BN Bank ASA

ANNUAL REPORT | 2014

Content

BN Bank - a simple, efficient and predictable specialist ... 3
Summary of 2014 ... 4
Financial Ratios ... 5
Historical figures ... 6
Vision ... 7
Values ... 7
Strategy ... 7
Board of Directors ... 8
Executive Mangement ... 9
Business description ... 10
Risk management ... 18
Social responsibility ... 29
Report of the Board of Directors ... 32
Income Statement ... 38
Balance Sheet as at 31 December ... 39
Change in equity during 2013 and 2014 ... 40
Statement of Cash Flows ... 41
Notes ... 42
NOTE 1. Accounting policies, etc. ... 43
NOTE 2. Disclosures concerning operating segments ... 49
NOTE 3. Capital adequacy ratio ... 51
NOTE 4. Risk in financial instruments - Qualitative description ... 54
NOTE 5. Risk in financial instruments - Quantitative description - Group ... 58
NOTE 6. Risk in financial instruments - Quantitative description - Parent Bank ... 65
NOTE 7. Cash and balances due from credit institutions ... 73
NOTE 8. Loans and advances ... 73
NOTE 9. Transfer of loans to SpareBank 1 Næringskreditt and SpareBank 1 Boligkreditt ... 74
NOTE 10. Impairment losses and write-downs on loans and guarantees ... 76
NOTE 11. Interest and similar income ... 79
NOTE 12. Interest expense and similar charges ... 79
NOTE 13. Other operating income ... 80
NOTE 14. Change in value of financial instruments carried at fair value, gains and losses ... 81
NOTE 15. Salaries and general administrative expenses ... 82
NOTE 16. Other operating expenses ... 83
NOTE 17. Pension expenses and liabilities ... 83
NOTE 18. Tax ... 88
NOTE 19. Financial instruments according to category ... 90
NOTE 20. Fair value of financial instruments ... 92
NOTE 21. Financial derivatives ... 99
NOTE 22. Right of set-off, financial derivatives ... 100
NOTE 23. Short-term securities investments ... 101
NOTE 24. Subordinated loans ... 102
NOTE 25. Ownership interests in Group companies ... 102
NOTE 26. Intangible assets and depreciable assets ... 103
NOTE 27. Repossessed properties ... 104
NOTE 28. Customer deposits & accounts payable to customers ... 104
NOTE 29. Debt securities in issue ... 104
NOTE 30. Liabilities to credit institutions ... 105
NOTE 31. Prepayments and accrued income ... 105
NOTE 32. Accrued expenses and deferred income ... 105
NOTE 33. Subordinated loan capital ... 106
NOTE 35. Loans to employees and elected representatives ... 107
NOTE 36. information about related parties ... 107
NOTE 37. Shareholder structure and share capital ... 112
NOTE 38. Proposed, not approved dividend ... 112
NOTE 39. Events since the balance sheet date ... 113
NOTE 41. Income statements for the last four quarters ... 113
NOTE 41. Elected representatives and management ... 115
Statement by the Board of Directors and the Managing Director ... 118
Auditors Report ... 119
The Control Committee´s report for 2014 ... 121
Articles of association of BN Bank ASA ... 122

BN Bank - a simple, efficient and predictable specialist

In 2014, the Norwegian economy underwent substantial changes. The price of oil halved during the year, investments in the oil sector fell considerably, in December Norges Bank reduced the key rate to 1.25 per cent and signalled further reductions in 2015. Among the consequences of this was a large fall in the relative value of the Norwegian krone, with, for example, the Euro trading at more than 9.7 against the krone in December. Even with an uphill battle in the oil sector, the weakness of the Norwegian krone, historically low interest rates and reduced oil prices have meant that other industries have enjoyed better framework conditions, especially in the export industry. Unemployment in Norway remains low at 3.7 per cent, according to Statistics Norway, whereas it has held steadfastly at 7-10 per cent in the countries we compare ourselves to. There is, however, uncertainty as to the trend in Norwegian unemployment as a result of the slowdown in the oil industry.

In early 2014, many people predicted that the growth in house prices would fall off. Due to high employment, a relatively balanced housing market with strong demand for property and extremely low interest rates, we are however seeing house price rises in Norway of around 6 per cent in 2014. But there are variations between the different regions and the statistics show, for example, that the most oil-sensitive areas around Stavanger are experiencing weaker growth. Nationwide, credit growth in 2014 was 5.4 per cent against 6.0 per cent in 2013. There is uncertainty around further growth, but it is reasonable to assume that there will be a levelling off of property prices and credit growth in 2015 on a level with 2014. In the commercial property market, prices for attractive properties have risen, while for less attractive properties, the picture is less clear-cut. With low interest rates, this trend is expected to continue in 2015.

The banking 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 equitable competitive conditions through the implementation of international regulations in the financial sector. We have however observed that these regulations are being interpreted and applied very differently by the various financial authorities in the Nordic countries. The problem is the special Norwegian floor for risk weighting and its consequent impacts. It is not the fact that we will have lower capital for existing portfolios that is important but that we do not have framework conditions for new projects capable of producing a better portfolio composition over time. As long as the floor means that average risk weighting does not fall when the risk in the portfolio is reduced, there is a large danger of Norwegian banks being forced out of the low-risk segment over time. For example, Swedish and Danish banks operating in Norway can use much lower risk weightings for commercial and residential property in the low-risk segment than their Norwegian counterparts. From an economic perspective, it is invidious for Norwegian banks to be forced to compete for higher risk loans. This may lead to over-investment in this segment, since a larger share of total Norwegian capital is channelled to weaker loans than would be the case under harmonised regulations. This may help give rise to imbalances and to the Norwegian banking sector taking higher risks than it would otherwise have done.

We are committed to BN Bank being adequately capitalised in order to withstand future crises. With low risk in the loan portfolio, a core tier 1 capital ratio of 14.9 per cent and a positive trend in key ratios, we are very well capitalised. For example, BN Bank has a leverage ratio of around 8 per cent (Q4), while Swedish and Danish banks report a corresponding average of 4 per cent. This indicates that we hold more than twice as much capital behind each krone lended, and is the main explanation for BN Bank reporting a lower return on equity than these banks.

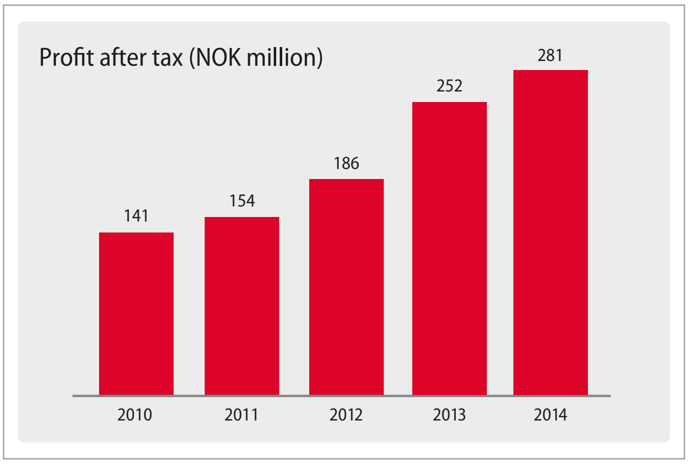
BN Bank aims to be known for good banking practice and low risk. In April 2014, we were the second Norwegian bank to receive AIRB approval for our commercial loan portfolio. This is a recognition of the good policies, systems, routines and culture that characterise our banking operations. Over the year, policies and processes within credit activities were further improved.

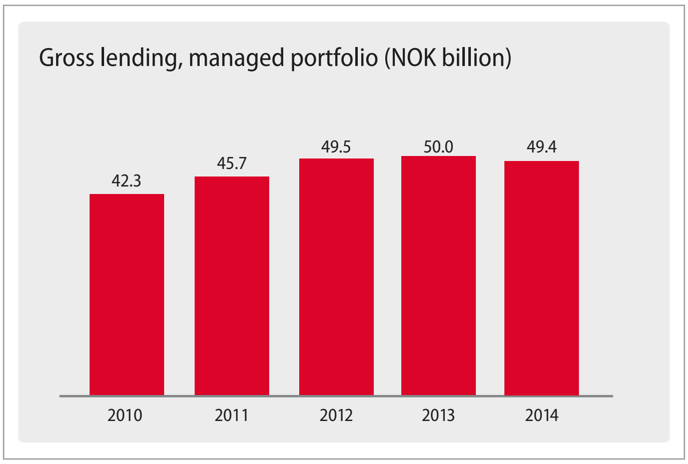
In the future, BN Bank will be refined further as a simple, efficient and predictable specialist within selected segments in the retail and corporate markets. We will therefore continue to implement the adopted strategy and improve the Bank to the benefit of our customers, owners, investors and staff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

Gunnar Hovland
Managing Director

Summary of 2014

- Profit after tax of NOK 281 million (NOK 252 million)
- Profit after tax from core business totalling NOK 282 million (NOK 269 million)
- Return on equity after tax of 7.8 per cent (7.3 per cent)
- Loans decreased by NOK 667 million during the past 12 months (NOK +561 million)
- Impairment losses on loans of NOK 37 million (NOK 129 million)
- Tier 1 capital ratio of 16.4 per cent (13.0 per cent)
- Core tier 1 capital ratio of 14.9 per cent (11.1 per cent)





Financial Ratios

NOK MILLION	REFERENCE	2014	2013	2012	2011	2010
		GROUP				
Summary of results						
Net income from interest and credit commissions		432	410	343	385	380
Total other operating income		215	283	291	103	91
Total income		**647**	**693**	**634**	**488**	**471**
Total other operating expense		**224**	**215**	**262**	**234**	**245**
Operating profit/(loss) before impairment losses		**423**	**478**	**372**	**254**	**226**
Impairment losses on loans and advances		37	129	114	62	32
Profit before tax		**386**	**349**	**258**	**192**	**194**
Computed tax charge		102	97	72	44	52
Profit from continuing operations		**284**	**252**	**186**	**148**	**142**
Profit from operations under disposal		-3	0	0	0	0
Profit including discontinued operations		**281**	**252**	**186**	**148**	**142**
Profitability						
Return on equity	1	7,8 %	7,3 %	5,8 %	5,0 %	4,8 %
Net interest	2	1,18 %	1,04 %	0,80 %	0,90 %	0,90 %
Cost-income ratio	3	34,6 %	31,0 %	41,3 %	48,0 %	52,0 %
Cost-income ratio incl. equity surcharge and return on equity in SpareBank 1 Næringskreditt		28,2 %	30,0 %	40,0 %	45,8 %	49,9 %
Balance sheet figures						
Gross lending		27 299	29 309	33 305	33 439	32 577
Customer deposits		14 442	15 169	16 910	15 959	16 395
Deposit-to-loan ratio	4	52,9 %	51,8 %	50,8 %	47,7 %	50,3 %
Growth in lending (gross), last 12 months		-6,9 %	-12,0 %	-0,4 %	2,6 %	5,5 %
Growth in deposits, last 12 months		-4,8 %	-10,3 %	6,0 %	-2,7 %	5,2 %
Average total assets (ATA)	5	36 644	39 463	40 770	40 887	43 552
Total assets		35 787	37 505	41 732	40 722	41 22
Balance sheet figures incl. SpareBank 1 Næringskreditt and SpareBank 1 Boligkreditt						
Gross lending		49 358	50 025	49 464	45 663	42 269
Customer deposits		14 442	15 169	16 910	15 959	16 395
Growth in lending (gross), last 12 months		-1,3 %	1,1 %	8,3 %	8,0 %	8,9 %
Growth in deposits, last 12 months		-4,8 %	-10,3 %	6,0 %	-2,7 %	5,2 %
Share of lending funded via deposits		29,3 %	30,3%	34,2%	34,9%	38,8%
Losses on loans and non-performing loans						
Loss ratio lending	6	0,13 %	0,41 %	0,35 %	0,19 %	0,10 %
Non-performing loans as % of gross lending	7	1,49 %	1,91 %	1,19 %	0,59 %	0,43 %
Other doubtful commitments as % of gross lending	7	0,89 %	2,25 %	1,57 %	1,87 %	2,39 %
Impairment losses and defaults, incl. SpareBank 1 Næringskreditt and SpareBank 1 Boligkreditt						
Loss ratio lending		0,09 %	0,13 %	0,24%	0,14%	0,08%
Non-performing loans as % of gross lending		0,82%	1,12%	0,80%	0,43%	0,33%
Other doubtful commitments as % of gross lending		0,49%	1,32%	1,06%	1,37%	1,84%
Solvency						
Capital adequacy ratio		19,7 %	15,4 %	15,1 %	13,7 %	13,9 %
Tier 1 capital ratio		16,4 %	13,0 %	12,1 %	11,0 %	10,8 %
Core tier 1 capital ratio		14,9 %	11,1 %	10,3 %	9,3 %	9,2 %
Tier 1 capital		3 705	3 705	3 722	3 644	3 448
Subordinated capital		4 393	4 393	4 637	4 543	4 419
Offices and staffing						
No. of offices		2	2	2	2	2
Number of full-time equivalents		112	111	114	109	104
Shares						
Earnings per share for the period (whole NOK) for continuing operations		20,12	17,85	13,90	11,39	11,47
Earnings per share for the period (whole NOK) incl. activities "held for sale"		19,91	17,85	13,90	11,86	11,39

Reference

1) Profit after tax as a percentage of average equity
2) Total net income year to date relative to average total assets
3) Total operating expense as a percentage of total operating income
4) Customer deposits as a percentage of customer loans
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

Historical figures

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, and 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.

2014: BN Bank receives permission to use the advanced IRB method for calculating capital adequacy. The permission was the result of long-term, targeted activities and produced a considerable increase in capital adequacy.

Vision

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

Values

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

OPENNESS

- We have a culture characterised by trust, honesty, mutual respect and openness – both internally in the organisation and externally.
- We communicate openly and proactively, including when we make mistakes.
- We talk to each other – not about each other.
- We use the appropriate arenas for our discussions.

COMMITMENT

- We are committed and assume ownership of our actions.
- We are forward-looking in relation to our actions and think holistically.
- We like challenges, take responsibility and are flexible.
- We have a positive attitude and we work as a team.

EFFIENCY

- We pull together and work smartly across departments.
- We utilise our tools and complete our activities correctly the first time.
- We have a focus on costs and we do things simply.
- We are dynamic, solution-focused and results-oriented.
- We continuously search for opportunities to improve, both internally and externally.

Strategy

BN Bank's strategy is to be a simple, efficient and predictable specialist bank within selected segments. This will provide our customers with competitive products and terms, and give our owners a good return over time. BN Bank's activities are nationwide in Norway, although most of our customers are located in Trondheim, Oslo and central Eastern Norway.

Corporate Market (CM)

BN Bank shall be a specialist bank focused on financing commercial property. The bank is an efficient, competent, responsive and predictable partner of selected participants in the commercial property market, with the main focus on Oslo and central Eastern Norway and Trondheim.

Retail Market (RM)

BN Bank shall be a bank for customers who want efficient, simple and predictable mobile and online banking services. The combination of specialisation and self-service shall make BN Bank one of Norway's most cost-effective banks. Customer groups comprise individuals who have a concern for their bank's terms and reputation, but who do not wish to spend time in its branches on banking activities.

Board of Directors

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

Tore Medhus, Vice Chair
Group Managing Director, Corporate, SpareBank 1 SR-Bank ASA First elected in 2009, term of office expires in 2015.

Rolf Eigil Bygdnes
Senior Group General Manager and Chief Financial Officer, SpareBank 1 Nord-Norge.
First elected in 2014, term of office expires in 2016.

Odd Einar Folland
Managing Director, SpareBank 1 Nordvest. First elected in 2014, term of office expires in 2015.

Helene Jebsen Anker
Self-employed consultant. First elected in 2009, term of office expires in 2016.

Ella Skjørestad
Marketing Director, Sparebank 1 SR-Bank ASA. First elected in 2011, term of office expires in 2016.

Tina Steinsvik Sund
Strategic Consultant, PayU. First elected in 2014, term of office expires in 2016.

Jannike Lund
Finance consultant at BN Bank. Employee representative. First elected in 2014, term of office expires in 2016.

Deputy members

Jan-Frode Janson
CEO, SpareBank 1 Nord-Norge

Inglen Haugland
Regional Director, SpareBank 1 SR-Bank ASA

Tom Skundberg (ansattes representant)
Assistant Director, BN Bank ASA

Executive Mangement

Gunnar Hovland | Managing Director

Gunnar (born 1965) is the Managing Director of BN Bank ASA. Hovland has an MBA in finance and management from the Norwegian School of Economics and a Cand Agric degree from the Norwegian College of Agriculture. 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 cooperative 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.

Herborg Aanestad | Director Risk Management

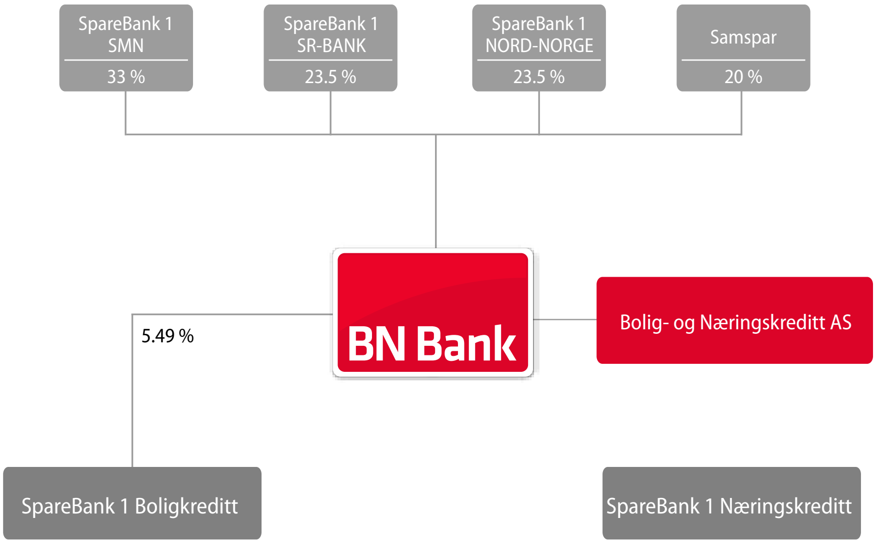
Herborg Aanestad is Director of Risk Management & Compliance/CRO of BN Bank ASA. She has a background in auditing and finance, having worked for many years on credit models and risk management. Aanestad holds the degree of Siviløkonom (Master's degree in Economics and Business Administration) from the Norwegian School of Economics, specialising in accountancy and financial management.

Eli Ystad | Director Retail Market

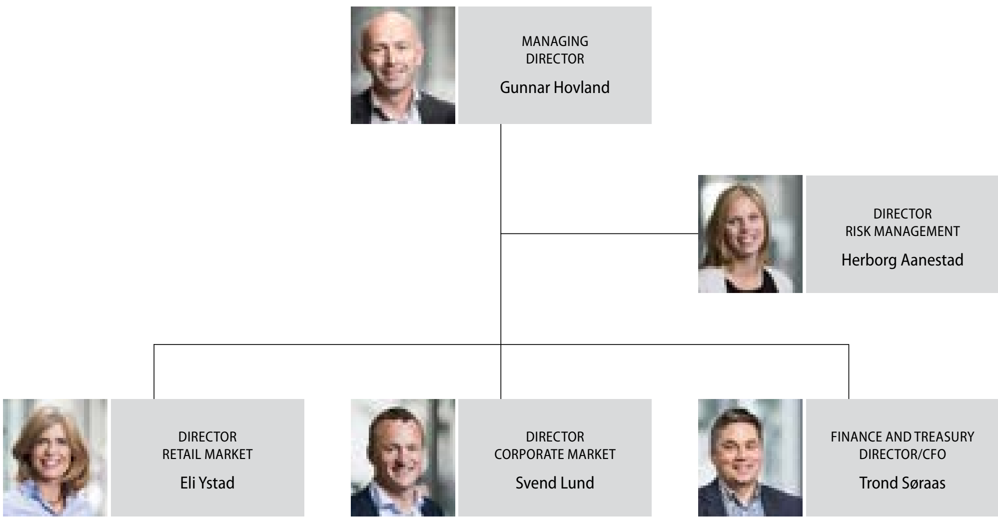
Eli (born in 1973) is Director Retail Market of BN Bank ASA. She came from the post as Executive Director in SpareBank 1 SMN. She was previously employed by CapGemini and Statoil. Ystad holds the degree of sivilingeniør (Graduate Civil Engineer) in industrial economy and technology management from NTNU.

Business description

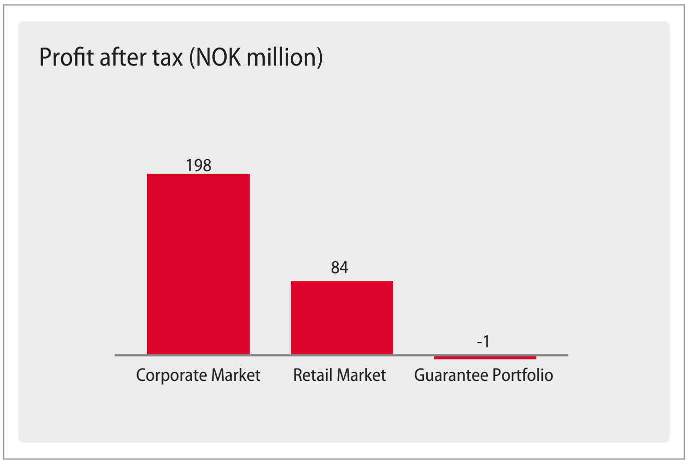
BN Bank is owned by a consortium of SpareBank 1 banks. The figure below shows BN Bank's place in the SpareBank 1 consortium: The companies SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt are used to finance parts of the collective loan portfolio that is managed by BN Bank.



