

BN Bank ASA
INTERIM REPORT Q2 | 2015



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Financial Ratios

NOK MILLION	REFERENCE	GROUP		
		30.06.15	30.06.14	THE YEAR 2014
Summary of results				
Net income from interest and credit commissions		172	233	432
Total other operating income		94	132	215
Total income		266	365	647
Total other operating expense		117	114	224
Operating profit/(loss) before impairment losses		149	251	423
Impairment losses on loans and advances		9	26	37
Profit before tax		140	225	386
Computed tax charge		35	58	102
Profit after tax		105	167	284
Profit from operations under disposal		0	0	-3
Profit including discontinued operations		105	167	281
Profitability				
Return on equity	1	5.8 %	9.3 %	7.8 %
Net interest	2	0.96 %	1.26 %	1.18
Cost-income ratio	3	44.0 %	31.2 %	34.6 %
Cost-income ratio incl. equity surcharge and return on equity in SpareBank 1 Næringskreditt		38.3 %	26.0 %	28.2 %
Balance sheet figures				
Gross lending		28 358	28 631	27 407
Customer deposits		15 011	13 891	14 446
Deposit-to-loan ratio	4	52.9 %	48.5 %	52.7 %
Growth in lending (gross), last 12 months		-1.0 %	-11.1 %	-6.5 %
Growth in deposits, last 12 months		8.1 %	-15.1 %	-4.8 %
Average total assets (ATA)	5	35 806	36 894	36 644
Total assets		35 509	36 418	35 787
Balance sheet figures incl. SpareBank 1 Næringskreditt and SpareBank 1 Boligkreditt				
Gross lending		50 729	50 255	49 466
Customer deposits		15 011	13 891	14 446
Growth in lending (gross), last 12 months		0.9 %	1.0 %	-1.1 %
Growth in deposits, last 12 months		8.1 %	-15.1 %	-4.8 %
Deposit-to-loan ratio, managed		29.6 %	27.6 %	29.3 %
Impairment losses and defaults, Group				
Loss ratio lending	6	0.06 %	0.18 %	0.13 %
Non-performing loans as % of gross lending		1.22 %	1.28 %	1.49 %
Other doubtful commitments as % of gross lending	7	0.89 %	1.36 %	0.89 %
Impairment losses and defaults, incl. SpareBank 1 Næringskreditt and SpareBank 1 Boligkreditt				
Loss ratio lending	6	0.04 %	0.10 %	0.09 %
Non-performing loans as % of gross lending		0.68 %	0.73 %	0.82 %
Other doubtful commitments as % of gross lending	7	0.50 %	0.78 %	0.49 %
Solvency				
Capital adequacy ratio		19.80 %	18.31 %	19.7 %
Tier 1 capital ratio		16.46 %	15.78 %	16.4 %
Core tier 1 capital ratio		14.85 %	14.04 %	14.9 %
Tier 1 capital		3 525	3 615	3 527
Subordinated capital		4 241	4 194	4 224
Offices and staffing				
No. of offices		2	2	2
Number of full-time equivalents		110	114	112
Shares				
Earnings per share for the period (whole NOK)		7.44	11.83	19.91

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 is calculated as the average quarterly total assets during the current year
- 6) Net loss as a percentage of average gross lending to date this year
- 7) The figures disclosed include the Guarantee Portfolio

Report from the Board of Directors

Summary of Quarter 2 2015

The comparative figures in parentheses are for the first quarter of 2015.

- Net interest income amounted to NOK 90 million (NOK 82 million)
- Other operating income amounted to NOK 39 million (NOK 55 million)
- Profit after tax amounted to NOK 50 million (NOK 55 million)
- Profit after tax from core business was NOK 50 million (NOK 62 million)
- Other operating expense amounted to NOK 59 million (NOK 58 million)
- Costs constituted 46 per cent of total income (42 per cent)
- Return on equity after tax amounted to 5.6 per cent (6.0 per cent)
- Impairment losses on loans constituted an expense of NOK 2 million (NOK 7 million)

Summary as at 30 June 2015

The comparative figures in parentheses concern the corresponding period last year.

- Net interest income amounted to NOK 172 million (NOK 233 million)
- Other operating income amounted to NOK 94 million (NOK 132 million)
- Profit after tax amounted to NOK 105 million (NOK 167 million)
- Profit after tax from core business was NOK 112 million (NOK 166 million)
- Other operating expense amounted to NOK 117 million (NOK 114 million)
- Costs constituted 44 per cent of total income (31 per cent)
- Return on equity after tax amounted to 5.8 per cent (9.3 per cent)
- Return on equity after tax from core business was 6.2 per cent (9.5 per cent)
- The managed portfolio increased by NOK 474 million during the past 12 months (growth of NOK 509 million)
- The margin on loans measured against the 3-month NIBOR fell by 33 basis points during the past 12 months to 2.05 per cent (2.38 per cent)
- The deposit margin measured against the 3-month NIBOR rose by 27 basis points during the past 12 months to -0.65 per cent (-0.92 per cent)
- Impairment losses on loans constituted an expense of NOK 9 million (NOK 26 million)
- Capital adequacy ratio of 19.8 per cent (18.3 per cent)
- Tier 1 capital adequacy ratio of 16.5 per cent (15.8 per cent)
- Core tier 1 capital ratio of 14.9 per cent (14.0 per cent)

Results for Quarter 2 2015

The comparative figures in parentheses are for the first quarter of 2015.

During the second quarter of 2015, profit after tax was NOK 50 million (NOK 55 million). This gave an annualised return on equity of 5.6 per cent (6.0 per cent). Lower losses and higher net interest income had a positive effect, while lower other income had a negative impact. The first quarter included a dividend of NOK 11.3 million from Sparebank 1 Boligkreditt.

Total income was NOK 129 million during the second quarter of 2015 (NOK 137 million).

NOK MILLION	Q2 2015	Q1 2015	CHANGE
Total income	129	137	-8
Margin and volume effects deposits and loans			3
Commission income from SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt			-3
Late payment interest and net interest fees			2
Dividend from SpareBank 1 Boligkreditt			-11
Changes in value			-2
Other changes			3

During the second quarter, net interest income amounted to NOK 90 million (NOK 82 million). Lower lending margins had a negative effect, while higher deposit margins and a higher lending volume had a positive impact.

During the second quarter, other operating income excluding changes in value amounted to NOK 44 million (NOK 58 million). Commission income from SpareBank 1 Næringskreditt and SpareBank 1 Boligkreditt amounted to NOK 35 million (NOK 39 million). The commission is calculated as the interest on loans less costs incurred by SpareBank 1 Næringskreditt and SpareBank 1 Boligkreditt. In SpareBank 1 Næringskreditt, the costs also include a premium for the capital that the owners have invested on behalf of BN Bank ASA.

Operating expense for the second quarter of 2015 was NOK 59 million (NOK 58 million). Operating expense has remained low as a result of a focus on efficiency and costs. Other operating expense amounted to 46 per cent of total income during the second quarter of 2015 (42 per cent). Adjusted for revenue in SpareBank 1 Næringskreditt, costs amount to 38 per cent of income. BN Bank aims to be one of Norway's most cost-effective banks.

During the second quarter of 2015, NOK 2 million was expensed in respect of impairment losses on loans and advances (NOK 7 million). Individual and collective impairment losses on loans were distributed as follows:

NOK MILLION	INDIVIDUAL	COLLECTIVE	TOTAL
Corporate Market	0	-1	-1
Retail Market	1	2	3
Guarantee Portfolio	-1	1	0
Total	0	2	2

As at 30 June 2015

The comparative figures in parentheses apply as at 30 June 2014.

As at the second quarter of 2015, the BN Bank Group posted a profit after tax of NOK 105 million (NOK 167 million). This gives an annualised return on equity after tax of 5.8 per cent (9.3 per cent). Lower net interest income and changes in the value of financial instruments had a negative effect, while lower losses had a positive impact.

The Bank's core business, the result of the corporate and retail banking activities, saw a decrease in post-tax profit of NOK 54 million, from NOK 166 million during the second quarter of 2014 to NOK 112 million in the same period in 2015.

Income

Total income was NOK 266 million (NOK 365 million). The Bank's margin on lending in the managed portfolio measured against the 3-month NIBOR as of the second quarter of 2015 was 2.02 per cent (2.38 per cent).

The Bank's deposit margin measured against the 3-month NIBOR during the first half of 2015 was -0.65 per cent (-0.92 per cent).

Other operating expense for the first six months of 2015 was NOK 94 million (NOK 132 million). The key reasons behind the downturn are reduced commission income from SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt and changes in the value of assets and liabilities which are valued at fair value.

The Bank receives commission on loans that are transferred to SpareBank1 Boligkreditt AS and SpareBank1 Næringskreditt AS, which is calculated as the lending interest rate on the loans less costs incurred by the companies. From 2014 onwards, these costs also include a premium for the capital that the owners have invested in SpareBank1 Næringskreditt for the loans transferred by BN Bank. During the first six months of 2015, this equity surcharge came to NOK 39 million before tax (NOK 55 million).

Costs

Operating expenses amounted to NOK 117 million (NOK 114 million). Costs during the first six months of 2015 constituted 44 per cent of total income (31 per cent). Adjusted for earnings in SpareBank 1 Næringskreditt, the cost ratio is 36 per cent (26 per cent).

Losses on loans and non-performing loans

Net impairment losses on loans and guarantees totalled NOK 9 million (NOK 26 million).

Defaults in excess of 90 days amounted to 1.22 per cent of gross lending within the Group as at 30 June 2015 (1.28 per cent). With a deduction for individual write-downs, non-performing and doubtful loans amounted to NOK 370 million (NOK 512 million) at the end of the first half of 2015, equivalent to 1.30 per cent (1.79 per cent) of gross lending within the Group and the Guarantee Portfolio. See Note 6 for more information.

Impairment losses during the first six months of 2015 were distributed as follows:

NOK MILLION	INDIVIDUAL	COLLECTIVE	TOTAL
Corporate Market	-1	-3	-4
Retail Market	0	3	3
Guarantee Portfolio	8	2	10
Total	7	2	9

Loan loss provisions within the core business amounted to NOK 217 million at the end of the second quarter of 2015 (NOK 229 million). Of this figure, individual write-downs account for NOK 163 million (NOK 170 million) and collective write-downs NOK 54 million (NOK 59 million). Total loan loss provisions as at the end of the second quarter of 2015 were distributed as follows:

	LOAN LOSS PROVISIONS (NOK MILLION)	% OF GROSS LENDING, GROUP
Corporate Market	201	1.12
Retail Market	16	0.18

BN Bank has previously entered into an agreement with SpareBank1 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 220 million. The total provision for losses in the Guarantee Portfolio was NOK 73 million as at the end of the second quarter of 2015.

Balance sheet developments and capital

Gross managed lending¹ has increased by NOK 0.5 billion, or 1.0 per cent, in the past 12 months. Gross managed loans totalled NOK 50.7 billion at the end of the second quarter of 2015 (NOK 50.3 billion).

