure optimal capital utilisation within the adopted business strategy
- avoiding unexpected negative events which could damage the Group's operational activities and reputation

The Group's risks are partly quantified through computations of expected losses and requirements concerning risk-adjusted capital (economic capital) in order to cover unexpected losses. Expected losses describe the amount that is statistically likely to be lost over a 12-month period. Risk-adjusted capital describes how much capital the Group believes it needs in order to cover the actual risk that the Group has taken on. The Board of Directors has decided that risk-adjusted capital should cover 99.9 per cent of all possible unexpected losses.

Statistical methods have been used for calculating expected losses and for risk-adjusted capital, but the calculation still necessitates the use of expert assessments in some cases. As regards risk types for which no recognised methods are available for computing the capital requirement, the Bank places emphasis on defining limits for the management of the risk which ensure that the probability of an event occurring is extremely low.

The return on risk-adjusted capital is one of the key strategic result-related targets in the internal management of BN Bank ASA. This means that the business areas are allocated capital according to the computed risk associated with the activity and that return on capital is monitored continually. The computations of risk-adjusted capital make it possible to compare risk across risk groups and business areas. Risk is also measured and monitored through the measurement of factors such as limit use and key portfolio risk targets.

The Group's overall risk exposure and risk development are monitored through periodic risk reports to the senior management, risk committees and the Board.

The Risk Management & Compliance department, which is independent of the individual business areas within the Group, is responsible for risk monitoring and reports directly to the Managing Director and the Board.

Basel II capital adequacy rules came into force with effect from 2007. Financial institutions with low credit risk and appropriate 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.

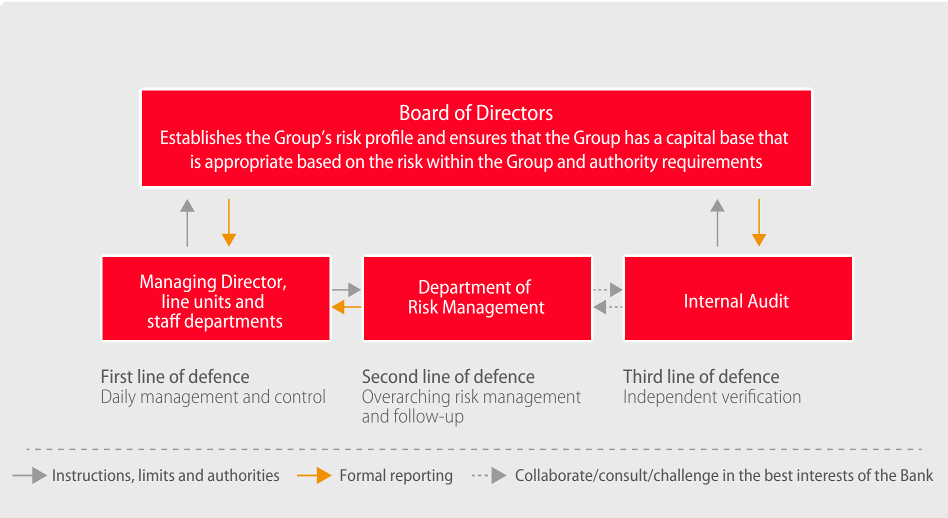
BN Bank has established a strategy and process for risk management and assessment of the capital adequacy requirement and how capital adequacy can be maintained. The collective term for this is ICAAP (Internal Capital Adequacy Assessment Process). Assessing the capital adequacy requirement involves assessing the size, composition and distribution of the capital base adapted to the level of risks that the Bank is or may be exposed to. The assessments are risk-based and forward-looking. Risk areas assessed in addition to the Pillar 1 risks are concentration risk in the credit portfolio, interest rate and foreign exchange risk in the bank portfolio, liquidity risk, market risk, owner's risk and reputation risk, 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 completed the assessments for 2013 and submitted the associated reports to the Financial Supervisory Authority of Norway. The main conclusions are that the Bank's risk, capital and liquidity situation has improved during the past year, that governance and control within the Bank are considered to be satisfactory and that, in the opinion of the Board, the Bank is adequately capitalised in relation to the Bank's risk level.

Responsibility for risk management and control

Risk management and control form part of BN Bank's activity management. The Group's management and control model is based on independence in the risk reporting, with an emphasis on responsibilities and roles in the day-to-day risk management process. For many years, BN Bank has invested considerable resources in developing effective risk management processes to identify, measure and manage risk.

In the process relating to risk and capital management, organisational culture is the foundation on which the other elements are built. The organisational culture encompasses management philosophy, management style and the people within the organisation with their associated individual characteristics such as integration, values and ethical attitudes. A deficient organisational culture is hard to compensate for through other control and management measures. The Group places emphasis on a control and management structure which promotes target-oriented and independent management and control, and this is organised through a three-fold division of the risk management:



The Board is responsible for ensuring 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 are required at all times to ensure that risk management and risk exposure fall within the limits and paramount governing principles determined by the Board 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.

The Credit Committee is an advisory body for the Managing Director regarding all matters that fall within the credit authorities of the Managing Director and all matters that are decided upon by the boards of BN Bank ASA and Bolig- og Næringskreditt AS. The committee also acts as an advisory body in connection with the review of loss provisions and watch-lists on a quarterly basis.

The main purposes of considering such matters are as follows:

- To ensure that matters are considered in accordance with BN Bank's and Bolig- og Næringskreditt's credit strategy and policy and in accordance with sound banking principles.
- To carry out quality assurance to ensure that all relevant risks are identified and considered and that sufficient documentation is available for the matters.

The Risk and Capital Management Committee is responsible for considering matters linked to capital structure and liquidity risk, market risk, internal pricing of capital and compliance with limits established by the Board.

Internal audit is the Board' instrument for ensuring that the risk management is target-oriented, effective and functions as intended. The internal audit function is performed by an external supplier, which ensures independence, competence and capacity. Internal audit reports to the Board. Internal audit's reports and recommendations relating to improvements in the Group's risk management procedures are regularly reviewed within the Group. Internet audit must, regularly and at least once a year, audit the IRB system, including the models that are used as a basis for computing risk parameters, application and compliance with the Regulations on capital requirements.

The various control departments are organised independently of each other 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 various control departments. The independence of the third line of defence is ensured 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 ensure:

- Effective capital funding and investment in relation to the Group's strategic objectives and adopted business strategy
- 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 is able to at least 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 is to 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's 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 to the Group's size, risk profile and complexity
- The process shall be risk-driven and encompass 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, partly through 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 a year by the Board

Financial forecasting

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.

Basel II and the IRB system

BN Bank aims to apply the advanced Internal Ratings-Based (IRB) method, and in May 2012 the Bank applied to the Financial Supervisory Authority of Norway for authorisation as an Advanced IRB Bank. A response is expected from the Financial Supervisory Authority of Norway during 2014.

The IRB system encompasses models, processes, control mechanisms, IT systems and routines and guidelines linked to the classification and quantification of credit risk, and in the expanded management of credit risk. The IRB system and the models are validated both quantitatively and qualitatively to ensure that the models are sufficiently predictable and that models are used in accordance with adopted guidelines.

For capital adequacy purposes, the Bank used the standard method for quantifying credit risk and the basic method for quantifying operational risk during 2013. As an integral part of its risk management policy, BN Bank has established the capital allocation process (ICAAP) referred to previously to ensure that the Bank has an adequate capital base in relation to the chosen risk profile at all times. The process will also ensure the effective acquisition and use of capital.

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

Credit risk

The Bank's organisation and framework for managing credit risk has been adapted to the Basel Committee's "Sound practices for the management of credit risk" and the Financial Supervisory Authority of Norway's module for managing and controlling credit risk.

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

- The inability of customers or counterparties to pay.
- The value of the underlying collateral is insufficient to cover the company's claims in the event of default and subsequent realisation of the mortgage.

Both events must occur in order for a loss to arise.

Credit risk linked to the Group's lending activity represents the Group's largest risk area. The Group is exposed to credit risk through lending to retail and corporate customers and through activities within the Bank's finance department. Through the annual audit of the Bank's credit strategy, the Board specifies the Bank's risk appetite through the establishment of targets and limits for the Bank's credit portfolio.

BN Bank's credit strategy contains targets and parameters for

- Portfolio quality: measured as probability of default (PD), expected loss (EL) and maximum economic and regulatory capital (UL) within each credit portfolio
- Portfolio concentration: the number, size and quality of large commitments, and concentration in area types
- Portfolio growth
- Yield

Compliance with the credit strategy and limits adopted by the Board is continually monitored by the risk management department and reported to the Board quarterly. Credit risk is managed through:

1. Organisation of management and control of credit risk, determined annually by the Board

The document sets out the general principles for the granting of credit. This involves the development of the Bank's governing documents, organisation (delegation of roles and responsibilities) of the credit function and general principles for the granting of credit.

2. The credit strategy, determined annually by the Board

The credit strategy sets out initiative areas, strategic credit limits and objectives, as well as the way in which credit risk is to be priced within BN Bank. The management of credit risk in BN Bank is based on the principles recommended by the Basel Committee in the document entitled "Principles for the Management of Credit Risk", capital adequacy rules (Basel II) and relevant laws and regulations.

3. Guidelines for portfolio management

These guidelines describe the limits and guidelines that apply to the management of the credit portfolio within BN Bank. This concerns the delegation of roles and responsibilities in connection with the measurement and reporting of risk and profitability in the portfolio, as well as measures to manage the portfolio within the framework that is defined in the credit strategy and the credit policy. Management of the portfolio's composition takes place through the establishment of principles and limits for the granting of new credit or through changes to existing loans.

4. Credit policy for Retail Market and Corporate Market

These documents describe how the Bank's credit strategy is to be implemented through the establishment of detailed criteria for the granting of credit for Retail Market and Corporate Market respectively.

a. *Corporate Market*

Creditworthiness assessments place emphasis generally on the borrower's financial position, financial results/cash flow, 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. General economic developments in Norway will accordingly have an impact on the trend in non-performing loans.

The loan-to-value ratio in the portfolio is 72%. For the Corporate Market, the probability of default (PD) in the managed loan portfolio is 1.28 per cent.

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

b. *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 as described in the introduction.

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 have a central location.

House prices levelled off during 2013. The trend in 2014 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 given developments in the disposable income of households.

The loan-to-value ratio in the portfolio is 56%. For the Retail Market, the probability of default (PD) in the managed loan portfolio is 0.73 per cent.

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

c. *Guarantee Portfolio*

BN Bank has previously sold its 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 (called the "Guarantee Portfolio"). As at 31 December 2013, the Guarantee Portfolio stood at NOK 417 million, of which BN Bank is providing a guarantee for NOK 250 million.

The 15 remaining loans in the portfolio are largely within the offshore, shipping and fish farming sectors.

5. Award authorities

All authorities within Retail Market and Corporate Market are personal. In addition, a central credit committee has been established within Corporate Market to act as an advisory body for decision-makers concerning major credit cases. Credit is to be granted in accordance with the Bank's credit strategy, credit policy, routines for credit processing and guidelines, and must be characterised by completeness, high quality and professionalism. This is documented through the use of the Bank's ordinary case processing system. BN Bank's risk classification system has been developed to manage the Bank's loan portfolio in line with the Bank's credit strategy and to secure the risk-adjusted yield. The Board delegates credit authorities to the Managing Director, the directors of the business areas and the underlying levels. The lending authorities are graded according to the size of the loan and the risk profile.

Credit models and risk classification

BN has a risk classification system for lending commitments. The Bank's models classify commitments according to the probability of default (PD), exposure in the event of default (EAD) and estimated loss in the event of default (LGD). Various models are used depending on what are considered to be the most important risk factors in the loan. The models use various quantitative methods such as simulation and logistical regression. As regards loans for commercial property, quantitative methods are used in combination with qualitative assessments.

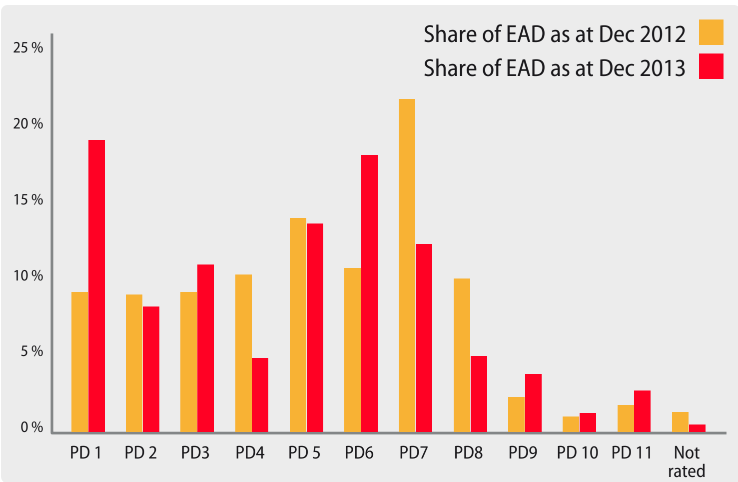
The portfolio broken down between risk classes and other relevant information from the system is regularly reported to the Board.

Probability of Default (PD)

In order to group customers according to probability of default, ten risk classes (1-10) are used for Corporate Market. In addition, the Bank has a risk class (11) for customers with defaulted and/or written-down commitments. The table below shows the probability of default intervals for each of the risk classes.

PD-CLASS	PD	LOWER	UPPER
1	0.075 %	0 %	0.15 %
2	0.225 %	0.15 %	0.30 %
3	0.375 %	0.30 %	0.45 %
4	0.525 %	0.45 %	0.60 %
5	0.700 %	0.60 %	0.80 %
6	1.000 %	0.80 %	1.20 %
7	1.600 %	1.20 %	2.00 %
8	2.75 %	2.00 %	3.50 %
9	5.75 %	3.50 %	8.00 %
10	30.00 %	8.00 %	100 %
11	100.00 %	100 %	100 %

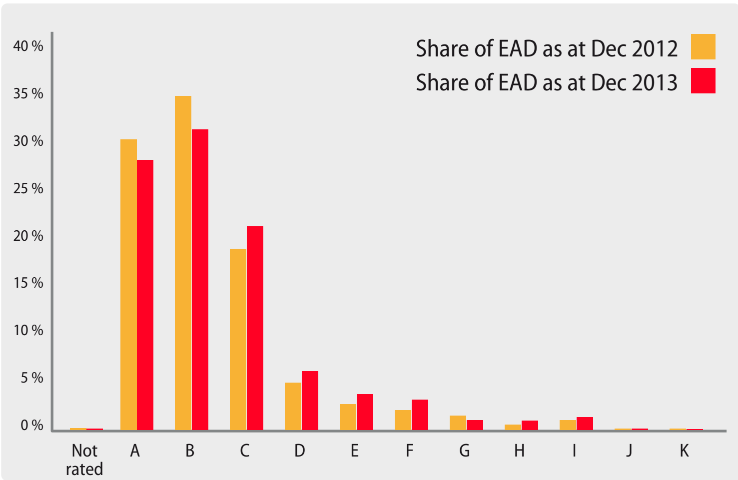
The figure below shows the EAD distribution of the loans within the various risk classes.



In order to group customers according to probability of default, ten risk classes (1-10) are used for Retail Market. In addition, the Bank has two risk classes (J and K) for customers with defaulted and/or written-down commitments. The table below shows the probability of default intervals for each of the risk classes.

	LOWER	UPPER
A	0.00 %	0.10 %
B	0.10 %	0.25 %
C	0.25 %	0.50 %
D	0.50 %	0.75 %
E	0.75 %	1.25 %
F	1.25 %	2.50 %
G	2.50 %	5.00 %
H	5.00 %	10.00 %
I	10.00 %	100.00 %
J (Default)	100.00 %	100.00 %
K (Default)	100.00 %	100.00 %

The figure below shows the EAD distribution of the loans within the various risk classes.



The Bank's PD models for Retail Market and Corporate Market are validated annually within three dimensions:

- Suitability. An assessment is made as to whether the models can be used for the Bank's existing portfolio.
- Ranking ability. Using statistical methods (AUC), we calculate the models' ability to distinguish between customers with different risk.
- Level. On an ongoing basis and at least once a year, an assessment is carried out of the models' accuracy as regards level. The level will be adjusted insofar as the estimated PD level deviates from the observed default (DR). This assessment also covers the current economic situation and the model's economic cycle characteristics.

The validation results confirm that the accuracy of the model is within internal targets and international recommendations.

Exposure in the event of default (EAD)

EAD is a computed magnitude of the exposure as of a future default date. As regards drawing rights, a conversion factor (CF) is used to estimate how much of the current unutilised limit will be used as of a future default date. As regards guarantees, a CF is used to estimate how much of the guarantees that have been provided will be invoked. CFs are validated on a monthly basis as regards drawing rights within Retail Market and Corporate Market. The Bank's EAD model takes into account differences between products and customer types.

Loss given default (LGD)

The Bank estimates the degree of loss for each loan based on the expected realisable value (RE value) of the underlying collateral values, degree of recovery, degree of recycling of the unsecured component of the loans and direct costs associated with collection. The LGD model and its components are validated at least annually with observed values from completed realisations.

In accordance with the requirements of the Regulations on capital requirements, the estimates are "down-turn" estimates. The values are determined according to defined models.

The table below shows the intervals for each of the LGD classes for Corporate Market.

LGD CLASS	LGD EXPECTED	LOWER LIMIT	UPPER LIMIT	SOWN.TURN LGD
1	1.00 %	0.00 %	1.00 %	10 %
2	2.00 %	1.00 %	3.00 %	14 %
3	4.00 %	3.00 %	5.00 %	20 %
4	7.50 %	5.00 %	10.00 %	27 %
5	12.50 %	10.00 %	15.00 %	35 %
6	17.50 %	15.00 %	20.00 %	42 %
7	22.50 %	20.00 %	25.00 %	47 %
8	30.00 %	25.00 %	100.00 %	55 %

The table below shows the intervals for each of the LGD classes for Retail Market.

LGD CLASS	FROM	TO
1	0 %	10 %
2	10 %	20 %
3	20 %	30 %
4	30 %	40 %
5	40 %	50 %
6	50 %	60 %
7	60 %	100 %

The main element in the LGD model is the collateral ratio (collateral value/EAD). For analysis purposes, we therefore also use a scale based on the collateral ratio alone. Based on the collateral ration (RE value/EAD), the loan is classified under one of seven classes, where the best collateral class has a collateral ratio of over 120 per cent, and the lowest collateral class has a collateral ratio of less than 20 per cent.

COLLATERAL CLASS	FROM	TO
1	120 %	
2	100 %	120 %
3	80 %	100 %
4	60 %	80 %
5	40 %	60 %
6	20 %	40 %
7	0 %	20 %

The three parameters referred to above (PD, EAD and LGD) form the basis for the Group's portfolio classification, statistical computation of expected loss (EL) and the requirement for economic capital/risk-adjusted capital (UL).

The purpose of the portfolio classification is to provide information on the level and developments in the collective credit risk within the total portfolio. Total exposure to customers and other counterparties are specified in the notes to the financial statements.

Expected loss

The Bank's risk classification system computes the expected loss for the various portfolios. "Expected impairment losses" expresses an expectation concerning the magnitude of annual average losses over an economic cycle.

At the end of 2013, expected impairment losses in the managed portfolio and the Guarantee Portfolio amounted to 0.31 per cent. Adjusted for loans for which loss provisions have been made, expected losses were 0.054 per cent. Individual write-downs on loans correspond to 0.51% of the managed portfolio at the end of 2013. Expected losses and individual write-downs break down as follows:

FIGURES AS %	EXPECTED LOSS	EXPECTED LOSS, NOT DOUBTFUL	COLLECTIVE WRITE-DOWNS	INDIVIDUAL WRITE-DOWNS
Corporate	0.46	0.078	0.15	0.45
Retail Market	0.075	0.006	0.08	0.01
Guarantee Portfolio	0.77	0.21	7.67	24.20
Total	**0.31**	**0.054**	**0.19**	**0.51**

A total of NOK 349 million (0.7 per cent) has been set aside for individual and collective write-downs as at 31 December 2013. By way of comparison, the expected loss on the healthy portfolio is 0.054, which corresponds to NOK 27 million of the managed portfolio.

Historically, losses on loans have been considerably lower than estimated 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 sector have been low, but loans outside the current credit policy dating from the expansive period 2005 - 2008 have been charged to the accounts with write-downs over and above the expected loss (EL) during the past two years.

The level of losses in BN Bank over time is linked to macroeconomic trends. The trend in the real economy and property prices will therefore impact on the extent of losses going forward.

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

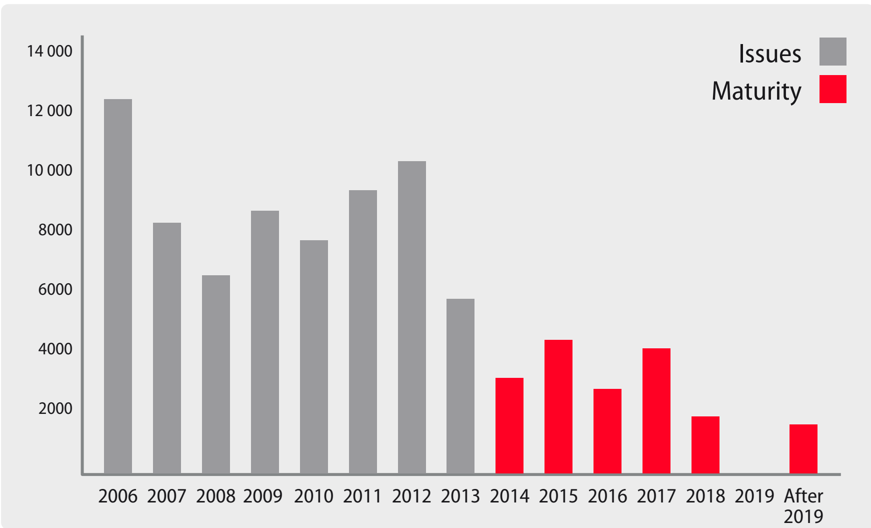
Liquidity risk is the risk of the Group being unable to refinance its commitments or unable to finance increases in assets.

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

The Bank's finance department is responsible for the Group's financing and liquidity management. Compliance with limits is continually monitored by the risk management department and the status is reported to the Board on a monthly basis. The Group manages its liquidity collectively through the finance department taking responsibility for financing the Bank and the subsidiary.

This management is based on the Group's overall liquidity strategy, which is reviewed and adopted by the Board at least once a year. The liquidity strategy reflects the Group's low risk profile. As part of the strategy, contingency plans have also been drawn up for managing the liquidity situation during periods with volatile markets with both bank-specific and industry-based crisis scenarios and a combination thereof. Liquidity management also includes stress tests where the effect on liquidity of various events within the market is simulated. The results of various stress tests are incorporated in the basis for the Group's contingency plan for liquidity management.

The figure below illustrates issues (grey columns) and maturity structure (red columns) from the year-end 2013 onwards.



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 does not have its own stock portfolio, and the Bank's market risk only arises as a result of interest, foreign exchange and spread risk. BN Bank measures and controls its exposure to market risk according to clearly defined parameters. In the ongoing follow-up, market risk is quantified by the Risk Management department by means of regular 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 has established guidelines and parameters for the Bank's interest, foreign exchange and spread 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

Operational risk is defined as the risk to which the Group will be exposed in the event of the inadequacy or failure of internal procedures, people, systems or external events. Examples of such events include staff errors, weaknesses in products, processes or systems or the Bank being caused to incur losses externally through fraud, fire or natural disasters.

Operational risk is a risk class which encompasses all important costs associated with quality deficiencies within the Bank's ongoing activities.

BN Bank strives 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.

The identification, management and control of operational risk forms an integral part of the managerial responsibility at all levels within BN Bank. The management's primary tools in this work is professional insight and management competence, as well as action plans, control routines and appropriate monitoring systems. Systematic work relating to risk assessments also helps to increase knowledge and awareness of areas where improvement is required within one's own unit. Any weaknesses and measures to bring about improvements are reported upwards within the organisation. A registration and monitoring system is used in the work to ensure continual improvement in everything that BN Bank does. This system contributes to a better structure and monitoring of risks, events and areas where improvements are necessary. This system, together with the reporting that is carried out, forms an important database of experience concerning operational risk. All operational events which could potentially lead to losses or where losses have arisen are entered in the database. Measures to bring about improvements must be assessed and implemented as deemed appropriate.

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. Nevertheless, the Board 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 is kept updated on the status of operational risk through quarterly risk reports and annual internal control reports. The Board is also kept continuously updated on any significant disruptions to operations or any divergence from normal operations

The Board furthermore receives an annual independent assessment from the internal audit department and the responsible auditor concerning the Group's risks and whether the internal controls are functioning appropriately and are satisfactory.