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 2014 for each business area is shown below:



The profit recorded for the Corporate Market is approximately on a par with 2013 (NOK 202 million), while the Retail Market recorded an increase from NOK 67 million in 2013 to NOK 84 million in 2014. The profit for the Guarantee Portfolio improved from NOK -17 million in 2013 to NOK -1 million in 2014.

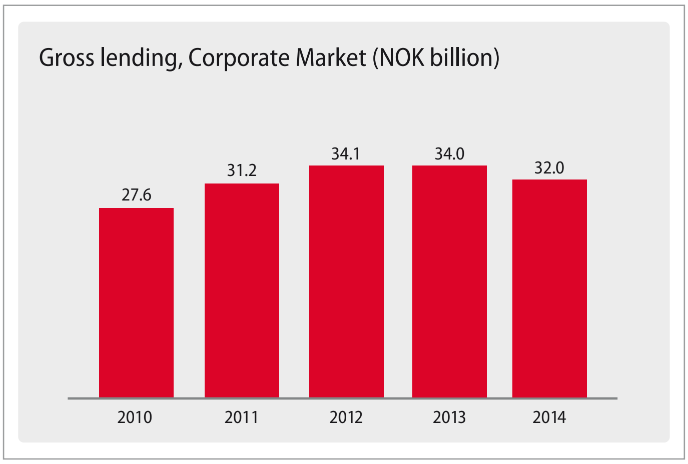
Corporate Market

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

The Corporate Market posted a profit after tax of NOK 198 million in 2014, giving a return on equity after tax of 6.6 per cent. Reduced commissions on loans transferred to SpareBank 1 Næringskreditt had a negative impact, while increased revenues and reduced impairments contributed positively compared with 2013.

	CORPORATE MARKET	
NOK MILLION	2014	2013
Net income from interest and credit commissions	**310**	**291**
Change in value of financial instruments carried at fair value	9	27
Other operating income	74	164
Total other operating income	**83**	**191**
Salaries and general administrative expenses	-82	-79
Ordinary depreciation, amortisation and write-downs	-3	-6
Other operating expenses	-12	-11
Other gains and losses	1	0
Total other operating expenses	**-96**	**-96**
Operating profit/(loss) before impairment losses	**297**	**366**
Impairment losses	-21	-106
Operating profit/(loss) after impairment losses	**276**	**280**
Computed tax charge	-75	-78
Profit on continuing operations after tax	**201**	**202**
Profit from operations under disposal	-3	
Profit including discontinued operations	**198**	

The volume of lending is reduced relative to 2013. During the year, the net amount of NOK 0.9 billion was transferred to SpareBank 1 Næringskreditt. The trend in gross lending, including loans transferred to SpareBank 1 Næringskreditt, is shown below:



Due to strong competition in the lending market, the lending margin against 3 month NIBOR decreased during 2014. In the Group, the volume of loans in default decreased by 0.5 percentage point from 2013, and corresponds to 1.8 percent of gross lending by the end of 2014.

Portfolio risk measured by probability of default, expected loss and unexpected loss has had a positive development in the recent years. This is partly due to the fact that new corporate loans have been in the lower risk categories and also due to positive migration in the existing portfolio.

Due to distinctive Norwegian practice of capital requirements, BN Bank has no growth ambitions in the corporate lending market in 2015. Within corporate lending, the risk weights were reduced as a consequence of IRB-approval in 2014, but the difference to foreign competitors is still significant due to the distinctive Norwegian capital adequacy floor.

Retail Market

In the Retail Market, BN Bank offers an attractive concept for customers who are specifically looking for simple and efficient online banking services. BN Bank attracts customers with good earnings capacity who do not require physical meetings with the bank, but rather want effective online banking services. This means that losses are low, which benefits both the customer and the bank, allowing us to offer good terms over time.

BN Bank has adopted a clear standpoint against bargaining, discrimination and enticement offers. An attractive concept where all customers have the same opportunities for good terms, regardless of age, profession and education, is valued by increasingly more mortgage customers, and the bank is seeing increased demand from new customers.

Through the enhancement of the online proposition, the continued equitable treatment of customers and the automation of manual processes and tasks, the basis for continuing to offer competitive terms will be maintained.

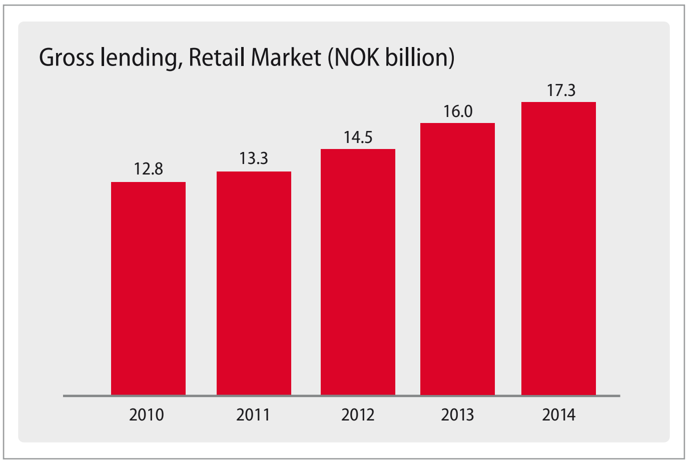
BN Bank will continue to strengthen its position in the Retail Market by means of increased expertise and growth. Revenue is being boosted by extending the product range, with, for example, credit cards, car loans and consumer loans. The launch of the first Norwegian mobile payment solution, mCASH, will promote customer recruitment and an increase in deposits, in addition to being a facility for simple and secure mobile payments for the Bank's customers.

The Retail Market posted a profit after tax of NOK 84 million for 2014, giving a return on equity of 14.4 per cent (13.4 per cent).

	RETAIL MARKET	
NOK MILLION	2014	2013
Net income from interest and credit commissions	**122**	**123**
Change in value of financial instruments carried at fair value	5	14
Other operating income	123	76
Total other operating income	**128**	**90**
Salaries and general administrative expenses	-111	-98
Ordinary depreciation, amortisation and write-downs	-5	-6
Other operating expenses	-12	-15
Total other operating expenses	**-128**	**-119**
Operating profit/(loss) before impairment losses	**122**	**94**
Impairment losses	-10	1
Operating profit/(loss) after impairment losses	**112**	**93**
Computed tax charge	-28	-26
Profit after tax	**84**	**67**

	RM	CM
NOK MILLION	2014	2013
Balance Sheet		
Loans (gross) incl. loans in OMF companies	17 364	16 011
Customer deposits & accounts payable to customers	13 590	14 054

Growth in gross lending was 8.7 per cent in 2014 against 11 per cent in 2013. 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 low losses. Losses on loans and non-performing loans are expected to remain at a low level.

Guarantee Portfolio

BN Bank has previously sold its portfolio in Ålesund to SpareBank 1 SMN. BN Bank now provides guarantees for NOK 135 million of the credit risk for the remaining portfolio (referred to as the Guarantee Portfolio) of NOK 221 million. The total provision for losses in the Guarantee Portfolio was NOK 63 million as at the end of 2014.

The result after tax for the Guarantee Portfolio is a loss of NOK 1 million. The change in profit compared with 2013 is positive by NOK 16 million, and is due to lower losses in 2014.

	GUARANTEE PORTFOLIO	
NOK MILLION	2014	2013
Net income from interest and credit commissions	0	-4
Other operating income	4	2
Total other operating income	4	2
Operating profit/(loss) before impairment losses	4	-2
Impairment losses	-6	-22
Operating profit/(loss) after impairment losses	-2	-24
Computed tax charge	1	7
Profit on continuing operations after tax	-1	-17

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 regular performance interviews and annual staff appraisal interviews.

BN Bank employed 120 staff as at 31 December 2014, of whom 57 are women and 63 are men. The sickness absence rate in 2014 was 4.7 per cent. In 2013, sick absence was 6.4 per cent. Sickness absence in the Norwegian financial industry as a whole was 4.4 per cent for the first three quarters of 2014. 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 performs annual employee surveys and has recently signed a cooperative agreement with "Great Place to Work". The surveys are reviewed by the Bank's managers and other employees through a planned process for identifying challenges and implementing measures where appropriate.

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 strategies and policies. The Bank has established guidelines for the management of all relevant risks. These encompass risk tolerance in the form of limits and targets, 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 in the market

The Group's risks are partly quantified through computations of expected losses and requirements concerning risk-adjusted capital for covering 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 unexpected loss connected to the actual risk the Group is exposed to. The Board of Directors has determined that the risk-adjusted capital should cover 99.9 per cent of unexpected losses. Statistical methods are used to calculate expected losses and risk adjusted capital for credit risks, but the calculation still necessitates the use of qualitative assessments and other recognised methods. For risk types where statistical methods for calculating capital requirements are unavailable, the Bank places emphasis on defining a framework for risk management that ensures that the probability of an event occurring is extremely low.

The return on risk-adjusted capital is one of the key strategic performance measures in the internal management of BN Bank ASA. This means that capital is allocated to business areas according to the computed risk associated with the activity, making it possible to compare risk across risk groups and business areas. In addition, risk is monitored by measuring the use of limits and by comparing risk to predefined performance 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.

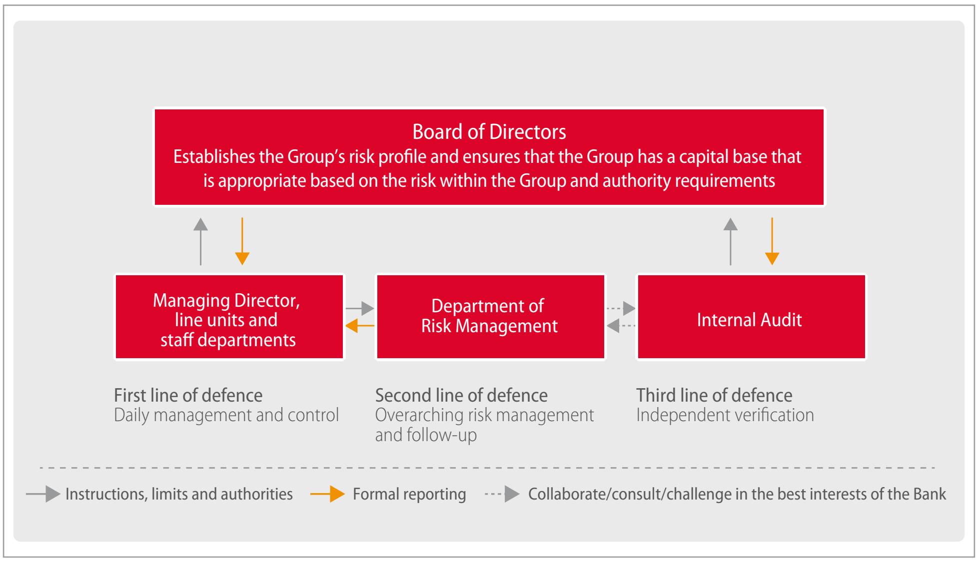
Basel II capital adequacy rules came into force with effect from 2007. Financial institutions with low credit risk and appropriate risk management systems may be subject to a lower capital base requirement under the new rules. The Bank has been granted its application to employ the so-called advanced IRB method for parts of the enterprise portfolio, and an application is still in progress with the Financial Supervisory Authority of Norway for a further part of the loan portfolio to be similarly covered during 2015. BN Bank has a process in place for assessing its capital adequacy requirement and its management and control of significant risks. 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, counterparty risk in the liquidity portfolio, market risk, liquidity risk, commercial risk, ownership risk, reputation risk, legal risk, compliance 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 2014 and submitted the associated reports to the Financial Supervisory Authority of Norway. The main conclusions are that the Bank's risk, capital and liquidity situations during the past year have been good. Management and control of the Bank's risks are assessed as satisfactory and, in the Board's opinion, the Bank is adequately capitalised in relation to its risk level and to statutory requirements.

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. Over 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 overarching 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 the 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. Furthermore, the department is 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 the Group's compliance with relevant legal acts 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's 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 directly 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, are 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 the 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 borrowing in the capital markets
- 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 both the risk level and the capital requirement areellerthe risk level and capital requirement is 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 for the expected financial development over the next 3 years. In addition, a forecast is made for a potential situation entailing a serious economic setback. The purpose of the forecast is to calculate how the financial development in activities and the macro-economy will impact on the Group's development, including returns, the funding situation and capital adequacy.

Basel II and the advanced IRB system

During 2014, BN Bank ASA became AIRB-approved for commercial loans, but an application is still pending for AIRB approval for residential mortgage loans, for which a reply from the Financial Supervisory Authority of Norway is expected in 2015.

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 predictive and that they are used in accordance with adopted guidelines.

In the first half of 2014, the Bank used the standard method for quantifying credit risk, but starting in the second quarter of 2014 it began reporting in accordance with the advanced IRB method. The Bank uses the basic method for quantifying operational risk. As an integral part of the Bank's risk management policy, an annual capital allocation process (ICAAP) is executed to ensure that the Bank has an adequate capital base for its adopted risk profile at all times. The following provides an assessment of the Bank's most substantial risks.

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.

The 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 in the form of liquidity investments. Through the Bank's credit strategy and strategy for counterparty risk, the Board specifies the Bank's risk appetite through the establishment of targets and limits for the Bank's credit and liquidity portfolios. Both strategies are reviewed annually. Since it is the Bank's credit risk from loans to retail and commercial customers that constitutes the greatest exposure, it is only this risk that is discussed further in this chapter.

BN Bank's credit strategy contains targets and parameters for

- Portfolio quality: measured as probability of default (PD), expected loss (EL) and unexpected loss (UL) within each credit portfolio
- Portfolio concentration: the number, size and quality of large commitments, and concentration in area types
- Portfolio share of corporate market and retail market
- Yield

Compliance with the credit strategy and limits and targets adopted by the Board is monitored continuously by the Risk Management & Compliance department and reported to the Board quarterly.

Credit risk is managed through:

1. Risk and capital management strategy, Board-approved document

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

2. Credit strategy, Board-approved document

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.

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. General economic trends are a key factor in relation to trends in defaults and possible losses on loans within the Corporate Market, since we are exposed to a broad portfolio of tenants.

b. Retail Market

Owing to low interest rates, the financial position of Norwegian households in general is considered good, despite increased risk arising from a less certain future for the Norwegian economy.

The preponderance of the loans in the Retail Market are secured by mortgages on residential properties where there is a requirement that the properties are centrally located.

c. Guarantee Portfolio

BN Bank has previously sold its portfolio in Ålesund to SpareBank 1 SMN. BN Bank guarantees 60 per cent of the credit risk. This portfolio is referred to as the Bank's Guarantee Portfolio. The portfolio is restricted and is being wound up.

5. Award authorities

All authorities within Retail Market and Corporate Market are personal. In addition, a credit committee has been established within Corporate Market to act as an advisory body for the decision-makers in 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

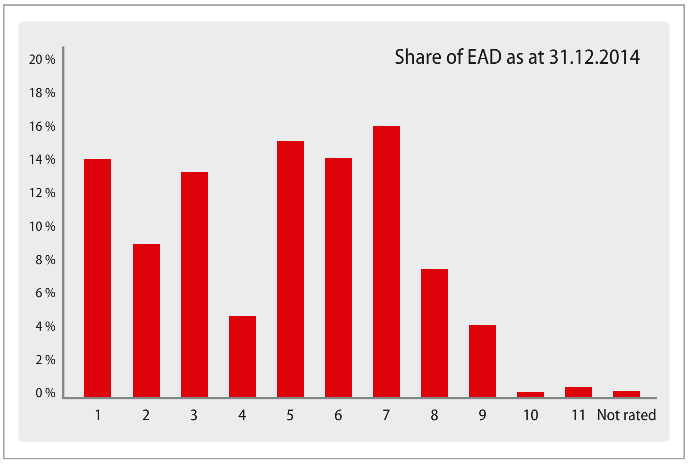
BN Bank has a risk classification system for lending commitments. The purpose of the portfolio classification is to provide information on the level and development in the overall credit risk for the portfolio. The Bank's models classify the commitments by probability of default (PD) and estimated loss given default (LGD), defined in relation to the loan's exposure at default (EAD). Various models are used depending on what are considered to be the most significant risk factors related to 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 breakdown of the portfolio by risk class and other relevant details from the system defined in terms of the Bank's limits and targets are reported regularly to the Board.

Probability of Default (PD)

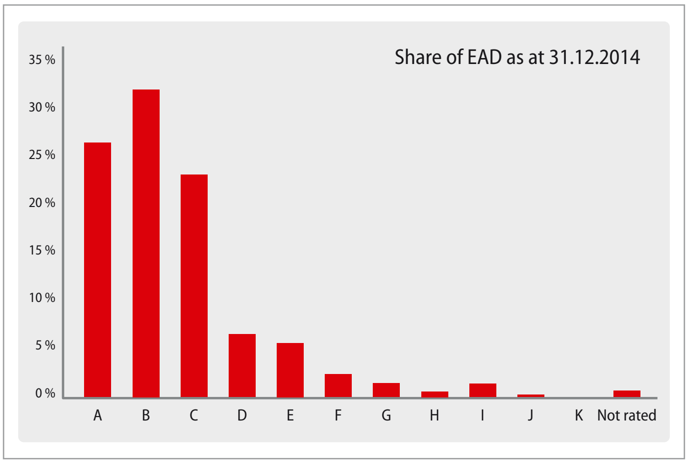
In order to group customers according to probability of default, ten risk classes (1-10) are used for the Corporate Market. In addition, the Bank has a risk class (11) for customers with defaulted and/or written-down commitments.

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



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

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



The Bank's PD models for the Retail Market and the 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 profiles.
- Level: On an ongoing basis and at least once a year, an assessment is carried out for 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 will confirm whether the accuracy of the model is within internal targets and international recommendations.

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 for regulatory capital calculation.

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 at least annually as regards drawing rights within Retail Market and Corporate Market.

Exposure to customers and other counterparties are specified in the notes to the accounts.

Expected loss

Expected losses on the different portfolios are deduced from EAD, PD and LGD. "Expected impairment losses" expresses an expectation concerning the magnitude of annual average losses over an economic cycle. At the end of 2014, the Group's expected impairment losses were estimated at 0.35 per cent, and following adjustment for loans where provisions for losses have been made, the expected loss is 0.07 per cent. In 2014, individual impairments of loans were 0.2 per cent of the Group's portfolio and the Guarantee Portfolio, and 0.12 per cent disregarding the Guarantee Portfolio.

The level of losses in BN Bank over time is linked to macroeconomic trends. Therefore, the trend in the real economy and property prices will impact 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

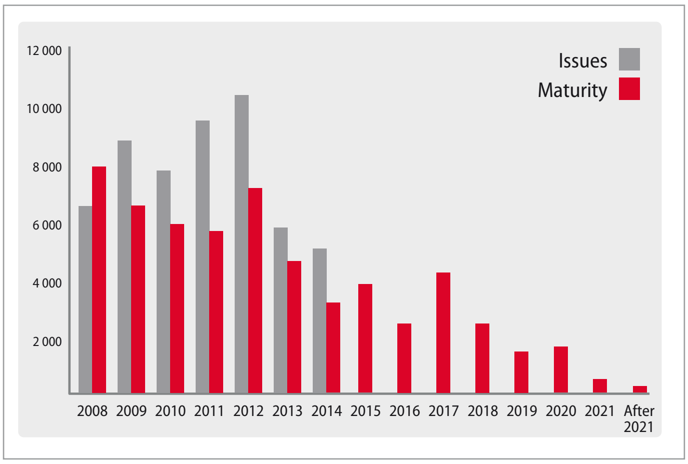
Liquidity risk is defined as the risk of BN Bank being unable to meet its obligations and/or finance increases in the assets without significant extra costs arising in the form of price falls in assets that must be realised or in the form of excessively expensive financing.

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.

The liquidity strategy is the Bank's basis for managing and controlling the liquidity risk, and is reviewed and adopted by the Board at least annually. The liquidity strategy reflects the Group's low risk profile. As part of the strategy, contingency plans have also been drawn for managing the liquidity situation during periods with volatile markets with both bank-specific and market-based scenarios and a combination thereof. Management of liquidity risk also includes stress tests which simulate the impact on liquidity as a result of different market events, based on the same scenarios as in the contingency plans.

The graph shows issues and maturities for the relevant year based on figures as at 31 December 2014 for 2015 and beyond.



Market risk

Market risk is defined as the risk of loss following changes in observable market variables in the form of changes in share prices, interest rates, foreign exchange rates and securities prices. BN Bank's earnings shall primarily be a product of its borrowing and lending activities, and market risk for the Bank is therefore low.