NOK BILLION	30.06.15	30.06.14
Gross lending	50.7	50.3
Change last 12 months	0.4	0.5

¹ Gross managed lending is the sum total of corporate and retail lending in BN Bank, SpareBank 1 Næringskreditt and SpareBank 1 Boligkreditt.

Gross managed lending had the following segmental exposure:

NOK BILLION	30.06.15	30.06.14
Retail Market	18.6	16.9
Corporate Market	32.1	33.4

The lending volume in the corporate market fell by NOK 1.3 billion, or -3.9 per cent, in the past 12 months. The lending volume in the retail market rose by NOK 1.7 billion, or 10.0 per cent, during the same period.

The deposit volume rose by NOK 1.1 billion, or 8.1 per cent. Total deposits amounted to NOK 15.0 billion at the end of the second quarter (NOK 13.9 billion). The deposit-to-loan ratio was 53 per cent at the end of the second quarter, an increase of 4 percentage point during the past 12 months.

To date in 2015, the Bank has issued certificates and bonds totalling NOK 2.2 billion (NOK 2.8 billion) in the Norwegian bond market. BN Bank has a conservative liquidity strategy. BN Bank has established a goal of being able to manage without access to new external financing sources for a period of 12 months. At the end of the second quarter of 2015, the Bank met this goal. BN Bank's liquidity portfolio amounted to NOK 6.3 billion (NOK 6.6 billion) at the end of the second quarter of 2015.

At the end of the first quarter of 2015, loans worth NOK 12.7 billion (NOK 12.8 billion) had been transferred to SpareBank 2 Næringskreditt, while loans amounting to NOK 9.6 billion (NOK 8.8 billion) had been transferred to SpareBank 1 Boligkreditt. In total, the Bank has transferred 40 per cent (38 per cent) of loans for commercial property and 52 per cent (52 per cent) of residential mortgage loans to these two companies. During the past 12 months, the Bank has transferred net amounts of NOK -0.1 billion (NOK 1.9 billion) and NOK 0.8 billion (NOK 2.2 billion) to SpareBank 1 Næringskreditt and SpareBank 1 Boligkreditt respectively.

The Bank's total assets amounted to NOK 35.5 billion as at 30 June 2015 (NOK 36.4 billion). Including loans transferred to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt, total assets amounted to NOK 57.9 billion (NOK 58.0 billion).

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

FIGURES AS %	30.06.15	30.06.14
Capital adequacy ratio	19.8	18.3
Tier 1 capital ratio	16.5	15.8
Core tier 1 capital ratio	14.9	14.0

Starting in the second quarter of 2014, the Bank began reporting in accordance with the advanced IRB method for corporate engagement, and in June 2015 the Bank was also given permission to use the IRB method for the residential mortgage portfolio.

The Board of Directors has adopted a provisional capital plan for BN Bank ASA as of the end of 2017 to 1 percent above the applicable regulatory minimum requirement plus regulatory buffers, however, minimum 13 percent. See Note 13 for further details concerning capital adequacy ratio and solvency.

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

Subsidiaries

The BN Bank Group comprises BN Bank ASA, the credit institution Bolig- og Næringskreditt AS (BNkreditt) and property 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)

BNkreditt provides low-risk mortgage loans on commercial real property. As at 30 June 2015, the company had a gross lending portfolio of NOK 15.9 billion, compared with NOK 16.9 billion as at 30 June 2014. As at 30 June 2015, a loan portfolio of NOK 12.7 billion had been transferred to SpareBank 1 Næringskreditt.

Profit after tax amounted to NOK 55 million at the end of the second quarter of 2015, compared with a post-tax profit of NOK 61 million during the same period in 2014. The principal reason behind the change is lower net interest income and lower commission income.

Impairment losses on loans and advances totalled NOK 8 million at the end of the second quarter of 2015, compared with NOK 16 million in the same period in 2014. Collective write-downs increased by NOK 10 million during the first six months of 2015 and amount to NOK 32 million, BNkreditt had NOK 2.7 billion in bond debt outstanding at the end of the second quarter of 2015, compared with NOK 3.5 billion at the end of the second quarter of 2014.

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 24.3 per percent, while the tier 2 capital ratio was 20.7 per cent at the end of the first quarter of 2015. The amount BN Bank is ceding precedence for in relation to guarantees was NOK 0 million as at the second quarter of 2015.

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 at the end of the second quarter of 2015 (NOK 0 million).

Outlook

The Board of Directors of BN Bank ASA has decided to streamline the Bank as a retail market bank and wind-up the corporate market business which consists of loans for commercial property.

BN Bank's corporate market activities have been aimed at the financing of well secured commercial property engagements, and the corporate market has historically been an important area for BN Bank. However, special Norwegian capital adequacy rules mean that the return on equity in this low-risk segment will be relatively low. There is also no prospect of the Norwegian capital adequacy rules being changed. Profitability will therefore be too low if prices are set by stakeholders with other framework conditions.

Behind the decision also lies a desire to develop the retail market further by streamlining BN Bank into an aggressive bank for customers who prefer a self-service concept and favourable interest rates over time.

In recent years, the Bank has built up a substantial retail market business with satisfactory profitability. The Board of Directors of BN Bank sees considerable potential for development in this business and will direct all its energy at the retail market. The Bank is aiming to generate increased growth and greater profitability within this segment.

The Bank's operating expenses are on a par with the previous quarter and the underlying trend in costs is in line with the Board of Directors' plans. The decision to discontinue the corporate market business does not alter the Bank's ambition of being extremely cost-effective in its segment.

The Bank's liquidity and solvency situation is good and the Board believes that the Bank is well-equipped to meet a variety of market scenarios. BN Bank is part of the SpareBank 1 Alliance. The current owners (SpareBank 1 SMN, SpareBank 1 SR-Bank, SpareBank 1 Nord-Norge and Samspar) will continue their ownership in BN Bank and help to ensure that the winding-up of the corporate market business is carried out in a way which safeguards the interests of employees, customers and creditors in the best possible way.

Starting in the second quarter of 2014, the Bank has been given permission to use the advanced IRB method for corporate engagement, and in June 2015 the Bank was also given permission to use the IRB method for the residential mortgage portfolio. The Board of Directors has adopted a target 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, subject to a minimum of 13 percent. At the end of the first quarter, the Group's core tier 2 capital ratio exceeds the objective.

Trondheim, 10 August 2015

The Board of Directors of BN Bank ASA

Tore Medhus
(Deputy Chair)

Rolf Eigil Bygdnes

Finn Haugan
(Chair)

Per Halvorsen

Helene Jebsen Anker

Tina Steinsvik Sund

Jannike Lund
(Employee representative)

Ella Skjørestad

Gunnar Hovland
(Managing Director)

Income Statement

NOK MILLION	NOTE	GROUP				
		Q2 2015	Q2 2014	30.06.2015	30.06.2014	YEAR 2014
Interest and similar income		279	373	570	730	1 408
Interest expense and similar charges		189	247	398	497	976
Net income from interest and credit commissions		90	126	172	233	432
Change in value of financial instruments carried at fair value, gains and losses	3, 4	-5	12	-8	20	14
Other operating income	5	44	63	102	112	201
Total other operating income		39	75	94	132	215
Salaries and general administrative expenses		50	47	99	97	193
Ordinary depreciation, amortisation and write-downs		2	2	4	4	8
Other operating expenses		7	7	16	13	24
Other gains and losses		0	0	-2	0	-1
Total other operating expense		59	56	117	114	224
Operating profit/(loss) before impairment losses		70	145	149	251	423
Impairment losses on loans and advances	6	2	21	9	26	37
Profit before tax		68	124	140	225	386
Tax charge		18	31	35	58	102
Profit after tax continuing operations		50	93	105	167	284
Profit from operations under disposal		0	0	0	0	-3
Profit including discontinued operations		50	93	105	167	281
Statement of Other Comprehensive Income						
<i>Items that will not be reclassified subsequently to profit or loss</i>						
Actuarial gains (losses) on pension plans		0	0	0	0	-1
Tax		0	0	0	0	0
Other comprehensive income (net of tax)		0	0	0	0	-1
Total comprehensive income		50	93	105	167	280

Balance Sheet

NOK MILLION	NOTE	GROUP		
		30.06.15	30.06.14	31.12.14
Deferred tax assets		9	0	9
Intangible assets		12	8	11
Tangible fixed assets		9	12	10
Repossessed properties		6	7	0
Loans and advances	4, 6, 7, 8, 9, 11, 13	28 110	28 401	27 154
Prepayments and accrued income	11	10	191	16
Financial derivatives	4, 11, 12	536	610	767
Short-term securities investments	4, 11	6 254	6 638	6 305
Cash and balances due from credit institutions	11	534	551	1 486
Assets classified as held for sale		29	0	29
Total assets		35 509	36 418	35 787
Share capital		706	706	706
Share premium		415	415	415
Other equity		2 361	2 407	2 520
Total equity		3 482	3 528	3 641
Deferred tax		0	19	0
Subordinated loan capital	4, 10, 11	1 202	1 661	1 205
Liabilities to credit institutions	11	106	79	2
Debt securities in issue	4, 10, 11	14 958	16 546	15 649
Accrued expense and deferred income	6, 11	157	143	112
Other current liabilities	11	96	24	10
Tax payable		94	58	130
Financial derivatives	4, 11, 12	403	469	596
Customer deposits & accounts payable to customers	4, 11	15 011	13 891	14 442
Total liabilities		32 027	32 890	32 146
Total liabilities and equity		35 509	36 418	35 787

Trondheim, 10 August 2015
The Board of Directors of BN Bank ASA

Tore Medhus
(Deputy Chair)

Rolf Eigil Bygdnes

Finn Haugan
(Chair)

Per Halvorsen

Helene Jebsen Anker

Tina Steinsvik Sund

Jannike Lund
(Employee representative)

Ella Skjørestad

Gunnar Hovland
(Managing Director)

Change in Equity

NOK MILLION	GROUP			
	SHARE CAPITAL	SHARE PREMIUM	OTHER EQUITY	TOTAL EQUITY
Balance Sheet as at 01.01.2014	706	415	2 480	3 601
Net income for the period	0	0	167	167
Dividend paid	0	0	-246	-246
Balance Sheet as at 30.06.2014	706	415	2 407	3 528
Net income for the period	0	0	207	207
Actuarial gains (losses) on pensions (net of tax)	0	0	-1	-1
Balance Sheet as at 31.12.2014	706	415	2 520	3 641
Net income for the period	0	0	105	105
Actuarial gains (losses) on pensions (net of tax)	0	0	0	0
Dividend paid	0	0	-264	-264
Balance Sheet as at 30.06.2015	706	415	2 361	3 482