Ownership risk

Ownership risk is the risk that BN Bank will suffer a negative result from shareholdings in strategically owned companies and/or that the Bank will need to inject fresh equity capital into such companies. "Owner companies" is defined as companies in which BN Bank has a significant stake and influence.

SpareBank 1 Boligkreditt, SpareBank 1 Næringskreditt, SpareBank1 Kredittkort and Roomy.no are covered by this definition.

SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt are primarily financing instruments for the core business of the owner banks. They have a relatively simple risk picture and the risk appetite is very low as regards market and liquidity risk. Operational risk in these companies is also considered to be low.

BN bank carries out its corporate governance with respect to SpareBank1 Kredittkort and Roomy.no effectively through the formal governance bodies that have been established.

Commercial risk

Commercial risk is defined as the risk of unexpected fluctuations in income as a result of circumstances other than credit risk, market risk and operational risk. This risk can arise in various business or product segments and can be linked to economic cycles and changes in customer behaviour.

Commercial risk is expressed in an expected weakening in financial results. BN Bank continually experiences both substantial and minor changes in framework operating conditions, both through the competitive situation and through changes in legislation which impact on income models. Common to these changes is the fact that the Bank continually adapts its business model to compensate for any loss of income, whether this is by identifying other income areas or through adjusting costs to the new situation.

Good strategic planning is the principal tool for reducing commercial risk. As commercial risk can arise as a result of various risk factors, a broad range of tools (both qualitative and quantitative) are used to identify and report on this type of risk.

Social responsibility

BN Bank ASA has a constant focus on compliance with guidelines and standards for areas that fall within the Bank's social responsibility. This is reflected in the Group's ethical guidelines and elsewhere.

The Bank's guidelines describe our obligations and requirements linked to ethical issues in business practice and personal conduct. The Bank's values are openness, efficiency and simplicity and, together with the ethical issues form the core values and framework for the Bank's culture.

Issues which are considered here are:

- Combating of economic crime
- Employee rights and social circumstances
- External environment
- Human rights

Combating of economic crime

BN Bank prioritises the work to identify and combat organised economic crime and the attempts of individuals to make financial gains through criminal acts. BN Bank considers measures within this area to be important in order to safeguard BN Bank's finances, reputation and staff. BN Bank has zero tolerance regarding all forms of corruption.

The term 'economic crime' includes the following:

- Money laundering and the financing of terrorism
- External fraud
- Internal irregularities

BN Bank's security policy encompasses measures to combat money laundering and the financing of terrorism, fraud, internal irregularities and corruption. All punishable circumstances must be reported and will be treated as a police matter.

The guidelines linked to the money laundering regulations cover the Bank's obligation to:

- carry out risk-based checks on customers
- investigate suspicious transactions and report to the Norwegian National Authority for Investigation and Prosecution of Economic and Environment Crime
- establish appropriate internal control and communication routines, initiate training programmes and appoint money laundering administrators

The Bank has established the following principles concerning the prevention of corruption:

- the Bank shall strive to have a marked culture of openness concerning all circumstances relating to customer care, relationship-building, sponsorship, gifts, representation, travel, etc.
- all expenses relating to travel arrangements must be accounted for correctly and openly
- the level of benefit that is given to customers through events and other forms of customer care must clearly fall within what is considered lawful
- customers who have recently taken part in or who are about to take part in special negotiations concerning contracts, deliveries, agreements, credits, investments, etc. should not be invited to events and customer care arrangements
- a special duty of care applies in connection with the participation of public sector employees

A total of 23 cases were reported to the Norwegian National Authority for Investigation and Prosecution of Economic and Environment Crime during 2013, split between 13 customers.

The Bank carries out annual training of all employees concerning the guidelines linked to the combating of economic crime. Annual ethics meetings are also held with all the Bank's departments.

An integrated sanction system has been established within the Bank to deal with any breaches of the law, ethical guidelines or authorities, or any other material breaches of internal routines and guidelines.

Employee rights and social circumstances

BN Bank has established an HR strategy with the following objectives:

- BN Bank aims to be a preferred employer
- BN Bank aims to achieve a VOICE index[1] in excess of 800

In a "preferred employer", we place motivated and engaged employees who are driven by a desire to help the Bank achieve its goals.

BN Bank is a member of the Norwegian Employers' Association for the Financial Sector and follows the Main Agreement and the Central Agreement agreed with the Financial Sector Union of Norway. The employees' pay and employment conditions are also regulated in a Company Agreement and a Special Agreement. In a close partnership with the Financial Sector Union of Norway, BN Bank has prepared a personnel handbook, a managers' handbook and an HSE handbook.

The work relating to HSE is aimed at ensuring that work processes and circumstances concerning responsibility and collaboration promote well-being and efficiency. The guidelines place special emphasis on achieving the following secondary targets:

- further development of a good physical and psychosocial working environment
- reductions in physical and mental strain caused by the use of computer equipment
- reduced sick leave, with a special focus on absence relating to the working environment and long-term absence
- ensuring that total sick leave does not exceed 4% during the calendar year.

The Bank has a working environment and collaboration committee, which consists of representatives of the Bank's management and the employees' elected representatives.

Employee surveys during the past two years have shown progress in the level of satisfaction with working for BN Bank ASA. In January 2013, the VOICE index was measured at 839, compared with 781 during the previous year.

BN Bank has a collaboration with an external health care service provider which conducts annual safety inspections and health days are conducted with a focus on the organisation as a whole and motivation/mastery.

Sickness absence within the Bank was 6.38 per cent in 2013, compared with 4.4 per cent in the rest of the financial sector as a whole (the latter figure concerns the first three quarters of 2013). In 2012, sickness absence was 3.89 per cent. The Bank follows up those on sick leave in line with official guidelines and requirements and aims to be on a par with the financial sector as a whole over time. Six people in the Bank were on long-term sick leave for reasons that are not job-related in 2013. No significant injuries or accidents occurred during 2013.

The Bank aims to have a workplace in which there is equality between men and women. Of the company's 126 employees, 63 are women and 63 are men. A balance is sought between men and women at all levels. However, there are still relatively few women in managerial positions in the Bank.

The proportion of women within the corporate management team was unchanged at 20 per cent in 2013; at head of department level, the proportion of women is 29 per cent. At the year-end, BN Bank's Board consists of four men and four women, of whom one woman is the employee's representative.

[1] VOICE is an indication of how well-equipped an organisation is to achieve its targets. The standard VOICE questionnaire instrument is generic and used across industries globally. Measurements are carried out of strengths and weaknesses in human capital (with a focus on the individual), organisational capital (with a focus on structural and cultural factors), targets which give direction, and management which sets the agenda for the organisation.

External environment

For BN Bank, travel and energy consumption are the biggest sources of greenhouse gas emissions. The number of journeys was reduced by 17% during 2013.

The Bank's travel policy encourages all employees to minimise their business travel. It also follows from the Bank's credit strategy that environmentally related risk must be assessed on the same basis as other risk factors. The Bank must not finance new projects that do not have the necessary approval under Norwegian requirements and rules. Other than the above, BN Bank has not established any special guidelines in relation to the external environment.

In autumn 2010, the Bank's head office moved into a new energy-efficient building in Søndregate in Trondheim. The Bank has invested in equipment to facilitate online meetings, video-conferences and document-sharing. This is helping to reduce the need for physical meetings and travel.

Human rights

Today, Norway is affiliated to most relevant human rights conventions incorporated in Norwegian law through the Human Rights Act. BN Bank only operates in Norway and most of the Bank's customers are resident in Norway. BN Bank has not established any special guidelines concerning human rights in particular.

Report from the Board of Directors

Summary of 2013

The comparative figures in parentheses are for 2012.

In 2013, the BN Bank Group posted a profit after tax of NOK 252 million (NOK 186 million). This corresponds to a return on equity after tax of 7.3 per cent during 2013 (5.8 per cent).

The Bank's core business (the result of the corporate and retail banking activities) saw an increase in post-tax profit of NOK 54 million, up from NOK 215 million in 2012 to NOK 269 million in 2013.

Total income was NOK 693 million (NOK 634 million).

Operating expense amounted to NOK 215 million (NOK 262 million). Corrected for non-recurring events in 2012, cost reductions of NOK 36 million were implemented compared with 2012.

Net impairment losses on loans and guarantees totalled NOK 129 million (NOK 114 million) in 2013.

Non-performing loans as at 31 December 2013 represented 1.91 per cent of gross lending in the Group and the Guarantee Portfolio[1] (1.19 per cent).

On a 12-month basis, the growth in gross managed lending amounted to 1 per cent. Deposits fell by 10.3 per cent in 2013.

The margin on loans measured against the 3-month NIBOR rose by 45 basis points in 2013 to 2.39 per cent.

The core tier 1 capital ratio as at the end of 2013 was 11.1 per cent (10.3 per cent). The Bank's capital adequacy ratio and tier 1 capital ratio were 15.4 and 13.0 per cent respectively (15.1 and 12.1 per cent respectively).

The Bank's total assets amounted to NOK 37.5 billion as at 31 December 2013 (NOK 41.7 billion). Including loans transferred to SpareBank 1 Næringskreditt and SpareBank 1 Boligkreditt, total assets were NOK 58.2 billion (NOK 57.9 billion). Deposits amounted to NOK 15.2 billion as at 31 December 2013 (NOK 16.9 billion).

As at the end of 2013, BN Bank has transferred NOK 12.4 billion to SpareBank 1 Næringskreditt and NOK 8.3 billion to SpareBank 1 Boligkreditt.

As at 31 December 2013, the Bank's exposure to the Guarantee Portfolio was NOK 250 million (NOK 343 billion). This was 0.9 per cent of the Bank's gross lending at the end of 2013 (1.0 per cent).

Vision, values and strategy

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

The Bank's values are Engaged, Effective and Open.

BN Bank shall be a leading specialist bank within the financing of commercial property in the corporate market and a functional bank for customers who want simple and predictable banking services at competitive terms in the retail market. In these areas, BN Bank will supplement the owner banks.

BN Bank aims to be one of Norway's most cost-effective banks. This will be achieved through the Bank having a continuous focus on efficient operation and cost management.

BN Bank's operations are nationwide and concentrated on the retail and corporate business areas. BN Bank has its head office in Trondheim and a regional office in Oslo.

Accounting policies

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

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

Results for 2013

In 2013, the BN Bank Group posted a profit after tax of NOK 252 million (NOK 186 million). This gives an annualised return on equity after tax of 7.3 per cent. Increased margins and a decrease in operating expenditure made a positive contribution to the result, while impairment losses on loans and the levy paid to the Norwegian Banks' Guarantee Fund had a negative impact.

Income

Total income for 2013 was NOK 693 million (NOK 634 million).

NOK MILLION	2013	2012	CHANGE
Total income	693	634	59
Margins and volumes, lending/deposits			120
Fees/commission			93
Levy paid to Guarantee Fund			-19
Changes in value of financial instruments			12
Amicable settlement with Glitnir banki hf, Iceland			-117
Return on unrestricted capital (equity)			-11
Other			-20

[1] BN Bank has previously sold its portfolio in Ålesund to SpareBank 1 SMN. BN Bank provides guarantees for 60 per cent of the credit risk for parts of this portfolio (known as the "Guarantee Portfolio"). As at 31 December 2013, the Guarantee Portfolio stood at NOK 417 million, of which BN Bank guarantees NOK 250 million.

The most important explanations for the increase in income in 2013 compared with 2012 are increased margins on lending and increased commission from SpareBank 1 Næringskreditt and SpareBank 1 Boligkreditt. The income for 2012 includes a one-off effect of NOK 117 million arising from the Bank having entered into a settlement with its former owner. Adjusted for this income, the increase in income from 2012 was NOK 176 million.

The Bank's hedging strategy involves reducing interest rate exposure by use of derivatives. This means that the Bank's equity can be considered as being invested in interest-bearing receivables with a short-term interest rate term. A lower short-term interest rate level in 2013 compared with 2012 reduced the return on these assets.

In 2013, changes in the value of financial instruments had a positive effect on operating income in the amount of NOK 41 million, which represents a positive change of NOK 12 million compared with 2012. See Note 14 for more information concerning these changes in value.

Operating expense

Operating expense for 2013 was NOK 215 million (NOK 262 million).

NOK MILLION	2013	2012	CHANGE
Operating expense	215	262	-47
Salary and other personnel expenses			-11
Depreciation, amortisation and write-downs			-18
Consultancy assistance			-13
Other expenses			-5

The decrease is primarily attributable to the Bank's focus on efficient operations and cost savings.

Corrected for non-recurring events in 2012 and 2013, cost reductions of NOK 36 million were implemented compared with 2012.

The cost-income ratio in 2013 was 31 per cent (41 per cent).

Margins

The comparative figures in parentheses are for 2012 and all figures are measured against the average 3-month NIBOR over the same period.

BN Bank improved its margins in both corporate and retail lending in 2013. These improvements are attributable both to reduced funding cost and to changes in lending interest rates.

The Bank's total margin on lending for 2013 was 2.39 per cent (1.94 per cent). The margin for retail lending was 2.27 per cent (1.69 per cent), while the margin for corporate lending was 2.47 per cent (2.03 per cent).

The Bank's deposit margin for 2013 was minus 1.18 per cent (minus 0.76 per cent).

Impairment losses and write-downs

IIn 2013, impairment losses on loans amounted to NOK 129 million (NOK 114 million).

Impairment losses on loans in 2013 are distributed with NOK 106 million within the corporate market, NOK 22 million in the Guarantee Portfolio and NOK 1 million in the retail market.

Collective write-downs decreased by NOK 3 million in 2013.

Individual and collective impairment losses on loans in 2013 were distributed as follows:

NOK MILLIONS	INDIVIDUAL	COLLECTIVE
Corporate	109	-3
Retail	1	0
Guarantee Portfolio	37	-15

With a deduction for individual write-downs, non-performing and doubtful commitments amounted to NOK 972 million (NOK 808 million) at the end of 2013, equivalent to 3.25 per cent (2.43 per cent) of gross lending within the Group and the Guarantee Portfolio. See Note 10 for more information.

Loan loss provisions as at 31 December 2013 amounted to NOK 215 million. Of this figure, individual write-downs account for NOK 154 million and collective write-downs NOK 61 million.

Total loan loss provisions as at December 2013 were distributed as follows:

NIK MILLION	LOAN, LOSS PROVISIONS (NOK MILLION)	% OF GROSS LENDING, GROUP
Corporate	201	0.93
Retail	14	0.18

In addition, a provision of NOK 133 million has been allocated as a financial loss guarantee[1] relating to the Guarantee Portfolio. This is 53 per cent of the guaranteed amount.

Recommendation for distribution of the annual profit

The Board of Directors recommends that the Parent Bank's annual profit of NOK 249 million be distributed as follows:

NOK MILLION	CHANGE
Dividend	240
Transfered to other equity	9
Total distributed	249

The balance sheet

BN Bank's total assets stood at NOK 37.5 billion at the end of 2013, which represents an decrease of NOK 4.2 billion over the past 12 months. This change is primarily due to the transfer of loans to SpareBank 1 Næringskreditt and SpareBank 1 Boligkreditt, growth in lending and a reduction in lending to SpareBank 1 SMN (vendor financing linked to the Guarantee Portfolio[1]).

Gross managed lending[2] has risen by NOK 0.6 billion (NOK 3.8 billion), or 1 per cent, in the past 12 months. Gross managed loans totalled NOK 50 billion at the end of 2013 (NOK 49.5 billion).

During 2013, loans worth NOK 2.5 billion were transferred to SpareBank 1 Næringskreditt, while loans amounting to NOK 2.1 billion were transferred to SpareBank 1 Boligkreditt.

As at 31 December 2013, a loan portfolio of NOK 12.4 billion had been transferred to SpareBank 1 Næringskreditt, and a loan portfolio of NOK 8.3 billion to SpareBank 1 Boligkreditt. The Bank has transferred 36 per cent of loans for commercial property and 52 per cent of residential mortgage loans to these two companies.

Gross managed lending had the following segmental exposure:

NOK BILLION	31.12.13	31.12.12
Retail	16.0	14.4
Corporate	34.0	34.1
Loans to SpareBank 1 SMN	0.0	0.9

The increase in lending during the past 12 months within the corporate market amounted to NOK -0.1 billion, or -0.3 per cent. The increase in lending during the past 12 months within the retail market amounted to NOK 1.6 billion, or 11 per cent.

Gross lending within the Group at the end of 2013[3] was distributed as follows:

FIGURES AS %	31.12.13	31.12.12
Property management	64	62
Retail	26	27
Financial sector	0	3
Other	10	8

Customer deposits decreased by NOK 1.7 billion in 2013. Total deposits amounted to NOK 15.2 billion as at 31 December 2013.

The deposit-to-loan ratio as at 31 December 2013 was 51.8 per cent. This represents an increase of 1 percentage point over the past 12 months.

The Bank's liquidity portfolio stood at NOK 6.1 billion at the end of 2013.

In total, the Bank issued certificates and bonds amounting to NOK 5.7 billion in 2013. The Bank's most important financing sources are deposits, senior bonds issued in the Norwegian bond market and covered bonds issued by the SpareBank 1 consortium's credit institutions, SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt.

The Bank's stake in SpareBank 1 Boligkreditt as at 31 December 2013 was 4.78 per cen. The Bank previously had a stake in SpareBank 1 Næringskreditt. These shares were disposed of in 2013.

As BN Bank ASA has bonds listed on Oslo Stock Exchange, the Board of Directors has prepared a report on corporate management which satisfies the requirements concerning bond issuers. This report is available on the website www.bnbank.no.

Corporate loans

In 2013, the profit after tax for corporate loans was NOK 202 million (NOK 198 million). Increased margins contributed positively, while impairment losses on loans made a negative contribution compared with 2012. In 2013, corporate loans posted a return on equity of 6.9 per cent.

The margin on lending[4] in 2013 was 2.47, while the deposit margin was -0.65 per cent.

During the past 12 months, growth in lending and deposits in the corporate market amounted to -0.3 per cent and -25 per cent respectively.

Retail

In 2013, the profit after tax for the retail market was NOK 67 million (NOK 16 million). The principal explanation for the improvement in the result is increased lending margins. In 2013, the retail market posted a return on equity of 13.4 per cent.

The margin on lending in 2013 was 2.27, while the deposit margin was -1.23 per cent.

During the past 12 months, growth in lending and deposits in the retail market amounted to 11 per cent and -9 per cent respectively.

There is low risk linked to lending in the retail market, and impairment losses and non-performing loans are at a low level.

[2] Gross managed lending is the sum total of corporate and retail lending in BN Bank, SpareBank 1 Næringskreditt, SpareBank 1 Boligkreditt and loans to SpareBank 1 SMN.
[3] Gross lending within the Group is the sum total of the corporate and retail markets in BN Bank and lending to SpareBank 1 SMN.
[4] Margin is defined as the average customer interest rate minus the average 3-month NIBOR

Guarantee Portfolio

The Guarantee Portfolio covers the Bank's previous portfolio in Ålesund which has been sold to SpareBank 1 SMN, but where BN Bank guarantees 60 per cent of the credit risk.

The 15 remaining commitments in the portfolio are largely within the offshore, shipping and aquaculture sectors.

Profit after tax for the Guarantee Portfolio was NOK -17 million (NOK -112 million). The improvement in the result is due to lower impairment losses in 2013 compared with 2012.

The Guarantee Portfolio decreased by NOK 154 million last year and amounted to NOK 417 million as at 31 December 2013. The Bank's exposure to losses in the portfolio is NOK 250 million.

Solvency

BN Bank's capital adequacy ratio, tier 1 capital ratio and core tier 1 capital ratio were as follows:

FIGURES AS %	31.12.13	31.12.12
Capital adequacy ratio	15.4	15.1
Tier 1 capital ratio	13.0	12.1
Core tier 1 capital ratio	11.1	10.3

The Board of Directors has adopted a provisional capital plan for BN Bank aimed at attaining a core tier 1 capital ratio of 13 per cent by the end of the second quarter of 2016.

The Bank uses the standardised approach for calculating capital adequacy ratio.

See Note 3 for further details concerning capital adequacy ratio and solvency.

Results per company

The Group's profit of NOK 252 million consists of NOK 120 million from BNkreditt, NOK 6 million from BN Boligkreditt and NOK 126 million from the Parent Bank. In addition, NOK 118 million was recognised in the Parent Company's profit and loss statement in respect of dividends distributed by BNkreditt and BN Boligkreditt in 2013 and a realised gain in connection with the liquidation of BN Boligkreditt.

Subsidiaries

The BN Bank Group comprises the bank BN Bank ASA and the credit institution Bolig- og Næringskreditt AS (BNkreditt). The Group also includes the real estate company Collection Eiendom AS. The Group previously also included BN Boligkreditt AS. This company was liquidated during the fourth quarter of 2013.

BNkreditt presents separate financial statements in compliance with International Financial Reporting Standards (IFRS). Collection Eiendom presents its financial statements in compliance with NGAAP. See Note 1 for more information.

Bolig- og Næringskreditt AS

BNkreditt provides low-risk mortgage loans on commercial property. At the end of 2013, the company had a gross lending portfolio of NOK 15.7 billion (NOK 18.2 billion). Loans corresponding to NOK 12.4 billion had been transferred to SpareBank 1 Næringskreditt as at 31 December 2013.

Profit after tax amounted to NOK 120 million in 2013, compared with a post-tax profit of NOK 110 million in 2012. Profits were boosted by increased lending margins and an increase in commission on loans transferred to SpareBank 1 Næringskreditt, while impairment losses on loans dragged profits down.

Impairment losses on loans totalled NOK 109 million in 2013, compared with NOK 4 million in 2012. Collective write-downs were down by NOK 3 million in 2013 and totalled NOK 33 million, which is 0.21 per cent of gross lending in the company as at 31 December 2013.

BNkreditt had NOK 3.5 billion in bond debt outstanding as at 31 December 2013, compared with NOK 4.2 billion at year-end 2012.

BN Bank has provided guarantees that BNkreditt will have a minimum capital adequacy ratio and junior financing from the Bank of 20 per cent. The capital adequacy ratio was 19.16 per percent, while the tier 1 capital ratio was 16.43 per cent at the year-end 2013. The amount BN Bank is ceding precedence for in relation to guarantees was NOK 138 million as at 31 December 2013.

Collection Eiendom AS

Collection Eiendom was established in 2010 for the purpose of owning and managing repossessed properties.

Collection Eiendom posted a zero result after tax for 2013 (NOK 0 million).

Risk

BN Bank has established a goal of maintaining a low risk profile in all its activities.

BN Bank has established a strategy and process for risk management and assessment of the capital adequacy requirement and how capital adequacy can be maintained. The collective term for this is ICAAP (Internal Capital Adequacy Assessment Process). Assessing the capital adequacy requirement includes assessing the size, composition and distribution of the capital base adapted to the level of risks that the Bank is or may be exposed to. The assessments are risk-based and forward-looking. Risk areas assessed in addition to the Pillar 1 risks are concentration risk in the credit portfolio, interest rate and foreign exchange risk in the bank portfolio, liquidity risk, market risk, owner's risk and reputation risk, 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.

Credit risk

The level of impairment losses over time in BN Bank is strongly linked to developments in the macro-economy. Developments in the real economy and property prices will therefore impact on the scope of the Bank's impairment losses in the future.

Credit risk in the lending portfolio is a function of two events:

- Inability to pay among borrowers.
- The value of the underlying collateral is insufficient to cover the company's claims in the event of default and subsequent realisation of the mortgage.

Both events must occur in order for a loss to arise.

In 2013, individual impairment losses on loans amounted to 0.29 per cent of the managed portfolio and Guarantee Portfolio. Expected impairment losses on loans that are not past due or where no loss provisions have been made amount to 0.05 per cent.

Liquidity risk

The Bank has a conservative liquidity strategy and has established a goal of being able to manage without access to new external financing sources for a period of 12 months. At the year-end 2013, the Bank fulfilled the goal by a good margin.

During 2013, BN Bank increased the term of the Bank's market financing and combined with a greater proportion of the Bank's total lending being financing through covered bonds, the Board of Directors believes that the Bank is well-equipped to face any negative events in the financial markets.

Market risk

BN Bank does not have its own stock portfolio, and the Bank's market risk only arises as a result of interest rate risk and currency risk.

BN Bank's earnings should primarily be a function of the borrowing and lending activities and the Bank therefore has low limits for all types of market risk.

Working environment, organisation and corporate responsibility

The Bank had 111 full-time equivalents (126 employees) at year-end 2013, representing a reduction of three full-time equivalents compared with the previous year-end.

The Bank follows applicable regulations concerning the determination of salaries and other remuneration for the CEO and other senior employees. See Note 37 for details.

There is a good collaboration between the management and the employees. The Bank has a working environment and collaboration committee which consists of representatives of the Bank's management and the employee's elected representatives.