BN Bank does not have its own share portfolio, and the Bank's market risk only arises as a result of exposure within interest, foreign exchange and spread risks. BN Bank measures and manages exposure to market risk in accordance with limits adopted by the Board, and the responsibility for the follow-up of market risk is placed with the Risk Management & Compliance department.

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 interest rate risk. Forward rate agreements help reduce the risk of interest rate changes. As a consequence, we have limited risk exposure to interest rates. The Bank does not take speculative interest rate positions. BN Bank's foreign exchange risk arises from customers being offered loan and deposit products in currencies, but the risk is reduced by accompanying hedging of the foreign exchange risk. The Bank sets currency limits, both in total and for individual currencies, and does not take speculative currency positions.

Spread risk is calculated on the basis of the Bank's liquidity portfolio, which is held primarily for liquidity purposes, and not with a view to reselling or investing in the short term in order to profit from price or interest rate variations.

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.

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 form an integral part of the managerial responsibility at all levels within BN Bank. The management's primary tools to comply with these responsibilities are professional insight and management competence, as well as an established framework for internal control. Systematic internal control activities in development processes and day-to-day operations provide increased knowledge and awareness of key risks and how to handle them. A registration and monitoring system is used to ensure continual improvement in everything that BN Bank does. This system contributes to a better structure for reporting on and monitoring events, and improvement measures. The Board is kept updated on the status of operational risk through quarterly risk reports and annual internal control reports. The Board is constantly informed of any events outside the tolerance limit for operational risk.

The Board 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 negative results from shareholdings in strategically owned companies and/or will need to inject fresh equity capital into these companies, whether due to strong growth or for ensuring continuing operations as a result of a deficit.

The BN Bank Group has shareholdings in the following companies:

- SpareBank 1 Boligkreditt AS (5%)
- Collection Eiendom (100% shareholding)
- Roomy.no (15%)

SpareBank 1 Boligkreditt is primarily a financing instrument for the core business exercised in the owning banks. The company has a relatively simple risk picture and the risk appetite is very low as regards market and liquidity risk. Operational risk is also considered to be low. Due to participation in the company's Board of Directors, BN Bank's control is considered to be satisfactory.

Collection Eiendom has been established to own shares in companies associated with the Group's bad loans. These loans are included in the Group's credit-loss evaluation and there is no separate ownership risk linked to the company.

Roomy is a company which offers residential landlords and tenants an efficient, secure and reasonably priced means of organising tenancies. BN Bank offers its personal credit product which guarantees landlords rent at the right time. In view of BN Bank's book value of equity, the ownership risk linked to the company is assessed as insignificant.

BN Bank carries out its corporate governance with respect to SpareBank1 Boligkreditt AS and Roomy.no effectively through the formal governance bodies that have been established. Matter of significance are discussed by BN Bank's Board of Directors and Group management before the Bank's view is determined.

Commercial risk

Commercial risk is the risk of unexpected income or expense fluctuations due to changes in external circumstances such as the market situation, customer behaviour and the authorities' regulations. BN Bank is continuously subject to major and minor changes in framework conditions, both through the competitive situation and legislative changes which affect the Group's results. Adaptations to new regulatory requirements are an ongoing major cost for the Group. These include investments linked to technological solutions which BN Bank must procure in the same way as a large bank. Membership of the SpareBank 1 consortium means that the Group can participate in solutions jointly developed for the consortium, with the ensuing cost savings. Due to the Group's business model, the result will largely depend on margin developments. The is because non-margin operational income comprises only a small share of overall income. Determined efforts are made to achieve the growth targets as well as to find other income areas in order to reach the profit targets.

Management and control of strategy fulfilment and any adjustment to strategy are considered to be the most important measures for reducing commercial 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 transparent, committed and effective and, together with the ethical guidelines, they form the framework and foundation for the Bank's culture.

Issues which are considered here are:
- Combating economic crime
- Employee rights and social circumstances
- External environment
- Human rights

Combating 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:
- perform risk-based customer checks
- 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 distinct 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

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

As a "preferred employer", we engage motivated and committed 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 sickness absence, with a special focus on absence relating to the working environment and long-term absence
- ensuring that total sick leave does not exceed 3% 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.

In recent years, BN Bank has participated in TNS Gallup's survey of the working environment in the Bank, and the survey has shown progress in job satisfaction at BN Bank ASA. In 2014, the Bank participated for the first time in Great Place to Work's survey of the working environment. As in previous years, the results of the survey will be used to develop the organisation and create a good working environment.

BN Bank has a collaboration with an external company health service as part of which 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 4.75 per cent in 2014, 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 2014). In 2013, sickness absence was 6.38 per cent. The Bank follows up those on sick leave in line with official guidelines and requirements. Over time, The Bank aims to be on a par with the financial sector as a whole. The high level of sickness absence in the Bank is largely due to long-term sick leave for reasons which are not job-related. No significant injuries or accidents occurred during 2014.

The Bank aims to have a workplace in which there is equality between men and women. Of the company's 120 employees, 57 are women and 63 are men. The company strives to maintain a balance between women and men throughout the hierarchy. The proportion of women in the executive management is 40 per cent compared with 20 per cent in 2013. At departmental manager level, the proportion of women is 49 per cent compared with 29 per cent in 2013. At year-end 2014, BN Bank's Board consists of four men and four women, of whom one woman is the employee's representative; this is the same proportion as in 2013.

External environment

For BN Bank, travel and energy consumption are the biggest sources of greenhouse gas emissions. The number of business trips was unchanged in 2014, whereas 2013 saw a reduction of 17 per cent.

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 residents in Norway. BN Bank has not established any special guidelines concerning human rights in particular.

Report of the Board of Directors

Summary of 2014

The comparative figures in parentheses are for 2013.

In 2014, the BN Bank Group posted a profit after tax of NOK 281 million (NOK 252 million). This corresponds to a return on equity after tax of 7.8 per cent during 2014 (7.3 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 13 million, up from NOK 269 million in 2013 to NOK 282 million in 2014.

Total income was NOK 647 million (NOK 693 million).

Operating expenses amounted to NOK 224 million (NOK 215 million).

Net impairment losses on loans and guarantees totalled NOK 37 million (NOK 129 million) in 2014.

Non-performing loans as at 31 December 2014 represented 1.49 per cent of gross lending in the Group and the Guarantee Portfolio (1.91 per cent).

On a 12-month basis, gross managed lending fell by 1.3 per cent. Deposits fell by 4.6 per cent in 2014.

The margin on loans measured against the 3-month NIBOR fell by 7 basis points in 2014 to 2.32 per cent.

The core tier 1 capital ratio as at the end of 2014 was 14.9 per cent (11.1 per cent). The Bank's capital adequacy ratio and tier 1 capital ratio were 19.7 and 16.4 per cent respectively (15.4 and 13.0 per cent respectively). The increase in capital adequacy is primarily due to the Bank having received permission to use AIRB for the corporate loan portfolio.

The Bank's total assets amounted to NOK 35.8 billion as at 31 December 2014 (NOK 37.5 billion). Including loans transferred to SpareBank 1 Næringskreditt and SpareBank 1 Boligkreditt, total assets were NOK 57.8 billion (NOK 58.2 billion). Deposits amounted to NOK 14.4 billion as at 31 December 2014 (NOK 15.2 billion).

At year-end 2014, BN Bank had transferred loans to the value of NOK 13.3 billion to SpareBank 1 Næringskreditt and NOK 8.8 billion to SpareBank 1 Boligkreditt.

BN Bank has previously sold its portfolio in Ålesund to SpareBank 1 SMN. BN Bank now provides guarantees for NOK 135 million of the credit risk for the remaining portfolio (referred to as the Guarantee Portfolio) of NOK 221 million. The total provision for losses in the Guarantee Portfolio was NOK 63 million as at the end of 2014.

Vision, values and strategy

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

The Bank's values are Commitment, Efficiency and Openness.

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 two core business areas of retail banking (Retail Market) and corporate banking (Corporate Market). BN Bank has its head office in Trondheim and a regional office in Oslo.

Accounting policies

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

In the Board's opinion, 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 2014

In 2014, the BN Bank Group posted a profit after tax of NOK 281 million (NOK 252 million). This gives an annualised return on equity after tax of 7.8 per cent. Higher net interest income and reduced losses had a positive impact, but lower commission income, somewhat higher costs and lower changes in the value of financial instruments had a negative impact.

Income

Total income for 2014 was NOK 647 million (NOK 693 million).

NOK MILLION	2014	2013	CHANGE
Total income	647	693	-46
Net interest			23
Commission Sparebank 1 Næringskreditt			-84
Other fees/commissions/dividends			42
Changes in value of financial instruments			-27

The most important explanations for the decrease in income in 2014 compared with 2013 are reduced commission revenues from SpareBank 1 Næringskreditt and reduced changes in the value of financial instruments measured at fair value. Higher net interest income and other commissions and fee revenues had a positive effect.

The Bank receives commission on loans transferred to Sparebank 1 Næringskreditt AS, which is calculated as the lending interest rate on the loans less costs incurred by Sparebank 1 Næringskreditt AS. From 2014 onwards, these costs also include a premium for the capital that the owners have invested in Sparebank 1 Næringskreditt for the loans transferred by BN Bank. This entails a decrease in the commission that the Bank receives from Sparebank1 Næringskreditt AS. In 2014 this equity surcharge came to NOK 111 million before tax.

The Bank's hedging strategy involves reducing interest rate exposure from contracts with long-term fixed interest rates by the use of derivatives. This means that the Bank's unrestricted capital (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 2014 compared with 2013 reduced the return on these assets.

In 2014, changes in the value of financial instruments had a positive effect on operating income in the amount of NOK 13 million, which represents a negative change of NOK 27 million compared with 2013. See Note 14 for more information concerning these changes in value.

Operating expenses

Operating expenses for 2014 were NOK 224 million (NOK 215 million).

NOK MILLION	2014	2013	CHANGE
Operating expenses	224	215	9
Salary and other personnel expenses			1
Depreciation, amortisation and write-downs			-4
IT costs			7
Marketing			5

A focus on efficient operations and cost savings is an important part of the Bank's strategy, and in 2014 costs as a percentage of income were 35 per cent (31 per cent). Adjusted for the equity surcharge and return in SpareBank 1 Næringskreditt, the cost ratio was 28 per cent (30 per cent).

Margins

The comparative figures in parentheses are for 2013 and all figures are measured against the average 3-month NIBOR over the same period.

The Bank's total margin on lending in 2014 was 2.32 per cent (2.39 per cent). The Bank's deposit margin for 2014 was minus 0.85 per cent (minus 1.18 per cent).

Impairment losses and write-downs

In 2014, impairment losses on loans amounted to NOK 37 million (NOK 129 million).

Impairment losses on loans in 2014 break down as NOK 21 million in the Corporate Market, NOK 6 million in the Guarantee Portfolio and NOK 10 million in the Retail Market.

Collective write-downs decreased by NOK 31 million in 2014.

Individual and collective impairment losses on loans in 2014 were distributed as follows:

NOK MILLION	INDIVIDUAL	COLLECTIVE
Corporate Market	31	-10
Retail Market	8	2
Guarantee Portfolio	29	-23

With a deduction for individual write-downs, non-performing and doubtful commitments amounted to NOK 428 million (NOK 972 million) at the end of 2014, equivalent to 1.57 per cent (3.25 per cent) of gross lending within the Group and the Guarantee Portfolio. See Note 10 for more information.

Loan loss provisions within the core business amounted to NOK 223 million at the end of December 2014. Of this figure, individual write-downs account for NOK 169 million and collective write-downs NOK 54 million.

Loan loss provisions as at December 2014 were distributed as follows:

	LOAN LOSS PROVISIONS (NOK MILLION)	% OF GROSS LENDING, GROUP
Corporate Market	202	1.97
Retail Market	21	0.25

In addition, a provision of NOK 63 million has been allocated as a financial loss guarantee relating to the Guarantee Portfolio.

Recommendation for distribution of the annual profit

The Board of Directors recommends that the Parent Bank's annual profit of NOK 264 million be distributed as follows:

NOK MILLION	CHANGE
Dividend	264
Transferred to other equity	0
Total distributed	264

The balance sheet

BN Bank's total assets stood at NOK 35.8 billion at the end of 2014, which represents a decrease of NOK 1.7 billion over the past 12 months. The change is due primarily to loan transfers to SpareBank 1 Næringskreditt and SpareBank 1 Boligkreditt.

Gross managed lending[1] fell by NOK 0.6 billion, or 1.3 per cent, in the past 12 months. Gross managed loans totalled NOK 49.4 billion at the end of 2014 (NOK 50.0 billion).

During 2014, loans worth NOK 0.9 billion were transferred to SpareBank 1 Næringskreditt, while loans amounting to NOK 0.5 billion were transferred to SpareBank 1 Boligkreditt.

As at 31 December 2014, a loan portfolio of NOK 13.3 billion had been transferred to SpareBank 1 Næringskreditt, along with a loan portfolio of NOK 8.8 billion to SpareBank 1 Boligkreditt. The Bank has transferred 41 per cent of loans for commercial property and 51 per cent of residential mortgage loans to these two companies.

Gross managed lending had the following segmental exposure:

NOK BILLION	31.12.14	31.12.14
Retail Market	17.4	16.0
Corporate Market	32.0	34.0

Lending growth during the past 12 months within the corporate market amounted to NOK -2 billion, or -5.9 per cent. Lending growth in lending during the past 12 months within the retail market amounted to NOK 1.4 billion, or 8.5 per cent.

Gross lending within the Group at the end of 2014[2] was distributed as follows:

FIGURES AS %	31.12.14	31.12.13
Property management	56	64
Retail Market	30	26
Other	14	10

Customer deposits decreased by NOK 0.7 billion in 2014. Total deposits amounted to NOK 14.4 billion as at 31 December 2014.

The deposit-to-loan ratio as at 31 December 2014 was 52.9 per cent. This represents an increase of 1.1 percentage point over the past 12 months.

The Bank's liquidity portfolio stood at NOK 6.3 billion at the end of 2014.

In total, the Bank issued certificates and bonds amounting to NOK 5.1 billion in 2014. The business's most important financing sources are deposits, senior bonds issued in the Norwegian bond market and covered bonds issued by SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt.

The Bank's stake in SpareBank 1 Boligkreditt as at 31 December 2014 was 5.49 per cent. The Bank does not own shares in SpareBank 1 Næringskreditt.

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 Market

In 2014, the profit after tax for corporate loans was NOK 201 million (NOK 202 million). Higher net interest income and lower losses had a positive effect compared with 2013. Lower commission income from Sparebank 1 Næringskreditt and lower changes in value had a negative effect. In 2014, corporate loans posted a return on equity of 7.2 per cent.

The margin on lending[3] in 2014 was 2.41 per cent, while the deposit margin was -0.40 per cent.

During the past 12 months, growth in lending and deposits in the Corporate Market amounted to -5.6 per cent and -21.4 per cent respectively.

Retail Market

In 2014, the profit after tax for the retail market was NOK 84 million (NOK 67 million). The principal explanation for the improvement in the result is increased lending margins. In 2014, the retail market posted a return on equity of 14.4 per cent.

The margin on lending[3] in 2014 was 2.23 per cent, while the deposit margin was -0.79 per cent.

During the past 12 months, growth in lending and deposits in the retail market amounted to 9 per cent and -2 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.

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

Guarantee Portfolio

The Guarantee Portfolio comprises the Bank's former portfolio in Ålesund which was sold to SpareBank 1 SMN. The 5 remaining loans in the portfolio are within the offshore, shipping and housing cooperative sectors.

Profit after tax for the Guarantee Portfolio was NOK -1 million (NOK -17 million). The improvement in the result is due to lower impairment losses in 2014 compared with 2013.

As at 31 December 2014, the Guarantee Portfolio stood at NOK 221 million, of which BN Bank is guaranteeing for NOK 135 million. The provision for losses in the Guarantee Portfolio is NOK 63 million.

Solvency

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

FIGURES AS %	31.12.14	31.12.13
Capital adequacy ratio	19,7	15,4
Tier 1 capital ratio	16,4	13,0
Core tier 1 capital ratio	14,9	11,1

The Board of Directors has adopted a capital plan for BN Bank ASA of a core tier 1 capital ratio at the end of 2017 of 1 percent above the applicable regulatory minimum requirement plus regulatory buffers, but with a minimum of 13 percent.

In the proposal for a new Act on Financial Undertakings and Financial Groups, changes have been proposed for the regulations for dealing with jointly controlled entities. If these proposals are adopted, this will reduce the capital adequacy ratio somewhat.

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

Results per company

The Group's profit of NOK 281 million consists of NOK 140 million from BNkreditt and NOK 141 million from the Parent Bank. In addition, in the Parent Bank, NOK 120 million of group contributions from BNkreditt were recognised as income.

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.

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 real property. As at 31 December 2014, the company had a gross lending portfolio of NOK 15.4 billion, compared with NOK 15.8 billion as at 31 December 2013. As at 31 December 2014, a loan portfolio of NOK 13.3 billion had been transferred to SpareBank 1 Næringskreditt.

Profit after tax amounted to NOK 140 million as at 31 December 2014, compared with a post-tax profit of NOK 120 million during the same period in 2013. Reduced losses made a positive contribution, while lower commission income from SpareBank 1 Næringskreditt had a negative impact.

Impairment losses on loans and advances totalled NOK -5 million as at the end of the fourth quarter of 2014, compared with NOK 109 million in the same period in 2013. Collective write-downs fell by NOK 10 million during 2014 and amount to NOK 22 million. BNkreditt had NOK 3.3 billion in bond debt outstanding at the end of the fourth quarter of 2014, compared with NOK 3.5 billion at the end of the fourth quarter of 2013.

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 27.5 per percent, while the tier 1 capital ratio was 23.5 per cent at the fourth quarter of 2014. The amount BN Bank is ceding precedence for in relation to guarantees was therefore NOK 0 million at the fourth quarter of 2014.

Collection Eiendom AS

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

The company posted a zero result after tax for 2014 (NOK 0 million).

Risk factors

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 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, commercial risk, ownership risk, reputation risk, compliance risk and strategic risk. ICAAP is not focused on a single method or a single figure, but presents a set of calculations including different time horizons, confidence levels and assumptions.

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 2014, individual impairment losses on loans amounted to 0.14 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 2014, the Bank fulfilled the goal by a good margin.

In recent years, BN Bank has 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 believes that the Bank is well-equipped to face adverse 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 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 112 full-time equivalents and 120 employees at year-end 2014, representing an increase of one full-time equivalent compared with the previous year-end.

The Bank follows applicable regulations concerning the determination of salaries and other remuneration for the Managing Director and other senior employees. See Note 36 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 employees' elected representatives.

Sickness absence within the Bank was 4.75 per cent in 2014, compared with 4.4 per cent in the rest of the financial sector (the latter figure concerns the first three quarters of 2014). In 2013, sickness absence was 6.38 per cent. No significant injuries or accidents occurred during 2014.

The Bank aims to have a workplace in which there is equality between men and women. Of the company's 120 employees, 57 are women and 63 are men. The company strives to maintain a balance between women and men throughout the hierarchy. There are two women in the Bank's management group at the end of 2014. At departmental level, the proportion of women is 49%. At the year-end, BN Bank's Board consists of four men and four women, of whom one woman is the employees' 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 30.

Outlook

From an historical perspective, 2014 was a year of relatively high margins on loans. However, margins on loans fell during 2014, in part due to increased competition in the lending market, and the Board expects a further fall in the margins on loans in 2015. At the same time, the deposit margins have increased and are expected to continue increasing. The credit margins in the securities markets have fallen in 2015, and the marginal price of new borrowing is lower than the average ongoing cost of borrowing. If this persists, it will impact in the longer perspective on the Bank's financial statements as the Bank refinances its borrowing. The underlying trend in costs is in line with the Board of Directors' plans.

House prices in BN Bank's key market segments continued to rise in 2014. The retail market is still characterised by low unemployment and very low interest rates, 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.

The economic growth in Norway is expected to decline in 2015 as a consequence of the fall in the price of oil and in oil investments. Diminishing growth resulting from reduced activity in the oil sector has increased uncertainty surrounding future market development for commercial property, although BN Bank has relatively little exposure within the geographic areas presumed to be most affected.

The use of SpareBank 1 Næringskreditt and SpareBank 1 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. In recent years, BN Bank has 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 believes that the Bank is well-equipped to face adverse events in the financial markets.

In 2014, BN Bank was given permission to use the advanced IRB method for corporate loans on the balance sheets of BN Bank ASA and Bolig- og Næringskreditt AS. This permission results in a marked reduction in risk weighted assets, and the core tier 1 capital ratio within the Group as at the end of 2014 by far exceeds the objectives. Despite reduced capital requirements, the competitive picture is characterised by foreign banks facing even lower capital requirements than BN Bank. This is particularly pronounced within the corporate market.

The Board of Directors would like to thank the employees for their excellent efforts during 2014.