Cash Flow Analysis

	GROUP		
NOK MILLION	30.06.15	30.06.14	THE YEAR 2014
Cash flows from operating activities			
Interest/commission received and fees received from customers	600	761	1 445
Interest/commission paid and fees paid to customers	-44	-54	-382
Interest received on other investments	134	111	172
Interest paid on other loans	-275	-349	-652
Receipts/disbursements (-) on loans and advances to customers	-1 002	641	1 834
Receipts/disbursements on customer deposits and accounts payable to cust.	452	-1 333	-614
Receipts/disbursements (-) on liabilities to credit institutions	105	-16	-117
Receipts/disbursements (-) on issuing of securities	-586	-113	-926
Receipts on previously written-off debt	4	10	14
Other receipts/payments	103	12	-48
Payments to suppliers for goods and services	-66	-65	-130
Payments to employees, pensions and social security expenses	-55	-64	-95
Tax paid	-36	-37	-37
Net cash flow from operating activities	-666	-496	464
Cash flows from investing activities			
Receipts/payments (-) on receivables from credit institutions	1	2	46
Receipts/payments (-) on current securities investments	-15	-491	-114
Receipts/payments (-) on long-term securities investments	0	0	0
Proceeds from sale of operating assets, etc.	3	3	11
Purchases of operating assets, etc.	-11	-9	-16
Proceeds from sale of subsidiaries	0	0	0
Net cash flow from investing activities	-22	-495	-73
Cash flow from financing activities			
Receipts/payments (-) on subordinated loan capital	0	197	-250
Dividend paid	-264	-240	-240
Net cash flow from financing activities	-264	-43	-490
Net cash flow for the period	-952	-1 034	-99
Cash and balances due from credit institutions as at 1 January	1 486	1 585	1 585
Cash and balances due from credit institutions as at the end of the period	534	551	1 486

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NOTE 1. ACCOUNTING POLICIES

The interim financial statements have been prepared in accordance with IFRS, including IAS 34 on Interim Financial Reporting. A description of the accounting policies applied by the Group when preparing the interim financial statements is given in the annual report for 2014.

IFRIC 21

The fee paid to the Norwegian Banks' Guarantee Fund is normally levied on the basis of the average guaranteed deposit and the average calculation basis for previous quarters. No provisions have been established concerning whether withdrawal from the scheme will result in the repayment of overpaid fees. In practice, a pro rata charge upon registration has been levied. Given this practice and the need to ensure equal treatment, a pro rata charge upon withdrawal would also appear appropriate. The Ministry of Finance will decide on this through an individual decision. This is of significance as regards when the fee should be recognised in the financial statements. BN Bank has continued the previous practice of accruing the fee on a monthly basis.

BN Bank implemented IFRIC 21 with effect from 1 January 2015.

NOTE 2. INFORMATION ABOUT 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.

NOK MILLION	CM	RM	GUARANTEE PORTFOLIO SMN	TOTAL 30.06.15
Net income from interest and credit commissions	103	69	0	172
Change in value of financial instruments carried at fair value	5	3	0	-8
Other operating income	43	58	1	102
Total other operating income	38	55	1	94
Salaries and general administrative expenses	41	58	0	-99
Ordinary depreciation, amortisation and write-downs	2	2	0	-4
Other operating expenses	7	9	0	-16
Other gains and losses	0	2	0	2
Total other operating expense	50	67	0	-117
Operating profit/(loss) before impairment losses	91	57	1	149
Impairment losses on loans and advances	1	0	10	-9
Operating profit/(loss) after impairment losses	92	57	9	140
Computed tax charge	25	12	2	-35
Profit after tax continuing operations	67	45	7	105
Profit including discontinued operations	67	45	-7	105

NOK MILLION	CM	RM	GUARANTEE PORTFOLIO SMN	TOTAL 30.06.15
Loans (gross) inc. loans in OMF companies	32 081	18 648	0	50 729
Customer deposits & accounts payable to customers	981	14 030	0	15 011

NOK MILLION	CM	RM	GUARANTEE PORTFOLIO SMN	TOTAL 30.06.14
Net income from interest and credit commissions	174	59	0	233
Change in value of financial instruments carried at fair value	13	7	0	20
Other operating income	40	70	3	112
Total other operating income	53	76	3	132
Salaries and general administrative expenses	-43	-55		-97
Ordinary depreciation, amortisation and write-downs	-1	-2	0	-4
Other operating expenses	-6	-7	0	-13
Total other operating expense	-50	-64	0	-114
Operating profit/(loss) before impairment losses	177	71	3	251
Impairment losses on loans and advances	-17	-7	-2	-26
Operating profit/(loss) after impairment losses	160	65	1	225
Computed tax charge	-44	-15	0	-58
Profit after tax	116	50	1	167

NOK MILLION	CM	RM	GUARANTEE PORTFOLIO SMN	TOTAL 30.06.14
Loans (gross) inc. loans in OMF companies	33 397	16 858	0	50 255
Customer deposits & accounts payable to customers	770	13 121	0	13 891

The Group operates in a geographically limited area and reporting on geographical segments provides little additional information.

NOTE 3. CHANGE IN VALUE OF FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE, GAINS AND LOSSES

NOK MILLION	Q2 2015	Q2 2014	30.06.15	30.06.14	THE YEAR 2014
Change in value of interest rate derivatives obliged to be carried at fair value through profit or loss	17	-13	19	-16	-64
Change in value of currency derivatives obliged to be carried at fair value through profit or loss ¹	-35	-54	6	-34	-27
Total change in value of financial instruments obliged to be carried at fair value	-18	-67	25	-50	-91
Change in value of deposits selected for fair value carrying through profit or loss	-1	0	-1	0	0
Change in value of borrowings selected for fair value carrying through profit or loss	7	3	14	5	12
Change in value of loans selected for fair value carrying through profit or loss	-9	2	-14	2	6
Change in value of short-term financial investments selected for fair value carrying	-17	20	-25	37	77
Total change in value of financial instruments selected for fair value carrying	-20	25	-26	44	95
Change in value of interest rate derivatives, hedging ²	-68	44	-85	51	179
Change in value of borrowings, hedged ²	65	-44	83	-51	-179
Total change in value of financial instruments for hedging	-3	0	-2	0	0
Total change in value of financial instruments carried at fair value	-41	-42	-3	-6	4
Realised exchange gains/losses(-) bonds and certificates carried at amortised cost ³	0	0	-1	-10	-20
Realised exchange gains/losses(-) borrowings and loans carried at amortised cost ³	0	0	-1	0	0
Realised gain/loss on shares ⁴	0	-1	0	-1	-1
Exchange gains/losses on borrowings and loans carried at amortised cost ¹	36	55	-3	37	31
Total change in value of financial instruments carried at fair value, gains and losses	-5	12	-8	20	14

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 expense of NOK 1 million for the second quarter of 2015, compared with an income of NOK 1 million during the same period in 2014. The annual effect for 2014 was a recognised income of NOK 4 million. Exposure to exchange rate fluctuations is low.

² BN Bank uses fair value hedges for new fixed-rate borrowing and related hedge instruments. The borrowings are hedged 1:1 through external contracts where the principal, interest stream, term and hedging transaction match. It is the interest rate risk that is hedged and the hedging transactions entered into are documented. With value hedging, the hedge instrument is accounted for at fair value, and the hedge object is accounted for at fair value for the hedged risk. Changes in these values from the opening balance sheet are carried in profit or loss. The credit risk is not hedged and therefore does not affect the valuations. The value of the hedging instruments as of the second quarter of 2015 was positive by NOK 213 million, compared with NOK 209 million as of the same date in 2014. As at 31 December 2014, the values were positive in the amount of NOK 317 million.

³ Realised exchange gains/losses on bonds, certificates and borrowing carried at amortised cost gave rise to a recognised expense of NOK 2 million during the first six months of 2015, compared with a recognised expense of NOK 10 million in the first six months of 2014. The annual effect for 2014 was a recognised expense of NOK 20 million.

⁴ During the second quarter of 2014, shares owned by the Bank were written down by a total of NOK 0.5 million.

NOTE 4. 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 issued by others

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.

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 risk-free interest rate is read from the market through the interest rate on loans between especially creditworthy banks (interest-rate swap curve). The premium for credit risk is determined on the basis of other market players' ongoing assessments of the Bank's creditworthiness.
- Level 3: Measurement based on factors not taken from observable markets nor which have observable assumptions as input to the valuation.

The Group's assets and liabilities measured at fair value as at 30 June 2015

NOK MILLION	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Loans and advances	0	0	543	543
Interest rate derivatives ¹	0	535	0	535
Short-term securities investments	667	4 031	458	5 156
Total assets	667	4 566	1 001	6 234
Debt securities in issue	0	-820	0	-820
Interest rate derivatives ¹	0	-382	0	-382
Currency derivatives	0	-21	0	-21
Customer deposits & accounts payable to customers	0	-520	0	-520
Total liabilities	0	-1 743	0	-1 743

¹ The value of the hedge instruments earmarked for fair value hedging as at 30 June 2015 was positive by NOK 213 million.

The Group's assets and liabilities measured at fair value as at 30 June 2014

NOK MILLION	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Loans and advances	0	0	679	679
Interest rate derivatives ¹	0	607	0	607
Currency derivatives	0	4	0	4
Short-term securities investments	668	3 538	460	4 666
Total assets	668	4 169	1 139	5 956
Subordinated loan capital	0	-176	0	-176
Debt securities in issue	0	-1 876	0	-1 876
Interest rate derivatives ¹	0	-432	0	-432
Currency derivatives	0	-37	0	-37
Customer deposits & accounts payable to customers	0	163	0	163
Total liabilities	0	-2 357	0	-2 357

¹ The value of the hedge instruments earmarked for fair value hedging as at 30 June 2014 was positive by NOK 209 million.

The Group's assets and liabilities measured at fair value as at 31 December 2014

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 financial instruments measured at fair value, Level 3, as at 30 June 2015

NOK MILLION	LOAN AND ADVANCES	SHORT TERM SECURITIES INVESTMENTS	TOTAL
Opening balance	625	456	1 081
Investments in the period/new agreements	129	2	131
Matured	-201	0	-201
Changes in value of financial instruments carried at fair value, gains and losses	-10	0	-10
Closing balance	543	458	1 001
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 30 June 2014

NOK MILLION	LOAN AND ADVANCES	SHORT TERM SECURITIES INVESTMENTS	TOTAL
Opening balance	895	382	1 277
Investments in the period/new agreements	0	79	79
Matured	-218	0	-218
Changes in value of financial instruments carried at fair value, gains and losses	3	-1	2
Closing balance	679	460	1 139
Of which, result for the period relating to financial instruments still on the balance sheet	5	0	5

The Group's financial instruments measured at fair value, Level 3, as at 31 December 2014

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
Changes in value of financial instruments carried at fair value, gains and losses	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

Sensitivity analysis, Level 3

For loans carried at fair value, only changes in margin are a non-observable input to the fair value calculation. Changes in margin do not significantly affect the calculation of fair value and have not been quantified for this reason.

The Group's valuation methodology

Within the finance department, the Group has a team which is responsible for valuing assets and liabilities for accounting purposes. The team reports to the Chief Finance Officer. In addition, the actual reports from the period's valuations are submitted to the Audit Committee in connection with the submission of the financial statements. The principles used for the valuation are also regularly reported to the Audit Committee.