Sick leave within the Bank was 6.38 per cent in 2013, compared with 4.4 per cent in the rest of the financial sector (the latter figure concerns the first three quarters of 2013). In 2012, sick leave was 3.89 per cent. No significant injuries or accidents occurred during 2013.

The Bank aims to have a workplace in which there is equality between men and women. Of the company's 126 employees, 63 are women and 63 are men. A balance is sought between men and women at all levels. However, there are still relatively few women in managerial positions in the Bank. There is one woman in the Bank's management group at the end of 2013. Of a total of 14 departmental managers, four are women (29 per cent). At the year-end, BN Bank's Board of Directors consists of four men and four women, of whom one woman is the employee's representative.

The Bank endeavours to ensure equal opportunities for all. Discrimination within recruitment, salary and employment conditions, promotion and opportunities for development must not occur.

The Bank's operations largely impact on the external environment through its office and travel activities.

The Bank's head office is situated in a commercial building with a low energy profile. The Bank enables and encourages employees to use video conferencing and other electronic means of communication in order to reduce travel.

BN Bank has a constant focus on compliance with guidelines and standards concerning the Bank's corporate social responsibility, a fact that is reflected in the Bank's ethical guidelines, among other things. See the separate section on corporate social responsibility on page 27.

Outlook

Changes in the capital requirements for banks were in a focal area during 2013. With the Ministry of Finance having clarified the level of countercyclical capital buffer, much of the uncertainty surrounding future capital adequacy rules and how those rules will be practised has been removed. BN Bank aims to attain a core tier 1 capital ratio of 13 per cent by the end of the second quarter of 2016. The Bank has implemented various initiatives in order to achieve this goal, including the development of the Bank's policies, routines and culture in order to satisfy the requirements of the advanced IRB method. Other initiatives are significant cost-cutting measures, adjustment of lending volumes and margins, and retention of profits.

The key elements in the Bank's strategy from 2012 remain unchanged, and there remains a need for limits on lending growth and satisfactory margins in the future.

In recent years, the Bank has shown good improvement in results before impairment losses in the core business. The Board of Directors expects this trend to be further reinforced and will focus on sound development in profitability in accordance with the adopted strategy.

House prices flattened out during 2013. The retail market is however still characterised by low unemployment and low interest rates. This means that households are well able to service their debts, and non-performing loans in the residential mortgage portfolio are at a low level. Average household debt is nevertheless still high, making some households vulnerable to interest rate rises and reductions in earnings. Given the situation in the market, it will be important to continue to maintain the Bank's conservative credit policy to ensure that the credit risk associated with the retail portfolio remains low.

Within commercial property, there is no sign of the market moving dramatically in any one direction in the foreseeable future, although a weaker trend in the Norwegian economy may dampen demand for commercial properties. The Bank's losses on commercial property lending in 2013 were associated with specific circumstances affecting individual loans. The loss trend this year should not, therefore, in the Board's opinion be interpreted as an indication of a weakened underlying property market.

The use of SpareBank1 Næringskreditt and SpareBank1 Boligkreditt has been an important aspect of the funding structure for the Bank's aggregate loan portfolio. At the same time, there are limits as to how large a share of the portfolio can be funded through covered bonds, and the Bank will continue to remain dependent on market funding. The Bank has a target of transferring 50 per cent of commercial loans and 55 per cent of residential mortgage loans to these two companies. During 2013, BN Bank increased the duration of the Bank's market financing and combined with a greater proportion of the Bank's total lending being financing through covered bonds, the Board of Directors believes that the Bank is well-equipped to face negative events in the financial markets.

The Bank receives commission on loans that are transferred to Sparebank1 Næringskreditt, which is calculated as the lending interest rate on the loans less costs incurred by Sparebank1 Næringskreditt. BN Bank's owners resolved that from 2014 onwards these costs would also include a premium for the capital that the owners have invested in Sparebank1 Næringskreditt for the loans transferred by BN Bank. The cost of equity is equal to a calculated required rate of return of 8 per cent after tax. This entails a decrease in the commission that the Bank receives from Sparebank1 Næringskreditt. On the basis of an assumed volume of loans transferred in 2014, the Bank expects a decrease in other operating income of about NOK 117 million.

Despite substantial write-downs on loans, in both the Guarantee Portfolio and corporate lending, BN Bank increased its earnings considerably through 2013 as a whole. The Bank's interest rate adjustments on retail and corporate loans contributed to a higher level of net interest income. At the same time, the Bank's cost-cutting programme has resulted in a significantly lower cost base, and the Bank expects to see zero growth in underlying costs in 2014. As mentioned above, the premium for the cost of equity in Sparebank1 Næringskreditt will pull down the Bank's accounting result. Apart from this, the Board of Directors expects the trends in income and costs, combined with the normalisation of impairment losses within the corporate market, to contribute to the Bank's further positive financial development in 2014.

The Board of Directors would like to thank the employees for their excellent efforts during 2013.

Trondheim, 4 March 2014
The Board of Directors of BN Bank ASA

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

Kristin Undheim
Jannike Lund ((Deputy Member, Employees' Representative))
Ella Skjørestad
Gunnar Hovland ((Managing Director))

Income Statement

		GROUP		PARENT BANK	
NOK MILLION	**NOTE**	**2013**	**2012**	**2013**	**2012**
Interest and similar income	11	1 567	1 614	1 222	1 249
Interest expense and similar charges	12	1 157	1 271	1 039	1 086
Net income from interest and credit commissions		**410**	**343**	**183**	**163**
Change in value of financial instruments carried at fair value, gains and losses	14	41	29	54	50
Other operating income	13	242	145	89	49
Amicable settlement	15	0	117	0	117
Total other operating income		**283**	**291**	**143**	**216**
Salaries and general administrative expenses	16, 18, 37	176	203	102	130
Ordinary depreciation, amortisation and write-downs	27	12	31	12	31
Other operating expense	17	27	28	18	7
Total other operating expense		**215**	**262**	**132**	**168**
Operating profit/(loss) before impairment losses		**478**	**372**	**194**	**211**
Impairment losses on loans and advances	10	129	114	20	116
Operating profit/(loss) after impairment losses		**349**	**258**	**174**	**95**
Income from ownership interests in group companies	26	0	0	118	164
Profit before tax		**349**	**258**	**292**	**259**
Tax charge	19	97	72	43	72
Profit for the year		**252**	**186**	**249**	**187**
Statement of Other Comprehensive Income					
Items that will not be reclassified subsequently to profit or loss					
Actuarial gains (losses) on pension plans		18	22	12	14
Tax		-5	-6	-3	-4
Other comprehensive income (net of tax)		**13**	**16**	**9**	**10**
Total comprehensive income for the period		**265**	**202**	**258**	**197**

Balance sheet as at 31.12.

		GROUP		PARENT BANK	
NOK MILLION	**NOTE**	**2013**	**2012**	**2013**	**2012**
Assets					
Deferred tax assets	19	0	43	0	0
Intangible assets	27	7	10	7	10
Ownership interests in group companies	26	0	0	1 600	1 877
Subordinated loans	25	1	0	452	451
Tangible fixed assets	27	13	18	13	18
Repossessed properties	28	3	29	0	0
Loans and advances	3, 4, 5, 6, 8, 13, 20, 21	29 094	33 193	13 430	15 043
Prepayments and accrued income	3, 4, 5, 6, 20, 21, 32	58	52	56	53
Financial derivatives	3, 4, 5, 6, 20, 21, 22, 23	622	759	543	662
Short-term securities investments	3, 4, 5, 6, 20, 21, 24	6 122	6 135	6 122	5 612
Cash and balances due from credit institutions	3, 4, 5, 6, 7, 20, 21	1 585	1 495	10 656	12 860
Assets classified as held for sale	26	0	0	0	1
Total assets		37 505	41 734	32 879	36 587
Equity and liabilities					
Share capital	38	706	668	706	668
Share premium		415	266	415	266
Other equity		2 480	2 402	1 332	1 262
Total equity		3 601	3 336	2 453	2 196
Deferred tax	19	19	0	64	42
Subordinated loan capital	3, 4, 5, 6, 20, 21, 34	1 459	1 613	1 459	1 613
Liabilities to credit institutions	4, 5, 6, 20, 21, 31, 36	13	519	13	806
Debt securities in issue	3, 4, 5, 6, 20, 21, 30	16 517	18 369	13 060	14 123
Accrued expense and deferred income	3, 5, 6, 17, 33	187	201	176	183
Other current liabilities		16	82	16	80
Tax payable	19	37	71	23	31
Financial derivatives	3, 4, 5, 6, 20, 21, 22, 23	487	633	442	603
Customer deposits & accounts payable to customers	4, 5, 6, 20, 21, 29	15 169	16 910	15 173	16 910
Total liabilities		33 904	38 398	30 426	34 391
Total equity and liabilities		37 505	41 734	32 879	36 587
Mortgages and guarantees	35				

Trondheim, 4 March 2014
The Board of Directors of BN Bank ASA

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

Kristin Undheim
Jannike Lund ((Deputy Member, Employees' Representative))
Ella Skjørestad
Gunnar Hovland ((Managing Director))

Change in equity during 2012 and 2013

GROUP

NOK MILLION	SHARE CAPITAL	SHARE PREMIUM	OTHER PAID-IN RESERVES	OTHER EQUITY	TOTAL EQUITY
Balance Sheet as at 01/01/2012	649	190	0	2 295	3 134
Profit for the year	0	0	0	186	186
Actuarial gains (losses) on pensions (net of tax)	0	0	0	16	16
Dividend paid	0	0	0	-95	-95
Capital increase	19	76	0	0	95
Balance Sheet as at 31/12/2012	**668**	**266**	**0**	**2 402**	**3 336**
Profit for the year	0	0	0	252	252
Actuarial gains (losses) on pensions (net of tax)	0	0	0	13	13
Dividend paid	0	0	0	-187	-187
Capital increase	38	149	0	0	187
Balance Sheet as at 31/12/2013	**706**	**415**	**0**	**2 480**	**3 601**

PARENT BANK

NOK MILLION	SHARE CAPITAL	SHARE PREMIUM	OTHER PAID-IN RESERVES	OTHER EQUITY [1]	TOTAL EQUITY
Balance Sheet as at 01/01/2012	649	190	282	878	1 999
Profit for the year	0	0	0	187	187
Actuarial gains (losses) on pensions (net of tax)	0	0	0	10	10
Dividend paid	0	0	0	-95	-95
Capital increase	19	76	0	0	95
Balance Sheet as at 31/12/2012	**668**	**266**	**282**	**980**	**2 196**
Profit for the year	0	0	0	249	249
Actuarial gains (losses) on pensions (net of tax)	0	0	0	8	8
Dividend paid	0	0	0	-187	-187
Share capital increase	38	149	0	0	187
Balance Sheet as at 31/12/2013	**706**	**415**	**282**	**1 050**	**2 453**

[1] The reserve for unrealised gains is included in Other reserves. As at 31/12/2013, NOK 295 million was allocated and as at 31/12/2012, NOK 174 million was allocated.

Statement of Cash Flows

		GROUP		PARENT BANK	
NOK MILLION	**NOTE**	**2013**	**2012**	**2013**	**2012**
Cash flows from operating activities					
Interest/commission received and fees received from customers		1 537	1 850	599	805
Interest/commission paid and fees paid to customers		-502	-455	-511	-475
Interest received on other investments		184	283	200	255
Interest paid on other loans		-698	-804	-550	-551
Receipts/disbursements (-) on loans and advances to customers		3 982	-561	1 569	-1 187
Receipts/payments (-) on customer deposits and accounts payable to customers		-1 561	1 211	-1 557	1 211
Receipts/payments (-) on liabilities to credit institutions		-640	-962	-927	-1 362
Receipts/payments(-) on securities in issue and securities buy-back		-1 785	338	-1 042	2 668
Receipts on previously written-off debt		17	7	8	3
Other receipts/payments		-73	184	-187	229
Payments to suppliers for goods and services		-92	-110	-53	-60
Payments to employees, pensions and social security expenses		-115	-105	-66	-66
Tax paid		-71	-34	-31	-34
Net cash flow from operating activities		**183**	**842**	**-2 548**	**1 436**
Cash flows from investing activities					
Receipts/payments (-) on receivables from credit institutions		30	304	2 636	-731
Receipts/payments (-) on short-term securities investments		13	-577	-510	-578
Receipts/payments (-) on long-term securities investments [2]		0	0	395	164
Proceeds from sale of operating assets etc.		25	0	0	0
Purchase of operating assets etc.		-5	-44	-5	-15
Net cash flow from investing activities		**63**	**-317**	**2 516**	**-1 160**
Cash flows from financing activities					
Receipts of subordinated loan capital		-156	156	-156	156
Dividend paid		-187	-95	-187	-95
Capital changes (share issues, etc.)		187	95	187	95
Net cash flow from financing activities		**-156**	**156**	**-156**	**156**
Net cash flow for the period		**90**	**681**	**-188**	**432**
Cash and receivables from credit institutions as at 1/1.		1 495	814	436	4
Cash and receivables from credit institutions as at 31/12. [1]		**1 585**	**1 495**	**248**	**436**

[1] In the case of the Parent Bank, cash and balances consist of deposits in Norges Bank.
[2] Investments are largely linked 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 regional office in Oslo.

Within the framework of the 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 2013 in compliance with International Financial Reporting Standards (IFRS), as approved by the EU.

New and amended standards applied within the BN Bank Group with effect from 2013

In 2013, the following new or amended IFRSs or IFRIC interpretations entered into force which had a material impact on the consolidated financial statements.

IAS 1 "Presentation of Financial Statements" has been amended with the result that items in the statement of other income and expenses must be divided into two groups: those which are subsequently reclassified through profit or loss and those which are not. The change does not impact on the items that must be recognised under 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 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 to IAS 19, there is a reduction in equity for the Group as at 1 January 2013 of just over NOK 5 million.

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 in IFRS and defines which additional disclosures should be provided when fair value is applied. The standard does not broaden the scope of fair value accounting, but provides guidance concerning the method of application when the use of fair value is obligatory or permitted in other IFRSs. The Group applies fair value as a measurement criterion for certain assets and liabilities. The Group has amended the note information accordingly.

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 2014 or later, but without the Group having chosen early application:

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 standard enters into force on 1 January 2014. At the year-end, the Group has no assets in companies that have revised their accounting policies as a result of this standard.

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 standard enters into force on 1 January 2014. The Group has concluded that the standard will not have a material impact on the information in the financial statements.

IFRS 9 "Financial Instruments" concerns the classification, valuation and accounting of financial assets and liabilities and hedge accounting. IFRS 9 was published in November 2009, October 2010 and November 2013. It replaces the parts of IAS 39 that concern corresponding issues. According to IFRS 9, financial assets must be divided into two categories: assets which must be valued at fair value and assets which must be valued at amortised cost. The category is determined at the time of initial recognition of the asset. The classification depends on the unit's business model for managing its financial instruments and the characteristics of the individual instrument's cash flows. As regards financial liabilities, the standard largely continues the requirements of IAS 39. The main change is that in cases where the fair value option is applied to a financial asset, changes in fair value that are attributable to changes in the entity's own credit risk must be recognised in other comprehensive income and not in the traditional profit or loss, unless this would result in an accounting mismatch. IFRS 9 results in a number of changes and simplifications which will lead to an increase in the number of opportunities to apply hedge accounting. The Group has yet to fully assess the implications of IFRS 9. The Group will also assess the effect of the remaining parts of IFRS 9 once these have been completed.

There are no other IFRSs or IFRIC interpretations that have not entered into force which are expected to have a material impact on the financial statements.

Comparative figures

All amounts in income statements, balance sheets, statements of cash flow and disclosures are given with one year's comparative figures. Comparative figures are prepared on the basis of the same policies as the figures for the most recent period.

Discretionary measurements, estimates and assumptions

When applying the Group's accounting policies, the Company's management has in certain areas exercised discretion and used assumptions concerning future events as a basis in the accounting process. Naturally, there will be an inherent uncertainty associated with accounting items that are based on the use of discretionary estimates and assumptions concerning future events. When exercising discretion and determining assumptions concerning future events, the management will have regard for the available information as at the end of the reporting period, historical experience with similar valuations, and market and third party assessments of the circumstances concerned. However, although the management exercises its discretion to the best of its ability and uses the best estimates available, it must be anticipated that actual outcomes may in some cases deviate from what is assumed during the accounting process. Items that contain important estimates are discussed in more detail 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 and doubtful commitments are followed up with continuous assessments.

Pensions

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

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 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), the wholly owned subsidiaries Bolig- og Næringskreditt ASA (BNkreditt) 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. When 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 excluded from consolidation upon cessation of the control.

The acquisition method for business combinations means that all fees associated with the acquisition of business must be recognised at fair value as at the date of acquisition. Contingent consideration is normally classified as debt and subsequent changes in value are recognised in profit or loss. For each acquisition, the Group may choose whether any non-controlling interests in the acquired company should be measured at fair value or at only a share of the net assets exclusive of goodwill. All transaction costs are recognised in profit or loss.

Subsidiaries that are to be disposed of within 12 months 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 assets and liabilities, financial position and results for the companies in the Group as though these companies 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.

Interest from financial derivatives including in hedge accounting is classified together with the interest on the hedging object under interest expenses.

Interest from financial derivatives which secure fixed-rate loans or fixed-rate borrowing which are voluntarily recognised at fair value is classified together with the interest on the underlying objects under interest expenses.

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.

Upon initial recognition in the balance sheet, financial instruments are assigned to a class of financial instruments described in IAS 39. The various classes that are defined in IAS 39 and of relevance to BN Bank are at fair value with value changes carried through profit or loss, available-for-sale and loans, receivables and other liabilities at amortised cost.

Within the class fair value with value changes through profit or loss, assigning the asset to a class may be obligatory, or the assignment may be voluntary if other specific criteria are met. Within BN Bank, all derivatives are obliged to be measured at fair value with value changes 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 an ongoing 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 nonperforming 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 cost or the estimated market value, whichever is lower. In subsequent accounts the properties are valued at the purchase cost or the estimated market value at the end of the reporting period, whichever is lower. Gains/losses on the sale of repossessed properties are carried under impairment losses 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. BN Bank has thus neither retained nor transferred the majority of the risk and yield linked to the loans that have been transferred. 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 not transferred control over the loans and recognises the loans in the balance sheet in accordance with BN Bank's continuing interest in the loans. BN Bank recognises the amounts that are linked to the remaining involvement as assets/liabilities. BN Bank moreover reports as a liability the fair value of the remaining credit risk attached to transferred loans, which is considered to be very slight. Based on a materiality assessment, BN Bank has not accounted for any amount for the remaining involvement in the transferred loans.

See the description in Note 9.

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 – 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 gain/loss

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 borrowing 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 a number of 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. 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 disbursement that an employee will receive upon retirement. The pension disbursement will normally depend on one or more factors, such as age, the number of years of service and pay.

With effect from 1 January 2013, BN Bank has applied IAS 19 Employee Benefits and revised the basis for calculating pension liabilities and pension costs. BN Bank has previously used the "corridor" method to account for unamortised estimate variances. The corridor method is no longer permitted and, according to the revised standard IAS 19R, all estimate variances must be recognised in a Statement of Other Comprehensive Income (OCI). Estimate variances as at 1 January 2012, which amounted to NOK 29.8 million, have been reset to zero. The pension liability increased correspondingly as at 1 January 2012, while equity was reduced by NOK 21.5 million after tax.

Previously, the yield on pension assets was calculated using the long-term expected yield on the pension assets. By applying IAS 19R, the net interest expense for the period is now computed by applying the discount rate for the liability at the beginning of the period to the net liability. Net interest expense therefore consists of the interest on the liability and the return on the pension assets, both calculated using the discount rate. Changes in net pension liability as a result of premium receipts and pension disbursements are taken account of. The difference between the actual return on the pension assets and the return recognised in profit or loss is accounted for immediately in OCI. The pension cost in 2012 under the previous accounting policy was NOK 13.4 million.

The net effect of the change in principle of the treatment of unamortised estimate variances and the calculation of the net interest expense brought about no change in the pension cost recognised in profit or loss in 2012, while estimate variances for 2012 of NOK 22.4 million were recognised in income under the Statement of Other Comprehensive Income in the fourth quarter of 2012. The pension liability as at 31 December 2012 increased to NOK 47.9 million. IAS 19R has been applied retrospectively and the comparative figures have been changed.

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, and the tax charge thus reflects the year's tax and future tax payable as a result of the year's activity. Tax which is estimated will be assessed on the year's profit and 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. 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

NOK MILLION	CORPORATE MARKET	RETAIL MARKET	GUARANTEE PORTFOLIO SMN	AMICABLE SETTLEMENT	TOTAL 2013
Net income from interest and credit commissions	**291**	**123**	**-4**	**0**	**410**
Change in value of financial instruments carried at fair value	27	14	0	0	41
Other operating income	164	76	2	0	242
Total other operating income	**191**	**90**	**2**	**0**	**283**
Salaries and general administrative expenses	-79	-98	0	0	-177
Ordinary depreciation, amortisation and write-downs	-6	-6	0	0	-12
Other operating expense	-11	-15	0	0	-26
Total other operating expense	**-96**	**-119**	**0**	**0**	**-215**
Operating profit/(loss) before impairment losses	**386**	**94**	**-2**	**0**	**478**
Impairment losses on loans and advances	**-106**	**-1**	**-22**	**0**	**-129**
Operating profit/(loss) after impairment losses	**280**	**93**	**-24**	**0**	**349**
Computed tax charge	**-78**	**-26**	**7**	**0**	**-97**
Profit/(loss) after tax	**202**	**67**	**-17**	**0**	**252**

GROUP

NOK MILLION	CORPORATE MARKET	RETAIL MARKET	GUARANTEE PORTFOLIO SMN	AMICABLE SETTLEMENT	TOTAL 2013
Balance Sheet					
Lending (gross) managed portfolio	34 014	16 011	0	0	50 025
Customer deposits & accounts payable to customers	1 115	14 054	0	0	15 169

GROUP

NOK MILLION	CORPORATE MARKET	RETAIL MARKET	GUARANTEE PORTFOLIO SMN	AMICABLE SETTLEMENT	TOTAL 2012
Net income from interest and credit commissions	247	131	-35	0	343
Change in value of financial 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 and write-downs	-8	-22	0	0	-30
Other operating expense	-14	-15	0	0	-29
Total other operating expense	-106	-156	0	0	-262
Operating profit/(loss) before impairment losses	281	9	-35	117	372
Impairment losses on loans and advances	-5	12	-121	0	-114
Operating profit/(loss) after impairment losses	276	21	-156	117	258
Computed tax charge	-77	-5	44	-34	-72
Profit/(loss) after tax	199	16	-112	83	186

GROUP

NOK MILLION	CORPORATE MARKET	RETAIL MARKET	GUARANTEE PORTFOLIO SMN	AMICABLE SETTLEMENT	TOTAL 2012
Balance Sheet					
Loans (gross) managed portfolio	34 097	14 456	911	0	49 464
Customer deposits & accounts payable to customers	1 477	15 433	0	0	16 910

The Group operates in a geographically limited area and reporting on geographical segments provides little additional information. See however Note 6 for a geographical breakdown of lending.

NOTE 3. CAPITAL ADEQUACY RATIO

Process for assessing the capital adequacy requirement

BN Bank has established a strategy and 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, commercial risk, owner's risk, reputation risk, compliance risk, strategic risk and system 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 2013 and submitted the associated reports 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 adequately capitalised in relation to the Bank's level of risk.

Rules and regulations

General

Pursuant to Section 21 of the Commercial Banks Act and Section 3-17 of the Financial Institutions Act, the Ministry of Finance has issued regulations concerning the calculation of subordinated capital and minimum requirements for capital adequacy in financial institutions. The requirement is that subordinated capital must be at least 8 per cent of risk-weighted assets. The requirements concerning capital adequacy apply to commercial banks, savings banks and financing institutions, including credit institutions and insurance companies.

The Ministry of Finance has also issued regulations concerning minimum requirements concerning capital adequacy for market risk, etc. for credit institutions and securities institutions. The Group has no trading activity in financial instruments as defined in the regulations. These rules are therefore of no significance for the Group's capital adequacy.

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

1. Tier 1 capital: Equity (share capital, premium fund and other equity) and perpetual subordinated capital securities.
2. Tier 2 capital: Perpetual and fixed-term subordinated loan capital

Intangible assets are deducted from tier 1 capital.

Fixed-term subordinated loan capital is recognised as tier 2 capital in accordance with the following rules:

- The loan must have an original term of at least five years. Fixed-term subordinated loan capital is reduced proportionately during the last five years prior to maturity by 20 per cent every year.
- The sum of the items included under tier 2 capital cannot amount to more than 100 per cent of the tier 1 capital, and fixed-term subordinated loan capital cannot amount to more than 50 per cent of the tier 1 capital.