Trondheim, 4 March 2015
The Board of Directors in BN Bank ASA

Tore Medhus (Deputy Chair) | Rolf Eigil Bygdnes | Finn Haugan (Chairman) | Odd Einar Folland | Helene Jebsen Anker

Tina Steinsvik Sund | Jannike Lund (Employees´ Representative) | Ella Skjørestad | Gunnar Hovland (Managing Director)

Income Statement

		GROUP		PARENT BANK	
NOK MILLION	**NOTE**	**2014**	**2013**	**2014**	**2013**
Interest and similar income	11	1 408	1 567	1 080	1 222
Interest expenses and similar charges	12	976	1 157	853	1 039
Net income from interest and credit commissions		**432**	**410**	**227**	**183**
Change in value of financial instruments carried at fair value, gains and losses	14	14	41	20	54
Other operating income	13	201	242	132	89
Amicable settlement	15	0	0	0	0
Total other operating income		**215**	**283**	**152**	**143**
Salaries and general administrative expenses	15, 17, 36	193	176	119	102
Ordinary depreciation, amortisation and write-downs	26	8	12	8	12
Other operating expenses	16	24	27	17	18
Other gains and losses		-1	0	0	0
Total other operating expense		**224**	**215**	**144**	**132**
Operating profit/(loss) before impairment losses		**423**	**478**	**235**	**194**
Impairment losses on loans and advances	10	37	129	42	20
Operating profit/(loss) after impairment losses		**386**	**349**	**193**	**174**
Income from ownership interests in related companies		0	0	0	0
Income from ownership interests in group companies	25	0	0	167	118
Profit before tax		386	349	360	292
Tax charge	18	102	97	96	43
Profit for the year		**284**	**252**	**264**	**249**
Profit from operations under disposal	25	-3	0	0	0
Profit including discontinued operations		**281**	**252**	**264**	**249**

Statement of Other Comprehensive Income				
Items that will not be reclassified subsequently to profit or loss				
Actuarial gains (losses) on pension plans	-1	18	0	12
Tax	0	-5	0	-3
Other comprehensive income (net of tax)	**-1**	**13**	**0**	**9**
Total comprehensive income	**280**	**265**	**264**	**258**

Balance Sheet as at 31 December

		GROUP		PARENT BANK	
NOK MILLION	**NOTE**	**2014**	**2013**	**2014**	**2013**
Assets					
Deferred tax assets	18	9	0	0	0
Intangible assets	26	11	7	11	7
Ownership interests in group companies	25	0	0	1 600	1 600
Subordinated loans	24	0	1	453	452
Tangible fixed assets	26	10	13	10	13
Repossessed properties	27	0	3	0	0
Loans and advances	3, 4, 5, 6, 8, 9, 10, 13, 19, 20, 35, 36	27 154	29 094	11 972	13 430
Prepayments and accrued income	3, 4, 5, 6, 19, 20, 31	16	58	14	56
Financial derivatives	3, 4, 5, 6, 19, 20, 21, 22	767	622	694	543
Short-term securities investments	3, 4, 5, 6, 19, 20, 23	6 305	6 122	6 305	6 122
Cash and balances due from credit institutions	3, 4, 5, 6, 7, 19, 20	1 486	1 585	10 232	10 656
Assets classified as held for sale	25	29	0	5	0
Total assets		**35 787**	**37 505**	**31 296**	**32 879**
Equity and liabilities					
Share capital	37	706	706	706	706
Share premium		415	415	415	415
Other equity		2 520	2 480	1 356	1 332
Total equity		**3 641**	**3 601**	**2 477**	**2 453**
Deferred tax	18	0	19	112	64
Subordinated loan capital	3, 4, 5, 6, 19, 20, 33	1 205	1 459	1 205	1 459
Liabilities to credit institutions	4, 5, 6, 19, 20, 30, 35	2	13	2	13
Debt securities in issue	3, 4, 5, 6, 19, 20, 29	15 649	16 517	12 349	13 060
Accrued expenses and deferred income	3, 5, 6, 16, 17, 32	112	187	101	176
Other current liabilities		10	16	10	16
Tax payable	18	130	37	49	23
Financial derivatives	3, 4, 5, 6, 19, 20, 21, 22	596	487	541	442
Customer deposits & accounts payable to customers	4, 5, 6,19, 20, 28	14 442	15 169	14 450	15 173
Total liabilities		**32 146**	**33 904**	**28 819**	**30 426**
Total liabilities and equity		**35 787**	**37 505**	**31 296**	**32 879**
Mortgages and guarantees	34				

Trondheim, 4 March 2015

The Board of Directors in BN Bank ASA

Tore Medhus (Deputy Chair) — Rolf Eigil Bygdnes — Finn Haugan (Chairman) — Odd Einar Folland — Helene Jebsen Anker

Tina Steinsvik Sund — Jannike Lund (Employees´ Representative) — Ella Skjørestad — Gunnar Hovland (Managing Director)

Change in equity during 2013 and 2014

GROUP

NOK MILLION	SHARE CAPITAL	SHARE PREMIUM	OTHER PAID-IN EQUITY	OTHER EQUITY	TOTAL EQUITY
Balance Sheet as at 01.01.2013	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**
Profit for the year	0	0	0	281	281
Actuarial gains (losses) on pensions (net of tax)	0	0	0	-1	-1
Dividend paid	0	0	0	-240	-240
Capital increase	0	0	0	0	0
Balance Sheet as at 31.12.2014	**706**	**415**	**0**	**2 520**	**3 641**

PARENT BANK

NOK MILLION	SHARE CAPITAL	SHARE PREMIUM	OTHER PAID-IN EQUITY	OTHER EQUITY[1]	TOTAL EQUITY
Balance Sheet as at 01.01.2013	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
Capital increase	38	149	0	0	187
Balance Sheet as at 31.12.2013	**706**	**415**	**282**	**1 050**	**2 453**
Profit for the year	0	0	0	264	264
Actuarial gains (losses) on pensions (net of tax)	0	0	0	0	0
Dividend paid	0	0	0	-240	-240
Share capital increase	0	0	0	0	0
Balance Sheet as at 31.12.2014	**706**	**415**	**282**	**1 074**	**2 477**

[1] The reserve for unrealised gains is included in Other reserves. No allocations had been made as at 31.12.2014, NOK 364 million was allocated and as at 31.12.2013, NOK 295 million was allocated.

Statement of Cash Flows

	GROUP		PARENT BANK	
NOK MILLION	**2014**	**2013**	**2014**	**2013**
Cash flows from operating activities				
Interest/commission received and fees received from customers	1 445	1 537	593	599
Interest/commission paid and fees paid to customers	-382	-502	-382	-511
Interest received on other investments	172	184	192	200
Interest paid on other loans	-652	-698	-503	-550
Receipts/disbursements (-) on loans and advances to customers	1 834	3 982	1 387	1 569
Receipts/payments (-) on customer deposits and accounts payable to customers	-614	-1 561	-609	-1 557
Receipts/payments (-) on liabilities to credit institutions	-117	-640	-117	-927
Receipts/payments(-) on securities in issue and securities buy-back	-926	-1 785	-813	-1 042
Receipts on previously written-off debt	14	17	7	8
Other receipts/payments	-48	-73	-79	-187
Payments to suppliers for goods and services	-130	-92	-91	-53
Payments to employees, pensions and social security expenses	-95	-115	-52	-66
Tax paid	-37	-71	-23	-31
Net cash flow from operating activities	**464**	**183**	**-490**	**-2 548**
Cash flows from investing activities				
Receipts/payments (-) on receivables from credit institutions	46	30	1 051	2 636
Receipts/payments (-) on short-term securities investments	-114	13	-119	-510
Receipts/payments (-) on long-term securities investments [2]	0	0	167	395
Proceeds from sale of operating assets, etc.	11	25	0	0
Purchases of operating assets, etc.	-16	-5	-8	-5
Net cash flow from investing activities	**-74**	**63**	**1 091**	**2 516**
Cash flows from financing activities				
Receipts/payments (-) on subordinated loan capital	-250	-156	-250	-156
Dividend paid	-240	-187	-240	-187
Capital changes (share issues, etc.)	0	187	0	187
Net cash flow from financing activities	**-490**	**-156**	**-490**	**-156**
Net cash flow for the period	**-100**	**90**	**97**	**-188**
Cash and receivables from credit institutions as at 1 January	1 585	1 495	248	436
Cash and receivables from credit institutions as at 31 December [1]	**1 486**	**1 585**	**359**	**248**

[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. 43
NOTE 2. Disclosures concerning operating segments 49
NOTE 3. Capital adequacy ratio 51
NOTE 4. Risk in financial instruments - Qualitative description 54
NOTE 5. Risk in financial instruments - Quantitative description - Group 58
NOTE 6. Risk in financial instruments - Quantitative description - Parent Bank 65
NOTE 7. Cash and balances due from credit institutions 73
NOTE 8. Loans and advances 73
NOTE 9. Transfer of loans to SpareBank 1 Næringskreditt and SpareBank 1 Boligkreditt 74
NOTE 10. Impairment losses and write-downs on loans and guarantees 76
NOTE 11. Interest and similar income 79
NOTE 12. Interest expense and similar charges 79
NOTE 13. Other operating income 80
NOTE 14. Change in value of financial instruments carried at fair value, gains and losses 81
NOTE 15. Salaries and general administrative expenses 82
NOTE 16. Other operating expenses 83
NOTE 17. Pension expenses and liabilities 83
NOTE 18. Tax 88
NOTE 19. Financial instruments according to category 90
NOTE 20. Fair value of financial instruments 92
NOTE 21. Financial derivatives 99
NOTE 22. Right of set-off, financial derivatives 100
NOTE 23. Short-term securities investments 101
NOTE 24. Subordinated loans 102
NOTE 25. Ownership interests in Group companies 102
NOTE 26. Intangible assets and depreciable assets 103
NOTE 27. Repossessed properties 104
NOTE 28. Customer deposits & accounts payable to customers 104
NOTE 29. Debt securities in issue 104
NOTE 30. Liabilities to credit institutions 105
NOTE 31. Prepayments and accrued income 105
NOTE 32. Accrued expense and deferred income 105
NOTE 33. Subordinated loan capital 106
NOTE 35. Loans to employees and elected representatives 107
NOTE 36. Opplysninger om nærstående parter 107
NOTE 37. Shareholder structure and share capital 112
NOTE 38. Proposed, not approved dividend 112
NOTE 39. Events since the balance sheet date 113
NOTE 41. Income statements for the last four quarters 113
NOTE 41. Elected representatives and management 115

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 2014 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 2014

In 2014, the following new or amended IFRSs or IFRIC interpretations entered into force with effect on the Group's annual financial statements.

IFRS 10 "Consolidated Financial Statements" is based on the current principles of using control as the single basis for determining whether a company should be consolidated in the group financial statements. The standard provides comprehensive guidance for assessing whether control is present in those cases where this is difficult to determine. The Group has not had shareholdings that have been affected during the period.

IFRS 12 "Disclosures of Interest in Other Entities" contains the disclosure requirements for interests in subsidiaries, joint arrangements, associates, Special Purpose Entities (SPEs) and other off-balance sheet activities. The Group has 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 01 January 2015 or later, but without the Group having chosen early application:

IFRIC 21 was approved by the EU on 17 June 2014 and covers levies imposed by public authorities in accordance with legislation. The Group has concluded that this will not have a material impact on the information disclosed in the financial statements.

Other IFRSs or IFRIC interpretations that have not entered into force and which are expected to have a material impact on the financial statements:

In July 2014, the IASB published the last sub-project in IFRS 9, and the standard is now complete. IFRS 9 entails changes associated with classification and measurement, hedge accounting and impairment. IFRS 9 will replace IAS 39 Financial Instruments: Recognition and Measurement. The sections of IAS 39 Financial Instruments: Recognition and Measurement that are not changed as a phase of this project are being transferred to and incorporated into IFRS 9. IFRS 9 will take effect from 1 January 2018 or later, but the standard has not yet been endorsed by the EU. The Group has not completed its assessment of possible impacts of the implementation of IFRS 9. The transition to an impairment model based on expected losses will however have an effect on the recognition of loans and receivables.

More information concerning what IFRS 9 deals with in terms of classification and measurement, impairment and hedge accounting.

Classification and measurement of financial instruments: The present IAS 39 includes four main categories of financial assets and detailed rules applying to each of the categories. IFRS 9 has a more principle-based approach to whether an instrument should be measured at amortised cost or fair value than the present rules have.

In order for a financial asset to be measurable at amortised cost under IFRS 9, the instrument's cash flows must only be payment of interest and principal, and the instrument must be held for receiving contractual cash flows. All other instruments must be measured at fair value with value changes posted either against ordinary profit and loss or as other income or costs (OCI). These principles mean that there will no longer be a requirement to differentiate embedded derivatives from assets measured at amortised cost, since the existence of embedded derivatives will, to overgeneralise slightly, entail fair value measurement of the entire instrument.

For financial liabilities, the principles in IFRS 9 are essentially the same as in IAS 39, except that amendments have been made concerning the handling of value changes from own credit risk in those cases where the liabilities are selected for measurement at fair value when using the fair value option. When the fair value option is used, value changes from own credit risk are presented in OCI instead of ordinary profit and loss as is currently the case, unless such recognition in OCI creates or enlarges an accounting mismatch. Other value changes are to be recognised in ordinary profit and loss.

Impairment

Under IAS 39, impairment for losses shall only be made when there is objective evidence that a loss event has occurred. In the wake of the financial crisis, this model has been criticised in that the loss provision are too small and arrive too late. Loss provision under IFRS 9 is to be based on expected losses, without an equivalent "threshhold" (objective evidence) as in IAS 39.

The impairment rules in IFRS 9 will apply to financial assets which are debt instruments and which are measured at amortised cost or at fair value with value changes recognised in OCI. In addition, loan commitments, financial guarantee contracts and lease receivables are also covered.

Hedge accounting

IASB has performed a comprehensive review of the rule for hedge accounting so as to ensure that companies' risk management activities can be more extensively reflected in the accounts. It is expected that the changes will make it easier for companies to qualify for the use of hedge accounting and remain qualified.

IFRS 15 Revenue from Contracts with Customers

IASB and FASB have issued a new, joint standard for revenue recognition, IFRS 15 Revenue from Contracts with Customers. This standard replaces all existing IFRS and US GAAP requirements for revenue recognition. The standard is not expected to have a significant effect on the Group.

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 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.

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) and the wholly owned subsidiaries Bolig- og Næringskreditt AS (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 that 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. 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 calculated the amount associated with the remaining involvement as very small and, 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.

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

Tax

Tax is accrued as an expense irrespective of the date it is paid. The tax charge thus reflects the year's tax and future tax payable as a result of the year's activity. Tax which it is estimated will be assessed on the year's profit is included in the tax charge for the year and designated as tax payable.

Deferred tax is calculated on the basis of differences between reported accounting and taxable profits that will be off-set in the future. Tax-adding and tax-deducting temporary differences within the same interval of time are measured against one another. Any net deferred tax asset is stated as an asset on the balance sheet when it is probable that the tax-deducting temporary differences will be realised.

Presentation of dividend

The proposed distribution of dividend is presented as equity until a final resolution to distribute the dividend has been passed. Distributed dividend is then presented as provision for dividend until the dividend has been paid.

Provisions, contingent assets and contingent liabilities

A provision is recognised only if it is a present obligation (legal or constructive) resulting from a past event, it is probable that an outflow of resources from the enterprise embodying economic benefits would be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are recognised in the amount that expresses the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Where the effect is material, the time value of money is taken into account when calculating the amount of provision.

There is no recognition of contingent assets or contingent liabilities.

Cash

The line for cash includes cash in hand and deposits with and balances due from credit institutions and central banks.

The statement of cash flows is presented using the direct method, which provides information about important classes of receipts and payments.

Segment reporting

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

NOTE 2. DISCLOSURES CONCERNING OPERATING SEGMENTS

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

GROUP

NOK MILLION	CORPORATE MARKET	RETAIL MARKET	GUARANTEE PORTFOLIO SMN	TOTAL 2014
Net income from interest and credit commissions	**310**	**122**	**0**	**432**
Change in value of financial instruments carried at fair value	9	5	0	14
Other operating income	74	123	4	201
Total other operating income	**83**	**128**	**4**	**215**
Salaries and general administrative expenses	-82	-111	0	-193
Ordinary depreciation, amortisation and write-downs	-3	-5	0	-8
Other operating expenses	-12	-12	0	-24
Other expenses, gains and losses	1	0	0	1
Total other operating expenses	**-96**	**-128**	**0**	**-224**
Operating profit/(loss) before impairment losses	**297**	**122**	**4**	**423**
Impairment losses on loans and advances	**-21**	**-10**	**-6**	**-37**
Operating profit/(loss) after impairment losses	**276**	**112**	**-2**	**386**
Computed tax charge	**-75**	**-28**	**1**	**-102**
Profit after tax	**201**	**84**	**-1**	**284**
Profit from operations under disposal	-3	0	0	-3
Profit including discontinued operations	**198**	**84**	**-1**	**281**

GROUP

NOK MILLION	CORPORATE MARKET	RETAIL MARKET	GUARANTEE PORTFOLIO SMN	TOTAL 2014
Balance Sheet				
Loans (gross) managed portfolio	31 994	17 364	0	49 358
Customer deposits & accounts payable to customers	852	13 590	0	14 442

GROUP

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

GROUP

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

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

NOTE 3. CAPITAL ADEQUACY RATIO

Process for assessing 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 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, foreign exchange and spread 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 assessments and calculations based on different assumptions.

BN Bank has carried out the assessments for 2014 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 are at the same level as last 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.

Regulations

General

Pursuant to the Financial Institutions Act Section 2a-9, the Ministry of Finance has issued regulations concerning the 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.

Requirements for the calculation based on regulatory capital are defined in the Capital Adequacy Regulations, which specify requirements for the calculation of credit risk using the standardised approach and the IRB approach, in addition to requirements for the calculation of operational risk. The Capital Adequacy Regulations also deal with requirements for 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

Capital requirements for consolidated companies

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 transactions must be eliminated through the calculation of 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	**2014**	**2013**	**2014**	**2013**
Share capital	706	706	706	706
Premium fund	415	415	415	415
Appropriated dividend	264	240	264	240
Reserve for unrealised gains	364	296	364	295
Other equity	1892	1 944	728	797
Total equity	3 641	3 601	2 477	2 453
Tier 1 capital				
Deferred tax, goodwill and other intangible assets	-11	-7	-11	-7
Deduction for appropriated dividend	-264	-240	-264	-240
Direct, indirect and synthetic investments in companies in the financial sector	-36	-205	-54	-205
Positive value of adjusted anticipated losses under the IRB approach	-123	0	-17	0
Value adjustments as a result of the requirements for prudent valuation	-8	0	-8	0
Total core tier 1 capital	3 199	3 149	2 123	2 001
Perpetual subordinated capital securities, hybrid capital [1]	399	556	399	353
Direct, indirect and synthetic investments in companies in the financial sector	-71	0	-107	0
Total net other tier 1 capital	3 527	3 705	2 415	2 354
Tier 2 capital in addition to tier 1 capital				
Perpetual subordinated capital securities, hybrid capital in excess of 15% and 35%	0	95	0	298
Fixed-term subordinated capital [1]	798	798	798	798
Direct, indirect and synthetic investments in companies in the financial sector	-101	-205	-153	-205
Total tier 2 capital	697	688	645	891
Net subordinated capital	4 224	4 393	3 060	3 245

	GROUP		PARENT BANK	
NOK MILLION	**2014**	**2013**	**2014**	**2013**
Minimum requirements concerning subordinated capital, Basel III [2]				
Loans with specialist enterprises	772	0	0	0
Loans with other enterprises	119	0	193	0
Loans with mass market SMB	0	0	42	0
Equity positions	50	0	35	0
Total credit risk IRB	941	0	270	0
Operational risk	83	74	37	33
Loans calculated according to the standard method	674	2 243	908	1 280
Deduction in the capital requirement	0	-40	0	-37
Creditworthiness of counterparty (CVA risk)	18	0	18	0
Minimum requirements, subordinated capital	1 716	2 277	1 233	1 276
Calculation basis	21 460	28 458	15 415	15 954
Buffer requirements				
Conservation buffer (2.5%)	536	0	385	0
System risk buffer (3.0%)	644	0	462	0
Total buffer requirements for core tier 1 capital	1 180	0	848	0
Available tier 1 capital (less 4.5%)	2 234	0	1 430	0
Capital adequacy ratio				
Core tier 1 capital ratio	14.91 %	11.07 %	13.77 %	12.54 %
Tier 1 capital ratio	16.43 %	13.02 %	15.66 %	14.75 %
Capital adequacy ratio	19.68 %	15.44 %	19.85 %	20.34 %

In accordance with the Regulations on measurement of the own funds of financial institutions, clearing houses and investment firms, the deduction for non-essential investments in the financial sector should be phased in using the following percentage ratios:

in 2014: .... 20 %
in 2015: .... 40 %
in 2016: .... 60 %
in 2017: .... 80 %

[1] For more details, see Note 34.

[2] From the second quarter of 2014, BN Bank has obtained approval to use internal measurement methods for credit risk linked to corporate exposures. Historical minimum requirements for subordinated capital are reported according to the standard method.

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.

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 an executive management group consisting of four directors, each responsible for their own area of the Bank. 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 will then be put to the Board of Directors for its approval.

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.

Independent supervisory body in the Bank
The Bank has a department for risk management and compliance which is an independent supervisory body for monitoring the banking group's risk, and this department's duties are to identify, measure and assess all risks.