Assumptions used for valuation within Level 3 are linked to changes in the margin on loans.

NOTE 5. OTHER OPERATING INCOME

NOK MILLION	Q2 2015	Q2 2014	30.06.15	30.06.14	31.12.14
Guarantee commission	1	1	2	3	6
Commission income from SpareBank 1 Næringskreditt AS ^{1,2}	17	21	34	38	69
Commission income from SpareBank 1 Boligkreditt AS ¹	19	27	41	55	103
Net other commission income/expense	7	2	14	4	11
Dividend from SpareBank 1 Boligkreditt ³	0	12	11	12	12
Total other operating income	44	63	102	112	201

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.

³ Dividend from Sparebank 1 Boligkreditt AS amounts to NOK 11 million during the first quarter of 2015. In 2014, a similar dividend was adopted and recognised as income during the second quarter.

NOTE 6. IMPAIRMENT LOSSES AND WRITE-DOWNS ON LOANS AND GUARANTEES

The various elements included in impairment losses and write-downs on loans are set out in Note 1 to the annual Report. Loans past due by more than three months are defined as loans not serviced under the loan agreement for three months or more. 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.

NOK MILLION	Q2 2015	Q2 2014	30.06.15	30.06.14	31.12.14
Write-offs in excess of prior-year write-downs	0	23	0	23	31
Write-offs on loans without prior write-downs	0	1	0	3	5
<i>Write-downs for the period:</i>					
Change in collective write-downs	1	-6	0	-2	-8
Change in collective write-downs related to Guarantee Portfolio	1	-21	2	-24	-24
Total change in collective write-downs	2	-27	2	-26	-32
Increase in loans with prior-year write-downs ¹	3	51	14	60	91
Provisions against loans without prior write-downs	0	1	0	2	3
Decrease in loans with prior-year write-downs	-3	-20	-6	-25	-51
Total change in individual write-downs	0	32	8	37	43
Gross impairment losses	2	29	10	37	47
Recoveries on previous write-offs	0	7	1	10	10
Impairment losses on loans and advances	2	22	9	27	37
Revenue recognition of interest on written-down loans	-1	-3	-1	-8	12

NOK MILLION	Q2 2015	Q2 2014	30.06.15	30.06.14	31.12.14
Individual write-downs to cover impairment losses at start of period	166	151	169	154	154
Write-offs covered by prior-year individual write-downs	-3	0	-5	-1	-3
<i>Write-downs for the period:</i>					
Increase in loans with prior-year individual write-downs	2	39	2	41	66
Write-downs on loans without prior individual write-downs	0	1	0	2	3
Decrease in loans with prior-year individual write-downs	-2	-20	-3	-25	-51
Individual write-downs to cover impairment losses at end of period	163	171	163	171	169
Collective write-downs to cover impairment losses at start of period	53	66	54	62	62
Collective write-downs for the period to cover impairment losses	1	-6	0	-2	-8
Collective write-downs to cover impairment losses at end of period	54	60	54	60	54

NOK MILLION	Q2 2015	Q2 2014	30.06.15	30.06.14	31.12.14
Provision for losses on financial guarantees concerning the Guarantee Portfolio at start of period ¹	63	103	54	101	101
Write-offs covered by prior-year individual write-downs	0	-39	0	-39	-61
<i>Write-downs for the period:</i>					
Increase in loans with prior-year individual write-downs	0	9	11	11	14
Decrease in loans with prior-year individual write-downs	-1	0	-3	0	0
Provision for losses on financial guarantees concerning the Guarantee Portfolio at end of period ¹	62	73	62	73	54
Collective write-downs linked to the Guarantee Portfolio at start of period	10	29	9	32	32
Collective write-downs for the period to cover losses in Guarantee Portfolio	1	-21	2	-24	-23
Collective write-downs linked to the Guarantee Portfolio at end of period ¹	11	8	11	8	9
Total loss provisions related to Guarantee Portfolio	73	81	73	81	63

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 (called the "Guarantee Portfolio"). The total provision for losses in the Guarantee Portfolio was NOK 73 million as at the end of the second quarter. 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 30.06.2016. The loss provision is classified under Accrued expenses and deferred income.

Loans past due more than 3 months

NOK MILLION	30.06.15	30.06.14	31.12.14
Gross principal	345	366	407
Individual write-downs	136	109	143
Net principal	209	257	264

Other loans with individual write-downs ¹

NOK MILLION	30.06.15	30.06.14	31.12.14
Gross principal	252	390	244
Individual write-downs	91	135	80
Net principal	161	255	164

Loans past due by more than three months by sector and as a percentage of loans²

NOK MILLION	GROSS OUTSTANDING		GROSS OUTSTANDING		GROSS OUTSTANDING	
	30.06.15	%	30.06.14	%	31.12.14	%
Corporate Market	302	1.56	309	1.50	341	1.82
Retail	43	0.48	57	0.71	66	0.77
Total	345	1.22	366	1.28	407	1.49

¹ As regards notes concerning other loans with individual write-down, the figures that are disclosed include the Guarantee Portfolio with respect to SpareBank 1 SMN.

² Non-performing loans as a percentage of loans is calculated on the basis of gross lending within the Group.

NOTE 7. SUMMARY OF GROSS MANAGED LENDING

NOK MILLION	30.06.15	30.06.14	31.12.14
Corporate and retail loans, Group	28 358	28 631	27 407
Gross lending	28 358	28 631	27 407
Loans transferred to SpareBank 1 Næringskreditt	12 738	12 811	13 250
Loans transferred to SpareBank 1 Boligkreditt	9 633	8 813	8 809
Total loans, managed portfolio	50 729	50 255	49 466

NOTE 8. TRANSFER OF LOANS TO SPAREBANK 1 NÆRINGSKREDITT

SpareBank 1 Næringskreditt AS was established in 2009 and is licensed by the Financial Supervisory Authority of Norway to operate as a credit institution. The company's bonds have an Aa1 rating from Moody's. The company is owned by the savings banks that form the SpareBank 1 consortium and is co-located with SpareBank 1 Boligkreditt AS in Stavanger. BN Bank owns no shares in SpareBank 1 Næringskreditt as at 30 June 2015. 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 AS are secured by mortgages on commercial properties for up to 60 per cent of the appraised value. Transferred loans are legally owned by Sparebank 1 Næringskreditt AS and, apart from the management right and the right to take over fully or partially written-down loans, BNkreditt has no right to the use of these loans. At the end of June 2015, the book value of transferred loans was NOK 12.7 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 pledged guarantees for the transferred loan commitments where they exceed 25 per cent of SpareBank 1 Næringskreditt's capital base. As at 30 June 2015, 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.

The consideration received for loans transferred from BNkreditt to SpareBank 1 Næringskreditt AS is equal to the nominal value of transferred loans and is measured as virtually concurrent with the fair value of the loans as at the end of the second quarter of 2015 and 2014.

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 30 June 2015, BNkreditt's capital adequacy ratio was 24.3 per cent. The amount the Parent Bank is ceding precedence to stood at NOK 0 million as at 30 June 2015.

NOTE 9. TRANSFER OF LOANS TO SPAREBANK 1 BOLIGKREDITT

SpareBank 1 Boligkredit AS is owned by the savings banks that form the SpareBank 1 consortium and is co-located with SpareBank 1 Næringskredit AS in Stavanger. BN Bank has a stake of 5.49% as at 30 June 2015. 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 Boligkredit 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 Boligkredit and, as part of the Bank's funding strategy, loans have been transferred to the company. Loans transferred to SpareBank 1 Boligkredit 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 Boligkredit 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 June 2015, the book value of transferred loans was NOK 9.6 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 Boligkredit AS, entered into agreements to establish a liquidity facility for SpareBank 1 Boligkredit AS. This means that the owner banks have undertaken to purchase covered bonds in the case that SpareBank 1 Boligkredit 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 Boligkredit 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 Boligkredit 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 Boligkredit AS. Among other things, this means that BN Bank will contribute to SpareBank 1 Boligkredit 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 Boligkredit 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 Boligkredit AS are very well secured and there is only a very slight probability of loss.

The consideration received for loans transferred from BN Bank to SpareBank 1 Boligkredit 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 the second quarter of 2015 and 2014.

NOTE 10. BORROWING

The balance sheet includes borrowing at a fixed interest rate included in hedging carried at amortised cost, while other borrowing at a fixed interest rate is selected for carrying at fair value. Borrowing at a variable interest rate is carried at amortised cost.

Debt securities in issue

The Group issued bonds and certificates with a nominal value of NOK 2,150 million during the second quarter of 2015 in the form of new issues.

NOK MILLION	CERTIFICATES	BONDS	TOTAL
Net debt (nominal) 01.01.2015	550	14 690	15 240
New issues	0	0	0
Acquisition and maturity of existing	0	-781	-781
Net debt (nominal) 31.03.2015	550	13 909	14 459
New issues	450	1 700	2 150
Acquisition and maturity of existing	-550	-1 390	-1 940
Net debt (nominal) 30.06.2015	450	14 219	14 669

Subordinated loan capital and perpetual subordinated capital securities

The Group did not issue subordinated capital securities or loans during the second quarter of 2015, either as new issues or the expansion of existing open loans.

NOK MILLION	SUBORDINATED CAPITAL SECURITIES	RESPONSIBLE LOAN CAPITAL	TOTAL
Net debt (nominal) 01.01.2015	400	800	1 200
New issues	0	500	500
Acquisition and maturity of existing	0	-134	-134
Net debt (nominal) 31.03.2015	400	1 166	1 566
Acquisition and maturity of existing	0	-366	-366
Net debt (nominal) 30.06.2015	400	800	1 200

Recognised values

NOK MILLION	30.06.15	30.06.14	31.12.14
Certificates selected for fair value carrying	451	860	556
Total recognised value of certificates	451	860	556
Bonds carried at amortised cost	9 070	10 039	9 541
Bonds carried at amortised cost (secured debt)	5 068	4 631	4 751
Bonds selected for fair value carrying	369	1 016	801
Total recognised value of bonds	14 507	15 686	15 093
Total recognised value of debt securities in issue	14 958	16 546	15 649

NOK MILLION	30.06.15	30.06.14	31.12.14
Perpetual subordinated capital securities carried at amortised cost	401	682	401
Perpetual subordinated capital securities selected for fair value carrying	0	176	0
Total recognised value of capital securities	401	858	401
Subordinated loans carried at amortised cost	801	803	804
Total recognised value of subordinated loans	801	803	804
Total recognised value of subordinated loans and capital securities	1 202	1 661	1 205

NOTE 11. FAIR VALUE OF FINANCIAL INSTRUMENTS COMPARED WITH RECOGNISED VALUE

NOK MILLION	30.06.15		30.06.14		31.12.14	
	FAIR VALUE	RECOGNISED VALUE	FAIR VALUE	RECOGNISED VALUE	FAIR VALUE	RECOGNISED VALUE
Loans and advances	28 114	28 109	28 415	28 401	27 154	27 154
Prepayments and accrued income	18	18	197	197	16	16
Interest rate derivatives	535	535	607	607	750	750
Currency derivatives	0	0	3	3	17	17
Short-term securities investments	6 254	6 254	6 639	6 638	6 305	6 305
Cash and balances due from credit institutions	534	534	551	551	1 486	1 486
Assets classified as held for sale	29	29	0	0	29	29
Subordinated loan capital	-1 225	-1 202	-1 692	-1 661	-1 256	-1 205
Liabilities to credit institutions	-106	-106	-79	-79	-2	-2
Debt securities in issue	-15 102	-14 958	-16 747	-16 546	-15 823	-15 649
Accrued expense and deferred income	-73	-73	-81	-81	-63	-63
Other current liabilities	-96	-96	-23	-24	-10	-10
Interest rate derivatives	-382	-382	-432	-432	-552	-552
Currency derivatives	-21	-21	-37	-37	-44	-44
Customer deposits & accounts payable to customers	-15 011	-15 011	-13 891	-13 891	-14 442	-14 442
Total	3 470	3 631	3 430	3 647	3 567	3 792

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.