Assets in other financial institutions in excess of certain limits are deducted from subordinated capital.

Capital requirements for the Group

The capital adequacy rules also apply on a consolidated basis. It follows from Section 2a-9 of the Financial Institutions Act that consolidation must be carried out using the capital adequacy rules when the institution has a stake that represents 20 per cent or more of the capital in another financial institution. The consolidated accounts must be used as a basis, i.e. intragroup relations must be eliminated by calculating capital adequacy ratio on a consolidated basis.

When calculating the Parent Bank's capital adequacy ratio, the share items in the subsidiaries are accorded a weighting of 100 per cent.

Capital adequacy ratio

	GROUP		PARENT BANK	
NOK MILLION	**2013**	**2012**	**2013**	**2012**
Share capital	706	668	706	668
Proposed appropriated dividend/group contribution	240	0	240	0
Other equity	2 655	2 673	1 507	1 531
Total equity	3 601	3 341	2 453	2 199
Net perpetual subordinated capital (perpetual subordinated capital securities borrowings) [1]	556	559	353	365
Deductions for:				
Equity and subordinated capital in other financial institutions [2]	-205	-121	-205	-121
Intangible assets	-7	-10	-7	-10
Deferred tax assets	0	-40	0	0
Other deductions in tier 1 capital	-240	0	-240	0
Tier 1 capital	3 705	3 729	2 354	2 433
Tier 1 capital excluding hybrid capital and deductions (core tier 1 capital)	3 149	3 170	2 001	2 068
Fixed-term subordinated loan capital	798	837	798	958
Perpetual subordinated capital securities, hybrid capital in excess of 15%	95	95	298	290
Deductions for:				
Fixed-term subordinated loan capital that cannot be included	0	0	0	-214
Other deductions in tier 2 capital [2]	-205	0	-205	-121
Net tier 2 capital	688	932	891	913
Total subordinated capital	4 393	4 661	3 245	3 346
Risk-weighted assets	28 458	30 923	15 953	16 921
Tier 1 capital ratio (%)	13.0	12.1	14.8	14.4
Tier 1 capital excluding hybrid capital and deductions (core tier 1 capital) (%)	11.1	10.3	12.5	12.2
Capital adequacy ratio (%)	15.4	15.1	20.3	19.8

[1] For more details, see Note 33.
[2] 50% of assets exceeding 2% in other financial institutions.

Specification of risk-weighted assets

GROUP

	2013		2012	
NOK MILLION RISK WEIGHT	**RECOGNISED AMOUNT**	**WEIGHTED AMOUNT**	**RECOGNISED AMOUNT**	**WEIGHTED AMOUNT**
0 %	798	0	1 486	0
10 %	2 261	226	2 094	209
20 %	4 176	835	5 056	1 011
35 %	8 181	2 863	9 289	3 251
50 %	100	50	3	2
75 %	75	56	91	68
100 %	24 427	24 427	26 381	26 381
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	40 018	28 458	44 400	30 923
Capital adequacy ratio		15.4		15.1

Specification of risk-weighted assets

PARENT BANK

	2013		2012	
NOK MILLION RISK WEIGHT	**RECOGNISED AMOUNT**	**WEIGHTED AMOUNT**	**RECOGNISED AMOUNT**	**WEIGHTED AMOUNT**
0 %	798	0	1 486	0
10 %	2 261	226	2 094	209
20 %	13 177	2 635	16 243	3 249
35 %	8 024	2 808	8 935	3 127
50 %	100	50	0	0
75 %	74	56	76	57
100 %	10 178	10 178	10 279	10 279
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	34 612	15 953	39 113	16 921
Capital adequacy ratio		20.3		19.8

NOTE 4. RISK IN FINANCIAL INSTRUMENTS - QUALITATIVE DESCRIPTION

Risk management at 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 5 and 6 for more information regarding risk relating to financial instruments.

Organisation

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 the Bank's willingness to accept risk and is determined using relevant, general and quantified targets. This risk tolerance is necessary in order to set consistent limits and to select appropriate systems for monitoring risk. The risk strategies contain a combination of limits that must explicitly be met and targets that are to be aimed for. The risk strategies are updated at least once a year.

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

Internal auditor

The Board of Directors has appointed an outside internal auditor. This is a monitoring function which, independently of the rest of the senior management, carries out risk assessments, controls and studies of the Bank's internal control and governance processes in order to assess whether they are working appropriately and satisfactorily.

The Bank's executive management

The Managing Director is responsible for overall risk management within the Bank. The Managing Director regularly receives reports concerning the Bank's risk exposure and status of the work relating to internal control. The Managing Director has established a management group which meets regularly. Matters concerning changes to or the implementation of new strategies within the Group must always be referred to the management group for consideration and decisions. At least once a year, the management group will consider an assessment of the risk situation and 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. Responsibility for conducting the annual assessment of the risk situation and capital adequacy requirement is delegated to the Risk Management and Compliance unit. This analysis must be coordinated and integrated with other planning and strategy work within the Bank. Control tasks have also been delegated to the individual line managers within the framework of adopted principles, instructions and authorities.

Administration

The Bank has its own Risk Management and Compliance unit, which covers the entire Group and does not carry out activities which the control function is intended to monitor. This unit is responsible for identifying, measuring and assessing all risks.

The risk management process

BN Bank has established 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) Risk identification

An analysis has been prepared of the risks to which the Bank is exposed. There is an appropriate system of risk monitoring for all risks. There is also a process for identifying changes in existing risks and any exposure to new risks. The latter particularly applies in connection with changes to existing or the establishment of new business areas or products.

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 a requirement that the Bank must fulfil the regulatory requirement for capital base with a given probability. Calculations are also performed 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 emergency preparedness. Calculations are also performed for economic capital for different confidence levels and time horizons.

IV) Limit-setting (ex ante control)

All significant risks have a limit.

V) Risk monitoring and ex post control

Procedures have been established for dealing with breaches of limits. In cases where risk cannot be quantified, the aim 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 rapidly or unexpectedly, ad hoc reports must be prepared. 'Ex post control' means that measures must be implemented if the risk monitoring indicates that the real exposure is greater than the desired level of exposure. Relevant measures are risk mitigation, changes to limits (reallocation of risk capital) and increased equity. Ex post controls can be considered to constitute the final stage of the risk management process as well as the starting point for a new process.

Risk categories

For risk management purposes, BN Bank distinguishes between the following risks:

Credit risk

Credit risk is the risk of losses arising due to the inability of the Group's counterparties or customers to fulfil their payment obligations with respect to BN Bank. Credit risk concerns all receivables from couterparties/customers, primarily loans, but also liability in relation to other issued credits, guarantees, securities, credit granted but not drawn on and counterparty risk that arises through derivatives and forward exchange contracts. Settlement risk, which arises in connection with payment services as a result of the fact that not all transactions take place in real time, also gives rise to counterparty risk. In the loan portfolio, credit risk is a function of two events, and both events must occur in order for a loss to arise. One is the possibility that the borrower will be unable or unwilling to pay. The other is that the value of the underlying collateral 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 classified according to risk before a decision is made to grant credit. The classification is updated at least once a year for businesses and monthly for retail customers.

Credit risk is a significant risk for the Bank and the desired exposure is low. The monitoring is based on an internal risk classification system. BN Bank has a model tool for analysing credit risk within each commercial property, other commercial activity and the retail market. The models assigns each debtor a PD class and an LGD 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. PD and LGD are abbreviations for 'Probability of Default' and 'Loss Given Default' respectively. The product of the PD and LGD that are assigned to an individual loan gives the expected loss on the loan expressed as a percentage of the size of the exposure.

The credit models differ from each other as regards what is considered to be the most significant risk factors relating to the loan. In the case of property companies, a focus is placed on the level and uncertainty of the cash flows generated from the properties that are being financed for classification relative to the probability of default. In the case of other types of enterprise, a stronger focus is placed on previous results/cash flow, the market situation, management, etc. As regards classification in relation to impairment losses in the event of default, a focus is placed on the value and the uncertainty of the value of the properties that serve as security for the loan. For retail borrowers, attention is directed at the debtor's income and property in addition to various behavioural variables. As regards the LGD calculation, the security offered for the loan and the value of the mortgaged asset relative to the size of the loan is also key.

The management receives monthly reports concerning credit risk based on the risk classification system. Central to this is the trend in loans divided into different risk classes and migration between the classes. Notes 5 and 6 present an assessment of credit risk as at the end of 2012 and 2013.

Liquidity risk

Liquidity risk is defined as the risk of the Bank being unable to finance increases in lending and discharge its commitments as they fall due (refinancing risk). Liquidity risk also covers the risk of financing markets that the Bank wishes to use not functioning (market liquidity). Liquidity risk is a significant risk for the Bank. The desired exposure must be moderate and in line with the market average. Monitoring is carried out through checks on exposure in relation to established limits, as well as checks on qualitative requirements. The management receives monthly reports concerning liquidity risk in relation to limits and targets. Notes 5 and 6 present an assessment of the Group's liquidity risk as at the end of 2012 and 2013 respectively.

Commercial risk

Commercial risk is the risk of losses due to changes in external circumstances such as market situation and authority regulation. Commercial risk is defined as a significant risk. The desired level of exposure is moderate. The Group monitors commercial risk through qualitative and quantitative analyses of various factors. The most important factors which may be affected by changes in the market situation or authority regulation are volume and margins in lending and borrowing, impairment losses and operating expenses.

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 significant. The desired exposure is low. The Bank's equity should in principle be exposed to short-term interest rates. This must be achieved through commitments and receivables with fixed interest rate periods of more than one year approximately neutralising each other. Monitoring is carried out through checks on exposure in relation to established limits for interest sensitivity. Interest sensitivity analysis has been chosen as the basis for the setting of limits due to the ability of this key indicator to quantify interest rate risk. The other important for managing risk is 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 regularly receives reports on these matters. Notes 5 and 6 present an assessment of interest rate risk at the end of 2012 and 2013 respectively.

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 is low. Foreign exchange risk is monitored by controlling exposure in relation to set limits. Reports are drawn up showing the net position in each currency. This analysis contains all currency items on- and off-balance sheet (interest and principals), as well as agreements entered into with foreign exchange risk that are not yet entered in the books. The management receive regular reports of this analysis. Notes 5 and 6 present an assessment of foreign exchange risk as at the end of 2012 and 2013 respectively.

Operational risk

Operational risk is defined as the risk to which the Group would be exposed in the event of the 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, internalfraud (embezzlement, misappropriation of funds, theft and the like). The latter acts are covered by the term 'economic crime'. Operational risk is defined as a risk with some significance for the Bank. The desired exposure is 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, SpareBank1 Kredittkort, mCash and Roomy are included in the calculation of ownership risk. Capital requirements relating to real estate companies which have been taken over because of default are dealt with under risk of impaired value of real property. Where other companies are concerned, there is considered to be limited risk and so risk-adjusted capital has not been calculated for these.

Reputation risk

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

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

Compliance risk

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

Strategic risk

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

Concentrations of risk

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

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

Frequently, the risk associated with financing commercial property is in actual fact the exposure to the tenants in the buildings. If a greater proportion of the buildings in our loan portfolio is leased to large individual tenants or if a high proportion of the tenants is 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 arises 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 60% of the total credit portfolio. Sector concentration is therefore the most important type 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 latter 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 substantial 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 scope 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 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 5. RISK IN FINANCIAL INSTRUMENTS - QUANTITATIVE DESCRIPTION - GROUP

Market risk

Interest rate risk

Repricing date (gap) for assets and liabilities as at 31 December 2013

GROUP

NOK MILLION	TOTAL RECOGNISED 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	29 094	104	18 123	9 634	271	888	73
Subordinated loans	1	1	0	0	0	0	0
Financial derivatives	10 612	0	430	3 728	645	4 816	993
Short-term securities investments	6 122	449	2 066	2 457	665	201	285
Cash and balances due from credit institutions	1 585	277	1 060	248	0	0	0
Total	47 414	831	21 679	16 067	1 581	5 905	1 351
Subordinated loan capital	1 459	9	500	785	165	0	0
Liabilities to credit institutions	13	0	13	0	0	0	0
Debt securities in issue	16 517	274	1 532	8 205	1 704	3 860	943
Financial derivatives	10 612	0	1 050	6 452	720	1 971	420
Customer deposits & accounts payable to customers	15 169	19	3 821	11 229	100	0	0
Total	43 771	302	6 915	26 671	2 689	5 830	1 363
Net = gap	3 644	529	14 764	-10 604	-1 108	74	-12

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

GROUP

NOK MILLION	TOTAL RECOGNISED 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	33 192	108	18 117	12 378	1 072	1 403	114
Financial derivatives	14 459	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	1 614	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 customers	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	3 413	210	12 922	-9 548	-113	8	-66

[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 will be repriced after two weeks for corporate customers and after six weeks for retail customers. It is assumed that deposits with variable interest rates will be repriced after two weeks for corporate customers and after two months for retail customers (in accordance with Sections 18 and 150 of the Financial Contracts Act).

The Group employs hedging instruments to manage interest rate risk; see Note 21. 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. 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 variable-rate loans will be repriced after two weeks corporate customers and after six weeks for retail customers. It is assumed that deposits with variable interest rates will be repriced after two weeks for corporate customers and after two months 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 insensitive as possible to interest rate changes.

Foreign exchange risk

Currency distribution, assets and liabilities 31 December 2013

GROUP

NOK MILLION	TOTAL RECOGNISED VALUE	NOK	EUR	DKK	SEK	CHF	JPY	USD	ISK	OTHER
Loans	29 094	27 598	457	370	633	38	14	8	-24	0
Subordinated loans	1	1	0	0	0	0	0	0	0	0
Prepayments and accrued income	58	58	0	0	0	0	0	0	0	0
Short-term securities investments	6 122	6 122	0	0	0	0	0	0	0	0
Cash and balances due from credit institutions	1 585	1 282	264	1	3	1	0	8	24	2
Total	**36 860**	**35 061**	**721**	**371**	**636**	**39**	**14**	**16**	**0**	**2**
Subordinated loan capital	1 459	1 459	0	0	0	0	0	0	0	0
Liabilities to credit institutions	13	13	0	0	0	0	0	0	0	0
Debt securities in issue	16 517	16 517	0	0	0	0	0	0	0	0
Customer deposits & accounts payable to customers	15 169	15 154	4	2	7	0	0	2	0	0
Total	**33 158**	**33 143**	**4**	**2**	**7**	**0**	**0**	**2**	**0**	**0**
Financial derivatives	0	-1 788	718	370	630	39	15	15	0	1
Net currency exposure	**3 702**	**3 706**	**-1**	**-1**	**-1**	**0**	**-1**	**-1**	**0**	**1**

Currency distribution, assets and liabilities 31 December 2012

GROUP

NOK MILLION	TOTAL RECOGNISED VALUE	NOK	EUR	DKK	SEK	CHF	JPY	USD	ISK	OTHER
Loans	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	6 135	6 135	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	**40 876**	**37 641**	**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	**3 465**	**3 483**	**0**	**1**	**-3**	**0**	**0**	**2**	**-19**	**1**

Sensitivity analysis for change in market prices - partial analysis

GROUP

	2013		2012	
NOK MILLION	EFFECT ON RESULT	EFFECT ON EQUITY	EFFECT ON RESULT	EFFECT ON EQUITY
Interest rate +/-1% point	19	0	10	0
Exchange rates +/-10 % [1]	0	0	2	0

[1] Calculated on absolute position as at 31 December 2013 and 31 December 2012.

Sensitivity analysis - Description of model and assumptions

Exposure to market risk is measured here through partial analyses, where consideration is given to variations in a market variable and its possible impact on the result/equity.

Interest rate sensitivity is calculated on the basis of the principal (present value of loan) and the term through until the next interest rate change for the various interest-bearing variables. Interest rate sensitivity is calculated for both established time bands and in total.

The Bank's interest rate risk is calculated by simulating a parallel shift in interest rates of 1% for the entire interest rate curve for all balance sheet items and associated hedging. The interest rate risk analysis shows that the Bank would achieve a gain of NOK 19 million in the event of a 1% rise in interest rate and is within the limit set by the Bank's Board of Directors.

Credit risk

Expected loss as at 31 December 2013

GROUP

EXPECTED LOSS (%)	RETAIL MARKET	CORPORATE MARKET	GUARANTEE PORTFOLIO	TOTAL
0 – 0.01	76 %	36 %	34 %	47 %
0.01 – 0.05	20 %	42 %	2 %	35 %
0.05 – 0.20	3 %	9 %	0 %	8 %
0.20 – 0.50	1 %	6 %	0 %	5 %
> 0.50	0 %	7 %	64 %	6 %

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 %

Individual write-downs totalled NOK 255 million as at 31 December 2013, of which NOK 101 concerned the Guarantee Portfolio. Collective write-downs totalling NOK 94 million as at 31 December 2013, of which NOK 32 concerned the Guarantee Portfolio.

All loans to the corporate market are priced individually based on factors such as risk, profitability requirements and the competitive situation. The pricing therefore reflects the risk in the loan and the margins attained are therefore consistently greater with higher risk.

Residential mortgage loans are prised on the basis of a price matrix depending on the risk classification reflecting both the amount borrowed and the probability of default.

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

Loans and advances fallen due and written down as at 31 December 2013

GROUP

		FALLEN DUE, NOT WRITTEN-DOWN							
NOK MILLION	NOT FALLEN DUE, NOT WRITTEN-DOWN	<30 DAYS	30-60 DAYS	60-90 DAYS	>90 DAYS	GROSS LENDING	INDIVIDUAL WRITE-DOWNS	COLLECTIVE WRITE-DOWNS	NET LOANS[1]
Retail Market	7 305	235	70	14	58	7 688	-2	-12	7 674
Corporate Market	20 795	117	44	0	272	21 621	-152	-50	21 419
Guarantee Portfolio	132	0	0	0	0	417	-101	-32	284
Loans	28 232	352	114	14	330	29 726	-255	-94	29 377

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

GROUP

		FALLEN DUE, NOT WRITTEN-DOWN							
NOK MILLION	NOT FALLEN DUE, NOT WRITTEN-DOWN	<30 DAYS	30-60 DAYS	60-90 DAYS	>90 DAYS	GROSS LENDING	INDIVIDUAL WRITE-DOWNS	COLLECTIVE WRITE-DOWNS	NET LOANS[1]
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 [1]	312	0	0	0	0	571	-73	-47	451
Loans	32 159	794	37	10	394	33 876	-120	-112	33 644

Individual write-down must be made when there is objective evidence to indicate that a loan is impaired. Individual write-downs must 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 realisable value.

[1] Net loans consist here of both loans and advances and the Guarantee Portfolio.

Geographic distribution[1] of gross lending as at 31 December

GROUP

NOK MILLION	2013	2012
Oslo/Akershus	19 266	22 133
Rest of Southern/Eastern Norway	2 567	2 255
Western Norway	1 639	2 130
Sør-Trøndelag	4 041	5 463
Nord-Trøndelag and Northern Norway	207	541
Other countries	1 589	783
Loans and advances	29 309	33 305

Rest of Southern/Eastern Norway: Aust-Agder, Vest-Agder, Telemark, Vestfold, Østfold, Buskerud, Hedmark, Oppland.
Western Norway: Rogaland, Hordaland, Sogn og Fjordane, Møre og Romsdal.
Northern Norway: Nordland, Troms, Finnmark.

[1] Geographic distribution based on the customer's residential/business address.

As risk and return do not vary significantly between the various geographic areas, segment information is not reported according to geographic area.

Maximum exposure to credit risk

GROUP

NOK MILLION	2013	2012
On balance sheet:		
Loans	29 094	33 193
Prepayments and accrued income	58	52
Financial derivatives	622	759
Short-term securities investments	6 122	6 135
Cash and balances due from credit institutions	1 585	1 495
Off balance sheet:		
Financial guarantees	109	102
Financial guarantees SpareBank 1 SMN	1 251	1 343
Financial guarantees SpareBank 1 Næringskreditt	0	165
Undrawn loan commitments, facilities and credits	1 144	2 820
Maximum credit risk	39 985	46 064

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

Liquidity risk
Remaining maturity for assets and liabilities as at 31 December 2013

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	34 698	3 657	321	134	1 510	8 691	20 386
Subordinated loans	1	1	0	0	0	0	0
Short-term securities investments	6 166	0	341	234	1 513	2 745	1 333
Cash and balances due from credit institutions	1 585	885	700	0	0	0	0
Total	42 451	4 543	1 362	368	3 023	11 436	21 719
Subordinated loan capital	1 712	0	6	10	308	944	445
Liabilities to credit institutions	13	13	0	0	0	0	0
Debt securities in issue	17 998	0	12	347	3 078	13 281	1 281
Financial derivatives	-243	0	10	-25	-27	-179	-22
Customer deposits & accounts payable to customers	15 169	14 786	9	271	103	0	0
Total	34 650	14 799	36	603	3 462	14 046	1 704

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	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 customers	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 shows the remaining term to maturity on all interest-bearing asset and liability items, including stipulated interest (with the exception of items with an undefined maturity). Customer deposits and accounts payable to customers excluding fixed-term deposits are classified with an undefined remaining maturity. With regard to loans and advances, the drawn component of framework loans, overdrafts, senior citizen loans are classified with an undefined remaining maturity.

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

Management of liquidity risk is described in the section on the Bank's risk management systems; see Note 4.

NOTE 6. RISK IN FINANCIAL INSTRUMENTS - QUANTITATIVE DESCRIPTION - PARENT BANK

Market risk

Interest rate risk

Repricing date (gap) for assets and liabilities as at 31 December 2013

PARENT BANK

NOK MILLION	TOTAL RECOGNISED 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	13 430	-28	4 817	8 243	75	300	23
Subordinated loans	452	2	0	450	0	0	0
Financial derivatives	7 641	0	430	2 232	645	3 341	993
Short-term securities investments	6 122	449	2 066	2 457	665	201	285
Cash and balances due from credit institutions	10 656	9 347	1 061	248	0	0	0
Exposure, interest rate risk, BNkreditt [2]	2 458	-9 274	11 719	15	46	-99	51
Total	40 759	496	20 093	13 645	1 431	3 743	1 351
Subordinated loan capital	1 459	9	500	785	165	0	0
Liabilities to credit institutions	13	0	13	0	0	0	0
Debt securities in issue	13 060	170	1 532	6 668	1 554	2 194	943
Financial derivatives	7 641	0	50	4 977	720	1 475	420
Customer deposits & accounts payable to customers	15 173	23	3 821	11 229	100	0	0
Total	37 347	202	5 915	23 658	2 539	3 669	1 363
Net = gap	3 413	294	14 177	-10 014	-1 108	75	-12

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

PARENT BANK

NOK MILLION	TOTAL RECOGNISED 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	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 customers	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**

[1] Undefined at repricing date (gap) for assets and liabilities consists of excess/shortfall in value as a result of fair value calculations, and accrued interest at the end of the reporting period.
[2] Interest rate risk is identified and managed at group level. There is an internal agreement between BN Bank and BNkreditt that 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 will be repriced after two weeks for corporate customers and after six weeks for retail customers. It is assumed that deposits with variable interest rates will be repriced after two weeks for corporate customers and after two months for retail customers (in accordance with Sections 18 and 50 of the Financial Contracts Act).

The Group employs hedging instruments to manage interest rate risk; see Note 4. 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 corporate customers and 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 insensitive as possible to interest rate changes.

Foreign exchange risk

Currency distribution for assets and liabilities as at 31 December 2013

PARENT BANK

NOK MILLION	TOTAL RECOGNISED VALUE	NOK	EUR	DKK	SEK	CHF	JPY	USD	ISK	OTHER
Loans	13 430	12 925	111	60	314	25	11	8	-24	0
Subordinated loans	452	452	0	0	0	0	0	0	0	0
Prepayments and accrued income	56	56	0	0	0	0	0	0	0	0
Short-term securities investments	6 122	6 122	0	0	0	0	0	0	0	0
Cash and receivables from credit institutions as at [1]	11 651	10 356	609	311	323	14	4	8	24	2
Total	**31 711**	**29 911**	**720**	**371**	**637**	**39**	**15**	**16**	**0**	**2**
Subordinated loan capital	1 459	1 459	0	0	0	0	0	0	0	0
Liabilities to credit institutions	13	13	0	0	0	0	0	0	0	0
Debt securities in issue	13 060	13 060	0	0	0	0	0	0	0	0
Customer deposits & accounts payable to customers	15 173	15 158	4	2	7	0	0	2	0	0
Total	**29 705**	**29 690**	**4**	**2**	**7**	**0**	**0**	**2**	**0**	**0**
Financial derivatives	0	-1 788	718	370	630	39	15	15	0	1
Net currency exposure	**2 006**	**2 009**	**-2**	**-1**	**0**	**0**	**0**	**-1**	**0**	**1**

Currency distribution for assets and liabilities as at 31 December 2012

PARENT BANK

NOK MILLION	TOTAL RECOGNISED VALUE	NOK	EUR	DKK	SEK	CHF	JPY	USD	ISK	OTHER
Loans	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 receivables from credit institutions as at [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 customers	16 910	16 909	3	-3	0	0	0	2	0	0
Total	**33 452**	**33 447**	**3**	**0**	**0**	**0**	**0**	**3**	**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**

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

Sensitivity analysis for change in market prices - partial analysis

PARENT BANK

	2013		2012	
NOK MILLION	**EFFECT ON RESULT**	**EFFECT ON EQUITY**	**EFFECT ON RESULT**	**EFFECT ON EQUITY**
Interest rate +/-1 % point	19	0	10	0
Foreign exchange rates +/-10 % [1]	0	0	2	0

[1] Calculated on absolute position as at 31 December 2013 and 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 result and equity.