The risk management process

BN Bank has established prudent and appropriate strategies and processes for risk management and monitoring, and assessment of the Bank's overall capital adequacy requirement. The collective term for this is ICAAP (Internal Capital Adequacy Assessment Process). For structuring the framework, the process can be divided into five main areas.

I) RISK IDENTIFICATION
An analysis has been prepared for the risks to which the Bank is exposed. There is an appropriate system for 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 EXPOSURE AGAINST THE BANK'S EQUITY
In order to analyse the bank's risk exposure, all significant risks are assessed against the Bank's equity.

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 capital target will be further adapted to the Bank's business plans and growth ambitions, developments in framework conditions, capital planning and emergency preparedness.

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. 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 the retail market portfolio.

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 assign each debtor a PD class and an LGD class. The PD classification indicates the probability that a loan will become default, while the LGD classification gives an estimate of the loss rate (in relation to the size of the exposure) given that the loan is default. 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 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 flows, 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. Key in this context is the change in lending based on limits and targets established by the Board of Directors. Notes 5 and 6 present an assessment of credit risk as at the end of 2013 and 2014.

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, but the desired exposure is low. 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. The Board of Directors receives quarterly reports on liquidity risk in relation to limits and targets. Notes 5 and 6 present an assessment of liquidity risk as at the end of 2013 and 2014.

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, but the desired exposure is low. 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 significant risk, but 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 tool 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 and Board of Directors receive regular reporting of exposure versus fixed targets and limits. Notes 5 and 6 present an assessment of interest rate risk at the end of 2013 and 2014 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 total and net positions in each currency. The management receive regular reports of this analysis. Notes 5 and 6 present an assessment of foreign exchange risk as at the end of 2013 and 2014 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, internal fraud (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, and where exposure should be low. Determination of the operational risk exposure uses the basic approach in the Capital Adequacy Regulations, in addition to qualitative analyses. The Bank has established routines for regular monitoring of operational risk, with quarterly reporting to the management and Board of Directors.

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 is included as a significant risk 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, e.g. in relation to customers, counterparties 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. This is not currently assessed to be a significant exposure for the Bank.

Compliance risiko

Compliance risk is the risk that the Group incurs public sanctions, fines, financial loss or impaired reputation as a result of failure to comply with laws and regulations. This is not currently assessed to be a significant exposure for the Bank.

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. This is not currently assessed to be a significant exposure for the Bank.

Concentrations of risk

Concentration risk reflects the risk the Bank incurs due to the loan portfolio not being fully diversified. This means that the Bank will be vulnerable to individual events within the areas where there is a concentration of credits within sections of the portfolio. There are three types of concentration risk that are relevant for the Bank and assessed in respect of exposure: sector concentration, size concentration and geographical concentration.

Sector concentration is an extra risk which the Bank incurs through providing a great many loans to specific sectors, i.e. an extra risk because the Bank has its customers unevenly allocated across the sectors. Our corporate market portfolio is essentially focused on loans secured by mortgages on commercial property, and this constitutes 65% of the total portfolio.

BN Bank has a high concentration risk associated with large commitments in commercial property. This applies both in respect of the largest single exposure and of the 20 large commitments combined. Large commitments comprise a significant share of the total portfolio.

Geographical concentration risk is the risk of losses resulting from concentrations in restricted geographical areas. Residential mortgages are primarily concentrated in Oslo/Akershus and otherwise have exposure in central areas of the country. Commercial property is also highly concentrated around Oslo/Akershus which is also clearly the best functioning market within commercial property.

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. Sector concentration and size concentration are therefore the most important types of concentration in BN Bank's portfolio. Consequently, 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, and this is a focus area for the Bank.

Hedging instruments

The Group employs the following hedging instruments:

- Interest rate swaps – contracts to exchange interest-rate conditions for a fixed nominal sum during 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.
- Forward exchange contracts – contracts for the purchase or sale of foreign currency with settlement at a specific future date.

The object of using hedging 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 2014

GROUP

NOK MILLION	TOTAL RECOGNISED VALUE	UNDEFINED [1]	UP TO 1 MONTH	FROM 1 MONTH TO 3 MONTH	FROM 3 MONTH TO 1 YEAR	FROM 1 YEAR TO 5 YEARS	OVER 5 YEARS
Loans	27 154	129	15 676	10 498	231	551	68
Subordinated loans	0	0	0	0	0	0	0
Financial derivatives	11 159	0	341	4 067	1 788	2 903	2 061
Short-term securities investments	6 305	159	1 016	3 331	914	310	575
Cash and balances due from credit institutions	1 486	4	1 123	359	0	0	0
Total	46 105	292	18 156	18 255	2 934	3 764	2 704
Subordinated loan capital	1 205	5	500	700	0	0	0
Liabilities to credit institutions	2	0	2	0	0	0	0
Debt securities in issue	15 649	-41	1 794	8 495	1 314	2 077	2 011
Financial derivatives	11 159	0	1 219	6 684	947	1 635	675
Customer deposits & accounts payable to customers	14 442	-1	3 623	10 500	320	0	0
Total	42 457	-37	7 137	26 378	2 581	3 712	2 686
Net = gap	3 647	329	11 019	-8 123	353	51	18

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 MONTH	FROM 3 MONTH 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
Deposits from discontinued operations	0	0	0	0	0	0	0
Total	43 771	302	6 915	26 671	2 689	5 830	1 363
Net = gap	3 645	530	14 764	-10 603	-1 108	74	-12

[1] Undefined at repricing date (gap) for assets and liabilities consists of excess/shortfall in value as a result of fair value calculations, accrued interest at the balance sheet date, and any other non-interest-bearing balance sheet items.

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

The Group employs hedging instruments to manage interest rate risk; see Note 20. 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 for assets and liabilities as at 31 December 2014

GROUP

NOK MILLION	TOTAL RECOGNISED VALUE	NOK	EUR	DKK	SEK	CHF	JPY	USD	ISK	OTHER
Loans	27 154	26 401	223	0	479	41	10	0	0	0
Subordinated loans	0	0	0	0	0	0	0	0	0	0
Prepayments and accrued income	16	16	0	0	0	0	0	0	0	0
Short-term securities investments	6 305	6 305	0	0	0	0	0	0	0	0
Cash and balances due from credit institutions	1 486	1 226	217	0	2	1	0	13	26	1
Total	34 961	33 948	440	0	481	42	10	13	26	1
Subordinated loan capital	1 205	1 205	0	0	0	0	0	0	0	0
Liabilities to credit institutions	2	1	0	0	0	0	0	0	0	1
Debt securities in issue	15 649	15 649	0	0	0	0	0	0	0	0
Customer deposits & accounts payable to customers	14 442	14 394	6	0	3	0	0	13	26	0
Total	31 298	31 249	6	0	3	0	0	13	26	1
Financial derivatives	0	-964	433	1	477	42	10	1	0	0
Net currency exposure	3 663	3 663	1	-1	0	0	0	0	0	0

Currency distribution for assets and liabilities as at 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

Sensitivity analysis for change in market prices - partial analysis

	GROUP	
	2014	2013
NOK MILLION	EFFECT ON RESULT	EFFECT ON RESULT
Interest rate +/-1% point	19	19
Foreign exchange rates +/-10% [1]	0	2

[1] Calculated on absolute position as at 31 December 2014 and 31 December 2013.

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 2014

				GROUP
EXPECTED LOSS (%)	RETAIL MARKET	CORPORATE MARKET	GUARANTEE PORTFOLIO	TOTAL
0 – 0,01	61 %	38 %	0 %	45 %
0,01 – 0,05	30 %	39 %	0 %	36 %
0,05 – 0,20	5 %	12 %	51 %	10 %
0,20 – 0,50	2 %	10 %	0 %	7 %
> 0,50	2 %	2 %	49 %	2 %

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 %

Individual write-downs as at 31 December 2014 total NOK 223 million, of which NOK 54 million concern the Guarantee Portfolio. Collective write-downs total NOK 62 million as at 31 December 2014, of which NOK 9 million concern 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 2014

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	8 233	213	26	30	45	8 555	-5	-14	8 536
Corporate Market	18 210	121	0	5	57	18 744	-164	-39	18 541
Guarantee Portfolio	76	0	0	0	0	221	-54	-9	158
Loans	26 519	334	26	35	102	27 520	-223	-62	27 235

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

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

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

GROUP

NOK MILLION	**2014**	**2013**
Oslo/Akershus	18 628	19 266
Rest of Southern/Eastern Norway	2 624	2 567
Western Norway	1 836	1 639
Sør-Trøndelag	3 181	4 041
Nord-Trøndelag and Northern Norway	291	207
Other contries	739	1 589
Loans and advances	27 299	29 309

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	2014	2013
On balance sheet:		
Loans	27 154	29 094
Prepayments and accrued income	16	58
Financial derivatives	767	622
Short-term securities investments	6 305	6 122
Cash and balances due from credit institutions	1 486	1 585
Assets classified as held for sale	29	0
Off balance sheet:		
Financial guarantees	49	109
Financial guarantees SpareBank 1 SMN	1 635	1 251
Undrawn loan commitments, facilities and credits	1 709	1 144
Maximum credit risk	**39 150**	**39 985**

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

Liquidity risk
Remaining maturity for assets and liabilities as at 31 December 2014

	GROUP						
NOK MILLION	TOTAL	UDEFINED	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	36 032	5 568	295	152	1 826	7 357	20 835
Short-term securities investments	6 216	0	11	323	1 528	2 195	2 159
Cash and balances due from credit institutions	1 486	636	850	0	0	0	0
Total	**43 734**	**6 204**	**1 156**	**474**	**3 354**	**9 551**	**22 994**
Subordinated loan capital	1 347	0	6	9	533	799	0
Liabilities to credit institutions	2	2	0	0	0	0	0
Debt securities in issue	16 741	0	137	426	3 191	10 662	2 324
Financial derivatives	-151	0	-8	-20	-21	-108	5
Customer deposits & accounts payable to customers	14 443	14 124	0	0	319	0	0
Total	**32 382**	**14 126**	**135**	**415**	**4 022**	**11 354**	**2 329**

Remaining maturity for assets and liabilities as at 31 December 2013

GROUP

NOK MILLION	TOTAL	UDEFINED	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 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 components of credit 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 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 2014

PARENT BANK

NOK MILLION	TOTAL RECOGNISED VALUE	UNDEFINED [1]	UP TO 1 MONTH	FROM 1 MONTH TO 3 MONTH	FROM 3 MONTH TO 1 YEAR	FROM 1 YEAR TO 5 YEARS	OVER 5 YEARS
Loans	11 972	80	2 911	8 703	17	259	1
Subordinated loans	453	3	0	450	0	0	0
Financial derivatives	8 899	0	341	2 506	1 638	2 353	2 061
Short-term securities investments	6 305	159	1 016	3 331	914	310	575
Cash and balances due from credit institutions	10 233	8 751	1 123	359	0	0	0
Exposure, interest rate risk, BNkreditt [2]	1 500	-9 966	12 765	-1 185	-52	-128	66
Total	39 362	-973	18 156	14 164	2 518	2 794	2 703
Subordinated loan capital	1 205	5	500	700	0	0	0
Liabilities to credit institutions	2	2	0	0	0	0	0
Debt securities in issue	12 349	326	1 794	5 803	897	1 518	2 011
Financial derivatives	8 899		1 219	4 834	947	1 224	675
Customer deposits & accounts payable to customers	14 450	11	3 618	10 500	320	0	0
Total	36 904	344	7 130	21 837	2 164	2 742	2 686
Net = gap	2 458	-1 317	11 026	-7 673	353	51	17

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 MONTH	FROM 3 MONTH 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**

[1] Undefined at repricing date (gap) for assets and liabilities consists of excess/shortfall in value as a result of fair value calculations, accrued interest at the balance sheet date, and any other non-interest-bearing balance sheet items.
[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. 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 2014

PARENT BANK

NOK MILLION	TOTAL RECOGNISED VALUE	NOK	EUR	DKK	SEK	CHF	JPY	USD	ISK	OTHER
Loans	11 972	11 525	115	0	295	27	10	0	0	0
Subordinated loans	453	453	0	0	0	0	0	0	0	0
Prepayments and accrued income	14	14	0	0	0	0	0	0	0	0
Short-term securities investments	6 305	6 305	0	0	0	0	0	0	0	0
Cash and receivables from credit institutions [1]	10 232	9 666	325	0	186	15	0	13	26	1
Total	**28 976**	**27 963**	**440**	**0**	**481**	**41**	**10**	**13**	**26**	**1**
Subordinated loan capital	1 205	1 205	0	0	0	0	0	0	0	0
Liabilities to credit institutions	2	1	0	0	0	0	0	0	0	1
Debt securities in issue	12 349	12 349	0	0	0	0	0	0	0	0
Customer deposits & accounts payable to customers	14 450	14 402	6	0	3	0	0	13	26	0
Total	**28 006**	**27 957**	**6**	**0**	**3**	**0**	**0**	**13**	**26**	**1**
Financial derivatives	0	-964	433	1	477	42	10	1	0	0
Net currency exposure	**970**	**970**	**1**	**-1**	**0**	**-1**	**0**	**0**	**0**	**0**

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 [1]	10 656	9 361	609	311	323	14	4	8	24	2
Total	**30 716**	**28 916**	**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	**1 011**	**1 014**	**-2**	**-1**	**0**	**0**	**0**	**-1**	**0**	**1**

[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	
	2014	2013
NOK MILLION	**EFFECT ON RESULT**	**EFFECT ON RESULT**
Interest rate +/-1% point	19	19
Foreign exchange rates +/-10% [1]	0	0

[1] Calculated on absolute position as at 31 December 2014 and 31 December 2013.

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 on the fair value of 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 2014

PARENT BANK

EXPECTED LOSS (%)	RETAIL MARKET	CORPORATE MARKET	GUARANTEE PORTFOLIO	TOTAL
0 – 0.01	61 %	28 %	0 %	49 %
0.01 – 0.05	30 %	37 %	0 %	32 %
0.05 – 0.20	5 %	20 %	51 %	11 %
0.20 – 0.50	2 %	16 %	0 %	6 %
> 0.50	2 %	0 %	49 %	2 %

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 %

Individual write-downs as at 31 December 2014 total NOK 92 million, of which NOK 54 million concern the Guarantee Portfolio. Collective write-downs total NOK 40 million as at 31 December 2014, of which NOK 9 million concern 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 Decemebr 2014

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	8 233	213	26	30	45	8 555	-5	-14	8 536
Corporate Market	3 235	120	0	0	23	3 484	-33	-17	3 434
Guarantee Portfolio	76	0	0	0	0	221	-54	-9	158
Loans	11 544	333	26	30	68	12 260	-92	-40	12 128

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

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

MILLIONER KRONER	**2014**	**2013**
Oslo/Akershus	7 357	8 469
Rest of Southern/Eastern Norway	1 581	1 487
Western Norway	1 191	1 001
Sør-Trøndelag	1 125	1 809
Nord-Trøndelag and Northern Norway	243	146
Other contries	542	577
Gross lending	12 039	13 489

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

PARENT BANK

NOK MILLION	2014	2013
On balance sheet:		
Subordinated loans	453	452
Loans and advances	11 972	13 430
Prepayments and accrued income	14	56
Financial derivatives	694	543
Short-term securities investments	6 305	6 122
Cash and balances due from credit institutions	10 232	10 656
Assets classified as held for sale	5	0
Off balance sheet:		
Financial guarantees	49	247
Financial guarantees SpareBank 1 SMN	1 635	1 251
Undrawn loan commitments, facilities and credits	860	763
Maximum credit risk	32 219	33 520

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 2014

PARENT BANK

NOK MILLION	TOTAL	UDEFINED	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	16 702	5 568	67	83	526	2 067	8 390
Subordinated loans	531	3	0	5	12	512	0
Short-term securities investments	6 216	0	11	323	1 528	2 195	2 159
Cash and balances due from credit institutions	10 232	9 382	850	0	0	0	0
Total	33 681	14 953	928	410	2 066	4 774	10 549
Subordinated loan capital	1 347	0	6	9	533	799	0
Liabilities to credit institutions	2	2	0	0	0	0	0
Debt securities in issue	13 329	0	137	86	1 946	8 836	2 324
Financial derivatives	-146	0	-8	-8	-18	-119	5
Customer deposits & accounts payable to customers	14 443	14 124	0	0	319	0	0
Total	28 975	14 126	135	87	2 781	9 516	2 329

Remaining maturity for assets and liabilities as at 31 December 2013

PARENT BANK

NOK MILLION	TOTAL	UDEFINED	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	15 817	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 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 components of credit loans, overdrafts and 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 7. CASH AND BALANCES DUE FROM CREDIT INSTITUTIONS

	GROUP		PARENT BANK	
NOK MILLION	**2014**	**2013**	**2014**	**2013**
Cash and balances due from credit institutions carried at amortised cost:				
Cash and balances at central banks	359	248	359	248
Undated loans and balances due from credit institutions	261	304	261	305
Dated loans and balances due from credit institutions	850	700	850	700
Receivables from related parties	15	333	10	105
Receivables from subsidiaries	1	0	8 752	9 298
Cash and balances due from credit institutions carried at amortised cost	1 486	1 585	10 232	10 656
Total cash and balances due from credit institutions	1 486	1 585	10 232	10 656

NOTE 8. LOANS AND ADVANCES

	GROUP		PARENT BANK	
NOK MILLION	**2014**	**2013**	**2014**	**2013**
Loans carried at amortised cost:				
Lines of credit	2 988	3 044	2 987	3 044
Building loans	82	598	82	598
Amortised loans	23 459	24 556	8 603	9 372
Total loans carried at amortised cost	26 529	28 198	11 672	13 014
Loans selected for fair value carrying through profit or loss:				
Amortised loans	625	895	300	416
Total loans selected for fair value carrying	625	895	300	416
Total loans and advances	27 154	29 093	11 972	13 430

Overview of gross lending in managed portfolio

	GROUP		PARENT BANK	
NOK MILLION	**2014**	**2013**	**2014**	**2013**
Corporate and retail loans	27 299	29 309	12 039	13 489
Gross lending	27 299	29 309	12 039	13 489
Loans transferred to SpareBank 1 Næringskreditt (SP1NK)	13 250	12 393	0	0
Loans transferred to SpareBank 1 Boligkreditt (SP1BK)	8 809	8 323	8 809	8 323
Total loans incl. transferred to SB1NK and SB1BK	49 358	50 025	20 848	21 812
Divested portfolio	0	0		0

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 as at 31 December 2014. 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. At the end of December 2014 the book value of transferred loans was NOK 13.3 billion. 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 2014, the aforementioned guarantees amount to NOK 0 million.

The loans transferred to SpareBank 1 Næringskreditt AS are very well secured and there is only a very slight probability of loss. BNkreditt has a remaining involvement in the form of a possible settlement against the commission it receives. Should there arise accounting credit losses or a fall in margin relating to one or more transferred loans, SpareBank 1 Næringskreditt AS can reduce the commission BNkreditt receives with the loss. 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 2014 and at 31 December 2013.

Guarantee provided by BN Bank to BNkreditt

In order to protect the interests of existing bond holders in BNkreditt, in connection with the transfer of loans to Sparebank 1 Næringskreditt, BN Bank guaranteed that BNkreditt will have a capital adequacy ratio of at least 20 per cent at all times. 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 2014, BNkreditt's capital adequacy ratio was 23.52 per cent. The amount the Parent Bank is ceding precedence to stood at NOK 0 million as at 31 December 2014.

Transfer of loans to SpareBank 1 Boligkreditt

SpareBank 1 Boligkreditt AS is owned by the savings banks that form the SpareBank 1 consortium and is co-located with SpareBank 1 Næringskreditt AS in Stavanger. BN Bank has a stake of 5.49% as at 31 December 2014. The purpose of the company is to secure for the banks within the consortium a source of stable, long-term financing of residential mortgage loans at competitive rates. The company's bonds have ratings of Aaa and AAA from Moody's and Fitch respectively. SpareBank 1 Boligkreditt procures loans with mortgages on residential properties and issues covered bonds within the regulations governing such bonds established in 2007. As part of the consortium, BN Bank may transfer loans to SpareBank 1 Boligkreditt and, as part of the Bank's funding strategy, loans have been transferred to the company. Loans transferred to SpareBank 1 Boligkreditt AS are secured by mortgages on residential properties for up to 75 per cent of the appraised value. Transferred loans are legally owned by SpareBank 1 Boligkreditt AS and, apart from the management right and the right to take over fully or partially written-down loans, BN Bank has no right to the use of these loans. At the end of December 2014, the book value of transferred loans was NOK 8.8 billion. BN Bank is responsible for managing the transferred loans and receives a commission based on the net return on the loans transferred by the Bank and the costs to the company.