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

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

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

The Group's assets and liabilities measured at amortised cost as at 30 June 2015

NOK MILLION	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Short-term securities investments	0	1 099	0	1 099
Total assets	0	1 099	0	1 099
Subordinated loan capital	0	-1 225	0	-1 225
Debt securities in issue	0	-9 213	0	-9 213
Total liabilities	0	-10 438	0	-10 438

The Group's assets and liabilities measured at amortised cost as at 30 June 2014

NOK MILLION	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Short-term securities investments	299	1 671	0	1 970
Total assets	299	1 671	0	1 970
Subordinated loan capital	0	-1 517	0	-1 517
Debt securities in issue	0	-10 239	0	-10 239
Total liabilities	0	-11 756	0	-11 756

The Group's assets and liabilities measured at amortised cost as at 31 December 2014

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	-10 970	0	-10 970

NOTE 12. RIGHT OF SET-OFF, FINANCIAL DERIVATIVES

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				30.06.15
COUNTERPARTY	AMOUNT IN BALANCE SHEET	AMOUNT SUBJECT TO SETTLEMENT ON NET BASIS ¹	AMOUNT AFTER POSSIBLE NET-OFFS	
Counterparty 1	235	21	214	
Counterparty 2	141	142	-1	
Counterparty 3	57	28	29	
Counterparty 4	51	37	14	
Counterparty 5	43	23	20	
Counterparty 6	9	2	7	
Total	536	253	283	

Financial liabilities				30.06.15
COUNTERPARTY	AMOUNT IN BALANCE SHEET	AMOUNT SUBJECT TO SETTLEMENT ON NET BASIS ¹	AMOUNT AFTER POSSIBLE NET-OFFS	
Counterparty 1	21	21	0	
Counterparty 2	292	142	150	
Counterparty 3	28	28	0	
Counterparty 4	37	37	0	
Counterparty 5	23	23	0	
Counterparty 6	2	2	0	
Total	403	253	150	

Financial assets				30.06.14
COUNTERPARTY	AMOUNT IN BALANCE SHEET	AMOUNT SUBJECT TO SETTLEMENT ON NET BASIS ¹	AMOUNT AFTER POSSIBLE NET-OFFS	
Counterparty 1	290	35	255	
Counterparty 2	120	120	0	
Counterparty 3	79	18	61	
Counterparty 4	57	43	14	
Counterparty 5	53	29	24	
Counterparty 6	11	5	6	
Total	610	250	360	

Financial liabilities				30.06.14
COUNTERPARTY	AMOUNT IN BALANCE SHEET	AMOUNT SUBJECT TO SETTLEMENT ON NET BASIS ¹	AMOUNT AFTER POSSIBLE NET-OFFS	
Counterparty 1	35	35	0	
Counterparty 2	339	120	219	
Counterparty 3	18	18	0	
Counterparty 4	43	43	0	
Counterparty 5	29	29	0	
Counterparty 6	5	5	0	
Total	469	250	219	

Financial assets				31.12.14
COUNTERPARTY	AMOUNT IN BALANCE SHEET	AMOUNT SUBJECT TO SETTLEMENT ON NET BASIS ¹	AMOUNT AFTER POSSIBLE NET-OFFS	
Counterparty 1	309	40	269	
Counterparty 2	186	186	0	
Counterparty 3	141	32	109	
Counterparty 4	67	67	0	
Counterparty 5	56	40	16	
Counterparty 6	8	5	3	
Total	767	370	397	

Financial liabilities				31.12.14
COUNTERPARTY	AMOUNT IN BALANCE SHEET	AMOUNT SUBJECT TO SETTLEMENT ON NET BASIS ¹	AMOUNT AFTER POSSIBLE NET-OFFS	
Counterparty 1	40	40	0	
Counterparty 2	389	186	203	
Counterparty 3	32	32	0	
Counterparty 4	90	67	23	
Counterparty 5	40	40	0	
Counterparty 6	5	5	0	
Total	596	370	226	

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

NOTE 13. CAPITAL ADEQUACY RATIO**Process for assessing capital adequacy requirement**

New capital adequacy rules were introduced in Norway with effect from 1 July 2014 (Basel III – the new EU directive on capital adequacy).

During the second quarter of 2014, the BN Bank obtained approval to use internal measurement methods (Internal Rating Based Approach - Advanced) for measuring credit risk for corporate engagement, and correspondingly received approval for residential mortgage loans during the second quarter 2015. The use of IRB imposes comprehensive requirements on the Bank's organisation, competence, risk models and risk management systems.

NOK MILLION	30.06.15	30.06.14	31.12.14
Share capital	706	706	706
Premium fund	415	415	415
Appropriated dividend	0	0	264
Reserve for unrealised gains	364	295	364
Other equity	1892	1945	1892
Total equity	3 377	3 361	3 641
Tier 1 capital			
Deferred tax assets and intangible assets	-12	-8	-11
Deduction for appropriated dividend	0	0	-264
Direct investments in companies in the financial sector	-70	-171	-36
Positive value of adjusted anticipated losses under the IRB approach	-107	-47	-123
Interim profit included in tier 1 capital (50%)	0	83	0
Value adjustments as a result of the requirements for prudent valuation	-9	0	-8
Total core tier 1 capital	3 179	3 218	3 199
Perpetual subordinated capital securities, hybrid capital ¹	399	397	399
Direct investments in companies in the financial sector	-53	0	-71
Total tier 1 capital	3 525	3 615	3 527
Tier 2 capital in addition to tier 1 capital			
Fixed-term subordinated capital	799	798	798
Direct investments in companies in the financial sector	-83	-171	-101
Positive value of adjusted anticipated losses under the IRB approach	0	-48	0
Tier 2 capital	716	579	697
Total subordinated capital	4 241	4 194	4 224
Minimum requirements concerning subordinated capital, Basel III ²			
Loans with specialist enterprises	734	872	772
Loans with other enterprises	115	236	119
Loans with mass market mortgages in real property	193	0	0
Equity positions	51	81	50
Total credit risk IRB	1 093	1 189	941
Operational risk	91	83	83
Loans calculated according to the standard method	372	588	674
Deduction in the capital requirement	0	-27	0
Transitional arrangement (floor)	144	0	0
Creditworthiness of counterparty (CVA risk)	13	0	18
Minimum requirements, subordinated capital	1 713	1 833	1 716
Calculation basis	21 411	22 912	21 460
Buffer requirements			
Conservation buffer (2.5%)	538	0	536
System risk buffer (3.0%)	645	0	644
Total buffer requirements for core tier 1 capital	1 183	0	1 180
Available tier 1 capital (less 4.5%)	2 221	0	2 234
Capital adequacy ratio			
Core tier 1 capital ratio	14.85 %	14.04 %	14.91 %
Tier 1 capital ratio	16.46 %	15.78 %	16.43 %
Capital adequacy ratio	19.80 %	18.31 %	19.68 %

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 10.

² From the second quarter of 2014, BN Bank has obtained approval to use internal measurement methods for credit risk linked to corporate exposures, and correspondingly received approval for the retail market from the second quarter 2015 onwards. Historical minimum requirements for subordinated capital are reported according to the standard method.

NOTE 14. CONTINGENT OUTCOMES, EVENTS AFTER THE REPORTING PERIOD

On 3 July, BN Bank received a summons linked to a commitment which is subject to write-down. The summons demands compensation for losses which the customer claims to have incurred as a result of the bank's actions. The summons does not result in any need for changes to the loss assessment linked to the commitment.

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 15. INCOME STATEMENT FOR THE FIVE MOST RECENT QUARTERS

NOK MILLION	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014
Interest and similar income	279	291	332	346	373
Interest expense and similar charges	189	209	232	247	247
Net income from interest and credit commissions	90	82	100	99	126
Change in value of financial instruments carried at fair value, gains and losses	-5	-3	-8	2	12
Other operating income	44	58	41	47	63
Total other operating income	39	55	33	49	75
Salaries and general administrative expenses	50	49	47	49	47
Depreciation, amortisation and write-downs	2	2	3	1	2
Other operating expenses	7	9	5	6	7
Other gains and losses	0	-2	-1	0	0
Total other operating expense	59	58	54	56	56
Operating profit/(loss) before impairment losses	70	79	79	92	145
Impairment losses on loans and advances	2	7	14	-4	21
Profit before tax	68	72	65	96	124
Tax charge	18	17	18	27	31
Profit after tax continuing operations	50	55	47	69	93
Profit from activities "held for sale"	0	0	-3	0	0
Profit including activities "held for sale"	50	55	44	69	93

Income Statement

PARENT-BANK

NOK MILLION	NOTE	Q2 2015	Q2 2014	30.06.15	30.06.14	THE YEAR 2014
Interest and similar income		211	289	429	563	1 080
Interest expense and similar charges		169	216	352	436	853
Net income from interest and credit commissions		42	73	77	127	227
Change in value of financial instruments carried at fair value, gains and losses	2,3	-3	13	-5	23	20
Other operating income	4	27	42	68	75	132
Total other operating income		24	55	63	98	152
Salaries and general administrative expenses		31	29	61	60	119
Ordinary depreciation, amortisation and write-downs		2	2	4	4	8
Other operating expenses		5	4	12	9	17
Other gains and losses		0	0	-2	0	0
Total other operating expense		38	35	75	73	144
Operating profit/(loss) before impairment losses		28	93	65	152	235
Impairment losses on loans and advances	6	1	11	1	11	42
Operating profit/(loss) after impairment losses		27	82	64	141	193
Income from ownership interests in group companies	5	140	167	140	167	167
Profit before tax		167	249	204	308	360
Tax charge		7	66	14	82	96
Profit after tax		160	183	190	226	264
Statement of Other Comprehensive Income						
<i>Items that will not be reclassified subsequently to profit or loss</i>						
Actuarial gains (losses) on pension plans		0	0	0	0	0
Tax		0	0	0	0	0
Other comprehensive income (net of tax)		0	0	0	0	0
Total comprehensive income		160	183	190	226	264