Interest rate sensitivity is calculated on the basis of the principal (present value of loan) and the term through until the next interest rate change for the various interest-bearing variables. Interest rate sensitivity is calculated for both established time bands and in total.

The Bank's interest rate risk is calculated by simulating a parallel shift in interest rates of 1% for the entire interest rate curve for all balance sheet items and associated hedging. The interest rate risk analysis shows that the Bank would achieve a gain of NOK 19 million in the event of a 1% interest rate rise and is within the limit set by the Bank's Board of Directors.

Credit risk

Expected loss as at 31 December 2013

PARENT BANK

EXPECTED LOSS (%)	RETAIL MARKET	CORPORATE MARKET	GUARANTEE PORTFOLIO	TOTAL
0 – 0.01	76 %	28 %	34 %	54 %
0.01 – 0.05	20 %	42 %	2 %	29 %
0.05 – 0.20	3 %	15 %	0 %	8 %
0.20 – 0.50	1 %	5 %	0 %	3 %
> 0.50	0 %	9 %	64 %	6 %

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 %

Individual write-downs totalled NOK 128 million as at 31 December 2013, of which NOK 101 concerned the Guarantee Portfolio. Collective write-downs totalling NOK 61 million as at 31 December 2013, of which NOK 32 concerned the Guarantee Portfolio.

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

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

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

Loans and advances fallen due and written down as at 31 December 2013

PARENT BANK

		FALLEN DUE, NOT WRITTEN-DOWN							
NOK MILLION	NOT FALLEN DUE, NOT WRITTEN-DOWN	<30 DAYS	30-60 DAYS	60-90 DAYS	>90 DAYS	GROSS LENDING	INDIVIDUAL WRITE-DOWNS	COLLECTIVE WRITE-DOWNS	NET LOANS[1]
Retail Market	7 305	235	70	14	58	7 688	-2	-12	7 674
Corporate Market	5 539	0	0	0	62	5 801	-25	-17	5 759
Guarantee Portfolio	132	0	0	0	0	417	-101	-32	284
Loans	12 976	235	70	14	120	13 906	-128	-61	13 717

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

PARENT BANK

		FALLEN DUE, NOT WRITTEN-DOWN							
NOK MILLION	NOT FALLEN DUE, NOT WRITTEN-DOWN	<30 DAYS	30-60 DAYS	60-90 DAYS	>90 DAYS	GROSS LENDING	INDIVIDUAL WRITE-DOWNS	COLLECTIVE WRITE-DOWNS	NET LOANS[1]
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	14 740	359	37	10	107	15 673	-102	-76	15 495

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] Net loans consists here of both loans and advances and the Guarantee Portfolio.

Geographic distribution[1] of gross lending as at 31 December.

PARENT BANK

NOK MILLION	2013	2012
Oslo/Akershus	8 469	8 919
Rest of Southern/Eastern Norway	1 487	1 166
Western Norway	1 001	1 259
Sør-Trøndelag	1 809	2 807
Nord-Trøndelag and Northern Norway	146	489
Other countries	577	462
Gross lending	13 489	15 102

Rest of Southern Norway/Eastern Norway: Aust-Agder, Vest-Agder, Telemark, Vestfold, Østfold, Buskerud, Hedmark, Oppland.
Western Norway: Rogaland, Hordaland, Sogn og Fjordane, Møre og Romsdal.
Northern Norway: Nordland, Troms, Finnmark.

[1] Geographic distribution based on the customer's residential/business address.

As risk and return do not vary significantly between the various geographic areas, segment information is not reported according to geographic area.

Maximum exposure to credit risk

PARENT BANK

NOK MILLION	2013	2012
On balance sheet:		
Subordinated loans	452	451
Loans and advances	13 430	15 043
Prepayments and accrued income	56	53
Financial derivatives	543	662
Short-term securities investments	6 122	5 612
Cash and balances due from credit institutions	10 656	12 860
Assets classified as held for sale	0	1
Off balance sheet:		
Financial guarantees	247	102
Financial guarantees SpareBank 1 SMN	1 251	1 343
Financial guarantees SpareBank 1 Næringskreditt	0	165
Undrawn loan commitments, facilities and credits	763	2 161
Maximum credit risk	33 520	38 453

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

Liquidity risk
Remaining maturity for assets and liabilities as at 31 December 2013

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	15 817	3 657	99	85	585	2 807	8 584
Subordinated loans	475	0	0	5	15	455	0
Short-term securities investments	6 166	0	341	234	1 513	2 745	1 333
Cash and balances due from credit institutions	10 656	9 956	700	0	0	0	0
Total	33 115	13 613	1 140	324	2 112	6 007	9 917
Subordinated loan capital	1 712	0	6	10	308	944	445
Liabilities to credit institutions	13	13	0	0	0	0	0
Debt securities in issue	14 286	0	12	316	2 472	10 206	1 281
Financial derivatives	-202	0	10	-13	-28	-149	-22
Customer deposits & accounts payable to customers	15 173	14 790	9	271	103	0	0
Total	30 982	14 803	36	583	2 855	11 001	1 704

Remaining maturity for assets and liabilities as 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 customers	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 shows the remaining term to maturity on all interest-bearing asset and liability items, including stipulated interest (with the exception of items with an undefined maturity). Customer deposits and accounts payable to customers, excluding fixed-term deposits, are classified with an undefined remaining maturity. With regard to loans and advances, the drawn component of framework loans, overdrafts, senior citizen loans, etc. 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 4.

NOTE 7. CASH AND BALANCES DUE FROM CREDIT INSTITUTIONS

	GROUP		PARENT BANK	
NOK MILLION	**2013**	**2012**	**2013**	**2012**
Cash and balances due from credit institutions carried at amortised cost:				
Cash and balances at central banks	248	436	248	436
Undated loans and balances due from credit institutions	304	876	305	874
Dated loans and balances due from credit institutions	700	0	700	0
Receivables from related parties	333	183	105	33
Receivables from subsidiaries	0	0	9 298	11 517
Cash and balances due from credit institutions carried at amortised cost	1 585	1 495	10 656	12 860
Total cash and balances due from credit institutions	1 585	1 495	10 656	12 860

NOTE 8. LOANS AND ADVANCES

	GROUP		PARENT BANK	
NOK MILLION	**2013**	**2012**	**2013**	**2012**
Loans carried at amortised cost:				
Lines of credit	3 044	3 511	3 044	3 511
Building loans	598	568	598	568
Amortised loans	24 604	27 887	9 372	10 443
Total loans carried at amortised cost	28 246	31 966	13 014	14 522
Loans selected for fair value carrying through profit or loss:				
Amortised loans	848	1 227	416	521
Total loans selected for fair value carrying	848	1 227	416	521
Total loans and advances	29 094	33 193	13 430	15 043

Overview of gross lending in managed portfolio

	GROUP		PARENT BANK	
NOK MILLION	**2013**	**2012**	**2013**	**2012**
Corporate and retail loans	29 309	32 394	13 489	14 191
Vendor financing	0	911	0	911
Gross lending	29 309	33 305	13 489	15 102
Loans transferred to SpareBank 1 Næringskreditt (SP1NK)	12 393	9 919	0	0
Loans transferred to SpareBank 1 Boligkreditt (SP1BK)	8 323	6 240	8 323	6 240
Total loans incl. transferred to SB1NK and SB1BK	50 025	49 464	21 812	21 342
Divested portfolio	0	13	0	13

NOTE 9. TRANSFER OF LOANS TO SPAREBANK 1 NÆRINGSKREDITT AND SPAREBANK 1 BOLIGKREDITT

Transfer of loans to SpareBank 1 Næringskreditt

SpareBank1 Næringskreditt 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 AA2 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 in Stavanger. BN Bank owns no shares in SpareBank 1 Næringskreditt at 31 December 2013 (9.58% as at 31 December 2012). 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 procures loans with mortgages on commercial properties and issues covered bonds within the regulations governing such bonds established in 2007. As part of the consortium, BN Bank may transfer loans to the company and, as part of the Bank's funding strategy, loans have been transferred from BNkreditt. Loans transferred to Sparebank 1 Næringskreditt are secured through mortgages on commercial property for up to 60 per cent of the appraised value. Transferred loans are legally owned by Sparebank 1 Næringskreditt and, apart from the management right and the right to take over fully or partially written-down loans, BNkreditt has no right to use these loans. As at 31 December 2013, the book value of transferred loans was NOK 12.4 billion (NOK 9.9 billion as at 31 December 2012). BNkreditt 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 provided guarantees for the transferred loan commitments where they exceed 25 per cent of SpareBank 1 Næringskreditt's subordinated capital. As at 31 December 2013, these guarantees totalled NOK 0 million (NOK 165 million as at 31 December 2012).

The loans transferred to SpareBank 1 Næringskreditt 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. In the event of accounting credit losses or a fall in margin relating to one or more transferred loans, SpareBank 1 Næringskreditt 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 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 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 2013 and at 31 December 2012.

Guarantee provided by BN Bank to BNkreditt

In order to attend to the interests of existing bond holders in BNkreditt, in connection with the transfer of loans to Sparebank 1 Næringskreditt, BN Bank has guaranteed that BNkreditt will have a capital adequacy ratio of at least 20 per cent at all times. Should the capital adequacy ratio fall below 20 per cent, the Parent Bank will cede precedence with respect to its accounts receivable with BNkreditt and/or provide a guarantee. As at 31 December 2013, BNkreditt's capital adequacy ratio was 19.2 per cent (16.4 per cent as at 31 December 2012). The amount the Parent Bank is ceding precedence for stood at NOK 138 million as at 31 December 2013 (NOK 676 million as at 31 December 2012).

Transfer of loans to SpareBank 1 Boligkreditt

SpareBank 1 Boligkreditt is owned by the savings banks that form the SpareBank 1 consortium and is co-located with SpareBank 1 Næringskreditt in Stavanger. BN Bank has a stake of 4.78 per cent as at 31 December 2013 (3.90 per cent as at 31 December 2012). 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 are secured through mortgages on residential properties for up to 75 per cent of the appraised value. Transferred loans are legally owned by SpareBank 1 Boligkreditt and, apart from the management right and the right to take over fully or partially written-down loans, BN Bank has no right to use these loans. As at 31 December 2013, the book value of transferred loans was NOK 8.3 billion (NOK 6.2 billion as at 31 December 2012). 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, entered into agreements to establish a liquidity facility for SpareBank 1 Boligkreditt. This means that the owner banks have undertaken to purchase covered bonds in the case that SpareBank 1 Boligkreditt 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 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. Among other things, this means that BN Bank will contribute to SpareBank 1 Boligkreditt 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 has internal guidelines stipulating a tier 1 capital ratio of at least 10.0 per cent. On the basis of 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 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. In the event of accounting credit losses or a fall in margin relating to one or more transferred loans, SpareBank 1 Boligkreditt can reduce the commission BN Bank receives with the loss. A reduction in commission for BN Bank is limited to the total commission for the calendar year and if SpareBank 1 Boligkreditt 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 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 2013 and at 31 December 2012.

NOTE 10. IMPAIRMENT LOSSES AND WRITE-DOWNS ON LOANS AND GUARANTEES

The various elements included in impairment losses & write-downs on loans are set out in Note 1. Loans past due by more than three months are defined as loans which in accordance with the loan agreement have not been serviced 90 days after the due date. However, as a first mortgage lender the Group can gain access to revenue, either through the courts or by some voluntary solution. Impairment losses and write-downs described here apply to loans carried at amortised cost and changes in value and gains/losses on the sale of repossessed properties in the current period.

	GROUP		PARENT BANK	
NOK MILLION	**2013**	**2012**	**2013**	**2012**
Write-offs in excess of prior-year write-downs	1	20	0	13
Write-offs on loans without prior write-downs	12	0	12	0
Write-downs for the period:				
Change in collective write-downs	-3	-20	0	-8
Change in collective write-downs related to Guarantee Portfolio	-15	40	-15	40
Total change in collective write-downs	**-18**	**20**	**-15**	**32**
Increase in loans with prior-year write-downs [1]	27	26	27	11
Provisions against loans without prior write-downs	141	68	19	68
Decrease in loans with prior-year write-downs	-21	-18	-17	-6
Total change in individual write-downs	**147**	**76**	**29**	**73**
Gross impairment losses	142	116	26	118
Recoveries on previous write-offs	-13	-2	-6	-2
Impairment losses on loans and advances	**129**	**114**	**20**	**116**
Revenue recognition of interest on written-down loans	5	6	1	3

[1] Changes in value related to repossessed properties totalled NOK 10 million in 2012.

	GROUP		PARENT BANK	
NOK MILLION	**2013**	**2012**	**2013**	**2012**
Individual write-downs to cover impairment losses as at 1 January	48	94	30	34
Write-offs covered by prior-year individual write-downs	-7	-40	-2	-3
Write-downs for the period:				
Increase in loans with prior-year individual write-downs	0	12	0	5
Write-downs on loans without prior individual write-downs	133	0	15	0
Decrease in loans with prior-year individual write-downs	-20	-18	-16	-6
Individual write-downs to cover impairment losses as at 31 December	**154**	**48**	**27**	**30**
Collective write-downs to cover impairment losses as at 1 January	65	85	29	37
Collective write-downs for the period to cover impairment losses	-3	-20	0	-8
Collective write-downs to cover impairment losses as at 31 December	**62**	**65**	**29**	**29**

	GROUP		PARENT BANK	
NOK MILLION	**2013**	**2012**	**2013**	**2012**
Individual write-downs to cover losses on financial guarantees concerning the guarantee portfolio as at 1 January	72	28	72	28
Write-offs covered by prior-year individual write-downs	0	-27	0	-27
Write-downs for the period:				
Increase in loans with prior-year individual write-downs	24	3	24	3
Write-downs on loans without prior individual write-downs	6	68	6	68
Decrease in loans with prior-year individual write-downs	-1	0	-1	0
Individual write-downs to cover losses on financial guarantees concerning Guarantee Portfolio as at 31 December [1]	**101**	**72**	**101**	**72**
Collective write-downs to cover losses concerning Guarantee Portfolio as at 1 January	47	20	47	20
Collective write-downs for the period to cover losses in Guarantee Portfolio	-15	27	-15	27
Collective write-downs to cover losses concerning Guarantee Portfolio as at 31 December[1]	**32**	**47**	**32**	**47**
Total loss provisions related to Guarantee Portfolio as at 31 December	**133**	**119**	**133**	**119**

[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 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 417 million. The Bank's maximum exposure is thus down to NOK 250 million, which at the end of 2013 represented 0.9% of the Bank's total lending. The total provision for losses in the Guarantee Portfolio was NOK 133 million as at 31 December 2013. BN Bank will provide guarantees for losses in the Guarantee Portfolio for a period of three to five years from the inception of the original agreement. The loss provision is classified under Accrued expenses and deferred income.

Loans past due more than three months as at 31 December

	GROUP				PARENT BANK			
NOK MILLION	**2013**	**2012**	**2011**	**2010**	**2013**	**2012**	**2011**	**2010**
Gross principal	569	404	213	193	146	117	73	110
Individual write-downs	75	3	40	39	7	3	14	39
Net principal	494	401	173	154	139	114	59	71

Other loans with individual write-downs as at 31 December

	GROUP				PARENT BANK			
NOK MILLION	**2013**	**2012**	**2011**	**2010**	**2013**	**2012**	**2011**	**2010**
Gross principal	658	524	678	793	465	460	282	254
Individual write-downs	180	117	85	83	122	99	51	48
Net principal	478	407	593	710	343	361	231	206

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

GROUP

NOK MILLION	**GROSS OUTSTANDING 2013**	**%**	**GROSS OUTSTANDING 2012**	**%**	**GROSS OUTSTANDING 2011**	**%**
Corporate Market	504	2.33	341	1.36	126	0.55
Retail Market	65	0.85	63	0.77	66	0.71
Divested portfolio	0	0	0	0	21	0.74
Total	569	1.91	404	1.19	213	0.59

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

PARENT BANK

NOK MILLION	**GROSS OUTSTANDING 2013**	**%**	**GROSS OUTSTANDING 2012**	**%**	**GROSS OUTSTANDING 2011**	**%**
Corporate Market	81	1.39	54	0.78	0	0.00
Retail Market	65	0.85	63	0.77	51	0.70
Divested portfolio	0	0	0	0	21	0.74
Total	146	1.05	117	0.75	72	0.82

NOTE 11. INTEREST AND SIMILAR INCOME

	GROUP		PARENT BANK	
NOK MILLION	**2013**	**2012**	**2013**	**2012**
Interest from financial instruments carried at amortised cost:				
Interest and similar income from loans to and balances due from credit institutions	42	53	42	505
Interest and similar income from receivables from subsidiaries	0	0	418	26
Interest and similar income from loans to and receivables from customers	1 288	1 284	585	524
Interest and similar income from certificates and bonds	49	64	42	46
Total interest from financial instruments carried at amortised cost	1 379	1 401	1 087	1 101
Interest from financial instruments selected for fair value carrying through profit or loss:				
Interest and similar income from loans to and receivables from customers	77	96	24	30
Interest and similar income from certificates and bonds	111	117	111	118
Total interest from financial instruments selected for fair value carrying through profit or loss	188	213	135	148
Total interest and similar income	1 567	1 614	1 222	1 249

NOTE 12. INTEREST EXPENSE AND SIMILAR CHARGES

	GROUP		PARENT BANK	
NOK MILLION	**2013**	**2012**	**2013**	**2012**
Interest expense for financial instruments carried at amortised cost:				
Interest and similar charges on liabilities to credit institutions	6	19	6	19
Interest and similar charges on customer deposits and accounts payable to customers	437	432	446	451
Interest and similar charges on securities issued	308	384	262	301
Interest and similar charges on subordinated loan capital	66	71	65	71
Other interest expense and similar charges	19	0	19	0
Total interest expense for financial instruments carried at amortised cost	836	906	798	842
Interest expense for financial instruments selected for fair value carrying through profit or loss:				
Interest and similar charges on liabilities to credit institutions	0	0	0	0
Interest and similar charges on customer deposits and accounts payable to customers	39	49	39	49
Interest and similar charges on securities issued	270	304	190	183
Interest and similar charges on subordinated loan capital	12	12	12	12
Total interest expense for financial instruments selected for fair value carrying through profit or loss	321	365	241	244
Total interest expense and similar charges	1 157	1 271	1 039	1 086

NOTE 13. OTHER OPERATING INCOME

	GROUP		PARENT BANK	
NOK MILLION	**2013**	**2012**	**2013**	**2012**
Guarantee commission	4	1	4	1
Commission income [1]	248	152	95	51
Total commission income and income from banking services	252	153	99	52
Commission charges on payment services and loan brokerage	-18	-12	-18	-11
Total commission charges and banking services expense	-18	-12	-18	-11
Net commission income charges	234	141	81	41
Other operating income:				
Miscellaneous operating income	8	4	8	8
Other operating income	8	4	8	8
Total operating income	242	145	89	49

[1] Commission income relating to management of the portfolio in SpareBank 1 Næringskreditt and SpareBank 1 Boligkreditt totalled NOK 235 million in 2013. The corresponding amount for 2012 was NOK 127 million.

NOTE 14. CHANGE IN VALUE OF FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE, GAINS AND LOSSES

	GROUP		PARENT BANK	
NOK MILLION	**2013**	**2012**	**2013**	**2012**
Change in value interest rate derivatives obliged to be carried at fair value through profit or loss [1, 3, 4]	16	4	17	18
Change in value currency derivatives obliged to be carried at fair value through profit or loss [2]	-4	54	-4	54
Change in value equity-linked options and equity options obliged to be carried at fair value through profit or loss [1]	0	5	0	5
Total change in value of financial instruments obliged to be carried at fair value	**12**	**63**	**13**	**77**
Change in value of deposits selected for fair value carrying through profit or loss [4]	21	-12	21	-11
Change in value of borrowings selected for fair value carrying through profit or loss [4]	9	-42	9	-37
Change in value of loans selected for fair value carrying through profit or loss [4]	-3	38	113	-9
Change in value of short-term financial investments selected for fair value carrying [3]	11	45	11	45
Total change in value of financial instruments selected for fair value carrying	**38**	**29**	**154**	**-12**
Change in value of interest rate derivatives, hedging [5]	-26	64	-25	53
Change in value of borrowings, hedged [5]	26	-64	25	-53
Total change in value of financial instruments for hedging	**0**	**0**	**0**	**0**
Total change in value of financial instruments carried at fair value	**50**	**92**	**167**	**65**
Realised exchange gains/losses(-) bonds and certificates carried at amortised cost [6]	-16	-11	-12	-3
Realised exchange gains/losses(-) borrowings and loans carried at amortised cost [6]	-1	-1	-1	-1
Realised gain/loss on shares [7]	0	0	5	0
Exchange gains/losses on borrowings and loans carried at amortised cost [2]	8	-51	-105	-11
Total change in value of financial instruments carried at fair value, gains and losses	**41**	**29**	**54**	**50**

[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 at the time 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 there was no profit and loss effect for full-year 2013, compared with recognised income of NOK 5 million for full-year 2012.

[2] Exchange gains/losses on borrowings and loans carried at amortised cost are chiefly attributable to exchange gain/loss effects which arise when borrowing and lending in foreign currencies are translated at the current exchange rate. Forward exchange contracts and combined interest rate and currency derivatives are carried at fair value with changes in value carried through profit or loss. The net foreign exchange effect for the Group was recognised income of NOK 4 million for full-year 2013, compared with NOK 3 million for full-year 2012. Exposure to exchange rate fluctuations is low.

[3] Changes in the value of financial investments selected for fair value carrying gave rise to recognised income of NOK 11 million for full-year 2013, compared with recognised income of NOK 45 million for full-year 2012. Turbulence in the financial markets has caused substantial fluctuations in the value of these investments.

[4] The net effect of interest rate derivatives obliged to be carried at fair value and changes in the value of financial instruments selected for fair value carrying was recognised income of NOK 43 million for the full-year 2013, compared with recognised expense of NOK 12 million for the full-year 2012.

[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 value hedging, 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 2013 was positive by NOK 174 million for the Group, compared with NOK 130 million for the Parent Bank. The corresponding figure for 2012 was positive by NOK 192 million for the Group, and NOK 117 million for the Parent Bank.

[6] Realised exchange gains/losses on bonds, certificates and borrowings carried at amortised cost gave rise to recognised expense of NOK 17 million for the full-year 2013, compared with recognised expense of NOK 12 million for the full-year 2012.

[7] The subsidiary BN Boligkreditt AS was liquidated in the fourth quarter of 2013, with a realised capital gain in 2013 of NOK 5 million.

NOTE 15. 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.

After the legal proceedings, negotiations took place between BN Bank ASA and Winding Up Board for Glitnir hf. The parties agreed an amicable settlement according to which BN Bank ASA paid NOK 81.8 million to Glitnir hf and Glitnir hf accepted the off-setting of other disputed components of approximately 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 profit and loss effect of the amicable settlement before tax was therefore NOK 117 million recognised as income in 2012.

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 was not possible at the time to replace these hedging transactions. In 2011, the bankruptcy estate of one of the counterparties submitted a counterclaim for NOK 12 million, which BN Bank disputed. This counterclaim lapsed during the fourth quarter of 2012.