BN Bank has, in conjunction with the other owners of SpareBank 1 Boligkreditt AS, entered into agreements to establish a liquidity facility for SpareBank 1 Boligkreditt AS. This means that the owner banks have undertaken to purchase covered bonds in the case that SpareBank 1 Boligkreditt AS is unable to refinance its business in the market. The purchase is limited to the total value of the maturities in the company at any time in the next twelve months. Previous purchases under this agreement are deducted from future purchase obligations. Each owner is principally liable for his share of the refinancing need, alternatively for the double of what the primary liability may be in accordance with the same agreement. The bonds can be deposited in Norges Bank and thus give rise to no material increase in risk for BN Bank. According to its own internal policy, SpareBank 1 Boligkreditt AS maintains its liquidity for the next 12 months' maturities. This is deducted when the banks' liability is measured. It is therefore only in the event that SpareBank 1 Boligkreditt AS no longer has sufficient liquidity for the next 12 months' maturities that BN Bank will report any commitment here with regard to capital adequacy or major commitments.

BN Bank has also entered into a shareholder agreement with the shareholders of SpareBank 1 Boligkreditt AS. Among other things, this means that BN Bank will contribute to SpareBank 1 Boligkreditt AS having a tier 1 capital ratio of at least 9.0 per cent, and if required inject tier 1 capital if it falls to a lower level. SpareBank 1 Boligkreditt AS has internal guidelines stipulating a tier 1 capital ratio of at least 10.0 per cent. 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 AS are very well secured and there is only a very slight probability of loss. BN Bank has a remaining involvement in the form of a possible settlement against the commission it receives. Should there arise accounting credit losses or a fall in margin relating to one or more transferred loans, SpareBank 1 Boligkreditt AS can reduce the commission BN Bank receives with the loss. The maximum amount which BN Bank can be required to pay back has been calculated, but is not material and is thus not recorded on the balance sheet. The fair value of the expected reduction in commission has been calculated and deemed immaterial. A possible settlement against the commission has therefore had no effect on the balance sheet or the result during the period.

The consideration received for loans transferred from BN Bank to SpareBank 1 Boligkreditt AS is equal to the nominal value of transferred loans and is measured as virtually concurrent with the fair value of the loans as at the end of 2014 and 2013.

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	**2014**	**2013**	**2014**	**2013**
Write-offs in excess of prior-year write-downs	31	1	31	0
Write-offs on loans without prior write-downs	5	12	5	12
Write-downs for the period:				
Change in collective write-downs	-8	-3	2	0
Change in collective write-downs related to Guarantee Portfolio	-24	-15	-24	-15
Total change in collective write-downs	-32	-18	-22	-15
Increase in loans with prior-year write-downs	91	27	48	27
Provisions against loans without prior write-downs	3	141	3	19
Decrease in loans with prior-year write-downs	-51	-21	-21	-17
Total change in individual write-downs	43	147	30	29
Gross impairment losses	47	142	44	26
Recoveries on previous write-offs	-10	-13	-2	-6
Impairment losses on loans and advances	37	129	42	20
Revenue recognition of interest on written-down loans	-12	6	-3	1

	GROUP		PARENT BANK	
NOK MILLION	**2014**	**2013**	**2014**	**2013**
Individual write-downs to cover impairment losses as at 1 January	154	48	27	30
Write-offs covered by prior-year individual write-downs	-3	-7	-3	-2
Write-downs for the period:				
Increase in loans with prior-year individual write-downs	66	0	32	0
Write-downs on loans without prior individual write-downs	3	133	3	15
Decrease in loans with prior-year individual write-downs	-51	-20	-21	-16
Individual write-downs to cover impairment losses as at 31 December	**169**	**154**	**38**	**27**
Collective write-downs to cover impairment losses as at 1 January	62	65	29	29
Collective write-downs for the period to cover impairment losses	-8	-3	2	0
Collective write-downs to cover impairment losses as at 31 December	**54**	**62**	**31**	**29**

	GROUP		PARENT BANK	
NOK MILLION	**2014**	**2013**	**2014**	**2013**
Individual write-downs to cover losses on financial guarantees concerning Guarantee Portfolio as at 1 January	101	72	101	72
Write-offs covered by prior-year individual write-downs	-61	0	-61	0
Write-downs for the period:				
Increase in loans with prior-year individual write-downs	14	24	14	24
Write-downs on loans without prior individual write-downs	0	6	0	6
Decrease in loans with prior-year individual write-downs	0	-1	0	-1
Individual write-downs to cover losses on financial guarantees concerning Guarantee Portfolio as at 31 December [1]	**54**	**101**	**54**	**101**
Collective write-downs to cover losses concerning Guarantee Portfolio as at 1 January	32	47	32	47
Collective write-downs for the period to cover losses in Guarantee Portfolio	-23	-15	-23	-15
Collective write-downs to cover losses concerning Guarantee Portfolio as at 31 December [1]	**9**	**32**	**9**	**32**
Total loss provisions related to Guarantee Portfolio as at 31 December.	**63**	**133**	**63**	**133**

[1] BN Bank has previously entered into an agreement with SpareBank 1 SMN for the latter to take over the Bank's Ålesund portfolio. BN Bank now provides guarantees for NOK 135 million of the credit risk for the remaining portfolio (referred to as the Guarantee Portfolio) of NOK 221 million. The total provision for losses in the Guarantee Portfolio was NOK 63 million as at the end of 2014. 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, but the agreement period has been extended to 30.06.2015. 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	**2014**	**2013**	**2012**	**2011**	**2014**	**2013**	**2012**	**2011**
Gross principal	407	569	404	213	227	146	117	73
Individual write-downs	143	75	3	40	27	7	3	14
Net principal	264	494	401	173	200	139	114	59

Other loans with individual write-downs as at 31 December

	GROUP				PARENT BANK			
NOK MILLION	**2014**	**2013**	**2012**	**2011**	**2014**	**2013**	**2012**	**2011**
Gross principal	244	658	524	678	229	465	460	282
Individual write-downs	80	180	117	85	65	122	99	51
Net principal	164	478	407	593	164	343	361	231

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

GROUP

NOK MILLION	**GROSS OUTSTANDING 2014**	**%**	**GROSS OUTSTANDING 2013**	**%**	**GROSS OUTSTANDING 2012**	**%**
Corporate Market	341	1,82	504	2,33	341	1,36
Retail Market	66	0,77	65	0,85	63	0,77
Total	407	1,49	569	1,91	404	1,19

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

GROUP

NOK MILLION	**GROSS OUTSTANDING 2014**	**%**	**GROSS OUTSTANDING 2013**	**%**	**GROSS OUTSTANDING 2012**	**%**
Corporate Market	161	4,62	81	1,39	54	0,78
Retail Market	66	0,77	65	0,85	63	0,77
Total	227	1,89	146	1,05	117	0,75

NOTE 11. INTEREST AND SIMILAR INCOME

	GROUP		PARENT BANK	
NOK MILLION	**2014**	**2013**	**2014**	**2013**
Interest from financial instruments carried at amortised cost:				
Interest and similar income from loans to and balances due from credit institutions	27	42	368	42
Interest and similar income from receivables from subsidiaries	0	0	20	418
Interest and similar income from loans to and receivables from customers	1 170	1 288	511	585
Interest and similar income from certificates and bonds	39	49	39	42
Total interest from financial instruments carried at amortised cost	1 236	1 379	938	1 087
Interest from financial instruments selected for fair value carrying through profit or loss:				
Interest and similar income from loans to and receivables from customers	46	77	16	24
Interest and similar income from certificates and bonds	126	111	126	111
Total interest from financial instruments selected for fair value carrying through profit or loss	172	188	142	135
Total interest and similar income	1 408	1 567	1 080	1 222

NOTE 12. INTEREST EXPENSE AND SIMILAR CHARGES

	GROUP		PARENT BANK	
NOK MILLION	**2014**	**2013**	**2014**	**2013**
Interest expense for financial instruments carried at amortised cost:				
Interest and similar charges on liabilities to credit institutions	2	6	2	6
Interest and similar charges on customer deposits and accounts payable to customers	354	437	354	446
Interest and similar charges on securities issued	298	308	250	262
Interest and similar charges on subordinated loan capital	69	66	69	65
Other interest expense and similar charges	17	19	17	19
Total interest expense for financial instruments carried at amortised cost	740	836	692	798
Interest expense for financial instruments selected for fair value carrying through profit or loss:				
Interest and similar charges on customer deposits and accounts payable to customers	6	39	6	39
Interest and similar charges on securities issued	222	270	147	190
Interest and similar charges on subordinated loan capital	8	12	8	12
Total interest expense for financial instruments selected for fair value carrying through profit or loss	236	321	161	241
Total interest expense and similar charges	976	1 157	853	1 039

NOTE 13. OTHER OPERATING INCOME

	GROUP		PARENT BANK	
NOK MILLION	**2014**	**2013**	**2014**	**2013**
Guarantee commission	6	4	6	4
Commission income from SpareBank 1 Boligkreditt AS [1]	103	82	103	82
Commission income from SpareBank 1 Næringskreditt AS [2]	69	153	0	0
Net other commission income/expense	14	13	14	13
Total commission income and income from banking services	192	252	123	99
Commission charges on payment services and loan brokerage	-3	-18	-3	-18
Total commission charges and banking services expense	-3	-18	-3	-18
Net commission income / charges	189	234	120	81
Other operating income:				
Operating income real property	0	0	0	0
Miscellaneous operating income	12	8	12	8
Other operating income	12	8	12	8
Total other operating income	201	242	132	89

[1] For loans that have been transferred to SpareBank 1 Næringskreditt AS and SpareBank 1 Boligkreditt AS, BN Bank receives commission which is calculated as the interest on the loans less expenses incurred by SpareBank 1 Næringskreditt and SpareBank 1 Boligkreditt.

[2] From 2014 onwards, these costs will also include a premium for the capital that the owners have invested in Sparebank 1 Næringskreditt for the loans transferred by BN Bank. This premium is intended to ensure a return on capital after tax in SpareBank 1 Næringskreditt corresponding to 8 per cent. This involves a reduction in the commission received by BN Bank from SpareBank 1 Næringskreditt compared with last year.

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

	GROUP		PARENT BANK	
NOK MILLION	**2014**	**2013**	**2014**	**2013**
Change in value of interest rate derivatives obliged to be carried at fair value through profit or loss	-64	16	-61	17
Change in value of currency derivatives obliged to be carried at fair value through profit or loss [1]	-27	-4	-28	-4
Change in value combined interest rate and currency derivatives obliged to be carried at fair value through profit or loss [2]	0	0	0	0
Change in value equity-linked options and equity options obliged to be carried at fair value through profit or loss [1]	0	0	0	0
Total change in value of financial instruments obliged to be carried at fair value	-91	12	-89	13
Change in value of deposits selected for fair value carrying through profit or loss	0	21	0	21
Change in value of borrowings selected for fair value carrying through profit or loss	12	9	7	9
Change in value of loans selected for fair value carrying through profit or loss	6	-3	50	113
Change in value of short-term financial investments selected for fair value carrying [2]	77	11	77	11
Total change in value of financial instruments selected for fair value carrying	95	38	134	154
Change in value of interest rate derivatives, hedging [3]	179	-26	165	-25
Change in value of borrowings, hedged [3]	-179	26	-165	25
Total change in value of financial instruments for hedging	0	0	0	0
Total change in value of financial instruments carried at fair value	4	50	45	167
Realised exchange gains/losses(-) bonds and certificates carried at amortised cost [4]	-20	-16	-20	-12
Realised exchange gains/losses(-) borrowings and loans carried at amortised cost [4]	0	-1	1	-1
Realised gains/losses shares [5]	-1	0	-1	5
Exchange gains/losses on borrowings and loans carried at amortised cost [1]	31	8	-5	-105
Total change in value of financial instruments carried at fair value, gains and losses	14	41	20	54

[1] 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 in 2014. The annual effect for 2013 was a recognised income of NOK 4 million. Exposure to exchange rate fluctuations is low.

[2] Change in the value of financial investments selected for fair value carrying gave rise to a recognised income of NOK 77 million in 2014. The annual effect for 2013 was a recognised income of NOK 11 million

3 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 hedge instruments as at 31 December 2014 was positive by NOK 317 million. As at 31 December 2013, the values were positive in the amount of NOK 174 million.

4 Realised exchange gains/losses on bonds, certificates and borrowings carried at amortised cost gave rise to a recognised expense of NOK 20 million as of the end of the fourth quarter of 2014. The annual effect for 2013 was a recognised expense of NOK 17 million.

5 During the second quarter of 2014, shares owned by the Bank were written down by a total of NOK 0.5 million.

NOTE 15. SALARIES AND GENERAL ADMINISTRATIVE EXPENSES

	GROUP		PARENT BANK	
NOK MILLION	**2014**	**2013**	**2014**	**2013**
Salaries to employees and fees to elected officers	75	76	41	41
Performance-related pay [1]	0	0	0	0
Contracted labour	1	1	1	1
Net pension cost [2]	12	14	7	9
Payroll overhead	20	16	14	11
Salary and other personnel expenses	108	107	63	62
Computing costs	47	40	35	27
Postage and telephone	4	4	3	3
Office expenses	14	13	2	2
Travel expenses and entertainment	6	3	4	1
Marketing	14	9	12	7
General administrative expenses	85	69	56	40
Salaries and general administrative expenses	193	176	119	102
Number of full-time regular employees 31.12.	107	121	81	94
Number of part-time regular employees 31.12.	9	5	8	4
Number of temporary staff 31.12.	4	8	4	8
Number of full-time equivalents (FTEs) 31.12.	110	111	83	83
Average number of FTEs during the year	112	113	85	86

[1] BN Bank has a performance-related pay scheme in 2014. Performance-related pay is triggered if returns exceed a given level. The scheme covers all employees except for Group Executive Management. The criteria for performance-related pay were not met in 2014 and the cost was NOK 0, excluding employer's national insurance contributions for the Group. The criteria for performance-related pay were not met in 2013 either.

[2] See Note 17 for more information.

NOTE 16. OTHER OPERATING EXPENSES

	GROUP		PARENT BANK	
NOK MILLION	**2014**	**2013**	**2014**	**2013**
Operating expenses, real property	12	12	8	7
Miscellaneous operating expenses	12	15	9	11
Other operating expenses	24	27	17	18

NOTE 17. 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 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 2014. 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.

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:

%	2014	2013
Discount rate [1]	2.7	4.0
Expected pay adjustments (salary curve)	3.9	3.9
Expected adjustment of current pensions	0.1	0.5
Expected adjustment of national insurance basic amount (G)	3.0	3.5
Expected return on pension assets	2.7	4.0
Voluntary exit for employees aged under 50	2.5	2.5
Voluntary exit for employees aged over 50	0.0	0.0
Demographic disability assumptions	I73	I73
Demographic mortality assumptions	GAP07	GAP07

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.

Composition of net pension cost

	GROUP		PARENT BANK	
NOK MILLION	**2014**	**2013**	**2014**	**2013**
Present value of the year's pension contributions, group schemes	4	6	3	4
Present value of the year's pension contributions, unsecured schemes	3	3	2	2
Interest expense on accrued pension commitments, group schemes	3	3	2	2
Interest expense on accrued pension commitments, unsecured schemes	1	1	1	1
Costs of administering pension scheme	1	1	1	1
Expected return on pension assets	-3	-3	-2	-2
Accrued employer's contributions	1	1	1	1
Net pension cost, secured and unsecured schemes	10	12	7	8
Defined contribution schemes	3	2	2	1
Net pension cost	13	14	9	9

Movements in pension commitment

	GROUP		PARENT BANK	
NOK MILLION	**2014**	**2013**	**2014**	**2013**
Net commitments as at 1 January	30	48	19	31
Actuarial commitments and losses carried in other comprehensive income	1	-18	1	-12
Net pension cost	10	12	6	8
The company's contribution	-10	-9	-6	-6
Payments via operations	-3	-3	-2	-2
Net pension commitment as at 31 December	28	30	18	19

Specification of net recognised defined benefit pension commitment

	GROUP		PARENT BANK	
NOK MILLION	**2014**	**2013**	**2014**	**2013**
Present value of contributory pension commitment for defined benefit plans in secured schemes	106	86	68	55
Fair value of pension assets	-106	-81	-68	-52
Net pension commitment for defined benefit plans in secured schemes	0	5	0	3
Present value of contributory pension commitment for defined benefit plans in unsecured schemes	28	25	18	16
Net pension commitment recognised in the balance sheet	28	30	18	19

Movements in defined benefit pension commitment - Secured scheme

	GROUP		PARENT BANK	
NOK MILLION	**2014**	**2013**	**2014**	**2013**
Gross pension commitment as at 1 January	86	100	55	64
Present value of pension contributions	4	6	3	4
Interest expense	4	4	3	3
Actuarial losses (gains) on the commitment	14	-22	9	-14
Benefits paid out	-2	-2	-1	-1
Gross pension commitment as at 31 December	106	86	68	55

Movements in defined benefit pension commitment - Unsecured scheme

	GROUP		PARENT BANK	
NOK MILLION	**2014**	**2013**	**2014**	**2013**
Gross pension commitment as at 1 January	26	24	17	15
Present value of pension contributions	0	1	0	1
Interest expense	1	1	1	1
Actuarial losses (gains) on the commitment	2	1	1	1
Cost of prior-period pension contributions	3	2	2	1
Benefits paid out	-2	-2	-1	-1
Gross pension commitment as at 31 December	30	27	19	17
Total pension commitments, secured and unsecured schemes as at 1 January	112	124	72	79
Total pension commitment, secured and unsecured schemes as at 31 December	135	112	87	72

Movements in fair value of pension assets - Secured scheme

	GROUP		PARENT BANK	
NOK MILLION	**2014**	**2013**	**2014**	**2013**
Fair value of financial instruments as at 1 January	81	76	51.84	49
Expected return on pension assets	3	3	1.92	2
Actuarial losses (gains) on pension assets	15	-3	9.60	-2
Total contribution	9	7	5.76	4
Benefits paid out	-2	-2	-1.28	-1
Fair value of pension assets as at 31 December	**106**	**81**	**68**	**52**

Pension scheme members

	GROUP		PARENT BANK	
NOK MILLION	**2014**	**2013**	**2014**	**2013**
Economically active members in the defined benefit scheme	80	87	51	56
Economically active members in the defined contribution scheme	37	40	24	26
Pensioners and disabled members	25	24	16	15
Total number of persons in the pension schemes	**142**	**151**	**91**	**97**

The expected premium payments to the defined benefit pension scheme in 2015 are NOK 9 million for the Group and NOK 6 million for the Parent Bank.

Investment of pension assets as at 31 December

				GROUP
NOK MILLION	**2014 AMOUNT**	**%**	**2013 AMOUNT**	**%**
Equity instruments	13	11.9	10	12.8
Debt instruments	73	69.3	55	67.9
Real property	18	17.4	15	18.7
Other investments	1	1.4	0	0.6
Total pension assets	**106**	**100.0**	**81**	**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	2014	2013	2012	2011	2010	2009	2008
Present value of pension contributions	135	112	118	132	125	97	112
Fair value of pension assets	106	81	76	70	64	51	63
Deficit/(surplus)	-29	-31	-42	-62	-61	-46	-49
Experience-based adjustments to pension commitments	19	-19	-22	0	20	-29	-18
Experience-based adjustments to pension assets	15	-3	-4	0	3	-20	-14

PARENT BANK

NOK MILLION	2014	2013	2012	2011	2010	2009	2008
Present value of pension contributions	87	72	76	84	80	62	71
Fair value of pension assets	68	52	49	45	41	33	40
Deficit/(surplus)	-19	-20	-27	-39	-39	-29	-31
Experience-based adjustments to pension commitments	12	-12	-14	0	12	-19	-12
Experience-based adjustments to pension assets	10	-2	-3	0	2	-13	-9

Sensitivity analysis for pension calculation

The sensitivity analysis is based on facts and circumstances as at 31 December 2014, 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)	-15%	19%	4.5%	-4.2%	5.8%
Net pension cost for the period	-19%	25%	8.0%	-7.3%	5.7%

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.

NOTE 18. TAX

Computation of tax payable

	GROUP		PARENT BANK	
NOK MILLION	**2014**	**2013**	**2014**	**2013**
Profit before tax	386	349	360	292
Permanent profit and loss differences:				
Income from ownership interests in group companies	0	0	-167	-118
Non-deductible expenses	5	1	5	1
Non-taxable income	-12	-7	-12	-12
Changes in temporary profit and loss differences relating to:				
Current assets/short-term liabilities	24	-4	-12	-16
Fixed assets/long-term liabilities	79	-209	7	-238
Other items recognised in other comprehensive income:				
Actuarial gains/losses, pensions	0	11	1	7
Taxable income	482	141	183	-84
Tax payable (27 %)	130	39	49	0
28 % of the proposed group contribution for the year over and above the fiscal deficit	0	0	0	23
Pre-assessed tax upon liquidation of BN Boligkreditt	0	-2	0	0
Tax payable in the balance sheet	130	37	49	23

The Parent Bank recorded a taxable profit in 2014. The Parent Bank had tax payable totalling NOK 49 million in 2014. The subsidiary BNkreditt had tax payable totalling NOK 81 million in 2014.

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.