Balance Sheet

NOK MILLION	NOTE	PARENT-BANK		
		30.06.15	30.06.14	31.12.14
Deferred tax assets		0	0	0
Intangible assets		12	8	11
Ownership interests in group companies		1 600	1 600	1 600
Subordinated loans	11	452	450	453
Tangible fixed assets		9	12	10
Loans and advances	3, 6, 7, 8, 9, 11, 13	12 282	11 484	11 972
Prepayments and accrued income	11	10	185	14
Financial derivatives	3, 11, 12	518	569	694
Short-term securities investments	3, 11	6 254	6 638	6 305
Cash and balances due from credit institutions	11	10 527	10 888	10 232
Assets classified as held for sale		5	0	5
Total assets		31 669	31 834	31 296
Share capital		706	706	706
Share premium		415	415	415
Other equity		1 282	1 317	1 356
Total equity		2 403	2 438	2 477
Deferred tax		112	111	112
Subordinated loan capital	3, 10, 11	1 202	1 661	1 205
Liabilities to credit institutions	11	80	79	2
Debt securities in issue	3, 10, 11	12 229	13 019	12 349
Accrued expense and deferred income	6, 11	126	133	101
Other current liabilities	11	96	24	10
Tax payable		27	35	49
Financial derivatives	3, 11, 12	375	439	541
Customer deposits & accounts payable to customers	3, 13	15 019	13 895	14 450
Liabilities classified as held for sale	12	0	0	0
Total liabilities		29 266	29 396	28 819
Total liabilities and equity		31 669	31 834	31 296

Trondheim, 10 August 2015
The Board of Directors in BN Bank ASA

Tore Medhus
(Deputy Chair)

Rolf Eigil Bygdes

Finn Haugan
(Chair)

Odd Einar Folland

Helene Jebsen Anker

Tina Steinsvik Sundt

Jannike Lund
(Employee representative)

Ella Skjørestad

Gunnar Hovland
(Managing Director)

Change in Equity

PARENT-BANK

NOK MILLION	SHARE CAPITAL	SHARE PREMIUM	OTHER PAID-IN EQUITY	OTHER EQUITY ¹	TOTAL EQUITY
Balance Sheet as at 01.01.2014	706	415	282	1 050	2 453
Net income for the period	0	0	0	225	225
Dividend paid	0	0	0	-240	-240
Balance Sheet as at 30.06.2014	706	415	282	1 035	2 438
Net income for the period	0	0	0	39	39
Balance Sheet as at 31.12.2014	706	415	282	1 074	2 477
Net income for the period	0	0	0	190	190
Dividend paid	0	0	0	-264	-264
Balance Sheet as at 30.06.2015	706	415	282	1 000	2 403

¹ The reserve for unrealised gains is included in Other reserves. Provision of NOK 364 million had been made as at 30.06.2015.

Cash Flow Analysis

	PARENT-BANK		
NOK MILLION	30.06.15	30.06.14	THE YEAR 2014
Cash flows from operating activities			
Interest/commission received and fees received from customers	231	357	593
Interest/commission paid and fees paid to customers	-44	-54	-382
Interest received on other investments	97	87	192
Interest paid on other loans	-198	-249	-503
Receipts/disbursements (-) on loans and advances to customers	-320	1 894	1 387
Receipts/disbursements on customer deposits and accounts payable to cust.	452	-1 333	-609
Receipts/disbursements (-) on liabilities to credit institutions	81	-16	-117
Receipts/disbursements (-) on securities in issue and securities buy-back	-43	-209	-813
Receipts on previously written-off debt	4	3	7
Other receipts/payments	105	19	-79
Payments to suppliers for goods and services	-50	-40	-91
Payments to employees, pensions and social security expenses	-33	-43	-52
Tax paid	-23	-23	-23
Net cash flow from operating activities	259	393	-490
Cash flows from investing activities			
Receipts/payments (-) on receivables from credit institutions	-191	-270	1 051
Receipts/payments (-) on current securities investments	-15	-491	-119
Receipts/payments (-) on long-term securities investments	140	167	167
Proceeds from sale of operating assets, etc.	3	0	0
Purchases of operating assets, etc.	-5	-3	-8
Proceeds from sale of subsidiaries	0	0	0
Net cash flow from investing activities	-68	-597	1 091
Cash flow from financing activities			
Receipts/payments (-) on subordinated loan capital	0	197	-250
Dividend paid	-264	-240	-240
Net cash flow from financing activities	-264	-43	-490
Net cash flow for the period	-73	-247	111
Cash and receivables from central banks as at 1 January *	359	248	248
Cash and balances due from central banks as at the end of the period	286	1	359

* In the case of the Parent Bank, cash and balances due consist of deposits in Norges Bank.

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NOTE 1. ACCOUNTING POLICIES

The interim financial statements have been prepared in accordance with IFRS, including IAS 34 on Interim Financial Reporting. A description of the accounting policies applied by the Group when preparing the interim financial statements is given in the annual report for 2014.

IFRIC 21

The fee paid to the Norwegian Banks' Guarantee Fund is normally levied on the basis of the average guaranteed deposit and the average calculation basis for previous quarters. No provisions have been established concerning whether withdrawal from the scheme will result in the repayment of overpaid fees. In practice, a pro rata charge upon registration has been levied. Given this practice and the need to ensure equal treatment, a pro rata charge upon withdrawal would also appear appropriate. The Ministry of Finance will decide on this through an individual decision. This is of significance as regards when the fee should be recognised in the financial statements. BN Bank has continued the previous practice of accruing the fee on a monthly basis.

BN Bank implemented IFRIC 21 with effect from 1 January 2015.

NOTE 2. CHANGE IN VALUE OF FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE, GAINS AND LOSSES

NOK MILLION	Q2 2015	Q2 2014	30.06.15	30.06.14	31.12.14
Change in value of interest rate derivatives obliged to be carried at fair value through profit or loss	17	-12	18	-15	-61
Change in value of currency derivatives obliged to be carried at fair value through profit or loss ¹	-35	-55	7	-34	-28
Total change in value of financial instruments obliged to be carried at fair value	-18	-67	25	-49	-89
Change in value of deposits selected for fair value carrying through profit or loss	-1	0	-1	0	0
Change in value of borrowings selected for fair value carrying through profit or loss	0	3	1	5	7
Change in value of loans selected for fair value carrying through profit or loss	4	11	1	-2	50
Change in value of short-term financial investments selected for fair value carrying ²	-17	20	-26	37	77
Total change in value of financial instruments selected for fair value carrying	-14	34	-25	40	134
Change in value of interest rate derivatives, hedging ³	-63	41	-76	50	165
Change in value of borrowings, hedged ³	60	-41	75	-50	-165
Total change in value of financial instruments for hedging	-3	0	-1	0	0
Total change in value of financial instruments carried at fair value	-35	-33	-1	-9	45
Realised exchange gains/losses(-) bonds and certificates carried at amortised cost ⁴	0	1	-1	-10	-20
Realised exchange gains/losses(-) borrowings and loans carried at amortised cost ⁵	0	0	-1	0	1
Realised gain/loss on shares ⁵	0	-1	0	-1	-1
Exchange gains/losses on borrowings and loans carried at amortised cost ¹	32	46	-2	43	-5
Total change in value of financial instruments carried at fair value, gains and losses	-3	13	-5	23	20

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. 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 expense of NOK 26 million for the first six months of 2015, compared with recognised income of NOK 37 million for the same period in 2014. The annual effect in 2014 was a recognised income of NOK 77 million.

³ BN Bank uses fair value hedges for new fixed-rate borrowing and related hedge instruments. The borrowings are hedged 1:1 through external contracts where the principal, interest stream, term and hedging transaction match. It is the interest rate risk that is hedged and the hedging transactions entered into are documented. With value hedging, the hedge instrument is accounted for at fair value, and the hedge object is accounted for at fair value for the hedged risk. Changes in these values from the opening balance sheet are carried in profit or loss. The credit risk is not hedged and therefore does not affect the valuations. The value of the hedging instruments as at 30 June 2015 was positive by NOK 213 million, compared with NOK 188 million during the same period in 2014. As at 31 December 2014, the values were positive in the amount of NOK 286 million.

⁴ Realised exchange gains/losses on bonds, certificates and borrowings carried at amortised cost gave rise to a recognised expense of NOK 2 million for the first six months of 2015, compared with NOK 10 million for the same period in 2014. The annual effect for 2014 was a recognised expense of NOK 19 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 3. 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 issued by others

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.

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 risk-free interest rate is read from the market through the interest rate on loans between especially creditworthy banks (interest-rate swap curve). The premium for credit risk is determined on the basis of other market players' ongoing assessments of the Bank's creditworthiness.
- Level 3: Measurement based on factors not taken from observable markets nor which have observable assumptions as input to the valuation.

The Parent Bank's assets and liabilities measured at fair value as at 30 June 2015

NOK MILLION	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Loans and advances	0	0	396	396
Interest rate derivatives ¹	0	517	0	517
Short-term securities investments	667	4 031	458	5 156
Total assets	667	4 548	854	6 070
Debt securities in issue	0	-451	0	-451
Interest rate derivatives ¹	0	-354	0	-354
Currency derivatives	0	-21	0	-21
Customer deposits & accounts payable to customers	0	-520	0	-520
Total liabilities	0	-1 346	0	-1 346

¹The value of the hedge instruments earmarked for fair value hedging as at 30 June 2015 was positive by NOK 211 million.

The Parent Bank's assets and liabilities measured at fair value as at 30 June 2014

NOK MILLION	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Loans and advances	0	0	328	328
Interest rate derivatives ¹	0	565	0	565
Currency derivatives	0	4	0	4
Short-term securities investments	668	3 538	460	4 666
Total assets	668	4 107	788	5 563
Subordinated loan capital	0	-176	0	-176
Debt securities in issue	0	-1 072	0	-1 072
Interest rate derivatives ¹	0	-402	0	-402
Currency derivatives	0	-37	0	-37
Customer deposits & accounts payable to customers	0	163	0	163
Total liabilities	0	-1 523	0	-1 523

¹The value of the hedge instruments earmarked for fair value hedging as at 30 June 2014 was positive by NOK 188 million.

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

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	5 152
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

¹The value of the hedge instruments earmarked for fair value hedging as at 31 December 2014 was positive by NOK 286 million.