NOTE 16. SALARIES AND GENERAL ADMINISTRATIVE EXPENSES

	GROUP		PARENT BANK	
NOK MILLION	**2013**	**2012**	**2013**	**2012**
Salaries to employees and fees to elected officers	76	75	41	45
Performance-related pay [1]	0	4	0	4
Contracted labour	1	4	1	3
Net pension cost [2]	14	15	9	9
Payroll overhead	16	17	11	14
Salary and other personnel expenses	**107**	**115**	**62**	**75**
IT-expenses	40	47	27	31
Postage and telephone	4	6	3	5
Office expenses	13	22	2	10
Travel expenses and entertainment	3	4	1	2
Marketing	9	9	7	7
General administrative expenses	**69**	**88**	**40**	**55**
Salaries and general administrative expenses	**176**	**203**	**102**	**130**
Number of full-time regular employees as at 31 December	121	119	94	94
Number of part-time regular employees as at 31 December	5	7	4	3
Number of temporary staff as at 31 December	8	11	8	11
Number of full-time equivalents (FTEs) as at 31 December	111	114	83	86
Average number of FTEs during the year	113	110	86	82

[1] BN Bank has a performance-related pay scheme in 2013. Performance-related pay is triggered if returns exceed a given level. The scheme includes all permanent staff except for the Group Managing Director. The criteria for performance-related pay were not met in 2013 and the cost was NOK 0, excluding employer's national insurance contributions for the Group. The corresponding cost in 2012 was NOK 3.7 million, excluding employer's national insurance contributions for the Group.

[2] See Note 18 for more details.

NOTE 17. OTHER OPERATING EXPENSE

	GROUP		PARENT BANK	
NOK MILLION	**2013**	**2012**	**2013**	**2012**
Operating expenses, real property [1]	12	12	7	-2
Miscellaneous operating expenses	15	16	11	9
Miscellaneous operating expenses	27	28	18	7

[1] Provisions were made for future obligations in connection with the subletting of tenancy contracts from previous years. The floor areas are fully let and have been taken into consideration in the future obligations.
See also Note 32.

NOTE 18. PENSION EXPENSES AND LIABILITIES

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

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 onwards.

A former director had a contractual retirement age of 60. The person concerned entered into a new agreement with BN Bank in 2010 to become a party to that retirement agreement at age 57 on the same conditions. The effect of the change was charged as an 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 opinion of the Group, the Norwegian market for covered bonds meets the requirements in IAS 19 for being high-quality bonds and is sufficiently deep. The OMF interest rate curve has therefore been used as a basis for the pension calculation as at 31 December 2013. The discount interest rate curve takes into account the fact that the pension disbursements fall on different dates in the future.

When measuring the accrued pension commitments, the estimated commitment at the end of the reporting period 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.

The risk of changes in assumptions will be reflected in changes in the company's obligation. Changes in the secured scheme will be adjusted through changes in premiums paid to the life insurance company. The company has no influence over the management of deposited pension funds.

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

%	2013	2012
Discount rate [1]	4.0	3.8
Expected pay adjustments [2]	3.9	3.5
Expected adjustment of current pensions	0.5	0.2
Expected adjustment of national insurance basic amount (G)	3.5	3.3
Voluntary exit for employees aged under 50 (40)	2.5	2.0
Voluntary exit for employees aged over 50 (40)	0.0	2.0
Demographic disability assumptions	I73	IR02
Demographic mortality assumptions [3]	GAP07	K2005+10/15

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

[1] The discount rate is determined with reference to the interest rate on high-quality corporate bonds. The BN Bank Group employs the OMF interest rate curve as its discount rate.
[2] Used expected salary curve from 2013 onwards with respect to previous flat salary growth. Effect 2013 is a reduction in gross pension commitment (DBO) of approx. 10%.
[3] Mortality table changed from K2005 to GAP07 in 2013. A change from GAP07 to K2013 will increase the gross pension commitment (DBO) by approx 10% in 2013.
Mortality assumptions are based on actuarial recommendations in line with available public statistics and forecasts.

The figures for 2012 have been recalculated in accordance with the new accounting rules in IAS 19.

Composition of net pension cost

	GROUP		PARENT BANK	
NOK MILLION	**2013**	**2012**	**2013**	**2012**
Present value of the year's pension contributions, group schemes	6	8	4	5
Present value of the year's pension contributions, unsecured schemes	3	1	2	0
Interest expense on accrued pension commitments, group schemes	3	4	2	2
Interest expense on accrued pension commitments, unsecured schemes	1	1	1	1
Amortisation of phasing out of schemes, prior error, change to cost of scheme	0	0	0	0
Amortisation of estimation loss/gain(-) group schemes	0	1	0	1
Costs of administering pension scheme	1	1	1	0
Expected return on pension assets	-3	-4	-2	-2
Accrued employer's contributions	1	1	1	1
Net pension cost, secured and unsecured schemes	**12**	**13**	**8**	**8**
Defined contribution schemes	2	2	1	1
Net pension cost	**14**	**15**	**9**	**9**

Movements in pension commitment

	GROUP		PARENT BANK	
NOK MILLION	**2013**	**2012**	**2013**	**2012**
Movements in pension commitment	48	40	31	26
Actuarial commitments and losses carried in other comprehensive income	-18	7	-12	4
Net pension cost	12	13	8	8
The company's contribution	-9	-10	-6	-6
Payments via operations	-3	-2	-2	-1
Reduction and settlement recognised via profit and loss	0	0	0	0
Reduction and settlement recognised via profit and loss	**30**	**48**	**19**	**31**

Specification of net recognised defined benefit pension commitment

	GROUP		PARENT BANK	
NOK MILLION	**2013**	**2012**	**2013**	**2012**
Present value of contributory pension commitment for defined benefit plans in secured schemes	86	100	55	64
Fair value of pension assets	-81	-76	-52	-49
Net pension commitment for defined benefit plans in secured schemes	5	24	3	15
Present value of contributory pension commitment for defined benefit plans in unsecured schemes	25	24	16	15
Net pension commitment recognised in the balance sheet	30	48	19	31

Movements in defined benefit pension commitment - Secured scheme

	GROUP		PARENT BANK	
NOK MILLION	**2013**	**2012**	**2013**	**2012**
Gross pension commitment as at 1 January	100	107	64	68
Present value of pension contributions	6	8	4	5
Interest expense	4	3	3	2
Actuarial losses (gains) on the commitment	-22	-17	-14	-11
Cost of prior-period pension contributions	0	0	0	0
Takeover/acquisition/transfer of members	0	0	0	0
Benefits paid out	-2	-1	-1	-1
Gross pension commitment as at 31 December	86	100	55	64

Movements in defined benefit pension commitment - Unsecured scheme

	GROUP		PARENT BANK	
NOK MILLION	**2013**	**2012**	**2013**	**2012**
Gross pension commitment as at 1 January	24	30	15	19
Present value of pension contributions	1	1	1	1
Interest expense	1	1	1	1
Actuarial losses (gains) on the commitment	1	-5	1	-3
Cost of prior-period pension contributions	2	0	1	0
Takeover/acquisition/transfer of members	0	0	0	0
Benefits paid out	-2	-2	-1	-2
Gross pension commitment as at 31 December	27	25	17	16
Total pension commitments, secured and unsecured schemes as at 1 January	124	137	79	88
Total pension commitment, secured and unsecured schemes as at 31 December	112	124	72	80

Movements in fair value of pension assets - Secured scheme

	GROUP		PARENT BANK	
NOK MILLION	**2013**	**2012**	**2013**	**2012**
Fair value of financial instruments as at 1 January	76	70	49	45
Expected return on pension assets	3	2	2	1
Actuarial losses (gains) on pension assets	-3	-4	-2	-3
Total contribution	7	9	4	6
Benefits paid out	-2	-1	-1	-1
Takeover/acquisition/transfer of members	0	0	0	0
Fair value of pension assets as at 31 December	81	76	52	49

Pension scheme members

	GROUP		PARENT BANK	
NOK MILLION	**2013**	**2012**	**2013**	**2012**
Economically active members in the defined benefit scheme	87	95	56	61
Economically active members in the defined contribution scheme	40	25	26	16
Pensioners and disabled members	24	17	15	11
Total number of persons in the pension schemes	151	137	97	88

Expected cash flows over the next five years

NOK MILLION	**2014**	**2015**	**2016**	**2017**	**2018**
Secured scheme	2	2	2	2	2
Unsecured scheme	2	2	1	1	1

The expected premium payments to the defined benefit pension scheme in 2014 is NOK 8 million for the Group and NOK 5 million for the Parent Bank.

Investment of pension assets as at 31 December

	GROUP			
NOK MILLION	**2013 BELØP**	**%**	**2012 BELØP**	**%**
Equity instruments	10	12.8	8	10.2
Debt instruments	55	67.9	53	69.8
Real property	15	18.7	14	18.6
Other investments	0	0.6	1	1.4
Other investments	81	100.0	76	100.0

Pension assets are not invested in own financial instruments or other assets in the Bank. Pension assets are managed by the insurance company and regulated by applicable laws.

GROUP

NOK MILLION	2013	2012	2011	2010	2009	2008	2007
Present value of pension contributions	112	118	132	125	97	112	114
Fair value of pension assets	81	76	70	64	51	63	61
Deficit/(surplus)	-31	-42	-62	-61	-45	-49	-53
Experience-based adjustments to pension commitments	-19	-22	0	20	-29	-18	13
Experience-based adjustments to pension assets	-3	-4	0	3	-20	-14	-2

PARENT BANK

NOK MILLION	2013	2012	2011	2010	2009	2008	2007
Present value of pension contributions	72	76	84	80	62	71	75
Fair value of pension assets	52	49	45	41	33	40	42
Deficit/(surplus)	-20	-27	-39	-39	-29	-31	-33
Experience-based adjustments to pension commitments	-12	-14	0	12	-19	-12	7
Experience-based adjustments to pension assets	-2	-3	0	2	-13	-9	-2

Sensitivity analysis for pension calculation

The sensitivity analysis is based on facts and circumstances as at 31 December 2013, assuming that all other parameters are constant. In practice, this is unlikely to be the case and changes in some of the assumptions may co-vary. Actual results may deviate from these estimates.

	DISCOUNT RATE		ANNUAL SALARY GROWTH		ANNUAL ADJUSTMENT OF PENSIONS
CHANGE IN PERCENTAGE POINTS	+ 1 %	- 1 %	+ 0.5 %	- 0.5 %	+ 0.5 %
Pension commitment (DBO)	-14%	19%	4.7%	-4.3%	6.5%
Net pension cost for the period	-25%	33%	9.9%	9.1%	8.8%

The pension commitment is particularly sensitive to changes in the discount rate. A reduction in the discount rate in isolation will result in an increase in the pension commitment. An increase in salary adjustment will result in an increase in the pension commitment.

NOTE 19. TAX

Computation of tax payable

	GROUP		PARENT BANK	
NOK MILLION	**2013**	**2012**	**2013**	**2012**
Profit before tax	349	258	292	259
Permanent profit and loss differences:				
Income from ownership interests in associates	0	0	-118	-164
Non-deductible expenses	1	1	1	1
Non-taxable income	-7	-2	-12	-2
Changes in temporary profit and loss differences relating to:				
Current assets/short-term liabilities	-4	-74	-16	-121
Fixed assets/long-term liabilities	-209	70	-238	138
Other items recognised in other comprehensive income:				
Actuarial gains/losses, pensions	11	0	7	0
Taxable income	141	253	-84	111
Tax payable (28%)	39	71	0	31
28% of the proposed group contribution for the year over and above the fiscal deficit	0	0	23	0
Pre-assessed tax upon liquidation of BN Boligkreditt	-2	0	0	0
Tax payable in the balance sheet	37	71	23	31

The Parent Bank recorded a taxable profit in 2013 after the subsidiaries have rendered group contribution with tax effect. The Parent Bank has tax payable totalling NOK 23 million in 2013. The subsidiary BNkreditt has tax payable of NOK 14 million.

The Parent Bank recorded a taxable profit in 2012. The Parent Bank had tax payable totalling NOK 31 million in 2012. The subsidiaries BNkreditt and BN Boligkreditt had tax payable of NOK 38 million and NOK 2 million respectively in 2012.

	GROUP		PARENT BANK	
NOK MILLION	**2013**	**2012**	**2013**	**2012**
Tax payable	39	71	0	31
Tax effect of group contribution	0	0	0	46
Change in deferred tax	58	1	43	-5
Tax charge	97	72	43	72

Reconciliation from nominal to actual tax rate (28%)

	GROUP		PARENT BANK	
NOK MILLION	**2013**	**2012**	**2013**	**2012**
Profit before tax	349	258	292	259
Expected income tax at nominal rate (28%)	98	72	82	73
Income tax effect of permanent differences	-3	0	-38	-1
Tax effect of items recognised in other comprehensive income	3	0	2	0
Change in deferred tax/deferred tax asset from 28% to 27%	-1	0	-3	0
Tax charge	97	72	43	72
Effective tax rate	28%	28%	15%	28%

Computation of deferred tax/deferred tax assets

	GROUP		PARENT BANK	
NOK MILLION	**2013**	**2012**	**2013**	**2012**
Tax-adding temporary differences:				
Profit and loss account	4	5	0	0
Short-term securities investments [1]	80	75	69	52
Long-term investments [1]	42	311	418	311
Total tax-adding temporary differences	126	391	487	363
Tax-deducting temporary differences:				
Building and other fixed assets	8	6	8	6
Short-term liabilities [1]	0	1	84	0
Long-term liabilities [1]	20	489	52	177
Net pension commitment	30	47	19	30
Total tax-deducting temporary differences	58	543	163	213
Tax base for computing deferred tax (+)/deferred tax assets (-)	68	-152	324	150
Computed deferred tax (+)/deferred tax assets (-) (27% of calculation basis in 2013 and 28% in 2012)	19	-43	87	42

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

	GROUP		PARENT BANK	
NOK MILLION	**2013**	**2012**	**2013**	**2012**
Deferred tax (+)/deferred tax assets (-) as at 1 January	-43	-43	42	1
Change in deferred tax in income statement	58	1	43	-5
Tax effect of group contribution	0	0	-23	46
Change in deferred tax on items recognised in other comprehensive income	4	-2	2	-1
Excess/insufficient tax provision last year	0	1	0	1
Deferred tax (+)/deferred tax assets (-) as at 31 December	19	-43	64	42

[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 employ them against future taxable profit.

NOTE 20. FINANCIAL INSTRUMENTS ACCORDING TO CATEGORY

As at 31 December 2013

GROUP

NOK MILLION	FAIR VALUE	DERIVATIVES AT FAIR VALUE EARMARKED FOR HEDGING	VOLUNTARILY CARRIED AT FAIR VALUE	AVAILABLE FOR SALE	LOANS, RECEIVABLES & OTHER OBLIGATIONS AT AMORTISED COST	HEDGING AT AMORTISERD COST	TOTAL
Subordinated loans	0	0	0	0	1	0	1
Loans and advances	0	0	895	0	28 199	0	29 094
Prepayments and accrued income	0	0	0	0	58	0	58
Interest rate derivatives	432	174	0	0	0	0	606
Currency derivatives	16	0	0	0	0	0	16
Short-term securities investments	0	0	3 990	382	1 750	0	6 122
Cash and balances due from credit institutions	0	0	0	0	1 585	0	1 585
Total financial instruments, assets	448	174	4 885	382	31 593	0	37 482
Subordinated loan capital	0	0	-172	0	-1 287	0	-1 459
Liabilities to credit institutions	0	0	0	0	-13	0	-13
Debt securities in issue	0	0	-2 534	0	-9 739	-4 244	-16 517
Accrued expense and deferred income	0	0	0	0	-133	0	-133
Other current liabilities	0	0	0	0	-10	0	-10
Interest rate derivatives	-472	0	0	0	0	0	-472
Currency derivatives	-15	0	0	0	0	0	-15
Customer deposits & accounts payable to customers	0	0	-382	0	-14 787	0	-15 169
Total financial instruments, liabilities	-487	0	-3 088	0	-25 969	-4 244	-33 788

As at 31 December 2012

GROUP

NOK MILLION	FAIR VALUE	DERIVATIVES AT FAIR VALUE EARMARKED FOR HEDGING	VOLUNTARILY CARRIED AT FAIR VALUE	AVAILABLE FOR SALE	LOANS, RECEIVABLES & OTHER OBLIGATIONS AT AMORTISED COST	HEDGING AT AMORTISERD COST	TOTAL
Loans and advances	0	0	1 226	0	31 967	0	33 193
Prepayments and accrued income	0	0	0	0	52	0	52
Interest rate derivatives	514	192	0	0	0	0	706
Currency derivatives	52	0	0	0	0	0	52
Equity-linked options and equity options	1	0	0	0	0	0	1
Short-term securities investments	0	0	3 170	420	2 545	0	6 135
Cash and balances due from credit institutions	0	0	0	0	1 495	0	1 495
Total financial instruments, assets	567	192	4 396	420	36 059	0	41 634
Subordinated loan capital	0	0	-172	0	-1 441	0	-1 613
Liabilities to credit institutions	0	0	0	0	-519	0	-519
Debt securities in issue	0	0	-4 409	0	-10 028	-3 932	-18 369
Accrued expense and deferred income	0	0	0	0	-119	0	-119
Other current liabilities	0	0	0	0	-1	0	-1
Interest rate derivatives	-586	0	0	0	0	0	-586
Currency derivatives	-47	0	0	0	0	0	-47
Customer deposits & accounts payable to customers	-1	0	-1 950	0	-14 959	0	-16 910
Total financial instruments, liabilities	-634	0	-6 531	0	-27 067	-3 932	-38 164

As at 31 December 2013

PARENT BANK

NOK MILLION	FAIR VALUE	DERIVATIVES AT FAIR VALUE EARMARKED FOR HEDGING	VOLUNTARILY CARRIED AT FAIR VALUE	AVAILABLE FOR SALE	LOANS, RECEIVABLES & OTHER OBLIGATIONS AT AMORTISED COST	HEDGING AT AMORTISERD COST	TOTAL
Subordinated loans	0	0	0	0	452	0	452
Loans and advances	0	0	416	0	13 014	0	13 430
Prepayments and accrued income	0	0	0	0	56	0	56
Interest rate derivatives	397	130	0	0	0	0	527
Currency derivatives	16	0	0	0	0	0	16
Short-term securities investments	0	0	3 990	382	1 750	0	6 122
Cash and balances due from credit institutions	0	0	0	0	10 656	0	10 656
Total financial instruments, assets	**413**	**130**	**4 406**	**382**	**25 928**	**0**	**31 259**
Subordinated loan capital	0	0	-172	0	-1 287	0	-1 459
Liabilities to credit institutions	0	0	0	0	-13	0	-13
Debt securities in issue	0	0	-1 577	0	-8 208	-3 275	-13 060
Accrued expense and deferred income	0	0	0	0	-133	0	-133
Other current liabilities	0	0	0	0	-10	0	-10
Interest rate derivatives	-427	0	0	0	0	0	-427
Currency derivatives	-15	0	0	0	0	0	-15
Customer deposits & accounts payable to customers	0	0	-382	0	-14 791	0	-15 173
Total financial instruments, liabilities	**-442**	**0**	**-2 131**	**0**	**-24 442**	**-3 275**	**-30 290**

As at 31 December 2012

PARENT BANK

NOK MILLION	FAIR VALUE	DERIVATIVES AT FAIR VALUE EARMARKED FOR HEDGING	VOLUNTARILY CARRIED AT FAIR VALUE	AVAILABLE FOR SALE	LOANS, RECEIVABLES & OTHER OBLIGATIONS AT AMORTISED COST	HEDGING AT AMORTISERD COST	TOTAL
Subordinated loans	0	0	0	0	451	0	451
Loans and advances	0	0	521	0	14 522	0	15 043
Prepayments and accrued income	0	0	0	0	53	0	53
Interest rate derivatives	492	117	0	0	0	0	609
Currency derivatives	52	0	0	0	0	0	52
Equity-linked options and equity options	1	0	0	0	0	0	1
Short-term securities investments	0	0	3 170	420	2 022	0	5 612
Cash and balances due from credit institutions	0	0	0	0	12 860	0	12 860
Assets classified as held for sale	0	0	0	0	1	0	1
Total financial instruments, assets	**545**	**117**	**3 691**	**420**	**29 909**	**0**	**34 682**
Subordinated loan capital	0	0	-172	0	-1 441	0	-1 613
Liabilities to credit institutions	0	0	0	0	-806	0	-806
Debt securities in issue	0	0	-3 350	0	-8 192	-2 581	-14 123
Accrued expense and deferred income	0	0	0	0	-119	0	-119
Other current liabilities	0	0	0	0	-1	0	-1
Interest rate derivatives	-556	0	0	0	0	0	-556
Currency derivatives	-47	0	0	0	0	0	-47
Customer deposits & accounts payable to customers	-1	0	-1 950	0	-14 959	0	-16 910
Total financial instruments, liabilities	**-604**	**0**	**-5 472**	**0**	**-25 518**	**-2 581**	**-34 175**

NOTE 21. FAIR VALUE OF FINANCIAL INSTRUMENTS

Methods of determining fair value

Interest swap agreements, currency swap agreements and forward exchange contracts

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

Interest swap agreements with credit spread

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

Certificates and bonds

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

Hedged borrowing/funding

Borrowings included in 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

Equity options and equity-linked options are measured at fair value by obtaining market prices from the facilitators of the structured financial products.

Division into measurement levels

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

- Level 1: Quoted price in an active market for an identical asset or liability
- Level 2: Measurement is performed using a valuation technique and discounting of expected future cash flows. The risk-free interest rate is read from the market through the interest rate 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.
- 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 2013

				GROUP
NOK MILLION	**LEVEL 1**	**LEVEL 2**	**LEVEL 3**	**TOTAL**
Loans and advances	0	0	895	895
Interest rate derivatives [1]	0	606	0	606
Currency derivatives	0	16	0	16
Short-term securities investments	748	3 242	382	4 372
Total assets	748	3 864	1 277	5 889
Subordinated loan capital	0	-172	0	-172
Debt securities in issue	0	-2 534	0	-2 534
Interest rate derivatives [1]	0	-472	0	-472
Currency derivatives	0	-15	0	-15
Customer deposits & accounts payable to customers	0	-382	0	-382
Total liabilities	0	-3 575	0	-3 575

[1] The value of the hedge instruments earmarked for fair value hedging as at 31 December 2013 was positive by NOK 174 million.

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
Interest rate derivatives [1]	0	706	0	706
Currency derivatives	0	52	0	52
Equity-linked options and equity options	0	1	0	1
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
Interest rate derivatives [1]	0	-586	0	-586
Currency derivatives	0	-47	0	-47
Customer deposits & 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 Parent Bank's assets and liabilities measured at fair value as at 31 December 2013

PARENT BANK

NOK MILLION	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Loans and advances	0	0	416	416
Interest rate derivatives [1]	0	527	0	527
Currency derivatives	0	16	0	16
Short-term securities investments	748	3 242	382	4 372
Total assets	**748**	**3 785**	**798**	**5 331**
Subordinated loan capital	0	-172	0	-172
Debt securities in issue	0	-1 577	0	-1 577
Interest rate derivatives [1]	0	-427	0	-427
Currency derivatives	0	-15	0	-15
Customer deposits & accounts payable to customers	0	-382	0	-382
Total liabilities	**0**	**-2 573**	**0**	**-2 573**

[1] The value of the hedge instruments earmarked for value hedging as at 31 December 2013 was NOK 130 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
Interest rate derivatives [1]	0	609	0	609
Currency derivatives	0	52	0	52
Equity-linked options and equity options	0	1	0	1
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
Interest rate derivatives [1]	0	-556	0	-556
Currency derivatives	0	-47	0	-47
Customer deposits & 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 value hedging as at 31 December 2012 was NOK 117 million.

The Group's financial instruments measured at fair value, Level 3, as at 31 December 2013

GROUP

NOK MILLION	LOANS AND ADVANCES	SHORT-TERM SECURITIES INVESTMENTS	TOTAL
Opening balance	1 226	420	1 646
Investments in the period/new agreements	2	87	89
Sales in the period (at book value)	0	-125	-125
Matured	-330	0	-330
Net gains on financial instruments	-3	0	-3
Closing balance	**895**	**382**	**1 277**
Of which result for the period relating to financial instruments still on the balance sheet	2	0	2

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

GROUP

NOK MILLION	LOANS AND ADVANCES	SHORT-TERM SECURITIES INVESTMENTS	TOTAL
Opening balance	1 880	178	2 058
Investments in the period/new agreements	54	242	296
Matured	-746	0	-746
Net gains on financial instruments	38	0	38
Closing balance	**1 226**	**420**	**1 646**
Of which result for the period relating to financial instruments still on the balance sheet	40	0	40

The Parent Bank's financial instruments measured at fair value, Level 3, as at 31 December 2013

PARENT BANK

NOK MILLION	LOANS AND ADVANCES	SHORT-TERM SECURITIES INVESTMENTS	TOTAL
Opening balance	521	420	941
Investments in the period/new agreements	2	87	89
Sales in the period (at book value)	0	-125	-125
Matured	-111	0	-111
Net gains on financial instruments	4	0	4
Closing balance	**416**	**382**	**798**
Of which result for the period relating to financial instruments still on the balance sheet	5	0	5

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

PARENT BANK

NOK MILLION	LOANS AND ADVANCES	SHORT-TERM SECURITIES INVESTMENTS	TOTAL
Opening balance	717	178	895
Investments in the period/new agreements	28	242	270
Matured	-244	0	-244
Net gains on financial instruments	20	0	20
Closing balance	**521**	**420**	**941**
Of which result for the period relating to financial instruments still on the balance sheet	20	0	20

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 corresponding 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 6 which shows a sensitivity analysis for the Group as a whole.