	GROUP		PARENT BANK	
NOK MILLION	**2014**	**2013**	**2014**	**2013**
Tax payable	130	39	48	0
Tax effect of group contribution	0	0	47	0
Change in deferred tax	-28	58	1	43
Tax charge	102	97	96	43

Reconciliation from nominal to actual tax rate (27 %)

	GROUP		PARENT BANK	
NOK MILLION	**2014**	**2013**	**2014**	**2013**
Profit before tax	386	349	360	292
Expected income tax at nominal rate (27 %)	104	98	96	82
Income tax effect of permanent differences	-2	-3	-1	-38
Tax effect of items recognised in other comprehensive income	0	3	0	2
Change in deferred tax/deferred tax asset from 28 % to 27 %	0	-1	0	-3
Tax charge	102	97	96	43
Effective tax rate	27 %	28 %	27 %	15 %

Computation of deferred tax/deferred tax assets

	GROUP		PARENT BANK	
NOK MILLION	**2014**	**2013**	**2014**	**2013**
Tax-adding temporary differences:				
Profit and loss account	3	4	0	0
Short-term securities investments [1]	112	80	80	69
Long-term investments [1]	128	42	531	418
Total tax-adding temporary differences	243	126	611	487
Tax-deducting temporary differences:				
Building and other fixed assets	6	8	6	8
Short-term liabilities [1]	61	0	4	84
Long-term liabilities [1]	181	20	170	52
Net pension commitment	28	30	18	19
Total tax-deducting temporary differences	276	58	198	163
Tax base for computing deferred tax (+)/deferred tax assets (-)	-33	68	413	324
Computed deferred tax (+)/deferred tax assets (-)	-9	19	112	87

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

	GROUP		PARENT BANK	
NOK MILLION	**2014**	**2013**	**2014**	**2013**
Deferred tax (+)/deferred tax assets (-) as at 1 January	19	-43	64	42
Change in deferred tax in income statement	-28	58	1	43
Tax effect of group contribution	0	0	47	-23
Change in deferred tax on items recognised in other comprehensive income	0	4	0	2
Deferred tax (+)/deferred tax assets (-) as at 31 December	-9	19	112	64

[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 19. FINANCIAL INSTRUMENTS ACCORDING TO CATEGORY

No allocations had been made as at 31 December 2014

GROUP

NOK MILLION	FAIR VALUE	DERIVATES AT FAIR VALUE EARMARKED FOR HEDGING	VOLUNTARILY CARRIED AT FAIR VALUE	AVAILABLE FOR SALE	LOANS RECEIVABLES AND OTHER OBLIGATIONS AT AMORT. COST	HEDGING AT AMORTISED COST	TOTAL
Subordinated loans	0	0	0	0	0	0	0
Loans and advances	0	0	625	0	26 529	0	27 154
Prepayments and accrued income	0	0	0	0	16	0	16
Interest rate derivatives	368	382	0	0	0	0	750
Currency derivatives	17	0	0	0	0	0	17
Short-term securities investments	0	0	4 696	456	1 153	0	6 305
Cash and balances due from credit institutions	0	0	0	0	1 486	0	1 486
Assets classified as held for sale	0	0	0	0	29	0	29
Total financial instruments, assets	385	382	5 321	456	29 213	0	35 757
Subordinated loan capital	0	0	0	0	-1 205	0	-1 205
Liabilities to credit institutions	0	0	0	0	-2	0	-2
Debt securities in issue	0	0	-1 357	0	-9 541	-4 751	-15 649
Accrued expense and deferred income	0	0	0	0	-63	0	-63
Other current liabilities	0	0	0	0	-10	0	-10
Interest rate derivatives	-487	-65	0	0	0	0	-552
Currency derivatives	-44	0	0	0	0	0	-44
Customer deposits & accounts payable to customers	0	0	-323	0	-14 119	0	-14 442
Total financial instruments, liabilities	-531	-65	-1 680	0	-24 940	-4 751	-31 967

No allocations had been made as at 31 December 2013

GROUP

NOK MILLION	FAIR VALUE	DERIVATES AT FAIR VALUE EARMARKED FOR HEDGING	VOLUNTARILY CARRIED AT FAIR VALUE	AVAILABLE FOR SALE	LOANS RECEIVABLES AND OTHER OBLIGATIONS AT AMORT. COST	HEDGING AT AMORTISED 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

No allocations had been made as at 31 December 2014

PARENT BANK

NOK MILLION	FAIR VALUE	DERIVATES AT FAIR VALUE EARMARKED FOR HEDGING	VOLUNTARILY CARRIED AT FAIR VALUE	AVAILABLE FOR SALE	LOANS RECEIVABLES AND OTHER OBLIGATIONS AT AMORT. COST	HEDGING AT AMORTISED COST	TOTAL
Subordinated loans	0	0	0	0	453	0	453
Loans and advances	0	0	300	0	11 672	0	11 972
Prepayments and accrued income	0	0	0	0	14	0	14
Interest rate derivatives	357	320	0	0	0	0	677
Currency derivatives	17	0	0	0	0	0	17
Short-term securities investments	0	0	4 696	456	1 153	0	6 305
Cash and balances due from credit institutions	0	0	0	0	10 232	0	10 232
Assets classified as held for sale	0	0	0	0	5	0	5
Total financial instruments, assets	**374**	**320**	**4 996**	**456**	**23 529**	**0**	**29 675**
Subordinated loan capital	0	0	0	0	-1 205	0	-1 205
Liabilities to credit institutions	0	0	0	0	-2	0	-2
Debt securities in issue	0	0	-556	0	-7 618	-4 175	-12 349
Accrued expense and deferred income	0	0	0	0	-63	0	-63
Other current liabilities	0	0	0	0	-10	0	-10
Interest rate derivatives	-464	-33	0	0	0	0	-497
Currency derivatives	-44	0	0	0	0	0	-44
Customer deposits & accounts payable to customers	0	0	-323	0	-14 127	0	-14 450
Total financial instruments, liabilities	**-508**	**-33**	**-879**	**0**	**-23 025**	**-4 175**	**-28 620**

Pr. 31. desember 2013

PARENT BANK

NOK MILLION	FAIR VALUE	DERIVATES AT FAIR VALUE EARMARKED FOR HEDGING	VOLUNTARILY CARRIED AT FAIR VALUE	AVAILABLE FOR SALE	LOANS RECEIVABLES AND OTHER OBLIGATIONS AT AMORT. COST	HEDGING AT AMORTISED 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**

NOTE 20. FAIR VALUE OF FINANCIAL INSTRUMENTS

Methods for 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 and bonds are measured at quoted prices where such are available and the securities are liquid. Other securities were valued using price estimates obtained from brokers. The values in the comparative figures for 2013 are partly based on a model which involves the discounting of expected future cash flows. The discount rate is determined using the NIBOR/Swap curve plus an appropriate credit margin. The credit margin is again based on estimates from brokers.

Loans and advances

For loans measured at fair value, the valuation is performed using a model where expected future cash flows are discounted to present values. The discount rate is determined using the NIBOR/Swap curve plus an appropriate credit margin which reflects the price of our own borrowing, and an additional premium equal to the original margin premium on the loan.

Borrowings selected for fair value carrying

Where borrowing/funding is measured at fair value, quoted borrowings will be measured at market prices where such are available and the securities are liquid. For other securities, the valuation was performed using price estimates obtained from brokers or using a model which involves the discounting of expected future cash flows. The discount rate is determined using the NIBOR/Swap curve plus an appropriate credit margin. The credit margin is based on estimates from brokers.

Hedged borrowing/funding

Borrowings included in value hedges are measured using a model which involves the discounting of expected future cash flows. The discount rate is determined using the NIBOR/Swap curve plus the original credit margin.

Deposits

For deposits measured at fair value, the valuation is performed using a model where expected future cash flows are discounted to present values. The discount rate is determined using the NIBOR/Swap curve plus an appropriate credit margin.

Shares

The shares primarily consist of the Bank's stake in SpareBank 1 Boligkreditt AS. The valuation of these shares is approximately equal to the capital that has been invested in these companies.

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 discount rate is determined using the NIBOR/Swap curve plus an appropriate credit margin.
- 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 2014

				GROUP
NOK MILLION	**LEVEL 1**	**LEVEL 2**	**LEVEL 3**	**TOTAL**
Loans and advances	0	0	625	625
Interest rate derivatives [1]	0	750	0	750
Currency derivatives	0	17	0	17
Short-term securities investments	604	4 093	456	5 153
Total assets	**604**	**4 860**	**1 081**	**6 545**
Debt securities in issue	0	-1 357	0	-1 357
Interest rate derivatives [1]	0	-553	0	-553
Currency derivatives	0	-44	0	-44
Customer deposits & accounts payable to customers	0	-323	0	-323
Total liabilities	**0**	**-2 276**	**0**	**-2 276**

[1] The value of the hedge instruments earmarked for fair value hedging as at 31 December 2014 was positive by NOK 317 million.

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 Parent Bank's assets and liabilities measured at fair value as at 31 December 2014

PARENT BANK

NOK MILLION	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Loans and advances	0	0	300	300
Interest rate derivatives [1]	0	677	0	677
Currency derivatives	0	17	0	17
Short-term securities investments	604	4 093	456	5 153
Total assets	**604**	**4 787**	**756**	**6 147**
Debt securities in issue	0	-556	0	-556
Interest rate derivatives [1]	0	-497	0	-497
Currency derivatives	0	-44	0	-44
Customer deposits & accounts payable to customers	0	-323	0	-323
Total liabilities	**0**	**-1 420**	**0**	**-1 420**

[1] The value of the hedge instruments earmarked for value hedging as at 31 December 2014 was NOK 286 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 Group's financial instruments measured at fair value, Level 3, as at 31 December 2014

GROUP

NOK MILLION	LOAN AND ADVANCES	SHORT-TERM SECURITIES INVESTMENTS	TOTAL
Opening balance	895	382	1 277
Investments in the period/new agreements	0	75	75
Matured	-276	0	-276
Net gains on financial instruments	6	-1	5
Closing balance	**625**	**456**	**1 081**
Of which, result for the period relating to financial instruments still on the balance sheet	10	0	10

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

GROUP

NOK MILLION	LOAN 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 Parent Bank's financial instruments measured at fair value, Level 3, as at 31 December 2014

PARENT BANK

NOK MILLION	LOAN AND ADVANCES	SHORT-TERM SECURITIES INVESTMENTS	TOTAL
Opening balance	416	382	798
Investments in the period/new agreements	0	75	75
Matured	-118	0	-118
Net gains on financial instruments	2	-1	1
Closing balance	**300**	**456**	**756**
Of which, result for the period relating to financial instruments still on the balance sheet	3	0	3

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

PARENT BANK

NOK MILLION	LOAN 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

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

	2014		2013	
NOK MILLION	**FAIR VALUE**	**RECOGNISED VALUE**	**FAIR VALUE**	**RECOGNISED VALUE**
Subordinated loans	0	0	1	1
Loans and advances	27 154	27 154	29 094	29 094
Prepayments and accrued income	16	16	58	58
Interest rate derivatives	750	750	606	606
Currency derivatives	17	17	16	16
Short-term securities investments	6 305	6 305	6 124	6 122
Cash and balances due from credit institutions	1 486	1 486	1 585	1 585
Assets classified as held for sale	29	29	0	0
Subordinated loan capital	-1 256	-1 205	-1 471	-1 459
Liabilities to credit institutions	-2	-2	-13	-13
Debt securities in issue	-15 823	-15 649	-16 671	-16 517
Accrued expense and deferred income	-63	-63	-133	-133
Other current liabilities	-10	-10	-10	-10
Interest rate derivatives	-552	-552	-472	-472
Currency derivatives	-44	-44	-15	-15
Customer deposits & accounts payable to customers	-14 442	-14 442	-15 169	-15 169
Total	3 566	3 791	3 530	3 694

PARENT BANK

	2014		2013	
NOK MILLION	**FAIR VALUE**	**RECOGNISED VALUE**	**FAIR VALUE**	**RECOGNISED VALUE**
Subordinated loans	455	453	453	452
Loans and advances	11 972	11 972	13 430	13 430
Prepayments and accrued income	14	14	56	56
Interest rate derivatives	677	677	527	527
Currency derivatives	17	17	16	16
Short-term securities investments	6 305	6 305	6 124	6 122
Cash and balances due from credit institutions	10 232	10 232	10 656	10 656
Assets classified as held for sale	5	5	0	0
Subordinated loan capital	-1 256	-1 205	-1 471	-1 459
Liabilities to credit institutions	-2	-2	-13	-13
Debt securities in issue	-12 501	-12 349	-13 196	-13 060
Accrued expense and deferred income	-63	-63	-133	-133
Other current liabilities	-10	-10	-10	-10
Interest rate derivatives [1]	-498	-498	-427	-427
Currency derivatives	-44	-44	-15	-15
Customer deposits & accounts payable to customers	-14 450	-14 450	-15 173	-15 173
Total	855	1 057	824	969

In connection with the calculation of fair value of certificates and bonds at amortised cost, we have used estimates of market prices from brokers. Treasury bills are recognised at the most recent bid price. Financial derivatives are carried in their entirety at fair value, and consequently no difference will be presented in the balance sheet between fair value and recognised value. In the comparative figures from 2013, the fair value of bonds and certificates at amortised cost has partly been calculated using a model where the cash flow of the security is discounted by the NIBOR/Swap interest rate plus a credit margin. The credit margin is again based on estimates from brokers.

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 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 discount rate is determined using the NIBOR/Swap curve plus an appropriate credit margin.
- 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 2014

GROUP

NOK MILLION	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Short-term securities investments	0	1 150	0	1 150
Total assets	**0**	**1 150**	**0**	**1 150**
Subordinated loan capital	0	-1 256	0	-1 256
Debt securities in issue	0	-9 715	0	-9 715
Total liabilities	**0**	**-10 971**	**0**	**-10 971**

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 Parent Bank's assets and liabilities measured at amortised cost as at 31 December 2014

PARENT BANK

NOK MILLION	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Subordinated loans	0	455	0	455
Short-term securities investments	0	1 150	0	1 150
Total assets	**0**	**1 605**	**0**	**1 150**
Subordinated loan capital	0	-1 256	0	-1 256
Debt securities in issue	0	-7 770	0	-7 770
Total liabilities	**0**	**-9 026**	**0**	**-9 026**

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**	**1 705**	**0**	**2 202**
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**

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

LOANS	GROUP		PARENT BANK	
NOK MILLION	**2014**	**2013**	**2014**	**2013**
Change in fair value during the period as a result of changed credit risk	7	28	4	11
Change in fair value accumulated as a result of changed credit risk	-8	-15	-2	-6

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	**2014**	**2013**	**2014**	**2013**
Change in fair value during the period as a result of changed credit risk	-10	-33	-3	-12
Change in fair value accumulated as a result of changed credit risk	5	15	0	3

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

	2014		2013	
NOK MILLION	**FAIR VALUE**	**PAYMENT OF OBLIGATION[2]**	**FAIR VALUE**	**PAYMENT OF OBLIGATION[2]**
Subordinated loan capital	1 256	1 208	1 459	1 458
Liabilities to credit institutions	2	2	13	13
Debt securities in issue	15 823	15 380	16 517	16 643
Customer deposits & accounts payable to customers	14 442	14 441	15 169	15 169
Total	31 523	31 031	33 158	33 283

Fair value and contractual payment obligations at maturity [1]

PARENT BANK

	2014		2013	
NOK MILLION	**FAIR VALUE**	**PAYMENT OF OBLIGATION[2]**	**FAIR VALUE**	**PAYMENT OF OBLIGATION[2]**
Subordinated loan capital	1 256	1 208	1 459	1 458
Liabilities to credit institutions	2	2	13	13
Debt securities in issue	12 501	12 127	13 060	13 131
Customer deposits & accounts payable to customers	14 450	14 449	15 173	15 173
Total	28 209	27 786	29 705	29 775

[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 33 and Debt securities in issue in Note 29.

NOTE 21. FINANCIAL DERIVATIVES

ASSETS	GROUP		PARENT BANK	
NOK MILLION	**2014**	**2013**	**2014**	**2013**
Interest rate derivatives	750	606	677	527
Currency derivatives	17	16	17	16
Total financial instruments, assets	767	622	694	543

OBLIGATIONS	GROUP		PARENT BANK	
NOK MILLION	**2014**	**2013**	**2014**	**2013**
Interest rate derivatives	552	472	497	427
Currency derivatives	44	15	44	15
Total financial instruments, assets	596	487	541	442

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

NOTE 22. 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 off-set 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 2014

	GROUP			PARENT BANK		
COUNTERPARTY	AMOUNT IN BALANCE SHEET	AMOUNT SUBJECT TO SETTLEMENT ON NET BASIS[1]	AMOUNT AFTER POSSIBLE NET SETTLEMENT	AMOUNT IN BALANCE SHEET	AMOUNT SUBJECT TO SETTLEMENT ON NET BASIS[1]	AMOUNT AFTER POSSIBLE NET SETTLEMENT
Counterparty 1	309	40	269	305	32	273
Counterparty 2	186	186	0	181	181	0
Counterparty 3	141	32	109	98	17	81
Counterparty 4	67	67	0	46	46	0
Counterparty 5	56	40	16	56	40	16
Counterparty 6	8	5	3	8	5	3
Total	**767**	**370**	**397**	**694**	**321**	**373**

Financial liabilities as at 31 December 2014

	GROUP			PARENT BANK		
COUNTERPARTY	AMOUNT IN BALANCE SHEET	AMOUNT SUBJECT TO SETTLEMENT ON NET BASIS[1]	AMOUNT AFTER POSSIBLE NET SETTLEMENT	AMOUNT IN BALANCE SHEET	AMOUNT SUBJECT TO SETTLEMENT ON NET BASIS[1]	AMOUNT AFTER POSSIBLE NET SETTLEMENT
Counterparty 1	40	40	0	32	32	0
Counterparty 2	389	186	203	385	181	204
Counterparty 3	32	32	0	17	17	0
Counterparty 4	90	67	23	62	46	16
Counterparty 5	40	40	0	40	40	0
Counterparty 6	5	5	0	5	5	0
Total	**596**	**370**	**226**	**541**	**321**	**220**

Financial assets as at 31 December 2013

	GROUP			PARENT BANK		
COUNTERPARTY	AMOUNT IN BALANCE SHEET	AMOUNT SUBJECT TO SETTLEMENT ON NET BASIS[1]	AMOUNT AFTER POSSIBLE NET SETTLEMENT	AMOUNT IN BALANCE SHEET	AMOUNT SUBJECT TO SETTLEMENT ON NET BASIS[1]	AMOUNT AFTER POSSIBLE NET SETTLEMENT
Counterparty 1	301	42	259	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**	**366**	**543**	**209**	**334**

Financial liabilities as at 31 December 2013

	GROUP			PARENT BANK		
COUNTERPARTY	**AMOUNT IN BALANCE SHEET**	**AMOUNT SUBJECT TO SETTLEMENT ON NET BASIS[1]**	**AMOUNT AFTER POSSIBLE NET SETTLEMENT**	**AMOUNT IN BALANCE SHEET**	**AMOUNT SUBJECT TO SETTLEMENT ON NET BASIS[1]**	**AMOUNT AFTER POSSIBLE 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

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

NOTE 23. SHORT-TERM SECURITIES INVESTMENTS

	GROUP		PARENTBANK	
NOK MILLION	**2014**	**2013**	**2014**	**2013**
Short-term investments available for sale:				
Shares	455	382	455	382
Total short-term investments available for sale	455	382	455	382
Short-term investments carried at amortised cost:				
Certificates and bonds issued by the Norwegian government	0	497	0	497
Certificates and bonds issued by others	1 153	1 253	1 153	1 253
Total short-term investments carried at amortised cost	1 153	1 750	1 153	1 750
Short-term investments carried at fair value through profit or loss:				
Certificates and bonds issued by the Norwegian government	604	56	604	56
Certificates and bonds issued by others	4 093	3 934	4 093	3 934
Total short-term investments carried at fair value through profit or loss	4 697	3 990	4 697	3 990
Short-term securities investments	6 305	6 122	6 305	6 122

NOTE 24. SUBORDINATED LOANS

	GROUP		PARENTBANK	
NOK MILLION	**2014**	**2013**	**2014**	**2013**
Subordinated loans carried at amortised cost				
Subordinated loans made to others	0	1	0	1
Subordinated loans made to subsidiaries	0	0	453	451
Total subordinated loans carried at amortised cost	**0**	**1**	**453**	**452**

NOTE 25. OWNERSHIP INTERESTS IN GROUP COMPANIES

Group companies

NOK MILLION	THE SUBSIDARY´S SHARE CAPITAL	STAKE [1]	BOOK VALUE IN PARENT 31.12.14	BOOK EQUITY IN SUBSIDARY 01.01.14	CAPITAL INCREASE ETC.	WRITE-DOWN	BOOK EQUITY IN SUBSIDARY 31.12.14	PROFIT FOR THE YEAR 2014	PROFIT FOR THE YEAR 2013
Bolig- og Næringskreditt AS, Trondheim	600	100 %	1 600	2 748	0	0	2 768	140	120
Collection Eiendom AS, Trondheim	4	100 %	5	0	5	0	5	0	0
Shares in subsidiaries			**1 605**	**2 748**	**5**	**0**	**2 773**		

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

For 2013, a group contribution of NOK 120 million was paid by Bolig- og Næringskreditt to the Parent Bank. For 2014, it is proposed to issue a dividend of NOK 140 million from Bolig- og Næringskreditt to the Parent Bank.