The Parent Bank's financial instruments measured at fair value, Level 3, as at 30 June 2015

NOK MILLION	LOAN AND ADVANCES	SHORT TERM SECURITIES INVESTMENTS	TOTAL
Opening balance	300	456	756
Investments in the period/new agreements	129	2	131
Matured	-28	0	-28
Changes in value of financial instruments carried at fair value, gains and losses	-5	0	-5
Closing balance	396	458	854
Of which, result for the period relating to financial instruments still on the balance sheet	-5	0	-5

The Parent Bank's financial instruments measured at fair value, Level 3, as at 30 June 2014

NOK MILLION	LOAN AND ADVANCES	SHORT TERM SECURITIES INVESTMENTS	TOTAL
Opening balance	416	382	798
Investments in the period/new agreements	0	79	79
Matured	-88	0	-88
Changes in value of financial instruments carried at fair value, gains and losses	0	-1	-1
Closing balance	328	460	788
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

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
Changes in value of financial instruments carried at fair value, gains and losses	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

Sensitivity analysis, Level 3

For loans carried at fair value, only changes in margin are a non-observable input to the fair value calculation. Changes in margin do not significantly affect the calculation of fair value and have not been quantified for this reason.

The Group's valuation methodology

Within the finance department, the Group has a team which is responsible for valuing assets and liabilities for accounting purposes. The team reports to the Chief Finance Officer. In addition, the actual reports from the period's valuations are submitted to the Audit Committee in connection with the submission of the financial statements. The principles used for the valuation are also regularly reported to the Audit Committee.

Assumptions used for valuation within Level 3 are linked to changes in the margin on loans.

NOTE 4. OTHER OPERATING INCOME

NOK MILLION	Q2 2015	Q2 2014	30.06.15	30.06.14	31.12.14
Guarantee commission	1	1	2	4	6
Commission income from SpareBank 1 Boligkreditt AS ¹	19	27	41	55	103
Net other commission income/expense	7	2	14	4	11
Dividend from SpareBank 1 Boligkreditt ²	0	12	11	12	12
Total other operating income	27	42	68	75	132

¹ The Bank receives commission on loans that are transferred to Sparebank1 Boligkreditt AS, which is calculated as the lending rate on the loans less costs in Sparebank1 Boligkreditt AS.

² Dividend from Sparebank 1 Boligkreditt AS amounts to NOK 11 million during 2015. This was adopted and recognised as income during the first quarter of 2015. In 2014, this amounted to NOK 12 million and was adopted and recognised as income during the second quarter.

NOTE 5. INCOME FROM OWNERSHIP INTERESTS IN GROUP COMPANIES

For 2014, an ordinary general meeting of the subsidiary Bolig- og Næringskreditt AS decided to pay a dividend of NOK 140 million before tax. This was recognised as income during the second quarter of 2015.

NOTE 6. IMPAIRMENT LOSSES AND WRITE-DOWNS ON LOANS AND GUARANTEES

The various elements included in impairment losses and write-downs on loans are set out in Note 1 to the annual Report. Loans past due by more than three months are defined as loans not serviced under the loan agreement for three months or more. 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.

NOK MILLION	Q2 2015	Q2 2014	30.06.15	30.06.14	31.12.14
Write-offs in excess of prior-year write-downs	0	23	0	23	31
Write-offs on loans without prior write-downs	0	1	0	3	5
<i>Write-downs for the period:</i>					
Change in collective write-downs	-2	0	-9	1	2
Change in collective write-downs related to Guarantee Portfolio	1	-21	2	-24	-24
Total change in collective write-downs	-1	-21	-7	-23	-22
Increase in loans with prior-year write-downs ¹	3	17	14	20	48
Provisions against loans without prior write-downs	0	1	0	2	3
Decrease in loans with prior-year write-downs	-1	-10	-4	-12	-21
Total change in individual write-downs	2	8	10	10	30
Gross impairment losses	1	11	3	13	44
Recoveries on previous write-offs	0	0	2	2	2
Impairment losses on loans and advances	1	11	1	11	42
Revenue recognition of interest on written-down loans	0	0	0	-1	-3

NOK MILLION	Q2 2015	Q2 2014	30.06.15	30.06.14	31.12.14
Individual write-downs to cover impairment losses at start of period	35	25	38	27	27
Write-offs covered by prior-year individual write-downs	-3	0	-5	-1	-3
<i>Write-downs for the period:</i>					
Increase in loans with prior-year individual write-downs	2	8	2	8	32
Write-downs on loans without prior individual write-downs	0	1	0	2	3
Decrease in loans with prior-year individual write-downs	0	-10	-1	-12	-21
Individual write-downs to cover impairment losses at end of period	34	24	34	24	38
Collective write-downs to cover impairment losses at start of period	23	30	31	29	29
Collective write-downs for the period to cover impairment losses	-1	0	-9	1	2
Collective write-downs to cover impairment losses at end of period	22	30	22	30	31

NOK MILLION	Q2 2015	Q2 2014	30.06.15	30.06.14	31.12.14
Provision for losses on financial guarantees concerning the Guarantee Portfolio at start of period	63	103	54	101	101
Write-offs covered by prior-year individual write-downs	0	-39	0	-39	-61
<i>Write-downs for the period:</i>					
Increase in loans with prior-year individual write-downs	0	9	11	11	14
Decrease in loans with prior-year individual write-downs	-1	0	-3	0	0
Provision for losses on financial guarantees concerning the Guarantee Portfolio at end of period ¹	62	73	62	73	54
Collective write-downs linked to the Guarantee Portfolio at start of period	10	29	9	32	32
Collective write-downs for the period to cover losses in Guarantee Portfolio	1	-21	2	-24	-23
Collective write-downs linked to the Guarantee Portfolio at end of period ¹	11	8	11	8	9
Total loss provisions related to Guarantee Portfolio ¹	73	81	73	81	63

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 (called the "Guarantee Portfolio"). The total provision for losses in the Guarantee Portfolio was NOK 73 million as at the end of the second quarter. 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 30.06.2016. The loss provision is classified under Accrued expenses and deferred income.

Loans past due more than 3 months ^{1,2}

NOK MILLION	30.06.15	30.06.14	31.12.14
Gross principal	199	98	227
Individual write-downs	23	10	27
Net principal	176	88	200

Other loans with individual write-downs ¹

NOK MILLION	30.06.15	30.06.14	31.12.14
Gross principal	236	262	229
Individual write-downs	76	87	65
Net principal	160	175	164

Loans past due by more than three months by sector and as a percentage of loans^{1,2}

NOK MILLION	GROSS OUTSTANDING 30.06.15		GROSS OUTSTANDING 30.06.14		GROSS OUTSTANDING 31.12.14	
		%		%		%
Corporate Market	155	4.66	41	1.18	161	4.62
Retail Market	43	0.48	57	0.71	66	0.77
Total	198	1.60	98	0.85	227	1.89

¹ As regards notes concerning other loans with individual write-down, the figures that are disclosed include the Guarantee Portfolio with respect to SpareBank 1 SMN.

² Non-performing loans as a percentage of loans is calculated on the basis of gross loans within the Parent Bank.

NOTE 7. SUMMARY OF GROSS MANAGED LENDING

NOK MILLION	30.06.15	30.06.14	31.12.14
Corporate and retail loans	12 338	11 517	12 039
Gross lending	12 338	11 517	12 039
Loans transferred to SpareBank 1 Boligkreditt	9 633	8 813	8 809
Total loans, managed portfolio	21 971	20 330	20 848

NOTE 8. TRANSFER OF LOANS TO SPAREBANK 1 NÆRINGSKREDITT

SpareBank 1 Næringskreditt AS was established in 2009 and is licensed by the Financial Supervisory Authority of Norway to operate as a credit institution. The company's bonds have an Aa1 rating from Moody's. The company is owned by the savings banks that form the SpareBank 1 consortium and is co-located with SpareBank 1 Boligkreditt AS in Stavanger. BN Bank owns no shares in SpareBank 1 Næringskreditt as at 30 June 2015. 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 AS are secured by mortgages on commercial properties for up to 60 per cent of the appraised value. Transferred loans are legally owned by Sparebank 1 Næringskreditt AS and, apart from the management right and the right to take over fully or partially written-down loans, BNkreditt has no right to the use of these loans. At the end of June 2015, the book value of transferred loans was NOK 12.7 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 pledged guarantees for the transferred loan commitments where they exceed 25 per cent of SpareBank 1 Næringskreditt's capital base. As at 30 June 2015, 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.

The consideration received for loans transferred from BNkreditt to SpareBank 1 Næringskreditt AS is equal to the nominal value of transferred loans and is measured as virtually concurrent with the fair value of the loans as at the end of the second quarter of 2015 and 2014.

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 30 June 2015, BNkreditt's capital adequacy ratio was 24.3 per cent. The amount the Parent Bank is ceding precedence to stood at NOK 0 million as at 30 June 2015.

NOTE 9. 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 per cent as at 30 June 2015. 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 June 2015, the book value of transferred loans was NOK 9.6 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.

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 the second quarter of 2015 and 2014.

NOTE 10. BORROWING

The balance sheet includes borrowing at a fixed interest rate included in hedging carried at amortised cost, while other borrowing at a fixed interest rate is selected for carrying at fair value. Borrowing at a variable interest rate is carried at amortised cost.

Debt securities in issue

The Parent Bank issued bonds and certificates with a nominal value of NOK 1 450 million during the second quarter of 2015 in the form of new issues.

NOK MILLION	CERTIFICATES	BONDS	TOTAL
Net debt (nominal) 01.01.2015	550	11 473	12 023
Acquisition and maturity of existing	0	-344	-344
Net debt (nominal) 31.03.2015	550	11 129	11 679
New issues	450	1 000	1 450
Acquisition and maturity of existing	-550	-594	-1 144
Net debt (nominal) 30.06.2015	450	11 535	11 985

Subordinated loan capital and perpetual subordinated capital securities

The Parent Bank not issue subordinated capital securities or loans during the second quarter of 2015, either as new issues or the expansion of existing open loans.

NOK MILLION	SUBORDINATED CAPITAL SECURITIES	RESPONSIBLE LOAN CAPITAL	TOTAL
Net debt (nominal) 01.01.2015	400	800	1 200
New issues	0	500	500
Acquisition and maturity of existing	0	-134	-134
Net debt (nominal) 31.03.2015	400	1 166	1 566
Acquisition and maturity of existing	0	-366	-366
Net debt (nominal) 30.06.2015	400	800	1 200

Gjeld til kredittinstitusjoner

NOK MILLION	30.06.15	30.06.14	31.12.14
Certificates carried at fair value	451	860	556
Total recognised value of certificates	451	860	556
Bonds carried at amortised cost	7 346	8 239	7 618
Bonds carried at amortised cost (secured debt)	4 431	3 708	4 175
Bonds selected for fair value carrying	0	212	0
Total recognised value of bonds	11 777	12 159	11 793
Total recognised value of debt securities in issue	12 228	13 019	12 349
Perpetual subordinated capital securities carried at amortised cost	401	682	401
Perpetual subordinated capital securities carried at fair value	0	176	0
Total recognised value of capital securities	401	858	401
Subordinated loans carried at amortised cost	801	803	804
Total recognised value of subordinated loans	801	803	804
Total recognised value of subordinated loans and capital securities	1 202	1 661	1 205

NOTE 11. FAIR VALUE OF FINANCIAL INSTRUMENTS COMPARED WITH RECOGNISED VALUE

NOK MILLION	30.06.15		30.06.14		31.12.14	
	FAIR VALUE	RECOGNISED VALUE	FAIR VALUE	RECOGNISED VALUE	FAIR VALUE	RECOGNISED VALUE
Subordinated loans	454	452	453	451	455	453
Loans and advances	12 282	12 282	11 484	11 484	11 972	11 972
Prepayments and accrued income	18	18	191	191	14	14
Interest rate derivatives	517	517	565	565	677	677
Currency derivatives	0	0	4	4	17	17
Short-term securities investments	6 254	6 254	6 640	6 638	6 305	6 305
Cash and balances due from credit institutions	10 527	10 527	10 888	10 888	10 232	10 232
Assets classified as held for sale	5	5	0	0	5	5
Subordinated loan capital	-1 225	-1 202	-1 692	-1 661	-1 256	-1 205
Liabilities to credit institutions	-80	-80	-79	-79	-2	-2
Debt securities in issue	-12 357	-12 229	-13 196	-13 019	-12 501	-12 349
Accrued expense and deferred income	-73	-73	-81	-81	-63	-63
Other current liabilities	-96	-96	-23	-23	-10	-10
Interest rate derivatives	-354	-354	-402	-402	-498	-498
Currency derivatives	-21	-21	-37	-37	-44	-44
Customer deposits & accounts payable to customers	-15 019	-15 019	-13 895	-13 895	-14 450	-14 450
Total	832	981	819	1 023	855	1 057

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.