Fair value compared with recognised value

GROUP

	2013		2012	
NOK MILLION	**FAIR VALUE**	**RECOG. VALUE**	**FAIR VALUE**	**RECOG. VALUE**
Subordinated loans	1	1	0	0
Loans and advances	29 094	29 094	33 193	33 193
Prepayments and accrued income	58	58	52	52
Interest rate derivatives	606	606	706	706
Currency derivatives	16	16	52	52
Equity-linked options and equity options	0	0	1	1
Short-term securities investments	6 124	6 122	6 144	6 135
Cash and balances due from credit institutions	1 585	1 585	1 495	1 495
Subordinated loan capital	-1 471	-1 459	-1 605	-1 613
Liabilities to credit institutions	-13	-13	-519	-519
Debt securities in issue	-16 671	-16 517	-18 465	-18 369
Accrued expense and deferred income	-133	-133	-119	-119
Other current liabilities	-10	-10	-1	-1
Interest rate derivatives	-472	-472	-586	-586
Currency derivatives	-15	-15	-47	-47
Customer deposits & accounts payable to customers	-15 169	-15 169	-16 910	-16 910
Total	3 530	3 694	3 391	3 470

PARENT BANK

	2013		2012	
NOK MILLION	**FAIR VALUE**	**RECOG. VALUE**	**FAIR VALUE**	**RECOG. VALUE**
Subordinated loans	453	452	453	451
Loans and advances	13 430	13 430	15 043	15 043
Prepayments and accrued income	56	56	53	53
Interest rate derivatives	527	527	609	609
Currency derivatives	16	16	52	52
Equity-linked options and equity options	0	0	1	1
Short-term securities investments	6 124	6 122	5 620	5 612
Cash and balances due from credit institutions	10 656	10 656	12 860	12 860
Assets classified as held for sale	0	0	1	1
Subordinated loan capital	-1 471	-1 459	-1 605	-1 613
Liabilities to credit institutions	-13	-13	-806	-806
Debt securities in issue	-13 196	-13 060	-14 217	-14 123
Accrued expense and deferred income	-133	-133	-119	-119
Other current liabilities	-10	-10	-1	-1
Interest rate derivatives [1]	-427	-427	-556	-556
Currency derivatives	-15	-15	-47	-47
Customer deposits & accounts payable to customers	-15 173	-15 173	-16 910	-16 910
Total	824	969	431	507

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.

When assessing the fair value of certificates and bonds at amortised cost, we have used tax assessment values determined by a committee appointed by the Norwegian Securities Dealers Association. Treasury bills are recognised at the most recent bid price. The prices of senior bank bonds and subordinated bank are calculated on the basis of the NIBOR rates at the short end and swap rates for loans with a maturity of more than one year. Risk supplements are determined by the most recent broker reports as at the year-end.

Subdivision of fair value measurement for financial instruments carried at amortised cost

Financial instruments measured at fair value at the end of the reporting period are subdivided 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 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.
- 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 amortised cost as at 31 December 2013

				GROUP
NOK MILLION	**LEVEL 1**	**LEVEL 2**	**LEVEL 3**	**TOTAL**
Short-term securities investments	497	1 252	0	1 749
Total assets	**497**	**1 252**	**0**	**1 749**
Subordinated loan capital	0	-1 298	0	-1 298
Debt securities in issue	0	-9 893	0	-9 893
Total liabilities	**0**	**-11 191**	**0**	**-11 191**

The Group's assets and liabilities measured at amortised cost as at 31 December 2012

				GROUP
NOK MILLION	**LEVEL 1**	**LEVEL 2**	**LEVEL 3**	**TOTAL**
Short-term securities investments	993	1 554	0	2 547
Total assets	**993**	**1 554**	**0**	**2 547**
Subordinated loan capital	0	-1 433	0	-1 433
Liabilities to credit institutions	0	-300	0	-300
Debt securities in issue	0	-10 124	0	-10 124
Total liabilities	**0**	**-11 857**	**0**	**-11 857**

The Parent Bank's assets and liabilities measured at amortised cost as at 31 December 2013

	PARENT BANK			
NOK MILLION	**LEVEL 1**	**LEVEL 2**	**LEVEL 3**	**TOTAL**
Subordinated loans	0	453	0	453
Short-term securities investments	497	1 252	0	1 749
Total assets	497	1 252	0	1 749
Subordinated loan capital	0	-1 298	0	-1 298
Debt securities in issue	0	-8 344	0	-8 344
Total liabilities	0	-9 642	0	-9 642

The Parent Bank's assets and liabilities measured at amortised cost as at 31 December 2012

	PARENT BANK			
NOK MILLION	**LEVEL 1**	**LEVEL 2**	**LEVEL 3**	**TOTAL**
Subordinated loans	0	453	0	453
Short-term securities investments	993	1 033	0	2 026
Total assets	993	1 486	0	2 479
Subordinated loan capital	0	-1 433	0	-1 433
Debt securities in issue	0	-8 286	0	-8 286
Total liabilities	0	-9 719	0	-9 719

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

LOANS AND ADVANCES	GROUP		PARENT BANK	
NOK MILLION	**2013**	**2012**	**2013**	**2012**
Change in fair value during the period as a result of changed credit risk	28	35	11	15
Change in fair value accumulated as a result of changed credit risk	-15	-43	-6	-17

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

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

BORROWING	GROUP		PARENT BANK	
NOK MILLION	**2013**	**2012**	**2013**	**2012**
Change in fair value during the period as a result of changed credit risk	-33	-43	-12	-19
Change in fair value accumulated as a result of changed credit risk	15	48	3	15

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

Fair value and contractual payment obligations at maturity [1]

GROUP

	2013		2012	
NOK MILLION	**FAIR VALUE**	**PAYMENT OBLIGATION [2]**	**FAIR VALUE**	**PAYMENT OBLIGATION [2]**
Subordinated loan capital	1 459	1 458	1 613	1 617
Liabilities to credit institutions	13	13	519	519
Debt securities in issue	16 517	16 643	18 369	18 216
Customer deposits & accounts payable to customers	15 169	15 169	16 910	16 889
Total	33 158	33 283	37 411	37 241

Fair value and contractual payment obligations at maturity [1]

MORBANK

	2013		2012	
NOK MILLION	**FAIR VALUE**	**PAYMENT OBLIGATION [2]**	**FAIR VALUE**	**PAYMENT OBLIGATION [2]**
Subordinated loan capital	1 459	1 458	1 613	1 617
Liabilities to credit institutions	13	13	806	806
Debt securities in issue	13 060	13 131	14 123	14 033
Customer deposits & accounts payable to customers	15 173	15 173	16 910	16 889
Total	29 705	29 775	33 452	33 345

[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 34 and Debt securities in issue in Note 30.

NOTE 22. FINANCIAL DERIVATIVES

ASSETS	GROUP		PARENT BANK	
NOK MILLION	**2013**	**2012**	**2013**	**2012**
Interest rate derivatives	606	706	527	609
Currency derivatives	16	52	16	52
Equity-linked options and equity options	0	1	0	1
Total financial instruments, assets	622	759	543	662

OBLIGATIONS	GROUP		PARENT BANK	
NOK MILLION	**2013**	**2012**	**2013**	**2012**
Interest rate derivatives	472	586	427	556
Currency derivatives	15	47	15	47
Total financial instruments, assets	487	633	442	603

All financial derivatives must be valued at fair value via the profit and loss.

NOTE 23. RIGHT OF SET-OFF, FINANCIAL DERIVATIVES

With effect from 2013, the BN Bank Group must provide information on the financial instruments for which it has entered into off-set agreements in accordance with IFRS 7.13 A-F. The BN Bank Group has no items which are recognised net in the balance sheet in accordance with IFRS 7.13.C a-c.

The Group enters into standardised and chiefly bilateral ISDA contracts for derivatives transactions with financial institutions, which give the parties the right of set-off in the event of default. The Group has also entered into additional collateral-posting agreements (CSAs) with some of the counterparties.

Financial assets as at 31 December 2013

	GROUP			PARENT BANK		
COUNTERPARTY	**AMOUNT IN THE BALANCE SHEET**	**AMOUNT SUBJECT SETTLEMENT ON NET BASIS [1]**	**AMOUNT AFTER POSSOBLE NET SETTLEMENT**	**AMOUNT IN THE BALANCE SHEET**	**AMOUNT SUBJECT SETTLEMENT ON NET BASIS [1]**	**AMOUNT AFTER POSSOBLE NET SETTLEMENT**
Counterparty 1	301	42	261	298	31	267
Counterparty 2	111	111	0	105	105	0
Counterparty 3	114	17	97	60	17	43
Counterparty 4	48	38	10	32	8	24
Counterparty 5	40	40	0	40	40	0
Counterparty 6	8	8	0	8	8	0
Total	622	256	368	543	209	334

Financial liabilities as at 31 December 2013

	GROUP			PARENT BANK		
COUNTERPARTY	AMOUNT IN THE BALANCE SHEET	AMOUNT SUBJECT SETTLEMENT ON NET BASIS [1]	AMOUNT AFTER POSSOBLE NET SETTLEMENT	AMOUNT IN THE BALANCE SHEET	AMOUNT SUBJECT SETTLEMENT ON NET BASIS [1]	AMOUNT AFTER POSSOBLE NET SETTLEMENT
Counterparty 1	42	42	0	31	31	0
Counterparty 2	341	111	230	337	105	232
Counterparty 3	17	17	0	17	17	0
Counterparty 4	38	38	0	8	8	0
Counterparty 5	41	40	1	41	40	1
Counterparty 6	8	8	0	8	8	0
Total	487	256	231	442	209	233

Financial assets as at 31 December 2012

	GROUP			PARENT BANK		
COUNTERPARTY	AMOUNT IN THE BALANCE SHEET	AMOUNT SUBJECT SETTLEMENT ON NET BASIS [1]	AMOUNT AFTER POSSOBLE NET SETTLEMENT	AMOUNT IN THE BALANCE SHEET	AMOUNT SUBJECT SETTLEMENT ON NET BASIS [1]	AMOUNT AFTER POSSOBLE NET SETTLEMENT
Counterparty 1	359	70	288	354	69	285
Counterparty 2	161	161	0	152	152	0
Counterparty 3	136	29	107	69	28	41
Counterparty 4	57	43	14	41	15	26
Counterparty 5	37	37	0	37	37	0
Counterparty 6	9	9	0	9	9	0
Total	759	349	409	662	310	352

Financial liabilities as at 31 December 2012

	GROUP			PARENT BANK		
COUNTERPARTY	AMOUNT IN THE BALANCE SHEET	AMOUNT SUBJECT SETTLEMENT ON NET BASIS [1]	AMOUNT AFTER POSSOBLE NET SETTLEMENT	AMOUNT IN THE BALANCE SHEET	AMOUNT SUBJECT SETTLEMENT ON NET BASIS [1]	AMOUNT AFTER POSSOBLE NET SETTLEMENT
Counterparty 1	70	70	0	69	69	0
Counterparty 2	419	161	258	417	151	266
Counterparty 3	29	29	0	28	28	0
Counterparty 4	43	43	0	15	15	0
Counterparty 5	60	37	23	62	38	24
Counterparty 6	11	9	2	11	9	2
Counterparty 7	1	0	1	1	0	1
Total	633	349	284	603	310	293

[1] The amount subject to settlement on a net basis that is not presented net in the balance sheet

NOTE 24. SHORT-TERM SECURITIES INVESTMENTS

	GROUP		PARENT BANK	
NOK MILLION	**2013**	**2012**	**2013**	**2012**
Short-term investments available for sale:				
Shares	382	420	382	420
Total short-term investments available for sale	382	420	382	420
Short-term investments carried at amortised cost:				
Certificates and bonds issued by the Norwegian government	497	992	497	992
Certificates and bonds issued by others	1 253	1 553	1 253	1 030
Total short-term investments carried at amortised cost	1 750	2 545	1 750	2 022
Short-term investments carried at fair value through profit or loss:				
Certificates and bonds issued by the Norwegian government	56	56	56	56
Certificates and bonds issued by others	3 934	3 114	3 934	3 114
Total short-term investments carried at fair value through profit or loss	3 990	3 170	3 990	3 170
Short-term securities investments	6 122	6 135	6 122	5 612

NOTE 25. SUBORDINATED LOANS

	GROUP		PARENT BANK	
NOK MILLION	**2013**	**2012**	**2013**	**2012**
Subordinated loans carried at amortised cost				
Subordinated loans made to others	1	0	1	0
Subordinated loans made to subsidiaries	0	0	451	451
Total subordinated loans carried at amortised cost	1	0	452	451

NOTE 26. OWNERSHIP INTERESTS IN GROUP COMPANIES

Group companies

NOK MILLION	THE SUBSIDIARY´S SHARE CAPITAL	STAKE [1]	BOOK VALUE 1.1.2013	CAPITAL INCREASE ETC.	WRITE-DOWN	BOOK VALUE 31.12.13	PROFIT FOR THE YEAR 2013	PROFIT FOR THE YEAR 2012
Bolig- og Næringskreditt AS, Trondheim	600	100%	1 600	0	0	1 600	120	110
BN Boligkreditt AS, Trondheim	0	100%	277	0	0	0	0	7
Collection Eiendom AS, Trondheim	0	100%	0	0	0	0	0	0
Shares in subsidiaries			1 877	0	0	1 600		

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

No group contribution was issued between the Group companies for 2012. For 2013, it is proposed that a group contribution of NOK 120 million be paid by Bolig- og Næringskreditt to the Parent Bank.

The Parent Bank received dividends from subsidiaries during 2013 totalling NOK 118 million.

BN Boligkreditt AS was liquidated during the fourth quarter of 2013.

Other assets classified as held for sale

Following default on a loan in 2010, the Bank took over all of the shares in one company. The Bank resold the business during the second quarter of 2012.

NOTE 27. INTANGIBLE ASSETS AND DEPRECIABLE ASSETS

GROUP 2013

NOK MILLION	DEVELOEMENT IT SYSTEMS	INTANG. ASSETS	MACHINERY, EQUIPMENT AND TRANSP. MEANS	BUILDINGS, REAL PROPERTY	TANGIBLE ASSETS
Acquisition cost as at 1 January 2013	52	52	28	7	35
Acquisitions	5	5	0	0	0
Disposals at acquisition cost	0	0	-3	0	-3
Scrapping of fully depreciated fixed assets	-18	-18	-9	0	-9
Acquisition cost as at 31 December 2013	**39**	**39**	**16**	**7**	**23**
Accumulated depreciation, amortisation and write-down as at 1 January 2013	42	42	17	0	17
Disposals	0	0	-2	0	-2
Ordinary depreciation during the year	8	8	4	0	4
Scrapping of fully depreciated fixed assets	-18	-18	-9	0	-9
Accumulated depreciation, amortisation and write-down as at 31 December 2013	**32**	**32**	**10**	**0**	**10**
Book value as at 31 December 2013	**7**	**7**	**6**	**7**	**13**

DEPRECIATION METHOD	LINEAR		LINEAR	LINEAR	
Lifetime	4 years		3 - 5 years	100 years	

PARENT BANK 2013

NOK MILLION	DEVELOEMENT IT SYSTEMS	INTANG. ASSETS	MACHINERY, EQUIPMENT AND TRANSP. MEANS	BUILDINGS, REAL PROPERTY	TANGIBLE ASSETS
Acquisition cost as at 1 January 2013	52	52	28	7	35
Additions	5	5	0	0	0
Disposals at acquisition cost	0	0	-3	0	-3
Scrapping of fully depreciated fixed assets	-18	-18	-9	0	-9
Acquisition cost as at 31 December 2013	**39**	**39**	**16**	**7**	**23**
Accumulated depreciation, amortisation and write-down as at 1 January 2013	42	42	17	0	17
Disposals	0	0	-2	0	-2
Ordinary depreciation during the year	8	8	4	0	4
Scrapping of fully depreciated fixed assets	-18	-18	-9	0	-9
Accumulated depreciation, amortisation and write-down as at 31 December 2013	**32**	**32**	**10**	**0**	**10**
Book value as at 31 December 2013	**7**	**7**	**6**	**7**	**13**

DEPRECIATION METHOD	LINEAR		LINEAR	LINEAR	
Lifetime	4 years		3 - 5 years	100 years	

Development of IT systems comprises inhouse-developed intangible assets.
The depreciation schedule reflects the anticipated economic lifetime of the fixed assets.

GROUP 2012

NOK MILLION	DEVELOEMENT IT SYSTEMS	INTANG. ASSETS	MACHINERY, EQUIPMENT AND TRANSP. MEANS	BUILDINGS, REAL PROPERTY	TANGIBLE ASSETS
Acquisition cost as at 1 January 2012	70	70	56	7	63
Acquisitions	13	13	3	0	3
Disposals at acquisition cost	0	0	-2	0	-2
Write-down	-31	-31	-29	0	-29
Acquisition cost as at 31 December 2013	**52**	**52**	**28**	**7**	**35**
Accumulated depreciation, amortisation and write-down as at 1 January 2012	50	50	40	0	40
Disposals	0	0	-1	0	-1
Ordinary depreciation during the year [1]	14	14	6	0	6
Write-down	-22	-22	-28	0	-28
Accumulated depreciation, amortisation and write-down as at 31 December 2012	**42**	**42**	**17**	**0**	**17**
Book value as at 31 December 2012	**10**	**10**	**11**	**7**	**18**

DEPRECIATION METHOD	LINEAR		LINEAR	LINEAR	
Lifetime	4 years		3 - 5 years	100 years	

PARENT BANK 2012

NOK MILLION	DEVELOEMENT IT SYSTEMS	INTANG. ASSETS	MACHINERY, EQUIPMENT AND TRANSP. MEANS	BUILDINGS, REAL PROPERTY	TANGIBLE ASSETS
Acquisition cost as at 1 January 2012	70	70	56	7	63
Additions	13	13	3	0	3
Disposals at acquisition cost	0	0	-2	0	-2
Write-down	-31	-31	-29	0	-29
Acquisition cost as at 31 December 2012	**52**	**52**	**28**	**7**	**35**
Accumulated depreciation, amortisation and write-down as at 1 January 2012	50	50	40	0	40
Disposals	0	0	-1	0	-1
Ordinary depreciation during the year [1]	14	14	6	0	6
Write-down	-22	-22	-28	0	-28
Accumulated depreciation, amortisation and write-down as at 31 December 2012	**42**	**42**	**17**	**0**	**17**
Book value as at 31 December 2012	**10**	**10**	**11**	**7**	**18**

DEPRECIATION METHOD	LINEAR		LINEAR	LINEAR	
Lifetime	4 years		3 - 5 years	100 years	

NOTE 28. REPPOSSESSED PROPERTIES

Group:

As at 31 December 2013, the Group has repossessed property with a book value of NOK 3 million. As at 31 December 2012, the book value was NOK 29 million. The downturn is due to the realisation of parts of repossessed property.

NOTE 29. CUSTOMER DEPOSITS & ACCOUNTS PAYABLE TO CUSTOMERS

	GROUP		PARENT BANK	
NOK MILLION	**2013**	**2012**	**2013**	**2012**
Customer deposits and accounts payable to customers carried at amortised cost:				
Customer deposits and accounts payable to customers without agreed maturity date	14 623	14 643	14 623	14 643
Customer deposits and accounts payable to customers with agreed maturity date	174	316	178	316
Customer deposits and accounts payable to customers carried at amortised cost	**14 797**	**14 959**	**14 801**	**14 959**
Customer deposits and accounts payable to customers selected for fair value carrying:				
Customer deposits and accounts payable to customers with agreed maturity date, selected for fair value carrying	372	1 951	372	1 951
Customer deposits and accounts payable to customers selected for fair value carrying	**372**	**1 951**	**372**	**1 951**
Total customer deposits and accounts payable to customers	**15 169**	**16 910**	**15 173**	**16 910**

NOTE 30. DEBT SECURITIES IN ISSUE

FACE VALUES	GROUP		PARENT BANK	
NOK MILLION	**2013**	**2012**	**2013**	**2012**
Face value of certificates	1 500	3 629	1 350	3 429
Face value of own certificates	0	-395	0	-345
Net face value of certificates	**1 500**	**3 234**	**1 350**	**3 084**
Face value of bonds	15 049	15 711	11 846	11 717
Face value of own bonds	-306	-884	-306	-857
Net face value of bonds	**14 743**	**14 827**	**11 540**	**10 860**
Net face value of debt securities in issue	**16 243**	**18 061**	**12 890**	**13 944**

RECOGNISED VALUES	GROUP		PARENT BANK	
NOK MILLION	**2013**	**2012**	**2013**	**2012**
Certificates carried at amortised cost	0	0	0	0
Certificates selected for fair value carrying	1 519	3 285	1 367	3 131
Total recognised value of certificates	**1 519**	**3 285**	**1 367**	**3 131**
Bonds carried at amortised cost	9 739	10 028	8 208	8 192
Bonds carried at amortised cost (secured debt)	4 244	3 932	3 275	2 581
Bonds selected for fair value carrying	1 015	1 124	210	219
Total recognised value of bonds	**14 998**	**15 084**	**11 693**	**10 992**
Total recognised value of debt securities in issue	**16 517**	**18 369**	**13 060**	**14 123**

NOTE 31. LIABILITIES TO CREDIT INSTITUTIONS

	GROUP		PARENT BANK	
NOK MILLION	**2013**	**2012**	**2013**	**2012**
Liabilities to credit institutions carried at amortised cost				
Loans and deposits from credit institutions	13	519	13	806
Liabilities to credit institutions carried at amortised cost	**13**	**519**	**13**	**806**
Liabilities to credit institutions	**13**	**519**	**13**	**806**

NOTE 32. PREPAYMENTS AND ACCRUED INCOME

	GROUP		PARENT BANK	
NOK MILLION	**2013**	**2012**	**2013**	**2012**
Accrued unpaid income and prepaid non-accrued expenses	58	52	56	53
Financial guarantees	0	0	0	0
Prepayments and accrued income	**58**	**52**	**56**	**53**

NOTE 33. ACCRUED EXPENSE AND DEFERRED INCOME

	GROUP		PARENT BANK	
NOK MILLION	**2013**	**2012**	**2013**	**2012**
Accrued not due expenses/payments received in advance of period	11	17	11	16
Provisions for obligations	13	17	13	17
Financial guarantees	133	119	133	119
Net pension liability (see note 18)	30	48	19	31
Accrued expense and deferred income	**187**	**201**	**176**	**183**

Provisions for obligations - Legal obligations

	GROUP		PARENT BANK	
NOK MILLION	**2013**	**2012**	**2013**	**2012**
Opening balance	17	12	17	12
New provisions during the period	12	14	12	14
Expenses recognised against provisions	-13	-9	-15	-9
Reversed, unutilised provisions	-3	0	-1	0
Effect of temporal value	0	0	0	0
Closing balance	**13**	**17**	**13**	**17**

Provisions linked to performance-related pay and holiday pay to employees and other contractual payments to employees.

NOTE 34. SUBORDINATED LOAN CAPITAL

Subordinated loans carried at amortised cost

	2013		2012				GROUP AND PARENT BANK	
ISIN-NUMBER	RECOGNISED VALUE AT 31.12.13 [4]	NOMINAL (NOK MILLION)	RECOGNISED VALUE 31.12.12 [4]	NOMINAL (NOK MILLION)	CURRENCY	MATURITY	FIRST POSSIBLE REDEMPTION	CHANGE IN MARGIN
1056663.1 [1]	498	500	498	500	NOK	16.04.20	16.04.15	16.04.15
1066329.7 [2]	299	300	299	300	NOK	12.12.22	22.12.17	
1041777.7	0	0	155	156	NOK	22.08.18	22.03.13	
1023144.2 [3]	84	85	84	85	NOK	Perpetual	19.09.14	17.09.14
1059357.7 [3]	398	400	397	400	NOK	Perpetual	22.06.14	22.12.20
Subord. loans carried at amortised cost	1 280	1 285	1 434	1 441				

Subordinated loans carried at fair value through profit or loss

	2013		2012				GROUP AND PARENT BANK	
ISIN-NUMBER	RECOGNISED VALUE AT 31.12.13 [4]	NOMINAL (NOK MILLION)	RECOGNISED VALUE 31.12.12 [4]	NOMINAL (NOK MILLION)	CURRENCY	MATURITY	FIRST POSSIBLE REDEMPTION	CHANGE IN MARGIN
1023143.4 [3]	165	165	168	165	NOK	Perpetual	25.08.14	25.08.14
Subord. loans selected for fair value carrying	165	165	168	165				
Subordinated loan capital	1 445	1 450	1 601	1 606				

[1] The interest is adjusted every three months. The interest rate is set to the 3-month NIBOR plus 2.75 percentage points in arrears during the first five years, and thereafter the 3-month NIBOR plus 3.50 percentage points in arrears for the last five years. The loan may be fully or partially redeemed after five years. Any redemption will require the consent of the Financial Supervisory Authority of Norway. The interest rate on the loan is 4.44 per cent as at 31 December 2013. The loan is included in subordinated capital in its entirety; see Note 3.