The Parent Bank received dividends from the subsidiaries in 2013 of NOK 118 million in total, and in 2014 received group contributions of NOK 120 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 2014, the Bank took over all of the shares in one company.

NOTE 26. INTANGIBLE ASSETS AND DEPRECIABLE ASSETS

GROUP AND PARENT BANK 2014

NOK MILLION	DEVELOPMENT IT SYSTEMS	INNTANG. ASSETS	MACHINERY, EQUIPMENT AND TRANSPORT MEANS	BUILDINGS, REAL PROPERTY	TANGIBLE FIXED ASSETS
Acquisition cost as at 01.01.2014	39	39	16	7	23
Acquisitions	8	8	0	0	0
Disposals at acquisition cost	0	0	0	0	0
Scrapping of fully depreciated fixed assets	0	0	0	0	0
Acquisition cost as at 31.12.2014	**47**	**47**	**16**	**7**	**23**
Acc. depreciation, amortisation and write-down as at 01.01.2014	31	31	10	0	10
Disposals	0	0	0	0	0
Write-downs for the year	0	0	0	0	0
Ordinary depreciation during the year	5	5	3	0	3
Acc. depreciation, amortisation and write-down as at 31.12.2014	**36**	**36**	**13**	**0**	**13**
Book value as at 31.12.2014	**11**	**11**	**3**	**7**	**10**

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

GROUP AND PARENT BANK 2013

NOK MILLION	DEVELOPMENT IT SYSTEMS	INNTANG. ASSETS	MACHINERY, EQUIPMENT AND TRANSPORT MEANS	BUILDINGS, REAL PROPERTY	TANGIBLE FIXED ASSETS
Acquisition cost as at 01.01.2013	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 31.12.13	**39**	**39**	**16**	**7**	**23**
Acc. depreciation, amortisation and write-down as at 01.01.2013	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
Acc. depreciation, amortisation and write-down as at 31.12.2013	**32**	**32**	**10**	**0**	**10**
Book value as at 31.12.2013	**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.

NOTE 27. REPOSSESSED PROPERTIES

Group:

At 31 December 2014, the company had no repossessed properties. As at 31 December 2013, the Group has repossessed property with a book value of NOK 3 million. The downturn is due to the realisation of repossessed property.

NOTE 28. CUSTOMER DEPOSITS & ACCOUNTS PAYABLE TO CUSTOMERS

	GROUP		PARENT BANK	
NOK MILLION	**2014**	**2013**	**2014**	**2013**
Customer deposits and accounts payable to customers carried at amortised cost:				
Customer deposits and accounts payable to customers without agreed maturity date	14 051	14 623	14 056	14 623
Customer deposits and accounts payable to customers with agreed maturity date	68	174	71	178
Customer deposits and accounts payable to customers carried at amortised cost	**14 119**	**14 797**	**14 127**	**14 801**
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	323	372	323	372
Customer deposits and accounts payable to customers selected for fair value carrying	**323**	**372**	**323**	**372**
Total customer deposits and accounts payable to customers	**14 442**	**15 169**	**14 450**	**15 173**

NOTE 29. DEBT SECURITIES IN ISSUE

Face values

	GROUP		PARENT BANK	
NOK MILLION	**2014**	**2013**	**2014**	**2013**
Face value of certificates	550	1 500	550	1 350
Net face value of certificates	**550**	**1 500**	**550**	**1 350**
Face value of bonds	14 996	15 049	11 779	11 846
Face value of own bonds	-306	-306	-306	-306
Net face value of bonds	**14 690**	**14 743**	**11 473**	**11 540**
Net face value of debt securities in issue	**15 240**	**16 243**	**12 023**	**12 890**

Recognised values

	GROUP		PARENT BANK	
NOK MILLION	**2014**	**2013**	**2014**	**2013**
Certificates selected for fair value carrying	556	1 519	556	1 367
Total recognised value of certificates	**556**	**1 519**	**556**	**1 367**
Bonds carried at amortised cost	9 541	9 739	7 618	8 208
Bonds carried at amortised cost (secured debt)	4 751	4 244	4 175	3 275
Bonds selected for fair value carrying	801	1 015	0	210
Total recognised value of bonds	**15 093**	**14 998**	**11 793**	**11 693**
Total recognised value of debt securities in issue	**15 649**	**16 517**	**12 349**	**13 060**

NOTE 30. LIABILITIES TO CREDIT INSTITUTIONS

	GROUP		PARENT BANK	
NOK MILLION	**2014**	**2013**	**2014**	**2013**
Liabilities to credit institutions carried at amortised cost				
Loans and deposits from credit institutions	2	13	2	13
Liabilities to credit institutions carried at amortised cost	2	13	2	13
Liabilities to credit institutions	2	13	2	13

NOTE 31. PREPAYMENTS AND ACCRUED INCOME

	GROUP		PARENT BANK	
NOK MILLION	**2014**	**2013**	**2014**	**2013**
Accrued unpaid income and prepaid non-accrued expenses	16	58	15	56
Prepayments and accrued income	16	58	15	56

NOTE 32. ACCRUED EXPENSES AND DEFERRED INCOME

	GROUP		PARENT BANK	
NOK MILLION	**2014**	**2013**	**2014**	**2013**
Accrued not due expenses/payments received in advance of period	10	11	10	11
Provisions for obligations	11	13	11	13
Financial guarantees	63	133	63	133
Net pension liability (see note 17)	28	30	18	19
Accrued expense and deferred income	112	187	102	176

Provisions for obligations - Legal obligations

	GROUP		PARENT BANK	
NOK MILLION	**2014**	**2013**	**2014**	**2013**
Opening balance	13	17	13	17
New provisions during the period	11	12	11	12
Expenses recognised against provisions	-13	-13	-13	-15
Reversed, unutilised provisions	0	-3	0	-1
Closing balance	11	13	11	13

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

NOTE 33. SUBORDINATED LOAN CAPITAL

Subordinated loans carried at amortised cost

	2014		2013				GROUP AND PARENT BANK	
ISIN-NUMMER	RECOGNISED VALUE AS AT 31.12.14 [4]	NOMINAL (NOK MILLION)	RECOGNISED VALUE AS AT 31.12.13 [4]	NOMINAL (NOK MILLION)	CURRENCY	MATURITY	FIRST POSSIBLE REDEMPTION	CHANGE IN MARGIN
1056663.1 [1]	499	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	
1070387.9 [3]	400	400	0	0	NOK	Perpetual	25.02.19	
1023144.2	0	0	84	85	NOK	Perpetual	17.09.14	17.09.14
1059357.7	0	0	398	400	NOK	Perpetual	22.06.14	22.12.20
Subordinated loans carried at amortised cost	1 198	1 200	1 280	1 285				

Subordinated loans carried at fair value through profit or loss:

	2014		2013				GROUP AND PARENT BANK	
ISIN-NUMMER	RECOGNISED VALUE AS AT 31.12.14 [4]	NOMINAL (NOK MILLION)	RECOGNISED VALUE AS AT 31.12.13 [4]	NOMINAL (NOK MILLION)	CURRENCY	MATURITY	FIRST POSSIBLE REDEMPTION	CHANGE IN MARGIN
1023143.4	0	0	165	165	NOK	Perpetual	25.08.14	25.08.14
Subordinated loans selected for fair value carrying	0	0	165	165				
Subordinated loan capital	1 198	1 200	1 445	1 450				

[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 4.39 per cent as at 31 December 2014. 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 4.59 per cent as at 31 December 2014. The loan is included in subordinated capital in its entirety; see Note 3.

[3] The Bank has one issue of a perpetual subordinated loan capital security as at 31 December 2014. The interest rate is set to the 3-month NIBOR plus 3.75 percentage points. No allocations had been made as at 31 December 2014, the interest rate was 5.42 per cent. 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 1 capital in its entirety or in part. Any redemption will require the consent of the Financial Supervisory Authority of Norway. The loan is included in tier 1 capital in its entirety; see Note 3.

[4] The figures excluded accrued interest

NOTE 34. MORTGAGES AND GUARANTEES AS AT 31 DECEMBER

	GROUP		PARENT BANK	
NOK MILLION	**2014**	**2013**	**2014**	**2013**
Mortgages				
Book value of securities as collateral for day-to-day loans	3 369	3 306	3 369	3 306
Collateral provided in bonds for credit facility from Norges Bank	3 369	3 306	3 369	3 306
Day-to-day loans from Norges Bank	0	0	0	0
Guarantees				
Contractual guarantees	34	105	34	243
Payment guarantees	15	4	15	4
Guarantee given to SpareBank 1 Næringskreditt [1]	0	0	0	0
Guarantee given to SpareBank 1 SMN [2]	1 635	1 251	1 635	1 251
Total guarantees	1 684	1 360	1 684	1 498

[1] See Note 9 for more information on the transfer of loans to SpareBank 1 Næringskreditt.

[2] Of this amount, NOK 250 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 2013. No allocations had been made as at 31 December 2014, NOK 135 relates to a guarantee concerning credit risk relating to the divested portfolio.

NOTE 35. LOANS TO EMPLOYEES AND ELECTED REPRESENTATIVES

	GROUP		PARENT BANK	
NOK MILLION	**2014**	**2013**	**2014**	**2013**
Loans to employees as at 31 December	254 636	249 218	201 733	191 502
Loans to elected representatives as at 31 December	5 238	2 992	5 238	2 992
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.

NOTE 36. INFORMATION ABOUT RELATED PARTIES

BN Bank has entered into transactions with related parties as described in this note, and in Note 34. In addition, there are transactions with related parties such as subsidiaries; see Note 24. Transactions with subsidiaries are eliminated in the consolidated financial statements. BN Bank's shareholders are listed in Note 36. 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 34 and eliminated transactions within the BN Bank Group, there are no transactions or outstanding matters with related parties of significance.

Remuneration, loans and collateral to Managing Director, senior executives, elected officers and appointed auditor

Remuneration to Executive Management 2014

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 PREMIUMS PAID	TOTAL PAY AND REMUNE-RATION	LOANS AND SECURITY
Senior executives							
Gunnar Hovland, Managing Director [3, 5]	0	2 305 208	0	182 403	249 682	2 737 293	7 004 404
Svend Lund, Assistant Managing Director [3, 5]	0	2 083 813	0	212 798	305 863	2 602 474	2 845 258
Trond Søraas, Director of Accounts and Treasury [3, 5]	0	1 268 280	0	142 375	186 555	1 597 210	3 508 292
Herborg Aanestad, Director of Risk Management (on leave) [4, 5, 6]	0	863 035		63 311	59 676	986 022	4 468 391
Karoline Håseth Erlandsen, Acting Director of Risk Management [5, 6]	0	639 492	0	14 244	59 676	713 412	1 104 325
Eli Ystad, Director of Retail Market [3, 5]	0	1 339 718	0	171 720	101 842	1 613 280	5 160 393
Former senior executives							
Rune Rasmussen, Director of Risk Management [3, 5]	0	702 150	0	94 757	153 484	950 391	0
Board of Directors							
Finn Haugan, Chair	285 000	0	0	0	0	285 000	0
Tore Medhus, Vice Chair	225 000	0	0	0	0	225 000	0
Other board members	425 000	654 968	0	15 545	60 068	1 155 581	5 238 216
Former Board of Director members							
Other board members	520 000	0	0	0	0	520 000	0
Control Committee							
Members	450 000	0	0	0	0	450 000	0
Total	**1 905 000**	**9 856 664**	**0**	**897 153**	**1 176 846**	**13 835 663**	**29 329 279**

[1] See Note 15 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 2014 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 periodof 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 6 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 17 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 34).

[6] Took office during 2014.

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 2014 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, loans and collateral to Managing Director, senior executives, elected officers and appointed auditor

Remuneration to Executive Management 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 PREMIUMS PAID	TOTAL PAY AND REMUNE-RATION	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, Assistant 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 [3, 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 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 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 6 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 17 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 34).

Fees to auditor

	GROUP		PARENT BANK	
NOK THOUSAND	**2014**	**2013**	**2014**	**2013**
Fees to appointed auditor				
Ordinary audit fees for statutory audit [1]	994	1 182	850	920
Tax advice	31	101	30	58
Other attestation services	9	110	9	70
Fees for other assistance	108	231	108	230
Total fees paid to appointed Auditor (including VAT)	1 142	1 624	997	1 278

[1] During 2014, the BN Bank group changed its auditor. The note information includes remuneration paid to both the present and the former auditors.

Income, expenses, receivables and liabilities with related companies

		GROUP	
NOK MILLION		**2014**	**2013**
Interest income			
SpareBank 1 SMN	SpareBank 1 consortium	101	149
SpareBank 1 SR-Bank	SpareBank 1-Alliansen	0	0
SpareBank 1 Nord-Norge	SpareBank 1-Alliansen	0	0
Other income			
SpareBank 1 SMN	SpareBank 1 consortium	7	6
Interest expenses			
SpareBank 1 SMN	SpareBank 1 consortium	5	6
SpareBank 1 Nord-Norge	SpareBank 1 consortium	0	1
Receivables as at 31 December			
SpareBank 1 SMN	SpareBank 1 consortium	272	270
Liabilities as at 31 December			
SpareBank 1 SMN	SpareBank 1 consortium	3	7

Income, expenses, receivables and liabilities with related companies

		PARENT BANK	
NOK MILLION		**2014**	**2013**
Interest income			
Bolig- og Næringskreditt AS	Subsidiary	361	418
SpareBank 1 SMN	SpareBank 1 consortium	101	149
Other income			
Bolig- og Næringskreditt AS	Subsidiary	49	110
SpareBank 1 SMN	SpareBank 1 consortium	7	6
Interest expenses			
SpareBank 1 SMN	SpareBank 1 consortium	2	2
SpareBank 1 Nord-Norge	SpareBank 1 consortium	0	1
Receivables as at 31 December			
Bolig- og Næringskreditt AS	Subsidiary	9 204	9 748
SpareBank 1 SMN	SpareBank 1 consortium	272	270
Liabilities as at 31 December			
Collection Eiendom AS	Subsidiary	5	0

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	**2014**	**2013**	**2014**	**2013**
Nominal value of deducted loans risk-mitigated by SpareBank 1 Samspar	206	281	206	210
Nominal value of deducted loans risk-mitigated by SpareBank 1 SR-bank	267	272	122	125
Nominal value of deducted loans risk-mitigated by SpareBank 1 SMN	68	280	0	0
Nominal value of deducted loans risk-mitigated by related parties	**541**	**833**	**328**	**336**

NOTE 37. SHAREHOLDER STRUCTURE AND SHARE CAPITAL

Shareholders as at 31 December

	2014		2013	
NAME	**STAKE**	**NUMBER OG SHARES**	**STAKE**	**NUMBER OF SHARES**
SpareBank 1 SMN	33.0 %	4 658 389	33.0 %	4 658 389
SpareBank 1 SR-Bank	23.5 %	3 317 338	23.5 %	3 317 338
SpareBank 1 Nord-Norge	23.5 %	3 317 338	23.5 %	3 317 338
Samarbeidende Sparebanker Bankinvest AS	20.0 %	2 823 266	20.0 %	2 823 266
Total	**100 %**	**14 116 331**	**100 %**	**14 116 331**

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 2014

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 2014 Annual General Meeting of the Parent Bank also adopted the resolution to distribute a dividend of NOK 240 million.

NOTE 38. PROPOSED, NOT APPROVED DIVIDEND

	PARENT BANK	
NOK MILLION	**2014**	**2013**
Total proposed dividend	264	240
Proposed dividend per share	19	17
Number of shares	14 116 331	14 116 331

NOTE 39. 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. 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 judgement 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 judgement. BN Bank has found no grounds to change its standpoint and still takes the view that the cases the Bank is involved in are not comparable with the "Røeggen case". Statements from the Financial Appeal Board during the first quarter of 2014 have supported the Bank's view. All complaints concerning the products have been considered by the board and none of the complaints were upheld. This applies to complaints where the Bank has been a lender and where the Bank has been a lender and an issuer. As a result, the Bank has made no provision related to structured products in 2014.

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 2014	Q2 2014	Q3 2014	Q4 2014	YEAR 2014
Net income from interest and credit commissions	107	126	99	100	432
Total other operating income	57	75	49	33	215
Total other operating expense	58	56	56	54	224
Operating profit/(loss) before impairment losses	**106**	**145**	**92**	**79**	**423**
Impairment losses on loans and advances	5	21	-4	14	37
Profit before tax	**101**	**124**	**96**	**65**	**386**
Computed tax charge	27	31	27	18	102
Profit after tax continuing operations	74	93	69	47	284
Profit from activities "held for sale"	0	0	0	-3	-3
Profit including activities "held for sale"	**74**	**93**	**69**	**44**	**281**

Itemisation of the result GROUP

NOK MILLION	Q1 2013	Q2 2013	Q3 2013	Q4 2013	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 after tax	**30**	**81**	**93**	**48**	**252**

Itemisation of the result PARENT BANK

NOK MILLION	Q1 2014	Q2 2014	Q3 2014	Q4 2014	YEAR 2014
Net income from interest and credit commissions	54	73	49	51	227
Total other operating income	43	55	34	20	152
Total other operating expense	38	35	35	36	144
Operating profit/(loss) before impairment losses	**59**	**93**	**48**	**35**	**235**
Impairment losses on loans and advances	0	11	2	29	42
Income from ownership interests in group companies	0	167	0	0	167
Profit before tax	**59**	**249**	**46**	**6**	**360**
Computed tax charge	16	66	13	1	96
Profit after tax	**43**	**183**	**33**	**5**	**264**

Itemisation of the result PARENT BANK

NOK MILLION	Q1 2013	Q2 2013	Q3 2013	Q4 2014	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 after tax	**32**	**156**	**40**	**21**	**249**

NOTE 41. 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 and BNkreditt 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
Solveig Midtbø	SpareBank 1 Søre Sunnmøre
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	
Kurt Haugen	BN Bank, Oslo
Rolf Olav Grinde	BN Bank, Trondheim
Siv Merete Hagen	BN Bank, Trondheim
Terje Ottesen	BN Bank, Trondheim
Deputy representatives	
Ingrid Kåsbøl	BN Bank, Trondheim
Wenche Bach Haugen	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	Lawyer, Moss

Nominating Committee

MEMBERS	POSITION/RESIDENCE
Tore Haarberg, leder	CEO SpareBank 1 Gruppen AS
Gro Tveit, nestleder	Financial Director i SpareBank 1 SR-Bank ASA
Jan-Frode Janson	CEO SpareBank 1 Nord-Norge
Tom Skundberg [1]	Assistant Director, Corporate Market, 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
KPMG AS, c/o state-authorised auditor Sverre Einersen	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.
Rolf Eigil Bygdnes	CFO SpareBank 1 Nord-Norge. Elected for the first time in 2014. Term of office expires in 2016.
Odd Einar Folland	CEO direktør, SpareBank 1 Nordvest
Helene Jebsen Anker	Self-employed - consultant. Elected for the first time in 2009. Term of office expires in 2015.
Ella Skjørestad	Marketing Director, Sparebank 1 SR-Bank ASA. Elected for the first time in 2011. Term of office expires in 2016.
Tina Steinsvik Sund	Strategic Advicer in PayU. Elected for the first time in 2014. Term of office expires in 2016.
Jannike Lund	Finance consultant at BN Bank. Deputy member, employees' representative Elected for the first time in 2013. Term of office expires in 2016.
Deputy members	
Jan-Frode Janson	CEO, SpareBank 1 Nord-Norge
Inglen Haugland	Regional Director, SpareBank 1 SR-Bank ASA
Tom Skundberg (Employee representative)	Assistant Director, BN 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
Group management as at 31.12.2014			
Gunnar Hovland	3	Managing Director	
Svend Lund	20	Deputy Managing Director	Corporate
Trond Søraas	18	Director	Accounting and Finance
Karoline Håseth Erlandsen	4	Konst. Director	Risk Management and Compliance
Eli Ystad	2	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 35. 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 2014 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 2015

The Board of Directors in BN Bank ASA

Tore Medhus (Deputy Chair) | Rolf Eigil Bygdnes | Finn Haugan (Chairman) | Odd Einar Folland | Helene Jebsen Anker

Tina Steinsvik Sund | Jannike Lund (Employees´ Representative) | Ella Skjørestad | Gunnar Hovland (Managing Director)

KPMG AS
Fjordgata 68
N-7010 Trondheim

Telephone +47 04063
Fax +47 73 80 21 20
Internet www.kpmg.no
Enterprise 935 174 627 MVA

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 BN Bank ASA and the consolidated financial statements of BN Bank ASA and its subsidiaries. The parent company's and the consolidated financial statements comprise the balance sheet as at 31 December 2014, and the income statement and the statement of other comprehensive income, statement of changes in equity and cash flow statement 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 the financial statements in accordance with International Financial Reporting Standards as adopted by the 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.

Independent auditor's report 2014
BN Bank ASA

Opinion

In our opinion, the financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of BN Bank ASA and of BN Bank ASA and its subsidiaries as at 31 December 2014, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the 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 Accounting 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 the 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 2015
KPMG AS

Sverre Einersen
State Authorised Public Accountant (Norway)

[Translation has been made for information purposes only]

The Control Committee´s report for 2014

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 2015

Knut Ro (leder)	Rolf Røkke (nestleder)	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