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

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

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

The Parent Bank's assets and liabilities measured at amortised cost as at 30 June 2015

NOK MILLION	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Subordinated loans	0	454	0	454
Short-term securities investments	0	1 099	0	1 099
Total assets	0	1 553	0	1 553
Subordinated loan capital	0	-1 225	0	-1 225
Debt securities in issue	0	-7 474	0	-7 474
Total liabilities	0	-8 699	0	-8 699

The Parent Bank's assets and liabilities measured at amortised cost as at 30 June 2014

NOK MILLION	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Subordinated loans	0	453	0	453
Short-term securities investments	299	1 671	0	1 970
Total assets	299	2 124	0	2 423
Subordinated loan capital	0	-1 517	0	-1 517
Debt securities in issue	0	-8 416	0	-8 416
Total liabilities	0	-9 933	0	-9 933

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

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	1 605
Subordinated loan capital	0	-1 256	0	-1 256
Debt securities in issue	0	-7 770	0	-7 770
Total liabilities	0	-9 025	0	-9 025

NOTE 12. RIGHT OF SET-OFF, FINANCIAL DERIVATIVES

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			30.06.15
COUNTERPARTY	AMOUNT IN BALANCE SHEET	AMOUNT SUBJECT TO SETTLEMENT ON NET BASIS ¹	AMOUNT AFTER POSSIBLE NET-OFFS
Counterparty 1	230	21	209
Counterparty 2	142	142	0
Counterparty 3	43	20	23
Counterparty 4	52	21	31
Counterparty 5	42	19	23
Counterparty 6	9	2	7
Total	518	225	293

Financial liabilities			30.06.15
COUNTERPARTY	AMOUNT IN BALANCE SHEET	AMOUNT SUBJECT TO SETTLEMENT ON NET BASIS ¹	AMOUNT AFTER POSSIBLE NET-OFFS
Counterparty 1	21	21	0
Counterparty 2	292	142	150
Counterparty 3	20	20	0
Counterparty 4	21	21	0
Counterparty 5	19	19	0
Counterparty 6	2	2	0
Total	375	225	150

Financial assets			30.06.14
COUNTERPARTY	AMOUNT IN BALANCE SHEET	AMOUNT SUBJECT TO SETTLEMENT ON NET BASIS ¹	AMOUNT AFTER POSSIBLE NET-OFFS
Counterparty 1	120	30	90
Counterparty 2	283	283	0
Counterparty 3	53	18	35
Counterparty 4	54	20	34
Counterparty 5	48	29	19
Counterparty 6	11	5	6
Total	569	385	184

Financial liabilities			30.06.14
COUNTERPARTY	AMOUNT IN BALANCE SHEET	AMOUNT SUBJECT TO SETTLEMENT ON NET BASIS ¹	AMOUNT AFTER POSSIBLE NET-OFFS
Counterparty 1	30	30	0
Counterparty 2	337	283	54
Counterparty 3	18	18	0
Counterparty 4	20	20	0
Counterparty 5	29	29	0
Counterparty 6	5	5	0
Total	439	385	54

Financial assets			31.12.14
COUNTERPARTY	AMOUNT IN BALANCE SHEET	AMOUNT SUBJECT TO SETTLEMENT ON NET BASIS ¹	AMOUNT AFTER POSSIBLE NET-OFFS
Counterparty 1	305	32	273
Counterparty 2	181	181	0
Counterparty 3	98	17	81
Counterparty 4	46	46	0
Counterparty 5	56	40	16
Counterparty 6	8	5	3
Total	694	321	373

Financial liabilities			31.12.14
COUNTERPARTY	AMOUNT IN BALANCE SHEET	AMOUNT SUBJECT TO SETTLEMENT ON NET BASIS ¹	AMOUNT AFTER POSSIBLE NET-OFFS
Counterparty 1	32	32	0
Counterparty 2	385	181	204
Counterparty 3	17	17	0
Counterparty 4	62	46	16
Counterparty 5	40	40	0
Counterparty 6	5	5	0
Total	541	321	220

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

NOTE 13. CAPITAL ADEQUACY RATIO**Process for assessing capital adequacy requirement**

New capital adequacy rules were introduced in Norway with effect from 1 July 2014 (Basel III – the new EU directive on capital adequacy).

During the second quarter of 2014, the BN Bank obtained approval to use internal measurement methods (Internal Rating Based Approach - Advanced) for measuring credit risk for corporate engagement, and correspondingly received approval for residential mortgage loans during the second quarter 2015. The use of IRB imposes comprehensive requirements on the Bank's organisation, competence, risk models and risk management systems.

NOK MILLION	30.06.15	30.06.14	31.12.14
Share capital	706	706	706
Premium fund	415	415	415
Appropriated dividend	0	0	264
Reserve for unrealised gains	363	295	364
Other equity	728	797	728
Total equity	2 212	2 213	2 477
Tier 1 capital			
Deferred tax assets and intangible assets	-12	-8	-11
Deduction for appropriated dividend	0	0	-264
Direct investments in companies in the financial sector	-103	-171	-54
Positive value of adjusted anticipated losses under the IRB approach	-40	-9	-17
Interim profit included in tier 1 capital (50 per cent)	140	113	0
Value adjustments as a result of the requirements for prudent valuation	-8	0	-8
Total core tier 1 capital	2 189	2 138	2 123
Perpetual subordinated capital securities, hybrid capital ¹	399	397	399
Direct investments in companies in the financial sector	-77	0	-107
Total tier 1 capital	2 511	2 535	2 415
Tier 2 capital in addition to tier 1 capital			
Fixed-term subordinated capital	799	798	798
Direct investments in companies in the financial sector	-121	-171	-153
Positive value of adjusted anticipated losses under the IRB approach	0	-9	0
Tier 2 capital	678	618	645
Total subordinated capital	3 189	3 153	3 060
Minimum requirements concerning subordinated capital, Basel III ²			
Loans with specialist enterprises	194	235	193
Loans with other enterprises	32	60	42
Loans with mass market mortgages in real property	193	0	0
Equity positions	38	81	35
Total credit risk IRB	457	376	270
Operational risk	46	37	37
Loans calculated according to the standard method	612	1 093	908
Deduction in the capital requirement	0	-27	0
Creditworthiness of counterparty (CVA risk)	13	0	18
Minimum requirements, subordinated capital	1 128	1 479	1 233
Calculation basis	14 106	18 483	15 415
Buffer requirements			
Conservation buffer (2.5 per cent)	353	0	385
System risk buffer (3.0 per cent)	423	0	462
Total buffer requirements for core tier 1 capital	776	0	848
Available tier 1 capital (less 4.5 per cent)	1 555	0	1 430
Capital adequacy ratio			
Core tier 1 capital ratio	15.52 %	11.57 %	13.77 %
Tier 1 capital ratio	17.80 %	13.72 %	15.66 %
Capital adequacy ratio	22.60 %	17.06 %	19.85 %

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 per cent
 in 2015:.....40 per cent
 in 2016:.....60 per cent
 in 2017:.....80 per cent

¹ For more details, see Note 10.

¹ From the second quarter of 2014, BN Bank has obtained approval to use internal measurement methods for credit risk linked to corporate exposures, and correspondingly received approval for the retail market from the second quarter 2015 onwards. Historical minimum requirements for subordinated capital are reported according to the standard method.

NOTE 14. CONTINGENT OUTCOMES, EVENTS AFTER THE REPORTING PERIOD

On 3 July, BN Bank received a summons linked to a commitment which is subject to write-down. The summons demands compensation for losses which the customer claims to have incurred as a result of the bank's actions. The summons does not result in any need for changes to the loss assessment linked to the commitment.

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 15. INCOME STATEMENT FOR THE FIVE MOST RECENT QUARTERS

NOK MILLION	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014
Interest and similar income	211	218	253	264	289
Interest expense and similar charges	169	183	202	215	216
Net income from interest and credit commissions	42	35	51	49	73
Change in value of financial instruments carried at fair value, gains and losses-3		-2	-7	4	13
Other operating income	27	41	27	30	42
Total other operating income	24	39	20	34	55
Salaries and general administrative expenses	31	30	29	30	29
Depreciation, amortisation and write-downs	2	2	3	1	2
Other operating expenses	5	7	4	4	4
Other gains and losses	0	-2	0	0	0
Total other operating expense	38	37	36	35	35
Operating profit/(loss) before impairment losses	28	37	35	48	93
Impairment losses on loans and advances	1	0	29	2	11
Operating profit/(loss) after impairment losses	27	37	6	46	82
Income from ownership interests in group companies	140	0	0	0	167
Profit before tax	167	37	6	46	249
Computed tax charge	7	7	1	13	66
Profit after tax	160	30	5	33	183



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To the Board of Directors of BN Bank ASA

Report on Review of Interim Financial Information

Introduction

We have reviewed the accompanying interim financial information of BN Bank ASA, which comprise the financial statements of the group and the financial statements of the parent company. The financial statements of the group and the financial statements of the parent company comprise balance sheet as of 30 June 2015 and the related statements of income, changes in equity and cash flows for the six-month period then ended. Management is responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34: "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

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

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

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

Conclusion

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

Trondheim, 10. August 2015
KPMG AS

Sverre Einersen
State Authorised Public Accountant

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

Offices in:

Oslo	Haugesund	Stavanger
Alta	Knarvik	Stord
Arendal	Kristiansand	Straume
Bergen	Larvik	Tromsø
Bodo	Mo i Rana	Trondheim
Elverum	Molde	Tynset
Finnsnes	Narvik	Tønsberg
Grimstad	Sandefjord	Ålesund
Hamar	Sandnessjøen	

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Statsautoriserte revisorer - medlemmer av Den norske Revisorforening.



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