[2] The interest is adjusted every three months. The interest rate is set to the 3-month NIBOR plus 3.00 percentage points in arrears. The loan may be fully or partially redeemed after five years. The loan may be redeemed if public authority regulations result in changes which mean that the loan cannot be considered as tier 2 capital in its entirety or in part. Any redemption will require the consent of the Financial Supervisory Authority of Norway. The interest rate is 4.64 per cent as at 31 December 2013. The loan is included in subordinated capital in its entirety; see Note 3.

[3] The Bank has three issues of perpetual subordinated loan capital securities as at 31 December 2013. The interest rate on loan 1023143.4 is fixed at 7.14 per cent until 25 August 2014, and thereafter at the 3-month NIBOR plus 3.00 percentage points in arrears. The interest rate on 1023144.2 is set to the 3-month NIBOR plus 2.00 percentage points during the first ten years, and thereafter to the 3-month NIBOR plus 3.00 percentage points. As at 31 December 2013, the interest rate was 3.65 per cent. The interest rate on 1059357.7 is set to the 3-month NIBOR plus 3.90 percentage points during the first ten years, and thereafter to the 3-month NIBOR plus 4.90 percentage points. As at 31 December 2013, the interest rate was 5.56 per cent. The loans may be fully or partially redeemed after ten years. Any redemption will require the consent of the Financial Supervisory Authority of Norway. All the loans are included in tier 1 capital in their entirety; see Note 3.

[4] The figures excluded accrued interest

NOTE 35. SECURED DEPT AND GUARANTEES AS AT 31 DECEMBER

	GROUP		PARENT BANK	
NOK MILLION	**2013**	**2012**	**2013**	**2012**
Secure dept				
Book value of securities as collateral for day-to-day loans	3 306	3 826	3 306	3 826
Collateral provided in bonds for credit facility from Norges Bank	3 306	3 826	3 306	3 826
Day-to-day loans from Norges Bank	0	0	0	0
Guarantees				
Contractual guarantees	105	56	243	56
Payment guarantees	4	46	4	46
Guarantee given to SpareBank 1 Næringskreditt [1]	0	165	0	165
Guarantees given to SpareBank 1 SMN [2]	1 251	1 343	1 251	1 343
Total guarantees	1 360	1 610	1 498	1 610

[1] See Note 9 for more information on the transfer of loans to SpareBank 1 Næringskreditt.
[2] Of this amount, NOK 343 million relates to a guarantee given to SpareBank 1 SMN in respect of the credit risk relating to the divested portfolio as at 31 December 2012. As at 31 December 2013, NOK 250 relates to a guarantee concerning credit risk relating to the divested portfolio.

NOTE 36. LOANS TO EMPLOYEES AND ELECTED REPRESENTATIVES

	GROUP		PARENT BANK	
NOK 1000´	**2013**	**2012**	**2013**	**2012**
Loans to employees as at 31 December	249 218	228 891	191 502	165 758
Loans to elected representatives as at 31 December	2 992	4 279	2 992	4 279
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 rate.

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 3,000,000. The interest rate on these loans is set as equal to the standard rate. Loans to companies in which elected officers are board members and/or have a controlling interest are provided on normal customer terms.

Loans to the Chair of the Supervisory Board, Chair of the Control Committee, Board of Directors and Senior Executives for 2013

NAME	POSITION	PRINCIPAL
Jannike Lund	Deputy employee representative on the Board of Directors	2 991 982
Gunnar Hovland	Managing Director	4 109 693
Svend Lund	Deputy Managing Director	2 701 840
Trond Søraas	Director	3 598 256
Eli Ystad	Director	5 210 868
Rune Rasmussen	Director	2 405 191

Loans to the Chair of the Supervisory Board, Chair of the Control Committee, Board of Directors and Senior Executives for 2012

NAME	POSITION	PRINCIPAL
Anita Finserås Bretun	Employee representative on the 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 37. INFORMATION ON RELATED PARTIES

BN Bank has entered into transactions with related parties as described in this note, and in Note 35. In addition, there are transactions with related parties such as subsidiaries; see Note 25. Transactions with subsidiaries are eliminated in the consolidated financial statements. BN Bank's shareholders are listed in Note 37. 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 35 and eliminated transactions within the BN Bank Group, there are no transactions or outstanding matters with related parties of significance.

Remuneration to the Managing Director, Elected Officers and Auditor

Remuneration to Senior Executives 2013

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

	FEES	SALARIES	PERFORMANCE-RELATED PAY [1, 2]	NON-CASH AND OTHER TAXABLE BENEFITS	PENSION PREMIUM PAID	TOTAL PAY AND REMUN-ERATION	LOANS AND SECURITY
Senior Executives							
Gunnar Hovland, Managing Director [3, 5]	0	2 096 681	262 500	172 280	162 727	2 694 188	4 109 693
Svend Lund, Deputy Managing Director [3, 5]	0	1 884 722	229 102	177 137	125 351	2 416 312	2 701 840
Trond Søraas, Director of Accounts and Treasury [3, 5]	0	1 199 015	97 917	166 788	38 754	1 502 474	3 598 256
Rune Rasmussen, Director of Risk Management [3, 5]	0	1 074 704	65 625	146 396	11 399	1 298 124	2 405 191
Eli Ystad, Director of Retail Market [4, 5]	0	1 199 128	14 583	154 000	11 398	1 379 109	5 210 868
The Board of Directors							
Finn Haugan, Chair	269 000	0	0	0	0	269 000	0
Tore Medhus, Vice Chair	232 000	0	0	0	0	232 000	0
Other board members	865 000	635 402	15 000	6 000	8 914	1 530 316	2 991 982
Former Board of Director members							
Other board members	150 000	427 303	13 500	3 996	7 710	602 509	1 961 520
Control Committee							
Members	416 000	0	0	0	0	416 000	0
Total	1 932 000	8 516 955	698 227	826 597	366 253	12 340 032	22 979 350

[1] See Note 16 for more information.

[2] The note states the performance-related pay and bonuses disbursed during the financial year that were earned during previous years. The conditions that must be met in order to set aside a provision for bonuses for 2013 were not met.

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

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

[5] The costs of these pensions are included in pension cost; see Note 18 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 (see Note 35).

Since 2011, BN Bank has had a bonus solution for senior executives which is within the limits set by the Financial Supervisory Authority of Norway's regulations governing remuneration schemes. The principles for distributing bonuses to employees who come under the new regulations are that the bonus is not set on discretionary basis at individual level, that it does not exceed one and a half times the employee's monthly salary, and that the size of the bonus pot is calculated in the same way as for the other employees. Performance-related pay disclosed in this note is bonus paid out in 2013 but earned during previous years.

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.

Remuneration to Senior Executives 2012

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

	FEES	SALARIES	PERFORMANCE-RELATED PAY [1, 2]	NON-CASH AND OTHER TAXABLE BENEFITS	PENSION PREMIUM PAID	TOTAL PAY AND REMUN-ERATION	LOANS AND SECURITY
Former senior Executives							
Olav Isak Sjøflot, Director of Business Support [3, 5]	0	1 241 744	0	78 603	27 309	1 347 656	1 119 000
Erlend Drilsvik, Director of 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 of Accounts and Treasury [3,5]	0	1 138 609	0	101 185	42 114	1 281 908	3 700 000
Rune Rasmussen, Director of Risk Management [3,5]	0	1 037 721	0	141 118	51 029	1 229 868	2 208 000
Eli Ystad, Director of Retail Market [4, 5, 6]	0	458 333	0	75 500	5 922	539 755	5 520 000
The Board of Directors							
Finn Haugan, Chair	266 000	0	0	0	0	266 000	0
Tore Medhus, Vice 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	8 847 300	150 000	829 687	385 800	12 133 787	24 965 000

[1] See Note 16 for more information.

[2] The note states the performance-related pay and bonuses disbursed during the financial year that were earned during previous years. The conditions to set aside a provision for bonuses for 2012 were met.

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

[4] If the Bank terminates the employment contract, the pay conditions will be maintained for up to six months (contractual severance pay) in addition to the agreed period of notice. Income from other sources during the period will be deducted in its entirety from the severance pay. Any costs relating to severance pay will be charged as an expense in their entirety at the date of agreed termination of employment. Provision for severance pay 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 18 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 (see Note 35).

[6] Appointed during 2012

Fees to auditor

	GROUP		PARENT BANK	
NOK 1000´	**2013**	**2012**	**2013**	**2012**
Fees to auditor				
Ordinary audit fees for statutory audit [1]	1 182	1 251	920	926
Tax advice	101	127	58	86
Other attestation services [2]	110	317	70	106
Fees for other assistance	231	180	230	180
Total fees paid to appointed Auditor (including VAT)	**1 624**	**1 875**	**1 278**	**1 298**

The ordinary audit fees for the Group were NOK 877.768 for the 2013 financial year and NOK 917.726 for the 2012 financial year. The equivalent figures for the Parent Bank were NOK 671.518 for the 2013 financial year and NOK 685.226 for the 2012 financial year.

[1] This includes fees for auditing the Group's quarterly financial statements totalling NOK 304.375 in 2013 and NOK 333.044 in 2012. The equivalent figures for the Parent Bank were NOK 248.125 in 2013 and NOK 241.169 in 2012.

[2] Other attestation services in 2013 comprised chiefly: Reports.
Other attestation services in 2012 comprised chiefly: Reports and fees in connection with the task of independent auditor of BN Boligkreditt's loan portfolio.

Income, expenses, receivables and liabilities with related companies

		GROUP	
NOK MILLION		**2013**	**2012**
Interest income			
SpareBank 1 SMN	SpareBank 1 consortium	149	156
SpareBank 1 SR-Bank	SpareBank 1 consortium	0	7
SpareBank 1 Nord-Norge	SpareBank 1 consortium	0	2
Other income			
SpareBank 1 SMN	SpareBank 1 consortium	6	6
Interest expenses			
SpareBank 1 SMN	SpareBank 1 consortium	6	4
SpareBank 1 SR-Bank	SpareBank 1 consortium	0	1
SpareBank 1 Nord-Norge	SpareBank 1 consortium	1	2
Other expenses			
SpareBank 1 SMN	SpareBank 1 consortium	0	0
Receivables as at 31 December			
SpareBank 1 SMN	SpareBank 1 consortium	270	942
SpareBank 1 Nord-Norge	SpareBank 1 consortium	0	279
Liabilities as at 31 December			
SpareBank 1 SMN	SpareBank 1 consortium	7	27

Income, expenses, receivables and liabilities with related companies

		PARENT BANK	
NOK MILLION		**2013**	**2012**
Interest income			
BN Boligkreditt AS	Subsidiary	0	10
Bolig- og Næringskreditt AS	Subsidiary	418	469
SpareBank 1 SMN	SpareBank 1 consortium	149	156
SpareBank 1 SR-Bank	SpareBank 1 consortium	0	7
SpareBank 1 Nord-Norge	SpareBank 1 consortium	0	2
Other income			
BN Boligkreditt AS	Subsidiary	0	5
Bolig- og Næringskreditt AS	Subsidiary	110	-29
SpareBank 1 SMN	SpareBank 1 consortium	6	6
Interest expenses			
BN Boligkreditt AS	Subsidiary	0	48
SpareBank 1 SMN	SpareBank 1 consortium	2	4
SpareBank 1 SR-Bank	SpareBank 1 consortium	0	1
SpareBank 1 Nord-Norge	SpareBank 1 consortium	1	2
Other expenses			
SpareBank 1 SMN	SpareBank 1 consortium	0	0
Receivables as at 31 December			
BN Boligkreditt AS	Subsidiary	0	1
Bolig- og Næringskreditt AS	Subsidiary	9 748	11 968
Collection Eiendom AS	Subsidiary	0	1
SpareBank 1 SMN	SpareBank 1 consortium	270	942
SpareBank 1 Nord-Norge	SpareBank 1 consortium	0	279
Liabilities as at 31 December			
BN Boligkreditt AS	Subsidiary	0	287
SpareBank 1 SMN	SpareBank 1 consortium	0	27

BN Bank has syndicated loans to other parties 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 liabilities with related companies

	GROUP		PARENT BANK	
NOK MILLION	**2013**	**2012**	**2013**	**2012**
Nominal value of deducted loans risk-mitigated by SpareBank 1 Samspar	281	284	210	210
Nominal value of deducted loans risk-mitigated by SpareBank 1 SR-bank	272	275	125	126
Nominal value of deducted loans risk-mitigated by SpareBank 1 SMN	280	245	0	0
Nominal value of deducted loans risk-mitigated by related parties	**833**	**803**	**335**	**336**

NOTE 38. SHAREHOLDER STRUCTURE AND SHARE CAPITAL

Shareholders as at 31 December

	2013		2012	
NAME	**STAKE**	**NUMBER OF SHARES**	**STAKE**	**NUMBER OF SHARES**
SpareBank 1 SMN	33.0 %	4 658 389	33.0 %	4 411 549
SpareBank 1 SR-Bank	23.5 %	3 317 338	23.5 %	3 141 558
SpareBank 1 Nord-Norge	23.5 %	3 317 338	23.5 %	3 141 558
Samarbeidende Sparebanker Bankinvest AS	20.0 %	2 823 266	20.0 %	2 673 666
Total	**100 %**	**14 116 331**	**100 %**	**13 368 331**

The governance structure for the SpareBank 1 consortium is regulated in an agreement between the shareholders, who classify their participation in BN Bank ASA as investment in a jointly controlled entity

Share capital as at 31 December 2013

A total of 14.116.331 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 has any form of share options been issued which may lead to an increase in the number of shares.

The 2013 Annual General Meeting of the Parent Bank also adopted the resolution to distribute a dividend of NOK 187 million. An extraordinary General Meeting approved a corresponding capital increase of NOK 187 million.

A total of 748.000 new shares were issued in 2013, equivalent to a dividend payment of NOK 187 million.

NOTE 39. PROPOSED, NOT APPROVED DIVIDEND

	PARENT BANK	
NOK MILLION	**2013**	**2012**
Total proposed dividend	240	187
Proposed dividend per share	17	14
Number of shares	14 116 331	13 368 331

NOTE 40. EVENTS SINCE THE BALANCE SHEET DATE

Contingent liabilities

Sale of structured products

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

Three of the Bank's customers then sued the Bank individually in the District Court, but the Court ruled against them on 8 July 2011. The ruling was appealed to the Borgarting Court of Appeal, but the case was settled in court with the same result for the Bank as after the District Court's decision, whereby the Bank was obliged to pay its own costs.

BN Bank has also provided loans to finance Artemis structured products. BN Bank was sued by six customers, but the lawsuits were settled in court without the Bank having paid any compensation to the applicants.

In March 2013, the Norwegian Supreme Court passed judgment in the so-called "Røeggen case". The Norwegian Financial Services Complaints Board has in that connection requested all the banks involved, including BN Bank, to re-assess the complaints against them that have been brought before the Complaints Board, in the light of the judgment. BN Bank still takes the view that the cases the Bank is involved in are not comparable with the "Røeggen case". Statements made by the Complaints Board during the fourth quarter of 2013 have strengthened the Bank's view of the matter. As a result, the Bank has made no provision related to structured products in 2013.

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 41. INCOME STATEMENTS FOR THE LAST FOUR QUARTERS

Itemisation of the result

GROUP

NOK MILLION	Q1 2013	Q2 2013	Q3 2013	Q4 2013	FULL-YEAR 2013
Net income from interest and credit commissions	87	104	109	110	410
Total other operating income	63	81	66	73	283
Total other operating expense	56	52	53	54	215
Operating profit/(loss) before impairment losses	**94**	**133**	**122**	**129**	**478**
Impairment losses on loans and advances	52	20	-7	64	129
Profit before tax	**42**	**113**	**129**	**65**	**349**
Computed tax charge	12	32	36	17	97
Profit/(loss) after tax	**30**	**81**	**93**	**48**	**252**

Itemisation of the result

GROUP

NOK MILLION	Q1 2012	Q2 2012	Q3 2012	Q4 2012	FULL-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/(loss) before impairment losses	**60**	**54**	**65**	**193**	**372**
Impairment losses on loans and advances	9	14	13	78	114
Profit before tax	**51**	**40**	**52**	**115**	**258**
Computed tax charge	14	11	14	33	72
Profit/(loss) after tax	**37**	**29**	**38**	**82**	**186**

Itemisation of the result PARENT

NOK MILLION	Q1 2013	Q2 2013	Q3 2013	Q4 2013	FULL-YEAR 2013
Net income from interest and credit commissions	39	41	47	56	183
Total other operating income	35	43	26	39	143
Total other operating expense	34	31	33	34	132
Operating profit/(loss) before impairment losses	**40**	**53**	**40**	**61**	**194**
Impairment losses on loans and advances	-4	0	-16	40	20
Income from ownership interests in group companies	0	118	0	0	118
Profit before tax	**44**	**171**	**56**	**21**	**292**
Computed tax charge	12	15	16	0	43
Profit/(loss) after tax	**32**	**156**	**40**	**21**	**249**

Itemisation of the result PARENT

NOK MILLION	Q1 2012	Q2 2012	Q3 2012	Q4 2012	FULL-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/(loss) 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
Profit before tax	**14**	**176**	**1**	**68**	**259**
Computed tax charge	4	48	0	20	72
Profit/(loss) after tax	**10**	**128**	**1**	**48**	**187**

NOTE 42. ELECTED REPRESENTATIVES AND MANAGEMENT

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

Committee of Representatives

MEMBERS	POSITION/RESIDENCE
Elected by and from among the shareholders	
Tore Haarberg	SpareBank 1 Gruppen AS
Gro Tveit	SpareBank 1 SR-Bank ASA
Stig Horsberg Eriksen	SpareBank 1 SR-Bank ASA
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 Finans Midt-Norge AS
Deputy representatives	
Anne Beth Høivik	SpareBank 1 SR-Bank ASA
Rolf Einar Hermannsen	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 ASA
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 representatives	
Inger Langeng	BN Bank, Trondheim

None of the members of the Committee of Representatives own shares in BN Bank

Control Committee

MEMBERS	POSITION/RESIDENCE
Knut Ro	Lawyer and partner, Ro Sommernes advokatfirma, Oslo
Rolf Røkke	Lawyer, Trondheim
Odd Broshaug	Consultant, Håvik
Rigmor Abel	HR Director, Norwegian Seafood Council Tromsø
Attending deputy member	
Ivar Listerud	SpareBank 1 Østfold Akershus

Nominating Committee

MEMBERS	POSITION/RESIDENCE
Tore Haarberg, Chair	CEO, SpareBank 1 Gruppen AS
Gro Tveit, Vice Chair	Finance Director, SpareBank 1 SR-Bank ASA
Jan-Frode Janson	CEO, SpareBank 1 Nord-Norge
Tom Skundberg [1]	Deputy Director, Corporate, BN Bank ASA

[1]One nominating committee is elected by the Committee of Representatives and one by the General Meeting. The committees are identical except for the employees' representative, who is only represented on the committee elected by the Committee of Representatives.

None of the members of the Control Committee or the Nominating Committee own shares in BN Bank.

External auditor

	NUMBER OF SHARES
PricewaterhouseCoopers AS, c/o state-authorised auditor Rune Kenneth S. Lædre	0

Board of Directors

MEMBERS	
Finn Haugan, Chair	CEO, SpareBank 1 SMN. Elected for the first time in 2009. Term of office expires in 2015.
Tore Medhus, Vise Chair	CEO, Corporate, SpareBank 1 SR-Bank ASA Elected for the first time in 2009. Term of office expires in 2015.
Stig- Arne Engen	Director of Communications, SpareBank 1 Nord-Norge. Elected for the first time in 2009. Term of office expires in 2014.
Harald Gaupen	CEO, SpareBank 1 BV. Elected for the first time in 2009. Term of office expires in 2015.
Helene Jebsen Anker	Self-employed - consultant. Elected for the first time in 2009. Term of office expires in 2014.
Ella Skjørestad	Marketing Director, Sparebank 1 SR-Bank ASA. Elected for the first time in 2011. Term of office expires in 2014.
Kristin Undheim	Self-employed and University College Lecturer - Consultant, Bachelor of Creativity, Innovation and Business Development - Oslo School of Management. Elected for the first time in 2009. Term of office expires in 2014.
Jannike Lund	Finance consultant at BN Bank. Deputy member, employees' representative Elected for the first time in 2013. Term of office expires in 2015.

Deputy members

Jan-Frode Janson	CEO, SpareBank 1 Nord-Norge
Vibeke Rosset Reimers	Bank General Manager, SpareBank 1 SMN
Inglen Haugland	Regional Director, SpareBank 1 SR-Bank ASA

None of the members of the Board of Directors own shares in BN Bank

The Group's management

NAME	NUMBERS OF YEARS IN THE GROUP	POSITION	PRINCIPAL AREAS OF RESPONSIBILITY
Konsernledelse pr. 31.12.2013			
Gunnar Hovland	2	Managing Director	
Svend Lund	19	Deputy Managing Director	Corporate
Trond Søraas	17	Director	Accounting and Finance
Rune Rasmussen	4	Director	Risk Management and Compliance
Eli Ystad	1	Director	Retail

None of the members of the Group's management own shares in BN Bank. Remuneration to senior employees and the Board of Directors is explained in Note 37. Loans to managers, elected representatives and members of the Board of Directors explained in Note 36.

Statement by the Board of Directors and the Managing Director

We hereby confirm that, in our opinion, the annual report for 2013 of the Company and the Group have been prepared in accordance with the International Financial Reporting Standards (IFRS) as approved by the EU and that the information presented therein gives a true and fair view of the Company's and the Group's assets, liabilities, financial position and results as a whole.

In our opinion, the annual report gives a true and fair view of the development, result and position of the Company and the Group, as well as a description of the key risk and uncertainty factors that the Company and the Group faces.

Trondheim, 4 March 2014
The Board of Directors of BN Bank ASA

Tore Medhus
(Deputy Chair)

Stig Arne Engen

Finn Haugan
(Chair of the Board)

Harald Gaupen

Helene Jebsen Anker

Kristin Undheim

Jannike Lund
((Deputy Member, Employees' 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 of the group comprise the balance sheet as at 31 December 2013, 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 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report and the statements on Corporate Governance and Corporate Social Responsibility

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 in the statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, 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, 4 March 2014
PricewaterhouseCoopers AS

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

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

THE CONTROL COMMITTEE'S REPORT FOR 2013

During the year, BN Bank ASA's Control Committee held five meetings, four in Trondheim and one in Oslo. Board minutes are reviewed during every meeting.

The Managing Director was present at all meetings.

The Committee has at all times been presented with the material that was requested and has also received satisfactory answers and information concerning matters that have been considered.

In the opinion of the Committee, the collaboration with external and internal auditors has worked well.

The Committee has carried out its controls in accordance with applicable legislation, the Articles of Association, instructions and its own work schedule. It is the Committee's belief that the Bank has been managed in accordance with applicable laws, regulations, articles of association and the Committee of Representatives' instructions.

The Committee has reviewed the Board's proposals for the annual financial statements, annual report and the auditor's report. The Committee considers the Board's assessment and the Bank's financial position to be satisfactory.

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

Trondheim, 4 March 2014

Knut Ro (Chair)	Rolf Røkke (Vice Chair)	Odd Broshaug	Rigmor Abel

Articles of association of BN Bank ASA

Chapter 1 1 Company name. Registered office. Objects.

§ 1-1

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

Chapter 2 Share capital. Capital base. Shares.

§ 2-1

The Bank's share capital is NOK 705,816,550, divided into 14,116,331 shares of NOK 50 each, fully paid.

§ 2-2

The Bank's shares shall be registered with the Norwegian Central Securities Depositary. 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.

Chapter 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 members to be elected from among the Bank's employees and their personal deputies 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.

Chapter 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 ensure that 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 reach agreement on recommendations to the Board of Directors concerning any matter of its choosing.

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.

Chapter 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.

Chapter 6 Control Committee.

§ 6-1

The Control Committee consists 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.

Chapter 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 reason, 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.

Chapter 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.

Chapter 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.

Chapter 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.

Chapter 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.

Chapter 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.

Chapter 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